

SHUAA Capital Psc

CONSOLIDATED FINANCIAL STATEMENTS

AS OF 31 MARCH 2007

TOGETHER WITH AUDITORS' REPORT

THE BOARD OF DIRECTORS REPORT

It is my pleasure to present to you on behalf of the members of the Board of Directors a brief report on the financial results and the various successes achieved by the Company during its latest financial year.

FY2006 was another landmark year for the Company, witnessing the commencement of a regional expansion drive as well as a list of achievements across our business lines that have helped further consolidate our position as a leader in the financial industry sector in the GCC.

With regard to portfolio and asset management, the Company continued to expand its activities and released additional distinguished products this year, such as the "Arab Islamic Gateway Fund", a Shariah-compliant fund mirroring the award winning "Arab Gateway Fund". The Company's professionally managed funds have proven their ability to generate returns despite prevailing adverse market conditions, managing to hedge both risk and volatility.

On the investment banking side, SHUAA Capital was lead manager for two public offerings: Gulf Navigation Holding, an IPO of AED910 million; and Air Arabia, an IPO of AED2.566 billion. Also during the year, SHUAA Capital secured the mandate as lead manager and adviser and sole bookrunner for Deyaar's public offering of AED3.178 billion, the largest IPO in the history of the UAE.

In addition, SHUAA Capital successfully closed an AED220 million private placement on behalf of Rotana Hotel Management Corporation; and acted as co-lead manager on the largest bond issue in the history of the GCC: the USD925 million issue of Blue City Investments 1 Limited, a joint Omani-Bahraini project to build a 34 square kilometer city in Oman.

During 2006, SHUAA Capital further consolidated the position of its brokerage division SHUAA Securities by raising its stake in the leading non-bank UAE brokerage firm, Emirates Securities, from 50% to 95%. Performance on the brokerage side was healthy and saw a rise in our client base, with the company providing services to 600 high net worth individuals and executing USD800 million in transactions. Total client assets under management stood at USD2 billion.

SHUAA Capital's strong regional reputation was further enhanced by issuing distinguished research reports on leading listed GCC companies.

Also during the year, SHUAA Capital commenced concrete steps towards the implementation of a three-year strategy focused on active regional expansion aimed at complementing its current financial services activities. The expansion will be achieved by way of acquisitions of market leading financial companies or by way of establishing financial companies in regional markets, where SHUAA Capital's asset management, brokerage and investment banking services are offered.

With that in mind, SHUAA Capital increased its stake in the foremost Qatari investment banking institution, Amwal, to 47%, becoming the single largest shareholder. In addition, SHUAA Capital has recently secured a license to offer the full range of its investment banking services in the Kingdom of Saudi Arabia, the latter being the culmination of a two-year effort to tap into the abundant resources and opportunities offered by the largest regional financial market.

Also on the investments front, in March of 2007 SHUAA Capital exited its investment in Oman National Investment Corporation Holding ("ONICH") by selling its 35% stake to Dubai Financial, a subsidiary of Dubai Holding, for AED315 million.

In addition to regional expansion, SHUAA Capital aims to actualize a yearly increase in its profits through its main business lines in the fields of financial services, investments, and financing; and through growth in its own human capital. This year the Company has seen the number of its employees rise from 142 to 233, and has expended considerable resources towards their development.

During its past financial year, SHUAA Capital has struck several strategic business alliances aimed at strengthening its position in promising regional economies based on its projections that there will be increased capital flows between them and GCC countries. Towards this end, the Company established a representative office in Turkey; acquired a 20% stake in Baer Capital Partners Limited, a DIFC-based

company that aims to introduce several India funds to regional and international investors; and acquired a strategic share in Edelweiss Capital, a leading Mumbai-based investment banking institution.

Based on the Company's strong results, the Board of Directors has recommended a cash dividend of AED110 million, representing 20% of the par value or 20 fils per share, amounting to a payout of 45% of the net annual profit. The dividend will be payable to shareholders of record on 4 July 2007 (settlement 8 July 2007).

On behalf of my colleagues the members of the Board, I take this opportunity to extend my thanks to the concerned authorities in the United Arab Emirates, and to the Government of Dubai in particular, for their continued support of our company.

The Board of Directors would also like to express its thanks and appreciation to the shareholders for their continued confidence and support, and to the management and staff of the Company for their diligent and valuable efforts which contributed to the achievement of these results.

SIGNED ON BEHALF OF THE BOARD OF DIRECTORS



Majid Saif Al Ghurair
Chairman

16 May 2007

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF SHUAA CAPITAL PSC

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Shuaa Capital PSC ("the Company") and its subsidiaries (the 'Group'), which comprise the consolidated balance sheet as at 31 March 2007 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management of the Company is responsible for the preparation and fair representation of these consolidated financial statements in accordance with International Financial Reporting Standards and the applicable provisions of the articles of association of the Company, Federal Law No. 8 of 1984 (as amended) and Federal Law No. 10 of 1980. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of 31 March 2007 and their consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other Legal and Regulatory Requirements

We also confirm that, in our opinion, the consolidated financial statements include, in all material respects, the applicable requirements of Federal Law No. 8 of 1984 (as amended), Federal Law No. 10 of 1980 and the articles of association of the Company; proper books of account have been kept by the Company and its subsidiaries, 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 articles of association of the Company, Federal Law No. 8 of 1984 (as amended) or Federal Law No. 10 of 1980 have occurred during the year which would have had a material effect on the business of the Group or on its financial position.

Ernst & Young



Signed by
Ali H Issa
Partner
Registration No. 488

16 May 2007

Dubai

SHUAA Capital psc**CONSOLIDATED BALANCE SHEET**

At 31 March 2007

(Currency - Thousands of U.A.E. Dirhams)

	<i>Notes</i>	31 March 2007	31 March 2006
<u>Assets</u>			
Cash and deposits with banks		135,983	69,849
Other deposits	3	-	17,200
Receivables and other debit balances	4	789,853	310,123
Investment securities	5	849,626	574,977
Installment credits, loans and advances	6	650,156	554,275
Investments available for sale	7	176,494	133,577
Investments in associates	8	774,008	648,303
Fixed assets	9	11,457	8,891
Goodwill	10	95,200	34,111
Total Assets		3,482,777	2,351,306
<u>Liabilities</u>			
Due to banks	11	690,254	449,801
Payables and other credit balances	12	740,148	205,141
Medium-term debt	13	505,134	136,615
Total Liabilities		1,935,536	791,557
<u>Equity</u>			
Paid-up share capital	14	550,000	550,000
Treasury shares	15	(13,475)	-
Employee stock option plan shares	17	(174,659)	(89,924)
Statutory reserve	18	553,140	553,140
Retained earnings		513,123	368,026
Proposed dividend	16	110,000	165,000
Investment revaluation reserve	19	2,189	11,473
Translation reserve		2,330	2,034
Equity attributable to equity holders of the parent		1,542,648	1,559,749
Minority interest	20	4,593	-
Total Equity		1,547,241	1,559,749
Total Liabilities and Equity		3,482,777	2,351,306
<u>Contra accounts</u>			
Clients' funds under management	31	6,546,112	6,123,588

The attached notes 1 to 34 form part of these financial statements.

SHUAA Capital psc**CONSOLIDATED INCOME STATEMENT**

For the year ended 31 March 2007

(Currency - Thousands of U.A.E. Dirhams)

	<i>Notes</i>	31 March 2007	31 March 2006
Interest income		86,790	68,771
Investment banking income:			
Income from investment securities		(13,467)	65,966
Income from investments	21	137,571	52,719
Fees and commissions income		139,755	201,790
Income from associates	8	108,090	112,465
Total income		458,739	501,711
Interest expense		(71,015)	(24,517)
Provisions	22	(40,391)	(47,940)
Net operating income		347,333	429,254
General and administrative expenses	23	(80,887)	(59,519)
Depreciation and amortisation		(4,014)	(2,120)
Operating expenses		(84,901)	(61,639)
Profit for the year		262,432	367,615
Attributable to:			
Equity holders of the parent		261,787	362,368
Minority Interests		645	5,247
		262,432	367,615
Earnings per share	24	AED 0.464	AED 0.693

The attached notes 1 to 34 form part of these financial statements.

