

Union Properties

Public Joint
Stock Company
and Subsidiaries



Consolidated Financial Statements
31 December 2006,
together with Independent Auditors' Report

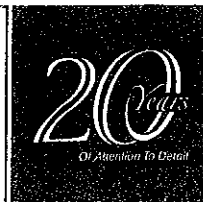


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Union Properties 2006
Public Joint Stock Company and Subsidiaries

Directors' Report

The Directors have the pleasure in presenting their report together with the audited consolidated financial statements of Union Properties Public Joint Stock Company ("the Group") for the year ended 31 December 2006.

Financial Results

The Group has made AED 613.9 million in consolidated net profit for 2006. Highlights and the comparative 2005 numbers appear below:

Parameter	2006 AED million	2005 AED million	Increase %
Revenues	2,525.0	1,388.1	82%
Operating profits	343.5	273.5	26%
Share of profit in JV & Associate companies	48.8	20.3	139%
Gain on revaluation of investment Property	229.7	316.1	(27%)
Net profit	613.9	584.5	5%

The Directors propose the following appropriations from retained earnings:

	AED million
a) Transfer to Statutory Reserve	61.4
b) Transfer to General Reserve	61.4
c) Bonus shares; 25% of the share capital	556.5
d) Directors' fees	6.4

After appropriations total assets and total shareholders' equity stood at AED 7,550 million and AED 4,553 million respectively at 31 December 2006.

Directors

The Board of Directors comprised of:

- Mr Anis Al Jallaf	Chairman
- Mr Fardan Bin Ali Alfardan	Vice Chairman
- Mr Mohammed Omar Bin Haider	Director
- Mr Abdul Aziz Yaqoob Al Serkal	Director
- Mr Abdullah Rashed Abdullah Omran	Director
- Mr Saeed Mohammed Al Sharid	Director
- Mr Yousuf Yaqoob Yousuf Al Serkal	Director

Auditors

M/s. KPMG were appointed as auditors of the Company at the Annual General Meeting held on 27 February 2006. M/s. KPMG are eligible for re-appointment, and have expressed their willingness to continue in office.

On behalf of the Board

ANIS AL JALLAF
Chairman
Dubai
Feb 1st 2007



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Level 32, Emirates Towers
Sheikh Zayed Road
Dubai
United Arab Emirates

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Independent auditors' report

The Shareholders
Union Properties Public Joint Stock Company

Report on the financial statements

We have audited the accompanying consolidated financial statements of Union Properties Public Joint Stock Company ("the Company") and its subsidiaries as set out in note 25 (collectively referred to as "the Group"), which comprise the consolidated balance sheet as at 31 December 2006, 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 is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatements, 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 relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free of 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 our judgement, including the assessment of risks of material misstatement of consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated 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 principles used and reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the consolidated financial statements.

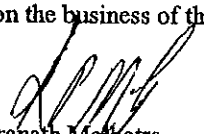
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2006, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the relevant Articles of the Company and the UAE Federal Law No. 8 of 1984 (as amended).

Report on other legal and regulatory requirements

As required by the UAE Federal Law No. 8 of 1984 (as amended), we further confirm that we have obtained all information and explanations necessary for our audit, that proper books of accounts have been kept by the Group, a physical count of inventories was carried out by management in accordance with established principles and the contents of the Directors' report which relate to these consolidated financial statements are in agreement with the Group's financial records. We are not aware of any violation of the above-mentioned Law and the Articles of Association having occurred during the year ended 31 December 2006, which may have had a material adverse effect on the business of the Group or its financial position.


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

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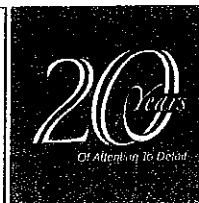
Union Properties 2006
Public Joint Stock Company and Subsidiaries

Consolidated Income Statement for the Year Ended 31.12.2006

	Note	2006 AED'000	2005 AED'000
Revenue	3	2,525,039	1,388,136
Direct costs	3	(2,108,240)	(1,060,300)
		416,799	327,836
Administrative and general expenses	4	(73,320)	(54,351)
Operating profit		343,479	273,485
Finance costs		(43,406)	(23,945)
Other income / (expenses), net	5	35,394	(1,376)
Gain on valuation of investment properties	8	229,690	316,076
Share of profit in joint venture & associate companies	25(i)(a)&(ii)	48,811	20,298
Profit for the year		613,968	584,538
Earnings per share (AED)	29	0.28	0.28

The notes on pages 8 to 26 form part of these consolidated financial statements.

The Independent Auditors' Report is set out on page 3.



Consolidated Balance Sheet at 31.12.2006

	Note	2006 AED'000	2005 AED'000
Intangible assets	6	40,776	40,776
Property, plant and equipment	7	366,904	366,629
Investment properties	8	2,629,039	1,886,350
Development properties	9	1,774,679	1,486,731
Investment in an associate	25(iii)	34,520	3,206
Other investments	10	111,757	64,262
Long-term receivables	11	125,222	155,648
Current assets			
Properties held for sale	9	-	36,312
Other investments	10	60,981	33,000
Inventories		55,361	35,060
Contract work-in-progress	12	500,236	127,872
Trade and other receivables	13	1,778,959	904,885
Due from related parties	14	20,459	30,594
Cash at banks and in hand	15	51,340	1,222,999
		2,467,336	2,390,722
Current liabilities			
Trade and other payables	16	1,271,557	1,010,159
Advances and deposits	17	199,643	310,641
Due to related parties	14	3,016	473
Bank borrowings	18	689,155	111,987
Current portion of long-term bank loans	19	87,234	80,003
		2,250,605	1,513,263
Net current assets		216,731	877,459
Long-term bank loans	19	(606,609)	(597,828)
Deferred income	20	(39,938)	(42,188)
Long-term payable		(62,260)	(328,469)
Provision for employees' terminal benefits	21	(37,765)	(24,997)
Net assets		4,553,056	3,887,579
Represented by			
Share capital	22	2,226,021	1,778,216
Treasury shares	22	(4,998)	-
Proposed bonus shares	22	556,505	444,554
Statutory reserve	23	1,377,678	1,301,709
General reserve	23	168,944	107,547
Hedging reserve	24	2,441	864
Revaluation surplus	7	39,507	-
Retained earnings		186,958	254,689
Shareholders' equity		4,553,056	3,887,579

The notes on pages 8 to 26 form part of these consolidated financial statements.

