

EMAAR Properties PJSC and Subsidiaries

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2005

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 2005, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the year ended 31 December 2005.

Principal activities

The principal activities of the Group during the year ended 31 December 2005 were property investment and development, property management services, and investment in providers of financial services.

Financial Results

The Group has reported a net profit of AED 4,731 million (2004: AED 1,691 million) representing a 180 % increase over the previous year.

In accordance with the Articles of Association of the Company and UAE Federal Commercial Companies Law, an appropriation of AED 473 million is made to general reserve from the distributable profit of AED 4,731 million.

The transfer to legal reserve has been suspended as the reserve has reached 50% of the paid up capital.

The Board of Directors proposed a dividend of AED 0.40 per share subject to the approval of the shareholders at the forthcoming annual general meeting.

The balance of the distributable profit of AED 4,258 million (subject to finalization of the proposed dividend) will be transferred to retained earnings.

Total shareholders funds as at 31 December 2005 amount to AED 25,561 million (2004: AED 8,052 million).

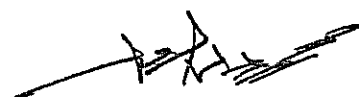
Directors

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 Mohammadi	(Director)
Mr. Mohammed Ibrahim Al Shaibani	(Director)

Auditors

Ernst & Young were appointed as external auditors of the Group for the year ended 31 December 2005. Ernst & Young are eligible for reappointment for 2006 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', is written over a horizontal line.

Mohamed Ali Alabbar

Chairman

Dubai

13 February 2006

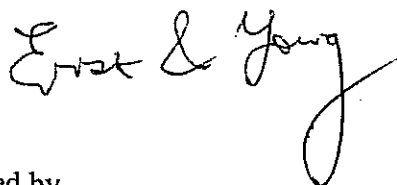
AUDITORS' REPORT TO THE SHAREHOLDERS OF EMAAR PROPERTIES PJSC

We have audited the accompanying consolidated balance sheet of EMAAR Properties PJSC and its subsidiaries ("the Group") as of 31 December 2005, 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 2005, 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
13 February 2006

EMAAR Properties PJSC and Subsidiaries

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2005

(US \$1.00 = AED 3.673)

	Notes	2005 AED'000	2004 AED'000 (restated)
Revenue	4	8,361,362	5,246,264
Cost of revenues	4	(3,585,686)	(3,037,774)
GROSS PROFIT		4,775,676	2,208,490
Other operating income		247,572	179,530
Gain/(loss) on sale of interest in subsidiary	14	245,839	(7,467)
Selling, general and administration expenses	5	(1,021,752)	(707,599)
Other operating expenses		(66,012)	(84,299)
Finance costs		(26,288)	(25,910)
Finance income	6	352,386	81,443
Other income		122,486	26,914
Share of results from associated companies		99,145	20,810
PROFIT FOR THE YEAR		4,729,052	1,691,912
ATTRIBUTABLE TO:			
Shareholders of the parent		4,731,231	1,690,557
Minority interest		(2,179)	1,355
		4,729,052	1,691,912
Earnings per share attributable to the shareholders of the parent:			
- basic earnings per share	25	AED 0.85	AED 0.33
- diluted earnings per share	25	AED 0.84	AED 0.33

The attached notes 1 to 31 form part of these financial statements.

EMAAR Properties PJSC and Subsidiaries

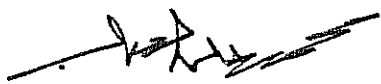
CONSOLIDATED BALANCE SHEET

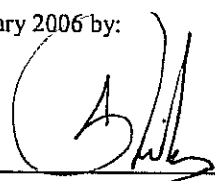
At 31 December 2005

(US \$1.00 = AED 3.673)

	Note	2005 AED'000	2004 AED'000 (restated)
ASSETS			
Bank balances and cash	7	10,368,009	1,834,965
Trade receivables	8	717,533	756,181
Other receivables, deposits and prepayments	10	1,928,369	240,588
Development properties	11	3,025,750	2,232,805
Securities	12	3,602,868	1,847,611
Loans to associates	13	658,313	758,316
Investments in associates	14	3,103,825	388,324
Fixed assets, net	15	737,711	273,114
Investment properties	16	8,062,354	2,456,802
Assets of Dubai Bank	9	-	2,425,677
TOTAL ASSETS		32,204,732	13,214,383
LIABILITIES AND EQUITY			
LIABILITIES			
Trade and other payables	17	5,527,575	2,325,510
Loans from financial institutions	19	238,693	638,693
Retentions payable	20	733,121	618,540
Provision for employees' end-of-service benefits	21	9,035	7,486
Liabilities of Dubai Bank	18	-	1,569,534
TOTAL LIABILITIES		6,508,424	5,159,763
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY			
Share capital	22	5,780,176	2,650,000
Employees' performance share program		(4,386)	(5,963)
Reserves	23	13,922,653	2,875,400
Retained earnings		5,862,479	2,532,498
		25,560,922	8,051,935
Minority interest		135,386	2,685
TOTAL EQUITY		25,696,308	8,054,620
TOTAL LIABILITIES AND EQUITY		32,204,732	13,214,383

The consolidated financial statements were authorised for issue on 13 February 2006 by:


Chairman


Director

The attached notes 1 to 31 form part of these financial statements.

