

**Deyaar Development PJSC
and Subsidiaries**

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2010

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF DEYAAR DEVELOPMENT PJSC

Report on the Financial Statements

We have audited the accompanying financial statements of Deyaar Development PJSC and Subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2010 and the consolidated statements of income and comprehensive income, consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

The Directors are responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and the applicable provisions of the articles of association of Deyaar Development PJSC and the UAE Commercial Companies Law of 1984 (as amended), and for such internal control as the Directors determine is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

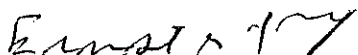
Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

We also confirm that, in our opinion, the consolidated financial statements include in all material respects, the applicable requirements of the UAE Commercial Companies Law of 1984 (as amended) and the articles of association of Deyaar Development PJSC; proper books of account have been kept by Deyaar Development PJSC and the contents of the report of the Board of Directors relating to these consolidated financial statements are consistent with the books of account. We have obtained all the information and explanations which we required for the purpose of our audit and, to the best of our knowledge and belief, no violations of the UAE Commercial Companies Law of 1984 (as amended) or of the articles of association of Deyaar Development PJSC have occurred during the year which would have had a material effect on the business of Deyaar Development PJSC or on its financial position.

Signed by
Ali Issa (Registration No.488)
For Ernst & Young



3 March 2011
Dubai, United Arab Emirates

Deyaar Development PJSC and Subsidiaries

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2010

	<i>Notes</i>	<i>2010 AED '000</i>	<i>2009 AED '000</i>
Revenues	8	2,643,153	1,835,082
Cost of revenues	8	(2,688,989)	(1,637,493)
GROSS (LOSS) / PROFIT		(45,836)	197,589
Other operating income	9	115,974	122,913
Selling, general and administrative expenses	10	(148,767)	(206,958)
Provision for doubtful debts	15	(73,067)	(80,148)
Provision for impairment of investment in associates	21	(95,785)	(10,500)
Provision for impairment of properties under construction	18	(370,544)	-
Provision for impairment of properties held for sale	17	(58,952)	-
Impairment of goodwill	7	(404,037)	-
Other impairment and write offs	12	(413,972)	-
Finance costs	11	(42,263)	(33,683)
Income from deposits		8,885	17,559
Net (loss) / gain on fair valuation of investment properties	24	(805,773)	27,202
Share of results of associates	21	(2,655)	6,552
(LOSS) / PROFIT BEFORE TAX		(2,336,792)	40,526
Income tax		(3,020)	(15,621)
(LOSS) / PROFIT FOR THE YEAR		(2,339,812)	24,905
Attributable to:			
Equity holders of the Parent		(2,304,897)	30,153
Non controlling interests		(34,915)	(5,248)
		(2,339,812)	24,905
Earnings per share attributable to the equity holders of the parent:			
- basic and diluted (losses) earnings per share	13	(0.3989)	0.0052

The attached notes 1 to 36 form part of these consolidated financial statements.

Deyaar Development PJSC and Subsidiaries

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2010

	<i>2010</i> <i>AED'000</i>	<i>2009</i> <i>AED'000</i>
(Loss) / profit for the year	(2,339,812)	24,905
Exchange differences on translation of foreign operations	(3,184)	(7,069)
Other comprehensive loss for the year	(3,184)	(7,069)
Total comprehensive (loss) / income for the year	(2,342,996)	17,836
Attributable to:		
Equity holders of the Parent	(2,308,081)	23,084
Non controlling interests	(34,915)	(5,248)
	(2,342,996)	17,836

The attached notes 1 to 36 form part of these consolidated financial statements.

Deyaar Development PJSC and Subsidiaries

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2010

	Notes	2010 AED'000	2009 AED'000
ASSETS			
Bank balances and cash	14	442,311	683,867
Accounts and notes receivable	15	2,564,024	577,081
Prepayments and other assets	16	210,910	556,392
Properties held for sale	17	252,342	542,017
Properties under construction	18	2,169,888	2,673,692
Land held for future development	19	240,000	1,611,334
Advances for purchase of land	20	-	1,222,299
Investments in associates	21	288,430	586,870
Property, plant and equipment	23	50,277	34,723
Investment properties	24	1,324,686	1,899,943
Goodwill	7	564,927	968,964
TOTAL ASSETS		8,107,795	11,357,182
LIABILITIES AND EQUITY			
LIABILITIES			
Accounts payable and accruals	25	874,165	1,362,797
Advances from customers		1,657,526	1,944,854
Islamic finance obligations	26	878,475	955,242
Other borrowings	27	133,780	174,924
Retentions payable		146,637	153,944
Employees' end of service benefits	28	8,529	13,742
TOTAL LIABILITIES		3,699,112	4,605,503
EQUITY			
Equity attributable to equity holders of the parent company			
Share capital	29	5,778,000	5,778,000
Statutory reserve	30	155,278	155,278
Exchange translation reserve		(11,127)	(7,943)
(Accumulated deficit) / retained earnings		(1,513,468)	812,620
		4,408,683	6,737,955
Non controlling interests	31	-	13,724
TOTAL EQUITY		4,408,683	6,751,679
TOTAL LIABILITIES AND EQUITY		8,107,795	11,357,182

Chairman
3 March 2011

Acting Chief Executive Officer
3 March 2011

The attached notes 1 to 36 form part of these consolidated financial statements.

Deyaar Development PJSC and Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2010

	Attributable to equity holders of the parent					Non-controlling interests AED '000	Total AED '000
	Share capital AED '000	Statutory reserve AED '000	Exchange translation reserve AED '000	Retained earnings / (accumulated deficit) AED '000	Total AED '000		
At 1 January 2010	5,778,000	155,278	(7,943)	812,620	6,737,955	13,724	6,751,679
Loss for the year	-	-	-	(2,304,897)	(2,304,897)	(34,915)	(2,339,812)
Other comprehensive loss	-	-	(3,184)	-	(3,184)	-	(3,184)
Total comprehensive loss for the year	-	-	(3,184)	(2,304,897)	(2,308,081)	(34,915)	(2,342,996)
Loss absorbed by equity holders of the parent (note 1)	-	-	-	(21,191)	(21,191)	21,191	-
At 31 December 2010	5,778,000	155,278	(11,127)	(1,513,468)	4,408,683	-	4,408,683

Deyaar Development PJSC and Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

Year ended 31 December 2009

	Attributable to equity holders of the parent					Non-controlling interests AED '000	Total AED '000
	Share capital AED '000	Statutory reserve AED '000	Exchange translation reserve AED '000	Retained earnings AED '000	Total AED '000		
At 1 January 2009	5,778,000	152,263	(874)	785,482	6,714,871	18,972	6,733,843
Profit for the year	-	-	-	30,153	30,153	(5,248)	24,905
Other comprehensive loss	-	-	(7,069)	-	(7,069)	-	(7,069)
Total comprehensive income for the year	-	-	(7,069)	30,153	23,084	(5,248)	17,836
Transfer to statutory reserve	-	3,015	-	(3,015)	-	-	-
At 31 December 2009	5,778,000	155,278	(7,943)	812,620	6,737,955	13,724	6,751,679

Deyaar Development PJSC and Subsidiaries
CONSOLIDATED STATEMENT OF CASH FLOWS
Year ended 31 December 2010

