

**KNOWLEDGE ECONOMIC CITY COMPANY
(A SAUDI JOINT STOCK COMPANY)**

**UNAUDITED INTERIM FINANCIAL STATEMENTS
FOR THE THREE-MONTH PERIOD ENDED JUNE 30, 2011 AND
FOR THE PERIOD FROM JULY 27, 2010 (DATE OF MINISTERIAL
RESOLUTION) TO JUNE 30, 2011
AND INDEPENDENT ACCOUNTANTS' LIMITED REVIEW REPORT**

KNOWLEDGE ECONOMIC CITY COMPANY
(A Saudi Joint Stock Company)
UNAUDITED INTERIM FINANCIAL STATEMENTS
FOR THE THREE-MONTH PERIOD ENDED JUNE 30, 2011 AND FOR THE PERIOD FROM JULY 27, 2010
(DATE OF MINISTERIAL RESOLUTION) TO JUNE 30, 2011

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INDEPENDENT ACCOUNTANTS' LIMITED REVIEW REPORT

July 18, 2011

To the Shareholders of Knowledge Economic City Company:
(A Saudi Joint Stock Company)

Scope of review

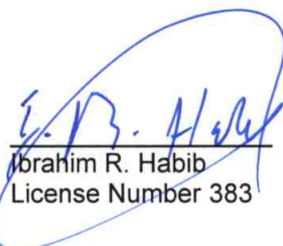
We have reviewed the accompanying interim balance sheet of Knowledge Economic City Company (A Saudi Joint Stock Company) (the "Company") as of June 30, 2011 and the related interim statement of income for the three-month period ended June 30, 2011, and for the period from July 27, 2010 (Date of Ministerial Resolution) to June 30, 2011 and the related interim statements of cash flows and changes in shareholders' equity for the period from July 27, 2010 (Date of Ministerial Resolution) to June 30, 2011 and the related notes which form an integral part of these interim financial statements. These interim financial statements are the responsibility of the Company's management.

We conducted our limited review in accordance with the standard of interim financial reporting issued by the Saudi Organization for Certified Public Accountants. A limited review consists principally of applying analytical procedures to financial data and information and making inquiries of persons responsible for financial and accounting matters. The scope of the limited review is substantially less than an audit conducted in accordance with auditing standards generally accepted in Saudi Arabia, the objective of which is the expression of an opinion on the condensed financial statements taken as a whole. Accordingly, we do not express such an opinion.

Conclusion

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

PricewaterhouseCoopers

By: 
Ibrahim R. Habib
License Number 383



KNOWLEDGE ECONOMIC CITY COMPANY
(A Saudi Joint Stock Company)
Interim balance sheet
(All amounts in Saudi Riyals unless otherwise stated)

	Note	June 30, 2011 (Unaudited)
Assets		
Current assets		
Cash and cash equivalents	3	1,960,113,000
Receivable from a related party	7	56,044,300
Development property	4	70,374,983
Prepayments and other receivables		71,655,130
		<u>2,158,187,413</u>
Non-current assets		
Investment in an associate	6	-
Investment property	5	1,092,993,543
Property and equipment		40,981,812
		<u>1,133,975,355</u>
Total assets		<u>3,292,162,768</u>
Liabilities		
Current liabilities		
Accounts payable and other liabilities		43,067,350
Deferred gain	6,7	1,689,835
Due to a shareholder	7	14,796,874
Zakat payable		1,600,000
		<u>61,154,059</u>
Non-current liabilities		
Employee termination benefits		1,840,316
		<u>1,840,316</u>
Total liabilities		<u>62,994,375</u>
Shareholders' equity		
Share capital	8	3,393,000,000
Accumulated loss		(163,831,607)
Total shareholders' equity		<u>3,229,168,393</u>
Total liabilities and shareholders' equity		<u>3,292,162,768</u>
Commitments	13	

The notes on pages 8 to 15 form an integral part of these interim financial statements.

