EMAAR THE ECONOMIC CITY
(A Saudi Joint Stock Company)

CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2014
with
INDEPENDENT AUDITOR'S REPORT

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

INDEPENDENT AUDITOR'S REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

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

We have audited the accompanying consolidated financial statements of Emaar The Economic City ("the Company") and its subsidiaries (collectively referred as "the Group") which comprise the consolidated balance sheet as at December 31, 2014 and the related consolidated statements of income, cash flows and changes in equity for the year then ended and the attached notes 1 through 31 which form an integral part of the consolidated financial statements.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia and in compliance with the Article 123 of the Regulations for Companies and the Company's Articles of Association and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. Management has provided us with all the information and explanations that we require relating to our audit of these consolidated financial statements.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with generally accepted auditing standards in the Kingdom of Saudi Arabia. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KPMG

Opinion

In our opinion, the consolidated financial statements taken as a whole:

1) present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2014 and the consolidated results of its operations and its cash flows for the year then ended, in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia appropriate to the circumstances of the Group; and

2) comply with the requirements of the Regulations for Companies and the Company's Articles of Association with respect to the preparation and presentation of the financial statements.

For KPMG Al Fozan & Al Sadhan

Ebrahim Oboud Baeshen
License No.382

Jeddah on Rabi Al Thani 29, 1436H
Corresponding to February 18, 2015

KPMG Al Fozan & Al Sadhan
Certified Public Accountants
CR 46
KPMG

EMAAR THE ECONOMIC CITY
(A Saudi Joint Stock Company)

CONSOLIDATED BALANCE SHEET
As at December 31, 2014

	Notes	2014 (SR'000)	2013 (SR'000)
ASSETS			
Current assets:			
Cash and cash equivalents	4	**2,012,944**	2,772,040
Murabaha term deposits with banks	5	**872,685**	261,828
Accounts receivable and other current assets	6	**225,487**	313,652
Development properties	7	**1,271,562**	1,095,838
Total current assets		**4,382,678**	4,443,358
Non-current assets:			
Investment properties	8	**4,364,638**	4,285,063
Property and equipment	9	**5,012,368**	4,135,501
Investment in an equity accounted investee	10	**2,338,085**	1,381,279
Deferred costs	11	**7,113**	--
		11,722,204	9,801,843
Assets classified as held for disposal	12	**101,250**	101,250
Total non-current assets		**11,823,454**	9,903,093
TOTAL ASSETS		**16,206,132**	14,346,451
LIABILITIES AND EQUITY			
Current liabilities:			
Short-term loans	13	**--**	29,215
Current portion of long-term loans	16	**753,365**	--
Accounts payable and accruals	14	**883,588**	656,450
Total current liabilities		**1,636,953**	685,665
Non-current liabilities:			
Non-current portion of long-term loans	16	**5,377,815**	5,274,789
Deferred contribution	17	**953,882**	532,252
Long-term provision	18	**5,099**	5,099
Employees' end of service benefits	19	**16,990**	12,080
Total non-current liabilities		**6,353,786**	5,824,220
Total liabilities		**7,990,739**	6,509,885
Equity attributable to the Company's shareholders:			
Share capital	20	**8,500,000**	8,500,000
Accumulated losses		**(284,028)**	(663,706)
Effect of reducing the ownership percentage in a subsidiary	21	**(86)**	--
Total shareholders' equity		**8,215,886**	7,836,294
Non-controlling interests		**(493)**	272
Total equity		**8,215,393**	7,836,566
Total liabilities and equity		**16,206,132**	14,346,451

The accompanying notes 1 to 31 form an integral part of these consolidated financial statements.

EMAAR THE ECONOMIC CITY
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF INCOME
For the year ended December 31, 2014

	Notes	2014 (SR'000)	2013 (SR'000)
Revenue	22	**1,064,342**	833,452
Cost of revenue		**(336,626)**	(128,786)
Gross profit		**727,716**	704,666
Expenses:			
Selling and marketing	23	**(95,098)**	(62,203)
General and administration	24	**(176,488)**	(146,759)
Land contribution		--	(88,509)
Depreciation, net	9.1	**(28,073)**	(26,429)
Amortisation	11	**(1,674)**	--
Impairment loss		--	(120,005)
Maintenance and other (cost) / reversal, net	6.1	**(327)**	21,140
Total expenses		**(301,660)**	(422,765)
Profit from operations		**426,056**	281,901
Financial charges, net		**(54,951)**	(83,066)
Commission income		**13,873**	37,144
Gain on disposal of investment properties		--	58,635
Share of profit from an equity accounted investee	10	**19,039**	2,675
Other income		**1,405**	7,129
Income before Zakat and non-controlling interests		**405,422**	304,418
Zakat	25	**(26,600)**	(31,112)
Net income before non-controlling interests		**378,822**	273,306
Share of non-controlling interests in the net loss / (income) of consolidated subsidiaries		**856**	(247)
Net income attributable to Company's shareholders		**379,678**	273,059
Earnings per share on profit from operations – SR	26	**0.50**	0.33
Earnings per share on net income attributable to Company's shareholders - SR	26	**0.45**	0.32