		2010 AED'000	2009 AED'000
	<i>Notes</i>		
OPERATING ACTIVITIES			
(Loss) / profit before tax		(2,336,792)	40,526
Adjustments for:			
Depreciation	23	10,759	11,793
Provision for employees' end of service benefits	28	3,547	5,765
Provision for doubtful debts		73,067	80,148
Other impairment and write offs		413,972	-
Income from deposits		(8,885)	(17,559)
Finance costs		42,263	33,683
Share of results of associates		2,655	(6,552)
Impairment of goodwill		404,037	-
Provision for impairment of investment in associates		95,785	10,500
Provision for impairment of properties under construction		370,544	-
Provision for impairment of properties held for sale		58,952	-
Net loss / (gain) on fair valuation of investment properties		805,773	(27,202)
(Gain) / loss on disposal of property, plant and equipment		(203)	25
		<u>(64,526)</u>	<u>131,127</u>
Working capital changes:			
Accounts and notes receivable		(2,060,010)	405,291
Prepayments and other assets		156,497	171,165
Properties held for sale		230,723	(542,017)
Properties under construction, net		129,102	1,101,562
Land held for future development		1,337,101	(23,841)
Advances for purchase of land		871,925	(96,205)
Retentions payable		(7,307)	15,626
Accounts payable and accruals		(369,874)	(576,793)
Advances from customers		(287,328)	(767,665)
		<u>(63,697)</u>	<u>(181,750)</u>
Cash used in operations		(8,760)	(1,371)
Employees' end of service benefits paid	28		
		<u>(72,457)</u>	<u>(183,121)</u>
INVESTING ACTIVITIES			
Purchase of property, plant and equipment, net of transfers	23	(1,940)	(11,977)
Proceeds from disposal of property, plant and equipment		330	734
Investment properties, net		(213,016)	(143,711)
Investments in associates		200,000	65,200
Deposits maturing after three months		(150,998)	(84,897)
Income from deposits		8,885	17,559
		<u>(156,739)</u>	<u>(157,092)</u>
FINANCING ACTIVITIES			
Islamic finance obligations received		509,000	496,249
Islamic finance obligations paid		(585,767)	(115,928)
Net movement in other borrowings		(38,683)	(167,075)
Finance costs paid		(42,263)	(33,683)
		<u>(157,713)</u>	<u>179,563</u>
DECREASE IN CASH AND CASH EQUIVALENTS		<u>(386,909)</u>	<u>(160,650)</u>
Net foreign exchange difference		(3,184)	(7,069)
Cash and cash equivalents at 1 January		452,540	620,259
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	14	<u>62,447</u>	<u>452,540</u>

The attached notes 1 to 36 form part of these consolidated financial statements.

Deyaar Development PJSC and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

1 ACTIVITIES

Deyaar Development PJSC (the "Company") was formally incorporated and registered as a Public Joint Stock Company in the Emirate of Dubai, UAE on 10 July 2007. The principal activities of the Company are property investment and development, brokering, managing and renting of buildings and provision of related support services.

The Company was given approval by the UAE Ministry of Economy and the Securities and Commodities Authority on 6 April 2007 to publish the Initial Public Offering of 55% of the shares of the Company, pursuant to fulfilment of all legal requirements and necessary procedures in accordance with the laws of the UAE. The founders of the Company contributed 45% of the Company's equity in kind. Share allotments were completed by 30 May 2007.

The address of the Company's registered office is P. O. Box 30833, Dubai, United Arab Emirates.

The accompanying consolidated financial statements comprise the activities of the Company and the following subsidiaries and joint ventures (collectively referred to as the "Group"):

<u>Subsidiaries</u>	<u>Principal activity</u>	<u>Country of incorporation</u>	<u>Percentage of equity</u>	
			2010	2009
Omega Engineering L.L.C.	Mechanical, electrical and plumbing	U.A.E.	55%	55%
Nationwide Realtors L.L.C. *	Brokerage and other related services	U.A.E.	100%	100%
Beirut Bay SAL*	Property investment and development	Lebanon	100%	100%
Deyaar For Development SA*	Representative Office of Deyaar	Lebanon	100%	100%
Deyaar (UK) Ltd*	Representative Office of Deyaar	UK	100%	100%
Deyaar Cayman Ltd *	Investment holding company	Cayman Islands	100%	100%
Deyaar West Asia Cooperatief U.A. *	Investment holding company	Netherlands	100%	100%
Deyaar Development Corporation*	Property investment and development	USA	100%	100%
Deyaar Mauritius Ltd *	Property investment and development	Mauritius	100%	100%
Deyaar City Mauritius Ltd *	Property investment and development	Mauritius	100%	100%
Deyaar Malaysia Sdn Bhd *	Property investment and development	Malaysia	100%	100%
Flamingo Creek L.L.C.*	Property investment and development	U.A.E.	100%	100%
Deyaar Hospitality LLC *	Property investment and development	U.A.E.	100%	100%
Deyaar International LLC *	Property investment and development	U.A.E.	100%	100%
Deyaar Ventures LLC *	Property investment and development	U.A.E.	100%	100%
Deyaar Property Management LLC *	Property investment and development	U.A.E.	100%	100%
Deyaar Limited *	Property investment and development	U.A.E.	100%	100%
Deyaar Al Emarat Holding WLL*	Property investment and development	Bahrain	100%	100%
Deyaar Al Tawassol Lil Tatweer Aleqare Co.*	Property investment and development	Saudi Arabia	100%	-

* These subsidiaries did not carry out any activities during the year.

Subsequent to the year end, on 5 January 2011 the Company signed an agreement with the minority shareholders of Omega Engineering L.L.C to acquire the remaining 45% shares in the subsidiary for no consideration. As a result of this acquisition, the Group assumed the losses of the non controlling interests and accordingly absorbed AED 21,191 thousand in this respect as of 31 December 2010 in retained earnings / (accumulated deficit).

<u>Joint Ventures</u>	<u>Principal activity</u>	<u>Country of incorporation</u>	<u>Percentage of equity</u>	
			2010	2009
Arady Development L.L.C.	Property development	U.A.E.	50%	50%
Dubai International Development. Co. LLC *	Property development	U.A.E.	50%	50%
Alarko Deyaar Gayrimenkul	Property development	Turkey	50%	50%

* This joint venture did not carry out any operations during the year.

2 BASIS OF PREPARATION

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

The consolidated financial statements have been presented in United Arab Emirates Dirhams (AED), which is the Company's functional and presentation currency and all values are rounded to the nearest thousand except where otherwise indicated. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

The consolidated financial statements are prepared under the historical cost convention modified to include the measurement at fair value of investment properties.

3 FUNDAMENTAL ACCOUNTING CONCEPT

As a result of the current market condition and its impact on the real estate market in the UAE, the Board of Directors has considered the way forward and developed plans to ensure the viability and continuity as a going concern of the Company and its subsidiaries. The Group's success in achieving its objective is dependent on the realization of the cash flow forecasts based on different financial and operating assumptions for which negotiations are in progress with banks, contractors and customers. These assumptions include the following:

1. Re-scheduling of loan facilities;
2. Sale of unsold units in completed and ongoing projects;
3. Successful completion and receipt of customers funds from ongoing projects;
4. Extension of payment terms for the settlement of regular construction invoices, and
5. Disposal of surplus assets.

The Board of Directors believes that the above assumptions are realistic and, based on these assumptions, the Group is able to meet its obligations as they fall due and ensure the continuity of the Group's operations in the future. Accordingly, these consolidated financial statements have been prepared on a going concern basis.

4 BASIS OF CONSOLIDATION

Subsidiary Companies

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, income and expenses, unrealised gains and losses and dividends resulting from intra-group transactions are eliminated in full.

Losses are attributed to the non-controlling interests even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences, recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings as appropriate.

5 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

5.1 Judgements

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

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

Investment properties

The Group has elected to adopt the fair value model for investment properties. Accordingly, both investment properties and investment properties under construction are carried at fair value with the gain or losses arising from changes in fair values of investment properties included in the consolidated income statement.

Classification of properties

Management decides at the time of acquisition of the property whether it should be classified as held for sale, held for development or investment property. The Group classifies properties as land held for future development when the intention is to develop the properties for the purpose of selling them to third parties and as properties under construction when such development activities have commenced. The Group also classifies properties as investment properties when the intention is to hold them for rental, capital appreciation or for undetermined use. The Group changes the classification when the intention changes.

