EMAAR THE ECONOMIC CITY
(A Saudi Joint Stock Company)

CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2012
with
INDEPENDENT AUDITOR'S REPORT

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License No. 46/11/323 issued 11/3/1992

INDEPENDENT AUDITOR'S REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

The Shareholders
Emaar The Economic City
Jeddah, Kingdom of Saudi Arabia.

We have audited the accompanying consolidated financial statements of Emaar The Economic City ("the Company") and its subsidiaries (collectively referred as "the Group") which comprise the consolidated balance sheet as at December 31, 2012 and the related consolidated statements of income, cash flows and changes in equity for the year then ended and the attached notes 1 through 29 which form an integral part of the consolidated financial statements.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia and in compliance with Article 123 of the Regulations for Companies and the Company's Articles of Association and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. Management has provided us with all the information and explanations that we require relating to our audit of these consolidated financial statements.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with generally accepted auditing standards in the Kingdom of Saudi Arabia. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

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

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

KPMG

Opinion

In our opinion, the consolidated financial statements taken as a whole:

1) present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2012 and the consolidated results of its operations and its cash flows for the year then ended, in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia appropriate to the circumstances of the Group; and

2) comply with the requirements of the Regulations for Companies and the Company's Articles of Association with respect to the preparation and presentation of the financial statements.

For KPMG Al Fozan & Al Sadhan

Ebrahim Oboud Baeshen
License No.382

C.R. 46
KPMG
Certified Public Accountants
KPMG Al Fozan & Al Sadhan

Rabi Al Thani 9, 1434H
Corresponding to February 19, 2013

EMAAR THE ECONOMIC CITY
(A Saudi Joint Stock Company)

CONSOLIDATED BALANCE SHEET
As at December 31, 2012

	Notes	2012 (SR '000)	2011 (SR '000) (Restated)
ASSETS			
Current assets:			
Cash and cash equivalents	4	**3,242,398**	1,710,716
Murabaha term deposits with banks	5	**859,279**	3,169,612
Accounts receivable and other current assets	6	**111,356**	67,894
Development properties	7	**602,563**	1,046,223
Other investment	8	**4,750**	4,750
Loan to a related party	9	**1,663**	5,938
Total current assets		**4,822,009**	6,005,133
Non-current assets:			
Investment property	10	**4,465,100**	3,613,808
Property and equipment	11	**3,689,010**	3,542,271
Investment in an associate	12	**408,980**	380,980
Loan to an associate	13	**344,641**	--
		8,907,731	7,537,059
Assets classified as held for disposal	14	**154,461**	204,148
Total non-current assets		**9,062,192**	7,741,207
TOTAL ASSETS		**13,884,201**	13,746,340
LIABILITIES AND EQUITY			
Current liabilities:			
Accounts payable and accruals	15	**863,954**	1,120,696
Non-current liabilities:			
Long-term loan	17	**5,167,811**	5,061,684
Deferred contribution	18	**245,495**	149,264
Long-term provision	19	**28,811**	28,811
Employees' end of service benefits		**8,511**	5,485
Total non-current liabilities		**5,450,628**	5,245,244
Total liabilities		**6,314,582**	6,365,940
Equity attributable to the Company's shareholders:			
Share capital	20	**8,500,000**	8,500,000
Accumulated losses		**(930,406)**	(1,119,604)
Total shareholders' equity		**7,569,594**	7,380,396
Non-controlling interests		**25**	4
Total equity		**7,569,619**	7,380,400
Total liabilities and equity		**13,884,201**	13,746,340

The accompanying notes 1 to 29 form an integral part
of these consolidated financial statements.

EMAAR THE ECONOMIC CITY
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF INCOME
For the year ended December 31, 2012

	Notes	2012 (SR'000)	2011 (SR'000) (Restated)
Revenue		**545,182**	407,724
Cost of revenue		**(66,728)**	(96,108)
Gross profit		**478,454**	311,616
Expenses:			
Selling and marketing	21	**(18,740)**	(17,314)
General and administration	22	**(187,995)**	(149,876)
Depreciation	11	**(46,508)**	(45,282)
Other costs, net		**(5,813)**	25,639
Total expenses		**(259,056)**	(186,833)
Profit from operations		**219,398**	124,783
Financial charges, net		**(88,883)**	(60,855)
Commission income		**56,047**	19,576
Other income, net		**7,730**	5,060
Income before Zakat and non-controlling interests		**194,292**	88,564
Zakat	23	**(5,073)**	(6,011)
Net income before non-controlling interests		**189,219**	82,553
Share of non-controlling interests in the net (income) / loss of consolidated subsidiaries		**(21)**	1
Net income		**189,198**	82,554
Earnings per share on profit from operations (in SR)	24	**0.258**	0.147
Earnings per share on net income (in SR)	24	**0.223**	0.097

The accompanying notes 1 to 29 form an integral part
of these consolidated financial statements

EMAAR THE ECONOMIC CITY
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended December 31, 2012

