

**Deyaar Development PJSC  
and Subsidiaries**

**CONSOLIDATED FINANCIAL STATEMENTS**

**31 DECEMBER 2009**

## **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 statement of financial position as at 31 December 2009, and the consolidated statements of income and comprehensive income, consolidated cash flow statement and consolidated statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### *Directors' Responsibility for the Financial Statements*

The Directors are 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 the directors, 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 2009, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

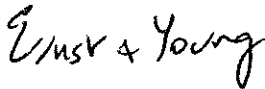
*Emphasis of matters:*

Without qualifying our audit opinion, we draw attention to the following:

1. Note 4.2 to the consolidated financial statements sets out major sources of estimation uncertainty and refers to assumptions made by management in determining or testing the carrying amounts of certain assets. It is reasonably possible, on the basis of existing knowledge, that outcomes within the next financial year that are different from the assumptions could require material adjustments to the carrying amounts of the assets affected.
2. Note 16 to the consolidated financial statements. The Group signed a Memorandum of Understanding (MOU) in December 2008 with a third party (the seller) to enter into negotiations for the execution of a sale and purchase agreement (the agreement) for acquiring the seller's interest in a building (the interest). According to the MOU, the terms of MOU will automatically terminate after a certain period or on the execution of the agreement. In accordance with the terms of the MOU, the Group paid AED 72.1 million as a refundable deposit. The Group also made additional payments of AED 113.7 million in this respect during the current year. A party that had initially financed the seller's interest has shown an outstanding murabaha balance of AED 186.3 million as receivable from the Group. Management believe that the amounts paid by the Group are recoverable from the seller and any murabaha balance is also payable by the seller since a sale and purchase agreement was never signed and accordingly the terms of MOU have automatically terminated due to the passage of time. The ultimate outcome of the matter cannot be determined at this stage and accordingly no provision that may result has been made in the financial statements.

**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 year 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

17 February 2010

Dubai, United Arab Emirates

# Deyaar Development PJSC and Subsidiaries

## CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2009

|                                                                         | <i>Notes</i> | <i>Year ended<br/>31 December<br/>2009<br/>AED'000</i> | <i>Year ended<br/>31 December<br/>2008<br/>AED'000<br/>(Restated)</i> | <i>10 July 2007 to<br/>31 December<br/>2008<br/>AED'000<br/>(Restated)</i> |
|-------------------------------------------------------------------------|--------------|--------------------------------------------------------|-----------------------------------------------------------------------|----------------------------------------------------------------------------|
| Revenues                                                                | 9            | 1,835,082                                              | 1,382,617                                                             | 1,869,116                                                                  |
| Cost of revenues                                                        | 9            | (1,637,493)                                            | (873,027)                                                             | (1,159,995)                                                                |
| <b>GROSS PROFIT</b>                                                     |              | <b>197,589</b>                                         | <b>509,590</b>                                                        | <b>709,121</b>                                                             |
| Other operating income                                                  | 10           | 122,913                                                | 156,565                                                               | 222,869                                                                    |
| Selling, general and administrative expenses                            | 11           | (287,106)                                              | (268,026)                                                             | (384,836)                                                                  |
| Impairment of investment in associates                                  |              | (10,500)                                               | (50,000)                                                              | (50,000)                                                                   |
| Finance costs                                                           |              | (33,683)                                               | (15,409)                                                              | (18,297)                                                                   |
| Income from deposits                                                    |              | 17,559                                                 | 28,768                                                                | 63,764                                                                     |
| Net gain on fair valuation of investment properties                     | 24           | 27,202                                                 | 304,242                                                               | 304,242                                                                    |
| Share of results of associates                                          | 21           | 6,552                                                  | (2,001)                                                               | (2,001)                                                                    |
| <b>PROFIT BEFORE TAX</b>                                                |              | <b>40,526</b>                                          | <b>663,729</b>                                                        | <b>844,862</b>                                                             |
| Income tax                                                              |              | (15,621)                                               | -                                                                     | -                                                                          |
| <b>PROFIT FOR THE YEAR/ PERIOD BEFORE<br/>PRE-INCORPORATION PROFIT</b>  |              | <b>24,905</b>                                          | <b>663,729</b>                                                        | <b>844,862</b>                                                             |
| Pre-incorporation profit, net                                           |              | -                                                      | -                                                                     | 107,395                                                                    |
| <b>PROFIT FOR THE YEAR/PERIOD</b>                                       |              | <b>24,905</b>                                          | <b>663,729</b>                                                        | <b>952,257</b>                                                             |
| Attributable to:                                                        |              |                                                        |                                                                       |                                                                            |
| Equity holders of the Parent                                            |              | 30,153                                                 | 654,745                                                               | 937,745                                                                    |
| Non controlling interests                                               |              | (5,248)                                                | 8,984                                                                 | 14,512                                                                     |
|                                                                         |              | <b>24,905</b>                                          | <b>663,729</b>                                                        | <b>952,257</b>                                                             |
| Earnings per share attributable to<br>the equity holders of the parent: |              |                                                        |                                                                       |                                                                            |
| - basic and diluted earnings per share                                  | 13           | 0.0052                                                 | 0.1133                                                                | 0.1623                                                                     |

The attached notes 1 to 38 form part of these consolidated financial statements.

# Deyaar Development PJSC and Subsidiaries

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2009

|                                                                  | <i>Year ended<br/>31 December<br/>2009<br/>AED'000</i> | <i>Year ended<br/>31 December<br/>2008<br/>AED'000<br/>(Restated)</i> | <i>10 July 2007 to<br/>31 December<br/>2008<br/>AED'000<br/>(Restated)</i> |
|------------------------------------------------------------------|--------------------------------------------------------|-----------------------------------------------------------------------|----------------------------------------------------------------------------|
| <b>Profit for the year/period</b>                                | <b>24,905</b>                                          | <b>663,729</b>                                                        | <b>952,257</b>                                                             |
| Exchange differences on<br>translation of foreign operations     | (7,069)                                                | (874)                                                                 | (874)                                                                      |
| <b>Other comprehensive<br/>(loss) income for the year/period</b> | <b>(7,069)</b>                                         | <b>(874)</b>                                                          | <b>(874)</b>                                                               |
| <b>Total comprehensive income<br/>for the year/period</b>        | <b>17,836</b>                                          | <b>662,855</b>                                                        | <b>951,383</b>                                                             |
| Attributable to:                                                 |                                                        |                                                                       |                                                                            |
| Equity holders of the Parent                                     | 23,084                                                 | 653,871                                                               | 936,871                                                                    |
| Non controlling interests                                        | (5,248)                                                | 8,984                                                                 | 14,512                                                                     |
|                                                                  | <b>17,836</b>                                          | <b>662,855</b>                                                        | <b>951,383</b>                                                             |

The attached notes 1 to 38 form part of these consolidated financial statements.

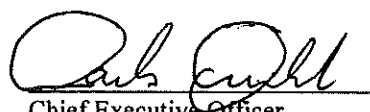
# Deyaar Development PJSC and Subsidiaries

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2009

|                                                                    | Notes | 2009<br>AED '000  | 2008<br>AED '000<br>(Restated) |
|--------------------------------------------------------------------|-------|-------------------|--------------------------------|
| <b>ASSETS</b>                                                      |       |                   |                                |
| Bank balances and cash                                             | 14    | 683,867           | 641,194                        |
| Accounts and notes receivable                                      | 15    | 577,081           | 1,062,520                      |
| Prepayments and other assets                                       | 16    | 556,392           | 727,557                        |
| Properties held for sale                                           | 17    | 542,017           | -                              |
| Properties under construction                                      | 18    | 2,673,692         | 3,775,254                      |
| Land held for future developments                                  | 19    | 1,611,334         | 1,587,493                      |
| Advances for purchase of land                                      | 20    | 1,222,299         | 1,126,094                      |
| Investments in associates                                          | 21    | 586,870           | 656,018                        |
| Property, plant and equipment                                      | 23    | 34,723            | 35,298                         |
| Investment properties                                              | 24    | 1,899,943         | 1,729,030                      |
| Goodwill                                                           | 6     | 968,964           | 968,964                        |
| <b>TOTAL ASSETS</b>                                                |       | <b>11,357,182</b> | <b>12,309,422</b>              |
| <b>LIABILITIES AND EQUITY</b>                                      |       |                   |                                |
| <b>LIABILITIES</b>                                                 |       |                   |                                |
| Accounts payable and accruals                                      | 25    | 1,362,797         | 1,923,969                      |
| Advances from customers                                            |       | 1,944,854         | 2,712,519                      |
| Islamic finance obligations                                        | 26    | 955,242           | 574,921                        |
| Other borrowings                                                   | 27    | 174,924           | 216,504                        |
| Retentions payable                                                 |       | 153,944           | 138,318                        |
| Employees' end of service benefits                                 | 28    | 13,742            | 9,348                          |
| <b>TOTAL LIABILITIES</b>                                           |       | <b>4,605,503</b>  | <b>5,575,579</b>               |
| <b>EQUITY</b>                                                      |       |                   |                                |
| <b>Equity attributable to equity holders of the parent company</b> |       |                   |                                |
| Share capital                                                      | 29    | 5,778,000         | 5,778,000                      |
| Statutory reserve                                                  | 30    | 155,278           | 152,263                        |
| Exchange translation reserve                                       |       | (7,943)           | (874)                          |
| Retained earnings                                                  |       | 812,620           | 785,482                        |
|                                                                    |       | <b>6,737,955</b>  | <b>6,714,871</b>               |
| <b>Non controlling interests</b>                                   | 31    | <b>13,724</b>     | <b>18,972</b>                  |
| <b>TOTAL EQUITY</b>                                                |       | <b>6,751,679</b>  | <b>6,733,843</b>               |
| <b>TOTAL LIABILITIES AND EQUITY</b>                                |       | <b>11,357,182</b> | <b>12,309,422</b>              |

  
Chairman  
17 February 2010

  
Chief Executive Officer  
17 February 2010



The attached notes 1 to 38 form part of these consolidated financial statements.