Anis Al Jallaf
Chairman

Mohammed Omar Bin Haider
Director

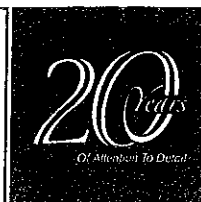
Simon E. Azzam
Chief Executive Officer



Consolidated Statement of Cash Flows for the Year Ended 31 December 2006

	Note	2006 AED'000	2005 AED'000
Cash flows from operating activities			
Profit for the year		613,968	584,538
Adjustments for:			
Depreciation	7	33,569	29,168
Accrual made for directors' fees	27	(4,000)	(8,000)
Excess accrual for directors' fees reversed		4,000	-
Share of profit in a jointly controlled entity	25(i)(a)	(47,496)	(20,162)
Share of profit in an associate	25(ii)	(1,315)	(136)
Finance costs		43,406	23,945
Profit on disposal of property, plant and equipment	5	(948)	(4)
Profit on valuation of investment properties	8	(229,690)	(316,076)
Impairment of property, plant and equipment	7	-	40,000
Income from government grant	5	(2,250)	(2,250)
Loss on fair valuation of investments (net)	5	4,872	-
Operating cash inflow before working capital changes		414,116	331,023
Change in trade and other receivables		(872,497)	(656,094)
Change in property held for sale		36,312	-
Change in inventories		(20,301)	(25,814)
Change in contract work-in-progress		(372,364)	(32,682)
Change in long-term retentions receivable		(69,574)	(24,732)
Change in due from related parties		10,135	(16,347)
Change in trade and other payables		261,397	702,410
Change in due to related parties		2,543	473
Change in long-term payable		(266,209)	316,192
Change in advances and deposits		(110,998)	285,663
Increase in employees' terminal benefits - net		12,768	6,326
Directors' fees paid		(2,400)	(2,080)
Net cash (outflow) inflow from operating activities		(977,072)	884,338
Cash flows from investing activities			
Intangible assets acquired		-	(40,481)
Additions to property, plant and equipment	7	(53,481)	(82,951)
Additions to investment properties	8	(272,288)	(8,279)
Additions to development properties (net)	9	(470,588)	(1,247,786)
Proceeds from disposal of property, plant and equipment		2,022	330
Repayment of loan by a jointly controlled entity	11	100,000	69,211
Proceeds received on maturity of investment		33,000	-
Purchase of investments at fair value through profit or loss		(65,852)	-
Increase in investment in an associate		(29,999)	-
Net cash outflow from investing activities		(757,186)	(1,309,956)
Cash flows from financing activities			
Increase in term loans		16,012	136,195
Increase in trust receipts		70,340	2,044
Short-term loans taken		201,263	-
Interest paid		(43,406)	(23,945)
Proceeds from rights issue		17,823	1,775,616
Treasury shares purchased		(4,998)	-
Net cash inflow from financing activities		257,034	1,889,910
Net (decrease) / increase in cash and cash equivalents		(1,477,224)	1,464,292
Cash and cash equivalents at the beginning of the year		1,118,043	(346,249)
Cash and cash equivalents at the end of the year	28	(359,181)	1,118,043

The notes on pages 8 to 26 form part of these consolidated financial statements.
The Independent Auditors' Report is set out on page 3.



Consolidated Statement of Changes in Equity for the Year Ended
31 December 2006

	Share capital 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 surplus 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
Proceeds from rights issue	887,808	-	887,808	-	-	-	-	-	-	1,775,616
Transfer of share premium to statutory reserve	-	-	(887,808)	-	887,808	-	-	-	-	-
Net profit for the year	-	-	-	-	-	-	-	-	584,538	584,538
Fair value changes on cash flow hedge	-	-	-	-	-	-	864	-	-	864
Transfer to statutory reserve (note 23)	-	-	-	-	1,890	-	-	-	(1,890)	-
Transfer to general reserve (note 23)	-	-	-	-	-	55,577	-	-	(55,577)	-
Bonus shares issued during the year	116,140	-	-	(116,140)	-	-	-	-	-	-
Directors' fees paid (Note 27)	-	-	-	-	-	-	-	-	(2,080)	(2,080)
Directors' fees payable (Note 27)	-	-	-	-	-	-	-	-	(8,000)	(8,000)
Proposed bonus shares (Note 22)	-	-	-	444,554	-	-	-	-	(444,554)	-
Balance at 31 December 2005	1,778,216	-	-	444,554	1,301,709	107,547	864	-	254,289	3,887,579
Balance at 1 January 2006	1,778,216	-	-	444,554	1,301,709	107,547	864	-	254,689	3,887,579
Net profit for the year	-	-	-	-	-	-	-	-	613,968	613,968
Auction of unsubscribed shares of rights issue	3,251	-	14,572	-	-	-	-	-	-	17,823
Transfer of share premium to statutory reserve	-	-	(14,572)	-	14,572	-	-	-	-	-
Treasury shares purchased (Note 22)	-	(4,998)	-	-	-	-	-	-	-	(4,998)
Bonus shares issued	444,554	-	-	(444,554)	-	-	-	-	-	-
Transfer to statutory reserve (Note 23)	-	-	-	-	61,397	-	-	-	(61,397)	-
Transfer to general reserve (Note 23)	-	-	-	-	-	61,397	-	-	(61,397)	-
Net movement in unrealised gain on cash flow hedge	-	-	-	-	-	-	1,577	-	-	1,577
Directors' fees paid (Note 27)	-	-	-	-	-	-	-	-	(2,400)	(2,400)
Directors' fees payable (Note 27)	-	-	-	-	-	-	-	-	(4,000)	(4,000)
Excess accrual for Directors' fees reversed (Note 27)	-	-	-	-	-	-	-	-	4,000	4,000
Proposed bonus shares (Note 22)	-	-	-	556,505	-	-	-	-	(556,505)	-
Gain on revaluation of property, plant and equipment transferred to investment property (Note 7)	-	-	-	-	-	-	-	39,507	-	39,507
Balance at 31 December 2006	2,226,021	(4,998)	-	556,505	1,377,678	168,944	2,441	39,507	186,958	4,553,056

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' funds.

The notes on pages 8 to 26 form part of these consolidated financial statements.

The Independent Auditors' Report is set out on page 3.



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, 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 as set out in note 25.

The Company and its subsidiaries are collectively referred to as "the Group". The Company's registered office address is PO Box 24649, Dubai, United Arab Emirates.

2 Significant accounting policies

Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with the International Financial Reporting Standards ("IFRSs") and its interpretations adopted by the International Accounting Standards Board ("IASB") and the requirements of UAE Federal Law No. 8 of 1984 (as amended).

The following accounting policies have been applied consistently in dealing with items that are considered material in relation to the Group's consolidated financial statements.

Accounting convention

The 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, investments at fair value through profit and loss and derivatives which are stated at fair values.

Basis of preparation

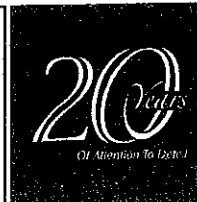
The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRS that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 32.

Basis of consolidation

The consolidated financial statements comprise a consolidation of the audited financial statements of the Company and its subsidiaries on a line-by-line basis and the Group's investment in an associate and a jointly controlled entity. The principal subsidiaries, joint venture and an associate together with their reporting dates and principal activities have been disclosed in note 25.



2 Significant accounting policies (continued)

(i) Subsidiaries

Subsidiaries are those enterprises, which are controlled by the Company. Control exists when the Company owns, directly or indirectly, more than 50% of the equity capital and has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

The results of operations and total assets and liabilities of subsidiary companies are included in the consolidated financial statements and the interest of minority shareholders, if any, in the net assets of subsidiaries is stated separately.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Associates

Associates are those enterprises in which the Group has significant influence and which are neither subsidiaries nor joint ventures. Significant influence exists when the Group has the power to participate in the financial and operating policy decisions of an enterprise, but does not have control. The consolidated financial statements include the Group's share of the total recognised gains and losses of the associate accounted on an equity basis, from the date that significant influence commences and until the date that significant influence ceases. When the Group's share of losses exceeds the carrying amount of the associate, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate. Dividends are reduced from the carrying amount of investment when declared.

