EMAAR THE ECONOMIC CITY
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2016

Building a better working world

Ernst & Young & Co. (Public Accountants)
13th Floor – King's Road Tower
PO Box 1994
King Abdulaziz Road (Malek Road)
Jeddah 21441
Saudi Arabia
Registration Number: 45

Tel: +966 12 221 8400
Fax: +966 12 221 8575

www.ey.com

AUDITORS' REPORT TO THE SHAREHOLDERS OF EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)

Scope of Audit

We have audited the accompanying consolidated balance sheet of Emaar The Economic City - A Saudi Joint Stock Company - ("the Company" or "the Parent Company") and its subsidiaries ("the Group") as at 31 December 2016, and the related consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended. These consolidated financial statements are the responsibility of the Company's management and have been prepared by them in accordance with the requirements of the Regulations for Companies and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable degree of assurance to enable us to express an opinion on the consolidated financial statements.

Unqualified opinion

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

i) present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016 and the consolidated results of its operations and its cash flows for the year then ended in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.

ii) comply with the requirements of the Regulations for Companies and the Company's Bylaws in so far as they effect the preparation and presentation of the consolidated financial statements.

for Ernst & Young

Ahmed I. Reda
Certified Public Accountant
Licence No. 356

14 Jumada II 1438H
13 March 2017

Jeddah

16/349/AIR

Emaar The Economic City (A Saudi Joint Stock Company)

CONSOLIDATED BALANCE SHEET

At 31 December 2016

	Note	2016 SR'000	2015 SR'000
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	4	1,177,396	1,898,851
Murabaha term deposits with banks	5	997,000	1,012,979
Accounts receivable and other current assets	6	578,367	358,322
Development properties	7	1,549,948	1,575,841
Current portion of employees' receivable - Home Ownership Scheme	11	4,121	2,126
TOTAL CURRENT ASSETS		4,306,832	4,848,119
NON-CURRENT ASSETS			
Investment properties	8	4,997,076	5,217,389
Property and equipment	9	7,035,435	5,495,223
Investment in equity accounted investees	10	2,389,458	2,345,651
Employees' receivable - Home Ownership Scheme	11	69,774	34,530
Other long term receivable	26(b)	48,119	-
Deferred costs	12	4,602	5,857
TOTAL NON-CURRENT ASSETS		14,544,464	13,098,650
Assets classified as held for disposal	13	-	90,891
TOTAL ASSETS		18,851,296	18,037,660
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITY			
Accounts payable and accruals	14	1,170,158	895,061
NON-CURRENT LIABILITIES			
Long term loans	15	7,500,000	7,100,000
Deferred contribution	16	1,523,924	1,496,629
Employees' terminal benefits	17	32,105	23,117
Unearned interest income - Home Ownership Scheme	11	14,336	6,158
TOTAL NON-CURRENT LIABILITIES		9,070,365	8,625,904
TOTAL LIABILITIES		10,240,523	9,520,965
SHAREHOLDERS' EQUITY			
Share capital	19	8,500,000	8,500,000
Statutory reserve	20	11,536	1,869
Retained earnings		103,826	16,820
Effect of reducing the ownership percentage in a subsidiary	21	(86)	(86)
Total equity attributable to the shareholders of the Parent Company		8,615,276	8,518,603
Non-controlling interests		(4,503)	(1,908)
TOTAL SHAREHOLDERS' EQUITY		8,610,773	8,516,695
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		18,851,296	18,037,660

The attached notes 1 to 36 form part of these consolidated financial statements.

Emaar The Economic City (A Saudi Joint Stock Company)
CONSOLIDATED STATEMENT OF INCOME
Year ended 31 December 2016

	Note	2016 SR'000	2015 SR'000
Revenue	23	1,139,827	1,022,957
Cost of revenue		(672,909)	(456,184)
GROSS PROFIT		466,918	566,773
(EXPENSES) / INCOME			
Selling and marketing	24	(121,687)	(89,746)
General and administration	25	(288,001)	(193,570)
Impairment loss	13 & 9	(44,016)	(15,803)
Land contribution, net	8(c) & (d)	-	84,237
Depreciation, net	9(a)	(56,689)	(32,289)
Amortisation	12	(1,255)	(1,256)
(LOSS) / INCOME FROM MAIN OPERATIONS		(44,730)	318,346
OTHER INCOME / (EXPENSES)			
Financial charges		(82,017)	(46,417)
Share of results of equity accounted investees	10	(1,983)	7,566
Murabaha deposit income		51,332	21,868
Other income	26	191,476	28,523
INCOME BEFORE ZAKAT AND NON-CONTROLLING INTERESTS		114,078	329,886
Zakat	18	(20,000)	(28,584)
INCOME BEFORE NON-CONTROLLING INTERESTS		94,078	301,302
Loss attributable to non-controlling interests		2,595	1,415
NET INCOME FOR THE YEAR		96,673	302,717
(LOSS) / EARNINGS PER SHARE			
Weighted average number of ordinary shares outstanding (in thousand)		850,000	850,000
(Loss) / earnings per share on (loss) / income from main operations (in SR per share)	27	(0.05)	0.37
Earnings per share on net income for the year (in SR per share)	27	0.11	0.36

The attached notes 1 to 36 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
Year ended 31 December 2016

