

**EMAAR THE ECONOMIC CITY**  
(A Saudi Joint Stock Company)

**UNAUDITED INTERIM CONDENSED  
CONSOLIDATED FINANCIAL STATEMENTS**  
For the three-month and the year ended  
December 31, 2014



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## REVIEW REPORT ON THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

### Scope of review

We have reviewed the accompanying interim consolidated balance sheet of Emaar The Economic City and its subsidiaries (collectively referred as "the Group") as at December 31, 2014, the related interim consolidated statement of income for the three-month and the year then ended, interim consolidated statements of cash flows and changes in equity for the year then ended and the attached notes 1 to 21 which form an integral part of these interim condensed consolidated financial statements. These interim condensed consolidated financial statements are the responsibility of the Group's management and have been prepared by them and submitted to us together with all the information and explanations which we required. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

We conducted our review in accordance with the Auditing Standard on Review of Interim Financial Reporting issued by the Saudi Organization for Certified Public Accountants (SOCPA). A review consists principally of applying analytical procedures to financial data and information and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

### Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying interim condensed consolidated financial statements for them to be in conformity with accounting standards generally accepted in the Kingdom of Saudi Arabia.

For KPMG Al Fozan & Al Sadhan

Ebrahim Oboud Baeshen  
License No. 382



Jeddah, Rabi Al Awwal 29, 1436H  
Corresponding to January 20, 2015

**EMAAR THE ECONOMIC CITY**  
(A Saudi Joint Stock Company)

**INTERIM CONSOLIDATED BALANCE SHEET (UNAUDITED)**  
As at December 31, 2014

	Notes	2014 (SR'000) (Unaudited)	2013 (SR'000) (Audited)
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and cash equivalents	4	2,012,944	2,772,040
Murabaha term deposits with banks	5	872,685	261,828
Accounts receivable and other current assets		225,487	313,652
Development properties	6	1,271,562	1,095,838
<b>Total current assets</b>		<u>4,382,678</u>	<u>4,443,358</u>
<b>Non-current assets:</b>			
Investment properties	7	4,364,638	4,285,063
Property and equipment	8	5,012,368	4,135,501
Investment in an equity accounted investee	9	2,338,085	1,381,279
Deferred costs	10	7,113	--
		<u>11,722,204</u>	<u>9,801,843</u>
Assets classified as held for disposal	11	101,250	101,250
<b>Total non-current assets</b>		<u>11,823,454</u>	<u>9,903,093</u>
<b>TOTAL ASSETS</b>		<u>16,206,132</u>	<u>14,346,451</u>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities:</b>			
Short-term loans		--	29,215
Accounts payable and accruals	12	883,588	656,450
Current portion of long-term loans	14	753,365	--
<b>Total current liabilities</b>		<u>1,636,953</u>	<u>685,665</u>
<b>Non-current liabilities:</b>			
Non-current portion of long-term loans	14	5,377,815	5,274,789
Deferred contribution	15	953,882	532,252
Long-term provision		5,099	5,099
Employees' end of service benefits		16,990	12,080
<b>Total non-current liabilities</b>		<u>6,353,786</u>	<u>5,824,220</u>
<b>Total liabilities</b>		<u>7,990,739</u>	<u>6,509,885</u>
<b>Equity attributable to the Company's shareholders:</b>			
Share capital	16	8,500,000	8,500,000
Accumulated losses		(284,028)	(663,706)
Effect of reducing the ownership percentage in a subsidiary	17	(86)	--
<b>Total shareholders' equity</b>		<u>8,215,886</u>	<u>7,836,294</u>
Non-controlling interests		(493)	272
<b>Total equity</b>		<u>8,215,393</u>	<u>7,836,566</u>
<b>Total liabilities and equity</b>		<u>16,206,132</u>	<u>14,346,451</u>

The accompanying notes 1 to 21 form an integral part of these unaudited interim condensed consolidated financial statements.

