

# **EMAAR Properties PJSC and Subsidiaries**

Consolidated Financial Statements  
31 December 2008



## **11th Annual General Meeting**

Directors' Report and Consolidated Financial Statements 2008

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## DIRECTORS' REPORT

The Board of Directors of EMAAR Properties PJSC (the 'Company') and Subsidiaries (the 'Group') has pleasure in submitting the consolidated balance sheet of the Group as of 31 December 2008, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the year ended 31 December 2008.

### *Principal activities*

The principal activities of the Group during the year ended 31 December 2008 were property investment and development, property management services, education, healthcare, hospitality, retail and investment in providers of financial services.

### *Financial Results*

The Group has recorded a net operating profit of AED 5,578 million in 2008 (2007: AED 6,575 million), 15% lower than the previous year. The decrease in profit is mainly due to write down of development properties of AED 1,084 million of Group's subsidiary WL Homes LLC in United States of America (USA), where the economy is facing an unprecedented economic crisis.

The Group has also decided to write down its complete goodwill amount of AED 2,523 million relating to WL Homes in order to be conservative in accounting for such an investment. This has resulted in lower net profit of AED 3,055 million for the year 2008 (2007: AED 6,575 million).

In accordance with the Articles of Association of the Company and UAE Federal Commercial Companies Law, an appropriation of AED 306 million is made to general reserve from the distributable profit of AED 3,055 million.

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

In view of the current financial and economic uncertainty, the Board of Directors of the Company have not recommended any dividend to the shareholders for the year 2008, which is subject to the approval of the shareholders at the forthcoming Annual General Meeting of the Company.

The balance of the distributable profit of AED 2,749 million after considering appropriation to general reserve will be transferred to retained earnings.

Total shareholders funds as at 31 December 2008 amount to AED 36,001 million (2007: AED 36,536 million).

### *Outlook 2009*

The current downturn and liquidity crisis in global financial markets has adversely affected the real estate sector across the globe including the real estate market in UAE.

The primary focus of Emaar in 2009 would be to mitigate the negative impact of the global financial crisis by facing up to the new economic realities and identifying innovative strategies to sustain businesses in an unprecedented downturn. The emphasis would be on optimising resource use efficiency and maximising productivity, and will continue to build on our strategy of business segmentation and geographic expansion.

## DIRECTORS' REPORT - continued

Our expansion into other countries and new businesses including shopping malls, hospitality & leisure and education is expected to gain momentum in 2009.

We are committed to create value for our shareholders and are optimistic that we would emerge even stronger amidst current financial and economic uncertainty prevailing across the globe.

### *Directors*

H.E. Mohamed Ali Alabbar	(Chairman)
Mr. Hussain Al Qemzi	(Vice Chairman)
Mr. Ahmad Jamal Jawa	(Director)
Mr. Salem Rashed Al Mohannadi	(Director)
Mr. Mohammed Ibrahim Al Shaibani	(Director)
Dr. Lowai Mohamed Belhouli	(Director)
Mr. Majid Saif Al Ghurair	(Director)
Mr. Ahmed Thani Al Matrooshi	(Director)

### *Auditors*

Ernst & Young were appointed as external auditors of the Group for the year ended 31 December 2008. Ernst & Young are eligible for reappointment for 2009 and have expressed their willingness to continue in office.

On behalf of the Board



**Mohamed Ali Alabbar**  
Chairman  
Dubai  
17 February 2009

## INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF EMAAR PROPERTIES PJSC

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Emaar Properties PJSC and its subsidiaries ("the Group"), which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, consolidated cash flow statement and consolidated statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and the applicable provisions of the articles of association of Emaar Properties PJSC and the UAE Commercial Companies Law of 1984 (as amended). This responsibility includes: designing, implementing and maintaining internal control, relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### *Auditors' Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' 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 management, as well as evaluating the overall presentation of the consolidated financial statements.

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

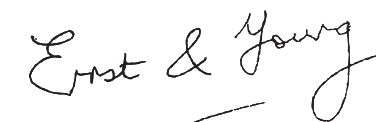
## INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF EMAAR PROPERTIES PJSC (continued)

### *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2008, 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 Emaar Properties PJSC; proper books of account have been kept by Emaar Properties PJSC, an inventory was duly carried out 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 Emaar Properties PJSC have occurred during the year which would have had a material effect on the business of Emaar Properties PJSC or on its financial position.



Signed by  
Edward B. Quinlan (Registration No. 93)  
For Ernst & Young

Dubai, United Arab Emirates  
17 February 2009

EMAAR Properties PJSC and Subsidiaries

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2008

(US \$1.00 = AED 3.673)

	Notes	2008 AED'000	2007 AED'000 (Restated)
Revenue	4	16,015,133	17,868,672
Cost of revenue	4	(9,203,775)	(10,814,907)
<b>GROSS PROFIT</b>		<b>6,811,358</b>	<b>7,053,765</b>
Other operating income		537,062	649,606
Selling, general and administrative expenses	5	(2,282,597)	(2,118,590)
Other operating expenses		(362,511)	(362,236)
Finance costs		(87,100)	(153,895)
Finance income	6	427,957	395,916
Other income		291,726	683,899
Share of results of associated companies	14	264,644	402,347
Impairment of goodwill	18	(2,522,577)	-
<b>PROFIT BEFORE TAX</b>		<b>3,077,962</b>	<b>6,550,812</b>
Income tax credit/ (expense)	7	2,569	(14,454)
<b>PROFIT FOR THE YEAR</b>		<b>3,080,531</b>	<b>6,536,358</b>
<b>ATTRIBUTABLE TO:</b>			
Equity holders of the parent		3,055,311	6,575,314
Minority interest		25,220	(38,956)
		<b>3,080,531</b>	<b>6,536,358</b>
Earnings per share attributable to the equity holders of the parent:			
- basic and diluted earnings per share	26	<b>AED 0.50</b>	<b>AED 1.08</b>

The attached notes 1 to 32 form part of these consolidated financial statements.

EMAAR Properties PJSC and Subsidiaries

CONSOLIDATED BALANCE SHEET

At 31 December 2008

(US \$1.00 = AED 3.673)

	Notes	31 December 2008 AED'000	31 December 2007 AED'000
<b>ASSETS</b>			
Bank balances and cash	8	5,392,986	4,726,616
Trade receivables	9	2,047,678	928,476
Other receivables, deposits and prepayments	10	3,665,732	2,705,232
Development properties	11	19,177,852	16,194,020
Securities	12	867,122	4,560,642
Loans to associates	13	1,655,400	537,829
Investments in associates	14	8,782,245	9,107,297
Property, plant and equipment	15	5,414,196	7,433,222
Investment properties	16	13,248,196	5,635,573
Goodwill	18	439,391	2,961,968
<b>TOTAL ASSETS</b>		<b>60,690,798</b>	<b>54,790,875</b>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
Trade and other payables	19	13,838,638	8,825,902
Interest-bearing loans and borrowings	20	9,174,165	7,703,753
Retentions payable	21	1,078,549	1,054,560
Provision for employees' end-of-service benefits	22	37,092	18,394
<b>TOTAL LIABILITIES</b>		<b>24,128,444</b>	<b>17,602,609</b>
<b>EQUITY</b>			
<b>Equity attributable to equity holders of the parent company</b>			
Share capital	23	6,091,239	6,091,239
Treasury shares	23	(1,113)	-
Employees' performance share program		(1,684)	(1,446)
Reserves	24	14,431,863	16,494,778
Retained earnings		15,480,448	13,951,469
		<b>36,000,753</b>	<b>36,536,040</b>
<b>Minority interest</b>		<b>561,601</b>	<b>652,226</b>
<b>TOTAL EQUITY</b>		<b>36,562,354</b>	<b>37,188,266</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>60,690,798</b>	<b>54,790,875</b>

The consolidated financial statements were authorised for issue on 17 February 2009 by:

Chairman

Director

The attached notes 1 to 32 form part of these consolidated financial statements.

## EMAAR Properties PJSC and Subsidiaries

### CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2008

(US \$1.00 = AED 3.673)

	Notes	2008 AED'000	2007 AED'000
<b>OPERATING ACTIVITIES</b>			
Profit before tax		3,077,962	6,550,812
Adjustments for:			
Share of results of associated companies	14	(264,644)	(402,347)
Depreciation	15,16	301,048	180,958
Provision for employees' end-of-service benefits, net	22	18,698	6,402
Loss on disposal of property, plant and equipment		2,995	53
Gain on disposal of investment properties		-	(418,278)
Gain on disposal of securities		(29,307)	(33,858)
Cost of share based payments	22	757	16,565
Impairment of goodwill	18	2,522,577	-
Reversal of provision for impairment loss	4	-	(291,076)
Write down of development properties	4	1,084,017	458,409
Cash from operations before working capital changes:		6,714,103	6,067,640
Trade receivables		(1,162,904)	(312,267)
Other receivables, deposits and prepayments		(1,010,929)	(616,021)
Development properties		(4,256,825)	(733,469)
Trade and other payables		5,254,239	1,437,362
Retentions payable	21	23,989	178,733
Income tax paid	7	(10,090)	(48,576)
Net cash from operating activities		5,551,583	5,973,402
<b>INVESTING ACTIVITIES</b>			
Purchase of securities		(298,605)	(2,299,842)
Proceeds from disposal of securities		2,640,582	833,135
Deposit in escrow account for acquisition of additional shares in subsidiary	17	(23,665)	-
Consideration for additional shares/ acquisition of subsidiary net of cash and cash equivalents acquired	17	(162,435)	(249,493)
Additional investments in associates, net		(1,344,327)	(525,466)
Amounts incurred on investment properties	16	(149,026)	(179,686)
Proceeds from sale of investment properties		-	495,931
Purchase of property, plant and equipment	15	(5,848,188)	(3,695,997)
Proceeds from sale of property, plant and equipment		2,821	78,146
Deposits under lien or maturing after three months	8	2,377,174	(1,514,815)
Purchase of treasury shares		(1,113)	-
Net cash used in investing activities		(2,806,782)	(7,058,087)
<b>FINANCING ACTIVITIES</b>			
Dividend paid	25	(1,198,845)	(1,199,011)
Interest-bearing loans and borrowings	20	3,448,226	6,678,059
Repayment of interest-bearing loans and borrowings	20	(1,977,814)	(3,697,191)
Funds invested by minority shareholders		151,616	262,633
Repayment to minority shareholders		(95,562)	(164,687)
Proceeds from rights issue	23	-	78,430
Received on vesting of share options	22	1,462	1,481
Net cash from financing activities		329,083	1,959,714
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>		3,073,884	875,029
Net foreign exchange differences		(30,340)	7,494
Cash and cash equivalents at 1 January	8	2,131,679	1,249,156
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>	8	5,175,223	2,131,679

The attached notes 1 to 32 form part of these consolidated financial statements.