KNOWLEDGE ECONOMIC CITY COMPANY
(A Saudi Joint Stock Company)
Interim income statement
(All amounts in Saudi Riyals unless otherwise stated)

		For the three- month period ended June 30, 2011	For the period from July 27, 2010 (Date of Ministerial Resolution) to June 30, 2011
	Note	(Unaudited)	(Unaudited)
Revenue	6,7	-	86,222,000
Cost of revenue	4	-	(22,842,330)
		-	63,379,670
Unrealized gain on sale of land to associate	6	-	(31,689,835)
Gross profit		-	31,689,835
Operating expenses			
General and administrative		(8,224,308)	(30,280,079)
Selling and marketing		(4,551,689)	(12,157,563)
Infrastructure development projects written-off	5	-	(2,005,647)
Loss from operations		(12,775,997)	(12,753,454)
Other income (expenses)			
Financial income	3	3,495,333	8,276,486
Pre-operating expenses	9	-	(128,643,944)
Loss before zakat		(9,280,664)	(133,120,912)
Zakat		-	(1,600,000)
Net loss for the period		(9,280,664)	(134,720,912)
Loss per share (Saudi Riyals):	12		
• Loss from operations		(0.038)	(0.038)
• Non-operating loss		0.010	(0.359)
• Net loss for the period		(0.027)	(0.397)

The notes on pages 8 to 15 form an integral part of these interim financial statements.

KNOWLEDGE ECONOMIC CITY COMPANY
(A Saudi Joint Stock Company)
Interim cash flow statement
(All amounts in Saudi Riyals unless otherwise stated)

		For the period from July 27, 2010 (Date of Ministerial Resolution) to June 30, 2011
	Note	(Unaudited)
Cash flow from operating activities		
Net loss for the period		(134,720,912)
<u>Adjustments for non-cash items</u>		
Unrealized gain on sale of land to associate	6	31,689,835
Write-off of pre-operating expenses	9	128,643,944
Write-off of infrastructure development projects	5	2,005,647
Depreciation		1,161,143
<u>Changes in working capital</u>		
Receivable from a related party		(56,044,300)
Development property		22,842,330
Prepayments and other receivables		(37,548,304)
Accounts payable and other liabilities		31,262,314
Zakat payable		1,600,000
Employee termination benefits		540,792
Net cash utilized in operating activities		(8,567,511)
Cash flow from investing activities		
Investment in an associate	6	(30,000,000)
Additions to investment property	5	(79,717,884)
Purchase of property and equipment		(450,901)
Net cash utilized in investing activities		(110,168,785)
Cash flow from financing activities		
Contributed share capital	8	2,393,000,000
Due to a shareholder	7	14,796,874
Remaining cost of raising share capital	1	(955,425)
Paid to a shareholder	7	(327,992,153)
Net cash generated from financing activities		2,078,849,296
Net increase in cash and cash equivalents		1,960,113,000
Cash and cash equivalents at beginning of period		-
Cash and cash equivalents at end of period	3	1,960,113,000

(Continued)

KNOWLEDGE ECONOMIC CITY COMPANY
(A Saudi Joint Stock Company)
Interim cash flow statement
(All amounts in Saudi Riyals unless otherwise stated)

		For the period from July 27, 2010 (Date of Ministerial Resolution) to June 30, 2011
	Note	(Unaudited)
Supplemental schedule of non-cash information		
Transfer from investment property to development property	5	<u>93,217,313</u>
Transfer from investment property to property and equipment	5	<u>37,154,423</u>
In-kind capital contribution, land	5	<u>1,000,000,000</u>
Transfer of assets and liabilities from a shareholder:	1	
Prepayments and other receivables		34,106,826
Investment property		120,653,042
Land		25,000,000
Property and equipment, net		4,537,631
Pre-operating expenses		128,643,944
Cost of raising share capital		28,155,270
Accrued expenses and others		(6,939,264)
Accounts payable		(4,865,772)
Employee termination benefits		(1,299,524)
Net assets transferred from a shareholder		<u>327,992,153</u>

The notes on pages 8 to 15 form an integral part of these interim financial statements.