	Note	2016 SR'000	2015 SR'000
OPERATING ACTIVITIES			
Income before zakat and non-controlling interests		114,078	329,886
Adjustments for:			
Depreciation	8 & 9(a)	130,156	88,738
Impairment loss	13 & 9	44,016	15,803
Amortisation	12	1,255	1,256
Provision for employees' terminal benefits	17	10,648	6,851
Financial charges		82,017	46,417
Share of results of equity accounted investees	10(a)	1,983	(7,566)
Murabaha deposit income		(51,332)	(21,868)
Land contribution	8(c) & (d)	-	(84,237)
Unwinding of unearned interest income – Home Ownership Scheme		(1,326)	(984)
Employee benefit expense – Home Ownership Scheme		14,288	3,914
Allowance for doubtful debts	6(b)	18,545	9,915
Loss on disposal of property and equipment		296	-
Profit elimination on sale of land to an equity accounted investee	10(b)	8,165	-
		372,789	388,125
Changes in operating assets and liabilities:			
Accounts receivable and other assets		(292,344)	(137,297)
Development properties		79,922	(240,978)
Accounts payable and accruals		228,740	(41,439)
Employees' receivable – Home Ownership Scheme		21,771	(36,656)
Cash from / (used in) operations		410,878	(68,245)
Net movement in deferred contribution		105,418	595,140
Financial charges paid		(191,253)	(463,102)
Employees' terminal benefits paid	17	(1,660)	(724)
Zakat paid	18	(20,944)	(55,612)
Net cash from operating activities		302,439	7,457
INVESTING ACTIVITIES			
Purchase of property and equipment	9	(1,443,334)	(1,301,264)
Net movement in murabaha term deposits with banks		15,979	(140,294)
Murabaha deposit income		53,052	20,330
Net movement in investment properties		(43,415)	(50,322)
Investment in an equity accounted investee	10(b)	(53,955)	-
Proceeds from disposal of property and equipment		904	-
Proceeds from sale of assets classified as held for disposal		46,875	-
Net cash used in investing activities		(1,423,894)	(1,471,550)
FINANCING ACTIVITY			
Net movement in long term loans		400,000	1,350,000
Net cash from financing activity		400,000	1,350,000
DECREASE IN CASH AND CASH EQUIVALENTS		(721,455)	(114,093)
Cash and cash equivalents at the beginning of the year	4	1,898,851	2,012,944
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	4	1,177,396	1,898,851

MAJOR NON- CASH TRANSACTIONS

Major non-cash transactions are reflected in note 7, note 8 and note 9.

The attached notes 1 to 36 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
Year ended 31 December 2016

EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT COMPANY

	Share capital SR'000	*Statutory reserve SR'000*	*(Accumulated losses) / retained earnings SR'000*	*Effect of reducing ownership percentage in a subsidiary SR'000*	*Total SR'000*
Balance at 31 December 2014	8,500,000	-	(284,028)	(86)	8,215,886
Net income for the year	-	-	302,717	-	302,717
Transfer to statutory reserve	-	1,869	(1,869)	-	-
Balance at 31 December 2015	8,500,000	1,869	16,820	(86)	8,518,603
Net income for the year	-	-	96,673	-	96,673
Transfer to statutory reserve	-	9,667	(9,667)	-	-
Balance at 31 December 2016	**8,500,000**	**11,536**	**103,826**	**(86)**	**8,615,276**

The attached notes 1 to 36 form part of these consolidated financial statements.

1 ACTIVITIES

Emaar The Economic City ("the Company" or "the Parent Company") is a Saudi Joint Stock Company incorporated and operating in the Kingdom of Saudi Arabia under Ministerial Decision No. 2533, dated 3 Ramadan 1427H, corresponding to 21 September 2006. The Company obtained its initial Commercial Registration No. 4030164269 on 8 Ramadan 1427H, corresponding to 26 September 2006. The registered office of the Parent Company has been shifted to Rabigh with a revised Commercial Registration No. 4602005884, dated 6 Rabi'I 1436H, corresponding to 28 December 2014.

The Parent Company is engaged in the development of real estate in the economic and 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, and construction on behalf of other parties. The main activity of the Company is the development of the King Abdullah Economic City ("KAEC").

2 BASIS OF PREPARATION AND CONSOLIDATION

2.1 BASIS OF PREPARATION

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries (hereinafter referred to together as the "Group"). All material inter-group transactions and balances have been eliminated on consolidation.

The consolidated financial statements are expressed in Saudi Riyals, being the functional currency of the Parent Company and have been rounded off to the nearest thousand Saudi Riyals, except when otherwise specified.

2.2 BASIS OF CONSOLIDATION

The Company has investments in the following subsidiaries, which are primarily involved in development, investments, marketing, sale/lease, operations and maintenance of properties, providing higher education and establishment of companies:

Name	*Country of incorporation*	*Year of incorporation*	*% of capital held (directly or indirectly)*	
			2016	2015
Economic Cities Investments Holding Company ("ECIHC")	Saudi Arabia	2010	**99%**	99%
Industrial Zones Development Company Limited ("IZDCL")	Saudi Arabia	2011	**98%**	98%
Economic Cities Real Estate Properties Operation and Management Company Limited ("REOM")	Saudi Arabia	2013	**98%**	98%
Economic Cities Pioneer Real Estate Management Company Limited ("REM")	Saudi Arabia	2013	**98%**	98%
Economic Cities Real Estate Development Company Limited ("RED")	Saudi Arabia	2013	**98%**	98%
Emaar Knowledge Company Limited ("EKC") (see note below)	Saudi Arabia	2015	**100%**	100%

During the year ended 31 December 2015, the Parent Company invested SR 9.6 million that represents 96% of the capital of EKC. The balance 4% is owned by subsidiaries of the Parent Company.

2 BASIS OF PREPARATION AND CONSOLIDATION (continued)

2.2 BASIS OF CONSOLIDATION (continued)

Subsidiary
Subsidiary is a company in which the Group has, directly or indirectly, long term investment comprising an interest of more than 50% in the voting capital or over which it exerts control. Subsidiaries are consolidated from the date the Group obtains control until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company, using consistent accounting policies. All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full on consolidation.

Non-controlling interests represent the portion of profit or loss and net assets that are not held by the Group and are presented separately in the consolidated statement of income and within equity in the consolidated balance sheet, separately from the Parent Company’s shareholders' equity.