EMAAR Properties PJSC and Subsidiaries

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2005

(US \$1.00 = AED 3.673)

	Notes	2005 AED'000	2004 AED'000
OPERATING ACTIVITIES			
Profit for the year		4,729,052	1,691,912
Adjustments for:			
Share of results of associated companies		(99,145)	(20,810)
(Gain)/loss on sale of interest in subsidiary	14	(245,839)	7,467
Depreciation	5	98,956	95,542
Provision for impairment of investment property		-	291,076
Provision for employees' end-of-service benefits, net		1,551	4,106
Provision for impairment of loans and advances		-	6,106
Cost of share based payments	21	28,398	26,000
Gain on disposal of fixed assets		(140)	(14)
Gain on disposal of securities		(1,601)	(754)
Cash from operations before working capital changes:		4,511,232	2,100,631
Trade receivables		38,648	657,099
Loans and advances – financial services		-	(474,979)
Other receivables, deposits and prepayments		(1,002,493)	71,066
Development properties		(792,945)	(732,434)
Trade and other payables		3,197,110	371,477
Customers' deposits – financial services		-	889,863
Retentions payable		114,581	272,203
Net cash from operating activities		6,066,133	3,154,926
INVESTING ACTIVITIES			
Purchase of securities		(1,346,562)	(1,981,033)
Proceeds from disposal of securities		1,814	21,051
Cash and cash equivalent lost on disposal of subsidiary	14	(150,805)	-
Dividend received from previous subsidiary		-	3,300
Additional investments in associates		(2,350,127)	(568,811)
Amounts incurred on investment properties		(1,100,349)	(11,070)
Purchase of fixed assets		(644,866)	(215,690)
Proceeds from sale of fixed assets		6,711	3,808
Deposits under lien or maturing after three months	7	(1,152,304)	(343,505)
Net cash used in investing activities		(6,736,488)	(3,091,950)
FINANCING ACTIVITIES			
Dividend paid		(340,328)	(312,179)
Short term loans from financial institutions		-	638,693
Funds invested by minority shareholders		134,880	-
Repayment of loans from financial institution		(400,000)	-
Proceeds from rights issue		8,076,004	-
Received on vesting of share options		1,577	-
Net cash from financing activities		7,472,133	326,514
INCREASE IN CASH AND CASH EQUIVALENTS		6,801,778	389,490
Cash and cash equivalents at the beginning of the year	7	2,233,927	1,844,437
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	7	9,035,705	2,233,927

The attached notes 1 to 31 form part of these financial statements.

EMAAR Properties PJSC and Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2005

(US \$1.00 = AED 3.673)

Attributable to equity holders of the Parent

	Share capital AED '000	Employee performance share program AED '000	Reserves AED '000	Retained earnings AED '000	Total AED '000	Minority interest AED '000	Total equity AED '000
Balance at 1 January 2004	2,650,000	-	2,706,344	1,304,347	6,660,691	1,330	6,662,021
Profit for the year	-	-	-	1,690,557	1,690,557	1,355	1,691,912
Total income and expenses for the year	-	-	-	1,690,557	1,690,557	1,355	1,691,912
Transfer to reserves	-	-	169,056	(169,056)	-	-	-
Directors' sitting fees	-	-	-	(1,350)	(1,350)	-	(1,350)
Dividends paid – 2003	-	-	-	(318,000)	(318,000)	-	(318,000)
Shares allocated to employee's share performance program	-	(5,963)	-	-	(5,963)	-	(5,963)
Cost of share based payments	-	-	-	26,000	26,000	-	26,000
Balance as of 1 January 2005 (restated)	2,650,000	(5,963)	2,875,400	2,532,498	8,051,935	2,685	8,054,620
Net movement in unrealised gains reserves (note 23)	-	-	496,727	-	496,727	-	496,727
Profit for the year	-	-	-	4,731,231	4,731,231	(2,179)	4,729,052
Total income and expenses for the year	-	-	496,727	4,731,231	5,227,958	(2,179)	5,225,779
Transfer to reserves	-	-	473,123	(473,123)	-	-	-
Directors' sitting fees	-	-	-	(1,200)	(1,200)	-	(1,200)
Issue of bonus shares – 2004 dividend	185,500	-	-	(185,500)	-	-	-
Dividends paid – 2004	-	-	-	(344,500)	(344,500)	-	(344,500)
Issue of bonus shares – 2005	425,325	-	-	(425,325)	-	-	-
Issuance of shares under employees' performance share program	-	-	-	-	-	-	-
Cost of share based payments	-	1,577	-	-	1,577	-	1,577
Rights issue	-	-	-	28,398	28,398	-	28,398
Funds invested by minority shareholders	2,519,351	-	10,077,403	-	12,596,754	-	12,596,754
	-	-	-	-	-	134,880	134,880
Balance at 31 December 2005	5,780,176	(4,386)	13,922,653	5,862,479	25,560,922	135,386	25,696,308

The attached notes 1 to 31 form part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2005

1 DOMICILE AND ACTIVITIES

EMAAR Properties Public Joint Stock Company ("the Company" or "the Parent") 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 Company's registered office is at P.O. Box 9440, Dubai, United Arab Emirates.

The principal activities of the Group are property investment and development, property management services, and investment in providers of financial services.

2.1 BASIS OF PREPARATION

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

The consolidated financial statements have been presented in thousands of UAE Dirhams, which is the functional currency of the company.

The consolidated financial statements are prepared under the historical cost convention modified to include the measurement at fair value of available-for-sale investments and derivatives.

Basis of consolidation

Subsidiary Companies

The consolidated financial statements comprise the financial statements of Emaar Properties PJSC and its subsidiaries drawn up to 31 December 2005. The financial statements of the subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies. All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions that are recognised in assets are eliminated in full. Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Minority interest represents the interest in subsidiary companies, not held by the Group.

Associated Companies

Associated companies are companies in which the Group has significant influence, but not control, over the financial and operating policies. In the consolidated financial statements, investments in associated companies are accounted for using the equity method of accounting, from the date that significant influence or joint control commences until the date that significant influence ceases. Investments in associated companies are carried in the balance sheet at cost, plus post acquisition changes in the Group's share of net assets of the associate, less any impairment in value. The income statement reflects the Group's share of the results of its associates.

