

**JABAL OMAR DEVELOPMENT COMPANY**  
**(A Saudi Joint Stock Company)**

**UNAUDITED INTERIM FINANCIAL STATEMENTS**  
**FOR THE THREE-MONTH PERIOD ENDED RABIE AL-AWWAL 30, 1437H**  
**AND LIMITED REVIEW REPORT**

JABAL OMAR DEVELOPMENT COMPANY  
(A Saudi joint stock company)  
UNAUDITED INTERIM FINANCIAL STATEMENTS  
FOR THE THREE-MONTH PERIOD ENDED RABIE AL-AWWAL 30, 1437H

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## **INDEPENDENT AUDITORS' LIMITED REVIEW REPORT**

To the Shareholders of Jabal Omar Development Company:  
(A Saudi Joint Stock Company)

### **Scope of review**

We have reviewed the accompanying interim balance sheet of Jabal Omar Development Company (the "Company") as of Rabie al-Awwal 30, 1437H and the interim statements of income, cash flows and changes in shareholders' equity for the three-month period then ended 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 and have been prepared by them and submitted to us together with all the information and explanations which we required.

Except as explained in the below observation paragraph, we conducted our limited review in accordance with the standard of Review 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 making inquiries from persons responsible for financial and accounting matters. The scope of such 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 regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

### **Observation paragraph**

As explained in Note 4 to the accompanying interim financial statements, the Company has a loan (the "Loan") of Saudi Riyals 3 billion from a Governmental Authority (the "Lender"). The Company has not paid the first instalment of the Loan amounting to Saudi Riyals 650 million which was due on Rabie al-Awwal 21, 1437H (corresponding to January 1, 2016). In accordance with the terms of the Loan agreement, in the event of failure to fulfill payment obligations of the Loan, the Lender may exercise its right to recall the outstanding Loan amount through sale of pledged land, without prior consent of the Company. The Company's management has not performed an assessment whether the non-payment of the first installment triggers a default on the Loan and the resulting cross defaults referred to in the other loan agreements entered into by the Company with other lenders. As a consequence, we were unable to determine the impact of such default, if any, on the classification and presentation of long term borrowings amounting to Saudi Riyals 8.6 billion as at the date of the accompanying interim financial statements, Rabie al-Awwal 30, 1437H.

### **Review conclusion**

Based on our review and except for the effect of the matter described in the observation paragraph, 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 standards generally accepted in Saudi Arabia.

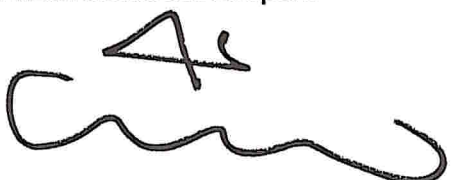
## **INDEPENDENT AUDITORS' LIMITED REVIEW REPORT (continued)**

To the Shareholders of Jabal Omar Development Company  
(A Saudi Joint Stock Company)

### **Emphasis of matter**

We draw attention to Note 1 to the accompanying financial statements which states that as at Rabie al-Awwal 30, 1437H, the Company's current liabilities exceeded its current assets. The Company's current liabilities primarily comprise of the current portion of a Loan from a Governmental Authority amounting to Saudi Riyals 650 million and a short term revolving loan amounting to Saudi Riyals 842 million. These conditions indicate that the Company's ability to continue as a going concern and to meet its obligations as they become due depends upon the continued availability of adequate financing facilities. The Company's management expects a new agreement to be formalized with the Lender in 1437H for deferral of the Loan's repayment. During 1437H, the Company's management has also secured a short term, general purpose revolving facility of Saudi Riyals 900 million from a local commercial bank of which Saudi Riyals 751 million is available under cash and cash equivalents as at Rabie al-Awwal 30, 1437H. Management intends to use this facility to settle obligations relating to the first instalment of the Loan and obligations towards phase 3 of the construction project as they fall due. Accordingly, the accompanying financial statements have been prepared under the going concern basis.

**PricewaterhouseCoopers**



By: \_\_\_\_\_  
Ali A. Alotaibi  
License Number 379



Rabie al-Thani 18, 1437H  
January 28, 2016

**JABAL OMAR DEVELOPMENT COMPANY**  
**(A Saudi Joint Stock Company)**  
**Interim balance sheet (Unaudited)**  
(All amounts in Saudi Riyals unless otherwise stated)

		<b>As at Rabie al-Awaal</b>	
		<b>30, 1437H</b>	<b>29, 1436H</b>
			<b>(Restated)</b>
		<b>Note</b>	
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents			962,526,958
Restricted cash – current portion			362,568,893
Accounts receivable and other assets	5		467,490,955
Inventory			-
Development property	6		138,476,807
			123,950,240
			4,153,200
			802,773
			147,544,479
			104,739,001
			1,720,192,399
			592,060,907
<b>Non-current assets:</b>			
Restricted cash – non-current portion	14		342,590,000
Advances to certain founders	7		1,633,722,777
Deferred financial charges	8		314,839,899
Investment property	9		286,839,058
Investment in an associate	10		225,375,263
Property, plant and equipment	11		184,186,496
			559,111,219
			332,127,062
			50,920,818
			50,205,666
			17,828,063,350
			16,141,797,327
			19,320,900,549
			18,628,878,386
<b>Total assets</b>			21,041,092,948
			19,220,939,293
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable and other liabilities			786,934,241
Short-term loans	12		1,177,571,064
Current portion of liabilities against capital leases	13		842,000,000
Current portion of government loan	14		460,000,000
Accrued Zakat			11,659,629
			6,792,115
			650,000,000
			650,000,000
			56,087,613
			30,668,580
			2,346,681,483
			2,325,031,759
<b>Non-current liabilities</b>			
Long-term loans	14		8,554,647,614
Other non-current liabilities	15		6,632,504,639
Liabilities against capital leases			222,947,569
Derivative financial instruments	16		209,927,994
Employees' termination benefits			484,823,973
			495,526,536
			1,052,668
			152,846,860
			8,706,018
			5,915,077
			9,272,177,842
			7,496,721,106
<b>Total liabilities</b>			11,618,859,325
			9,821,752,865
<b>Shareholders' equity</b>			
Share capital	17		9,294,000,000
Statutory reserve			9,294,000,000
Hedging reserve	16		20,479,314
Retained earnings			25,803,329
			(1,052,668)
			(152,846,860)
			108,806,977
			232,229,959
<b>Total shareholders' equity</b>			9,422,233,623
			9,399,186,428
<b>Total liabilities and shareholders' equity</b>			21,041,092,948
			19,220,939,293
<b>Contingencies and commitments</b>			
	22		

The notes from 1 to 22 form an integral part of these interim financial statements.

**JABAL OMAR DEVELOPMENT COMPANY**  
**(A Saudi Joint Stock Company)**  
**Interim income statement (Unaudited)**  
(All amounts in Saudi Riyals unless otherwise stated)

		<b>The three-month period ended</b>	
	<b>Note</b>	<b>Rabie al-Awwal 30, 1437H</b>	<b>Rabie al-Awwal 29, 1436H (Restated)</b>
Revenues	18	104,508,040	239,156,055
Cost of revenues		(96,058,877)	(69,764,759)
<b>Gross profit</b>		<b>8,449,163</b>	<b>169,391,296</b>
<b>Operating expenses</b>			
General and administrative		(21,237,613)	(15,941,795)
Selling and marketing		(546,700)	(820,913)
Provision for doubtful debts		(8,081,208)	-
<b>Income from operations</b>		<b>(21,416,358)</b>	<b>152,628,588</b>
<b>Other income (expenses)</b>			
Company's share of net profit/ (loss) of an associate		2,457,970	(256,820)
Financial charges		(33,277,141)	(1,688,468)
Murabaha investments income		-	394,842
Other		1,026,933	14,500
(Loss)/income before zakat		(51,208,596)	151,092,642
Zakat	19	(24,298,240)	(5,932,264)
<b>Net (loss)/income for the period</b>		<b>(75,506,836)</b>	<b>145,160,378</b>
<b>(Loss)/earnings per share for the period</b>	20		
• (Loss)/income from operations		(0.023)	0.164
• Net (loss)/income for the period		(0.081)	0.156
• Weighted average number of shares outstanding (in thousands)		929,400	929,400

The notes from 1 to 22 form an integral part of these interim financial statements.

