Abu Dhabi National Hotels

CONSOLIDATED FINANCIAL STATEMENTS AND
REPORT OF THE CHAIRMAN OF THE
BOARD OF DIRECTORS

31 DECEMBER 2005

ERNST & YOUNG

Abu Dhabi National Hotels

REPORT OF THE CHAIRMAN OF THE BOARD OF DIRECTORS

31 DECEMBER 2005

ERNST & YOUNG

Dear Shareholders

On behalf of us all I would like to express our profound thanks and gratitude to H.H. Sheikh Khalifa bin Zayed Al Nahyan, President of the UAE and to H.H Sheikh Mohammed bin Zayed Al Nahyan the Crown Prince for their continued patronage and support. We continue to develop the company following the fundamentals established by the visionary late president Sheikh Zayed bin Sultan Al Nahyan, founder of our great nation – may the Almighty rest his soul in eternal peace.

I am pleased to report that the 2005 financial year was a successful one for ADNH as we have seen continuous improvement in our total revenues and growth in profits and this can be attributed to a number of factors – in particular, a strong demand in the hospitality industry, a positive local economic environment supported by a comprehensive campaign by the Abu Dhabi Tourism Authority, the expansion of the Etihad Airlines and the mega investments in the real estate sector..

The total revenue was AED.1.07 billion compared to 1.04 billion of last year a growth of 3.07%. The operational expenditures decreased from AED.766 million in 2004 to AED. 758 million in 2005. The net profit increased to AED.332 million compared to AED. 238 million in 2004 a growth of 40%. Shareholders equity also grew by 50% to AED. 2.6 billion in 2005 compared to AED. 1.7 billion in 2004.

We continued to strengthen and upgrade our existing hospitality facilities. In particular, the Hilton renovation was completed while Meridien's is expected to be completed by the end of April 2006.

Our Catering division continues to contribute positively to the overall performance of the company. The prospects for the catering contracts locally as well as regionally are promising.

As for our transport sector Al Ghazal Transport, it is expected that the increase in tourism will enhance its overall results.

To ensure that our properties are managed under the most recognized brands, we signed during 2005 a hotel management agreement with the Accor group to operate our 450-room Jumeirah property under the Sofitel brand.

Looking ahead we expect the demand of tourism in our region to grow in the future and we expect to continue to make progress in 2006 as the returns from our past investments grow while we continue to invest in new properties. In this respect, I am pleased to inform our shareholders that during the fourth quarter of 2005 we announced the construction of a brand new property in the site presently occupied by the Gulf Hotel with an investment cost of Dhs500 million. This property is expected to be managed by a reputed international chain.

Finally, I would like on behalf of the Directors to thank our shareholders for their ongoing support and trust, the many authorities both public and private and our management and staff who contribute to the success of the Abu Dhabi National Hotels.

Khalifa Nasser Bin Huwaileel Al Mansoori
Chairman of the Board of Directors

Abu Dhabi National Hotels

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2005

ERNST & YOUNG

ERNST & YOUNG

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AUDITORS' REPORT TO THE SHAREHOLDERS OF

ABU DHABI NATIONAL HOTELS

We have audited the accompanying consolidated balance sheet of Abu Dhabi National Hotels ("the Company") and its subsidiary as of 31 December 2005 and the related consolidated statements of income, cash flows and changes in equity for the year then ended. These consolidated financial statements are the responsibility of the Company's management. 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 plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company and its subsidiary as of 31 December 2005 and the consolidated results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

We also confirm that in our opinion proper books of account have been kept by the Company, an inventory was duly carried out, and the contents of the report of the Chairman of the Board of Directors relating to these consolidated financial statements are in agreement 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 the articles of association of the Company have occurred during the year which would have had a material effect on the business of the Company or on its financial position.

Ernst & Young

Signed by:
Bassam E Hage
Partner
Registration No. 258

4 March 2006
Abu Dhabi

CONSOLIDATED INCOME STATEMENT
Year ended 31 December 2005

	Notes	*2005* *AED*	*2004* *AED*
Operating revenues	7	1,074,413,462	1,042,917,648
Direct operating expenses	7	(758,884,974)	(766,203,829)
GROSS PROFIT	7	315,528,488	276,713,819
General and administrative expenses	4	(25,305,662)	(23,807,021)
Depreciation	8	(72,155,156)	(76,934,293)
Investment and other income	3	114,879,847	64,232,271
Finance costs		(1,086,525)	(2,640,311)
PROFIT FOR THE YEAR	5 & 7	331,860,992	237,564,465
Basic earnings per share (AED)	6	0.92	0.66

The attached notes 1 to 31 form part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET
At 31 December 2005