## EMAAR Properties PJSC and Subsidiaries

### CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2008

(US \$1.00 = AED 3.673)

Attributable to equity holders of the Parent

	Share capital AED'000	Treasury shares AED'000	Employees' performance share program AED'000	Reserves AED'000	Retained earnings AED'000	Total AED'000	Minority interest AED'000	Total equity AED'000
<b>Balance at 1 January 2008</b>	6,091,239	-	(1,446)	16,494,778	13,951,469	36,536,040	652,226	37,188,266
Decrease in unrealised gains/ (losses) reserve (note 24)	-	-	-	(1,497,498)	-	(1,497,498)	-	(1,497,498)
Decrease in foreign currency translation reserve (note 24)	-	-	-	(870,948)	-	(870,948)	(25,114)	(896,062)
Net income and expense recognised directly in equity	-	-	-	(2,368,446)	-	(2,368,446)	(25,114)	(2,393,560)
Profit for the year	-	-	-	-	3,055,311	3,055,311	25,220	3,080,531
<b>Total income and expense for the year</b>	-	-	-	(2,368,446)	3,055,311	686,865	106	686,971
Transfer to reserves	-	-	-	305,531	(305,531)	-	-	-
Directors' fees	-	-	-	-	(3,310)	(3,310)	-	(3,310)
Dividends - 2007 (note 25)	-	-	-	-	(1,218,248)	(1,218,248)	-	(1,218,248)
Shares allocated to employee share scheme	-	-	(1,700)	-	-	(1,700)	-	(1,700)
Issuance of shares under employees' performance share program (note 22)	-	-	1,462	-	-	1,462	-	1,462
Cost of share based payments (note 22)	-	-	-	-	757	757	-	757
Additions to minority shareholders interest	-	-	-	-	-	-	190,931	190,931
Acquisition of minority interest in subsidiary (note 17)	-	-	-	-	-	-	(186,100)	(186,100)
Purchase of treasury shares	-	(1,113)	-	-	-	(1,113)	-	(1,113)
Funds withdrawn by minority shareholders	-	-	-	-	-	-	(95,562)	(95,562)
<b>Balance at 31 December 2008</b>	6,091,239	(1,113)	(1,684)	14,431,863	15,480,448	36,000,753	561,601	36,562,354

The attached notes 1 to 32 form part of these consolidated financial statements.

EMAAR Properties PJSC and Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2008

(US \$1.00 = AED 3.673)

	Attributable to equity holders of the Parent							
	Share capital AED '000	Treasury shares AED '000	Employees' share program AED '000	Reserves AED '000	Retained earnings AED '000	Total AED '000	Minority interest AED '000	Total equity AED '000
<b>Balance at 1 January 2007</b>	<b>6,075,553</b>	-	<b>(2,927)</b>	<b>14,669,084</b>	<b>9,237,022</b>	<b>29,978,732</b>	<b>565,928</b>	<b>30,544,660</b>
Increase in unrealised gains/ (losses) reserve (note 24)	-	-	-	642,544	-	642,544	-	642,544
Increase in foreign currency translation reserve (note 24)	-	-	-	462,875	-	462,875	27,308	490,183
Net income and expense recognised directly in equity	-	-	-	1,105,419	-	1,105,419	27,308	1,132,727
Profit for the year	-	-	-	-	6,575,314	6,575,314	(38,956)	6,536,358
<b>Total income and expense for the year</b>	-	-	-	<b>1,105,419</b>	<b>6,575,314</b>	<b>7,680,733</b>	<b>(11,648)</b>	<b>7,669,085</b>
Transfer to reserves	-	-	-	657,531	(657,531)	-	-	-
Directors' fees	-	-	-	-	(4,790)	(4,790)	-	(4,790)
Dividends – 2006	-	-	-	-	(1,215,111)	(1,215,111)	-	(1,215,111)
Issuance of shares under employees' performance share program (note 22)	-	-	1,481	-	-	1,481	-	1,481
Cost of share based payments (note 22)	-	-	-	-	16,565	16,565	-	16,565
Rights issue	15,686	-	-	62,744	-	78,430	-	78,430
Additional capital contribution by minority shareholders	-	-	-	-	-	-	262,633	262,633
Funds withdrawn by minority shareholders	-	-	-	-	-	-	(164,687)	(164,687)
<b>Balance at 31 December 2007</b>	<b>6,091,239</b>	-	<b>(1,446)</b>	<b>16,494,778</b>	<b>13,951,469</b>	<b>36,536,040</b>	<b>652,226</b>	<b>37,188,266</b>

The attached notes 1 to 32 form part of these consolidated financial statements.

EMAAR Properties PJSC and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

1 DOMICILE AND ACTIVITIES

EMAAR Properties Public Joint Stock Company ("the Company" or "the Parent") was established as a public joint stock company by Ministerial Decree number 66 in the year 1997. The Company was established on 23 June 1997 and commenced operations on 29 July 1997. The Company and its subsidiaries constitute the Group ("the Group"). The Company's registered office is at P.O. Box 9440, Dubai, United Arab Emirates. The shares of the Company are traded on the Dubai Financial Market.

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

2.1 BASIS OF PREPARATION

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRSs) and applicable requirements of United Arab Emirates laws.

The consolidated financial statements have been prepared in United Arab Emirates Dirhams (AED), which is the Company's functional and presentation currency and all values are rounded to the nearest thousands 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 available-for-sale investments and derivatives.

Basis of consolidation

Subsidiary Companies

The consolidated financial statements comprise the financial statements of Emaar Properties PJSC and its subsidiaries as at 31 December 2008. The financial statements of the subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies. All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions that are recognised in assets are eliminated in full. Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

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

Associated Companies

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted are consistent with those of the previous financial year. The Group has adopted the following new and amended IFRS and IFRIC interpretations as of 1 January 2008:

- IFRIC 11 IFRS 2 – Group and Treasury Shares Transactions
- IFRIC 12 – Service Concession Agreements
- IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction
- IFRIC 13 Customer Loyalty Programmes
- IAS 23 Borrowing Costs

**2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)**

Adoption of these standards and interpretations did not have any effect on the financial performance or position of the Group. They did however give rise to the additional disclosures in the financial statements.

**IASB Standards and Interpretations issued but not adopted**

The following IASB Standards and Interpretations have been issued as of 31 December 2008 but are not yet mandatory, and have not yet been adopted by the Group:

***IFRS 8 Operating Segments***

IFRS 8 *Operating Segments* was issued by the IASB in November 2007, becoming effective for periods beginning on or after 1 January 2009. The new standard may require changes in the way the Group discloses information about its operating segments.

***IAS 1 Revised Presentation of Financial Statements***

The revised standard was issued in September 2007 and becomes effective for financial years beginning on or after 1 January 2009. The standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group is still evaluating whether it will have one or two statements.

***IFRIC 15 Agreements for the Construction of Real Estate***

IFRIC 15 Agreements for the Construction of Real Estate was issued in July 2008 and becomes effective for annual financial years beginning on or after 1 January 2009. This interpretation is to be applied retrospectively. It clarifies when and how revenue and related expenses from the sale of a real estate unit should be recognised if an agreement between a developer and a buyer is reached before the construction of the real estate is completed. With effect from 1 January 2009, the Group has changed its accounting policy of recognising revenue from sale of properties in certain geographic locations from the percentage of completion method to full completion upon or after delivery when the control and significant risks and rewards of ownership are transferred to the buyer in order to comply with the requirements of IFRIC 15. In other locations the local laws are such that percentage of completion method continues to be appropriate under IFRIC 15. The Group is still in the process of determining the impact of the change on its financial statements.

**Improvements to IFRSs**

In May 2008 the International Accounting Standards Board issued its first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording.

***IAS 1 Presentation of Financial Statements***

Assets and liabilities classified as held for trading in accordance with IAS 39 Financial Instruments: Recognition and Measurement are not automatically classified as current in the balance sheet. This did not result in any re-classification of financial instruments.

***IAS 16 Property, Plant and Equipment***

Replace the term "net selling price" with "fair value less costs to sell". The Group amended its accounting policy accordingly, which did not result in any change in the financial position.

**2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)**

**Improvements to IFRSs (continued)**

***IAS 28 Investment in Associates***

If an associate is accounted for at fair value in accordance with IAS 39, only the requirement of IAS 28 to disclose the nature and extent of any significant restrictions on the ability of the associate to transfer funds to the entity in the form of cash or repayment of loans applies. This amendment has no impact on the Group as it does not account for its associates at fair value in accordance with IAS 39. An investment in an associate is a single asset for the purpose of conducting the impairment test. Therefore, any impairment test is not separately allocated to the goodwill included in the investment balance. This amendment has no impact on the Group because this policy was already applied.

***IAS 31 Interest in Joint Venture***

If a joint venture is accounted for at fair value, in accordance with IAS 39, only the requirements of IAS 31 to disclose the commitments of the venturer and the joint venture, as well as summary financial information about the assets, liabilities, income and expense will apply. This amendment has no impact on the Group as it does not account for its joint ventures at fair value in accordance with IAS 39.

***IAS 36 Impairment of Assets***

When discounted cash flows are used to estimate 'fair value less cost to sell' additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate 'value in use'. This amendment has no immediate impact on the consolidated financial statements of the Group because the recoverable amount of its cash generating unit is currently estimated using 'value in use'.

***IAS 38 Intangible Assets***

Expenditure on advertising and promotional activities is recognised as an expense when the Group either has the right to access the goods or has received the service. This amendment has no impact on the Group as the Group accounting policy is in compliance with the revised standard.

***IFRS 7 Financial Instruments: Disclosures***

Removal of the reference to 'total interest income' as a component of finance costs.

