

EMAAR Properties PJSC and Subsidiaries

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2004

DIRECTORS' REPORT

The Board of Directors of EMAAR Properties PJSC and Subsidiaries (the 'Group') has pleasure in submitting the consolidated balance sheet of the Group as of 31 December 2004, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the year ended 31 December 2004.

Principal activities

The principal activities of the Group during the year ended 31 December 2004 were property investment and development, property management services, commercial banking and the provision of IT and data communication services.

Financial Results

The Group has reported a net profit of AED 1,691 million (2003: AED 676 million) representing a 150 % increase over the previous year.

As per the Articles of Association, the transfer to legal reserve has been suspended as the reserve has reached 50% of the paid up capital.

The Directors have recommended a dividend of 20%, comprising of 17.5% in cash and bonus issue of 2.5% (2003: cash of 12%).

The Board of Directors also proposed that the distributable profit of AED1,691 million be appropriated as follows:

	AED million
a) Transfer to general reserve	169
b) Proposed bonus issue	66
c) Proposed cash dividend	464

The balance of the distributable profit is transferred to retained earnings.

After appropriation of cash dividend, total shareholders funds amount to AED 7,568 million (2003: AED 6,343 million).

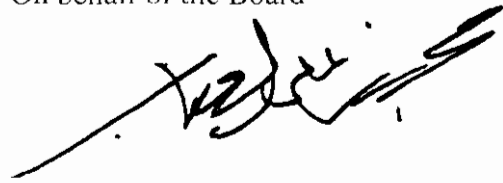
Directors

H.E. Mohamed Ali Alabbar	(Chairman)
H.E. Dr Mohamed Khalfan Bin Kharbash	(Vice Chairman)
H.E. Sultan Ahmed Khalfan Al Ghaith	(Director)
Mr. Abdul Aziz Abdullah Al Ghurair	(Director)
Mr. Salem Rashed Al Mohannadi	(Director)
Mr. Mohammed Ibrahim Al Shaibani	(Director)

Auditors

Ernst & Young were appointed as external auditors of the Group for the year ended 31 December 2004. Ernst & Young are eligible for reappointment for 2005 and have expressed their willingness to continue in office.

On behalf of the Board

A handwritten signature in black ink, appearing to read 'Mohamed Ali Alabbar', written over a horizontal line.

Mohamed Ali Alabbar

Chairman

Dubai

29 January 2005

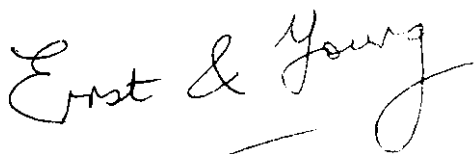
AUDITORS' REPORT TO THE SHAREHOLDERS OF EMAAR PROPERTIES PJSC

We have audited the accompanying consolidated balance sheet of EMAAR Properties PJSC and its subsidiaries ("the Group") as of 31 December 2004, and the related consolidated statements of income, cash flows and changes in equity for the year then ended. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles 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 consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of 31 December 2004, and the consolidated results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

We also confirm that in our opinion proper books of account have been kept by Emaar Properties PJSC, and the contents of the report of the Board of Directors relating to these consolidated financial statements are in agreement with the books of account. We have obtained all the information and explanations 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 Emaar Properties PJSC have occurred during the year which would have had a material effect on the business of the Group or on its financial position.



Signed by
Edward B. Quinlan (Registration No. 93)
For Ernst & Young

Dubai, United Arab Emirates
29 January 2005

EMAAR Properties PJSC and Subsidiaries

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2004

(US \$1.00 = AED 3.673)

	Note	2004 AED'000	2003 AED'000
Revenue	4	5,247,851	3,721,386
Cost of revenues	4	(3,039,361)	(2,695,251)
GROSS PROFIT		2,208,490	1,026,135
Other operating income		179,530	80,082
Selling, general and administration expenses	5	(715,066)	(450,683)
Other operating expenses		(84,299)	(38,837)
PROFIT FROM OPERATIONS		1,588,655	616,697
Net finance income	6	55,533	30,404
Other income		26,914	29,086
Share of results from associated company		20,810	-
PROFIT FOR THE YEAR BEFORE MINORITY INTEREST		1,691,912	676,187
Minority interest		(1,355)	155
NET PROFIT FOR THE YEAR		1,690,557	676,342
Earnings per share	25	<u>AED 0.64</u>	<u>AED 0.27</u>

The attached notes 1 to 32 form part of these financial statements.

EMAAR Properties PJSC and Subsidiaries

CONSOLIDATED BALANCE SHEET

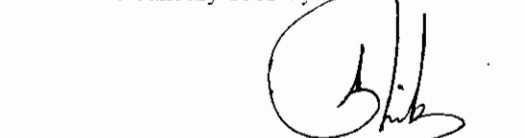
At 31 December 2004

(US \$1.00 = AED 3.673)

	Note	2004 AED'000	2003 AED'000 (restated)
ASSETS			
Bank balances and cash	7	2,672,601	1,974,943
Trade receivables	8	803,306	1,460,405
Loans and advances – financial services	9	1,330,257	1,392,253
Other receivables, deposits and prepayments	10	282,798	356,069
Securities	11	2,037,036	76,316
Investment in associated company	12	1,146,640	-
Fixed assets, net	13	305,804	178,496
Investment properties	14	2,155,960	2,447,761
Development properties	15	2,021,455	1,289,021
TOTAL ASSETS		12,755,857	9,175,264
LIABILITIES			
Trade and other payables	16	1,961,642	1,558,220
Customers' deposits – financial services	17	1,492,692	602,829
Loans from financial institutions	18	638,693	-
Retentions payable	19	618,540	346,337
Provision for employees' end-of-service benefits	20	9,707	5,857
TOTAL LIABILITIES		4,721,274	2,513,243
MINORITY INTEREST		2,685	1,330
EQUITY			
Share capital	21	2,650,000	2,650,000
Capital reserve	22	4,004	4,004
Statutory reserves	23	2,487,458	2,487,051
General reserve	23	384,345	215,289
Retained earnings		1,976,091	986,347
Proposed bonus issue	24	66,250	-
Proposed dividend	24	463,750	318,000
TOTAL EQUITY		8,031,898	6,660,691
TOTAL LIABILITIES AND EQUITY		12,755,857	9,175,264

The consolidated financial statements were authorised for issue on 29 January 2005 by:


Chairman


Director

The attached notes 1 to 32 form part of these financial statements.