SHUAA Capital psc

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 March 2007

(Currency - Thousands of U.A.E. Dirhams)

	Attributable to equity holders of the Parent											
	<i>Paid-up share capital</i>	<i>Treasury shares</i>	<i>Proposed issue of bonus shares</i>	<i>Employee stock option plan shares</i>	<i>Statutory reserve</i>	<i>Retained earnings</i>	<i>Proposed dividend</i>	<i>Investment revaluation reserve</i>	<i>Translation reserve</i>	<i>Total</i>	<i>Minority interest</i>	<i>Total equity</i>
Balance as of 1 April 2005	330,000	-	66,000	(33,799)	91,140	172,724	-	20,167	-	646,232	28,691	674,923
Adjustment arising from application of IAS 39 revised	-	-	-	-	-	634	-	(2,324)	-	(1,690)	-	(1,690)
Balance as of 1 April 2005 (restated)	330,000	-	66,000	(33,799)	91,140	173,358	-	17,843	-	644,542	28,691	673,233
Net movement in cumulative changes in fair value (note 19)	-	-	-	-	-	-	-	(6,370)	-	(6,370)	-	(6,370)
Currency translation differences	-	-	-	-	-	-	-	-	2,034	2,034	-	2,034
Total income and expense recognised directly in equity	-	-	-	-	-	-	-	(6,370)	2,034	(4,336)	-	(4,336)
Net profit for the year	-	-	-	-	-	362,368	-	-	-	362,368	5,247	367,615
Total income and expense for the year	-	-	-	-	-	362,368	-	(6,370)	2,034	358,032	5,247	363,279
Issue of bonus shares	66,000	-	(66,000)	-	-	-	-	-	-	-	-	-
Directors' remuneration	-	-	-	-	-	(2,700)	-	-	-	(2,700)	-	(2,700)
Rights issue	154,000	-	-	-	462,000	-	-	-	-	616,000	-	616,000
Acquisition of minority interest	-	-	-	-	-	-	-	-	-	-	(33,938)	(33,938)
Net movement in employee stock option plan shares	-	-	-	(56,125)	-	-	-	-	-	(56,125)	-	(56,125)
Proposed dividend	-	-	-	-	-	(165,000)	165,000	-	-	-	-	-
Balance as of 31 March 2006	550,000	-	-	(89,924)	553,140	368,026	165,000	11,473	2,034	1,559,749	-	1,559,749

The attached notes 1 to 34 form part of these financial statements.

SHUAA Capital psc**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**

For the year ended 31 March 2007

(Currency - Thousands of U.A.E. Dirhams)

	Attributable to equity holders of the Parent											
	<i>Paid-up share capital</i>	<i>Treasury shares</i>	<i>Proposed issue of bonus shares</i>	<i>Employee stock option plan shares</i>	<i>Statutory reserve</i>	<i>Retained earnings</i>	<i>Proposed dividend</i>	<i>Investment revaluation reserve</i>	<i>Translation reserve</i>	<i>Total</i>	<i>Minority interest</i>	<i>Total equity</i>
Balance as of 31 March 2006	550,000	-	-	(89,924)	553,140	368,026	165,000	11,473	2,034	1,559,749	-	1,559,749
Net movement in cumulative changes in fair value (note 19)	-	-	-	-	-	-	-	(9,284)	-	(9,284)	69	(9,215)
Currency translation differences	-	-	-	-	-	-	-	-	296	296	-	296
Total income and expense recognised directly in equity	-	-	-	-	-	-	-	(9,284)	296	(8,988)	69	(8,919)
Net profit for the year	-	-	-	-	-	261,787	-	-	-	261,787	645	262,432
Total income and expense for the year	-	-	-	-	-	261,787	-	(9,284)	296	252,799	714	253,513
Dividend paid	-	-	-	-	-	-	(165,000)	-	-	(165,000)	(2,000)	(167,000)
Directors' remuneration	-	-	-	-	-	(6,690)	-	-	-	(6,690)	-	(6,690)
Purchase of treasury shares	-	(13,475)	-	-	-	-	-	-	-	(13,475)	-	(13,475)
Minority interest arising from acquisition of subsidiary	-	-	-	-	-	-	-	-	-	-	5,879	5,879
Net movement in employee stock option plan shares	-	-	-	(84,735)	-	-	-	-	-	(84,735)	-	(84,735)
Proposed dividend	-	-	-	-	-	(110,000)	110,000	-	-	-	-	-
Balance as of 31 March 2007	550,000	(13,475)	-	(174,659)	553,140	513,123	110,000	2,189	2,330	1,542,648	4,593	1,547,241

The attached notes 1 to 34 form part of these financial statements.

CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2007

(Currency - Thousands of U.A.E. Dirhams)

	<i>31 March 2007</i>	<i>31 March 2006</i>
Cash flows from operating activities:		
Profit for the year	262,432	367,615
Adjustments for:		
Depreciation and amortisation	4,014	2,120
Income from investments in associates	(108,090)	(112,465)
Income from investments available-for-sale	(17,753)	(52,719)
Gain on sale of associates	(119,818)	-
Provisions	40,391	47,940
Share based payments	-	2,700
Other non-operating income	-	(133)
Operating profit before changes in operating assets and liabilities and other adjustments	61,176	255,058
Other deposits	17,200	11,940
Receivables and other debit balances	(529,626)	(190,448)
Investment securities	(274,649)	(204,033)
Installment credits, loans and advances	(101,272)	(202,762)
Payables and other credit balances	406,993	(313)
Additions to associates	(872,743)	(337,783)
Dividend received from associates	51,399	9,683
Additions to investments available for sale	(81,020)	(64,517)
Proceeds from sale of investments available-for-sale	73,344	95,994
Proceeds from sale of associates	971,082	-
Purchase of fixed assets	(4,825)	(8,341)
Net cash used in operating activities	(282,941)	(635,522)
Cash flows from investing activities:		
Acquisition of subsidiaries	12,003	(63,000)
Net cash from (used in) investing activities	12,003	(63,000)
Cash flows from financing activities:		
Increase in amounts due to banks	240,453	236,937
Settlement of corporate bond	-	(91,825)
Increase in medium term debt	368,519	2,032
Proceeds from issuance of share capital	-	616,000
Purchase of treasury shares	(13,475)	-
Director's remunerations paid	(6,690)	(2,700)
Movement in employee stock option plan shares	(84,735)	(56,125)
Dividend paid	(167,000)	-
Net cash from financing activities	337,072	704,319
Net increase in cash and cash equivalents	66,134	5,797
Cash and cash equivalents at beginning of the year	69,849	64,052
Cash and cash equivalents at end of the year	135,983	69,849

1. LEGAL STATUS AND ACTIVITIES

SHUAA Capital Psc (the ‘Company’) is a public shareholding company established in Dubai, United Arab Emirates, pursuant to the Emiri Decree No. 6 of 25 April 1979 and in accordance with the Federal Law No. (8) of 1984 (as amended). The registered address of the Company is P.O. Box 31045, Dubai, United Arab Emirates.

The Company pursues a broad investment strategy with special emphasis on the Arab region in general, the U.A.E. and G.C.C. markets in particular and is actively involved in public and private capital markets in the region. The Company’s shares are traded on the Dubai Financial Market in the United Arab Emirates and the Kuwait Stock Exchange.