***IAS 8 Accounting Policies, Change in Accounting Estimates and Errors***

Clarification that only implementation guidance that is an integral part of an IFRS is mandatory when selecting accounting policies.

***IAS 10 Events after the Reporting Period***

Clarification that dividends declared after the end of the reporting period are not obligations.

***IAS 19 Employee Benefits***

Revised the definition of 'past service costs', 'return on plan assets' and 'short term' and 'other long-term' employee benefits. Amendments to plans that result in a reduction in benefits related to future services are accounted for as curtailment. Deleted the reference to the recognition of contingent liabilities to ensure consistency with IAS 37.

**2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)**

**Improvements to IFRSs (continued)**

***IAS 39 Financial Instruments: Recognition and Measurement***

Changes in circumstances relating to derivatives are not reclassifications and therefore may be either removed from, or included in, the 'fair value through profit or loss' classification after initial recognition. Removed the reference in IAS 39 to a 'segment' when determining whether an instrument qualifies as a hedge. Require the use of the revised effective interest rate when remeasuring a debt instrument on the cessation of fair value hedge accounting.

***IAS 40 Investment Property***

Revision of the scope such that property under construction or development for future use as an investment property is classified as investment property. If fair value cannot be reliably determined, the investment under construction will be measured at cost until such time as fair value can be determined or construction is complete. Also, revised of the conditions for a voluntary change in accounting policy to be consistent with IAS 8 and clarified that the carrying amount of investment property held under lease is the valuation obtained increased by any recognised liability.

**2.3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES**

**Judgments**

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

*Investment properties*

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

*Classification of investment properties*

The Group has determined that hotels and serviced apartment buildings operated by the Group are to be classified as part of property, plant and equipment rather than investment properties.

*Operating Lease Commitments-Group as Lessor*

The Group has entered into commercial and retail property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and so accounts for the contracts as operating leases.

*Transfer of equitable interest in development properties*

The Group has entered into a number of contracts with buyers for the sale of land, villas, condominium units and commercial units. Management has determined that equitable interest in such assets and therefore risks and rewards of the ownership are transferred to the buyer once he is committed to complete the payment for the purchase. This commitment is evidenced by a signed contract for the purchase of the property and payments of sufficient progress payments. Based on this, the Group recognises revenues and profits as the acts to complete the property are performed.

*Classification of equity investments*

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

**2.3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)**

**Estimation uncertainty**

*Costs to complete the projects*

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

*Valuation of investment properties*

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

*Impairment of non financial assets*

The Group determines whether non financial assets are impaired at least on an annual basis. This requires an estimation of the "value in use" of the cash-generating unit to which the non financial asset is allocated. Estimating a value in use amount requires management to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of these cash flows.

**2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Revenue recognition**

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the consolidated income statement as follows:

*Sale of property*

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

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

Revenue on sale of condominiums, villas and commercial units is recognised on the basis of percentage completion method as and when all of the following conditions are met:

- The buyer's investment, to the date of the financial statements, is adequate to demonstrate a commitment to pay for the property;
- Construction is beyond a preliminary stage. The engineering, design work, construction contract execution, site clearance and building foundations are finished;
- The buyer is committed. The buyer is unable to require a refund except for non-delivery of the unit. Management believes that the likelihood of the Group being unable to fulfil its contractual obligations for this reason is remote; and
- The aggregate sales proceeds and costs can be reasonably estimated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

**2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

*Lease to buy scheme*

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

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

*Lease of investment property*

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

*Interest revenue*

Interest revenue is recognised as the interest accrues using the effective interest method, under which the rate used exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

*Services*

Revenue from rendering of services is recognised when the outcome of the transaction can be estimated reliably, by reference to the stage of completion of the transaction at the balance sheet date.

**Cost of revenues of sale of property**

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

**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 as 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 balance sheet date, and any adjustments to the tax payable in respect of prior years.

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

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts.

Deferred income 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 laws that have been enacted at the balance sheet date.

Deferred income tax assets are recognised for all deductible temporary differences and 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

**2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Income tax (continued)**

The carrying amount of deferred income tax assets is reviewed at each balance sheet 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.

**Cash and cash equivalents**

For the purpose of the cash flow statement, cash and cash equivalents consist of cash in hand, bank balances, and short-term deposits with an original maturity of three months or less, net of outstanding bank overdrafts.

**Trade receivables**

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

**Loans and advances**

Loans and advances are stated at amortised cost net of interest suspended and provisions for impairment. All loans and advances are recognised when cash is disbursed to borrowers.

Expenses incurred in making loans or advances are charged to the income statement in the year of disbursing these loans and advances.

**Securities**

*Available-for-sale investments*

Available-for-sale asset are non-derivative financial assets that are designated as available-for-sale. These are initially recorded at cost and subsequently measured at fair value with unrealised gains or losses recognised directly in equity until the investment is derecognised, at which time the cumulative gain or loss recorded in equity is recognised in the income statement, or determined to be impaired at which time the cumulative loss recorded in equity is recognised in the income statement.

*Held-to-maturity investments*

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity investments. After initial measurement, held to maturity investments are measured at amortised cost using the effective interest method. This method uses an effective interest rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset. Gains and losses are recognised in the consolidated income statement when the investments are derecognised or impaired, as well as through the amortisation process.

**Development properties**

Properties acquired, constructed or in the course of construction for sale are classified as development properties. Unsold properties are stated at the lower of cost or net realisable value. Properties which have been sold but are still in the course of development are stated at cost plus attributable profit/loss less progress billings. The cost of development properties includes the cost of land and other related expenditure which are capitalised as and when activities that are necessary to get the properties ready for sale are in progress. Net realisable value represents the estimated selling price less costs to be incurred in selling the property.

The property is considered to be completed when all related activities, including the infrastructure and facilities for the entire project, have been completed. At that stage, cost, attributable profit and progress billings are eliminated from development properties.

The Board of Directors reviews the carrying values of the development properties on an annual basis.

## EMAAR Properties PJSC and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

#### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### 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 as follows:

Leasehold improvements	2-5 years
Sales centres	1-5 years
Other buildings	10 - 45 years
Computers and office equipment	2 - 5 years
Plant, machinery and heavy equipment	3 - 20 years
Motor vehicles	3 - 5 years
Furniture and fixtures	2 - 10 years
Other assets	2 - 25 years

No depreciation is charged on capital work in progress. The useful life and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from these assets.

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.

##### Investment properties

Properties held for rental or capital appreciation purposes are classified as investment properties. Investment properties are measured at cost less any accumulated depreciation and any accumulated impairment losses. Depreciation is charged on a straight-line basis over the estimated useful lives as follows:

Buildings	10 - 45 years
Fixed furniture and fixtures	10 years
Movable furniture and fixtures	4 years

The useful life and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from these assets.

Properties are transferred from investment properties to development properties when, and only when, there is a change in use, evidenced by commencement of development with a view to sale. Such transfers are made at the carrying value of the properties at the date of transfer.

The Group determines at each balance sheet date whether there is any objective evidence that the Investment properties are impaired. Whenever the carrying amount of an investment property exceeds their recoverable amount, an impairment loss is recognised in the income statement. The recoverable amount is the higher of investment property's net selling price and the value in use. The net selling price is the amount obtainable from the sale of an investment property 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 this investment property and from its disposal at the end of its useful life.

## EMAAR Properties PJSC and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

#### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Investment properties (continued)

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

##### Investment in an associate

The Group's investment in its associate is accounted for using the equity method of accounting. Goodwill relating to the associate is included in the carrying amount of the investment and is not amortised or separately tested for impairment. 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 of associates is shown on the face of the income statement. This is the profit attributable to equity holders of the associate and therefore is profit after tax and minority interests in the subsidiaries of the associates.

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 balance sheet 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.

##### Interest in a joint venture

The Group has interests in joint ventures which are jointly controlled. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control, and a jointly controlled entity is a joint venture that involves the establishment of a separate entity in which the venturer has an interest. The Group recognises its interest in the joint ventures using the equity method until the date on which the Group ceases to have joint control over the joint venture. The interest in the joint venture is carried in the consolidated balance sheet at cost, plus post-acquisition changes in the Group's share of net assets of the joint venture, less any impairment in value. The consolidated income statement reflects the Group's share of the results of its joint venture.

The financial statements of the joint venture are prepared for the same reporting year as the parent company, using consistent accounting policies.

##### Business combinations and goodwill

Business combinations are accounted for using the acquisition method of accounting. This involves recognising identifiable assets (including previously unrecognised intangible assets) and liabilities (including contingent liabilities and excluding future restructuring) of the acquired business at fair value.

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. Following 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, or Groups of cash generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or Group of units. Each unit or Group of units to which the goodwill is allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with IAS 14 Segment Reporting

Where goodwill forms part of a cash generating unit (Group of cash generating units) 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 off in this circumstance is measured based on the relative values of the operation disposed off and the portion of the cash generating unit retained.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

**2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Business combinations and goodwill (continued)**

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 or group of cash generating units, 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.

**Derivatives**

The Group enters into forward foreign exchange contracts to hedge its exposure to exchange rate risk. Such derivatives are stated at fair value. Derivatives with positive market values (unrealised gains) are included in other assets and derivatives with negative market values (unrealised losses) are included in other liabilities in the balance sheet.

Changes in the fair values of derivatives held for trading activities or to offset other trading positions are included in other operating income in the income statement.

For the purposes of hedge accounting, hedges are classified into two categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability; (b) cash flow hedges which hedge the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction.

Changes in the fair value of derivatives that are designated, and qualify, as fair value hedges and that prove to be highly effective in relation to the hedged risk, are included in other operating income along with the corresponding changes in the fair value of the hedged assets or liabilities which are attributable to the risk being hedged.

Changes in the fair value of derivatives that are designated, and qualify, as cash flow hedges and that prove to be highly effective in relation to the hedged risk are recognised in a separate component of equity, and the ineffective portion recognised in the income statement. The gains or losses on cash flow hedges recognised initially in equity are transferred to the income statement in the period in which the hedged transaction impacts the income. Where the hedged transaction results in the recognition of an asset or a liability the associated gain or loss that had been initially recognised in equity is included in the initial measurement of the cost of the related asset or liability.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. Upon such discontinuance in the case of cash flow hedges, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. When such transactions occur the gain or loss retained in equity is recognised in the income statement or included in the initial measurement of the cost of the related asset or liability, as appropriate. Where the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement.