5.2 Estimates and Assumptions

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

Revaluation of investment properties

The Group carries its investment properties at fair value, with changes in fair value being recognised in the income statement. The Group engaged independent valuation specialists to determine the fair values of investment properties as at 31 December 2010. For investment properties under construction the management used a valuation technique based on a discounted cash flow model as there is a lack of comparable market data because of the nature of the properties.

The determined fair value of the investment properties is most sensitive to the estimated yield as well as the long term vacancy rate. The key assumptions used to determine the fair value of the investment properties, are further explained in note 24.

Impairment of investments in associates

Investments in associates are tested for impairment annually (as at 31 December) and when circumstances indicate that the carrying value of the investments in associates may be impaired. Impairment is determined by assessing the recoverable amount of the associate. Where the recoverable amount of the associate is less than the carrying amount, an impairment loss is recognised.

Net realisable value of inventories and advances against purchase of land

The carrying amounts of inventories (properties held for sale, properties under construction and land held for future development) and advances for purchase of land are compared with net realisable value to determine that cost does not exceed the net realisable value. Basis used for determining net realisable values are set out in notes 17, 18, 19 and 20. The Group also estimates the cost to complete properties under construction in order to determine the cost attributable to properties being developed. These estimates include the cost of providing infrastructure and construction activities, potential claims by main contractors and subcontractors and the cost of meeting other contractual obligations to the customers.

5 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

5.2 Estimates and Assumptions (continued)

Impairment of goodwill

Goodwill is tested for impairment annually (as at 31 December) and when circumstances indicate that the carrying value may be impaired. Impairment is determined by assessing the recoverable amount of the cash generating unit to which goodwill relates. Where the recoverable amount of the cash generating unit or group of cash generating units is less than the carrying amount, an impairment loss is recognised. The key assumptions used to determine the recoverable amount for the cash generating unit to which goodwill is allocated, including a sensitivity analysis, are further explained in note 7.

6 SIGNIFICANT ACCOUNTING POLICIES

Changes in accounting policies and disclosures

New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year except the following:

New and amended IFRS and IFRIC interpretations, applicable to the Group, effective as of 1 January 2010:

IFRIC 17 *Distributions of Non-cash Assets to Owners* effective 1 July 2009

The adoption of the standards or interpretations is described below:

IFRIC 17 Distributions of Non-cash Assets to Owners

This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The interpretation has no effect on either the financial position or performance of the Group.

Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. This listing is of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt those standards when they become effective.

IAS 24 Related Party Disclosures (Amendment)

The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government related entities. The Group does not expect any impact on its financial position or performance. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.

IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (Amendment)

The amendment to IAS 32 is effective for annual periods beginning on or after 1 February 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. This amendment will have no impact on the Group after initial application.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. The completion of this project is expected in early 2011. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

6 SIGNIFICANT ACCOUNTING POLICIES (continued)

Changes in accounting policies and disclosures (continued)

Standards issued but not yet effective (continued)

IFRIC 14 Prepayments of a minimum funding requirement (Amendment)

The amendment to IFRIC 14 is effective for annual periods beginning on or after 1 January 2011 with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The amendment is deemed to have no impact on the financial statements of the Group.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

IFRIC 19 is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognised immediately in profit or loss. The adoption of this interpretation will have no effect on the financial statements of the Group.

Improvements to IFRSs (issued in May 2010)

The IASB issued Improvements to IFRSs, an omnibus of amendments to its IFRS standards. The amendments have not been adopted as they become effective for annual periods on or after either 1 July 2010 or 1 January 2011. The amendments listed below:

IFRS 3 Business Combinations

IFRS 7 Financial Instruments: Disclosures

IAS 1 Presentation of Financial Statements

IAS 27 Consolidated and Separate Financial Statements

IFRIC 13 Customer Loyalty Programmes

The Group, however, expects no impact from the adoption of the above amendments on its financial position or performance.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the noncontrolling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

6 SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Investments in associates

The Group's investments in its associates are accounted for using the equity method. An associate is an entity in which the Group has significant influence.

Under the equity method, the investment in the associate is carried in the statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The income statement reflects the share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The share of profit or loss of associates is shown on the face of the income statement. This is the profit or loss attributable to equity holders of the associate and therefore is profit or loss after tax and non-controlling interests in the subsidiaries of the associates.

The financial statements of the associate are prepared for the same reporting period as the parent company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associates. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the income statement.

Upon loss of significant influence over the associate, the Group measures and recognises any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal are recognised in profit or loss.

Interest in joint ventures

The Group has interest in joint ventures which are a jointly controlled entities, whereby the venturers have a contractual arrangement that establishes joint control over the economic activities of the entity. The agreement requires unanimous agreement for financial and operating decisions among the ventures. The Group recognises its interest in the joint venture using the proportionate consolidation method. The Group combines its proportionate share of each of the assets, liabilities, income and expenses of the joint venture with similar items, line by line, in its consolidated financial statements. The financial statements of the joint venture are prepared for the same reporting period as the parent company. Adjustments are made where necessary to bring the accounting policies in line with those of the Group.

Adjustments are made in the Group's consolidated financial statements to eliminate the Group's share of intra-group balances, income and expenses and unrealised gains and losses on transactions between the Group and its jointly controlled entity. Losses on transactions are recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets or an impairment loss. The joint venture is proportionately consolidated until the date on which the Group ceases to have joint control over the joint venture.

Upon loss of joint control and provided the former joint control entity does not become a subsidiary or associate, the Group measures and recognises its remaining investment at its fair value. Any difference between the carrying amount of the former joint controlled entity upon loss of joint control and the fair value of the remaining investment and proceeds from disposal are recognised in profit or loss. When the remaining investment constitutes significant influence, it is accounted for as investment in an associate.

6 SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The following specific recognition criteria must also be met before revenue is recognised:

Sales of properties

The Group adopted IFRIC 15 "Agreement for the Construction of Real Estate" effective for accounting periods beginning on or after 1 January 2009. As per IFRIC 15 an agreement for the construction of real estate in which buyers have only limited ability to influence the design of the real estate, is an agreement for the sale of goods within the scope of IAS 18 "Revenue Recognition" and accordingly revenue shall be recognized only when significant risks and rewards of ownership of real estate in its entirety have been transferred to the buyer. The Group was recognizing revenues on the basis of percentage of completion method up to 31 December 2008. After the adoption of IFRIC 15 revenue is recognized in accordance with the requirements of IAS 18 as mentioned below.

The requirements of IAS 18 "Revenue Recognition" are as follows:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the units;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the units sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

In accordance with paragraph 1 of the Appendix of IAS 18, the Group also recognises revenues for units where handover is delayed at the buyer's specific request, provided:

- it is probable that delivery will be made;
- the property units are on hand, identified and ready for delivery to the buyer at the time the sale is recognised;
- the buyer specifically acknowledges the deferred delivery instructions; and
- the usual payment terms apply.

When revenue is not recognized if one or more of the above conditions are not met, the cash advances received from property buyers are recorded under liabilities as advances from customers.

Contract revenues

Contract revenue represents the total value of work performed during the period including the estimated sales value of contracts in progress assessed on a percentage of completion method, measured by reference to total cost incurred to date to estimated total cost for each contract. No profit is taken until a contract has progressed to a point where its outcome can be estimated reliably. Where the outcome of a contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable and contract costs are recognised as an expense in the period in which they are incurred. Provision is made for all losses expected to arise on completion of the contracts entered into at the statement of financial position date, whether or not work has commenced on these contracts.

Fee and commission income

Fee and commission income is recognised when earned.

Income from deposits

Income from deposits is recognised on an accrual basis.

Services

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

Rental income

Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms.

6 SIGNIFICANT ACCOUNTING POLICIES (continued)

Cost of sale of property

Cost of sale of property includes the cost of land and development costs. Development costs include the cost of infrastructure and construction. The cost of sale in respect of residential and commercial units is based on the estimated proportion of the development cost incurred to date to the estimated total development costs for each project.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Income tax

Taxation is provided in accordance with the relevant fiscal regulations of the countries in which the Group operates.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the statement of financial position date.

