

EMAAR THE ECONOMIC CITY
(A Saudi Joint Stock Company)

**UNAUDITED INTERIM CONDENSED
FINANCIAL STATEMENTS**
For the three-month period ended March 31, 2012



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REVIEW REPORT ON THE INTERIM CONDENSED FINANCIAL STATEMENTS

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

Scope of review

We have reviewed the accompanying interim balance sheet of Emaar The Economic City ("the Company") as at March 31, 2012, the related interim statements of income, cash flows and changes in shareholders' equity for the three-month period then ended and the attached notes 1 to 21 which form an integral part of these interim condensed financial statements. These interim condensed financial statements are the responsibility of the Company'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 financial statements based on our review.

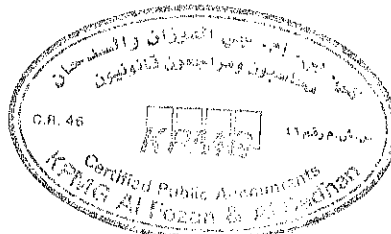
We conducted our review in accordance with the Auditing Standard on Review of Interim Financial Reporting issued by the Saudi Organization for Certified Public Accountants (SOCPA). A review consists principally of applying analytical procedures to financial data and information and making inquiries of 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 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 on Jumada Al Awal 26, 1433H
Corresponding to April 18, 2012

EMAAR THE ECONOMIC CITY
(A Saudi Joint Stock Company)

INTERIM BALANCE SHEET (UNAUDITED)

As at March 31, 2012

	<u>Notes</u>	<u>2012</u> (SR' 000)	<u>2011</u> (SR' 000)
<u>ASSETS</u>			
Current assets:			
Cash and cash equivalents	4	190,342	304,193
Term deposits with banks	5	4,506,139	--
Accounts receivable and other current assets		102,472	105,764
Development properties	6	1,173,876	1,071,651
Loan to a related party	7	5,225	9,500
Amount due from an affiliate	15	2	5,137
Total current assets		<u>5,978,056</u>	<u>1,496,245</u>
Non-current assets:			
Investment property	8	3,606,050	3,393,229
Property and equipment	9	3,594,306	3,613,906
Investment in an associate	10	380,980	145,980
Investment in subsidiaries	11	1,000	1,000
Other investment	12	4,750	4,750
		<u>7,587,086</u>	<u>7,158,865</u>
Assets classified as held for disposal	13	204,148	204,148
Total non-current assets		<u>7,791,234</u>	<u>7,363,013</u>
TOTAL ASSETS		<u>13,769,290</u>	<u>8,859,258</u>
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>			
Current liabilities:			
Accounts payable and accruals	14	1,053,780	1,448,538
Non-current liabilities:			
Long-term loan	16	5,087,199	--
Deferred contribution		167,389	92,712
Long-term provision		28,811	28,811
Employees' end of service benefits		6,459	4,916
Total non-current liabilities		<u>5,289,858</u>	<u>126,439</u>
Total liabilities		<u>6,343,638</u>	<u>1,574,977</u>
Shareholders' equity:			
Share capital	17	8,500,000	8,500,000
Accumulated losses		(1,074,348)	(1,215,719)
Total shareholders' equity		<u>7,425,652</u>	<u>7,284,281</u>
Total liabilities and shareholders' equity		<u>13,769,290</u>	<u>8,859,258</u>

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

EMAAR THE ECONOMIC CITY
(A Saudi Joint Stock Company)

INTERIM STATEMENT OF INCOME (UNAUDITED)

