

**DUBAI FINANCIAL MARKET
DUBAI - UNITED ARAB EMIRATES**

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED DECEMBER 31, 2005**

**Dubai Financial Market
Dubai - United Arab Emirates**

**Financial Statements and
Independent Auditor's Report
For the Year Ended December 31, 2005**

Table of Contents

	<u>Page</u>
Independent Auditor's Report	1
Balance Sheet	2
Income Statement	3
Statements of Changes in Owner's Equity	4
Cash Flow Statement	5
Notes to the Financial Statements	6 - 18

Independent Auditor's Report

To the Owner
Dubai Financial Market
Dubai
United Arab Emirates

We have audited the accompanying balance sheet of **Dubai Financial Market (“DFM”)**, **Dubai**, as of December 31, 2005 and the related statements of income, changes in owner’s equity and cash flows for the year then ended. These financial statements are the responsibility of the DFM's management. 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 plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, , the financial statements referred to above present fairly, in all material respects, the financial position of **Dubai Financial Market, Dubai**, as of December 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Without qualifying our opinion we draw attention to Note 8 to the financial statements. An amount of AED 12,188,947 representing unidentified debit balances resulting from inadequate controls on brokers accounts was included in other receivables and is fully provided for.

Dubai
June 21, 2006

Balance Sheet
As of December 31, 2005
(In Arab Emirates Dirhams)

	Note	2005	2004
ASSETS			
Current assets			
Cash and cash equivalents	5	62,258,766	560,313
Islamic investments and fixed deposits	6	1,026,846,722	187,299,553
Other financial assets - current	7	239,932,800	-
Prepaid expenses and other receivables	8	57,682,913	4,775,649
Due from related parties	9	-	-
Other assets	10	11,853,222	5,191,036
Total current assets		1,398,574,423	197,826,551
Non-current assets			
Property and equipment	11	16,663,848	1,928,714
Other financial assets – non-current	7	49,966,400	-
Total non-current assets		66,630,248	1,928,714
Total Assets		1,465,204,671	199,755,265
		=====	=====
LIABILITIES AND OWNER’S EQUITY			
Current liabilities			
Bank borrowings	12	-	42,000,000
Payables and accrued expenses	13	123,250,068	69,554,353
Total current liabilities		123,250,068	111,554,353
Non-current liabilities			
Provision for employees’ end of service indemnity	14	504,910	667,452
Total Liabilities		123,754,978	112,221,805
Owner’s Equity			
Retained earnings		1,341,449,693	87,533,460
Total Liabilities and Owner’s Equity		1,465,204,671	199,755,265
		=====	=====

The accompanying notes form an integral part of these financial statements.

The financial statements on pages 2 to 18 were approved and signed by the Director General, on behalf of the Board of Directors, on June 21, 2006.

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Income Statement
For the year ended December 31, 2005
(In Arab Emirates Dirhams)

	Note	2005	2004
Revenues			
Trading commission fees	15	1,235,261,325	154,108,294
Brokers’ fees		5,731,667	3,309,167
Ownership transfer and mortgage fees		35,449,234	7,582,880
Other fees		13,051,397	3,607,526
Operating revenue		1,289,493,623	168,607,867
Expenses			
Payroll and staff related costs		17,312,883	9,390,635
General and administrative expenses	16	20,019,400	5,668,504
Rent		3,145,133	2,001,100
Depreciation of property and equipment	11	2,922,108	1,624,343
Total expenses		43,399,524	18,684,582
Operating profit		1,246,094,099	149,923,285
Interest income		6,773,693	91,481
Finance costs		(1,096,743)	(1,256,547)
Other income	17	2,145,184	-
Profit for the year		1,253,916,233	148,758,219
		=====	=====

The accompanying notes form an integral part of these financial statements.

Statement of Changes in Owner’s Equity
For the year ended December 31, 2005
(In Arab Emirates Dirhams)

	<u>Retained earnings/ (Accumulated deficit)</u>
Balance at December 31, 2003	(61,224,759)
Profit for the year ended December 31, 2004	<u>148,758,219</u>
Balance at December 31, 2004	87,533,460
Profit for the year ended December 31, 2005	<u>1,253,916,233</u>
Balance at December 31, 2005	<u>1,341,449,693</u> =====

The accompanying notes form an integral part of these financial statements.