The accompanying notes 1 to 31 form an integral part of these consolidated financial statements

EMAAR THE ECONOMIC CITY
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended December 31, 2014

	Notes	2014 (SR'000)	2013 (SR'000)
Operating activities:			
Income before Zakat and non-controlling interests		**405,422**	304,418
Adjustments for:			
Depreciation	8 & 9.1	**63,850**	40,550
Provision for employees' end of service benefits	19	**6,648**	5,054
Share of profit from an equity accounted investee	10	**(19,039)**	(2,675)
Financial charges, net		**54,951**	83,066
Commission income		**(13,873)**	(37,144)
Impairment loss		--	120,005
Maintenance and other cost / (reversal), net	6.1	**327**	(21,140)
Gain on disposal of investment properties		--	(58,635)
Land contribution		--	88,509
Amortisation	11	**1,674**	--
Gain on disposal of property and equipment		**(353)**	(102)
		499,607	521,906
Changes in operating assets and liabilities:			
Accounts receivable and other current assets		**335,791**	(48,221)
Development properties		**(17,466)**	(466,617)
Accounts payable and accruals		**206,806**	(232,191)
Cash generated from / (used in) operations		**1,024,738**	(225,123)
Deferred contribution	17	**470,486**	328,812
Zakat paid	25	**(6,268)**	(5,524)
Employees' end of service benefits paid	19	**(1,738)**	(1,485)
Net cash generated from operating activities		**1,487,218**	96,680
Investing activities:			
Purchase of property and equipment	9	**(902,771)**	(567,936)
Proceeds from disposal of property and equipment		**353**	102
Deferred costs	11	**(8,787)**	--
Net movement in assets held for disposal		--	5,078
Net movement in Murabaha term deposits with banks		**(610,857)**	597,451
Commission income		**13,873**	37,144
Proceed from sale of other investment		--	4,750
Net movement in loan to a related party		--	1,663
Net movement in investment properties	8	**(268,689)**	--
Investment in an equity accounted investee	10	**(1,185,720)**	(1,010,300)
Net movement in loan to an equity accounted investee		--	338,000
Net cash used in investing activities		**(2,962,598)**	(594,048)
Financing activities:			
Net movement in short-term loans		**(33,721)**	27,010
Long-term loans		**750,000**	--
Net movement in non-controlling interest		**5**	--
Net cash generated from financing activities		**716,284**	27,010
Net change in cash and cash equivalents		**(759,096)**	(470,358)
Cash and cash equivalents at the beginning of the year		**2,772,040**	3,242,398
Cash and cash equivalents at the end of the year	4	**2,012,944**	2,772,040

The accompanying notes 1 to 31 form an integral part of these consolidated financial statements.

EMAAR THE ECONOMIC CITY
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended December 31, 2014

2014	Equity attributable to the shareholders' of the Company					
	Share capital (SR'000)	Accumulated losses (SR'000)	Effect of reducing the ownership percentage in a subsidiary (SR'000)	Total shareholders' equity (SR'000)	Non-controlling interests (SR'000)	Total (SR'000)
Balance at January 1	8,500,000	(663,706)	--	7,836,294	272	7,836,566
Net income for the year	--	379,678	--	379,678	(856)	378,822
Effect of reducing the ownership percentage in a subsidiary (note 21)	--	--	(86)	(86)	--	(86)
Net movement in non-controlling interest	--	--	--	--	91	91
Balance at December 31	**8,500,000**	**(284,028)**	**(86)**	**8,215,886**	**(493)**	**8,215,393**

2013	Equity attributable to the shareholders' of the Company					
	Share capital (SR'000)	Accumulated losses (SR'000)	Effect of reducing the ownership percentage in a subsidiary (SR'000)	Total shareholders' equity (SR'000)	Non-controlling interests (SR'000)	Total (SR'000)
Balance at January 1	8,500,000	(936,765)	--	7,563,235	25	7,563,260
Net income for the year	--	273,059	--	273,059	247	273,306
Balance at December 31	8,500,000	(663,706)	--	7,836,294	272	7,836,566

The accompanying notes 1 to 31 form an integral part of these consolidated financial statements.