(iii) Joint ventures

Joint ventures comprise jointly controlled entities and operations:

(a) Jointly controlled entities

Jointly controlled entities are those enterprises over whose activities the Group has joint control, established by contractual agreement. Investment in jointly controlled entities is accounted for under the equity method, whereby the investment is initially recorded at cost and adjusted thereafter at each balance sheet date for the post acquisition change in the Group's share of net assets of the investee. Dividends are reduced from the carrying amount of the investment when declared.

(b) Jointly controlled operations

Jointly controlled operations are those operations that involve the use of the assets and other resources of the venturers rather than the establishment of a corporation, partnership or other entity, or a financial structure that is separate from the venturers themselves. Each venturer uses its own property, plant and equipment and carries its own inventories. It also incurs its own expenses and liabilities and raises its own finance, which represents its own obligations. The joint venture agreement usually provides a means by which the revenue from the joint contract and any expenses incurred in common are shared among venturers. The consolidated financial statements include the Group's proportionate share in the assets, liabilities, revenue and expenses of jointly controlled operations on a line-by-line basis.



2 Significant accounting policies (continued)

(iv) Transactions eliminated on consolidation

Material intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in full in preparing these consolidated financial statements. Unrealised gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the Group's interest in the enterprise. Unrealised losses are eliminated similarly to unrealised gains, but only to the extent that there is no evidence of impairment.

Property, plant and equipment and depreciation

Items of property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Depreciation is provided on a straight-line basis over the assets' estimated useful lives at the following annual rates:

	%
Buildings and leasehold improvements	5 to 33
Plant and machinery	10 to 20
Furniture, fixtures and office equipment	25 to 50
Motor vehicles	25
Gymnasium equipment	20
Equipment and tools	33 to 50

The depreciation method and useful lives, as well as residual values if not significant, are reassessed annually.

Investment properties

Land and buildings owned by the Company for the purposes of generating rental income or capital appreciation or both are classified as investment properties. Where the Company provides ancillary services to the occupants of a property, it treats such a property as investment property if the services are a relatively insignificant component of the arrangement as a whole.

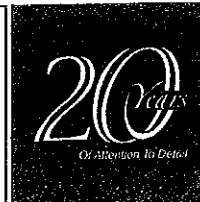
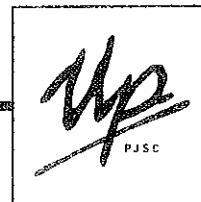
Investment properties are accounted for using the fair value model under IAS 40 (revised 2003).

A property interest under an operating lease is classified and accounted for as an investment property on a property by property basis when the Company holds it to earn rentals or for capital appreciation or both. Any such property interest under an operating lease classified as an investment property is carried at fair value. Lease payments are accounted for as described in accounting policy for 'lease payments'.

When an item of property, plant and equipment is transferred to investment property following a change in its use, any differences arising at the date of transfer between the carrying amount of the item immediately prior to transfer and its fair value is recognised directly in equity if it is a gain. Upon disposal of the item, the gain is transferred to retained earnings to the extent of revaluation surplus recognised in equity. Any loss arising in this manner is recognised in the income statement immediately.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment and its fair value at the date of reclassification becomes its deemed cost for subsequent accounting.

When the Company begins to redevelop an existing investment property for continued future use as investment property, the property remains as investment property, which is measured based on fair value model, and is not reclassified as development property during the redevelopment.



2 Significant accounting policies (continued)

Development properties

Property that is being constructed or developed for future use as investment property is classified as development property and stated at cost less impairment losses, if any, until construction or development is complete, at which time it is reclassified as investment property. The cost of development property comprises the cost of construction and any directly attributable costs. Rent paid for leasehold land on which development properties are being constructed is also capitalised until the asset is ready for its intended use. No depreciation is charged during the construction period.

Intangible Assets

(i) Goodwill

The excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition is recorded as goodwill. Goodwill attributable to investments in associate companies is shown as part of the carrying value of investments in associate companies. Goodwill attributable to subsidiaries is shown as goodwill on the consolidated balance sheet.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Until 2004, goodwill was being amortised over a period of 5 years based on the acquired businesses' performance, expansion plans and expected revenue and earnings profile. From 2005 onwards, in accordance with International Financial Reporting Standard ("IFRS") 3, Business Combinations, goodwill is annually tested for impairment and carried at cost less accumulated impairment losses.

(ii) Other Intangibles

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses. Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is charged to the income statement on a straight line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use.

Investments at fair value through profit or loss

An investment is classified as at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value. Upon initial recognition, attributable transaction costs are recognised in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

Trade and other receivables

Trade and other receivables at the balance sheet date are stated at cost less impairment losses, if any.



2 Significant accounting policies (continued)

Inventories

Inventories are valued at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost of inventories is based on the first-in-first-out method and includes expenditure incurred in acquiring inventories and bringing them to their existing location and condition.

Contract work-in-progress

Contract work in progress is stated at contract costs plus estimated attributable profits less foreseeable losses and progress billings. Cost includes all expenditure directly related to specific projects and an allocation of fixed and variable overheads incurred in the Group's contractual activities based on normal operating capacity. For contracts where progress billings exceed the contract revenue, the excess is included in current liabilities as billings in excess of valuation.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and at bank in current accounts and call deposits. For the purpose of the statement of cash flows, bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents.

Impairment

The carrying amounts of the Group's assets, other than investment properties and inventories, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of the asset or its cash-generating unit exceeds its recoverable amount. Impairment losses, if any, are recognised in the income statement.

Staff terminal benefits

The provision for staff terminal benefits, disclosed as a long-term liability, is calculated in accordance with the UAE Federal Labour Law and is based on the liability that would arise if the employment of the entire Group's staff were terminated at the balance sheet date.

Trade and other payables

Trade payables are stated at cost.

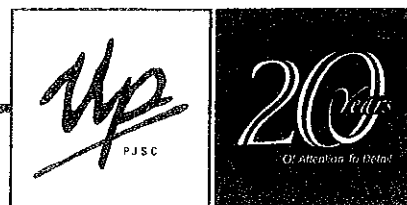
Provisions

A provision is recognised in the balance sheet when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Revenue recognition

(i) Goods sold and services rendered

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the balance sheet date. The stage of completion is assessed by reference to the surveys of work performed. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.



Notes Forming Part of the Consolidated Financial Statements (continued)

2 Significant accounting policies (continued)

Revenue recognition (continued)

Sale of property on a long-term basis that qualify to be treated as finance leases are regarded as such. Revenue from the sale of properties under finance lease is recognised in the income statement when the significant risks and rewards of ownership are transferred to the buyer.

(ii) Construction contracts

Contract revenue on construction contracts is stated at contract cost plus estimated attributable profits less any foreseeable losses recognised during the year. Profit is recognised only when the outcome of the contract can be reliably estimated. Contract revenue is recognised on the percentage of completion method. The estimated final gross margin is applied to costs to arrive at the profit on the contract. Provision is made for all losses incurred to the accounting date together with any further losses foreseen in bringing the contract to completion.

(iii) Rental income

Rental income from investment property is recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income.

(iv) Interest income

Interest income is recognised in the income statement as it accrues, taking into account the effective yield on the asset.

