

**EMAAR THE ECONOMIC CITY
(A SAUDI JOINT STOCK COMPANY)**

**UNAUDITED INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

**FOR THE THREE-MONTH PERIOD ENDED
31 MARCH 2017**

Emaar The Economic City (A Saudi Joint Stock Company)

UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 2017

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INDEPENDENT AUDITORS' REVIEW REPORT ON THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS TO THE SHAREHOLDERS OF EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Emaar The Economic City ("Emaar") - a Saudi Joint Stock Company ("the Company" or "the Parent Company") and its subsidiaries (collectively referred to as "the Group") as at 31 March 2017 and the related interim condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the three-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting" and International Financial Reporting Standard 1, "First-time Adoption of International Financial Reporting Standards" that are endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" endorsed in the Kingdom of Saudi Arabia. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements is not prepared, in all material respects, in accordance with International Accounting Standard 34, "Interim Financial Reporting" and International Financial Reporting Standard 1, "First-time Adoption of International Financial Reporting Standards" that are endorsed in the Kingdom of Saudi Arabia.

for Ernst & Young

Ahmed I. Reda
Certified Public Accountant
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14 Shaban 1438H
10 May 2017

Jeddah

16/382/AIR



Emaar The Economic City (A Saudi Joint Stock Company)

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF
PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three-month period ended 31 March 2017

| | Note | Three-month period ended 31 March 2017 SR'000 | Three-month period ended 31 March 2016 SR'000 (Note 6) |
|---|------|--|--|
| Revenue | 19 | 318,234 | 272,330 |
| Cost of revenue | 19 | (202,533) | (179,166) |
| GROSS PROFIT | | 115,701 | 93,164 |
| EXPENSES | | | |
| Selling and marketing | | (6,580) | (17,651) |
| General and administration | | (51,823) | (49,661) |
| Impairment loss | 8 | (45,313) | (44,016) |
| Depreciation | | (33,630) | (24,337) |
| Amortisation | | (3,793) | (3,378) |
| OPERATING LOSS | | (25,438) | (45,879) |
| OTHER INCOME / (EXPENSES) | | | |
| Financial charges | | (14,280) | (16,249) |
| Share of results of equity accounted investees | 9 | 4,058 | 1,705 |
| Murabaha deposit income | | 3,447 | 4,047 |
| Other income | 15 | 20,443 | 49,668 |
| LOSS BEFORE ZAKAT | | (11,770) | (6,708) |
| Zakat | 14 | (7,278) | (7,175) |
| LOSS FOR THE PERIOD | | (19,048) | (13,883) |
| OTHER COMPREHENSIVE INCOME | | | |
| <i>Items that will not be reclassified to consolidated statement of profit or loss in subsequent periods:</i> | | | |
| Re-measurement loss on defined benefit plan | 13 | - | - |
| TOTAL COMPREHENSIVE LOSS FOR THE PERIOD | | (19,048) | (13,883) |
| ATTRIBUTABLE TO: | | | |
| Equity holders of the parent | | (17,505) | (17,038) |
| Non-controlling interests | | (1,543) | 3,155 |
| | | (19,048) | (13,883) |
| LOSS PER SHARE | | | |
| Weighted average number of shares ('000) | 16 | 850,000 | 850,000 |
| Basic and diluted loss per share attributable to equity holders of the Parent Company (in SR per share) | 16 | (0.02) | (0.02) |

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

Emaar The Economic City (A Saudi Joint Stock Company)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(UNAUDITED)

As at 31 March 2017

| | | 31 March 2017 SR'000 | 31 December 2016 SR'000 (Note 6) | 1 January 2016 SR'000 (Note 6) |
|--|------|----------------------------|---|---|
| | Note | | | |
| ASSETS | | | | |
| NON-CURRENT ASSETS | | | | |
| Investment properties | 7 | 4,780,829 | 4,756,018 | 4,913,262 |
| Intangible assets | | 17,961 | 19,450 | 20,389 |
| Property and equipment | 8 | 5,151,230 | 5,082,125 | 4,270,951 |
| Investment in equity accounted investees | 9 | 2,393,516 | 2,389,458 | 2,345,651 |
| Employees' receivable - Home Ownership Scheme | | 79,503 | 69,774 | 34,530 |
| Other long term receivable | | 48,119 | 48,119 | - |
| TOTAL NON-CURRENT ASSETS | | 12,471,158 | 12,364,944 | 11,584,783 |
| CURRENT ASSETS | | | | |
| Cash and cash equivalents | | 1,419,533 | 1,177,396 | 1,898,851 |
| Murabaha term deposits with banks | | 997,000 | 997,000 | 1,012,979 |
| Accounts receivable and other current assets | | 541,206 | 572,768 | 348,026 |
| Development properties | | 1,397,987 | 1,375,592 | 955,675 |
| Work performed in excess of billing | | 249,532 | 90,723 | - |
| Current portion of employees' receivable - Home Ownership Scheme | | 4,672 | 4,121 | 2,126 |
| TOTAL CURRENT ASSETS | | 4,609,930 | 4,217,600 | 4,217,657 |
| Assets held for sale | 10 | - | - | 90,891 |
| TOTAL ASSETS | | 17,081,088 | 16,582,544 | 15,893,331 |
| EQUITY AND LIABILITIES | | | | |
| EQUITY | | | | |
| Share capital | | 8,500,000 | 8,500,000 | 8,500,000 |
| Statutory reserve | | 11,536 | 11,536 | 1,869 |
| Accumulated losses | | (732,928) | (715,423) | (1,421,466) |
| Effect of reducing the ownership percentage in a subsidiary | | (86) | (86) | (86) |
| Equity attributable to the equity holders of the Parent Company | | 7,778,522 | 7,796,027 | 7,080,317 |
| Non-controlling interests | | (9,051) | (7,508) | (10,720) |
| TOTAL EQUITY | | 7,769,471 | 7,788,519 | 7,069,597 |


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

Emaar The Economic City (A Saudi Joint Stock Company)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(UNAUDITED)

As at 31 March 2017

| | <i>Note</i> | <i>31 March 2017 SR'000</i> | <i>31 December 2016 SR'000 (Note 6)</i> | <i>1 January 2016 SR'000 (Note 6)</i> |
|---|-------------|-------------------------------------|---|---|
| NON-CURRENT LIABILITIES | | | | |
| Long term loans | 12 | 8,000,000 | 7,500,000 | 7,100,000 |
| Employees' terminal benefits | 13 | 44,265 | 43,205 | 31,192 |
| Unearned financing component on long term receivables | | 69,463 | 63,180 | 25,447 |
| Unearned interest income - Home Ownership Scheme | | 17,370 | 14,336 | 6,158 |
| TOTAL NON-CURRENT LIABILITIES | | 8,131,098 | 7,620,721 | 7,162,797 |
| CURRENT LIABILITIES | | | | |
| Accounts payable and accruals | 11 | 1,180,519 | 1,173,304 | 887,297 |
| Amount billed in excess of work done | | - | - | 773,640 |
| TOTAL CURRENT LIABILITIES | | 1,180,519 | 1,173,304 | 1,660,937 |
| TOTAL LIABILITIES | | 9,311,617 | 8,794,025 | 8,823,734 |
| TOTAL EQUITY AND LIABILITIES | | 17,081,088 | 16,582,544 | 15,893,331 |



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

Emaar The Economic City (A Saudi Joint Stock Company)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
For the three-month period ended 31 March 2017

| | Attributed to equity holders of the parent | | | | | Non-controlling interests SR '000 | Total equity SR '000 |
|---|--|------------------------------|-------------------------------|--|------------------|--------------------------------------|-------------------------|
| | Share capital SR '000 | Statutory reserve SR '000 | Accumulated losses SR '000 | Effect of reducing ownership percentage in a subsidiary SR '000 | Total SR '000 | | |
| Balance as at 1 January 2017 | 8,500,000 | 11,536 | (715,423) | (86) | 7,796,027 | (7,508) | 7,788,519 |
| Net loss for the period | - | - | (17,505) | - | (17,505) | (1,543) | (19,048) |
| Other comprehensive income for the period | - | - | - | - | - | - | - |
| Total comprehensive loss for the period | - | - | (17,505) | - | (17,505) | (1,543) | (19,048) |
| Balance as at 31 March 2017 | 8,500,000 | 11,536 | (732,928) | (86) | 7,778,522 | (9,051) | 7,769,471 |
| Balance as at 1 January 2016 | 8,500,000 | 1,869 | (1,421,466) | (86) | 7,080,317 | (10,720) | 7,069,597 |
| Net loss for the period | - | - | (17,038) | - | (17,038) | 3,155 | (13,883) |
| Other comprehensive income for the period | - | - | - | - | - | - | - |
| Total comprehensive loss for the period | - | - | (17,038) | - | (17,038) | 3,155 | (13,883) |
| Balance as at 31 March 2016 | 8,500,000 | 1,869 | (1,438,504) | (86) | 7,063,279 | (7,565) | 7,055,714 |

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

Emaar The Economic City (A Saudi Joint Stock Company)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(UNAUDITED)

