

AL TAYYAR TRAVEL GROUP HOLDING COMPANY
(A Saudi Joint Stock Company)
AND IT'S SUBSIDIARIES
INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
(UNAUDITED)
For the period ended 30 September 2014
together with
Review Report



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**REVIEW REPORT ON THE INTERIM CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS**

To: **The Shareholders**
Al Tayyar Travel Group Holding Company
(A Saudi Joint Stock Company)
Riyadh, Kingdom of Saudi Arabia

Scope of Review

We have reviewed the accompanying interim consolidated balance sheet of **Al Tayyar Travel Group Holding Company** and its subsidiaries ('the Group') as at 30 September 2014, the related interim consolidated statements of income for the three month and the nine month periods then ended, cash flows and changes in equity for the nine month period then ended and the attached condensed notes (1) to (15) which form an integral part of these interim condensed consolidated financial statements. These interim condensed consolidated financial statements are the responsibility of the Group's management and have been prepared by them and submitted to us together with all the information and explanations which we required. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

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

Conclusion

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

For KPMG Al Fozan & Al Sadhan

Abdullah H. Al Fozan
License No: 348

Date: 28 Dhul Hijja 1435H
Corresponding to: 22 October 2014



AL TAYYAR TRAVEL GROUP HOLDING COMPANY
(A Saudi Joint Stock Company)
INTERIM CONSOLIDATED BALANCE SHEET (UNAUDITED)
As at 30 September 2014
(Saudi Arabian Riyals)

	<u>Notes</u>	30 September 2014	31 December 2013 (Audited) (Restated)	30 September 2013 (Restated)
ASSETS				
Current assets				
Cash and cash equivalents		908,095,202	2,117,094,594	527,488,465
Trade receivables, net		985,479,103	583,223,156	639,620,823
Due from related parties		18,892,478	30,247,535	28,845,917
Advances, prepayments and other receivables		462,216,017	484,752,033	445,245,916
Total current assets		2,374,682,800	3,215,317,328	1,641,201,121
Non current assets				
Investments in equity accounted investees		107,408,487	101,795,636	108,611,375
Investment properties		25,000,000	25,000,000	25,000,000
Available for sale investments		1,000,000	1,000,000	1,000,000
Intangible assets, net	4	290,618,423	139,412,415	139,412,415
Property and equipment, net		916,208,056	757,319,670	727,237,809
Capital work in progress for disposal	6	359,747,097	359,747,097	--
Capital work in progress	6	983,750,672	874,694,885	1,215,639,913
Total non current assets		2,683,732,735	2,258,969,703	2,216,901,512
Total assets		5,058,415,535	5,474,287,031	3,858,102,633
LIABILITIES AND EQUITY				
Current liabilities				
Bank overdrafts		16,564,322	15,490,301	18,552,202
Short term debts	7	662,672,441	490,626,377	525,066,377
Trade payables		708,992,139	772,054,735	424,435,448
Accrued expenses and other liabilities	8	844,435,984	1,479,858,028	514,186,438
Other provisions		25,000,000	25,000,000	--
Due to related parties		72,991,402	112,293,803	11,550,319
Zakat and income tax provision		41,725,502	44,631,177	39,785,021
Total current liabilities		2,372,381,790	2,939,954,421	1,533,575,805
Non current liabilities				
Employees' end of service benefits		56,280,520	47,111,501	46,188,525
Total non current liabilities		56,280,520	47,111,501	46,188,525
Total liabilities		2,428,662,310	2,987,065,922	1,579,764,330
EQUITY				
Equity attributable to the Company's shareholders				
Share capital	1	1,500,000,000	1,200,000,000	1,200,000,000
Statutory reserve		304,384,486	304,384,486	210,091,652
Translation adjustments for foreign operations		(18,621,530)	(15,502,255)	(15,131,115)
Retained earnings		824,144,126	760,514,288	946,242,623
Total shareholders' equity		2,609,907,082	2,249,396,519	2,041,503,160
Non controlling interest	5c	19,846,143	237,824,590	236,835,143
Total equity		2,629,753,225	2,487,221,109	2,278,338,303
Total liabilities and equity		5,058,415,535	5,474,287,031	3,858,102,633

The accompanying notes (1) through (15) form an integral part of these interim condensed consolidated financial statements.

The financial statements on pages (1) to (19) were approved on behalf of the Shareholders by the Board of Directors on 28 Dhul Hijja 1435H corresponding to 22 October 2014 and signed on behalf of the Board by:


Dr. Nasser Al Tayyar
Vice Chairman & Managing Director


Dr. Ali El Tigani Ahmed
Acting Chief Executive Officer


Yousif Mousa Yousif
Group Chief Financial Officer

AL TAYYAR TRAVEL GROUP HOLDING COMPANY
(A Saudi Joint Stock Company)
INTERIM CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)
For the period ended 30 September 2014
(Saudi Arabian Riyals)