**JABAL OMAR DEVELOPMENT COMPANY**  
**(A Saudi Joint Stock Company)**  
**Interim cash flow statement (Unaudited)**  
(All amounts in Saudi Riyals unless otherwise stated)

	<b>The three-month period ended</b>	
	<b>Rabie al-Awwal 30, 1437H</b>	<b>Rabie al-Awwal 29, 1436H (Restated)</b>
<b>Cash flows from operating activities</b>		
Net (loss)/income for the period	(75,506,836)	145,160,378
<u>Adjustments for non-cash items:</u>		
Depreciation of property, plant and equipment	34,173,520	13,661,167
Depreciation of investment property	9,302,101	5,781,814
Provision for doubtful debts	8,081,208	-
Provision for employee termination benefits, net	1,467,934	720,502
Company's share in net results of an associate	(2,457,970)	256,820
Loss from sale of property, plant and equipment	494,798	-
Zakat provision	24,298,240	5,932,264
<u>Changes in working capital</u>		
Accounts receivable and other assets	(44,031,540)	(12,780,664)
Inventory	(568,432)	25,872
Development property	7,767,140	33,873,803
Zakat paid	-	-
Accounts payable and other liabilities	(212,103,496)	(24,392,158)
Net cash generated from operating activities	(249,083,333)	168,239,798
<b>Cash flows from investment activities</b>		
Purchase of property, plant and equipment	(358,797,042)	(652,726,313)
Proceeds from sale of property, plant and equipment	100,000	-
Purchase of investment property	-	(197,114)
Net cash utilized in investing activities	(358,697,042)	(652,923,427)
<b>Cash flows from financing activities</b>		
Cash received/ (restricted)	(26,904,562)	(187,980,103)
Repayment of liabilities against capital leases	(2,839,498)	(2,706,767)
Repayment a portion of the syndicated loan	-	-
Net change in advances to certain founders	37,006	6,140,195
Proceeds from long-term loans	1,111,022,615	-
Proceeds from short-term loans	120,098,012	-
Net cash utilized in financing activities	1,201,413,573	(184,546,675)
<b>Decrease in cash and cash equivalents</b>	<b>593,633,198</b>	<b>(669,230,304)</b>
Cash and cash equivalents at beginning of period	368,893,760	1,031,799,197
<b>Cash and cash equivalents at end of period</b>	<b>962,526,958</b>	<b>362,568,893</b>
<b>Supplemental schedule of non-cash information:</b>		
Amortization of deferred financial charges capitalized as part of construction work-in-progress	5,018,714	2,538,092
Change in the fair value of derivative financial instruments classified under shareholders' equity	111,693,636	49,913,387
Development property transferred from property, plant and equipment	8,255,795	104,464,637
Accrued financial charges capitalized as part of construction work-in-progress	73,958,333	18,333,333
Addition of district cooling system related to liabilities against capital leases	-	505,025,418

The notes from 1 to 22 form an integral part of these interim financial statements.



**JABAL OMAR DEVELOPMENT COMPANY**  
**(A Saudi Joint Stock Company)**

**Interim statement of changes in shareholders' equity (Unaudited)**  
(All amounts in Saudi Riyals unless otherwise stated)

	Note	Share capital	Statutory reserve	Hedging reserve	Retained earnings	Total
<b>Muharram 1, 1437H</b>		9,294,000,000	20,479,314	(112,746,304)	184,313,813	9,386,046,823
Net loss for the period		-	-	-	(75,506,836)	(75,506,836)
Transfer to statutory reserve		-	-	-	-	-
Fair value reserve adjustment	16	-	-	111,693,636	-	111,693,636
<b>Rabie al-Awwal 30, 1437H (Unaudited)</b>		9,294,000,000	20,479,314	(1,052,668)	108,806,977	9,422,233,623
<b>Muharram 1, 1436H</b>		9,294,000,000	11,287,291	(102,933,473)	101,585,619	9,303,939,437
Net income for the period - (restated)		-	-	-	145,160,378	145,160,378
Transfer to statutory reserve - (restated)		-	14,516,038	-	(14,516,038)	-
Fair value reserve adjustment	16	-	-	(49,913,387)	-	(49,913,387)
<b>Rabie al-Awwal 29, 1436H - (restated)</b>		9,294,000,000	25,803,329	(152,846,860)	232,229,959	9,399,186,428

The notes from 1 to 22 form an integral part of these interim financial statements.



**JABAL OMAR DEVELOPMENT COMPANY**  
**(A Saudi Joint Stock Company)**  
**For the three-month period ended Rabie al-Awwal 30, 1437H (Unaudited)**  
 (All amounts in Saudi Riyals unless otherwise stated)

**1 General information**

Jabal Omar Development Company (the "Company"), a Saudi Joint Stock Company, was established under the Regulations for Companies in the Kingdom of Saudi Arabia as per the Royal Decree number M/63 dated Ramadan 25, 1427H. The incorporation of the Company was declared pursuant to the Ministerial Resolution No. Q/253, dated Shawal 16, 1428H (corresponding to October 28, 2007). The Company's commercial registration (CR) number 4031051838 issued in Makkah on Dhul Qa'dah 15, 1428H (corresponding to November 25, 2007).

The Company's main activity is to own Jabal Omar area adjacent to the western side of the Holy Mosque Square and develop it into plots of land to manage, invest, sell and lease them for the Company's interest; in addition to carrying out operations necessary for construction, maintenance, management, demolishing, surveying, and furnishing hotels, commercial facilities and staff residences, as well as importing and exporting hotels' equipment and furniture and operating the hotels.

The Company has branch commercial registrations to engage in hospitality activities by virtue of the Saudi Commission for Tourism and Antiquities (SCTA) letters, where the financial statements include the operating activities of these hotels:

No.	Hotel	Commercial Registration No.	Date of CR	Letter no. of SCTA	Date of SCTA Letter
1	Hilton Suites Makkah	4031077081	Rajab 15, 1434H	ATM/5887/34	Rabie al-Thani 22, 1434H
2	Marriot Hotel Makkah	4031085088	Rajab 8, 1435H	ATM/8332/35	Jumada al-Awwal 16, 1436H
3	Hayatt Regency Hotel Makkah	4031087547	Dhul Qa'dah 14, 1435H	8957	Rajab 26, 1435H

The Company's project (the "Project") includes seven phases, each phase has a number of podiums and towers. As at Rabie al-Awwal 30, 1437H, the Company is still in the stage of developing the Project, where it has completed demolition, cleared debris, levelled surface, cut rocks and is currently constructing infrastructures, roads, bridges, underpasses, walkways, electrical and water works and executing buildings construction and others. The construction of towers H3, H4, H6, H7, H8, and H9 in areas S1 and N2 of phase 1 were completed during the year. Also, the Company sold a number of development properties in area S1 of Phase 1 by means of auction.

As at Rabi Awwal 30, 1437H, the Company's current liabilities exceeded its current assets by Saudi Riyals 626 million. The Company's current liabilities primarily comprise of the current portion of a loan (the "Loan") from a Governmental Authority (the "Lender") amounting to Saudi Riyals 650 million which was due for repayment on Rabie al-Awwal 21, 1437H (corresponding to January 1, 2016) (Note 14). During 1436H, the Company's management also arranged a new financing arrangement of Saudi Riyals 8 billion (Note 14), which is restricted to phases 2, 4 and 5 of the construction project. Furthermore, during 1437H management has renegotiated an existing short term, specific purpose facility to a general purpose revolving facility of Saudi Riyals 900 million from a local commercial bank, which contains an option to roll over the facility for another period of which Saudi Riyals 751 million is available under cash and cash equivalents as at Rabi Awwal 30, 1437H. Management intends to use this facility to settle the current portion of the Loan and obligations relating to the phase 3 of the construction project. The Company's management continue to negotiate with the Lender to defer the repayments of the Loan for an additional period of 4 years and additional funding to support the construction of phase 3 of the construction project. Management expects a new agreement to be formalized with the Lender in 1437H and have a reasonable expectation that the Company will have adequate funding to meet its obligations as and when they become due through its borrowings and operating cash flows to support the construction of all phases of the project. Accordingly, these financial statements have been prepared on a going concern basis.

These interim financial statements were authorized for issue by the Company's Board of Directors on Rabie al-Thani 18, 1437H (corresponding to January 28, 2016).

**2 Summary of significant accounting policies**

The principal accounting policies applied in the preparation of these interim financial statements are summarised below. These policies have been consistently applied to all periods presented, unless otherwise stated. The accounting policies and methods of presentation and calculation used in the preparation of these summarized interim financial information are consistent with those used in the preparation and presentation of the Company's financial statements for the year ended Dhul Hijjah 30, 1436H.

## **2 Summary of significant accounting policies (continued)**

### **2.1 Basis of preparation**

The accompanying interim financial statements have been prepared under the historical cost convention and the accrual basis of accounting as modified to measure derivative financial instruments to fair value through shareholders' equity, and in compliance with accounting standards promulgated by the Saudi Organization for Certified Public Accountants ("SOCPA").

The interim financial statements for the three-month period ended Rabie al-awwal 1437H have been prepared according to the standards of interim financial statements issued by SOCPA.

Each period is considered an integral part of the fiscal year. Revenues, profits, expenses and losses related to the financial period are recognized and presented in the interim financial statements for the same period. Accompanying interim financial statements include all adjustments, most of which ordinary recurring accruals, which the management consider necessary for a fair presentation of the balance sheets, business results and cash flows. Accompanying interim financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the audited financial statements of the Company for the year ended Dhul Hijjah 30, 1436H.

