Annual Report

2018

شركة دور للضيافة
Dur Hospitality Company

2018

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Message from the Board

Dear Shareholders of Dur Hospitality,

We are pleased to present the annual report of Dur Hospitality at this time of every year. The report shows the financial results achieved in 2018G and the progress made in consolidating the company's value by implementing its starategy that focuses on expansion in hotel and real estate development and operation to keep up with the current and future market needs and get in line with the goals of the Kingdom Vision 2030 G that has given investment in hospitality a high priority.

The 2018 results show several developments in the company despite the internal and external challenges and the slowdown in the hospitality sector. These developments have been achieved through a long-term plan to diversify the company's income. The total revenues reached SAR 454.1 million during 2018 G; a decline by (6.1%) compared to SAR 483.6 million in 2017 G. The operating revenue hit SAR 69.532 million during 2018 G; a decline by (27.1%) compared to SAR 95.931 million in 2017 G.

The year 2018 witnessed several achievements that would add to the company's track record. Marriott Riyadh Airport Hotel was re-opened after renovation and development at a total amount of SAR 50 million, while the renovation started at Makarem Ajyad Makkah Hotel near the Holy Mosque. In the same year, the company has announced a franchise agreement with InterContinental Hotels Group for Hotel Crowne Plaza Riyadh Palace. In addition, the company started to lease residential units at Darraq Residences (Phase 5) in Diplomatic Quarter, Riyadh. Darraq is a special project that falls under the residential complexes class across the Kingdom of Saudi Arabia. The project consists of 425 luxurious residential units including modern villas and fully-furnished apartments.

In 2018, Dur Hospitality established a branch for Umrah visitors service to attract groups of Umrah visitors from outside the Kingdom. This step reflects the future significance and vertical expansion of the company's business in relation to Umrah services in line with the expected increase in Umrah visitors who are expected to hit 30 million by 2030 G.

The year also witnessed more global exposure for Makarem brand in a series of international events and exhibitions. The participation of the award-winning brand helped to establish Makarem at the international level as a Saudi brand that specialized in servicing the holy cities according to the international standards. This would help the brand to expand and operate new hotels in Makkah and Madinah.

Last but not least, we reaffirm our commitment to continue the development and expansion in order to provide investors in the Saudi hospitality sector with operating services and make Dur the best partner given the added value it offers in this sector on which the KSA relies as a future pillar in the plan to diversify income and attract young Saudi talents.

Finally, we are extremely thankful and grateful to our partners for their loyalty, to our esteemed shareholders for their continuous support, and to our skilful employees for their efforts in the last year and for working as one team to make such achievements which will absolutely have a positive impact on the future of Dur Hospitality and help it achieve more excellence at the local and international levels.

Best Regards
Board of Directors

Board of Directors

Eng. Abdullah bin Mohammad Al Issa
Chairman

Mr. Nasser bin Mohammad Al Subaiei
Deputy Chairman

Dr. Saleh bin Ali Al Hathloul
Board Member

Eng. Fahad bin Abdullah Al Shari
Board Member (Representative of the Public Investment Fund)

Mr. Abdullah bin Mohammad Alabduljabbar
Board Member (Representative of the General Organization for Social Insurance)

Mr. Talal bin Abdul Muhsen Al Malafekh
Board Member (Representative of the Public Pension Agency)

Mr. Fahad bin Abdullah Al Qassim
Board Member

Mr. Musaab bin Sulaiman Al Muhaideb
Board Member

Mr. Bader bin Abdullah Al Issa
Board Member

About the Company

01

Our Vision

To be the partner of choice in the hospitality industry across the Kingdom in the fields of investment, development, and operations, adopting international standards with a local spirit.

1.0 About the Company

Dur Hospitality is a leading hospitality joint stock company established in Saudi Arabia in 1976. It is recognized for its strong track record and wide experience in managing, developing and operating hotels and residential communities across the Kingdom of Saudi Arabia. Its diversified portfolio encompasses 20 properties, including hospitality and residential buildings in addition to 8 new properties under development across the Kingdom.

Established in
1976

22
Properties, including hospitality and residential buildings

10
New properties under development

1.1 Main Activities

Dur Hospitality, formerly known as the Saudi Hotels & Resorts Company – "SHARACO", was established as a Saudi joint stock company under the Council of Ministers' Resolution No. 1776 dated 18 Dhul Hijjah 1395AH (Royal Decree No. M/69 dated 28 Rajab 1395AH) under commercial registration No. 1010010726 dated 06 Muharram 1397AH, registered in Riyadh. The Company's capital is one billion Saudi Riyals. According to its Articles of Association, the main objectives of the Company are:

01

Creation, ownership, management, operation, investment, purchase, sharing, lease and rental of hotels, restaurants, motels, lounges, entertainment centers, travel agencies and private beaches of different levels and sizes in cities, public roads and tourism areas.

02

Ownership, purchase, development, division and sorting of land and real estate; construction, sale, evacuation, lease or use of residential, commercial and hotel buildings; management of real estate for the account of the Company or third parties; and carrying out of operation and maintenance works.

03

Provision of services to Umrah performers and visitors to Prophet's Mosque.

04

Practice of all principal and ancillary works required to perform, process and carry on all activities of the said business in consistency with the purposes for which they are devoted.

05

Achievement of high-level service(s) offered at such places and equipment of such places according to their grade as determined by the Board of Directors.

06

The Company shall carry on the aforementioned business on its own or through partnership with third parties and may conclude all contracts necessary for the good performance of such business.