2.2 CHANGES IN ACCOUNTING POLICIES

The accounting policies used in the preparation of the consolidated financial statements are consistent with those used in the preparation of the consolidated financial statements for the year ended 31 December 2004, with the exception of the following changes due to the standards becoming mandatory for financial years beginning on or after 1 January 2005. The principal effects are as discussed below:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2005

2.2 CHANGES IN ACCOUNTING POLICIES – continued

IFRS 2 'Share-Based Payment'

The revised accounting policy for share-based payment transactions is described in the "Summary of significant accounting policies". The main impact of IFRS 2 on the Group is the recognition of an expense and a corresponding entry to equity for employees' performance share program. In the previous year, an amount of AED 26,000 thousands was recognised as an expense in respect of shares granted and vested at 31 December 2004, by setting up a provision. The provision of AED 26,000 thousands recognised at 31 December 2004 in this respect has now been transferred to retained earnings in accordance with the Group's new accounting policy and the comparative figures restated.

SIC 12 'Special Purpose Entities'

The Group has adopted the recently amended SIC 12 'Special Purpose Entities'. This requires that special purpose entities formed for the purpose of equity compensation plans be consolidated within the financial statements of the Group.

The adoption of SIC 12 has required the Group to offset the value of shares held for the purpose of its employees' performance share program, from equity. Previously, the value of shares held on behalf of the scheme was disclosed as a current receivable within Total Assets. The Total Equity as at 1 January 2004 is reduced by AED 5,963 thousands due to the adoption of this revised Standard.

These changes have no impact on earnings per share.

IFRS 5 'Non-current Assets Held For Sale and Discontinued Operations'

The Group has applied IFRS 5 prospectively in accordance with the transitional provisions of IFRS 5, which has resulted in a change in accounting policy on the recognition of a discontinued operation. Under the superseded IAS 35, the Group would have recognised a discontinued operation at the earlier of:

- The date the Group enters into a binding sale agreement; and
- The date the Board of Directors has approved and announced a formal disposal plan.

An item is classified for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. Such a component represents a separate major line of business or geographical area of operations, is part of a single co-ordinated major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale. The result of this change is that a discontinued operation is recognised by the Group at a later point than under IAS 35 due to the stricter criteria in IFRS.

To aid comparison with the prior year, the Group has elected to disclose the assets and liabilities of Dubai Bank as separate line items as a result of a dilution of interest in Dubai Bank.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2005

2.3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

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

Government grants

The Group has received government grants in the form of land in prior years. Such grants have been recorded at nominal value (note 30).

Investment properties

The Group has elected to adopt the cost model for investment properties. Accordingly, investment properties are carried at cost less any accumulated depreciation and any accumulated impairment losses.

Transfer of equitable interest in development properties

The Group has entered into a number of contracts with buyers for the sale of land, villas and condominium units. Management has determined that equitable interest in such assets and therefore risks and rewards of the ownership are transferred to the buyer once he is committed to complete the payment for the purchase. This commitment is evidenced by a signed contract for the purchase of the property and payments of sufficient progress payments. The risk of the buyer being able to rescind the contract for reasons stated in the contract which are dependent on the enactment of pending legislation is considered by management to be remote. Based on this, the Group recognizes revenues and profits as the acts to complete the property are performed (note 11).

Classification of equity investments

The Group invests in both quoted and unquoted equities. Management does not wish to account for short term unrealized gains or losses in the income statement and therefore has decided to classify such investments as "available for sale". Any short term unrealized gains or losses are treated as part of equity.

Estimation uncertainty

Costs to complete the projects

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

Valuation of investment properties

The Group hires the services of third party valuers to obtain estimates for the market value of investment properties for the purposes of their impairment review and disclosure in the financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2005

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 recognized in the consolidated income statement as follows: -

Sale of property

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

- A sale is consummated and contracts are signed;
- The buyer's investment, to the date of the financial statements, is adequate (20% and above) to demonstrate a commitment to pay for the property;
- The Group's receivable is not subject to future subordination;
- The Group has transferred to the buyer the usual risks and rewards of ownership in a transaction that is in substance a sale and does not have a substantial continuing involvement with the property; and
- Work to be completed is either easily measurable and accrued or is not significant in relation to the overall value of the contract.

If all except for the last criterion listed above are fulfilled, the percentage of completion method is adopted to recognise revenue.

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

- The buyer's investment, to the date of the financial statements, is adequate (20% and above) to demonstrate a commitment to pay for the property;
- Construction is beyond a preliminary stage. The engineering, design work, construction contract execution, site clearance and building foundation are finished;
- The buyer is committed. The buyer is unable to require a refund except for non-delivery of the unit and, in certain cases, in the event of the non-enactment of pending legislation regarding freehold title and immigration visas. Management believes that the likelihood of the Group being unable to fulfil its contractual obligations for these reasons is remote; and
- The aggregate sales proceeds and costs can be reasonably estimated.

Lease to buy scheme

Sales under the lease to buy scheme are accounted as follows:

- Rental income during the period of lease is accounted on a straight-line basis until such time the lessee exercises its option to purchase;
- When the lessee exercises its option to purchase, a sale is recognized in accordance with the revenue recognition policy for sale of property as stated above; and
- When recognizing the sale, revenue is the amount which the lessee has to pay at the time of exercising the option to acquire the property.

Lease of investment property

Rental income from investment properties is accounted for on a straight-line basis over the lease term on ongoing leases.

Interest

Interest income is recognised on an accrual basis.

Services

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2005

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Cost of revenues

Cost of revenues includes the cost of land and development costs. Development costs include the cost of infrastructure and construction. The cost of revenues in respect of condominiums and villas is based on the estimated proportion of the development cost incurred to date to the estimated total development costs for each project. The cost of revenues in respect of land sales is based on the total estimated cost of the land site over the total usable land area in a particular development.

Cash and cash equivalents

Cash includes cash on hand and cash with banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of change in value.

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 when there is no possibility of recovery.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2005

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

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 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.

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 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. At 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. 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.