For the three-month period ended 31 March 2017

| | Three-month period ended 31 March 2017 SR'000 | Three-month period ended 31 March 2016 SR'000 (Note 6) |
|---|--|--|
| OPERATING ACTIVITIES | | |
| Loss before zakat | (11,770) | (6,708) |
| Adjustments to reconcile loss before zakat to net cash flows: | | |
| Depreciation | 33,630 | 24,337 |
| Impairment loss | 45,313 | 44,016 |
| Amortisation | 3,793 | 3,378 |
| Provision for employees' terminal benefits | 2,232 | 3,530 |
| Financial charges | 14,280 | 16,249 |
| Share of results of equity accounted investees | (4,058) | (1,705) |
| Murabaha deposit income | (3,447) | (4,047) |
| Unwinding of unearned interest income | (519) | (286) |
| Employee benefit expense – Home Ownership Scheme | 3,853 | 5,811 |
| | 83,307 | 84,575 |
| <i>Working capital adjustments</i> | | |
| Accounts receivable and other current assets | 35,009 | (20,119) |
| Development properties | (22,395) | (81,161) |
| Accounts payable and accruals | (165,711) | 12,162 |
| Employees' receivable – Home Ownership Scheme | (10,580) | (12,990) |
| Cash used in operations | (80,370) | (17,533) |
| Employees' terminal benefits paid | (1,172) | (490) |
| Financial charges paid | (7,441) | (1,612) |
| Net cash used in operating activities | (88,983) | (19,635) |
| INVESTING ACTIVITIES | | |
| Purchase of property and equipment | (148,048) | (214,603) |
| Purchase of intangible assets | (2,304) | (2,164) |
| Net movement in murabaha term deposits with banks | - | (362,421) |
| Murabaha deposit income | - | 8,725 |
| Net movement in investment properties | (24,811) | (33,068) |
| Net cash used in investing activities | (175,163) | (603,531) |
| FINANCING ACTIVITIES | | |
| Net movement in long term loans | 500,000 | - |
| Net movement in unearned finance income | 6,283 | 982 |
| Net cash from financing activities | 506,283 | 982 |
| INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS | 242,137 | (622,184) |
| Cash and cash equivalents at the beginning of the period | 1,177,396 | 1,898,851 |
| CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD | 1,419,533 | 1,276,667 |

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

Emaar The Economic City (A Saudi Joint Stock Company)

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 31 March 2017

1. CORPORATE INFORMATION

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 Awal 1436H, corresponding to 28 December 2014.

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

As at the reporting date, the Parent Company has investments in subsidiaries, mentioned in note 4 (hereinafter referred to together as "the Group").

2. BASIS OF PREPARATION

2.1 Statement of compliance

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34") as endorsed in the Kingdom of Saudi Arabia ("KSA"). These are the Group's first interim condensed consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as endorsed in KSA and other standards and pronouncements that are issued by the Saudi Organization for Certified Public Accountants ("SOCPA"). Accordingly, International Financial Reporting Standard 1, "First-time Adoption of International Financial Reporting Standards" ("IFRS 1"), as endorsed in KSA has been applied. Refer to note 6 for information on the first time adoption of IFRS as endorsed in KSA, by the Group.

The interim condensed consolidated financial statements do not include all the information and disclosures required in annual financial statements to be prepared in accordance with IFRS as endorsed in KSA and other standards and pronouncements that are issued by the SOCPA, which would be produced for the year ending 31 December 2017. In addition, results for the interim period ended 31 March 2017 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2017.

2.2 Basis of measurement

These interim condensed consolidated financial statements are prepared under the historical cost convention using the accruals basis of accounting and going concern concept, 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. Also, in respect of employee and other post-employment benefits, actuarial present value calculations are used.

2.3 Functional and presentation currency

The Group's interim condensed consolidated financial statements are presented in Saudi Riyal, which is also the Parent Company's functional currency. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. All figures are rounded off to the nearest thousands except when otherwise indicated.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's interim condensed consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future periods.

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

At 31 March 2017

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

These estimates and assumptions are based upon experience and various other factors that are believed to be reasonable under the circumstances and are used to judge the carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised or in the revision period and future periods if the changed estimates affect both current and future periods.

Judgements

The key judgments, estimates and assumptions that have a significant impact on the interim condensed consolidated financial statements of the Group are discussed below:

Satisfaction of performance obligations

The Group is required to assess each of its contracts with customers to determine whether performance obligations are satisfied over time or at a point in time in order to determine the appropriate method of recognising revenue. The Group has assessed that based on the sale and purchase agreements entered into with customers and the provisions of relevant laws and regulations, where contracts are entered into to provide real estate assets to customer, the Group does not create an asset with an alternative use to the Group and usually has an enforceable right to payment for performance completed to date. Based on this, the Group recognises revenue over time. Where this is not the case, revenue is recognised at a point in time.

The Group has elected to apply the input method in allocating the transaction price to performance obligation where revenue is recognised over time. The Group considers that the use of the input method, which requires revenue recognition based on the Group's efforts to the satisfaction of the performance obligation, provides the best reference of revenue actually earned. In applying the input method, the Group estimates the cost to complete the projects in order to determine the amount of the revenue to be recognised.

Determination of transaction prices

The Group is required to determine the transaction price in respect of each of its contracts with customers. In making such judgment the Group assesses the impact of any variable consideration in the contract, due to discounts or penalties, the existence of any significant financing component in the contract and any non-cash consideration in the contract.

Revenue recognition for leases

Rental income arising from operating leases on investment properties is recognised, net of discount, in accordance with the terms of lease contracts over the lease term on a straight line basis, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset.

Classification of investment properties

The Group determines whether a property qualifies as an investment property in accordance with IAS 40 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. The Group has determined that hotel and serviced residential buildings owned by the Group are to be classified as part of property and equipment rather than investment properties since the Group also operates these assets.

Transfer of real estate assets from property and equipment to development properties

The Group sells real estate assets in its ordinary course of business. When the real estate assets which were previously classified as property and equipment are identified for sale in the ordinary course of business, then the assets are transferred to development properties at their carrying value at the date of identification and become held for sale. Sale proceeds from such assets are recognised as revenue in accordance with IFRS 15 Revenue from Contracts with Customers.

Operating lease commitments - Group as lessor

The Group enters into commercial and retail property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and, therefore, accounts for the contracts as operating leases.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Estimations and assumptions

Consolidation of subsidiaries

The Group has evaluated all the investee entities to determine whether it controls the investee as per the criteria laid out by IFRS 10 Consolidated Financial Statements. The Group has evaluated, amongst other things, its ownership interest, the contractual arrangements in place and its ability and the extent of its involvement with the relevant activities of the investee entities to determine whether it controls the investee.

Defined benefit plans

The cost of the defined benefit plan and the present value of the obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and employees' turnover rate. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. The most sensitive parameters are discount rate and future salary increases. In determining the appropriate discount rate, management considers the market yield on high quality corporate bonds. Future salary increases are based on expected future inflation rates, seniority, promotion, demand and supply in the employment market. The mortality rate is based on publicly available mortality tables for the specific countries. Those mortality tables tend to change only at intervals in response to demographic changes. Further details about employee benefits obligations are provided in note 13.

Impairment of trade and other receivables

An estimate of the collectible amount of trade and other receivables is made when collection of the full amount is no longer probable. The entity follows an expected credit loss model for the impairment of trade and other receivables.

Useful lives of property and equipment and investment properties

The Group's management determines the estimated useful lives of its property and equipment and investment properties for calculating depreciation. This estimate is determined after considering the expected usage of the asset or physical wear and tear. The management periodically reviews estimated useful lives and the depreciation method to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from these assets.

Cost to complete the projects

The Group estimates the cost to complete the projects in order to determine the cost attributable to revenue being recognised. 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 of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. The non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management estimates the expected future cash flows from the asset or cash-generating unit and chooses a suitable discount rate in order to calculate the present value of those cash flows.

Fair value measurement of financial instruments

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow (DCF) model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility.

Going concern

The Group's management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the interim condensed consolidated financial statements continue to be prepared on the going concern basis.

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

At 31 March 2017

4. SIGNIFICANT ACCOUNTING POLICIES

Following are the significant accounting policies applied by the Group in preparing its interim condensed consolidated financial statements and the opening IFRS statement of financial position as at 1 January 2016 for the purposes of the transition to IFRSs, except for the application of relevant exceptions or available exemptions as stipulated in IFRS 1. Details of such exceptions and exemption are disclosed in note 6.

Basis of Consolidation

The interim condensed consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 March 2017. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Income/ (loss) and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in interim condensed consolidated statement of profit or loss and other comprehensive income. Any investment retained is recognised at fair value.

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:

Emaar The Economic City (A Saudi Joint Stock Company)

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

At 31 March 2017

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Consolidation (continued)

| Name | Country of incorporation | Year of incorporation | % of capital held (directly or indirectly) | |
|--|--------------------------|-----------------------|--|------|
| | | | 2017 | 2016 |
| 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 ("REOM") | Saudi Arabia | 2013 | 98% | 98% |
| Economic Cities Pioneer Real Estate Management Company ("REM") | Saudi Arabia | 2013 | 98% | 98% |
| Economic Cities Real Estate Development Company ("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.

Investment in equity accounted investees (associate and joint venture)

Associate is an entity in which the Group has significant influence, but not control, over the financial and operating policies. Joint venture is an entity over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions.

The Group's investment in associate and joint venture are accounted for using the equity method. Under the equity method, the investment in associate and joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate or joint venture since the acquisition date. The interim condensed consolidated statement of profit or loss and other comprehensive income reflects the Group's share of the results of operations of the associate and joint venture. Any change in Other Comprehensive Income (OCI) of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the interim condensed consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and associate and its joint venture are eliminated to the extent of the Group's interest in the associate and joint venture.