1.2 Strategic Direction

The Company continued to apply the strategic direction that was previously announced in 2013, as follows:

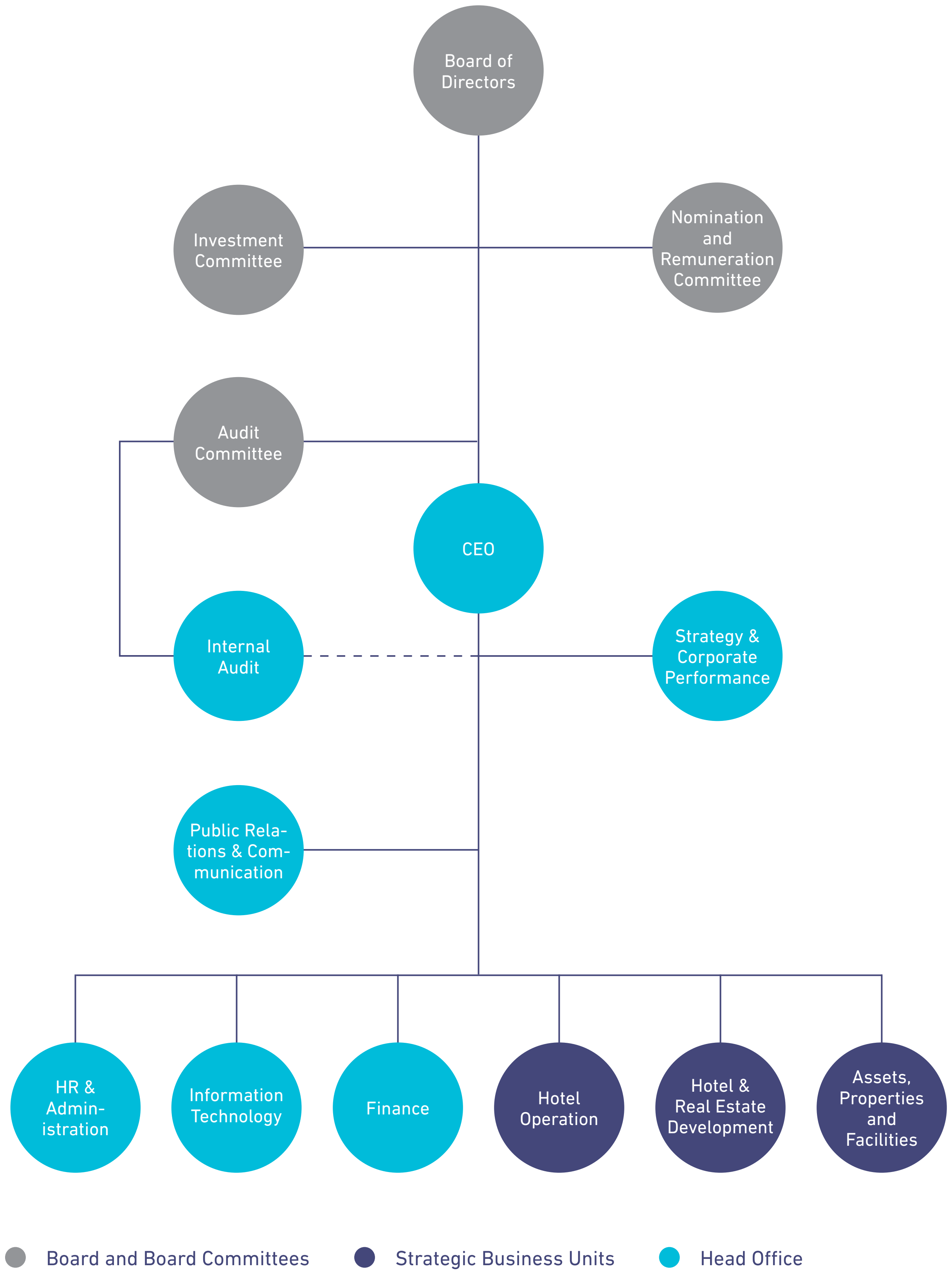
- Focusing on investment in the development of 3- to 4-star hotels and luxury residential communities
- Improving the performance of current facilities and investments.
- Building strategic partnerships and alliances with international corporations and brands specializing in hotel management and operations related to the Company's hotel operation portfolio in key cities and locations across the Kingdom.

  In addition, the Company has closely studied changes at the level of macroeconomics and microeconomics in the two last years and updated its strategic direction to keep up with Vision 2030. The updates include:

- Targeting more expansion in Makarem hotels as a hotel brand that serves the visitors of the Two Holy Mosques. This expansion falls under the Umrah service sector that complements the company's business model to serve the increasing numbers of pilgrims and Umrah performers according to KSA Vision 2030. .
- Joining the hotel apartment sector that targets local tourism to expand the local tourism according to Vision 2030.

  Together these investment factors are significant for continuous growth of revenue from operating proceeds and hence an increase in net profit, to preserve the equity and confidence of our shareholders. Therefore, we aspire to increase the Company's general annual revenue by 2023 to one billion riyals

1.3 Organizational Chart



1.4 Key Achievements in 2018

2018

Dur Hospitality carried on its strategic plan for hospitality investment and development. The following is a brief overview of the key achievements in the past year:

01

Signing a franchise agreement with InterContinental Hotels Group for Hotel Crowne Plaza Riyadh Palace

02

Opening Marriott Riyadh Airport Hotel

03

ISO 9001 Certificate

04

Best Workplace 2018 from Great Place to Work

05

Haute Grandeur Global Award 2018

06

World Travel Award 2018 G

07

Horeca 2018

08

Dur in Arabian Travel Market 2018

09

Saudi Arabia Hotel Investment Conference 2018

01

Signing a franchise agreement with InterContinental Hotels Group for Hotel Crowne Plaza Riyadh Palace

Dur Hospitality has signed a franchise agreement with InterContinental Hotels Group to use Crowne Plaza brand for Hotel Riyadh Palace which will be named Hotel Crowne Plaze Riyadh Palace.