3 SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.

The significant accounting policies adopted are as follows:

Accounting convention
The consolidated financial statements have been prepared under the historical cost convention on the accrual basis of accounting, modified by the adjustment for arriving at the net present value of the Employees' receivable - Home Ownership Scheme and to include the measurement at fair value of assets classified as held for disposal.

Use of estimates
The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period.

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.

Murabaha term deposits with banks
Murabaha term deposits with banks include placements with banks with original maturities of more than three months and less than one year from the placement date. Income on Murabaha term deposits with banks is recognised on an effective yield basis.

Accounts receivable
Accounts receivable are stated at original invoice amount less provision for any uncollectible amounts. An estimate for doubtful accounts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred. Any subsequent recoveries of amounts previously written-off are credited in the consolidated statement of income.

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.

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 any. 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. 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 carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

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

Capital work-in-progress
Capital work-in-progress is measured at cost less impairment losses, if any, and not depreciated until such time the assets are ready for intended use and transferred to the respective category under property and equipment.

Borrowing costs
Borrowing costs that are directly attributable to the construction of an asset are capitalised using capitalisation rate up to the stage when substantially all the activities necessary to prepare the qualifying asset for its intended use are completed and, thereafter, such costs are charged to the consolidated statement of income. In case of specific borrowings, all such costs, directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale, are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Impairment

Financial assets
An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, impairment loss, if any, is recognised in the consolidated statement of income.

Non-current assets
At each balance sheet date, the Group assesses whether there are any indications, internal or external, of impairment in the value of non-current assets. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. The recoverable amount of an asset is the higher of its value in use and fair value less cost to sell.

A non-current asset is considered impaired if its carrying amount is higher than its recoverable amount. To determine impairment, the Group compares the non-current asset's carrying amount with the undiscounted estimated cash flow from the asset's use. If the carrying amount exceeds the undiscounted cash flow from the asset, the Group estimates the present value of the estimated future cash flows from the asset. The excess of the carrying amount over the present value of the estimated future cash flows from the assets is considered an impairment loss.

An impairment loss is recognized immediately in the consolidated statement of income. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in the prior years. A reversal of an impairment loss is recognized immediately in the consolidated statement of income.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in an equity accounted investee
The Group's investment in an 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 consolidated balance sheet at cost plus post-acquisition changes in the Group’s share of net assets of the equity accounted investee less dividend and impairment loss, if any.

Where there has been a change recognised directly in the equity of the equity accounted investee, the Group recognises its share of any change and discloses this, when applicable, in the consolidated statement of changes in shareholder’s equity. Unrealised profits and losses resulting from transactions between the Group and the equity accounted investee are eliminated to the extent of interest in an equity accounted investee.

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.

The financial statements of the equity accounted investee are prepared for the same period as the Parent Company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

Employee Home Ownership Scheme
In accordance with the Group's policy, the Group sells the built units to employees under interest free finance lease arrangement for a period of twenty years. The employee is entitled to continue in the scheme, even after retirement / resignation or termination from the Company. The gross value of the lease payments is recognized as a receivable under employee home ownership scheme. The difference between the gross receivable and the present value of the receivable is recognized as an unearned interest income with a corresponding impact in the consolidated statement of income as an employee benefit expense. Interest income is recognized in the consolidated statement of income over the term of the lease using the effective rate of interest. In case of cancellation of the employee home ownership contract by the employee, the amount paid by the employee under the scheme is forfeited and recognized in the consolidated statement of income.

Deferred Costs
Deferred costs includes pre-operating expenses having future economic benefits. Such costs are amortized using straight-line method over the related economic benefit periods not exceeding seven years.

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

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 for goods and services received, whether or not billed to the Group.

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 may be measured reliably.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Zakat
Zakat is provided for in accordance with Saudi Arabian fiscal regulations. The provision is charged to the consolidated statement of income. Additional amounts, if any, that may become due on finalization of an assessment are accounted for in the year in which assessment is finalized.

The Group withholds taxes on certain transactions with non-resident parties in the Kingdom of Saudi Arabia as required under Saudi Arabian income tax law.

Deferred contribution
Deferred contribution represents amounts received from customers in respect of infrastructure assets, 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 the contributions that relates to the land is recognised as revenue upon transfer of land title.

Employees' terminal benefits
Provision is made for amounts payable under the Saudi Arabian labour law applicable to employees' accumulated years of service at the consolidated balance sheet date. The liability is calculated at the current value of the vested benefits to which the employee is entitled, should his services be terminated at the consolidated balance sheet date.

Revenue recognition
Revenue represents fair value of the consideration received or the contractually defined terms of payment. Revenue is recognized when it is probable that the economic benefits will flow to the Group, the cost incurred to date and expected future costs are identifiable and can be measured reliably and the amount of revenue can be measured reliably. The specific recognition criteria described below must also be met before the revenue is recognized.

Sale of property
Revenue on sale of plots of land is recognized 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:

i) 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;
ii) construction is beyond a preliminary stage. The engineering, design work, construction contract execution, site clearance and building foundation are finished;
iii) the buyer is committed; the buyer is unable to claim a refund except for non-delivery of the unit; and
iv) the aggregate sales proceeds and costs can be reasonably estimated.

Rental income
Rental income from investment properties is accounted for on a straight-line basis over the lease term.

Service revenue
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 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 an accrual basis when the services are rendered.

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Costs of revenue
Costs of revenue includes the cost of land, development and other service related costs, including cost of construction.

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

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

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

Foreign currency transactions
Foreign currency transactions are translated into Saudi Riyals using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses, resulting from the settlement of such transactions and from the translation at the period-end exchange rates of monetary assets and liabilities, denominated in foreign currencies, are recognized in the consolidated statement of income.

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

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 recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expense is not offset in the consolidated statement of income unless required or permitted by the generally accepted accounting principles in the Kingdom of Saudi Arabia.

Expenses
Selling and distribution expenses are those that specifically relate to selling and marketing activities of the Group. All other expenses, except for cost of sales and financial charges, are considered as general and administrative expenses and are classified as such.