	3 Month		9 Month	
	30 September 2014	30 September 2013	30 September 2014	30 September 2013 (Restated)
	<i>Note</i>			
Revenue	1,757,184,913	1,441,907,197	5,525,441,823	4,667,280,024
Cost of revenue	(1,383,840,101)	(1,143,516,532)	(4,312,642,413)	(3,664,645,051)
Gross profit	373,344,812	298,390,665	1,212,799,410	1,002,634,973
Selling and marketing expenses	(59,024,729)	(42,644,770)	(175,847,008)	(143,792,953)
General and administrative expenses	(81,696,151)	(54,081,254)	(216,642,246)	(163,196,590)
Share of income of equity accounted investees	401,908	2,242,355	1,970,174	5,175,031
Impairment loss of intangible assets	--	(2,718,479)	--	(2,718,479)
Other operating income	24,127,129	23,805,110	75,775,896	76,885,575
Operating income	257,152,969	224,693,627	898,056,226	774,987,557
Gain on disposal of property and equipment	9 950,289	1,123,887	29,868,200	3,715,306
Negative goodwill	3c & 2b --	--	--	34,286,062
Finance income	1,040,093	1,295,702	9,424,906	2,459,375
Finance and bank charges	(3,486,568)	(2,445,781)	(9,938,699)	(9,585,585)
Other (expenses) / income, net	(1,496,186)	(26,192)	29,354,407	30,875,158
Income before Zakat, income tax and non controlling interest	255,656,783	224,967,435	927,410,633	805,862,715
Zakat and income tax	(10,285,585)	(8,628,620)	(30,263,827)	(31,245,612)
Net income before non controlling interest	245,371,198	216,338,815	897,146,806	774,617,103
Non controlling interest	(1,605,324)	(1,471,488)	(9,693,871)	(5,667,202)
Net income for the period	243,765,874	214,867,327	887,452,935	768,949,901
Earnings per share from operating income	11 1.71	1.50	5.99	5.17
(Loss) / earnings per share from other (expenses) / income, net	11 (0.01)	(0.00)	0.20	0.21
Basic earnings per share	11 1.63	1.43	5.92	5.13

The accompanying notes (1) through (15) form an integral part of these interim condensed consolidated financial statements.

AL TAYYAR TRAVEL GROUP HOLDING COMPANY
(A Saudi Joint Stock Company)
INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)
For the period ended 30 September 2014
(Saudi Arabian Riyals)

	30 September <u>2014</u>	30 September <u>2013</u>
Cash flows from operating activities		
Net income for the period	887,452,935	768,949,901
<i>Adjustments to reconcile net income to net cash from operating activities:</i>		
Depreciation	37,534,775	31,990,840
Impairment loss of intangible assets	--	2,718,479
Gain on disposal of property and equipment	(29,868,200)	(3,715,306)
Loss / (gain) on foreign currency translation	147,143	(2,629,032)
Negative goodwill	--	(34,286,062)
Share of income of equity accounted investees	(1,970,174)	(7,865,663)
Fair value adjustment of equity accounted investees	--	2,690,632
Provision for trade receivables	15,237,506	20,000,000
Non controlling interest	9,693,871	5,657,202
Finance and bank charges	9,938,699	9,585,585
Provision for employees' end of service benefits	11,749,344	11,943,352
Provision for Zakat and income tax	30,263,827	31,245,612
	<u>970,179,726</u>	<u>836,295,540</u>
Changes in operating assets and liabilities		
Trade receivables	(259,745,214)	331,709,394
Due from related parties	11,355,057	8,244,715
Advances, prepayments and other receivables	30,314,920	(169,410,983)
Trade payables	(140,921,892)	31,048,126
Due to related parties	(53,496,312)	(39,621,662)
Accrued expenses and other liabilities	(732,350,153)	(490,035,793)
Employees' end of service benefits paid	(2,647,937)	(1,568,901)
Finance and bank charges paid	(9,567,148)	(9,194,112)
Zakat and income tax paid	(33,169,502)	(25,874,277)
Net cash (used in) / from operating activities	<u>(220,048,455)</u>	<u>471,592,047</u>
Cash flows from investing activities		
Payments for investments in equity accounted investees	(3,670,772)	(1,105,000)
Purchase of property and equipment	(287,988,086)	(85,151,964)
Dividends received from equity accounted investees	28,095	10,823,214
Proceeds from disposal of property and equipment	125,432,447	8,546,506
Acquisition of subsidiaries, net of cash acquired	(129,507,925)	(201,845,564)
Additional investment in subsidiary	(208,325,000)	--
Net movement in capital work in progress	(104,083,427)	(41,365,483)
Net cash used in investing activities	<u>(608,114,668)</u>	<u>(311,098,291)</u>
Cash flows from financing activities		
Net movement in short term debts	166,705,412	49,467,292
Net movement in bank overdrafts	(2,596,758)	13,738,068
Dividends paid to shareholders	(540,000,000)	(440,000,000)
Dividend paid to non-controlling interest	(4,944,923)	(3,048,228)
Net cash used in financing activities	<u>(380,836,269)</u>	<u>(379,842,868)</u>
Net change in cash and cash equivalents	(1,208,999,392)	(219,349,112)
Cash and cash equivalents at the beginning of the period	2,117,094,594	746,837,577
Cash and cash equivalents at the end of the period	<u>908,095,202</u>	<u>527,488,465</u>

The accompanying notes (1) through (15) form an integral part of these interim condensed consolidated financial statements.

AL TAYYAR TRAVEL GROUP HOLDING COMPANY
(A Saudi Joint Stock Company)
INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the period ended 30 September 2014
(Saudi Arabian Riyals)

