National Corporation for Tourism and Hotels

FINANCIAL STATEMENTS

31 DECEMBER 2007

ERNST & YOUNG

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF

NATIONAL CORPORATION FOR TOURISM AND HOTELS

We have audited the accompanying financial statements of National Corporation for Tourism and Hotels (the "Corporation"), which comprise the balance sheet as at 31 December 2007 and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

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

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

Opinion

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

Ernst & Young

25 February 2008
Abu Dhabi

INCOME STATEMENT
Year ended 31 December 2007

	Notes	*2007* *AED*	*2006* *AED*
Revenues	3	**274,862,401**	212,092,274
Direct expenses		**(157,752,766)**	(137,742,077)
GROSS PROFIT		**117,109,635**	74,350,197
OTHER INCOME	4	**9,334,798**	40,997,950
General and administrative expenses	5	**(63,516,344)**	(49,517,855)
Depreciation		**(31,956,759)**	(24,214,113)
Management fee and reimbursement of system cost		**(4,782,584)**	(2,353,449)
PROFIT FROM OPERATIONS		**26,188,746**	39,262,730
Gain on sale of available-for-sale investments	3 & 7	**36,335,103**	-
Gain (loss) on investments carried at fair value through income statement		**21,427,805**	(26,804,180)
Dividend income		**3,350,192**	1,592,196
Interest income		**1,032,878**	3,571,279
Finance costs		**(5,465,236)**	(5,745,656)
PROFIT FOR THE YEAR	3	**82,869,488**	11,876,369
Basic and diluted earnings per share (AED)	24	**0.83**	0.12

The attached notes 1 to 26 form part of these financial statements.

BALANCE SHEET
At 31 December 2007

	Notes	*2007* *AED*	*2006* *AED*
ASSETS			
Non-current assets			
Property, plant and equipment	6	**670,902,062**	527,797,865
Available for sale investments	7	**490,489,789**	160,299,935
		1,161,391,851	688,097,800
Current assets			
Inventories	9	**4,880,725**	4,560,667
Accounts receivable and prepayments	10	**72,642,848**	48,764,840
Investments carried at fair value through income statement	23	**56,607,547**	35,194,087
Bank balances and cash	11	**38,096,501**	72,842,593
		172,227,621	161,362,187
TOTAL ASSETS		**1,333,619,472**	849,459,987
EQUITY AND LIABILITIES			
Equity			
Share capital	12	**100,000,000**	100,000,000
Statutory reserve	13	**27,500,541**	19,213,592
General reserve	14	**75,000,000**	75,000,000
Cumulative changes in fair values of available for sale investments		**419,615,431**	114,315,269
Retained earnings		**107,440,441**	52,857,902
Proposed dividends	15	**20,000,000**	20,000,000
Total equity		**749,556,413**	381,386,763
Non-current liabilities			
Term loans	16	**228,751,907**	245,000,000
Obligations under hire purchase agreement	17	**-**	250,000
Employees' end of service benefits	18	**9,309,042**	9,102,721
		238,060,949	254,352,721
Current liabilities			
Accounts payable and accruals	19	**93,526,595**	80,004,471
Bank overdraft	11	**232,015,515**	111,653,532
Term loans	16	**20,210,000**	21,562,500
Obligations under hire purchase agreement	17	**250,000**	500,000
		346,002,110	213,720,503
Total liabilities		**584,063,059**	468,073,224
TOTAL EQUITY AND LIABILITIES		**1,333,619,472**	849,459,987

Nasser Ahmed Al Suwaidi
CHAIRMAN

Fahad Ahmed Al Awadi
DEPUTY MANAGING DIRECTOR

The attached notes 1 to 26 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2007

	Share capital AED	*Statutory reserve AED*	*General reserve AED*	*Cumulative changes in fair values of available-for-sale investments AED*	*Retained earnings AED*	*Proposed dividends AED*	*Total AED*
Balance at 1 January 2006	100,000,000	18,025,955	75,000,000	220,255,982	62,169,170	25,000,000	500,451,107
Net movement in fair value of available-for-sale investments	-	-	-	(105,940,713)	-	-	(105,940,713)
Total expense for the year recognised directly in equity	-	-	-	(105,940,713)	-	-	(105,940,713)
Profit for the year	-	-	-	-	11,876,369	-	11,876,369
Total (expense) income for the year	-	-	-	(105,940,713)	11,876,369	-	(94,064,344)
Proposed dividends	-	-	-	-	(20,000,000)	20,000,000	-
Dividends paid	-	-	-	-	-	(25,000,000)	(25,000,000)
Transfer to statutory reserve	-	1,187,637	-	-	(1,187,637)	-	-
Balance at 31 December 2006	100,000,000	19,213,592	75,000,000	114,315,269	52,857,902	20,000,000	381,386,763
Realised gains on available-for-sale investments	-	-	-	(36,335,103)	-	-	(36,335,103)
Net unrealized gain on available-for-sale investments	-	-	-	341,635,265	-	-	341,635,265
Total income for the year recognised directly in equity	-	-	-	305,300,162	-	-	305,300,162
Profit for the year	-	-	-	-	82,869,488	-	82,869,488
Total income for the year	-	-	-	305,300,162	82,869,488	-	388,169,650
Proposed dividends	-	-	-	-	(20,000,000)	20,000,000	-
Dividends paid	-	-	-	-	-	(20,000,000)	(20,000,000)
Transfer to statutory reserve	-	8,286,949	-	-	(8,286,949)	-	-
Balance at 31 December 2007	**100,000,000**	**27,500,541**	**75,000,000**	**419,615,431**	**107,440,441**	**20,000,000**	**749,556,413**

The attached notes 1 to 26 form part of these financial statements.