**Impairment of financial assets**

The Group assesses at each balance sheet 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.

**Trade and other payables**

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

**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 income statement when the liabilities are derecognised as well as through the amortisation process.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

**2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**End of service benefits**

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

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

**Provisions**

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

**Share based payment transactions**

Employees (including senior executives) of the Group also receive remuneration in the form of share based payment transactions, whereby employees render services as consideration for equity instruments ("equity settled transactions"). The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which the awards are granted. The cost of equity-settled transactions with employees is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled ending on the date on which the employees become fully entitled to the award ("vesting date"). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

Under the Company Programme, awards, which represent the right to purchase the Company's ordinary shares at par, allocated to eligible employees (including executive directors) of the Company.

**Foreign currency translations**

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

Transactions in foreign currencies are recorded in the functional currency at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to profit or loss. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

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

**Contingencies**

Contingent liabilities are not 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.

## EMAAR Properties PJSC and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

#### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Fair values

For investments traded in an active market, fair value is determined by reference to quoted market bid prices.

The fair value of interest-bearing items is estimated based on discounted cash flows using interest rates for items with similar terms and risk characteristics.

For unquoted equity investments, fair value is determined by reference to the market value of a similar investment or is based on the expected discounted cash flows.

The fair value of forward foreign exchange contracts is calculated by reference to current forward exchange rates with the same maturity.

##### Treasury shares

Treasury shares consist of the Company's own shares that have been issued, subsequently repurchased by the company and not yet reissued or cancelled. These shares are accounted for using the cost method. Under the cost method the average cost of the share repurchased is shown as deduction from the total shareholders' equity. When these shares are reissued, gains are credited to a separate capital reserve in shareholders' equity, which is non-distributable. Any realised losses are charged directly to retained earnings. Gains realised on the sale of reissue shares are first used to offset any previously recorded losses in the order of retained earnings and the capital reserve account. No cash dividend are paid on these shares.

### 3 SEGMENT INFORMATION

#### Business segment:

For management purposes, the Group is organised into two major business segments.

The real estate segment develops and sells condominiums, villas, commercial units and plots of land and related leasing activities. Other segments include businesses that individually do not meet the criteria for a reportable segment as per IAS 14. These businesses are property management services, education, healthcare, hospitality, retail and investment in providers of financial services.

Income from sources other than the real estate segment is included in other operating income.

#### Geographic segments:

The Group is currently developing a number of international business opportunities outside the United Arab Emirates that will have a significant impact in future periods.

The domestic segment includes business activity and operations in the UAE and the international segment includes business activity and operations outside the UAE.

## EMAAR Properties PJSC and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

#### 3 SEGMENT INFORMATION (continued)

##### Business Segments

The following table represent revenue and profit information and certain asset and liability information regarding business segments for the years ended 31 December 2008 and 2007.

##### 2008

	<i>Real estate AED'000</i>	<i>Others AED'000</i>	<i>Eliminations AED'000</i>	<i>Total AED'000</i>
<b>Revenue</b>				
Revenue from external customers	15,443,308	576,949	(5,124)	16,015,133
Total revenue	<b>15,443,308</b>	<b>576,949</b>	<b>(5,124)</b>	<b>16,015,133</b>

##### Results

Profit before income tax, finance costs, finance income, share of results from associates and impairment of goodwill	5,117,405	(119,725)	(2,642)	4,995,038
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##### Assets and liabilities

Segment assets	56,207,545	9,203,522	(4,720,269)	60,690,798
Segment liabilities	23,866,996	4,382,967	(4,121,519)	24,128,444

##### Other segment information

Capital expenditure (Property, plant and equipment)	4,403,104	1,445,084	-	5,848,188
Depreciation (Property, plant and equipment)	99,486	115,925	-	215,411

##### 2007 (restated):

	<i>Real estate AED'000</i>	<i>Others AED'000</i>	<i>Eliminations AED'000</i>	<i>Total AED'000</i>
<b>Revenue</b>				
Revenue from external customers	17,565,895	302,777	-	17,868,672
Total revenue	<b>17,565,895</b>	<b>302,777</b>	<b>-</b>	<b>17,868,672</b>

##### Results

Profit before income tax, finance costs, finance income, share of results from associates and impairment of goodwill	5,963,712	(57,268)	-	5,906,444
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##### Assets and liabilities

Segment assets	51,324,032	6,808,674	(3,341,831)	54,790,875
Segment liabilities	16,890,454	2,877,958	(2,165,803)	17,602,609

##### Other segment information

Capital expenditure (Property, plant and equipment)	2,458,695	1,237,302	-	3,695,997
Depreciation (Property, plant and equipment)	74,706	80,952	-	155,658

EMAAR Properties PJSC and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

3 SEGMENT INFORMATION (continued)

Geographic Segments

The following tables represent revenue and profit information and certain asset and liability information regarding geographic segments for the years ended 31 December 2008 and 2007.

2008:	Domestic AED'000	International AED'000	Total AED'000
<b>Revenue</b>			
Revenue from external customers	13,926,334	2,088,799	16,015,133
Total revenue	<u>13,926,334</u>	<u>2,088,799</u>	<u>16,015,133</u>
<b>Assets</b>			
Segment assets	35,460,931	16,447,622	51,908,553
Investment in associates	2,552,415	6,229,830	8,782,245
<b>Total assets</b>	<u>38,013,346</u>	<u>22,677,452</u>	<u>60,690,798</u>
Other segment information			
Capital expenditure (property, plant and equipment)	<u>5,471,970</u>	<u>376,218</u>	<u>5,848,188</u>
<b>2007 (restated)</b>			
	Domestic AED'000	International AED'000	Total AED'000
<b>Revenue</b>			
Revenue from external customers	14,278,224	3,590,448	17,868,672
Total revenue	<u>14,278,224</u>	<u>3,590,448</u>	<u>17,868,672</u>
<b>Assets</b>			
Segment assets	28,392,470	17,291,108	45,683,578
Investment in associates	2,219,696	6,887,601	9,107,297
<b>Total assets</b>	<u>30,612,166</u>	<u>24,178,709</u>	<u>54,790,875</u>
Other segment information			
Capital expenditure (Property, plant and equipment)	<u>3,491,746</u>	<u>204,251</u>	<u>3,695,997</u>

EMAAR Properties PJSC and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

4 REVENUE AND COST OF REVENUE

	2008 AED'000	2007 AED'000 (Restated)
<b>Revenue</b>		
<b>Revenue from property sales:</b>		
Sale of condominiums	6,283,607	8,670,040
Sale of villas	4,255,225	6,093,713
Sale of plots of land	1,997,078	1,496,452
Sale of commercial and others	2,403,316	1,026,282
<b>Revenue from hospitality</b>	<b>576,949</b>	<b>302,777</b>
<b>Rental income from leased properties and related income</b>	<b>498,958</b>	<b>279,408</b>
	<u>16,015,133</u>	<u>17,868,672</u>
<b>Cost of revenue</b>		
<b>Cost of revenue of property sales:</b>		
Cost of condominiums	4,037,105	6,136,740
Cost of villas	2,614,583	3,627,098
Cost of plots of land	75,857	311,690
Cost of commercial and others	847,666	360,591
Write down of development properties	1,084,017	458,409
Reversal of provision for impairment loss of investment property (note 16)	-	(291,076)
<b>Operating cost of hospitality</b>	<b>366,653</b>	<b>174,677</b>
<b>Operating cost of leased properties</b>	<b>177,894</b>	<b>36,778</b>
	<u>9,203,775</u>	<u>10,814,907</u>

AED 1,084,017 thousands relates to the write down of development properties in the Group's US subsidiary WL Homes LLC (31 December 2007: AED 458,409 thousands).

The Group has reclassified the 2007 figures by transferring revenue and operating cost of hospitality from other operating income and other operating expenses to revenue and cost of revenue for the year, respectively.

5 SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	2008 AED'000	2007 AED'000
Payroll and related expenses	734,726	703,985
Sales and marketing expenses	505,129	632,555
Depreciation of property, plant and equipment (note 15)	215,411	155,658
Depreciation of investment properties (note 16)	85,637	25,300
Contribution to educational and other charitable funds	56,345	79,164
Property management expenses	70,671	46,673
Land registration fees	96,930	85,229
Pre-operating expenses	69,462	31,073
Other expenses	448,286	358,953
	<u>2,282,597</u>	<u>2,118,590</u>

EMAAR Properties PJSC and Subsidiaries

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6 FINANCE INCOME

	2008 AED'000	2007 AED'000
Finance income on fixed deposits with banks	253,829	178,742
Other finance income	174,128	217,174
	<u>427,957</u>	<u>395,916</u>

7 INCOME TAX

	2008 AED'000	2007 AED'000
<b>Income statement:</b>		
Current income tax expenses	(5,626)	(14,454)
Deferred income tax	8,195	-
	<u>2,569</u>	<u>(14,454)</u>
<b>Current liabilities:</b>		
Balance at 1 January	21,555	55,677
Current year	5,626	14,454
Less: paid during the year	(10,090)	(48,576)
	<u>17,091</u>	<u>21,555</u>

The tax expense relates to the tax payable on the profit earned by the subsidiaries, as adjusted in accordance with the taxation laws and regulations of the countries in which the Group operates.

	2008 AED'000	2007 AED'000
The relationship between the tax expense and the accounting profit can be explained as follows:		
Accounting profit before tax	3,077,962	6,550,812
Effect of higher tax rates in other jurisdictions	(5,626)	(14,454)
Effective income tax rate	<u>0.2%</u>	<u>0.2%</u>

The income tax charge arises primarily from the Group's operations in the United States of America, Morocco, India, Egypt, Pakistan and the United Kingdom.