	<u>Notes</u>	<u>Share capital</u>	<u>Statutory reserve</u>	<u>Translation adjustment for foreign operations</u>	<u>Retained earnings</u>	<u>Total shareholders' equity</u>	<u>Non-controlling interest</u>	<u>Total</u>
30 September 2013								
At the beginning of the period		800,000,000	210,091,652	(4,717,110)	717,592,722	1,722,967,264	14,454,481	1,737,421,745
Net income for the period – <i>restated</i>		--	--	--	768,949,901	768,949,901	5,667,202	774,617,103
Bonus shares		400,000,000	--	--	(400,000,000)	--	--	--
Acquisition of interest in subsidiary		--	--	--	--	--	219,761,688	219,761,688
Translation adjustment for foreign operations		--	--	(10,414,005)	--	(10,414,005)	--	(10,414,005)
Dividends to shareholders		--	--	--	(440,000,000)	(440,000,000)	--	(440,000,000)
Dividend paid to non-controlling interest		--	--	--	--	--	(3,048,228)	(3,048,228)
A: the end of the period		1,200,000,000	210,091,652	(15,131,115)	546,542,623	2,041,503,160	236,835,143	2,278,338,303
30 September 2014								
A: the beginning of the period		1,200,000,000	304,384,486	(15,502,255)	726,228,226	2,215,110,457	226,395,902	2,441,506,359
Adjustment (see note 5)		--	--	--	34,286,062	34,286,062	11,428,688	45,714,750
A: the beginning of the period – <i>restated</i>		1,200,000,000	304,384,486	(15,502,255)	760,514,288	2,249,396,519	237,824,590	2,487,221,109
Net income for the period		--	--	--	887,452,935	887,452,935	9,693,871	897,146,806
Bonus shares	(1)	300,000,000	--	--	(300,000,000)	--	--	--
Acquisition of interest in subsidiary		--	--	--	--	--	1,774,508	1,774,508
Translation adjustment for foreign operations		--	--	(3,119,275)	--	(3,119,275)	--	(3,119,275)
Gain on equity transaction	(5c)	--	--	--	16,176,903	16,176,903	(224,501,903)	(208,325,000)
Dividend paid to non-controlling interest		--	--	--	--	--	(4,944,923)	(4,944,923)
Dividends to shareholders		--	--	--	(540,000,000)	(540,000,000)	--	(540,000,000)
At the end of the period		1,500,000,000	304,384,486	(18,621,530)	824,144,126	2,609,907,082	19,846,143	2,629,753,225

The accompanying notes (1) through (15) form an integral part of these interim condensed consolidated financial statements.

AL TAYYAR TRAVEL GROUP HOLDING COMPANY

(A Saudi Joint Stock Company)

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)****For the period ended 30 September 2014****I. THE COMPANY, ITS SUBSIDIARIES AND PRINCIPAL ACTIVITIES**

Al Tayyar Travel Group Holding Company (ATG), is a Saudi Joint Stock Company registered in Riyadh, Kingdom of Saudi Arabia under Commercial Registration No. 1010148039 dated 24/07/1418H corresponding to 24/11/1997 (hereinafter referred to as 'the Company' or 'the Parent'). From 4 June 2012, the shares of the Company have been listed on the Saudi Stock Exchange.

On 20 March 2014, the general assembly meeting of Shareholders approved to issue one Ordinary bonus share for every four ordinary shares held. The bonus shares have been issued from the retained earnings of the Company. Following the bonus shares issue, the capital of the Parent is SAR 1.5 billion and consists of 150,000,000 Ordinary shares of SAR 10 each.

Al Tayyar Travel Group Holding Company (ATG) activities encompass scheduled air travel services, tourism, cargo, transportation, Hajj and Umrah, conference and events, education, chartered flights, furnished suites and hotels, shipping and other travel related services and products.

The Company's registered address is:

P.O. Box 52660
Riyadh 11573
Kingdom of Saudi Arabia

These interim condensed consolidated financial statements cover the activities of the Parent and the following subsidiaries (collectively referred to as 'the Group'):

<u>Consolidated subsidiaries</u>	<u>Country of incorporation</u>	<u>Effective ownership</u>		<u>Financial year end</u>
		<u>September</u>		
		<u>2014</u>	<u>2013</u>	
National Travel and Tourism Bureau Limited (NTTB)	KSA	100%	100%	31 December
Al Sarh Travel and Tourism Limited (ASTT)	KSA	80%	80%	31 December
Al Tayyar International Air Transportation Agency Company Limited (ATI)	KSA	100%	100%	31 December
Al Tayyar Holiday for Travel and Tourism Company Limited (ATH)	KSA	100%	100%	31 December
Al Tayyar Travel, Tourism and Cargo Company Limited (ATC)	KSA	100%	100%	31 December
Al Tayyar Holidays Travel Group Company (ATE)	Egypt	100%	100%	31 December
Al Tayyar Cargo and Custom Clearance Company (ATCC)	Egypt	100%	100%	31 December
E Al Tayyar Tourism Company (ATT)	Egypt	100%	100%	31 December
F Al Tayyar Tours Company (ALC)	Egypt	100%	100%	31 December
Nile Holidays Tourism Company (NALC)	Egypt	100%	100%	31 December
Al Tayyar Rent A Car Company (ARC)	Egypt	100%	100%	31 December
Lena Tours and Travel (LTT)	Lebanon	100%	75%	31 December
Belantara Holidays SDN. BHD (BHSB)	Malaysia	100%	100%	31 December
Al Tayyar International Company Limited (ATS)	Sudan	75%	75%	31 December
Al Tayyar Travel and Tourism (ATD)	UAE	100%	100%	31 December
Taqniatech Company for Communication Technology Limited (TAQ)	KSA	100%	100%	31 December
Al Tayyar Real Estate, Tourism Development and Investment Company Hotels (ARE)	KSA	100%	100%	31 December
Al Tayyar Insurance Broker Company Limited (INS)	KSA	100%	100%	31 December
Al Tayyar Rent A Car (ARAC)	KSA	100%	100%	31 December
Al Musaffir Magazine (AMM)	KSA	100%	100%	31 December
Al Mousim Travel and Tours (AMTT)	KSA	100%	100%	31 December
Jawlah Tours Establishment for Tourism (JTET)	KSA	51%	51%	31 December
Al Mawasim Tourism and Umrah Services (MWT)	KSA	51%	51%	31 December

AL TAYYAR TRAVEL GROUP HOLDING COMPANY
(A Saudi Joint Stock Company)
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
For the period ended 30 September 2014