The financial statements of the associate and joint venture are prepared for the same reporting period as the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in associate or its joint venture. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate or joint venture is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value and recognises the loss in the interim condensed consolidated statement of profit or loss and other comprehensive income.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the joint venture upon loss of joint control and the fair value of the retained investment and proceeds from disposal is recognised in the interim condensed consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in associate or joint venture, the carrying amount of that interest is reduced to nil, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED
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At 31 March 2017

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Current versus non-current classification

Assets

The Group presents assets and liabilities in the interim condensed statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

Liabilities

A liability is current when:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as non-current.

Fair value measurement

The Group discloses the fair value of the non-financial assets such as investment properties as part of its annual financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Revenue recognition

IFRS 15 Revenue from contracts with customers was issued in May 2014 and is effective for annual periods commencing on or after 1 January 2018 either based on a full retrospective or modified application, with early adoption permitted. IFRS 15 outlines a single comprehensive model of accounting for revenue arising from contracts with customers and supersedes current revenue recognition guidance, which is found currently across several Standards and Interpretations within IFRS's. It establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

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4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

The Group has reviewed the impact of IFRS 15 and has elected to early adopt IFRS 15 with effect from 1 January 2017, as the Group considers that it better reflects the business performance of the Group. The Group has opted for full retrospective application permitted by IFRS 15 upon adoption of the new standard. As a result of early adoption, the Group has applied the following accounting policy for revenue recognition in the preparation of its interim condensed consolidated financial statements:

Revenue from contracts with customers for sale of properties

The Group recognises revenue from contracts with customers based on a five step model as set out in IFRS 15:

- Step 1. Identify the contract(s) with a customer: A contract is defined as an agreement between two or more parties that creates enforceable rights and obligations and sets out the criteria for every contract that must be met.
- Step 2. Identify the performance obligations in the contract: A performance obligation is a promise in a contract with a customer to transfer a good or service to the customer.
- Step 3. Determine the transaction price: The transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.
- Step 4. Allocate the transaction price to the performance obligations in the contract: For a contract that has more than one performance obligation, the Group will allocate the transaction price to each performance obligation in an amount that depicts the amount of consideration to which the Group expects to be entitled in exchange for satisfying each performance obligation.
- Step 5. Recognise revenue when (or as) the entity satisfies a performance obligation.

The Group satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

1. The customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs; or
2. The Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
3. The Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

For performance obligations, where one of the above conditions are not met, revenue is recognised at the point in time at which the performance obligation is satisfied.

When the Group satisfies a performance obligation by delivering the promised goods or services, it creates a contract asset based on the amount of consideration earned by the performance. Where the amount billed to the customer exceeds the amount of revenue recognised, this gives rise to a contract liability.

Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment.

Revenue is recognised in the interim condensed consolidated statement of profit or loss and other comprehensive income to the extent that it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably.

Rental income

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred or incentive in negotiating and arranging an operating lease is considered an integral part of the carrying amount of the leased contract and recognised on a straight-line basis over the lease term.

Service revenue

Revenue from rendering of services is recognised over a period of time when the outcome of the transaction can be estimated reliably, by reference to the stage of completion of the transaction at the reporting date. Where the outcome cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

Emaar The Economic City (A Saudi Joint Stock Company)

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

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4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Hospitality revenue

Revenue from hotels comprises revenue from rooms, food and beverages and other associated services provided. The revenue is recognised net of discount and municipality fees on an accrual basis when the services are rendered.

School revenue

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

Income on Murabaha term deposits

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

Costs of revenue

Costs of revenue includes the cost of land, development and other service related costs. The costs of revenues is based on the proportion of the cost incurred to date related to sold units to the estimated total costs for each project. The costs of revenues in respect of hotel and school is based on actual cost of providing the services.

Expenses

Selling and marketing expenses and general and administrative expenses include direct and indirect costs not specifically part of cost of revenue. Selling and marketing expenses are those arising from the Group's efforts underlying the sales and marketing functions. All other expenses, except for financial charges, are classified as general and administrative expenses. Allocations of common expenses between cost of revenues, selling and marketing and general and administrative expenses, when required, are made on a consistent basis.

Zakat

Zakat is provided for in accordance with the Saudi Arabian fiscal regulations. Provision for zakat for the Company and zakat related to the Company's ownership in the Saudi Arabian subsidiaries is charged to the interim condensed consolidated statement of profit or loss and other comprehensive income. Additional amounts, if any, that may become due on finalization of an assessment are accounted for in the year in which the assessment is finalized.

Withholding tax

The Group withholds taxes on certain transactions with non-resident parties in the Kingdom of Saudi Arabia as required under the Saudi Arabian Tax Laws. Withholding tax related to foreign payments are recorded as liabilities.

Foreign currencies

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange ruling at the reporting date. All differences arising on settlement or translation of monetary items are taken to the interim condensed consolidated statement of profit or loss and other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently restated. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of a gain or loss on change in fair value of the item.

Property and equipment

Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses, if any. Such cost also includes the borrowing costs for long-term construction projects if the recognition criteria are met.

When parts of an item of property and equipment have materially different useful lives, they are accounted for as separate items (major components) of property and equipment.

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At 31 March 2017

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment

Recognition and measurement (continued)

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and are recognised net within other income in interim condensed consolidated statement of profit or loss and other comprehensive income.

The cost of replacing a major part of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. When significant parts of property and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the property and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the interim condensed consolidated statement of profit or loss and other comprehensive income as incurred.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the interim condensed consolidated statement of profit or loss and other comprehensive income when the asset is derecognised.

Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value. Freehold land is not depreciated.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the respective assets.

Depreciation methods, useful lives and residual values are reviewed periodically and adjusted if required.

Capital work in progress are carried at cost less any recognised impairment loss. When the assets are ready for intended use, the capital work in progress is transferred to the appropriate property and equipment category and is accounted for in accordance with the Group's policies.

Leases

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset (or assets) and the arrangement conveys a right to use the asset (or assets), even if that asset is (or those assets are) not explicitly specified in an arrangement.

Group as a lessee

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease. Generally all leases entered by the Group are operating leases and the leased assets are not recognised in the Group's statement of financial position.

An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in the interim condensed consolidated statement of profit or loss and other comprehensive income on a straight-line basis over the lease term.

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases.

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4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

Group as a lessor (continued)

The Group enters into leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases. Lease income is recognised in the interim condensed consolidated statement of profit or loss and other comprehensive income in accordance with the terms of the lease contracts over the lease term on a systematic basis as this method is more representative of the time pattern in which use of benefits are derived from the leased assets.

The Group operates an "Employee Home Ownership Scheme" which is categorised as a finance lease. Under the scheme, the Group sells the built units to employees under interest free finance lease arrangement for a period of twenty years. Generally, the employee is entitled to continue in the scheme, even after retirement, resignation or termination from the Group. The gross value of the lease payments is recognised as a receivable under employee home ownership scheme. The difference between the gross receivable and the present value of the receivable is recognised as an unearned interest income with a corresponding impact in the interim condensed consolidated statement of profit or loss and other comprehensive income as an employee benefit expense. Interest income is recognised in the interim condensed consolidated statement of profit or loss and other comprehensive 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 recognised in the interim condensed consolidated statement of profit or loss and other comprehensive income.

Lease incentives or any escalation in the lease rental are recognised as an integral part of the total lease obligation/ receivable and accounted for on a straight line basis over the term of the lease. Contingent rents are recognised as revenue in the period in which they are earned.

Borrowing costs

Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. Borrowing costs that are directly attributable to the construction of an asset are capitalised using capitalisation rate up to the stage when substantially all the activities necessary to prepare the qualifying asset for its intended use are completed and, thereafter, such costs are charged to the interim condensed consolidated statement of profit or loss and other comprehensive 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 respective asset. All other borrowing costs are expensed in the period in which they occur.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

Investment properties

Investment property is property held either to earn rental income or for capital appreciation or for both, as well as those held for undetermined future use but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at cost less accumulated depreciation and impairment loss if any. Investment properties are depreciated on a straight line basis over the estimated useful life of the respective assets. No depreciation is charged on land and capital work-in-progress.

Investment properties are derecognised either when they have been disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the interim condensed consolidated statement of profit or loss and other comprehensive income in the period of derecognition.

Transfers are made from investment properties to development properties 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.

The useful lives and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from these assets.

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED
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At 31 March 2017

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles are not capitalised and the related expenditure is reflected in the interim condensed consolidated statement of profit or loss and other comprehensive income in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the interim condensed consolidated statement of profit or loss and other comprehensive income in the expense category that is consistent with the function of the intangible assets.

The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the interim condensed consolidated statement of profit or loss and other comprehensive income when the asset is derecognised.

Impairment of non-financial assets

The Group assesses, at each reporting date, 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. An asset's recoverable amount is the higher of an asset's or Cash Generating Unit (CGU's) fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using appropriate discount rate that reflects current market assessments of the time value of money. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used.

An assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the interim condensed consolidated statement of profit or loss and other comprehensive income.

Intangible assets with indefinite useful lives are tested for impairment annually at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

Development properties

Properties acquired, constructed or in the course of construction and development for sale are classified as development properties and are stated at the lower of cost and net realisable value. The cost of development properties generally includes the cost of land, construction and other related expenditure necessary to get the properties ready for sale. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The management reviews the carrying values of development properties on an annual basis.

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED
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4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-Current Asset held for sale

Non-current assets are classified as held for sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use. The criteria for held for sale classification is regarded as met only when the disposal is highly probable and the asset is available for immediate disposal in its present condition. Actions required to complete the disposal should indicate that it is unlikely that significant changes will be made or that the decision to dispose will be withdrawn.

