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PROSPECTUS

ARAB TECHNICAL CONSTRUCTION COMPANY PJSC

(to be established under the laws of the U.A.E.)

**Initial Public Offering of 220 million Shares of Common Stock
representing 55% of share capital of Arab Technical Construction Company PJSC
at a Price of AED1 per Share (with additional AED0.01 per Share in Offering Costs)**

Lead Manager and Book Runner



Receiving Banks



August 2004

THE FOUNDERS

Founder Name	Number of Shares Subscribed to	Capital Subscribed to (AED)
Mr. Riad Burhan Kamal	76,000,000	76,000,000
Abraaj SPV 6 Limited	40,000,000	40,000,000
Sheikh Butti Bin Maktoum Bin Jouma Al Maktoum	20,000,000	20,000,000
Mr. Hussein Jassim Al Nuwais	10,000,000	10,000,000
Mr. Thomas Patrick Barry	10,000,000	10,000,000
Sheikh Sultan Bin Saqer Al Qassimi	5,000,000	5,000,000
Mr. Ahmed Ali Khalfan Al Dhahiri	5,000,000	5,000,000
Al Mazroui Holding Company L.L.C.	5,000,000	5,000,000
Sheikh Nawaf Bin Nasser Al Thani	5,000,000	5,000,000
Mr. Raja Hani Ghanma	2,000,000	2,000,000
Mr. Grigoris C. Christofides	2,000,000	2,000,000

The Founders applied for the establishment of the Company in compliance with the local laws of the U.A.E. The Dubai Department for Economic Development has issued resolution number 71 dated 2/7/2004, approving the establishment of the Company after fulfilling all regulatory requirements for establishing a Public Joint Stock Company in the U.A.E.

FOUNDERS COMMITTEE

The Founders have elected a committee comprised of 3 members to complete the establishment process with the relevant regulatory authorities. The Founders Committee will consist of:

- Sheikh Butti Bin Maktoum Bin Jouma Al Maktoum
- Mr. Riad Burhan Kamal
- Mr. Thomas Patrick Barry

ADVISORY PARTIES

Lead Manager and Book Runner

SHUAA Capital psc
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P.O. Box 31045, Dubai
United Arab Emirates

Legal Counsel for The Offering

Hadeef Al Dhahiri and Associates
API Towers
Sheikh Zayed Road
P.O. Box 37172, Dubai
United Arab Emirates

IMPORTANT NOTICE

The information and opinions contained in this Prospectus and any other information or opinions subsequently provided in connection with the Offering are intended to assist potential investors who wish to consider participation in the Offering and may not be published, duplicated, copied or disclosed in whole or in part or otherwise used for any purpose other than in connection with the Offering without the prior written approval of SHUAA Capital.

No representation or warranty, expressed or implied, is given by SHUAA Capital, the Receiving Banks, the Company or the Founders, or any of their respective directors, managers, accountants, lawyers, employees or any other person as to the accuracy or completeness of the contents of this Prospectus; or of the projections included within this Prospectus; or of any other document or information supplied at any time in connection with the Offering, or that any such document has remained unchanged after the issue thereof. In all cases, persons interested in the Offering should conduct their own investigation and analysis of the Company and its business operations, and all the data provided in this Prospectus. In no event should the information contained in this Prospectus be relied upon as constituting legal or tax advice or as being complete with respect to any legal or fiscal aspect relating to the purchase by said recipient of any Shares in connection with the Offering. Prospective investor should consult with, and rely upon, the professional advice of their respective legal and tax advisors with respect to such issues.

SHUAA Capital, the Receiving Banks, the Founders, the Company, and any of their respective directors, managers, accountants, lawyers, or employees each expressly disclaim any and all liability for any representations (whether expressed or implied) contained in, and for any omissions from, this Prospectus or any other written or oral communication transmitted in the course of the recipient's evaluation of participation in the Offering.

In furnishing this Prospectus, neither SHUAA Capital, the Receiving Banks, the Company, the Founders, nor any of their respective agents, representatives, directors, managers, accountants, lawyers, or employees undertakes any obligation to provide any additional information after the date of this Prospectus.

The words or phrases "will likely result" and "the Company expects", "will continue", "is anticipated", "estimated", "project", or "outlook", or similar expressions are intended to identify "forward-looking statements". The Founders wish to caution readers not to place undue reliance on any such forward-looking statements, each of which expresses a matter of judgment and speaks only as of the date made. Such statements are subject to certain risks and uncertainties that could cause actual results to differ materially from historical earnings and those presently anticipated or projected.

The offering of the Shares pursuant to this Prospectus has been authorized by the U.A.E. Ministry of Economy and Commerce and the Dubai Department of Economic Development, but the Shares have not been approved or registered by any other regulatory authority in any other jurisdiction, including the U.S. Securities and Exchange Commission or any state securities commission in the United States. Therefore the Shares may not, directly or indirectly, be offered, sold, re-sold, transferred or delivered in the United States, or for the account or benefit of any U.S. Person (as defined under the U.S. Securities Act of 1933) except in certain transactions exempt from the registration requirements of U.S. federal and state securities laws. In addition, the Shares may not be, and are not being, offered in the United Kingdom in circumstances that would require a prospectus to be registered in the United Kingdom under the Public Offers of Securities Regulations 1995. Persons coming into

possession of this Prospectus are required to inform themselves about, and to observe, any such restrictions.

This Prospectus does not constitute an offer or a solicitation of an offer to or from any person in any jurisdiction in which such an offer or solicitation, by or to the persons concerned, is not authorized by law.

For additional information and inquiries concerning this prospectus please contact the Lead Manager/Book Runner:

SHUAA Capital psc
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DEFINITIONS

Throughout this Prospectus, the following words shall have the meanings assigned to them hereunder.

the Company	Arab Technical Construction Company PJSC, a public joint stock company, to be established under the laws of the U.A.E
Articles of Association	Articles of Association of the Company as adopted by the Founders
Board or Board of Directors	The board of directors of the Company
Closing Date	August 23, 2004 or such other date that the Founders Committee may propose and the authorities may approve
Commercial Register	The register of commercial companies in the Ministry
Dirham or AED	The currency of the U.A.E.
Fils	Fils (fractional monetary unit for the currency of the United Arab Emirates).
Dollar or U.S.\$	The currency of the United States of America
Founders	The founding shareholders of the Company, whose names appear at the beginning of the Prospectus
Founders Committee	A committee of 3 members, whose names appear at the beginning of the Prospectus, established by the Founders
Government	The Governments of the United Arab Emirates and the various Emirates or any of them as the context requires
DFM	The Dubai Financial Market
the Offering	220 million Shares offered for sale to the public according to the terms set forth in the Prospectus
Lead Manager and Book Runner	SHUAA Capital psc
Ministry	The Ministry of Economy and Commerce
Offer Period	The Offer will commence on August 14, 2004 and will remain open until the Closing Date
Offer Price	The Offer Price per Offer Share is AED1
Offer Shares	220 million Shares, representing 55% of the capital stock of the Company

Offering Costs	The costs and expenses incurred in establishing the Company, including all registration fees, placement fees, marketing and printing, estimated at AED0.01 per Offer Share
Prospectus	The Prospectus prepared in relation for the Offering, dated August 2004
Receiving Banks	<ul style="list-style-type: none"> ▪ Dubai Bank ▪ Emirates Bank International ▪ Mashreqbank ▪ National Bank of Fujairah
Shares	Shares in the Company, with a nominal value of AED1 each
Subscriber(s)	The qualified investor(s) who shall make an offer to purchase a certain number of Offer Shares pursuant to the Prospectus

OFFERING TIMETABLE

The dates set forth below are indicative of certain key events related to the Offering. The Founders reserve the right to change any of the dates or time and/or shorten or extend the time periods, so long as the period of the Offering is at least 10 days.