The operational results of the three-month period ended Rabie al-Awwal 30, 1437H is not necessarily an indicator of the expected fiscal year operesults ended Dhul Hijjah 30,1437H.

During the three-month period ended Rabie al-Awwal 30,1437H, management have recorded the arrangements with Central District Cooling Company ("Tabreed" or "CDCC") as a capital lease asset, in accordance with the requirements under accounting standards issued by SOCPA and International Financial Reporting Interpretations Committee ("IFRIC") 4. As a result, assets obtained under a capital lease amounting to Saudi Riyals 498 million and corresponding liabilities against a capital lease of Saudi Riyals 502 million have been recorded on the interim balance sheet as at Rabie al-Awwal 29, 1436H. Furthermore, an additional financial charge and cost of revenues amounting to Saudi Riyals 4 million were recorded in the interim income statement for the three-month period ended Rabie al-Awwal 29, 1436H, reducing net income for the period to Saudi Riyals 145 million (note 11).

### **2.2 Critical accounting estimates and judgements**

The preparation of financial statements in conformity with accounting standards promulgated by SOCPA requires the use of certain critical estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as at the date of interim financial statements as well as the estimation of the amounts of revenues and expenses during the financial period. Estimates and judgements 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. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have the following risks and might cause material adjustments to the carrying amounts of assets and liabilities within the next financial year are discussed below:

#### **(a) Useful life of investment property, property, plant and equipment**

The charge related to periodic depreciation is derived after determining that an asset's expected useful life and the expected residual value at the end of its useful life. Increasing an asset's expected useful life or its residual value would result in a reduced depreciation charge in the interim income statement.

The useful lives of real estate properties, property, plant and equipment are determined by the management at the time the asset is acquired and reviewed annually for appropriateness. The lives are based on historical experience of similar assets as well as anticipation of future events, which may impact their lives.

### **2.3 Segment reports**

#### **(a) Business segment**

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

- (i) Engaged in revenue production activities;
- (ii) Results of operations are continuously analysed by the management in order to make decisions related to resource allocation and performance assessment;
- (iii) Financial information is separately available.

**2 Summary of significant accounting policies (continued)**

**2.3 Segment reports (continued)**

**(b) Geographical segment**

The geographical segment is a group of assets, operations or entities engaged in revenue production activities within a particular economic environment that are subjected to risks and returns different from those operating in other economic environments.

**2.4 Foreign currencies**

**(a) Reporting currency**

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

**(b) Transactions and balances**

Foreign currency transactions are translated into Saudi Riyals using the exchange rates prevailing at the dates of the transactions. Gains and losses of exchange differences arising from the settlement of such transactions and from the translation of monetary assets and liabilities into foreign currencies based on prevailing exchange rates, which were not significant for the period, as at the end of period are recognized in the interim statement of income.

**2.5 Cash and cash equivalents**

Cash and cash equivalents include cash on hand, cash at banks and highly liquid Murabaha investments with maturities of three months or less from the purchase date.

**2.6 Restricted cash**

Current and non-current restricted cash is classified according to agreements signed with banks (long-term loans).

**2.7 Receivables**

Accounts receivable are carried at original invoices amounts 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 leases. Such provisions are charged to the interim statement of income. When an account receivable is non-collectable, it is written-off against the provision for doubtful debts. Any subsequent recoveries of amounts previously written-off are credited to the interim statement of income.

**2.8 Inventories**

Inventories are carried at the lower of cost or net realizable value. Cost is determined on the basis of the weighted cost average method. The cost of finished products include raw materials, labour and indirect production.

Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

**2.9 Development property**

Property held by the Company for future development is classified as development properties and are measured at the lower of cost and net realizable value ("NRV"). Development properties expected to be sold and completed within the next twelve months are classified as current assets. Cost include:

- (i) Freehold and leasehold rights for land
- (ii) Amounts paid to contractors for construction
- (iii) Borrowing costs, planning and designing costs, site preparation costs, professional fees for legal services, property transfer charges, construction indirect costs and any other related costs.

NRV is the estimated selling price in the ordinary course of the business, based on market prices at the reporting date less costs of completion and estimated costs of sale.

## **2 Summary of significant accounting policies (continued)**

### **2.9 Development property (continued)**

NRV for completed development properties is assessed with reference to market conditions and prices prevailing at the reporting date and is determined by the Company according to recent market transactions.

The specific cost of development properties is recognised in the income statement on disposal based on the relative sales value of the sold property.

NRV in respect of development properties under construction is assessed with reference to market prices at the reporting date for similar completed properties, less estimated costs of construction work completion.

### **2.10 Advances to certain founders**

This item represents the advances paid to certain land shareholders as compensation for losses incurred due to disruption of their business activities. Such amounts will be recovered from their future share of dividends in accordance with the Company's Article of Association. Recipients of such advances are required to compensate the Company for any outstanding balances if they intend to dispose their shares in the Company.

### **2.11 Investment in an associate**

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. Investment in associate is accounted for using the equity method of accounting and is initially recognized at cost.

The Company's share of its associates post-acquisition gain or loss is recognized in the interim income statement, and its share of post-acquisition changes in reserves is recognized in reserves. The cumulative post-acquisition changes 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.

Gains and losses arising due to changes in the investment value in an associate are recognized when declared in the Company's interim income statement.

### **2.12 Property, plant and equipment**

Property, plant and equipment are carried at cost less accumulated depreciation and impairment. Land is not depreciated. Depreciation is charged to the income statement using the straight-line method to allocate the related assets costs over the following estimated useful lives:

	<b>Number of years</b>
• Hotel buildings	25
• Buildings on leased land	8
• Equipment	10
• Furniture and fixtures	10
• Machinery and equipment	6-7
• Vehicles	4
• Office equipment	6
• Computers	4

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

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

Depreciation of fixed assets belonging to hotels is calculated based on 50% of the above-mentioned rate based on the occupancy and operation rate.

## **2 Summary of significant accounting policies (continued)**

### **2.13 Construction work-in-progress**

Construction work-in-progress which comprise the construction of Jabal Omar Project are recognised at cost. Such cost includes consultancy, demolition, levelling of site, cutting rocks, supervision, construction work and other attributable costs. Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalised as part of those assets. The capitalised financing costs are reduced by any realized revenues generated by the Company from the temporary investment of the borrowed funds.

### **2.14 Leased assets**

The Company records assets acquired under capital leases (implicit or explicit) by recognizing related assets and liabilities. These amounts are determined on the basis of the present value of minimum lease payments. Financial charges are allocated to the lease term in a manner so as to provide a constant periodic rate of charge on the outstanding liability. Depreciation on assets under capital leases is charged to the interim income statement applying the straight-line method at the rates applicable to related assets as follows:

	<b>Number of years</b>
• District cooling system	30

### **2.15 Deferred financial charges**

Costs that are not of future benefit after the current period are charged to the income statement, while costs that will benefit future periods are capitalised. Deferred financial charges include financial and administrative consultation fees related to obtaining long-term financing for partial construction of the Company's main project. Such charges are amortized over the period of the long-term financing. Amortization of deferred financial charges that is directly attributable to the acquisition, construction or production of qualifying assets is capitalised as part of those assets. Other amortization charges are charged to the interim income statement.

### **2.16 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 comprise of buildings, equipment, furniture and fixtures forming an integral part of the buildings. Investment property is recorded at net historical cost less accumulated depreciation, except for properties under construction recognised at cost. Historical cost includes expenses directly attributable to the acquisition of assets. Subsequent costs are included in the asset's carrying amount or recognised 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 net carrying amount of the replaced asset is de-recognised. All other repairs and maintenance costs are charged to the income statement during the financial period during which they incurred.

Depreciation on other assets is charged to the interim income statement using the straight-line method to distribute their costs over their estimated useful lives as follows:

	<b>Number of years</b>
• Buildings	25
• Equipment	10
• Furniture & fixtures	5

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

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



## **2 Summary of significant accounting policies (continued)**

### **2.17 Impairment of non-current assets**

Non-current assets are reviewed in respect of impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment loss is recognised representing the excess of the asset carrying amount over its recoverable amount which is the higher of an asset's fair value less the cost of selling or the use value. For the purpose of assessing the impairment, assets are grouped at their lowest levels where separate identifiable cash flows are available (cash-generating units). Non-current assets, other than intangible assets, that suffered impairment are reviewed for possible reversal of impairment at each reporting date. If an impairment loss is subsequently reversed, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, subjected to not exceeding the carrying amount if the impairment loss is not recognised for the asset or the cash-generating unit in previous years. A reversal of an impairment loss is recognised as income immediately in the income statement. Impairment losses recognised on intangible assets are not reversible.

### **2.18 Borrowings**

Borrowings are recognised at the proceeds received less transaction costs incurred, if any. Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalised as part of those assets borrowing. Other borrowing costs are charged to the income statement. Financing costs are reduced by any revenues realised by the Company from the temporary investment of the borrowed funds.