**Deyaar Development PJSC and Subsidiaries**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
Year ended 31 December 2009

|                                                            |       |                  | 10 July 2007 to<br>31 December<br>2008<br>AED '000<br>(Restated) |
|------------------------------------------------------------|-------|------------------|------------------------------------------------------------------|
|                                                            | Notes | 2009<br>AED '000 |                                                                  |
| <b>OPERATING ACTIVITIES</b>                                |       |                  |                                                                  |
| Profit before tax                                          |       | 40,526           | 844,862                                                          |
| Adjustments for:                                           |       |                  |                                                                  |
| Depreciation                                               | 23    | 11,793           | 14,019                                                           |
| Provision for employees' end of service benefits           | 28    | 5,765            | 7,329                                                            |
| Income from deposits                                       |       | (17,559)         | (63,764)                                                         |
| Finance costs                                              |       | 33,683           | 18,297                                                           |
| Share of results of associates                             |       | (6,552)          | 2,001                                                            |
| Gain on disposal of a subsidiary                           |       | -                | (4,242)                                                          |
| Net gain on fair valuation of investment properties        |       | (27,202)         | (304,242)                                                        |
| Loss / (gain) on disposal of property, plant and equipment |       | 25               | (121)                                                            |
|                                                            |       | <u>40,479</u>    | <u>514,139</u>                                                   |
| Working capital changes:                                   |       |                  |                                                                  |
| Accounts and notes receivable                              |       | 485,439          | (732,093)                                                        |
| Prepayments and other assets                               |       | 171,165          | (307,742)                                                        |
| Properties held for sale                                   |       | (542,017)        | -                                                                |
| Properties under construction, net                         |       | 1,101,562        | (3,654,106)                                                      |
| Land held for future developments                          |       | (23,841)         | 367,888                                                          |
| Advances for purchase of land                              |       | (96,205)         | (1,033,553)                                                      |
| Retentions payable                                         |       | 15,626           | 98,069                                                           |
| Accounts payable and accruals                              |       | (576,793)        | 427,179                                                          |
| Advances from customers                                    |       | (767,665)        | 2,539,871                                                        |
|                                                            |       | <u>(192,250)</u> | <u>(1,780,348)</u>                                               |
| Cash used in operations                                    |       | (192,250)        | (1,780,348)                                                      |
| Employees' end of service benefits paid                    | 28    | (1,371)          | (1,085)                                                          |
|                                                            |       | <u>(193,621)</u> | <u>(1,781,433)</u>                                               |
| Net cash used in operating activities                      |       |                  |                                                                  |
| <b>INVESTING ACTIVITIES</b>                                |       |                  |                                                                  |
| Purchase of property, plant and equipment                  | 23    | (11,977)         | (33,368)                                                         |
| Proceeds from disposal of property, plant and equipment    |       | 734              | 984                                                              |
| Investment properties, net                                 |       | (143,711)        | -                                                                |
| Investments in associates                                  |       | 75,700           | (658,019)                                                        |
| Deposits maturing after three months                       |       | (84,897)         | (936)                                                            |
| Income from deposits                                       |       | 17,559           | 63,764                                                           |
| Net cash outflow on transfer/acquisition of subsidiaries   |       | -                | (225,353)                                                        |
|                                                            |       | <u>(146,592)</u> | <u>(852,928)</u>                                                 |
| Net cash used in investing activities                      |       |                  |                                                                  |
| <b>FINANCING ACTIVITIES</b>                                |       |                  |                                                                  |
| Increase in capital                                        |       | -                | 3,178,000                                                        |
| Pre-incorporation profits, net                             |       | -                | 107,395                                                          |
| Islamic finance obligations received                       |       | 496,249          | 664,179                                                          |
| Islamic finance obligations paid                           |       | (115,928)        | (1,347,594)                                                      |
| Net movement in other borrowings                           |       | (41,580)         | 214,427                                                          |
| Finance costs paid                                         |       | (33,683)         | (18,297)                                                         |
|                                                            |       | <u>305,058</u>   | <u>2,798,110</u>                                                 |
| Net cash from financing activities                         |       |                  |                                                                  |
| <b>(DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS</b>  |       | <u>(35,155)</u>  | <u>163,749</u>                                                   |
| Net foreign exchange difference                            |       | (7,069)          | (874)                                                            |
| Cash and cash equivalents at 1 January                     |       | 620,259          | 457,384                                                          |
| <b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>            | 14    | <u>578,035</u>   | <u>620,259</u>                                                   |

The attached notes 1 to 38 form part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2009

|                                                 | Attributable to equity holders of the parent |                               |                                          |                               |                   |
|-------------------------------------------------|----------------------------------------------|-------------------------------|------------------------------------------|-------------------------------|-------------------|
|                                                 | Share capital<br>AED '000                    | Statutory reserve<br>AED '000 | Exchange translation reserve<br>AED '000 | Retained earnings<br>AED '000 | Total<br>AED '000 |
| At 1 January 2009 as previously reported        | 5,778,000                                    | 152,263                       | (874)                                    | 1,353,711                     | 7,283,100         |
| Effect of change in accounting policy (note 38) | -                                            | -                             | -                                        | (568,229)                     | (568,229)         |
| At 1 January 2009 as restated                   | 5,778,000                                    | 152,263                       | (874)                                    | 785,482                       | 6,714,871         |
| Profit for the year                             | -                                            | -                             | -                                        | 30,153                        | 30,153            |
| Other comprehensive loss                        | -                                            | -                             | (7,069)                                  | -                             | (7,069)           |
| Total comprehensive income for the year         | -                                            | -                             | (7,069)                                  | 30,153                        | 23,084            |
| Transfer to statutory reserve                   | -                                            | 3,015                         | -                                        | (3,015)                       | -                 |
| <b>At 31 December 2009</b>                      | <b>5,778,000</b>                             | <b>155,278</b>                | <b>(7,943)</b>                           | <b>812,620</b>                | <b>6,737,955</b>  |
|                                                 |                                              |                               |                                          | <b>13,724</b>                 | <b>6,751,679</b>  |

The attached notes 1 to 38 form part of these consolidated financial statements.

Deyaar Development PJSC and Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

Period ended 31 December 2008 - restated

|                                                                                  | Attributable to equity holders of the parent |                                  |                                                |                                  |                   | Non-controlling<br>interest<br>AED '000 | Total<br>AED '000 |
|----------------------------------------------------------------------------------|----------------------------------------------|----------------------------------|------------------------------------------------|----------------------------------|-------------------|-----------------------------------------|-------------------|
|                                                                                  | Share<br>capital<br>AED '000                 | Statutory<br>reserve<br>AED '000 | Exchange<br>translation<br>reserve<br>AED '000 | Retained<br>earnings<br>AED '000 | Total<br>AED '000 |                                         |                   |
| Issue of shares                                                                  | 5,778,000                                    | -                                | -                                              | -                                | 5,778,000         | -                                       | 5,778,000         |
| Minority interest acquired                                                       | -                                            | -                                | -                                              | -                                | -                 | 4,460                                   | 4,460             |
| Profit for the period 10 July 2007<br>to 31 December 2008 (as previously stated) | -                                            | -                                | -                                              | 1,505,974                        | 1,505,974         | 14,512                                  | 1,520,486         |
| Effect of change in accounting policy (note 38)                                  | -                                            | -                                | -                                              | (568,229)                        | (568,229)         | -                                       | (568,229)         |
| Profit for the period 10 July 2007<br>to 31 December 2008 as restated            | -                                            | -                                | -                                              | 937,745                          | 937,745           | 14,512                                  | 952,257           |
| Other comprehensive loss                                                         | -                                            | -                                | (874)                                          | -                                | (874)             | -                                       | (874)             |
| Total comprehensive income<br>for the period as restated                         | -                                            | -                                | (874)                                          | 937,745                          | 936,871           | 14,512                                  | 951,383           |
| Transfer to statutory reserve                                                    | -                                            | 152,263                          | -                                              | (152,263)                        | -                 | -                                       | -                 |
| At 31 December 2008 as restated                                                  | 5,778,000                                    | 152,263                          | (874)                                          | 785,482                          | 6,714,871         | 18,972                                  | 6,733,843         |

The attached notes 1 to 38 form part of these consolidated financial statements.

# Deyaar Development PJSC and Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2009

### 1 ACTIVITIES

Deyaar Development PJSC (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 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.

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 ended on 31 December 2008. Therefore, comparatives comprise the consolidated financial statements of the company for the period from 10 July 2007 to 31 December 2008. The management have also presented the consolidated results of the Group's operations for the year ended 31 December 2008 for the convenience of readers.