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

Segment reporting
A segment is a distinguishable component of the Group that is engaged either in providing products or services (a business segment) or in providing products or services within a particular economic environment (a geographic segment), which is subject to risks and rewards that are different from those of other segments.

4 CASH AND CASH EQUIVALENTS

	2016	*2015*
	SR'000	*SR'000*
Cash and bank balances	**186,613**	804,951
Short-term Murabaha deposits (see note below and note 5)	**990,783**	1,093,900
	1,177,396	1,898,851

Short-term deposits are placed with commercial banks and yield commission at prevailing market rates.

5 MURABAHA TERM DEPOSITS WITH BANKS

	2016	*2015*
	SR'000	*SR'000*
Murabaha deposits	**1,987,783**	2,106,879
Short-term Murabaha deposits (note 4)	**(990,783)**	(1,093,900)
	997,000	1,012,979

6 ACCOUNTS RECEIVABLE AND OTHER CURRENT ASSETS

	2016	*2015*
	SR'000	*SR'000*
Gross accounts receivable	**501,498**	304,670
Less: Allowance for doubtful debts (see notes below)	**(31,479)**	(12,934)
	470,019	291,736
Prepayments	**12,336**	12,085
Advances to suppliers	**25,170**	9,422
Commission receivable on Murabaha term deposits	**3,006**	4,726
Amounts due from related parties (note 22)	**5,650**	5,052
Other current assets	**62,186**	35,301
	578,367	358,322

a) As at 31 December 2016, accounts receivable at nominal value of SR 31.5 million (2015: SR 12.9 million) were impaired. The unimpaired accounts receivables include SR 148 million (2015: SR 79.74 million) which are past due, more than normal collection cycle, but not impaired. Unimpaired receivables are expected, on the basis of past experience, to be fully recoverable. Accounts receivable are secured by promissory notes and bank guarantees, wherever applicable.

b) Movements in the allowance for doubtful debts is as follows:

	2016	*2015*
	SR'000	*SR'000*
At the beginning of the year	**12,934**	3,019
Provision for the year (note 24)	**18,545**	9,915
At the end of the year	**31,479**	12,934

7 DEVELOPMENT PROPERTIES

	2016 SR'000	*2015 SR'000*
Costs incurred to date	**3,593,574**	3,038,386
Properties under construction transferred to investment properties (note 8(a))	**(566,263)**	(718,782)
Properties completed transferred to investment properties (note 8(a))	**(646,005)**	(563,085)
Transfer to property and equipment (note 9)	-	(179)
Transfer from investment properties, net (note 8(e))	**25**	60,178
	2,381,331	1,816,518
Attributable profit	**3,445,953**	2,955,884
Progress billings	**(4,273,497)**	(3,192,682)
Provision for development properties	**(3,839)**	(3,879)
	1,549,948	1,575,841

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 517 million (2015: SR 516 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.

8 INVESTMENT PROPERTIES

a) The investment properties include the following:

	2016 SR'000	*2015 SR'000*
Greenfield land and associated cost (see note below)	**3,035,493**	3,035,931
Properties under construction:		
At the beginning of the year	**718,782**	679,335
Costs incurred during the year	**43,364**	39,447
Transfer to development properties	**(195,883)**	-
Transfer from development properties (note 7)	**566,263**	718,782
Transfer from property and equipment (note 9)	**451,801**	569,389
At the end of the year	**1,018,064**	1,288,171
Properties completed:		
At the beginning of the year	**563,085**	552,114
Transfer from development properties	**82,920**	10,971
Transfer from development properties (note 7)	**646,005**	563,085
Transfer from property and equipment (note 9)	**366,458**	366,458
Accumulated depreciation	**(68,944)**	(36,256)
	943,519	893,287
	4,997,076	5,217,389

8 INVESTMENT PROPERTIES (continued)

b) 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 (note 19). 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 3,035 million (2015: SR 3,036 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 15(a)). Loans obtained from commercial banks are also secured against KAEC Greenfield land. However, legal formalities pertaining to security of such additional borrowings are in progress (note 15(b)). Greenfield land measuring 13.34 million square meters has been earmarked for lease to industrial customers.

c) During the year ended 31 December 2015, the Board of Directors of the Company resolved, and thereafter approved by the General Assembly of the Company, to provide a free of cost land, amounting to SAR 4.3 million, measuring 0.3 million square meters to Technical and Vocational Training Centre.

d) During the year ended 31 December 2013, the Board of Directors of the Company had resolved to provide a land, amounting to SAR 88.5 million, to a Government body free of cost for the development of automotive cluster in KAEC. However, during the year ended 31 December 2015, the automotive cluster project was relocated and will no longer be hosted in KAEC. Consequently, the land provided has been recorded during the year ended 31 December 2015, and will be used by the Group in its future projects.

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

	2016	*2015*
	SR'000	*SR'000*
At the beginning of the year	**3,035,931**	3,148,733
Transfer to development properties upon change in use (note 7)	**(375)**	(60,178)
Transfer to property and equipment (note 9)	**(413)**	(136,861)
Land contribution	**-**	84,237
Transfer from development properties (note 7)	**350**	-
At the end of the year	**3,035,493**	3,035,931

