EMAAR THE ECONOMIC CITY
(A Saudi Joint Stock Company)

UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS
For the three-month & nine-month periods ended September 30, 2012

KPMG Al Fozan & Al Sadhan
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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 September 30, 2012, the related interim statements of income for the three-month and nine-month periods then ended and the interim statements of cash flows and changes in equity for nine-month period then ended and the attached notes 1 to 22 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
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C.R. 46 KPMG س.ت.م رقم ٤٦
KPMG Al Fozan & Al Sadhan Certified Public Accountants

Dhul Qadda 30, 1433H
Corresponding to October 16, 2012

EMAAR THE ECONOMIC CITY
(A Saudi Joint Stock Company)

INTERIM BALANCE SHEET (UNAUDITED)
As at September 30, 2012

	Notes	2012 (SR '000)	2011 (SR '000)
ASSETS			
Current assets:			
Cash and cash equivalents	4	**1,158,771**	4,501,712
Murabaha term deposits with banks	5	**3,173,228**	500,000
Accounts receivable and other current assets		**169,237**	114,206
Development properties	6	**1,276,660**	1,091,765
Loan to a related party	7	**3,088**	7,363
Amount due from affiliates	16	**93**	404
Total current assets		**5,781,077**	6,215,450
Non-current assets:			
Investment property	8	**3,579,928**	3,383,071
Property and equipment	9	**3,660,294**	3,696,490
Investment in an associate	10	**380,980**	295,980
Loan to an associate	11	**341,946**	--
Investment in subsidiaries	12	**1,000**	1,000
Other investment	13	**4,750**	4,750
		7,968,898	7,381,291
Assets classified as held for disposal	14	**154,461**	204,148
Total non-current assets		**8,123,359**	7,585,439
TOTAL ASSETS		**13,904,436**	13,800,889
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Accounts payable and accruals	15	**950,140**	1,243,987
Non-current liabilities:			
Long-term loan	17	**5,140,273**	5,035,889
Deferred contribution		**214,442**	108,528
Long-term provision		**28,811**	28,811
Employees' end of service benefits		**7,859**	5,645
Total non-current liabilities		**5,391,385**	5,178,873
Total liabilities		**6,341,525**	6,422,860
Shareholders' equity:			
Share capital	18	**8,500,000**	8,500,000
Accumulated losses		**(937,089)**	(1,121,971)
Total shareholders' equity		**7,562,911**	7,378,029
Total liabilities and shareholders' equity		**13,904,436**	13,800,889

The accompanying notes 1 to 22 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 and nine-month periods ended September 30, 2012

	Notes	**For the three-month period ended September 30, 2012 SR'000**	For the three-month period ended September 30, 2011 SR'000	**For the nine-month period ended September 30, 2012 SR'000**	For the nine-month period ended September 30, 2011 SR'000
Revenue		**138,993**	74,817	**497,804**	326,592
Cost of revenue		**(5,078)**	(4,617)	**(52,285)**	(90,662)
Gross profit		**133,915**	70,200	**445,519**	235,930
Expenses:					
Selling and marketing		**(5,363)**	(3,288)	**(14,064)**	(13,002)
General and administration		**(51,373)**	(29,207)	**(134,080)**	(102,894)
Depreciation		**(12,026)**	(10,912)	**(36,875)**	(34,575)
Other cost, net		**--**	--	**(17,729)**	25,639
Total expenses		**(68,762)**	(43,407)	**(202,748)**	(124,832)
Profit from operations		**65,153**	26,793	**242,771**	111,098
Financial charges, net		**(25,698)**	(25,515)	**(72,033)**	(35,889)
Commission income		**14,964**	6,339	**40,194**	8,608
Other income, net		**110**	63	**1,501**	848
Income before Zakat		**54,529**	7,680	**212,433**	84,665
Zakat	20	**(10,000)**	(1,500)	**(30,000)**	(4,500)
Net income		**44,529**	6,180	**182,433**	80,165
Earnings per share on profit from operations (in SR)	19	**0.08**	0.03	**0.29**	0.13
Earnings per share on net income (in SR)	19	**0.05**	0.01	**0.21**	0.09

The accompanying notes 1 to 22 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 nine-month period ended September 30, 2012