1. THE COMPANY AND ITS ACTIVITIES

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

The registered office is located at the following address:

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

The Company has investments in the following subsidiaries which are primarily involved in development, investments, marketing, sale / lease, operations and maintenance of properties and establishment of companies. The Company and its subsidiaries constitute "the Group".

Name	Country of Incorporation	Year of incorporation	Effective ownership interest	
			2014	2013
Economic Cities Investments Holding Company (ECIHC)	Kingdom of Saudi Arabia	2010	99%	99%
Industrial Zones Development Company Limited (IZDCL)	Kingdom of Saudi Arabia	2011	98%	100%
Economic Cities Real Estate Operation and Management Company Limited (REOM)	Kingdom of Saudi Arabia	2013	98%	98%
Economic Cities Pioneer Real Estate Management Company Limited (REM)	Kingdom of Saudi Arabia	2013	98%	98%
Economic Cities Real Estate Development Company Limited (RED)	Kingdom of Saudi Arabia	2013	98%	98%

2. BASIS OF PRESENTATION

Statement of compliance
These consolidated financial statements have been prepared in accordance with the accounting standards generally accepted in the Kingdom of Saudi Arabia issued by Saudi Organization for Certified Public Accountants (SOCPA).

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

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

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

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

Classification of investment properties
The Group determines whether a property qualifies as investment property. In making its judgment, the Group considers whether the property generates cash flows largely independent of the other assets held by the Group.

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

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

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

2. BASIS OF PRESENTATION (continued)

Use of estimates and judgements (continued)

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

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

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

Reversal of impairment losses recognised in the prior periods are recorded when there is an indication that the impairment losses recognised for the property and equipment and investment property no longer exist or have reduced.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies have been consistently applied by the Group for the preparation of these consolidated financial statements:

Basis of consolidation
These consolidated financial statements include the financial statements of the Company and its subsidiaries as set out in note 1. Investment in an equity accounted investee is accounted for using the equity method.

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

Expenditure for repair and maintenance are charged to the consolidated statement of income. Improvements that increase the value or materially extend the useful life of the related assets are capitalised. Interest on long term loan that is directly related to qualifying property and equipment is capitalised.

Investment in an equity accounted investee
The Group's investment in equity accounted investee represents investment in those entities over whose activities the Group has joint control, established by contractual arrangements and requiring unanimous consent for strategic financial and operating decisions. This also includes those entities in which the Group has significant influence, but not control, over the financial and operating policies, generally accompanying a shareholding between 20% and 50% of the voting rights.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in an equity accounted investee (continued)

Investment in equity accounted investee is accounted for using the equity method of accounting together with any long-term interests that, in substance, form part of the investor's net investment in the equity accounted investee. Under the equity method, the investment in the equity accounted investee is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the equity accounted investee less impairment loss, if any.

When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of Group's investment is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an equity accounted investee.

Deferred costs
Deferred costs includes all costs and expenses incurred during the current period and have the future economic benefits. Such costs are amortized using the straight-line method over the related economic benefit periods not exceeding seven years.

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

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

Loans and borrowings
Loans are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Segment reporting
A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in producing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments. Currently, the Company is principally involved in sale of plots and apartments and villas in KAEC and involved in providing certain ancillary services such as hospitality, education and lease, which are not significant to the entire Company's business. Accordingly, the management believes that at this stage, the Company's business activity falls within a single business segment which are subject to same risks and returns and non-disclosure of segment information may not affect the decisions of the users of these consolidated financial statements.

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

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

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

Hospitality revenue
Revenue from hotel accommodation, food and beverages and other related services are recognised, net of discount and municipality fees on accrual basis when the services are rendered.

School revenue
Tuition, registration and other fees are recognized as income on accrual basis.

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

Cost of revenue
Cost of revenue includes the cost of land, development and other service related costs. Development costs include the cost of construction.

The cost of revenues in respect of apartments and villas is based on the proportion of the development cost incurred to date related to sold units to the estimated total development costs for each project.

The cost of revenues in respect of land sales includes cost of land.

The cost of revenues in respect of hotel and school is based on actual cost of providing the services.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Zakat

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

Foreign currencies

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

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

Offsetting

Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheet only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expense is not offset in the consolidated statement of income unless required or permitted by generally accepted accounting principles in Kingdom of Saudi Arabia.