For the three-month period ended March 31, 2012

	<u>Notes</u>	<u>2012</u> (SR'000)	<u>2011</u> (SR'000)
Revenue		142,042	23,771
Cost of revenue		<u>(20,160)</u>	<u>(10,320)</u>
Gross profit		<u>121,882</u>	<u>13,451</u>
Expenses:			
Selling and marketing		(6,015)	(4,419)
General and administration		(36,902)	(35,443)
Depreciation		(10,646)	(11,759)
Maintenance and other costs, net		<u>--</u>	<u>25,639</u>
Total expenses		<u>(53,563)</u>	<u>(25,982)</u>
Profit / (loss) from operations		68,319	(12,531)
Financial charges		(25,374)	--
Commission earned on term deposits with banks		11,843	377
Other income, net		<u>386</u>	<u>71</u>
Income / (loss) before Zakat		55,174	(12,083)
Zakat	19	<u>(10,000)</u>	<u>(1,500)</u>
Net income / (loss)		<u>45,174</u>	<u>(13,583)</u>
Earnings / (loss) per share on profit / (loss) from operations (in SR)	18	<u>0.080</u>	<u>(0.015)</u>
Earnings / (loss) per share on net income / (loss) (in SR)	18	<u>0.053</u>	<u>(0.016)</u>

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

EMAAR THE ECONOMIC CITY
(A Saudi Joint Stock Company)

INTERIM STATEMENT OF CASH FLOWS (UNAUDITED)

For the three-month period ended March 31, 2012

	<u>Note</u>	<u>2012</u> (SR'000)	<u>2011</u> (SR'000)
Operating activities:			
Income / (loss) for the year before Zakat		55,174	(12,083)
Adjustments for:			
Depreciation		10,646	11,759
Employees' end of service benefits, net		974	(167)
Financial charges		25,374	--
Commission earned on term deposits with banks		(11,843)	(377)
Maintenance and other costs, net		--	(25,639)
Changes in operating assets and liabilities:			
Accounts receivable other current assets		(34,607)	9,311
Development properties		(126,046)	33,966
Amount due from an affiliate		21	(518)
Accounts payable and accruals		(68,561)	4,771
Deferred contribution		18,125	7,091
Cash (used in) / from operations		<u>(130,743)</u>	<u>28,114</u>
Zakat paid		<u>(4,229)</u>	<u>--</u>
Net cash (used in) / from operating activities		<u>(134,972)</u>	<u>28,114</u>
Investing activities:			
Purchase of property and equipment		(60,431)	(63,005)
Term deposits with banks		(1,336,527)	--
Commission earned on term deposits with banks		11,843	377
Net movement in loan to a related party		713	--
Investment in subsidiaries		--	(500)
Net cash used in investing activities		<u>(1,384,402)</u>	<u>(63,128)</u>
Decrease in cash and cash equivalents		(1,519,374)	(35,014)
Cash and cash equivalents at the beginning of the period		<u>1,709,716</u>	<u>339,207</u>
Cash and cash equivalents at the end of the period	4	<u><u>190,342</u></u>	<u><u>304,193</u></u>

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

EMAAR THE ECONOMIC CITY
(A Saudi Joint Stock Company)

INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)
For the three-month period ended March 31, 2012

	<u>Share capital</u> (SR'000)	<u>Accumulated losses</u> (SR'000)	<u>Total</u> (SR'000)
Balance at January 1, 2012 - Audited	8,500,000	(1,119,522)	7,380,478
Net income	<u> --</u>	<u> 45,174</u>	<u> 45,174</u>
Balance at March 31, 2012 - Unaudited	<u>8,500,000</u>	<u>(1,074,348)</u>	<u>7,425,652</u>
Balance at January 1, 2011 - Audited	8,500,000	(1,202,136)	7,297,864
Net loss	<u> --</u>	<u> (13,583)</u>	<u> (13,583)</u>
Balance at March 31, 2011 - Unaudited	<u>8,500,000</u>	<u>(1,215,719)</u>	<u>7,284,281</u>

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

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

For the three-month period ended March 31, 2012

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

2. BASIS OF PRESENTATION

The interim condensed 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).

These accompanying interim condensed financial statements are presented in Saudi Arabian Riyals (SR) which is the functional currency. All financial information presented in SR has been rounded to the nearest thousand. When necessary, prior period comparatives have been regrouped or adjusted on a basis consistent with current period classification.

The interim results may not be an indicator of the annual results of the Company. These interim condensed financial statements should be read in conjunction with the annual audited financial statements of the Company for the year ended December 31, 2011.