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.

Expenditure incurred to replace a component of an item of fixed asset 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 fixed asset. All other expenditure is recognised in the income statement as the expense is incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2005

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

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 as follows:

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

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.

End of service benefits

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.

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 obligations are limited to these contributions, which are expensed when due.

Provisions

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2005

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Share based payment transactions

IFRS 2 'Share-Based Payment' requires an expense to be recognised where an entity buys services in exchange for shares or rights over shares ('equity-settled transactions'). The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which the options are granted. The cost of equity-settled transactions with employees is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled ending on the date on which the employees become fully entitled to the award (vesting date).

Under the company Programme, awards, which represent the right to purchase the Company's ordinary shares at par, will be allocated to eligible employees (including executive directors) of the Company. 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 grant date and accounted for as an expense in the income statement over the vesting period.

Foreign currency translations

The consolidated financial statements are presented in Arab Emirates Dirhams (AED) which is the functional currency of the parent company. Each company in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are recorded in the functional currency at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to profit or loss.

As at the reporting date, the assets and liabilities of subsidiaries with functional currencies other than AED are translated into AED at the rate of exchange ruling at the balance sheet date and, their income statements are translated at the weighted average exchange rates for the year. The differences arising on the translation are taken directly to a separate component of equity. On disposal of an entity, the deferred cumulative amount recognised in equity relating to that entity is recognised in the income statement.

Contingencies

Contingent liabilities are not 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2005

2.4 ADOPTION OF IFRSs DURING THE YEAR

The Group has adopted the following revised standards during the year and comparative figures have been amended as required. Adoption of the revised standards does not have any effect on equity as at 1 January 2004.

- IAS 1 Presentation of Financial Statements;
- IAS 2 Inventories;
- IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- IAS 10 Events after the Balance Sheet Date;
- IAS 17 Leases;
- IAS 24 Related Party Disclosures;
- IAS 27 Consolidated and Separate Financial Statements;
- IAS 28 Investments in Associates;
- IAS 31 Interest in Joint Ventures;
- IAS 32 Financial Instruments: Disclosure and Presentation;
- IAS 33 Earnings per Share;
- IAS 39 Financial Instruments: Recognition and Measurement; and
- IAS 40 Investment Property.

IASB Standards and Interpretations issued but not adopted

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

- IFRS 6 Exploration and Evaluation of Mineral Resources;
- IFRIC 3 Emission Rights;
- IFRIC 4 Determining whether an Arrangement Contains a leases; and
- IFRIC 5 Rights to Interest Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds.

The application of these Standards and Interpretations, which take place during 2006 as required by the IASB, is not expected to have a material impact on the Group's financial statements.

3 SEGMENT INFORMATION

Business segment: For management purposes, the Group is organized into three major business segments.

The real estate segment develops and sells condominiums, villas and plots of land. The financial services segment includes investments and share of profits from commercial banking (Dubai Bank PJSC), mortgage financing (Amlak Finance PJSC) and stock brokering (Emaar Financial Services LLC). 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 and property management services (Emrill Services LLC).

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 2005

3 SEGMENT INFORMATION – continued

Geographic segments:

The Group has no significant operations outside the United Arab Emirates that impact on the Statement of Income. The Group is currently developing a number of International business opportunities outside the United Arab Emirates, that will have a significant impact in future years. The Group's assets include assets amounting to AED 4,286,685 thousands (2004 : AED 106,169 thousands) located outside the United Arab Emirates.

The following tables represent revenue and profit information and certain asset and liability information regarding business segments for the years ended 31 December 2005 and 2004.

2005	<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	8,361,362	-	-	-	8,361,362
Total revenue	8,361,362	-	-	-	8,361,362
Results					
Profit for the year	4,357,553	388,373	(13,490)	(3,384)	4,729,052
Assets and liabilities					
Segment assets	32,306,648	1,065,093	392,034	(1,559,043)	32,204,732
Segment liabilities	7,444,781	-	401,488	(1,337,845)	6,508,424
Other segment information					
Capital expenditure (fixed assets)	552,865	-	92,000	-	644,865
Depreciation (fixed assets)	65,564	-	12,332	-	77,896
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	5,246,264	-	-	-	5,246,264
Total revenue	5,246,264	-	-	-	5,246,264
Results					
Profit for the year	1,707,769	21,881	(37,738)	-	1,691,912
Assets and liabilities					
Segment assets	11,516,575	2,817,635	294,030	(1,413,857)	13,214,383
Segment liabilities	3,681,642	1,997,691	390,594	(910,164)	5,159,763
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 2005

4 REVENUES AND COST OF REVENUES

	2005 AED'000	2004 AED'000
Revenues:		
Sale of plots of land and condominiums	4,082,713	1,538,789
Sale of villas	4,153,059	3,459,127
Sale of commercial units	-	144,000
Rental income	125,590	104,348
	<u>8,361,362</u>	<u>5,246,264</u>
Cost of revenues:		
Cost of land and condominiums	1,603,951	665,076
Cost of villas	1,963,549	1,990,978
Cost of commercial units	-	70,132
Impairment of investment properties	-	291,076
Operating cost of leased properties	18,186	20,512
	<u>3,585,686</u>	<u>3,037,774</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 various projects such as Dubai Marina, Emaar Towers, Burj Dubai and The Greens. Sale of villas relates to the sale of residential units at various projects such as The Meadows, Hattan, The Springs, Arabian Ranches and Emirates Hills. Rental income is from the investment properties such as the villas, apartments, commercial, manufacturing and retail units.

