

Union Properties
Public Joint Stock Company
and its subsidiaries

Interim condensed consolidated
financial statements
30 June 2006

Management Report – Six Months Period Ended June 30, 2006

Inline with its growth and expansion strategy, Union Properties has recorded an impressive growth in revenues and net profit for the six months period ended June 30, 2006 compared to the same period of 2005. Revenue, net profit and earnings per share have increased by 215%, 294% and 286% respectively to reach AED 1.2 billion, AED 234 million and AED 0.105 respectively. The 2006 results included gain on revaluation of investment properties.

Total assets and shareholders' equity as of June 30, 2006 stood at AED 6.8 billion and AED 4.1 billion respectively. Development and investment properties stood at AED 3.6 billion. Profit from operations and the proceeds from the rights issue have contributed to the increase in assets and shareholders' equity, and have been mainly used to fund new developments and the acquisition of land for future developments.

The construction work at the two DIFC projects (the Index and the Limestone House) and at The MotorCity master development is progressing as scheduled.

All segments of the business have continued to perform well and have shown impressive growth as evidenced by the half year results.

About Union Properties

Union Properties is a public company listed on the Dubai Financial Market. It is one of UAE's leading property development, investment and management companies.

The Company was established in 1987 as a limited liability company, and then floated as a public company in 1993. The following decade saw consistent organic growth on an impressive scale. The Company's ability to provide premium turnkey real estate solutions enabled it to benefit from an excellent choice of business partners: investors, developers, designers and property residents. Over the years the Company's consistent results speak for themselves in terms of the net profit, as well as growth in assets and shareholders' equity.

Astute investment in a variety of diverse resources helped Union Properties refine its products offering to deliver a superior and comprehensive range of property services across the development and management value chain. Union Properties business currently covers Property investment and development, Property Management, Interior Design & Fitout, Project Management, Facilities Management, Electro-mechanical contracting, Health and Fitness, Serviced Offices and Executive Apartments.

Union Properties Public Joint Stock Company and its subsidiaries

Interim condensed consolidated financial statements

30 June 2006

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The Shareholders
Union Properties Public Joint Stock Company

REVIEW REPORT OF THE AUDITORS

We have reviewed the accompanying interim condensed consolidated balance sheet of Union Properties Public Joint Stock Company (“the Company”) and its subsidiaries (collectively referred to as “the Group”) at 30 June 2006, and the related interim condensed consolidated statements of income, cash flows and changes in equity for the six month period then ended. The comparative figures for the six month period ended 30 June 2005 have not been reviewed.

These interim condensed consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to issue a report on these interim condensed consolidated financial statements based on our review.

We conducted our review in accordance with the International Standard on Review Engagements 2400. This Standard requires that we plan and perform the review to obtain moderate assurance as to whether the financial statements are free of material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not presented fairly, in all material respects, in accordance with the International Accounting Standard 34 - Interim Financial Reporting.

Vijendranath Malhotra
(Registration No. B 48)
Dubai, United Arab Emirates

Union Properties Public Joint Stock Company and its subsidiaries

Interim condensed consolidated income statement (unaudited)

for the period ended 30 June 2006

		Six months ended 30 June		Three months ended 30 June	
	Note	2006 AED'000	2005 AED'000	2006 AED'000	2005 AED'000
Revenue	4	1,167,695	370,332	679,599	217,374
Direct costs	4	(973,870)	(292,225)	(605,117)	(173,608)
Administrative and general expenses		(31,207)	(21,325)	(18,525)	(11,044)
Gain on valuation of investment properties	7	56,570	-	56,570	-
Income from government grant		1,125	1,125	562	562
Other income/(expense)	5	20,871	6,631	9,174	5,509
Share of profit in joint venture and associate companies		10,165	8,071	8,167	6,448
Finance costs (net)		(17,055)	(13,112)	(8,901)	(6,442)
Net profit for the period attributable to the shareholders of the Company		234,294	59,497	121,529	38,799
Earnings per share (AED)	13	0.1054	0.0273	0.0546	0.0178

The notes on pages 6 to 11 form part of these interim condensed consolidated financial statements.

The review report of the Auditors is set out on page 1.