	Note	2012 SR'000	2011 SR'000 (Restated)
Operating activities:			
Income before Zakat and non controlling interest		**194,292**	88,564
Adjustments for:			
Depreciation	11	**46,508**	45,282
Employees' end of service benefits, net		**3,026**	402
Financial charges		**88,883**	60,855
Commission income		**(56,047)**	(19,576)
Other costs, net		**5,813**	(25,639)
Gain on sale of assets classified as held for disposal		**(56)**	--
(Gain)/ loss on disposal of property and equipment		**(150)**	37
Transfer of land	10.1	**8,177**	--
		290,446	149,925
Changes in operating assets and liabilities:			
Accounts receivable and other current assets		**(43,462)**	61,183
Development properties		**(535,830)**	(295,604)
Accounts payable and accruals		**(132,566)**	(38,380)
Cash used in operations		**(421,412)**	(122,876)
Zakat paid	23	**(5,064)**	(4,592)
Net movement in deferred contribution	18	**96,231**	63,643
Net cash used in operating activities		**(330,245)**	(63,825)
Investing activities:			
Purchase of property and equipment	11	**(185,959)**	(174,394)
Sale proceeds from disposal of property and equipment		**150**	78
Sale proceeds from sale of assets classified as held for disposal		**49,743**	--
Net movement in Murabaha term deposits with banks		**2,310,333**	(3,169,612)
Commission income		**56,047**	10,199
Net movement in loan to a related party		**4,275**	3,562
Investment in an associate		**(28,000)**	(235,000)
Loan to an associate	13	**(344,641)**	--
Net cash from / (used in) investing activities		**1,861,948**	(3,565,167)
Financing activities:			
Net movement in non-controlling interests		**(21)**	1
Long-term loan		--	5,000,000
Net cash (used in) / from financing activities		**(21)**	5,000,001
Net change in cash and cash equivalents		**1,531,682**	1,371,009
Cash and cash equivalents at the beginning of the year		**1,710,716**	339,707
Cash and cash equivalents at the end of the year	4	**3,242,398**	1,710,716

The accompanying notes 1 to 29 form an integral part of these consolidated financial statements.

EMAAR THE ECONOMIC CITY
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended December 31, 2012

2012	**Share capital SR'000**	**Accumulated losses SR'000**	**Total shareholders' equity SR'000**	**Non controlling interests SR'000**	**Total SR'000**
	Equity attributable to the shareholders' of the Company				
Balance at January 1 - (Restated)	8,500,000	(1,119,604)	7,380,396	4	7,380,400
Net income	--	189,198	189,198	21	189,219
Balance at December 31	**8,500,000**	**(930,406)**	**7,569,594**	**25**	**7,569,619**

2011 (Restated)	Share capital SR'000	Accumulated Losses SR'000	Total shareholders' equity SR'000	Non controlling interests SR'000	Total SR'000
	Equity attributable to the shareholders' of the Company				
Balance at January 1	8,500,000	(1,202,158)	7,297,842	5	7,297,847
Net income	--	82,554	82,554	(1)	82,553
Balance at December 31	8,500,000	(1,119,604)	7,380,396	4	7,380,400

The accompanying notes 1 to 29 form an integral part of these consolidated financial statements.

1. THE COMPANY AND ITS ACTIVITIES

Emaar The Economic City ("the Company") is a Saudi Joint Stock Company incorporated under Ministerial Resolution No.2533 dated 3 Ramadan 1427H, corresponding to September 21, 2006 and registered in the Kingdom of Saudi Arabia under Commercial Registration number 4030164269 dated 8 Ramadan 1427H, corresponding to September 26, 2006. The Company and its subsidiaries constitutes "the Group". The Company is engaged in the development of real estate in the economic or other zones and other development activities including infrastructures, promotion, marketing and sale of land within development areas, transfer/lease of land, development of buildings/housing units, construction on behalf of other parties and development of economic areas. The main activity of the Company is the development of the King Abdullah Economic City (KAEC).

The registered office is located at the following address:

P. O. Box 8299
Amir Sultan Street
Jeddah 21482
Kingdom of Saudi Arabia.

As at December 31, 2012, the Company has investments in the following subsidiaries which are primarily involved in development, investments, marketing, sale / lease, operations and maintenance of properties and establishment and purchase of companies.

Name	Country of incorporation	Ownership interest	
		2012	2011
Economic Cities Investments Holding Company (ECIHC)	Kingdom of Saudi Arabia	**99%**	99%
Industrial Zones Development Company Limited (IZDCL)	Kingdom of Saudi Arabia	**100%**	100%

During the year ended December 31, 2012 the Company contributed SR 2.7 billion as additional capital contribution in ECIHC.

2. BASIS OF PRESENTATION

Statement of compliance

These consolidated financial statements have been prepared in accordance with the accounting standards generally accepted in the Kingdom of Saudi Arabia issued by Saudi Organization for Certified Public Accountants (SOCPA).

Functional and presentation currency

These accompanying consolidated financial statements are presented in Saudi Arabian Riyals (SR) which is the functional currency of the Group. All financial information presented in SR has been rounded to the nearest thousand.