KNOWLEDGE ECONOMIC CITY COMPANY**(A Saudi Joint Stock Company)****Interim statement of changes in shareholders' equity (Unaudited)****(All amounts in Saudi Riyals unless otherwise stated)**

		Share capital	Accumulated loss	Total
	Note			
Shareholders' equity as of July 27, 2010		-	-	-
Share capital contribution, cash	8	2,393,000,000	-	2,393,000,000
Share capital contribution, in-kind	5,8	1,000,000,000	-	1,000,000,000
Cost of raising share capital	1	-	(29,110,695)	(29,110,695)
Net loss for the period		-	(134,720,912)	(134,720,912)
Shareholders' equity as of June 30, 2011		3,393,000,000	(163,831,607)	3,229,168,393

The notes on pages 8 to 15 form an integral part of these interim financial statements.

KNOWLEDGE ECONOMIC CITY COMPANY

(A Saudi Joint Stock Company)

Notes to the interim financial statements for the three-month period ended June 30, 2011 and for the period from July 27, 2010 (Date of Ministerial Resolution) to June 30, 2011 (Unaudited)

(All amounts in Saudi Riyals unless otherwise stated)

1 General information

Knowledge Economic City Company (the "Company") is a Saudi joint stock company incorporated in the Kingdom of Saudi Arabia as per Ministry of Commerce and Industry's resolution number 256/Q dated 15 Shaaban 1431H (July 27, 2010) and registered under commercial registration number 4030203659 issued in Jeddah on Shabaan 23, 1431H (August 4, 2010). On May 30, 2010 an initial public offering of Saudi Riyals 1.02 billion of the Company's share capital was completed in the Saudi Arabian capital market and its shares were listed on the Saudi stock exchange (Tadawul).

The registered address of the Company is P.O. Box 6360, Prince Sultan street, Salamah Center, Jeddah 21442, Kingdom of Saudi Arabia.

The Company is engaged in developing real estate, economic cities and other development projects including infrastructure, telecommunication networks, electricity plants, water treatment plant and other works related to developing economic cities. The Company owns parcel of land in Madina Al-Munawara, which was received as in-kind capital contribution from one of its founding shareholders, and is the lead developer for transforming such land into an economic city.

The Company's shareholder, Knowledge Economic City Developers Company Limited (KECD), has been engaged in activities related to the establishment of the Company and development of the aforementioned property on behalf of the Company prior to its incorporation. As per a shareholders' resolution, costs incurred by KECD on behalf of the Company were transferred to the Company on August 4, 2010 (Date of Commercial Registration). KECD also transferred certain property, equipment and employees, as well as their related termination benefits, and certain other assets and liabilities to the Company. Details of such transfers are disclosed in the supplemental schedule of non cash information in the interim statement of cash flows.

These interim financial statements were authorized for issue by the Company's Board of Directors on _____, 2011.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these interim financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

2.1 Basis of preparation

The accompanying interim financial statements have been prepared under the historical cost convention on the accrual basis of accounting and in compliance with accounting standards promulgated by Saudi Organization for Certified Public Accountants ("SOCPA").

2.2 Period of the financial statements

The interim financial statements for the three-month period ended June 30, 2011 have been prepared in accordance with SOCPA's Standard of Review of Interim Financial Reporting, on the basis of integrated periods, which views each interim period as an integral part of the financial year. Accordingly, revenues, gains, expenses and losses of the period are recognized during the period. The accompanying interim financial statements include all adjustments, comprising mainly of normal recurring accruals, considered necessary by the management to present fair statements of financial position, results of operations and cash flows. The Company was incorporated on July 27, 2010 (Date of Ministerial Resolution) and, as per its articles of association, its first fiscal year will be from its incorporation date to December 31, 2011. Thereafter, the Company's fiscal year begins on January 1 and ends on December 31 of each Gregorian year. Accordingly, there are no comparative amounts as of and for the period ended June 30, 2010 and the cumulative information for the current period is for the period from July 27, 2010 to June 30, 2011.

The results of operations for the interim period may not represent a proper indication of the annual results of operations.