August 14, 2004:	Launch of the Offering.
August 23, 2004:	Closing Date.
August 14 – August 23, 2004:	<p>The Prospectus, the Share subscription forms, the Company's establishment contract and Articles of Association will be available at the Receiving Banks.</p> <p>Subscription forms to be completed and submitted by the prospective Subscribers to the Receiving Banks, along with the corresponding payment in accordance with the instructions on the subscription form.</p>
August 25, 2004:	Allocation of shares amongst the Subscribers who have submitted the Share subscription forms and transferred/deposited the corresponding amounts with the Receiving Banks.
September 7, 2004:	Notification of all Subscribers of the Offer Shares allocated to them, and refund of any additional amount not allocated.
September 18, 2004:	Founding General Assembly of Shareholders will convene to finalise all issues pertaining to the incorporation of the Company.

EXECUTIVE SUMMARY

The following summary is qualified in its entirety by the detailed information contained elsewhere in this Prospectus. This summary may not contain all the information that prospective Subscribers should consider before deciding to invest in the Company's Shares. Prospective Subscribers should carefully read the entire Prospectus, including the section entitled "Risk Factors".

The Company

The Company is intended to be incorporated by the Founders as a Public Joint Stock Company in the U.A.E. with a paid-up capital of AED400 million allocated over 400 million Shares, with a par value of AED1 per Share.

The Company's Business

The Company intends to invest in the contracting sector through acquiring and owning shares in one or more existing contracting companies in the U.A.E., with the purpose of benefiting from the ongoing construction boom in the U.A.E. in general, and Dubai in particular, which is expected to continue for the coming few years.

Projected Financial Performance

The Company expects to utilize its capital in one or more specific investments related to its business, with a projected annual return on paid-in capital (AED400 million) of 20% (approximately AED80 million) over the next 3 years.

The Offering

The Founders of the Company have committed and subscribed to 180 million Shares of the Company's share capital. The Founders are offering the Offer Shares, 220 million Shares, representing 55% of share capital of the Company, to U.A.E. and non-U.A.E. individual and institutional investors. The Company's Articles of Association permit non-U.A.E. nationals to own up to 49 percent of the Company's share capital. Subscription forms for the Offering will be received from August 14, 2004 until the Offering Closing Date. In the event that the Offering is oversubscribed, the shares will be allocated on a pro-rata basis in accordance with the Companies Law.

Board of Directors

The Company's Board of Directors will consist of nine members, elected by the General Assembly of Shareholders.

Management

The Company will rely on a highly experienced and motivated professional management team in the contracting sector. The Company's management is expected to include a Chairman, Vice-Chairman, CFO (Chief Financial Officer), as well as managing directors to oversee the Company's investments. Management will institute detailed, documented policies and procedures that clearly define each job description, activity and task.

Mr. Riad Kamal, a founding shareholder, has extensive experience in the contracting business, and has overseen, since 1975, the development of several construction projects in Dubai and Abu Dhabi, many of which are considered landmarks in the U.A.E.

Dividend Policy

The Company is expected to adopt a dividend policy of distributing at least 40% of net income as dividend payments subject to bank financing, working capital and capital expenditure requirements.

Offering Costs

The Founders shall present the first General Assembly of the Company with a report on the costs incurred in establishing the Company. The Offering Costs collected pursuant to the Offering will be used to offset all such costs and expenses. In the event the collected Offering Costs exceed the costs and expenses incurred in establishing the Company, the excess amount will be paid to the Company as income. Similarly, any shortfall will be charged to the Company as an expense.

The Shares

The Company is intended to have 400 million Shares of fully paid up common stock issued and outstanding. The Shares are intended to be issued in registered form and to be evidenced by nominal certificates held by the respective shareholders. The Company will maintain a shareholder register that records the number of Shares held by each shareholder at all times. Upon listing on the DFM, the Shares will be converted to a dematerialized form and the shareholder register will be maintained by the DFM. The Company will only recognise transfers of Shares that have been reflected in the Shares register.

TERMS OF THE OFFERING

The Offering will be open to investors from within and without the U.A.E. The following is a summary of the key terms of the Offering:

<i>Number of Offer Shares</i>	220 million fully paid ordinary Shares with a nominal value of AED1 each, representing 55% of the Company's total issued share capital.
<i>Offer Price</i>	The Offer Price per Offer Share is AED1 (with additional AED0.01 Offering Costs).
<i>Issuer</i>	Arab Technical Construction Company PJSC – the Company, a public joint stock company to be established under the laws of the U.A.E.
<i>Receiving Banks</i>	The Founders have appointed SHUAA Capital as the Lead Manager and Book Runner of the Offering, with the principal responsibility of forming a syndicate of Receiving Banks to market, distribute and place the Offer Shares. The Receiving Banks are Dubai Bank, Emirates Bank International, Mashreqbank, and National Bank of Fujairah.
<i>Eligible Investors</i>	The Offering will be open to U.A.E. and non-U.A.E. individual and institutional investors provided that non-U.A.E. ownership will be restricted to 49% of the share capital, as stipulated in the U.A.E. Commercial Companies' law and the Company's Articles of Association. An individual subscriber shall not be less than 21 years of age on the date that he/she submits the Subscription application.
<i>Minimum Subscription</i>	Minimum Subscription has been set at 100,000 Shares. Application for Offer Shares will be in multiples of 5,000 Shares.
<i>Maximum Subscription</i>	Maximum Subscription has been set at 220,000,000 Shares.
<i>Offer Period</i>	The Offering will commence on August 14, 2004 and will remain open for a period of 10 days, with the Closing Date expected to be August 23, 2004.
<i>Share Listing</i>	Subsequent to the Offering, the Company will seek to list its shares on the DFM at the earliest time allowed by law.

INVESTMENT OPPORTUNITY

Economic Growth and Liberalisation in the U.A.E.

The U.A.E. is the second largest market among the GCC countries after Saudi Arabia, with a Nominal GDP of around U.S.\$78 billion in 2003. Oil remains the major driver of the economy, although its contribution to GDP fell from 32.2% in 1996 to some 25.6% in 2003, due to an increased diversification of the economy and lower oil prices. However, the indirect contribution of oil revenues to the economy is much larger, since oil revenues finance much of the non-oil projects as well as recurrent government expenditures.

Dubai has adopted a liberal vision with respect to diversifying its economy, attracting foreign investment and decreasing its dependency on oil. Economic growth over the past eight years averaged around 8.6%, and is expected to continue over the next five years. The current construction boom in Dubai has contributed to the growth in Gross Domestic Product, and is expected to continue to contribute to overall growth over the next five years.

Growth of the Real Estate Sector

The real estate market in the U.A.E. is poised for further growth to accommodate the growth in population. The Government's efforts to open the country and liberalise the economy are expected to result in increased demand for residential, offices, retail, infrastructure and tourism projects. In addition, direct participation of the Government in the real estate development sector is expected to continue, especially with the current oil prices that are the main drivers for public spending.

The U.A.E. construction sector is expected to complete projects valued at around AED225 billion over the period 2004 to 2009. The Company will be well-positioned to benefit from the current boom in construction currently being witnessed in the U.A.E.

Management

The Company will rely on a highly experienced and motivated professional management team that will allow it to achieve superior results. The management team will operate within a structure where responsibility and authority are well distributed, accompanied by suitable incentives.