	Notes	2005 AED	2004 AED
ASSETS			
Non-current assets			
Property, plant and equipment	8	**528,423,457**	494,230,282
Investment in associate	9	**25,004,356**	19,208,614
Available-for-sale investments	10	**1,256,186,309**	539,512,979
Goodwill	11	**4,181,408**	4,051,882
Other assets	13	**11,650,702**	11,650,702
Total non-current assets		**1,825,446,232**	1,068,654,459
Current assets			
Inventories		**28,625,428**	59,008,371
Accounts receivable and prepayments	14	**243,508,164**	253,250,630
Investments carried at fair value through income statement		**397,819,280**	274,176,382
Bank balances and cash	15	**478,660,513**	477,373,286
Total current assets		**1,148,613,385**	1,063,808,669
TOTAL ASSETS		**2,974,059,617**	2,132,463,128
EQUITY AND LIABILITIES			
Equity			
Share capital	16	**360,000,000**	300,000,000
Legal reserve	17	**180,000,000**	150,000,000
Statutory reserve	18	**180,000,000**	150,000,000
Foreign currency translation reserve		**1,391,276**	435,449
Retained earnings		**654,153,285**	630,992,293
Cumulative changes in fair values of available-for-sale investments		**1,008,080,929**	347,797,090
Proposed dividend	19	**144,000,000**	120,000,000
Proposed bonus shares	19	**72,000,000**	30,000,000
Total equity		**2,599,625,490**	1,729,224,832
Non-current liabilities			
Term loans	21	**19,519,228**	25,336,536
Employees' end of service benefits	22	**41,616,042**	39,713,925
Deferred income	23	**51,923,106**	86,538,485
Total non-current liabilities		**113,058,376**	151,588,946
Current liabilities			
Accounts payable and accruals	24	**253,848,523**	245,832,042
Employees' end of service benefits	22	**1,709,920**	-
Term loans	21	**5,817,308**	5,817,308
Total current liabilities		**261,375,751**	251,649,350
Total liabilities		**374,434,127**	403,238,296
TOTAL EQUITY AND LIABILITIES		**2,974,059,617**	2,132,463,128

Khalifa Nasser Bin Huwaileel Al Mansoori
CHAIRMAN OF THE BOARD

Ahmed Khalaf Al Otaiba
VICE CHAIRMAN

Ali Al Mehairi
ACTING DIRECTOR GENERAL

The attached notes 1 to 31 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
Year ended 31 December 2005

	Notes	2005 AED	2004 AED
OPERATING ACTIVITIES			
Profit for the year		331,860,992	237,564,465
Adjustments for:			
Depreciation of property, plant and equipment	8	72,155,156	76,934,293
Provision for employees' end of service benefits	22	8,922,715	6,789,633
Finance costs		1,086,525	2,640,311
Finance income	3	(16,567,182)	(7,870,016)
Income from investment in associate and dividend income	3	(7,298,478)	(5,009,791)
Gain on investments carried at fair value through income statement	3	(61,432,898)	(42,639,537)
Gain on sale of property, plant and equipment	3	(3,620,157)	(3,997,184)
Gain on sale of available-for-sale investments	3	(20,727,799)	-
Amortisation of goodwill	11	-	209,039
Amortisation of deferred income	23	(34,615,379)	(34,615,360)
		269,763,495	230,005,853
Working capital changes:			
Inventories		30,382,943	8,296,864
Accounts receivable and prepayments		9,742,466	13,181,114
Accounts payable and accruals		7,566,481	13,070,055
Cash from operations		317,455,385	264,553,886
Directors' remuneration paid		(2,250,000)	(1,800,000)
Employees' end of service benefits paid	22	(5,310,678)	(2,856,400)
Interest paid		(1,086,525)	(2,640,311)
Net cash from operating activities		308,808,182	257,257,175
INVESTING ACTIVITIES			
Proceeds from sale of investments carried at fair value through income statement		-	37,934,798
Proceeds from investment in associate		-	4,236,334
Proceeds from sale of available-for-sale investments		29,548,864	-
Proceeds from sale of property, plant and equipment		8,064,898	9,092,590
Purchase of available-for-sale investments	10	(65,210,556)	(35,787,241)
Purchase of property, plant and equipment	8	(97,140,095)	(112,595,524)
Reservation deposit made on purchase of land	8	(13,652,977)	-
Purchase of investments carried at fair value through income statement		(62,210,000)	-
Interest received	3	16,567,182	7,870,016
Dividends received	3	2,387,363	2,571,117
Goodwill		(129,526)	(3,899,829)
Decrease in bank deposits		440,520	172,933,786
Net cash (used in) from investing activities		(181,334,327)	82,356,047
FINANCING ACTIVITIES			
Dividends paid	19	(120,000,000)	(132,000,000)
Repayment of term loans		(5,817,308)	(5,817,308)
Cash used in financing activities		(125,817,308)	(137,817,308)
INCREASE IN CASH AND CASH EQUIVALENTS		1,656,547	201,795,914
Cash and cash equivalents at 1 January	25	475,831,466	274,299,600
Net foreign exchange difference		71,200	(264,048)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	25	477,559,213	475,831,466

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

Cumulative changes in fair value of available-for-sale investments	660,283,839	292,580,777

The attached notes 1 to 31 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2005