Union Properties Public Joint Stock Company and its subsidiaries

Interim condensed consolidated balance sheet

at 30 June 2006

		Unaudited 30 June 2006 AED'000	Audited 31 December 2005 AED'000	Unaudited 30 June 2005 AED'000
	Note			
Intangible assets		40,776	40,776	252
Property, plant and equipment	6	350,328	366,629	351,889
Investment properties	7	1,962,621	1,886,350	1,440,890
Development properties	8	1,626,027	1,486,731	1,493,482
Investment in an associate		8,640	3,206	3,434
Other investments	9	131,486	64,262	84,627
Long-term receivables		203,272	155,648	209,899
Current assets				
Other investments		33,000	33,000	-
Properties held for sale		5,192	36,312	-
Inventories		42,304	35,060	13,061
Contract work-in-progress		66,678	127,872	94,042
Trade and other receivables		1,710,800	904,885	397,164
Due from related parties	10	16,243	30,594	19,632
Cash at bank and in hand		568,790	1,222,999	921,723
		2,443,007	2,390,722	1,445,622
Current liabilities				
Trade and other payables		1,264,922	1,010,159	718,381
Advances and deposits		337,995	310,641	329,614
Due to related parties	10	3,809	473	-
Bank borrowings		218,562	111,987	122,639
Current portion of long-term bank loans		72,568	80,003	66,989
		1,897,856	1,513,263	1,237,623
Net current assets		545,151	877,459	207,999
Long-term bank loans		(626,924)	(597,828)	(586,715)
Deferred income		(41,063)	(42,188)	(43,312)
Long-term retentions payable		(23,076)	(328,469)	(435,145)
Provision for employees' terminal benefits		(31,096)	(24,997)	(21,863)
Net assets		4,146,142	3,887,579	2,705,437
Represented by				
Share capital	11	2,225,371	1,778,216	890,408
Share application		-	-	1,110,179
Treasury shares	12	(4,998)	-	-
Proposed bonus shares	11	-	444,554	-
Statutory reserve		1,316,228	1,301,709	412,011
General reserve		107,547	107,547	51,970
Hedging reserve		3,792	864	-
Revaluation reserve	6	6,419	-	-
Retained earnings		491,783	254,689	240,869
Shareholders' equity		4,146,142	3,887,579	2,705,437

The notes on pages 6 to 11 form part of these interim condensed consolidated financial statements.

Fardan Bin Ali Alfardan
Vice-Chairman

Simon Azzam
Chief Executive Officer

The review report of the Auditors is set out on page 1.

Union Properties Public Joint Stock Company and its subsidiaries
Interim condensed consolidated statement of cash flows (unaudited)
for the period ended 30 June 2006

		Six months ended 30 June	
	Note	2006 AED'000	2005 AED '000
Operating activities			
Profit for the period		234,294	59,497
<i>Adjustments for:</i>			
Depreciation	6	14,695	12,546
Amortisation of goodwill		-	44
(Excess accrual reversed)/accrual made for directors' fees		2,800	(880)
Share of profit in a jointly controlled entity		(8,731)	(7,530)
Share of profit in an associate		(1,434)	(365)
Loss on fair valuation of investments (net)	5	5,063	-
Profit on valuation of investment properties		(56,570)	-
Finance costs (net)		17,055	13,112
Profit on disposal of property, plant and equipment		(878)	(75)
Income from government grant		(1,125)	(1,125)
<i>Operating cash flows before working capital changes</i>		205,169	75,224
Increase in inventories		(7,244)	(3,815)
Decrease in property held for sale		31,120	-
Decrease in contract work-in-progress		61,194	1,148
Increase in trade and other receivables		(802,987)	(149,237)
Increase in long-term receivable		(47,624)	(9,772)
Decrease/(increase) in due from related parties		14,351	(5,385)
Increase in trade and other payables		254,763	410,632
Increase in due to related parties		3,336	-
(Decrease)/increase in long-term retention payable		(305,393)	422,868
Increase in advances and deposits		27,354	304,636
Provision for employees' terminal benefits (net)		6,099	3,192
<i>Cash flows from operating activities</i>		(559,862)	1,049,491
Investing activities			
Additions to property, plant and equipment	6	(12,223)	(11,331)
(Additions)/disposals to investment properties	7	(430)	3,433
Additions to development properties (net)	8	(139,296)	(1,100,553)
Investment in an associate		(4,000)	-
Proceeds from disposal of property, plant and equipment		1,855	145
Purchase of investment held for trading		(63,556)	-
<i>Cash flows from investing activities</i>		(217,650)	(1,108,306)
Financing activities			
Increase in term loans		21,661	112,068
Increase/(decrease) in trust receipts		9,004	4,933
Finance costs (net)		(17,055)	(13,112)
Proceeds from auction of unsubscribed shares of rights issue		17,120	-
Treasury shares purchased		(4,998)	-
Proceeds from share application		-	1,110,179
<i>Cash flows from financing activities</i>		25,732	1,214,068
Net (decrease)/increase in cash and cash equivalents		(751,780)	1,155,253
Cash and cash equivalents at the beginning of the period		1,118,043	(346,249)
Cash and cash equivalents at the end of the period		366,263	809,004

The notes on pages 6 to 11 form part of these interim condensed consolidated financial statements.