8 BANK BALANCES AND CASH

	2008 AED'000	2007 AED'000
Cash in hand	5,041	1,823
Current and call deposit accounts	987,688	1,148,590
Fixed deposits maturing within three months	4,182,494	981,266
	<u>5,175,223</u>	<u>2,131,679</u>
Cash and cash equivalents		
Fixed deposits maturing after three months	217,763	2,594,937
	<u>5,392,986</u>	<u>4,726,616</u>

EMAAR Properties PJSC and Subsidiaries

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At 31 December 2008

8 BANK BALANCES AND CASH (continued)

Bank balances and cash located:-

	2008 AED'000	2007 AED'000
Within UAE	4,511,892	3,849,981
Outside UAE	881,094	876,635
	<u>5,392,986</u>	<u>4,726,616</u>

Bank balances and cash denominates in following currencies:-

	2008 AED'000	2007 AED'000
United Arab Dirham (AED)	4,511,892	3,849,981
United States Dollar (USD)	216,290	631,322
Egyptian Pound (EGP)	203,788	25,741
Moroccan Dirham (MAD)	99,413	30,188
Turkish Lira (TRY)	90,376	26,374
Other currencies	271,227	163,010
	<u>5,392,986</u>	<u>4,726,616</u>

Cash at banks earns interest 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 interest at the respective short-term deposit rates.

Fixed deposits having a maturity after three months earn interest at rates between 6% and 8 % per annum (2007: between 5.35% and 5.80% per annum).

9 TRADE RECEIVABLES

	2008 AED'000	2007 AED'000
Amounts receivable within 12 months	1,866,908	745,860
Amounts receivable after 12 months	180,770	182,616
	<u>2,047,678</u>	<u>928,476</u>

At 31 December, the ageing analysis of trade receivables is as follows:

	Total AED'000	Neither past due nor impaired AED'000	Past due but not impaired			
			Less than 30 days AED'000	Between 30 to 60 days AED'000	Between 60 to 90 days AED'000	More than 90 days AED'000
2008	<u>2,047,678</u>	<u>197,884</u>	<u>656,468</u>	<u>568,789</u>	<u>247,499</u>	<u>377,038</u>
2007	<u>928,476</u>	<u>272,157</u>	<u>381,093</u>	<u>86,890</u>	<u>28,854</u>	<u>159,482</u>

EMAAR Properties PJSC and Subsidiaries

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**10 OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS**

	2008 AED'000	2007 AED'000
Advances to contractors and others	1,209,716	1,034,137
Advances for acquisition of leasehold interest	1,183,835	823,201
Prepayments	174,442	179,549
Receivables from service companies	172,653	42,754
Deposits for acquisition of land and subsidiary	121,963	101,400
Value added tax recoverable	119,664	-
Accrued interest on bank deposits and investments	67,025	80,936
Recoverable from minority shareholders	28,855	36,876
Other deposits and receivables	587,579	406,379
	<u>3,665,732</u>	<u>2,705,232</u>

**11 DEVELOPMENT PROPERTIES**

	2008 AED'000	2007 AED'000
Cost to date	25,830,387	18,375,549
Add: attributable profit	8,342,867	4,008,364
Less: progress billings	(14,995,402)	(6,189,893)
Total development properties	<u>19,177,852</u>	<u>16,194,020</u>

**Development properties located:-**

Within UAE	7,838,824	5,655,430
Outside UAE	11,339,028	10,538,590
	<u>19,177,852</u>	<u>16,194,020</u>

**12 SECURITIES**

	2008 AED'000	2007 AED'000
Held-to-maturity	-	183,650
Available-for-sale	867,122	4,376,992
	<u>867,122</u>	<u>4,560,642</u>

**Securities located:-**

Within UAE	844,668	4,123,377
Outside UAE	22,454	437,265
	<u>867,122</u>	<u>4,560,642</u>

Held to maturity securities represent investments with local and international financial institutions which have a fixed lifespan and fixed payments.

Available-for-sale securities include fund investments managed by an external fund manager. Available for sale investments are in quoted, unquoted and index linked securities.

EMAAR Properties PJSC and Subsidiaries

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At 31 December 2008

**13 LOANS TO ASSOCIATES**

	2008 AED'000	2007 AED'000
Amounts owing by Amlak Finance PJSC	932,904	248,667
Amounts owing by Emaar MGF Land Limited and their related parties	416,911	-
Amounts owing by Golden Ace Pte Ltd	132,425	116,276
Amounts owing by Prestige Resorts SA	70,000	70,000
Amounts owing by Amelkis Resorts SA	54,569	54,563
Amounts owing by Al Shamiya Lettatweer Al Omrani Company (KSA)	27,491	27,491
Amounts owing by other associates	21,100	20,832
	<u>1,655,400</u>	<u>537,829</u>

The amounts owing by Amlak Finance PJSC are unsecured and earns a return ranging from 3% to 7% per annum (2007: average return ranging from 4% to 8% per annum).

The amounts owing by Golden Ace Pte. Ltd is unsecured and earns a return at 6.36% per annum and is fully repayable in April 2009 (2007: 8.75% per annum).

The amounts owing by Emaar MGF and their related parties are unsecured and earns a compound return of 10% per annum.

**14 INVESTMENTS IN ASSOCIATES**

	2008 AED'000	2007 AED'000
Carrying value of:		
Investment in Emaar MGF Land Limited (India)	3,061,599	3,757,502
Investment in Emaar The Economic City (Saudi joint stock company) - quoted	2,450,247	2,536,543
Investment in Amlak Finance PJSC – quoted	1,113,598	1,036,386
Investment in Dubai Bank PJSC	762,284	764,179
Investment in Emaar Bawadi LLC	253,593	-
Investment in Turner International Middle East Ltd.	226,038	220,741
Investment in Emaar Industries and Investment (Pvt) JSC	179,479	145,479
Investment in Dead Sea Company for Tourist and Real Estate Investment (Jordan)	137,836	136,864
Investment in Al Shamiyah Al Lettatweer Al Omarani Company (KSA)	96,543	96,543
Investment in Emrill Services LLC	11,244	7,113
Investment in Emaar Financial Services LLC	6,179	43,299
Investment in other associates	483,605	362,648
	<u>8,782,245</u>	<u>9,107,297</u>

On 23 November 2008, UAE Ministry of Finance had announced that it has started the official procedure to merge Amlak Finance PJSC and Tamweel PJSC, two leading Sharia-compliant real estate finance providers in United Arab Emirates, under Emirates Development Bank to create the largest real estate finance institution in the country under the umbrella of Federal Government of United Arab Emirates. In view of the above circumstances, the trading for Amlak Finance PJSC was suspended pending merger. On 4 February 2009, the Ministry of Finance has formed a Steering Committee, which aims to review merger of Amlak and Tamweel and recommend possible ways the two companies can go forward. The Committee is also evaluating their performances in light of the emerging economic situations and it is expected to give its recommendation to the government by end of February 2009. The market value of the shares held in Amlak Finance PJSC (quoted on Dubai Financial Market) at the date of suspension of trading was AED 735,677 thousands (2007: AED 3,700,024 thousands).

The market value of the shares held in Emaar The Economic City (quoted on the Saudi Stock Exchange –Tadawul) as at 31 December 2008 were AED 2,319,957 thousands (2007: AED 5,740,134 thousands).

## EMAAR Properties PJSC and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

#### 14 INVESTMENTS IN ASSOCIATES (continued)

The Group has the following investments in associates:

	Country of incorporation	Ownership	
		2008	2007
Emaar MGF Land Limited	India	43.33%	41.12%
Emaar The Economic City (Saudi joint stock Company)	KSA	30.59%	30.59%
Amlak Finance PJSC	UAE	48.08%	48.08%
Turner International Middle East Ltd.	UAE	50.00%	50.00%
Dubai Bank PJSC	UAE	30.00%	30.00%
Emaar Industries and Investments (Pvt) JSC	UAE	40.00%	40.00%
Al Shamiyah Al Lettatweer Al Omarani Company (no control or Board representation)	KSA	70.00%	70.00%
Emaar Financial Services LLC	UAE	37.50%	37.50%
Emrill Services LLC	UAE	33.33%	33.33%
Prestige Resorts S.A.	Morocco	50.00%	50.00%
Amelkis Resorts SA	Morocco	50.00%	50.00%
Orientis Invest	Morocco	50.00%	50.00%
Golden Ace Pte Ltd	Singapore	30.00%	30.00%
Emaar Bawadi LLC	U.A.E	50.00%	50.00%
Dead Sea Company for Tourist and Real Estate Investment	Jordan	37.20%	37.20%

In addition, the Group's US subsidiary, WL Homes enters into joint ventures with capital partners and institutional lenders to undertake specific housing projects in the United States.

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

	2008 AED'000	2007 AED'000
Share of associates' balance sheets:		
Current assets	11,717,524	8,642,670
Non-current assets	12,862,725	7,345,845
Total assets	24,580,249	15,988,515
Current liabilities	14,305,029	7,208,468
Non-current liabilities	2,938,930	1,978,475
Total liabilities	17,243,959	9,186,943
Net assets	7,336,290	6,801,572
Goodwill	1,445,955	1,445,955
Investment in preference shares	-	859,770
	8,782,245	9,107,297
Share of associates' revenues and results:		
Revenues	2,532,872	1,949,142
Results	264,644	402,347

## EMAAR Properties PJSC and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

#### 15 PROPERTY, PLANT AND EQUIPMENT

Cost:	Leasehold improvements AED'000	Land and buildings AED'000	Computers and office equipment AED'000	Plant, machinery and heavy equipment AED'000	Motor vehicles AED'000	Furniture and fixtures AED'000	Other assets AED'000	Capital work-in- progress AED'000	Total AED'000
At 1 January 2008	50,239	1,389,517	101,928	444,194	20,474	280,455	3,003	5,479,692	7,769,502
Additions	13,926	184,413	75,680	35,835	21,151	96,270	-	5,420,913	5,848,188
Transfers	-	683,915	5,425	10,457	-	11,250	271,140	(982,187)	-
Disposals	(4,232)	(29,584)	(406)	(1,107)	(1,283)	(893)	-	-	(37,505)
Transfer to investment properties (note 16)	-	-	-	-	-	-	-	(7,549,234)	(7,549,234)
Foreign currency translation differences	(7,271)	(61,228)	(10,994)	(35,667)	(14,582)	(7,245)	-	(788)	(137,775)
<b>At 31 December 2008</b>	<b>52,662</b>	<b>2,167,033</b>	<b>171,633</b>	<b>453,712</b>	<b>25,760</b>	<b>379,837</b>	<b>274,143</b>	<b>2,368,396</b>	<b>5,893,176</b>
<b>Accumulated depreciation/ impairment:</b>									
At 1 January 2008	14,903	147,884	51,902	38,281	9,590	71,770	1,950	-	336,280
Depreciation charge for the year	7,553	74,106	28,581	48,477	10,520	41,446	4,728	-	215,411
Disposals	(380)	(29,522)	(325)	(152)	(1,043)	(267)	-	-	(31,689)
Foreign currency translation differences	(1,262)	(5,491)	(7,169)	(14,750)	(8,212)	(4,138)	-	-	(41,022)
<b>At 31 December 2008</b>	<b>20,814</b>	<b>186,977</b>	<b>72,989</b>	<b>71,856</b>	<b>10,855</b>	<b>108,811</b>	<b>6,678</b>	<b>-</b>	<b>478,980</b>
<b>Net carrying amount:</b>									
<b>At 31 December 2008</b>	<b>31,848</b>	<b>1,980,056</b>	<b>98,644</b>	<b>381,856</b>	<b>14,905</b>	<b>271,026</b>	<b>267,465</b>	<b>2,368,396</b>	<b>5,414,196</b>

Capital work in progress at 31 December 2008 includes assets under construction for future use as investment properties amounting to AED 271,188 thousands (31 December 2007: AED 4,160,014 thousands). During the year ended 31 December 2008, an amount of AED 123,667 thousands (2007: AED 57,828 thousands) was capitalised as cost of borrowings for the construction of these assets.