4. CASH AND CASH EQUIVALENTS

	2014 (SR'000)	2013 (SR'000)
Bank balances and cash	1,373,944	84,040
Short-term Murabaha deposits (note 5)	639,000	2,688,000
	2,012,944	2,772,040

5. MURABAHA TERM DEPOSITS WITH BANKS

Murabaha term deposits with banks represents funds placed with commercial banks at market rates and comprised the following:

	2014 (SR'000)	2013 (SR'000)
Murabaha deposits	1,511,685	2,949,828
Less: short-term Murabaha deposits (note 4)	639,000	2,688,000
	872,685	261,828

6. ACCOUNTS RECEIVABLE AND OTHER CURRENT ASSETS

	2014 (SR'000)	2013 (SR'000)
Accounts receivable (note 6.1)	185,733	119,245
Commission receivable on Murabaha term deposits	3,189	3,144
Advances to suppliers	18,730	3,911
Prepayments	6,172	4,553
Margin on letter of credits	443	5,610
Amount due from affiliates (note 15)	89	168,240
Other current assets	11,131	8,949
	225,487	313,652

6.1 Accounts receivable

	2014 (SR'000)	2013 (SR'000)
Gross accounts receivable	188,752	121,937
Allowance for doubtful receivable	(3,019)	(2,692)
	185,733	119,245

The ageing analysis of accounts receivable is as follows:

	Up to three months	*Above three and up to six months*	*Above six months*	Total
		SR'000		
December 31, 2014	**98,131**	**13,106**	**77,515**	**188,752**
December 31, 2013	42,110	20,629	59,198	121,937

Receivables are secured by promissory notes and bank guarantees wherever applicable (note 28).

7. DEVELOPMENT PROPERTIES

	2014 (SR'000)	2013 (SR'000)
Cost incurred to date	**2,458,793**	1,806,654
Properties under construction (note 8.1)	**(679,335)**	(746,836)
Properties completed (note 8.1)	**(552,114)**	(216,992)
Transfer from investment properties, net (note 8.2)	**158,258**	102,090
	1,385,602	944,916
Attributable profit	**2,385,478**	1,379,074
Less: progress billings	**(2,492,373)**	(1,220,824)
Less: provision for development properties	**(7,145)**	(7,328)
	1,271,562	1,095,838

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

Development properties also include plots of land, amounting to SR 455 million (2013: SR 296.5 million) which have been identified by the management to be sold in their present condition. Accordingly, these have been reclassified from investment properties to development properties.

8. INVESTMENT PROPERTIES

8.1 The investment properties include the following:

	2014 (SR'000)	2013 (SR'000)
Greenfield land and associated cost (note 7 & 8.2)	**3,148,733**	3,328,472
Properties under construction (note 8.3)		
- Balance at January 1	**746,836**	888,074
- Cost incurred during the year	**261,593**	75,754
- Transferred to properties completed	**(329,094)**	(216,992)
	679,335	746,836
Properties completed :		
- Cost	**552,114**	216,992
- Accumulated depreciation	**(15,544)**	(7,237)
	536,570	209,755
	4,364,638	4,285,063

8. INVESTMENT PROPERTIES (continued)

8.2 A greenfield land measuring approximately 168 million square meters has been earmarked for the master development of the KAEC. This includes land measuring approximately 37 million square meters which was contributed by a shareholder as part of its capital contribution for an agreed sum of SR 1,700 million in lieu of shares of the same value in the Company (note 20).

Greenfield land measuring 10.5 million square meters has been principally earmarked for lease to industrial customers. The specific allocation of the greenfield land to be used by different projects, which could be for sale or rental, has not yet been completed. Therefore, the greenfield land and associated costs amounting to SR 3,149 million (2013: SR 3,328 million) has been classified as investment property. No depreciation has been charged as these comprise only freehold land.

The movement in the Greenfield Land and associated costs is as follows:

	2014 (SR'000)	2013 (SR'000)
Balance at January 1	**3,328,472**	3,577,026
Less:		
- transfer to development properties upon change in use (note 7)	**(158,258)**	(102,090)
- transfer to property and equipment (note 9)	**(22,549)**	--
- sale to an associate	**--**	(57,955)
- land contribution	**--**	(88,509)
- transfer from properties under construction (note 8.2)	**1,068**	--
Balance at December 31	**3,148,733**	3,328,472

Greenfield Land includes 24.7 million sqm pledged in favour of Ministry of Finance against a long-term loan of SR 5,000 million (note 16.1).

8.3 Properties under construction comprise of building and related land and accordingly, no depreciation is charged for the year.