Income tax relating to items recognised in equity is recognised in equity and not in the income statement.

Deferred tax is provided, using the liability method, on temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax assets and unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted at the statement of financial position date.

Properties held for sale

Properties acquired or constructed with the intention of sale are classified as properties held for sale upon acquisition or when construction is completed. Properties held for sale are stated at the lower of cost and net realisable value. Net realisable value represents the estimated selling price less costs to be incurred in selling the property.

Cost includes the cost of land, infrastructure, construction and other related expenditure such as professional fees and engineering costs attributable to the property, which are capitalised as and when activities that are necessary to get the property ready for the intended use. Completion is defined as the earlier of issuance of a certificate of practical completion, or when management considers the property to be completed. The cost of land and cost incurred in the course of development relating to properties sold during the year, for which revenue is recognised, are transferred to cost of sales.

Properties under construction

Properties in the course of construction for sale are classified as properties under construction. Such properties are stated at the lower of cost and net realisable value. Cost includes the cost of land, infrastructure, construction and other related expenditure such as professional fees and engineering costs attributable to the property, which are capitalised as and when activities that are necessary to get the property ready for the intended use.

6 SIGNIFICANT ACCOUNTING POLICIES (continued)

Land held for future development

Land held for future development is stated 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 the estimated costs necessary to make the sale.

Advances for purchase of land

Advances for purchase of land are carried at the lower of cost and expected economic benefits to be received.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings	20 years
Leasehold improvements	4 years
Furniture and fixtures	4 to 5 years
Plant and equipment	4 years
Motor vehicles	4 years

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalised only when it increases future economic benefits of the related item of property, plant and equipment. All other expenditure is recognised in the income statement as the expense is incurred.

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of property, plant and equipment may not be recoverable. Whenever the carrying amount of property, plant and equipment exceeds their recoverable amount, an impairment loss is recognised in the income statement. The recoverable amount is the higher of fair value less costs to sell of property, plant and equipment and the value in use. The fair value less costs to sell is the amount obtainable from the sale of property, plant and equipment in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of property, plant and equipment and from its disposal at the end of its useful life.

Reversal of impairment losses recognised in the prior years is recorded when there is an indication that the impairment losses recognised for the property, plant and equipment no longer exist or have reduced.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

Group as a lessee

Finance leases which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the income statement.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognised as an operating expense in the income statement on a straight-line basis over the lease term.

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

6 SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

Investment properties including investment properties under construction are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the period in which they arise. Fair values are evaluated annually by an accredited external, independent valuer, applying a valuation model recommended by the International Valuation Standards Committee.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the income statement in the period of derecognition.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

Accounts receivable

Accounts receivable are stated at original invoice amount less a provision for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when there is no possibility of recovery.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, bank balances and short-term deposits with an original maturity of three months or less, net of outstanding bank overdrafts.

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Accounts payable and accruals

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

Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the consolidated income statement when the liabilities are derecognised as well as through the amortisation process.

Employees' end of service benefits

The Group provides end of service benefits to its employees. The entitlement to these benefits is based upon the employees' salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

With respect to its UAE national employees, the Group makes contributions to a pension fund established by the General Pension and Social Security Authority calculated as a percentage of the employees' salaries. The Group's obligation is limited to these contributions, which are expensed when due.

6 SIGNIFICANT ACCOUNTING POLICIES (continued)**Provisions**

Provisions are recognised when the Group has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and able to be reliably measured.

Foreign currency translation

The Group's consolidated financial statements are presented in UAE Dirhams (AED), which is also the parent company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group has elected to recycle the gain or loss that arises from the direct method of consolidation, which is the method the Group uses to complete its consolidation.

i) Transactions and balances

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency rates prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date.

All differences are taken to the income statement with the exception of all monetary items that provide an effective hedge for a net investment in a foreign operation. These are recognised in other comprehensive income until the disposal of the net investment, at which time they are recognised in the income statement. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

ii) Group companies

The assets and liabilities of foreign operations are translated into AED at the rate of exchange prevailing at the reporting date and their income statements are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on the translation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

Contingencies

Contingent liabilities are not recognised in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

7 IMPAIRMENT TESTING OF GOODWILL

The movement in goodwill during the year is as follows:

	2010 AED'000	2009 AED'000
Balance at beginning of the year	968,964	968,964
Impairment	(404,037)	-
Balance at the end of the year	<u>564,927</u>	<u>968,964</u>

The Group performed its annual impairment test on goodwill as at 31 December 2010. The recoverable amount of the property development unit (the "unit") to which goodwill is allocated has been determined based on a value in use calculation using cash flow projections approved by the Board of Directors covering a 5 year period. The Group considers the relationship between its market capitalization and its book value, among other factors, when reviewing for indicators of impairment.

7 IMPAIRMENT TESTING OF GOODWILL (continued)

In addition, the overall decline in construction and development activities around the world as well as the ongoing economic uncertainty have led to a decreased demand and hence, price, for the cash-generating unit.

The pre-tax discount rate applied to the cash flow projections is 9.5%. Cash flow beyond the discreet period of 5-years is extrapolated, where applicable, at 3.3% growth rate, which is projected to be similar to the long-term average estimated inflation/GDP Growth rates for the UAE Economy.

As a result of this analysis, management has recognized an impairment charge of AED 404,037 thousand against goodwill previously carried at AED 968,964 thousand, which is recorded in the consolidated income statement.

Key assumptions used in value-in-use calculations:

The calculation of value in use for the units is most sensitive to the following assumptions:

- Completion of Projects and collection of dues;
- Discount rates; and
- Growth rate used to extrapolate cash flows beyond the budget period.

Completion of projects and collection of dues

The assumptions on completion of projects under development and collection of remaining cash from customers are based on experience of recent past and comparison of remaining cash due from customers with prevailing market prices.

The cash from customers is adjusted to reflect any potential forfeiture and resale of the units at prevailing market prices.

Basis used for determining net realisable values are set out in notes 17, 18, 19 and 20

Discount rates

Discount rate reflects the current market assessment of the risks specific to the unit. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on the profit bearing facilities the Group is obliged to service. Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available market data.

Growth rate estimates

Rates are based on published industry research. Cash flows beyond the discreet period of 5-years are extrapolated using a 3.3% growth rate (2009: 3.0%), which is projected to be similar to the long-term average estimated inflation/GDP Growth rates for the UAE Economy.

Sensitivity to changes in assumptions

For the property development unit, any adverse change in key assumptions would result in further impairment loss. However, the Board of Directors believes that whilst changes in the growth rate and discount rate may have adverse impact on the remaining carrying value of goodwill, other factors including the association with the major shareholder as major lender, for both the unit and the customers of the unit, would mitigate such adverse impact.

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8 REVENUES AND COSTS

	2010 AED'000	2009 AED'000
Revenue:		
Sale of properties	245,834	1,479,823
Sale of plots and assignment of rights to purchase plots (notes 19 and 20)	2,237,435	-
Contract revenues	152,849	342,707
Services income	7,035	12,552
	<u>2,643,153</u>	<u>1,835,082</u>
	2010 AED'000	2009 AED'000
Cost:		
Cost of properties sold (note 17)	227,183	1,288,465
Cost of plots and advance paid against purchase of plots	2,237,435	-
Contract costs	218,200	337,873
Cost of services	6,171	11,155
	<u>2,688,989</u>	<u>1,637,493</u>

Sale of properties

Sale of properties relates to the sale of land and residential, retail and commercial units in various projects in the UAE and Lebanon.

Sale of plots and assignment of rights to purchase plots

Effective 30 December 2010, the Company entered into a sale and purchase agreement with a related party to sell properties held for future development with a carrying value of AED 1,337,845,960 (note 19) and rights to purchase plots recorded initially by the Company under advances for purchase of land amounting to AED 899,589,105 (note 20).