**EMAAR THE ECONOMIC CITY**  
(A Saudi Joint Stock Company)

**INTERIM CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)**  
For the three-month and the year ended December 31, 2014

	Notes	For the three-month period ended December 31, 2014 (SR'000) (Unaudited)	For the three-month period ended December 31, 2013 (SR'000) (Unaudited) (Restated)	For the year ended December 31, 2014 (SR'000) (Unaudited)	For the year ended December 31, 2013 (SR'000) (Audited)
Revenue		303,003	653,027	1,064,342	833,452
Cost of revenue		(90,003)	(72,127)	(336,626)	(128,786)
<b>Gross profit</b>		<b>213,000</b>	<b>580,900</b>	<b>727,716</b>	<b>704,666</b>
<b>Expenses:</b>					
Selling and marketing		(61,425)	(31,343)	(95,098)	(62,203)
General and administration		(67,326)	(53,861)	(176,488)	(146,759)
Land contribution		--	(88,509)	--	(88,509)
Depreciation, net		(6,369)	(4,803)	(28,073)	(26,429)
Amortisation	10	(1,674)	--	(1,674)	--
Impairment loss		--	(139,240)	--	(120,005)
Maintenance and other (cost) / reversal, net		--	(3,047)	(327)	21,140
<b>Total expenses</b>		<b>(136,794)</b>	<b>(320,803)</b>	<b>(301,660)</b>	<b>(422,765)</b>
<b>Profit from operations</b>		<b>76,206</b>	<b>260,097</b>	<b>426,056</b>	<b>281,901</b>
Financial charges, net		(7,530)	(17,468)	(54,951)	(83,066)
Commission income		4,662	6,515	13,873	37,144
Gain on disposal of investment properties		--	--	--	58,635
Share of (loss) / profit from an equity accounted investee	9	(876)	2,944	19,039	2,675
Other income		359	1,927	1,405	7,129
<b>Income before Zakat and non-controlling interests</b>		<b>72,821</b>	<b>254,015</b>	<b>405,422</b>	<b>304,418</b>
Zakat	19	(4,100)	388	(26,600)	(31,112)
<b>Net income before non-controlling interests</b>		<b>68,721</b>	<b>254,403</b>	<b>378,822</b>	<b>273,306</b>
Share of non-controlling interests in the net loss / (income) of consolidated subsidiaries		427	(76)	856	(247)
<b>Net income attributable to Company's shareholders</b>		<b>69,148</b>	<b>254,327</b>	<b>379,678</b>	<b>273,059</b>
Earnings per share on profit from operations - SR	18	0.090	0.306	0.501	0.332
Earnings per share on net income attributable to Company's shareholders - SR	18	0.081	0.299	0.447	0.321

The accompanying notes 1 to 21 form an integral part of these unaudited interim condensed consolidated financial statements.

**EMAAR THE ECONOMIC CITY**  
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**INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)**  
For the year ended December 31, 2014

	Notes	2014 (SR'000) (Unaudited)	2013 (SR'000) (Audited)
<b>Operating activities:</b>			
Income before Zakat and non-controlling interests		405,422	304,418
Adjustments for:			
Depreciation		63,850	40,550
Employees' end of service benefits, net		4,910	3,569
Share of (profit) / loss from an equity accounted investee		(19,039)	(2,675)
Financial charges, net		54,951	83,066
Commission income		(13,873)	(37,144)
Impairment loss		--	120,005
Maintenance and other cost / (reversal), net		327	(21,140)
Gain on disposal of investment properties		--	(58,635)
Land contribution		--	88,509
Amortisation		1,674	--
Gain on disposal of property and equipment		(353)	(102)
		497,869	520,421
Changes in operating assets and liabilities:			
Accounts receivable and other current assets		335,791	(48,221)
Development properties		(17,466)	(466,617)
Accounts payable and accruals		206,806	(232,191)
Cash generated from / (used in) operations		1,023,000	(226,608)
Deferred contribution	15	470,486	328,812
Zakat paid		(6,268)	(5,524)
Net cash generated from operating activities		1,487,218	96,680
<b>Investing activities:</b>			
Purchase of property and equipment		(1,013,886)	(567,936)
Proceeds from disposal of property and equipment		353	102
Deferred costs		(8,787)	--
Net movement in assets held for disposal		--	5,078
Net movement in Murabaha term deposits with banks		(610,857)	597,451
Commission income		13,873	37,144
Proceed from sale of other investment		--	4,750
Net movement in loan to a related party		--	1,663
Net movement in investment properties		(157,574)	--
Investment in an equity accounted investee	9	(1,185,720)	(1,010,300)
Net movement in loan to an equity accounted investee		--	338,000
Net cash used in investing activities		(2,962,598)	(594,048)
<b>Financing activities:</b>			
Net movement in short-term loans		(33,721)	27,010
Long-term loans		750,000	--
Net movement in non-controlling interest		5	--
Net cash generated from financing activities		716,284	27,010
Net change in cash and cash equivalents		(759,096)	(470,358)
Cash and cash equivalents at the beginning of the year		2,772,040	3,242,398
Cash and cash equivalents at the end of the year	4	2,012,944	2,772,040

The accompanying notes 1 to 21 form an integral part of these unaudited interim condensed consolidated financial statements.