9. PROPERTY AND EQUIPMENT

	Freehold land (SR'000)	Buildings (SR'000)	Leasehold improvements (SR'000)	Heavy equipment & machinery (SR'000)	Furniture & fixtures (SR'000)	Office equipment (SR'000)	Motor vehicles (SR'000)	Infrastructure assets (SR'000)	Capital work in progress (SR'000)	Total (SR'000)
Cost:										
At the beginning of the year	50,571	861,919	25,189	18,293	26,916	69,681	4,805	1,345,444	2,027,294	**4,430,112**
Additions	--	--	2,498	1,844	1,711	10,244	383	--	886,091	**902,771**
Transfer from investment properties (note 8.2)	22,549	--	--	--	--	--	--	--	--	**22,549**
Borrowing cost	--	--	--	--	--	--	--	--	55,946	**55,946**
Transfer in/(out)	--	(65,346)	183	(378)	17,409	--	--	218,859	(170,727)	--
Disposals	--	--	--	--	(18)	--	(845)	--	--	**(863)**
At the end of the year	**73,120**	**796,573**	**27,870**	**19,759**	**46,018**	**79,925**	**4,343**	**1,564,303**	**2,798,604**	**5,410,515**
Depreciation:										
At the beginning of the year	-	122,232	22,509	12,000	17,503	39,712	3,092	77,563	--	**294,611**
Charge for the year (note 9.1)	--	24,231	2,204	1,484	6,919	12,046	677	56,838	--	**104,399**
Disposals	--	--	--	--	(18)	--	(845)	--	--	**(863)**
At the end of the year	--	146,463	24,713	13,484	24,404	51,758	2,924	134,401	--	**398,147**
Net book values:										
At 31 December 2014	**73,120**	**650,110**	**3,157**	**6,275**	**21,614**	**28,167**	**1,419**	**1,429,902**	**2,798,604**	**5,012,368**
At 31 December 2013	50,571	739,687	2,680	6,293	9,413	29,969	1,713	1,267,881	2,027,294	4,135,501

Freehold land includes land amounting to SR 70 million related to infrastructure assets.

9. PROPERTY AND EQUIPMENT (continued)

9.1 Depreciation

	2014 (SR'000)	2013 (SR'000)
Charged during the year	104,399	75,368
Amortisation of deferred contribution (note 17)	(48,856)	(42,055)
	55,543	33,313
Charged to cost of revenue	(27,470)	(6,884)
	28,073	26,429

9.2 Capital work in progress mainly represents construction costs in respect of the infrastructure and other projects at the King Abdullah Economic City.

10. INVESTMENT IN AN EQUITY ACCOUNTED INVESTEE

	2014 (SR '000)	2013 (SR '000)
Investment	2,487,520	235,980
Purchase of shares from other shareholder	117,480	--
Additional capital contribution	--	1,183,300
	2,605,000	1,419,280
Share of profit from equity accounted investee	20,799	1,760
Elimination of share of profit on sale of land and commission income from equity accounted investee	(287,714)	(39,761)
	2,338,085	1,381,279

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

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

During the year ended December 31, 2012, to contribute a part of the equity funding under the agreement, the Company invested SR 145 million in the form of land, infrastructure and other development cost.

On October 8, 2013 the shareholders of PDC had resolved to increase the shareholdings of the Company to 74% by converting additional capital contribution to equity in PDC. Consequently, the land of SR 200 million contributed as part of equity funding during the period ended March 31, 2013 had been reclassified as receivable from PDC (note 15).

10. INVESTMENT IN AN EQUITY ACCOUNTED INVESTEE (continued)

On April 16, 2014 the shareholders of PDC have amended the shareholders agreement of October 8, 2013. As per the revised terms, the Company has purchased 11,748,000 registered shares at par in PDC from other shareholder for a cash consideration of SAR 118 million. Accordingly, the Company's shareholding in PDC has reached to 51%.

The Company also invested cash of SR 1,701 million including SR 1,068 million provided during the year ended December 31, 2014. Additional capital contribution also includes SAR 640 million which has been reclassified from loan to an equity accounted investee under the agreement dated October 8, 2013. The legal formalities in respect of conversion of additional capital contribution of SR 2,252 million to equity have been completed on July 17, 2014 that consequently reduced the Company's shareholding in PDC to 50%.

Pursuant to the terms of the revised agreement, the shareholders of PDC have concluded that they have joint control over PDC and hence the management of the Company has reclassified the investment in an associate to "Investment in an equity accounted investee", with no financial impact on consolidated balance sheet and statement of income.

Furthermore, as per terms of the revised agreement, the Company has also provided a corporate guarantee to a commercial bank, amounting to SAR 269 million, limited to its revised shareholding percentage in PDC, to allow PDC to secure Shariah compliant commodity Murabaha facility to partially finance the construction costs of the Port.