RISK FACTORS

This section discusses some of the risk factors that could affect the Company and/or its shareholders. Prior to making an investment decision, prospective Subscribers in the Offer Shares should carefully consider each of the following risk factors and all other information set forth in this Prospectus. Certain risks described below relate principally to the Company's business and the industry in which it operates. Other risks relate to certain issues with respect to investing in a U.A.E. company. The risks and uncertainties described below are not the only ones facing the Company. Additional risks and uncertainties not enumerated, not presently known, or that the Company currently believes to be immaterial, could also adversely affect its business.

United Arab Emirates Economic Factors

Regional Stability

The Arabian Gulf region is subject to the effects of political and security tensions resulting from conflict between Western countries and some Gulf countries such as Iraq and Iran. The U.A.E. has not been directly affected by any of these conflicts due to the geographic distance from Iraq and Iran and the neutral stand it has adopted. The Company's activities will be focused on the U.A.E. market. As such, the Company is well-positioned to withstand effects of regional turmoil, and stands to benefit from associated reconstruction activities.

Foreign Investment and Ownership

Ownership of U.A.E. companies is currently restricted with respect to the level of equity that foreign investors are allowed to hold. The Company is being established as a U.A.E. company and will be subject to such restrictions on ownership and transfer of shares, in particular the current requirement of 51% ownership by U.A.E. nationals. These restrictions could reduce the marketability or restrict the future divestment of U.A.E. companies.

Inflation and Exchange Rates

Inflation and foreign currency exchange rates in the U.A.E. have been contained and very stable. Monetary policy is set by the Central Bank and fiscal policy is set by the Federal Ministry of Finance for the Federal budget, and by each of the individual Emirates for the respective Emirate budgets. The U.A.E. Dirham is pegged to the U.S. Dollar. In the event of excessive inflation and/or devaluation in the local currency, the results of operations of the U.A.E. companies, including the Company, would be affected. The Government of the U.A.E. is known for having stable and conservative monetary and fiscal policies.

General Sector Risks

The Economy and the Real Estate Sector

The U.A.E. has a diversified economy which is composed of a number of very strong and active non-oil sectors and has moved substantially from its earlier reliance on oil. However, the economy is still to a degree affected by the prices of oil and the level of Government spending. Real Estate and construction activities over the past few years have reflected the movements in the international oil prices. Low oil prices in 1997, 1998 and 1999 caused a contraction in public spending and had an impact on the private sector including real estate. However, construction activities in Dubai are mostly sponsored by the private sector (approximately 80%) and are not directly related to movements in oil prices as they are in other GCC countries. Dubai's decision to open part of the property market to foreign ownership is expected to give a substantial boost to the construction sector over the next 3-5 years.

Prices of Raw Materials

Contractors have lately been facing material shortages in the local market. Prices have been increasing for basic construction materials such as cement, reinforcement steel, ceramic tile, sanitary ware, gypsum products, ready mix concrete, glass, construction chemicals, water proofing and other materials. Cement manufacturers have recently agreed on an industry wide price increase. In addition, over the past eight months ready-mix concrete prices have nearly tripled to U.S.\$80 per cubic meter. Between October 2003 and February 2004 the price of steel has more than doubled to about U.S.\$545 a ton., with the price of copper increasing by around 30 percent to U.S.\$2,700 a ton. In addition, imports are becoming more expensive due to a rise in freight and insurance charges. Changes in prices make it difficult for contracting firms to correctly estimate project costs.

Competition

The U.A.E. building construction industry is highly competitive and fragmented. The industry is not dominated by any one company. The competitive and fragmented nature of the building construction industry provides an opportunity for the Company to invest in already existing construction companies.

Company Specific Factors

Cost Overruns and Completion Delays

Most contracting companies are awarded construction and development projects through competitive bidding. Bids are priced based on, among other factors, estimates of the costs of completing a project, including the cost of materials, equipment and labour necessary for construction. There can be no assurance that actual costs for a project will not exceed its related estimates. It should be noted, however, that the Company will ensure that a high degree of diligence is employed by the companies in which it invests; in producing bids and that they utilise all standard measures for protecting against such risks.

Ability to Manage Growth

The Company's ability to maintain and manage its growth effectively will require it to expand its management information system capabilities and its operational systems and controls. Moreover, the Company will need to attract, train, motivate, and retain senior managers, technical professionals and other employees. Failure to meet such resource expansion requirements may have a material adverse effect on the Company's business.

Dependence on Key Members of Management

The success of the Company and its subsidiaries will depend in large part on the skills and efforts, and performance of senior management. The inability of the Company and its subsidiaries to attract these skills, or the loss of the services of one or more of the top executives can have a material adverse effect on business and operations. It should be noted that the Company will have significant depth in its management structure (and will cultivate the same management depth for its subsidiaries), within which responsibility and authority are well distributed. The Company will also implement a strategy of cultivating and grooming managerial skills from within to broaden its management base. As such, the loss of a key senior manager could be easily managed with minimal disruption.

Geographic Concentration

The Company's operations will focus on the U.A.E. As such, the Company's operations may be affected by downturns in the general economic conditions in the U.A.E., as well as in the real estate market specifically. To diversify, the Company will explore regional markets,

particularly Qatar and Oman in the Lower Gulf region as well as other markets further afield such as Iraq (once the political and security situation permits).

Forward Looking Statements

This Prospectus contains certain forward-looking statements and information relating to the Company that are based on expectations, estimates, projections and information currently available to the Company. These statements include, but are not limited to, statements about the Company's strategies, plans, objectives, expectations, intentions, expenditures and assumptions.

These statements reflect the current views of the Founders with respect to future events. They are not guarantees of future performance, and involve certain risks and uncertainties that are difficult to predict. In addition, certain forward-looking statements are based upon assumptions as to future events that may not prove to be accurate.

Many factors could cause the Company's projections to materially differ from any future results, performance or achievements that may be expressed or implied by such forward-looking statements. These factors include inter alia, the following:

- changes in general political, economic and business conditions in the country(ies) or region(s) in which the Company, and the companies it invests in, operate;
- changes in the laws or policies of governments or other governmental or quasi-governmental activities in the country(ies) in which the Company, and the companies it invests in, operate;
- increased price competition and the introduction of competing products by other companies;
- changes in the demand for, supply of, and market prices of crude oil, and other petrochemicals, including changes in the production quotas in OPEC countries;
- the cost and availability of construction materials;
- the ability to pass increases in material prices on to customers;
- changes in currency exchange rates, interest rates and inflation rates; and
- changes in business strategy and various other factors.

Many of these factors are macroeconomic in nature and are, therefore, beyond the control of the Company's management. Should one or more of these risks or uncertainties materialise, or should underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated, expected, intended, planned or projected.

CAPITALISATION

The proposed capitalisation of the Company is AED400 million, allocated over 400 million Shares at a par value of AED1 per Share.

USE OF PROCEEDS

It is expected that the Company will utilize the proceeds from the Initial Public Offering in addition to the contribution of the Founders to invest in one or more companies operating within the construction and contracting sector in the U.A.E., with the aim of benefiting from the current construction boom in the U.A.E., in general, and Dubai in particular, which is expected to continue for the next several years.

The Founders have engaged a reputable firm to study the feasibility of acquiring existing contracting companies, or purchasing shares within those companies. The results of the study have shown that acquisitions can occur at a multiple of 5-8 times trailing (2003) earnings (P/E of 5-8 times), or 4-7 times forward (2004) earnings. Such valuations are relatively low when compared to the public market. Such companies are privately held and do not have access to the U.A.E capital markets where the average P/E multiple is around 10-15 times for listed firms.