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

| <u>Subsidiaries</u>               | <u>Principal activity</u>            | <u>Country of incorporation</u> | <u>Percentage of equity</u> |      |
|-----------------------------------|--------------------------------------|---------------------------------|-----------------------------|------|
|                                   |                                      |                                 | 2009                        | 2008 |
| Omega Engineering L.L.C.          | Mechanical, electrical and plumbing  | U.A.E.                          | 55%                         | 55%  |
| Nationwide Realtors L.L.C. *      | Brokerage and other related services | U.A.E.                          | 100%                        | 100% |
| Beirut Bay SAL                    | Property investment and development  | Lebanon                         | 100%                        | 100% |
| Deyaar For Development SA         | Representative Office of Deyaar      | Lebanon                         | 100%                        | 100% |
| Deyaar (UK) Ltd                   | Representative Office of Deyaar      | UK                              | 100%                        | 100% |
| Deyaar Cayman Ltd *               | Investment holding company           | Cayman Islands                  | 100%                        | 100% |
| Deyaar West Asia Cooperatief U.A. | Investment holding company           | Netherlands                     | 100%                        | 100% |
| Deyaar Development Corporation    | Property investment and development  | USA                             | 100%                        | 100% |
| Deyaar Mauritius Ltd *            | Property investment and development  | Mauritius                       | 100%                        | 100% |
| Deyaar City Mauritius Ltd *       | Property investment and development  | Mauritius                       | 100%                        | 100% |
| Deyaar Malaysia Sdn Bhd *         | Property investment and development  | Malaysia                        | 100%                        | 100% |
| Flamingo Creek L.L.C.             | Property investment and development  | U.A.E.                          | 100%                        | 100% |
| Deyaar Hospitality LLC *          | Property investment and development  | U.A.E.                          | 100%                        | -    |
| Deyaar International LLC *        | Property investment and development  | U.A.E.                          | 100%                        | -    |
| Deyaar Ventures LLC *             | Property investment and development  | U.A.E.                          | 100%                        | -    |
| Deyaar Property Management LLC *  | Property investment and development  | U.A.E.                          | 100%                        | -    |
| Deyaar Limited *                  | Property investment and development  | U.A.E.                          | 100%                        | -    |
| Deyaar Al Emarat Holding WLL*     | Property investment and development  | Bahrain                         | 100%                        | -    |

During the period ended 31 December 2008, the Company disposed of its 100% interest in Dubai Insaat Gayrimenkul Sanayi Ve Ticaret Limited Sirketi, DIB Tower SAL and Town Tower SAL (note 8).

\* 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> |      |
|--------------------------------------------|---------------------------|---------------------------------|-----------------------------|------|
|                                            |                           |                                 | 2009                        | 2008 |
| Arady Development L.L.C.                   | Property development      | U.A.E.                          | 50%                         | 50%  |
| Dubai International Development. Co. LLC * | Property development      | U.A.E.                          | 50%                         | 50%  |
| Alarko Deyaar Gayrimenkul                  | Property development      | Turkey                          | 50%                         | 50%  |

## 1 ACTIVITIES (continued)

During the period ended 31 December 2008, the Company disposed of its 40% interest in Saudi Deyaar Real Estate Development Company Ltd, a joint venture in Saudi Arabia (note 8).

\* This joint venture did not carry out any operations during the year.

## 2 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.

## 3 BASIS OF CONSOLIDATION

### *Subsidiary Companies*

#### *Basis of consolidation from 1 January 2009*

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. 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, income and expenses, unrealised gains and losses and dividends resulting from intra-group transactions are eliminated in full.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction.

Losses are attributed to the non-controlling interest even if that results in a deficit balance. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences, recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss.

#### *Basis of consolidation prior to 1 January 2009*

In comparison to the above mentioned requirements which were applied on a prospective basis, the following differences applied:

Non-controlling interests represented the portion of profit or loss and net assets that were not held by the Group and were presented separately in the consolidated income statement and within equity in the consolidated statement of financial position, separately from the parent shareholders' equity. Acquisitions of non-controlling interests were 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 were recognised in goodwill.

### 3 BASIS OF CONSOLIDATION (continued)

#### *Basis of consolidation prior to 1 January 2009 (continued)*

Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributable to the parent, unless the non-controlling interest had a binding obligation to cover these.

Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost.

### 4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

#### 4.1 Judgements

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

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. 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.

#### *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 land held for future development when the intention is to develop the properties for the purpose of selling them to third parties and as properties under construction when such development activities have commenced. 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.

#### 4.2 Estimates and Assumptions

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

#### *Revaluation of investment properties*

The Group carries its investment properties at fair value, with changes in fair value being recognised in the income statement. The Group engaged independent valuation specialists to determine the fair values of investment properties as at 31 December 2009. For investment properties under construction the management used a valuation technique based on a discounted cash flow model as there is a lack of comparable market data because of the nature of the property.

The determined fair value of the investment properties is most sensitive to the estimated yield as well as the long term vacancy rate. The key assumptions used to determine the fair value of the investment properties, are further explained in note 24.

#### *Impairment of investments in associates*

Investments in associates are tested for impairment annually (as at 31 December) and when circumstances indicate that the carrying value of the investments in associates may be impaired. Impairment is determined by assessing the recoverable amount of the associate. Where the recoverable amount of the associate is less than the carrying amount, an impairment loss is recognised. The key assumptions used to determine the recoverable amount for associates are further explained in note 21.

#### 4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

##### 4.2 Estimates and Assumptions (continued)

###### *Net realisable value of inventories and advances against purchase of land*

The carrying amounts of inventories (properties held for sale, properties under construction and land held for future development) and advances for purchase of land are compared with net realisable value to determine that cost does not exceed the net realisable value. Key assumptions used for determining net realisable value are set out in notes 17, 18, 19 and 20. The Group also estimates the cost to complete properties under construction in order to determine the cost attributable to properties being developed. These estimates include the cost of providing infrastructure and construction activities, potential claims by main contractors and subcontractors and the cost of meeting other contractual obligations to the customers.

###### *Impairment of goodwill*

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 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. The key assumptions used to determine the recoverable amount for the cash generating unit to which goodwill is allocated, including a sensitivity analysis, are further explained in note 7.

#### 5 SIGNIFICANT ACCOUNTING POLICIES

##### **Changes in accounting policies and disclosures**

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

The Group has adopted the following new and amended IFRS and IFRIC interpretations as of 1 January 2009:

IFRS 2 *Share-based Payment: Vesting Conditions and Cancellations* effective 1 January 2009

IFRS 2 *Share-based Payment: Group Cash-settled Share-based Payment Transactions* effective 1 January 2010 (early adopted)

IFRS 3 *Business Combinations (Revised)* and IAS 27 *Consolidated and Separate Financial Statements (Amended)* effective 1 July 2009 (early adopted) including consequential amendments to IFRS 7, IAS 21, IAS 28, IAS 31 and IAS 39

IFRS 7 *Financial Instruments: Disclosures* effective 1 January 2009

IFRS 8 *Operating Segments* effective 1 January 2009

IAS 1 *Presentation of Financial Statements* effective 1 January 2009

IAS 23 *Borrowing Costs (Revised)* effective 1 January 2009

IAS 32 *Financial Instruments: Presentation* and IAS 1 *Puttable Financial Instruments and Obligations Arising on Liquidation* effective 1 January 2009

IAS 39 *Financial Instruments: Recognition and Measurement - Eligible Hedged Items* effective 1 July 2009 (early adopted)

IFRIC 9 *Remeasurement of Embedded Derivatives* and IAS 39 *Financial Instruments: Recognition and Measurement* effective for periods ending on or after 30 June 2009

IFRIC 13 *Customer Loyalty Programmes* effective 1 July 2008

IFRIC 15 *Agreements for the Construction of Real Estate* effective 1 January 2009

IFRIC 16 *Hedges of a Net Investment in a Foreign Operation* effective 1 October 2008

IFRIC 18 *Transfers of Assets from Customers* effective 1 July 2009 (early adopted)

Improvements to IFRSs (May 2008)

Improvements to IFRSs (April 2009, early adopted)

When the adoption of the standard or interpretation is deemed to have an impact on the financial statements or performance of the Group, its impact is described below:

##### ***IFRIC 15 Agreements for the Construction of Real Estate***

IFRIC 15 *Agreements for the Construction of Real Estate* was issued in July 2008 and became 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.

## 5 SIGNIFICANT ACCOUNTING POLICIES (continued)

### Changes in accounting policies and disclosures (continued)

#### *IFRIC 15 Agreements for the Construction of Real Estate (continued)*

The interpretation also states that a developer shall recognize revenue by reference to the stage of completion using the percentage of completion method only if the developer transfers to the buyer control and the significant risks and rewards of ownership of the work in progress in its current state as construction progresses. The impact of this change is set out in note 38.

#### *IFRS 7 Financial Instruments: Disclosures*

The amended standard requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, a reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The liquidity risk disclosures, presented in note 35, are not significantly impacted by the amendments.

#### *IFRS 8 Operating Segments*

IFRS 8 replaced IAS 14 Segment Reporting upon its effective date. The Group concluded that the operating segments determined in accordance with IFRS 8 are the same as the business segments previously identified under IAS 14. IFRS 8 disclosures are shown in note 33, including the related comparative information.

#### *IAS 1 Presentation of Financial Statements*

The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity. 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 has elected to present two statements.

*Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below:*

#### *IFRIC 17 Distributions of Non-cash Assets to Owners*

This interpretation is effective for annual periods beginning on or after 1 July 2009 with early application permitted. It provides guidance on how to account for non-cash distributions to owners. The interpretation clarifies when to recognise a liability, how to measure it and the associated assets, and when to derecognise the asset and liability. The Group does not expect IFRIC 17 to have an impact on the consolidated financial statements as the Group has not made non-cash distributions to shareholders in the past.

### Business combinations and goodwill

#### *Business combinations prior to 31 December 2008*

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration affected goodwill.

**5 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Business combinations and goodwill (continued)**

*Business combinations from 1 January 2009*

No business combination has taken place since 1 January 2009. The following policy will now apply for any business combination:

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit and loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in profit or loss or as change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the consideration transferred over the Group's net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit 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.