	Note	2012 SR'000	2011 SR'000
Operating activities:			
Income before Zakat		**212,433**	84,665
Adjustments for:			
Depreciation		**36,875**	34,575
Employees' end of service benefits, net		**2,374**	562
Financial charges		**72,035**	35,889
Commission income		**(40,194)**	(8,608)
Other cost, net		**17,729**	(25,639)
Gain on sale of assets classified as held for sale		**(56)**	--
(Gain) / loss on disposal of property and equipment		**(150)**	48
Transfer of investment property to institutes		**8,177**	--
		309,223	121,492
Changes in operating assets and liabilities:			
Accounts receivable and other current assets		**(101,371)**	868
Development properties		**(324,864)**	(230,877)
Amount due from an affiliate		**(69)**	4,215
Accounts payable and accruals		**(83,174)**	60,247
Deferred contribution		**65,177**	22,907
Cash used in operations		**(135,078)**	(21,148)
Zakat paid		**(5,053)**	(4,592)
Net cash used in operating activities		**(140,131)**	(25,740)
Investing activities:			
Purchase of property and equipment		**(158,189)**	(172,063)
Sale proceeds from disposal of property and equipment		**150**	62
Sale proceeds from disposal of assets classified as held for disposal		**49,743**	--
Net movement in murabaha term deposits with banks		**(3,616)**	(500,000)
Commission income		**40,194**	8,608
Net movement in loan to a related party		**2,850**	2,138
Investment in an associate		**--**	(150,000)
Loan to an associate		**(341,946)**	--
Investment in a subsidiary		**--**	(500)
Net cash used in investing activities		**(410,814)**	(811,755)
Financing activity:			
Long-term loan		**--**	5,000,000
(Decrease) / increase in cash and cash equivalents		**(550,945)**	4,612,505
Cash and cash equivalents at the beginning of the period		**1,709,716**	339,207
Cash and cash equivalents at the end of the period	4	**1,158,771**	4,501,712

The accompanying notes 1 to 22 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 nine-month period ended September 30, 2012

	Share capital SR'000	Accumulated losses SR'000	Total SR'000
Balance at January 1, 2012 - Audited	8,500,000	(1,119,522)	7,380,478
Net income	--	182,433	182,433
Balance at September 30, 2012 - Unaudited	**8,500,000**	**(937,089)**	**7,562,911**
Balance at January 1, 2011 - Audited	8,500,000	(1,202,136)	7,297,864
Net income	--	80,165	80,165
Balance at September 30, 2011 - Unaudited	8,500,000	(1,121,971)	7,378,029

The accompanying notes 1 to 22 form an integral part
of these unaudited interim condensed financial statements.

1. THE COMPANY AND ITS ACTIVITIES

Emaar The Economic City ("the Company") is a Saudi Joint Stock Company incorporated under Ministerial Resolution No.2533 dated 3 Ramadan 1427H, corresponding to September 21, 2006 and registered in the Kingdom of Saudi Arabia under Commercial Registration number 4030164269 dated 8 Ramadan 1427H, corresponding to September 26, 2006. The Company 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

These 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. Where 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.

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 follows:

Impairment of accounts receivable
An estimate of the collectible amount of accounts receivable is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and an allowance applied according to the length of time past due.

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

Impairment on assets classified as held for disposal
Assets classified as held for disposal are assessed for impairment at regular intervals in order to reflect adequate recoverable amount in the 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.

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 / (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 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:

	Years
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.

Loan to an associate

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

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.

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.

4. CASH AND CASH EQUIVALENTS

	2012 (SR'000)	2011 (SR'000)
Bank balances and cash	**69,311**	50,126
Short-term Murabaha deposits	**1,089,460**	4,451,586
	1,158,771	4,501,712

5. MURABAHA TERM DEPOSITS WITH BANKS

Murabaha term deposits with banks amounting to SR 3,173 million (2011: SR 0.5 million) represents 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, 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 194 million, (2011: SR 254.1 million) which have been identified by the management to be sold in their present condition. Accordingly, these have been reclassified from investment property to development properties.

The Company has rescheduled its accounts receivable amounting to SR 29 million (2011: SR 543.6 million) based on revised time period for the completion of the residential projects.

7. LOAN TO A RELATED PARTY

Loan to a related party represents balance of commission free loan receivable from Cadre The Economic Cities, LLC (Cadre), a company incorporated in the Kingdom of Saudi Arabia and 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 instalment falling due in April 2013. As the loan is repayable on demand, therefore, it has been classified as a current asset.

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 of the same value in the Company.

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 completed. Therefore, the land and associated costs amounting to SR 3,580 million (2011: SR 3,383 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 (Note 17).

9. PROPERTY AND EQUIPMENT

Property and equipment includes capital work in progress amounting to SR 3,084 million (2011: SR 3,175 million), which represents construction costs in respect of the infrastructure and other projects at KAEC.

10. INVESTMENT IN AN ASSOCIATE

	2012 (SR'000)	2011 (SR'000)
Investment	**235,980**	980
Long-term convertible loan	**145,000**	295,000
	380,980	295,980

On 14 Jumad Awwal 1431H (corresponding to 29 April 2010), the Port Development Company (PDC), a closed joint stock company was incorporated in the Kingdom of Saudi Arabia, which is engaged in development, operation and maintenance of the King Abdullah Port at KAEC (the Port). The Port is 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 nine-month period ended September 30, 2012, SR 235 million was converted into the share capital of PDC and accordingly, transferred from convertible loan to investment.