(v) Government grants

An unconditional non-monetary government grant of an asset recorded at fair value is recognised in the income statement as revenue when the grant becomes receivable. Any other government grant is recognised in the balance sheet initially as deferred income when there is a reasonable assurance that it will be received and that the Group will comply with the conditions attaching to it. Such deferred income is recognised as income on a systematic basis over the useful life of the asset or over the periods necessary to match them with the related costs which they are intended to compensate or as the conditions related to the grant are fulfilled.

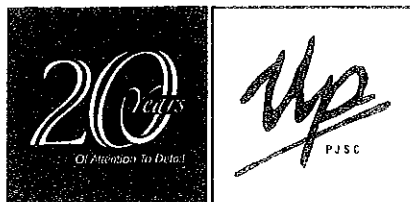
Operating lease payments

Leases of assets under which the lessor effectively retains all the risks and rewards of ownership are classified as operating leases.

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives allowed by the lessor are recognised in the income statement as an integral part of the total lease payments made.

Borrowing costs

Interest is payable on current facilities from banks and overdrafts and long-term loans from banks at normal commercial rates or agreed rates. Borrowing costs directly attributable to the acquisition or construction of development property are capitalised as part of the cost of that property. The capitalisation of borrowing costs commences from the date of incurring of expenditure related to the property and ceases when substantially all the activities necessary to prepare the development property for its intended use is complete. Borrowing costs relating to the period after acquisition or construction are expensed.



2 Significant accounting policies (continued)

Foreign currency

Transactions denominated in foreign currencies are translated to AED at the foreign exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to AED at the foreign exchange rates ruling at the balance sheet date. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to AED at the foreign exchange rates ruling at the date of the transaction. Realised and unrealised exchange gains and losses have been dealt with in the income statement.

Derivative financial instruments

The Group uses derivative financial instruments to hedge its exposure to interest rate risks arising from financing activities.

Derivative financial instruments are recognised initially at cost. Subsequent to initial recognition, derivative financial instruments are recognised at fair value. Recognition of any resultant gain or loss depends on the nature of the item being hedged.

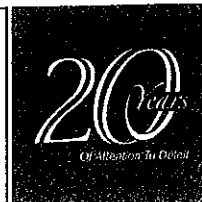
(i) Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised liability, a firm commitment or a highly probable forecasted transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity. The ineffective part of any gain or loss is recognised in the income statement immediately. Any gain or loss arising from changes in the time value of the derivative financial instrument is excluded from the measurement of hedge effectiveness and is recognised in the income statement immediately.

New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2006, and have not been applied in preparing these consolidated financial statements:

- IFRS 7 Financial Instruments: Disclosures and the Amendment to IAS 1 Presentation of Financial Statements: Capital Disclosures require extensive disclosures about the significance of financial instruments for an entity's financial position and performance, and qualitative and quantitative disclosures on the nature and extent of risks. IFRS 7 and amended IAS 1, which become mandatory for the Group's 2007 financial statements, will require extensive additional disclosures with respect to the Group's financial instruments and share capital.
- IFRIC 8 Scope of IFRS 2 Share-based Payment addresses the accounting for share-based payment transactions in which some or all of goods or services received cannot be specifically identified. IFRIC 8, which will become mandatory for the Group's 2007 financial statements, with retrospective application required, is not expected to have any impact on the consolidated financial statements.
- IFRIC 9 Reassessment of Embedded Derivatives requires that a reassessment of whether embedded derivatives should be separated from the underlying host contract should be made only when there are changes to the contract. IFRIC 9, which becomes mandatory for the Group's 2007 financial statements, is not expected to have any impact on the consolidated financial statements.
- IFRIC 10 Interim Financial Reporting and Impairment prohibits the reversal of an impairment loss recognised in a previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost. IFRIC 10 will become mandatory for the Group's 2007 financial statements, and will apply to goodwill, investments in equity instruments and financial assets carried at cost prospectively from the date that the Group first applied the measurement criteria of IAS 36 and IAS 39 respectively (i.e. 1 January 2004). The adoption of IFRIC 10 is not expected to have any impact on the consolidated financial statements.



Notes Forming Part of the Consolidated Financial Statements (continued)

3 Revenue and direct costs

	Contracting AED '000	Property rentals AED '000	Hotel apartments AED '000	Property sales AED '000	Others AED '000	Total AED '000
2006						
Revenue	1,856,508	140,641	37,727	403,792	86,371	2,525,039
Direct costs	(1,749,118)	(33,624)	(13,905)	(237,937)	(73,656)	(2,108,240)
Margin	107,390	107,017	23,822	165,855	12,715	416,799
2005						
Revenue	839,622	109,691	32,020	336,672	70,131	1,388,136
Direct costs	(775,687)	(28,124)	(13,687)	(184,833)	(57,969)	(1,060,300)
Margin	63,935	81,567	18,333	151,839	12,162	327,836

The above costs include finance costs amounting to AED 5.90 million (2005: AED 0.91 million), staff costs amounting to AED 384.33 million (2005: AED 116.67 million) and depreciation amounting to AED 25.55 million (2005: AED 29.92 million).

4 Administrative and general expenses

	2006 AED'000	2005 AED'000
These include the following:		
Staff costs	30,410	23,779
Depreciation	8,015	3,103
Provision for doubtful debts	8,613	3,491

5 Other income / (expenses), net

	2006 AED'000	2005 AED'000
Interest income	35,254	32,380
Profit on sale of property, plant and equipment	948	4
Miscellaneous income	1,814	3,990
Income from Government grant (refer note 20)	2,250	2,250
Impairment of Autodrome (Note 7 (ii))	-	(40,000)
Loss on fair valuation of investments	(4,872)	-
	35,394	(1,376)

6 Intangible assets

	Goodwill AED'000	Other Intangibles AED'000	Total AED'000
Cost			
Balance at 1 January 2005	2,838	-	2,838
Other acquisitions	-	40,481	40,481
Balance at 31 December 2005	2,838	40,481	43,319
Balance at 1 January 2006	2,838	40,481	43,319
Other acquisitions	-	-	-
Balance at 31 December 2006	2,838	40,481	43,319
Amortisation and impairment losses			
Balance at 1 January 2005	2,543	-	2,543
Amortisation for the year	-	-	-
Balance at 31 December 2005	2,543	-	2,543
Balance at 1 January 2006	2,543	-	2,543
Amortisation for the year	-	-	-
Balance at 31 December 2006	2,543	-	2,543
Carrying amounts			
At 1 January 2005	295	-	295
At 1 January 2006	295	40,481	40,776
At 31 December 2006	295	40,481	40,776



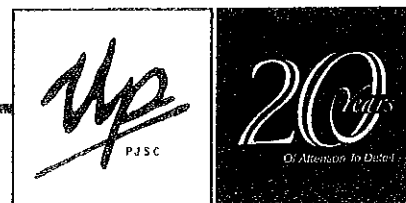
Notes Forming Part of the Consolidated Financial Statements (continued)

6 Intangible assets (continued)

- (i) Until 2004, goodwill was being amortised over a period of 5 years based on the acquired businesses' performance, expansion plans and expected revenue and earnings profile. From 2005 onwards, in accordance with International Financial Reporting Standard ("IFRS") 3, Business Combinations, goodwill is not amortised, but is annually tested for impairment and carried at cost less accumulated impairment losses.
- (ii) Other intangibles mainly comprise a non-refundable signing fee of USD 10 million, together with associated expenses, paid in respect of the Formula One Theme Park Project as per the License agreement between the Company and the Formula One Administration Limited (FOA), a company formed under the laws of United Kingdom. The agreement pertains to the use of the FOA intellectual property rights, the FOA historical archives and materials and for the assistance of FOA in establishing and promoting the Formula One Theme Park Project including the right to use the FOA's F1 and Formula One trade marks and logos in the official name of the Formula One Theme Park Project and gives the Company the exclusive right to develop Formula One Theme Parks around the world. The intangible asset will be amortised over a period of 10 years commencing on the launch of the Formula One Theme Park project expected in 2009.