CASH FLOW STATEMENT
Year ended 31 December 2007

	Notes	*2007* *AED*	*2006* *AED*
OPERATING ACTIVITIES			
Profit for the year		**82,869,488**	11,876,369
Adjustments for:			
Depreciation of property, plant and equipment		**35,018,219**	26,965,551
Gain on sale of property, plant and equipment		**(553,984)**	(2,364,919)
Provision for employees' end of service benefits	18	**3,044,830**	2,646,566
Interest income		**(1,032,878)**	(3,571,279)
Finance costs		**5,465,236**	5,745,656
Dividend income		**(3,350,192)**	(1,592,196)
Gain on sale of available-for-sale investments		**(36,335,103)**	-
(Gain) loss on investments carried at fair value through income statement		**(21,427,805)**	26,804,180
		63,697,811	66,509,928
Working capital adjustments:			
Inventories		**(320,058)**	1,224,251
Accounts receivable and prepayments		**(23,878,008)**	21,102,413
Accounts payable and accruals		**13,954,650**	25,607,170
Cash from operations		**53,454,395**	114,443,762
Employees' end of service benefits paid	18	**(2,838,509)**	(1,912,339)
Interest paid		**(5,465,236)**	(5,745,656)
Net cash from operating activities		**45,150,650**	106,785,767
INVESTING ACTIVITIES			
Purchase of property, plant and equipment, net of advances		**(117,940,251)**	(182,404,610)
Advances and reservation deposits on purchase of lands		**(61,581,050)**	(22,130,701)
Interest received		**1,032,878**	3,571,279
Dividends received		**3,350,192**	1,592,196
Purchase of available-for-sale investments		**(35,750,000)**	-
Proceeds from sale of property, plant and equipment		**1,520,343**	3,779,486
Proceeds from sale of investments carried at fair value through income statement		**14,345**	61,929,203
Proceeds from sale of available-for-sale investments		**47,195,411**	-
Net cash used in investing activities		**(162,158,132)**	(133,663,147)
FINANCING ACTIVITIES			
Dividends paid		**(20,000,000)**	(25,000,000)
Repayment of term loan		**(17,600,593)**	(19,937,500)
Obligations under hire purchase agreement		**(500,000)**	(500,000)
Term loan received		**-**	1,590,217
Net cash used in financing activities		**(38,100,593)**	(43,847,283)
DECREASE IN CASH AND CASH EQUIVALENTS		**(155,108,075)**	(70,724,663)
Cash and cash equivalents at 1 January		**(38,810,939)**	31,913,724
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	11	**(193,919,014)**	(38,810,939)

Significant non-cash transactions which have been excluded from the cash flow statement are as follows:

Cumulative changes in fair value of available-for-sale investments	**305,300,162**	(105,940,713)
Depreciation charged to capital work in progress	**4,512,305**	5,358,510
Adjustment to project accrual capitalised in prior years (note 6)	**(432,526)**	-

The attached notes 1 to 26 form part of these financial statements.

1 ACTIVITIES

National Corporation for Tourism and Hotels (the "Corporation") was formed on 11 December 1996 in accordance with Law No. 7 of 1996, to own, manage and invest in hotels and leisure complexes and related businesses. As stated in the law, as of the date of its formation, the Corporation acquired from the Government of Abu Dhabi the ownership of Abu Dhabi Inter-Continental Hotel, Al Ain Inter-Continental Hotel and Al Dhafra Beach Hotel (the "Hotels"), all located in the Emirate of Abu Dhabi. In addition, during the year 2005, the Corporation completed the construction of Danat Resort – Jebel Dhanna. Accordingly, these hotels operate as divisions of the Corporation. In addition, the Corporation manages three hotels located in the Emirate of Abu Dhabi, provides catering services and has a 50% shareholding interest in a transport company. The registered head office of the Corporation is at P O Box 6942, Abu Dhabi, United Arab Emirates ("UAE").

During the year, a shareholder sold its shareholding of 34% to an individual and all legal formalities were completed before the year end.

The activities of the Hotels and joint venture owned by the Corporation are summarised as follows:

Abu Dhabi Inter-Continental Hotel
The hotel is managed by the Inter-Continental Hotels Corporation. The Operating and Management Agreement dated 26 April 2001 is for a period of 10 years from 1 January 2001, renewable for a further period of five years.

Al Ain Inter-Continental Hotel
The hotel is managed by the Inter-Continental Hotels Corporation. The Operating and Management Agreement dated 26 April 2001 is for a period of 10 years from 1 January 2001, renewable for a further period of five years.

Al Dhafra Beach Hotel
The hotel is owned and operated by the Corporation.

Danat Resort – Jebel Dhanna
The hotel is owned and operated by the Corporation.

National Transportation Company LLC
The Corporation has a 50% equity shareholding with equal voting power in National Transportation Company LLC (the "Joint Venture"), a joint venture established in Abu Dhabi, UAE as a limited liability Company and commenced its commercial activities in July 2003. The Joint Venture is engaged in ownership and operation of a fleet of deluxe taxis and buses.

The financial statements of National Corporation for Tourism and Hotels for the year ended 31 December 2007 were authorised for issue in accordance with a resolution of the Board of Directors on 25 February 2008.

2.1 BASIS OF PREPARATION

The financial statements have been prepared in accordance with International Financial Reporting Standards.

The financial statements are prepared under the historical cost convention modified to include the measurement at fair value of available-for-sale investments and investments carried at fair value through income statement.

The financial statements are presented in UAE Dirhams ("AED") which is the functional and presentational currency of the Corporation, Hotels and the Joint Venture.