Such assets are generally measured at the lower of their carrying amount and fair value less costs to sell. Impairment losses on initial classification as held for sale and subsequent gains and losses on remeasurement are recognised in the interim condensed consolidated statement of profit or loss and other comprehensive income.

Once classified as held for sale, the respective assets are no longer amortised or depreciated, and equity accounted investee is no longer equity accounted.

Financial Instruments

Early adoption of IFRS 9

IFRS 9 – “Financial Instruments” is effective for annual periods commencing on or after 1 January 2018. The Company has elected to earlier adopt IFRS 9 retrospectively from 1 January 2016. IFRS 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

Initial recognition – Financial assets and financial liabilities

An entity shall recognise a financial asset or a financial liability in its interim condensed statement of financial position when, and only when, the entity becomes party to the contractual provisions of the instrument.

Financial assets

Initial Measurement

At initial recognition, except for the trade receivables which do not contain a significant financing component, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through interim condensed consolidated statement of profit or loss and other comprehensive income, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through interim condensed consolidated statement of profit or loss and other comprehensive income are expensed in interim condensed consolidated statement of profit or loss and other comprehensive income.

The trade receivables that do not contain a significant financing component or which have a maturity of less than 12 months are measured at the transaction price as per IFRS 15.

Classification and Subsequent measurement

The Group classifies its financial assets in the following measurement categories:

- a) those to be measured subsequently at fair value (either through interim condensed consolidated statement of other comprehensive income, or through interim condensed consolidated statement of profit or loss), and
- b) those to be measured at amortised cost.

The classification depends on the entity’s business model for managing the financial assets and the contractual terms of the cash flows. The category most relevant to the Group is financial assets measured at amortised cost.

The Group has not classified any financial asset as measured at fair value through interim condensed consolidated statement of profit or loss and other comprehensive income.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Financial assets (continued)

Financial assets measured at amortised cost

A financial asset shall be measured at amortised cost if both of the following conditions are met:

- a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and
- b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at amortised cost includes trade and other receivables, employees' receivable - home ownership scheme and Murabaha term deposits. 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.

After initial measurement, such financial assets are subsequently measured at amortised cost using the Effective Interest Rate ("EIR") method, less impairment (if any). Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the interim condensed consolidated statement of profit or loss and other comprehensive income. The losses arising from impairment are recognised in the interim condensed consolidated statement of profit or loss and other comprehensive income.

Reclassification

When and only when, an entity changes its business model for managing financial assets it shall reclassify all affected financial assets in accordance the above mentioned classification requirements.

De-recognition

A financial asset (or, where applicable, a part of a financial asset or part of a Group of similar financial assets) is primarily derecognised (i.e. removed from the Group's interim condensed consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired, or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Impairment of financial assets

The Group assesses, at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

IFRS 9 requires an entity to follow an expected credit loss model for the impairment of financial assets. It is no longer necessary for a credit event to have occurred for the recognition of credit losses. Instead, an entity, using expected credit loss model, always accounts for expected credit losses and changes therein at each reporting date.

Expected credit loss shall be measured and provided either at an amount equal to (a) 12 month expected losses; or (b) lifetime expected losses. If the credit risk of the financial instrument has not increased significantly since inception, then an amount equal to 12 month expected loss is provided. In other cases, lifetime credit losses shall be provided. For trade receivables with a significant financing component a simplified approach is available, whereby an assessment of increase in credit risk need not be performed at each reporting date. Instead, an entity can choose to provide for the expected losses based on lifetime expected losses. The Company has chosen to avail the option of lifetime expected credit losses ("ECL"). For trade receivables with no significant financing component, an entity is required to follow lifetime ECL.

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED
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4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the interim condensed consolidated statement of profit or loss and other comprehensive income. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans, together with the associated allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the interim condensed consolidated statement of profit or loss and other comprehensive income.

Financial liabilities

Initial measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through interim condensed consolidated statement of profit or loss and other comprehensive income, loans and borrowings and payables, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. The Group's financial liabilities include accounts payable and accruals and loans and borrowings.

Classification and subsequent measurement

An entity shall classify all financial liabilities as subsequently measured at amortised cost, except for:

- a) financial liabilities at fair value through interim condensed consolidated statement of profit or loss and other comprehensive income.
- b) financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies.
- c) financial guarantee contracts.
- d) commitments to provide a loan at a below-market interest rate.
- e) contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies. Such contingent consideration shall subsequently be measured at fair value with changes recognised in interim condensed consolidated statement of profit or loss and other comprehensive income.

The Group's financial liabilities include accounts payable and accruals, loans and borrowings. All of the Group's financial liabilities are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in interim condensed consolidated statement of profit or loss and other comprehensive income when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the interim condensed consolidated statement of profit or loss and other comprehensive income.

Reclassification

The Group cannot reclassify any financial liability.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the interim condensed consolidated statement of profit or loss and other comprehensive income.

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At 31 March 2017

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the interim condensed consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

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, which are subject to an insignificant risk of changes in value.

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.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the interim condensed consolidated statement of profit or loss and other comprehensive income net of any reimbursement.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a discount rate that reflects current market assessments of the time value of money and the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost in the interim condensed consolidated statement of profit or loss and other comprehensive income.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

Employee benefits

Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Defined benefit plans

The Group's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefits that employees have earned in the current and prior periods and discounting that amount. The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses are recognised immediately in OCI. The Group determines the net interest expense (income) on the net defined benefit liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability, taking into account any changes in the net defined benefit liability during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in the interim condensed consolidated statement of profit or loss and other comprehensive income.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in the interim condensed consolidated statement of profit or loss and other comprehensive income.

For the liability relating to employees' terminal benefits, the actuarial valuation process takes into account the provisions of the Saudi Arabian Labour Law as well as the Group's policy.

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

At 31 March 2017

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Earnings per share (EPS)

Basic EPS is calculated by dividing the net income for the period attributable to equity holders of the Parent Company by the weighted average number of shares outstanding during the year.

Diluted EPS is calculated by dividing the profit attributable to equity holders of the Parent Company (after adjusting for interest on the convertible preference shares) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares. Since the Company does not have any convertible shares, therefore, the basic EPS equals the diluted EPS.

Segment reporting

A business segment is a group of assets, operations or entities:

- i) engaged in business activities from which it may earn revenue and incur expenses including revenues and expenses that relate to transactions with any of the Group's other components;
- ii) the results of its operations are continuously analysed by chief operating decision maker in order to make decisions related to resource allocation and performance assessment; and
- iii) for which financial information is discretely available.

For further details of business segments, refer note 20.

A geographical segment is engaged in producing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments. Since the Group operates in the Kingdom of Saudi Arabia only, hence, no geographical segments are being presented in these interim condensed consolidated financial statements.

5. STANDARDS ISSUED BUT NOT YET EFFECTIVE

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable when they become effective.

IFRS 16 Leases

The IASB has issued a new standard for the recognition of leases. This standard will replace:

- IAS 17 – 'Leases'
- IFRIC 4 – 'Whether an arrangement contains a lease'
- SIC 15 – 'Operating leases – Incentives'
- SIC-27 – 'Evaluating the substance of transactions involving the legal form of a lease'

Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessee to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and lease assets; however, this exemption can only be applied by lessee.

Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The standard is not expected to have any major impact on the Group. The mandatory date for adoption for the standard is 1 January 2019.

IAS 40 Transfers of Investment Property

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is an evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use.

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED
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At 31 March 2017

5. STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

IAS 40 Transfers of Investment Property (continued)

Entities should apply the amendments prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at that date and, if applicable, reclassify property to reflect the conditions that exist at that date.

The amendments are effective for annual periods beginning on or after 1 January 2018. Retrospective application in accordance with IAS 8 is only permitted if that is possible without the use of hindsight. Early application of the amendments is permitted and must be disclosed. The Company is currently assessing the impact of the amendment to IAS 40.

Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3 Business Combination, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively.

6. FIRST-TIME ADOPTION OF IFRS

For all periods up to and including the year ended 31 December 2016, the Group prepared its financial statements only in accordance with Generally Accepted Accounting Principles (GAAP) issued by SOCPA in the Kingdom of Saudi Arabia ("SOCPA GAAP"). These are the Group's first interim condensed consolidated financial statements in accordance with IAS 34, "Interim Financial Reporting" and IFRS 1, "First-time Adoption of International Financial Reporting Standards" that are endorsed in KSA.

Accordingly, the Group has prepared financial statements in accordance with IFRS as endorsed in KSA applicable for periods beginning on or before 1 January 2017, together with the comparative period data. In preparing the accompanying interim condensed consolidated financial statements, the Group's opening statement of financial position was prepared as at 1 January 2016 after incorporating certain adjustments made as required due to the first time adoption of IFRS as endorsed in KSA.

In preparing its IFRS based opening consolidated statement of financial position, as at 1 January 2016, the annual consolidated financial statements for the year ended 31 December 2016 and the interim condensed consolidated financial statements for the three-month period ended 31 March 2016, the Group has analysed the impact and noted following adjustments are required to the amounts reported previously in financial statements prepared in accordance with SOCPA GAAP.