**Investments in associates**

The Group's investments in its associates are accounted for using the equity method. An associate is an entity in which the Group has significant influence.

Under the equity method, the investment in the associate is carried in the statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The income statement reflects the share of the results of operations of the associate. 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 or loss of associates is shown on the face of the income statement. This is the profit or loss attributable to equity holders of the associate and therefore is profit or loss after tax and non-controlling interests in the subsidiaries of the associates.

The financial statements of the associate are prepared for the same reporting period as the parent company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

## 5 SIGNIFICANT ACCOUNTING POLICIES (continued)

### Investments in associates (continued)

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 reporting date whether there is any objective evidence that the investment in the associate is 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.

Upon loss of significant influence over the associate, the Group measures and recognises any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal are recognised in profit or loss.

### Interest in joint ventures

The Group has interest in joint ventures which are a jointly controlled entities, whereby the venturers have a contractual arrangement that establishes joint control over the economic activities of the entity. The Group recognises its interest in the joint venture using the proportionate consolidation method. The Group combines its proportionate share of each of the assets, liabilities, income and expenses of the joint venture with similar items, line by line, in its consolidated financial statements. The financial statements of the joint venture are prepared for the same reporting period as the parent company. Adjustments are made where necessary to bring the accounting policies in line with those of the Group.

Adjustments are made in the Group's consolidated financial statements to eliminate the Group's share of intra-group balances, income and expenses and unrealised gains and losses on transactions between the Group and its jointly controlled entity. Losses on transactions are recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets or an impairment loss. The joint venture is proportionately consolidated until the date on which the Group ceases to have joint control over the joint venture.

Upon loss of joint control and provided the former joint control entity does not become a subsidiary or associate, the Group measures and recognises its remaining investment at its fair value. Any difference between the carrying amount of the former joint controlled entity upon loss of joint control and the fair value of the remaining investment and proceeds from disposal are recognised in profit or loss. When the remaining investment constitutes significant influence, it is accounted for as investment in an associate.

### 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:

#### *Sales of properties*

The Group adopted IFRIC 15 "Agreement for the Construction of Real Estate" effective for accounting periods beginning on or after 1 January 2009. As per IFRIC 15 an agreement for the construction of real estate in which buyers have only limited ability to influence the design of the real estate, is an agreement for the sale of goods within the scope of IAS 18 "Revenue Recognition" and accordingly revenue shall be recognized only when significant risks and rewards of ownership of real estate in its entirety have been transferred to the buyer. The Group was recognizing revenues on the basis of percentage of completion method up to 31 December 2008. After the adoption of IFRIC 15 revenue is recognized in accordance with the requirements of IAS 18 as mentioned below.

Consequently, the comparatives figures for the period ended 31 December 2007 and the year ended 31 December 2008 have been restated and the impact of the adoption of the new standard on the consolidated financial statements is disclosed in note 38.

The requirements of IAS 18 "Revenue Recognition" are as follows:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the units;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the units sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

**5 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Revenue recognition (continued)**

*Sales of properties (continued)*

In accordance with paragraph 1 of the Appendix of IAS 18, the Group also recognises revenues for units where handover is delayed at the buyer's specific request, provided:

- it is probable that delivery will be made;
- the property units are on hand, identified and ready for delivery to the buyer at the time the sale is recognised;
- the buyer specifically acknowledges the deferred delivery instructions; and
- the usual payment terms apply.

When revenue is not recognized if one or more of the above conditions are not met, the cash advances received from property buyers are recorded under liabilities as advances from customers.

*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 statement of financial position 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 statement of financial position date, and any adjustments to the tax payable in respect of prior years.

Income tax relating to items recognised in other comprehensive income is recognised in other comprehensive income and not in the income statement.

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

**5 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Income tax (continued)**

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 statement of financial position 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.

The carrying amount of deferred income tax assets is reviewed at each statement of financial position 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. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

**Properties held for sale**

Properties acquired or constructed with the intention of sale are classified as properties held for sale upon acquisition or when construction is completed. Properties held for sale are stated at the lower of cost and net realisable value. Net realisable value represents the estimated selling price less costs to be incurred in selling the property.

Cost includes the cost of land, infrastructure, construction and other related expenditure such as professional fees and engineering costs attributable to the property, which are capitalised as and when activities that are necessary to get the property ready for the intended use are in progress. Completion is defined as the earlier of issuance of a certificate of practical completion, or when management considers the property to be completed. The cost of land and cost incurred in the course of development relating to properties sold during the year, for which revenue is recognised, are transferred to cost of sales.

**Properties under construction**

Properties in the course of construction for sale are classified as properties under construction. Such properties are stated at the lower of cost and realisable value. Cost includes the cost of land, infrastructure, construction and other related expenditure such as professional fees and engineering costs attributable to the property, which are capitalised as and when activities that are necessary to get the property ready for the intended use are in progress.

**Land held for future development**

Land held for future development is stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

**Advances for purchase of land**

Advances for purchase of land are carried at the lower of cost and expected economic benefits to be received.

**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      |
| Buildings              | 20 years     |

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.

**5 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Property, plant and equipment (continued)**

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**

Investment properties including investment properties under construction are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the period in which they arise.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the income statement in the period of derecognition.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

**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 statement of financial position 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.

**5 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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.

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 statement of financial position 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 statement of financial position date and, their income statements are translated at the weighted average exchange rates for the year.

The exchange differences arising on the translation are recognised in other comprehensive income. On disposal of a foreign entity or operations, the component of other comprehensive income relating to that particular foreign entity or operation 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.

# Deyaar Development PJSC and Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2009

### 6 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:

|                                                | 30 May 2007<br>AED'000 | 10 July 2007<br>AED'000 |
|------------------------------------------------|------------------------|-------------------------|
| 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                 |
| <b>Total assets</b>                            | <b>3,868,394</b>       | <b>4,583,045</b>        |
| 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                   |
| <b>Total liabilities and minority interest</b> | <b>2,237,358</b>       | <b>2,952,009</b>        |
| <b>Book value of net assets acquired</b>       | <b>1,631,036</b>       | <b>1,631,036</b>        |
| <b>Consideration</b>                           | <b>2,600,000</b>       |                         |
| <b>Goodwill</b>                                | <b>968,964</b>         |                         |

During the previous 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. The goodwill was assigned to the "property and development activities" unit. The goodwill mainly represented the experience gained and reputation established by Deyaar Development Company P.S.C in completing and delivering real estate projects inside and outside the UAE.

**6 BUSINESS COMBINATION (continued)**

During the previous 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 32). 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                      | 369,965        |
| Advances from customers           | 115,626        |
| Fair value of net assets acquired | 254,339        |
| Purchase consideration            | 254,339        |
| Goodwill arising on acquisition   | -              |

**7 IMPAIRMENT TESTING OF GOODWILL**

The Group performed its annual impairment test on goodwill as at 31 December 2009. The recoverable amount of the property development unit (the "unit") to which goodwill is allocated has been determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a 3 year period, as that value is estimated to be higher than fair value less cost to sell.

**Key assumptions used in value-in-use calculations**

The key assumptions used in the calculation of the value-in-use are as follows:

- Completion of existing projects under development and collection of remaining cash from customers. This is based on experience of recent past and comparison of remaining cash due from customers with prevailing market prices;
- Assumptions set out in notes 17, 18, 19 and 20;
- Cash flows beyond the 3 year period are extrapolated using a 3.0% growth rate (2008: 3.0%) that is the same as the long-term average estimated inflation/GDP Growth rates for UAE Economy.
- The Group will expand its operations in other countries in the MENA region. This is based on feasibility studies prepared by independent consultants; and
- 10% Discount rate - Discount rate reflects the current market assessment of the risks specific to the unit. The discount rate was estimated based on the average percentage of a weighted average cost of capital for the industry. This rate was further adjusted to reflect the market assessment of any risk specific to the cash generating unit for which future estimates of cash-flows have not been adjusted.

As a result of the test, management did not identify impairment for the unit to which goodwill of AED 968,964 thousand is allocated.

**Sensitivity to changes in assumptions**

With regard to the assessment of value-in-use of the property development unit, management believes that any adverse change in any of the above key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount.

**8 DISPOSAL OF SUBSIDIARIES AND A JOINT VENTURE**

During the period ended 31 December 2008, 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. The sale resulted in a profit of AED 177,764,460.
- 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 Insaat Gayrimenkul Sanayi Ve Ticaret Limited Sirketi. The disposal resulted in a gain of AED 4,242,000, which is included in other operating income.

**9 REVENUES AND COSTS**

|                                           | <i>Year ended<br/>31 December<br/>2009<br/>AED'000</i> | <i>Year ended<br/>31 December<br/>2008<br/>AED'000<br/>(Restated)</i> | <i>10 July 2007 to<br/>31 December<br/>2008<br/>AED'000<br/>(Restated)</i> |
|-------------------------------------------|--------------------------------------------------------|-----------------------------------------------------------------------|----------------------------------------------------------------------------|
| <b>Revenue:</b>                           |                                                        |                                                                       |                                                                            |
| Sale of properties                        | 1,479,823                                              | 1,024,990                                                             | 1,403,952                                                                  |
| Services income                           | 12,552                                                 | 700                                                                   | 1,766                                                                      |
| Contract revenues                         | 342,707                                                | 356,927                                                               | 463,398                                                                    |
|                                           | <u>1,835,082</u>                                       | <u>1,382,617</u>                                                      | <u>1,869,116</u>                                                           |
| <b>Cost:</b>                              |                                                        |                                                                       |                                                                            |
| Cost of properties sold (notes 17 and 18) | 1,288,465                                              | 558,488                                                               | 758,117                                                                    |
| Cost of services                          | 11,155                                                 | 619                                                                   | 1,508                                                                      |
| Contract costs                            | 337,873                                                | 313,920                                                               | 400,370                                                                    |
|                                           | <u>1,637,493</u>                                       | <u>873,027</u>                                                        | <u>1,159,995</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.