The financial statements incorporate the financial statements of the Corporation, its divisions and Hotels and its Joint Venture, National Transportation Company LLC all drawn up to 31 December each year.

All significant inter company balances transactions and profits are eliminated as part of the preparation of the financial statements.

2.1 BASIS OF PREPARATION continued

The financial statements of the Corporation's divisions, Hotels and its Joint Venture are prepared using consistent accounting policies as those used by the Corporation. Joint Ventures are included from the date on which control is transferred to the Corporation and will cease to be included from the date on which control is transferred out of the Corporation.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

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

The Corporation has adopted the following new and amended IFRS and IFRIC interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the financial performance or position of the Corporation. They did however give rise to additional disclosures.

- IFRS 7 Financial Instruments: Disclosures
- IAS 1 Amendment - Presentation of Financial Statements
- IFRIC 10 Interim Financial Reporting and Impairment

The principal effects of these changes in policies are discussed below:

- IFRS 7 Financial Instruments: Disclosures

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Corporation's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results, comparative information has been revised where needed.

- IAS 1 - Amendment Presentation of Financial Statements

This amendment requires the Corporation to make new disclosures to enable users of the financial statements to evaluate the Corporation's objectives, policies and processes for managing capital. These new disclosures are shown in note 25.

- IFRIC 10 Interim Financial Reporting and Impairment

The Corporation adopted IFRIC Interpretation 10 as of 1 January 2007, which requires that an entity must not reverse an impairment loss recognised in a previous interim period in respect of an investment in either an equity instrument or a financial asset carried at cost. As the Corporation had no impairment losses previously reversed, the interpretation had no impact on the financial position or performance of the Corporation.

2.3 FUNDAMENTAL ACCOUNTING CONCEPT

At 31 December 2007, the Corporation's current liabilities exceeded its current assets by AED 174 million (2006: AED 52 million). The financial statements have been prepared on a going concern basis as management of the Corporation supported by the Board of Directors have expressed confidence in generating funds through working capital from its wholly owned hotels and / or restructuring its current bank facilities to enable the Corporation to meet its liabilities as they fall due in the foreseeable future.

2.4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

2.4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES continued

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

Classification of investments
Financial assets within the scope of IAS 39 are classified as financial assets carried at fair value through income statement or available-for-sale financial assets, as appropriate.

The Corporation determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end.

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

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

At the balance sheet date, gross trade accounts receivable were AED 67,844,134 (2006: AED 53,112,241) and the provision for doubtful debts was AED 19,608,553 (2006: AED 19,022,850). Any difference between the amounts actually collected in future periods and the amounts expected to be received will be recognised in the income statement.

Impairment of inventories
Inventories are held at the lower of cost and net realisable value. When inventories become old or obsolete, an estimate is made of their net realisable value. For individually significant amounts this estimation is performed on an individual basis. Amounts which are not individually significant, but which are old or obsolete, are assessed collectively and a provision applied according to the inventory type and the degree of ageing or obsolescence, based on historical selling prices.

At the balance sheet date, gross inventories were AED 4,880,725 (2006: AED 4,560,667) with no provisions for old and obsolete inventories. Any difference between the amounts actually realised in future periods and the amounts expected will be recognised in the income statement.

Useful lives of property, plant and equipment
The Corporation's management determines the estimated useful lives of its property, plant and equipment for calculating depreciation. This estimate is determined after considering the expected usage of the asset or physical wear and tear. Management reviews the residual value and useful lives annually and the future depreciation charge would be adjusted where management believes that the useful lives differ from previous estimates.

Impairment of available-for-sale financial assets
The Corporation classifies certain investments as available-for-sale and recognises movements in their fair value in equity. When there is a significant or prolonged decline in value, management makes assumptions about the decline in value to determine whether it is an impairment that should be recognised in the income statement. At 31 December 2007, no impairment losses have been recognised for available-for-sale assets (2006: AED nil). The carrying amount of available-for-sale investments was AED 490,489,789 (2006: AED 160,299,935).

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition
Revenue from sales of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably.

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.

Interest income 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.

Dividend income from investments is recognised when the shareholders' rights to receive payment is established.

Rental income is accounted for on a straight line basis over the lease terms on ongoing leases.

Property, plant and equipment
Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value. Land is not depreciated.

Assets under construction (i.e. capital work in progress) are stated at cost and are not depreciated. When commissioned, assets under construction are transferred to the appropriate property, plant and equipment asset category and depreciated in accordance with the Corporation's policies.

Depreciation is calculated on a straight line basis over the estimated useful lives of the assets as follows:

Freehold buildings	over 10 - 30 years
Fixtures and fittings	over 5 - 7 years
Mechanical and electrical plant	over 7 – 10 years
Motor vehicles	over 4 years

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

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.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement in the year when the asset is sold or retired.

The asset's residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Borrowing costs
Borrowing costs that are directly attributable to the acquisition or construction of a qualifying asset are capitalised (net of interest income on temporary investment of borrowings) as part of the cost of the asset until the asset is commissioned for use. Borrowing costs in respect of completed assets or not attributable to qualifying assets are expensed in the period in which they are incurred.

Interest in joint venture
The Corporation's interest in its joint venture, namely National Transportation Company LLC, is accounted for by using the proportionate consolidation method, which involves recognising a proportionate share of the joint venture's assets, liabilities, income and expenses with similar items in the financial statements on a line by line basis.

The financial statements of the joint venture are prepared for the same reporting period as the parent company. Adjustments are made where necessary to bring the accounting policies into line with those of the Corporation.