5 SELLING, GENERAL AND ADMINISTRATION EXPENSES

	2005 AED'000	2004 AED'000
Depreciation of fixed assets (Note 15)	83,410	83,746
Depreciation of investment properties (Note 16)	15,546	11,796
Payroll and related expenses	269,455	218,976
Sales and marketing expenses	279,497	175,455
Registration fees	54,542	72,421
Contribution to educational and other charitable funds	108,595	-
Other expenses	210,707	145,205
	<u>1,021,752</u>	<u>707,599</u>

6 FINANCE INCOME

	2005 AED'000	2004 AED'000
Finance income on fixed deposits with banks	193,366	40,950
Other finance income	159,020	40,493
	<u>352,386</u>	<u>81,443</u>

EMAAR Properties PJSC and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2005

7 CASH AND CASH EQUIVALENTS

	2005 AED'000	2004 AED'000
Cash in hand	607	197
Current and call deposit accounts	513,784	28,080
Fixed deposits and certificates of deposits	9,853,618	1,806,688
Bank balances and cash	10,368,009	1,834,965
Deposits under lien or maturing after three months	(1,332,304)	(180,000)
Dubai Bank cash and cash equivalents reclassified	-	578,962
Cash and cash equivalents disclosed in statement of cash flows	9,035,705	2,233,927

8 TRADE RECEIVABLES

	2005 AED'000	2004 AED'000
Amounts receivable within 12 months	717,533	756,181

9 ASSETS OF DUBAI BANK

The assets of Dubai Bank included in the consolidated Financial Statement as of 31 December 2004 were:

	AED'000
Bank balances and cash	837,636
Loans and advances	1,330,257
Other receivables, deposits and prepayments	29,473
Securities	189,425
Fixed assets	38,886
	2,425,677

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

	AED'000
(a) By type:	
Corporate loans	764,518
Consumer loans	552,902
Others	21,506
Gross amount of loans and advances	1,338,926
Less: Provisions for impairment of loans and advances	(8,669)
Net amount of loans and advances	1,330,257

EMAAR Properties PJSC and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2005

9 ASSETS OF DUBAI BANK - continued

2004
AED'000

(b) By economic sector

Trade and manufacturing	319,507
Banks and financial institutions	207,186
Construction and real estate	113,867
Personal	567,224
Other	122,473
	<u>1,330,257</u>

2004
AED'000

(c) By geographical area

Within UAE	1,124,739
Middle East	132,058
Others	73,460
	<u>1,330,257</u>

(d) By maturity

2004
AED'000

Loans and advances within 12 months	799,143
Loans and advances after 12 months	531,114
	<u>1,330,257</u>

During the financial year, the Company entered into an agreement with Dubai Financial LLC to sell 70% of its interest in its subsidiary Dubai Bank. Accordingly, Dubai Bank is now reflected as an associated company as at year end.

10 OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2005 AED'000	2004 AED'000
Advances to contractors	502,002	157,732
Accrued interest on bank deposits and investments	54,613	25,623
Prepayments	13,295	8,410
Deposits for acquisition of land	427,974	-
Receivables on sale of interest in a subsidiary/assets	736,795	-
Receivables from service companies	56,153	13,951
Other deposits and receivables	62,248	9,478
Other recoverables	75,289	25,394
	<u>1,928,369</u>	<u>240,588</u>

EMAAR Properties PJSC and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2005

11 DEVELOPMENT PROPERTIES

	2005 AED'000	2004 AED'000
Cost to date	9,015,944	8,200,833
Add: Attributable profit	6,504,829	4,608,477
Less: Progress billings	(12,495,023)	(10,576,505)
Total development properties	<u>3,025,750</u>	<u>2,232,805</u>

12 SECURITIES

	2005 AED'000	2004 AED'000
Held-to-maturity	1,555,760	1,817,145
Available-for-sale	2,047,108	30,466
	<u>3,602,868</u>	<u>1,847,611</u>

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.
- Investments totalling AED 352,805 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 105 basis points p.a. subject to 3 months US LIBOR rate remaining between 0 – 3.50% p.a. The investments matured in January 2006.
- Investments totalling AED 250,178 thousands in USD Callable Libor Range Accrual Note through a bank and financial institution registered in the UAE. Interest is earned at 5.70% p.a. to 5.85% p.a. subject to 3 months US LIBOR rate remaining between 0 – 4.60% p.a. The investments are due for maturity in January 2007.
- Investment in 1.25 Year Basket Range Accrual Protected Notes amounting to AED 367,300 thousands with a bank registered in the UAE. Interest is earned at minimum of 3.0% and a maximum of 9.0% for the number of days the underlying indices (S & P 500 and DJ Eurostoxx 50) remain within the specified range. The investment is due for maturity in February 2007.
- Investment in 1 Year USD EPRA Linked Deposit amounting to AED 183,650 thousands with a bank registered in the UAE. Interest is earned based on the performance of the underlying index which is the EPRA index. The investment is due for maturity in November 2006.
- Investment in Euro Medium Term Note amounting to AED 183,650 thousands with a bank registered in the Kingdom of Bahrain. Interest is earned based on the performance of the fund subject to a minimum of 2.0% . The investment is due for maturity in June 2007.
- Investment in USD 12 Months Power Monthly Reset Range Structured Deposit amounting to AED 53,993 thousands with a bank registered in the Kingdom of Bahrain. Interest is earned at 8.90% p.a. if gold spot is strictly inside the range through the observation period or 1.0% if the gold spot has touched either barrier of the range during the observation period. The investment is due for maturity in December 2006.
- Investment in Bullish Gold Reverse Floater Structured Deposit amounting to AED 43,994 thousands with a bank registered in the Kingdom of Bahrain. Interest is earned at 1% plus 12% decreased by the sum of all negative monthly performance of gold. The investment is due for maturity in December 2006.
- Investment of AED 110,190 thousands pertains to Mudaraba Agreement with Al Salam Bank – Sudan. The investment is for a period of one year.

Available-for-sale securities include equity investments made through two funds managed by third parties.