The Founders believe that an attractive investment opportunity exists for the Company to acquire such privately held construction companies at favorable prices, allowing shareholders to benefit from the growth in the contracting sector.

It is expected that the Company will rely on strict investment guidelines when selecting its investments. The Company will invest in existing companies that have competitive advantages that allow them to attain superior results. The following list summarizes some of the criteria that should be taken into consideration when evaluating potential companies to invest in.

Quality

Maintaining a high level of quality is a main requisite for success in the construction industry. Many contracting companies in the U.A.E. have been certified to ISO 9001:2000 for quality assurance. It is expected that the Company will invest in construction companies that utilize quality control programs uniformly throughout their operations, in a continuous initiative to reduce costs, increase productivity, and improve quality.

Labour Force

The size of a contracting company's labour force is an important factor in determining the competitive position of construction companies, whereby companies with larger work forces can carry out several large construction projects simultaneously. It is expected that the Company will consider investing in companies with large labour forces, thereby giving the Company an advantage in procuring construction works.

Management Expertise

Management expertise, entailing market knowledge and overall experience in the field is an important factor which contributes to the success of contracting companies. It is expected that the Company aims to invest only in companies that are managed by highly experienced and dedicated management teams that have demonstrated their capabilities over the past years.

Technical Ability

Technical ability allows contracting companies to execute a variety of complex projects in different industries. It is expected that the Company will limit its investments to companies that possess such technical abilities.

Established Business Relationships

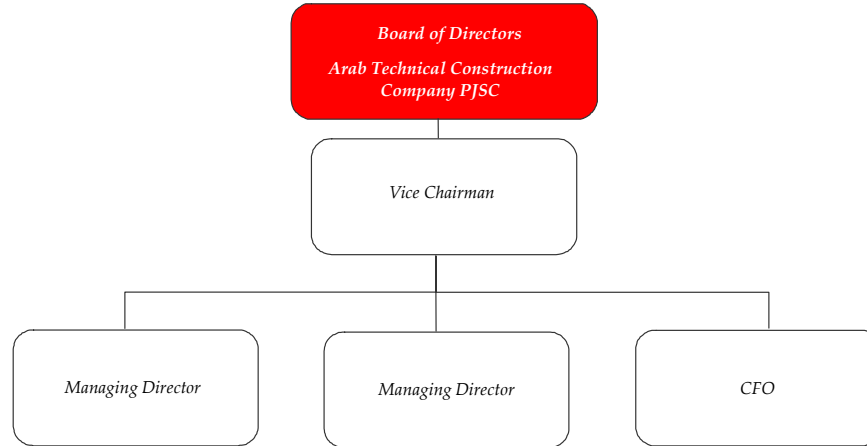
Contracting companies rely on strong business relationships with clients, suppliers and sub-contractors. Established business relationships help contractors to secure future projects, and as such it is expected that the Company will assess potential investments in construction companies partly on the basis of their relationships with clients, suppliers and sub-contractors.

Growth

It is expected that growth will be an important aspect in the Company's choice of investments, and that the Company seeks to invest in companies that can collectively attain projects with a gross value of around AED1.6 billion per annum.

THE COMPANY

Organisation Chart



Board of Directors

The Company's Board of Directors will consist of nine members, to be elected by the General Assembly of Shareholders. The following persons (comprised of Founders and/or their representatives) will nominate themselves as directors of the Company's Board of Directors, to be approved during the Company's Founding General Assembly:

Sheikh Butti Bin Maktoum Bin Jouma Al Maktoum
Mr. Riad Burhan Kamal
Mr. Anis Abdullah Al Jallaf
Mr. Hussein Jassim Al Nuwais
Sheikh Sultan Bin Saqer Al Qassimi
Sheikh Nawaf Nasser Al Thani
Mr. Shamis Bin Ali Al Dhahiri
Mr. Thomas Patrick Barry
Mr. Arif Naqvi

Management

It is expected that the Company will rely on a highly experienced and motivated professional management team in the general contracting industry. The Company's management is expected to include a Chairman, Vice-Chairman, CFO (Chief Financial Officer), as well as managing directors to oversee the Company's investments. Management will institute detailed, documented policies and procedures that clearly define each job description, activity and task.

Mr. Riad Kamal, a founding shareholder, has extensive experience in the contracting business, and has, since 1975, overseen the building of several construction projects in Dubai and Abu Dhabi, many of which are considered landmarks in the U.A.E.

FINANCIAL PROJECTIONS

As disclosed in the "Risk Factors" section and other sections of this Prospectus, there are a number of risks inherent in the Company's business and operations which could cause the Company's future operating results to vary from prior results or the results contemplated by the forward-looking statements. Management decisions, including budgeting, are subjective in many respects and periodic revisions must be made to reflect actual conditions and business developments, the impact of which may cause the Company to alter its marketing, capital investment and other expenditures, which may also materially affect the Company's results of operations. In light of significant uncertainties inherent in the forward-looking information included in this Prospectus, the inclusion of such information should not be regarded as a representation by the Company or any other person that the Company's objectives or plans will be achieved.

Financial Assumptions

The Company expects to invest its capital in buying majority stakes in existing construction companies in the U.A.E. The Company expects to undertake these acquisitions at a trailing 2003 P/E multiple of 5-8 times earnings, and a forward 2004 P/E forward multiple of 4-7 times earnings.

Subsidiaries

Income Statement

- Turnover: It is expected that the sum of the Company's proportionate turnover in the subsidiaries it will invest in will amount to about AED1.6 billion.
- Cost of Contracts: Cost of Contracts represent the cost of raw materials, labor charges, as well as all other expenses directly incurred by the subsidiaries during the construction process. Cost of Contracts is estimated at 89% of Turnover.
- Operating Expenses: Operating Expenses consist of the subsidiaries' management salaries and benefits, rentals, utilities depreciation and other fixed charges. Operating Expenses are estimated at 5% of Turnover.

The following table summarizes the projected consolidated Income Statement of the Company's holdings in the subsidiaries from 2004 to 2006.

000' AED	2004E*	2005P	2006P
Revenues	800,000	1,600,000	1,600,000
Cost of Contracts	(712,000)	(1,424,000)	(1,424,000)
Gross Profit	88,000	176,000	176,000
<i>Gross Profit Margin</i>	<i>11.00%</i>	<i>11.00%</i>	<i>11.00%</i>
Operating Expenses	(40,000)	(80,000)	(80,000)
Net Income	48,000	96,000	96,000
<i>Net Profit Margin</i>	<i>6.0%</i>	<i>6.0%</i>	<i>6.0%</i>

* For the 6 months period (June 2004-December 2004)

It is expected that these subsidiaries will declare the majority of their earnings as dividends. It is assumed that the subsidiaries will distribute around 85% of their earnings as dividends and retain the remaining balance (i.e. 15%) to comply with UAE commercial law with respect to legal reserve requirements (10% of net income is set aside as legal reserves until such

reserve amount to 50% of paid in capital), and to meet capital investment requirements for the operations.

The Company

Income Statement

On a stand alone basis, the Company will generate its revenues from the dividends declared by its subsidiaries. The Company is expected to have annual overhead costs of around AED2 million. Such costs include salaries and benefits, rentals, depreciation and utilities. The following table summarizes the Company's Income Statement.