1. THE COMPANY, ITS SUBSIDIARIES AND PRINCIPAL ACTIVITIES (Continued)

<u>Consolidated subsidiaries (continued)</u>	<u>Country of incorporation</u>	<u>Effective ownership</u>		<u>Financial year end</u>
		<u>September</u>		
		<u>2014</u>	<u>2013</u>	
Al Jazirah Travel (AJT)	KSA	70%	70%	31 December
Fly IT (FIT)	KSA	60%	60%	31 December
Muthmerah Real Estate Investment Company (MREIC)*	KSA	100%	75%	31 December
Saudi World Travel and Tourism Company Limited (SWTT)	KSA	100%	100%	31 December
Mawasem Travel and Tourism Limited (MTT)	UK	100%	--	31 December
Elegant Resorts Limited and subsidiaries (ERL)	UK	100%	--	31 December
Al Nokhba Private Jet Services Company (ANPJ)	KSA	100%	--	31 December
Al Hanove Tourism and Services Company (AHTS)	Egypt	70%	--	31 December
Co-op Group Travel I Limited (CTM) *	UK	100%	--	31 December
Connecting Trade & Services (CTS) *	Lebanon	51%	--	31 December

* **MREIC** – During the period, the Group increased its interest in MREIC by 25% (see note 5c).

* **CTM** – is a company registered in England and Wales under Commercial Registration No. 07413801. CTM is engaged in provision on travel agent management services.

* **CTS** – is a limited liability company registered in Lebanon under Commercial Registration No. 1001966. CTS is engaged in travel and tourism business.

The interim condensed consolidated financial statements include the following investments of the Group:

<u>Investment in equity accounted investees</u>	<u>Country of incorporation</u>	<u>Effective ownership</u>		<u>Financial year end</u>
		<u>September</u>		
		<u>2014</u>	<u>2013</u>	
Felix Airways Limited (FAL)	Yemen	30%	30%	31 December
Al-Shamel Int'l. Holding Company K.S.C.–Closed (ASI)	Kuwait	30%	30%	31 December
Grand Travel & Tours, LLC. (GTT)	USA	--	40%	31 December
Voyage Amro Travel (VAT)	Canada	49%	49%	31 December
Al Tayyar Travel & Tourism Abu Dhabi (TTAD)	UAE	49%	49%	31 December
Taqniatech Company for Communication Technology JV (TAQJV)**	KSA	70%	70%	31 December
2share Emerging Technology (TSET)	KSA	35%	35%	31 December
Net Tours (NT)	UAE	44.3%	--	31 December

** There is a significant influence but no control over the joint venture financial and operating policies.

<u>Available for sale investments</u>	<u>Country of incorporation</u>	<u>Effective ownership</u>		<u>Financial year end</u>
		<u>September</u>		
		<u>2014</u>	<u>2013</u>	
Al Wafeer Air (AWA)	KSA	12.75%	12.75%	31 December
Taif Investments and Tourism Company (TITC)	KSA	0.09%	0.09%	31 December

AL TAYYAR TRAVEL GROUP HOLDING COMPANY

(A Saudi Joint Stock Company)

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

For the period ended 30 September 2014

2. BASIS OF PREPARATION

(a) *Statement of compliance*

The accompanying interim condensed consolidated financial statements have been prepared in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia issued by the Saudi Organization for Certified Public Accountants (SOCPA) applicable for interim financial reporting. Certain prior period comparative amounts have been reclassified to be consistent with the current period presentation. The balance sheet comparative for December 2013 has been presented for illustrative purpose only.

These interim condensed consolidated financial statements were authorized for issue by the board of directors of the Parent Company on 28 Dhul Hijja 1435H (corresponding to 22 October 2014).

(b) *Basis of measurement*

These interim condensed consolidated financial statements have been prepared on the historical cost basis (except for available-for-sale investments which are stated at their fair values), using the accrual basis of accounting and the going concern concept.

The comparative numbers are re-stated after the final purchase price allocation relating to MREIC during second quarter 2014 (see note 5c).

(c) *Functional and presentation currency*

These interim condensed consolidated financial statements are presented in Saudi Arabian Riyals (SAR) which is the functional currency.

(d) *Use of estimates and judgements*

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in future periods affected.

Information about critical judgements in applying accounting policies that have the most significant effect on the amount recognized in the financial statements is included in the following accounts:

- Trade receivables
- Property and equipment
- Intangible assets

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following accounts:

- Provision for trade receivables
- Impairment of intangible assets
- Capital work in progress for disposal
- Other provisions

AL TAYYAR TRAVEL GROUP HOLDING COMPANY
(A Saudi Joint Stock Company)
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
For the period ended 30 September 2014

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in the interim condensed consolidated financial statements and are also consistent with the accounting policies in the consolidated financial statements for the year ended 31 December 2013.

The interim condensed consolidated financial statements should be read together with the consolidated financial statements of the Group for the year ended 31 December 2013.

(a) *Basis of consolidation*

These interim condensed consolidated financial statements include the financial statements of the Group entities set out in Note 1 above. Associates are accounted for using the equity method.

Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity 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.

Transactions eliminated on consolidation

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

(b) *Cash and cash equivalents*

Cash and cash equivalents comprise cash on hand, cash with banks and highly liquid investments, if any, with original maturities of three months or less, which are available to the Group without any restrictions.

(c) *Trade receivables*

Trade receivables are stated at original invoice amount less provisions made for amounts which in the opinion of the management may not be received. Bad debts are written off when identified as a result of objective evidence which can include default or delinquency by a debtor, indications that a debtor will enter bankruptcy, adverse changes in the payment status of borrowers or economic conditions that correlate with defaults.