Cost of properties sold includes AED 207,812,221 profit recognised prior to the incorporation of the Company as a Public Joint Stock Company under the percentage of completion method. Such profit has not been reversed following the implementation of IFRIC 15 since the ongoing projects were recorded at their fair values on the date of acquisition. If such profit had been reversed, the gross profit on sale of properties would have been as follows:

|                                             | <i>Year ended<br/>31 December<br/>2009<br/>AED'000</i> | <i>Year ended<br/>31 December<br/>2008<br/>AED'000</i> | <i>10 July 2007 to<br/>31 December<br/>2008<br/>AED'000</i> |
|---------------------------------------------|--------------------------------------------------------|--------------------------------------------------------|-------------------------------------------------------------|
| Sales                                       | 1,835,082                                              | 1,382,617                                              | 1,869,116                                                   |
| Cost of sales determined on the above basis | (1,429,681)                                            | (873,027)                                              | (1,159,995)                                                 |
| Gross profit determined on the above basis  | <u>405,401</u>                                         | <u>509,590</u>                                         | <u>709,121</u>                                              |

**10 OTHER OPERATING INCOME**

|                                  | <i>Year ended<br/>31 December<br/>2009<br/>AED'000</i> | <i>Year ended<br/>31 December<br/>2008<br/>AED'000</i> | <i>10 July 2007 to<br/>31 December<br/>2008<br/>AED'000</i> |
|----------------------------------|--------------------------------------------------------|--------------------------------------------------------|-------------------------------------------------------------|
| Management fees                  | 20,019                                                 | 18,895                                                 | 25,642                                                      |
| Brokerage and commission         | 14,036                                                 | 58,951                                                 | 88,115                                                      |
| Gain on disposal of a subsidiary | 9,493                                                  | -                                                      | 4,242                                                       |
| Others                           | 79,365                                                 | 78,719                                                 | 104,870                                                     |
|                                  | <u>122,913</u>                                         | <u>156,565</u>                                         | <u>222,869</u>                                              |

**11 SELLING, GENERAL AND ADMINISTRATIVE EXPENSES**

|                              | <i>Year ended<br/>31 December<br/>2009<br/>AED'000</i> | <i>Year ended<br/>31 December<br/>2008<br/>AED'000</i> | <i>10 July 2007 to<br/>31 December<br/>2008<br/>AED'000</i> |
|------------------------------|--------------------------------------------------------|--------------------------------------------------------|-------------------------------------------------------------|
| Payroll and related expenses | 84,241                                                 | 111,638                                                | 188,992                                                     |
| Sales and marketing          | 122,124                                                | 71,966                                                 | 89,273                                                      |
| Rent                         | 18,044                                                 | 22,949                                                 | 29,274                                                      |
| Legal and professional fees  | 21,279                                                 | 12,810                                                 | 15,030                                                      |
| Communication                | 3,797                                                  | 2,195                                                  | 3,156                                                       |
| Other expenses               | 37,621                                                 | 46,468                                                 | 59,111                                                      |
|                              | <u>287,106</u>                                         | <u>268,026</u>                                         | <u>384,836</u>                                              |

**12 FINANCE COSTS**

During the year ended 31 December 2009, AED 24,896,308 and AED 40,952,010 of borrowing costs have been capitalised on qualifying assets and included in properties under construction and investment properties respectively (period ended 31 December 2008: AED 33,886,552 and AED 12,486,739 respectively).

**13 EARNINGS PER SHARE**

Basic earnings per share are calculated by dividing the profit attributable to the equity holders of the parent for the year/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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2009

## 14 BANK BALANCES AND CASH

|                                       | 2009<br>AED'000 | 2008<br>AED'000 |
|---------------------------------------|-----------------|-----------------|
| Cash in hand                          | 589             | 581             |
| Current accounts                      | 235,008         | 271,824         |
| Deposits maturing within three months | 342,438         | 347,854         |
| Cash and cash equivalents             | 578,035         | 620,259         |
| Deposit maturing after three months   | 105,832         | 20,935          |
| Bank balances and cash                | 683,867         | 641,194         |

## Bank balances and cash located:-

|                                |         |         |
|--------------------------------|---------|---------|
| Within UAE (AED)               | 622,268 | 574,953 |
| Outside UAE (other currencies) | 61,599  | 66,241  |
|                                | 683,867 | 641,194 |

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 254,763,958 (2008: 186,319,499) are placed with Dubai Islamic Bank PJSC, a major shareholder (note 32). These are denominated in UAE Dirham, with an effective profit rate ranging from 0.27% to 6.25% per annum.

## 15 ACCOUNTS AND NOTES RECEIVABLE

|                                    | 2009<br>AED'000 | 2008<br>AED'000 |
|------------------------------------|-----------------|-----------------|
| Accounts and notes receivable      | 615,972         | 561,572         |
| Less: provision for doubtful debts | (80,000)        | -               |
|                                    | 535,972         | 561,572         |
| Due from related parties (note 32) | 41,109          | 500,948         |
|                                    | 577,081         | 1,062,520       |

The movement of provision for doubtful debts during the year/period is as follows:

|                                             | 2009<br>AED'000 | 2008<br>AED'000 |
|---------------------------------------------|-----------------|-----------------|
| Balance at the beginning of the year/period | -               | -               |
| Provided during the year/period             | 80,000          | -               |
| Balance at the end of the year/period       | 80,000          | -               |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2009

**15 ACCOUNTS AND NOTES RECEIVABLE (continued)**

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

|             | <i>Total<br/>AED'000</i> | <i>Neither<br/>past due<br/>nor impaired<br/>AED'000</i> | <i>Past due but not impaired</i>         |                                              |                                              |                                          |
|-------------|--------------------------|----------------------------------------------------------|------------------------------------------|----------------------------------------------|----------------------------------------------|------------------------------------------|
|             |                          |                                                          | <i>Less than<br/>30 days<br/>AED'000</i> | <i>Between<br/>30 to 60 days<br/>AED'000</i> | <i>Between<br/>60 to 90 days<br/>AED'000</i> | <i>More than<br/>90 days<br/>AED'000</i> |
| <b>2009</b> | <b>577,081</b>           | <b>277,575</b>                                           | <b>288,800</b>                           | <b>3,979</b>                                 | <b>38</b>                                    | <b>6,689</b>                             |
| <b>2008</b> | <b>1,062,520</b>         | <b>813,274</b>                                           | <b>213,743</b>                           | <b>-</b>                                     | <b>25,083</b>                                | <b>10,420</b>                            |

**16 PREPAYMENTS AND OTHER ASSETS**

|                               | <i>2009<br/>AED'000</i> | <i>2008<br/>AED'000</i> |
|-------------------------------|-------------------------|-------------------------|
| Advances to contractors       | 205,284                 | 427,651                 |
| Prepayments                   | 25,501                  | 55,070                  |
| Contract work in progress     | 39,426                  | 97,476                  |
| Retentions receivable         | 64,635                  | 39,623                  |
| Accrued income on deposits    | 3,921                   | 5,939                   |
| Accrued rental income         | 957                     | 2,418                   |
| Advance under MOU (see below) | 185,808                 | 72,142                  |
| Other assets                  | 30,860                  | 27,238                  |
|                               | <b>556,392</b>          | <b>727,557</b>          |

The Group signed a Memorandum of Understanding (MOU) in December 2008 with a third party (the seller) to enter into negotiations for the execution of a sale and purchase agreement (the agreement) for acquiring the seller's interest in a building (the interest). According to the MOU, the terms of MOU will automatically terminate after a certain period or on the execution of the agreement. In accordance with the terms of the MOU, the Group paid AED 72.1 million as a refundable deposit. The Group also made additional payments of AED 113.7 million in this respect during the current year. A party that had initially financed the seller's interest has shown an outstanding murabaha balance of AED 186.3 million as receivable from the Group. Management believe that the amounts paid by the Group are recoverable from the seller and any murabaha balance is also payable by the seller since a sale and purchase agreement was never signed and accordingly the terms of MOU have automatically terminated due to the passage of time. The ultimate outcome of the matter cannot be determined at this stage and accordingly no provision that may result has been made in the financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2009

**17 PROPERTIES HELD FOR SALE**

These include unsold units in completed projects as well as the units sold where handover has not taken place as of 31 December 2009.

The movement in properties held for sale during the year/period was as follows:

|                                                                   | <i>2009</i><br><i>AED'000</i> | <i>2008</i><br><i>AED'000</i><br><i>(Restated)</i> |
|-------------------------------------------------------------------|-------------------------------|----------------------------------------------------|
| Balance, beginning of year/period                                 | -                             | -                                                  |
| Transferred from properties under construction (note 18)          | 1,830,482                     | -                                                  |
| Carrying value of properties sold during the year/period (note 9) | (1,288,465)                   | -                                                  |
|                                                                   | <u>542,017</u>                | <u>-</u>                                           |
| Balance, end of the year/period                                   | <u>542,017</u>                | <u>-</u>                                           |

Properties held for sale are carried at the lower of cost and net realisable value. Net realisable value takes into consideration the value that the Company can obtain by offering these properties to those customers who have committed to buy units in development launched in the previous year.