11. DEFERRED COSTS

	2014 (SR'000)	2013 (SR'000)
Deferred costs	8,787	--
Less: amortisation	1,674	--
	7,113	--

12. ASSETS CLASSIFIED AS HELD FOR DISPOSAL

The Group has identified certain assets amounting to SR 101 million (2013: 101 million) which are to be disposed off in line with the strategic business plans of the Group. Accordingly, these assets are classified as held for disposal. During the year ended December 31, 2014, these assets have been reviewed for impairment and management ascertained that no further impairment is required.

13. SHORT-TERM LOANS

As at December 31, 2013 the Group had an outstanding short-term loan amounting to SR 29 million from a commercial bank at prevailing market rates which has been paid during the year ended December 31, 2014.

14. ACCOUNTS PAYABLE AND ACCRUALS

	2014 (SR'000)	2013 (SR'000)
Accounts payable	186,091	213,571
Advance from customers	187,091	104,626
Contract cost accruals	160,935	112,496
Amount to be donated for charitable purposes (note 14.1)	70,983	70,484
Accrued expenses and other payables	139,865	88,355
Amounts due to affiliates (note 15)	2,523	2,517
Retentions payable	78,809	27,442
Zakat payable (note 25)	57,291	36,959
	883,588	656,450

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

15. RELATED PARTY TRANSACTIONS AND BALANCES

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

In addition to the disclosures set out in note 10 significant related party transactions for the year ended December 31, 2014 are described as under:

15. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

		2014		2013	
Related party	Nature of transaction	Amount of transaction (SR'000)	Balance receivable/ (payable) (SR'000)	Amount of transaction (SR'000)	Balance receivabl e/ (payable) (SR'000)
Affiliates	Advances	--	--	17,800	(50,000)
	Sale of Land	760,000	--	200,000	200,000
	Commission income	--	--	11,510	18,151
	Expenses incurred by affiliates on behalf of the Group	6	(349)	--	(343)
	Expenses incurred by Group on behalf of an affiliate	--	89	--	89
	Services provided to the Group	--	(2,174)	--	(2,174)
	Purchase from affiliates	79,327	--	--	--
	Sale of properties	133,659	--	342,167	--
Key management personnel	Remuneration	22,913	(14,737)	8,673	--
	Sale of properties	45,843	35	2,171	--
Board of Directors	Meeting fee	2,525	(2,525)	2,505	--
	Sale of properties	24,430	1,634	9,661	554

16. LONG-TERM LOANS

	2014 SR'000	2013 SR'000
Balance at January 1	5,274,789	5,167,811
Addition	750,000	--
Interest for the year	106,391	106,978
	6,131,180	5,274,789
Less: current portion of long-term loan	753,365	--
Balance at December 31	5,377,815	5,274,789

16. LONG-TERM LOANS (continued)

16.1 During 2011, the Company received a loan of SR 5,000 million from the Ministry of Finance (MoF) for the development of KAEC. The loan is secured against pledge of 24.7 million sqm of the Greenfield Land (note 7.1) and carries annual commission at commercial rates and is repayable, with a three years grace period, in seven annual instalments commencing from June 1, 2015. The loan balance as at December 31, 2014 also includes accrued commission amounting to SR 381 million (2013: SR 274.8 million).

16.2 During the year ended December 31, 2014, the Company has signed an Islamic facility agreement with a commercial bank for SR 2,000 million Murabaha liquidity finance facility that carries commission at commercial rates. As per the terms of the agreement, the loan is repayable in eight bi-annual instalments from June 30, 2018 to December 31, 2021. The loan is secured against the pledge of shares of the Company in PDC and an order note for SR 2,500 million.

16.3 During the year ended December 31, 2014, the Company has signed a facility agreement with a commercial bank for SR 1,000 million that carries commission at commercial rates. As per the terms of the agreement, the loan term is door to door 8 years with 3 years grace period. In order to comply with the Sharia principles, an additional facility of SR 250 million has been arranged by the same bank linked to the first facility, to permit the rollover (repayment and drawdown) so that the full SR 1,000 million is available to the Company for the first 3 years of the loan. The loan is secured against green field land at KAEC and an order note for SR 1,250 million.