AL TAYYAR TRAVEL GROUP HOLDING COMPANY

(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the period ended 30 September 2014

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) *Investments*

Investments in associates and jointly controlled entities (equity accounted investees)

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity. Jointly controlled entities are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decision. Associates and jointly controlled entities are accounted for using the equity method (equity accounted investee) and are initially recognized at cost. The financial statements include the Group's share of income and expenses and equity movement of the equity accounted investees from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an associate, the Group's carrying amount 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 associate. The Group's share of profits or losses of the investee companies is credited or charged to the consolidated statement of income.

Available for sale investments

Investments which are not for trading purposes and where the Parent does not have any significant influence or control are classified as available for sale investments and subsequent to initial recognition they are measured at fair value and changes therein other than impairment losses are recognized in equity. Fair value is determined by reference to the market value in the open market if an open market exists. In the absence of an open market, the cost less impairment losses recognised is considered to be the fair value for these investments.

(e) *Property and equipment*

Property and equipment are measured at cost, less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. Finance costs on borrowings to finance the construction of qualified assets are capitalized during the period of time that is required to complete and prepare the asset for its intended use.

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of property and equipment. Major overhaul expenditure on owned aircraft is depreciated over the shorter of the period to the next major overhaul or the useful life of the asset concerned. All other expenditure is recognized in the statement of income when incurred.

Depreciation is charged to the statement of income on a straight-line basis over the estimated useful lives of individual items of property and equipment.

The estimated useful lives of assets and estimated residual value percentages for current and comparative periods are as follow:

	<u>Years</u>
Buildings	20
Furniture, fixtures, decorations, telecommunication systems, air conditioning and cooling systems, tools and hardware, safes and vaults	6.67- 10
Computers and office equipment, security systems	5
Vehicles	4
Aircraft, engine and spare parts	6.67- 20

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3. **SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(f) ***Intangible assets***

Goodwill

Goodwill represents the excess cost of investments over the fair value of the net assets acquired in a business combination. Goodwill is tested annually for impairment and is carried at cost net of accumulated impairment losses. Impairment losses on goodwill are not reversed once recorded. Gains or losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Negative goodwill represents the excess of the fair value of the net assets acquired and the cost of investments in a business combination. Negative goodwill is recognised in the consolidated statement of income.

Software

Computer software is measured initially at cost. Following initial acquisition, computer software is stated at cost less accumulated amortisation and accumulated impairment losses, if any. These costs are amortised using the straight-line method over their estimated useful lives of 5 years and assessed for impairment whenever there is an indication that the computer software may be impaired.

(g) ***Impairment of assets***

Property and equipment and other non-current assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss, if any, is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount in the statement of income. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

(h) ***Provisions***

A provision is recognized if, as a result of past events, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefit will be required to settle the obligation.

(i) ***Employees' end of service benefits***

Employees' end of service benefits, calculated in accordance with labour regulations of the countries of incorporation of the group member companies, are accrued and charged to the consolidated statement of income. The liability is calculated at the current value of the vested benefits to which the employee is entitled, should his services be terminated at the balance sheet date.

(j) ***Revenue recognition***

Revenue from airline tickets reflects the ticketing price and is recognized when the tickets are issued. Revenue from other services is recognized when services are performed. Other income is recorded when earned. Airline incentives are recorded in other operating income once earned.

(k) ***Operating leases***

Payments under operating leases are recognized in the statement of income on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense over the term of the lease.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) *Expenses*

Selling and marketing expenses are those arising from the Group's efforts underlying the marketing, selling and distribution functions. All other expenses, excluding cost of revenue and financial charges, are classified as general and administrative expenses. Allocations of common expenses between cost of sales and selling, marketing, general and administrative expenses, when required, are made on a consistent basis.

(m) *Zakat and income tax*

The Company and its Saudi Arabian subsidiaries are subject to Zakat and income-tax in accordance with the regulations of the Department of Zakat and Income Tax ("DZIT") in the Kingdom of Saudi Arabia. The foreign subsidiaries are subject to tax regulations in their countries of incorporation. Zakat and income tax are charged to the current consolidated statement of income.

(n) *Foreign currency translation and foreign subsidiaries*

Transactions denominated in foreign currencies are translated to the functional currency of the Group at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currencies of the Group at the foreign exchange rate ruling at that date. Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Exchange differences arising on translation are recognized in the current consolidated statement of income.

The Company's books and accounts are maintained in Saudi Arabian Riyals. Assets and liabilities of foreign subsidiaries are translated into Saudi Arabian Riyals at the exchange rates in effect at the date of the consolidated balance sheet. The components of foreign subsidiaries' equity accounts, except retained earnings, are translated at the exchange rates in effect at the dates the related items originated. The elements of foreign subsidiaries' income statement are translated using the weighted-average exchange rate for the year.

Material adjustments resulting from the translation of foreign subsidiaries' financial statements into Saudi Arabian Riyals are reported as a separate component of equity attributable to shareholders of the Company in the interim condensed consolidated financial statements.

(o) *Segment reporting*

Segment information is presented in respect of the Group's business and geographical segments. The Group's primary format for segment reporting is based on business segments. The business segments are determined based on the Company's management and internal reporting structure.

(p) *Dividends*

Interim dividends are recorded as a liability in the period in which they are approved by the Board of Directors. Final dividends are recorded in the period in which they are approved by the shareholders.

(q) *Financial instruments*

Financial assets and liabilities are recognized when the Group becomes a party to the contractual provisions of the instruments. The assets and liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these are measured at cost, less any impairment losses (financial assets). The carrying value of all financial assets and liabilities reflected in the financial statements approximate their fair value. Fair value is determined on the basis of objective evidence at balance sheet date.