11. LOAN TO AN ASSOCIATE

During the period, the Company signed a loan agreement with PDC in accordance with the Shareholders Agreement whereby, the Company has agreed to provide SR 1,000 million commission based loan to PDC, which was approved in the Annual General Meeting held on March 31, 2012. During the period ended September 30, 2012, an amount of SR 338 million was disbursed to PDC which is repayable, with a two years grace period, in seven annual instalments commencing from May 1, 2015. The loan is secured by a promissory note signed by PDC for the full amount of disbursement and by PDC's majority shareholder for its shareholding in PDC. The shareholders of PDC have agreed to convert the outstanding loan extended by the Company into equity shares of PDC on the occurrence of certain events in the future. The loan balance as at September 30, 2012 also includes accrued commission amounting to SR 3.9 million.

12. 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.

13. 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, therefore, 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.

14. ASSETS CLASSIFIED AS HELD FOR DISPOSAL

The Company has identified certain assets 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.

During the period ended September 30, 2012, the Company has partially sold these assets and realised a gain of SAR 0.056 million.

At the period ended September 30, 2012, the remaining assets were reviewed for impairment and the management concluded that no additional impairment is required.

15. ACCOUNTS PAYABLE AND ACCRUALS

	2012 (SR'000)	2011 (SR'000)
Accounts payable	**223,947**	605,847
Contract cost accruals	**153,861**	233,836
Retentions payable	**130,015**	190,074
Amount to be donated for charitable purposes (note 15.1)	**69,484**	74,448
Anticipated losses on projects	**--**	91,894
Advance from customers	**233,381**	2,572
Accrued expenses and other payables	**32,842**	33,111
Zakat payable	**36,298**	9,851
Amounts due to affiliates (note 16)	**70,312**	2,354
	950,140	1,243,987

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

16. RELATED PARTY TRANSACTIONS AND BALANCES

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

In addition to the disclosures set out in notes 7, 10, 11, 12 and 13, related party transactions for the period ended September 30, 2012 and balances are described as under:

16. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

		Nine-month period ended September 30, 2012		Nine-month ended period September 30, 2011	
Related party	Nature of transaction	**Amount of transaction (SR'000)**	**Balance receivable/ (payable) (SR'000)**	Amount of transaction (SR'000)	Balance receivable/ (payable) (SR'000)
Affiliates	Payments made and expenses incurred by affiliates on behalf of the Company	**5**	**(338)**	12	(180)
	Payments made and expenses incurred by Company on behalf of affiliates	**69**	**93**	1,316	404
	Services provided to the Company	--	**(2,174)**	--	(2,174)
	Advance from an affiliate	**(67,800)**	**(67,800)**	2,138	7,363
Key management personnel	Remuneration	**5,389**	**--**	4,134	--

17. LONG-TERM LOAN

During 2011, the Company received a loan of SR 5,000 million from the Ministry of Finance (MoF) for the development of KAEC. The loan is secured against pledge of 24.7 million sqm of the 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 September 30, 2012 also includes accrued commission amounting to SR 140.3 million.

18. SHARE CAPITAL

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

19. EARNINGS PER SHARE

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

Earnings per share on net income are calculated by dividing the net income 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.

20. ZAKAT

Charge for the year

The Company has made a provision of SR 30 million for the nine-month period ended September 30, 2012 (2011: SR 4.5 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 objected against the DZIT assessment and the case was transferred to the Preliminary Objection Committee (POC). The POC issued a decision on February 25, 2012, supporting the DZIT. The Company appealed against the POC decision at the Higher Appeal Committee (HAC). 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. The DZIT issued a preliminary assessment for the year ended December 31, 2010 disallowing investments from the Zakat base and claimed additional Zakat differences of SR 5.5 million. The Company filed an appeal against the DZIT's preliminary assessment.

The Company filed the Zakat return for the years 2009 to 2011 and obtained the restricted Zakat certificates. Final Zakat assessments for years ended December 31, 2009 to 2011 have not yet been raised by DZIT.

21. 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.

21. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

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

d) The Company had commitments as at September 30, 2012, amounting to SR 1,271 million (September 30, 2011: SR 2,208 million) related to future capital expenditure for the development of KAEC.

22. APPROVAL OF THE INTERIM CONDENSED FINANCIAL STATEMENTS

The interim condensed financial statements were authorised to issue by the Board of Directors on Dhul Qadda 30, 1433H, corresponding to October 16, 2012.