

EMAAR THE ECONOMIC CITY
(A Saudi Joint Stock Company)

**UNAUDITED INTERIM CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS**
For the three-month period and the year ended
December 31, 2013

**KPMG Al Fozan & Al Sadhan**

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

REVIEW REPORT ON THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Scope of review

We have reviewed the accompanying interim consolidated balance sheet of Emaar The Economic City and its subsidiaries (collectively referred as "the Group") as at December 31, 2013, the related interim consolidated statements of income for three month period and the year then ended, interim consolidated statements of cash flows and changes in equity for the year then ended and the attached notes 1 to 23 which form an integral part of these interim condensed consolidated financial statements. These interim condensed consolidated financial statements are the responsibility of the Group's management and have been prepared by them and submitted to us together with all the information and explanations which we required. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

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

Conclusion

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

For KPMG Al Fozan & Al Sadhan

Ebrahim Oboud Baeshen
License No. 382



Jeddah on Rabi Al Awwal 18, 1435H
Corresponding to January 19, 2014

EMAAR THE ECONOMIC CITY
(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED BALANCE SHEET (UNAUDITED)

As at December 31, 2013

	Notes	2013 (SR'000)	2012 (SR'000) (Restated)
<u>ASSETS</u>			
Current assets:			
Cash and cash equivalents	4	2,772,040	3,242,398
Murabaha term deposits with banks	5	261,828	859,279
Accounts receivable and other current assets		313,652	111,350
Development properties	6	1,095,838	602,563
Other investment	7	--	4,750
Loan to a related party	8	--	1,663
Total current assets		4,443,358	4,822,003
Non-current assets:			
Investment property	9	4,285,063	4,465,100
Property and equipment	10	4,135,501	3,689,010
Investment in an associate	11	1,381,279	402,627
Loan to an associate	12	--	344,641
		9,801,843	8,901,378
Assets classified as held for disposal	13	101,250	154,461
Total non-current assets		9,903,093	9,055,839
TOTAL ASSETS		14,346,451	13,877,842
<u>LIABILITIES AND EQUITY</u>			
Current liabilities:			
Short-term loans	14	29,215	--
Accounts payable and accruals	15	656,450	863,954
		685,665	863,954
Non-current liabilities:			
Long-term loan	17	5,274,789	5,167,811
Deferred contribution	18	532,252	245,495
Long-term provision		5,099	28,811
Employees' end of service benefits		12,080	8,511
Total non-current liabilities		5,824,220	5,450,628
Total liabilities		6,509,885	6,314,582
Equity attributable to the Company's shareholders:			
Share capital	19	8,500,000	8,500,000
Accumulated losses		(663,706)	(936,765)
Total shareholders' equity		7,836,294	7,563,235
Non-controlling interests		272	25
Total equity		7,836,566	7,563,260
Total liabilities and equity		14,346,451	13,877,842

The accompanying notes 1 to 23 form an integral part
of these unaudited interim condensed consolidated financial statements.

EMAAR THE ECONOMIC CITY
(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)

For the three-month period and the year ended December 31, 2013

	Notes	For the three-month period ended December 31, 2013 (SR'000)	For the three-month period ended December 31, 2012 (SR'000) (Restated)	For the year ended December 31, 2013 (SR'000)	For the year ended December 31, 2012 (SR'000) (Restated)
Revenue		653,027	47,378	833,452	545,182
Cost of revenue		(72,127)	(14,443)	(128,786)	(66,728)
Gross profit		580,900	32,935	704,666	478,454
Expenses:					
Selling and marketing		(31,343)	(4,677)	(62,203)	(18,740)
General and administration		(53,861)	(53,915)	(146,759)	(179,818)
Land contribution	9	(88,509)		(88,509)	(8,177)
Depreciation		(4,803)	(9,633)	(26,429)	(46,508)
Impairment (loss) / reversal		(139,240)	--	(120,005)	21,916
Maintenance and other (cost) reversal, net		(3,047)	11,916	21,140	(27,729)
Total expenses		(320,803)	(56,309)	(422,765)	(259,056)
Profit / (loss) from operations		260,097	(23,374)	281,901	219,398
Financial charges, net		(17,468)	(16,850)	(83,066)	(88,883)
Commission income		2,747	13,595	37,144	53,788
Gain on disposal of investment property	9.2	(30,410)	--	58,635	--
Share of profit / (loss) from associate	11	2,675	(204)	2,675	(817)
Other income		1,927	6,229	7,129	7,730
Income / (loss) before Zakat and non-controlling interests		219,568	(20,604)	304,418	191,216
Zakat	21	388	24,927	(31,112)	(5,073)
Net income before non-controlling interests		219,956	4,323	273,306	186,143
Share of non-controlling interests in the net income of consolidated subsidiaries		(76)	(21)	(247)	(21)
Net income attributable to Company's shareholders		219,880	4,302	273,059	186,122
Earnings / (loss) per share on profit from operations - SR	20	0.306	(0.027)	0.332	0.258
Earnings per share on net income attributable to Company's shareholders - SR	20	0.259	0.005	0.321	0.219