### **2.19 Accounts payable and accruals**

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

### **2.20 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.

### **2.21 Zakat**

The Company is subjected to zakat in accordance with the regulations of the Department of Zakat and Income Tax ("DZIT"). Provision for zakat for the Company is charged to the interim income statement. Additional amounts payable under final settlements, if any, are recognized when 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.

### **2.22 Employee termination benefits**

Employee termination benefits required by the Saudi Labour and Workmen Law are recognised by the Company and charged to the income statement. The liability is calculated based on 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 the employees' final salaries and allowance and their cumulative years of service, as stated in the laws of Saudi Arabia.

### **2.23 Derivative financial instruments**

Derivative financial instruments, principally interest rate swap contracts, are initially recognised at cost and re-measured to fair value at subsequent reporting dates by qualified and independent parties. The method of recognizing the gain or loss resulting from revaluation of financial derivatives is determined depending on whether the determined financial derivatives are classified as a hedging instrument, and the nature of the item being hedged (i.e. cash flow hedge or fair value hedge).

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item is more than 12 months and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

## **2 Summary of significant accounting policies (continued)**

### **2.23 Derivative financial instruments (continued)**

As at Rabie al-Awwal 30, 1437H, the Company held two financial derivatives which are interest rate swap agreements and are classified as a cash flow hedge (Note 16). The Company documented, at the inception of such transactions, the relationship between the hedging instruments and the hedged item, as well as its risk management objectives and strategy for undertaking various hedging transactions.

The Company also documents its assessments, at hedge inception and on an ongoing basis, to determine whether the derivatives used in hedging transactions are highly effective in offsetting changes in fair value or cash flows of hedged items.

The effective portion of changes in the fair value classified and qualified as cash flow hedges instruments is recognized in equity. The gain or loss resulting from the ineffective portion, if any, is recognized immediately in the interim income statement within other gains or losses.

### **2.24 Revenues**

Revenues from sale of development property are recognised when the Company transfers substantially all the risks and rewards of ownership of underlying assets to the buyer which normally on completion of construction work, unconditional exchanging of contracts and receiving the full property value.

Income from investment property leased under operating leases is recognised in the interim income statement based on a straight-line basis over the lease term. When the Company provides incentives to its customers, the cost of incentives is recognised based on a straight-line basis over the lease term as a deduction from the lease value.

Unearned rental income represent the rent received in advance from clients and is recognised in the income statement over the term of the lease.

Hotel revenues are recognised when accommodation service and / or food services are provided.

Murabaha income is recognised on a time-proportion basis at prevailing market rates.

### **2.25 Selling, marketing and general and administrative expenses**

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

### **2.26 Operating leases**

Lease expenses related to operating leases are charged to the interim income statement over the lease term.

### **2.27 Reclassifications**

The following amounts in the comparative interim financial statements of the first quarter of 1436H have been reclassified to conform with the first quarter of 1437H presentation:

- (i) For a better, presentation, the "construction work-in-progress" item was merged into the property, plant and equipment item at the balance sheet instead of presenting each of them separately.

## **3 Financial instruments and risk management**

The Company's activities expose it to a variety of financial risks, including: market risks (including currency risks, fair value risks, cash flow interest rate risks and price risks), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of the markets' financial positions and seeks to minimize potential adverse effects on the Company's financial performance. The Company uses derivative financial instruments to hedge against cash flow interest rate risks.



**3 Financial instruments and risk management (continued)**

Risk management is carried out by the management under policies approved. Executive management identifies and evaluates the hedging against financial risks through close cooperation with the Company's operating units. The most important types of risks are credit risks, currency risks and fair value risks and interest rate cash flow risks.

Financial instruments carried on the balance sheet include cash and cash equivalents, accounts receivable, restricted cash, investment in an associate, long-term borrowings, assets and liabilities against capital leases, derivative financial instruments, accounts payable and other liabilities. Recognition methods adopted are disclosed in the individual policy statements associated with each item.

Financial assets and liabilities are offset and net amounts are recognized in the financial statements when the Company has a legally enforceable right to offset the recognized amounts and intends either to settle on an offset basis, or to recognize the assets and liabilities simultaneously.

**3.1 Currency risk**

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company's transactions are principally in Saudi Riyals and US Dollars. The company's management believes that there is no significant currency risk.

**3.2 Fair value and cash flow interest rate risk**

Fair value and cash flow interest rate risks are exposures to various risks associated with the effect of fluctuations at prevailing interest rates on the Company's financial position and cash flows. The Company's interest rate risks arise mainly from its short-term Murabaha deposits and long-term loans, which are at floating commission rates and are subjected to re-pricing on a regular basis. The Company has entered into interest swap contracts to convert the Company's exposure from floating commission rates under certain loan facilities into fixed rates. Management monitors the changes in interest rates and believes that the fair value and cash flow interest rate risks of the company are adequately managed.

**3.3 Price risk**

The risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. The Company is not exposed to equity securities price risk.

**3.4 Credit risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The company is exposed to credit risk from its lease revenue, leasing activities and sale of development property by credit.

Credit risk is managed by requiring tenants to pay leases in advance. The credit quality of tenants is assessed based on a review of their credit rating by the Company with independent agencies at the time of entering into a lease agreement. Outstanding tenants' receivables are regularly monitored. The maximum exposure to credit risk at the reporting date is the carrying value of each classification of financial assets.

Sale of development property using credit is managed by requiring customers to pay 100% of the sale price before transferring the legal ownership, therefore, substantially eliminating the Company's credit risk in this respect.

Advances to certain founders will be recovered from the future share of dividends distributed to them. Also, the founders are prevented from disposing their interest in the Company unless they settle any advances received by them. The Company's management believes that credit risk is adequately managed.

Cash is deposited to banks with sound credit ratings. Accounts receivable are recognized after deducting the provision for doubtful debts.

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**3 Financial instruments and risk management (continued)**

**3.5 Liquidity risk**

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. Liquidity risk is managed by monitoring, on a regular basis, that sufficient funds are available through committed credit facilities to meet any future commitments (Note 1).

The Company's current liabilities exceeded its current assets as at Rabie al-Awwal 30, 1437H. Current liabilities mainly consist of the current portion of the loan (the "Loan") from the government entity (the "Lender") amounting to Saudi Riyals 650 million due on Rabi Al Awwal 21, 1437H (Note 14), and short-term loans amounting to Saudi Riyals 842 million (Note 1).

**3.6 Fair value**

Fair value is the value for which an asset could be exchanged or a liability settled between knowledgeable willing parties in an arm's length transaction. As the Company's financial instruments are grouped under the historical cost convention, as modified by the revaluation of derivative financial instruments at fair value through equity. Differences may arise between the carrying value and the fair value estimates. Management believes that the fair values of the Company's financial assets and liabilities are not materially different from their carrying values.

**4 Segment information**

The Company's activity is geographically concentrated in the central region of Makkah, western region of the Kingdom of Saudi Arabia, and there is no activity for the company outside the western region.

The Company operates in the following major segments:

- Hotels – includes leasing rooms and selling food and beverages ("the Hotel").
- Commercial centres – includes operating and leasing commercial shopping malls ("the Commercial Centres").
- Property development – includes construction and development of property and sale of completed dwellings.

Selected financial information as of and for the period ended Rabie al-Awwal 30, 1437H, and Rabie al-Awwal 29, 1436H, summarized by segment, is as follows:

	Rabie al-Awwal 30, 1437H			Total
	Hotels	Commercial centres	Property development	
<b>Total assets comprised of:</b>				
Current assets	68,134,172	20,926,633	1,631,131,594	1,720,192,399
Property, plant and equipment	3,048,227,921	-	14,779,835,429	17,828,063,350
Investment property	-	559,111,219	-	559,111,219
Other non-current assets	-	-	933,725,980	933,725,980
<b>Liabilities</b>	<b>41,461,193</b>	<b>16,536,341</b>	<b>11,560,861,791</b>	<b>11,618,859,325</b>
Revenues	57,375,940	35,832,100	11,300,000	104,508,040
Net income	(58,777,986)	16,809,111	(33,537,961)	(75,506,836)
	Rabie al-Awwal 29, 1436H			Total
	Hotels	Commercial centres	Property development	
<b>Total assets comprised of:</b>				
Current assets	75,005,853	80,086,862	436,968,192	592,060,907
Property, plant and equipment	765,774,863	-	15,376,022,464	16,141,797,327
Investment property	-	332,127,062	-	332,127,062
Other non-current assets	-	-	2,154,953,997	2,154,953,997
<b>Liabilities</b>	<b>24,834,533</b>	<b>39,607,768</b>	<b>9,757,310,564</b>	<b>9,821,752,865</b>
Revenues	27,905,265	31,750,790	179,500,000	239,156,055
Net income	7,038,255	19,170,167	118,951,956	145,160,378

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**5 Accounts receivable and other assets**