7 Property, plant and equipment

	Balance at beginning of the year AED'000	Additions/ charge AED'000	Transfers in/(out) AED'000	Disposals AED'000	Balance at end of the year AED'000
2006					
Cost					
Land	48,790	-	(9,502)	-	39,288
Buildings and leasehold improvements	361,691	4,405	(12,142)	(1,602)	352,352
Plant and machinery	16,596	2,085	-	(109)	18,572
Furniture, fixtures and office equipment	43,916	27,357	-	(5,012)	66,261
Motor vehicles	14,050	8,156	-	(1,209)	20,997
Gymnasium equipment	1,818	1,314	-	-	3,132
Equipment and tools	943	1,049	-	(11)	1,981
Capital Work in Progress	258	9,115	-	(209)	9,164
	<u>488,062</u>	<u>53,481</u>	<u>(21,644)</u>	<u>(8,152)</u>	<u>511,747</u>
Accumulated depreciation					
Buildings and leasehold improvements	34,946	16,163	(3,081)	(1,130)	46,898
Plant and machinery	7,915	1,533	-	(51)	9,397
Furniture, fixtures and office equipment	29,511	11,610	-	(4,828)	36,293
Motor vehicles	6,531	3,522	-	(1,058)	8,995
Gymnasium equipment	1,638	286	-	-	1,924
Equipment and tools	892	455	-	(11)	1,336
	<u>81,433</u>	<u>33,569</u>	<u>(3,081)</u>	<u>(7,078)</u>	<u>104,843</u>
Book Value	406,629				406,904
Less: Impairment (Note ii)	(40,000)				(40,000)
Net book value	366,629				366,904



Notes Forming Part of the Consolidated Financial Statements (continued)

7 Property, plant and equipment (continued)

	Balance at beginning of the year AED'000	Additions/ charge AED'000	Transfers in/(out) AED'000	Disposals AED'000	Balance at end of the year AED'000
2005					
Cost					
Land	48,790	-	-	-	48,790
Buildings and leasehold improvements	305,370	56,321	-	-	361,691
Plant and machinery	10,729	5,867	-	-	16,596
Furniture, fixtures and office equipment	30,308	13,924	39	(355)	43,916
Motor vehicles	8,551	6,365	-	(866)	14,050
Gymnasium equipment	1,814	4	-	-	1,818
Equipment and tools	731	212	-	-	943
Capital Work in Progress	-	258	-	-	258
	406,293	82,951	39	(1,221)	488,062
Accumulated depreciation					
Buildings and leasehold improvements	15,858	19,088	-	-	34,946
Plant and machinery	6,899	1,016	-	-	7,915
Furniture, fixtures and office equipment	23,403	6,289	39	(220)	29,511
Motor vehicles	4,905	2,301	-	(675)	6,531
Gymnasium equipment	1,387	251	-	-	1,638
Equipment and tools	669	223	-	-	892
	53,121	29,168	39	(895)	81,433
Book Value	353,172				406,629
Less: Impairment (Note ii)	-				(40,000)
Net book value	353,172				366,629

- (i) Three floors of Union House, a building owned by the Company, which were owner occupied, were vacated during the year. Accordingly, these were transferred to investment property at fair value amounting to AED 19.2 million (cost: AED 12.8 million) (refer note 8) which included a revaluation gain of AED 6.4 million that was recognised directly in equity.

Further, during the year, the Company has transferred 1.94 million square feet of land pertaining to the Autodrome, from property, plant and equipment to investment properties due to a change in use of the said land. The land was transferred to investment property at a fair value amounting to AED 38.79 million (cost: AED 5.7 million) (refer note 8) which included a revaluation gain of AED 33.09 million that was recognised directly in equity.

- (ii) During the previous year, management identified that on the basis of current and forecast performance, the carrying cost of the Autodrome may need to be adjusted for impairment losses. In accordance with IAS 36, a discounted cash flow forecast (using a discount rate of 12%) was prepared to ascertain value in use. This indicated that an impairment provision was required and this was recorded against the individual asset. Management considered that a related project (Motor city) was integral to the success of the Autodrome. An additional provision reflecting the uncertainty of the impact that this project would have on the future cash flows of the Autodrome had been made to the carrying value of land for Motor city within investment properties and an equal and opposite adjustment made to the associated fair value gain.
- (iii) During the current year, management has carried out a detailed analysis of the current and future performance of the Autodrome, based on which it has concluded that the additional impairment provision was not required and accordingly this provision has been reversed.



Notes Forming Part of the Consolidated Financial Statements (continued)

8 Investment properties

	2006 AED'000	2005 AED'000
Balance at 1 January	1,886,350	1,504,323
Additions during the year (refer note (ii) below)	272,288	11,891
Gain on fair valuation (refer note (iii) below)	229,690	316,076
Transfer from development properties (refer to note 9)	182,640	57,672
Transfer from property, plant and equipment to investment properties (refer note 7)	58,071	-
Disposals	-	(3,612)
Balance at 31 December	2,629,039	1,886,350
Investment properties comprise:		
Freehold land and buildings	2,561,039	1,819,350
Buildings on leasehold land	68,000	67,000

(i) Investment properties include a property, Skywalk Towers, which comprises furnished executive apartments, a part of Green Community office building no.3 and two floors of Union House that are leased for short duration of time. Management is of the view that the ancillary services provided to occupants are a relatively insignificant component of the arrangements as a whole and accordingly, the properties have been treated as investment properties.

(ii) Additions during the year included certain properties amounting to AED 261 million, which the Company had sold to a customer, taken back from that customer for non payment.

(iii) At 31 December 2006, the Group has obtained fair values for all properties based on open market valuation carried out by an independent registered valuer, Cluttons. This has resulted in a net gain on valuation of investment properties of AED 229.69 million (2005: net gain of AED 316 million), which is included in the consolidated income statement.

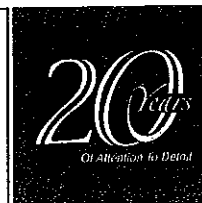
The valuations are prepared considering the aggregate of the net annual rents receivable from the properties and where relevant, associated costs. A yield which reflects the risks inherent in the net cash flows is then applied to the net annual rentals to arrive at the property valuation.

(iv) Certain buildings have been constructed on land leased from the Government of Dubai, the leases of which are renewed annually. The Directors are of the opinion that the leases will be renewed upon expiry and are not likely to be cancelled in the foreseeable future.

(v) A property, which the Group holds in its name on behalf of a significant shareholder, a bank under a trust agreement, is not included in the consolidated financial statements.