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		30 September 2014	31 December 2013 <i>(Audited)</i>	30 September 2013
Goodwill	<i>(a)</i>	282,337,878	139,412,415	139,412,415
Software	<i>(b)</i>	8,280,545	--	--
		<u>290,618,423</u>	<u>139,412,415</u>	<u>139,412,415</u>

(a) Goodwill

The goodwill represents excess of purchase consideration over the share of the fair values of net assets acquired. Following is the breakdown of the Goodwill:

		30 September 2014	31 December 2013 <i>(Audited)</i>	30 September 2013
National Travel and Tourism Bureau Limited		6,212,311	6,212,311	6,212,311
Al Sarh Travel and Tourism Limited		11,600,000	11,600,000	11,600,000
E Al Tayyar Tours Company *		26,297,274	26,297,274	26,297,274
Al Tayyar Rent a Car Company *		13,390,372	13,390,372	13,390,372
E Al Tayyar Tourism Company *		13,805,118	13,805,118	13,805,118
Nile Holidays Tourism Company *		13,603,448	13,603,448	13,603,448
Lena Tours and Travel *		2,718,479	2,718,479	2,718,479
Al Tayyar Rent A Car		44,500,000	44,500,000	44,500,000
Al Musaffir Magazine		1,426,644	1,426,644	1,426,644
Al Mousim Travel and Tours		13,750,000	13,750,000	13,750,000
Jawlah Tours Establishment for Tourism		1,578,247	1,578,247	1,578,247
Al Mawasim Tourism and Umrah Services		21,235,000	21,235,000	21,235,000
Al Jazirah Travel		2,014,001	2,014,001	2,014,001
Elegant Resorts Limited (see note 5)		88,523,141	--	--
Al Hanove Tourism and Services Co. (see note 5)		36,829,020	--	--
Co-op Group Travel I Limited (see note 5)		11,652,929	--	--
Connecting Trade & Services (see note 5)		7,834,587	--	--
		<u>316,970,571</u>	<u>172,130,894</u>	<u>172,130,894</u>
Foreign currency translation		(1,914,214)	--	--
Total		<u>315,056,357</u>	<u>172,130,894</u>	<u>172,130,894</u>
Impairment losses *		(32,718,479)	(32,718,479)	(32,718,479)
Net		<u>282,337,878</u>	<u>139,412,415</u>	<u>139,412,415</u>

* The loss on impairment was as a result of the political uncertainty in Egypt of SAR 30 million and the impairment of Lena Tours and Travel goodwill of SAR 2.7 million.

The value of assets, liabilities and contingent liabilities recognized on acquisition are their pre-acquisition carrying amounts. The Group management considers that these carrying amounts are their estimated fair values. The goodwill recognized on the acquisition is attributable mainly to the skills and technical talent of the acquired business's work force and the synergies expected to be achieved from integrating these companies into the Group's existing business.

(b) Software

This primarily reflects the capitalization of software previously held in capital work in progress. An amount SAR 0.85 million has been amortized during the period ended 30 September 2014.

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On 6 February 2014, the Group acquired a 100% shareholding of ERL for a consideration of SAR 89 million. The acquisition was effected through a new holding Company Mawasem Travel and Tourism Limited (MTT).

Country of incorporation	<u>United Kingdom</u>
Acquisition date	6 th February 2014
Consideration paid	89,141,591
Initial fair value of net identifiable assets on acquisition	(618,450)
Goodwill	<u>88,523,141</u>

Al Hanve Tourism and Services Company (AHTS)

On 1 April 2014, the Group acquired a 70% shareholding of AHTS for a consideration of SAR 40.96 million.

Country of incorporation	<u>Egypt</u>
Acquisition date	1 st April 2014
Consideration paid	40,955,316
Initial fair value of net identifiable assets on acquisition	(4,126,296)
Goodwill	<u>36,829,020</u>

Co-op Travel Group 1 Limited (CTM)

On 1 July 2014, the Group acquired a 100% shareholding of CTM for a consideration of SAR 82 million. The acquisition was effected through a new holding Company Mawasem Travel and Tourism Limited (MTT).

Country of incorporation	<u>United Kingdom</u>
Acquisition date	1 st July 2014
Consideration paid	81,927,900
Initial fair value of net identifiable assets on acquisition	(70,274,971)
Goodwill	<u>11,652,929</u>

Connecting Trade and Services (CTS)

On 1 July 2014, the Group acquired a 51% shareholding of CTS for a consideration of SAR 7.84 million.

Country of incorporation	<u>Lebanon</u>
Acquisition date	1 st July 2014
Consideration paid	7,840,932
Initial fair value of net identifiable assets on acquisition	(6,345)
Goodwill	<u>7,834,587</u>

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5. BUSINESS COMBINATIONS (Continued)

b. Recording of fair value changes

The Company is currently in the process of allocating the purchase consideration to the identifiable assets and liabilities acquired. This exercise is expected to be completed within one year from the acquisition date as required by generally accepted accounting standards in the Kingdom of Saudi Arabia. The Company has initially recorded the book value as approximating to the fair value of the assets and liabilities acquired.

Any difference between the consideration paid and the fair value of the net assets acquired for the above transactions will be recognised as goodwill or negative goodwill as appropriate. To date, the Company has accounted for the fair value of transaction based on the initial carrying values of the assets and liabilities as of the acquisition date.

c. Previous period acquisition – Muthmerah Real Estate Investment Company (MREIC)

On 31 May 2013, the Company increased its shareholding in MREIC from 36% to 75% for a consideration amount of SAR 325 million. This step acquisition resulted in the Company consolidating MREIC financial statements as a subsidiary instead of equity accounting the investment.