Cash Flow Statement
For the year ended December 31, 2005
(In Arab Emirates Dirhams)

	<u>2005</u>	<u>2004</u>
Cash flows from operating activities		
Net income for the year	1,253,916,233	148,758,219
Adjustments for:		
Depreciation of property and equipment	2,922,108	1,624,343
Provision for employees' end of service indemnity	-	130,775
Gain on sale of property and equipment	(78,331)	-
Operating profit before changes in operating assets and liabilities	1,256,760,010	150,513,337
Increase in prepaid expenses and other receivables	(52,907,264)	(4,437,770)
Increase in other assets	(6,662,186)	(195,940)
Increase in payables and accrued expenses	53,695,715	55,161,738
Decrease in due to a related party	-	(11,212,571)
Cash generated from operations	1,250,886,275	189,828,794
Employees' end of service indemnity paid/adjusted	(162,542)	-
Net cash from operating activities	<u>1,250,723,733</u>	<u>189,828,794</u>
Cash flows from investing activities		
Purchase of property and equipment	(17,658,911)	(1,600,891)
Proceeds from sale of property and equipment	80,000	-
Increase in Islamic investment and fixed deposits	(839,547,169)	(180,195,435)
Other financial assets	(289,899,200)	-
Net cash used in investing activities	<u>(1,147,025,280)</u>	<u>(181,796,326)</u>
Cash flows from financing activities		
Repayment of bank borrowings	(42,000,000)	(8,000,000)
Net cash used in financing activities	<u>(42,000,000)</u>	<u>(8,000,000)</u>
Net increase in cash and cash equivalents	61,698,453	32,468
Cash and cash equivalents, beginning of year	<u>560,313</u>	<u>527,845</u>
Cash and cash equivalents, end of year (Note 5)	<u>62,258,766</u>	<u>560,313</u>
	=====	=====

The accompanying notes form an integral part of these financial statements.

Notes to the Financial Statements
For the year ended December 31, 2005

1. Establishment and operations

Dubai Financial Market (“DFM”) was established in the Emirate of Dubai on May 29, 2000 in accordance with the Emiri Decree Number 14 of 2000 issued by His Highness, Sheikh Maktoum Bin Rashid Al Maktoum, Ruler of Dubai. DFM is wholly-owned by the Government of Dubai.

DFM is located in Dubai World Trade Center. The registered address of DFM is P.O. Box 9700, Dubai, United Arab Emirates.

The principal activity of DFM is to operate as a secondary market for trading of securities issued by public shareholding companies, bonds issued by the Federal government or any of the local governments and public institutions in the Federation, investment units issued by local investment funds and other local or foreign instruments accepted by DFM. DFM is governed by the regulations issued by the Emirates Securities and Commodities Authority.

2. Adoption of new and revised International Financial Reporting Standards

In the current year, DFM has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for accounting periods beginning on January 1, 2005. The adoption of these new and revised Standards and Interpretations has resulted in changes to DFM’s presentation and disclosure in the financial statements as required by the following International Accounting Standards:

- Presentation of financial statements (IAS 1),
- Property, plant and equipment (IAS 16),
- Related party disclosure (IAS 24),
- Financial Instruments: Disclosure and Presentation (IAS 32), and
- ⌚ ▪ Financial Instruments: Recognition and Measurement (IAS 39)

At the date of authorisation of these financial statements, the following applicable Standard was in issue but not yet effective:

IFRS 7 *Financial Instruments: Disclosures*

The management anticipates that the adoption of this Standard in future periods will have no material impact on the financial statements of DFM.

Notes to the Financial Statements (continued)
For the year ended December 31, 2005

3. Significant accounting policies

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). These financial statements are presented in United Arab Emirates Dirhams (AED) since that is the currency of the United Arab Emirates in which DFM is domiciled. A summary of the significant accounting policies is set out below:

Basis of accounting

The Dubai Financial Market maintains its books of account on a cash basis. The financial statements were prepared pursuant to the accrual basis of accounting after making the necessary adjustments to reflect the accounts on accrual basis. Effective January 1, 2006 the accounts are being maintained on accrual basis.

The financial statements have been prepared on the historical cost basis.

Revenue recognition

Revenue is recognized on the accrual basis.

Trading commission fees are recognized on the date of transaction in the market.

License fees are recognized on the date of granting the license.

Interest income is accrued on a time proportion basis, by reference to the principal outstanding and at the interest rate applicable.