	Note	1437H	1436H
Trade receivables		126,926,823	86,874,524
Due from related parties	21	64,329,796	-
Margin on bank guarantee		18,399,984	18,399,984
Prepaid expenses		6,497,240	5,747,044
Other		36,657,840	12,928,688
		<u>252,811,683</u>	<u>123,950,240</u>
Less: provision for doubtful debts		<u>(114,334,876)</u>	<u>-</u>
		<u>138,476,807</u>	<u>123,950,240</u>

Movement in provision for doubtful debts is as follows:

	1437H	1436H
Muharram 1	106,253,669	-
Additions	8,081,207	-
Rabie al-Awwal 30/29	<u>114,334,876</u>	<u>-</u>

**6 Development property**

Movement in development property for the period is as follows:

	Note	1437H	1436H
Muharram 1		147,055,823	34,148,167
Transferred from property, plant and equipment	11	8,255,795	104,464,637
Cost of development property sold		<u>(7,767,139)</u>	<u>(33,873,803)</u>
Rabie al-awwal 30/29		<u>147,544,479</u>	<u>104,739,001</u>

**7 Advances to certain founders**

	1437H	1436H
Muharram 1	314,876,905	292,979,253
Payments	-	-
Received amounts	<u>(37,006)</u>	<u>(6,140,195)</u>
Rabie al-awwal 29/30	<u>314,839,899</u>	<u>286,839,058</u>

The Board of Directors recommended in their meeting held on Muharram 19, 1437H (corresponding to November 1, 2015) to continue paying such compensation amounts for certain founders until Dhul Hijjah 30, 1437H. This recommendation will be presented to the upcoming Extraordinary General Assembly meeting on Jumad-ul-Awal 23, 1437H (corresponding to March 3, 2016) to gain approval.

**8 Deferred financial charges**

The movement of deferred financial charges for the period as follows:

	1437H	1436H
Muharram 1	230,393,977	186,724,588
Additions	-	-
Amortizations capitalized as part of construction work-in-progress	<u>(5,018,714)</u>	<u>(2,538,092)</u>
Rabie al-Awwal 30/29	<u>225,375,263</u>	<u>184,186,496</u>

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**9 Investment property**

<b>1437H</b>	<b>Muharram 1</b>	<b>Transferred from construction work-in-progress (Note 11-1)</b>	<b>Additions</b>	<b>Rabie al- Awwal 30</b>
<b>Cost</b>				
Buildings	446,719,562	-	-	446,719,562
Equipment	192,334,446	-	-	192,334,446
Furniture and fixtures	608,636	-	-	608,636
	<b>639,662,644</b>	<b>-</b>	<b>-</b>	<b>639,662,644</b>
<b>Accumulated Depreciations</b>				
Buildings	(31,831,018)	-	(4,465,409)	(36,296,427)
Equipment	(39,146,519)	-	(4,806,438)	(43,952,957)
Furniture and fixtures	(271,787)	-	(30,254)	(302,041)
	<b>(71,249,324)</b>	<b>-</b>	<b>(9,302,101)</b>	<b>(80,551,425)</b>
	<b>568,413,320</b>			<b>559,111,219</b>
<b>1436H</b>	<b>Muharram 1</b>	<b>Transferred from construction work-in-progress (Note 11-1)</b>	<b>Additions</b>	<b>Rabie al- Awwal 29</b>
<b>Cost</b>				
Buildings	255,482,496	-	-	255,482,496
Equipment	127,730,858	-	197,114	127,927,972
Furniture and fixtures	608,636	-	-	608,636
	<b>383,821,990</b>	<b>-</b>	<b>197,114</b>	<b>384,019,104</b>
<b>Accumulated depreciations</b>				
Buildings	(20,438,600)	-	(2,554,825)	(22,993,425)
Equipment	(25,546,172)	-	(3,196,557)	(28,742,729)
Furniture and fixtures	(125,456)	-	(30,432)	(155,888)
	<b>(46,110,228)</b>	<b>-</b>	<b>(5,781,814)</b>	<b>(51,892,042)</b>
	<b>337,711,762</b>			<b>332,127,062</b>

**10 Investment in an associate**

	<b>ownership interest</b>			
	<b>Rabie al- Awwal 30, 1437H</b>	<b>Rabie al- Awwal 29, 1436H</b>	<b>Rabie al- Awwal 30, 1437H</b>	<b>Rabie al- Awwal 29, 1436H</b>
Central District Cooling Company "Tabreed or "CDCC""	40%	40%	<b>50,920,818</b>	50,205,666

Movement in the investment in an associate is as follows:

	<b>1437H</b>	<b>1436H</b>
Muharram 1	<b>48,462,848</b>	50,462,486
Company's share in net income/ (loss)	<b>2,457,970</b>	(256,820)
Rabie al-Awwal 30/29	<b>50,920,818</b>	50,205,666

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**11 Property, plant and equipment**

<b>1437H</b>	<b>Note</b>	<b>Muharram 1</b>	<b>Additions</b>	<b>Transferred from construction work-in-progress (Note 11-1)</b>	<b>Transferred to development property (Note 6)</b>	<b>Disposals</b>	<b>Rabie al- Awwal 30</b>
<b>Cost</b>							
Land		4,208,906,587	-	-	-	-	4,208,906,587
Buildings		2,012,837,974	-	56,000,680	-	-	2,068,838,654
District cooling system		505,025,418	-	-	-	-	505,025,418
Buildings on leased lands		6,275,177	-	-	-	(2,506,968)	3,768,209
Equipment		827,465,183	32,940	24,781,832	-	-	852,279,955
Furniture and fixtures		326,105,252	3,531,627	-	-	-	329,636,879
Machinery and equipment vehicles		3,116,427	-	-	-	-	3,116,427
Office equipment		1,925,950	89,000	-	-	-	2,014,950
Computers		576,252	12,850	-	-	-	589,102
		19,118,140	254,800	-	-	-	19,372,940
Construction work-in-progress	11,1	9,601,239,082	433,852,872	(80,782,512)	(8,255,795)	-	9,946,053,647
		<u>17,512,591,442</u>	<u>437,774,089</u>	<u>-</u>	<u>(8,255,795)</u>	<u>(2,506,968)</u>	<u>17,939,602,768</u>
<b>Accumulated Depreciations</b>							
Buildings		(18,785,490)	(13,111,826)	-	-	-	(31,897,316)
District cooling system		(12,321,454)	(3,791,877)	-	-	-	(16,113,331)
Buildings on leased land		(5,680,378)	-	-	-	1,912,170	(3,768,208)
Equipment		(19,954,923)	(12,460,981)	-	-	-	(32,415,904)
Furniture and fixtures		(12,008,385)	(4,113,514)	-	-	-	(16,121,899)
Machinery and equipment		(3,116,240)	(64)	-	-	-	(3,116,304)
Vehicles		(1,494,367)	(87,359)	-	-	-	(1,581,726)
Office equipment		(296,360)	(14,015)	-	-	-	(310,375)
Computers		(5,620,471)	(593,884)	-	-	-	(6,214,355)
		<u>(79,278,068)</u>	<u>(34,173,520)</u>	<u>-</u>	<u>-</u>	<u>1,912,170</u>	<u>(111,539,418)</u>
		<u>17,433,313,374</u>					<u>17,828,063,350</u>

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**11 Property, plant and equipment (continued)**

		Note	Muharram 1	Additions	Transferred from construction work-in-progress (Note 11-1)	Transferred to development properties (Note 6)	Disposals	Rabie al -Awwal 29
<b>1436H (Restated)</b>								
<b>Cost</b>								
Land			4,238,724,001	-	-	(17,889,674)	-	4,220,834,327
Buildings			469,651,897	-	-	-	-	469,651,897
District cooling system			-	505,025,418	-	-	-	505,025,418
Buildings on leased land			6,275,177	-	-	-	-	6,275,177
Equipment			183,644,034	204,545	-	-	-	183,848,579
Furniture and fixtures			122,302,329	1,455,236	-	-	-	123,757,565
Machinery and equipment vehicles			3,116,427	-	-	-	-	3,116,427
Office equipment			1,925,950	-	-	-	-	1,925,950
Computers			455,606	44,000	-	-	-	499,606
			10,699,795	820,803	-	-	-	11,520,598
Construction work-in-progress	11,1		10,067,728,022	671,073,154	-	(86,574,963)	-	10,652,226,213
			15,104,523,238	1,178,623,156	-	(104,464,637)	-	16,178,681,757
<b>Accumulated Depreciations</b>								
Buildings			(3,127,882)	(2,348,259)	-	-	-	(5,476,141)
District cooling system			-	(6,838,558)	-	-	-	(6,838,558)
Buildings on leased land			(5,375,735)	(78,427)	-	-	-	(5,454,162)
Equipment			(3,050,965)	(97,386)	-	-	-	(3,148,351)
Furniture and fixtures			(3,256,400)	(1,564,245)	-	-	-	(4,820,645)
Machinery and equipment			(3,018,666)	(2,298,107)	-	-	-	(5,316,773)
Vehicles			(1,200,219)	(74,144)	-	-	-	(1,274,363)
Office equipment			(242,851)	(10,831)	-	-	-	(253,682)
Computers			(3,950,545)	(351,210)	-	-	-	(4,301,755)
			(23,223,263)	(13,661,167)	-	-	-	(36,884,430)
			15,081,299,975					16,141,797,327

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**11 Property, plant and equipment (continued)**

Lands represent the parcel of land property situated in the Jabal Omar area. They were acquired from the Company's founding shareholders by exchange of shares issued at par value of Saudi Riyals 10 each. Valuation of land was prepared and approved by the High Commission of the Development of Makkah Region ("HCDMR"). Legal formalities for the transfer of ownership from founding shareholders to the Company are complete. Additions to land represent plots for which the owners have submitted title deeds for transfer to the Company.