EMAAR Properties PJSC and Subsidiaries

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2004

(US \$1.00 = AED 3.673)

	Note	2004 AED'000	2003 AED'000
OPERATING ACTIVITIES			
Net profit for the year before minority interest		1,691,912	676,187
Adjustments for:			
Share of results of associated company		(20,810)	-
Profit of subsidiary prior to dilution of interest to associated company		(4,469)	-
Loss on dilution of interest in a previous subsidiary company		7,467	-
Depreciation		95,542	79,711
Provision for impairment of investment property		291,076	-
Provision for employees' end-of-service benefits, net		4,106	3,374
Write-off of investment in associated company		-	2,608
Provision for impairment of loans and advances		6,106	4,567
(Gain)/loss on disposal of fixed assets		(14)	4,606
Gain on disposal of securities		(754)	-
Cash from operations before working capital changes:		2,070,162	771,053
Trade receivables		657,099	(762,162)
Loans and advances – financial services		(474,979)	(1,201,938)
Other receivables, deposits and prepayments		71,066	(22,513)
Development properties		(732,434)	(565,650)
Trade and other payables		397,477	867,077
Customers' deposits – financial services		889,863	517,485
Retentions payable		272,203	246,622
Net cash from (used in) operating activities		3,150,457	(150,026)
INVESTING ACTIVITIES			
Purchase of securities		(1,981,033)	(59,726)
Proceeds from disposal of securities		21,051	-
Dividend received from previous subsidiary		3,300	-
Interest in associated company		(564,342)	-
Amounts incurred on investment properties		(11,070)	(112,505)
Purchase of fixed assets		(215,690)	(114,152)
Proceeds from sale of fixed assets		3,808	1,374
Fixed deposit and certificates of deposits		(343,505)	(37,018)
Sale/(purchase) of buy-back shares		-	380,933
Gain on disposal of buy-back shares transferred to capital reserve		-	(4,004)
Net cash (used in) from investing activities		(3,087,481)	54,902
FINANCING ACTIVITIES			
Dividend paid		(312,179)	(124,588)
Short term loans from financial institutions		638,693	-
Capital contribution from minority shareholders		-	1,960
Net cash from (used in) financing activities		326,514	(122,628)
INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS			
		389,490	(217,752)
Cash and cash equivalents at the beginning of the year	7	1,844,437	2,062,189
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	7	<u>2,233,927</u>	<u>1,844,437</u>

The attached notes 1 to 32 form part of these financial statements.

EMAAR Properties PJSC and Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2004

(US \$1.00 = AED 3.673)

	Share capital AED'000	Shares buy-back AED'000	Statutory reserves AED'000	Capital reserve AED'000	General reserve AED'000	Retained earnings AED'000	Proposed bonus issue AED'000	Proposed dividends AED'000	Total AED'000
Balance at 1 January 2003	2,650,000	(376,929)	2,487,051	-	147,655	696,539	-	124,321	5,728,637
Net profit for the year	-	-	-	-	-	676,342	-	-	676,342
Transfer to general reserve (Note 23)	-	-	-	-	67,634	(67,634)	-	-	-
Disposal of buy-back shares during the year (Note 22)	-	376,929	-	-	-	-	-	-	376,929
Gain on disposal of buy-back shares (Note 22)	-	-	-	4,004	-	-	-	-	4,004
Directors sitting fees	-	-	-	-	-	(900)	-	-	(900)
Dividends paid – 2002	-	-	-	-	-	-	-	(124,321)	(124,321)
Proposed dividend (Note 24)	-	-	-	-	-	(318,000)*	-	318,000*	-
Balance at 31 December 2003	2,650,000	-	2,487,051	4,004	215,289	986,347	-	318,000	6,660,691
Net profit for the year	-	-	-	-	-	1,690,557	-	-	1,690,557
Transfer to statutory reserve (Note 23)	-	-	407	-	-	(407)	-	-	-
Transfer to general reserve (Note 23)	-	-	-	-	169,056	(169,056)	-	-	-
Directors sitting fees	-	-	-	-	-	(1,350)	-	-	(1,350)
Dividends paid – 2003	-	-	-	-	-	-	-	(318,000)	(318,000)
Proposed bonus issue (Note 24)	-	-	-	-	-	(66,250)	66,250	-	-
Proposed dividend (Note 24)	-	-	-	-	-	(463,750)	-	463,750	-
Balance at 31 December 2004	2,650,000	-	2,487,458	4,004	384,345	1,976,091	66,250	463,750	8,031,898

* The proposed dividend has been restated from AED 265,000 thousands (10 %) to AED 318,000 thousands (12 %) [Refer to note 24].

The attached notes 1 to 32 form part of these financial statements.

EMAAR Properties PJSC and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2004

1 DOMICILE AND ACTIVITIES

EMAAR Properties Public Joint Stock Company (the 'Company') was established as a public joint stock company by Ministerial Decree number 66 for the year 1997. The Company was established on 23 June 1997 and commenced operations on 29 July 1997. The Company and its subsidiaries constitute the Group ('the Group').

The principal activities of the Group are property investment and development, property management services, commercial banking and the provision of IT and data communication services. The list of subsidiaries of the Company is set out below:

<i>Name of subsidiary</i>	<i>Country of incorporation</i>	<i>Principal activities</i>	<i>Beneficial ownership interest (%)</i>
Dubai Bank PJSC	United Arab Emirates	Commercial Banking	100%
Sahm Technologies LLC	United Arab Emirates	Provision of IT, Voice, TV and Data communication services	100%
Emrill Services LLC	United Arab Emirates	Provision of Property Management Services	51%
Dubai Marina Phase 1 LLC	United Arab Emirates	Property Development	100%
Emirates Hills Phase 1 LLC	United Arab Emirates	Property Development	100%
Gold and Diamond Park LLC	United Arab Emirates	Property Investment	100%
The Lakes LLC	United Arab Emirates	Property Investment	100%
Emirates Hills Management LLC	United Arab Emirates	Property Management	100%
Golforms Middle East LLC	United Arab Emirates	Property Investment	100%
Emaar Towers LLC	United Arab Emirates	Property Development	100%
The Golf Towers LLC	United Arab Emirates	Property Development	100%
The Views LLC	United Arab Emirates	Property Development	100%
Al Ghaf Community LLC	United Arab Emirates	Property Development	100%
Al Jaz Community LLC	United Arab Emirates	Property Development	100%
Al Nakheel Community LLC	United Arab Emirates	Property Development	100%
Al Sidir Community LLC	United Arab Emirates	Property Development	100%
Al Dhafrah Community LLC	United Arab Emirates	Property Development	100%
Al Samar Community LLC	United Arab Emirates	Property Development	100%
Al Thayyal Community LLC	United Arab Emirates	Property Development	100%
Al Safa Community LLC	United Arab Emirates	Property Development	100%
Al Rak Community LLC	United Arab Emirates	Property Development	100%
Al Arta Community LLC	United Arab Emirates	Property Development	100%
The Greens Center LLC	United Arab Emirates	Property Development	100%
The Springs Phase 1 LLC	United Arab Emirates	Property Development	100%
The Springs Phase 2 LLC	United Arab Emirates	Property Development	100%
The Springs Phase 3 LLC	United Arab Emirates	Property Development	100%
The Springs Phase 4 LLC	United Arab Emirates	Property Development	100%
The Springs Phase 5 LLC	United Arab Emirates	Property Development	100%
The Springs Phase 6 LLC	United Arab Emirates	Property Development	100%
The Springs Phase 7 LLC	United Arab Emirates	Property Development	100%
The Meadows Phase 1 LLC	United Arab Emirates	Property Development	100%
The Meadows Phase 2 LLC	United Arab Emirates	Property Development	100%