Provision for employees' end of service indemnity

Provision for employees' end of service indemnity is made in accordance with the UAE labour laws, and is based on current basic remuneration and cumulative years of service at the balance sheet date.

Defined contribution plan

UAE National employees in the United Arab Emirates are members of the Government-managed retirement pension and social security benefit scheme. As per Federal Labor Law No. 7 of 1999, DFM is required to contribute 15% of the "contribution calculation salary" of UAE payroll costs to the retirement benefit scheme to fund the benefits. The employees are also required to contribute 5% of the "contribution calculation salary" to the scheme. The only obligation of DFM with respect to the retirement pension and social security scheme is to make the specified contributions. The contributions are charged to the net profit or loss for the year.

Notes to the Financial Statements (continued)
For the year ended December 31, 2005

3. Significant accounting policies (continued)

Property and equipment

Property and equipment are carried at cost less accumulated depreciation and any identified impairment loss.

Depreciation is charged so as to write off the cost of assets, over their estimated useful lives, using the straight-line method, as follows:

	<u>Years</u>
Computers and information system	4
Leasehold improvements	4
Furniture and office equipment	4
Motor vehicles	4

Impairment of tangible and intangible assets

At each balance sheet date, DFM reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, DFM estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Notes to the Financial Statements (continued)
For the year ended December 31, 2005

3. Significant accounting policies (continued)

Foreign currency transactions

Transactions denominated in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are translated at the rates prevailing on the balance sheet date. Gains and losses arising from foreign currency transactions are included in the net profit or loss for the year.

Provisions

Provisions are recognized when the DFM has a present obligation as a result of a past event which is probable to result in an outflow of economic benefits that can be reasonably estimated.

Financial instruments

Financial assets and financial liabilities are recognized on the DFM's balance sheet when the DFM has become a party to the contractual provisions of the instrument.

Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct costs. Finance charges are accounted for on an accrual basis.

Other payables

Other payables are stated at their fair value.

Due from/to related parties

Due from/to related parties are stated at their fair value.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, banks' current accounts, demand and time deposits with an original maturity of three months or less at date of placement, free of any encumbrances.

Notes to the Financial Statements (continued)
For the year ended December 31, 2004

4. Critical accounting judgments and key sources of estimation uncertainty

Critical judgments in applying DFM's accounting policies

In the process of applying DFM's accounting policies, which are described in Note 3 to the financial statements, management has made the following judgments that have the most significant effect on the amounts recognized in the financial statements (apart from those involving estimations, which are dealt with below).

Revenue recognition

Trade commission received or receivable are recognised as revenue on accrual basis. License fees are recognised on the date of granting the license. And interest income is accrued on a time proportion basis, by reference to the principal outstanding and at the interest rate applicable as per International Accounting Standard 18.

Key sources of estimation uncertainty

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

Impairment of assets values

At each balance sheet date, the management reviews the assets values to determine that their book values have not exceeded amounts recoverable from them. The management estimates the recoverable amount of various assets individually or based on the cash generating unit to which the individual asset belongs.

Depreciation of property and equipment

Property and equipment are being depreciated based on their anticipated useful lives as estimated by management.

Allowance for doubtful debts

At each balance sheet date, the management conducts a detailed review of trade accounts and other receivable balances, an allowance for doubtful debts is established based on this review, management experience and prevailing economic conditions.

Notes to the Financial Statements (continued)
For the year ended December 31, 2005

5. Cash and cash equivalents

	December 31,	
	2005	2004
	AED	AED
Cash on hand	33,993	26,307
Bank current accounts	62,224,773	534,006
	62,258,766	560,313
	=====	=====

6. Islamic investments and fixed deposits

	December 31,	
	2005	2004
	AED	AED
Fixed deposits	396,846,722	117,299,553
Islamic investment deposits	630,000,000	70,000,000
	1,026,846,722	187,299,553
	=====	=====

Interest rate on the fixed deposits during the year ranges from 0.5% to 3.5% per annum (2004: 0.5% to 3.5% per annum).

Islamic investment deposits represent investment in 5 certificates of deposits with Amlak as follows:

- 1. Deposit amounted to AED 30 million with maturity date of January 2006.
- 2. Deposit amounted to AED 100 million with maturity date of June 2006.
- 3. Deposit amounted to AED 200 million with maturity date of July 2006.
- 4. Deposit amounted to AED 200 million with maturity date of October 2006.
- 5. Deposit amounted to AED 100 million with maturity date of December 2006.