17. DEFERRED CONTRIBUTION

	2014 SR'000	2013 SR'000
Balance at January 1	**532,252**	245,495
Collections during the year	**470,486**	328,812
Amortisation during the year (note 9.1)	**(48,856)**	(42,055)
Balance at December 31	**953,882**	532,252

18. LONG-TERM PROVISION

The Company has contracted with its residential customers to provide property and city maintenance services. The costs of providing these services, over the useful life of the residential units, to its residential customers is expected to be higher than the fee or charges that the Company will be able to charge to its residential customers. Accordingly, a provision has been made for the excess costs. Such provision is reviewed at each balance sheet date and appropriate adjustment is made to account for change in the estimated excess costs, if any.

19. EMPLOYEES' END OF SERVICE BENEFITS

	2014 SR'000	2013 SR'000
Opening balance	12,080	8,511
Provision for the year	6,648	5,054
Payment made during the year	(1,738)	(1,485)
Closing balance	16,990	12,080

20. SHARE CAPITAL

The authorized, issued and fully paid share capital of the Company is as follow:

	2014 Number of shares	2014 (SR'000)	2013 Number of shares	2013 (SR'000)
Issued for cash	680,000,000	6,800,000	680,000,000	6,800,000
Issued for consideration in kind (note 8.1)	170,000,000	1,700,000	170,000,000	1,700,000
	850,000,000	8,500,000	850,000,000	8,500,000

21. EFFECT OF REDUCING THE OWNERSHIP PERCENTAGE IN SUBSIDIARY

During 2013, the shareholders of IZDCL resolved to change the effective shareholding interest of the Company in IZDCL to be 98% in line with other group entities. The legal formalities in this respect have been completed during the year ended December 31, 2014. Consequently, the Company held 4,950 shares representing 98% effective shareholding in IZDCL's share capital, compared to its previous shareholding of 100% effective shareholding in IZDCL's capital, prior to the transaction.

Due to the decrease of the Company's shareholding in IZDCL, the Company's share in the net asset of IZDCL has decreased and amount equivalent to SR 86,379 was recognized as an un-realised loss under equity.

22. REVENUE

	2014 (SR'000)	2013 (SR'000)
Sale of properties	948,474	754,633
Others	115,868	78,819
	1,064,342	833,452

23. SELLING AND MARKETING EXPENSES

	2014 (SR'000)	2013 (SR'000)
Employee costs	14,438	14,915
Branding and launch expenses	55,166	30,630
Advertising and promotional expenses	15,967	11,167
Sales commission	7,217	3,837
Others	2,310	1,654
	95,098	62,203

24. GENERAL AND ADMINISTRATION EXPENSES

	2014 (SR'000)	2013 (SR'000)
Employee costs	115,410	79,899
Facility and city management services	4,057	13,994
Professional charges	32,855	22,564
Rent	5,110	4,311
Repairs and maintenance	2,184	13,387
Communication and office expenses	6,005	4,567
Others	10,867	8,037
	176,488	146,759

25. ZAKAT

a) Charge for the year

i) Zakat charge for the year ended December 31 comprises the following:

	2014 (SR'000)	2013 (SR'000)
Current & prior year	26,600	31,112

ii) The significant components of Zakat base for the year ended December 31 are as follow:

	2014 (SR'000)	2013 (SR'000)
Equity and provisions	20,939,582	16,208,096
Book value of long term assets	20,269,831	(16,305,151)
	669,751	(97,055)
Zakatable income for the year	382,937	397,368
Zakat base	1,052,687	397,368

25. ZAKAT (continued)

b) Accrued Zakat

The movement in accrued zakat during the year ended December 31 is as follows:

	2014 (SR'000)	2013 (SR'000)
Balance at beginning of the year	36,959	11,371
Add: Charge for the year	26,600	31,112
Less: Payments during the year	(6,268)	(5,524)
Balance at end of the year	57,291	36,959

c) Status of assessments

The Company has filed the Zakat returns up to the year 2013 and obtained restricted Zakat certificates.

The DZIT issued Zakat assessments for the years 2006 to 2008 and claimed additional Zakat and withholding tax differences of SR 90.4 million in addition to delay penalty. The case was transferred to the Higher Appeal Committee (HAC) which requested some additional documents which were provided by the Company. In compliance of the appeal procedures and without admitting the liability, the Company submitted a bank guarantee and paid under protest the withholding tax differences. The HAC issued a decision supporting the DZIT. The Company will appeal against the HAC decisions at the Bureau of Grievance. The Company is of the view that given a fair review of the assessments, their view may prevail. No provision is made for the additional Zakat and withholding tax liability in these financial statements.

The DZIT issued Zakat assessment for the years 2009 to 2011 and claimed additional Zakat, withholding tax and delay penalty differences of SR 64.7 million. The Company has filed an objection against this assessment and submitted the documents supporting the objection. The Company is of the view that given a fair review of the assessments for the years 2009 to 2011, their view may prevail for most of the items under objection. On prudence basis, the Company made a partial provision of SR 26.6 million during 2013.