The Company is licensed by the Central Bank of the United Arab Emirates to conduct financial investment business services including; underwriting of securities and other corporate finance activities, investment advisory services, asset and portfolio management and brokerage in local and international securities. The Company is required to comply with the relevant UAE laws and the regulations promulgated by the Central Bank of United Arab Emirates.

The consolidated financial statements of the Company and its subsidiaries (“the Group”) were authorised for issue by the Board of Directors on 16 May 2007.

2. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the financial statements are set out below:

IASB Standards issued but not adopted

During the year, the IASB and IFRIC have issued a number of new standards and interpretations with an effective date after the date of these financial statements. The Directors do not anticipate that the adoption of these standards will materially impact on the Group’s financial statements in the period of initial application. The Group plans to apply these standards in the reporting period when they become effective.

Amendments to IAS 1 – Capital Disclosures

Amendments to IAS 1 *Presentation of Financial statements* were issued by the IASB on Capital Disclosures in August 2005. They are required to be applied for periods on or after 1 January 2007. When effective, these amendments will require disclosure of information enabling evaluation of the Group’s objectives, policies and processes for managing capital.

IFRS 7 Financial Instruments: Disclosures

IFRS 7 Financial Instruments: Disclosures was issued by the IASB in August 2005, becoming effective for periods beginning on or after 1 January 2007. The new standard will require additional disclosure of the significance of financial instruments for the Group’s financial position and performance and information about exposure to risk arising from financial instruments.

IFRS 8 Operating Segment

IFRS 8 Operating Segments was issued by the IASB in November 2006, becoming effective for periods commencing on or after 1 January 2009. The new standard may require changes in the way in which the Group discloses information about its operating segments.

Change in accounting policy

The accounting policies adopted are consistent with those of the previous year. There have been no significant changes during the year.

Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and applicable provisions of Federal Law No 8 of 1984 (as amended) and Federal Law No.10 of 1980 of United Arab Emirates Laws.

The financial statements are prepared under the historical cost convention as modified for the measurement at fair value of derivatives, trading and available for sale investments.

2. SIGNIFICANT ACCOUNTING POLICIES - continued**Basis of preparation - continued**

The consolidated financial statements have been presented in thousands of UAE Dirhams which is the functional currency of the Company and all values are rounded to the nearest thousand of UAE Dirhams except where otherwise indicated.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the parent company and its subsidiaries (the "Group"). The results of these subsidiaries are included in the consolidated income statement from the effective date of formation or acquisition. All significant inter-company balances, transactions and profits have been eliminated upon consolidation.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Minority interests represent the portion of profit or loss and net assets not held by the Group and are presented separately in the income statement and within equity in the consolidated balance sheet, separately from parent shareholders' equity. Acquisitions of minority interests are accounted for using the parent entity extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired is recognised as goodwill.

Trade date accounting

All "regular way" sales and purchases of financial assets are recognised on the "trade date", i.e. the date that the entity commits to sell or purchase the asset. Regular way sales or purchases are sales or purchases of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

Investment securities

Investments carried at fair value through profit and loss are designated as investment securities. The fair value of the investment under this classification can be reliably measured and the classification as fair value through profit and loss account is as per the documented strategy of the Group.

Investment securities represent investments acquired or incurred principally for the purpose of generating a profit from short term fluctuations in price.

Investment securities are initially recognised at cost, being the fair value of the consideration given, including all acquisition costs associated with the investment.

After initial recognition securities held for investment are measured at fair value. The fair value of securities traded in recognised financial markets is their quoted price. For securities where there is no quoted market price a reasonable estimate of fair value is determined by reference to; the current market value of another instrument that is substantially the same or is based on discounted cash flow analysis, option pricing models or other reliable valuation methods. Securities whose fair value cannot be reliably measured are carried at cost less any impairment losses.

Any gain or loss arising from a change in the fair value of securities categorised as investment securities is recognised in the income statement for the period in which it arises. Dividend, interest and other revenues generated from investment securities are included in "income from investment securities" in the consolidated income statement.

Installment credits, loans and advances and provision for impairment

Installment credits, loans and advances are carried at the gross amount due from customers less any provision required for impairment based on a review of all outstanding amounts at year end, including unearned income. The Group has a policy of establishing specific provisions against installment credits and loans and advances to customers, where management considers the recovery of the balance to be doubtful. Installment credits and loans and advances are only written off after all practical means of pursuing recovery have been exhausted.

2. SIGNIFICANT ACCOUNTING POLICIES - continued**Installment credits, loans and advances and provision for impairment - continued**

The provision for loan impairment also covers losses where there is objective evidence that probable losses are present in components of the loan portfolio at the balance sheet date. These have been estimated based upon historical patterns of losses in each component and reflecting the current economic climate in which the borrowers operate.

Held to maturity investments

Investments classified as held to maturity have; fixed or determinable payments, fixed maturity and are intended to be held to maturity. They are carried at amortised cost using the effective interest method, less provision for impairment.

Available for sale investments

After initial recognition, investments available for sale are measured at fair value. For investments actively traded in organised financial markets, fair value is generally determined by reference to stock exchange quoted bid prices at the close of business on the balance sheet date, adjusted for illiquidity constraints and other costs necessary to realise the asset.

Where the investments are not traded in an active market, traded in small volumes or where there is no quoted market price, a reasonable estimate of fair value is determined by reference to the current market value of another instrument that is substantially the same or is based on earnings factors, projected cash flow and/or a valuation multiple that considers comparable indicators used in recent mergers and acquisitions, or the projected sale value of the investment if negotiations are currently in-progress. Investments whose fair value cannot be reliably measured are carried at cost less any impairment losses.

Gains or losses arising from a change in the fair value of investments available for sale are recognised directly in equity, in the investment revaluation reserve. Upon disposal of an investment, the cumulative gain or loss, previously recognised in equity relating to that investment is included in the consolidated statement of income for the period.

When a financial asset is derecognised or determined to be impaired, the cumulative net gain or loss previously recognised in equity relating to that investment is included in the consolidated income statement for the period.

Reversals of previously recognised impairment losses are not recorded through the income statement but as an increase in the investment revaluation reserve.

Investment in associated companies

The Group's investments in associates are accounted for under the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture. Under the equity method, the investment in the associate is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised.

Goodwill

Goodwill is initially recognised at its cost, being the excess of the cost of the acquisition over the acquirers interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired.

Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation. Depreciation is provided on a straight-line basis over the assets' estimated useful lives over the following periods:

Furniture and leasehold improvements	1-5 years
Office equipment and computers	3 years
Motor vehicles	4 years

CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2007

2. SIGNIFICANT ACCOUNTING POLICIES - continued**Income recognition**

Interest income, as well as fees which are considered an integral part of the effective yield of a financial asset, is recognised using the effective yield method, unless recoverability is in doubt. The recognition of interest income is suspended when loans become impaired, such as when they become overdue by more than 90 days.

Notional interest is recognised on impaired loans and other financial assets based on the rate used to discount future cash flows to their net present value. Other fees receivable are recognised as the services are provided. Dividend income is recognised when the right to receive payment is established.

Provisions

Provision is made for amounts payable to employees in accordance with statutory and contractual obligations and other benefit plans approved by the Group. These amounts are included in payables and other credit balances.

Other provisions are recognised when the Group has a present obligation (constructive or legal) arising from a past event and the rights to settle the obligation are both probable and able to be reliably measured.

Derivative instruments

Derivative financial instruments are initially recognised at fair value on the date the derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives during the year that do not qualify for hedge accounting are taken directly to the income statement.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges, when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised asset or liability or an unrecognised firm commitment (except for foreign currency risk).
- cash flow hedges, when hedging exposure to variability in cash flows that are attributable to a particular risk associated with a recognised asset.

Hedges which meet these strict criteria for hedge accounting are accounted for as follows:

Fair value hedges

The change in the fair value of a hedging derivative is recognised in the income statement. The change in the fair value of the hedged item, attributable to the risk hedged is recorded as a part of the carrying value of the hedged item and is also recognised in the income statement.