	Share capital AED	*Legal reserve AED*	*Statutory reserve AED*	*Foreign Currency translation reserve AED*	*Retained earnings AED*	*Cumulative changes in fair values of available for sale investments AED*	*Proposed dividend AED*	*Proposed bonus shares AED*	*Total AED*
Balance at 1 January 2004	264,000,000	132,000,000	132,000,000	(195,030)	581,677,828	55,216,313	132,000,000	36,000,000	1,332,699,111
Net movement in fair value of available-for-sale investments	-	-	-	-	-	292,580,777	-	-	292,580,777
Exchange difference arising on translation of overseas operations	-	-	-	630,479	-	-	-	-	630,479
Total income for the year recognised directly in equity	-	-	-	630,479	-	292,580,777	-	-	293,211,256
Profit for the year 2004	-	-	-	-	237,564,465	-	-	-	237,564,465
Total income for the year	-	-	-	630,479	237,564,465	292,580,777	-	-	530,775,721
Dividends paid	-	-	-	-	-	-	(132,000,000)	-	(132,000,000)
Bonus shares issued	36,000,000	-	-	-	-	-	-	(36,000,000)	-
Transfer to legal reserve	-	18,000,000	-	-	(18,000,000)	-	-	-	-
Transfer to statutory reserve	-	-	18,000,000	-	(18,000,000)	-	-	-	-
Directors' remuneration	-	-	-	-	(2,250,000)	-	-	-	(2,250,000)
Proposed dividends	-	-	-	-	(120,000,000)	-	120,000,000	-	-
Proposed bonus shares	-	-	-	-	(30,000,000)	-	-	30,000,000	-
Balance at 31 December 2004	300,000,000	150,000,000	150,000,000	435,449	630,992,293	347,797,090	120,000,000	30,000,000	1,729,224,832
Recognised gains and losses on available-for-sale investments	-	-	-	-	-	(18,432,790)	-	-	(18,432,790)
Net movement in fair value of available-for-sale investments	-	-	-	-	-	678,716,629	-	-	678,716,629
Exchange difference arising on translation of overseas operations	-	-	-	955,827	-	-	-	-	955,827
Total income for the year recognised directly in equity	-	-	-	955,827	-	660,283,839	-	-	661,239,666
Profit for the year 2005	-	-	-	-	331,860,992	-	-	-	331,860,992
Total income for the year	-	-	-	955,927	331,860,992	660,283,839	-	-	993,100,658
Dividends paid	-	-	-	-	-	-	(120,000,000)	-	(120,000,000)
Bonus shares issued	60,000,000	-	-	-	-	-	-	(30,000,000)	-
Transfer to legal reserve	-	30,000,000	-	-	(30,000,000)	-	-	-	-
Transfer to statutory reserve	-	-	30,000,000	-	(30,000,000)	-	-	-	-
Directors' remuneration	-	-	-	-	(30,000,000)	-	-	-	-
Proposed dividends	-	-	-	-	(2,700,000)	-	-	-	(2,700,000)
Proposed bonus shares	-	-	-	-	(144,000,000)	-	144,000,000	-	-
					(72,000,000)			72,000,000	-
Balance at 31 December 2005	360,000,000	180,000,000	180,000,000	1,391,276	654,153,285	1,008,080,929	144,000,000	72,000,000	2,599,625,490

The attached notes 1 to 31 form part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2005

1 ACTIVITIES

Abu Dhabi National Hotels ("the Company") a public shareholding company was incorporated in Abu Dhabi, United Arab Emirates on 13 April 1975 by Law No. (3) as amended by Law No. (5) of 1978, to own and manage hotels and to undertake other related business.

The Company comprises the following entities: five owned hotels within the Emirate of Abu Dhabi (Hilton International Abu Dhabi, Hilton International Al Ain, Abu Dhabi Sheraton Hotel, Le Meridien Abu Dhabi and Abu Dhabi Gulf Hotel). All these hotels are managed by international hotel operating companies except for the Gulf Hotel which is managed by the Company. The Company also manages for its own account five other hotel properties under long term lease agreements with the property owners. The Company also comprises a hotels' management division, a purchasing division, a tourism services division, and the following entities:

Name	*Country of operation*	*Principal activity*	*Interest*
Al Ghazal Transport	United Arab Emirates	Transport Services	100%
Abu Dhabi National Hotels Compass Middle East LLC (Joint Venture)	Gulf and the Middle East	Catering and Contract Services	51%

The Company also manages and supervises for the account of the Government of Abu Dhabi and other parties other hotels and tourist and leisure outlets.

The consolidated financial statements for the year ended 31 December 2005 were authorised for issue in accordance with a resolution of the Board of Directors on 4 March 2006.

2.1 BASIS OF PREPARATION

The consolidated financial statements are prepared under the historical convention modified to include the measurement at fair value of available-for-sale investments and investments carried at fair value through income statement. The consolidated financial statements are presented in the currency of United Arab Emirates (AED) which is the functional currency of the Company.

Statement of compliance
The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and applicable requirements of the UAE Commercial Companies Law of 1984 (as amended).

Basis of consolidation
The consolidated financial statements incorporate the financial statements of the Company, its divisions and hotels and its wholly owned subsidiary Al Ghazal Transport, all drawn up to 31 December each year.

All significant inter company balances, transactions and profits are eliminated on consolidation.

The financial statements of the Company's divisions, hotels and its wholly owned subsidiary are prepared using consistent accounting policies as those used by the Company. Where subsidiary financial statements are drawn up to different reporting dates, adjustments are made for the effect of significant transactions or events that occur between those dates and the date of the Company's financial statements. Subsidiaries are consolidated from the date on which control is transferred to the Company and cease to be consolidated from the date on which control is transferred out of the Company.

2.2 CHANGES IN ACCOUNTING POLICIES

The accounting policies are consistent with those used in the previous year, with the exception of the following policies which have been revised due to the application of standards becoming mandatory for financial years beginning on or after 1 January 2005.

Impairment of available-for-sale investments
In the case of available-for-sale equity investments reversal of previously recognised impairment losses are no longer recorded through the income statement but as increases in cumulative changes in fair value. There was no impact on the income statement for the comparative year ended 31 December 2004 or on retained earnings at 1 January 2004 as there were no such reversals in prior years.