9 PROPERTY AND EQUIPMENT

	Freehold land SR'000	*Buildings SR'000*	*Leasehold improvements SR'000*	*Heavy equipment & machinery SR'000*	*Furniture and fixtures SR'000*	*Office equipment SR'000*	*Motor vehicles SR'000*	*Infrastructure assets SR'000*	*Capital work in progress SR'000*	***Total 2016 SR'000***	*Total 2015 SR'000*
Cost:											
At the beginning of the year	77,173	929,744	32,149	28,233	48,319	96,156	4,493	2,029,898	2,770,882	**6,017,047**	5,410,515
Additions	-	780	11,268	512	3,096	16,638	4,485	414	1,406,141	**1,443,334**	1,301,264
Transfer from investment properties (note 8(a) & 8(e))	413	-	-	-	-	-	-	-	117,588	**118,001**	136,861
Transfer to investment properties (note 8(a))	-	-	-	-	-	-	-	-	-	-	(935,847)
Transfers from development properties (note 7)	-	-	-	-	-	-	-	-	-	-	179
Borrowing cost	-	-	-	-	-	-	-	-	155,668	**155,668**	109,658
Transfers	-	48,404	73,470	10,373	35,112	12,779	351	656,906	(837,395)	-	-
Impairment	-	-	-	-	-	-	-	-	-	-	(5,450)
Disposal	-	(2,857)	-	-	-	-	-	-	-	**(2,857)**	(133)
At the end of the year	77,586	976,071	116,887	39,118	86,527	125,573	9,329	2,687,218	3,612,884	**7,731,193**	6,017,047
Depreciation:											
At the beginning of the year	-	175,912	25,265	16,389	29,083	68,204	3,611	203,360	-	**521,824**	398,147
Charge for the year	-	31,797	6,981	3,229	16,009	21,388	1,266	94,921	-	**175,591**	123,778
Relating to disposals	-	(1,657)	-	-	-	-	-	-	-	**(1,657)**	(101)
At the end of the year	-	206,052	32,246	19,618	45,092	89,592	4,877	298,281	-	**695,758**	521,824
Net book value amounts:											
At 31 December 2016	**77,586**	**770,019**	**84,641**	**19,500**	**41,435**	**35,981**	**4,452**	**2,388,937**	**3,612,884**	**7,035,435**	
At 31 December 2015	77,173	753,832	6,884	11,844	19,236	27,952	882	1,826,538	2,770,882		5,495,223

9 PROPERTY AND EQUIPMENT (continued)

a) Depreciation charge for the year has been allocated as follows:

	2016	*2015*
	SR'000	*SR'000*
Charged during the year	**175,591**	123,778
Amortisation of deferred contribution (note 16)	**(78,123)**	(55,752)
	97,468	68,026
Charged to cost of revenue	**(40,779)**	(35,737)
	56,689	32,289

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

c) Capital work in progress includes advances against services, amounting to SR 6.06 million (2015: SR 2.49 million), paid to an affiliate (note 22).

d) Freehold land includes land, amounting to SR 74 million (2015: SR 74 million), related to infrastructure assets.

10 INVESTMENT IN EQUITY ACCOUNTED INVESTEES

	2016	*2015*
	SR'000	*SR'000*
Investment in Port Development Company ("PDC") (see note (a) below)	**2,343,668**	2,345,651
Investment in Biyoutat Progressive Company for Real Estate Investment & Development ("Biyoutat") (see note (b) below)	**45,790**	-
	2,389,458	2,345,651

a) Investment in PDC

On 14 Jumada Awal 1431H (corresponding to 29 April 2010), PDC, a Closed Joint Stock Company, was incorporated in the Kingdom of Saudi Arabia, which is engaged in development, operation and maintenance of the King Abdullah Port at KAEC (the Port). 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 the agreement, the Company's shareholding in PDC was agreed to be 34%.

In 2012, to contribute a part of the equity funding under the agreement, the Parent Company invested SR 145 million in the form of land, infrastructure and other development cost.

On 8 October 2013, the shareholders of PDC resolved to increase the shareholding of the Parent Company to 74%. The shareholders further amended the agreement on 16 April 2014, reducing the shareholding of the Parent Company in PDC to 51%. On 17 July 2014, the shareholders of PDC amended the agreement, reducing the shareholding of Parent Company 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 classified the investment as "Investment in an equity accounted investee".

The Company has provided a corporate guarantee along with promissory notes to a commercial bank, limited to SR 1,350 million plus any murabaha profits due to be paid by the PDC (2015: SR 769 million), to allow PDC to secure Shariah compliant Murabaha facility to partially finance the construction costs of the Port. Moreover, the subject loan is also secured by pledge of the shares of the Company in PDC.

10 INVESTMENT IN EQUITY ACCOUNTED INVESTEES (continued)

a) Investment in PDC (continued)

The movement in the investment in PDC during the year is as follows:

	2016 SR'000	*2015 SR'000*
Investment	**2,487,520**	2,487,520
Purchase of shares from other shareholders	**117,480**	117,480
	2,605,000	2,605,000
Share of results of an equity accounted investee		
At 1 January	**28,365**	20,799
Share of results for the year	**(1,983)**	7,566
At 31 December	**26,382**	28,365
Elimination of share of profit on sale of land and commission income from an equity accounted investee	**(287,714)**	(287,714)
	2,343,668	2,345,651

b) Investment in Biyoutat

During the year ended 31 December 2016, the Company has entered into an arrangement with an entity owned by a Saudi local group to incorporate a new entity, namely Biyoutat, a Limited Liability Company, to build, own and manage a residential compound at KAEC.

The Company owns 20% shares in the share capital of Biyoutat. As per the Partners' agreement, the Company has also made an additional investment of SR 54 million for the development of the project. Furthermore, during the year, the Company has sold a piece of land to Biyoutat, amounting to SR 54 million.

The movement in the investment in Biyoutat during the year is as follows:

	2016 SR'000	*2015 SR'000*
Initial investment	**200**	-
Additional investment	**53,755**	-
Elimination of share of profit on sale of land	**(8,165)**	-
	45,790	-

11 EMPLOYEES' RECEIVABLE – HOME OWNERSHIP SCHEME

In accordance with the Group's policy, until 31 December 2016, the Group used to sell built units to eligible employees under interest free finance lease arrangement for a period of twenty years. The gross value of the lease payments is recognized as a receivable under employee home ownership scheme. The difference between the gross receivable and the present value of the receivable is recognized as an unearned interest income.