KNOWLEDGE ECONOMIC CITY COMPANY

(A Saudi Joint Stock Company)

Notes to the interim financial statements for the three-month period ended June 30, 2011 and for the period from July 27, 2010 (Date of Ministerial Resolution) to June 30, 2011 (Unaudited)

(All amounts in Saudi Riyals unless otherwise stated)

2.3 Critical accounting estimates and judgments

The preparation of interim financial statements in conformity with generally accepted accounting principles requires the use of certain critical estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Company makes estimates and assumptions concerning the future which, by definition, seldom equal the related actual results.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(a) Recognition of cost of revenues

The Company has land which contains a number of individual plots. In order to determine cost of revenues related to plots sold during the period, management must estimate the infrastructure costs of the entire development. These costs must then be allocated to each plot. These estimates are reviewed regularly and revised as necessary. Any significant change in these estimates may result in additional costs being recorded in future periods related to revenue recognized in a prior period.

(b) Classification of properties

The Company's properties are classified as either development properties or investment properties. Management has made various judgments to determine whether a property qualified as an investment property (properties held to earn rentals and/or for capital appreciation) or as a development property that comprises land projects under development and land awaiting development. In making its judgment, management considers its intended use of property. When management assess that certain investment properties will be disposed off, their carrying cost will be transferred to development properties as long as they are under development and not generating revenues.

2.4 Investment in associates

Associates are entities over which the Company has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost.

The Company's share of its associates' post-acquisition income or losses is recognized in the income statement, and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Company's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Company does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains on transactions between the Company and its associates are eliminated to the extent of the Company's interest in the associates. Unrealized gains resulting from transactions with associates are eliminated against the investment in the associates. Unrealized losses are eliminated in the same way as unrealized gains except that they are only eliminated to the extent that there is no evidence of impairment.

When the unrealized gain exceeds the carrying amount of the associate, if there is no legal or constructive obligation, a gain is recognized in the income statement. In subsequent years, where the associate reports profits, the Company may not recognize its share of the associate's profits until the gain previously taken to income has been earned. If a legal or constructive obligation exists, then the gain is deferred and recognized in subsequent years where the associate reports profits.

Dilution gains and losses arising in investments in associates are recognized in the income statement.

2.5 Segment reporting

(a) Business segment

A business segment is a group of assets and operations:

- (i) engaged in revenue producing activities;

KNOWLEDGE ECONOMIC CITY COMPANY

(A Saudi Joint Stock Company)

Notes to the interim financial statements for the three-month period ended June 30, 2011 and for the period from July 27, 2010 (Date of Ministerial Resolution) to June 30, 2011 (Unaudited)

(All amounts in Saudi Riyals unless otherwise stated)

- (ii) results of its operations are continuously analyzed by management in order to make decisions related to resource allocation and performance assessment; and
- (iii) financial information is separately available.

(b) Geographical segment

A geographical segment is a group of assets and operations engaged in revenue producing activities within a particular economic environment that are subject to risks and returns different from those operating in other economic environments.

2.6 Foreign currency translations

(a) Reporting currency

The interim financial statements of the Company are presented in Saudi Riyals which is the reporting currency of the Company.

(b) Transactions and balances

Foreign currency transactions are translated into Saudi Riyals using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the period-end exchange rates of monetary assets and liabilities denominated in foreign currencies, which were not significant for the period, are charged to the income statement.

2.7 Cash and cash equivalents

Cash and cash equivalents include cash in hand and with banks and other short-term highly liquid investments with maturities of three months or less from the purchase date, if any.

2.8 Accounts receivable

Accounts receivable are carried at original invoice amount less provision for doubtful debts. A provision for doubtful debts is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Such provisions are charged to the income statement and reported under "selling and marketing expenses". When account receivable is uncollectible, it is written-off against the provision for doubtful debts. Any subsequent recoveries of amounts previously written-off are credited against "selling and marketing expenses" in the income statement.