The Company has pledged a portion of its Land as collateral against a government loan from local commercial banks (Note 14).

The Company entered into an agreement (the "Agreement") with the Central District Cooling Company (CDCC), an associate, to construct, operate and maintain a District Cooling System (DCS) for a period of 26.5 years after the date of final commissioning of DCS which was effective Rabi Awwal 9, 1436H (corresponding to December 31, 2014). The DCS is pledged against a loan obtained by CDCC.

During the three-month period ended Rabie al-Awwal 30, 1437H, management have recorded the arrangements related to the District Cooling System ("DCS") as a capital lease asset. As the Agreement with CDCC contains an embedded lease arrangement management considered that a more appropriate application of the accounting policy would be for the DCS to be treated as a capital lease in accordance with the requirements under accounting standards issued by SOCPA and IFRIC 4.

As a result of the recognition of the DCS as a capital lease asset, the property, plant and equipment as at Rabie al-Awwal 29, 1436H, Jumada Thani 30, 1436H, Ramadan 29, 1436H and Dhul Hijjah 30, 1436H are increased by Saudi Riyals 498 million [revised balance Saudi Riyals 16,141 million], Saudi Riyals 487 million [revised balance Saudi Riyals 16,719 million], Saudi Riyals 475 million [revised balance Saudi Riyals 17,413 million] and Saudi Riyals 468 million [revised balance Saudi Riyals 17,433 million], respectively; and, liabilities against finance lease are increased by Saudi Riyals 502 million [revised balance Saudi Riyals 502 million], Saudi Riyals 501 million [revised balance Saudi Riyals 501 million], Saudi Riyals 500 million [revised balance Saudi Riyals 500 million] and Saudi Riyals 499 million [revised balance Saudi Riyals 499 million], respectively; and, retained earnings and statutory reserve are decreased by Saudi Riyals 4 million [revised balance Saudi Riyals 258 million], Saudi Riyals 14 million [revised balance Saudi Riyals 323 million], Saudi Riyals 25 million [revised balance Saudi Riyals 332 million] and Saudi Riyals 31 million [revised balance Saudi Riyals 205 million], respectively.

The net income reported for the three months period ended Q1, Q2, Q3, and Q4 1436H are reduced by Saudi Riyals 4.1 million, Saudi Riyals 10.3 million, Saudi Riyals 10 million and Saudi Riyals 7 million, respectively. The revised income statement line items as a result of the changes include: increase in cost of revenue by Saudi Riyals 16.4 million (revised cost of revenue Saudi Riyals 345 million) and for the three months ended Q1, Q2, Q3, Q4 1436H by Saudi Riyals 2.4 million, Saudi Riyals 5.3 million, Saudi Riyals 5 million and Saudi Riyals 3.7 million, respectively; and, increase in finance charges by Saudi Riyals 15 million (revised finance charges Saudi Riyals 85.5 million) and for the three months ended Q1, Q2, Q3, Q4 1436H by Saudi Riyals 1.7 million, Saudi Riyals 5 million, Saudi Riyals 5.1 million and Saudi Riyals 3.3 million, respectively.

Earnings (loss) per share for each of the three months period ended Q1, Q2, Q3 and Q4 1436H are Saudi Riyals 0.156 per share, Saudi Riyals 0.070 per share, Saudi Riyals 0.009 per share and Saudi Riyals (0.136) per share, respectively.



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**11 Property, plant and equipment (continued)**

**11.1 Construction work-in-progress**

<b>1437H</b>	<b>Muharram 1</b>	<b>Additions</b>	<b>Transferred to investment property</b>	<b>Transferred to property, plant and equipment</b>	<b>Transferred to development property (Note 6)</b>	<b>Transferred to investment in an associate</b>	<b>Reclassification</b>	<b>Rabie al-Awwal 30</b>
<b>Cost</b>								
Property under construction	6,547,297,799	303,164,011	-	(71,767,848)	(4,646,950)	-	-	6,774,047,012
Cost of related loans	739,086,498	101,327,809	-	(3,363,356)	455,285	-	-	837,516,236
Project management and supervision	462,780,765	41,544,066	-	(2,511,186)	(176,505)	-	-	501,637,140
Engineering consultancy and model replica	350,482,145	6,401,120	-	(362,157)	(43,023)	-	-	356,478,085
Furniture and fixtures	139,953,128	35,380,797	-	-	642,717	-	-	175,976,642
Location levelling	108,090,232	1,188,296	-	(71,935)	(18,876)	-	-	109,187,717
Demolition and removal of debris	33,554,016	343,984	-	(66,758)	(1,318)	-	-	33,829,924
Professional and financial consultancy fees	34,024,272	1,767,540	-	(375,420)	(10,277)	-	-	35,406,115
Hotel consultancy	29,676,177	2,704,819	-	(175,086)	(1,113)	-	-	32,204,797
Advances to contractors	872,765,331	(72,278,226)	-	-	-	-	-	800,487,105
Other	283,528,719	12,308,656	-	(2,088,766)	(4,465,735)	-	-	289,282,874
	<b>9,601,239,082</b>	<b>433,852,872</b>	<b>-</b>	<b>(80,782,512)</b>	<b>(8,255,795)</b>	<b>-</b>	<b>-</b>	<b>9,946,053,647</b>

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**11 Property, plant and equipment (continued)**

**11.1 Construction work-in-progress (continued)**

<b>1436H (Restated)</b>	<b>Muharram 1</b>	<b>Additions</b>	<b>Transferred to investment property</b>	<b>Transferred to property, plant and equipment</b>	<b>Transferred to development property (Note 6)</b>	<b>Transferred to investment in an associate</b>	<b>Reclassification</b>	<b>Rabie al-Awwal 29</b>
<b>Cost</b>								
Property under construction	7,086,774,257	391,599,733	-	-	(49,004,474)	-	-	7,429,369,516
Cost of related loans	649,886,855	80,249,922	-	-	(9,693,435)	-	-	720,443,342
Project management and supervision	410,882,679	38,311,924	-	-	(2,495,384)	-	-	446,699,219
Engineering consultancy and model replica	368,064,254	10,803,153	-	-	(877,579)	-	-	377,989,828
Furniture and fixtures	132,771,531	37,101,273	-	-	(13,457,757)	-	-	156,415,047
Location leveling	112,809,052	1,625,909	-	-	(319,861)	-	-	114,115,100
Demolition and removal of debris	36,213,049	-	-	-	(107,884)	-	-	36,105,165
Professional and financial consultancy fees	34,419,288	2,404,532	-	-	(387,328)	-	-	36,436,492
Hotel consultancy	29,473,636	281,860	-	-	(44,651)	-	-	29,710,845
Advances to contractors	1,027,231,984	66,554,648	-	-	-	-	-	1,093,786,632
Other	179,201,437	42,140,200	-	-	(10,186,610)	-	-	211,155,027
	<b>10,067,728,022</b>	<b>671,073,154</b>	<b>-</b>	<b>-</b>	<b>(86,574,963)</b>	<b>-</b>	<b>-</b>	<b>10,652,226,213</b>

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**12 Short-term loan**

As at Rabie al-Awwal 30, 1437H, short-term loans comprised of general purpose and revolving Murabaha financing facilities obtained from local commercial banks amounting to Saudi Riyals 900 million. Utilised balance of the credit limit for the short-term loan as at Rabie al-Awwal 30, 1437H amounted to Saudi Riyals 842 million (see Note 21).

As at Rabie al-Awwal 29, 1436H, short-term loans comprised of revolving Murabaha financing facilities amounting to Saudi Riyals 484 million obtained to finance phase 4 of the Project. Utilised balance of the credit limit for the short-term loan as at Rabie al-Awwal 29, 1436H amounted to Saudi Riyals 460 million.

These loans are secured by promissory notes from the Company and bear financial charges are recognised at prevailing market rates which are based on Saudi inter-bank offer rate ("SIBOR").