**EMAAR THE ECONOMIC CITY**  
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**INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)**  
For the year ended December 31, 2014

	Equity attributable to the shareholders' of the Company					
	Share capital (SR'000)	Accumulated losses (SR'000)	Effect of reducing the ownership percentage in a subsidiary (SR'000)	Total shareholders' equity (SR'000)	Non-controlling interests (SR'000)	Total (SR'000)
<b>2014</b>						
Balance at January 1	8,500,000	(663,706)	--	7,836,294	272	7,836,566
Net income for the year	--	379,678	--	379,678	(856)	378,822
Effect of reducing the ownership percentage in a subsidiary	--	--	(86)	(86)	--	(86)
Net movement in non-controlling interest	--	--	--	--	91	91
Balance at December 31	<u>8,500,000</u>	<u>(284,028)</u>	<u>(86)</u>	<u>8,215,886</u>	<u>(493)</u>	<u>8,215,393</u>

	Equity attributable to the shareholders' of the Company					
	Share capital (SR'000)	Accumulated losses (SR'000)	Effect of reducing the ownership percentage in a subsidiary (SR'000)	Total shareholders' equity (SR'000)	Non-controlling interests (SR'000)	Total (SR'000)
<b>2013</b>						
Balance at January 1	8,500,000	(936,765)	--	7,563,235	25	7,563,260
Net income for the year	--	273,059	--	273,059	247	273,306
Balance at December 31	<u>8,500,000</u>	<u>(663,706)</u>	<u>--</u>	<u>7,836,294</u>	<u>272</u>	<u>7,836,566</u>

The accompanying notes 1 to 21 form an integral part of these unaudited interim condensed consolidated financial statements.

**EMAAR THE ECONOMIC CITY**  
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**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

For the three-month and the year ended December 31, 2014

**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 Ramadan 3, 1427H, corresponding to September 21, 2006 and registered in the Kingdom of Saudi Arabia under Commercial Registration number 4030164269 dated Ramadan 8, 1427H, corresponding to September 26, 2006. 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. 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.

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 of companies. The Company and its subsidiaries constitute "the Group".

<u>Name</u>	<u>Country of Incorporation</u>	<u>Year of incorporation</u>	<u>Effective ownership interest</u>	
			<u>2014</u>	<u>2013</u>
Economic Cities Investments Holding Company (ECIHC)	Kingdom of Saudi Arabia	2010	99%	99%
Industrial Zones Development Company Limited (IZDCL)	Kingdom of Saudi Arabia	2011	98%	100%
Economic Cities Real Estate Operation and Management Company Limited (REOM)	Kingdom of Saudi Arabia	2013	98%	98%
Economic Cities Pioneer Real Estate Management Company Limited (REM)	Kingdom of Saudi Arabia	2013	98%	98%
Economic Cities Real Estate Development Company Limited (RED)	Kingdom of Saudi Arabia	2013	98%	98%

During the period ended December 31, 2014, the Company contributed SR 1,605 million as additional capital contribution in ECIHC.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)**

For the three-month and the year ended December 31, 2014

**2. BASIS OF PRESENTATION**

**Statement of compliance**

These interim condensed consolidated financial statements have been prepared in accordance with the accounting standards generally accepted in the Kingdom of Saudi Arabia and the Accounting Standard on Interim Financial Reporting issued by Saudi Organization for Certified Public Accountants (SOCPA).

**Functional and presentation currency**

These accompanying interim condensed 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.

**Comparative figures**

Certain reclassifications have been made to the prior period's financial statements to enhance comparability with the current period's financial statements.