EMAAR Properties PJSC and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2005

13 LOANS TO ASSOCIATES

	2005 AED'000	2004 AED'000
Amounts owing by Amlak Finance PJSC	241,901	758,316
Amounts owing by overseas associated companies	416,412	-
	<u>658,313</u>	<u>758,316</u>

The amounts owing by Amlak Finance PJSC are unsecured and earn a return between 3.98 % – 4.70 % pa. Other amounts are non-interest bearing.

14 INVESTMENTS IN ASSOCIATES

	2005 AED'000	2004 AED'000
Carrying value of:		
Investment in Amlak Finance PJSC – quoted	864,421	388,324
Investment in Dubai Bank PJSC – unquoted	165,760	-
Investment in Emaar Industries and Investment (Pvt) JSC – unquoted	101,918	-
Investment in Emaar Financial Services LLC – unquoted	34,912	-
Investment in Emaar MGF Land Private Limited – unquoted	1,837,601	-
Investment in Al Shamiyah Al Lettatweer Al Omarani Company – unquoted	96,543	-
Investment in other associates - unquoted	2,670	-
	<u>3,103,825</u>	<u>388,324</u>

The market value of the shares held in Amlak Finance PJSC as at 31 December 2005 is AED 7,537,086 thousand (2004: AED 1,442,500 thousands).

The Group has the following investments in associates:

	Country of incorporation	2005 Ownership	2004 Ownership
Amlak Finance PJSC	UAE	48.08%	48.08%
Emaar Industries and Investments (Pvt) JSC	UAE	40%	40%
Dubai Bank PJSC	UAE	30%	100%
Emaar Financial Services LLC	UAE	37.5%	-
Emaar MGF Land Private Limited	India	40.4%	-
Emaar Misr for Development	Egypt	40%	-
Prestige Resorts-S.A.	Morocco	50%	-
Amelkis Resorts	Morocco	50%	-
Emaar Islamabad Limited	Pakistan	33%	-
Al Shamiyah Al Lettatweer Al Omarani Company (no control or Board representation)	KSA	70%	-

EMAAR Properties PJSC and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2005

14 INVESTMENT IN ASSOCIATES – continued

The following table summarises information of the Group's investments in associates:

	<i>2005</i> <i>AED'000</i>	<i>2004</i> <i>AED'000</i>
Share of associates' balance sheets:		
Assets	6,043,585	864,114
Liabilities	(2,939,760)	(475,790)
Net assets	<u>3,103,825</u>	<u>388,324</u>
Share of associates' revenues and results:		
Revenues	<u>198,829</u>	<u>36,796</u>
Results	<u>99,145</u>	<u>20,810</u>

Disposal of interest in Dubai Bank

The Group has disposed of 70% of its investment in its subsidiary Dubai Bank with effect from 1 July 2005 to Dubai Financial LLC. The Group is deemed to have lost effective control from that date.

The operating results of Dubai Bank PJSC prior to the disposal were as follows:

	<i>1 January</i> <i>2005 to</i> <i>30 June</i> <i>2005</i> <i>AED'000</i>
Operating income	115,092
General and administrative expenses	(68,734)
Net profit	<u>46,358</u>
Operating cash flows	31,909
Investing cash flows	19,783
Financing cash flows	-
Net cash inflow	<u>51,692</u>

The profit on disposal of the subsidiary is as follows:

	<i>1 July</i> <i>2005</i> <i>AED'000</i>
Total assets	2,708,808
Total liabilities	(2,210,006)
Net assets of subsidiary at the date of disposal	498,802
Interest in associated company following disposal	(149,641)
Net assets of subsidiary disposed	349,161
Proceeds from disposal of subsidiary	(595,000)
Profit on disposal	<u>245,839</u>

EMAAR Properties PJSC and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2005

14 INVESTMENT IN ASSOCIATES – continued

Dilution of interest in Amlak Finance PJSC

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:

*1 January
2004 to
9 March
2004
AED'000*

Operating income	6,619
General and administrative expenses	(2,150)
Net profit	<u>4,469</u>
Operating cash flows	(226,278)
Investing cash flows	(160)
Financing cash flows	227,500
Net cash inflow	<u>1,062</u>

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

*9 March
2004
AED'000*

Total assets	711,756
Total liabilities	(356,573)
Net assets at date of dilution	<u>355,183</u>
Interest in associated company following dilution	(347,716)
Net loss on dilution of interest	<u>7,467</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2005

15 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 2005	1,428	220,224	18,497	129,124	6,875	24,175	16,914	417,237
Additions	54	78,490	7,300	21,656	3,694	14,269	519,402	644,865
Disposals/transfers	-	-	-	(139,867)	(921)	(2,846)	(11,743)	(155,377)
At 31 December 2005	1,482	298,714	25,797	10,913	9,648	35,598	524,573	906,725
Accumulated depreciation								
At 1 January 2005	1,373	69,953	10,054	42,941	3,394	16,408	-	144,123
Depreciation charge	104	49,454	6,145	14,421	2,075	5,697	-	77,896
Disposals	-	-	-	(51,636)	(561)	(808)	-	(53,005)
At 31 December 2005	1,477	119,407	16,199	5,726	4,908	21,297	-	169,014
Net carrying amount								
At 31 December 2005	5	179,307	9,598	5,187	4,740	14,301	524,573	737,711
At 31 December 2004	55	150,271	8,443	86,183	3,481	7,767	16,914	273,114
Depreciation charge for 2004	366	35,118	10,295	30,271	1,571	6,125	-	83,746

EMAAR Properties PJSC and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2005

16 INVESTMENT PROPERTIES

	<i>Land AED'000</i>	<i>Buildings AED'000</i>	<i>Furniture and fixtures AED'000</i>	<i>Properties under development AED'000</i>	<i>Total AED'000</i>
Cost					
At 1 January 2005	2,106,489	367,802	3,455	300,842	2,778,588
Additions	4,520,750	362,069	93	738,186	5,621,098
At 31 December 2005	6,627,239	729,871	3,548	1,039,028	8,399,686
Accumulated depreciation/impairment					
At 1 January 2005	291,076	28,639	2,071	-	321,786
Depreciation charge	-	14,917	629	-	15,546
At 31 December 2005	291,076	43,556	2,700	-	337,332
Net carrying amount					
At 31 December 2005	6,336,163	686,315	848	1,039,028	8,062,354
At 31 December 2004	1,815,413	339,163	1,384	300,842	2,456,802
Depreciation charge for 2004	-	11,080	716	-	11,796

The fair value of investment properties is AED 9,366,480 thousands (2004: AED 3,412,965 thousands) compared with a carrying value of AED 8,062,354 thousands (2004: AED 2,456,802 thousands).