9 Development properties

	2006 AED'000	2005 AED'000
Balance at 1 January	1,486,731	332,929
Additions during the year	647,164	1,466,003
Transfer to investment properties (refer to note 8)	(182,640)	(57,672)
Transfer to property, plant and equipment	-	(44,128)
Transfer to properties held for sale	-	(36,312)
Sales of properties	(176,576)	(174,089)
Balance at 31 December	1,774,679	1,486,731
Development properties at 31 December comprise:		
Construction cost	744,256	517,735
Land cost	999,058	949,296
Interest capitalised	31,365	19,700
	1,774,679	1,486,731



Notes Forming Part of the Consolidated Financial Statements (continued)

10 Other investments

	2006 AED'000	2005 AED'000
Investment in a jointly controlled entity (refer to note (i) below)	111,757	64,262
Financial assets at fair value through profit or loss (refer to note (ii) below)	60,981	33,000
Less: Classified as short term	(60,981)	(33,000)
	<u>111,757</u>	<u>64,262</u>

- (i) Investment in a jointly controlled entity comprises the investment in Properties Investment LLC, a limited liability company registered in the Emirate of Dubai ("the jointly controlled entity"). The principal activities of the jointly controlled entity are investment in and development of properties and related activities. The Group has subscribed to 50% of the total paid up share capital of AED 10 million of the jointly controlled entity and the investment is accounted for by the equity method. The Group's share of profit for the year in the jointly controlled entity, after elimination of unrealised profit, amounts to AED 47.49 million (2005: AED 20.16 million). Also refer note to 25(i)(a)

At 31 December 2006, the jointly controlled entity has capital commitments of AED 995.76 million (2005: AED 42.41 million) for projects in progress.

- (ii) During the year, the Group made investments in certain quoted marketable equity securities, which have been designated as financial assets at fair value through profit and loss account and accounted for at fair value. Fair valuation loss of AED 3.3 million has been recognised in the income statement (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 52.17 million at the year end.

The Group has also invested AED 1.75 million in a real estate fund. The amount invested forms a first capital call to the extent of 35% of the Group's commitment to invest in the real estate fund.

The above investments have been designated as financial assets at fair value through profit or loss and classified as current assets.

11 Long-term receivables

	2006 AED'000	2005 AED'000
Long-term retention receivables	124,363	54,746
Long-term receivable from a jointly controlled entity (refer below)	-	100,000
Other long-term receivables	859	902
	<u>125,222</u>	<u>155,648</u>

Long-term receivable from a jointly controlled entity comprised a loan given to Properties Investment LLC. The loan was long-term, unsecured, without fixed repayment terms and carried interest at agreed rates. The loan has been fully repaid during the year.

12 Contract work-in-progress/billings in excess of valuation

	2006 AED'000	2005 AED'000
Costs plus attributable profit less foreseeable losses	936,897	1,035,017
Less: progress billings received and receivable	(515,213)	(1,007,596)
	<u>421,684</u>	<u>27,421</u>
Disclosed in the balance sheet as follows:		
Contract work in progress	500,236	127,872
Billings in excess of valuation (refer to note 10)	(78,552)	(100,451)
	<u>421,684</u>	<u>27,421</u>



Notes Forming Part of the Consolidated Financial Statements (continued)

13 Trade and other receivables	2006	2005
	AED'000	AED'000
Contract receivables	643,112	448,290
Other trade receivables	90,087	39,063
Retentions due within one year	67,450	38,033
	800,649	525,386
Advances to contractors	878,426	107,959
Other receivables and prepayments	115,492	277,552
Receivable on interest rate swap	2,441	864
	1,797,008	911,761
Less: provision for doubtful receivables and retentions	(18,049)	(6,876)
	1,778,959	904,885

Certain contract receivables are assigned in favour of the banks for facilities availed by a subsidiary (refer to note 18).

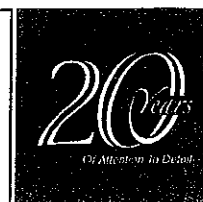
14 Transactions with related parties

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 on terms and conditions believed by the Group's management to be comparable with those that could be obtained from third parties. The transactions with related parties, other than those already disclosed separately elsewhere in the consolidated financial statements, are as follows:

	2006	2005
	AED'000	AED'000
Project management income and income from contracts for related parties	18,865	12,099
Interest earned from deposit with a significant shareholder, a bank	10,802	18,201
Interest on bank overdraft paid to a significant shareholder, a bank	7,776	4,999
Interest on term loan paid to a significant shareholder, a bank	16,680	11,646
Property management fees charged to a significant shareholder, a bank	12	33
Other charges to a significant shareholder, a bank	4	7
Operating expenses paid to a significant shareholder, a bank	426	391
Recharges to the jointly controlled entity	216	203
Advertisement expenses	17,823	9,683
Compensation to key management personnel are as follows:		
- Salaries and other short term employee benefits	6,774	5,334
- Provision towards employees terminal benefits	654	504

The Group has obtained banking facilities from a significant shareholder, a bank, at prevailing commercial rates (refer to note 18 and 19).

15 Cash at bank and in hand	2006	2005
	AED'000	AED'000
Cash in hand	667	365
Cash at banks in:		
- Fixed deposit accounts	4,685	1,174,421
- Current accounts	45,510	48,089
- Margin deposit accounts	478	124
	51,340	1,222,999



Notes Forming Part of the Consolidated Financial Statements (continued)

16 Trade and other payables	2006	2005
	AED'000	AED'000
Trade payables	227,476	236,590
Billings in excess of valuation (refer to note 12)	78,552	100,451
Other payables and accruals	939,086	643,183
Retention due within a year	22,443	21,935
Directors' fees payable	4,000	8,000
	1,271,557	1,010,159
17 Advances and deposits	2006	2005
	AED'000	AED'000
Rent received in advance	45,248	20,975
Membership fee received in advance	4,818	2,117
Other advances and deposits	11,136	5,250
Advances relating to construction contracts	106,690	197,796
Advances relating to property sales	31,751	84,503
	199,643	310,641
18 Bank borrowings	2006	2005
	AED'000	AED'000
Bank overdraft	269,925	99,956
Bills/cheques discounted	140,596	5,000
Trust receipts	77,371	7,031
Short-term loans from banks	201,263	-
	689,155	111,987

Bank borrowings includes AED 527.7 million (2005: AED 63.53 million) due to a significant shareholder, a bank.

Bank borrowings of a subsidiary amounting to AED 401.93 million (2005: AED 87.894 million) are secured by joint and several guarantees of the Company, a letter of undertaking by the Company stating that their shareholding in the subsidiary will not be reduced below 81% as long as the banking facilities are outstanding and assignment of certain contract receivables (refer to note 13).

Bank borrowings carry interest at prevailing commercial rates.

19 Long-term bank loans	2006	2005
	AED'000	AED'000
Balance at 31 December	693,843	677,831
Less: current portion	(87,234)	(80,003)
Non-current portion	606,609	597,828

- (i) The Company has a term loan facility from a significant shareholder, a bank amounting to AED 188.2 million (2005: AED 188.2 million). At 31 December 2006, the loan amount outstanding is AED 143.1 million (2005: AED 152.14 million). The loan is repayable in quarterly instalments commencing 31 March 2003 over the period of eleven years and nine months or until 31 December 2012, whichever is earlier, depending on drawings under the facility and carries interest at agreed rates.

The above loan is secured by:

- Deposit of title deeds of a property together with an undertaking to create a legal mortgage over the property at any time during the tenure of the loan in the event of default;
- Assignment of rental income in respect of a property;
- Assignment of insurance policy of a property; and
- Promissory note of AED 188.2 million.