For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through the income statement over the remaining term to maturity. Any adjustments to the carrying amount of a hedged financial instrument, for which the effective interest rate method is used, are amortised through the income statement.

Amortisation begins as soon as an adjustment exists and the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

When a hedge item is derecognised, any unamortised fair value is recognised immediately in the income statement.

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while any ineffective portion is recognised immediately in the income statement.

Amounts taken to equity are subsequently transferred to the income statement when the hedged transaction affects the income statement, such as when the hedged financial income or financial expense is recognised or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

2. SIGNIFICANT ACCOUNTING POLICIES - continued**Derivative instruments – continued**

If the forecast transaction or firm commitment is no longer expected to occur, amounts previously recognised in equity are transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction or firm commitment occurs.

Repurchase and resale agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date ('Repo') continue to be recognised in the balance sheet. The counterparty liability for amounts received under these agreements is included in payables and other credit balances. The difference between sale and repurchase price is treated as interest expense and accrued over the life of the Repo agreement.

Assets purchased with a corresponding commitment to resell at a specified future date ('Reverse Repo') are not recognised in the consolidated balance sheet, as the Group does not obtain control over the assets. Amounts paid under these agreements are included in receivables and other debit balances. The difference between the purchase and resale price is treated as interest income and accrued over the life of the Reverse Repo agreement.

Employee share option plan shares

Option plan shares held by the Trustee are deducted from equity. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of the Group's option plan shares.

Translation of foreign currencies

Transactions denominated in foreign currencies are translated into the functional currency at exchange rates prevailing on the transaction dates. Assets and liabilities held at the balance sheet date and denominated in foreign currencies are translated into the functional currency at exchange rates prevailing as at the balance sheet date. The resulting exchange differences are taken to the income statement.

On consolidation assets and liabilities of subsidiaries are translated at rates of exchange prevailing as at the balance sheet date and the results of their operations are translated at the average rates of exchange for the year. The exchange differences arising on consolidation and equity accounting are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

Cash and cash equivalents

Cash and cash equivalents consist of cash and short term investments in money market instruments maturing within 90 days of the balance sheet date.

Impairment of investments

The Group treats available for sale investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgement. The Group evaluates a number of factors, including the amount of decline and the length of period of the decline, the normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

3. OTHER DEPOSITS

The Central Bank of United Arab Emirates, has waived the requirement of a guarantee for issue of license to conduct financial services business. An amount of 17,200 representing a margin against a guarantee issued in the previous year, to comply with the above requirement, has been received during the year.

CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2007

4. RECEIVABLES AND OTHER DEBIT BALANCES

	<i>31 March 2007</i>	<i>31 March 2006</i>
Receivable against sale of investments	314,338	58,447
Advance against investment	-	47,148
Amounts due from related parties	8,357	46,210
Other receivables	47,517	30,247
Back to back loan	103,789	117,607
Receivable from brokers and dealers	231,110	-
Receivable against settlement of trades	84,742	10,464
	<u>789,853</u>	<u>310,123</u>

The back to back loan relates to borrowings for onward lending to one of the Funds managed by the Group. Interest is charged on these borrowings at rates equal to the rates charged by the external lender.

5. INVESTMENT SECURITIES

Trading securities comprise the following:

	<i>31 March 2007</i>	<i>31 March 2006</i>
Quoted fund investments	383,271	395,773
Equity securities		
Quoted	320,838	34,686
Unquoted	42,818	17,499
Fixed income securities	102,699	127,019
	<u>849,626</u>	<u>574,977</u>

6. INSTALLMENT CREDITS, LOANS AND ADVANCES

Installment credits, loans and advances comprise the following:

	<i>31 March 2007</i>	<i>31 March 2006</i>
Installment credits	429,526	297,522
Loans and advances	72,518	68,774
Due from clients	148,112	187,979
	<u>650,156</u>	<u>554,275</u>

a. Installment credits

	<i>31 March 2007</i>	<i>31 March 2006</i>
Total installment credits	507,793	349,452
Cumulative provision for impairment	(10,442)	(7,322)
Interest in suspense	(417)	(417)
Unearned income on installment credits	(67,408)	(44,191)
	<u>429,526</u>	<u>297,522</u>

CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2007

6 INSTALLMENT CREDITS, LOANS AND ADVANCES - continued

The movement in cumulative provision for impairment during the year is as follows:

	<i>31 March 2007</i>	<i>31 March 2006</i>
Balance, beginning of the year	7,322	6,470
Provision made during the year	4,224	1,416
	<u>11,546</u>	<u>7,886</u>
Less: recoveries made against the provision during the year	(1,104)	(564)
	<u>10,442</u>	<u>7,322</u>

The cumulative provision for impairment represents management's estimate of potential losses in the instalments credits as at the balance sheet date.

b. Loans and advances

	<i>31 March 2007</i>	<i>31 March 2006</i>
Loans	69,843	66,807
Bills discounted	5,743	4,067
Others	2,281	-
	<u>77,867</u>	<u>70,874</u>
Cumulative provision for impairment	(3,898)	(1,628)
Unearned interest	(103)	(85)
Interest in suspense	(1,348)	(387)
	<u>72,518</u>	<u>68,774</u>

b. Loans and advances

The movement in cumulative provision for impairment during the year is as follows:

	<i>31 March 2007</i>	<i>31 March 2006</i>
Balance, beginning of the year	1,628	1,105
Provision made during the year	2,325	949
	<u>3,953</u>	<u>2,054</u>
Less: recoveries made against the provision during the year	(55)	(426)
	<u>3,898</u>	<u>1,628</u>

The cumulative provision for impairment represents management's estimate of potential losses in the loans and advances as at the balance sheet date.

c. Due from clients

The Group extends margins to clients for the purpose of trading in quoted securities. These advances are short term in nature and are secured by the underlying securities held in custody by the Group. As at 31 March 2007, these underlying securities were valued at 1,261,134 (31 March 2006 – 1,328,395).

CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2007

7. INVESTMENTS AVAILABLE FOR SALE

	<i>31 March 2007</i>	<i>31 March 2006</i>
Investments available for sale are stated at their fair value and comprise the following:		
Unquoted direct equity investments	73,032	76,110
Quoted direct equity investments	37,016	13,869
Unquoted fund investments	66,446	43,598
	176,494	133,577

8. INVESTMENTS IN ASSOCIATES

The Group has the following investments in associates:

	<i>Country of incorporation</i>	<i>Book value / Ownership %</i>			
		<i>31 March 2007</i>		<i>31 March 2006</i>	
Porta Egypt for Packaging Materials	Egypt	44,920	49.1%	42,659	49.1%
Amwal	Qatar	239,056	46.7%	46,918	20.7%
Al-Kout Industrial Projects Company	Kuwait	370,960	48.7%	-	-
Taghleef Industries L.L.C.	U.A.E	119,072	23.4%	-	-
Emirates Securities L.L.C	U.A.E	-	-	87,995	50%
Oman National Investment Corporation Holding SAOG	Oman	-	-	247,953	34.6%
Al-Ahlia Investment Company K.S.C (Closed)	Kuwait	-	-	222,778	7.3%
		774,008		648,303	

Porta Egypt

Porta Egypt for Packaging Materials ("Porta") is an Egyptian Joint Stock Company. The principal activity of Porta is the production of printed and laminated packing and packaging materials for food products.

Amwal

Amwal is a Qatari shareholding closed company, licensed by the Central Bank of Qatar to conduct investment business. During the year, the Group acquired an additional 26% of the issued and outstanding shares of Amwal for a consideration of 132,423.