17 TRADE AND OTHER PAYABLES

	<i>2005 AED'000</i>	<i>2004 AED'000</i>
Trade payables	322,203	102,777
Project contract cost accruals	1,522,896	771,766
Other payables and accruals	974,930	432,963
Advances/deposits from customers for sale of properties	2,635,272	972,574
Deferred income	45,502	22,831
Unclaimed dividends	26,772	22,599
	5,527,575	2,325,510

EMAAR Properties PJSC and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2005

18 LIABILITIES OF DUBAI BANK

The liabilities of Dubai Bank included in the consolidated financial statements as at 31 December 2004 were:

	<i>AED'000</i>
Trade and other payables	74,621
Customer deposits	1,492,692
Provision for end of service benefits	2,221
	<u>1,569,534</u>

The composition of the customers' deposits were as follows:

(a) By account type

	<i>2004 AED'000</i>
Demand accounts	827,998
Savings accounts	126,875
Deposit accounts	537,819
	<u>1,492,692</u>

(b) By maturity

	<i>2004 AED'000</i>
Customers' deposit within 12 months	1,487,596
Customers' deposit after 12 months	5,096
	<u>1,492,692</u>

19 LOANS FROM FINANCIAL INSTITUTIONS

	<i>Note</i>	<i>2005 AED'000</i>	<i>2004 AED'000</i>
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	238,693
		<u>238,693</u>	<u>638,693</u>

- a) Loan was unsecured and interest was charged at 3 months EIBOR plus 75 basis points. The loan was repaid in January 2005.
- b) Loan was secured against a fixed deposit of the same sum and interest was charged at 2.5% pa. The loan was 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. The loan is repayable in full in 2009.

EMAAR Properties PJSC and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2005

20 RETENTIONS PAYABLE

	2005 AED'000	2004 AED'000
Retentions payable within 12 months	470,657	329,975
Retentions payable after 12 months	262,464	288,565
	<u>733,121</u>	<u>618,540</u>

21 EMPLOYEE BENEFITS

Employee Performance Share Programme

During 2004, the Company established an Employee Performance Share Programme ("The Programme") to recognize and retain good performing staff. The Programme gives the employee the right to purchase the Company's shares at par. The shares carry full dividend and voting rights, and the option 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. There are no cash settlement alternatives and the options have no contractual expiry date.

The following table illustrates the number (No.) and weighted average exercise prices (WAEP) of, and movements in, share options during the year.

	2005		2004	
	No.	WAEP	No.	WAEP
Outstanding at the beginning of the year	5,963,330	AED 1.00	-	-
Granted during the year	322,640	AED 1.00	5,963,330	AED 1.00
Forfeited during the year	(2,064,124)	AED 1.00	-	AED 1.00
Exercised during the year	(1,577,690)	AED 1.00	-	AED 1.00
Outstanding at the end of the year	<u>2,644,156</u>	AED 1.00	<u>5,963,330</u>	AED 1.00

The weighted average fair value of options granted during the year was AED 23.15 per share (2004 : AED 13 per share).

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. As the options are granted deep in the money, management consider this to be an appropriate means of valuation.

The expenses recognised during the year in respect of the programme were AED 28,398 thousands (2004: AED 26,000 thousands).

End of Service Benefits

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

	2005 AED'000	2004 AED'000
Balance, beginning of year	7,486	4,603
Provision made during the year	3,157	3,352
End of service benefits paid	(1,608)	(469)
Balance, end of year	<u>9,035</u>	<u>7,486</u>

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

EMAAR Properties PJSC and Subsidiaries

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At 31 December 2005

22 SHARE CAPITAL

	<i>2005</i> <i>AED'000</i>	<i>2004</i> <i>AED'000</i>
Authorized capital – 6,096,325,000 shares of AED 1 each (31 December 2004: 2,650,000,000 shares of AED 1 each)	<u>6,096,325</u>	<u>2,650,000</u>
Issued and fully paid-up – 5,780,175,759 shares of AED 1 each (31 December 2004 - 2,650,000,000 shares of AED 1 each)	<u>5,780,176</u>	<u>2,650,000</u>

At the annual general meeting held in March 2005, the shareholders of the Company approved a bonus issue of 0.07:1 (0.07 shares for every share held), thereby increasing the number of shares from 2,650,000 thousands to 2,835,500 thousands.

The Company's shareholders, at the extraordinary general meeting held on 16 July 2005 approved a further bonus issue of 0.15:1 (0.15 share for every 1 share held) per share and a rights issue of 1:1 (one share for every share held before the bonus issue) at a premium of AED 4 per share. Consequently, the authorised share capital of the Company has increased from AED 2,835,500 thousands to AED 6,096,325 thousands.

The shareholders were given an option to pay for the rights issue in one or more instalments subject to a maximum of four instalments. The last two instalments are due on 15 February 2006 and 15 May 2006. Shares for the future instalments will be allotted upon realisation of payment on the respective due dates.

The Government of Dubai has provided land as consideration for a receivable due from them of AED 4,520,750 thousands resulting from the rights issue.