At 31 December 2008, the fair value of revenue generating assets (hotels, service apartments etc.) is AED 3,578,707 thousands (2007: AED 3,458,406 thousands) compared with a carrying value of AED 1,933,171 thousands (2007: AED 1,126,593 thousands).



## EMAAR Properties PJSC and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

#### 17 BUSINESS COMBINATIONS

##### Acquisition of Emaar Properties Gayrimenkul Geliştirme A.Ş.

On 1 October 2008, the Group had acquired an additional 40% holding in Emaar Properties Gayrimenkul Geliştirme A.Ş. ("Emaar Turkey"), an unlisted limited liability company in Turkey, thereby resulting in 100% ownership and control of the entity.

The fair value of the identifiable assets and liabilities of Emaar Turkey at the date of acquisition were:

	<i>Recognised on acquisition AED'000</i>	<i>Carrying value AED'000</i>
Bank balances and cash	23,206	23,206
Other receivables, deposits and prepayments	103,557	103,557
Development properties	2,140,744	2,042,604
Property, plant and equipments	5,452	5,452
	<u>2,272,959</u>	<u>2,174,819</u>
Trade and other payables	176,151	176,151
Interest-bearing loans and borrowings	1,631,558	1,631,558
	<u>1,807,709</u>	<u>1,807,709</u>
Net assets acquired	465,250	367,110
Less: interest held by the Group prior to acquisition	(279,150)	
Total acquisition cost	<u>186,100</u>	

The total acquisition cost of AED 186,100 thousands was paid in cash.

##### *Cash outflow on acquisition:*

	<i>2008 AED'000</i>
Cash paid to minority interest holders	(162,435)
Deposit in escrow account	(23,665)
Net cash outflows	<u>(186,100)</u>

The deposit in Escrow account was released and paid to minority interest holders in January 2009.

## EMAAR Properties PJSC and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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#### 17 BUSINESS COMBINATIONS (continued)

##### Acquisition of Emaar Misr for Development S.A.E

On 29 March 2007, the Group acquired a 60% additional holding in Emaar Misr for Development S.A.E. ("Emaar Misr"), an unlisted limited liability company in Egypt, thereby resulting in 100% ownership and control of the entity.

The fair value of the identifiable assets and liabilities of Emaar Misr as at the date of acquisition were:

	<i>Recognised on acquisition AED'000</i>	<i>Carrying value AED'000</i>
Bank balances and cash	272,035	272,035
Trade receivables	15,284	15,284
Development properties	2,843,811	2,295,047
Property, plant and equipments	1,754	1,754
	<u>3,132,884</u>	<u>2,584,120</u>
Trade and other payables	1,619,474	1,619,474
Interest-bearing loans and borrowings	730,675	730,675
	<u>2,350,149</u>	<u>2,350,149</u>
Net assets acquired	782,735	233,971
Less: interest held as an associate by the Group prior to acquisition	(261,207)	
Total acquisition cost	<u>521,528</u>	

The total acquisition cost of AED 521,528 thousands was paid in cash.

##### *Cash outflow on acquisition:*

	<i>2007 AED'000</i>
Net cash acquired with the subsidiary	272,035
Acquisition cost paid in cash	(521,528)
Net cash outflow	<u>(249,493)</u>

## EMAAR Properties PJSC and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

#### 18 GOODWILL

	2008 AED'000	2007 AED'000
Balance at 1 January	2,961,968	2,961,968
Impaired during the year (i)	(2,522,577)	-
Balance at 31 December	<u>439,391</u>	<u>2,961,968</u>

(i) On 1 June 2006 (acquisition date), the Group acquired 100% of the voting shares of WL Homes LLC, a residential home builder, an unlisted limited liability company headquartered in Newport Beach, California, United States of America. On the acquisition date, the Group had recorded a goodwill amounting to AED 2,522,577 thousands. The management of the Group has undertaken an impairment review of the goodwill as at 31 December 2008. Based on the review and the Group's future intentions with respect to restructuring this investment in light of the unprecedented slowdown in the US housing market, the Group has decided to write down the entire goodwill of AED 2,522,577 thousands recorded at the time of acquisition.

(ii) On 24 August 2006 (acquisition date), the Group acquired 100% of the voting shares of Hamptons, Group Limited, a property management consultant, an unlisted limited liability company, headquartered in London, United Kingdom (UK). On the acquisition date, the Group had recorded a goodwill amounting to AED 427,724 thousands. This goodwill has been allocated to cash generating unit and has been tested for impairment using a value in use model. The calculation of value in use is sensitive to the following assumptions:

*Gross margins* – Gross margins are based on the expectations of management based on past experience and expectation of future market conditions.

*Discount rates* – Discount rates reflect management's estimate of the specific risks. The discount rate is based on the risk free rate of the investment's country, market risk premium related to the industry and individual unit related risk premium/ discount. This is the benchmark used by management to assess performance and to evaluate future investment proposals. Management estimates that such discount rate to be used for evaluation of the investment should be between 9% and 11%.

*Growth rate estimates* – Management prepares a five year budget based on their expectations of future results, thereafter a growth rate of 0.5% to 1% is assumed

(iii) In 2006 the Group acquired 100% of the voting shares of Raffles Company Pte Ltd., an education provider, an unlisted limited liability Company in Singapore. On the acquisition date, the Group had recorded a goodwill amounting to AED 11,667 thousands.

#### 19 TRADE AND OTHER PAYABLES

	2008 AED'000	2007 AED'000 (Restated)
Project contract cost accruals	5,523,867	2,799,037
Advances/deposits from customers	4,072,537	2,907,003
Other payables and accruals	1,957,118	1,706,598
Trade payables	1,295,644	502,271
Payable to minority shareholders	891,556	828,016
Dividends payable	80,825	61,422
Income tax payable (note 7)	17,091	21,555
	<u>13,838,638</u>	<u>8,825,902</u>

## EMAAR Properties PJSC and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

#### 20 INTEREST-BEARING LOANS AND BORROWINGS

	2008 AED'000	2007 AED'000
Balance at 1 January	7,703,753	3,992,210
Borrowings acquired in a business combination	-	730,675
Borrowings drawn down during the year	3,448,226	6,678,059
Borrowings repaid during the year	(1,977,814)	(3,697,191)
Balance at 31 December	<u>9,174,165</u>	<u>7,703,753</u>
Maturing within 12 months	4,563,896	1,563,471
Maturing after 12 months	4,610,269	6,140,282
Balance at 31 December	<u>9,174,165</u>	<u>7,703,753</u>
<b>The above represent balances due:</b>		
Within UAE	3,911,693	4,011,693
Outside UAE	5,262,472	3,692,060
	<u>9,174,165</u>	<u>7,703,753</u>

The Group has following secured and unsecured interest-bearing loans and borrowings:

##### Secured

- USD 65,000 thousands (AED 238,693 thousands) loan from a financial institution secured against the Group's specific investment properties and self occupied office building. Profit rate is charged at 6 months US\$ LIBOR plus 70 basis points. The loan is repayable in full in 2009.
- USD 455,159 thousands (AED 1,671,798 thousands) loan from financial institutions, secured against real estate owned by the Group in the United States of America, carries interest at the US Prime Rate plus 0.25% to 5% and matures at various dates to 2011.
- Indian Rupees (INR) 1,461,500 thousands (AED 110,279 thousands) loan from financial institutions, secured by way of first charge on certain immovable properties and receivables, carries interest at bench mark rate plus 3.33%. This loan is payable in quarterly instalments and fully repayable by 2016.
- USD 32,936 thousands (AED 120,974 thousands) loan from commercial bank, secured against real estate owned by Group in Turkey, carries interest at US\$ LIBOR plus 1.1%. Loan is fully repayable by 2010.
- Canadian Dollar (CAD) 30,179 thousands (AED 91,052 thousands) loan from financial institution, secured against real estate owned by the Group, carries interest at Prime Rate plus 0.125% and fully repayable by 2009.
- GBP 4,700 thousands (AED 25,085 thousands) loan from financial institution, secured against Groups specific lease hold properties, carries interest at LIBOR plus 1.50%.

##### Unsecured

- USD 20,000 thousands (AED 73,460 thousands) loan from financial institutions in the United States of America is unsecured, carries interest at US Prime Rate plus 0.25% to 1%.
- USD 78,000 thousands (AED 286,494 thousands) loan from financial institutions in the United States of America is unsecured, carries interest at US LIBOR plus 0.6% and fully repayable by March 2010.
- GBP 10,000 thousands (AED 53,372 thousands) short term loan from financial institutions is unsecured, carries interest at LIBOR plus 0.50%.