Al-Kout

Al-Kout Industrial Projects Company (formerly Ahlia Industrial Projects Co. (K.S.C.C) is a joint stock company listed on the Kuwait stock exchange engaged in production and transportation of chlorine, salt and other chemicals. During the year, the Group acquired 48.69% of the issued and outstanding shares for 358,740. During the year less than 1% of the shares of Al-Kout were traded on the Kuwait stock exchange. This extreme illiquidity does not reflect the fair value of the investment. Accordingly, in the opinion of management, the carrying value approximates its fair value.

Taghleef

Taghleef Industries LLC ("Taghleef") is a Dubai limited liability company engaged in the manufacture and marketing of plastic based flexible packaging. During the year, the Group acquired a 23% stake of the issued and outstanding shares for 121,394.

CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2007

8. INVESTMENTS IN ASSOCIATES - continued**Emirates Securities**

Emirates Securities L.L.C. is a brokerage firm established in United Arab Emirates and licensed to operate in the Abu Dhabi Securities and the Dubai Financial Markets. Until 30 September 2006 the Group had a 50% stake in Emirates Securities L.L.C. and equity accounted for the investment. On 1 October 2006 the Group acquired a 45% additional holding for a consideration of 114,000 (Note 26) increasing the group's aggregate holding to 95%. This amount was held on the balance sheet date, pending completion of legal formalities at December 2006. As that time Emirates Securities L.L.C. became a subsidiary of the Group and has been consolidated.

ONIC

Oman National Investment Corporation Holding SAOG ("ONIC") is a public shareholding company registered in the Sultanate of Oman. ONIC is primarily engaged through its subsidiaries and associate companies in the business of insurance, warranty services and holding investments. During the year, the Group acquired an additional stake of 1.2% in ONIC for 8,341 and subsequently disposed of a 35% of its stake for a consideration of 314,338 realising a gain of 51,997. The remaining balance has been reclassified as investment securities.

Al-Ahlia

Al-Ahlia Investment Company K.S.C. (Closed) ("Al-Ahlia") is a Kuwaiti shareholding company engaged in carrying out investment activities on its own account and for its clients, portfolio and fund management activities, lending, brokerage and trading in precious metals inside and outside Kuwait, directly or through its interests in companies carrying out similar activities. During the year, the Group restructured its initial investment in Al-Ahlia Investment Company and further acquired an additional stake of 11.93% for a consideration of 373,239. The Group sold its entire holdings on 29 July for 656,744 realising a gain of 67,821.

The movement in investments in associates during the year was as follows:

	<i>31 March 2007</i>	<i>31 March 2006</i>
Balance, beginning of year	648,303	205,690
Additions during the year	994,137	337,783
Share of results of associates	108,090	112,465
Share of movement in fair values of associates	(9,262)	14
Transferred to investment in subsidiary during the year	(58,792)	-
Proceeds from sale of associates during the year	(971,082)	-
Gain on sale of associates during the year	119,818	-
Dividends received	(51,399)	(9,683)
Translation reserve	296	2,034
Transferred to available for sale during the year	(6,101)	-
	774,008	648,303

The Group's share of associates assets, liabilities and revenues for the year are as follows:

	<i>31 March 2007</i>	<i>31 March 2006</i>
Assets	971,271	963,965
Liabilities	(197,263)	(315,662)
Net assets	774,008	648,303
Revenues	373,293	166,170

CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2007

9. FIXED ASSETS

The movement on fixed assets during the year is as follows:

	<i>Furniture & leasehold improvements</i>	<i>Office equipment & computers</i>	<i>Motor vehicles</i>	<i>Total</i>
<u>Cost</u>				
At 1 April 2006	8,145	7,705	1,322	17,172
Acquisition of subsidiary	1,917	548	139	2,604
Additions	983	3,644	198	4,825
At 31 March 2007	<u>11,045</u>	<u>11,897</u>	<u>1,659</u>	<u>24,601</u>
<u>Accumulated depreciation</u>				
At 1 April 2006	3,353	4,552	376	8,281
Acquisition of subsidiary	775		74	849
Charge for the year	1,498	2,185	331	4,014
At 31 March 2007	<u>5,626</u>	<u>6,737</u>	<u>781</u>	<u>13,144</u>
<u>Net book value</u>				
At 31 March 2007	<u>5,419</u>	<u>5,160</u>	<u>878</u>	<u>11,457</u>
At 31 March 2006	<u>4,792</u>	<u>3,153</u>	<u>946</u>	<u>8,891</u>

10. GOODWILL

The summary of movement in goodwill is presented below:

	<i>31 March 2007</i>	<i>31 March 2006</i>
Balance, beginning of year	34,111	4,861
Acquisitions during the year (Note 26)	61,089	29,250
Balance, end of year	<u>95,200</u>	<u>34,111</u>

Goodwill acquired through business combinations has been allocated to Gulf Finance Corporation and Emirates Securities L.L.C as separate cash-generating units for the purposes of impairment testing.

The recoverable amount of the cash generating unit is determined based on a value in use calculation, using cash flow projections based on financial budgets approved by senior management. The key assumptions of the value in use calculations are those regarding industry growth rates, expected changes in revenues and direct costs during the year. Changes in revenues and direct costs are based on past practices and expectations of future changes in the market.

For the year ended 31 March 2007 the goodwill impairment review did not reveal any event or change in circumstances to indicate carrying values may be impaired.

CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2007

11. DUE TO BANKS

Due to banks comprise borrowings obtained from commercial banks in the ordinary course of business against the Group's established credit lines with these banks. Amounts due to banks are repayable within twelve months.

The Group's banking facilities of 862,205 are renewable every six months and carry US Dollar LIBOR based floating interest rates plus a spread ranging from 0.75% to 2.5%. During the year ended 31 March 2007, the Group secured new credit facilities of 734,030 (31 March 2006 – 140,635).

12. PAYABLE AND OTHER CREDIT BALANCES

	<i>31 March 2007</i>	<i>31 March 2006</i>
Other Payables	104,165	109,585
Accruals	60,627	73,709
Dividend Payable	17,517	5,939
Payable against settlement of trades	557,839	15,908
	<u>740,148</u>	<u>205,141</u>

Included within other payables is 52,504 due to Standard Bank representing a repurchase transaction which will mature on 24 July 2007 and carries an interest rate of 6.1444%.

13. MEDIUM TERM DEBT

Medium term debt comprises the following:

	<i>31 March 2007</i>	<i>31 March 2006</i>
Corporate bonds	88,115	87,748
Term loans	417,019	48,867
	<u>505,134</u>	<u>136,615</u>

Corporate bonds

On 30 June 2004, the Parent Company issued three year bonds of 88,152 (US\$ 24 Million) maturing on 30 June 2007. The bonds were issued at par and bear interest at the rate of 1.75% per annum above US Dollar LIBOR for six months with a coupon payable semi-annually.

The bonds are stated net of transaction costs (which are amortised over the life of the bonds), have an investment grade rating of "BBB+" and are secured against the assets of the Parent Company. On maturity the Group plans to refinance through the issue of new debt.

13. MEDIUM TERM DEBT - continued**Term loans**

		<i>Facility</i>	<i>Interest rate</i>	<i>Maturity date</i>	31 March 2007	31 March 2006
Abu Dhabi Commercial Bank	USD	100,000	6.8%	Jun 2010	367,300	-
Abu Dhabi Commercial Bank	AED	25,000	7.1%	Oct 2010	9,294	16,650
Emirates Bank International	AED	10,000	7.2%	Mar 2009	6,750	7,917
United Arab Bank	AED	11,000	7.3%	Jan 2010	8,000	3,434
Invest Bank	AED	22,000	7.5%	Jun 2010	8,339	13,277
Bank Muscat	AED	19,000	7.0%	Sep 2010	7,753	3,750
Sharjah Islamic Bank	AED	19,000	7.0%	Apr 2009	9,583	1,839
Commercial Bank of Dubai	AED		-	-	-	2,000
					417,019	48,867

Repayment on the loan of USD 100 million from Abu Dhabi Commercial Bank will commence from June 2008 when the first of five equal installments of USD 20 million will be due, further installments of USD 20 million are payable every six months thereafter.