The salient terms and conditions of the sale and purchase agreement are as follows:

- The sale consideration is receivable on or before 1 June 2016.
- The sale consideration can be settled in cash or in kind or a combination of cash and in kind, at the discretion of the Purchaser. In case the full settlement of the sale consideration or part thereof is in kind, assets to be offered in lieu of the full sale consideration or part thereof, must be of equal value (as verified by an independent real estate valuation consultant appointed jointly by the Purchaser and the Seller) to the amount due and payable under the agreement.
- The commitment on the remaining purchase price of the land held for development and the rights to purchase plots remain with the Company.

The net sales consideration has been calculated as follow:

	2010 AED'000	2009 AED'000
Gross sale consideration	3,647,483	-
Less: Deferred income	(990,409)	-
Future commitments	(419,639)	-
	<u>2,237,435</u>	<u>-</u>
Net sales consideration	2,237,435	-
Less: Cost of sale of plots and assignment of rights to purchase plots	(2,237,435)	-
	<u>-</u>	<u>-</u>
Profit / (loss) on sales		

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

9 OTHER OPERATING INCOME

	<i>2010</i> <i>AED'000</i>	<i>2009</i> <i>AED'000</i>
Management fees	18,603	20,019
Brokerage and commission	10,837	14,036
Gain on disposal of a subsidiary	-	9,493
Forfeiture income	66,208	-
Others	20,326	79,365
	<u>115,974</u>	<u>122,913</u>

10 SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	<i>2010</i> <i>AED'000</i>	<i>2009</i> <i>AED'000</i>
Payroll and related expenses	56,759	84,241
Sales and marketing	9,540	41,976
Rent	11,333	18,044
Legal and professional fees	17,847	23,721
Communication	3,611	3,797
Other expenses	49,677	35,179
	<u>148,767</u>	<u>206,958</u>

11 FINANCE COSTS

During the year ended 31 December 2010, AED 9,341,034 and AED 37,013,611 of borrowing costs have been capitalised on qualifying assets and included in properties under construction and investment properties respectively (year ended 31 December 2009: AED 24,896,308 and AED 40,952,010 respectively). Refer notes 18 and 24.

12 OTHER IMPAIRMENT AND WRITE OFFS

	<i>2010</i> <i>AED'000</i>	<i>2009</i> <i>AED'000</i>
Capitalised expenses written off	228,164	-
Provision for advance under MOU (note 16)	185,808	-
	<u>413,972</u>	<u>-</u>

13 EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the loss attributable to the equity holders of the parent for the year of AED 2,304,897 thousands by the weighted average number of shares outstanding during the year of 5,778,000,000 of AED 1 each (2009: profit attributable to the equity holders of the parent for the year of AED 30,153 thousands by the weighted average number of shares outstanding during the year of 5,778,000,000 of AED 1 each)

The Company has not issued any instruments which would have a dilutive impact on earnings / (loss) per share when exercised.

14 CASH AND CASH EQUIVALENTS

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise the following at 31 December:

	<i>2010</i> <i>AED'000</i>	<i>2009</i> <i>AED'000</i>
Cash in hand	575	589
Current accounts	158,306	235,008
Fixed deposits	283,430	448,270
	<u>442,311</u>	<u>683,867</u>
Bank balances and cash	442,311	683,867
Less: Deposit maturing after three months	(256,830)	(105,832)
Less: Bank overdraft	(123,034)	(125,495)
	<u>62,447</u>	<u>452,540</u>
Cash and cash equivalents	<u>62,447</u>	<u>452,540</u>
	<i>2010</i> <i>AED'000</i>	<i>2009</i> <i>AED'000</i>
Bank balances and cash located:-		
Within UAE (AED)	378,118	622,268
Outside UAE (other currencies)	64,193	61,599
	<u>442,311</u>	<u>683,867</u>

Cash at banks earns profit at floating rates based on prevailing bank deposit rates. Short term fixed deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn profit at the respective short-term deposit rates.

Deposits amounting to AED 177,463,500 (2009: 254,763,958) are placed with Dubai Islamic Bank PJSC, a major shareholder (note 32). These are denominated in UAE Dirham, with an effective profit rate ranging from 0.27% to 3.75% per annum.

15 ACCOUNTS AND NOTES RECEIVABLE

	<i>2010</i> <i>AED'000</i>	<i>2009</i> <i>AED'000</i>
Accounts and notes receivable	444,453	615,972
Less: provision for doubtful debts	(150,187)	(80,000)
	<u>294,266</u>	<u>535,972</u>
Due from related parties (note 32)	2,269,758	41,109
	<u>2,564,024</u>	<u>577,081</u>

The movement of provision for doubtful debts during the year is as follows:

	<i>2010</i> <i>AED'000</i>	<i>2009</i> <i>AED'000</i>
Balance at the beginning of the year	80,000	-
Provided during the year	73,067	80,148
Utilised during the year	(2,880)	(148)
	<u>150,187</u>	<u>80,000</u>
Balance at the end of the year	<u>150,187</u>	<u>80,000</u>

Deyaar Development PJSC and Subsidiaries

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15 ACCOUNTS AND NOTES RECEIVABLE (continued)

As at 31 December, the ageing analysis of unimpaired receivables is as follows:

	<i>Total AED'000</i>	<i>Neither past due nor impaired AED'000</i>	<i>Past due but not impaired</i>			
			<i>Less than 30 days AED'000</i>	<i>Between 30 to 60 days AED'000</i>	<i>Between 60 to 90 days AED'000</i>	<i>More than 90 days AED'000</i>
2010	<u>2,564,024</u>	<u>2,498,182</u>	<u>3,872</u>	<u>966</u>	<u>6</u>	<u>60,998</u>
2009	<u>577,081</u>	<u>277,575</u>	<u>288,800</u>	<u>3,979</u>	<u>38</u>	<u>6,689</u>

Unimpaired receivables are expected, on the basis of past experience, to be fully recoverable. Accounts and notes receivables are secured as the title deeds of the properties sold and returned are still with the Group and will be transferred to the buyers once the full payments are received.

16 PREPAYMENTS AND OTHER ASSETS

	<i>2010 AED'000</i>	<i>2009 AED'000</i>
Advances to contractors	94,054	205,284
Prepayments	8,396	25,501
Contract work in progress	14,834	39,426
Retentions receivable	68,582	64,635
Accrued income on deposits	1,530	3,921
Accrued rental income	872	957
Advance under MOU	185,808	185,808
Advances to suppliers	8,048	6,783
Advances to staff	1,583	1,709
Other assets	16,188	22,368
	<u>399,895</u>	<u>556,392</u>
Less: provision for advance under MOU (note 12)	(185,808)	-
Less: write offs	(3,177)	-
	<u>210,910</u>	<u>556,392</u>

17 PROPERTIES HELD FOR SALE

These include unsold units in completed projects as of 31 December 2010.

The movement in properties held for sale during the year was as follows:

	<i>2010 AED'000</i>	<i>2009 AED'000</i>
Balance, beginning of year	542,017	-
Reversal of excess project cost accruals	(3,540)	-
Provision for impairment	(58,952)	-
Transferred from properties under construction (note 18)	-	1,830,482
Carrying value of properties sold during the year (note 8)	(227,183)	(1,288,465)
Balance, end of the year	<u>252,342</u>	<u>542,017</u>

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At 31 December 2010

17 PROPERTIES HELD FOR SALE (continued)

Properties held for sale are carried at the lower of cost and net realisable value. Net realisable value takes into consideration the value that the Company can obtain by offering these properties to those customers who have committed to buy units in developments launched in the previous years.

Properties held for sale with a carrying value of AED 93,157 thousand are mortgaged to an Islamic bank for Islamic finance obligations (note 26).