000' AED	2004E*	2005P	2006P
Dividends Income	40,800	81,600	81,600
less: Operating Expenses	(1,000)	(2,000)	(2,000)
Net Income	39,800	79,600	79,600

* For the 6 months period (June 2004-December 2004)

Balance Sheet

The Company is expected to adopt a dividend policy of distributing at least 40% of net income as dividend payments subject to bank financing, working capital and capital expenditure requirements. Additionally, the Company is expected to rely strictly on equity capital to fund its business operations and not to resort to bank borrowings.

The following table summarizes the Company's projected balance sheet from 2004 to 2006.

000' AED	2004E	2005P	2006P
Assets			
Current Assets	23,880	71,640	119,400
Investments	400,000	400,000	400,000
Total Assets	423,880	471,640	519,400
Liabilities			
	-	-	-
Shareholders' Equity	423,800	471,640	519,400
Equity + Liabilities	423,880	471,640	519,400

Share Data

AED (except where indicated)	2004E	2005P	2006P
Earnings per Share	0.1*	0.2	0.2
Book Value per Share	1.1	1.2	1.3
Dividends per Share	0.04*	0.08	0.08
Return on Investment (%) ^a	10%*	20%	20%

* for 6 months period; a: Net Income/Paid in Capital (AED400 million)

OWNERSHIP STRUCTURE

The following table sets forth the Company's anticipated ownership structure pursuant to the Offering.

Table: Post-Offering Ownership Structure

Shareholder	Number of Shares	Shareholding Level
Mr. Riad Burhan Kamal	76,000,000	19.0%
Abraaj SPV 6 Limited	40,000,000	10.0%
Sheikh Butti Bin Maktoum Bin Jouma Al Maktoum	20,000,000	5.0%
Mr. Hussein Jassim Al Nuwais	10,000,000	2.5%
Mr. Thomas Patrick Barry	10,000,000	2.5%
Mr. Ahmed Ali Khalfan Al Dhahiri	5,000,000	1.25%
Al Mazroui Holding Company L.L.C	5,000,000	1.25%
Sheikh Sultan Bin Saqer Al Qassimi	5,000,000	1.25%
Sheikh Nawaf Bin Nasser Al Thani	5,000,000	1.25%
Mr. Raja Hani Ghanma	2,000,000	0.5%
Mr. Grigoris C. Christofides	2,000,000	0.5%
IPO Subscribers	220,000,000	55.0%
Total	400,000,000	100%

DIVIDEND POLICY

The Company is expected to adopt a dividend policy of distributing at least 40% of net income as dividend payments subject to bank financing, working capital and capital expenditure requirements.

AUDITORS

The Dubai office of Deloitte & Touche (Middle East), member of Deloitte Touche Tohmatsu, has been appointed by the Founders as the independent reporting accountants of the Company until the Founding General Assembly concludes.

LEGAL MATTERS

The following summary is qualified by the relevant provisions of the Company's Articles of Association and the U.A.E. Commercial Companies Law.

Articles of Association

The Company's Articles of Association describe the rights and obligations associated with the ownership of the Shares in detail. The Company will be incorporated as a public joint stock company under the provisions of the U.A.E. Commercial Companies Law.

The Company's Capital Stock

The Company is intended to have an authorised and issued capital of AED400 million consisting of 400 million Shares with a par value of AED1 each. All Shares of the Company rank equally in all respects. In particular, the Shares rank equally with regard to dividend payments and distributions upon liquidation. The obligations associated with the ownership of Shares are limited to the payment of their par value. Neither the Board of Directors nor the General Assembly of the Company has the authority to increase the obligations of the Shareholders, without the unanimous approval of all Shareholders.

Voting Rights

Each Share of the Company stock entitles its owner to one vote in all General Assembly meetings of the Shareholders. Resolutions of the General Assembly are normally adopted upon the affirmative vote of the majority of the Shares represented at such meetings.

Share Register

The Company maintains a share register that records the names and details of each owner of issued Shares. Each Shareholder is issued stock certificates evidencing the Shares owned. Upon listing on the DFM, the Shares will be dematerialised and the share register will be maintained by the DFM. The Company will only recognise transfers of Shares that are recorded in the Company's share register.

Dividends

The Company's net income in each financial year is available for distribution as dividends to the Shareholders. However, the Company is under an obligation to withhold 10% of its net income as legal reserves until such time as the amount reserved reaches 50% of the total capital of the Company.

General Assembly

The Company is required to convene at least one Ordinary General Assembly meeting each year to approve the Company's financial statements, certify dividend payments, appoint auditors and elect directors (during election years). Extraordinary General Assembly meetings may be called for other purposes such as considering the amendment of the Company's Articles of Association, changing the Company's capital structure or liquidating the Company. Voting and quorums at General Meetings are in accordance with the provisions of the U.A.E. Commercial Companies Law.

Board of Directors

The Board of Directors will have broad authority to manage the Company's affairs and to perform all tasks that are not specifically reserved for the General Assembly. The Board of Directors will be comprised of nine members elected by the Company's General Assembly.

OVERVIEW OF THE CONSTRUCTION SECTOR IN THE UNITED ARAB EMIRATES

Information contained in this section has been compiled from different sources, including but not limited to specialised industry periodicals, economic surveys on the U.A.E., and other public information made available to SHUAA Capital during the course of its review.

Overview

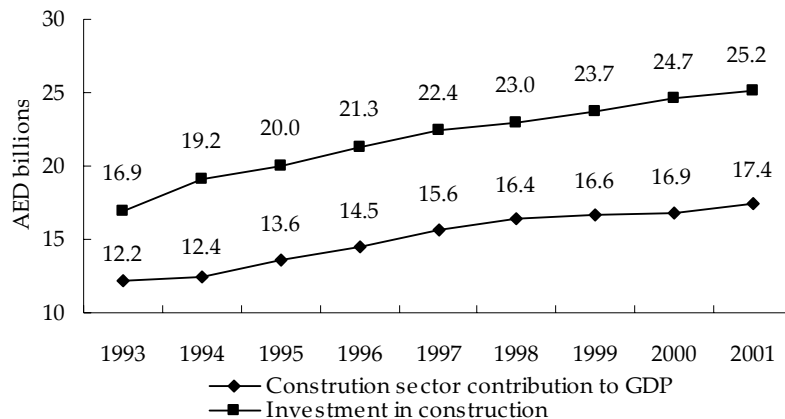
The construction boom in the U.A.E. started in 1973 with the rise in oil prices and the subsequent increase in Government revenues and private wealth. During those early years, non-oil activity focused mostly on developing the country's infrastructure and the construction of residential and commercial buildings. The development of the country's infrastructure was a priority for the Government particularly in Abu Dhabi and led to large investments in civil projects including oil and gas, power and desalination, roads, bridges, telecommunication networks and water distribution.

The contribution of the construction industry to the Gross Domestic Product (GDP) has risen quite steadily since 1975, from AED4.3 billion in 1975 to AED17.4 billion in 2001, and AED18 billion in 2002. However, with the growth and diversification of the economy the contribution of the construction industry to the non-oil GDP has fallen to 9.7% in 2001 compared to 14.2% in 1993.

The upsurge in the price of oil has been mirrored by a significant recovery for the construction sector in 2001 and 2002. In addition the opening of the real estate sector in 2001 and 2002 to foreign ownership has spurred a boom in residential real estate development.

Today, the construction industry remains one of the largest sectors of the U.A.E. economy. The value added of the construction sector reached AED17.4 billion in 2001. Value added comprises the value of construction buildings net of the value of all intermediate inputs such as raw material and labour force. The following figure shows the added value of the construction sector to the GDP and the investment in the sector between 1995 and 2001.