Accounting convention

The interim condensed 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 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.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

For the three-month period ended March 31, 2012

2. BASIS OF PRESENTATION (continued)

Use of estimates and judgements (continued)

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 follow:

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 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 or physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation charges are adjusted where management believes the useful lives differ from previous estimates.

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. Whenever the carrying amount of these assets exceeds their recoverable amount, an impairment loss is recognized in the 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.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

For the three-month period ended March 31, 2012

2. BASIS OF PRESENTATION (continued)

Use of estimates and judgements (continued)

Impairment of available for sale investments

The Company 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 Company also considers impairment 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 Company 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 Company 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 Company for the preparation of these interim condensed financial statements are consistent with those used for the preparation of the annual financial statements.

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.

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 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 FINANCIAL STATEMENTS (UNAUDITED)

For the three-month period ended March 31, 2012

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 accumulated impairment losses, if applicable.

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 for current and comparative periods are as follow:

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

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

Investment in an associate

An associate is an entity in which the Company 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 interim balance sheet at cost plus post-acquisition changes in the Company's share of net assets of the associate less impairment loss, if any.

Investment in subsidiaries

Subsidiaries are entities in which the Company has, directly or indirectly, a long-term investment comprising an interest of not less than 50% in the voting capital and over which it exerts control. Subsidiaries are consolidated from the date the Company obtains control until such time the control ceases. Subsidiaries which are not operational and/or immaterial to the Company are not consolidated in the interim condensed financial statements.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
For the three-month period ended March 31, 2012

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Other investments (available-for-sale)

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 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 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 Company, 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 and transfer of title of land. The obligation, which is measured with reference to the contributions received, is then reduced and recognised as income over the useful life of the infrastructure assets for the portion that relates to infrastructure assets and as revenue 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 balance sheet date.

Provisions

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

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
For the three-month period ended March 31, 2012

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Segment reporting

In accordance with the requirements of accounting standards generally accepted in the Kingdom of Saudi Arabia, the Company is required to disclose segmental information, however in the opinion of the management, currently providing such information is impracticable and accordingly disclosures have not been made in the interim condensed financial statements. Furthermore, the management believes that the non-disclosures of such information will not affect the decisions of the users of these interim condensed financial statements.

Revenue recognition

Provided it is probable that the economic benefits will flow to the Company and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the interim 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 financial statements, is adequate to demonstrate a commitment to pay for the property;
- c) the Company's receivable is not subject to future subordination;
- d) the Company 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 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.

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 balance sheet date.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

For the three-month period ended March 31, 2012

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Murabaha investments

Income on investments on a Murabaha basis 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 Company. 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 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 statement of income.

Operating leases

Operating lease payments are recognized as an expense in the interim 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 liability is charged to the interim 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 statement of income.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
For the three-month period ended March 31, 2012

4. CASH AND CASH EQUIVALENTS

	<u>2012</u> (SR'000)	<u>2011</u> (SR'000)
Bank balances and cash	90,342	14,871
Short-term murabaha deposits	<u>100,000</u>	<u>289,322</u>
	<u>190,342</u>	<u>304,193</u>

5. TERM DEPOSITS WITH BANKS

Murabaha term deposits with banks amounting to SR 4,506 million (2011: SR Nil) represent funds placed with commercial banks at market rates with original maturities of more than three months.

6. DEVELOPMENT PROPERTIES

Development properties represent costs incurred to-date on projects under progress at KAEC, intended to be sold on completion, 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 176.5 million, (March 31, 2011: SR 244 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.

The Company has rescheduled its accounts receivable amounting to SR 43.3 million (March 31, 2011: SR 616 million) based on revised time period for the completion of the residential projects.

7. LOAN TO A RELATED PARTY

During 2010, the Company signed a Loan Agreement Term Sheet (LATS) for providing a commission free loan of SR 20 million to Cadre The Economic Cities, LLC (Cadre), a company incorporated in the Kingdom of Saudi Arabia and is engaged in providing human resource management services .