Adjustments are made in the Corporation's financial statements to eliminate the Corporation's share of unrealized gains and losses on transaction between the Corporation and its jointly controlled entity. Losses on transaction are recognized immediately if the loss provides evidence of a reduction in the net realisable value of current assets or an impairment loss. The joint venture is proportionately until the date on which the Corporation ceases to have joint control over the joint venture.

Inventories
Inventories are stated at the lower of cost and net realisable value after making due allowance for any obsolete or slow moving items. Costs are those expenses incurred in bringing each product to its present location and condition, and are determined on a weighted average cost basis, except for inventories at Al Dhafra Beach Hotel, which are determined on a first-in first-out basis.

Accounts receivable
Accounts receivable are stated at original invoice amount net of provisions for amounts estimated to be impaired. An estimate for doubtful debts is made when collection of the full amount is no longer possible. Bad debts are written off when there is no possibility of recovery.

Impairment and uncollectibility of financial assets
An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognised in the income statement. Impairment is determined as follows:

(a) For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the income statement. Reversals of impairment in respect of equity instruments classified as available for sale are not recognised in the income statement; and

(b) For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset.

Cash and cash equivalents
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 bank overdraft.

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Investment and other financial assets
Financial assets within the scope of IAS 39 are classified as financial assets at fair value through income statement or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through income statement, directly attributable transaction costs.

The Corporation determines the classification of its financial assets on initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end.

Investments carried at fair value through income statement
Investments carried at fair value through income statement are recognised and derecognised, on a trade date basis, when the Corporation becomes, or ceases to be, a party to the contractual provisions of the instrument.

Investments are classified as fair value through income statement if the fair value of the investment can be reliably measured. Investments classified as "investments at fair value through income statement" upon initial recognition, are remeasured at fair value with all changes in fair value being recorded in the income statement.

Available-for-sale investments
Available-for-sale investments are recognised and derecognised, on a trade date basis, when the Corporation becomes, or ceases to be, a party to the contractual provisions of the instrument.

Investments designated as available-for-sale investments are initially recorded at cost and subsequently measured at fair value, unless this cannot be reliably measured. Changes in fair value are reported as a separate component of equity. On derecognition or impairment the cumulative gain or loss previously reported in equity is included in the income statement for the period.

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

Term loans
Term loans are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, term loans are subsequently measured at amortised cost using the effective interest method. Interest on term loans is charged as an expense with unpaid amounts included in "accounts payable and accruals".

Hire purchase contracts
Assets held under hire purchase contracts are initially recorded at cost. Obligations under hire purchase contracts, due within or after one year, are stated net of unamortised interest costs. The latter are amortised over the period of financing using the declining balance method.

Motor vehicles are depreciated in accordance with the Joint Venture's policy.

Employees' end of service benefits
The Corporation provides end of service benefits to its expatriate employees. The entitlement to these benefits is 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 national employees, the Corporation makes contributions to the relevant UAE Government pension scheme calculated as a percentage of the employees' salaries. The obligations under these schemes are limited to these contributions, which are expensed when due.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Foreign currencies
Transactions in foreign currencies are recorded 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 the income statement.

Financial instruments
Financial instruments comprise financial assets and financial liabilities.

Financial assets comprise available for sale investments, investments carried at fair value through income statement, receivables, deposits and bank balances and cash. Financial liabilities comprise payables, bank overdraft, loans and obligations under hire purchase agreements.

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. The fair value of investments traded in organised markets is determined by reference to quoted market bid prices.

2.6 FUTURE CHANGES IN ACCOUNTING POLICIES - STANDARDS ISSUED BUT NOT YET EFFECTIVE

IAS 1 Presentation of Financial Statements
The Corporation has not adopted the revised IAS 1 (Presentation of Financial Statements) which will be effective for the year ending 31 December 2009. The application of this Standard will result in amendments to the presentation of the financial statements.

IFRS 8 Operating Segments
IFRS 8 Operating Segments was issued in November 2006, becoming effective for periods commencing on or after 1 January 2009. The new standard will require disclosure of information about the Corporation's operating segments and will replace the requirement to determine primary (business) and secondary (geographical) reporting segments of the Corporation.

IAS 23 Borrowing Costs
A revised IAS 23 Borrowing costs was issued in March 2007, and becomes effective for financial years beginning on or after 1 January 2009. The standard has been revised to require capitalisation of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. The Corporation already capitalises borrowing costs relating to qualifying assets. Accordingly, the revision in IAS 23 will not have an impact on the Corporation's financial statements.

3 SEGMENTAL INFORMATION

Primary segment information

For management purposes, the Corporation is currently organised into three major operating businesses. These businesses are the basis on which the Corporation reports its primary segmental information. These are:

- Hotels
- Catering services
- Transport services

	Hotels		Catering services		Transport services		Total	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006
	AED	AED	**AED**	AED	**AED**	AED	**AED**	AED
Revenues	**183,525,864**	124,255,979	**75,024,038**	75,960,737	**16,312,499**	11,875,558	**274,862,401**	212,092,274
Segment result	**34,804,904**	50,465,994	**4,560,708**	3,104,966	**1,466,036**	836,320	**40,831,648**	54,407,280
Unallocated general and administrative expenses							**(12,903,882)**	(13,204,555)
Unallocated depreciation expenses							**(1,739,020)**	(1,939,995)
Gain on sale of available for sale investments							**36,335,103**	-
Interest and dividend income and gain (loss) on investments carried at fair value through income statement							**25,810,875**	(21,640,705)
Finance costs							**(5,465,236)**	(5,745,656)
Profit for the year							**82,869,488**	11,876,369