18 PROPERTIES UNDER CONSTRUCTION

The movement in properties under construction during the year was as follows:

	<i>2010</i> <i>AED'000</i>	<i>2009</i> <i>AED'000</i>
Balance, beginning of year	2,673,692	3,775,254
Additions during the year	281,515	704,024
Returns during the year	(419,958)	-
Borrowing costs capitalised (note 11)	9,341	24,896
Provision for impairment	(370,544)	-
Write offs	(4,158)	-
Transferred to properties held for sale (note 17)	-	(1,830,482)
Balance, end of the year	<u>2,169,888</u>	<u>2,673,692</u>

Properties under construction are carried at the lower of cost and net realisable value. Net realisable value has been determined on the basis of committed sale price if the remaining receivable amount is lower than the current market value of the units booked by customers. Customers have already committed to purchase a large proportion of the properties under construction. Advances received from customers in this respect are shown as a liability. For units not yet booked by customers, net realisable value takes into consideration the value the Group can obtain by offering these units to the customers who have committed to buy units in developments launched in the previous years.

19 LAND HELD FOR FUTURE DEVELOPMENT

The movement in land held for future development during the year was as follows:

	<i>2010</i> <i>AED'000</i>	<i>2009</i> <i>AED'000</i>
Balance, beginning of year	1,611,334	1,587,493
Additions during the year	745	23,841
Transferred from advances for purchase of land	240,000	-
Impairment in land held for future development	(152,455)	-
Deferred expense	(121,778)	-
	<u>1,577,846</u>	<u>-</u>
Sale of land to a related party (note 8)	(1,337,846)	-
Balance, end of the year	<u>240,000</u>	<u>1,611,334</u>

Land held for future development with a carrying value of AED 240,000 thousand is mortgaged to an Islamic bank for Islamic finance obligations (note 26).

20 ADVANCES FOR PURCHASE OF LAND

These represent amounts paid for the acquisition of plots of land.

The movement in advances for purchase of land during the year was as follows:

	<i>2010</i> <i>AED'000</i>	<i>2009</i> <i>AED'000</i>
Balance, beginning of the year	1,222,299	1,126,094
Additions during the year	27,664	96,205
Transferred to investment properties (note 24)	(42,000)	-
Transferred to land held for future development	(240,000)	-
Impairment of advance for purchase of land	(68,374)	-
Sale of rights to purchase land to a related party (note 8)	(899,589)	-
	<u>-</u>	<u>1,222,299</u>
Balance, end of the year	<u>-</u>	<u>1,222,299</u>

21 INVESTMENTS IN ASSOCIATES

The Group has a 22.72% interest in SI Al Zorah Equity Investments Inc, a company registered in the Cayman Islands. The associate is a holding company investing in companies engaged in property development.

The Group has a 40% interest in Landmark Properties LLC, a company registered in the UAE which is involved in real estate brokerage.

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

	<i>2010</i> <i>AED'000</i>	<i>2009</i> <i>AED'000</i>
Share of associates' statement of financial position:		
Assets	283,045	464,284
Liabilities	(64,615)	(81,792)
Net assets	<u>218,430</u>	<u>382,492</u>
Share of associates' income statement:		
Revenues	<u>12,131</u>	<u>16,310</u>
(Loss) / profit	<u>(2,655)</u>	<u>6,552</u>
Carrying amount of investments	<u>288,430</u>	<u>586,870</u>

The excess of carrying amounts over the share of net assets represent premiums paid by the Group at the time of acquisition of the investments. The carrying values of the investments are subject to annual impairment tests. As a result of the impairment analysis carried out by the Group, the Group provided for AED 95,785 thousand (2009: AED 10,500 thousand) for impairment in associates which is shown on the face of consolidated income statement.

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At 31 December 2010

21 INVESTMENTS IN ASSOCIATES (continued)

Movement in the carrying amount of investments in associates during the year was as follows:

	<i>2010</i> <i>AED'000</i>	<i>2009</i> <i>AED'000</i>
Balance, beginning of the year	586,870	606,018
Share of results	(2,655)	6,552
Provision for impairment	(95,785)	(10,500)
Capital reduction	(200,000)	-
Reversal of accrual for purchase of shares	-	(15,200)
Balance, end of the year	<u>288,430</u>	<u>586,870</u>

22 INVESTMENTS IN JOINT VENTURES

The Group's share of assets and liabilities in the joint ventures included in the consolidated financial statements is as under:

	<i>2010</i> <i>AED'000</i>	<i>2009</i> <i>AED'000</i>
Property, plant and equipment	-	1
Investment properties	966,437	1,475,947
Prepayments and other receivables	79,862	88,540
Bank balances and cash	68,220	68,209
Total assets	<u>1,114,519</u>	<u>1,632,697</u>
Accruals and other liabilities	<u>581,673</u>	<u>493,469</u>
(Loss) / profit for the year	<u>(648,572)</u>	<u>92,074</u>

23 PROPERTY, PLANT AND EQUIPMENT

	<i>Building AED'000</i>	<i>Leasehold improvements AED'000</i>	<i>Furniture and fixtures AED'000</i>	<i>Plant and equipment AED'000</i>	<i>Motor vehicles AED'000</i>	<i>Capital work in progress AED'000</i>	<i>Total AED'000</i>
Cost:							
At 1 January 2010	10,798	381	17,639	22,035	6,508	1,650	59,011
Additions	547	-	9	1,470	-	140	2,166
Disposals	-	-	(378)	-	(736)	-	(1,114)
Transfers	-	-	-	-	-	(226)	(226)
Transferred from investment properties (note 24)	24,500	-	-	-	-	-	24,500
At 31 December 2010	35,845	381	17,270	23,505	5,772	1,564	84,337
Depreciation:							
At 1 January 2010	405	353	10,361	9,700	3,469	-	24,288
Depreciation charge for the year	740	22	3,599	4,996	1,402	-	10,759
Relating to disposals	-	-	(342)	-	(645)	-	(987)
At 31 December 2010	1,145	375	13,618	14,696	4,226	-	34,060
Net carrying value:							
At 31 December 2010	34,700	6	3,652	8,809	1,546	1,564	50,277

	<i>Building AED'000</i>	<i>Leasehold improvements AED'000</i>	<i>Furniture and fixtures AED'000</i>	<i>Plant and equipment AED'000</i>	<i>Motor vehicles AED'000</i>	<i>Capital work in progress AED'000</i>	<i>Total AED'000</i>
Cost:							
At 1 January 2009	-	381	17,674	14,592	7,414	9,068	49,129
Additions	10,798	-	911	7,613	380	1,423	21,125
Disposals	-	-	(683)	(126)	(1,286)	-	(2,095)
Transfers	-	-	(263)	(44)	-	(8,841)	(9,148)
At 31 December 2009	10,798	381	17,639	22,035	6,508	1,650	59,011
Depreciation:							
At 1 January 2009	-	137	6,447	4,953	2,294	-	13,831
Depreciation charge for the year	405	216	4,427	4,822	1,923	-	11,793
Relating to disposals	-	-	(513)	(75)	(748)	-	(1,336)
At 31 December 2009	405	353	10,361	9,700	3,469	-	24,288
Net carrying value:							
At 31 December 2009	10,393	28	7,278	12,335	3,039	1,650	34,723

Building with a carrying value of AED 24,500 thousand is mortgaged to an Islamic bank for Islamic finance obligations (note 26).

24 INVESTMENT PROPERTIES

The movement in investment properties during the year was as follows:

	<i>2010</i> <i>AED'000</i>	<i>2009</i> <i>AED'000</i>
Balance, beginning of year	1,899,943	1,729,030
Additions during the year	176,002	102,759
Borrowing costs capitalised (note 11)	37,014	40,952
Transferred from advances for purchase of land (note 20)	42,000	-
Transferred to property, plant and equipment (note 23)	(24,500)	-
Net (loss) / gain on fair valuation of investment properties	(805,773)	27,202
Balance, end of year	<u>1,324,686</u>	<u>1,899,943</u>

- (i) Investment properties include the share of properties that are being developed under a 50% joint venture, in DIFC. The development comprises an office tower, a residential tower and an eight level podium. The Company intends to lease its share of these properties, after completion, to generate rental income. Also included in investment properties is a building which is being rented out by the Group to third parties.