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 a commission free loan of 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 installment falling due in April 2013. As the loan is repayable on demand, therefore, it has been classified as a current asset.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

For the three-month period ended March 31, 2012

8. INVESTMENT PROPERTY

A Greenfield Land measuring approximately 168 million square meters close to the industrial city of Rabigh, north of Jeddah, has been earmarked for the master development of the 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 in the Company amounting to SR 1,700 million.

The specific allocation of land to be used by different projects, which could be for sale or rental, within the development has not yet been determined. Therefore, the land and associated costs amounting to SR 3,606 million (March 2011: SR 3,393 million) has been classified as investment property. No depreciation has been charged as the investment property comprises only freehold land.

Investment property includes 24.7 million sqm of the Company's land pledged in favour of Ministry of Finance against a long-term loan of SR 5,000 million.

9. PROPERTY AND EQUIPMENT

Property and equipment includes capital work in progress amounting to SR 3,076 million (March 31, 2011: SR 3,069 million), which represents construction costs in respect of the infrastructure and other projects at KAEC.

10. INVESTMENT IN AN ASSOCIATE

	<u>2012</u> (SR'000)	<u>2011</u> (SR'000)
Investment	235,980	980
Long-term convertible loan	<u>145,000</u>	<u>145,000</u>
	<u>380,980</u>	<u>145,980</u>

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, finance, operation and maintenance of the King Abdullah Port at KAEC (the Port). The port is still 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 Company entered into a Convertible Shareholder Loan Agreement with PDC, whereby the Company has to provide a commission free loan of SR 700 million to PDC, including the existing financing of SR 145 million representing contribution of land, infrastructure and other development cost, convertible to share capital. Accordingly, the Company provided SR 235 million to PDC during the year ended December 31, 2011.

During the three month period ended March 31, 2012, SR 235 million was converted into the share capital of PDC and accordingly, transferred from convertible loan to investment.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

For the three-month period ended March 31, 2012

11. INVESTMENT IN SUBSIDIARIES

During 2010, the Company made an investment in Economic Cities Investments Holding Company (ECIHC), a limited liability Company incorporated in the Kingdom of Saudi Arabia on Dhul Qaada 22, 1431H (corresponding to October 30, 2010), which will be engaged in establishment of companies or purchase of shares in the existing companies, management and operation of industrial areas, roads, buildings, bridges, related infrastructure, educational institutions, research centres, hospitals, hotels, resorts and entertainment facilities; and lease of real estate. The Company has a 99% holding in ECIHC.

During 2011, the Company made an investment in Industrial Zones Development Limited Company (IZDLC), a limited liability Company incorporated in the Kingdom of Saudi Arabia on Jumad Al Awwal 28, 1432H (corresponding to May 2, 2011), which will be engaged in the development, investment, marketing, sale/lease, operation and maintenance of properties in the Industrial Valley at KAEC. The Company has a 99% holding in IZDLC.

Both ECIHC and IZDLC have not yet started their operations, and are immaterial to the overall financial position of the Company. Accordingly, these entities have not been consolidated in the financial statements and the investment in subsidiaries is stated at cost.

12. 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 Company 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. Accordingly, as the Company will not participate in the management of Cadre and has no longer control over Cadre, the investment is not consolidated and classified as an available-for-sale investment, disclosed as other investments, and carried at cost which is considered as the fair value.

13. ASSETS CLASSIFIED AS HELD FOR DISPOSAL

During 2010, the Company identified certain assets, having a carrying amount of SR 406 million, which are to be disposed off in line with the strategic business plan of the Company. Accordingly, these assets are classified as held for disposal. These assets were reviewed for impairment which indicated that the carrying amount of these assets was higher than its fair value less costs to sell. Therefore, an impairment loss of SR 207 million was recognized in the year ended 31 December 2010.

At the period ended March 31, 2012, these assets were reviewed for impairment and the management concluded that no additional impairment is required.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

For the three-month period ended March 31, 2012

14. ACCOUNTS PAYABLE AND ACCRUALS

	<u>2012</u> (SR'000)	<u>2011</u> (SR'000)
Accounts payable	511,622	670,455
Contract cost accruals	159,005	343,961
Retentions payable	158,615	217,395
Amount to be donated for charitable purposes (note 14.1)	74,971	74,253
Anticipated losses on projects	73,154	77,488
Advance from customers	30,114	730
Accrued expenses and other payables	26,660	50,444
Zakat payable	17,122	11,443
Amounts due to affiliates (note 15)	2,517	2,369
	<u>1,053,780</u>	<u>1,448,538</u>

14.1 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 added to the amount to be donated for charitable purposes.