Repayment of the facilities provided by Invest Bank and Sharjah Islamic Bank are payable by monthly installments, all other facilities are repayable quarterly.

All of the facilities are unsecured.

14. PAID-UP SHARE CAPITAL

Authorised, issued and fully paid capital comprise of 550,000,000 shares of UAE Dirham 1.00 per share.

At 31 March 2007, 44,370,472 shares (31 March 2006 – 27,688,509 shares) are held by a Trustee on behalf of the Employee Stock Option Plan.

15. TREASURY SHARES

The Group holds 3,000,000 of its treasury shares, equivalent to 0.55% of the share capital (31 March 2006 – nil). The market value of these treasury shares as at 31 March 2007 is 12,750 (31 March 2006 – nil).

16. PROPOSED DIVIDEND

For the year ended 31 March 2007, the Board of Directors proposed a cash dividend of 20% of the paid-up share capital of 550,000.

For the year ended 31 March 2006, the Group's Annual General Meeting held on 19 June 2006 approved a 30% cash dividend on the paid-up share capital of 550,000.

CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2007

17. STOCK OPTION PLAN

The stock option plan is administered by a trustee and gives the Board the authority to determine which employees of the Company will be granted options. The trust holds shares on behalf of the plan. These shares are recorded in the balance sheet as employee stock option plan shares within equity. Options granted under the plan have a vesting period of between one and three years from the date of grant and expire ten years after the date of the grant.

Outstanding options granted to employees as of 31 March 2007 comprised 44,741,684 shares (31 March 2006 – 18,744,755) at an average exercise price of AED 3.53 per share (31 March 2006 - AED 2.62). During the year options in respect of 2,044,651 (31 March 2006 – 2,463,383) shares were exercised.

For the purpose of calculating the expense to be recognised in the income statement, the fair value of options granted has been determined taking into account the terms and conditions upon which the instruments were issued.

18. STATUTORY RESERVE

In accordance with the Law of Commercial Companies of United Arab Emirates and the Company's articles of association, the Company allocates 10% of the annual net income to the statutory reserve. The Company has resolved to discontinue these annual transfers as the statutory reserve amounts to more than 50% of the paid-up share capital.

19. INVESTMENT REVALUATION RESERVE

	<i>31 March 2007</i>	<i>31 March 2006</i>
Available for sale investments		
Balance, beginning of the year	5,263	11,647
Realised in the year	(2,365)	(44,879)
Net movement in fair values during the year	2,343	38,495
Balance, end of the year	5,241	5,263
Group's share of investment revaluation reserves in associates		
Balance, beginning of the year	6,210	6,196
Net movement in fair values during the year	(9,262)	14
Balance, end of the year	(3,052)	6,210
	<i>31 March 2007</i>	<i>31 March 2006</i>
Fair value hedges		
Balance, beginning of the year	-	-
Effect of cash flow hedges during the year	-	2,737
Expiry of cash flow hedge	-	(2,737)
Balance, end of the year	-	-
Total	2,189	11,473

CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2007

20. MINORITY INTEREST

Minority interest represents the minority shareholders proportionate share in the aggregate value of the net assets of a subsidiary and the results of that subsidiary's operations. The minority interest included in these accounts relates to Emirates Securities L.L.C. a subsidiary which was acquired by the Group during the year (Note 26).

21. INCOME FROM INVESTMENTS

Income from investments comprises the following:

	<i>31 March 2007</i>	<i>31 March 2006</i>
Net gain on sale of investments available for sale	17,625	44,879
Net gain on sale of associates	119,818	-
Dividends	128	1,474
Income from investments	-	6,366
	<u>137,571</u>	<u>52,719</u>

22. PROVISIONS

The Group recognised provision charges in respect of the following:

	<i>31 March 2007</i>	<i>31 March 2006</i>
Installment credits, loans and advances	5,391	1,375
Employee benefits	35,000	46,500
Others	-	65
	<u>40,391</u>	<u>47,940</u>

23. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses comprise the following:

	<i>31 March 2007</i>	<i>31 March 2006</i>
Employee salaries and fringe benefits	45,770	38,998
Office rent and related expenses	7,224	4,150
Corporate marketing and branding costs	11,328	5,412
Other general and administrative expenses	16,565	10,959
	<u>80,887</u>	<u>59,519</u>

As of 31 March 2007, the Group had a total of 233 employees (31 March 2006 – 147 employees) represented by 151 employees in SHUAA Capital and 82 in subsidiaries.

CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2007

24. EARNINGS PER SHARE

The earnings per share basic for the year has been computed using net income for the year adjusted for directors remuneration 255,097 (31 March 2006 – 359,668) divided by the adjusted weighted average number of shares outstanding 549,859,957 (31 March 2006 – 519,352,777).

No figure for diluted earnings per share has been presented as the company has not issued any instruments which would have an impact on earnings per share when exercised.

25. RELATED PARTY TRANSACTIONS

A number of transactions are entered into with related parties in the normal course of business. The related parties with which the Group has transacted are entities in which it has made an equity investment. Pricing policies and the terms of these transactions are approved by Group management.

Assets and liabilities with related parties are as follows:

	<i>31 March 2007</i>	<i>31 March 2006</i>
Receivables and other debit balances		
Associates	5,046	395
Other related parties	107,095	43,131
Loans and advances		
Associates	10,837	8,063
Other related parties	32,606	45,396
Key management personnel	9,756	10,573
	<u>165,340</u>	<u>107,558</u>

Advances to Key management personnel reflects trading margin, secured against investments held and sums advanced under the staff assistance program available to all employees, for which no interest is charged.

Payables and other credit balances

Associates	-	110
Other related parties	628	725
	<u>628</u>	<u>835</u>

Interest income

Associates	773	447
Other related parties	4,194	238
Fees and commission income		
Other related parties	83	648
Income from investments		
Other related parties	247	-
	<u>5,297</u>	<u>1,333</u>

Compensation of the key management personnel is as follows:

Short term employee benefits	27,179	45,420
Termination benefits	3,545	3,360
Share based payments	-	945
Total compensation paid to key management personnel	<u>30,724</u>	<u>49,725</u>

CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2007

26. SUBSIDIARIES

The Company has the following significant subsidiaries consolidated into these financial statements:

<u>Name</u>	<u>Country of incorporation</u>	<u>Holding</u>	
		<i>31 March 2007</i>	<i>31 March 2006</i>
SHUAA Capital (Assets) Inc.	British Virgin Islands	100%	100%
SHUAA Capital Inc.	British Virgin Islands	100%	100%
Gulf Finance Corporation PJSC	United Arab Emirates	100%	100%
SHUAA Capital International Ltd.	United Arab Emirates	100%	100%
SHUAA Partners Ltd.	United Arab Emirates	100%	100%
Emirates Securities LLC	United Arab Emirates	95%	50%

Until 30 September 2006 the Group had a 50% stake in Emirates Securities L.L.C. and equity accounted for the investment. On 1 October 2006, the Group increased its holding and acquired a further 45% equity stake in Emirates Securities. As a result, from 1 October 2006, Emirates Securities L.L.C. became a subsidiary of the Group and has been consolidated from that date.