	2016 SR'000	*2015 SR'000*	***2016 SR'000***	*2015 SR'000*	***2016 SR'000***	*2015 SR'000*
	Gross receivable		***Present value of gross receivable***		***Unearned interest income***	
Current portion	**4,121**	2,126	**2,564**	1,438	**1,557**	688
Non-current portion:						
One to five years	**16,483**	8,502	**10,983**	6,094	**5,500**	2,408
Over five years	**53,291**	26,028	**44,455**	22,278	**8,836**	3,750
	69,774	34,530	**55,438**	28,372	**14,336**	6,158
	73,895	36,656	**58,002**	29,810	**15,893**	6,846

12 DEFERRED COSTS

	2016 SR'000	*2015 SR'000*
Deferred costs	**8,787**	8,787
Less: Amortisation (see note below)	**(4,185)**	(2,930)
	4,602	5,857

The movement in amortisation is as follows:

	2016 SR'000	*2015 SR'000*
At the beginning of the year	**2,930**	1,674
Amortised during the year	**1,255**	1,256
At the end of the year	**4,185**	2,930

13 ASSETS CLASSIFIED AS HELD FOR DISPOSAL

In previous years, the Group identified certain assets, which were to be disposed off in line with the strategic business plans of the Group. Accordingly, these assets were classified as held for disposal. During the year, these assets have been reviewed for impairment. Based on this review, an impairment of SR 44 million (2015: SR 10.40 million) has been recognised in the consolidated statement of income. Furthermore, during the year, these assets were completely disposed off at their carrying amounts, resulting in no gain or loss.

14 ACCOUNTS PAYABLE AND ACCRUALS

	2016	*2015*
	SR'000	*SR'000*
Trade accounts payable	**113,996**	101,993
Retentions payable	**225,168**	189,539
Amounts due to related parties (note 22)	**29,916**	29,413
Amounts to be donated for charitable purposes (see note below)	**60,374**	66,756
Advances from customers	**87,953**	207,053
Accrued expenses and other payables	**125,314**	103,228
Contract cost accruals	**375,976**	91,975
Zakat payable (note 18)	**29,319**	30,263
Accrued financial charges	**120,585**	74,153
Unearned interest income - Home Ownership Scheme	**1,557**	688
	1,170,158	895,061

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.

15 LONG TERM LOANS

	2016	*2015*
	SR'000	*SR'000*
Ministry of Finance ("MoF") loan (see note (a) below)	**5,000,000**	5,000,000
Others (see note (b) below)	**2,500,000**	2,100,000
	7,500,000	7,100,000

(a) During 2011, the Parent Company received a loan of SR 5,000 million from the Ministry of Finance for the development of KAEC. The loan is secured against pledge of 24.7 million sqm of the Greenfield land and carries annual commission at commercial rates and was originally repayable, with a three years grace period, in seven annual instalments commencing from 1 June 2015. However, based on the Company's request submitted before the due date, the MoF, during September 2015, has rescheduled the loan by extending the grace period for an additional period of five years. The principal amount is now repayable in seven annual instalments commencing from June 2020 with accrued commission payable on an annual basis.

(b) During 2014, the Parent 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. The outstanding balance of the long term loan at 31 December 2016 amounted to SR 1,500 million (2015: SR 1,100 million). As per the terms of the agreement, the loan is repayable in eight bi-annual instalments from 30 June 2018 to 31 December 2021. The loan is secured against part of KAEC's greenfield land, having a value of SR 3,002 million, held by the Parent Company and an order note for SR 2,500 million.

During 2015, the Parent Company has signed an Islamic facility agreement with a commercial bank for SR 1,000 million that carries commission at commercial rates, which has not been availed yet. As per the terms of the agreement, the loan is repayable in eight bi-annual instalments from 20 October 2019 to 20 April 2023. The loan is secured against part of KAEC's greenfield land, held by the Parent Company, for a total required value of SR 1,500 million, out of which 56% has already been perfected and remaining is in progress. The subject loan is further secured by an order note of SR 1,200 million.

During 2014 and 2015, the Company has signed two facility agreements with a commercial bank for SR 1,000 million each carrying commission at prevailing commercial rates. The outstanding balance of the loan at 31 December 2016 amounted to SR 1,000 million (2015: SR 1,000 million). As per the terms of the agreements, the loan terms are door to door 8 years with 3 years grace period starting from respective dates of the agreements. In order to comply with the Sharia principles, an additional facility of SR 250 million has been arranged by the bank linked to each of the facility, to permit the rollover (repayment and drawdown) so that the principal amount is available to the Company for the first 3 years of the loan. The loan facilities are secured against part of KAEC's greenfield land for a total required value of SR 3,000 million, out of which 50% has already been perfected and remaining is in progress. Moreover, the subject loan facilities are further secured by an order note of SR 1,250 million each.

16 DEFERRED CONTRIBUTION

	2016 ***SR'000***	*2015* *SR'000*
At the beginning of the year	**1,496,629**	953,882
Collections during the year	**105,418**	598,499
Amortisation during the year (note 9(a))	**(78,123)**	(55,752)
At the end of the year	**1,523,924**	1,496,629

17 EMPLOYEES' TERMINAL BENEFITS

	2016 ***SR'000***	*2015* *SR'000*
At the beginning of the year	**23,117**	16,990
Charge for the year	**10,648**	6,851
Payments made during the year	**(1,660)**	(724)
At the end of the year	**32,105**	23,117

18 ZAKAT

Charge for the year

	2016 ***SR'000***	*2015* *SR'000*
Provided during the year	**20,000**	28,584

Movement in provision

The movement in the provision is as follows:

	2016 ***SR'000***	*2015* *SR'000*
At the beginning of the year	**30,263**	57,291
Provided during the year	**20,000**	28,584
Payments during the year	**(20,944)**	(55,612)
At the end of the year	**29,319**	30,263

18 ZAKAT AND INCOME TAX (continued)

Status of assessments

The Parent Company – Emaar The Economic City
EEC has filed the Zakat returns up to the year 2015 and obtained restricted Zakat certificates up to the year 2014. The issuance of the 2015 certificate is under process.