2. BASIS OF PRESENTATION (continued)

Upto December 31, 2011, both ECIHC and IZDLC did not start operations and were immaterial to the overall financial position of the Company. As a result, these entities were not consolidated in the financial statements and the investment in subsidiaries was stated at cost. During the year ended December 31, 2012, the Company made an additional capital contribution in ECIHC as stated in note 1 above with a view to commence its operations and accordingly, the Company has prepared consolidated financial statements for the year ended December 31, 2012.

In addition to the effects of prior year comparative information relating to investments in subsidiaries, certain other comparative figures have been restated and/or regrouped on a basis consistent with current year classification.

Accounting convention

The consolidated financial statements have been prepared under the historical cost convention modified to include the measurement at fair value of available-for-sale financial assets using accrual basis of accounting and going concern assumption.

Use of estimates and judgements

The preparation of consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in future years affected. The key areas requiring significant management judgments and estimates are as follows:

Impairment of accounts receivable

An estimate of the collectible amount of 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 an allowance applied according to the length of time past due.

Cost to complete the projects

As part of application of percentage of completion method on contract accounting, the cost to complete the project is estimated. These estimates include, amongst other items, the construction costs, variation orders by contractors and the cost of meeting other contractual obligations to the customers. Such estimates are reviewed at regular intervals. Any subsequent changes in the estimated cost to complete may affect the results of the subsequent periods.

Impairment on assets classified as held for disposal

Assets classified as held for disposal are assessed for impairment at regular intervals in order to reflect adequate recoverable amount in the consolidated financial statements, based on the prevailing market values obtained from professionals involved in the sale of these assets.

2. BASIS OF PRESENTATION (continued)

Use of estimates and judgements (continued)

Long-term provision
Long-term provision is assessed periodically based on excess costs to be incurred in providing property and city maintenance services to residential customers, to reflect the probable outflow of resources required to settle the obligation.

Useful lives of property and equipment
The management determines the estimated useful lives of property and equipment for calculating depreciation. This estimate is determined after considering expected usage of the assets and physical wear and tear. Management reviews the residual value and useful lives annually and change in depreciation charges, if any, are adjusted in current and future periods.

Impairment of property and equipment and investment property
Property and equipment and investment property are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable in part or full. Whenever the carrying amount of these assets exceeds their recoverable amount, an impairment loss is recognized in the consolidated statement of income. The recoverable amount is the higher of an asset's net selling price and the value in use. The net selling price is the amount obtained from the sale of an asset in an arm's length transaction while value in use is present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

Impairment of available for sale investments
The Group exercises judgement to consider the impairment of available for sale investments as well as their underlying assets. This includes the assessment of objective evidence which causes other than temporary decline in the value of investments. Any significant and prolonged decline in the fair value of equity investment below its cost is considered as objective evidence for the impairment. The determination of what is 'significant' and 'prolonged' requires judgement. The Group also considers impairment testing to be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

Impairment of other non-financial assets
The Group assesses, at each reporting date or more frequently if events or changes in circumstances indicate, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount, which is higher of fair value less cost to sell and its value in use.

3. SIGNIFICANT ACCOUNTING POLICIES

Except for the adoption of accounting policy related to the basis of consolidation, as set out below, the following significant accounting policies have been consistently applied by the Group for the preparation of these consolidated financial statements:

Basis of consolidation

These consolidated financial statements include the financial statements of the Company and its subsidiaries. Associates are accounted for using the equity method.

Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date control ceases.

All intra-group balances and financial transactions resulting from transactions between the Company and the subsidiaries and those arising between the subsidiaries are eliminated in preparing these consolidated financial statements. Also, any unrealized gains and losses arising from intra-group transactions are eliminated on consolidation.

Non-controlling interests

The Group applies a policy of treating transactions with non-controlling interest with parties external to the Group. Disposals to non-controlling interests, if any, result in gains and losses for the Group that are recorded in the consolidated statement of income if control is lost. Purchase of non-controlling interest result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, cash with banks and other short-term highly liquid investments, if any, with original maturities of three months or less.

Accounts receivable

Accounts receivable are stated at original invoice amount less allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written-off as incurred.

Development properties

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Development properties (continued)

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

Management reviews the carrying values of the development properties at each reporting date.

Investment properties

Properties held for rental or capital appreciation purposes as well as those held for undetermined future use are classified as investment properties. Investment properties are carried at cost less accumulated depreciation and accumulated impairment losses, if applicable. Investment properties include buildings which are depreciated over 30 years.

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

Property and equipment

Property and equipment is stated at cost less accumulated depreciation and any impairment in value. Freehold land is not depreciated. The cost less estimated residual value of property and equipment is depreciated on a straight line basis over the estimated useful lives of the assets.

The estimated useful lives of assets are as follow:

	Years
Buildings	20-30
Furniture and fixtures	4
Motor vehicles	4
Heavy equipment and machinery	5-10
Leasehold improvements	2
Office equipments	3
Infrastructure assets	10-30

Expenditure for repair and maintenance are charged to the consolidated statement of income. Improvements that increase the value or materially extend the useful life of the related assets are capitalised.