Construction Sector Market Size



Source: Ministry of Planning.

Most of the construction activities are concentrated in Dubai and Abu Dhabi which collectively accounted for 80% of the sector in 2001. Construction activities in Abu Dhabi principally comprise oil and gas projects and infrastructure developments. Activities in Dubai encompass constructing high-rise office and residential buildings, hotels, and residential and business developments.

Construction Activity Indicators

Demand for construction activity is related to the growth of real estate development and the factors that affect it, including the following.

Population Growth

The U.A.E. has shown significant growth in population between 1990 and 2003, increasing from 1.8 million to 4.0 million, respectively. This growth has resulted in increased demand for residential units, office space, and leisure facilities. Dubai is currently considered to be the fastest growing city in the world in terms of population and employment. The Emirate is planning to further grow its population from current levels of about 1.2 million persons to around 2.0 million in 2010. This will put further demand for construction services for residential and office units and infrastructure requirements.

Building Permits

The growth in the number of building permits issued provides an indication of the level of building and retail development in the U.A.E. Newly issued building permits have been on the rise since 1988 in Dubai and Abu Dhabi, with minor set backs in 1990-1991 and 1995-1996. Despite the speculative nature of some of the real estate developments, the increase in building permits has been in tandem with the growth in demographics. According to the Dubai Municipality, a total of 2,285 licenses were issued for new buildings (residential and non-residential) in 2002, representing a 10 percent increase over the previous year's figure of 2,074 licenses.

Tourism

The U.A.E. in general and Dubai in particular have invested heavily in promoting the country as a major tourist and retail-shopping destination. Recent figures released by the Dubai Department of Travel and Commerce Marketing (DTCM) indicate that the number of hotel guests has increased from 1.8 million 1996 to 4.1 million in 2002 with the majority of inbound travellers coming from Europe. Dubai is constantly upgrading and expanding its infrastructure to accommodate the growth in the tourist activities. In addition, the private sector has been active in building hotel properties. The number of hotels in Dubai increased from 167 properties (9,383 rooms) in 1993 to 272 properties (23,170 rooms) in 2002. According to industry sources, within the next three years at least 4,000 new hotel rooms and apartments will be built in Dubai alone just in the 4-star and 5-star categories. Most of these properties will be developed in the newly emerging communities such as Palm Island that is expected to house around 60 hotel properties.

Demand for Construction Activity

Public Sector Spending

The construction sector in the U.A.E. is largely fuelled by public sector spending. The level of involvement and commitment to the construction industry by the U.A.E. Government is highly dependent on the country's oil revenues. The U.A.E. government is continuing to promote capital development projects in the areas of power, desalination, manufacturing, industrial zones, tourism and leisure infrastructure, and housing.

The level of public sector involvement in the construction sector differs between the Emirates. Government projects account for the majority of the work in Abu Dhabi and a much smaller portion in Dubai. In Abu Dhabi 90% of the Emirate's construction and commercial activities have been funded by the "Khalifa Committee" (Department of Social Services and Commercial Buildings) which is responsible for most development activities in Abu Dhabi. The Emirate has injected more than AED150 billion in the construction sector since 1968.

The Dubai Government has lesser direct involvement in construction than the Government of Abu Dhabi. Dubai has initiated and sponsored a number of real estate developments such as Jebel Ali Free Zone and the Media City and Internet City Free Zones, and invited the private sector to participate by developing individual industrial, commercial and real estate projects.

Aviation

Major airport expansions are underway throughout the U.A.E. Abu Dhabi and Dubai have recently announced massive expansions of their airports. The Abu Dhabi expansion consist of adding a second terminal and satellite facility for a total cost of AED925 million. The expansion will also include upgrading passenger lounges and Abu Dhabi International Airport Hotel. Dubai has also embarked on an AED9 billion expansion of its airport that will increase capacity to 30 million passengers by 2010. Expansion works are expected to be completed by 2006 and include a mega cargo terminal. Some of the other Northern Emirates such as Sharjah, Ras Al Khaimah, Fujairah and Ajman are also planning expansion of their airports.

Infrastructure

Rapid population growth, technological developments, and increased demand for utilities are putting considerable pressure on infrastructure in the U.A.E. Key areas include electricity, water, sewage, telecommunications and transport, including roads and ports.

The Abu Dhabi Municipality and Town Planning Department is currently undertaking 200 infrastructure projects (including major sewage work) at a total cost of AED4.2 billion to meet the urban and industrial expansion and a rapid increase in population. Among other municipal projects, land reclamation work has begun as part of a major project to expand the Abu Dhabi corniche.

The Abu Dhabi Municipality is also preparing a civil infrastructure expansion program for the coming few years that involves building more bridges and tunnels, and expanding the road network.

In Dubai, the Emirate continues to expand its infrastructure to cope with the rising number of tourists and the growing population. The Emirate is in the process of developing a road parallel to Sheikh Zayed Road at a cost of AED128 million as well as several other new road work projects totalling AED321 million. Dubai is planning to build a railway network to relieve internal traffic congestion which will eventually link up with other Emirates. Dubai Municipality is also working on upgrading and expanding its sewage network.

Private Investment

Private investments have been focused on hotels, tourist/leisure facilities, retail, office, and residential spaces. Dubai is seeking to attract more visitors in the future (15 million by 2010) and has developed a well-planned marketing strategy to position itself on the world tourist map. Private investments in the tourism sector have been a key factor in Dubai's success. The private sector has funded many developments in the tourism and entertainment sectors (hotels, shopping malls, entertainment activities). About 4,000 hotel rooms in the upper-end of the market (4-star and 5-star) will be added over the next 3 years.

Dubai has seen a proliferation of private real estate development firms over the past few years. Companies such as Emaar Properties, Nakheel Developers, and Jumeirah Beach Residence/ESTITHMAR, all with multibillion dirham projects underway, continue to announce new developments.

- Emaar Properties. Established in 1997, Emaar Properties is the largest land and real estate developer in the Gulf region. The Government of Dubai has granted Emaar a large strategic land-bank estimated at a value of AED23 billion. Emaar's project portfolio includes a number of prestigious real estate developments such as Dubai Marina, Arabian Ranches, Gold and Diamond Park, and Emirates Living (Hills, Lakes, Greens, Meadows, and Springs). Emaar is currently in the process of building Burj Dubai at a cost of AED9 billion, which when completed will be the world's tallest building comprising of residential, commercial, hotel, and shopping features.
- Nakheel. Nakheel is a Dubai based, wholly government-owned real estate developer. Nakheel is renowned for two of its ongoing projects: The Palm-Jumeirah and the Palm-Jebel Ali which entail the development of homes on the world's largest man-made islands in the shape of palm trees in the Arabian Gulf. The first of the "Palms" has already been built and 2,300 residential villas have all been sold. Nakheel is also developing "The World", an exclusive real estate development with the shape of the world's map. The investment costs of Nakheel's projects (inclusive of Palm-Jumeirah, Palm-Jebel Ali, Jumeirah Islands, Gardens, Gardens Mall, Jumeirah Lake Towers, International City, and "The World") are in excess of AED 55 billion.
- Jumeirah Beach Residence/ESTITHMAAR. Estithmaar Realty is a Dubai-based developer registered in the Technology, Electronic Commerce and Media Free Zone (TECOM). The Jumeirah Beach Residence is Estithmaar's primary project. This project has been designed by the same team behind some of Dubai's landmarks such as Dubai Media City, Internet City & Knowledge Village. The Jumeirah Beach Residence project entails the development of 22 million sq ft that will feature 36 residential towers, four hotel towers, and beach clubs adjacent to Emaar Properties' Dubai Marina development. The units in the project are available for sale on a free hold basis.