On October 8, 2013, the shareholders of Port Development Company (PDC), an equity accounted investee (formerly termed as investment in an associate), resolved to increase the shareholding of the Company by converting additional capital contribution to equity. Consequently, effective this date, since the Group has significant shareholding in PDC, the Group has commenced equity accounting of its investment in PDC (note 9). Accordingly, the interim consolidated statement of income for the three-month period ended December 31, 2013 has been restated of which the related effects are summarized below:

<u>Description</u>	<u>Commission income</u>	<u>Gain on disposal of investment property</u>	<u>Share of loss from equity accounted investee</u>	<u>Net income / (loss) attributable to Company's shareholder</u>
	( SR'000)			
Balance previously reported as at December 31, 2013	2,747	--	--	219,880
Adjustments	3,768	30,410	269	34,447
Balance as at December 31, 2013, as restated	<u>6,515</u>	<u>30,410</u>	<u>269</u>	<u>254,327</u>

These adjustments have already been reflected in Company's consolidated financial statements for the year ended December 31, 2013 resulting in no change in the equity attributable to Company's shareholders at December 31, 2013.

The interim results may not be an indicator of the annual results of the Group. These interim condensed consolidated financial statements should be read in conjunction with the latest annual audited consolidated financial statements of the Group.

**Accounting convention**

The interim condensed 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.



**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

For the three-month and the year ended December 31, 2014

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**2. BASIS OF PRESENTATION (continued)**

**Use of estimates and judgements**

The preparation of interim condensed 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 period in which the estimates are revised and in future periods affected. The key areas requiring significant management judgments and estimates are as follows:

***Classification of investment properties***

The Group determines whether a property qualifies as investment property. In making its judgment, the Group considers whether the property generates cash flows largely independent of the other assets held by the Group.

***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 interim condensed consolidated financial statements, based on the prevailing market value obtained from professionals involved in the sale of these assets.

***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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

For the three-month and the year ended December 31, 2014

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2. BASIS OF PRESENTATION (continued)

Use of estimates and judgements (continued)

*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 interim 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.

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

*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

The following significant accounting policies used by the Group for the preparation of these interim condensed consolidated financial statements are consistent with those used for the preparation of the annual consolidated financial statements:

**Basis of consolidation**

These interim condensed consolidated financial statements include the financial statements of the Company and its subsidiaries as set out in note 1. Investment in an equity accounted investee is 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 interim condensed consolidated financial statements from the date that control commences until the date control ceases.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

For the three-month and the year ended December 31, 2014

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Basis of consolidation (continued)**

*Subsidiaries (continued)*

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 interim condensed 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 as transactions 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 interim consolidated statement of income if control is lost. Purchase of non-controlling interest results 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 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.

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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
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For the three-month and the year ended December 31, 2014

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**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 impairment losses, if applicable. Investment properties include buildings which are depreciated on a straight line basis over the estimated useful life of 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 following estimated useful lives of the assets.

	<u>Years</u>
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 interim consolidated statement of income. Improvements that increase the value or materially extend the useful life of the related assets are capitalised. Interest on long term loan that is directly related to property and equipment is capitalised.

**Investment in an equity accounted investee**

The Group's investment in equity accounted investee represents investment in those entities over whose activities the Group has joint control, established by contractual arrangements and requiring unanimous consent for strategic financial and operating decisions. This also includes those entities in which the Group has significant influence, but not control, over the financial and operating policies, generally accompanying a shareholding between 20% and 50% of the voting rights.

Investment in equity accounted investee 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 equity accounted investee. Under the equity method, the investment in the equity accounted investee is carried in the interim balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the equity accounted investee less impairment loss, if any.

When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of Group's investment is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an equity accounted investee.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

For the three-month and the year ended December 31, 2014

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Loan to an equity accounted investee**

Loan to an equity accounted investee 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 classified as available for sale and are re-measured at fair value. Unrealised gains and losses are reported as a separate component of 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 interim 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.

**Deferred costs**

Deferred costs includes all costs and expenses incurred during the current period and have the future economic benefits. Such costs are amortized using the straight-line method over the related economic benefit periods not exceeding seven years.

**Non-current assets 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.

**Loans and borrowings**

Loans are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method.

**Deferred contribution**

Deferred contribution 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 deducted from depreciation upon transfer of risks and rewards of land for the portion that relates to the transfer of land.

**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 interim consolidated balance sheet date.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
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For the three-month and the year ended December 31, 2014

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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**

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in producing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments. Currently, the Company is principally involved in sale of plots in KAEC and the revenue and other assets of other ancillary services such as hospitality, education and lease are not significant to the Company. Accordingly, the management believes that at this stage, the Company's business activity falls within a single business segment accordingly, non-disclosure of segment information may not affect the decisions of the users of these interim condensed consolidated financial statements.

**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 interim consolidated statement of income as follows:

*Sale of property*

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

- a) 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.