During the year ended December 31, 2012, the Group re-assessed the useful lives of buildings and infrastructure assets and accordingly, revised the useful lives of certain assets from 20 to 30 years. This change has been applied prospectively as required under generally accepted accounting standards. Had there been no change in the estimate, the net income for the year after Zakat would have been decreased by SR 4 million and carrying values of property and equipment would have reduced by the same amount.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in an associate
An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture. Investment in associate is accounted for using the equity method of accounting together with any long-term interests that, in substance, form part of the investor's net investment in the associate. Under the equity method, the investment in the associate is carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate less impairment loss, if any.

Loan to an associate
Loan to an associate is measured at amortised cost, less impairment loss, if any.

Other investments (available-for-sale)
Investments are initially recognised at cost being the fair value of consideration given. After initial recognition, investments purchased neither with the intention of being held to maturity nor for trading purposes are remeasured at fair value. Unrealised gains and losses are reported as a separate component of consolidated equity until the investment is derecognised or the investment is determined to be impaired. On derecognition or impairment the cumulative gain or loss previously recorded in equity is recognised in the consolidated statement of income for the period. Fair value is determined by reference to the market value if an open market exists. In the absence of an active market, the fair value is determined through other indicators, otherwise, cost is considered to be the fair value.

Non-current asset held for disposal
Non-current assets that are classified as held for disposal are measured at the lower of their carrying amount and fair value less costs to sell. Assets are transferred to non-current assets held for disposal when it is expected that the carrying amount will be recovered principally through disposal rather than from continuing use. For this to be the case, the asset must be available for immediate disposal in its present condition subject only to terms that are usual and customary for disposals of such assets and its disposal must be highly probable.

Accounts payable and accruals
Liabilities are recognised for amounts to be paid in the future for services received or when risks and rewards associated with the goods are transferred to the Group, whether billed by the supplier or not.

Deferred contribution
Deferred contributions represents amounts received from customers in respect of infrastructure assets and land, which are recognised as an obligation to provide access to the properties sold. The obligation, which is measured with reference to the contributions received, is then amortised over the useful life of the infrastructure assets for the portion that relates to infrastructure assets and recognised as revenue upon transfer of risks and rewards of land for the portion that relates to the transfer of land.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Employees' end of service benefits
Provision is made for amounts payable under the Saudi Arabian labour law applicable to employees' accumulated periods of service at the balance sheet date.

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

Segment reporting
In accordance with the requirements of accounting standards generally accepted in the Kingdom of Saudi Arabia, the Group is required to disclose segmental information, however due to the nature of Group's business operations, segment reporting is not applicable to the Group.

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

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

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

Revenue on sale of apartments and villas is recognized on the basis of percentage of completion as and when all of the following conditions are met:

a) the buyer's investment, to the date of the consolidated financial statements, is adequate (20% and above) to demonstrate a commitment to pay for the property;
b) construction is beyond a preliminary stage. The engineering, design work, construction contract execution, site clearance and building foundation are finished;
c) the buyer is committed: the buyer is unable to claim a refund except for non-delivery of the unit; and
d) the aggregate sales proceeds and costs can be reasonably estimated.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

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

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

Murabaha term deposits with banks
Income on Murabaha term deposits with banks is recognised on an accrual basis.

Cost of revenue
Cost of revenue includes the cost of land, development and other services related costs. Development costs include the cost of construction. The cost of revenues in respect of apartments and villas is based on the estimated proportion of the development cost incurred to date to the estimated total development costs for each project.

The cost of revenues in respect of land sales is based on the total estimated cost of the land site over the total land area in a particular development.

Expenses
Selling and marketing expenses are those that specifically relate to the selling and marketing activities of the Group. All other expenses are classified as general and administration expenses.

Borrowing costs
Borrowing costs that are directly attributable to the construction of an asset are capitalised using capitalisation rate up to the stage when substantially all the activities necessary to prepare the qualifying asset for its intended use are completed and, thereafter, such costs are charged to the consolidated statement of income.

Operating leases
Operating lease payments are recognized as an expense in the consolidated statement of income on a straight line basis over the lease term.

Zakat
Zakat is provided for in accordance with Saudi Arabian Department of Zakat and Income Tax (DZIT) regulations. The provision is charged to the consolidated statement of income.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

Transactions in foreign currencies are recorded in Saudi Arabian Riyals at the rate of exchange 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 statement of income.

Non-monetary items measured at historical cost denominated in a foreign currency are translated at the exchange rate at the date of initial recognition.

4. CASH AND CASH EQUIVALENTS

	2012	2011
	SR'000	SR'000 (Restated)
Cash and bank balances	**173,698**	40,706
Short-term Murabaha deposits	**3,068,700**	1,670,010
	3,242,398	1,710,716

5. MURABAHA TERM DEPOSITS WITH BANKS

Murabaha term deposits with banks amounting to SR 859.3 million (2011: SR 3,169.6 million) represents funds placed with commercial banks at market rates with original maturities of more than three months.