Expected returns on the investments ranges from 3.5% to 5.2% (2004: from 3.25% to 3.4%).

Notes to the Financial Statements (continued)
For the year ended December 31, 2005

7. Other financial assets

	December 31,	
	2005	2004
	AED	AED
Mutual funds	289,899,200	-
	=====	=====

Mutual funds represent 4 held-to-maturity investments with National Bank of Dubai as follows:

<u>Description</u>	<u>Maturity date</u>	<u>Investment</u> AED
USD Variable Range FX Note	October 2006	140,000,000
USD 1.25 Year Basket Range Accrual Protected Note	October 2006	49,966,400
USD 3 Year Global Equity Index Basket (GEIB) Note	July 2008	49,966,400
USD Gold Double Range Deposit	December 2006	49,966,400
		289,899,200
Less: Other financial assets – non-current		(49,966,400)
Other financial assets – current		239,932,800
		=====

Mutual funds are capital guaranteed and due on the above maturity dates plus coupons, if any.

8. Prepaid expenses and other receivables

	December 31,	
	2005	2004
	AED	AED
Due from brokers*	49,367,612	-
Accrued revenue	6,839,265	4,755,242
Prepayments and other receivables	1,476,036	20,407
Other debit balance	12,188,947	-
	69,871,860	4,775,649
Less: Allowance for doubtful debts	(12,188,947)	-
	57,682,913	4,775,649
	=====	=====

* Due from brokers represent amount paid on behalf of the brokers for the settlement of their deals.

Notes to the Financial Statements (continued)
For the year ended December 31, 2005

9. Related party transactions

The DFM enters into transactions with companies and entities that fall within the definition of a related party as contained in International Accounting Standard No.24. Related parties comprise companies under common ownership and/or common management and control and key management personnel.

At the balance sheet date, due from/to related parties were as follows:

	<u>December 31,</u>	
	<u>2005</u>	<u>2004</u>
	AED	AED
Due from related parties		
Department of Economic Development	2,362,187	2,362,187
Less: Allowance for doubtful debts	(2,362,187)	(2,362,187)
	-	-
	=====	=====

The amounts due from related parties represent payments made by DFM on their behalf in previous years.

	<u>Year ended December 31,</u>	
	<u>2005</u>	<u>2004</u>
	AED	AED
Rent and service expense	3,249,300	1,999,300
	=====	=====

Rent and service expense is charged by Dubai World Trade Center.

10. Other assets

Other assets represent the cost of shares purchased and designated by DFM for charity purposes. The fair value of these assets as of December 31, 2005 is AED 80,523,510 (2004: AED 21,691,565). The earned dividends on these shares are included in payables and accrued expenses.

Notes to the Financial Statements (continued)
For the year ended December 31, 2005

11. Property and equipment

	Computers and information system AED	Leasehold improvements AED	Furniture and office equipment AED	Motor vehicles AED	Total AED
Cost					
At December 31, 2003	17,793,078	7,605,200	2,296,806	233,600	27,928,684
Additions	<u>1,045,187</u>	<u>-</u>	<u>555,704</u>	<u>-</u>	<u>1,600,891</u>
At December 31, 2004	18,838,265	7,605,200	2,852,510	233,600	29,529,575
Additions	10,737,325	1,553,740	5,316,846	51,000	17,658,911
Disposals	<u>(99,089)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(99,089)</u>
At December 31, 2005	<u>29,476,501</u>	<u>9,158, 940</u>	<u>8,169,356</u>	<u>284,600</u>	<u>47,089,397</u>
Accumulated depreciation					
At December 31, 2003	16,682,608	7,158,221	1,927,327	208,362	25,976,518
Charge for the year	<u>827,887</u>	<u>442,730</u>	<u>328,488</u>	<u>25,238</u>	<u>1,624,343</u>
At December 31, 2004	17,510,495	7,600,951	2,255,815	233,600	27,600,861
Charge for the year	1,998,647	35,407	885,644	2,410	2,922,108
Eliminated on disposals	<u>(97,420)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(97,420)</u>
At December 31, 2005	<u>19,411,722</u>	<u>7,636,358</u>	<u>3,141,459</u>	<u>236,010</u>	<u>30,425,549</u>
Carrying amount					
At December 31, 2005	<u>10,064,779</u> =====	<u>1,522,582</u> =====	<u>5,027,897</u> =====	<u>48,590</u> =====	<u>16,663,848</u> =====
At December 31, 2004	<u>1,327,770</u> =====	<u>4,249</u> =====	<u>596,695</u> =====	<u>-</u> =====	<u>1,928,714</u> =====

Property and equipment as of December 31, 2005 include assets of original cost of approximately AED 27.1 million which are fully depreciated and currently in use (2004: AED 26.2 million).