IFRS 3 business combinations and IAS 36 (revised) Impairment of Assets
The adoption of IFRS 3 and IAS 36 (revised) has resulted in the Company ceasing annual goodwill amortisation and hcommencing testing for impairment at the cash generating unit level annually from 1 January 2005. The transitional provisions of IFRS 3 have required the Company to eliminate at 1 January 2005 the carrying amount of the accumulated amortisation by AED 285,633 with a corresponding entry to goodwill (note 11).

2.3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements
In the process of applying the Company's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect in the amounts recognised in the consolidated financial statements:

Classification of investments
Management decides on acquisition of an investment whether it should be classified as carried at fair value through income statement or available-for-sale.

Classification of investments as fair value through income statement depends on how management monitor the performance of these investments. When they are not classified as held for trading but have readily available reliable fair values and the changes in fair values are reported as part of income statement in the management accounts, they are classified as fair value through income statement.

All other investments are classified as available-for-sale.

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 goodwill
The Company determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Company 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 those cash flows. The carrying amount of goodwill at 31 December 2005 was AED 4,181,408 (2004: AED 4,051,882).

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 215,380,398 (2004: AED 151,945,075) and the provision for doubtful debts was AED 23,093,411 (2004: AED 15,301,013). Any difference between the amounts actually collected in future periods and the amounts expected to be received will be recognised in the income statement.

2.3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES continued

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 31,320,838 (2004: AED 59,253,210) with provisions for old and obsolete inventories of AED 2,695,410 (2004: AED 244,839). Any difference between the amounts actually realised in future periods and the amounts expected will be recognised in the income statement.

2.4 SIGNIFICANT ACCOUNTING POLICIES

Interest in joint venture
The Company's interest in its joint venture, namely Abu Dhabi National Hotels Compass Middle East 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 consolidated financial statements on a line by line basis.

Goodwill
Goodwill represents the Company's proportionate share of the excess of the cost of acquisition over the joint venture's interest in the fair value of the identifiable assets and liabilities of joint venture entities at the date of acquisition. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Revenue recognition
Operating revenue represents the sale of hotel rooms, food and beverage, catering and other services, invoiced to customers during the year and is stated net of allowances and rebates.

Interest income is recognised as the interest accrues using the effective interest method. under which the rate used exactly discounts the 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.

The guaranteed minimum income received by the Company with respect to a business segment and relating to a guaranteed period of six and half years from 1 January 2001, is recognised in catering and contract services revenue on a straight line basis over the guaranteed period.

Property, plant and equipment
Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value. Land is not depreciated. Further, no depreciation is charged on new assets in the year they are acquired or placed in service.

Assets under construction 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 Company's policies.

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

Buildings	4% - 10%
Mechanical, electrical and plumbing	10%
Furniture, fixtures and operating equipment	14% - 50%
Motor vehicles	20% - 25%

2.4 SIGNIFICANT ACCOUNTING POLICIES continued

Property, plant and equipment continued
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 consolidated income statement in the year when the asset is sold or retired.

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 value exceeds the estimated recoverable amount, the assets are written down to their recoverable amount.

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

Investments in associates
The Company's investments in associates are accounted for under the equity method of accounting. These are entities in which the Company has between 20% to 50% of the voting power or over which it exercises significant influence and which are neither subsidiaries nor joint ventures. Investments in associates are carried in the balance sheet at cost, plus post acquisition changes in the Company's share of net assets of the associate, less any impairment in value. The consolidated income statement reflects the Company's share of the results of its associates.

Unrealised profit and losses resulting from transactions between the Company and its associate are eliminated to the extent of the Company's interest in the associate.

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 Company 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 Company 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.

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. Net realisable value is based on estimated selling price less any further costs expected to be incurred on completion or disposal.

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.

Cash and cash equivalents
Cash and cash equivalents consist of cash and bank balances maturing within three months of the balance sheet date.

2.4 SIGNIFICANT ACCOUNTING POLICIES continued

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.

Provisions
Provisions are recognised when the Company 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
The Company's term loans are carried on the balance sheet at their principal amount. Interest is charged as an expense as it accrues, with unpaid amounts included in "accounts payable and accruals".

Employees' end of service benefits
The Company provides end of service benefits to its expatriate employees. The entitlement to these benefits is usually based upon the employees' final salary and length of service, subject to 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 Company makes contributions to a government scheme calculated as a percentage of the employees' salaries. The Company's obligations are limited to these contributions, which are expensed when due.

Operating leases
Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the consolidated income statement on a straight line basis over the lease term.

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 consolidated income statement.

On consolidation, the assets and liabilities of the Company's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange foreign currency rates for the year. Exchange differences arising, if any, are transferred to the Company's foreign currency translation reserve in equity. Such translation differences are recognised as income or as expense in the period in which the operation is disposed of.

Financial instruments
Financial instruments include investments, receivables, bank balances and cash, payables and certain other assets and liabilities.

The fair value of interest bearing items is estimated based on discounted cash flow 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.

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.

2.5 IASB INTERPRETATION ISSUED BUT NOT ADOPTED

The following Interpretation has been issued but is not yet mandatory, and has not yet been adopted by the Company:

IFRIC 4 Determining Whether an Arrangement Contains a Lease

Management consider that the application of the above interpretation, which will take place during 2006 as required by the IASB, may not be expected to have a material impact on the Company's consolidated financial statements.