EMAAR Properties PJSC and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2004

1 DOMICILE AND ACTIVITIES - continued

<i>Name of subsidiary</i>	<i>Country of incorporation</i>	<i>Principal activities</i>	<i>Beneficial ownership interest (%)</i>
The Meadows Phase 3 LLC	United Arab Emirates	Property Development	100%
The Meadows Phase 4 LLC	United Arab Emirates	Property Development	100%
The Meadows Phase 5 LLC	United Arab Emirates	Property Development	100%
The Meadows Phase 6 LLC	United Arab Emirates	Property Development	100%
The Residences LLC	United Arab Emirates	Property Development	100%
The Residences II LLC	United Arab Emirates	Property Development	100%
The Old Town LLC	United Arab Emirates	Property Development	100%
Burj Dubai LLC	United Arab Emirates	Property Development	100%
Arabian Ranches LLC	United Arab Emirates	Property Development	100%
Al Reem LLC	United Arab Emirates	Property Development	100%
Hattan I LLC	United Arab Emirates	Property Development	100%
Hattan II LLC	United Arab Emirates	Property Development	100%
Savannah at Arabian Ranches LLC	United Arab Emirates	Property Development	100%
Emaar Business Park 1 LLC	United Arab Emirates	Property Development	100%
Emaar Business Park 2 LLC	United Arab Emirates	Property Development	100%
Emaar International LLC	United Arab Emirates	Investment Holding	100%
Emaar Middle East LLC	United Arab Emirates	Investment Holding & Property Development	61%
Emaar Holding	Mauritius	Investment Holding	100%
Emaar Investment LLC	United Arab Emirates	Provision of Visas and other services	100%
Emirates Properties Limited	British Virgin Islands	Investment Holding	100%
Capital Partners LLC	United Arab Emirates	Investment, Establishment and Management of Commercial, Agriculture and Industrial Projects	100%
National Investment LLC	United Arab Emirates	Investment, Establishment and Management of Commercial, Agriculture and Industrial Projects	100%
Emaar Industries LLC	United Arab Emirates	Investment in Industrial Projects	100%
Emaar District Cooling (EDC) LLC	United Arab Emirates	Industrial Cooling Projects	100%
Emaar Financial Services LLC	United Arab Emirates	Stockbroking	79%
The Dubai Mall LLC	United Arab Emirates	Retail and Commercial Leasing	100%
Emaar Hotels and Resorts LLC	United Arab Emirates	Hotel, Resort & Recreational services	100%
Emaar Service Apartments Towers LLC	United Arab Emirates	Service Apartments and Related Hospitality services	100%
Majara 4 LLC	United Arab Emirates	Service Apartments and Related Hospitality services	100%

The Company's registered office is P. O. Box 9440, Dubai, United Arab Emirates.

Amlak Finance PJSC, a company registered in the United Arab Emirates was a subsidiary in the previous year. During the year the company diluted its interest in Amlak Finance PJSC (Note 12).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2004

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Trade receivables

Trade receivables 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 as incurred.

Loans and advances

Loans and advances are stated at amortised cost net of interest suspended and provisions for impairment. All loans and advances are recognised when cash is disbursed to borrowers.

Expenses incurred in making loans or advances are charged to the consolidated income statement in the year of disbursing these loans and advances.

Derivatives

Derivatives are stated at fair value.

For the purposes of hedge accounting, hedges are classified into two categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability; and (b) cash flow hedges which hedge exposure to variability in cash flows of a recognised asset or liability or a forecasted transaction.

In relation to effective fair value hedges any gain or loss from remeasuring the hedging instrument to fair value, as well as related changes in fair value of the item being hedged, are recognised immediately in the consolidated income statement.

In relation to effective cash flow hedges, the gain or loss on the hedging instrument is recognised initially in equity and either transferred to the consolidated income statement in the period in which the hedged transaction impacts the consolidated income statement, or included as part of the cost of the related asset or liability.

For hedges which do not qualify for hedge accounting, any gains or losses arising from changes in the fair value of the hedging instrument are taken directly to the consolidated income statement for the year.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. For fair value hedges of financial instruments with fixed maturities any adjustment arising from hedge accounting is amortised over the remaining term to maturity. For cash flow hedges, any cumulative gain or loss on the hedging instrument recognised in equity remains in equity until the hedged transaction occurs. If the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the consolidated income statement.

Securities

Available-for-sale investments

Investments available-for-sale are initially recognized at cost, being the fair value of the consideration given including all acquisition costs associated with the investment.

After initial recognition, available for sale investments are remeasured at fair value. Unrealised gains and losses are reported as a separate component of equity until the investment is derecognised or the investment is determined to be impaired. On derecognition or impairment the cumulative gain or loss previously reported in equity, along with any transition adjustment to retained earnings arising from the adoption of IAS 39, is included in the consolidated statement of income for the year.

Held-to-maturity investments

Held-to-maturity investments are financial assets with fixed payments and fixed maturity that the Group has the positive intent and ability to hold to maturity. Such investments are measured at amortized cost. When a held-to-maturity investment is determined to be impaired, the amount of the loss is included in the consolidated statement of income.

EMAAR Properties PJSC and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2004

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Development Properties

Properties acquired, constructed or in the course of construction for sale are classified as development properties. Unsold properties are stated at the lower of cost or net realizable value. Sold properties in the course of development are stated at cost plus attributable profit/loss less progress billings. The cost of development properties includes the cost of land, interest and other related expenditure which are capitalized as and when activities that are necessary to get the properties ready for sale are in progress. Net realizable value represents the estimated selling price less costs to be incurred in selling the property.