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EMAAR THE ECONOMIC CITY
(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)
For the year ended December 31, 2013

	<u>Note</u>	<u>2013</u> (SR'000)	<u>2012</u> (SR'000)
Operating activities:			
Income before Zakat		304,418	191,216
Adjustments for:			
Depreciation		26,429	46,508
Employees' end of service benefits, net		3,569	3,026
Financial charges, net		83,066	88,883
Commission income		(37,144)	(53,788)
Impairment loss, net		120,005	--
Maintenance and other cost reversal, net		(21,140)	5,813
Gain on disposal of investment property		(58,635)	--
Land contribution		88,509	8,177
Gain on sale of assets classified as held for disposal		--	(56)
Gain on disposal of property and equipment		(102)	(150)
		<u>508,975</u>	<u>289,629</u>
Changes in operating assets and liabilities:			
Accounts receivable and other current assets		1,779	(43,462)
Development properties		(466,617)	(535,830)
Accounts payable and accruals		(234,945)	(132,577)
Cash used in operations		<u>(190,808)</u>	<u>(422,240)</u>
Net movement in deferred contribution		236,759	96,231
Zakat paid		<u>(5,524)</u>	<u>(5,053)</u>
Net cash generated from / (used in) operating activities		<u>40,427</u>	<u>(331,062)</u>
Investing activities:			
Purchase of property and equipment		(511,761)	(185,959)
Proceeds from disposal of property and equipment		102	150
Net movement in assets held for disposal		5,078	49,743
Net movement in Murabaha term deposits with banks		597,451	2,310,333
Commission income		37,144	53,789
Net movement in other investment		4,750	--
Net movement in loan to a related party		1,663	4,275
Investment in an associate		(1,010,000)	(27,183)
Net movement in loan to associate		<u>338,000</u>	<u>(342,383)</u>
Net cash (used in) / generated from investing activities		<u>(537,573)</u>	<u>1,862,765</u>
Financing activities:			
Net movement in non-controlling interests		(222)	(21)
Short-term loan, net		<u>27,010</u>	<u>--</u>
Net cash generated from / (used) in financing activities		<u>26,788</u>	<u>(21)</u>
(Decrease) / increase in cash and cash equivalents		<u>(470,358)</u>	<u>1,531,682</u>
Cash and cash equivalents at the beginning of the year		<u>3,242,398</u>	<u>1,710,716</u>
Cash and cash equivalents at the end of the year	4	<u>2,772,040</u>	<u>3,242,398</u>

The accompanying notes 1 to 23 form an integral part
of these unaudited interim condensed consolidated financial statements.

EMAAR THE ECONOMIC CITY
(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
For the year ended December 31, 2013

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

	Equity attributable to the shareholders' of the Company			Non controlling interests (SR'000)	<u>Total</u> (SR'000)
	<u>Share capital</u> (SR'000)	<u>Accumulated losses</u> (SR'000)	<u>Total shareholders' equity</u> (SR'000)		
<u>2012 (Restated)</u>					
Balance at January 1	8,500,000	(1,122,887)	7,377,113	4	7,377,117
Net income	--	186,122	186,122	21	186,143
Balance at December 31	<u>8,500,000</u>	<u>(936,765)</u>	<u>7,563,235</u>	<u>25</u>	<u>7,563,260</u>

The accompanying notes 1 to 23 form an integral part
of these unaudited interim condensed consolidated financial statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

For the year ended December 31, 2013

1. THE COMPANY AND ITS ACTIVITIES

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

The registered office is located at the following address:

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

As at December 31, 2013, the Company has investments in the following subsidiaries which are primarily involved in development, investments, marketing, sale / lease, operations and maintenance of properties and establishment and purchase of companies.