23 RESERVES

	<i>Statutory reserve (AED'000)</i>	<i>Capital reserve (AED'000)</i>	<i>General reserve (AED'000)</i>	<i>Net unrealized gains reserve (AED'000)</i>	<i>Foreign currency translation reserve (AED'000)</i>	<i>Total (AED'000)</i>
Balance at 1 January 2004	2,487,051	4,004	215,289	-	-	2,706,344
Transfers for the year	-	-	169,056	-	-	169,056
Balance at 1 January 2005	2,487,051	4,004	384,345	-	-	2,875,400
Share Premium	10,077,403	-	-	-	-	10,077,403
Transfers for the year	-	-	473,123	496,308	419	969,850
Balance at 31 December 2005	<u>12,564,454</u>	<u>4,004</u>	<u>857,468</u>	<u>496,308</u>	<u>419</u>	<u>13,922,653</u>

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 are 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 2005, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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23 RESERVES - continued

The statutory reserve includes:

- AED 2,475,000 thousands being the premium collected at AED 15 per share (shares par value at that time was AED 10 per share) on the 1:1.65 rights issue during the year ended 31 December 1998; and

- AED 10,077,403 thousands being the premium collected at AED 4 per share on the 1:1 rights issue during the year ended 31 December 2005.

The capital reserve was created from gain on sale of treasury shares in 2003.

Net unrealized gains reserve:

This reserve records fair value changes in available for sale investments.

Foreign currency translation reserve:

The foreign currency translation reserve is used to record exchange difference arising from translation of the financial statements of foreign subsidiaries.

24 DIVIDENDS

A cash dividend of AED 0.175 and share dividend of AED 0.025 per share was proposed by the directors prior to the 2004 annual general meeting. This proposal was subsequently amended to a cash dividend of AED 0.13 and share dividend of AED 0.07 per share, approved by the shareholders at the annual general meeting and subsequently paid.

The Board of Directors has proposed a cash dividend of AED 0.40 per share subject to the approval of the shareholders at the annual general meeting.

25 EARNINGS PER SHARE

Basic earnings per share are calculated by dividing net profit for the year attributable to equity holders of the parent by the weighted average number of ordinary shares outstanding during the year. The weighted average numbers of shares outstanding during the year and the previous year have been adjusted for events that have changed the number of shares outstanding without a corresponding change in resources. For diluted earnings per share, the weighted average numbers of shares have been adjusted for rights issue shares to be allotted after the year end.

The information necessary to calculate basic and diluted earnings per share is as follows:

	2005 AED'000	2004 AED'000
Earnings:		
Net profit for the year attributable to equity holders of the Parent	4,731,231	1,690,557
Shares:		
Number of shares outstanding:		
As previously reported last year		2,650,000
Weighted average number of shares outstanding for calculating basic EPS	5,565,256	5,052,274
Weighted average number of shares under rights issue to be allotted on realisation of installment payment	100,523	-
Weighted average number of shares outstanding for calculating diluted EPS	5,665,779	5,052,274
Basic earnings per share	AED 0.85	AED 0.33
Diluted earnings per share	AED 0.84	AED 0.33

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2005

26 COMMITMENTS

As of 31 December 2005, the Group had commitments of AED 11,095,579 thousands (2004 - AED 5,621,830 thousands) including project commitments of AED 11,061,995 thousands (2004 - AED 5,597,624 thousands). This represents the value of contracts issued as of 31 December 2005 net of invoices received and accruals made at that date.

27 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:

	<i>2005</i> <i>AED'000</i>	<i>2004</i> <i>AED'000</i>
Associates:		
Net interest income on deposits / investments from Dubai Bank PJSC	10,426	-
Islamic finance income from Amlak Finance PJSC	39,706	12,305
Other related parties:		
Net interest income on deposits / investments from Mashreq Bank PSC	71,039	13,559
Profit paid on Islamic facilities from Dubai Islamic Bank PJSC	-	1,541
Profit received on investment deposits with Dubai Islamic Bank	2,353	-

The members of the board of directors received attendance fees totalling AED 1,200 thousands (2004: AED 1,200 thousands).

Related party balances

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

	<i>2005</i> <i>AED'000</i>	<i>2004</i> <i>AED'000</i>
Associates:		
Fixed deposits with Dubai Bank PJSC	634,842	-
Held to maturity investment with Dubai Bank PJSC	50,000	
Investment deposits with Amlak Finance PJSC	180,000	80,000
Other related parties:		
Fixed deposits with Mashreq Bank PSC	2,916,104	675,453
Investment deposits with Dubai Islamic Bank PJSC	830,003	80,000
Short term Islamic facilities from Dubai Islamic Bank PJSC	-	100,000
Held to maturity Mudaraba deposits with Al Salaam Bank	110,190	-
Investment in Al Salaam Bank, Sudan	11,597	-
Investment in Al Salaam Bank, Bahrain	51,405	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2005

27 TRANSACTIONS WITH RELATED PARTIES – continued

Compensation of key management personnel

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

	<i>2005</i> <i>AED'000</i>	<i>2004</i> <i>AED'000</i>
Short-term benefits	90,596	39,956
Employees' end of service benefits	1,239	1,170
Performance share programme	8,850	9,849
	<u>100,685</u>	<u>50,975</u>

As at 31 December 2005, number of directors and other members of key management were 24 (31 December 2004: 16).

28 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.

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 securities and loans to associates are described in Notes 12 and 13 respectively. Interest rates on loans from financial institutions are disclosed in note 19.

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.

29 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, investments in associates 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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30 MARKET VALUE OF LAND

The carrying value of land included in investment properties and development properties at 31 December 2005 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 on an open market basis. 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 30,148,980 thousands (2004: AED 18,270,968 thousands) compared with a carrying value of AED 7,318,988 thousands (2004: AED 1,815,413 thousands).

31 COMPARATIVE AMOUNTS

As detailed in notes 2.2, 7, 9 and 18 certain comparatives in the financial statements have been reclassified to conform with the current year's presentation.