The fair value of the assets and liabilities of Emirates Securities L.L.C. as of the date of acquisition and the corresponding carrying amounts at the date of acquisition were as follows:

	<i>Recognised on acquisition</i>	<i>Carrying value</i>
Cash and cash equivalents	126,003	126,003
Available for sale investments	11,273	11,273
Fixed assets	1,755	1,755
Other assets	71,565	71,565
Due to customers	(54,911)	(54,911)
Other liabilities	(38,103)	(38,103)
Net assets	117,582	117,582
Minority interest	(5,879)	
	<u>111,703</u>	
Cost:		
Initial investment included earlier under investment in associates	58,792	
Acquisition of additional 45% from minority shareholders	52,911	
Total	<u>111,703</u>	
Cash inflow on acquisition:		
Net cash acquired with the subsidiary	126,003	
Cash paid	(114,000)	
Net cash inflow	<u>12,003</u>	
Goodwill on acquisition of 45% additional stake	<u>61,089</u>	

26. SUBSIDIARIES - continued

The initial accounting for the above acquisition is provisional at the period end as valuations for assets had not been finalised at the date of these financial statements. Specifically, no amount from the purchase price was attributed to intangible assets on acquisition, based on management's acquisition valuation. The Group will recognise any adjustments to these provisional values as a result of completing the initial accounting within twelve months of the acquisition date, and with effect from the acquisition date.

As of 31 March 2007, the Group's share of the net assets of Emirates Securities amounted to 87,294 (31 March 2006 – nil). During the year, Emirates Securities LLC contributed revenues of 16,769 (31 March 2006 – nil) and net profit of 12,261 (31 March 2006 – nil).

If the combination had taken place at the beginning of the year, the consolidated revenue for the year for the Group would have been 34,841 higher at 493,580 and operating profit for the year would have been 21,675 higher at 283,462.

27. FOREIGN EXCHANGE RISK

Currency risk is the risk that the value of a financial investment will fluctuate due to changes in foreign exchange rates. The Group has exposure in foreign currencies as a result of its geographically diversified operations which is monitored by management in compliance with internal guidelines.

The currency exposure of the balance sheet assets and liabilities is as follows:

	31 March 2007		<i>31 March 2006</i>	
	Assets	Liabilities	<i>Assets</i>	<i>Liabilities</i>
United Arab Emirates Dirhams	2,060,099	1,853,528	1,681,004	785,780
Saudi Riyals	165,103	-	6	-
Egyptian Pounds	96,581	-	129,780	4,290
Euro	13,770	324	1,780	855
Qatari Riyals	247,400	42	54,929	-
Omani Riyals	324,484	552	249,239	387
Kuwaiti Dinars	443,300	-	222,958	-
Turkish Lira	95,455	81,090	-	-
Singapore Dollars	19,135	-	9,481	-
Other currencies	17,450	-	2,129	245
	3,482,777	1,935,536	2,351,306	791,557

The United Arab Emirates Dirham position also includes US dollar denominated transactions as the UAE Dirham/US Dollar dealing rate fixed by the Central Bank of United Arab Bank Emirates has remained virtually unchanged since November 1980. As of year end Kuwaiti Dinars and Saudi, Qatari and Omani Riyals are also subject to a virtually fixed rate against the US Dollar.

28. LIQUIDITY RISK

Liquidity risk is the risk that the Group will be unable to meet its liabilities when they fall due. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind and monitors liquidity on a daily basis.

CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2007

28. LIQUIDITY RISK - continued

The maturity profile of assets and liabilities at the end of the year, determined on the basis of the remaining contractual maturity, where applicable, was as follows:

	0-3 Months	3-12 Months	1-5 Years	Over 5 years	Total
Cash and deposits with banks	135,983				135,983
Other deposits		-	-	-	-
Receivables and other debit balances	778,426	6,768	2,400	2,259	789,853
Investment securities	849,626	-	-	-	849,626
Installment credits, loans and advances	269,172	218,102	162,882	-	650,156
Investments available-for-sale	-	-	176,494	-	176,494
Investments in associates	-	-	-	774,008	774,008
Fixed assets	-	-	11,457	-	11,457
Goodwill	-	-	-	95,200	95,200
Total Assets	2,033,207	224,870	353,233	871,467	3,482,777
Due to banks	591,744	98,510	-	-	690,254
Payables and other credit balances	583,546	137,691	6,013	12,898	740,148
Medium-term debt	88,115	-	417,019	-	505,134
Equity	-	-	-	1,547,241	1,547,241
Total Liabilities and Equity	1,263,405	236,201	423,032	1,560,139	3,482,777
Maturity Gap	769,802	(11,331)	(69,799)	(688,672)	-

The maturity profile of assets and liabilities as of 31 March 2006 is as follows:

	0-3 Months	3-12 Months	1-5 Years	Over 5 years	Total
Cash and deposits with banks	69,849	-	-	-	69,849
Other deposits	-	17,200	-	-	17,200
Receivables and other debit balances	301,870	5,867	2,386	-	310,123
Investment securities	448,011	126,966	-	-	574,977
Installment credits, loans and advances	295,037	135,185	124,053	-	554,275
Investments available-for-sale	-	-	133,577	-	133,577
Investments in associates	-	-	-	648,303	648,303
Fixed assets	-	-	8,891	-	8,891
Goodwill	-	-	-	34,111	34,111
Total Assets	1,114,767	285,218	268,907	682,414	2,351,306
Due to banks	365,413	84,388	-	-	449,801
Payables and other credit balances	59,227	130,397	13,930	1,587	205,141
Medium-term debt	-	-	136,615	-	136,615
Equity	-	-	-	1,559,749	1,559,749
Total Liabilities and Equity	424,640	214,785	150,545	1,561,336	2,351,306
Maturity Gap	690,127	70,433	118,362	(878,922)	-

CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2007

29. INTEREST RATE RISK MANAGEMENT

The Group is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The Group seeks to limit its exposure to such movements by managing the interest rate and maturity structure of assets and liabilities. The Group's interest rate sensitivity position at year end, determined by the earlier of contractual re-pricing or maturity dates, was as follows:

	0 – 3 Months	3-12 Months	1-5 Years	Non- interest bearing	Total	Effective interest rate
Cash and deposits with banks	72,290	-	-	63,693	135,983	4.0%
Other deposit	-	-	-	-	-	-
Receivables and other debit balances	-	-	-	789,853	789,853	-
Investment securities	79,349	-	82,482	687,795	849,626	7.3%
Installment credits, loans and advances	280,010	207,264	162,882	-	650,156	11.6%
Investments available-for-sale	-	-	-	176,494	176,494	-
Investments in associates	-	-	-	774,008	774,008	-
Fixed assets	-	-	-	11,457	11,457	-
Goodwill	-	-	-	95,200	95,200	-
Total Assets	431,649	207,264	245,364	2,598,500	3,482,777	
Due to banks	581,653	98,510	-	10,091	690,254	7.6%
Payables and other credit balances	-	26,241	-	713,907	740,148	4.5%
Medium term debt	88,115	-	417,019	-	505,134	6.9%
Equity	-	-	-	1,547,241	1,547,241	
Total Liabilities and Equity	669,768	124,751	417,019	2,271,239	3,482,777	
Interest rate sensitivity gap	(238,119)	82,513	(171,655)	327,261	-	
Cumulative interest rate sensitivity gap	(238,119)	(155,606)	(327,261)	-	-	

CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2007

29. INTEREST RATE RISK MANAGEMENT - continued

The Group's interest rate sensitivity position as of 31 March 2006, determined by the earlier of contractual repricing or maturity dates, was as follows:

	0 – 3 Months	3-12 Months	1-5 Years	Non-interest bearing	Total	Effective interest rate
Cash and deposits with banks	67,309	-	-	2,540	69,849	4.19%
Other deposits	-	17,200	-	-	17,200	4.45%
Receivables and other debit balances	128,071	-	-	182,052	310,123	6.7%
Investment securities	101,958	125,009	-	348,010	574,977	6.26%
Installment credits, loans and advances	286,975	143,248	124,052	-	554,275	10.39%
Investments available for sale	-	-	-	133,577	133,577	-
Investment in associates	-	-	-	648,303	648,303	-
Fixed assets	-	-	-	8,891	8,891	-
Goodwill	-	-	-	34,111	34,111	-
Total Assets	584,313	285,457	124,052	1,357,484	2,351,306	
Due to banks	365,413	84,388	-	-	449,801	6.35%
Payables and other credit balances	31,500	62,992	2,202	108,447	205,141	4.69%
Medium term debt	87,748	-	48,867	-	136,615	6.29%
Equity	-	-	-	1,559,749	1,559,749	-
Total Liabilities and Equity	484,661	147,380	51,069	1,668,196	2,351,306	
Interest rate sensitivity gap	99,652	138,077	72,983	(310,712)	-	
Cumulative interest rate sensitivity gap	99,652	237,729	310,712	-	-	

30. SEGMENTAL INFORMATION

The Group accounts for its activities on the basis of four main business segments; investment securities, investments available for sale, advisory services & asset management and financing activities.