3 INVESTMENT AND OTHER INCOME

	2005 *AED*	*2004* *AED*
Interest income	**16,567,182**	7,870,016
Gain on disposal of available-for-sale investments	**20,727,799**	-
Gain on investments carried at fair value through income statement	**61,432,898**	42,639,537
Gain on sale of property, plant and equipment	**3,620,157**	3,997,184
Dividend income	**2,387,363**	2,571,117
Income from associate	**4,911,115**	2,438,674
Other income	**5,233,333**	4,715,743
	114,879,847	64,232,271

4 GENERAL AND ADMINISTRATIVE EXPENSES

	2005 *AED*	*2004* *AED*
Payroll and employee related costs	**15,003,808**	15,558,400
Other expenses	**10,301,854**	8,248,621
	25,305,662	23,807,021

5 PROFIT FOR THE YEAR

Profit for the year is stated at after charging:

	2005 *AED*	*2004* *AED*
Staff costs	**298,916,792**	269,961,725
Depreciation of property, plant and equipment	**72,155,156**	76,934,293

6 BASIC EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the profit for the year by the weighted average number of ordinary shares outstanding during the year.

	2005 *AED*	*2004* *AED*
Profit for the year (AED)	**331,860,992**	237,564,465
Weighted average number of ordinary shares outstanding during the year (as adjusted for the issue of bonus shares and shares split)	**360,000,000**	360,000,000
Earnings per share (AED)	**0.92**	0.66

No figure for diluted earnings per share has been presented, as the Company has not issued any instruments, which would have an impact on earnings per share when exercised.

7 BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

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

- Hotels
- Catering and Contract Services
- Transport Services

Segmental information about these businesses is presented in the following pages:

	Hotels AED	Catering and contract services AED	Transport services AED	Total AED
Business segments				
2005				
Operating revenues	462,143,801	543,859,145	68,410,516	1,074,413,462
Direct operating expenses	(267,876,210)	(439,729,648)	(51,279,116)	(758,884,974)
Gross profit	194,267,591	104,129,497	17,131,400	315,528,488
Depreciation	(44,221,115)	(12,088,259)	(15,845,782)	(72,155,156)
Segment results	150,046,476	92,041,238	1,285,618	243,373,332
Unallocated corporate expenses				(25,305,662)
Operating income				218,067,670
Other operating income	-	-	4,304,454	4,304,454
Unallocated corporate investment and other income				110,575,393
Unallocated corporate interest expense				(1,086,525)
Profit for the year				331,860,992

	Hotels AED	Catering and contract services AED	Transport services AED	Total AED
2004				
Operating revenues	365,370,926	619,738,078	57,808,644	1,042,917,648
Direct operating expenses	(229,537,278)	(495,348,285)	(41,318,266)	(766,203,829)
Gross profit	135,833,648	124,389,793	16,490,378	276,713,819
Depreciation	(46,073,848)	(17,099,466)	(13,760,979)	(76,934,293)
Segment results	89,759,800	107,290,327	2,729,399	199,779,526
Unallocated corporate expenses				(23,807,021)
Operating income				175,972,505
Other operating income	-	-	3,992,334	3,992,334
Unallocated corporate investment and other income				60,239,937
Unallocated corporate interest expense				(2,640,311)
Profit for the year				237,564,465

Included in direct operating expenses for the year ended 31 December 2005 is an amount of AED 283,912,984 (2004: AED 254,403,325) relating to payroll and employee related costs.

7 BUSINESS AND GEOGRAPHICAL SEGMENTS continued

	Hotels AED	*Catering and contract services AED*	*Transport services AED*	*Total AED*
Business segments				
2005				
Assets				
Segment assets	609,400,301	226,912,432	54,140,024	890,452,757
Unallocated corporate assets				2,083,606,860
Total assets				2,974,059,617
Liabilities				
Segment liabilities	134,248,469	125,368,820	29,103,929	288,721,218
Unallocated corporate liabilities				83,012,909
Total liabilities				371,734,127
2004				
Assets				
Segment assets	583,530,456	264,102,886	38,988,308	886,621,650
Unallocated corporate assets				1,245,841,478
Total assets				2,132,463,128
Liabilities				
Segment liabilities	90,551,551	181,737,828	17,421,128	289,710,507
Unallocated corporate liabilities				113,527,789
Total liabilities				403,238,296

Geographical segments

The operations of the Company are mostly in the United Arab Emirates and the rest of the Middle East.

These are analysed as follows:

	United Arab Emirates AED	*Rest of the Middle East AED*	*Total AED*
2005			
Profit	306,214,425	25,646,567	331,860,992
Net assets	2,568,594,404	33,731,086	2,602,325,490
2004			
Profit	202,904,608	34,659,857	237,564,465
Net assets	1,679,327,024	49,897,808	1,729,224,832

8 PROPERTY PLANT AND EQUIPMENT

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

	2005 *AED*	*2004* *AED*
Property, plant and equipment at net carrying amount	514,770,480	494,230,282
Reservation deposit on purchase of land	13,652,977	-
	528,423,457	494,230,282