The review report of the Auditors is set out on page 1.

Union Properties Public Joint Stock Company and its subsidiaries

Interim condensed consolidated statement of changes in equity (unaudited)

for the period ended 30 June 2006

	Share capital AED'000	Share application AED'000	Treasury shares AED'000	Share premium AED'000	Proposed bonus shares AED'000	Statutory reserve AED'000	General reserve AED'000	Hedging reserve AED'000	Revaluation reserve AED'000	Retained earnings AED'000	Total AED'000
Balance at 1 January 2005	774,268	-	-	-	116,140	412,011	51,970	-	-	182,252	1,536,641
Net profit for the period	-	-	-	-	-	-	-	-	-	59,497	59,497
Proceeds from share application	-	1,110,179	-	-	-	-	-	-	-	-	1,110,179
Bonus shares issued	116,140	-	-	-	(116,140)	-	-	-	-	-	-
Directors' fees	-	-	-	-	-	-	-	-	-	(880)	(880)
Balance at 30 June 2005	890,408	1,110,179	-	-	-	412,011	51,970	-	-	240,869	2,705,437
Balance at 1 January 2006	1,778,216	-	-	-	444,554	1,301,709	107,547	864	-	254,689	3,887,579
Auction of unsubscribed shares of rights issue	2,601	-	-	14,519	-	-	-	-	-	-	17,120
Bonus shares issued	444,554	-	-	-	(444,554)	-	-	-	-	-	-
Treasury shares purchased (refer note 12)	-	-	(4,998)	-	-	-	-	-	-	-	(4,998)
Transfer to statutory reserve	-	-	-	(14,519)	-	14,519	-	-	-	-	-
Net profit for the period	-	-	-	-	-	-	-	-	-	234,294	234,294
Net movement in unrealised gain on cash flow hedge	-	-	-	-	-	-	-	2,928	-	-	2,928
Excess accrual for Directors' fees reversed, net of current period charge of AED 1.2 million	-	-	-	-	-	-	-	-	-	2,800	2,800
Gain on revaluation of property, plant and equipment transferred to investment property (refer note 6)	-	-	-	-	-	-	-	-	6,419	-	6,419
Balance at 30 June 2006	2,225,371	-	(4,998)	-	-	1,316,228	107,547	3,792	6,419	491,783	4,146,142

In accordance with the interpretation of Article 118 of the UAE Federal Law No. 8 of 1984 by the Ministry of Economy & Commerce, Directors' fees have been treated as an appropriation of shareholders' equity.

No allocation of profit has been made to the statutory reserve for the six month period ended 30 June 2006 as it would be effected at the year-end.

The notes on pages 6 to 11 form part of these interim condensed consolidated financial statements.

Union Properties Public Joint Stock Company and its subsidiaries

Notes

(forming part of the interim condensed consolidated financial statements)

1. Legal status and principal activities

Union Properties Public Joint Stock Company (“the Company”) was incorporated on 28 October 1993 as a public joint stock company by a United Arab Emirates Ministerial decree.

The principal activities of the Company are investment in and development of properties, the management and maintenance of its own properties including the operation of cold stores, and the undertaking of property related services on behalf of other parties, including related parties and acting as the holding company of its subsidiaries and investing in an associate company and a jointly controlled entity.

The Company and its subsidiaries are collectively referred to as “the Group”. The Company's registered office address is P.O. Box 24649, Dubai, United Arab Emirates (“UAE”).

2 Basis of preparation and significant accounting policies

These interim condensed consolidated interim financial statements have been prepared in accordance with the International Accounting Standard (“IAS”) 34, *Interim Financial Reporting*. The interim condensed consolidated financial statements of the Group, presented in UAE Dirhams (“AED”) rounded to the nearest thousand, have been prepared under the historical cost convention except in respect of investment properties, derivatives and investments, which are stated at fair values.

The interim condensed consolidated financial statements are to be read in conjunction with the latest audited consolidated financial statements of the Group for the year ended 31 December 2005 and the interim condensed consolidated financial statements for the three month period ended 31 March 2006.

The accounting policies applied in the preparation of the interim condensed consolidated financial information are consistent with those applied in the annual financial statements of the Group for the year ended 31 December 2005.

