On behalf of the Board of Directors of DXB Entertainments PJSC (the Company) and its subsidiaries (collectively the Group) we are pleased to present the fourth annual Board report which covers the financial results for the year ended 31 December 2018 (the period).

2018 was our first year of full operations, with all parks and attractions open to paying customers. We first launched Dubai Parks and Resorts on 31 October 2016, when LEGOLAND® Dubai opened its doors to guests. The remaining parks and attractions opened in a staggered manner, with the LEGOLAND® Water Park opening on 2 January 2017, and the last rides and attractions opening to the public on 20 October 2017, with the official launch of the world’s first The Hunger Games attractions at the Lionsgate Zone at MOTIONGATE™ Dubai. We are now the region’s largest integrated theme park destination.

We are pleased to report steady growth in both our visitation and hotel occupancy for the year 2018. Theme park visitor numbers reached almost 2.8 million in 2018, representing year-on-year growth of 22 percent, while full-year occupancy at Lapita™ Hotel significantly increased to 60 percent from 35 percent in the previous year, with Q4 delivering 63 percent occupancy and December peaking at 72 percent, including several days of close to 100 percent occupancy.

The parks are building a loyal customer base, with 27 percent of total visits generated from annual passes and 34 percent from multi-park tickets. Of the total annual passes sold in 2018, 61 percent were for all parks, with the remaining split among two parks tickets and single park tickets.

In line with our strategy to initially drive resident growth, we delivered 1.7 million resident visits in 2018, up from 1.4 million in 2017, representing growth of 17 percent with healthy overall penetration rates. While we have ramped up international visits, delivering 1.1 million visits in 2018, up from 0.8 million in 2017, international visitation growth remains below expectation and is a key area of focus for the management team and the Board of Directors (Board). Our model was built on an expectation of upwards of 60 percent international visitation and the full potential of the destination will be delivered only when this is achieved. In 2018, international visitors made up 40 percent of visits, with the largest contributors coming from the GCC and the Indian subcontinent. The remaining 60 percent consisted of resident visitors from our home market in the UAE.

2018 was the year of strategic partnerships for the Company, which saw Dubai Parks and Resorts successfully tap into the UAE’s fantastic tourism infrastructure. The Company forged strategic partnerships with Dubai Airports, Emirates Airlines and Roads & Transport Authority’s Dubai Taxi Corporation to target passengers on arrival in Dubai and to support international visitation.

With China being a key source market for us, during 2018 we also partnered with the leading Chinese payment gateway, UnionPay and with Hala China, a Dubai initiative in partnership with Emirates Airline, Dubai Holding and Meraas Group, to cater to Chinese visitors.

A central pillar of our strategy, which is in line with other international theme park destinations, is to continue to add hotel inventory through third parties and joint ventures. By doing so, we will grow our international visitation and increase both length of stay and the propensity for multi-park visitation. We are therefore pleased to report that we made good progress during 2018 towards this strategy, and that we are on track to deliver over 1,300 keys by 2020. The third-party owned and operated 579-key Rove Hotel is slated for opening in H2 2019 and the 250-key LEGOLAND® Dubai Hotel joint venture with Merlin is scheduled for opening in H1 2020.

Key Milestones

On 8 August 2018, Abdul Wahab Al-Halabi was appointed Chairman of the Group following the resignation of His Excellency Abdulla Al Habbai. We extend our gratitude to His Excellency for his hard work, dedication and commitment to making Dubai Parks and Resorts the region’s largest integrated theme park destination.

Theme park visits

Theme park visits reached almost 2.8 million in 2018, representing year-on-year growth of 22 percent.

2.8m

Support from Meraas Group

We received further support from our majority shareholder Meraas Group in the form of AED 1.2 billion of convertible bonds.

AED
1.2bn

Also during the year 2018, Mr. Edris Al-Rafi left his position on the Board. We would like to thank him for his commitment to the business and the management team. Mr. Malek Al Malek, CEO TECOM Group, was appointed as an Independent Director to the Board. The Board of Directors currently has one vacant seat that will be filled in due course in 2019.

During the year 2018, we received further support from our majority shareholder Meraas Group in the form of AED 1.2 billion of convertible bonds, inclusive of the AED 700 million subordinated shareholder loan facility already made available to the Group. The convertible bonds have a maturity date of 30 June 2026, an 8 percent deferred coupon rate compounded quarterly and a conversion price of AED 1.04 per share.

In March 2018, we received additional support from our financing partners, with whom a debt realignment was concluded resulting in a three-year moratorium on principal repayments and covenant testing. The Board and the management team are grateful for the continued support from our shareholders and financing partners.

Liquidity overview

As at the year ended 31 December 2018, the Group has cash balances of AED 1.8 billion of which AED 0.2 billion is restricted or ring-fenced cash, mainly related to our debt service reserve account and AED 0.7 billion is related to the Six Flags Dubai project resulting in AED 0.9 billion of available cash balances. Post period, the Directors have assessed the forecasts prepared by management and have concluded that the Group has sufficient resources to meet its current obligations for a period of at least 12 months from the signature of these consolidated financial statements.