ECIHC and IZDCL have finalized their Zakat status up to the year 2011 and have also filed the Zakat return for the year 2012 and obtained an unrestricted Zakat certificate. The filing of the zakat return for the year 2013 is in progress.

REOM, REM and RED are incorporated during the year ended December 31, 2013 and were not subject to Zakat. However, these are currently in the process of registration with DZIT.

26. EARNINGS PER SHARE

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

Earnings per share on net income are calculated by dividing the net income with the weighted average number of ordinary shares in issue during the year. The calculation of diluted earnings per share is not applicable to the Group.

27. OPERATING LEASES

Operating lease commitments - Group as lessee

The Group has operating leases for office space, residential units and equipment. The leases are renewable at the expiry of lease period. The Group's obligation under the operating lease is as follows:

	2014 (SR'000)	2013 (SR'000)
Within one year	1,404	4,022

Operating lease commitments - Group as lessor

The Group has entered into leases on its investment property portfolio. The future minimum rentals receivable under non-cancellable operating leases contracted for as at the reporting date but not recognised as receivables, are as follows:

	2014 (SR'000)	2013 (SR'000)
Within one year	38,492	21,909
After one year but not more than five years	140,758	79,386
More than five years	554,319	316,322
	733,569	417,617

28. RISK MANAGEMENT

The Group is exposed to market, credit and liquidity risks.

The Group's management oversees the management of these risks. The Group's financial risk-taking activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with Group policies. The Board of Directors reviews and agrees policies for managing each of these risks which are summarized below:

Market risk
Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Financial instruments affected by market risk include loan from Ministry of Finance and commercial bank and Murabaha deposits. Market prices comprise of commission rate risk and currency risk as stated below.

28. RISK MANAGEMENT (continued)

Market risk (continued)

Commission rate risk
Commission rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market commission rates. The Group's exposure to the risk of changes in market commission rates relates primarily to the Group's commission bearing bank deposits and loan from MoF and commercial banks. The Group manages its commission rate risk by monitoring changes in commission rates in the currencies in which its commission bearing liabilities and assets are denominated.

Currency risk
Currency risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in foreign exchange rates. The Group did not undertake significant transactions in currencies other than Saudi Riyals and US Dollars, and as US Dollar is pegged to Saudi Riyal, the Group is not exposed to significant currency risk.

Credit risk
Credit risk is the risk that one party will fail to discharge an obligation and will cause the other party to incur a financial loss. The Group seeks to manage its credit risk with respect to customers by monitoring outstanding receivables. The sale agreements with customers provide that the title to the property is transferred to the customers only upon the receipt of complete sale price. The five largest customers account for 27.2% (2013: 43%) of outstanding accounts receivable at December 31, 2014.

The Group manage its exposure to credit risk with respect to Murabaha deposits with banks by diversification and investing with counterparties with sound credit rating preferably A or higher. At the reporting date, all counter parties to the Murabaha deposits have credit ratings of A or higher. With respect to credit risk arising from the other financial assets of the Group, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Liquidity risk
Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial liabilities. Liquidity requirements are monitored on a regular basis and the Group manages its liquidity risk by ensuring that sufficient funds are available to meet any commitments as they arise.

As at December 31, 2014, financial liabilities of SR 186 million (2013: SR 213.6 million) are payable within 3 months and the remaining financial liabilities are payable within 4 to 12 months, of the year end.

29. FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. The Group's financial assets consist of cash and cash equivalents, Murabaha deposits with banks, accounts receivable and amount due from an affiliate and its financial liabilities consist of payables and accruals and loan from MoF and commercial banks. The management believes that the fair values of financial instruments are not materially different from their carrying values.

30. CONTINGENT LIABILITIES AND COMMITMENTS

a) The Group has contracted with its industrial customers to provide property management and city maintenance services. The costs of providing these services to industrial customers may be higher than the fee or charges that the Group may be able to charge to its industrial customers. The financial effect, if any, is not currently practicable to estimate.

b) The Group had commitments as at December 31, 2014 amounting to SR 2,963 million (2013: SR 1,602 million) related to future capital expenditure for the development of KAEC.

c) The Group's bankers have issued letters of credit amounting to SR 109.3 million (SR 101.2 million) on which there is cash margin of SR 0.4 million.

31. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised to issue by the Board of Directors on Rabi Al Thani 29, 1436H, corresponding to February 18, 2015.