6. ACCOUNTS RECEIVABLE AND OTHER CURRENT ASSETS

	2012	2011
	(SR'000)	(SR'000) (Restated)
Accounts receivable	**77,293**	50,260
Commission receivable on Murabaha term deposits	**2,713**	9,919
Advances to suppliers	**3,592**	5,106
Prepayments	**11,071**	1,237
Margin on letter of credits	**10,816**	--
Other current assets	**5,871**	1,372
	111,356	67,894

7. DEVELOPMENT PROPERTIES

	2012 **SR'000**	2011 SR'000
Cost incurred to date	**1,784,945**	1,706,233
Properties under construction (Note 10)	**(888,074)**	--
Transfer from /(to) investment properties	**25,715**	(74,807)
	922,586	1,631,426
Attributable profit	**729,620**	267,272
Less: Progress billings	**(1,042,315)**	(841,419)
Less: Provision for development properties	**(7,328)**	(11,056)
	602,563	1,046,223

Development properties represent costs incurred to-date on projects under progress at KAEC, intended to be sold, and costs incurred to-date plus attributable profit / (loss) on sold properties less progress billings made in respect of sold properties under development.

Development properties also include plots of land, amounting to SR 197.5 million, (2011: SR 171.1 million) which have been identified by the management to be sold in their present condition. Accordingly, these have been reclassified from investment property to development properties.

During the year ended December 31, 2012, the Group has reclassified certain projects, initially identified for sale in their present condition, as projects for long-term lease. Consequently, related cost amounting to SR 888.1 million, including land of SR 7.6 million, has been re-classified from development properties to investment properties (Note 10).

8. OTHER INVESTMENT

In May 2008, the Company established an entity, Cadre The Economic Cities, LLC (Cadre), which is engaged in human resource management and is incorporated in the Kingdom of Saudi Arabia on Jumad Awal 6, 1429H, corresponding to May 11, 2008. The Group has a 95% holding in Cadre.

During 2011, Cadre entered into the management agreement with Economic Cities Authorities (ECA) whereby management, operations and control of Cadre was assigned to ECA. As the Company will not participate in the management of Cadre and has no longer control over Cadre, the investment is not consolidated in these financial statements and classified as an available-for-sale investment, disclosed as other investments, and carried at cost which is considered as the fair value.

During the year ended December 31, 2012, the Board of Directors of the Company has decided to transfer ownership of Cadre to ECA at a price and time to be mutually agreed in due course of time.

9. LOAN TO A RELATED PARTY

Loan to a related party represents balance of commission free loan receivable from Cadre. During 2011, the Company signed a Supplement Loan Agreement Term Sheet (SLATS) with Cadre whereby initially agreed loan of SR 20 million was reduced to SR 9.5 million that had already been released to Cadre in 2010. As per revised SLATS, the loan has quarterly repayments commencing from April 2011, with the last instalment falling due in April 2013. As the loan is repayable on demand, therefore, it has been classified as current asset.

10. INVESTMENT PROPERTY

The investment properties include the following:

	2012 (SR '000)	2011 (SR '000)
Greenfield land and associated costs (Note 10.1)	**3,577,026**	3,613,808
Properties under construction (Note 7, 10.2)	**888,074**	--
	4,465,100	3,613,808

10.1 A Greenfield Land measuring approximately 168 million square meters has been earmarked for the master development of KAEC. This includes land measuring approximately 37 million square meters which has been contributed by a shareholder as part of its capital contribution for an agreed sum of SR 1,700 million in lieu of shares of the same value in the Company (Note 20).

The specific allocation of Greenfield Land to be used by different projects, which could be for sale or rental, has not yet been completed. Therefore, the Greenfield Land and associated costs amounting to SR 3,577 million (2011: SR 3,614 million) has been classified as investment property. No depreciation has been charged as these comprise only freehold land.

10. INVESTMENT PROPERTY (continued)

The movement in the Greenfield Land and associated costs is as follows:

	2012 (SR'000)	2011 (SR'000)
Balance at January 1	**3,613,808**	3,393,229
Less: transfers:		
- (to)/ from development properties upon change in use	**(25,715)**	74,807
- to property and equipment (note 11)	**(2,890)**	(6,418)
- from capital work in progress - land improvements	**--**	152,190
- for development of infrastructure	**(8,177)**	--
Balance at December 31	**3,577,026**	3,613,808

Greenfield Land includes 24.7 million sqm pledged in favour of Ministry of Finance against a long-term loan of SR 5,000 million (Note 17).

10.2 Properties under construction comprise of building and related land. These properties are under construction, therefore, no depreciation is charged for the year.