In making its assessment of future operating cashflow requirements, management and the Directors have concluded that cash previously intended for settlement of outstanding Phase 1 construction liabilities will be utilised for underlying operational payments and that remaining Phase 1 construction liabilities will be settled over an extended period of more than five years.

As previously reported in March 2018 the Group successfully realigned its AED 4.2 billion financing facility resulting in a three-year moratorium on principal repayments and covenant testing with no increase in margin.

In addition, the Group issued AED 1.2 billion in convertible bonds to its majority shareholder Meraas Group, inclusive of subordinated loans already drawn. As at 31 December 2018, the convertible bonds were fully issued.

As a result of the impairment charge described below, the Group has accumulated losses of AED 4.3 billion, which exceed 50 percent of the issued share capital. As per article 302 of the UAE Federal no 2 of 2015, the Board intend to convene a General Meeting of the Shareholders to be held on 24th of April 2019 for the Shareholders to resolve for the Group to continue operations.

Impairment of non-financial assets

Due to the delayed ramp up of international visitation, the management team and the Board have assessed that there is a reduction in the asset values of the Group's primary asset Dubai Parks and Resorts. Whilst the Board feel that it is early to assess the financial performance of a market-leading asset that is by nature a long-term commercial proposition, on the basis of prudence and in accordance with international accounting standards an impairment provision is required.

Accordingly, the Group has recognised a non-cash impairment charge of AED 991 million in these consolidated financial statements, with a consequent reduction in the value of property and equipment. This accounting adjustment does not impact the underlying operations of the Group.

Furthermore, subsequent to the year-end and in relation to the Six Flags Dubai project (described below) management has assessed the carrying value of assets related to the project and held on the balance sheet at the year-end as well as related future commitments. This assessment has indicated that certain assets, mainly related to infrastructure, facilities, intellectual property fees and professional fees may not be recoverable and accordingly, an impairment and other related charges of AED 551 million have been recognised. Land, the related sub-station and rides have been assumed to have enduring value and remain capitalised on the balance sheet.

Six Flags Dubai

In August 2018, the Board mandated a strategic review of its future development plans and capital deployment, including the development of Six Flags Dubai.

In the intervening period, actions, including formal notification by Six Flags, resulted in funders' concerns being raised specifically in relation to the revised projections for the Six Flags Dubai project. As a result, the syndicated finance facility intended for utilisation as part of the development of the Six Flags Dubai branded theme park, is no longer available, and the Six Flags Dubai project cannot proceed in its current form at this time.

Consequently, the Board has updated the strategic review for this and are recommending to the shareholders a repurposing of the remaining rights issue proceeds as part of an expansion plan whereby a select portfolio of rides will be utilised to enhance MOTIONGATE™ Dubai and Bollywood Parks™ Dubai, including the installation of thrill rides and record-breaking coasters as well as family-friendly rides in Bollywood Parks™ that will widen the demographic appeal of the parks and drive dwell times. Additionally, part of the capital requirement for the already announced Bollywood Parks™ Dubai enhancement plan, commenced during 2018 will be offset. Remaining rides will be stored and installed as part of ongoing annual enhancement capex. To the extent that there are remaining funds available, these would be transferred for utilisation in the existing operations. Shareholders will be asked to pass a resolution in this regard at the Annual General Meeting to be held on 24 April 2019.

Operations

Our key focus in 2018 and beyond has been to drive visitation from international tourists whilst gradually increasing yield by sensitively increasing pricing. To that end, we are focusing our marketing efforts on our key international source markets, including the GCC, the Indian subcontinent, China, Russia and the UK with a special focus on those markets with the closest travel times i.e. the GCC and the Indian subcontinent.

Concurrently, we implemented our first round of price increases in October 2018 for both day tickets and annual passes. Annual passes are offered with attractive incentives to encourage renewals. With regard to our partner relations, we are gradually moving from a bulk and volume-based strategy to incentive-based pricing, rewarding our tour and travel partners on delivery of annual revenue targets.

As discussed previously and similar to other international theme park destinations, the introduction of further hotel rooms to the destination will be a key driver of growth in international visitation, providing an attractive sales proposition for our international sales team, facilitating bundling of our theme park tickets with hotel stays and ultimately increasing length of stay, visitation and dwell times.

LEGOLAND® Dubai Hotel will open in the first six months of 2020, which will add a further 250 family-sized rooms to Dubai Parks and Resorts. LEGOLAND® Dubai Hotel will be a first-of-its-kind offer in the region and will enable Dubai Parks and Resorts to attract a greater number of families with hotel package deals. In addition, the third-party owned, and operated Rove Hotel will open in 2019, adding 579 rooms targeted at our value focused visitors. Including the Lapita™ Hotel, Dubai Parks and Resorts will offer over 1,300 rooms by 2020.

We continue to place customers at the heart of all we do. During the course of 2018, we actioned on customer feedback and implemented key operational changes. With regards to our car parking, we made general admission parking free for all customers. Customers can now park directly adjacent to our theme parks, reducing their journey time. For the hot summer months, we further upgraded the customer journey to ensure the shortest journey time to the theme parks whilst providing refreshments along the way.