- (ii) The Company has a term loan facility of AED 64 million from a bank which is payable in 40 quarterly instalments starting from 1 February 2003. At 31 December 2006, the loan amount outstanding is AED 38.4 million (2005: AED 44.8 million). This loan is secured by:

- Irrevocable undertaking/commitment to mortgage over a property at any time during the tenure of the loan in the event of default;
- Assignment of fire insurance policy of a property; and
- Assignment of rental income from a property.



19 Long-term bank loans (continued)

- (iii) The Company has a term loan of AED 150 million from a significant shareholder, a bank, which is repayable in 16 equal half yearly instalments commencing 28 January 2005. At 31 December 2006, the loan amount outstanding is AED 112.5 million (2005: AED 131.25 million) This loan is secured by:
- Deposit of title deeds of a property together with an undertaking to create a legal mortgage over the property at any time during the tenure of the loan in the event of default; and
 - Promissory note for AED 150 million.
- (iv) The Company has a term loan facility from a bank of AED 70 million (2005: AED 70 million). At 31 December 2006, the loan outstanding is AED 51.43 million (2005: AED 59.2 million). The loan is repayable in 36 quarterly instalments commencing from 26 January 2005. This loan is secured by:
- Assignment of lease proceeds of a property;
 - Assignment of fire insurance policy of a property; and
 - Deposit of title deeds of a property together with an undertaking to create a legal mortgage over the property at any time during the tenure of the loan in the event of default.
- (v) The Company has a term loan facility from a bank of AED 65 million, which is payable in 32 equal quarterly instalments commencing 20 July 2004. At 31 December 2006, the loan amount outstanding is AED 44.69 million (2005: AED 52.81 million). This loan is secured by:
- Assignment of lease proceeds of certain properties;
 - Assignment of insurance policy of properties; and
 - Irrevocable undertaking/commitment to mortgage over the properties at any time during the tenure of the loan in the event of default.
- (vi) The Company has a term loan facility from a bank of AED 50 million, which is repayable in 32 equal quarterly instalments commencing from 30 June 2004. At 31 December 2006, the loan amount outstanding is AED 34.38 million (2005: AED 40.63 million) This loan is secured by:
- Irrevocable assignment of lease rentals from a property;
 - Assignment of insurance policy of a property; and
 - Promissory note for AED 50 million.
- (vii) The Company has a term loan facility of AED 290 million from a bank which is payable in 40 quarterly instalments starting from 31 March 2006. At 31 December 2006, the loan amount outstanding is AED 269 million (2005: AED 197 million). The loan is secured by:
- Deposit of Title deeds of property together with an undertaking to create a legal mortgage over the property at any time during the tenure of the loan in the event of default;
 - Assignment of insurance policy of a property; and
 - Assignment of lease proceeds of certain properties.

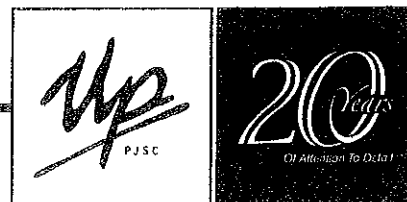
20 Deferred income

	2006 AED'000	2005 AED'000
Balance at 1 January	42,188	44,438
Less: income recognised during the year (refer note 5)	(2,250)	(2,250)
Balance at 31 December	<u>39,938</u>	<u>42,188</u>

In 2003, the Company received a plot of land from the Government of Dubai as a grant. The grant of land comprises two separate grants. The first grant of the land area has been granted with a condition to build an Autodrome comprising a motor racing circuit and related assets. The second grant comprising the remaining part of the land area had no conditions attached to it other than compliance with relevant local regulations. The land and the associated grant have been recorded on a gross basis at the fair value of the land at the time it was granted based on the open market valuation carried out by an independent registered valuer, Cluttons.

The Autodrome was completed in October 2004 and classified as property, plant and equipment. It will be depreciated over its estimated useful life of 20 years from date of completion. The grant relating to the Autodrome land has been recognised in the financial statements as deferred income and would be recognised in the income statement over the estimated useful life of the Autodrome of 20 years.

The fair value of the other land was recognised as income in 2003 as it has no conditions attached to it.



Notes Forming Part of the Consolidated Financial Statements (continued)

21 Provision for employees' terminal benefits	2006	2005
	AED'000	AED'000
Balance at 1 January	24,997	18,671
Provision made during the year	16,200	9,603
Payments made during the year	(3,432)	(3,277)
Balance at 31 December	<u>37,765</u>	<u>24,997</u>
22 Share capital, bonus shares and treasury shares	2006	2005
	AED'000	AED'000
Authorised, issued and fully paid up:		
2,226,020,815 (2005: 1,778,216,174) shares of AED 1 each	2,226,021	1,778,216
Treasury shares purchased:		
878,750 (2005: Nil) shares of AED 1 each	(4,998)	-
Shares outstanding at 31 December	<u>2,221,023</u>	<u>1,778,216</u>

In accordance with Article 203 of the Federal Commercial Companies Law No. 8 of 1984 (as amended), the share premium that arose on the issuance of right shares is transferred to statutory reserve.

During the year, 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. Further, the directors have proposed bonus shares of AED 556,505,204, being 25% of the paid-up share capital as at 31 December 2006.

The cost of treasury shares purchased is debited to Treasury Shares account, which is shown as a deduction from equity.

23 Statutory and general reserves

According to Federal Commercial Companies Law No. 8 of 1984 (as amended), 10% of the annual net profit of the Company and its subsidiaries is appropriated to statutory reserve until such reserve equals 50% of the paid-up share capital.

Furthermore, according to the Articles of Association of the Company, 10% of the annual net profit is appropriated to general reserve. The transfer to general reserve may be suspended at the recommendation of the Board of Directors or when it equals 50% of the paid-up share capital.

These reserves are not available for distribution.

24 Hedge accounting

IAS 39 (revised 2003), Financial Instruments: Recognition and Measurement, requires recognition of derivative financial instruments on the balance sheet at their fair values. The Company uses interest rate swaps to hedge its risk associated primarily with the variability in cash flows resulting from interest rate fluctuations on term loans.

During 2005, the Group obtained interest rate swaps with periodic knockout structure to hedge 50% of its long-term loan portfolio representing a total notional amount of AED 258.4 million (2005: AED 258.4 million). As per the swap arrangement, the Group pays a fixed rate and receives floating. The swap was used to protect the term loans taken by the Company from exposure to any increase in interest rates. At 31 December 2006, the fair value (net) on the interest rate swaps amounted to AED 2.44 million (2005: AED 0.864 million), which has been credited to hedging reserve and included as part of equity.

25 Subsidiary, joint venture and associate companies

At 31 December 2006, the Company holds investments in the following subsidiaries, joint venture and associate. These entities are limited liability companies and have 31 December as their reporting date:

Entity	Incorporated in	Effective ownership	Principal activities
Subsidiaries			
Thermo LLC	UAE	100%	Contracting of electrical, mechanical and plumbing works of building projects, facilities management services, manufacturing of air conditioning ducts, fire dampers and attenuators.
Serve U LLC	UAE	100%	Facilities management, security, MEP and energy management services.