	Hotels		Catering services		Transport services		Total	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	**2006**
	AED	AED	**AED**	AED	**AED**	AED	**AED**	AED
Assets								
Segment assets	**561,920,339**	316,168,646	**48,111,551**	46,852,710	**20,415,425**	11,638,363	**630,447,315**	374,659,719
Unallocated corporate assets							**703,172,157**	474,800,268
Total assets							**1,333,619,472**	849,459,987
Liabilities								
Segment liabilities	**285,886,426**	299,528,411	**17,383,453**	13,331,714	**15,098,324**	7,787,296	**318,368,203**	320,647,421
Unallocated corporate liabilities							**265,694,856**	147,425,803
Total liabilities							**584,063,059**	468,073,224

Profit for the year is stated after charging:

	2007	*2006*
	AED	*AED*
• Staff cost	**70,574,473**	58,446,897
• Inventory recognised as an expense	**46,942,438**	30,986,977

Secondary segment information

For operational and management reporting purposes, the Corporation is organised as one geographical segment. Accordingly, no secondary segment information is required to be provided.

4 OTHER INCOME

	2007 *AED*	*2006* *AED*
Rental income	**1,851,667**	1,859,459
Management fees	**2,031,608**	1,956,671
Reversal of provision for doubtful debts (note 10)	**2,000,000**	33,950,724
Gain on sale of property, plant and equipment	**553,984**	2,364,919
Miscellaneous income	**2,897,539**	866,177
	9,334,798	40,997,950

5 GENERAL AND ADMINISTRATIVE EXPENSES

	2007 *AED*	*2006* *AED*
Payroll and employee related costs	**21,109,323**	17,372,670
Other expenses	**34,288,371**	26,480,860
Energy costs	**8,118,650**	5,664,325
	63,516,344	49,517,855

6 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at year-end consist of the following:

	2007 *AED*	*2006* *AED*
Property, plant and equipment at net carrying amount	**567,040,057**	478,773,454
Advances to contractors	**6,481,293**	13,224,749
Advances and reservation deposits on purchase of lands	**97,380,712**	35,799,662
	670,902,062	527,797,865

6 PROPERTY, PLANT AND EQUIPMENT continued

	Land and buildings AED	*Fixtures and fittings AED*	*Mechanical and electrical plant AED*	*Motor vehicles AED*	*Capital work in progress AED*	*Total AED*
2007						
Cost:						
At 1 January 2007	401,046,797	96,875,461	14,013,925	16,789,254	178,082,046	706,807,483
Additions	700,000	9,681,590	133,905	11,654,044	107,026,473	129,196,012
Disposals	-	-	-	(2,798,074)	-	(2,798,074)
Adjustments to project capitalised in prior year	(432,526)	-	-	-	-	(432,526)
Transfer from capital work in progress	144,083,334	14,931,245	97,849,052	-	(256,863,631)	-
At 31 December 2007	**545,397,605**	**121,488,296**	**111,996,882**	**25,645,224**	**28,244,888**	**832,772,895**
Depreciation:						
At 1 January 2007	137,431,246	76,403,829	7,403,749	6,795,205	-	228,034,029
Depreciation charge for the year	19,630,748	9,263,825	6,272,279	4,363,672	-	39,530,524
Disposals	-	-	-	(1,831,715)	-	(1,831,715)
At 31 December 2007	**157,061,994**	**85,667,654**	**13,676,028**	**9,327,162**	**-**	**265,732,838**
Net carrying amount At 31 December 2007	**388,335,611**	**35,820,642**	**98,320,854**	**16,318,062**	**28,244,888**	**567,040,057**
2006						
Cost:						
At 1 January 2006	397,902,797	128,385,762	10,658,638	16,081,767	17,898,282	570,927,246
Additions	66,695	5,011,273	1,150,987	2,310,724	165,998,692	174,538,371
Disposals	(533,323)	(36,521,574)	-	(1,603,237)	-	(38,658,134)
Transfer from capital work in progress	3,610,628	-	2,204,300	-	(5,814,928)	-
At 31 December 2006	401,046,797	96,875,461	14,013,925	16,789,254	178,082,046	706,807,483
Depreciation:						
At 1 January 2006	120,358,667	102,739,327	5,800,681	4,054,860	-	232,953,535
Depreciation charge for the year	17,072,579	9,711,282	1,603,068	3,937,132	-	32,324,061
Disposals	-	(36,046,780)	-	(1,196,787)	-	(37,243,567)
At 31 December 2006	137,431,246	76,403,829	7,403,749	6,795,205	-	228,034,029
Net carrying amount At 31 December 2006	263,615,551	20,471,632	6,610,176	9,994,049	178,082,046	478,773,454

Depreciation expense amounting to AED 3,061,460 (2006: AED 2,751,438) and AED 4,512,305 (2006: AED 5,358,510) is charged to direct expenses and capital work in progress respectively.

During the year, the Corporation has capitalised finance costs amounting to AED 11,340,252 (2006: AED 2,501,480).

The advances and reservation deposits have been paid for purchase of two lands, in Saadiyat Island and Abu Dhabi.

7 AVAILABLE FOR SALE INVESTMENTS

	2007 *AED*	*2006* *AED*
Quoted investments (UAE companies)	**454,739,789**	149,439,627
Unquoted investments (UAE companies)		
Cost at 1 January	**10,860,308**	10,860,308
Additions during the year	**35,750,000**	-
Disposed during the year	**(10,860,308)**	-
	35,750,000	10,860,308
Total available for sale investments	**490,489,789**	160,299,935

During the year, the Corporation invested AED 35.7 million in unquoted companies representing the Corporation's equity interest of 10% in Pearl Azure Hotels and Resorts LLC and 5% in Sawaeed Employment LLC. Pearl Azure Hotels and Resorts LLC commenced its operations on 24 May 2007 and is involved in owning and managing hotels in the United Arab Emirates. Sawaeed Employment LLC was established on 19 December 2006 and is involved in recruitment of skilled and unskilled staff for government and private businesses. These investments are carried at cost, as there is no practical means of estimating the fair value of these investments due to unavailability of the financial information. In the Board of Directors' opinion the investments will be realised in full.