	Land and buildings *AED*	*Mechanical, electrical & plumbing* *AED*	*Furniture, fixtures and operating equipment* *AED*	*Motor vehicles* *AED*	*Assets under construction* *AED*	*Total* *AED*
Cost:						
At 1 January 2005	458,209,624	181,891,299	534,740,663	61,252,391	59,604,585	1,295,698,562
Additions	600,344	3,051,270	29,208,850	29,699,470	34,580,161	97,140,095
Transfers from assets under construction	37,234,530	8,598,666	20,697,531	-	(66,530,727)	-
Disposals	(125,085)	(568,884)	(12,242,940)	(14,926,250)	(292,908)	(28,156,067)
At 31 December 2005	**495,919,413**	**192,972,351**	**572,404,104**	**76,025,611**	**27,361,111**	**1,364,682,590**
Depreciation:						
At 1 January 2005	222,664,964	132,041,926	423,656,498	23,104,892	-	801,468,280
Charge for the year	13,806,095	6,813,436	33,694,805	17,840,820	-	72,155,156
Disposals	(125,085)	(568,257)	(12,176,370)	(10,841,614)	-	(23,711,326)
At 31 December 2005	**236,345,974**	**138,287,105**	**445,174,933**	**30,104,098**	-	**849,912,110**
Net carrying amount:						
At 31 December 2005	259,573,439	54,685,246	127,229,171	45,921,513	27,361,111	514,770,480
At 31 December 2004	235,544,660	49,849,373	111,084,165	38,147,499	59,604,585	494,230,282

Included in land and buildings is the cost of land stated at AED 55,809,939 at 31 December 2005 (2004: AED 23,483,970). Assets under construction represent mainly capital expenditure on extensions and additions to hotel properties.

9 INVESTMENT IN ASSOCIATE

	2005 *AED*	*2004* *AED*
Carrying amount of investment	25,004,356	19,208,614

Details of the Company's associate at 31 December 2005 and 2004 are as follows:

Name of associate	*Place of incorporation*	*Proportion of ownership interest*	*Proportion of voting power held*
OTIC Ltd	Jersey	38.46%	38.46%

OTIC Ltd participates in tourist complexes and operates in Morocco and Turkey.

10 AVAILABLE-FOR-SALE INVESTMENTS

(i) Quoted investments (UAE companies)

	2005 *AED*	*2004* *AED*
Fair value at 1 January	506,128,601	177,760,583
Disposals	(25,048,864)	-
Additions	65,210,556	35,787,243
Increase in fair value	678,716,629	292,580,775
Fair value at 31 December	1,225,006,922	506,128,601

(ii) Unquoted investments

Unquoted companies	31,179,387	33,384,378
Total available-for-sale investments	1,256,186,309	539,512,979

The investment in unquoted companies at 31 December 2005 represents the Company's equity interest of 10.224% in Abu Dhabi Tourism Investment Company (ADTIC) (2004: investments in ADTIC and ADDAR Real Estate). During the year ended 31 December 2005, the Company disposed of its 15% equity interest in ADDAR Real Estate. The investment in ADTIC is carried at amortised cost, as there is no practical means of estimating the fair value of this investment due to the unpredictable nature of future cash flows. In the Board of Directors' opinion the investments will be realised in full.

ADTIC is registered in Egypt as a private joint stock company. Its objectives are mainly to invest in touristic projects in Egypt. ADTIC owns three hotels in operation under a management agreement with an international hotel operator, and holds an equity share in a private shareholding company in Egypt which is engaged in the construction of a touristic resort in Egypt.

The Company has bank deposits under lien amounting to AED 1,101,300 at 31 December 2005 (2004: AED 1,541,820) partially guaranteeing a bank loan for ADTIC.

11 GOODWILL

	2005 *AED*	*2004* *AED*
Cost:		
At 1 January	4,337,515	-
Additions	129,526	3,899,829
Adjustments	-	437,686
Elimination of accumulated amortisation	(285,633)	-
At 31 December	4,181,408	4,337,515
Amortisation:		
At 1 January	285,633	-
Charge for the year	-	209,039
Adjustment	-	76,594
Elimination of accumulated amortisation	(285,633)	-
At 31 December	-	285,633
Net carrying amount:		
At 31 December	4,181,408	4,051,882

As from 1 January 2005, the date of adoption of IFRS 3, goodwill is no longer amortised but is now subject to annual impairment testing. The recoverable amount for impairment testing has been determined based on a value in use calculation using discounted cash flow projections from the related assets. In the opinion of management the goodwill as at 31 December 2005 is not impaired.

12 JOINT VENTURE

The Company has a 51% equity shareholding with equal voting power in Abu Dhabi National Hotels Compass Middle East LLC, a joint venture established in Abu Dhabi on 3 October 2000.

The Company's share of the assets, liabilities, revenues and expenses of the joint venture, which are included in the Company's consolidated financial statements are as follows:

	2005 *AED*	*2004* *AED*
Current assets	**197,846,739**	245,929,241
Non-current assets	**28,348,818**	23,252,242
	226,195,557	269,181,483
Current liabilities	**(110,841,403)**	(173,066,603)
Non-current liabilities	**(15,438,570)**	(13,749,822)
Net assets	**99,915,584**	82,365,058
Income	**509,089,721**	585,691,928
Expenses	**(451,199,755)**	(512,447,751)
Profit	**57,889,966**	73,244,177

13 OTHER ASSETS

During the year 2001 and following instructions from the Higher Authorities of the Emirate of Abu Dhabi, the ownership of Jazira Hotel & Resort buildings and facilities was transferred from the Company to a new owner in accordance with the terms of an "ownership transfer agreement" under signature between both parties.

During the year 2002, a payment was received from the Higher Authorities of the Emirate of Abu Dhabi amounting to AED 41,000,000 against the net book value of buildings and facilities, furniture, fixtures and equipment of the Jazira Hotel and Resort. The outstanding balance of AED 11.6 million (2004: AED 11.6 million) represents the working capital fund and current account balances carried forward of Jazira Hotel and Resort.