**18 PROPERTIES UNDER CONSTRUCTION**

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

|                                                                   | <i>2009</i><br><i>AED'000</i> | <i>2008</i><br><i>AED'000</i><br><i>(Restated)</i> |
|-------------------------------------------------------------------|-------------------------------|----------------------------------------------------|
| Balance, beginning of year/period                                 | 3,775,254                     | 1,645,832                                          |
| Acquired during the year/period (note 6)                          | -                             | 369,965                                            |
| Additions during the year/period                                  | 704,024                       | 4,019,883                                          |
| Borrowing costs capitalised                                       | 24,896                        | 46,373                                             |
| Carrying value of properties sold during the year/period (note 9) | -                             | (758,117)                                          |
| Related to subsidiaries disposed of                               | -                             | (123,894)                                          |
| Transferred to properties held for sale (note 17)                 | (1,830,482)                   | -                                                  |
| Transferred to investment properties (note 24)                    | -                             | (1,424,788)                                        |
|                                                                   | <u>2,673,692</u>              | <u>3,775,254</u>                                   |
| Balance, end of the year/period                                   | <u>2,673,692</u>              | <u>3,775,254</u>                                   |

Properties under construction are carried at the lower of cost and net realisable value. Net realisable value has been determined on the basis of committed sale price if the remaining receivable amount is lower than the current market value of the units booked by customers. Customers have already committed to purchase a large proportion of the properties under construction. Advances received from customers in this respect are shown as a liability. For units not yet booked by customers, net realisable value takes into consideration the value the Group can obtain by offering these units to the customers who have committed to buy units in developments launched in the previous year.

**19 LAND HELD FOR FUTURE DEVELOPMENT**

Land held for future development is carried at the lower of cost and net realisable value in accordance with the Group's accounting policy, regardless of its fair value.

The key assumptions used in the calculation of net realisable value are as follows:

- Construction will start in 2012 and beyond;
- Selling prices and cost of construction will remain at the current level; and
- Cost of financing will be 10% per annum.

**20 ADVANCES FOR PURCHASE OF LAND**

These advances represent amounts paid for the acquisition of plots of land. These plots of land are expected to be handed over in the coming years and their related commitments are disclosed in note 34. The Group has performed a test to determine that economic benefits expected to be received under the contracts exceed the unavoidable cost of meeting the obligations. Management believe that all plots of land being purchased will eventually be developed and sold to third parties. Assumptions used for assessing expected economic benefits are similar to those set out in note 19.

**21 INVESTMENTS IN ASSOCIATES**

During the previous period, the Group had 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 investments in the associates:

|                                                       | <i>2009</i><br><i>AED'000</i> | <i>2008</i><br><i>AED'000</i> |
|-------------------------------------------------------|-------------------------------|-------------------------------|
| Share of associates' statement of financial position: |                               |                               |
| Assets                                                | 464,284                       | 526,366                       |
| Liabilities                                           | (81,792)                      | (96,454)                      |
| Net assets                                            | <u>382,492</u>                | <u>429,912</u>                |
| Share of associates' income statement:                |                               |                               |
| Revenues                                              | <u>16,310</u>                 | <u>3,103</u>                  |
| Profit / (Loss)                                       | <u>6,552</u>                  | <u>(2,001)</u>                |
| Carrying amount of investments                        | <u>586,870</u>                | <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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2009

**21 INVESTMENTS IN ASSOCIATES (continued)**

The recoverable amount of investments is determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a five-year period. The pre-tax discount rate applied to cash flow projections is 10% and cash flows beyond the five-year period are extrapolated using a 3.0% growth rate that is the same as the long-term average estimated inflation/GDP Growth rates for UAE Economy. As a result of this analysis, management has recognised an impairment charge which is shown on the face of the consolidated income statement.

**22 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>2009</i><br><i>AED'000</i> | <i>2008</i><br><i>AED'000</i> |
|-----------------------------------|-------------------------------|-------------------------------|
| Property, plant and equipment     | <b>1</b>                      | <b>2</b>                      |
| Investment properties             | <b>1,475,947</b>              | 1,305,246                     |
| Prepayments and other receivables | <b>88,540</b>                 | 126,672                       |
| Bank balances and cash            | <b>68,209</b>                 | 87,471                        |
| Total assets                      | <u><b>1,632,697</b></u>       | <u><b>1,519,391</b></u>       |
| Accruals and other liabilities    | <u><b>493,469</b></u>         | <u><b>477,262</b></u>         |
| Income and profit for the year    | <u><b>92,074</b></u>          | <u><b>295,533</b></u>         |

**23 PROPERTY, PLANT AND EQUIPMENT**

|                                  | <i>Building</i><br><i>AED'000</i> | <i>Leasehold</i><br><i>improvements</i><br><i>AED'000</i> | <i>Furniture</i><br><i>and</i><br><i>fixtures</i><br><i>AED'000</i> | <i>Plant</i><br><i>and</i><br><i>equipment</i><br><i>AED'000</i> | <i>Motor</i><br><i>vehicles</i><br><i>AED'000</i> | <i>Capital</i><br><i>work in</i><br><i>progress</i><br><i>AED'000</i> | <i>Total</i><br><i>AED'000</i> |
|----------------------------------|-----------------------------------|-----------------------------------------------------------|---------------------------------------------------------------------|------------------------------------------------------------------|---------------------------------------------------|-----------------------------------------------------------------------|--------------------------------|
| Cost:                            |                                   |                                                           |                                                                     |                                                                  |                                                   |                                                                       |                                |
| At 1 January 2009                | -                                 | 381                                                       | 17,674                                                              | 14,592                                                           | 7,414                                             | 9,068                                                                 | 49,129                         |
| Additions                        | 10,798                            | -                                                         | 911                                                                 | 7,613                                                            | 380                                               | 1,423                                                                 | 21,125                         |
| Disposals                        | -                                 | -                                                         | (683)                                                               | (126)                                                            | (1,286)                                           | -                                                                     | (2,095)                        |
| Transfers                        | -                                 | -                                                         | (263)                                                               | (44)                                                             | -                                                 | (8,841)                                                               | (9,148)                        |
| At 31 December 2009              | <u><b>10,798</b></u>              | <u><b>381</b></u>                                         | <u><b>17,639</b></u>                                                | <u><b>22,035</b></u>                                             | <u><b>6,508</b></u>                               | <u><b>1,650</b></u>                                                   | <u><b>59,011</b></u>           |
| Depreciation:                    |                                   |                                                           |                                                                     |                                                                  |                                                   |                                                                       |                                |
| At 1 January 2009                | -                                 | 137                                                       | 6,447                                                               | 4,953                                                            | 2,294                                             | -                                                                     | 13,831                         |
| Depreciation charge for the year | 405                               | 216                                                       | 4,427                                                               | 4,822                                                            | 1,923                                             | -                                                                     | 11,793                         |
| Relating to disposals            | -                                 | -                                                         | (513)                                                               | (75)                                                             | (748)                                             | -                                                                     | (1,336)                        |
| At 31 December 2009              | <u><b>405</b></u>                 | <u><b>353</b></u>                                         | <u><b>10,361</b></u>                                                | <u><b>9,700</b></u>                                              | <u><b>3,469</b></u>                               | <u><b>-</b></u>                                                       | <u><b>24,288</b></u>           |
| Net carrying value:              |                                   |                                                           |                                                                     |                                                                  |                                                   |                                                                       |                                |
| At 31 December 2009              | <u><b>10,393</b></u>              | <u><b>28</b></u>                                          | <u><b>7,278</b></u>                                                 | <u><b>12,335</b></u>                                             | <u><b>3,039</b></u>                               | <u><b>1,650</b></u>                                                   | <u><b>34,723</b></u>           |

# Deyaar Development PJSC and Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2009

### 23 PROPERTY, PLANT AND EQUIPMENT (continued)

|                                    | <i>Leasehold<br/>improvements<br/>AED'000</i> | <i>Furniture<br/>and<br/>fixtures<br/>AED'000</i> | <i>Plant<br/>and<br/>equipment<br/>AED'000</i> | <i>Motor<br/>vehicles<br/>AED'000</i> | <i>Capital<br/>work in<br/>progress<br/>AED'000</i> | <i>Total<br/>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                | 381                                           | 17,674                                            | 14,592                                         | 7,414                                 | 9,068                                               | 49,129                   |
| 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                | 137                                           | 6,447                                             | 4,953                                          | 2,294                                 | -                                                   | 13,831                   |
| Net carrying value:                |                                               |                                                   |                                                |                                       |                                                     |                          |
| At 31 December 2008                | 244                                           | 11,227                                            | 9,639                                          | 5,120                                 | 9,068                                               | 35,298                   |

### 24 INVESTMENT PROPERTIES

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

|                                                          | <i>2009<br/>AED'000</i> | <i>2008<br/>AED'000</i> |
|----------------------------------------------------------|-------------------------|-------------------------|
| Balance, beginning of year/period                        | 1,729,030               | -                       |
| Additions during the year/period                         | 143,711                 | -                       |
| Transferred from properties under construction (note 18) | -                       | 1,424,788               |
| Net gain on fair valuation of investment properties      | 27,202                  | 304,242                 |
| Balance, end of year/period                              | 1,899,943               | 1,729,030               |

- (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 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' became effective for financial years beginning on or after 1 January 2009.

The Group has prepared internal valuations of those properties as of 31 December 2009. The valuations were based on a five 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.

**24 INVESTMENT PROPERTIES (continued)**

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 2009.