Union Properties 2006
Public Joint Stock Company and Subsidiaries

Notes Forming Part of the Consolidated Financial Statements (continued)

25 Subsidiary, joint venture and associate companies (continued)

Edara LLC	UAE	100%	Project management services and property services.
Dubai Autodrome LLC	UAE	100%	Building, management and consultancy for all types of race tracks and related developments for all types of motor racing.
OITC Thermo WLL	Qatar	85%	Contracting of electrical, mechanical and plumbing works of building projects, facilities management services, manufacturing of air conditioning ducts, fire dampers and attenuators.
Jointly controlled entity			
Properties Investment LLC	UAE	50%	Property investment and development related activities.
Associate			
Emirates District Cooling LLC (Emicool)	UAE	50%	Constructing, installing and operating cooling and conditioning systems.

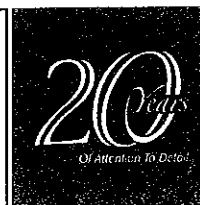
(i) Interest in joint ventures

- (a) The Group has a 50% equity interest in Properties Investment LLC. This investment is accounted for under the equity method. The Group's interest in the assets, liabilities, revenues and expenses of the jointly controlled entity is as follows:

	2006 AED'000	2005 AED'000
Non-current assets	307,942	304,093
Current assets	168,741	53,324
Non-current liabilities	(49,734)	(161,212)
Current liabilities	(304,300)	(124,536)
Inter company elimination	(10,892)	(7,407)
Net assets	111,757	64,262
Income	119,314	232,822
Expenses	(68,200)	(208,003)
Elimination of unrealised profit	(3,618)	(4,657)
Net profit	47,496	20,162

- (b) On 4 April 2002, Thermo LLC entered into an agreement with Airmech (Dubai) LLC to carry out a contract under a joint venture, Thermo/Airmech Joint Venture. Furthermore on 16 June 2004, Thermo LLC entered into an agreement with Overseas AST Company LLC to carry out contract under joint venture, Thermo/Overseas AST Joint Venture. The details of the Group's share in the results of operations, assets and liabilities of jointly controlled operations included in the consolidated financial statements are as follows:

	2006 AED'000	2005 AED'000
Non-current assets	2,049	23,448
Current assets	4,840	31,350
Current liabilities	(5,075)	(27,229)
Net assets	1,814	27,569
Income	10,656	31,004
Expenses	(16,214)	(31,916)
Net loss	(5,558)	(912)



Notes Forming Part of the Consolidated Financial Statements (continued)

25 Subsidiary, joint venture and associate companies (continued)

(i) Interest in joint ventures (continued)

- (c) During 2004, EDARA LLC entered into agreements with Asia Pacific Projects to carry out project management services under a joint venture. The details of the Group's share in the operations, assets and liabilities of the jointly controlled operation included in the consolidated financial statements are as follows:

	2006 AED'000	2005 AED'000
Non-current assets	-	4
Current assets	1,648	882
Current liabilities	(1,648)	(303)
Net assets	-	583
Income	4,098	1,992
Expenses	(3,893)	(1,601)
Net profit	205	391

(ii) Investment in an associate

In 2003, the Company had contributed AED 4 million towards 40% of the share capital of Emirates District Cooling LLC. The Group acquired an additional 10% shareholding in the associate company effective 1 August 2006 at a cost of AED 2.5 million. This amount includes an amount for goodwill of AED 1.31 million. The Group has also contributed AED 27.49 million towards its share in the increase in the paid-up capital of the associate.

	2006 AED'000	2005 AED'000
Balance at 1 January	3,206	3,070
Contribution during the year	28,685	-
Goodwill on acquisition	1,314	-
Share of profit during the year	1,315	136
Balance at 31 December	34,520	3,206

26 Minority interest

During 2003, Thermo LLC ("Thermo") had acquired 85% of the voting power of OITC Thermo WLL and 15% is held by the minority shareholders. Thermo has agreed with the minority shareholders that they are not liable to contribute to the share capital of the subsidiary and the minority shareholders have provided rent-free premises in lieu of their contribution to the share capital of the subsidiary. OITC Thermo WLL has accumulated losses at 31 December 2006 and Thermo has resolved to absorb this loss completely. As such the loss applicable to the minority is not charged against the minority interest.

Furthermore, the Company holds 80% of the voting power of Nautilus LLC ("Nautilus") and 20% is held by the minority shareholders. The losses applicable to the minority in Nautilus have exceeded their interest in the equity. Accordingly, the losses applicable to the minority are not charged against the minority interest.

27 Directors' fees

This represents professional fees paid / payable to the Company's directors for serving on any committee, for devoting special time and attention to the business or affairs of the Company and for otherwise performing services outside the scope of their ordinary activities.

28 Cash and cash equivalents

	2006 AED'000	2005 AED'000
Cash at banks and in hand	51,340	1,222,999
Bank overdraft (refer to note 18)	(269,925)	(99,956)
Bills discounted (refer to note 18)	(140,596)	(5,000)
	(359,181)	1,118,043



29 Earnings per share

	2006 AED'000	2005 AED'000
Net profit attributable to shareholders (AED'000)	613,968	584,538
Weighted average number of shares	<u>2,224,821,446</u>	<u>2,055,438,518</u>

For recalculating the earnings per share for 2005, the weighted average number of shares has been adjusted as if the bonus issue had occurred at the beginning of 2005 as well as to reflect the timing and impact of the rights issue.

30 Capital commitments and contingent liabilities

	2006 AED'000	2005 AED'000
Commitments:		
Purchase commitments (letters of credit)	852,517	248,113
Capital commitments	<u>2,895,578</u>	<u>1,232,161</u>
Contingent liabilities:		
Letters of guarantee	<u>708,451</u>	<u>686,414</u>

The Company has provided a corporate guarantee of AED 112.5 million (2005: AED 112.5 million) to a significant shareholder, a bank, in respect of facilities granted by it to the jointly controlled entity and AED 50 million (2005: AED 47 million) to other banks in respect of facilities granted by the banks to an associate company.

31 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 securities. Financial liabilities of the Group include bank borrowings, term loans from banks, trade and other payables, long term retentions payable and advances and deposits.

Interest rate risk

The Group's deposits with banks carry interest at prevailing commercial rates. Further, the interest rates and terms of repayment of loans of the Group are described in notes 18 and 19 to the consolidated financial statements. The Group has taken out derivative contracts to hedge part of the interest rate risk (Note 24).

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. These receivables are subject to market credit risks, which are closely monitored by management.

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.

32 Accounting estimates and judgements

Revenue recognition for real estate properties

Revenue from the sale of properties under finance lease is recognised in the income statement when the significant risks and rewards of ownership are transferred to the buyer. Significant risks and rewards of ownership are deemed to be transferred to the buyer when price risk is transferred to the buyer by signing of the contract agreement and the buyer has been granted access to the property.

Valuation of investment properties

Note 8 contain information for basis of valuation and key assumptions for the valuation of investment properties.

Contingency provisions in project accruals

In order to recognise cost of properties sold, management needs to estimate the total cost of the project considering the fact the all the project accounts may not be finalised as at the balance sheet date. These contingency provisions are initially made as a percentage of the total anticipated project cost and adjusted based on judgement as the project progresses. At 31 December 2006, the Company has made a contingency provision of AED 47 million (2005: AED 135.539 million) towards project accounts not yet settled with contractors.

33 Comparatives

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