2.9 Investment property

Property held for long-term rental yields or for capital appreciation or both, which is not occupied by the Company is classified as investment property. Investment property comprises land and the related infrastructure development cost. Investment property is stated at historical cost, net of accumulated depreciation and impairment, except for property under construction which is stated at cost. Historical cost includes expenditure that is directly attributable to the acquisition of the assets. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the asset will flow to the Company and the cost of the asset can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is charged to income statement using the straight-line method to allocate their costs over their estimated useful lives.

The assets' useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are recognized in the income statement.

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

KNOWLEDGE ECONOMIC CITY COMPANY

(A Saudi Joint Stock Company)

Notes to the interim financial statements for the three-month period ended June 30, 2011 and for the period from July 27, 2010 (Date of Ministerial Resolution) to June 30, 2011 (Unaudited)

(All amounts in Saudi Riyals unless otherwise stated)

2.10 Development properties

Development properties principally comprise land projects under development and land waiting for development. Unsold development properties are stated at the lower of cost or net realizable value. Cost includes:

- Freehold and leasehold rights for land
- Amounts paid to contractors for construction
- Borrowing costs, planning and design costs, costs of site preparation, professional fees for legal services, property transfer charges, construction overheads and other related costs

Net realizable value is the estimated selling price in the ordinary course of the business, based on market prices at the reporting date and discounted for the time value of money if material, less costs to completion and the estimated costs of sale.

The specific cost of development properties recognized in the income statement on disposal is determined based on the relative size of the property sold.

2.11 Property and equipment

Property and equipment are carried at cost less accumulated depreciation except construction in progress which is carried at cost. Land is not depreciated. Depreciation is charged to the income statement, using straight-line method to allocate the costs of the related assets to their residual values over the following estimated useful lives:

	Number of years
• Leasehold improvements	10
• Office equipment	3
• Furniture, fixtures and fittings	5
• Vehicles	4

Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are included in the income statement.

Maintenance and normal repairs which do not materially extend the estimated useful life of an asset are charged to the income statement as and when incurred. Major renewals and improvements, if any, are capitalized and the assets so replaced are retired.

2.12 Impairment of non-current assets

Non-current assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's fair value less cost to sell and value in use. For the purpose of assessing impairment, assets are grouped at lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-current assets other than intangible assets that suffered impairment are reviewed for possible reversal of impairment at each reporting date.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined, had no impairment loss been recognized for the assets or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income immediately in the income statement. Impairment losses recognized on intangible assets are not reversible.

2.13 Accounts payable and accruals

Liabilities are recognized for amounts to be paid for goods and services received, whether or not billed to the Company.

KNOWLEDGE ECONOMIC CITY COMPANY**(A Saudi Joint Stock Company)****Notes to the interim financial statements for the three-month period ended June 30, 2011 and for the period from July 27, 2010 (Date of Ministerial Resolution) to June 30, 2011 (Unaudited)****(All amounts in Saudi Riyals unless otherwise stated)****2.14 Provisions**

Provisions are recognized, when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated.

2.15 Zakat

The Company is subject to zakat in accordance with the regulations of the Department of Zakat and Income Taxes ("DZIT"). Provision for zakat for the Company is charged to the income statement. Additional amounts payable, if any, at the finalization of final assessments are accounted for when such amounts are determined. The Company withholds taxes on certain transactions with non-resident parties in the Kingdom of Saudi Arabia as required under Saudi Arabian Income Tax Law.

2.16 Employee termination benefits

Employee termination benefits required by Saudi Labor and Workman Law are accrued by the Company and charged to the income statement. The liability is calculated at the current value of the vested benefits to which the employee is entitled, should the employee leave at the balance sheet date. Termination payments are based on employees' final salaries and allowances and their cumulative years of service, as stated in the laws of Saudi Arabia.

2.17 Revenue recognition

The Company recognizes revenue when: it is probable that the economic benefits from a sale will flow to the Company, the revenue and costs can be measured reliably and the risks and rewards of ownership of the property have been transferred to the buyer, which is normally on unconditional exchange of contracts. For conditional exchanges, sales are recognized only when all the significant conditions are satisfied.

When the Company transfers risks and rewards of ownership of the property in its entirety at a single point of time, revenue and the associated costs are recognized at that point of time. In general, the Company determines the point of recognition to be the time at which the buyer takes possession of the property.