The property is considered to be completed when all related activities, including the infrastructure and facilities for the entire project, have been completed. As that stage, cost, attributable profit and progress billings are eliminated from development properties.

The Board of Directors reviews the carrying values of the development properties on an annual basis.

Fixed assets

Fixed assets 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 as follows:

Leasehold improvements	2 years
Sales centres	1-5 years
Other buildings	10 - 25 years
Computers and office equipment	2 - 5 years
Networking, electrical & heavy equipment	3 - 20 years
Motor vehicles	3 - 5 years
Fixtures	2 - 10 years
Furniture and other assets	2 - 4 years

No depreciation is charged on capital work in progress.

Costs associated with maintaining computer software programs are recognised as an expense as incurred. However, expenditure that enhances or extends the benefits of computer software programs beyond their original specifications and lives is recognized as a capital improvement and added to the original cost of the software. Computer software development costs recognized as assets are amortized using the straight-line basis over their useful lives but not exceeding a period of 3 years.

The useful life and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from these assets.

Investment properties

Properties held for rental or capital appreciation purposes as well as those held for undetermined future use are classified as investment properties. Investment properties are measured at cost less any accumulated depreciation and any accumulated impairment losses. Depreciation is charged on a straight-line basis over the estimated useful lives below:

Buildings	25 - 35 years
Fixed furniture	10 years
Movable furniture	4 years

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2004

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Investment properties - continued

The useful life and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from these assets.

Properties are transferred from investment properties to development properties when, and only when, there is a change in use, evidenced by commencement of development with a view to sale. Such transfers are made at the carrying value of the properties at the date of transfer.

Impairment

Fixed assets and investment properties are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. Whenever the carrying amount of these assets exceeds their recoverable amount, an impairment loss is recognized in the consolidated statement of income. The recoverable amount is the higher of an asset's net selling price and the value in use. The net selling price is the amount obtainable from the sale of an asset 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 an asset 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 recognized for the asset no longer exist or have reduced.

Impairment and uncollectibility of financial assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a financial asset or group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss recognised for the difference between the recoverable amount and the carrying amount. Impairment losses are recognised in the consolidated income statement.

Trade and other payables

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

Deposits

All money market and customer deposits are carried at cost, less amounts repaid.

Provisions

The Group provides end of service benefits to its employees in accordance with the UAE Labour laws. The entitlement to these benefits is usually 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.

Other provisions are recognized when the Group has a present 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.

Employee Performance Share Programme ("The Programme")

Under the Programme, awards, which represent the right to own the Company's ordinary shares, will be allocated to eligible employees (including executive directors) of the Company at par. The fair value of the vested shares is determined by reference to the official list published by the Dubai Financial Market Securities Exchange for the 5 consecutive trading days prior to and after the vested date and accounted for as an expense in the income statement over the vesting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2004

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Shares buy-back

Shares buy-back consist of the Company's own shares that have been issued, subsequently repurchased by the Company and not yet reissued or cancelled. These shares are accounted for using the cost method. Under the cost method, the average cost of the shares repurchased is shown as a deduction from the total shareholders' equity. When these shares are reissued, gains are credited to a separate capital reserve in shareholders' equity, which is non distributable. Any realized losses are charged to the same account to the extent of the credit balance on that account. Any excess losses are charged directly to retained earnings. Gains realized on the sale of reissued shares are first used to offset any previously recorded losses in the order of retained earnings and the capital reserve account. No cash dividends are paid on these shares.

Foreign currency transactions

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

Contingencies

Contingent liabilities are not recognized 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 recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

3 SEGMENT INFORMATION

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segments) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

The Group's operating businesses are organized and managed separately according to the nature of goods and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

The real estate segment develops and sells condominiums, villas and plots of land. The financial services segment undertakes commercial banking (Dubai Bank PJSC) and mortgage financing (investment in Amlak Finance PJSC). Other segments include businesses that individually do not meet the criteria for a reportable segment as per IAS 14. These businesses (and the related entities) are information technology services (Sahm Technology LLC) and property management services (Emrill Services LLC).

The loans and advances made to customers and customers deposits related to the financial services segment are disclosed on the face of the balance sheet. Other assets and liabilities related to this segment are included in other receivables (note 10) and other payables (note 16) respectively on grounds of materiality.

Revenue generated from sources other than the real estate segment is included in other operating income.

EMAAR Properties PJSC and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2004

3 SEGMENT INFORMATION - continued

The following tables represent revenue and profit information and certain asset and liability information regarding business segments for the years ended 31 December 2004 and 2003.

2004

	<i>Real estate AED '000</i>	<i>Financial services AED '000</i>	<i>Others AED '000</i>	<i>Eliminations AED '000</i>	<i>Total AED '000</i>
Revenue					
Sales to external customers	5,247,851	-	-	-	5,247,851
Total revenue	5,247,851	-	-	-	5,247,851
Results					
Profit from operations	1,612,189	8,538	(34,171)	2,099	1,588,655
Share of profit from associated company	-	20,810	-	-	20,810
Net finance income	61,252	-	(3,620)	(2,099)	55,533
Other income	26,861	-	53	-	26,914
Profit for the year before minority interest	1,700,302	29,348	(37,738)	-	1,691,912
Minority interest	-	-	(1,355)	-	(1,355)
Net profit for the year	1,700,302	29,348	(39,093)	-	1,690,557
Assets and liabilities					
Segment assets	10,303,367	3,572,317	294,030	(1,413,857)	12,755,857
Segment liabilities	3,243,153	1,997,691	390,594	(910,164)	4,721,274
Other segment information					
Capital expenditure (fixed assets)	156,454	7,280	183,006	-	346,740
Depreciation (fixed assets)	42,445	9,423	31,878	-	83,746

EMAAR Properties PJSC and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2004

3 SEGMENT INFORMATION - continued

2003

	<i>Real estate AED '000</i>	<i>Financial services AED '000</i>	<i>Others AED '000</i>	<i>Eliminations AED '000</i>	<i>Total AED '000</i>
Revenue					
Sales to external customers	3,721,386	-	-	-	3,721,386
Total revenue	<u>3,721,386</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,721,386</u>
Results					
Profit from operations	679,629	(32,476)	(36,139)	5,683	616,697
Net finance income	36,068	-	19	(5,683)	30,404
Other income	19,119	9,828	139	-	29,086
Profit for the year before minority interest	734,816	(22,648)	(35,981)	-	676,187
Minority interest	-	-	155	-	155
Net profit for the year	<u>734,816</u>	<u>(22,648)</u>	<u>(35,826)</u>	<u>-</u>	<u>676,342</u>
Assets and liabilities					
Segment assets	<u>8,549,440</u>	<u>1,797,174</u>	<u>132,542</u>	<u>(1,303,892)</u>	<u>9,175,264</u>
Segment liabilities	<u>1,762,029</u>	<u>1,250,044</u>	<u>191,369</u>	<u>(690,199)</u>	<u>2,513,243</u>
Other segment information					
Capital expenditure (fixed assets)	18,388	31,551	78,277	-	128,216
Depreciation (fixed assets)	<u>48,584</u>	<u>6,993</u>	<u>14,256</u>	<u>-</u>	<u>69,833</u>