The hotel has 304 keys, a 1400m2 meeting room, a business center, an external pool, a gym and a spa for relaxation and invigoration. The hotel serves a varied menu of global cuisine in a special restaurant and a lobby café.

02

Opening Marriott Riyadh Airport Hotel

Dur Hospitality and Marriott International announced opening Marriott Riyadh Airport Hotel that has been newly renovated. Marriott Riyadh Airport Hotel has a strategic location near King Khalid International Airport and is the second hotel under Marriott brand in Riyadh. The hotel has 248 modern rooms and 24 well-furnished suites with more than 1500 square meters allocated for events.

03

ISO 9001 Certificate

Dur Communities received ISO 9001 certificate for providing facility maintenance and management services according to the best practices and international standards by an elite of qualified and trained talents.

04

Best Workplace 2018 from Great Place to Work

In recognition of the Company's efforts and workshops to develop a work environment that enables employees to innovate and excel at customer service and raises employee satisfaction, the Company was named a Great Place to Work 2018.

05

Haute Grandeur Global Award 2018

Makarem Hotels, which provide hospitality services for the holy cities in the Kingdom of Saudi Arabia, won Haute Grandeur Global Award 2018 as the leading hotel group in the KSA for its original world-class hospitality services.

06

World Travel Award 2018 G

Makarem Hotels won the Leading Hotel Group 2018 in the KSA in World Travel Awards for the second year straight. Makarem Riyadh Airport Hotel (currently Marriott Riyadh Airport) won the Saudi Arabia's Leading Business and Conference Hotel 2018. Makarem was named the Saudi Arabia's Leading Business Hotel 2018 while Makarem Annakheel Village was named "Saudi Arabia's Leading Resort 2018".

07

Horeca 2018

In Saudi Horeca 2018 held on 27-29 November, Dur Hospitality was represented by chefs from Crowne Plaza Riyadh Palace, Hotel Marriott Riyadh Airport and Makarem Ajyad Makkah Hotel. The chefs won gold and silver medals in cooking competitions in addition to Certificates of Merit.

08

Dur in Arabian Travel Market 2018

Makarem Hotels participated in the 25th edition of the Arabian Travel Market (ATM) held in Dubai, where it announced its strategic expansion plan to increase its portfolio in Makkah and Madinah by increasing the number of hotel rooms operated by Makarem to more than 5,000 keys by 2023.

09

Saudi Arabia Hotel Investment Conference 2018

Saudi Arabia Hotel Investment Conference 2018 was launched under the auspices of HRH Prince Sultan bin Salman bin Abdulaziz, former Chairman of Saudi Commission for Tourism and Antiquities. The conference saw a presentation on the latest investment opportunities in hospitality sector in presence of experts in this area of Middle East and North Africa.

Business Sector

02

2.1 Properties

Dur's properties portfolio consists of three main categories as follows:

2.1.1
Facilities owned by Dur and operated by others.

2.1.2
Facilities owned or leased and operated by Makarem and Dur Communities

2.1.3
Facilities owned by third parties and operated by Makarem and Dur Communities

2.1.1 Facilities owned by Dur and operated by others.

01

Riyadh Marriot Hotel

418
Rooms and Suites

5-Star Hotel
Located in Riyadh
Operated by: Marriott International

02

Diplomat Courtyard Marriott Hotel

286
Rooms and Suites

Located in Riyadh
Operated by: Marriott International

03

Marriott Executive Appartments Riyadh

118
Suites

Located in Riyadh
Operated by: Marriott International

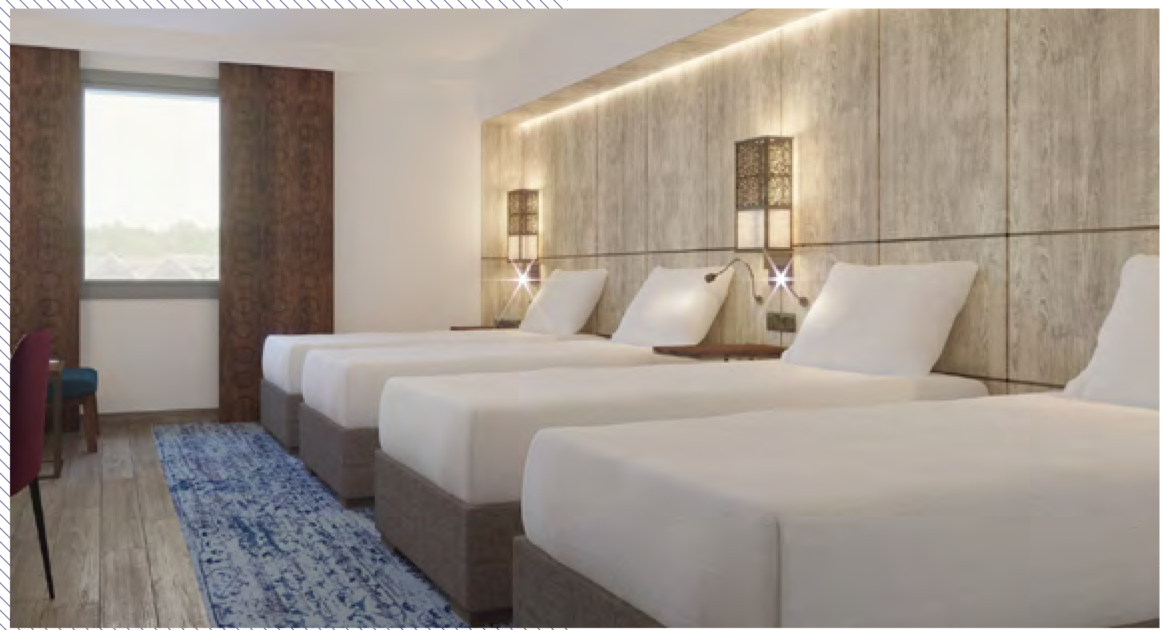
2.1.2 Facilities owned or leased and operated by Makarem and Dur Communities