3 Accounting estimates and judgements

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgments made by the management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2005.

Union Properties Public Joint Stock Company and its subsidiaries

Notes (continued)

4 Revenue and direct costs (unaudited)

	Construc- tion AED'000	Property rentals AED'000	Hotel apartments AED'000	Property sales AED'000	Others AED'000	Total AED'000
Six month period ended 30 June 2006						
Revenue	892,570	61,122	18,120	156,251	39,632	1,167,695
Direct costs	(828,759)	(13,241)	(7,015)	(95,571)	(29,284)	(973,870)
Margin	63,811	47,881	11,105	60,680	10,348	193,825
Six month period ended 30 June 2005						
Revenue	280,837	49,049	14,693	-	25,753	370,332
Direct costs	(253,346)	(10,527)	(6,509)	-	(21,843)	(292,225)
Margin	27,491	38,522	8,184	-	3,910	78,107

The above costs include staff costs amounting to AED 147.3 million for the six months period ended 30 June 2006 (*six month period ended 30 June 2005: AED 54.2 million*) and depreciation amounting to AED 13.2 million (*six month period ended 30 June 2005: AED 11.1 million*).

Three month period ended 30 June 2006						
Revenue	589,491	31,506	8,714	26,570	23,318	679,599
Direct costs	(554,753)	(5,691)	(3,607)	(22,611)	(18,455)	(605,117)
Margin	34,738	25,815	5,107	3,959	4,863	74,482
Three month period ended 30 June 2005						
Revenue	168,135	25,121	7,330	-	16,788	217,374
Direct costs	(152,877)	(6,237)	(3,207)	-	(11,287)	(173,608)
Margin	15,258	18,884	4,123	-	5,501	43,766

The above costs include staff costs amounting to AED 97.3 million for the three months period ended 30 June 2006 (*three month period ended 30 June 2005: AED 28 million*) and depreciation amounting to AED 5.8 million (*three month period ended 30 June 2005: AED 5.6 million*).

Union Properties Public Joint Stock Company and its subsidiaries

Notes (continued)

5 Other income/(expense) (unaudited)

	Six months ended 30 June		Three months ended 30 June	
	2006 AED'000	2005 AED'000	2006 AED'000	2005 AED'000
This includes the following:				
Interest income	23,531	5,499	10,401	4,712
Profit on disposal of property, plant and equipment	878	75	821	15
Loss on fair valuation of investment (net) (refer note 9)	(5,063)	-	(2,607)	-
Miscellaneous income	1,525	1,057	559	782
	<u>20,871</u>	<u>6,631</u>	<u>9,174</u>	<u>5,509</u>

6 Property, plant and equipment

During the six months period ended 30 June 2006, the Group acquired assets with a cost of AED 12.2 million and assets with a book value of AED 1 million were sold during the period. Depreciation charge for the period amounts to AED 14.7 million.

Three floors of Union House, a building owned by the Company, which were owner occupied, were vacated during the period. Accordingly, these were transferred to investment property at fair value amounting to AED 12.8 million (refer note 7) and a revaluation gain of AED 6.4 million was recognised directly in equity.

7 Investment properties

	Unaudited 30 June 2006 AED'000	Audited 31 December 2005 AED'000	Unaudited 30 June 2005 AED'000
Opening balance	1,886,350	1,504,323	1,504,323
Additions during the period/year	430	11,891	202
Gain on fair valuation	62,990	316,076	
Transfer from development properties (refer note 8)	-	57,672	-
Transfer to development properties (refer note 8)	-	-	(60,000)
Transfer from property, plant and equipment (refer note 6)	12,851	-	-
Disposals	-	(3,612)	(3,635)
Closing balance	<u>1,962,621</u>	<u>1,886,350</u>	<u>1,440,890</u>

Management has reviewed the fair value of investment properties and increased the fair value by AED 63 million. This gain in fair valuation includes AED 6.4 million which relates to the previously owner occupied three floors of Union House (refer note 6), which has been recognised in revaluation reserve in equity. The remaining gain of AED 56.6 million has been recognised in the income statement.