**13 Liabilities against capital leases**

**13.1 Lease liabilities at Rabie al-Awwal 30/29 are as follows:**

	1437H	1436H (Restated)
Total value of minimum future lease payments	789,370,106	813,611,737
Finance charges	(292,886,504)	(311,293,086)
Present value of minimum lease payments	<u>496,483,602</u>	<u>502,318,651</u>

At Rabie al-Awwal 30/29, liabilities against capital leases are presented in the balance sheet as follows:

	1437H	1436H (Restated)
Current portion	11,659,629	6,792,115
Non-current portion	484,823,973	495,526,536
	<u>496,483,602</u>	<u>502,318,651</u>

**13.2 Minimum lease payments as at Rabie al-awwal 29/30 are as follows:**

	1437H	1436H (Restated)
1436H	-	16,403,406
1437H	23,524,180	31,365,574
1438H	31,365,574	31,365,574
1439H	31,365,574	31,365,574
1440H	31,365,574	31,365,574
1441H and thereafter	671,749,204	671,746,035
	<u>789,370,106</u>	<u>813,611,737</u>

The present value of minimum lease payments has been discounted at an effective interest rate of approximately 4% per annum. Liabilities against capital leases are expected to increase once the construction work of the third phase of DSC is completed. (Note 22.b).

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**14 Long-term loans**

	Note	Rabie al-Awwal 30 1437H	Rabie al-Awwal 29 1436H
Government loan	14-1	3,000,000,000	3,000,000,000
Syndicated loan – paid	14-2	-	4,046,254,640
Loan from a local bank – Saudi Riyals 4 billion	14-3	4,000,000,000	-
Loan from a local bank – Saudi Riyals 2 billion	14-4	-	-
Syndicated loan (2)	14-5	1,894,439,282	-
		<b>8,894,439,282</b>	<b>7,046,254,640</b>
Accrued financial charges related to government loan		310,208,332	236,249,999
Less: current portion of government loan classified under current liabilities	14-1	(650,000,000)	(650,000,000)
		<b>8,554,647,614</b>	<b>6,632,504,639</b>

**14.1 Government loan**

The Company signed a loan agreement with a government entity to develop Jabal Omar area with an amount of Saudi Riyals 3 billion, which was fully withdrawn during the past years. The Company obtained the government entity approval to postpone the beginning of loan repayment, banking commission and the grace period commission for two extra years, so that the grace period becomes 4 years. The loan is not subjected to financing expenses at Saudi banks prevailing interest rates. The loan and its financial charges are due over 6 Georgian annual instalments starting from January 1, 2016 (corresponding to Rabi Al Awwal 21, 1437H). The loan is secured by mortgage of land parcels with a total area of 30,611 square meters (Note 11). The Company has not paid the first instalment of the Loan amounting to Saudi Riyals 650 million which was due on Rabie al-Awwal 21, 1437H (corresponding to January 1, 2016). In accordance with the terms of the Loan agreement, in the event of failure to fulfill payment obligations of the Loan, the Lender may exercise its right to recall the outstanding Loan amount through sale of pledged land, without prior consent of the Company. The Company's management has not performed an assessment whether the non-payment of the first installment triggers a default on the Loan and the resulting cross defaults referred to in the other loan agreements entered into by the Company with other lenders.

**14.2 Syndicated loan- paid**

On Dhul Hijjah 6, 1433H (corresponding to July 25, 2012), the Company's management signed with a group of Saudi banks (the "Syndicate") an Islamic syndicated loan agreement under Islamic Ijara system whereby the Syndicate provides a loan of Saudi Riyals 5 billion to be allocated for the completion of phase 1 of the Company's project ("Jabal Omar") with a financial period of 12 years and a grace period of 4 years. The loan is due over quarterly instalments starting at Dhul Hijjah 28, 1437H (corresponding to September 30, 2016). The loan incurs financial charges at prevailing market rates based on SIBOR for a period of 360 days payable on quarterly instalments as of the start of loan payments. As at Rabi Al Thani 14, 1436H, the loan balance amounted to Saudi Riyals 4,046 million (Dhul Hijjah 30, 1435H: Saudi Riyals 4,046 million) as part of the total syndicated loan amount. The Company provided the following as securities for the loan:

- The Company deposited Saudi Riyals 653 million as restricted cash with one of the Syndicate's banks for the completion of phase 1 under the syndicated loan agreements as at Rabie al-Thani 14, 1436H.
- Under the syndicated loan agreements, the Company deposited amounts collected from leased commercial stores and proceeds from development property clients amounting to Saudi Riyals 981 million as at Rabie al-Thani 14, 1436H as restricted cash with one of the Syndicate's banks.
- A member bank of the Syndicate retained deeds of the project's land with an area of 94,665 square meters (Note 11).
- The Company has signed two promissory notes amounting to Saudi Riyals 5 billion to one member bank of the Syndicate.
- The Company has transferred the present and future beneficiary right of the Company's owned insurance policies to a member bank of the Syndicate.
- The Company has transferred the beneficiary ownership of guarantees provided by a contractor of Jabal Omar Project amounting to Saudi Riyals 201 million to a member bank of the Syndicate.

Also, the Company has entered into two hedging agreements to hedge against interest rates risk resulting from fluctuation in transaction rate of the syndicated loan facilities (Note 16).

This loan was repaid as explained in Note 14.3.

**14 Long-term loans (continued)**

**14.3 Loan from a local bank – Saudi Riyals 4 million**

As at Rabi al-Thani 15, 1436H (corresponding to February 4, 2015), the Company's management signed an Islamic financial agreement with a commercial local bank amounting to Saudi Riyals 4 billion whereby the bank shall finance the Company with an amount of Saudi Riyals 4 billion to settle the amount drawn from the syndicated loan related financing phase 1 of the project (Note 14.2) so called refinancing process, on the basis of which the entire syndicated loan amount has been settled and the difference of Saudi Riyals 46,254,640 of the retained amounts is covered. The balance of the retained amounts has been transferred to the bank and classified by the Company under current assets due to this agreement while maintaining the two hedging agreements. The refinancing agreement has been signed with the bank as per the following terms and advantages:

- A grace period of 3 years instead of 2 years.
- Repayment period of 12 years instead of 8 years as for the previous loan.
- Possible distribution of profits to shareholders in case of available surplus in the company's revenues over instalments due to the bank.
- Decrease of commission
- Retrieving property deeds located outside Phase 1 areas, currently given to banks.
- Decrease of administrative fees due to dealing with one bank instead of six banks.
- Such financing is allocated to cover the costs of construction of Phase 1 of the project (S1, S2, N2, and N3). The refinancing period is 15 years including the 3 years grace period. Repayment shall commence as at September 2017.

The Company provided securities comprising the phase 1 land deeds of the Company's project in Makkah and a promissory note. Such financing shall be settled out of the expected revenues of the five hotels (10 towers) located in phase 1 of the project in addition to revenues of leasing the commercial market and selling some of the phase 1 residential units.

**14.4 Loan from a local bank – Saudi Riyals 2 billion**

As at Rajab 28, 1436H (corresponding to May 17, 2015), the Company's management signed a long-term Islamic financing agreement amounting to Saudi Riyals 2 billion with two local banks. The loan will be used to complete construction of buildings S3 and S4 of phase 2 of the Company's Projects. Financial charges are recognized at prevailing market rates which are based on SIBOR.

In exchange of such a loan, the Company gave the following securities:

- Negative mortgage of the land deeds of phase 2 (S3 and S4).
- Endorsing commercial stores contracts related to phase 2.
- Mortgage of banking accounts related to phase 2.
- Endorsing insurance policy related to phase 2.
- Release of letters of guarantee extended by phase 2 contractor.
- Signing a direct agreement with the contractor and hotels operators in phase 2.
- Promissory Note by the Company to the bank.

**14.5 Syndicated loan (2) – Saudi Riyals 8 billion**

As at Dhul Hijjah 3, 1436H (corresponding to September 16, 2015), the Company's management signed an Islamic syndicated loan agreement under Islamic Ijara system with credit limit of Saudi Riyals 8 billion with two local banks. Such loan was used to repay all bank liabilities related to phase 2 and 4 comprising of a loan from a local bank with a credit limit of Saudi Riyals 2 billion (Note 14.4) and another short-term liability (Note 12) in addition to completing the construction of phases 2 and 4 and executing phase 5. Financial charges are recognized at prevailing market rates based on SIBOR over a period of 12 years as of the date of signing the agreement with a grace period of 4 years. In exchange of the loan, the Company gave the following securities:

- Negative mortgage of the above mentioned stages' lands deeds.
- Endorsing lease contracts of the above mentioned stages.
- Mortgage of the above mentioned stages' bank accounts.
- Endorsing insurance policies of the above mentioned stages.
- Release of the letter of guarantee provided by the above mentioned phases contractors.
- Signing a direct agreement with contractors of the above mentioned phases contractors.
- Promissory Note by the Company for the bank.