01

Makarem Ajyad Makkah Hotel

411
Rooms and Suites

5-Star
Located in Makkah



02

Makarem Annakheel Village

83
Villas

43
Rooms and Suites

21
Hotel apartments

Located in Jeddah

Holiday Inn Tabuk Hotel

83
Rooms and Suites

Located in Tabuk

03

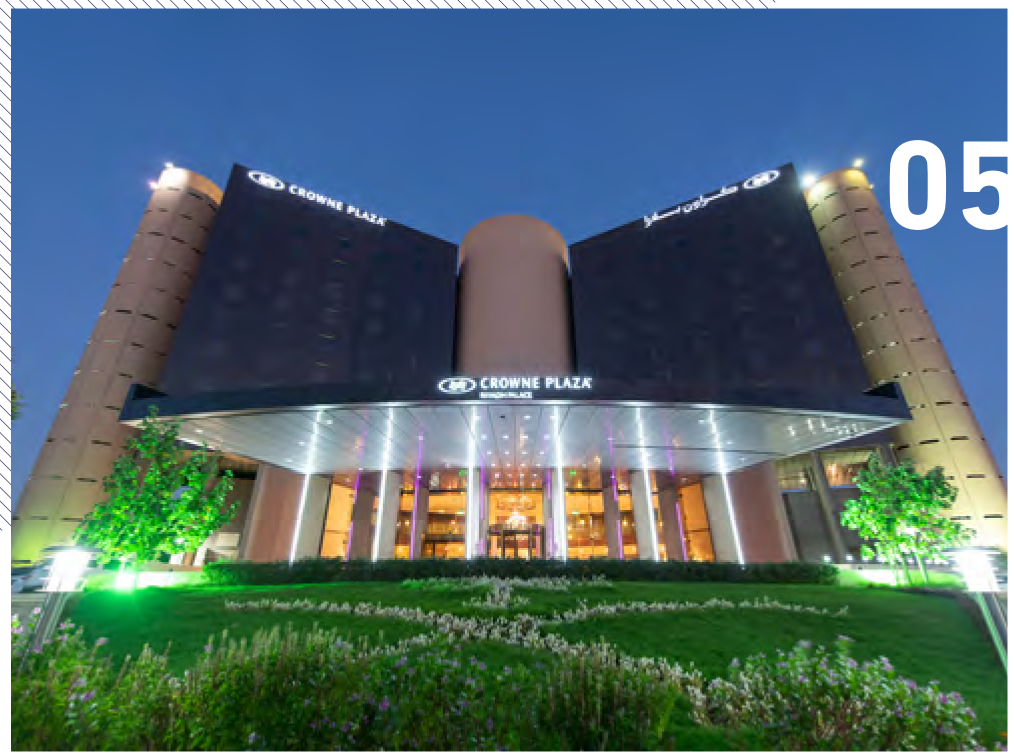
04

Marriott Riyadh Airport Hotel

248
Rooms and Suites

5-Star
Located in Riyadh

05



Hotel Crowne Plaza Riyadh Palace

304
Rooms and Suites

4-Star
Located in Riyadh

06

Darraq Villas

425
Residential units

Located in Diplomat Quarter

07

Dur Al Sharq Compound

19
Villas

59
Rooms

Located in Riyadh

08

Al Takhassusi Plaza

20,000
Square metre

A shopping mall with more than 20000 Sq.m. leasable area, located in Riyadh

2.1.3 Facilities owned by third parties and operated by Makarem and Dur Communities

Makarem Umm Alqura Hotel

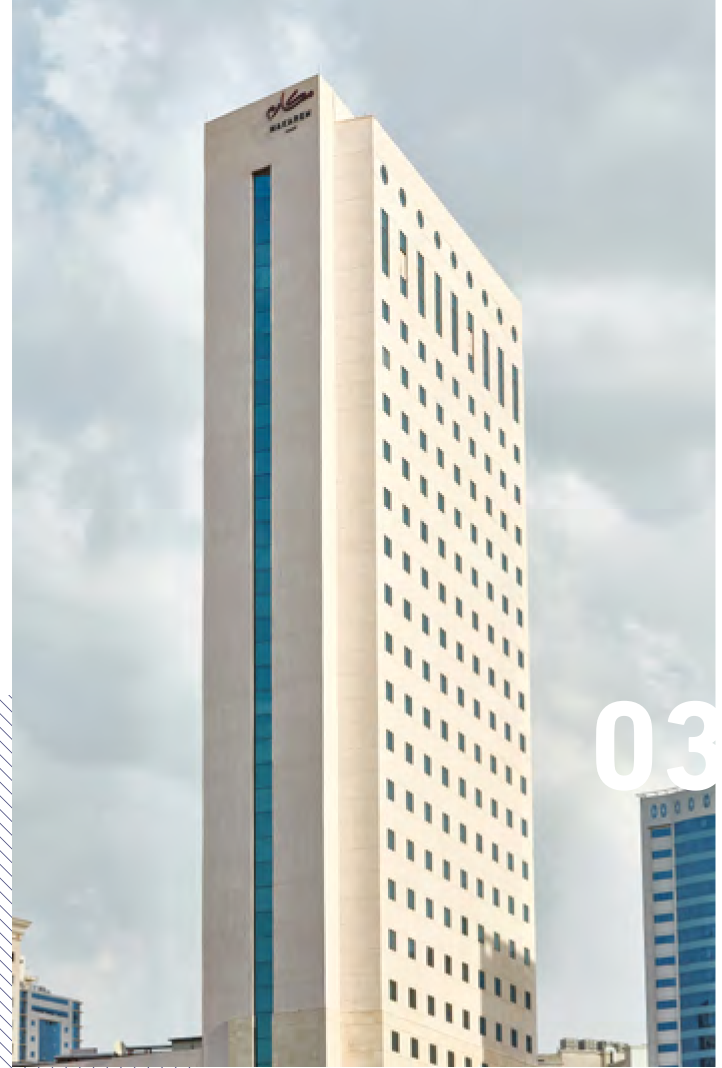
336
Rooms and Suites

5-Star
Located in
Makkah

Makarem Mina Hotel

294
Rooms and Suites

4-Star
Located in
Makkah



Makarem Al Bait Hotel

270
Rooms and Suites

4-Star
Located in
Makkah

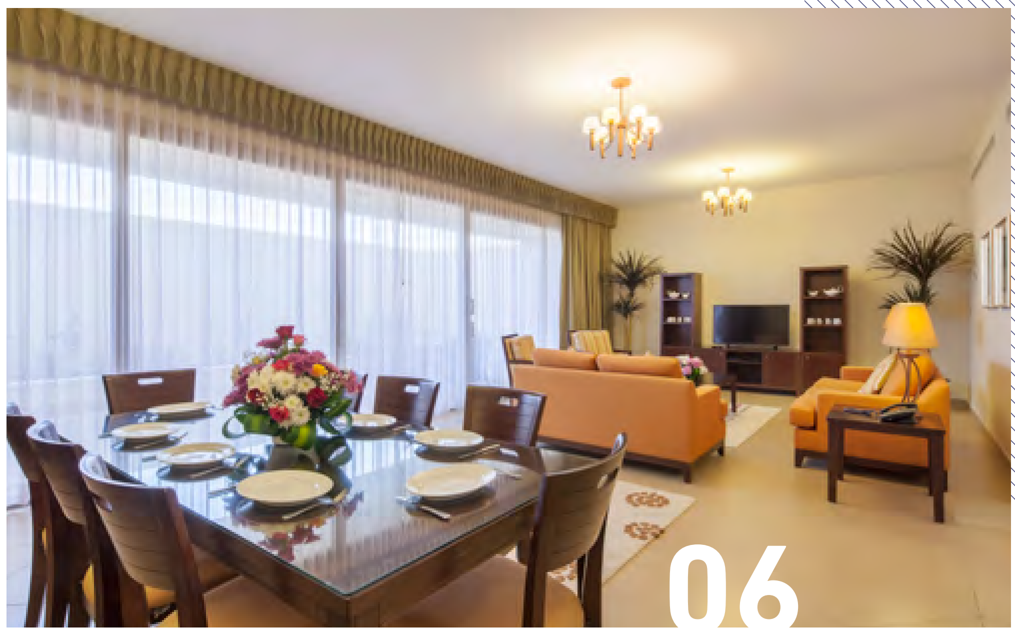
Makarem Al Shurufat Hotel

104
Rooms and Suites

3-Star
Located in
Makkah

Dur Al Yasamin Compound

168
Furnished
residnetial units
Located in Jeddah



Dur Al Rawdah Compound

28
Furnished villas
Located in Jeddah

Dur Al Andalus Compound

30
Furnished villas
Located in Jeddah

Dur Al Bader Compound

40
Furnished villas
Located in Riyadh

Dur Al Maather Compound

73
Furnished villas
Located in Riyadh

2.2 Projects Under Development

The hotel and real estate developmetn sector is the major and vital pillar for implementing the Company's projects; since it is responsible for planning, studying, designing and implementing in addition to developing and upgrading existing projects and facilities, depending