4 REVENUES AND COST OF REVENUES

	<i>2004 AED '000</i>	<i>2003 AED '000</i>
Revenues:		
Sale of plots of land and condominiums	1,540,376	1,463,679
Sale of villas	3,459,127	2,195,087
Rental income	<u>104,348</u>	<u>62,620</u>
	<u>5,247,851</u>	<u>3,721,386</u>

EMAAR Properties PJSC and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2004

4 REVENUES AND COST OF REVENUES - continued

	2004 AED'000	2003 AED'000
Cost of revenues:		
Cost of land and condominiums	665,076	1,111,596
Cost of villas	1,990,978	1,533,346
Cost of commercial units	70,132	-
Impairment of investment properties	291,076	-
Operating cost of leased properties	20,512	11,707
Other cost of revenues	1,587	38,602
	<u>3,039,361</u>	<u>2,695,251</u>

Sale of land relates to sales of land plots at Emirates Hills and Dubai Marina. Sale of condominiums relates to the sale of residential units at Dubai Marina, Emaar Towers, The Burj and The Greens. Sale of villas relates to the sale of residential units at The Meadows, Hattan, The Springs and Arabian Ranches. Rental income is from the investment properties such as the villas, apartments, commercial, manufacturing and retail units.

5 SELLING, GENERAL AND ADMINISTRATION EXPENSES

	2004 AED'000	2003 AED'000
Depreciation of fixed assets (Note 13)	83,746	69,558
Depreciation of investment properties (Note 14)	11,796	10,153
Payroll and related expenses	218,976	128,928
Sales and marketing expenses	175,455	80,420
Pre-operating expenses	-	881
Registration fees	72,421	46,458
Other expenses	152,672	114,285
	<u>715,066</u>	<u>450,683</u>

As of 31 December 2004, the Group had 1,844 employees (31 December 2003 – 1,173 employees).

6 NET FINANCE INCOME

	2004 AED'000	2003 AED'000
Finance income on fixed deposits with banks	40,950	28,674
Other finance income	40,493	3,342
Finance expense	(25,910)	(1,612)
	<u>55,533</u>	<u>30,404</u>

EMAAR Properties PJSC and Subsidiaries

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7 BANK BALANCES AND CASH

	2004 AED'000	2003 AED'000
Cash in hand	19,048	12,737
Current accounts	38,394	11,648
Call deposit accounts	47,474	104,863
Fixed deposits and certificates of deposits maturing within 3 months	2,129,011	1,715,189
Cash and cash equivalents	2,233,927	1,844,437
Fixed deposits under lien and reserve	121,636	90,506
Fixed deposits and certificates of deposits maturing after 3 months	317,038	40,000
	2,672,601	1,974,943

A fixed deposit of AED Nil (2003 – AED 35,000 thousands) representing deposits made by a previous subsidiary with a local bank were placed under lien to the Central Bank of U.A.E and an amount of AED 121,636 thousands (2003 – AED 55,506 thousands) is placed with the Central Bank of the U.A.E. as a reserve requirement.

8 TRADE RECEIVABLES

	2004 AED'000	2003 AED'000
Amounts receivable within 12 months	803,306	1,460,405
Amounts receivable after 12 months	-	-
	803,306	1,460,405

9 LOANS AND ADVANCES – FINANCIAL SERVICES

Loans and advances in the balance sheet are stated net of interest in suspense and provisions. The composition of the loans and advances portfolio is as follows:

	2004 AED'000	2003 AED'000
(a) By type:		
Corporate loans	764,518	395,356
Consumer loans	552,902	872,933
Others	21,506	128,531
Gross amount of loans and advances	1,338,926	1,396,820
Less: Provisions for impairment of loans and advances	(8,669)	(4,567)
Net amount of loans and advances	1,330,257	1,392,253

EMAAR Properties PJSC and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2004

9 LOANS AND ADVANCES – FINANCIAL SERVICES - continued

(b) By economic sector

Trade and manufacturing	319,507	158,490
Banks and financial institutions	207,186	84,335
Construction and real estate	113,867	23,813
Personal	567,224	1,029,894
Other	122,473	95,721
	<u>1,330,257</u>	<u>1,392,253</u>

(c) By geographical area

Within UAE	1,124,739	1,267,737
Middle East	132,058	76,063
Others	73,460	48,453
	<u>1,330,257</u>	<u>1,392,253</u>

(d) By maturity

	2004 AED'000	2003 AED'000
Loans and advances within 12 months	799,143	614,209
Loans and advances after 12 months	531,114	778,044
	<u>1,330,257</u>	<u>1,392,253</u>

10 OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2004 AED'000	2003 AED'000
Advances to contractors	157,732	259,301
Accrued interest on bank deposits	34,541	5,654
Prepayments	20,371	3,627
Other receivables	70,154	87,487
	<u>282,798</u>	<u>356,069</u>

11 SECURITIES

	2004 AED'000	2003 AED'000
Held-to-maturity	1,877,145	70,000
Available-for-sale	159,891	6,316
	<u>2,037,036</u>	<u>76,316</u>

EMAAR Properties PJSC and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2004

11 SECURITIES - continued

Held-to-maturity securities comprise the following: -

- 100 notes of AED 100,000 each issued by a company registered in the U.A.E. Interest is earned on the notes at 6-month EIBOR plus 70 basis points. The notes are due for maturity in July 2006.
- 2,400 units of AED 25,000 each of Dubai Government bonds. Interest is earned at 3.11% per annum. The units are due for maturity in 2008.
- Investments totaling AED 1,056,940 thousands in principal protected Callable Daily Range Accrual Notes through banks registered in the U.A.E. Interest is earned at 3 months LIBOR plus 85 to 110 basis points pa, subject to 3 months US LIBOR rate remaining between 0 - 3.5% pa. The investments are due for maturity in December 2005 and January 2006.
- Investments totaling AED 357,096 thousands in principal protected gold certificates issued by banks registered in the U.A.E. Interest is earned at 6.50% pa subject to gold price remaining between US\$ 400 to US\$ 500 per oz. The investments are due for maturity in September 2005 and December 2005.
- 278,600 units of US\$ 100.50 each of Dubai Global Sukuk Inc bonds under a repurchase agreement with a bank registered in U.A.E. Profit is earned at 2% pa. The units are due for maturity in January 2005.
- 453,000 units of US\$ 119.21 each of DBS Singapore 2009 bonds under a repurchase agreement with a bank registered in U.A.E. Interest is earned at 2% pa. The units are due for maturity in January 2005.
- Investment in principal protected EUR/US\$ range deposit amounting to US\$ 25,000 thousands with a bank registered in the U.A.E. Interest is earned at 6% pa subject to EUR/US\$ range remaining between 1.20 to 1.40. The investment is due for maturity in June 2005.