Notes to the Financial Statements (continued)
For the year ended December 31, 2005

12. Bank borrowings

The DFM had arranged for a facility limit of AED Nil (2004: AED 42 million) of short-term financing in the form of overdrafts from a commercial bank in Dubai, bearing interest rate which vary with the market funds rates.

The above facility was fully utilized in 2004 and is secured by Government of Dubai. The borrowing was repaid during 2005.

13. Payables and accrued expenses

	December 31,	
	2005	2004
	AED	AED
Brokers deposits	98,468,932	42,297,382
Due to Financial Securities and Commodities Authority	12,585,259	19,779,932
Creditors	5,121,672	149,025
Accrued expenses	1,475,813	3,728,344
Payable to general pension and social security*	177,980	3,571,475
Due to investors	2,245,131	28,195
Unearned revenue	2,858,333	-
Other payables	316,948	-
	123,250,068	69,554,353
	=====	=====

* The amount payable to general pension and social security is as follows:

	2005	2004
	AED	AED
Balance, at beginning of the year	3,571,475	3,481,498
Amounts charged to income	1,205,771	89,977
Amounts deducted from National employees	401,924	-
Amounts paid	(5,001,190)	-
Balance at end of the year	177,980	3,571,475
	=====	=====

The balance pertaining to National employees' pension and social security benefits scheme was computed at the rate of 20% of 'contribution calculation salaries' for the total service period with the Government, including the service period prior to joining of DFM.

Notes to the Financial Statements (continued)
For the year ended December 31, 2005

14. Provision for employees’ end of service indemnity

	<u>2005</u>	<u>2004</u>
	AED	AED
Balance, at beginning of the year	667,452	536,677
Amount charged to income	-	130,775
Amount paid	(18,100)	-
Amount adjusted	(144,442)	-
	<u>504,910</u>	<u>667,452</u>
	=====	=====

15. Trading commission fees

	<u>Year ended December 31,</u>	
	<u>2005</u>	<u>2004</u>
	AED	AED
Shares’ trading commission fees	1,217,249,791	151,448,000
Bonds’ trading commission fees	20,854	240,894
Dealing fees	<u>17,990,680</u>	<u>2,419,400</u>
	<u>1,235,261,325</u>	<u>154,108,294</u>
	=====	=====

Notes to the Financial Statements (continued)
For the year ended December 31, 2005

16. General and administrative expenses

	Year ended December 31,	
	2005	2004
	AED	AED
Communication expenses	2,201,921	611,111
Computer maintenance expenses	1,217,703	1,294,828
Training and travel expenses	1,923,834	579,622
Allowance for doubtful debts	12,188,947	15,242
Other expenses	2,486,995	3,167,701
	20,019,400	5,668,504
	=====	=====

17. Other income

	Year ended December 31,	
	2005	2004
	AED	AED
Gain on sale of property and equipment	78,331	-
Reversed accrual	2,066,853	-
	2,145,184	-
	=====	=====

Gain on sale of property and equipment arising on the disposal of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in income statement.

18. Financial instruments

Interest rate risk

Bank overdrafts and bank borrowing are at floating rates of interest generally obtained in the U.A.E. at prevailing market rates.

Credit risk

Financial assets, which potentially expose the DFM to concentrations of credit risk, comprise principally bank current and call accounts and other receivables.

Notes to the Financial Statements (continued)
For the year ended December 31, 2005

18. Financial instruments (continued)

Exchange rate risk

At the balance sheet date, there are no significant exchange rate risks as substantially all the financial assets and liabilities are denominated in UAE Dirhams or U.S. Dollars to which Dirham is fixed.

Fair values

The fair values of financial assets and liabilities at year-end approximate their carrying amounts in the balance sheet.

19. Comparative amounts

Certain amounts for the prior year were reclassified to conform to current year presentation.