on our practical and scientific experience to keep abreast of modern technological techniques in development and implementation. Below are the projects we completed during the year, the projects under development and implementation, and the projects under study and design:

Completed Project

01. Development of Darraq Residences project (phase 4) in Diplomatic Quarter-Riyadh.
02. Development of Darraq Residences project (phase 5A) in Diplomatic Quarter-Riyadh.
03. Renovation of Makarem Riyadh Airport Hotel under Marriott International brand
04. Renovation and development of Riyadh Palace Hotel under the name of Hotel Crowne Plaza Riyadh Palace (phase 1)
05. Developments in façade and parking areas of Al Takhassusi Plaza

Projects under Development and Implementation

01. Development of Marriott Hotel and Marriott Executive Apartments in Diplomatic Quarter
02. Development of Darraq Residences project (phase 5B) in Diplomatic Headquarters
03. Development of Twaiq Residential Compound
04. Development of Darraq Residences project (phase 6) in Diplomatic Quarter
05. Development of hotel apartments and ballroom in Holiday Inn Tabuk
06. Development of Dur Al Wadi Compound
07. Development of Holiday Inn Jubail Hotel and Suites
08. Renovation of Makarem Ajyad Makkah Hotel
09. Expansion of Marriott Riyadh Airport
10. Expansion of Makarem Annakheel Village

Projects under study and design

01. Development and renovation of common areas (phase 2) at Crowne Plaza
02. Development of Holiday Inn Hotel and Suites in Al Ahsa
03. Development of Jeddah Courtyard Hotel and Residence Inn.
04. Development of Yanbu Courtyard Hotel and Residence Inn
05. Expansion of Makarem Ajyad Makkah Hotel
06. Design luxurious villa compound (King Khalid Road land in Riyadh).
07. Development of Dur Al-Hada Compound in Riyadh.