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NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED
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At 31 March 2017

6. FIRST-TIME ADOPTION OF IFRS (continued)

The following is a reconciliation of the Group's consolidated statement of financial position reported in accordance with SOCPA GAAP to its consolidated statement of financial position under IFRS as endorsed in KSA at 1 January 2016:

| | Note | SOCPA GAAP as at 1 January 2016 SR' 000 | Re-measurements SR' 000 | IFRS as at 1 January 2016 SR'000 |
|--|------------|---|----------------------------|--|
| ASSETS | | | | |
| NON-CURRENT ASSETS | | | | |
| Investment properties | 6(f) | 5,217,389 | (304,127) | 4,913,262 |
| Intangible assets | 6(b) | - | 20,389 | 20,389 |
| Property and equipment | 6(e) & (f) | 5,495,223 | (1,224,272) | 4,270,951 |
| Investment in equity accounted investees | | 2,345,651 | - | 2,345,651 |
| Employees' receivable - Home Ownership Scheme | | 34,530 | - | 34,530 |
| Deferred costs | 6(c) | 5,857 | (5,857) | - |
| TOTAL NON-CURRENT ASSETS | | 13,098,650 | (1,513,867) | 11,584,783 |
| CURRENT ASSETS | | | | |
| Cash and cash equivalents | | 1,898,851 | - | 1,898,851 |
| Murabaha term deposits with banks | | 1,012,979 | - | 1,012,979 |
| Accounts receivable and other current assets | 6(h) | 358,322 | (10,296) | 348,026 |
| Development properties | 6(e) | 1,575,841 | (620,166) | 955,675 |
| Current portion of employees' receivable - Home Ownership Scheme | | 2,126 | - | 2,126 |
| TOTAL CURRENT ASSETS | | 4,848,119 | (630,462) | 4,217,657 |
| Assets held for sale | | 90,891 | - | 90,891 |
| TOTAL ASSETS | | 18,037,660 | (2,144,329) | 15,893,331 |
| EQUITY AND LIABILITIES | | | | |
| EQUITY | | | | |
| Share capital | | 8,500,000 | - | 8,500,000 |
| Statutory reserve | | 1,869 | - | 1,869 |
| Retained earnings / (accumulated losses) | | 16,820 | (1,438,286) | (1,421,466) |
| Effect of reducing the ownership percentage in a subsidiary | | (86) | - | (86) |
| Equity attributable to the equity holders of the Parent Company | | 8,518,603 | (1,438,286) | 7,080,317 |
| Non-controlling interests | | (1,908) | (8,812) | (10,720) |
| TOTAL EQUITY | | 8,516,695 | (1,447,098) | 7,069,597 |

Emaar The Economic City (A Saudi Joint Stock Company)

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED
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At 31 March 2017

6. FIRST-TIME ADOPTION OF IFRS (continued)

| | Note | SOCPA GAAP as at 1 January 2016 SR' 000 | Re-measurements SR' 000 | IFRS as at 1 January 2016 SR'000 |
|--|------|---|----------------------------|--|
| LIABILITIES | | | | |
| NON-CURRENT LIABILITIES | | | | |
| Long term loans | | 7,100,000 | - | 7,100,000 |
| Deferred contribution | 6(e) | 1,496,629 | (1,496,629) | - |
| Employees' terminal benefits | 6(d) | 23,117 | 8,075 | 31,192 |
| Unearned financing component on long term receivables | 6(e) | - | 25,447 | 25,447 |
| Unearned interest income - Home Ownership Scheme | | 6,158 | - | 6,158 |
| TOTAL NON-CURRENT LIABILITIES | | 8,625,904 | (1,463,107) | 7,162,797 |
| CURRENT LIABILITIES | | | | |
| Accounts payable and accruals | | 895,061 | (7,764) | 887,297 |
| Amount received in excess of work done | 6(e) | - | 773,640 | 773,640 |
| TOTAL CURRENT LIABILITIES | | 895,061 | 765,876 | 1,660,937 |
| TOTAL LIABILITIES | | 9,520,965 | (697,231) | 8,823,734 |
| TOTAL EQUITY AND LIABILITIES | | 18,037,660 | (2,144,329) | 15,893,331 |

The following is a reconciliation of the Group's consolidated statement of financial position reported in accordance with SOCPA GAAP to its consolidated statement of financial position under IFRS as endorsed in KSA at 31 March 2016:

| | Note | SOCPA GAAP as at 31 March 2016 SR' 000 | Re-measurements SR' 000 | IFRS as at 31 March 2016 SR'000 |
|---|------------|--|----------------------------|---------------------------------------|
| ASSETS | | | | |
| NON-CURRENT ASSETS | | | | |
| Investment properties | 6(f) | 5,206,545 | (260,215) | 4,946,330 |
| Intangible assets | 6(b) | - | 19,175 | 19,175 |
| Property and equipment | 6(e) & (f) | 5,847,741 | (1,386,524) | 4,461,217 |
| Investment in an equity accounted investees | | 2,347,356 | - | 2,347,356 |
| Employees' receivable - Home Ownership Scheme | | 42,981 | - | 42,981 |
| Deferred costs | 6(c) | 5,544 | (5,544) | - |
| TOTAL NON-CURRENT ASSETS | | 13,450,167 | (1,633,108) | 11,817,059 |
| CURRENT ASSETS | | | | |
| Cash and cash equivalents | | 1,276,667 | - | 1,276,667 |
| Murabaha term deposits with banks | | 1,375,400 | - | 1,375,400 |
| Accounts receivable and other current assets | 6(h) | 379,625 | (16,158) | 363,467 |
| Development properties | 6(e) | 1,652,277 | (615,441) | 1,036,836 |
| Current portion of employees' receivable - Home Ownership Scheme | | 2,592 | - | 2,592 |
| TOTAL CURRENT ASSETS | | 4,686,561 | (631,599) | 4,054,962 |
| Assets held for sale | | 46,875 | - | 46,875 |
| TOTAL ASSETS | | 18,183,603 | (2,264,707) | 15,918,896 |

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FINANCIAL STATEMENTS (continued)

At 31 March 2017

6. FIRST-TIME ADOPTION OF IFRS (continued)

| | Note | SOCPA GAAP as at 31 March 2016 SR' 000 | Re-measurements SR' 000 | IFRS as at 31 March 2016 SR'000 |
|--|------|--|----------------------------|---------------------------------------|
| EQUITY AND LIABILITIES | | | | |
| EQUITY | | | | |
| Share capital | | 8,500,000 | - | 8,500,000 |
| Statutory reserve | | 1,869 | - | 1,869 |
| Accumulated losses | | (14,276) | (1,424,228) | (1,438,504) |
| Effect of reducing the ownership percentage in a subsidiary | | (86) | - | (86) |
| Equity attributable to the equity holders of the Parent Company | | 8,487,507 | (1,424,228) | 7,063,279 |
| Non-controlling interests | | (1,894) | (5,671) | (7,565) |
| TOTAL EQUITY | | 8,485,613 | (1,429,899) | 7,055,714 |
| LIABILITIES | | | | |
| NON-CURRENT LIABILITIES | | | | |
| Long term loans | | 7,100,000 | - | 7,100,000 |
| Deferred contribution | 6(e) | 1,550,116 | (1,550,116) | - |
| Long-term provision | | 5,099 | - | 5,099 |
| Employees' terminal benefits | 6(d) | 26,158 | 8,074 | 34,232 |
| Unearned financing component on long term receivables | 6(e) | - | 26,429 | 26,429 |
| Unearned interest income - Home Ownership Scheme | | 7,610 | - | 7,610 |
| TOTAL NON-CURRENT LIABILITIES | | 8,688,983 | (1,515,613) | 7,173,370 |
| CURRENT LIABILITIES | | | | |
| Accounts payable and accruals | 6(g) | 1,009,007 | (6,075) | 1,002,932 |
| Amount received in excess of work done | 6(e) | - | 686,880 | 686,880 |
| TOTAL CURRENT LIABILITIES | | 1,009,007 | 680,805 | 1,689,812 |
| TOTAL LIABILITIES | | 9,697,990 | (834,808) | 8,863,182 |
| TOTAL EQUITY AND LIABILITIES | | 18,183,603 | (2,264,707) | 15,918,896 |

The following is a reconciliation of the Group's consolidated statement of financial position reported in accordance with SOCPA GAAP to its consolidated statement of financial position under IFRS as endorsed in KSA at 31 December 2016:

| | Note | SOCPA GAAP as at 31 December 2016 SR' 000 | Re-measurements SR' 000 | IFRS as at 31 December 2016 SR'000 |
|--|------------|--|----------------------------|---|
| ASSETS | | | | |
| NON-CURRENT ASSETS | | | | |
| Investment properties | 6(f) | 4,997,076 | (241,058) | 4,756,018 |
| Intangible assets | 6(b) | - | 19,450 | 19,450 |
| Property and equipment | 6(e) & (f) | 7,035,435 | (1,953,310) | 5,082,125 |
| Investment in equity accounted investees | | 2,389,458 | - | 2,389,458 |
| Employees' receivable - Home Ownership Scheme | | 69,774 | - | 69,774 |
| Deferred costs | 6(c) | 4,602 | (4,602) | - |
| Other long term receivable | | 48,119 | - | 48,119 |
| TOTAL NON-CURRENT ASSETS | | 14,544,464 | (2,179,520) | 12,364,944 |

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NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED
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At 31 March 2017