## EMAAR Properties PJSC and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

#### 20 INTEREST-BEARING LOANS AND BORROWINGS (continued)

##### Unsecured (continued)

- Pakistani Rupee (PKR) 3,263,761 thousands (AED 151,505 thousands) loan from commercial bank, bearing interest at KIBOR plus 1.25%.
- GBP 3,377 thousands (AED 18,024 thousands) of funding facilities from commercial bank, carries interest at 1% over Bank of England's base rate.
- USD 1,000,000 thousands (AED 3,673,000 thousands) of Musharaka Islamic Syndicated facility. This facility is repayable in 2012 with an option of early repayment without penalty to the Group and bears a profit rate of LIBOR plus 0.6%.
- Egyptian Pound (EGP) 1,009,166 thousands (AED 671,642 thousands) of funding facilities from commercial banks, carries interest at rates at Central bank rate plus 1% to 2%.
- USD 459,175 thousands (AED 1,686,548 thousands) loan from commercial bank, carries interest at US\$ LIBOR plus 1.0% to 1.20% and is repayable in 2009.
- Saudi Riyal (SAR) 115,000 thousands (AED 112,700 thousands) of funding facility from commercial bank carrying interest at SAIBOR plus 1% and fully repayable by 2009.
- Moroccan Dirham (MAD) 80,000 thousands (AED 36,713 thousands) of short term loan from commercial bank carrying interest at 52 weeks treasury bond rate plus 1.15%.
- USD 41,608 thousands (AED 152,826 thousands) of funding facility from commercial bank carries interest rate at LIBOR plus 1.25%.

The Group's subsidiary holding borrowings was in breach of certain of its loan covenants. The Group has committed to ensure that the position is rectified.

#### 21 RETENTIONS PAYABLE

	2008 AED'000	2007 AED'000
Retentions payable within 12 months	474,694	511,111
Retentions payable after 12 months	603,855	543,449
	<u>1,078,549</u>	<u>1,054,560</u>

#### 22 EMPLOYEE BENEFITS

##### Employee Performance Share Programme

The Company has an Employee Performance Share Programme ("The Programme") to recognise and retain good performing staff. The Programme gives the employee the right to purchase the Company's shares at par. The shares carry full dividend and voting rights, and the option can be exercised at any time from the stipulated vested dates on the condition that the employee is still under employment at the exercise date. There are no cash settlement alternatives and the options have no contractual expiry date.

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

	2008		2007	
	No.	WAEP	No.	WAEP
Outstanding at 1 January	1,446,049	AED 1.00	1,499,236	AED 1.00
Granted during the year	75,749	AED 1.00	1,427,796	AED 1.00
Forfeited during the year	-		-	
Exercised during the year	(1,462,055)	AED 1.00	(1,480,983)	AED 1.00
Outstanding at 31 December	<u>59,743</u>	<u>AED 1.00</u>	<u>1,446,049</u>	<u>AED 1.00</u>

## EMAAR Properties PJSC and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

#### 22 EMPLOYEE BENEFITS (continued)

The weighted average fair value of options granted during the year was AED 10 per share (2007: AED 12.60 per share).

The fair value of the vested shares is determined by reference to the official price list published by the Dubai Financial Market (DFM) for the 5 consecutive trading days prior to and after the vested date. As the options are granted deep in the money, management considers this to be an appropriate means of valuation.

The expenses recognised during the year in respect of the programme were AED 757 thousands (2007: AED 16,565 thousands).

##### End of Service Benefits

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

	2008 AED'000	2007 AED'000
Balance at 1 January	18,394	11,992
Provided during the year	25,526	9,779
Paid during the year	(6,828)	(3,377)
	<u>37,092</u>	<u>18,394</u>
Balance at 31 December	<u>37,092</u>	<u>18,394</u>

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

#### 23 SHARE CAPITAL

	2008 AED'000	2007 AED'000
Authorised capital – 6,096,325,000 shares of AED 1 each (31 December 2007: 6,096,325,000 shares of AED 1 each)	<u>6,096,325</u>	<u>6,096,325</u>
Issued and fully paid-up – 6,091,238,503 shares of AED 1 each (31 December 2007 - 6,091,238,503 shares of AED 1 each)	<u>6,091,239</u>	<u>6,091,239</u>

During the year ended 31 December 2007, 15,686 thousands shares of AED 1 each were issued at a premium of AED 4 per share to the shareholders who had opted for additional shares at the time of rights issue in 2005.

During the current year, the Company obtained the necessary regulatory approvals to undertake a share buy-back program. A total of 200,000 shares were purchased from the market at an average price of AED 5.57 per share amounting to AED 1,113 thousands.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

## 24 RESERVES

	Statutory reserve AED'000	Capital reserve AED'000	General reserves AED'000	Hedging reserves AED'000	Net unrealised gains/(losses) reserve AED'000	Foreign currency translation reserve AED'000	Total AED'000
<b>Balance at 1 January 2007</b>	<b>13,745,963</b>	<b>4,004</b>	<b>1,494,583</b>	-	<b>(583,782)</b>	<b>8,316</b>	<b>14,669,084</b>
Increase in unrealised reserve	-	-	-	6,084	636,460	-	642,544
Increase in foreign currency translation reserve	-	-	-	-	-	462,875	462,875
Net income and expense recognised directly in equity	-	-	-	6,084	636,460	462,875	1,105,419
Net movement during the year	-	-	657,531	-	-	-	657,531
Share premium	62,744	-	-	-	-	-	62,744
<b>Balance at 1 January 2008</b>	<b>13,808,707</b>	<b>4,004</b>	<b>2,152,114</b>	<b>6,084</b>	<b>52,678</b>	<b>471,191</b>	<b>16,494,778</b>
Decrease in unrealised reserve	-	-	-	(5,538)	(1,491,960)	-	(1,497,498)
Decrease in foreign currency translation reserve	-	-	-	-	-	(870,948)	(870,948)
Net income and expense recognised directly in equity	-	-	-	(5,538)	(1,491,960)	(870,948)	(2,368,446)
Net movement during the year	-	-	305,531	-	-	-	305,531
<b>Balance at 31 December 2008</b>	<b>13,808,707</b>	<b>4,004</b>	<b>2,457,645</b>	<b>546</b>	<b>(1,439,282)</b>	<b>(399,757)</b>	<b>14,431,863</b>

## EMAAR Properties PJSC and Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

## 24 RESERVES (continued)

According to Article number 57 of the Articles of Association of the Company and Article 193 of the U.A.E. Federal Commercial Companies Law, 10% of annual net profits are allocated to the statutory reserve and another 10% to the general reserve. The transfers to statutory reserve may be suspended when the reserve reaches 50% of the paid-up capital. Transfers to general reserve may be suspended by the ordinary general assembly when the reserve reaches 50% of the paid-up capital.

The statutory reserve is in excess of 50% of the paid-up share capital of the Group and therefore in accordance with a resolution of the Annual General Meeting the Group has ceased further transfers to this reserve.

The statutory reserve includes:

- AED 2,475,000 thousands being the premium collected at AED 15 per share (shares par value at that time was AED 10 per share) on the 1:1.65 rights issue during the year ended 31 December 1998; and
- AED 11,321,656 thousands being the premium collected to date at AED 4 per share on the 1:1 rights issue announced during the year ended 31 December 2005.

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

Net unrealised gains/ (losses) reserve:

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

Foreign currency translation reserve:

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

## 25 DIVIDENDS

A cash dividend of AED 0.20 per share dividend for 2007 was approved by the shareholders of the Company at the Annual General Meeting of the Company held on 19 March 2008 and was subsequently paid during the year.

## 26 EARNINGS PER SHARE

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

	2008 AED'000	2007 AED'000
<b>Earnings:</b>		
Net profit for the year attributable to equity holders of the parent	<b>3,055,311</b>	6,575,314
<b>Shares (in thousands):</b>		
Weighted average number of shares outstanding for calculating basic and diluted EPS	<b>6,091,239</b>	6,091,239
Basic and diluted earnings per share	<b>AED 0.50</b>	AED 1.08

## EMAAR Properties PJSC and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

#### 27 CONTINGENCIES AND COMMITMENTS

##### Guarantees

The Group has the following guarantees outstanding as at 31 December 2008:-

- Loans taken by an associated company from commercial banks amounting to AED 111,032 thousands (31 December 2007: AED 312,059 thousands) are guaranteed by the Group.
- Loans taken by an associated company from commercial banks amounting to AED 1,352,130 thousands (31 December 2007: 1,670,041 thousands) are guaranteed by the Group. The majority shareholder in the associate has provided the Group a counter guarantee and indemnity up to its share of liability for any claim made against the Group arising from the guarantee.
- The Group has issued a financial guarantee of AED 79,865 thousands (31 December 2007: AED 79,974 thousands) as a security for the letter of guarantee issued by a commercial bank for the performance of its contractual obligations.
- The Group has issued a financial guarantee of AED 6,676 thousands as a security for the letter of guarantee issued by a commercial bank for the performance of its contractual obligations.
- The Group has provided a financial guarantee of AED 5,000 thousands (31 December 2007: AED 5,000 thousands) as a security for the letter of guarantee issued by a commercial bank for issuance of trade license from Government of Dubai.
- The Group has provided a corporate guarantee of AED 110,190 thousands (31 December 2007: AED 110,190 thousands) to a commercial bank as a security for the guarantees issued by the bank on behalf of the associated company of the Group.
- The Group has provided a corporate guarantee of AED 91,825 thousands to a commercial bank as a security for the guarantees or letter of credit issued by the commercial bank for the performance of its contractual obligations.

##### Commitments

At 31 December 2008, the Group had commitments of AED 17,705,411 thousands (2007: AED 17,766,165 thousands) including project commitments of AED 16,110,055 thousands (2007: AED 16,951,069 thousands). This represents the value of contracts issued as of 31 December 2008 net of invoices received and accruals made at that date.

Certain claims were submitted by the contractors relating to different projects of the Group in the ordinary course of business from which it is anticipated that no material unprovided liabilities will arise.

The Group had entered into a joint venture agreement ("the agreement") with Bawadi LLC, (a subsidiary of Tatweer LLC) to jointly develop land in Bawadi development in Dubai. According to the terms of agreement, the Group is committed to contribute AED 3,850,000 thousands over the expected construction period of 7 to 10 years.