2.3 Hotel Operations

The hotel operations department is the hotel management arm of Dur Hospitality. Dur Hotel Operation conceived and launched Makarem Hotels, which caters to guests visiting the Holy Cities of Makkah and Madinah. Abiding by the best international hospitality practices, Dur Hotel Operation established solid partnerships with respected international hotel operators including Marriott International Hotels and InterContinental Hotel Group (IHG).

Dur Hospitality aims to be Saudi Arabia's partner of choice for the world's most respected international hotel brands. Leveraging more than 40 years' local expertise and knowledge of Saudi Arabia's hospitality market combined with the premium standards set by our international partners, Dur's Hotel Operations department delivers international standard services with a local spirit.

Dur knows the challenges and difficulties facing investors, hotel owners and public sector and seek to help them overcome these challenges and difficulties through the Hotel Operation Department. Given its knowledge and expertise, the company always takes proactive approach to providing successful hotel management solutions and inclusive offers starting from building design and covering all the daily operations.

2.3.1 Strategic Expansion

- Establishment of Dur Hospitality Subsidiary for Umrah Services

Responding to the growth in number of rooms operated by Dur Hospitality, the company established a specialized company to serve Umrah performers both in Makkah and Madinah in 2018 G, through its Makarem brand specialized in providing hospitality services in the holy cities to ensure enough support for best services.

- Expansion in operation and management of hotels "Makarem"

In 2018, the hotel operations department sought to develop its portfolio and expand Makarem hotels particularly in the holy cities. The development department was restructured including determination of the main sites and the selective opportunities. This helped the company sign lease, management and operation contract for Makarem Jabal Al Kaaba in Makkah, consisting of 416 rooms and suites and located 800 meters away from Kaaba. The hotel is expected to be opened in the first quarter of 2020 G.

2.3.2 Operational Excellence

The hotel operations department worked on consolidating the connection with its guests and improving the efficiency and profitability despite the increasing competition and economic challenges. The latest technological systems and application in hospitality sector were used to achieve more efficient operation, more revenues and more satisfaction in both guests and employees.

2.3.3 Capacity Development

About 400 employees took more than 300 training hours and sessions in Rehlati program by Makarem. Focusing on how to treat guests, the program leads to satisfaction rate of more than 84% in December 2018 G. In addition, skill improvement programs were implemented for directors and sales teams over the year. They were trained on new systems. Directors general and executives took a mini business administration program.

2.4 Dur Communities

Dur Communities is the residential facility and property management and operational arm of Dur Hospitality Company. Dur Communities provides a range of professional facility, property, maintenance and security management services. In addition, it provides marketing, sales, leasing, support and quality control services for residential communities. Leveraging its experience in hotel operations and asset management, it provides operational and management solutions to real estate investors.

Dur Hospitality designed and created the “Dur Communities” brand, which is dedicated to managing and operating residential communities while delivering innovative and integrated residential solutions. It operates nine residential compounds located in key cities across Saudi Arabia, with more than 1372 residential units of different sizes surrounded by green spaces in addition to sporting and recreation facilities.

Darraq Residences is one of the major residential projects in the luxury category. It is an integrated project that consists of luxurious villas and a variety of fully furnished apartments of different areas. With a name derived from the Arabic expression Dar Raqia (a luxury home), Darraq provides a lavish lifestyle at the Diplomat Quarter in Riyadh. In this luxurious compound, residents can benefit from public utilities, parks, model schools, gyms and spas.

09 Residential complexes

1372 Residential units

مجتمعات دور
Dur Communities

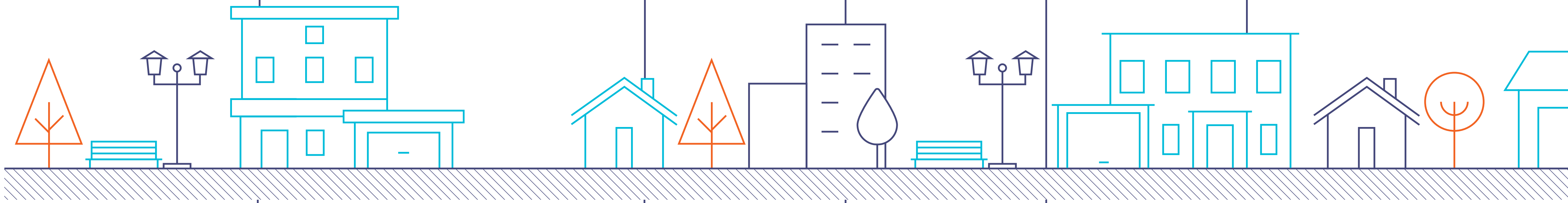
Darraq Residences
425 Residentail units

Dur Al-Bader Compound
40 Residentail Units

Dur Al-Sharq Compound
78 Residentail Units

Dur Al-Andalus Residence Compound
30 Residentail Units

Al-Rawdah Residence Compound
28 Residentail Units



Dur Al-Yasamin Compound
168 Residentail units

Dur Al-Maather Compound
73 Residentail units

Dur Al-Wadi Compound
66 Residentail units

Twaiq Residential Compound
464 Residentail units

2.5 Human Resources

Encouraging employees and creating an appropriate workplace for them will help them innovate and achieve the company's strategy and expansion plans.