Bollywood Parks™ Dubai is a first of its kind entertainment park and whilst popular among visitors, our customer feedback suggested the need for a more authentic South Asian experience, as well as more family-oriented rides and attractions. We listened to our customers and during 2018, we kicked off an enhancement plan and launched 11 new live street entertainment shows, including folk-dances, cultural performances and Bollywood-themed acts. The winter concert 2018 season was a success and generated excellent customer feedback. The enhancement plan will continue in 2019 with the implementation of a revised food and beverage and merchandise strategy and with the installation of new rides, expanding the current seven-ride offering. These enhancements will increase dwell time and encourage repeat visitation.

In April 2018, our second Big Day Out delivered a record visitation of over 36,000 visits, showing the success of our promotional and marketing initiatives.

LEGOLAND® Dubai Hotel

LEGOLAND® Dubai Hotel will open in the first six months of 2020, which will add a further 250 family-sized rooms to Dubai Parks and Resorts.

250

Big Day Out

In April 2018, our second Big Day Out delivered a record visitation of over 36,000 visits, showing the success of our promotional and marketing initiatives.

36,000

Whilst the business is in its ramp-up phase, we continue to optimise our cost base making further savings, particularly in employee and service contract related costs. In 2018 our operating costs were AED 728 million, a 21 percent improvement on the AED 925 million in 2017 with employees reducing from 2,224 in December 2017 to 1,963 in December 2018. We do however continue to preserve our marketing spend which was AED 99 million in 2018, with spend increasingly directed towards our international source markets.

Post period, Mr. Paul Parker assumed the role of Chief Commercial Officer responsible for all aspects of sales, marketing, digital and strategic partnerships. Paul brings with him a wealth of international sales and marketing experience, combined with a detailed understanding of the regional market and the leisure and entertainment industry.

Financial Overview

The Group reported revenues of AED 541 million for the year ended 31 December 2018, marginally lower than the AED 552 million in 2017. On a like-for-like basis, which excludes one-time prior year project management revenues of AED 22 million, revenue increased by 2 percent.

Our theme parks remain our biggest revenue generator, with AED 367 million revenue reported in 2018. Whilst we made good progress in driving higher visitation numbers, as anticipated with the introduction of the new pricing strategy in 2018, theme park revenues remained flat compared to last year.

Total assets

Total assets at the end of 2018 were AED 10.7 billion.

AED

10.7bn

In addition, we reported revenue of AED 92 million from Hospitality and AED 30 million from Retail. Hospitality revenues increased by 50 percent year-on-year, driven by strong growth in average occupancy to 60 percent from 35 percent in the prior year. In Retail, we continued to offer rent relief to our tenants in Riverland™ Dubai, implementing a revenue share model for the short-term while our long-term operational strategic review is ongoing.

Being a seasonal business, we continue to see better performance during the cooler winter months, with lower visitation during the hot second and third quarters of the year, which is in line with our expectations.

The loss for the year ended 31 December 2018 was AED 2,543 million compared to AED 1,116 million in 2017. However, this includes one-time impairment charges of AED 1,542 million. Excluding the one-time impairment charges, the loss for the year was AED 1,001 million. It is also important to note that included within net loss is AED 474 million of non-cash depreciation which is natural for a project of this scale and AED 318 million of net interest charges of which AED 51 million relates to non-cash interest from the issuance of convertible bonds.

Operating cost for the year was AED 728 million, a 21 percent improvement compared to the prior year, a strong signal that our ongoing cost-saving initiatives are taking effect. As a result, EBITDA loss, which is the key financial metric for our business, reduced to AED 210 million for the year compared to AED 422 million in 2017, a 50 percent improvement.

Total assets at the end of 2018 were AED 10.7 billion, primarily comprising AED 8.8 billion in property and equipment, investment properties, inventories and trade and other receivables, in addition to AED 1.8 billion in cash and other financial assets.

As noted earlier, we have fully drawn the AED 1.2 billion convertible bond from Meraas Group during 2018 and re-aligned our Phase 1 syndicated bank facility of AED 4.2 billion by achieving a three-year moratorium on principal repayments and covenant testing until March 2021.

Looking Ahead

The principal focus for 2019 is to maintain our cost base whilst continuing to grow visitation with an emphasis on tourist visitation from our key international source markets. The opening of the Rove Hotel in H2 2019 will provide a further boost in visitation to the destination and we are working hard to ensure an on-time delivery and successful launch of the LEGOLAND® Dubai Hotel thereafter.

We will continue to enhance our destination with our Bollywood Parks™ Dubai enhancement plan continuing in 2019, improving customer experience, driving visitation and increasing per capita spend. Riverland™ Dubai remains under review.

Finally, we would like to take this opportunity to thank our employees, operators, financing partners, Meraas Group and our other shareholders as well as the Government of Dubai and the UAE Federal Authorities for their continued support in ensuring that we can deliver on our target to reach profitability.

Abdul Wahab Al-Halabi
Chairman

Mohamed Almulla
Chief Executive Officer and Managing Director