14 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	2005 *AED*	*2004* *AED*
Trade accounts receivable	**215,380,398**	151,945,075
Less: provision for impaired accounts	**(23,093,411)**	(15,301,013)
Net trade accounts receivable	**192,286,987**	136,644,062
Amounts due from related parties (note 26)	**9,332,305**	59,852,880
Other receivables and prepayments	**41,888,872**	56,753,688
	243,508,164	253,250,630

Included in other receivables at 31 December 2005 is accrued interest receivable of AED 930,823 (2004: AED 2,305,143) on bank deposits.

15 BANK BALANCES AND CASH

	2005 *AED*	*2004* *AED*
Bank deposits	408,314,566	410,416,392
Cash and current accounts with banks	70,345,947	66,956,894
	478,660,513	477,373,286

Included in short term deposits are interest bearing deposits of AED 1,101,300 at 31 December 2005 (2004: AED 1,541,820) under lien with a bank, renewable every six months (refer to note 10). Fixed deposits carry interest at market rates.

16 SHARE CAPITAL

	2005 *Shares*	*2005* *AED*
Authorised, issued and fully paid ordinary shares of AED 1 each	360,000,000	360,000,000

	2004 *Shares*	*2004* *AED*
Authorised, issued and fully paid ordinary shares of AED 10 each	30,000,000	300,000,000

During the year the nominal value of the Company's shares was split from AED 10 to AED 1 and the Company's authorised share capital was increased to AED 360,000,000 and 60,000,000 shares were issued at par (note 19).

17 LEGAL RESERVE

In accordance with Article 50 of the Company's Articles of Association, as amended, 10% of the profit for the year is to be transferred to a legal reserve until such reserve reaches 50% of the Company's issued and fully paid up capital. During the year an amount of AED 30,000,000 (2004: AED 18,000,000) was transferred to legal reserve to reach 50% of the Company's issued and fully paid up capital. This reserve is not available for distribution.

18 STATUTORY RESERVE

In accordance with Article 50 of the Company's Articles of Association, as amended, 10% of the profit for the year is to be transferred to a statutory reserve until such reserve reaches 50% of the Company's issued and fully paid up capital, or until a resolution is taken by the Ordinary General Assembly of the shareholders to cease transfer to this reserve. During the year an amount of AED 30,000,000 (2004: AED 18,000,000) was transferred to statutory reserve to reach 50% of the Company's issued and fully paid up capital. This reserve is to be used at the discretion of the General Assembly of the shareholders.

19 DIVIDENDS

During the year, dividends of AED 4 per share totalling AED 120 million were paid and a bonus share dividend of AED 60 million was issued.

The Board of Directors has proposed, subject to the approval of the shareholders in their forthcoming Annual General Assembly, a cash dividend of AED 0.40 per ordinary share (40% of par value) based on the profit for the year 2005 (2004: AED 4 per ordinary share – 40% of par value) and a bonus share dividend of AED 72 million (2004: AED 60 million).

20 DIRECTORS' REMUNERATION

The Directors propose a remuneration of AED 2,700,000 for 2005 (2004: AED 2,250,000) subject to the approval of the shareholders in their forthcoming Annual General Assembly.

21 TERM LOANS

	2005 *AED*	*2004* *AED*
Loans from Government of Abu Dhabi	13,461,536	16,153,844
Loans from Abu Dhabi Fund for Development	11,875,000	15,000,000
	25,336,536	31,153,844
Due in less than one year – current liability	5,817,308	5,817,308
Due in more than one year – non-current liability	19,519,228	25,336,536
	25,336,536	31,153,844

Interest was paid during the year at rates ranging from 2% to 4% (2004: 2% to 4%).

The term loans comprise the following:

(a) In May 1992, the Company concluded a loan agreement for AED 40,000,000 with the Government of Abu Dhabi to finance the construction of an extension to Hilton International Al Ain. The Company received AED 35,000,000 in the years 1992 to 1995. The loan account is repayable after a grace period of 3 years, over a period of 13 years, in equal annual instalments. The loan bears interest at a rate of 4% per annum from the end of the grace period. The interest charged during 2005 amounted to AED 574,362 (2004: AED 682,045).

(b) The Company has received three loans from Abu Dhabi Fund for Development of AED 30,000,000, AED 10,000,000 and AED 10,000,000 to finance the construction of Jazira Hotel & Resort in 1990, 1992 and 1993 respectively. All of the loan proceeds had been drawn down by 1996. The loans were obtained on similar terms and are re-payable in semi-annual instalments of AED 937,500, AED 312,500 and AED 312,500 each commencing in 1992, 1996 and 1997 respectively. These loans carry a service charge of 2% per annum.

22 EMPLOYEES' END OF SERVICE BENEFITS

The Company provides for end of service benefits in accordance with the employees' contracts of employment.

	2005 *AED*	*2004* *AED*
The movement on the provision is as follows:		
Balance at 1 January	39,713,925	35,780,692
Provided during the year	8,922,715	6,789,633
Paid during the year	(5,310,678)	(2,856,400)
Balance at 31 December	43,325,962	39,713,925
Due in less than one year – current liability	1,709,920	-
Due in more than one year – non-current liability	41,616,042	39,713,925
	43,325,962	39,713,925

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.

23 DEFERRED INCOME

As consideration for transferring its catering and contract services business to Abu Dhabi National Hotels Compass Middle East LLC, the Company was guaranteed a minimum income over a 10 year period commencing 1 January 2001 and a 51% equity interest in the joint venture. The guaranteed minimum income comprises a cash payment of AED 225,000,000 covering the first six and a half years, 50% of which was received in advance upon signing the agreement and the remaining 50% was received in early 2001, and an irrevocable corporate guarantee from Compass Group for AED 245,000,000 for the remainder of the 10 year period.