Union Properties Public Joint Stock Company and its subsidiaries

Notes (continued)

8 Development properties

	Unaudited 30 June 2006 AED'000	Audited 31 December 2005 AED'000	Unaudited 30 June 2005 AED'000
Opening balance	1,486,731	332,929	332,929
Additions during the period	195,563	1,466,003	1,100,553
Transfer to investment properties (refer note 7)	-	(57,672)	-
Transfer from investment properties (refer note 7)	-	-	60,000
Transfer to property, plant and equipment	-	(44,128)	-
Transfer to properties held for sale	(56,267)	(36,312)	-
Sale of properties	-	(174,089)	-
Closing balance	1,626,027	1,486,731	1,493,482
Development properties include:			
Interest capitalised	6,635	19,700	2,346

9 Other investments

During the six month period ended 30 June 2006, the Group made investments in certain quoted securities, which have been accounted for at fair value. Fair valuation loss of AED 5.1 million has been recognised during the period (refer note 5). Furthermore, the Group has made investment in certain structured deposits amounting to AED 53.7 million, which have been fair valued at AED 53.8 million at 30 June 2006 and resultant gain of AED 0.1 million has been recognised in the income statement (refer note 5). The Group's share of profit from the joint venture amounts to AED 8.7 million during the period six month period ended 30 June 2006.

10 Transactions with related parties (unaudited)

The Group, in the normal course of business, enters into transactions with other enterprises, which fall within the definition of a related party contained in IAS 24. Such transactions are carried out at agreed rates. The transactions with related parties, other than those already disclosed separately elsewhere in the interim condensed consolidated financial statements, are as follows:

	Six months ended 30 June		Three months ended 30 June	
	2006 AED'000	2005 AED'000	2006 AED'000	2005 AED'000
Project management income and income from contracts for related parties	7,652	6,293	5,580	3,445
Compensation to key management personnel including Directors are as follows:				
- Salaries and other short-term employee benefits	3,027	2,217	1,842	1,768
- Provision towards employees' terminal benefits	479	135	460	89

Union Properties Public Joint Stock Company and its subsidiaries

Notes (continued)

11 Share capital and bonus shares

	Unaudited 30 June 2006 AED'000	Audited 31 December 2005 AED'000	Unaudited 30 June 2005 AED'000
Authorised, issued and fully paid up:			
2,224,544,766 shares of AED 1 each			
(31 December 2005: 1,778,216,174 shares			
of AED 1 each & 30 June 2005:			
890,408,326 shares of AED 1 each)	2,225,371	1,778,216	890,408
	=====	=====	=====

During the six month period ended 30 June 2006, as approved by its shareholders, the Company issued bonus shares of AED 444,554,044, being 25% of the paid up share capital of the Company at 31 December 2005.

12 Treasury shares

The cost of treasury shares purchased is debited to Treasury Shares account, which is shown as a deduction from equity. When treasury shares are sold, the amount received for the shares is also credited to this account.

13 Earnings per share (unaudited)

The calculation of earnings per share was based on the following:

	Six months ended 30 June		Three months ended 30 June	
	2006	2005	2006	2005
Net profit attributable to shareholders (AED'000)	234,294	59,497	121,529	38,799
Weighted average number of shares	2,223,903,699	2,179,441,513	2,224,544,766	2,179,441,513
	=====	=====	=====	=====

14 Capital commitments and contingent liabilities

	Unaudited 30 June 2006 AED'000	Audited 31 December 2005 AED'000	Unaudited 30 June 2005 AED'000
Commitments:			
Purchase commitments (letters of credit)	296,982	248,113	-
Capital commitments	1,982,956	1,232,161	274,895
	=====	=====	=====
Contingent liabilities:			
Letters of guarantee	739,168	686,414	649,589
	=====	=====	=====

15 Financial instruments

Financial assets of the Group include cash and bank balances, trade and other receivables, amounts due from related parties, long-term receivables and investments in quoted securities and structured deposits. Financial liabilities of the Group include bank borrowings, term loans from banks, trade and other payables, long term retentions payable, advances and deposits and amounts due to related parties.

Interest rate risk

The Group's deposits and borrowings with banks carry interest at agreed rates. The Company hedges interest rate risks on certain term loans by obtaining interest rate swaps.

Union Properties Public Joint Stock Company and its subsidiaries

Notes *(continued)*

15 Financial instruments (continued)

Credit risk

Cash is placed with local and international banks of repute. Trade and other receivables include contract receivables, retentions and other receivables and are stated at cost less impairment losses, if any.

These receivables are subject to market credit risks, which are closely monitored by management. Contract receivables are exposed to concentration risk as one customer accounts for 42% of the total contract receivables of the Group.

Currency risk

Currency risk faced by the Group is minimal as majority of the foreign currency purchases are in US Dollars, to which the UAE Dirham is pegged.

Fair value

The fair values of the Group's financial instruments approximate their carrying values.

16 Comparatives

Certain comparative figures have been reclassified/regrouped to conform to the presentation adopted in these interim condensed consolidated financial statements.