6. FIRST-TIME ADOPTION OF IFRS (continued)

The following is a reconciliation of the Group's consolidated statement of financial position reported in accordance with SOCPA GAAP to its consolidated statement of financial position under IFRS as endorsed in KSA at 31 December 2016:

| | | <i>SOCPA GAAP as at 31 December 2016</i> | <i>Re-measurements</i> | <i>IFRS as at 31 December 2016</i> |
|--|-------------|--|------------------------|--|
| | <i>Note</i> | <i>SR ' 000</i> | <i>SR ' 000</i> | <i>SR '000</i> |
| CURRENT ASSETS | | | | |
| Cash and cash equivalents | | 1,177,396 | - | 1,177,396 |
| Murabaha term deposits with banks | | 997,000 | - | 997,000 |
| Accounts receivable and other current assets | 6(h) | 578,367 | (5,599) | 572,768 |
| Development properties | 6(e) | 1,549,948 | (174,356) | 1,375,592 |
| Work done in excess of billing | 6(e) | - | 90,723 | 90,723 |
| Current portion of employees' receivable – Home Ownership Scheme | | 4,121 | - | 4,121 |
| TOTAL CURRENT ASSETS | | 4,306,832 | (89,232) | 4,217,600 |
| TOTAL ASSETS | | 18,851,296 | (2,268,752) | 16,582,544 |
| EQUITY AND LIABILITIES | | | | |
| EQUITY | | | | |
| Share capital | | 8,500,000 | - | 8,500,000 |
| Statutory reserve | | 11,536 | - | 11,536 |
| Retained earnings / (accumulated losses) | | 103,826 | (819,249) | (715,423) |
| Effect of reducing the ownership percentage in a subsidiary | | (86) | - | (86) |
| Equity attributable to the equity holders of the Parent Company | | 8,615,276 | (819,249) | 7,796,027 |
| Non-controlling interests | | (4,503) | (3,005) | (7,508) |
| TOTAL EQUITY | | 8,610,773 | (822,254) | 7,788,519 |
| LIABILITIES | | | | |
| NON-CURRENT LIABILITIES | | | | |
| Long term loans | | 7,500,000 | - | 7,500,000 |
| Deferred contribution | 6(e) | 1,523,924 | (1,523,924) | - |
| Employees' terminal benefits | 6(d) | 32,105 | 11,100 | 43,205 |
| Unearned financing component on long term receivables | 6(e) | - | 63,180 | 63,180 |
| Unearned interest income - Home Ownership Scheme | | 14,336 | - | 14,336 |
| TOTAL NON-CURRENT LIABILITIES | | 9,070,365 | (1,449,644) | 7,620,721 |
| CURRENT LIABILITY | | | | |
| Accounts payable and accruals | | 1,170,158 | 3,146 | 1,173,304 |
| TOTAL LIABILITIES | | 10,240,523 | (1,446,498) | 8,794,025 |
| TOTAL EQUITY AND LIABILITIES | | 18,851,296 | (2,268,752) | 16,582,544 |

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At 31 March 2017

6. FIRST-TIME ADOPTION OF IFRS (continued)

The following is a reconciliation of the Group's interim condensed consolidated statement of income reported in accordance with SOCPA GAAP to its interim condensed consolidated statement of profit or loss and other comprehensive income under IFRS as endorsed in KSA for the three-month period ended 31 March 2016:

| | Note | SOCPA GAAP 31 March 2016 SR'000 | Re-measurements SR'000 | IFRS 31 March 2016 SR'000 |
|--|------------|---------------------------------------|---------------------------|---------------------------------|
| Revenue | 6(e) & (g) | 132,482 | 139,848 | 272,330 |
| Cost of revenue | | (80,400) | (98,766) | (179,166) |
| GROSS PROFIT | | 52,082 | 41,082 | 93,164 |
| EXPENSES | | | | |
| Selling and marketing | 6(h) | (11,873) | (5,778) | (17,651) |
| General and administration | | (52,959) | 3,298 | (49,661) |
| Impairment loss | | (44,016) | - | (44,016) |
| Depreciation, net | 6(e) | (8,533) | (15,804) | (24,337) |
| Amortisation | | (314) | (3,064) | (3,378) |
| OPERATING LOSS | | (65,613) | 19,734 | (45,879) |
| OTHER INCOME / (EXPENSES) | | | | |
| Financial charges | | (24,244) | 7,995 | (16,249) |
| Share of results of equity accounted investees | | 1,705 | - | 1,705 |
| Murabaha deposit income | | 12,042 | (7,995) | 4,047 |
| Other income | | 52,203 | (2,535) | 49,668 |
| LOSS BEFORE ZAKAT | | (23,907) | 17,199 | (6,708) |
| Zakat | | (7,175) | - | (7,175) |
| LOSS FOR THE PERIOD | | (31,082) | 17,199 | (13,883) |
| Re-measurement loss on defined benefit plans | | - | - | - |
| TOTAL COMPREHENSIVE LOSS FOR THE PERIOD | | (31,082) | 17,199 | (13,883) |
| ATTRIBUTABLE TO: | | | | |
| Equity holders of the parent | | (31,096) | | (17,038) |
| Non-controlling interests | | 14 | | 3,155 |
| LOSS FOR THE PERIOD | | (31,082) | | (13,883) |

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NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED
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6. FIRST-TIME ADOPTION OF IFRS (continued)

The following is a reconciliation of the Group's consolidated statement of income reported in accordance with SOCPA GAAP to its consolidated statement of profit or loss and other comprehensive income under IFRS as endorsed in KSA for the year ended 31 December 2016:

| | | <i>SOCPA GAAP</i> | <i>Re-measurements</i> | <i>IFRS</i> |
|--|-------------|--------------------------------|--------------------------------|--------------------------------|
| | <i>Note</i> | <i>31 December 2016</i> | <i>31 December 2016</i> | <i>31 December 2016</i> |
| | | <i>SR'000</i> | <i>SR'000</i> | <i>SR'000</i> |
| Revenue | 6(e) & (g) | 1,139,827 | 1,127,944 | 2,267,771 |
| Cost of revenue | | (672,909) | (426,432) | (1,099,341) |
| GROSS PROFIT | | 466,918 | 701,512 | 1,168,430 |
| EXPENSES | | | | |
| Selling and marketing | 6(h) | (121,687) | (3,339) | (125,026) |
| General and administration | | (288,001) | 5,001 | (283,000) |
| Impairment loss | | (44,016) | - | (44,016) |
| Depreciation, net | 6(e) | (56,689) | (68,638) | (125,327) |
| Amortisation | | (1,255) | (13,836) | (15,091) |
| OPERATING (LOSS) / INCOME | | (44,730) | 620,700 | 575,970 |
| OTHER INCOME / (EXPENSES) | | | | |
| Financial charges | | (82,017) | 33,233 | (48,784) |
| Share of results of equity accounted investees | | (1,983) | - | (1,983) |
| Murabaha deposit income | | 51,332 | (33,233) | 18,099 |
| Other income | | 191,476 | 7,221 | 198,697 |
| INCOME BEFORE ZAKAT | | 114,078 | 627,921 | 741,999 |
| Zakat | | (20,000) | - | (20,000) |
| INCOME FOR THE YEAR | | 94,078 | 627,921 | 721,999 |
| Re-measurement loss on defined benefit plans | | - | (3,076) | (3,076) |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | | 94,078 | 624,845 | 718,923 |
| ATTRIBUTABLE TO: | | | | |
| Equity holders of the parent | | 96,673 | | 723,765 |
| Non-controlling interests | | (2,595) | | (4,842) |
| INCOME FOR THE YEAR | | 94,078 | | 718,923 |

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

At 31 March 2017

6. FIRST-TIME ADOPTION OF IFRS (continued)

6.1 Other comprehensive income

Under IFRS, end of service benefits ("EOSB") is required to be calculated using actuarial assumptions. Net other comprehensive income during the year ended 31 December 2016 and three month period ended 31 March 2016 represent the re-measurement gain/loss arising from experience adjustments and changes in actuarial assumptions occurred during the year/period. This adjustment is the result of IFRS transition only and there was no such item in the consolidated statement of income for the year ended 31 December 2016 and the interim condensed consolidated statement income for the three-month period ended 31 March 2016 presented under SOCPA GAAP. Such adjustment will not be reclassified to the interim condensed consolidated statement of profit or loss and other comprehensive income in subsequent periods.

6.2 Estimates

The estimates as at 31 March 2016 are consistent with those made for the same dates in accordance with SOCPA GAAP (after adjustments to reflect any differences in accounting policies) apart from the actuarial valuation in employee terminal benefits (refer to note 13), where the application of SOCPA GAAP did not require estimation in accordance with the guidance provided under IFRS as endorsed in the Kingdom of Saudi Arabia.

6.3 Cashflow

The impact on cash flows and on earnings per share were:

| | <i>SOCPA GAAP for the three-month period ended 31 March 2016 SR'000</i> | <i>IFRS for the three- month period ended 31 March 2016 SR'000</i> | <i>Difference SR'000</i> |
|--|---|--|------------------------------|
| Net cash from / (used in) operating activities | 100,872 | (19,635) | (120,507) |
| Net cash used in investing activities | (723,056) | (603,531) | 119,525 |
| Net cash from financing activities | - | 982 | 982 |
| Per ordinary share in SR - net loss | (0.03) | (0.02) | (0.01) |

Notes to the reconciliation of consolidated statement of financial position as at 1 January 2016 and 31 December 2016 and consolidated statement of profit or loss and other comprehensive income for the period ended 31 March 2016 and 31 December 2016, are given below:

6(a) Property and equipment

Under IFRS, property and equipment needs to be componentised and their useful lives separately identified. Historically, there was no such requirement under SOCPA GAAP. Accordingly, an assessment was made by the Company which resulted in adjusted accumulated depreciation and retained earnings on the IFRS transition date reflecting the change in classification and useful lives.

6(b) Intangible assets

An amount of SR 20 million as at 1 January 2016 has been reclassified from property and equipment to intangible assets representing software that were previously classified as part of property and equipment under SOCPA GAAP.