<u>Name</u>	<u>Country of incorporation</u>	<u>Year of incorporation</u>	<u>Ownership interest</u>	
			<u>2013</u>	<u>2012</u>
Economic Cities Investments Holding Company (ECIHC)	Kingdom of Saudi Arabia	2010	99%	99%
Industrial Zones Development Company Limited (IZDCL)	Kingdom of Saudi Arabia	2011	100%	100%
Economic Cities Real Estate Property Operation and Management Company Limited (REOM)	Kingdom of Saudi Arabia	2013	98%	--
Economic Cities Pioneer Real Estate Management Company Limited (REM)	Kingdom of Saudi Arabia	2013	98%	--
Economic Cities Real Estate Development Company Limited (RED)	Kingdom of Saudi Arabia	2013	98%	--

2. BASIS OF PRESENTATION

Statement of compliance

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

For the year ended December 31, 2013

2. BASIS OF PRESENTATION (continued)

Functional and presentation currency

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

Prior period comparative information relating to investment in associate and certain other comparative figures have been restated and / or regrouped on a basis consistent with current period classification.

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

Accounting convention

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

Use of estimates and judgements

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

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

Impairment of accounts receivable

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

Cost to complete the projects

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

Impairment on assets classified as held for disposal

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

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

For the year ended December 31, 2013

2. BASIS OF PRESENTATION (continued)

Use of estimates and judgements (continued)

Long-term provision

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

Useful lives of property and equipment

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

Impairment of property and equipment and investment property

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

Impairment of available for sale investments

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

Impairment of other non-financial assets

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

For the year ended December 31, 2013

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation

These interim condensed consolidated financial statements include the financial statements of the Company and its subsidiaries as set out in note 1. Associate is accounted for using the equity method.

Subsidiaries

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

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

Non-controlling interest

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

Cash and cash equivalents

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

Accounts receivable

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

Development properties

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

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

For the year ended December 31, 2013

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

Properties held for rental or capital appreciation purposes as well as those held for undetermined future use are classified as investment properties. Investment properties are carried at cost less accumulated depreciation and impairment losses, if applicable. Investment properties include buildings which are depreciated on a straight line basis over the estimated useful lives of 30 years.

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

Property and equipment

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

The estimated useful lives of assets are as follow:

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

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

Investment in an associate

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

Loan to an associate

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

Other investments (available-for-sale)

Investments are initially recognised at cost being the fair value of consideration given. After initial recognition, investments purchased neither with the intention of being held to maturity nor for trading purposes are remeasured at fair value. Unrealised gains and losses are reported as a separate component of equity until the investment is derecognised or the investment is determined to be impaired.

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

For the year ended December 31, 2013

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Other investments (available-for-sale) (continued)

On derecognition or impairment the cumulative gain or loss previously recorded in equity is recognised in the interim consolidated statement of income for the period. Fair value is determined by reference to the market value if an open market exists. In the absence of an active market, the fair value is determined through other indicators, otherwise, cost is considered to be the fair value.

Non-current asset held for disposal

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

Accounts payable and accruals

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

Deferred contribution

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

Employees' end of service benefits

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

Provisions

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

Segment reporting

In accordance with the requirements of accounting standards generally accepted in the Kingdom of Saudi Arabia, the 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 consolidated 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 consolidated financial statements

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

For the year ended December 31, 2013

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

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

Sale of property

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

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

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

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

Lease of investment property

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

Services

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

Murabaha term deposits with banks

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

Cost of revenue

Cost of revenue includes the cost of land, development and other service 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.

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

For the year ended December 31, 2013

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Cost of revenue (continued)

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

Expenses

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

Borrowing costs

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

Operating leases

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

Zakat

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

Foreign currencies

Transactions in foreign currencies are recorded in Saudi Arabian Riyals at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the interim balance sheet date. All differences are taken to the interim consolidated statement of income.

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

4. CASH AND CASH EQUIVALENTS

	<u>2013</u> (SR'000)	<u>2012</u> (SR'000)
Bank balances and cash	84,040	173,698
Short-term Murabaha deposits	<u>2,688,000</u>	<u>3,068,700</u>
	<u>2,772,040</u>	<u>3,242,398</u>

5. MURABAHA TERM DEPOSITS WITH BANKS

Murabaha term deposits with banks amounting to SR 261.8 million (2012: SR 859.3 million) represents funds placed with commercial banks at market rates with original maturities of more than three months.

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6. DEVELOPMENT PROPERTIES

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

Development properties also include plots of land, amounting to SR 296.5 million (2012: SR 197.5 million) which have been identified by the management to be sold in their present condition. Accordingly, these have been reclassified from investment property to development properties.