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

|                                                           | 2009 | 2008 |
|-----------------------------------------------------------|------|------|
| Long term vacancy rate                                    | 10%  | 10%  |
| Long term growth in rental rates – every alternative year | 5%   | 5%   |
| Discount rate                                             | 10%  | 10%  |

The gain on these properties, based on the above, amounts to AED 91.1 million (2008: AED 356.23 million)

- (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 63.9 million (2008: AED 51.99 million).

Accordingly a net gain of AED 27.2 million (2008: 304.24 million) is included in the consolidated income statement.

**25 ACCOUNTS PAYABLE AND ACCRUALS**

|                                    | 2009<br>AED'000  | 2008<br>AED'000  |
|------------------------------------|------------------|------------------|
| Accruals for purchase of land      | 617,938          | 607,680          |
| Accounts and notes payable         | 402,793          | 362,800          |
| Due to related parties (note 32)   | 16,342           | 394,314          |
| Accrued Islamic facilities charges | 37,365           | 31,694           |
| Tax payable                        | 15,167           | 4,897            |
| Other payables and accruals        | 273,192          | 522,584          |
|                                    | <u>1,362,797</u> | <u>1,923,969</u> |

**26 ISLAMIC FINANCE OBLIGATIONS**

|                | 2009<br>AED'000 | 2008<br>AED'000 |
|----------------|-----------------|-----------------|
| Facility one   | -               | 40,928          |
| Facility two   | 185,942         | 183,993         |
| Facility three | 75,000          | 150,000         |
| Facility four  | 200,000         | 200,000         |
| Facility five  | 160,000         | -               |
| Facility six   | 39,300          | -               |
| Facility seven | 255,000         | -               |
| Facility eight | 40,000          | -               |
|                | <u>955,242</u>  | <u>574,921</u>  |

**26 ISLAMIC FINANCE OBLIGATIONS (continued)**

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

- Facility one was fully repaid in full in 2009.
- Facility two is repayable after 6 months of completion of the property involved, with an effective profit rate based on EIBOR and with an applicable minimum rate. Repayment of the facility is expected within 6 months. The facility is secured via assignment of sales proceeds from the property.
- Facility three is a revolving corporate facility and is repayable within 6 months, with an effective profit rate based on EIBOR and with an applicable minimum rate. The facility is secured via assignment of project proceeds.
- Facility four is repayable within 6 months, with an effective profit rate based on EIBOR and with an applicable minimum rate. The facility is secured via assignment of project proceeds.
- Facility five is repayable after 1 year from completion of construction, with an effective profit rate based on EIBOR and with an applicable minimum rate. Facility is secured via mortgage over property being constructed and assignment of sales proceeds from the property.
- Facility six is a revolving working capital facility repayable within 6 months, with an effective profit rate based on EIBOR and with an applicable minimum rate.
- Facility seven is repayable within 15 months and to be utilized for the on going activities of the company. The facility carries an option to extend repayment for a further period of 1 year. The profit rate on the facility is fixed.
- Facility eight is a revolving corporate facility and repayable within 12 months, with an effective profit rate based on EIBOR and with an applicable minimum rate. The facility is secured via mortgage on property and lease rentals derived from the property.

**27 OTHER BORROWINGS**

Other borrowings include an Islamic overdraft facility from a local Islamic bank, which carries an effective rate based on EIBOR.

Other borrowings also include 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.

**28 EMPLOYEES' END OF SERVICE BENEFITS**

Movements in the provision recognised in the statement of financial position are as follows:

|                                             | <i>2009</i><br><i>AED'000</i> | <i>2008</i><br><i>AED'000</i> |
|---------------------------------------------|-------------------------------|-------------------------------|
| Balance at the beginning of the year/period | 9,348                         | 3,104                         |
| Provided during the year/period             | 5,765                         | 7,329                         |
| End of service benefits paid                | (1,371)                       | (1,085)                       |
| Balance at the end of the year/period       | <u>13,742</u>                 | <u>9,348</u>                  |

**28 EMPLOYEES' END OF SERVICE BENEFITS (continued)**

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.

**29 SHARE CAPITAL**

|                                                 | <i>2009</i><br><i>AED'000</i> | <i>2008</i><br><i>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                     | 3,178,000                     |
| 2,600,000,000 shares of AED 1 each paid in kind | 2,600,000                     | 2,600,000                     |
|                                                 | <u>5,778,000</u>              | <u>5,778,000</u>              |

As set out in note 6, 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.

**30 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.

**31 NON-CONTROLLING INTERESTS**

Non-controlling 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.

**32 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 year/period are as follows:

**2009**

|                       | <i>Revenue</i><br><i>AED'000</i> | <i>Cost of revenue</i><br><i>AED'000</i> | <i>Income</i><br><i>from deposits</i><br><i>AED'000</i> | <i>Management</i><br><i>fees income</i><br><i>AED'000</i> |
|-----------------------|----------------------------------|------------------------------------------|---------------------------------------------------------|-----------------------------------------------------------|
| Major shareholders    | -                                | -                                        | 7,323                                                   | 13,793                                                    |
| Other related parties | -                                | 16,786                                   | -                                                       | -                                                         |
|                       | <u>-</u>                         | <u>16,786</u>                            | <u>7,323</u>                                            | <u>13,793</u>                                             |

# Deyaar Development PJSC and Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2009

### 32 TRANSACTIONS WITH RELATED PARTIES (continued)

10 July 2007 to 31 December 2008

|                       | Revenue<br>AED'000 | Cost of revenue<br>AED'000 | Income<br>from deposits<br>AED'000 | Management<br>fees income<br>AED'000 |
|-----------------------|--------------------|----------------------------|------------------------------------|--------------------------------------|
| 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 statement of financial position are as follows:

As at 31 December 2009

|                       | Advances<br>AED'000 | Accounts<br>receivable<br>AED'000 | Accounts<br>payable<br>AED'000 | Fixed<br>deposits<br>AED'000 | Islamic finance<br>facilities<br>AED'000 |
|-----------------------|---------------------|-----------------------------------|--------------------------------|------------------------------|------------------------------------------|
| Major shareholders    | -                   | -                                 | 1,113                          | 254,764                      | 500,242                                  |
| Joint ventures        | -                   | 17,403                            | 13,401                         | -                            | -                                        |
| Other related parties | -                   | 23,706                            | 1,828                          | -                            | -                                        |
|                       | <u>-</u>            | <u>41,109</u>                     | <u>16,342</u>                  | <u>254,764</u>               | <u>500,242</u>                           |

As at 31 December 2008

|                       | Advances<br>AED'000 | Accounts<br>receivable<br>AED'000 | Accounts<br>payable<br>AED'000 | Fixed<br>deposits<br>AED'000 | Islamic finance<br>facilities<br>AED'000 |
|-----------------------|---------------------|-----------------------------------|--------------------------------|------------------------------|------------------------------------------|
| 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 previous period, the Group acquired 40% of the equity of Landmark Properties LLC, of which 30% was acquired from a related party (note 21).

During the previous period also, the Group also acquired Flamingo Creek LLC from a related party (note 6).

#### Compensation of key management personnel

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

|                                    | Year ended<br>31 December<br>2009<br>AED'000 | Year ended<br>31 December<br>2008<br>AED'000 | 10 July 2007 to<br>31 December<br>2008<br>AED'000 |
|------------------------------------|----------------------------------------------|----------------------------------------------|---------------------------------------------------|
| Payroll and related expenses       | 42,109                                       | 27,038                                       | 33,656                                            |
| Employees' end of service benefits | 1,195                                        | 1,444                                        | 1,654                                             |
|                                    | <u>43,304</u>                                | <u>28,482</u>                                | <u>35,310</u>                                     |

**33 SEGMENT INFORMATION****Operating segment:**

For management purposes the Group is organised into two major operating segments: Property development activities, (which include property investment, development, brokering, managing and renting of buildings), and electrical and mechanical works.

Management monitors the operating results of its operating segments for the purpose of making decisions about performance assessment. Segment performance is evaluated based on operating profit or loss. Transactions between segments are conducted at estimated rates which approximate to market rates on an arm's length basis.

**Year ended 31 December 2009:**

|                             | <i>Property<br/>development<br/>activities<br/>AED'000</i> | <i>Electrical<br/>and mechanical<br/>works<br/>AED'000</i> | <i>Total<br/>AED'000</i> |
|-----------------------------|------------------------------------------------------------|------------------------------------------------------------|--------------------------|
| Segment revenues - external | <u>1,479,823</u>                                           | <u>355,259</u>                                             | <u>1,835,082</u>         |
| Segment profit              | <u>36,611</u>                                              | <u>(11,706)</u>                                            | <u>24,905</u>            |

**As at 31 December 2009**

|                |                   |                |                   |
|----------------|-------------------|----------------|-------------------|
| Segment assets | <u>11,059,236</u> | <u>297,946</u> | <u>11,357,182</u> |
|----------------|-------------------|----------------|-------------------|

**Period from 10 July 2007 to 31 December 2008:**

|                               | <i>Property<br/>development<br/>activities<br/>AED'000</i> | <i>Electrical<br/>and mechanical<br/>works<br/>AED'000</i> | <i>Total<br/>AED'000</i> |
|-------------------------------|------------------------------------------------------------|------------------------------------------------------------|--------------------------|
| Segment revenues - external   | <u>1,403,952</u>                                           | <u>465,164</u>                                             | <u>1,869,116</u>         |
| Segment profit                | <u>812,612</u>                                             | <u>32,250</u>                                              | <u>844,862</u>           |
| Pre-incorporation profit, net |                                                            |                                                            | <u>107,395</u>           |
|                               |                                                            |                                                            | <u>952,257</u>           |

**As at 31 December 2008**

|                |                   |                |                   |
|----------------|-------------------|----------------|-------------------|
| Segment assets | <u>12,007,603</u> | <u>301,819</u> | <u>12,309,422</u> |
|----------------|-------------------|----------------|-------------------|

**Geographic information**

Revenue earned from properties outside the United Arab Emirates amounts to AED 287,373,324 (10 July 2007 to 31 December 2008: AED Nil). Properties located outside the United Arab Emirates amount to AED 460,173,255 (2008: AED 650,591,457).