2.5.1 Hiring and Saudization

The Company continued its efforts to attract national leadership talents and young professionals to support its expansion plans and be ready to operate the new facilities. 200 new employees were appointed in 2018 G; 80% of them were Saudi nationals. The Company proceeds with its Saudization plan that targets a higher Saudization percentage by ensuring that the outputs of workforce plans are aligned to that of the recruitment plans.

200
New employees

80%
Saudi nationals

2.5.2 Development and Training

As part of Dur's continuous effort to develop capabilities of its employees, it provides intensive training through creative methods, using cartoon characters, narratives and role playing to achieve the best out of the training activities and boost the trainees' responsiveness.

The training was mainly focused on employees at facilities managed by Marriott and Crowne Plaza to ensure they master the work methods and procesdures according to the international operation standards.

In 2018, Leadership Building Program was implemented for more dynamic leadership team. The program focuses on the qualifications and skills required to work in a one-team environment that aims to achieve the company's objectives and vision. The program consisted of a total of 84 training courses for 854 employees.

84
Training courses

854
Employees

2.5.3 Workplace Development Initiatives

Believing in its role in creating a helathy work environment based on multiple cultures and expereinces, Dur has continued to conduct workshops on development of the workplace at different sites of the company. This has led to development initiatives that improve employee satisfaction and thus raise the levels of services provided to customers and guests at all facilities.

2.5.4 Human Capital Management System (HCM)

A unified program for all HR data and procedures in all company properties was completed. The program provided a unified database for all the employee-related details regardless of their positions. It also unified the payroll system, employee service procedures and attendance system. Another system was completed to plan the career objectives of the employee and link them to the objectives of adminsitration and the company's objectives. Employee performance review and assessment system was validated and areas for development were spotted. There was also an electronic transformation in recruitment, training, development, succession and professional development and other supporting procedures.

2.6 Information Technology

IT Department made many achievements including the enforcement and launch of important initiatives such as:

- Continued improvement of ERP
- Applying the unified reservation system, which makes it easy to manage guest bookings in hotels, and provides management with a complete and unified view of bookings at all propeties.
- Updating and developing company's firewall system
- Updating and developing board meetings system
- Equipping and operating unified call and customer support center for Darraq Villas
- Upgrading the hotel telenetwork
- Upgrading the infrastructure and hotel transaformation systems
- Converting certain systems and services of the company to cloud

2.7 Social Responsibility

Dur Hospitality is honoured to be recognised as a pioneer of Corporate Social Responsibility in the Kingdom of Saudi Arabia.

The foundation of Dur's CSR initiatives is to utilize the Company's skills, expertise and human resources to address the community's needs. Three key areas have been identified within the CSR strategy:

- Area one: Protect the environment and preserve natural resources.
- Area two: Empower national talent
- Area three: Support social initiatives

The following are highlights of Dur's CSR activities during 2018:

Blessing Boxes

300 food boxes were donated to Imam Mohammed bin Saud Civil Society and Need Aid charity to be distributed among families in need. The boxes were prepared and distributed under supervision of CSR team.

300
Blessing Boxes

Hosting Chinese Umrah Performers

As part of Dur's social responsibility program that designed to host new and needy Muslims, Dur Hospitality hosted 53 Chinese Umrah visitors in cooperation with the "Calling Chinese Centre" and the Cooperative Office for Propagation and Guidance in Nisim.

53
Chinese
Umrah visitors

Blood Donation Campaigns

Dur coordinated blood donation campaigns in cooperation with King Faisal Specialist Hospital at its Head Office. The company staff participated in these campaigns that support the humanitarian side.

Sponsor an Orphan with Your Old Devices

In cooperation with the Charity Committee for Orphans Care (Ensan) and TADWEEER (Recycling of Electronic and Electrical Equipment), Dur contributed to the initiative of "Sponsor an Orphan with Your Old Devices" by collecting and recycling more than 27602 kg of electrical and electronic waste from the company's headquarters and facilities. The inititative is aimed at protecting environment and the society against the harmful effects of electronic and electric wastes.

27,602
Kg of electrical and electronic waste

Hosting Orphan Umrah Performers

Dur Hospitality hosted orphans in its hotels in cooperation with Imam Mohammed bin Saud Orphan Charity

Paper Recycling and Waste Sorting Campaign

Dur Hospitality launched an internal awareness campaign for all staff members on paper recycling and waste sorting. The campaign highlighted the importance of recycling and waste reduction and using recycable materials. The company recycled 11703 kg of waste in cooperation with ScrapCo. During 2018.

Mosque Cleaning

CSR team, supported by maintenance team at the asset and facility department, cleaned the nearby mosques during the Holy Month of Ramadan

Continued partnership and initiatives with DCA

Dur Hospitality invited 32 families consisting of 96 members from the Disabled Children Association (DCA) during Ramadan to its different properties across the KSA. The DCA installed donation booths at Dur's facilities during Ramadan to collect a variety of donations. Dur also hosted the children of the disabled on dinner at Makarem hall at Marriott Riyadh Hotel to launch Hala Belghalyeen initiative marking the International Day of Persons with Disabilities 2018 G.

32 Families

96 Members

First class graduates from Tahseen Program

Dur celebrated graduation of 30 students of Tahseen Program; a training program launched by Marriott International in cooperation with Cornell University to support Saudi national talents and attract qualified professionals to work in hospitality sector. Graduates developed their leadership skills to keep up with the future expectations of the Saudi hospitality sector.