During the year, the Corporation disposed its investment in Daewoo Hilton Rabat in Morocco held at a cost of AED 10.86 million for AED 47.16 million resulting in a gain of AED 36.3 million.

8 JOINT VENTURE

The Corporation's share of the assets, liabilities, revenues and expenses of the Joint Venture, which are included in the Corporation's financial statements are as follows:

	2007 *AED*	*2006* *AED*
Current assets	**7,232,107**	3,993,373
Non-current assets	**13,183,318**	7,644,990
	20,415,425	11,638,363
Current liabilities	**(13,483,356)**	(7,248,666)
Non-current liabilities	**(1,614,968)**	(538,630)
Net assets	**5,317,101**	3,851,067
Revenues	**16,312,499**	11,875,558
Direct costs	**(13,515,601)**	(9,722,202)
General and administrative expenses	**(1,501,979)**	(1,455,773)
Finance costs, net	**(234,680)**	(150,119)
Other income	**405,797**	288,856
Profit for the year	**1,466,036**	836,320

9 INVENTORIES

	2007	*2006*
	AED	*AED*
Engineering and operating supplies	**1,504,527**	898,153
Food and beverages	**3,376,198**	3,662,514
	4,880,725	4,560,667

10 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	2007	*2006*
	AED	*AED*
Trade accounts and notes receivable, net of provision for doubtful debts	**48,235,581**	34,089,391
Amounts due from related parties (note 22)	**9,701,949**	2,428,962
Other receivables	**1,251,960**	3,085,755
Prepaid expenses	**13,453,358**	9,160,732
	72,642,848	48,764,840

As at 31 December 2007, trade receivables at nominal value of AED 19,608,553 (2006: AED 19,022,850) were impaired and fully provided for. Movements in the provision for impairment of trade receivables were as follows:

	2007	*2006*
	AED	*AED*
At 1 January	**19,022,850**	55,279,944
Charge for the year	**2,585,703**	1,733,697
Amounts written off	**-**	(4,040,067)
Unused amount reversed (note 4)	**(2,000,000)**	(33,950,724)
At 31 December	**19,608,553**	19,022,850

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

			Past due but not impaired			
	Total	*Neither past due nor impaired*	*30 – 60 days*	*60 – 90 days*	*90 – 120*	*>120 days*
	AED	*AED*	*AED*	*AED*	*AED*	*AED*
2007	**48,235,581**	**15,612,726**	**17,040,897**	**8,301,119**	**2,186,341**	**5,094,498**
2006	34,089,391	2,528,475	9,704,292	4,929,383	11,867,038	5,060,203

Unimpaired receivables are expected, on the basis of past experience, to be fully recoverable. It is not the practice of the Corporation to obtain collateral over receivables and the vast majority is, therefore, unsecured.

Trade receivables are non-interest bearing and are generally on 30 – 45 days terms.

For terms and conditions relating to related party receivables, refer to note 22.

11 CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the cash flow statement include the following balance sheet amounts:

	2007	*2006*
	AED	*AED*
Demand deposits and cash	**38,096,501**	32,674,242
Fixed deposits	**-**	40,168,351
	38,096,501	72,842,593
Bank overdraft	**(232,015,515)**	(111,653,532)
	(193,919,014)	(38,810,939)

Bank balances are held with banks operating in the United Arab Emirates.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day to three months, depending on the immediate cash requirements of the Corporation.

The bank overdraft facility is secured against certain of the Corporation's assets and corporate guarantees.

12 SHARE CAPITAL

	2007	*2006*
	AED	*AED*
Authorised, issued and fully paid ordinary shares of AED 1 each	**100,000,000**	100,000,000

13 STATUTORY RESERVE

In accordance with Law No. 7 of 1996 and the Corporation's articles of association, 10% of the profit for the year is to be transferred to statutory reserve. The Corporation may resolve to discontinue such annual transfers when the reserve totals 50% of the share capital.

14 GENERAL RESERVE

The general reserve has been established to enhance the equity base of the Corporation. Transfers to the general reserve are made upon the recommendation of the Board of Directors and approval of shareholders.

15 DIVIDENDS AND BOARD OF DIRECTORS' REMUNERATION

During the year, dividends of AED 0.20 per share totalling AED 20,000,000 relating to 2006 were paid.

The Board of Directors has proposed a cash dividend of AED 0.20 per share totalling AED 20,000,000 (2006: AED 0.20 per share totalling AED 20,000,000) which is subject to the approval of the shareholders at the Annual General Meeting in 2008.

An amount of AED 750,000 (2006: AED 750,000) has been proposed as remuneration for the members of the Board of Directors for the year ended 31 December 2007. The remuneration will be submitted for approval at the Annual General Meeting in 2008.

16 TERM LOANS

	2007 AED	*2006 AED*
Term loan 1	**245,000,000**	262,500,000
Term loan 2	**3,961,907**	4,062,500
	248,961,907	266,562,500
Classified as:		
Current liability	**20,210,000**	21,562,500
Non-current liability	**228,751,907**	245,000,000
	248,961,907	266,562,500

Term loan 1:
In accordance with article 4 of law no. 7 of 1996, dated 11 December 1996, the Government of Abu Dhabi sold the three hotels namely, Abu Dhabi Inter-Continental Hotel, Al Ain Inter-Continental Hotel and Al Dhafra Beach Hotel to the Corporation for an amount of AED 350 million. The sale amount of AED 350 million has been granted as a long term loan by the Government of Abu Dhabi to the Corporation and is to be repaid over 20 years following a grace period of 5 years commencing from 11 December 1996 being the date of the loan agreement. The loan carries simple interest at 2% per annum to be charged after a grace period of 3 years.