Dubai has also created several free zones such as TECOM, DIFC, JAFZ, and DHCC to serve as hubs for business, and technological development and to promote further private sector investment.

- TECOM consists of Dubai Internet City, Dubai Media City and Knowledge Village. TECOM provides free-hold office space for global companies that serve the technology, media and training industry. TECOM's tenants include prestigious international and regional IT and media companies such as Microsoft, IBM, Reuters, CNN, CNBC, MBC, Al-Arabiya; among others.
- Dubai International Financial Centre (DIFC): A financial free zone, aimed at attracting international commercial banks, investment banks, insurance companies and other financial institutions. The 110 acre site will include state-of-the-art infrastructure and scores of high-rise buildings.
- Dubai Healthcare City (DHCC): The 3.46 million sq. ft. DHCC will consist of several facilities including a university medical centre, nursing school, research centre, clinics and hospitals.
- Jebel Ali Free Zone (JAFZ): JAFZ was established in 1985 with the specific purpose of facilitating investment in manufacturing and distribution businesses. As of 2002 around 2,200 companies were registered with JAFZ with aggregate investments worth more than AED11 billion.

Competition

The total number of architecture, construction, and engineering services firms operating in the U.A.E. is estimated to be in the thousands. The sector is well-served by local and

international companies. International firms have a large presence in the upper end of the market. British firms have the largest share of the market followed by Italian, German, and French firms. Asian firms, mostly Japanese and Korean, also have a considerable share of the market, as do firms from other Arab countries.

International contracting firms are limited in their role because of their inability to provide labour and source raw materials at competitive prices. As a result, international firms primarily occupy a technical advisory role and usually rely on local partners for execution.

The construction sector is regulated at the level of municipalities. Each Emirate classifies companies according to their capital base, size of labour force and track record. The classification determines the size and type of projects that the company can bid on.

Local firms are mostly active at the small and medium scale project levels. Despite the large number of local firms only a few have the ability to win large construction contracts, which typically require contractors to meet strict pre-qualification criteria. Pre-qualification criteria often include capitalisation, value of projects completed, manpower, technological capabilities, and management experience. Some of these firms have entered into partnerships or joint ventures with international companies. This has allowed local firms to gain more experience and expand their capabilities. It is increasingly common for local contractors to win contracts worth hundreds of millions of Dirhams.

According to the U.A.E. Contractors' Association (UCA), investment in real estate development is mostly geared towards large projects. This puts pressure on large local contracting companies to expand their resources, namely labour force and equipment to be able to bid for these projects. This has also forced many of local contractors to enter into joint ventures in order to win such large developments.

At the other end of the market, which is populated by a large number of small firms, competition is increasing and profit margins are becoming tighter. Small firms have come under additional pressure as the Government imposes stricter safety and labour regulations in order to be more consistent with international practices.

The following is a list of the top construction companies in the U.A.E.

- *Al Habtoor Engineering Enterprises Co. LLC (Al Habtoor)*
- *Arabtec*
- *Arabian Construction Company (ACC)*
- *Khansaheb Civil Engineering LLC (Khansaheb)*
- *Belhasa Six Construct LLC (BESIX)*
- *Al Hamed Development and Construction LLC Sheikh Shaya and Co. (Al Hamed)*
- *Consolidated Contractors International Company U.A.E. (CCC)*
- *Nasa Multitplex LLC*
- *Al-Futtaim Tarmac Private Ltd.*
- *Al Naboodah Contracting LLC*
- *Al Naboodah Laing (LLC)*

Factors Affecting the Construction Sector

Growth of the Real Estate Sector

The real estate market in the U.A.E. is poised for further growth to accommodate the growth in population. The Government's efforts to open the country and liberalise the economy are expected to result in increased demand for residential, offices, retail, infrastructure and tourism projects. In addition, Government direct participation in the real estate development sector is expected to continue, especially with the current oil prices that are the main drivers

for public spending. The following table provides a summary of the announced real estate developments as of March 2004, to be executed between 2004 and 2009.

Table: Future Real Estate Projects (2004-2009)

Sector	Cost (AED millions)	Percentage of Total
Aviation	12,001	5.3%
Government	697	0.3%
Public Works	6,019	2.7%
Commercial	23,202	10.3%
Hotel and Leisure	42,330	18.8%
Multi-use	58,188	25.8%
Residential	10,320	4.6%
Retail	2,973	1.3%
Civil Works	15,807	7.0%
Oil and Gas	35,155	15.6%
Water and Power	18,671	8.3%
Total	225,362	100.0%

Source: Market Survey.

Classifications

Classifications for contractors are set by the respective municipalities and contractor regulatory authorities in each Emirate. A contractor's classification determines the types of projects that it is allowed to execute, as well as the value of works that the contractor can bid on. Municipality classification is one of the major factors affecting the construction sector in the U.A.E. Currently, classification is not unified and each emirate has a separate classification system.

Labour Force and Technical Expertise

Another limitation for both large international contractors and the smaller local construction firms that make up the bulk of the domestic sector, is the size of the labour force. Most of the projects that are expected to come to the market are large projects with massive labour force requirements. Only few of the local contractors have the necessary labour resources to meet the coming demand. Large international firms that wish to enter the U.A.E. market must team up with one of the top bracket local contractors in order to be able to execute their projects.

Most local construction companies are relatively small in size and do not have the requisite expertise and skills to undertake the types of large and complex projects expected to be awarded in the coming several years.

Raw Materials

Contractors are facing material shortages in the local market. Prices have been increasing for basic construction materials such as cement, reinforcement steel, ceramic tile, sanitary ware, gypsum products, ready mix concrete, glass, construction chemicals, water proofing and other material. Cement manufacturers have recently agreed on an industry wide price increase. Over the past eight months, ready-mix concrete prices have nearly tripled to U.S.\$80 per cubic meter. Between October 2003 and February 2004 the price of steel has more than doubled to about U.S.\$545 a ton., with the price of copper increasing by around 30 percent to U.S.\$2,700 a ton. In addition, imports are becoming more expensive due to a rise in freight

and insurance charges in response to regional uncertainty. Changes in prices make it difficult for contracting firms to correctly estimate project costs.

Future Outlook

The construction sector is one of the most dynamic sectors of the U.A.E.'s economy and plays a special role in the region's development. According to the Economist Intelligence Unit, growth forecasts for the U.A.E. are expected to strengthen substantially in the near future as domestic demand and foreign financed investment projects gain momentum and as tourism inflows rise.

The level of activity in the construction sector is largely dependent on the fortunes of the economy at large which, although to a lesser degree than in the early days, remains an oil based economy. Upswings caused by high oil revenues have resulted in increased public and private spending in this sector over the years. As the U.A.E. embraces economic diversification, the long-term future of the sector will be considerably linked to the expansion of the non-oil economy.

While the economy continues to expand and the population grows, there is expected to be even greater demand for housing and infrastructure projects. Population growth is expected to remain high for the next five years before stabilising thereafter.

RECENT DEVELOPMENTS IN THE UNITED ARAB EMIRATES ECONOMY

Information contained in this section has been compiled from various sources including, but not limited to, SHUAA Capital Research Department, SHUAA Capital publications, Economist Intelligence Unit ("EIU") Reports and other public information.