The assets and liabilities of MREIC as at acquisition date are consolidated by the group. The net assets recognized in the 30 September 2013 financial statements were based on the provisional assessment. Following the final purchase price allocation carried out by management during May 2014, the balances as at 30 September and 31 December 2013 have been restated. This has resulted in an increase in the assets valuation by SAR 45 million and non-controlling interest by SAR 11 million in the comparative balance sheets. Also as a result, there is a negative goodwill of SAR 34 million recognized in the comparative statement of income. The final purchase price allocation was based on the independent valuation of certain assets. The Group has restated and accounted for the transaction based on the carrying values of the assets as of the acquisition date which is summarized below:

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5. BUSINESS COMBINATIONS (Continued)

c. Previous period acquisition – Muthmerah Real Estate Investment Company (MREIC) – (continued)

	Fair Value recognized on acquisition May 2013 (Final)	Initial fair value recognized on acquisition May 2013 (Provisional)
<u>Assets</u>		
Property and equipment	89,506,997	89,506,997
Capital work in progress	1,136,050,211	1,090,335,461
Trade receivables and prepayments	17,195,391	17,195,391
Cash and cash equivalents	123,154,436	123,154,436
	<u>1,365,907,035</u>	<u>1,320,192,285</u>
<u>Liabilities</u>		
Short term loans	(474,213,925)	(474,213,925)
Accrued expenses and other liabilities	(12,173,576)	(12,173,576)
Employees' end of service benefits	(471,784)	(471,784)
	<u>(486,859,285)</u>	<u>(486,859,285)</u>
Fair value of the identifiable net assets	879,047,750	833,333,000
Negative goodwill	(34,286,062)	--
Non controlling interest	(219,761,688)	(208,333,000)
Purchase consideration transferred	<u>625,000,000</u>	<u>625,000,000</u>
<u>Total acquisition cost</u>		
Cash consideration	325,000,000	325,000,000
Fair value of previously held equity interest	<u>300,000,000</u>	<u>300,000,000</u>
Total	<u>625,000,000</u>	<u>625,000,000</u>
<u>Cash outflow on acquisition</u>		
Net cash acquired with the subsidiary	123,154,436	123,154,436
Cash paid	(325,000,000)	(325,000,000)
Net cash outflow	<u>(201,845,564)</u>	<u>(201,845,564)</u>

Muthmerah Real Estate investment Company (MREIC) – further increase in shareholding

During the third quarter of 2014, the Group has acquired a further 25% shareholding of MREIC for SAR 208 million bringing the total ownership to 100% from 75%. This has resulted in a gain of SAR 16 million that has been recognized in the statement of changes in equity and accordingly the non-controlling interest has been eliminated.

6. CAPITAL WORK IN PROGRESS

	30 September 2014	31 December 2013 (Audited) (Restated)	30 September 2013 (Restated)
MREIC	1,256,413,951	1,169,871,413	1,165,557,486
MREIC capital work in progress for disposal *	(359,747,097)	(359,747,097)	--
	896,666,854	810,124,316	1,165,557,486
Others	87,083,818	64,570,569	50,082,427
	<u>983,750,672</u>	<u>874,694,885</u>	<u>1,215,639,913</u>

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The capital work in progress at 30 September and 31 December 2013 is restated to reflect the fair value adjustment arising from the final purchase price allocation (see note 5c). The MREIC capital work in progress totals SAR 896 million as at 30 September 2014, reflecting the land acquisition and hotel development costs to date for projects in Makkah (also see note 7). During the nine month period ended 30 September 2014 commission charges totaling SAR 18 million has been capitalized in MREIC capital work in progress.

* This represents certain land parcels and hotel which were under construction totaling SAR 360 million. During 2013, these assets have been included in the Haram expansion project and other projects in Makkah and as a result, are likely to be acquired by the respective local authorities. MREIC is not expecting such disposal to conclude within the next twelve months. Further, the management is not expecting any losses as a result of these projects. These assets have therefore been classified as capital work in progress for disposal.

7. SHORT TERM DEBTS

	30 September 2014	31 December 2013 <i>(Audited)</i>	30 September 2013
Short term bank loans – MREIC	<i>(a)</i> 451,978,520	489,241,217	464,241,217
Short term bank debts – Others	<i>(b)</i> 210,693,921	1,385,160	60,825,160
	662,672,441	490,626,377	525,066,377

(a) Short term bank loans – MREIC:

The MREIC short term loan facilities were novated to MREIC by Muthmerah Holding Company (the previous majority shareholder of MREIC) as part of the acquisition transaction. The legal formalities of the transfer of this loan facility by the bank to MREIC were completed during June 2014.

This amount outstanding is at agreed commercial rates. As at 30 September 2014, guarantees have been provided along with charges given on certain assets including land assets amounting to SAR 896 million have been pledged against these loan facilities.

(b) Short-term bank debts - others:

This represents amounts outstanding under the short-term bank facilities with certain local commercial banks at agreed commercial rates.

8. ACCRUED EXPENSES AND OTHER LIABILITIES

Accrued expenses and liabilities include advances from certain customers. The balance of these advances as at 30 September 2014 totalled SAR 604 million (31 December 2013: SAR 1.29 billion; 30 September 2013: SAR 350 million).

9. GAIN ON DISPOSAL OF PROPERTY AND EQUIPMENT

During January 2014, MREIC disposed one of its hotel property recognizing a gain of SAR 25 million on disposal. This is the adjusted gain following the purchase price allocation (see note 5c).

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The Group comprises the following main business segments:

- Air Ticketing, Travel & Tours
- Cargo
- Transportation and other ('Others')

The revenue and gross profit by segment is shown below:

	30 September 2014	30 September 2013
Revenue		
Air Ticketing, Travel and Tours	5,359,039,777	4,528,028,713
Cargo	122,351,274	91,819,707
Transportation and other ('Others')	44,050,772	47,431,604
	<u>5,525,441,823</u>	<u>4,667,280,024</u>
	30 September 2014	30 September 2013
Gross Profit		
Air Ticketing, Travel and Tours	1,188,396,901	967,122,179
Cargo	10,871,324	9,361,670
Transportation and other ('Others')	13,531,185	26,151,124
	<u>1,212,799,410</u>	<u>1,002,634,973</u>

Due to the nature of the Group's business, all the companies in the Group can provide any travel related service, so it is not practical to split the assets, liabilities and depreciation related to these business segments. The assets, liabilities and depreciation therefore are shown in respect of the key subsidiaries ATI, ATH and MREIC below.