Available-for-sale securities comprise equity investments made by the Group in certain companies.

12 INVESTMENT IN ASSOCIATED COMPANY

	2004 AED'000	2003 AED'000
Investment in associated company (quoted)	364,232	-
Share of post acquisition reserves	27,726	-
	<u>391,958</u>	<u>-</u>
Amounts owing by the associated company	754,682	-
	<u>1,146,640</u>	<u>-</u>

The market value of the shares held in the associated company as at 31 December 2004 is AED 1,442,500 thousands.

The amounts owing by the associated company are unsecured and earn a return of between 1.6 - 3.2 % pa.

EMAAR Properties PJSC and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2004

12 INVESTMENT IN ASSOCIATED COMPANY - continued

The Group's interest in its subsidiary Amlak Finance PJSC was diluted from 100% to 48.08% subsequent to the subsidiary's initial public offering. This process was completed by the holding of the founders' general meeting on 9 March 2004 at which point the Group is considered to have relinquished control of the subsidiary.

The operating results and cash flows of Amlak Finance PJSC prior to dilution were as follows :-

	<i>1 January 2004 to 9 March 2004 AED'000</i>	<i>1 January 2003 to 31 December 2003 AED'000</i>
Operating income	6,619	25,048
General and administrative expenses	(2,150)	(11,039)
Net profit	<u>4,469</u>	<u>14,009</u>
Operating cash flows	(226,278)	(69,075)
Investing cash flows	(160)	(687)
Financing cash flows	227,500	69,545
Net cash inflow (outflow)	<u>1,062</u>	<u>(217)</u>

The loss on dilution of interest in the subsidiary was calculated as follows :-

	<i>9 March 2004 AED'000</i>	<i>31 December 2003 AED'000</i>
Total assets	711,756	573,745
Total liabilities	(356,573)	(450,532)
Net assets at date of dilution	355,183	<u>123,213</u>
Interest in associated company following dilution	<u>(347,716)</u>	
Net loss on dilution of interest	<u>7,467</u>	

EMAAR Properties PJSC and Subsidiaries

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13 FIXED ASSETS

	Leasehold improvements AED'000	Buildings AED'000	Computers and office equipment AED'000	Networking, electrical and heavy equipment AED'000	Motor vehicles AED'000	Furniture and other assets AED'000	Capital work in progress AED'000	Total AED'000
Cost								
At 1 January 2004	6,799	75,868	109,491	3,994	6,062	28,622	31,267	262,103
Reclassification	(4,403)	-	(65,080)	63,086	-	6,397	-	-
Additions	-	144,356	11,826	66,790	2,229	6,832	114,707	346,740
Disposals/transfers	(967)	-	(3,285)	(4,746)	(1,085)	(1,677)	(131,091)	(142,851)
At 31 December 2004	1,429	220,224	52,952	129,124	7,206	40,174	14,883	465,992
Accumulated depreciation								
At 1 January 2004	2,190	34,835	29,296	158	2,678	14,450	-	83,607
Reclassification	(271)	-	(13,952)	13,992	-	231	-	-
Depreciation charge	366	35,118	10,295	30,271	1,571	6,125	-	83,746
Disposals	(912)	-	(2,866)	(1,480)	(754)	(1,153)	-	(7,165)
At 31 December 2004	1,373	69,953	22,773	42,941	3,495	19,653	-	160,188
Net carrying amount								
At 31 December 2004	56	150,271	30,179	86,183	3,711	20,521	14,883	305,804
At 31 December 2003	4,609	41,033	80,195	3,836	3,384	14,172	31,267	178,496
Depreciation charge for 2003	775	31,393	22,143	81	1,494	13,947	-	69,833

Depreciation charge includes AED Nil (2003 - AED 275 thousands) allocated to various projects during the year.

EMAAR Properties PJSC and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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14 INVESTMENT PROPERTIES

	<i>Land AED'000</i>	<i>Buildings AED'000</i>	<i>Furniture & fixtures AED'000</i>	<i>Total AED'000</i>
Cost				
At 1 January 2004	2,106,489	356,754	3,432	2,466,675
Additions	-	11,048	23	11,071
At 31 December 2004	2,106,489	367,802	3,455	2,477,746
Accumulated depreciation/impairment				
At 1 January 2004	-	17,559	1,355	18,914
Impairment	291,076	-	-	291,076
Depreciation charge	-	11,080	716	11,796
At 31 December 2004	291,076	28,639	2,071	321,786
Net carrying amount				
At 31 December 2004	1,815,413	339,163	1,384	2,155,960
At 31 December 2003	2,106,489	339,195	2,077	2,447,761
Depreciation charge for 2003	-	9,499	654	10,153

The fair value of investment properties is AED 3,110,739 thousands (2003 - AED 3,473,287 thousands) compared with a carrying value of AED 2,154,576 thousands (2003 - AED 2,445,684 thousands).