An amount of AED 34,615,379 (2004: AED 34,615,360) of the guaranteed minimum income received in cash as discussed above, was recognised as income in 2005 and is included in the catering and contract services revenue.

24 ACCOUNTS PAYABLE AND ACCRUALS

	2005 *AED*	*2004* *AED*
Trade and other payables	151,080,228	83,274,271
Amounts due to related parties (note 26)	15,397,993	32,319,409
Accrued liabilities and provisions	75,249,509	120,490,587
Unclaimed dividend payable	9,420,793	7,497,775
Directors' remuneration (note 20)	2,700,000	2,250,000
	253,848,523	245,832,042

25 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash and balances maturing within three months from the balance sheet date. The following is a reconciliation between cash and bank balances as stated in the consolidated balance sheet and cash equivalents as stated in the consolidated statement of cash flows:

	2005 *AED*	*2004* *AED*
Bank balances and cash as stated in the consolidated balance sheet (see note 15)	**478,660,513**	477,373,286
Less: deposits maturing after more than three months from the balance sheet date	**(1,101,300)**	(1,541,820)
Cash and cash equivalents as stated in the consolidated statement of cash flows	**477,559,213**	475,831,466

26 RELATED PARTY TRANSACTIONS

Related parties represent associated companies, major shareholders, directors and key management personnel of the Company, and companies of which they are principal owners. Pricing policies and terms of these transactions are approved by the Company's management.

Amounts due from and to related parties are disclosed in notes 14 and 24 respectively.

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

	2005 *AED*	*2004* *AED*
Short-term benefits	**11,736,527**	12,168,741
Employees' end of service benefits	**984,855**	1,103,208

27 LEASES

The Company is contracted until 2022 under non-cancellable operating leases for five of its properties. Minimum lease rentals are payable as follows:

	2005 *AED*	*2004* *AED*
Within one year	**17,462,500**	17,062,500
After one year but not more than five years	**69,850,000**	68,250,000
More than five years	**106,868,750**	130,531,250
Total operating lease expenditure contracted for at the balance sheet date	**194,181,250**	215,843,750

28 RISK MANAGEMENT

Interest rate risk
The Company is exposed to interest rate risk on its interest bearing assets and liabilities (bank deposits and term loans).

Credit risk
Credit risk represents the accounting loss that would be recognised if customers fail to perform as contracted. To reduce the exposure to credit risk, the Company performs credit evaluation of its customers but generally does not require collateral. The Company has no significant concentration of credit risk with exposure spread over a large number of counter parties and customers.

Liquidity risk
The Company limits its liquidity risk by ensuring bank facilities are available. The Company's terms of sale require amounts to be paid within 30 to 60 days of the date of sale. Trade payables are normally settled within 60 days of the date of purchase.

Foreign currency risk
Management considers that the Company is not exposed to significant currency risk. The majority of its transactions and balances are in either UAE Dirhams or US Dollars. As the UAE Dirham is pegged to the US Dollar, balances in US Dollars are not considered to represent significant currency risk.

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 Company is exposed to market risk with respect to its investments in equity securities. The Company limits market risks by maintaining a diversified portfolio and by continuous monitoring of developments in the market. In addition, the Company actively monitors the key factors that affect stocks and market movements, including analysis of the operational and financial performance of investees.

29 FAIR VALUE OF FINANCIAL INSTRUMENTS

With the exception of the unquoted available-for-sale investment, non-current other assets and term loans, the fair value of the Company's financial assets and liabilities approximates their carrying amounts.

Information on the principal characteristics of unquoted available-for-sale investment, other non-current assets and term loans is presented in notes 10, 13 and 21 respectively.

30 CONTINGENT LIABILITIES

	2005 *AED*	*2004* *AED*
Bank guarantees	28,254,348	23,266,387
Bank guarantees are issued in the normal course of business and mature as follows:		
Within one year	18,354,643	7,872,820
Between one year and two years	9,899,705	15,393,567
	28,254,348	23,266,387

30 CONTINGENT LIABILITIES continued

Claims

Claims and counterclaims are being pursued by the Company and a contractor in the courts of Abu Dhabi, in connection with the construction of Jazira Hotel & Resort property in Abu Dhabi, for extra works, loss of productivity by the contractor and liquidated damages. The matter was submitted for arbitration in prior years and the arbitration panel submitted its award on 17 June 2000 awarding the contractor an aggregate sum of AED 15,540,067 (2004: AED 15,540,067). The Company filed a Memorandum of Defense. The case was heard again recently and a court ruling was issued disclaiming the award to the contractor who is now appealing the ruling.

In the opinion of management, after taking legal advice, no significant liability will arise from the above claim.

31 COMMITMENTS

Capital commitments

The estimated capital expenditure contracted for at the balance sheet date amounts to AED 279,556,602 (2004: AED 176,640,814).

Other commitments

At the balance sheet date, the Company had bank deposits amounting to AED 136,783,630 (2004: AED 82,892,249) placed in its name and relating to the Government of Abu Dhabi ("Government") – owned outlets and resorts managed by the Company under its contractual arrangements with the Government. These deposits are recorded in the books of accounts of these managed outlets and resorts belonging to the Government and are not part of these consolidated financial statements.