When the Company transfers to the buyer, control and significant risks and reward of ownership for work in progress, in its current state, as work progresses, revenues are recognized on a progressive basis using the percentage of completion method.

2.18 Pre-operating expenses

Pre-operating expenses that are not of benefit beyond the current period are charged to the income statement, while costs that will benefit future periods are capitalized.

2.19 Selling, marketing and general and administrative expenses

Selling, marketing and general and administrative expenses include direct and indirect costs not specifically part of costs of revenues as required under generally accepted accounting principles. Allocations between selling, marketing and general and administrative expenses and cost of sales, when required, are made on a consistent basis.

2.20 Operating leases

Rental expenses under operating leases are charged to the income statement over the period of the respective lease.

3 Cash and cash equivalents

	June 30, 2011 (Unaudited)
Murabaha time deposit	1,960,000,000
Cash on hand	113,000
	<u>1,960,113,000</u>

KNOWLEDGE ECONOMIC CITY COMPANY**(A Saudi Joint Stock Company)****Notes to the interim financial statements for the three-month period ended June 30, 2011 and for the period from July 27, 2010 (Date of Ministerial Resolution) to June 30, 2011 (Unaudited)**

(All amounts in Saudi Riyals unless otherwise stated)

Murabaha time deposit and cash at bank is placed with a local commercial bank and denominated in Saudi Riyals. Murabaha time deposit yields financial income at market prevailing rates.

4 Development property

	Note	June 30, 2011 (Unaudited)
July 27, 2010		-
Land transferred from investment property	5	93,217,313
Transfer to cost of revenue		(22,842,330)
June 30, 2011		<u>70,374,983</u>

5 Investment property

	Note	June 30, 2011 (Unaudited)
July 27, 2010		-
Land contributed as share capital contribution, in-kind by the King Abdullah Foundation for his Parents, a founding shareholder	8	1,000,000,000
Transfer from a shareholder	1	145,653,042
Additions to infrastructure cost		79,717,884
Transfer to development property	4	(93,217,313)
Write-off		(2,005,647)
Transfer to property and equipment		(37,154,423)
June 30, 2011		<u>1,092,993,543</u>

Transfer from a shareholder comprises of Saudi Riyals 25 million for land and Saudi Riyals 120.65 million for infrastructure development charges on the land. Write-off represents cost of certain cancelled infrastructure development projects. Additions during 2010 and 2011 principally represent cost of infrastructure being built on the land.

6 Investment in an associate

During March 2011, the Company and a third party set up a limited liability company in Saudi Arabia namely Real Estate Knowledge Company Limited ("REKC"). The Company has 50% ownership interest in REKC but does not exercise control. Accordingly, it is accounted for as an associate. REKC had no material activities during the period from March 13, 2011 (date of REKC's commercial registration) to June 30, 2011. See Note 7.

Movement in investment in an associate is as follows:

	June 30, 2011 (Unaudited)
July 27, 2010	-
Additions to investment in REKC	25,000,000
Additional equity contribution in REKC during the three-month period ended June 30, 2011	5,000,000
Adjustment for unrealized gain on sale of land to REKC	(30,000,000)
June 30, 2011	<u>-</u>

On March 27, 2011 the Company entered into an agreement to sell certain plots of land to REKC. Unrealized gain associated with the sale transaction to REKC was eliminated by adjusting against the Company's investment in REKC. Unrealized gain in excess of the Company's investment was recorded as deferred gain and will be recognized as income after REKC commences sale of the land to third parties.