None of the above segments comprises 10% or more of the total consolidated revenue except for Air Ticketing, Travel and Tours. Further 29% of the revenue for the period is generated from one governmental entity (30 September 2013: 30%). The contract with this governmental entity has expired during the second quarter of 2014. However, the Company continues to provide a normal level of service to this customer.

A segment for Hotels is currently under formation following the acquisition of MREIC (see note 5). As at 30 September 2014, MREIC represents more than 10% of the consolidated assets. MREIC has started to generate some revenue from the hotels. However, the majority of the hotels are currently under construction. These are expected to be fully operational from 2015.

The revenues, gross profit, depreciation, assets and liabilities in respect of the key subsidiaries ATI, ATH and MREIC are shown below:

	As at and for the period ended 30 September 2014				
	ATI	ATH	MREIC	Other entities/ consolidation adjustments	Total
Revenues	2,250,362,920	1,824,583,910	560,006	1,449,934,987	5,525,441,823
Gross profit	760,756,031	278,765,319	489,064	172,788,996	1,212,799,410
Depreciation	5,992,704	3,026,765	598,337	27,916,969	37,534,775
Total Assets	2,860,086,221	1,711,777,669	1,326,698,735	(840,147,090)	5,058,415,535
Total Liabilities	715,675,015	849,812,652	474,947,167	388,227,476	2,428,662,310

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10. SEGMENT REPORTING (Continued)

As at and for the period ended 30 September 2013						
	<u>ATI</u>	<u>ATH</u>	<u>MREIC</u>	Other entities/ consolidation <u>Adjustments</u>	<u>Total</u>	
Revenues	2,152,882,461	1,419,707,138	2,221,752	1,092,468,673	4,667,280,024	
Gross profit	661,443,426	230,415,535	2,221,752	108,554,260	1,002,634,973	
Depreciation	5,680,502	2,653,640	1,112,489	22,544,209	31,990,840	
Total Assets *	1,886,941,431	864,657,871	1,357,118,080	(250,614,749)	3,858,102,633	
Total Liabilities	484,235,490	254,049,718	478,445,404	363,033,718	1,579,764,330	

* Restated – see note 5c

Air ticketing, travel and tours

Air ticketing, travel and tours revenue comprises the gross value of airline tickets sold by the group which include the related commissions earned. The net commission earned on the sale of these tickets, travels and tours is shown below:

	<u>30 September</u> <u>2014</u>	30 September <u>2013</u>
Net commission earned on sale of airline tickets, travel and tours	<u>1,188,396,901</u>	<u>967,122,179</u>

Geographical Segments

The Group mainly operates in the geographical areas including Kingdom of Saudi Arabia, Sudan, Egypt, Lebanon, Malaysia, United Arab Emirates and United Kingdom.

None of the above geographical segments comprises 10% or more of the total consolidated assets or revenue except the Kingdom of Saudi Arabia.

	<u>As at and for the period ended</u>	
	<u>30 September</u> <u>2014</u>	30 September <u>2013</u>
Revenues	<u>5,073,593,700</u>	4,602,256,148
Gross profit	<u>1,157,662,560</u>	990,355,971
Depreciation	<u>33,534,366</u>	28,355,254
Total Assets (restated – see note 5c)	<u>4,459,317,027</u>	3,680,310,802
Total Liabilities	<u>1,870,266,130</u>	1,429,335,220

11. EARNINGS PER SHARE

Earnings / loss per share from operating income, other income / expense and net income for the current and comparative period has been calculated by using the average number of ordinary shares outstanding as at 30 September 2014 of 150 million shares (150 million shares at 30 September 2013 adjusted for bonus shares issued on 20 March 2014).

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12. COMMITMENTS

The Group has capital commitments as at 30 September 2014 of SAR 195 million (31 December 2013: SAR 202 million; 30 September 2013: SAR 88.8 million) principally in respect of MREIC hotel developments and construction of new office premises.

During 2013, the Group entered into an operating lease arrangement for the lease of certain properties in Makkah. During December 2013, this lease agreement was amended. The revised agreement is for an initial duration of approximately 8 years effective from January 2014. The Group is currently in discussion to revise the commencement date of the lease agreement. This is due to certain requirements by government authorities which the lessor is responsible to complete. The completion process has delayed the access and handover of the properties to the Group. Per the current agreement, the lease payments are fixed and increase annually to reflect market rentals. The total amount payable over the lease period is SAR 2.47 billion. An advance of SAR 77 million has been paid by the Group as at 30 September 2014 (31 December 2013: SAR 77 million; 30 September 2013: SAR 45 million). This amount is included in advances, prepayments and other current assets.

13. CONTINGENT LIABILITIES

At 30 September 2014, the Group has letter of guarantees totaling SAR 166 million (31 December 2013: SAR 150 million; 30 September 2013: SAR 149 million) issued by the Company's banks in favor of certain suppliers.

14. DIVIDENDS

The board of directors of the Company during their meeting dated 6 August 2014 approved an interim dividend for the year ending 31 December 2014 amounting to SAR 300 million. This was paid on 8 September 2014.

15. CURRENT PERIOD RESULTS

The interim consolidated results for the period ended 30 September 2014 may not be an accurate indicator for the actual operating results for the whole year.