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**15 Other non-current liabilities**

	<b>Rabie al-Awwal 30 1437H</b>	<b>Rabie al-Awwal 29 1436H</b>
Non-current portion of retention payable	<b>216,424,745</b>	203,709,619
Refundable deposits	<b>6,522,824</b>	6,218,375
	<b>222,947,569</b>	209,927,994

Refundable deposits represent amounts received from tenants in the commercial centre area; these amounts are refundable at the end of the contract period or in case of lease termination according to contract terms.

**16 Derivative financial instruments**

On Jumada al-Awwal 7, 1434H (corresponding to March 19, 2013) the Company entered into two swap agreements with two local commercial banks to hedge against future adverse fluctuations in interest rates on part of the syndicated loan (Note 14) for an amount of Saudi Riyals 1,980 million over a period of 9 years and at fixed interest rate of 3.34% per annum. The Company classified the swap contracts as a cash flow hedge.

As explained in (Note 14.3), the Company's management refinanced the syndicated loan with a long-term borrowing from a local commercial bank. The Company's management sought the assistance of a third party to evaluate the effectiveness of the instrument and concluded that the hedge is effective.

The fair values of derivative financial instruments together with the contracts amounts were as follows:

	<b>Contracts amount</b>	<b>Positive fair value</b>	<b>Negative fair value</b>
Rabie al-Awwal 30, 1437H	1,980,000,000	-	(1,052,668)
Rabie al-Awwal 29, 1436H	1,980,000,000	-	(152,846,860)

**17 Share capital**

As at Rabie al-Awwal 30, 1437H and Rabie al-Awwal 29, 1436H, the Company's share capital comprised of 929,400,000 shares stated at Saudi Riyals 10 per share as follows:

	<b>Rabie al-Awwal 30 1437H</b>	<b>Rabie al-Awwal 29 1436H</b>
Public shares	<b>4,594,000,000</b>	4,594,000,000
Shares in-kind against lands and other costs	<b>4,340,435,050</b>	4,340,435,050
Cash shares in issue	<b>359,564,950</b>	359,564,950
	<b>9,294,000,000</b>	9,294,000,000

The Company is 11.4% owned by Makkah Construction and Development Company, a Saudi Joint Stock Company, ("MCDC") (including 1.3% as properties value which are under transferring process to the ownership of the Company), and 88.6% is being owned by public shareholding and other shareholders.

In accordance with (Article 8/2) of the Company's Article of Association, cash shares issued represent cash balances deposited by MCDC against property of which owners did not submit relevant legal documents. These shares will be waived when this occurs.

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**18 Revenue**

	<b>For the three-month ended</b>	
	<b>Rabie al-awwal 30 1437H</b>	<b>Rabie al-awwal 29 1436H</b>
Sale of development property	11,300,000	179,500,000
Lease of commercial centres	35,832,100	31,750,790
Hotel revenue	57,375,940	27,905,265
	<b>104,508,040</b>	<b>239,156,055</b>

**19 Zakat and tax matters**

**19.1 Provision for Zakat**

	<b>1437H</b>	<b>1436H</b>
Muharram 1	31,789,373	24,736,316
Provision	24,298,240	5,932,264
Rabie al-awwal 29/30	<b>56,087,613</b>	<b>30,668,580</b>

- (a) The DZIT issued the zakat assessment for the period from Ramadan 23, 1427H to Shawwal 15, 1428H, and for the period from Shawwal 16, 1428H to Dhul Hijjah 30, 1429H and the year 1430H with an additional liability amounting to Saudi Riyals 30.1 million. The Company objected to the resolution. The Preliminary Objection Committee favored the DZIT; accordingly the Company appealed with the Appeal Committee and submitted a bank guarantee of Saudi Riyals 29.1 million.
- (b) The DZIT also issued an assessment of the Company's withholding tax for the period Dhul Qa'ada 29, 1426H to Dhul Hijjah 30, 1430H with an amount of Saudi Riyals 12 million. The Company's objection was forwarded to the Preliminary Objection Committee (POC). The POC issued its decision and supported the DZIT. The Company settled Saudi Riyals 8 million and appealed against the decision of the POC. The Company submitted a bank guarantee of Saudi Riyals 2.8 million. The Appeal Committee resolution favoured the Preliminary Objection Committee. The Company approved the decision and did not object. The Company is in process to repay the liability and submit the bank guarantee.
- (c) During the year 1435H, the DZIT raised assessment for the years from 1431H to 1433H with additional zakat and withholding tax amounting to Saudi Riyals 23.8 million. The Company objected to the assessments.
- (d) The Company filed its Zakat assessments for the two years ended on 1435H and 1434H and obtained a restricted Zakat certificate. The DZIT did not complete the review of the Company's assessments for the said years.
- (e) The Company is in the process of filing its zakat assessment for the year ended Dhul Hijjah 1436H and repayment of the required liability.

**20 (Loss)/earnings per share for the period**

(Loss)/earnings per share for the three-month period ended Rabie al-Awwal 30, 1437H and Rabie al-Awwal 29, 1436H, were calculated by dividing (loss)/ income from operations and net (loss)/ income for each period by the weighted average number of shares outstanding during each period.



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**21 Related party matters**

**21.1 Related party transactions**

Significant transactions with related parties for the three-month period ended Rabie al-Awwal 30, 1437H and Rabie al-Awwal 29,1436H in the ordinary course of business included in the financial statements are summarised as follows:

	<b>Related party</b>	<b>1437H</b>	<b>1436H</b>
Loan from a local bank	Al-Bilad Bank	<b>382,000,000</b>	-
Cooling supplies	CDCC	<b>15,119,293</b>	8,376,710
Senior management's salaries and other benefits	Executive management	<b>1,641,818</b>	1,837,800
Revenue from leasing commercial stores	Board member	<b>1,433,653</b>	1,067,572
Consultancy services	Board member	<b>691,839</b>	600,000
Hotel services from a shareholder	MCDC	<b>67,206</b>	59,120
Attendance allowances for board meetings	Board member	-	45,000

The Company's headquarters was established on a property owned by the Chairman of the Company's previous Board of Directors. The Company was not charged a lease fee for the use of this property during the year 1436H.

**21.2 Due from related parties**

	<b>1437H</b>	<b>1436H</b>
Makkah Development and Construction Company	<b>50,000,000</b>	-
Tazaj Food Industries Factory	<b>8,334,686</b>	5,356,392
Central District Cooling Company	<b>5,955,794</b>	-
Jabal Khandama Company	<b>39,316</b>	-
	<b>64,329,796</b>	5,356,392

**21.3 Due to related parties**

	<b>1437H</b>	<b>1436H</b>
Central District Cooling Company	-	11,874,910
Abnia Consulting Engineers	-	600,000
Other	<b>952,119</b>	890,243
	<b>952,119</b>	13,365,153

The Company has a short-term loan of Saudi Riyals 842 million from a related local commercial bank (Note12).

**22 Contingencies and commitments**

- As at Rabie al-Awwal 30, 1437H, the Company has entered into contractual commitments amounted to Saudi Riyals 18.619 million (Rabie al-Awwal 29, 1436H: Saudi Riyals 17,418 million). The costs incurred on Jabal Omar Project's capital work as at Rabie al-Awwal 30, 1437H, amounted to Saudi Riyals 14,221 million (Rabie al-Awwal 29, 1436H: Saudi Riyals 10,984 million).
- The Company signed an agreement (the "Agreement") with CDCC, an associate, to build, operate and maintain phase 3 of the DCS. The Company's management expects the completion of this phase of the DCS during 1437H and will recognise arrangements related to the DSC as assets held under capital lease with an estimated amount of Saudi Riyals 181 million.

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**22 Contingencies and commitments (continued)**

- (c) During the year 1433H, the Company received a letter from Makkah Development and Construction Company requesting compensation for financial services and guarantees that have been provided to Jabal Omar Development Company since incorporation amounting to Saudi Riyals 207 million. Due to the absence of an agreement governing the relationship between the parties concerning the financial services and guarantees, the board of directors has recommended to assign the claim to a council to come up with the appropriate amount according to "Ihsan" principle then presents the results to the General Assembly to gain approval.
- (d) As at Rabie al-Awwal 30, 1437H, the Company obtained a bank guarantee from a local bank amounting to Saudi Riyals 29.1 million extended to DZIT against the zakat assessment of which 50% was restricted (Note 19).
- (e) As at Rabie al-Awwal 30, 1437H, the Company obtained a bank guarantee from a local bank amounting to Saudi Riyals 2.8 million extended to DZIT against withholding tax assessment for the period from Dhul Qidah 29, 1426H to Dhul Hijjah 30, 1430H. The Company is in the process of releasing the bank guarantee (Note 19).
- (f) As at Rabie al-Awwal 30, 1437H, the Company obtained a bank guarantee from a local commercial bank amounting to Saudi Riyals 1 million for the Ministry of the Interior against the Company's license to perform private civil security services.
- (g) The Company received a letter of request from a project contractor claiming an additional costs amounting to Saudi Riyal 309 million. The Company is still considering the validity of the contractor's right in this claim.