The Group has prepared internal valuations of these properties as of 31 December 2010. The valuations were based on a five year discounted cash flow model supported by existing lease and current market rents for similar properties in the same location adjusted to reflect the level of completion of construction of these properties. The discount rate used reflects current market assessments of the uncertainty and timing of the cash flows.

The valuations were based on an individual assessment, for each property type, of both the future earnings and the required yield. In assessing the future earnings of the properties, Management took into account potential changes in rental levels from each contract's rent and expiry date compared with the estimated current market rent, as well as changes in occupancy rates and property costs.

The assumptions used in arriving at fair values of properties in these developments are as follows:

	<i>2010</i>	<i>2009</i>
Long term vacancy rate	15%	10%
Long term growth in rental rates – every fourth year	4%	5%
Discount rate	9.5%	10%

The loss on these properties, based on the above, amounts to AED 672.16 million (2009: Gain of AED 91.1million)

- (ii) Investment properties also include plots of land in the UAE and outside the UAE, which have been retained by management either for development in future as investment properties or for undetermined use. The Group has obtained fair values for these properties based on open market valuations carried out by independent valuers. This has resulted in a net loss on valuation of investment properties of AED 133.61 million (2009: AED 63.9 million).

As a result of the above, a net loss of AED 805.77 million (2009: net gain of AED 27.2 million) is included in the consolidated income statement.

Investment properties with a carrying value of AED 112,150 thousand are mortgaged to an Islamic bank for Islamic finance obligations (note 26).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

25 ACCOUNTS PAYABLE AND ACCRUALS

	<i>2010</i> <i>AED'000</i>	<i>2009</i> <i>AED'000</i>
Accruals for purchase of land (net of deferred income of AED 121,778 thousand)	288,531	617,938
Accounts and notes payable	141,718	210,454
Due to related parties (note 32)	18,433	16,342
Accrued Islamic facilities charges	40,754	37,365
Tax payable	3,020	15,167
Other payables and accruals	381,709	465,531
	<u>874,165</u>	<u>1,362,797</u>

26 ISLAMIC FINANCE OBLIGATIONS

	<i>2010</i> <i>AED'000</i>	<i>2009</i> <i>AED'000</i>
Facility one	-	185,942
Facility two	-	75,000
Facility three	-	200,000
Facility four	160,000	160,000
Facility five	29,475	39,300
Facility six	255,000	255,000
Facility seven	-	40,000
Facility eight	200,000	-
Facility nine	234,000	-
	<u>878,475</u>	<u>955,242</u>

The Islamic finance obligations represent Istisna and Mudarabah facilities obtained from Dubai Islamic Bank PJSC, a major shareholder, and from other local Islamic banks and financial institutions. The facilities are used to finance the construction of the properties under construction.

- Facility one was fully repaid in 2010
- Facility two was fully repaid in 2010
- Facility three was fully repaid in 2010
- Facility four was restructured and is payable in 13 quarterly instalments commencing from March 2011, with an effective profit rate based on EIBOR and with an applicable minimum floor rate. The facility is secured by mortgages over an investment property, property plant and equipment, properties held for sale and assignment of sales proceeds from the properties held for sale.
- Facility five has been partly paid and the balance is payable in three quarterly instalments starting from January 2011, with an effective profit rate based on EIBOR and with an applicable minimum floor rate. The facility is not secured.
- Facility six is repayable in January 2011 extendable for a further period of one year, subject to the mutual agreement of the parties. Negotiations are underway for the restructuring of this facility. The facility is to be utilized for the ongoing activities of the Company. The profit rate on the facility is fixed. The facility is not secured.
- Facility seven was fully repaid in 2010.
- Facility eight is repayable in June 2011, with an effective profit rate based on EIBOR and with an applicable minimum floor rate. The facility is secured by mortgage over investment properties and assignment of sales proceeds of properties.

26 ISLAMIC FINANCE OBLIGATIONS (continued)

- Facility nine is repayable in 18 monthly instalments commencing from April 2011, with an effective profit rate based on EIBOR and with an applicable minimum floor rate. The facility is secured by mortgage over land held for future development and assignment of sales proceeds of properties.

27 OTHER BORROWINGS

Other borrowings include an overdraft facility, from a local Islamic bank, which carries an effective profit rate based on EIBOR.

Other borrowings also include loans obtained to finance the purchase of motor vehicles and equipment. The loans are secured by mortgages over the vehicles and equipment purchased. These loans carry profit at an average rate of 4.3% and are repayable in equal monthly instalments over a period of three to four years.

28 EMPLOYEES' END OF SERVICE BENEFITS

Movements in the provision recognised in the statement of financial position are as follows:

	<i>2010</i> <i>AED'000</i>	<i>2009</i> <i>AED'000</i>
Balance at the beginning of the year	13,742	9,348
Provided during the year	3,547	5,765
End of service benefits paid	(8,760)	(1,371)
Balance at the end of the year	<u>8,529</u>	<u>13,742</u>

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

29 SHARE CAPITAL

	<i>2010</i> <i>AED'000</i>	<i>2009</i> <i>AED'000</i>
<i>Authorised, issued and fully paid</i>		
5,778,000,000 shares of AED 1 each		
(2009: 5,778,000,000 shares of AED 1 each)	<u>5,778,000</u>	<u>5,778,000</u>

30 STATUTORY RESERVE

As required by the UAE Commercial Companies Law of 1984 (as amended) and the Company's articles of association, 10% of the profit for the year is required to be transferred to a statutory reserve until such time that the reserve equals 50% of the paid up share capital. The reserve is not available for distribution except in the circumstances stipulated by the Law.

31 NON-CONTROLLING INTERESTS

Non-controlling interest represents the minority shareholders' proportionate share in the aggregate value of the net assets of the subsidiaries and the results of the subsidiaries' operations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

32 TRANSACTIONS WITH RELATED PARTIES

Related parties represent major shareholders, joint ventures, associates, directors and key management personnel of the Group, and companies of whom they are principal owners. Pricing policies and terms of these transactions are approved by the Group's management.

Transactions with related parties included in the consolidated income statement for the year are as follows:

2010

	<i>Sales AED'000</i>	<i>Purchases AED'000</i>	<i>Income from deposits AED'000</i>	<i>Management fees income AED'000</i>
Major shareholders	-	-	2,668	377
Other related parties	2,237,435	13,600	-	-
	<u>2,237,435</u>	<u>13,600</u>	<u>2,668</u>	<u>377</u>

2009

	<i>Sales AED'000</i>	<i>Purchases AED'000</i>	<i>Income from deposits AED'000</i>	<i>Management fees income AED'000</i>
Major shareholders	-	-	7,323	13,793
Other related parties	-	16,786	-	-
	<u>-</u>	<u>16,786</u>	<u>7,323</u>	<u>13,793</u>

Balances with related parties included in the consolidated statement of financial position are as follows:

As at 31 December 2010

	<i>Accounts receivable AED'000</i>	<i>Accounts payable AED'000</i>	<i>Fixed deposits AED'000</i>	<i>Islamic finance facilities AED'000</i>
Major shareholders	-	2,873	177,464	463,475
Joint ventures	14,925	12,282	-	-
Other related parties	2,254,833	3,278	-	-
	<u>2,269,758</u>	<u>18,433</u>	<u>177,464</u>	<u>463,475</u>

As at 31 December 2009

	<i>Accounts receivable AED'000</i>	<i>Accounts payable AED'000</i>	<i>Fixed deposits AED'000</i>	<i>Islamic finance facilities AED'000</i>
Major shareholders	-	1,113	254,764	500,242
Joint ventures	17,403	13,401	-	-
Other related parties	23,706	1,828	-	-
	<u>41,109</u>	<u>16,342</u>	<u>254,764</u>	<u>500,242</u>

32 TRANSACTIONS WITH RELATED PARTIES (continued)**Compensation of key management personnel**

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

	<i>2010</i> <i>AED'000</i>	<i>2009</i> <i>AED'000</i>
Payroll and related expenses	25,059	42,109
Employees' end of service benefits	703	1,195
	<u>25,762</u>	<u>43,304</u>

33 SEGMENT INFORMATION**Operating segment:**

For management purposes, the Group is organised into two major operating segments: Property development activities, (which include property investment, development, brokering, managing and renting of buildings), and electrical and mechanical works.