15 DEVELOPMENT PROPERTIES

	<i>2004 AED'000</i>	<i>2003 AED'000</i>
Cost to date	8,365,457	4,895,028
Add: Attributable profit	4,669,563	2,381,813
Less: Progress billings	(11,013,565)	(5,987,820)
Total development properties	2,021,455	1,289,021

16 TRADE AND OTHER PAYABLES

	<i>2004 AED'000</i>	<i>2003 AED'000</i>
Trade payable	134,325	362,129
Project contract cost accruals	771,766	544,932
Other payables and accruals	738,090	468,990
Unclaimed dividends	22,599	16,778
Deposits from customers on sale of properties	224,906	150,247
Deferred income	69,956	15,144
	1,961,642	1,558,220

EMAAR Properties PJSC and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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17 CUSTOMERS' DEPOSITS – FINANCIAL SERVICES

The composition of the customers' deposits is as follows:

(a) By account type

	2004 AED'000	2003 AED'000
Demand accounts	827,998	233,869
Savings accounts	126,875	57,815
Deposit accounts	537,819	311,145
	<u>1,492,692</u>	<u>602,829</u>

(b) By maturity

	2004 AED'000	2003 AED'000
Customers' deposit within 12 months	1,487,596	589,733
Customers' deposit after 12 months	5,096	13,096
	<u>1,492,692</u>	<u>602,829</u>

18 LOANS FROM FINANCIAL INSTITUTIONS

	Note	2004 AED'000	2003 AED'000
Short Term Loans from Financial Institutions	a	100,000	-
Short Term Loans from Financial Institutions	b	300,000	-
Long Term Loans from Financial Institutions	c	238,693	-
		<u>638,693</u>	<u>-</u>

- a) Loan is unsecured and interest is charged at 3 months EIBOR plus 75 basis points. Loan is repaid in January 2005.
- b) Loan is secured against a fixed deposit of the same sum and interest is charged at 2.5% pa. Loan is repaid in January 2005.
- c) Loan is secured against the Company's specific investment properties and office building. Interest is charged at 6 months US\$ LIBOR plus 70 basis point. Loan is repayable in full in 2009.

19 RETENTIONS PAYABLE

	2004 AED'000	2003 AED'000
Retentions payable within 12 months	329,975	61,478
Retentions payable after 12 months	288,565	284,859
	<u>618,540</u>	<u>346,337</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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20 EMPLOYEE BENEFITS

During the financial year under review, the Company has established the Employee Performance Share Programme ("The Programme") to recognize and retain good performing staff. The Programme gives the employee the right to own the Company's shares at par. The shares carry full dividend and voting rights, and can be exercised at any time from the stipulated vested dates on the condition that the employee is still under employment at the exercise date. The fair value of the vested shares is determined by reference to the official price list published by the Dubai Financial Market Securities Exchange for the 5 consecutive trading days prior to and after the vested date.

A total of 5,963,330 ordinary shares of AED 1 each are awarded as of 31 December 2004. The vesting dates are as follows:-

- 2,087,110 shares are vested as of 31 December 2004;
- 1,938,110 shares are vested as of 31 December 2005; and
- 1,938,110 shares are vested as of 31 December 2006

The fair value of vested shares as of 31 December 2004 is estimated as being AED 26,000 thousands which has been charged to the consolidated income statement with a corresponding amount booked as a liability. No shares allocated under the Program have been exercised as of 31 December 2004.

There is no dilution effect on earnings per share through the shares awarded under the Program..

The movement on the provision for employees end of service benefits was as follows :

	2004 AED'000	2003 AED'000
Balance, beginning of year	5,857	2,483
Provision made during the year	4,737	3,923
End of service benefits paid	(887)	(549)
Balance, end of year	<u>9,707</u>	<u>5,857</u>

21 SHARE CAPITAL

	2004 AED'000	2003 AED'000
Authorized capital - 2,650,000,000 shares of AED 1 each (31 December 2003: 265,000,000 shares of AED 10 each)	<u>2,650,000</u>	<u>2,650,000</u>
Issued and fully paid-up - 2,650,000,000 shares of AED 1 each (31 December 2003 - 265,000,000 shares of AED 10 each)	<u>2,650,000</u>	<u>2,650,000</u>

At the Extraordinary General Meeting held in June 2004, the shareholders of the Company approved to split the shares' nominal value from AED 10 to AED 1 per share, thereby increasing the number of shares from 265,000 thousands to 2,650,000 thousands.

22 CAPITAL RESERVE

At the Extraordinary General Meeting of the Company held on 2 January 2002, the shareholders of the Company approved the shares buy-back scheme of a maximum of 10% of the total shares of the Company in accordance with Federal Law No. 25 of the year 2001 (the 'Law'). The Company commenced shares buy-back on 2 February 2002 and acquired 16,357,368 shares up to 2 July 2002. The market value of these shares as at 31 December 2002 was AED 372,130 thousands. As per the Law, the Company is allowed to purchase its shares with the purpose of selling them if the market value of such shares falls below the book value. During the financial year 2003, the Company sold its treasury shares at an average net price of AED 23.29 per share, resulting in a net gain of AED 4,004 thousands, which was taken to a capital reserve.

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23 STATUTORY AND GENERAL RESERVES

According to Article Number 57 of the Articles of Association of the Company and Article 193 of the U.A.E. Federal Commercial Companies Law, 10% of annual net profits is allocated to the statutory reserve and another 10% to the general reserve. The transfers to statutory reserve may be suspended when the reserve reaches 50% of the paid-up capital. Transfers to general reserve may be suspended by the ordinary general assembly when the reserve reaches 50% of the paid-up capital.

As of 31 December 2004, the statutory reserve is in excess of 50% of the paid-up share capital of the Company and therefore the Company has ceased further transfers to this reserve.

The statutory reserve includes AED 2,475,000 thousands being the premium collected at AED 15 per share on the 1:1.65 rights issue during the year ended 31 December 1998.

Article 82 of Union Law No. 10 of 1980 concerning the Central Bank, the Monetary System and Organisation of Banking requires that 10% of a bank's net profit be transferred to a non-distributable special reserve until this reserve equals 50% of the paid up share capital. The statutory reserves include AED 407 thousands in respect of this special reserve.

24 PROPOSED DIVIDEND

The Board of Directors has proposed a total dividend of AED 0.20 per share, comprising of AED 0.175 per share cash and bonus share issue of AED 0.025 per share aggregating AED 530,000 thousands, which is subject to the approval of the shareholders at the annual general meeting.

A cash dividend of AED 0.10 per share was proposed by the directors prior to last year's annual general meeting. This proposal was subsequently amended to AED 0.12 per share, approved by the shareholders at the annual general meeting and subsequently paid.

25 EARNINGS PER SHARE

There are no dilutive potential ordinary shares. The information necessary to calculate basic earnings per share based on weighted average number of shares outstanding during the year is as follows:

	2004 AED'000	2003 AED'000
Earnings:		
Net profit for the year	1,690,557	676,342
Shares:		
Number of shares outstanding:		
At the beginning of the year	265,000,000	248,642,632
Weighted average of Company's own shares	-	1,363,114
Increase in number of shares resulting from change in par value of AED 10 per share to AED 1 per share	2,385,000,000	-
	2,650,000,000	250,005,746
Proportionate change in the number of shares to restate last years numbers on a consistent basis	-	2,250,051,714
Weighted average number of shares outstanding At par value AED 1 per share	2,650,000,000	2,500,057,460
Earnings per share at par value AED 1 per share	AED 0.64	AED 0.27

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26 DERIVATIVES

In the ordinary course of business the Group's banking subsidiary enters into various types of transactions that involve derivative financial instruments. Derivative financial instruments include forwards, futures, swaps and options. During the year, the Bank only entered into forward foreign exchange contracts, forward rate agreements and foreign exchange options.