The General Authority of Zakat and Tax ("GAZT") 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 issued a decision supporting the GAZT. 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 Company appealed against the HAC decision at the Bureau of Grievance ("BOG"). A verdict was issued from the first BOG that did not accept the grievance from the formal point of view.

The grievance was filed in line with the BOG regulations and within the prescribed deadlines. Accordingly, the Company appealed against the BOG decision and requested the review of the technical arguments. The case is being transferred to the court of cassation at the BOG.

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 financial statements.

The GAZT issued the 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 had filed an objection against this assessment and submitted the documents supporting the objection. The GAZT issued an amended assessment for the years 2009 to 2011, which showed a reduction of Zakat and withholding tax differences by SR 30.2 million. The Company accepted the amended assessment and settled the Zakat, withholding tax and delay penalties differences.

Subsidiaries – ECIHC, IZDCL, REOM, REM, RED and EKC
ECIHC has finalised its Zakat status up to the year 2012. The Company filed the Zakat returns up to the year 2015 and obtained facility letter.

IZDCL finalised its Zakat status up to the year 2012. The Company filed the Zakat returns up to the year 2015 and obtained the Zakat certificates. The GAZT issued the zakat assessment on the accounts of IZDCL for the years 2013 to 2015 and claimed Zakat differences of SR 4.6 million. The Company has objected against the GAZT assessment.

REOM and REM have filed the Zakat returns for the period / years 2013 to 2015 and obtained the Zakat certificates.

RED has filed the Zakat returns for the period / years 2013 to 2015 and obtained facility letter.

EKC has finalized the registration with the GAZT and obtained the registration certificate.

19 SHARE CAPITAL

The Parent Company's share capital is divided into 850 million shares of SR 10 each (2015: 850 million shares of SR 10 each), allocated as follows:

	2016		*2015*	
	Number of shares	***Capital SR'000***	*Number of shares*	*Capital SR'000*
Issued for cash	**680,000,000**	**6,800,000**	680,000,000	6,800,000
Issued for consideration in kind (note 8(b))	**170,000,000**	**1,700,000**	170,000,000	1,700,000
	850,000,000	**8,500,000**	850,000,000	8,500,000

20 STATUTORY RESERVE

In accordance with the Company's By-laws, the Company must set aside 10% of its net income in each year, after setting-off its accumulated losses, if applicable, until it has built up a reserve equal to one half of share capital. The Company may resolve to discontinue such transfers when the reserve totals 50% of the share capital. The reserve is not available for distribution. During the year, the Company has transferred an amount equal to 10% of its net income for the year.

21 EFFECT OF REDUCING THE OWNERSHIP PERCENTAGE IN A 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 had been completed during the year ended 31 December 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-realized loss under equity.

22 RELATED PARTY TRANSATION AND BALANCES

In addition to note 9, the following are the details of major related party transactions during the year and the related balances at the year end:

Related party	*Nature of transaction*	*Amount of transactions*		*Balances*	
		2016 SR'000	*2015 SR'000*	***2016 SR'000***	*2015 SR'000*
Amounts due from related parties					
Affiliates	Lease rentals, utilities and service charges	**9,209**	2,321	**2,324**	990
	Sale of properties	**53,755**	-	**2,966**	3,907
	Advance against purchase of goods	**114**	4,921	**104**	56
	Advance to contractor (note 9(c))	-	-	**2,488**	2,488
	Advance against services (note 9(c))	**5,345**	-	**3,575**	-
Key management personnel	Sale of properties, utilities and service charges	-	8,464	**256**	99
Total (see note 6 & 9(c))				**11,713**	7,540
Amounts due to related parties					
Affiliates	Expenses incurred by affiliates on behalf of the Group	-	180	**(2,675)**	(2,710)
	Services provided to the Group	**29,863**	7,741	**(728)**	(2,479)
Key management personnel	Remuneration	**38,669**	33,670	**(26,505)**	(24,224)
Board of Directors	Meeting fees	**3,462**	2,290	**(8)**	-
Total (see note 14)				**(29,916)**	(29,413)

23 REVENUE

	2016	*2015*
	SR'000	*SR'000*
Sale of properties	**902,666**	835,730
Others	**237,161**	187,227
	1,139,827	1,022,957

24 SELLING AND MARKETING

	2016	*2015*
	SR'000	*SR'000*
Branding and launch expenses	**45,329**	31,367
Employee costs	**37,755**	25,340
Advertising and promotional expenses	**16,514**	20,119
Provision for doubtful debts (note 6)	**18,545**	9,915
Sales commission	**2,469**	2,111
Others	**1,075**	894
	121,687	89,746

25 GENERAL AND ADMINISTRATION

	2016	*2015*
	SR'000	*SR'000*
Employee costs	**213,276**	142,267
Professional charges	**42,379**	26,524
Rent	**5,828**	5,127
Communication and office expenses	**11,262**	7,520
Facility and city management services	**2,543**	3,182
Repairs and maintenance	**3,188**	1,721
Others	**9,525**	7,229
	288,001	193,570

26 OTHER INCOME

	2016	*2015*
	SR'000	*SR'000*
Forfeiture of non-refundable deposit (see note (a) below)	**45,221**	-
Compensation from customer (see note (b) below)	**96,238**	-
Reimbursement of expenses (see note (c) below)	**30,747**	2,844
Reversal of accruals no longer required	**5,423**	12,086
Others	**13,847**	13,593
	191,476	28,523

26 OTHER INCOME (continued)

a) Forfeited non-refundable deposits, amounting to SR 45 million (2015: Nil), received from potential buyers against sale of assets, classified as held for disposal.

b) Compensation in respect of cancellation of development lease agreement by a customer, amounting to SR 96 million, based on court decision, out of which SR 24 million was received during the year. The balance receivable within twelve months, amounting to SR 24 million, is classified as current asset under “Accounts receivable and other current assets”. The remaining SR 48 million which will be received after one year, as per the payment schedule, is classified as a long term receivable in the consolidated balance sheet.

c) The Group has entered into an agreement (“the Agreement”) with two external parties to develop, finance and operate an academic educational institute at KAEC. In accordance with the terms of the agreement, the net life cycle operating loss of the institute is to be funded by one of the parties to the Agreement, to the extent of USD 58.5 million. Consequently, the net operating loss of the subject institute, amounting to SR 30.7 million (2015: SR 2.8 million), incurred during the year, has been reimbursed and accounted for as an other income accordingly.