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**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 interim consolidated balance sheet date.

*Hospitality revenue*

Revenue from hotel accommodation, food and beverages and other related services are recognised, net of discount and municipality fees on accrual basis when the services are rendered.

*School revenue*

Tuition, registration and other fees are recognized as income on accrual basis.

**Murabaha term deposits with banks**

Income on Murabaha term deposits with banks is recognised on effective yield basis.

**Cost of revenue**

Cost of revenue includes the cost of land, development and other service related costs. Development costs include the cost of construction.

The cost of revenues in respect of apartments and villas is based on the proportion of the development cost incurred to date related to sold units to the estimated total development costs for each project.

The cost of revenues in respect of land sales includes cost of land.

The cost of revenues in respect of hotel and school is based on actual cost of providing the services.

**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 interim consolidated statement of income.

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Operating leases**

Operating lease payments are recognized as an expense in the interim 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 interim consolidated statement of income.

**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 interim balance sheet date. All differences are taken to the interim 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.

**Offsetting**

Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheet only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expense is not offset in the consolidated statement of income unless required or permitted by generally accepted accounting principles in Kingdom of Saudi Arabia.

**4. CASH AND CASH EQUIVALENTS**

	<u>2014</u> (SR'000)	<u>2013</u> (SR'000)
Bank balances and cash	1,373,944	84,040
Short-term Murabaha deposits (note 5)	<u>639,000</u>	<u>2,688,000</u>
	<u>2,012,944</u>	<u>2,772,040</u>

**5. MURABAHA TERM DEPOSITS WITH BANKS**

Murabaha term deposits with banks represent funds placed with commercial banks at market rates and comprised of the following:

	<u>2014</u> (SR'000)	<u>2013</u> (SR'000)
Murabaha deposits	1,511,685	2,949,828
Less: short-term Murabaha deposits (note 4)	<u>639,000</u>	<u>2,688,000</u>
	<u>872,685</u>	<u>261,828</u>



**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
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**6. DEVELOPMENT PROPERTIES**

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 455 million (2013: SR 296.5 million) which have been identified by the management to be sold in their present condition. Accordingly, these have been reclassified from investment properties to development properties.

**7. INVESTMENT PROPERTIES**

Investment properties include the following:

	<u>2014</u> (SR'000)	<u>2013</u> (SR'000)
Greenfield land and associated cost (note 7.1)	3,148,733	3,328,472
Properties under construction	679,335	746,836
Properties completed		
Cost	552,114	216,992
Accumulated Depreciation	(15,544)	(7,237)
	536,570	209,755
	4,364,638	4,285,063

- 7.1 A greenfield land measuring approximately 168 million square meters has been earmarked for the master development of the KAEC. This includes land measuring approximately 37 million square meters which was 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.

The specific allocation of the 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 3,149 million (2013: SR 3,328 million) has been classified as investment property. No depreciation has been charged as these comprise only freehold land.

Greenfield land includes 24.7 million square meters pledged in favour of Ministry of Finance against a long-term loan of SR 5,000 million (note 14).

Greenfield land measuring 10.5 million square meters has been earmarked for lease to industrial customers.

During the quarter ended December 31, 2014, land and associated cost amounting to SR 28.3 million has been transferred from investment properties to development properties.

During the quarter ended December 31, 2014, properties amounting to SR 329 million were completed and transferred from properties under construction to completed properties.

During the quarter ended December 31, 2014, land and associated cost amounting to SR 22.5 million has been transferred from investment properties to property and equipment.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
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**8. PROPERTY AND EQUIPMENT**

Property and equipment includes capital work in progress amounting to SR 2,799 million (2013: SR 2,027 million), which represents construction costs in respect of the infrastructure and other projects at KAEC.

**9. INVESTMENT IN AN EQUITY ACCOUNTED INVESTEE**

	<u>2014</u> (SR '000)	<u>2013</u> (SR '000)
Investment	2,487,520	235,980
Purchase of shares from other shareholder	117,480	--
Additional capital contribution	--	1,183,300
	2,605,000	1,419,280
Share of profit from equity accounted investee	20,799	1,760
Elimination of share of profit on sale of land and commission income from equity accounted investee	(287,714)	(39,761)
	2,338,085	1,381,279

On Jumada Awal 14, 1431H (corresponding to April 29, 2010), the Port Development Company (PDC), a closed joint stock company was incorporated in the Kingdom of Saudi Arabia, which will be engaged in development, operation and maintenance of the King Abdullah Port at KAEC (the Port).