KNOWLEDGE ECONOMIC CITY COMPANY

(A Saudi Joint Stock Company)

Notes to the interim financial statements for the three-month period ended June 30, 2011 and for the period from July 27, 2010 (Date of Ministerial Resolution) to June 30, 2011 (Unaudited)

(All amounts in Saudi Riyals unless otherwise stated)

The movement of unrealized gain is as follows:

	June 30, 2011 (Unaudited)
Unrealized gain on sale of land to REKC	31,689,835
Less:	
Investment in REKC	(25,000,000)
Additional equity contribution	(5,000,000)
Deferred gain	<u>1,689,835</u>

7 Related party matters**7.1 Related party transactions**

Significant transactions with related parties in the ordinary course of business included in the interim financial statements are summarized below:

	Note	For the period from July 27, 2010 (Date of Ministerial Resolution) to June 30, 2011 (Unaudited)
Sale of land to an associate	6	86,222,000
Assets and liabilities transferred from a shareholder - net	1	327,992,153
Payments made to a shareholder		327,992,153
Funds received on behalf of a shareholder		14,796,874

7.2 Related party balances

Significant year end balances arising from transactions with related parties are as follows:

(i) Receivable from a related party

	June 30, 2011 (Unaudited)
REKC	<u>56,044,300</u>

Receivable from REKC relates to the sale of land during the period and is due upon meeting any of the following conditions, whichever occurs first:

- completing the construction of a dwelling unit on land acquired by REKC
- sale of any dwelling unit
- endorsement of any plot's title deed ownership to a third party from the land acquired by REKC

In all cases, REKC has agreed to make full payment of the remaining balance before three years from the date of the sale agreement. Also, 50% of the receivable, amounting to Saudi Riyals 28.02 million is secured by an irrevocable and unconditional corporate guarantee from the other 50% shareholder of REKC, namely Saudi Real Estate Company (Al Akaria).

(ii) Due to a shareholder

	June 30, 2011 (Unaudited)
KECD	<u>14,796,874</u>

KNOWLEDGE ECONOMIC CITY COMPANY**(A Saudi Joint Stock Company)****Notes to the interim financial statements for the three-month period ended June 30, 2011 and for the period from July 27, 2010 (Date of Ministerial Resolution) to June 30, 2011 (Unaudited)****(All amounts in Saudi Riyals unless otherwise stated)****8 Share capital**

The share capital of the Company comprises of 339.30 million shares with a par value of Saudi Riyals 10 per share owned as follows:

Shareholders	Number of shares	Share capital
King Abdullah Foundation for his Parents	100,000,000	1,000,000,000
KECD	83,000,000	830,000,000
The Savola Group Company (SGC)	21,720,000	217,200,000
Real Estate Project Management and Development Company Limited	13,575,000	135,750,000
Taiba Holding Company	10,860,000	108,600,000
Quad International Real Estate Development Company	5,430,000	54,300,000
Ebla Advanced Real Estate Company	2,715,000	27,150,000
Total founding shareholders	237,300,000	2,373,000,000
Saudi nationals IPO subscribed	102,000,000	1,020,000,000
Total	339,300,000	3,393,000,000

9 Pre-operating expenses

Pre-operating expenses were incurred by founding shareholders on behalf of the Company between October 30, 2006 and August 4, 2010. They were transferred to the Company along with other assets and liabilities on August 4, 2010 (Date of Commercial Registration) and were written off.

10 Operating leases

The Company has various operating leases for its office, employees' accommodations and vehicles. Rental expenses for three-month period June 30, 2011 were Saudi Riyals 0.7 million (for the period from July 27, 2010 (Date of Ministerial Resolution) to June 30, 2011: Saudi Riyals 1.49 million).

Future rental commitments under non-cancelable operating leases with terms expiring within one year and in excess of one year are as follows:

	June 30, 2011 (Unaudited)
Within one year	2,240,508
Between two and five years	5,900,254
	8,140,762

11 Segment information

The Company's focus is primarily in Saudi Arabian real-estate. Accordingly, segment information is not applicable.

12 Loss per share

Loss per share has been computed by dividing the operating loss, non-operating loss and net loss for the period by the weighted average number of shares outstanding during the period, which was 339.30 million shares.

13 Commitments

Capital and consultancy expenditures contracted by the Company, but not incurred till June 30, 2011 was approximately 624.5 million. Also see Note 10 for operating lease commitments. The Company's bankers have issued letter of credits on behalf of the Company in the normal course of business amounting to Saudi Riyals 114.5 million.