27 (LOSS) / EARNINGS PER SHARE

Earnings / (loss) per share for the year have been computed by dividing the income / (loss) from main operations and net income / (loss) for respective years by the number of weighted average of ordinary shares outstanding during the year.

(Loss) / earnings per share on income from main operations is calculated by dividing the (loss) / income from main operations by the weighted average number of shares in issue during the year. Earnings per share on net income is calculated by dividing the net income by the weighted average number of shares in issue during the year.

28 OPERATING LEASE ARRANGEMENTS

Operating lease commitments - Group as lessee

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

	2016	*2015*
	SR’000	*SR’000*
Within one year	**585**	1,759

Operating lease commitments - Group as lessor

The Group has entered into leases on its investment property portfolio. The future minimum rentals receivable under non-cancellable operating leases contracted for as at the reporting date but not recognised as receivables, are as follows:

	2016	*2015*
	SR’000	*SR’000*
Within one year	**51,370**	48,015
After one year but not more than five years	**195,568**	206,862
More than five years	**686,565**	814,788
	933,503	1,069,665

29 CONTINGENT LIABILITIES AND COMMITMENTS

In addition to disclosure set out in note 18, contingent liabilities and commitments, as at 31 December 2016, are described as below:

(a) During previous years, one of the customers filed a claim against the Parent Company relating to the handover of a property, against which the customer had failed to pay the due amounts on due dates. Initially, Appellate Court has issued a ruling against the Company. However, subsequently, the Company filed an appeal with the Supreme Justice Council against the ruling. The Supreme Justice Council directed the Company to write to the Royal Court. During the year ended 31 December 2016, the final verdict has been issued in favour of the customer. Accordingly, a loss of SR 83.4 million resulting from sale of development property has been recognized in the consolidated statement of income.

(b) The Company has also provided a corporate guarantee to a commercial bank to allow PDC to secure Shariah compliant commodity Murabaha facilities (note 10).

(c) The Group has outstanding commitments related to future expenditure for the development of KAEC, in coming few years, amounting to SR 1,686 million (2015: SR 2,361 million).

(d) The Group, from time to time, is a defendant in lawsuits, which mainly represent commercial disputes. The Management expects a favourable outcome of all the pending litigation against the Group. Accordingly, no provision is made in these consolidated financial statements.

30 RISK MANAGEMENT

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

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

Credit risk
Credit risk is the risk that one party will fail to discharge an obligation and will cause the other party to incur a financial loss. The Group seeks to manage its credit risk with respect to customers by monitoring outstanding receivables. The sale agreements with customers provide that the title to the property is transferred to the customers only upon the receipt of complete sale price. The five largest customers account for 14% (2015: 24.4%) of outstanding accounts receivable at 31 December 2016. The Group manages its exposure to credit risk with respect to Murabaha deposits with banks by diversification and investing with counterparties with sound credit rating.

With respect to credit risk arising from the other financial assets of the Group, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial liabilities. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. Liquidity risk is managed by monitoring on a regular basis that sufficient funds are available through committed credit facilities to meet any future commitments.

As at 31 December 2016 and 2015, all financial liabilities, other than long-term loans (note 15), are payable within 12 months from the year end and the Group expects to have adequate funds available to do so.

31 FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. The Group's financial assets consist of cash and cash equivalents, Murabaha deposits with banks, accounts receivable, commission receivable on Murabaha term deposits, Employees' receivable – Home Ownership Scheme, amount due from related parties and other long term receivables and its financial liabilities consist of payables and accruals and loans from MoF and commercial banks. The management believes that the fair values of financial instruments are not materially different from their carrying values.

32 SEGMENTAL INFORMATION

Currently, the Group is principally involved in sale of plots and apartments and villas in KAEC and in providing certain ancillary services such as hospitality, education and lease, which are not significant to the entire Group's business. Accordingly, the management believes that at this stage, the Group's business activity falls within a single business segment which is subject to same risks and returns and non-disclosure of segment information may not affect the decisions of the users of these consolidated financial statements.

33 KEY SOURCES OF ESTIMATION UNCERTAINTY

Classification of investment properties
The Group determines whether a property qualifies as an 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 and the cost of meeting other contractual obligations to the customers. Such estimates are reviewed at regular intervals. Any subsequent changes in the estimated cost to complete may affect the results of the subsequent periods.

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

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

Impairment of property and equipment and investment property
Property and equipment and investment property are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable in part or full. Whenever the carrying amount of these assets exceeds their recoverable amount, an impairment loss is recognized in the consolidated statement of income.

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.

34 APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements have been approved by the Board of Directors on 13 March 2017, corresponding to 14 Jumada II 1438H.

35 TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

Effective 1 January 2017, the Group will prepare its consolidated financial statements in accordance with the International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and endorsed by the Saudi Organization for Certified Public Accountants ("SOCPA"). Upon IFRS adoption, the Group will be required to comply with the requirements of IFRS 1 - First-time Adoption of International Financial Reporting Standards for the reporting periods starting 1 January 2017, where in general, a Group is required to determine its IFRS accounting policies and apply these retrospectively to determine its financial position under IFRS.

36 COMPARATIVE FIGURES

Certain of the prior year amounts have been reclassified to conform with the presentation in the current year.