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

During the year ended December 31, 2012, to contribute a part of the equity funding under the agreement, the Company invested SR 145 million in the form of land, infrastructure and other development cost.

On October 8, 2013 the shareholders of PDC had resolved to increase the shareholdings of the Company to 74% by converting additional capital contribution to equity in PDC. Consequently, the land of SR 200 million contributed as part of equity funding during the period ended March 31, 2013 had been reclassified as receivable from PDC (note 13).

On April 16, 2014 the shareholders of PDC have amended the shareholders agreement of October 8, 2013. As per the revised terms, the Company has purchased 11,748,000 registered shares at par in PDC from other shareholder for a cash consideration of SAR 118 million. Accordingly, the Company's shareholding in PDC has reached to 51%.

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9. INVESTMENT IN AN EQUITY ACCOUNTED INVESTEE (continued)

The Company also invested cash of SR 1,701 million including SR 1,068 million provided during the year ended December 31, 2014. Additional capital contribution also includes SAR 640 million which has been reclassified from loan to an equity accounted investee under the agreement dated October 8, 2013. The legal formalities in respect of conversion of additional capital contribution of SR 2,252 million to equity have been completed on July 17, 2014 that consequently reduced the Company's shareholding in PDC to 50%.

Pursuant to the terms of the revised agreement, the shareholders of PDC have concluded that they have joint control over PDC and hence the management of the Company has reclassified the investment in an associate to "Investment in an equity accounted investee", with no financial impact on interim consolidated balance sheet and statement of income (note 2).

Furthermore, as per terms of the revised agreement, the Company has also provided a corporate guarantee to a commercial bank, amounting to SAR 269 million, limited to its revised shareholding percentage in PDC, to allow PDC to secure Shariah compliant commodity Murabaha facility to partially finance the construction costs of the Port.

10. DEFERRED COST

	<u>2014</u> (SR'000)	<u>2013</u> (SR'000)
Deferred cost	8,787	--
Less: amortisation	<u>1,674</u>	<u>--</u>
	<u>7,113</u>	<u>--</u>

11. ASSETS CLASSIFIED AS HELD FOR DISPOSAL

The Group has identified certain assets amounting to SR 101 million (2013: 101 million) which are to be disposed off in line with the strategic business plans of the Group. Accordingly, these assets are classified as held for disposal. During the year ended December 31, 2014, these assets have been reviewed for impairment and management ascertained that no further impairment is required.

12. ACCOUNTS PAYABLE AND ACCRUALS

	<u>2014</u> (SR'000)	<u>2013</u> (SR'000)
Accounts payable	186,091	213,571
Advance from customers	187,091	104,626
Contract cost accruals	160,935	112,496
Amount to be donated for charitable purposes (note 12.1)	70,983	70,484
Accrued expenses and other payables	139,865	88,355
Amounts due to affiliates (note 13)	2,523	2,517
Retentions payable	78,809	27,441
Zakat payable	<u>57,291</u>	<u>36,960</u>
	<u>883,588</u>	<u>656,450</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
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12. ACCOUNTS PAYABLE AND ACCRUALS (continued)

- 12.1 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.

13. 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 the management.

In addition to the disclosures set out in note 9 significant related party transactions for the period ended December 31, 2014 are described as under:

Related party	Nature of transaction	2014		2013	
		Amount of transaction (SR'000)	Balance receivable/ (payable) (SR'000)	Amount of transaction (SR'000)	Balance receivable/ (payable) (SR'000)
<i>Affiliate</i>	Advances	--	--	17,800	(50,000)
	Sale of Land	760,000	--	200,000	200,000
	Commission income	--	--	11,510	18,151
	Expenses incurred by affiliates on behalf of the Group	6	(349)	--	(343)
	Expenses incurred by Group on behalf of an affiliate	--	89	--	89
	Services provided to the Group	--	(2,174)	--	(2,174)
	Purchase from affiliates	79,327	--	--	--
	Sale of properties	133,659	--	342,167	--
<i>Key management personnel</i>	Remuneration	22,913	(14,737)	8,673	--
	Sale of properties	1,520	35	2,171	--
<i>Board of Directors</i>	Meeting fee	2,525	(2,525)	2,505	--
	Sale of properties	24,430	1,634	9,661	554

14. LONG-TERM LOANS

- 14.1 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 7.1) 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, 2014 also includes accrued commission amounting to SR 381 million (2013: SR 274.8 million).
- 14.2 During the period ended December 31, 2014, the Company has signed an Islamic facility agreement with a commercial bank for SR 2,000 million Murabaha liquidity finance facility that carries commission at commercial rates. As per the terms of the agreement, the loan is repayable in eight bi-annual instalments from June 30, 2018 to December 31, 2021. The loan is secured against the pledge of shares of the Company in PDC and an order note for SR 2,500 million.