Term loan 2:
In 2006, the Joint Venture entered into a loan agreement with a commercial bank in Abu Dhabi for a maximum drawdown amount of AED 13 million. The loan was taken to finance the purchase of the motor vehicles. During the year, the Joint Venture has renewed the loan by an additional amount of AED 4 million. The loan is being repaid over 8 quarterly installments of AED 1,084,000 each starting 23 August 2007. The loan accrues interest at EBOR plus 1% and is guaranteed by the Joint Venture's shareholders. The above term loan is secured by pledges over the motor vehicles in accordance with the facility agreement.

At 31 December 2007, unutilised loan available to the Joint Venture amounted to AED 5 million (2006: AED 4.8 million).

17 OBLIGATIONS UNDER HIRE PURCHASE AGREEMENT

The Joint Venture obtained a financing facility from a local Islamic bank to finance the purchase of vehicles under hire purchase agreements.

18 EMPLOYEES' END OF SERVICE BENEFITS

The Corporation provides for end of service benefits to its expatriate employees in accordance with the employees' contracts of employment.

The movement on the provision recognised in the balance sheet is as follows:

	2007	*2006*
	AED	*AED*
Balance at 1 January	**9,102,721**	8,368,494
Provided during the year	**3,044,830**	2,646,566
Employees' end of service paid	**(2,838,509)**	(1,912,339)
Balance at 31 December	**9,309,042**	9,102,721

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

19 ACCOUNTS PAYABLE AND ACCRUALS

	2007	*2006*
	AED	*AED*
Trade accounts payable	**31,860,395**	22,281,104
Amounts due to related parties (note 22)	**2,641,272**	1,447,304
Accrued expenses and other payables	**42,838,079**	25,770,590
Advances from customers	**5,252,126**	4,639,041
Retentions payable	**10,934,723**	25,866,432
	93,526,595	80,004,471

20 CAPITAL COMMITMENTS

Estimated capital expenditure contracted for at the balance sheet date but not provided for:

	2007	*2006*
	AED	*AED*
Property, plant and equipment	**135,969,564**	146,731,167

21 CONTINGENCIES

The Corporation has given bank guarantees from which it is anticipated that no material liabilities will arise, amounting to AED 22,977,609 (2006: AED 22,279,654) in the normal course of business.

22 RELATED PARTY TRANSACTIONS

Related parties represent associated companies, major shareholders, Management Company operating the Hotels, directors and key management personnel of the Corporation and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Corporation's management.

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

	2007			*2006*		
	Rent AED	***Revenues AED***	***Management fee and reimbursement of system cost AED***	*Rent AED*	*Revenues AED*	*Management fee and reimbursement of system cost AED*
Other related parties	**131,250**	**13,200,377**	**4,782,584**	-	8,019,195	2,353,449

Balances with related parties included in the balance sheet are as follows:

	2007		*2006*	
	Receivables AED	***Payables AED***	*Receivables AED*	*Payables AED*
Other related parties	**9,701,949**	2,641,272	2,428,962	1,447,304

Terms and conditions of transactions with related parties
Transactions from related parties are made at normal market prices. Outstanding balances at the year-end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2007, the Corporation has not recorded any impairment of receivables relating to amounts owed by related parties (2006: nil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

Compensation of key management personnel
The remuneration of members of key management during the year was as follows:

	2007 AED	*2006 AED*
Short-term benefits	**7,923,498**	6,174,009
Employees' end of service benefits	**394,154**	317,910
	8,317,652	6,491,919

23 INVESTMENTS CARRIED AT FAIR VALUE THROUGH INCOME STATEMENT

Investments carried at fair value through income statement comprise of investments in managed funds. These investments are classified under this category as they are managed and their performance is evaluated on a fair value basis, in accordance with the Corporation's documented risk management strategy.

24 BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the profit for the year by the weighted average number of shares outstanding during the year. Diluted earnings per share are calculated by dividing the profit for the year by the weighted average number of ordinary shares outstanding during the year, adjusted for the effects of dilutive instruments.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	2007	*2006*
Profit for the year attributable to ordinary equity holders *(AED)*	**82,869,488**	11,876,369
Weighted average number of ordinary shares issued	**100,000,000**	100,000,000
Basic and diluted earnings per share *(AED)*	**0.83**	0.12

As of 31 December 2007, the Corporation has not issued any instruments which would have a dilutive impact on earnings per share when converted or exercised.

25 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Corporation's principal financial liabilities comprise term loans, trade payables and bank overdraft. The main purpose of these financial liabilities is to raise finance for the Corporation's operations. The Corporation has various financial assets such as trade accounts receivables, amounts due from related parties and cash and short-term deposits, which arise directly from its operations as well as available for sale investments and investments carried at fair value through income statement.

The main risks arising from the Corporation'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 Corporation's exposure to the risk of changes in market interest rates relates primarily to the Corporation's short-term debt obligations with floating interest rates.

The Corporation's policy is to manage its interest cost using long term with fixed interest rates. The Corporation's policy is to keep between 50% and 55% of its borrowing at fixed rates of interest. At 31 December 2007, approximately 51% of the Corporation's borrowings are at a fixed rate of interest (2006: 69%).

Interest rate risk table
The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Corporation's profit for one year relating to floating rate borrowings.