The table below shows the positive and negative fair values of derivatives financial instruments, which are equivalent to the market values, together with the notional amounts. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at year end and are neither indicative of the market risk nor credit risk. All forward foreign exchange commitments and forward rate agreements outstanding at the balance sheet date expire within six months of the balance sheet date. The options outstanding at the balance sheet date expire within a year of the balance sheet date.

31 December	2004			2003		
	Positive fair value AED'000	Negative fair value AED'000	Notional amount AED'000	Positive fair value AED'000	Negative fair value AED'000	Notional amount AED'000
<i>Derivatives held for trading:</i>						
Forward foreign exchange contracts	2,817	2,518	184,981	1,943	1,883	183,083
Forward rate agreements	635	632	203,567	56	12	73,460
Foreign exchange options	346	38	198,242	-	-	-
	<u>3,798</u>	<u>3,188</u>	<u>586,790</u>	<u>1,999</u>	<u>1,895</u>	<u>256,543</u>

Derivative product types

Forward foreign exchange contracts are contractual agreements to either buy or sell a specified currency at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market.

Forward rate agreements are effectively tailor made interest rate futures that fix a forward rate of interest on a notional loan, for an agreed period of time starting on a specified future date.

Options are contractual agreements that convey the right, but not the obligation, to either buy or sell a specific amount of a currency, commodity or financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

Derivative related credit risk

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive fair value of instruments that are favourable to the Bank. Approximately 70% of the Bank's derivative contracts are entered into with other financial institutions and less than 30% of the fair value of favourable contracts are with any individual counterparty at the balance sheet date.

Purpose of derivatives

In the normal course of meeting the needs of the Bank's customers the Bank is a party to forward foreign exchange contracts and forward rate agreements. In addition, as part of its asset and liability management the Bank uses forward foreign exchange contracts for hedging purposes in order to reduce its own exposure to currency risks. This is achieved by hedging specific transactions as well as strategic hedging against overall balance sheet exposures. Since strategic hedging does not qualify for special hedge accounting, such forward foreign exchange contracts are accounted for as trading instruments.

EMAAR Properties PJSC and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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27 CONTINGENCIES AND COMMITMENTS

Contingencies

Letters of credit and guarantees issued by a subsidiary for AED 494,666 thousands (2003 – AED 226,197 thousands).

Commitments

As of 31 December 2004, the Group had commitments of AED 5,621,830 thousands (2003 – AED 4,653,911 thousands) including project commitments of AED 5,597,624 thousands (2003 – AED 3,660,760 thousands). This represents the value of contracts issued as of 31 December 2004 net of invoices received and accruals made at that date.

28 TRANSACTIONS WITH RELATED PARTIES

For the purpose of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

Related party transactions

During the financial year, there were the following significant related party transactions, which were carried out in the normal course of business on terms agreed between the parties:

	2004 AED'000	2003 AED'000
Net interest income on deposits from Mashreq Bank PSC	13,559	13,580
Islamic finance income from Amlak Finance PJSC	12,305	-
Profit paid on Islamic facilities from Dubai Islamic Bank PJSC	1,541	1,991

The members of the board of directors received attendance fees totalling AED 1,200 thousands (2003: AED 900 thousands).

Related party balances

Significant related party balances (and the balance sheet captions within which these are included) are as follows:

	2004 AED'000	2003 AED'000
Fixed deposits with Mashreq Bank PSC	675,453	933,585
Investment deposits with Dubai Islamic Bank PJSC	80,000	-
Investment deposits with Amlak Finance PJSC	80,000	-
Short term Islamic facilities from Dubai Islamic Bank PJSC	100,000	-

29 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to interest rate, foreign currency and credit risks arising from its diversified portfolio business. The Group's risk management approach seeks to minimise the potential material adverse effects from these exposures. As a whole, the Group has implemented risk management policies and guidelines that set out its tolerance of risk and its general risk management philosophy.

EMAAR Properties PJSC and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2004

29 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES - continued

Interest rate risk

Other than commercial and overall business conditions, the Group's exposure to market risk for changes in interest rate environment relates mainly to its investment in financial products and fixed deposits.

The investments in financial products are not for trading or speculative purposes but placed in securities or fixed deposits, with the objective of achieving better returns than cash at bank. The interest rates on fixed deposits and securities are described in Notes 7 and 11 respectively.

The total interest rate sensitivity gap arising from a financial services subsidiary is as follows:

	<i>Up to three months</i>	<i>Over three to six months</i>	<i>Over six months to one year</i>	<i>Over one to five years</i>	<i>Over 5 years</i>	<i>Not exposed to interest rate risk</i>
<i>Assets minus liabilities</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>
At 31 December 2004	(181,710)	204,719	174,302	458,927	35,317	(691,555)
At 31 December 2003	7,715	72,089	88,447	233,309	41,418	(442,978)

Credit risk

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

Foreign currency risk

The Group enters into various foreign exchange transactions. However, most of such transactions are denominated in US Dollars or currencies linked to the US Dollar. The currency conversion rate between the US Dollar and the U.A.E. Dirham has remained stable over the past several years.

30 FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprise financial assets, financial liabilities and derivatives.

Financial assets of the Group include bank balances and cash, trade receivables, securities, loans and advances, other receivables, investment in an associate and due from related parties. Financial liabilities of the Group include customer deposits, 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 values.

31 MARKET VALUE OF LAND

The carrying value of land included in investment properties and development properties at 31 December 2004 comprised purchased land at cost and donated land at nominal value. The fair value of such land was determined by the Group based on valuations carried out by Al Khayat Real Estate Co and DTZ Debenham Tie Leung on an open market basis in 2003 and 2004. These valuations indicated that the fair value of the purchased land approximated the carrying cost thereof and the total fair value of the purchased and donated land was AED 18,270,968 thousands (2003: AED 20,180,885 thousands) compared with a carrying value of AED 1,815,413 thousands (2003: AED 2,106,489 thousands).

32 COMPARATIVE AMOUNTS

Comparatives in the financial statements have been reclassified to conform with the current year's presentation. Such re-classifications do not affect previously reported profit or shareholders' equity.