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**14. LONG TERM LOANS (continued)**

**14.3** During the period ended December 31, 2014, the Company has signed a facility agreement with a commercial bank for SR 1,000 million that carries commission at commercial rates. As per the terms of the agreement, the loan term is door to door 8 years with 3 years grace period. In order to comply with the Sharia principles, an additional facility of SR 250 million has been arranged by the same bank linked to the first facility, to permit the rollover (repayment and drawdown) so that the full SR 1,000 million is available to the Company for the first 3 years of the loan. The loan is secured against green field land at KAEC and an order note for SR 1,250 million.

**15. DEFERRED CONTRIBUTION**

	<u>2014</u> SR'000	<u>2013</u> SR'000
Balance at January 1	532,252	245,495
Collections during the year	470,486	328,812
Amortisation during the year	<u>(48,856)</u>	<u>(42,055)</u>
Balance at December 31	<u>953,882</u>	<u>532,252</u>

**16. SHARE CAPITAL**

The authorized, issued and fully paid share capital of the Company consists of 850 million shares of SR 10 each (2013: 850 million shares of SR 10 each).

**17. EFFECT OF REDUCING THE OWNERSHIP PERCENTAGE IN SUBSIDIARY**

During 2013, the shareholders of IZDCL resolved to change the effective shareholding interest of the Company in IZDCL to be 98% in line with other group entities. The legal formalities in this respect have been completed during the period ended December 31, 2014. Consequently, the company held 4,950 shares representing 98% (effective) of IZDCL's share capital, compared to its previous shareholding of 100% (effective) of IZDCL's capital, prior to the transaction.

Due to the decrease of the company's shareholding in IZDCL, the company's share in the net asset of IZDCL has decreased and amount equivalent to SR 86,379 was recognized as an un-realised loss under equity.

**18. EARNINGS PER SHARE**

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

Earnings per share on net income attributable to shareholders of the Company are calculated by dividing the net income by the weighted average number of ordinary shares in issue of the Company during the period.

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

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**19. ZAKAT**

**Charge for the period**

The Group has made a provision of SR 26.6 million for the period ended December 31, 2014 (2013: SR 31.1 million).

**Status of assessments**

The Company has filed the Zakat returns up to the year 2013 and obtained restricted Zakat certificates.

The DZIT issued Zakat assessments for the years 2006 to 2008 and claimed additional Zakat and withholding tax differences of SR 90.4 million in addition to delay penalty. The case was transferred to the Higher Appeal Committee (HAC) which requested some additional documents which were provided by the Company. 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 HAC issued a decision supporting the DZIT. The Company will appeal against the HAC decisions at the Bureau of Grievance. The Company is of the view that given a fair review of the assessments, their view may prevail. No provision is made for the additional Zakat and withholding tax liability in these interim condensed financial statements.

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 and submitted the documents supporting the objection. The Company is of the view that given a fair review of the assessments for the years 2009 to 2011, their view may prevail for most of the items under objection. On prudence basis, the Company made a partial provision of SR 26.6 million during 2013.

ECIHC and IZDCL have finalized their Zakat status up to the year 2011 and have also filed the Zakat return for the year 2012 and obtained an unrestricted Zakat certificate. The filing of the zakat return for the year 2013 is in progress.

REOM, REM and RED are incorporated during the year ended December 31, 2013 and were not subject to Zakat. However, these are currently in the process of registration with DZIT.

**20. CONTINGENT LIABILITIES AND COMMITMENTS**

- a) The Group 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 Group may be able to charge to its industrial customers. The financial effect, if any, is not currently practicable to estimate.
- b) The Group had commitments as at December 31, 2014 amounting to SR 2,963 million (2013: SR 1,602 million) related to future capital expenditure for the development of KAEC.

**21. APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

The interim condensed consolidated financial statements were approved and authorised to issue by the Board of Directors on Rabi Al Awwal 29, 1436H, corresponding to January 20, 2014.