6(c) Deferred costs

Under SOCPA GAAP, the Group capitalised certain pre-operating expenses and amortised this on a straight-line basis over seven years. As such, the cost does not qualify for recognition as an asset under IFRS, accordingly this asset has been derecognised against retained earnings.

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

At 31 March 2017

6. FIRST-TIME ADOPTION OF IFRS (continued)

6(d) Employees' terminal benefits

Under IFRS, end of service benefits ("EOSB") are required to be calculated using actuarial assumptions. Historically, the Company has calculated these obligations in accordance with the provisions of the Saudi Arabian Labour Law. This change has resulted in an increase in the EOSB liability on the transition date and as at 31 December 2016 and a decrease in retained earnings and current period income for the period ended 31 March 2016.

6(e) Sales and other income

As mentioned in note 4, the Group has reviewed the impact of IFRS 15 and has elected to early adopt IFRS 15 with effect from 1 January 2017, as the Group considers that it better reflects the business performance of the Group. The Group has opted for full retrospective application permitted by IFRS 15 upon adoption of the new standard. Full retrospective application requires the recognition of the cumulative impact of adoption on all contracts not yet completed as at 1 January 2016 in the form of an adjustment to the opening balance of retained earnings as at 1 January 2016. As a result of early adoption of IFRS, following are the major impacts at transition date:

- Decrease in retained earnings by SR 841 million, which is primarily due to revenue recognition over period of time under IFRS 15.
- Decrease in retained earnings by SR 25 million, which is due to carving out of significant financing portion from the selling price.

6(f) Impairment of non-current assets

Under SOCPA GAAP, non-current assets were reviewed for impairment when events or changes in circumstances indicated that their carrying value might exceed the sum of the undiscounted future cash flows expected from use and eventual disposal. Under IFRS, impairment of assets is based on the discounted future cash flows expected from use and eventual disposal of the non-current assets. At the date of transition to IFRS, as a result of the change in methodology, the Group has recorded an impairment loss of SR 457 million as at 1 January 2016. This amount has been recognised against retained earnings. Additionally, depreciation for the three-month period ended 31 March 2016 was increased by SR 6 million.

6(g) Rental income from investment properties

Under IFRS, all incentives for the agreement of a new or renewed operating lease, shall be recognised as an integral part of the net consideration agreed for the use of the leased asset, irrespective of the incentive's nature or form or the timing of payments. Accordingly, the Group has started recognising revenue on straight-line basis including the lease free period.

6(h) Expected credit loss model

Under SOCPA GAAP, an estimate for doubtful receivables was made when collection of the full amount was no longer probable. However, IFRS 9 requires recognition of expected impairment loss equal to the lifetime expected credit losses ("ECL") if the credit risk on trade receivables has increased significantly since initial recognition. Accordingly, adjustments have been made in these interim condensed consolidated financial statements to comply with the ECL model requirements in all the periods presented.

7. INVESTMENT PROPERTIES

Investment properties include Greenfield land and associated costs amounting to SR 3,035 million (31 December 2016: SR 3,035 million and 1 January 2016: SR 3,036 million), and properties completed and under construction, net of accumulated depreciation and impairment, amounting to SR 1,745 million (31 December 2016: SR 1,720 million and 1 January 2016: SR 1,877 million).

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

At 31 March 2017

8. PROPERTY AND EQUIPMENT

Property and equipment includes capital work in progress, amounting to SR 1,997 million (31 December 2016: SR 1,909 million and 1 January 2016: 1,648 million), which represents construction costs in respect of the infrastructure and other projects at KAEC. During the current period, an impairment loss of SR 45 million against projects under progress has been recognised in the interim condensed consolidated statement of profit or loss and other comprehensive income.

9. INVESTMENT IN EQUITY ACCOUNTED INVESTEEES

| | <i>31 March 2017 SR'000</i> | <i>31 December 2016 SR'000</i> | <i>1 January 2016 SR'000</i> |
|--|-------------------------------------|--|--------------------------------------|
| Investment in Port Development Company ("PDC") (see note (a) below) | 2,347,726 | 2,343,668 | 2,345,651 |
| Investment in Biyoutat Progressive Company for Real Estate Investment & Development ("Biyoutat") (see note (b) below) | 45,790 | 45,790 | - |
| | <u>2,393,516</u> | <u>2,389,458</u> | <u>2,345,651</u> |

a) Investment in PDC – Joint Venture

| | <i>31 March 2017 SR'000</i> | <i>31 December 2016 SR'000</i> | <i>1 January 2016 SR'000</i> |
|---|-------------------------------------|--|--------------------------------------|
| Investment | 2,487,520 | 2,487,520 | 2,487,520 |
| Purchase of shares from other shareholders | 117,480 | 117,480 | 117,480 |
| | <u>2,605,000</u> | <u>2,605,000</u> | <u>2,605,000</u> |
| Share of results of an equity accounted investee | | | |
| At beginning of the period/year | 26,382 | 28,365 | 20,799 |
| Share of results for the period/year | 4,058 | (1,983) | 7,566 |
| | <u>30,440</u> | <u>26,382</u> | <u>28,365</u> |
| At the end of the period/year | | | |
| Elimination of share of profit on sale of land and commission income from an equity accounted investee | (287,714) | (287,714) | (287,714) |
| | <u>2,347,726</u> | <u>2,343,668</u> | <u>2,345,651</u> |

On 14 Jumada Awal 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). 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".

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9. INVESTMENT IN EQUITY ACCOUNTED INVESTEEES (continued)

a) Investment in PDC – Joint Venture (continued)

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, 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.

b) Investment in Biyoutat - Associate

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

| | <i>31 March 2017 SR'000</i> | <i>31 December 2016 SR'000</i> | <i>1 January 2016 SR'000</i> |
|--|-------------------------------------|--|--------------------------------------|
| Initial investment | 200 | 200 | - |
| Additional investment | 53,755 | 53,755 | - |
| Elimination of share of profit on sale of land | (8,165) | (8,165) | - |
| | <u>45,790</u> | <u>45,790</u> | <u>-</u> |

During 2016, the Company 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 2016, the Company has sold a piece of land to Biyoutat, amounting to SR 54 million. Since Biyoutat has not started its operations, the share of results of Biyoutat for the period are considered insignificant for the Group.

10. ASSETS CLASSIFIED AS HELD FOR SALE

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 sale. During the three-month period ended 31 March 2016, these assets have been reviewed for impairment. Based on this review, an impairment of SR 44 million has been recognised in the interim condensed consolidated statement of profit or loss and other comprehensive income. During September 2016, these assets were completely disposed off at their carrying amounts, resulting in no gain or loss.

11. ACCOUNTS PAYABLE AND ACCRUALS

| | <i>31 March 2017 SR'000</i> | <i>31 December 2016 SR'000</i> | <i>1 January 2016 SR'000</i> |
|---|-------------------------------------|--|--------------------------------------|
| Trade accounts payable | 89,219 | 113,995 | 101,686 |
| Retentions payable | 235,928 | 225,168 | 189,539 |
| Amounts due to related parties (note 17) | 13,982 | 29,916 | 29,413 |
| Amounts to be donated for charitable purposes (see note below) | 60,653 | 60,374 | 66,756 |
| Advances from customers | 76,991 | 85,917 | 199,599 |
| Accrued expenses and other payables | 136,557 | 130,497 | 103,262 |
| Contract cost accruals | 340,645 | 375,976 | 91,938 |
| Zakat payable | 36,597 | 29,319 | 30,263 |
| Accrued financial charges | 188,089 | 120,585 | 74,153 |
| Unearned interest income - Home Ownership Scheme | 1,858 | 1,557 | 688 |
| | <u>1,180,519</u> | <u>1,173,304</u> | <u>887,297</u> |

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11. ACCOUNTS PAYABLE AND ACCRUALS (continued)

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.

12. LONG TERM LOANS

| | <i>31 March 2017 SR'000</i> | <i>31 December 2016 SR'000</i> | <i>1 January 2016 SR'000</i> |
|--|-------------------------------------|--|--------------------------------------|
| Ministry of Finance ("MoF") loan (see note (a) below) | 5,000,000 | 5,000,000 | 5,000,000 |
| Others (see note (b) below) | 3,000,000 | 2,500,000 | 2,100,000 |
| | <u>8,000,000</u> | <u>7,500,000</u> | <u>7,100,000</u> |

(a) During 2011, the Parent 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 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 as at 31 March 2017 amounted to SR 1,500 million (31 December 2016: SR 1,500 million and 1 January 2016: 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. The outstanding balance of the long term loan as at 31 March 2017 amounted to SR 500 million (31 December 2016: SR Nil and 1 January 2016: SR Nil). 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 as at 31 March 2017 amounted to SR 1,000 million (31 December 2016: SR 1,000 million and 1 January 2016: 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.

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13. EMPLOYEES' TERMINAL BENEFITS

General Description of the plan

The Group operates an approved unfunded employees' end of service benefits plan ("EOSB") for its employees as required by the Saudi Arabian Labour Law. The movement in EOSB for the period/year ended is as follows:

| | <i>31 December 2016 SR'000</i> |
|---|--|
| Balance at 1 January | 31,192 |
| <i>Included in interim condensed consolidated statement of profit or loss</i> | |
| Current service cost | 9,194 |
| Interest cost | 1,403 |
| | <u>41,789</u> |
| <i>Included in interim condensed consolidated statement of other comprehensive income</i> | |
| Actuarial loss | 3,076 |
| | <u>(1,660)</u> |
| Balance at the end of the year | <u>43,205</u> |

The difference between employees' terminal benefits under previous SOCPA GAAP and IFRS, as at 1 January 2016, amounting to SR 8 million, is recorded in the retained earnings (note 6(d)). There has been no change in actuarial assumptions for the three-month period ended 31 March 2017. Hence, actuarial gain/loss for the period is nil.