**34 COMMITMENTS AND CONTINGENCIES**

At 31 December 2009, the Group had commitments of AED 789,768,142 (2008: AED 1,587,760,597) with respect to project related contracts issued as of the end of the year/period net of invoices received and accruals made at that date. At 31 December 2009, the Group also had commitments with respect to purchase of land of AED 373,938,030 (2008: AED 1,157,632,279).

At 31 December 2009, the Group had contingent liabilities in respect of performance and other guarantees issued by bank on behalf of a subsidiary in the ordinary course of business from which it is anticipated that no material liabilities will arise, amounting to AED 101,637,112 (2008: AED 200,710,593).

**35 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.

The main risks arising from the Group's financial instruments are profit rate risk, foreign currency risk, credit risk, and liquidity 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, on the Group's profit before tax (through the impact on floating rate deposits and borrowings). There is no impact on the Group's equity.

| <b>Currency</b> | <b><i>Change<br/>in basis<br/>points</i></b> | <b><i>Sensitivity<br/>of net profit<br/>from loans<br/>AED'000</i></b> |
|-----------------|----------------------------------------------|------------------------------------------------------------------------|
| <b>2009</b>     |                                              |                                                                        |
| <b>AED</b>      | <b>+ 50</b>                                  | <b>393</b>                                                             |
| <b>AED</b>      | <b>- 50</b>                                  | <b>(377)</b>                                                           |
| <b>2008</b>     |                                              |                                                                        |
| <b>AED</b>      | <b>+ 57</b>                                  | <b>1,991</b>                                                           |
| <b>AED</b>      | <b>- 57</b>                                  | <b>(1,991)</b>                                                         |

All the current financing of the company carries either fixed profit rate or an applicable minimum rate which historically has remained higher than the rate based on EIBOR.

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

**35 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)****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<br/>equivalent</i> |
|------------------------|-------------------------------|
| Lebanese Lira          | (2,315)                       |
| Turkish Lira           | 51,156                        |
| Kazakhstan Tenge       | (16,529)                      |
| British Pound Sterling | (4,898)                       |
| USD                    | (9,136)                       |
| Bahrain Dinar          | 2,381                         |
| Malaysian Ringgit      | (64)                          |

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 and books provision for doubtful debts when necessary.

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.

**Liquidity risk**

The Group monitors its risk to a shortage of funds using a recurring liquidity forecasting 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 based on contractual undiscounted payments.

*At 31 December 2009*

|                                                      | <i>On<br/>demand<br/>AED'000</i> | <i>Less than 3<br/>months<br/>AED'000</i> | <i>3 to 12<br/>months<br/>AED'000</i> | <i>1 to 5<br/>years<br/>AED'000</i> | <i>Over<br/>5 years<br/>AED'000</i> | <i>Total<br/>AED'000</i> |
|------------------------------------------------------|----------------------------------|-------------------------------------------|---------------------------------------|-------------------------------------|-------------------------------------|--------------------------|
| Islamic finance facilities                           | -                                | -                                         | 734,556                               | 275,143                             | -                                   | 1,009,699                |
| Term finance                                         | 126,522                          | 26,922                                    | 22,930                                | 531                                 | -                                   | 176,905                  |
| Accounts payable, accruals<br>and retentions payable | 13,742                           | 1,325,432                                 | -                                     | 153,944                             | -                                   | 1,493,118                |
| <b>Total undiscounted<br/>financial liabilities</b>  | <b>140,264</b>                   | <b>1,352,354</b>                          | <b>757,486</b>                        | <b>429,618</b>                      | <b>-</b>                            | <b>2,679,722</b>         |

**35 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)****Liquidity risk (continued)***As at 31 December 2008*

|                                                      | <i>On<br/>demand<br/>AED'000</i> | <i>Less than 3<br/>months<br/>AED'000</i> | <i>3 to 12<br/>months<br/>AED'000</i> | <i>1 to 5<br/>years<br/>AED'000</i> | <i>Over<br/>5 years<br/>AED'000</i> | <i>Total<br/>AED'000</i> |
|------------------------------------------------------|----------------------------------|-------------------------------------------|---------------------------------------|-------------------------------------|-------------------------------------|--------------------------|
| Islamic finance facilities                           | -                                | -                                         | 602,077                               | -                                   | -                                   | 602,077                  |
| Term finance                                         | 147,523                          | 61,205                                    | 8,156                                 | 1,385                               | -                                   | 218,269                  |
| Accounts payable, accruals<br>and retentions payable | 9,348                            | 1,735,582                                 | 188,387                               | 138,318                             | -                                   | 2,071,635                |
| <b>Total undiscounted<br/>financial liabilities</b>  | <b>156,871</b>                   | <b>1,796,787</b>                          | <b>798,620</b>                        | <b>139,703</b>                      | <b>-</b>                            | <b>2,891,981</b>         |

**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 6,737,955,000 as at 31 December 2009 (2008: AED 6,714,871,000).

**36 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<br/>12 months<br/>AED'000</i> | <i>After<br/>12 months<br/>AED'000</i> | <i>Total<br/>AED'000</i> |
|-----------------------------------|-----------------------------------------|----------------------------------------|--------------------------|
| <b>ASSETS</b>                     |                                         |                                        |                          |
| Bank balances and cash            | 683,867                                 | -                                      | 683,867                  |
| Accounts and notes receivable     | 577,081                                 | -                                      | 577,081                  |
| Prepayments and other assets      | 556,392                                 | -                                      | 556,392                  |
| Properties held for sale          | 542,017                                 | -                                      | 542,017                  |
| Properties under construction     | 1,715,908                               | 957,784                                | 2,673,692                |
| Land held for future developments | -                                       | 1,611,334                              | 1,611,334                |
| Advances for purchase of land     | -                                       | 1,222,299                              | 1,222,299                |
| Investments in associates         | -                                       | 586,870                                | 586,870                  |
| Property, plant and equipment     | -                                       | 34,723                                 | 34,723                   |
| Investment properties             | -                                       | 1,899,943                              | 1,899,943                |
| Goodwill                          | -                                       | 968,964                                | 968,964                  |
| <b>TOTAL</b>                      | <b>4,075,265</b>                        | <b>7,281,917</b>                       | <b>11,357,182</b>        |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2009

## 36 MATURITY ANALYSIS (continued)

|                                    | <i>Within<br/>12 months<br/>AED'000</i> | <i>After<br/>12 months<br/>AED'000</i> | <i>Total<br/>AED'000</i> |
|------------------------------------|-----------------------------------------|----------------------------------------|--------------------------|
| <b>LIABILITIES</b>                 |                                         |                                        |                          |
| Accounts payable and accruals      | 1,362,797                               | -                                      | 1,362,797                |
| Advances from customers            | 1,426,641                               | 518,213                                | 1,944,854                |
| Islamic finance obligations        | 700,242                                 | 255,000                                | 955,242                  |
| Term finance                       | 174,393                                 | 531                                    | 174,924                  |
| Retentions payable                 | -                                       | 153,944                                | 153,944                  |
| Employees' end of service benefits | -                                       | 13,742                                 | 13,742                   |
| <b>TOTAL</b>                       | <b>3,664,073</b>                        | <b>941,430</b>                         | <b>4,605,503</b>         |
| <b>NET</b>                         | <b>411,192</b>                          | <b>6,340,487</b>                       | <b>6,751,679</b>         |

## 37 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.

## 38 CHANGES IN ACCOUNTING POLICY

During the year, the Group changed its accounting policy in respect of accounting for revenue from sale of residential and commercial units by adopting IFRIC 15 "Agreement for the Construction of Real Estate".

As a result, the carrying values of the properties under construction recognized in 2007 and 2008 were adjusted at these dates with changes in values recognized in income statement.

There is no impact of the change on the statement of financial position amounts as of 10 July 2007.

Restatements of the Group's change in properties under construction, revenues and costs on sale of properties for the period ended 31 December 2008 and retained earnings as of 31 December 2008 are as follows:

|                                                      | <i>Balance as<br/>previously<br/>reported<br/>AED'000</i> | <i>Adjustments<br/>AED'000</i> | <i>Balance at<br/>31 December<br/>Restated<br/>AED'000</i> |
|------------------------------------------------------|-----------------------------------------------------------|--------------------------------|------------------------------------------------------------|
| <b>Period from 10 July 2007 to 31 December 2008:</b> |                                                           |                                |                                                            |
| Sale of properties                                   | 3,788,833                                                 | (1,919,717)                    | 1,869,116                                                  |
| Cost of properties sold                              | (2,493,817)                                               | 1,333,822                      | (1,159,995)                                                |
| Tax on sale of properties                            | (17,666)                                                  | 17,666                         | -                                                          |
| Profit for the period                                | 1,520,486                                                 | (568,229)                      | 952,257                                                    |
| <b>At 31 December 2008:</b>                          |                                                           |                                |                                                            |
| Properties under construction                        | 2,653,857                                                 | 1,121,397                      | 3,775,254                                                  |
| Advances from customers                              | 1,090,214                                                 | 1,622,305                      | 2,712,519                                                  |
| Retained earnings                                    | 1,353,711                                                 | (568,229)                      | 785,482                                                    |