## EMAAR Properties PJSC and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

#### 27 CONTINGENCIES AND COMMITMENTS (continued)

##### Operating Lease commitments – Group as lessee

The Group has entered into various operating lease agreements for properties, office facilities and equipment. Future minimum payments under these operating leases are as follows:-

	<i>31 December 2008 AED'000</i>	<i>31 December 2007 AED'000</i>
Within one year	<b>867,124</b>	454,109
After one year but not more than five years	<b>75,869</b>	875,571
	<b><u>942,993</u></b>	<u>1,329,680</u>

##### Operating lease commitments – Group as lessor

The future minimum lease payments receivable under non-cancellable operating leases contracted for at the reporting date but not recognised as receivables, are as follows:-

	<i>31 December 2008 AED'000</i>	<i>31 December 2007 AED'000</i>
Within one year	<b>746,719</b>	17,430
After one year but not more than five years	<b>3,136,220</b>	2,960,542
More than five years	<b>287,148</b>	989,525
	<b><u>4,170,087</u></b>	<u>3,967,497</u>

##### Legal claim

The Company was involved in arbitration proceedings with Jadawel International Company (The Claimant) with regard to a proposed joint venture in the Kingdom of Saudi Arabia. Arbitrators has given an award in favour of the Company in which all claims by the claimant were rejected by the arbitrators, who declared the joint venture agreement to be ineffective, unenforceable and with no legal effect on the Company. The claimant has filed an appeal against the award before the Board of Grievances. In the opinion of the management of the Company, it is unlikely that the Arbitrators' award will be reversed or amended.

#### 28 TRANSACTIONS WITH RELATED PARTIES

For the purpose of these financial statements, parties are considered to be related to the Group, if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

## EMAAR Properties PJSC and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

#### 28 TRANSACTIONS WITH RELATED PARTIES (continued)

##### Related party transactions

During the financial year, following were the significant related party transactions, which were carried out in the normal course of business on terms agreed between the parties:

	2008 AED'000	2007 AED'000
<i>Associates:</i>		
Net interest income on deposits / investments from Dubai Bank PJSC	17,331	-
Islamic finance income from Amlak Finance PJSC	33,206	23,461
Interest income earned on loan to Golden Ace Pte	16,128	-
Interest income earned on loan to EMGF Land Limited and their related parties	16,944	-
	<u>          </u>	<u>          </u>
<i>Directors' and their related parties</i>		
Sale of plot of land	351,687	-
	<u>          </u>	<u>          </u>
<i>Other related parties:</i>		
Islamic finance income from Al Salam Bank, Bahrain	5,000	-
Islamic finance income from Al Salam Bank, Sudan	1,152	6,437
	<u>          </u>	<u>          </u>

The members of the board of directors received attendance fees totalling AED 3,881 thousands (2007: AED 3,190 thousands).

##### Related party balances

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

	2008 AED'000	2007 AED'000
<i>Associates:</i>		
Fixed deposits with Dubai Bank PJSC	699,001	130,000
	<u>          </u>	<u>          </u>
<i>Other related parties:</i>		
Investment in Al Salaam Bank, Sudan	7,735	28,433
Investment in Al Salaam Bank, Bahrain	38,301	91,432
Investment in Al Salaam Bank, Algeria	20,202	20,202
	<u>          </u>	<u>          </u>

##### Compensation of key management personnel

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

	2008 AED'000	2007 AED'000
Short-term benefits	311,567	315,489
Employees' end of service benefits	19,926	9,998
Performance share programme	-	8,493
	<u>          </u>	<u>          </u>
	331,493	333,980
	<u>          </u>	<u>          </u>

At 31 December 2008, the number of directors and other members of key management personnel was 234 (31 December 2007: 179).

## EMAAR Properties PJSC and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

#### 29 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise bank loans and overdrafts, trade payables and loans given. 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 Group also enters into derivative transactions, primarily forward currency contracts. The purpose is to manage the currency risks arising from the Group's operations and its sources of finance.

It is, and has been throughout 2008 and 2007 the Group's policy that no trading in derivatives shall be undertaken. The main risks arising from the Group's financial instruments are cash flow interest rate risk, liquidity risk, foreign currency risk and credit risk. The Board of Directors reviews and agrees policies for managing each of these risks which are summarised below.

##### Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates. Interest on financial instruments having floating rates is repriced at intervals of less than one year and interest 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 interest rate environment relates mainly to its bank borrowings, debt instruments, investment in financial products and fixed deposits.

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

	2008		2007	
	<i>Change in basis points</i>	<i>Sensitivity of interest income/(expense) AED'000</i>	<i>Change in basis points</i>	<i>Sensitivity of net interest income/(expense) AED'000</i>
Financial asset	+ 100	53,879	+ 100	47,248
Financial liability	+ 100	(91,742)	+ 100	(77,038)

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

The investments in financial products are not for trading or speculative purposes but placed in securities or fixed deposits, with the objective of achieving better returns than cash at bank. The interest rates on loans to associates are described in note 13. Interest rates on loans from financial institutions are disclosed in note 20.

##### Foreign currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Positions are monitored on a daily basis and hedging strategies used to ensure positions are maintained within established limits.

## EMAAR Properties PJSC and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

#### 29 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

##### Foreign currency risk (continued)

The table below indicate the currencies to which the Group had significant exposure at 31 December 2008 on its non trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the AED, with all other variables held constant on the income statement (due to the fair value of currency sensitive non trading monetary assets and liabilities) and equity (due to change in the fair value of currency swaps used as cash flow hedges). A positive amount in the table reflects a potential net increase in income statement.

Currency	2008		2007	
	Change in currency rate in %	Effect on equity AED'000	Change in currency rate in %	Effect on equity AED'000
GBP	+10	5,212	+10	15,742
INR	+10	315,996	+10	390,458
Other currencies not pegged to US Dollar	+10	29,043	+10	52,515

There is no significant impact of reasonable possible movement of the currency rates on the income statement.

As the UAE Dirham is currently pegged to the US Dollar, balances in US Dollars and other currencies pegged against US Dollars are not considered to represent significant currency risk

##### Credit risk

Credit risk represents the loss that would be recognised if customers or counter parties fail to perform as contracted.

The Group has entered into contracts for the sale of residential and commercial units on an installment basis. The installments are specified in the contracts. The Group is exposed to credit risk in respect of installments due. However, the legal ownership of residential and commercial units and plots of land is transferred to the buyer only after all the installments are recovered. In addition, installment dues are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The Group does not require collateral in respect of trade and other receivables.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, available-for-sale financial investments and certain derivative instruments, 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.

##### Liquidity risk

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

The cash flows, funding requirements and liquidity of Group companies are monitored on a centralised basis, under the control of Group Treasury. The objective of this centralised system is to optimise the efficiency and effectiveness of the management of the Group's capital resources. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, debentures, preference shares, finance leases and hire purchase contracts. 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.

## EMAAR Properties PJSC and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

#### 29 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

##### Liquidity risk (continued)

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

Financial liabilities	On demand AED'000	Less than 3 months AED'000	3 to 12 months AED'000	1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
<b>As at 31 December 2008</b>						
Due to banks	255,639	1,854,872	3,199,385	4,783,819	39,977	10,133,692
Retention payable	-	89,012	385,682	603,855	-	1,078,549
Payable to minority shareholders	-	-	-	891,556	-	891,556
Dividend payable	80,825	-	-	-	-	80,825
Other liabilities	42,782	2,178,189	2,252,269	2,616,685	189,086	7,279,011
<b>Total undiscounted financial liabilities</b>	<b>379,246</b>	<b>4,122,073</b>	<b>5,837,336</b>	<b>8,895,915</b>	<b>229,063</b>	<b>19,463,633</b>

##### As at 31 December 2007

Due to banks	788,677	405,786	882,557	6,949,451	45,329	9,071,800
Retention payable	-	102,222	408,889	543,449	-	1,054,560
Payable to minority shareholders	-	-	-	828,016	-	828,016
Dividend payable	61,422	-	-	-	-	61,422
Other liabilities	21,555	1,093,939	1,734,667	2,004,697	174,603	5,029,461
<b>Total undiscounted financial liabilities</b>	<b>871,654</b>	<b>1,601,947</b>	<b>3,026,113</b>	<b>10,325,613</b>	<b>219,932</b>	<b>16,045,259</b>

##### Equity price risk

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. The non-trading equity price risk exposure arises from the Group's investment portfolio.

The effect on equity (as a result of a change in the fair value of equity instruments held as available-for-sale at 31 December 2008) due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

	2008		2007	
	Change in equity price %	Effect on equity AED'000	Change in equity price %	Effect on equity AED'000
Quoted investments	10%	35,956	10%	201,726

##### Capital management

The primary objective of the Group's capital management strategy 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

**29 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

**Capital management (continued)**

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group's policy is to keep the gearing ratio between 33% and 50%. The Group includes within net debt, interest bearing loans and borrowings, less cash and cash equivalents. Capital includes equity attributable to the equity holders of the parent less the net unrealised gains reserve. At 31 December 2008, Groups' gearing ratio is 10% (31 December 2007: 13%).

**30 FAIR VALUES OF FINANCIAL INSTRUMENTS**

Financial instruments comprise financial assets and financial liabilities.

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

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

**31 HEDGING ACTIVITIES**

**Cash flow hedges**

At 31 December 2008, the Group held certain forward exchange contracts designated as hedges of expected future payments under construction contracts entered by its subsidiaries for which the Group has firm commitments. The forward exchange contracts are being used to hedge the foreign currency risk of the firm commitments. The nominal amounts of these contracts are AED 60,007 thousands (31 December 2007: AED 129,864 thousands)

	2008		2007	
	<i>Assets</i>	<i>Liabilities</i>	<i>Assets</i>	<i>Liabilities</i>
	<i>AED' 000</i>	<i>AED' 000</i>	<i>AED' 000</i>	<i>AED' 000</i>
<i>Forward exchange contracts</i>				
Fair value	<u>546</u>	<u>-</u>	<u>6,084</u>	<u>-</u>

**32 MARKET VALUE OF LAND**

The carrying values of land included in investment properties, property, plant and equipment and development properties at 31 December 2008 comprised purchased land at cost and donated land at nominal value. The fair value of such land was determined by the Group based on valuations carried out by independent valuers. The total fair value of the purchased and donated land included in development properties was AED 42,275,446 thousands (31 December 2007: AED 43,674,609 thousands) compared with a carrying value of AED 10,129,538 thousands (31 December 2007: AED 8,793,840 thousands). The fair value of land forming part of property, plant and equipment and investment properties are included under fair value disclosure in note 15 and 16 respectively. The value of the land does not include the land owned by the associated companies of the Group.