11. PROPERTY AND EQUIPMENT

	Freehold land (SR'000)	Buildings (SR'000)	Leasehold improvements (SR'000)	Heavy equipment & machinery (SR'000)	Furniture & fixtures (SR'000)	Office equipment (SR'000)	Motor vehicles (SR'000)	Infrastructure assets (SR'000)	Capital work in progress (SR'000)	**Total (SR'000)**
Cost:										
At the beginning of the year	47,681	455,083	20,497	16,289	14,850	37,269	2,710	96,396	3,025,031	**3,715,806**
Additions	--	7,500	--	384	484	4,088	1,821	--	171,682	**185,959**
Transfer from investment property	2,890	--	--	--	--	--	--	--	--	**2,890**
Transfers to development properties	--	--	--	--	--	--	--	--	(12,844)	**(12,844)**
Borrowing cost	--	--	--	--	--	--	--	--	17,242	**17,242**
Transfer in/(out)	--	--	--	--	--	--	--	81,550	(81,550)	--
Disposals	--	--	--	--	--	--	(405)	--	--	**(405)**
At the end of the year	50,571	462,583	20,497	16,673	15,334	41,357	4,126	177,946	3,119,561	**3,908,648**
Depreciation:										
At the beginning of the year	--	79,521	20,497	8,900	12,103	32,639	2,152	17,723	--	**173,535**
Charge for the year	--	21,507	--	1,848	1,991	3,846	944	16,372	--	**46,508**
Disposals	--	--	--	--	--	--	(405)	--	--	**(405)**
At the end of the year	--	101,028	20,497	10,748	14,094	36,485	2,691	34,095	--	**219,638**
Net book values:										
At 31 December 2012	**50,571**	**361,555**	--	**5,925**	**1,240**	**4,872**	**1,435**	**143,851**	**3,119,561**	**3,689,010**
At 31 December 2011	47,681	375,562	--	7,389	2,747	4,630	558	78,673	3,025,031	3,542,271

11. PROPERTY AND EQUIPMENT (continued)

Capital work in progress mainly represents construction costs in respect of the infrastructure and other projects at the King Abdullah Economic City.

Additions in capital work in progress include SR 17.2 million (December 31, 2011: SR 0.8 million) in respect of borrowing costs capitalized during the year.

12. INVESTMENT IN AN ASSOCIATE

	2012 (SR '000)	2011 (SR '000)
Investment	**235,980**	980
Additional capital contribution	**173,000**	380,000
	408,980	380,980

On 14 Jumad Awwal 1431H (corresponding to 29 April 2010), the Port Development Company (PDC), a closed joint stock company was incorporated in the Kingdom of Saudi Arabia, which is engaged in development, operation and maintenance of the King Abdullah Port at KAEC (the Port). The Port is in its construction stage.

During 2011, the shareholders of PDC entered into an agreement ("Shareholders Agreement") whereby, the shareholding structure and funding mechanism of PDC was agreed. As per the terms of Shareholders Agreement, the Company's shareholding in PDC is agreed to be 34%.

To contribute a part of the equity funding under the Shareholders Agreement, the shareholders of PDC entered into another agreement with PDC whereby, the Company has further invested SR 408 million including equity of SR 236 million and additional capital contribution of SR 173 million. These were provided in the form of land, infrastructure and other development cost of SR 145 million and cash of SR 264 million including SR 28 million provided during the year ended December 31, 2012.

13. LOAN TO AN ASSOCIATE

During the year ended December 31, 2012, the Company signed a loan agreement with PDC in accordance with the Shareholders Agreement whereby, the Group has agreed to provide SR 1,000 million commission based loan to PDC, which was approved in the Annual General Meeting held on March 31, 2012. Accordingly, an amount of SR 338 million was disbursed to PDC during the year which is repayable, with a two years grace period, in seven annual instalments commencing from May 1, 2015. The loan is secured by a promissory note signed by PDC for the full amount of disbursement and by PDC's majority shareholder for its shareholding in PDC. The shareholders of PDC have agreed to convert the outstanding loan extended by the Company into equity shares of PDC on the occurrence of certain events in the future. The loan balance as at December 31, 2012 also includes accrued commission amounting to SR 6.6 million. Subsequent to the year end, the Company provided second tranche of financing amounting to SR 40 million.

14. ASSETS CLASSIFIED AS HELD FOR DISPOSAL

The Group has identified certain assets which are to be disposed off in line with the strategic business plan of the Group. Accordingly, these assets are classified as held for disposal. During the year ended December 31, 2012, the Group partially sold these assets and realised a gain of SAR 0.056 million. At the year ended December 31, 2012, the remaining assets were reviewed for impairment and the management ascertained that no further impairment is required.

15. ACCOUNTS PAYABLE AND ACCRUALS

	2012 **SR'000**	2011 SR'000 (Restated)
Accounts payable	**264,187**	601,582
Advance from customers	**236,058**	2,401
Contract cost accruals	**149,044**	225,769
Amount to be donated for charitable purposes (note 15.1)	**69,753**	74,708
Accrued expenses and other payables	**51,416**	41,356
Amounts due to affiliates (note 16)	**70,349**	2,517
Retentions payable	**11,776**	161,001
Zakat payable	**11,371**	11,362
	863,954	1,120,696

15.1 The Board of Directors decided in 2006 to donate the amount earned on the founding shareholders' share capital contribution (before initial public offering) placed in fixed deposits maintained with a bank before placing funds under an Islamic deposit scheme. Commission earned on this deposit is added to the amount to be donated for charitable purposes.