	Effect on profit AED
2007	
+10 increase in basis points	**(42,119)**
-10 decrease in basis points	**42,119**
2006	
+10 increase in basis points	(48,125)
-10 decrease in basis points	48,125

25 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

Credit risk
The Corporation trades only with recognised, creditworthy third parties. It is the Corporation's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Corporation's exposure to bad debts is not significant. The maximum exposure is the carrying amount as disclosed in note 10. The Corporation's three largest customers account for approximately 15% of outstanding trade receivable balance at 31 December 2007 (2006: 3 customers - 25%).

With respect to credit risk arising from other financial assets of the Corporation, which comprise cash and cash equivalents, the Corporation'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 Corporation 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 receivable and other financial assets) and projected cash flows from operations.

The Corporation's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts and bank loans. The Corporation's policy is that not more than 14% of borrowings should mature in the next 12 month period. 52% of the Corporation's debt will mature in less than one year at 31 December 2007 (2006: 35%) based on the carrying value of borrowings reflected in the financial statements. The Corporation expects to re-structure its short term financing into long term loans.

The table below summarises the maturity profile of the Corporation's financial liabilities at 31 December 2007 based on contractual undiscounted payments and current market interest rates.

	On demand	*Less than 3 months AED*	*3 to 12 months AED*	*1 to 5 years AED*	*> 5 years AED*	*Total AED*
At 31 December 2007						
Term loans	**-**	**581,831**	**24,105,155**	**87,930,973**	**173,250,000**	**285,867,959**
Obligations under hire purchase agreement	-	-	**253,770**	-	-	**253,770**
Accounts payable and other financial liabilities	-	**45,436,390**	-	-	-	**45,436,390**
Bank overdraft	**232,015,515**	-	-	-	-	**232,015,515**
	232,015,515	**46,018,221**	**24,358,925**	**87,930,973**	**173,250,000**	**563,573,634**
At 31 December 2006						
Term loans	-	-	29,471,416	87,500,000	194,250,000	311,221,416
Obligations under hire purchase agreement	-	-	530,656	253,770	-	784,426
Accounts payable and other financial liabilities		49,594,840	-	-	-	49,594,840
Bank overdraft	111,653,532	-	-	-	-	111,653,532
	111,653,532	49,594,840	30,002,072	87,753,770	194,250,000	473,254,214

25 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

Foreign currency risk
Foreign currency risk comprises of transaction and balance sheet risk. Transaction risk relates to the Corporation's cash flow being adversely affected by a change in the exchange rates of foreign currencies against UAE Dirhams. Balance sheet risk relates to the risk of the Corporation's monetary assets and liabilities in foreign currencies acquiring a lower or higher value, when translated into UAE Dirhams, as a result of currency movements.

The Corporation has an exposure on its foreign currency transactions mainly in US Dollars. As the UAE Dirham is pegged to the US Dollar, any balances in US Dollars, or US Dollar pegged currencies are not considered to represent significant currency risk. The Corporation has no significant exposure to other currency other than US Dollars.

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

The Corporation manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Corporation may adjust the dividend payment to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2007 and 31 December 2006.

The Corporation monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Corporation's policy is to keep the gearing ratio between 55% and 65%. The Corporation includes within net debt, term loans, obligations under hire purchase agreement, trade accounts payable and accruals, and cash and cash equivalents. Capital includes equity less the net unrealised gains reserve.

	2007 ***AED***	*2006* *AED*
Accounts payable and accruals	**93,526,595**	80,004,471
Term loans	**248,961,907**	266,562,500
Obligation under hire purchase agreement	**250,000**	750,000
Cash and cash equivalents	**193,919,014**	38,810,939
Net debt	**536,657,516**	386,127,910
Equity	**749,556,413**	381,386,763
Less: net unrealised gains reserve	**(419,615,431)**	(114,315,269)
Total capital	**329,940,982**	267,071,494
Capital and net debt	**866,598,498**	653,199,404
Gearing ratio	**62%**	59%

25 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

Market risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual security, or its issuer, or factors affecting all securities traded in the market. The Corporation is exposed to market risk with respect to its available for sale investments and investments carried at fair value through income statement. The Corporation limits market risks by maintaining a diversified portfolio and by continuous monitoring of developments in the market. In addition, the Corporation actively monitors the key factors that affect the market movements, including analysis of the operational and financial performance of investees.

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

The following tables estimate the sensitivity to a possible change in equity markets on the Corporation's income statement and equity, as applicable.

The sensitivity of the income statement is the effect of the assumed change in the reference equity benchmark on the fair value of investments carried at fair value through income statement.

Market index	*Change in variables*	*31 December 2007 Impact on profit AED*	*31 December 2006 Impact on profit AED*
Net asset value of managed funds	5%	**2,830,377**	1,759,704

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 2007) due to a reasonably possible change in equity indices, with all other variables held constant, is as follows.

Market index	*Change in variables*	*31 December 2007 Impact on equity AED*	*31 December 2006 Impact on equity AED*
Abu Dhabi Securities Market Index	5%	**22,478,270**	7,325,012

26 FINANCIAL INSTRUMENTS

Fair values

The fair values of the Corporation's financial instruments are not materially different from their carrying values at the balance sheet date except for the term loan from the Government of Abu Dhabi with fixed interest rate and unquoted available for sale investments carried at cost (note 7). Set out below is a comparison of carrying amounts and fair values of the term loan with fixed interest rate:

	Carrying amount		*Fair value*	
	2007	*2006*	***2007***	*2006*
	AED	*AED*	***AED***	***AED***
Term loan	**245,000,000**	262,500,000	**197,597,003**	209,254,901

The fair value of fixed rate borrowings has been calculated by discounting the expected future cash flows at market interest rates.