Actuarial assumptions

The following were the principal actuarial assumptions applied at the reporting date:

| | <i>Three-month period ended 31 March 2017</i> |
|---|---|
| Discount rate | 4% |
| Expected rate of future salary increase | |
| - First four years | 4.75% |
| - Thereafter | 4.75% |
| Mortality rate | 1.17% |
| Employee turnover rate | 7.50% |
| Retirement age | 60 years |

Similar assumptions, as above, were applied in the computation of EOSB as at 31 March 2016.

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13. EMPLOYEES' TERMINAL BENEFIT (continued)

The sensitivity of EOSB to changes in the weighted principal assumptions is as follows:

| | <i>Change in assumption by</i> | <i>Impact on EOSB liability Increase / (decrease)</i> | |
|---|------------------------------------|---|-----------------------------|
| | | <i>Increase in rate</i> | <i>Decrease in rate</i> |
| | | <i>SR'000</i> | <i>SR'000</i> |
| Discount rate | 1% | (3,541) | 4,265 |
| Expected rate of future salary increase | 1% | 4,103 | (3,570) |
| Mortality rate | 10% | (10) | 18 |
| Employee turnover rate | 10% | (467) | 557 |

14. ZAKAT

Charge for the period

| | <i>Three-month period ended 31 March 2017</i> | <i>Three-month period ended 31 March 2016</i> |
|----------------------------|---|---|
| | <i>SR'000</i> | <i>SR'000</i> |
| Provided during the period | <u>7,278</u> | <u>7,175</u> |

The provision for the period is based on individual zakat base of the Parent company and its subsidiaries.

Movement in provision

The movement in the zakat provision is as follows:

| | <i>31 March 2017</i> | <i>31 December 2016</i> | <i>1 January 2016</i> |
|-------------------------------------|--------------------------|-----------------------------|---------------------------|
| | <i>SR' 000</i> | <i>SR' 000</i> | <i>SR' 000</i> |
| At the beginning of the period/year | 29,319 | 30,263 | 57,291 |
| Provided during the period/year | 7,278 | 20,000 | 28,584 |
| Payments during the period/year | - | (20,944) | (55,612) |
| At the end of the period/year | <u>36,597</u> | <u>29,319</u> | <u>30,263</u> |

15. OTHER INCOME

The following are the main components of other income:

- i) Forfeited non-refundable deposits, amounting to SR Nil (31 March 2016: SR 45 million), received from potential buyers against sale of assets, classified as held for disposal;
- ii) Reversal of accruals no longer required;
- iii) 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 11.2 million (31 March 2016: SR 1.2 million), incurred during the period, has been reimbursed and accounted for as other income accordingly.

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16. EARNINGS PER SHARE

Basic EPS is calculated by dividing the profit for the period attributable to equity holders of the Parent Company by the weighted average number of ordinary shares outstanding during the period. The calculation of diluted earnings per share ('EPS') is not applicable to the Group. Also, no separate earning per share calculation from continuing operations has been presented since there were on discontinued operations during the period.

The earnings per share calculation is given below:

| | <i>31 March 2017</i> | <i>31 March 2016</i> |
|---|--------------------------|--------------------------|
| Net loss for the period (SR '000) | <u>(17,505)</u> | <u>(17,038)</u> |
| Weighted average number of ordinary shares ('000) | <u>850,000</u> | <u>850,000</u> |
| Loss per share (Saudi Riyals) – Basic and Diluted | <u>(0.02)</u> | <u>(0.02)</u> |

There has been no item of dilution affecting the weighted average number of ordinary shares.

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17. RELATED PARTY DISCLOSURE

| <i>Related party</i> | <i>Nature of transactions</i> | <i>Transactions for the three-month period ended</i> | | <i>Balance as at</i> | |
|---|--|--|--------------------------------------|--------------------------------------|---------------------------------------|
| | | <i>31 March 2017 SR' 000</i> | <i>31 March 2016 SR' 000</i> | <i>31 March 2017 SR' 000</i> | <i>1 January 2016 SR' 000</i> |
| <i>Amounts due from related parties</i> | | | | | |
| Affiliates | | | | | |
| | Lease rentals, utilities and service charges | 1,014 | 53 | 5,775 | 2,324 |
| | Sale of properties | - | - | - | 2,966 |
| | Advance against purchase of goods | 315 | - | 315 | 104 |
| | Advance to contractor | - | - | 4,848 | 6,063 |
| | Advance against services | - | - | 108 | - |
| | | | | | 990 |
| | | | | | 3,907 |
| | | | | | 56 |
| | | | | | 2,488 |
| | | | | | - |
| Key management personnel | | | | | |
| | Sale of properties, utilities and service charges | 829 | - | 184 | 256 |
| | | | | | 99 |
| Board of directors | | | | | |
| | Sale of properties | - | - | 1,580 | - |
| | | | | | - |
| | | | | | - |
| Total | | | | 12,810 | 11,713 |
| | | | | | 7,540 |
| <i>Amounts due to related parties</i> | | | | | |
| Affiliates | | | | | |
| | Expenses incurred by affiliates on behalf of the Group | 725 | - | (3,081) | (2,710) |
| | Services provided to the Group | 6,907 | - | (1,520) | (2,479) |
| | | | | | (2,479) |
| Key management personnel | | | | | |
| | Remuneration | 7,934 | 9,236 | (8,468) | (26,505) |
| | | | | | (24,224) |
| Board of directors | | | | | |
| | Meeting fees | 913 | 600 | (913) | (8) |
| | | | | | - |
| Total | | | | (13,982) | (29,916) |
| | | | | | (29,413) |

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NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED
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At 31 March 2017

17. RELATED PARTY DISCLOSURES (continued)

Compensation of key management personnel of the Group

| | 31 March 2017 SR' 000 | 31 March 2016 SR' 000 |
|---|-----------------------------|-----------------------------|
| Short-term employee benefits | 6,131 | 6,912 |
| Post-employment and non-monetary benefits | 333 | 854 |
| Other long-term benefits | 1,470 | 1,470 |
| | <u>7,934</u> | <u>9,236</u> |

18. CONTINGENT LIABILITIES AND COMMITMENTS

Contingent liabilities and commitments, as at 31 March 2017, are described as below:

- (a) The Company has provided a corporate guarantee to a commercial bank to allow PDC to secure Shariah compliant commodity Murabaha facilities (note 9).
- (b) The Group has outstanding commitments related to future expenditure for the development of KAEC, amounting to SR 1,555 million (31 December 2016: SR 1,686 million).
- (c) 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 has been made in these interim condensed consolidated financial statements.
- (d) The General Authority of Zakat and Tax ("GAZT") issued Zakat assessments on the accounts of EEC 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 has been transferred to the court of cassation at the BOG.

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. IZDCL has objected against the GAZT assessment.

The Group is of the view that given a fair review of the assessments, their view may prevail. No provision has been made for the additional zakat and withholding tax liability in these interim condensed consolidated financial statements.

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19. REVENUE AND COST OF REVENUE

| | <i>Three-month period ended 31 March 2017 SR' 000</i> | <i>Three-month period ended 31 March 2016 SR' 000</i> |
|------------------------|---|---|
| REVENUE | | |
| Sale of properties | 265,517 | 222,348 |
| Others | 52,717 | 49,982 |
| | <u>318,234</u> | <u>272,330</u> |
| Cost of revenue | | |
| Cost of properties | 124,074 | 124,031 |
| Others | 78,459 | 55,135 |
| | <u>202,533</u> | <u>179,166</u> |

20. SEGMENTAL INFORMATION

Management monitors the operating results of its business segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements.

Business Segments

For management purposes, the Group is organised into three major segments namely, residential business, industrial development and hospitality and leisure (develop, own and/or manage hotels, serviced apartments and leisure activities). Other segments include businesses that individually do not meet the criteria for a reportable segment as per IFRS 8 *Operating Segments*.

Segments related Revenue and Profitability

| | <i>Residential business SR'000</i> | <i>Industrial development SR'000</i> | <i>Hospitality and leisure SR'000</i> | <i>Others SR'000</i> | <i>Total SR'000</i> |
|---|--|--|---|--------------------------|-------------------------|
| 31 March 2017 | | | | | |
| Revenue | <u>189,074</u> | <u>96,315</u> | <u>16,712</u> | <u>16,133</u> | <u>318,234</u> |
| Results | | | | | |
| Operating profit/ (loss) for the period | <u>31,983</u> | <u>63,815</u> | <u>(16,436)</u> | <u>(104,800)</u> | <u>(25,438)</u> |
| Unallocated other income/ (expenses) | | | | | <u>13,668</u> |
| Loss before zakat | | | | | <u>(11,770)</u> |
| 31 March 2016 | | | | | |
| Revenue | <u>139,387</u> | <u>100,034</u> | <u>16,222</u> | <u>16,687</u> | <u>272,330</u> |
| Results | | | | | |
| Operating profit/ (loss) for the period | <u>29,385</u> | <u>64,210</u> | <u>(4,839)</u> | <u>(134,635)</u> | <u>(45,879)</u> |
| Unallocated other income/ (expenses) | | | | | <u>39,171</u> |
| Loss before zakat | | | | | <u>(6,708)</u> |

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21. APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The interim condensed consolidated financial statements were approved and authorised to issue by the Board of Directors on 10 May 2017, corresponding to 14 Shaban 1438H.