15. RELATED PARTY TRANSACTIONS AND BALANCES

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

In addition to the disclosures set out in notes 7, 10 and 11 and 12, related party transactions for the period ended March 31, 2012 and balances arising there from are described as under:

<u>Related party</u>	<u>Nature of transaction</u>	<u>2012</u>		<u>2011</u>	
		<u>Amount of transaction</u> (SR'000)	<u>Balance receivable/ payable</u> (SR'000)	<u>Amount of transaction</u> (SR'000)	<u>Balance receivable/ payable</u> (SR'000)
<i>Affiliates</i>	Payments made and expenses incurred by affiliates on behalf of the Company	--	(343)	--	(192)
	Payments made and expenses incurred by Company on behalf of an affiliate	2	2	518	5,137
	Services provided to the Company	--	(2,174)	--	(2,174)
<i>Key management personnel</i>	Remuneration	1,373	--	1,589	--

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

For the three-month period ended March 31, 2012

16. 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 Company's land (note 8) 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 March 31, 2012 also includes accrued commission amounting to SR 87.2 million.

17. SHARE CAPITAL

The authorized, issued and fully paid share capital of the Company consists of 850 million shares of SR 10 each (March 31, 2011: 850 million shares of SR 10 each).

18. EARNINGS / (LOSS) PER SHARE

Earnings / (loss) per share on profit / (loss) from operations is calculated by dividing the profit / (loss) from operations by the weighted average number of ordinary shares in issue during the period.

Earnings / (loss) per share on net income / (loss) is calculated by dividing the net income / (loss) by the weighted average number of ordinary shares in issue during the period.

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

19. ZAKAT

Charge for the year

The Company has made a provision of SR 10 million for the period ended March 31, 2012 (March 31, 2011: SR 1.5 million).

Status of assessments

Zakat assessments for the period ended December 31, 2006 and for the years ended December 31, 2007 and 2008 have been raised by the Department of Zakat and Income Tax (DZIT) with an additional Zakat of SR 86.4 million and additional withholding tax of SR 4 million, together with delay fine at 1% for each 30 days of delay until the time the additional liability is settled. The Company has filed an appeal against the Preliminary Appeal Committee's (PAC) decision with the Appellate Committee for Tax and Zakat Appeal (ACTZA). In compliance of the appeal procedures and without admitting the liability, the Company has submitted a bank guarantee for SR 88.7 million comprising of additional assessed Zakat of SR 86.4 million and estimated delay fine of SR 2.3 million and paid "under protest" additional withholding tax of SR 4 million. The Company is of the view that given a fair hearing of the case, their view should prevail. No provision is made for the additional Zakat and withholding tax liability in these interim condensed financial statements.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

For the three-month period ended March 31, 2012

19. ZAKAT (continued)

Status of assessments (continued)

During 2011, the DZIT has issued an initial assessment for the year ended December 31, 2010 disallowing investments from the Zakat base with an additional Zakat of SR 5.5 million. The Company filed an appeal against DZIT's initial assessment.

Final Zakat assessments for the years ended December 31, 2009, December 31, 2010 and December 31, 2011 have not yet been raised by the DZIT

20. 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) The Company had commitments as at March 31, 2012, amounting to SR 1,526 million (March 31, 2011: SR 1,574 million) related to future capital expenditure for the development of KAEC.
- d) The Company has signed a loan agreement with PDC in connection with the Shareholders agreement whereby, the Company will provide SR 1,000 million commission based loan to PDC, which was approved in the Annual General Meeting held on March 31, 2012. No disbursement have been made during the period.

21. APPROVAL OF THE INTERIM CONDENSED FINANCIAL STATEMENTS

The interim condensed financial statements were authorised to issue by the Board of Directors on April 18, 2012.