16. RELATED PARTY TRANSACTIONS AND BALANCES

Related party transactions mainly represent services, expenses and other transactions which are undertaken at mutually agreed terms and approved by management.

In addition to the disclosures set out in notes 8, 9, 10, 12 and 13, related party transactions for the year ended December 31, 2012 and balances are described as under:

		2012		2011 (Restated)	
Related party	Nature of transaction	**Amount of transaction SR'000**	**Balance receivable/ (payable) SR'000**	Amount of transaction SR'000	Balance receivable/ (payable) SR'000
Affiliates	Payments made and expenses incurred by affiliates on behalf of the Group	--	**(343)**	150	(343)
	Payments made and expenses incurred by Group on behalf of an affiliate	**89**	**89**	1,333	23
	Services provided to the Group	--	**(2,174)**	--	(2,174)
	Advance from an affiliate	**(67,800)**	**(67,800)**	--	--
	Commission income	**6,641**	**6,641**	--	--
Key management personnel	Remuneration	**7,098**	--	5,156	--
Board of Directors	Meeting fees	**2,672**	(32)	2,170	(2,170)

17. LONG-TERM LOAN

During 2011, the Company received a loan of SR 5,000 million from the Ministry of Finance (MoF) for the development of KAEC. The loan is secured against pledge of 24.7 million sqm of the Greenfield Land (note 10.1) and carries annual commission at commercial rates and is repayable, with a three years grace period, in seven annual instalments commencing from June 1, 2015. The loan balance as at December 31, 2012 also includes accrued commission amounting to SR 167.8 million (2011: SR 61.7 million).

18. DEFERRED CONTRIBUTION

	2012 **SR'000**	2011 SR'000
Balance at January 1	**149,264**	85,621
Collections during the year	**96,231**	63,643
Balance at December 31	**245,495**	149,264

19. LONG-TERM PROVISION

The Company has contracted with its residential customers to provide property and city maintenance services. The costs of providing these services, over the useful life of the residential units, to its residential customers is expected to be higher, by an amount estimated at SR 28.8 million (December 31, 2011: SR 28.8 million), than the fee or charges that the Company will be able to charge to its residential customers. Accordingly, a provision has been made for the excess costs. Such provision is reviewed at each balance sheet date and appropriate adjustment is made to account for change in the estimated excess costs, if any.

20. SHARE CAPITAL

The authorized, issued and fully paid share capital of the Company is as follow:

	2012		2011	
	Number of shares	**(SR'000)**	Number of shares	(SR'000)
Issued for cash	**680,000,000**	**6,800,000**	680,000,000	6,800,000
Issued for consideration in kind (note 10)	**170,000,000**	**1,700,000**	170,000,000	1,700,000
	850,000,000	**8,500,000**	850,000,000	8,500,000

21. SELLING AND MARKETING EXPENSES

	2012 **(SR'000)**	2011 (SR'000)
Employee costs	**3,586**	2,096
Branding and launch expenses	**1,432**	2,917
Advertising	**3,484**	6,430
Promotional expenses	**2,930**	2,454
Others	**7,308**	3,417
	18,740	17,314

22. GENERAL AND ADMINISTRATION EXPENSES

	2012 (SR'000)	2011 (SR'000) (Restated)
Employee costs	**92,760**	75,258
Facility and city management services	**22,462**	20,658
Professional charges	**25,584**	17,751
Rent	**18,542**	16,414
Utilities and infrastructure	**12,461**	10,252
Repairs and maintenance	**6,500**	4,766
Communication and office expenses	**5,130**	2,497
Others	**4,556**	2,280
	187,995	149,876

23. ZAKAT

a) Charge for the year

i) Zakat charge for the year ended December 31 comprises the following:

	2012 (SR'000)	2011 (SR'000) (Restated)
Current year	**5,073**	6,011

ii) The significant components of Zakat base for the current year ended December 31, 2012 are as follow:

	2012 (SR'000)	2011 (SR'000) (Restated)
Equity and provisions	**11,776,624**	9,332,009
Book value of long term assets	**(12,037,201)**	(9,230,590)
	(260,577)	101,419
Zakatable income for the year	**121,124**	67,746
Zakat base	**121,124**	169,165

23. ZAKAT (continued)

b) Accrued Zakat

The movement in accrued zakat during the year ended December 31 is as follows:

	2012 (SR'000)	2011 (SR'000) (Restated)
Balance at beginning of the year	**11,362**	9,943
Add: Charge for the year	**5,073**	6,011
Less: Payments during the year	**(5,064)**	(4,592)
Balance at end of the year	**11,371**	11,362

c) Status of assessments

The Company filed the Zakat returns up to the year 2011 and obtained the restricted Zakat certificates.