Management monitors the operating results of its operating segments for the purpose of making decisions about performance assessment. Segment performance is evaluated based on operating profit or loss. Transactions between segments are conducted at estimated rates which approximate to market rates on an arm's length basis.

Year ended 31 December 2010:

	<i>Property development activities AED'000</i>	<i>Electrical and mechanical works AED'000</i>	<i>Total AED'000</i>
Segment revenues - external	<u>2,483,269</u>	<u>159,884</u>	<u>2,643,153</u>
Segment losses	<u>(2,262,258)</u>	<u>(77,554)</u>	<u>(2,339,812)</u>

As at 31 December 2010

Segment assets	<u>7,953,557</u>	<u>154,238</u>	<u>8,107,795</u>
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Year ended 31 December 2009:

	<i>Property development activities AED'000</i>	<i>Electrical and mechanical works AED'000</i>	<i>Total AED'000</i>
Segment revenues - external	<u>1,479,823</u>	<u>355,259</u>	<u>1,835,082</u>
Segment profit / (losses)	<u>36,611</u>	<u>(11,706)</u>	<u>24,905</u>

As at 31 December 2009

Segment assets	<u>11,059,236</u>	<u>297,946</u>	<u>11,357,182</u>
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33 SEGMENT INFORMATION (continued)**Geographic information**

Revenue earned from properties outside the United Arab Emirates amounts to AED 56,277,862 (2009: AED 287,373,324). Properties located outside the United Arab Emirates amount to AED 340,661,440 (2009: AED 460,173,255).

34 COMMITMENTS AND CONTINGENCIES**Commitments**

At 31 December 2010, the Group had commitments of AED 451,110,325 (2009: AED 789,768,142) in respect of project related contracts issued as of the end of the year net of invoices received and accruals made at that date. At 31 December 2010, the Group also had commitments of AED 419,638,566 (2009: AED 514,973,051) relating to the rights to purchase land (see note 8 also).

Legal claim contingency

A subsidiary is involved in 3 litigations that are in pendency in the US courts. The Group's management is of the view that no material adverse impact is expected on these cases and hence no provision has been considered necessary in the consolidated financial statements for the year ended 31 December 2010.

Contingencies

At 31 December 2010, the Group had contingent liabilities in respect of performance and other guarantees issued by a bank on behalf of a subsidiary in the ordinary course of business from which it is anticipated that no material liabilities will arise, amounting to AED 72,002,765 (2009: AED 101,637,112).

Operating lease commitments – Group as lessee

The Group has entered into commercial property leases on certain properties. These leases have an average life of between one and twenty nine years with mutual renewal option included in some of the contracts. There are no restrictions placed upon the Group by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases as at 31 December are as follows:

	2010 AED'000	2009 AED'000
Within one year	9,237	15,065
After one year but not more than five years	2,750	8,250
	<u>11,987</u>	<u>23,315</u>

35 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities comprise Islamic finance facilities, trade payables and other borrowings. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various financial assets such as trade receivables and cash and short-term deposits, which arise directly from its operations.

The main risks arising from the Group's financial instruments are profit rate risk, foreign currency risk, credit risk, and liquidity risk. The Board of Directors reviews and agrees policies for managing each of these risks which are summarised below.

35 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**Profit rate risk**

The Group's exposure to the risk of changes in market profit rates relates primarily to the Group's long-term debt obligations with floating rates and fixed deposits. Profit rate on financial instruments having floating rates is re-priced at intervals of less than one year and profit rate on financial instruments having fixed rate is fixed until the maturity of the instrument. Other than commercial and overall business conditions, the Group's exposure to market risk for changes in profit rate environment relates mainly to its bank borrowings and fixed deposits.

The following table demonstrates the sensitivity to a reasonably possible change in profit rates, with all other variables held constant, on the Group's profit before tax (through the impact on floating rate deposits and borrowings). There is no impact on the Group's equity.

Currency	Change in basis points	Sensitivity of net profit from loans AED'000
2010		
AED	+ 50	(564)
AED	- 50	(1,381)
2009		
AED	+ 50	393
AED	- 50	(377)

All the current financing of the Group carries either fixed profit rate or an applicable minimum rate which historically has remained higher than the rate based on EIBOR.

The profit rate sensitivity set out above relates primarily to the Dirham as the Group does not have any significant net exposure for financial assets and financial liabilities denominated in currencies other than the Dirham or currencies pegged to the US Dollar.

Foreign currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group's exposure to foreign currency risk is primarily limited to its investment in foreign subsidiaries. The net assets (liabilities) of foreign subsidiaries are as follows:

Currency	AED'000 equivalent
Lebanese Lira	(2,700)
Turkish Lira	(33,790)
Kazakhstan Tenge	(30,503)
British Pound Sterling	(1,367)
USD	(93,999)
Bahrain Dinar	(10)
Saudi Riyal	31
Malaysian Ringgit	(30)

Any variation in exchange rates between the currencies and AED will result in recognition of foreign currency translation reserve in equity on the opening net investment. It will also result in a change in the rate used for recording of income, expenses and profit in the consolidated financial statements of the next year.

Credit risk

The Group monitors receivable balances on an ongoing basis and books provision for doubtful debts when necessary.

With respect to credit risk arising from other financial assets of the Group, which comprise mainly cash and cash equivalents, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

35 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**Liquidity risk**

The Group monitors its risk to a shortage of funds using a recurring liquidity forecasting tool. This tool considers the maturity of both its financial investments and financial assets (e.g. accounts receivable, other financial assets) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank facilities. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and borrowing facilities, by continuously monitoring forecasted and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments.

At 31 December 2010

	<i>On demand AED'000</i>	<i>Less than 3 months AED'000</i>	<i>3 to 12 months AED'000</i>	<i>1 to 5 years AED'000</i>	<i>Over 5 years AED'000</i>	<i>Total AED'000</i>
Islamic finance facilities	-	51,278	389,318	537,019	-	977,615
Other borrowings	124,063	24,734	4,040	-	-	152,837
Accounts payable, accruals and retentions payable	-	539,245	-	146,637	396,889	1,082,771
Total undiscounted financial liabilities	124,063	615,257	393,358	683,656	396,889	2,213,223

As at 31 December 2009

	<i>On demand AED'000</i>	<i>Less than 3 months AED'000</i>	<i>3 to 12 months AED'000</i>	<i>1 to 5 years AED'000</i>	<i>Over 5 years AED'000</i>	<i>Total AED'000</i>
Islamic finance facilities	-	-	734,556	275,143	-	1,009,699
Other borrowings	126,522	26,922	22,930	531	-	176,905
Accounts payable, accruals and retentions payable	-	1,325,432	-	153,944	-	1,479,376
Total undiscounted financial liabilities	126,522	1,352,354	757,486	429,618	-	2,665,980

To enable effective liquidity management of the Group and ensure all essential payments and obligations of the Group are met, the Directors have instituted a continual monitoring process with and through management for implementation. For details refer note 2.

Capital Management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

Capital comprises share capital, reserves and retained earnings / (accumulated deficit) and is measured at AED 4,408,683,000 as at 31 December 2010 (2009: AED 6,737,955,000).

36 FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprise financial assets and financial liabilities.

Financial assets of the Group include bank balances and cash, trade and other receivables, investments in associates and due from related parties. Financial liabilities of the Group include loans from financial institutions, accounts payable and retentions payable.

The fair values of the financial assets and liabilities are not materially different from their carrying value unless stated otherwise.