Net income contributed by the Group's business segments, presented by geographical region, is as follows:

31 March 2007						
	<i>Investment securities</i>	<i>Investments available for sale</i>	<i>Advisory Services & Asset management</i>	<i>Financing activities</i>	<i>Associates</i>	<i>Unallocated</i>
GCC Countries	1,124	944	133,546	84,342	226,044	-
Middle East and North Africa	(24,310)	16,561	5,645	2,448	1,865	-
North America	9,264	-	259	-	-	-
Europe	455	247	305	-	-	-
Total Revenue	(13,467)	17,752	139,755	86,790	227,909	-
Net Income	(13,467)	17,752	139,755	15,775	227,909	(125,937)
Assets	849,626	176,494	362,533	661,409	774,008	658,707
Liabilities	53,805	-	243,980	1,222,614	-	415,137

CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2007

30. SEGMENTAL INFORMATION - continued

	31 March 2006						
	<i>Investment securities</i>	<i>Investments available for sale</i>	<i>Advisory services & Asset Management</i>	<i>Financing activities</i>	<i>Associates</i>	<i>Unallocated</i>	<i>Total</i>
GCC Countries	50,125	21,228	178,204	66,717	110,106	-	426,380
Middle East and North Africa	10,631	3,154	21,449	2,054	2,359	-	39,647
North America	5,258	-	-	-	-	-	5,258
Europe	(48)	28,337	2,137	-	-	-	30,426
Total Revenue	65,966	52,719	201,790	68,771	112,465	-	501,711
Net Income	65,966	52,719	201,790	44,254	112,465	(114,826)	362,368
Assets	574,977	133,577	1,962	561,970	648,303	430,517	2,351,306
Liabilities	63,348	-	-	525,600	-	202,609	791,557

The geographical segmentation of the balance sheet asset and liabilities is as follows:

	31 March 2007					
	GCC countries	Middle East & North Africa	North America	Europe	Others	Total
Cash and Deposits	115,327	49	20,602	5		135,983
Other Deposits						-
Receivables	697,129	90,512	-	786	1,426	789,853
Investment securities	383,700	239,952	30,056	165,991	29,927	849,626
Installment credits, loans & advances	639,303	10,853	-	-	-	650,156
Investments available for sale	70,276	41,072	198	2,154	62,794	176,494
Investments in associates	729,088	44,920	-	-	-	774,008
Fixed Assets	11,457	-	-	-	-	11,457
Goodwill	95,200	-	-	-	-	95,200
Total Assets	2,741,480	427,358	50,856	168,936	94,147	3,482,777
Due to banks	690,254	-	-	-	-	690,254
Payables	663,060	-	14,682	62,406	-	740,148
Medium term debt	505,134	-	-	-	-	505,134
Equity	1,547,241	-	-	-	-	1,547,241
Total Liabilities & Equity	3,405,689	-	14,682	62,406	-	3,482,777

30. SEGMENTAL INFORMATION - continued

	31 March 2006					Total
	GCC countries	Middle East & North Africa	North America	Europe	Others	
Cash and Deposits	67,176	49	2,618	6	-	69,849
Other Deposits	17,200	-	-	-	-	17,200
Receivables	230,732	19,923	-	59,042	426	310,123
Investment securities	363,559	94,168	32,394	27,840	57,016	574,977
Installment credits, loans & advances	542,558	11,717	-	-	-	554,275
Investments available for sale	69,548	61,711	197	2,121	-	133,577
Investments in associates	605,645	42,658	-	-	-	648,303
Fixed Assets	8,891	-	-	-	-	8,891
Goodwill	34,111	-	-	-	-	34,111
Total Assets	1,939,420	230,226	35,209	89,009	57,442	2,351,306
Due to banks	449,801	-	-	-	-	449,801
Payables	200,151	4,362	-	628	-	205,141
Medium term debt	136,615	-	-	-	-	136,615
Equity	1,559,749	-	-	-	-	1,559,749
Total Liabilities & Equity	2,346,316	4,362	-	628	-	2,351,306

31. CLIENTS' FUNDS UNDER MANAGEMENT

The Group is licensed as a financial services company regulated by the Central Bank of the United Arab Emirates (Note1). At 31 March 2007, client funds were managed in a fiduciary capacity, without risk or recourse to the Group. These funds are off balance sheet items and do not constitute part of the Group's assets.

32. FINANCIAL INSTRUMENTS

Financial assets of the Group include; cash and cash equivalents, receivables, trading securities, installment credits, loans and advances, investments available for sale and investments in associates. Financial liabilities of the Group include; due to banks, payables and medium term debt.

Fair value

The fair values of Group assets and liabilities are not materially different from the carrying values as at 31 March 2007.

Credit risk

Credit risk, or the risk of counterparties defaulting on payment, is controlled by the application of credit approvals and monitoring procedures. Management regularly reviews the status of receivables and provisions are made for any specific balances considered doubtful. For details of the composition of the loans and advances portfolio refer Note 6.

32. FINANCIAL INSTRUMENTS - continued

The Group also obtains security where appropriate, enters into master netting agreements and collateral arrangements with counterparties.

In addition, cash is placed with local and international banks with good credit ratings.

Market risk

The Group has exposure to market risk related to its financial assets and liabilities as a result of changes in market prices of the underlying instruments. Market risks are closely monitored by management.

33. COMMITMENTS AND CONTINGENT LIABILITIES

The Group had the following outstanding commitments and contingent liabilities:

	<i>31 March 2007</i>	<i>31 March 2006</i>
Corporate guarantee	207,000	29,000
Letters of guarantee	146,000	43,000
Commitments to acquire financial assets	119,148	78,687

34. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES**Judgments**

In the process of applying the Group's accounting policies management has made the following judgements, which have the most significant effect in the amounts recognised in the financial statements:

Classification of investments

Management decides on acquisition of an investment whether it should be classified as held to maturity, held for trading, carried at fair value through profit and loss account or available for sale.

The Group classifies investments as held for trading if they are acquired primarily for the purpose of making a short term profit by the dealers.

Classification of investments as fair value through profit and loss account depends on how management monitor the performance of these investments. When they are not classified as held for trading but have readily available reliable fair values then the changes in fair values are reported as part of profit or loss in the management accounts and they are classified as fair value through profit and loss.

No investments are classified as held to maturity. All other investments are classified as available for sale.

Estimation uncertainty

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

Valuation of unquoted equity investments

Valuation of unquoted equity investments is normally based on one of the following:

- Recent arm's length market transactions
- Current fair value of another instrument that is substantially the same
- The expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics
- Other valuation models.

34. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES - continued

The determination of the cash flows and discount factors for unquoted equity investments requires significant estimation. There are a number of investments where this estimation cannot be reliably determined and as a result investments with a carrying amount of 55,622 (31 March 2006 – 41,302) are carried at cost. The Group calibrates its valuation techniques periodically and tests these for validity using either prices from observable current market transactions in the same instrument or other available observable market data.

Impairment of instalment credits and loans and advance

When collection of the full amount receivable is no longer probable an estimate is made of the likely collectible amount and the difference is taken to the income statement. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and a provision applied according to the length of time past due, based on historical recovery rates.