General Background

In 1971 the U.A.E. consolidated its status and identity as a federation. The strength and stability of the federation were reaffirmed in 1996 by the permanent ratification of the Provisional Constitution of 1971. In addition, the U.A.E. has assumed an increasingly respected position as a voice of thoughtful moderation in the region. The U.A.E.'s historical internal stability and its diplomatic and military ties with the West and most of the Arab countries have insured a high level of national security, despite regional geopolitical tensions.

The U.A.E. is the second largest market among the GCC countries after Saudi Arabia, with a Nominal GDP of around U.S.\$78 billion in 2003. Oil remains the major driver of the economy, although its contribution to GDP fell from 32.2% in 1996 to some 25.6% in 2003, due to an increased diversification of the economy and lower oil prices. However, the indirect contribution of oil revenues to the economy is much larger, since oil revenues finance much of the non-oil projects as well as recurrent government expenditures.

While oil remains the cornerstone of the U.A.E. economy, the services sector has been developing rapidly, confirming the U.A.E.'s position as the regional trade and financial centre. The development of the non-oil sector has been facilitated by applying sound economic policies based on a free exchange system and a liberal trade regime, accompanied by an outward-oriented strategy stressing private sector initiatives.

The following table shows some of the U.A.E.'s basic economic indicators.

Table: Financial indicators

	2000	2001	2002	2003 ^a
GDP at market prices (U.S.\$ billion)	70.2	69.2	71.0	78.4
Real GDP growth (%)	12.3	3.5	1.8	5.2
Population (million)	3.2	3.5	3.8	4.0
Crude Oil Production (<i>million barrels/day</i>)	2.24	2.16	2	2.28
Foreign reserves (U.S.\$ million) – excl. gold	13,613	14,237	15,219	14,323

Source: Economic Intelligence Unit.

^a Estimates for 2003

Economic System

The U.A.E. is a key venue for business and investment in the Gulf, with one of the most liberal business environments in the region. There are no corporate taxes in most sectors (other than for oil producing companies and foreign banks), no personal taxes and no exchange controls on the remittance of profits or repatriation of capital. Tariffs are low, and there are virtually no restrictions on foreign trade. Dubai and Abu Dhabi are well served by international airlines and are conveniently located for travel throughout the region and the world.

The opening of securities trading floors in Dubai in April 2000 and Abu Dhabi in November 2000 increased trading and eliminated previous excesses of the over-the-counter market. A small number of listed U.A.E. public shareholding companies have opened their shares to minority ownership by non-nationals, and more are expected to follow.

Gross Domestic Product

Growth in real GDP was estimated at 5.2% in 2003 and has been forecast to grow by 4.0% in 2004. Domestic demand is also expected to remain relatively strong, as firm oil revenues feed into the local economy and government spending continues to grow. Provided that the regional environment stabilises by the end of 2004 domestic demand, government spending, and domestic and foreign investment are forecast to grow substantially as investment projects gain momentum and as tourism inflows rise.

Table: Origins of Gross Domestic Product (2002)

	<u>% of total</u>
Crude Oil	27.7
Wholesale & Retail Trade	9.3
Manufacturing	14.1
Government Services	11.0
Construction	6.9
Finance & Insurance	6.9

Source: Economic Intelligence Unit.

The Non-Oil Sector

The steady increase of the non-oil share in the GDP represents clear evidence of a continuing diversification of the U.A.E. production base. It is also reflected in the faster growth of these sectors relative to the oil sector, over the previous few years. Estimates for 2003 are expected to show a rise in oil prices and continued strong performance of the trade, real estate and construction sectors.

The Dubai Department for Economic Development issued an indicative five-year development plan for years 1996 - 2000, as part of a longer-term vision for the whole country. For the medium term, this plan's aim was to set the basis for self-sustaining growth of the non-oil sector, after 2010. The plan called for building on comparative advantages, mainly low cost labour and natural resources, an efficient business environment, economies of scale and technological improvements.

Tourism in Dubai has been a booming industry over the past 5 years. The estimated growth rate of the hotel and restaurant trade significantly outstripped the federal growth rate in years 1996 – 2000. Expansion of hotel room capacity rose 75% in recent years, and guest numbers increased by an average of 15% p.a. since 1997. Business and shopping events such as the GITEX and the Dubai Shopping Festival continue to boost arrivals at the Dubai International Airport, which handled an estimated 18 million passengers in 2003.

The construction sector has benefited from the growth in the non-oil economy over the past decade. The government has sought to promote the non-oil sector through increased investment in infrastructure projects like the commercial free zones. In Dubai, the government's success in attracting foreign companies with commercial free zones has now spawned the government's latest strategy to entice tourists and foreign residents with large scale property developments and the easing of foreign ownership restrictions. As the number of commercial developments like DIFC and DHCC continue to grow, numerous multibillion dirham residential, retail, leisure developments, like the U.S.\$3 billion Palm Islands, have been announced. Private investors have taken the governments lead and now account for a large portion of the planned property development. In order to accommodate the expected growth in population, the government is also developing its civil infrastructure with investments in transportation, sewage, and water and power facilities. Despite airport expansions in six out of the seven Emirates and country wide growth in hotels, fixed investment in the other Emirates has tended to favour each Emirate's comparative advantage.

While Dubai focuses on trade, tourism, and information and technology, Abu Dhabi's strategy focuses on capital-intensive and energy based activities such as petrochemicals and fertilisers. In the next ten years Abu Dhabi plans to invest over U.S.\$11.5 billion in developing its oil and gas, and water and power infrastructure. Sharjah has traditionally been the centre of small-scale manufacturing for import replacement, and textiles for export and has about 40% of the U.A.E. manufacturing industry. The smaller northern Emirates focus on agriculture, industrial products, pharmaceuticals (Ras Al Khaimah), and shipping services.

Prices and Inflation

Inflation is expected to remain near its historical average at around 3 percent in 2004, and 2.7 percent in 2005. It is thought that inflationary pressures will be imported as the continued weakness of the U.S. Dollar compounds rises in average non-oil commodity and manufactured good import prices in U.S. Dollar and local-currency terms. This upward pressure is expected to ease as the U.S. Dollar recovers in 2004 through 2005. However, price growth should be constrained by government price controls and by the low level of expected inflation due to historical trends.

Balance of Payments and Foreign Trade

In 2003, the current account surplus is expected to increase to U.S.\$9.9 billion (13.4% of GDP) from U.S.\$8.8 billion in 2002. Export earnings are forecast to strengthen by 7% this year after contracting by 4% in 2002, due to rising oil export volumes and prices, which will more than compensate for the effect of regional instability on non-oil revenue growth.

International trade remains the major driver of U.A.E. economic growth, particularly since the 1991 Gulf crisis; due to both re-export trade and oil-related exports. The U.A.E.'s main trading partners were Japan (mainly oil), India, Singapore and Korea for exports; and China, Japan, the UK, U.S. and Italy for imports. The U.A.E.'s booming re-export trade comprised 31% of all exports in 2002. The U.A.E.'s traditional re-export markets are the GCC states and Iran, however in recent years Russia, Eastern Europe Pakistan, India, and South Africa have become increasingly important markets for the U.A.E.

Monetary Policy

The main objective of the monetary policy is to maintain the nominal peg of the U.A.E. Dirham to the U.S. dollar, at a fixed rate of 3.673 Dirham per U.S. dollar. The pegged exchange rate regime induces domestic interest rates to closely track U.S. dollar interest rate movements. The fixed exchange rate arrangement and an open capital account that is sensitive to interest rate differentials means that the growth of domestic liquidity is predetermined by the demand for broad money and the portfolio preference of the asset holders between domestic and foreign assets.

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