The DZIT issued Zakat assessments for the period /years ended December 31, 2006 to 2008 and claimed additional Zakat and withholding tax differences of SR 90.4 million in addition to delay penalty. The case is currently reviewed at the Higher Appeal Committee (HAC). In compliance of the appeal procedures and without admitting the liability, the Company submitted a bank guarantee and paid under protest the withholding tax differences.
The DZIT issued Zakat assessment for the years 2009 to 2011 and claimed additional Zakat, withholding tax and delay penalty differences of SR 64.7 million. The Company has filed an objection against this assessment. The Company is of the view that given a fair review of the assessments for the period/years 2006 to 2011, their view should prevail. No provision is made for the additional Zakat and withholding tax liability in these financial statements.

ECHIC has filed the Zakat returns for the period/year ended December 31, 2010 and 2011 and obtained an unrestricted Zakat certificate.

IZDCL has filed the Zakat return for the period ended December 31, 2011 and obtained a facility letter.

24. EARNINGS PER SHARE

Earnings per share on profit from operations are calculated by dividing the profit from operations with the weighted average number of ordinary shares in issue during the year.

Earnings per share on net income are calculated by dividing the net income with the weighted average number of ordinary shares in issue during the year.

The calculation of diluted earnings per share is not applicable to the Group.

25. OPERATING LEASES

The Group has operating leases for office space, residential units and equipments. The leases are renewable at the expiry of lease period. The Group's obligation under the operating lease is as follows:

	2012 (SR'000)	2011 (SR'000)
Within one year	**2,100**	5,522
Between two and five years	**370**	300
Total	**2,470**	5,822

26. RISK MANAGEMENT

The Group is exposed to market, credit and liquidity risks.

The Group's management oversees the management of these risks. The Group's financial risk-taking activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with Group policies. The Board of Directors reviews and agrees policies for managing each of these risks which are summarized below.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Financial instruments affected by market risk include loan from Ministry of Finance, Murabaha deposits and available-for-sale investments. Market prices comprise of commission rate risk and currency risk as stated below.

Commission rate risk

Commission rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market commission rates. The Group's exposure to the risk of changes in market commission rates relates primarily to the Group's commission bearing bank deposits and loan from MOF. The Group manages its commission rate risk by monitoring changes in commission rates in the currencies in which its commission bearing liabilities and assets are denominated.

26. RISK MANAGEMENT (continued)

Market risk (continued)

Currency risk
Currency risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in foreign exchange rates. The Group did not undertake significant transactions in currencies other than Saudi Riyals and US Dollars, and as US Dollar is pegged to Saudi Riyal, the Group is not exposed to significant currency risk.

Credit risk
Credit risk is the risk that one party will fail to discharge an obligation and will cause the other party to incur a financial loss. The Group seeks to manage its credit risk with respect to customers by monitoring outstanding receivables. The sale agreements with customers provide that the title to the property is transferred to the customers only upon the receipt of complete sale price. The five largest customers account for 53% of outstanding accounts receivable at December 31, 2012 (2011: 48%).

The Group manage its exposure to credit risk with respect to Murabaha deposits with banks by diversification and investing with counterparties with sound credit rating preferably A or higher. At the reporting date, all counter parties to the Murabaha deposits have credit ratings of A or higher. With respect to credit risk arising from the other financial assets of the Group, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Liquidity risk
Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial liabilities. Liquidity requirements are monitored on a regular basis and the Group manages its liquidity risk by ensuring that sufficient funds are available to meet any commitments as they arise.
As at December 31, 2012, financial liabilities of SR 576.2 million (2011: SR 803.1 million) are payable within 3 months and the remaining financial liabilities are payable within 3 to 12 months, of the year end.

27. FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. The Group's financial assets consist of cash and cash equivalents, Murabaha deposits with banks, accounts receivable, amount due from an affiliate, other investment and loan to a related party, its financial liabilities consist of payables and accruals and loan from MoF. The fair values of financial instruments are not materially different from their carrying values.

28. CONTINGENT LIABILITIES AND COMMITMENTS

a) The Company has contracted with its industrial customers to provide property management and city maintenance services. The costs of providing these services to industrial customers may be higher than the fee or charges that the Company may be able to charge to its industrial customers. The financial effect, if any, is not currently practicable to estimate.

b) A contractor has filed a case against the Company in relation to an encashment of letter of guarantee for advance payment amounting to SR 138 million, which the Company is contesting due to dispute over deliverables under the contract. The Court has appointed an independent Expert to analyze and report the rights and liabilities of each party towards the other. The Expert has submitted the report to the Court but the Court has not yet announced its decision. The Company is confident of a favourable outcome of the case.

c) Certain customers have filed cases against the Company for refund of amount paid for properties purchased in prior years. These cases are at various stages and the amounts cannot be reliably measured at this stage. However, the management is confident of favourable outcome.

d) The Group had commitments as at December 31, 2012, amounting to SR 441.2 million (December 31, 2011: SR 2,188.3 million) related to future capital expenditure for the development of KAEC.

29. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised to issue by the Board of Directors on Rabi Al Thani 9, 1434H, corresponding to February 19, 2013.