During the year ended December 31, 2012, the Company reclassified certain projects, initially identified for sale in their present condition, as projects for long-term lease. Consequently, related cost amounting to SAR 888 million, including land of SR 8 million, was reclassified from development properties to investment properties (note 9).

7. OTHER INVESTMENT

In 2008, the Company established an entity, Cadre The Economic Cities, LLC (Cadre), which was incorporated in the Kingdom of Saudi Arabia on Jumada Awal 6, 1429H, corresponding to May 11, 2008. The Company had a 95% holding in Cadre.

During 2012, the Board of Directors of the Company decided to transfer ownership of Cadre to Economic Cities Authorities ("ECA") which has been completed at cost during the quarter ended December 31, 2013.

8. LOAN TO A RELATED PARTY

Loan to a related party represented a commission free loan receivable from Cadre which has been collected in full during the quarter ended December 31, 2013.

9. INVESTMENT PROPERTIES

Investment properties include the following:

	<u>2013</u> (SR'000)	<u>2012</u> (SR'000)
Greenfield land and associated cost (note 9.1)	3,328,472	3,577,026
Properties under construction (note 6)	746,836	888,074
Properties completed (note 6)		
Cost	216,992	--
Accumulated Depreciation	(7,237)	--
	<u>209,755</u>	<u>--</u>
	<u>4,285,063</u>	<u>4,465,100</u>

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9. INVESTMENT PROPERTIES (continued)

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

The specific allocation of 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 3,328 million (2012: SR 3,577 million) has been classified as investment property. No depreciation has been charged as these comprise only freehold land.

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

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

During the year ended December 31, 2013, the Board of Directors of the Group have resolved, subject to approval from General Assembly of the Group, to provide a land measuring 6.2 million sqm to a Government body free of cost.

During the year ended December 31, 2013, properties amounted to SR 217 million (2012: Nil) were completed and transferred from properties under construction to properties completed.

- 9.2** During the year, the Company sold land amounting to SR 58 million as per the agreement with Port Development Company, an associate (Note 16). At the period ended December 31, 2013 the legal formalities to transfer the relevant land title deeds are under process.

10. PROPERTY AND EQUIPMENT

Property and equipment includes capital work in progress amounting to SR 2,027 million (2012: SR 3,120 million), which represents construction costs in respect of the infrastructure and other projects at KAEC.

11. INVESTMENT IN AN ASSOCIATE

	<u>2013</u> (SR '000)	<u>2012</u> (SR '000) (Restated)
Investment	235,980	235,980
Share of profit / (loss) from associate	2,675	(817)
	238,655	235,163
 Additional capital contribution	1,142,624	167,464
	1,381,279	402,627

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11. INVESTMENT IN AN ASSOCIATE (continued)

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

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

On October 8, 2013 the shareholders of PDC have resolved to increase the shareholdings of EEC to 74% by converting additional capital contribution to equity in PDC. Consequently, the Land of SR 200 million contributed as part of equity funding during the period ended March 31, 2013 has been reclassified as receivable from PDC (Note 16).

To contribute a part of the equity funding under the agreement, the Company invested SR 145 million in the form of land, infrastructure and other development cost. At the period ended December 31, 2013 the legal formalities to transfer the relevant title deeds are under process. The Company also invested cash of SR 633 million including SR 370 million provided during the year ended December 31, 2013. Additional capital contribution also includes SAR 640 million which has been reclassified from loan to an associate under the agreement dated October 8, 2013 (note 12). The legal formality in respect of conversion of additional capital contribution to equity is in progress.

12. LOAN TO AN ASSOCIATE

During 2012, 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 of the Company held on March 31, 2012. Accordingly, an amount of SR 640 million (2012: SR 338 million), has been disbursed to PDC which was repayable in seven annual instalments commencing from May 1, 2015. Under the agreement dated October 8, 2013 the shareholders of PDC have agreed to convert the outstanding loan extended by the Company into equity shares of PDC and accordingly, the amount of SR 640 million has been reclassified to investment in an associate (note 11).

Moreover, in accordance with the agreement, accrued commission amounting to SR 18 million pertaining to the loan will be settled by PDC and therefore, has been reclassified as receivable.

13. ASSETS CLASSIFIED AS HELD FOR DISPOSAL

The Group has identified certain assets amounting to SR 149 million (2012: 154 million) which are to be disposed off in line with the strategic business plans of the Group. Accordingly, these assets are classified as held for disposal. During the quarter ended December 31, 2013, these assets have been reviewed for impairment which indicated an impairment of SR 47.8 million and has been recognised in the interim consolidated statement of income.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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14. SHORT-TERM LOANS

During the quarter ended December 31, 2013 the Group has obtained short-term loans amounting to SR 29 million (2012: Nil) from a commercial bank at prevailing market rates.

15. ACCOUNTS PAYABLE AND ACCRUALS

	<u>2013</u> (SR'000)	<u>2012</u> (SR'000)
Accounts payable	213,571	264,187
Advance from customers	104,626	236,058
Contract cost accruals	112,496	149,044
Amount to be donated for charitable purposes (note 15.1)	70,484	69,753
Accrued expenses and other payables	88,355	51,416
Amounts due to affiliates (note 16)	2,517	70,349
Retentions payable	27,441	11,776
Zakat payable	36,960	11,371
	<u>656,450</u>	<u>863,954</u>

- 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 the management.

In addition to the disclosures set out in notes 7, 8, 9, 11 and 12, related party transactions for the period ended December 31, 2013 are described as under:

<u>Related party</u>	<u>Nature of transaction</u>	<u>2013</u>		<u>2012</u>	
		<u>Amount of transaction</u> (SR'000)	<u>Balance receivable/ payable</u> (SR'000)	<u>Amount of transaction</u> (SR'000)	<u>Balance receivable/ payable</u> (SR'000)
<i>Affiliate</i>	Advances	17,800	(50,000)	(67,800)	(67,800)
	Sale of Land	200,000	200,000	--	--
	Commission income	11,510	18,151	6,641	6,641
<i>Key management personnel</i>					
<i>Board of Directors</i>					
	Remuneration	8,673	--	7,098	--
	Meeting fee	2,505	--	2,672	(32)

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17. LONG-TERM LOAN

During 2011, the Company received a loan of SR 5,000 million from the Ministry of Finance (MoF) for the development of KAEC. The loan is secured against pledge of 24.7 million sqm of the Greenfield Land (note 9.1) and carries annual commission at commercial rates and is repayable, with a three years grace period, in seven annual instalments commencing from June 1, 2015. The loan balance as at December 31, 2013 also includes accrued commission amounting to SR 274.8 million (2012: SR 167.8 million).

18. DEFERRED CONTRIBUTION

	<u>2013</u> SR'000	<u>2012</u> SR'000
Balance at January 1	245,495	149,264
Collections during the year	328,812	96,231
Amortisation during the year	<u>(42,055)</u>	<u>--</u>
Balance at December 31	<u>532,252</u>	<u>245,495</u>

19. SHARE CAPITAL

The authorized, issued and fully paid share capital of the Company consists of 850 million shares of SR 10 each (2012: 850 million shares of SR 10 each).

20. EARNINGS PER SHARE

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

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

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

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21. ZAKAT

Charge for the period

The Group has made a provision of SR 4.5 million for the period ended December 31, 2013 (2012: SR 5.1 million).

Status of assessments

The Company has filed the Zakat returns up to the year 2012 and obtained restricted Zakat certificates.

The DZIT issued Zakat assessments for the years 2006 to 2008 and claimed additional Zakat and withholding tax differences of SR 90.4 million in addition to delay penalty. The case is currently reviewed at the Higher Appeal Committee (HAC). In compliance of the appeal procedures and without admitting the liability, the Company submitted a bank guarantee and paid under protest the withholding tax differences. The Company is of the view that given a fair review of the assessments, 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 Zakat assessment for the years 2009 to 2011 and claimed additional Zakat, withholding tax and delay penalty differences of SR 64.7 million. The Company has filed an objection against this assessment. The Company is of the view that given a fair review of the assessments for the years 2006 to 2011, their view should prevail for most of the items under objection. On prudence the Company has made a partial provision of SR 26.6 million.

ECHIC and IZDCL have finalized its Zakat status up to the year 2011 and have also filed the Zakat return for the year 2012 and obtained an unrestricted Zakat certificate.

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

22. CONTINGENT LIABILITIES AND COMMITMENTS

- a) The Group has contracted with its industrial customers to provide property management and city maintenance services. The costs of providing these services to industrial customers may be higher than the fee or charges that the Group may be able to charge to its industrial customers. The financial effect, if any, is not currently practicable to estimate.
- b) The Group had commitments as at December 31, 2013 amounting to SR 1,602 million (2012: SR 441.2 million) related to future capital expenditure for the development of KAEC.

23. APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The interim condensed consolidated financial statements were approved and authorised to issue by the Board of Directors on Rabi Al Awwal 18, 1435H, corresponding to January 19, 2014.