Hosting DSCA Children

On Saudi National Day, Dur Hospitality hosted 48 children and their families from DSCA Syndrome at Hotel Marriott Riyadh Airport. Children enjoyed entertainment activities and events and variety of stands in addition to gifts given by the company.

Eid Clothing

During the Holy Month of Ramadan, CSR team launched Eid Clothing initiative allowing all employees to spread joy and delight between the needy. About 197 kg of clothes were collected for Bunyan women's charitable association for family development which in turn displayed the clothes in its charity market.

Bunyan House Restorations

According to the agreement signed with Bunyan, Bunyan houses at Al Ghoroob were visited and restored for beneficiary families.

Breast Cancer Awareness Campaign

As part of Dur Hospitality participation in different social initiatives, CSR team launched a breast cancer awareness event in cooperation with Zahra Breast Cancer Association, Diplomatic Quarter Authority and Dur female employees and wives of emploees. The event includes an awareness lecture from specialized doctor and variety of sporting classes for protection against diseases.

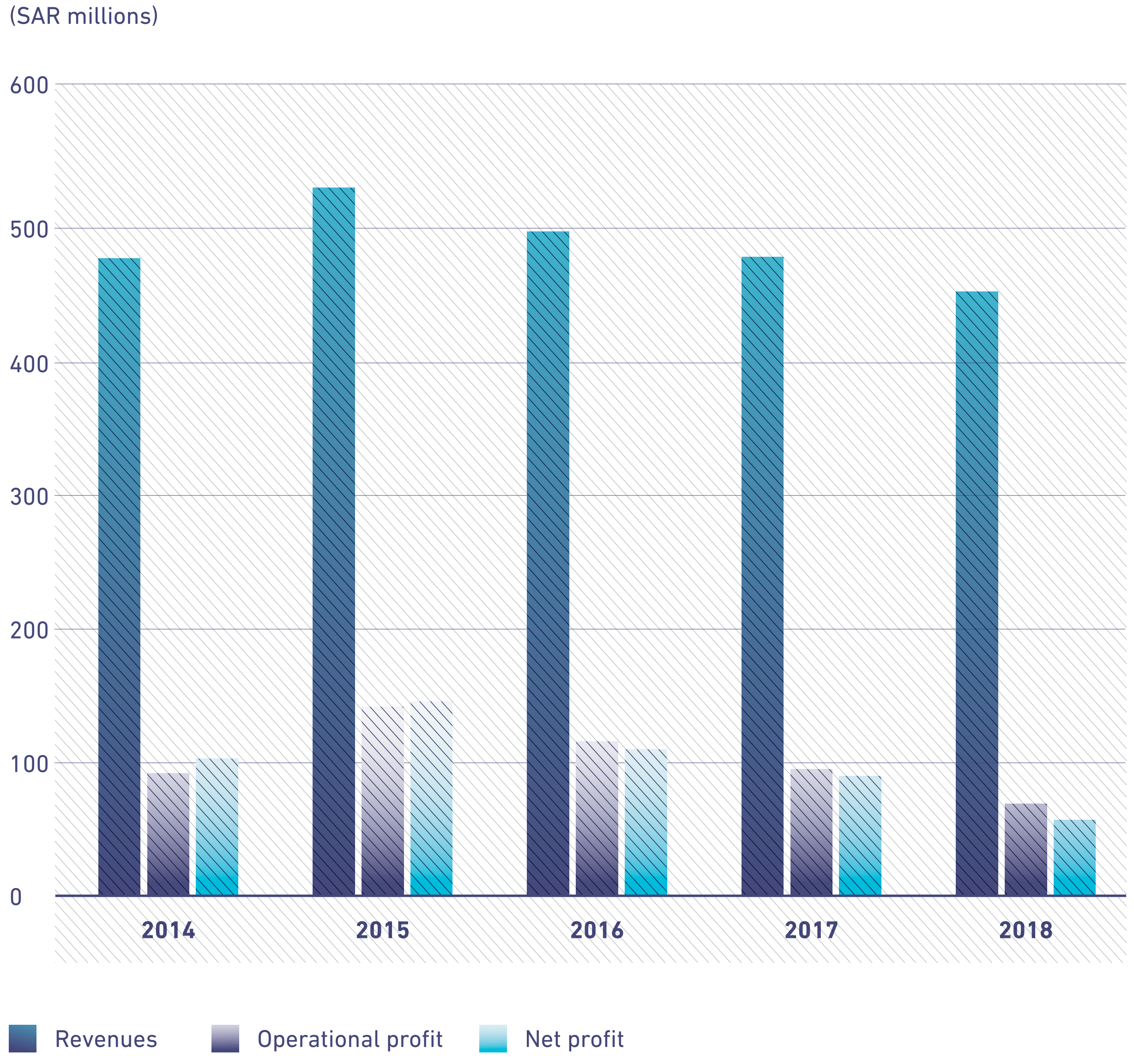
Financial Data and Business Results

03

3.1 Financial Results for the last five years

The following statement of income summarizes the financial results for the last five years:

Description (SAR'...)	2014G	2015G	2016G	2017G	2018G
Revenues	479,548	532,620	499,213	483,604	454,062
Cost of revenues	(312,078)	(353,421)	(352,117)	(353,093)	(345,981)
Gross profit	167,470	179,199	147,096	130,511	108,081
Operational profit	92,525	142,538	116,165	95,344	69,532
Net profit	**103,767**	**146,830**	**111,495**	**90,631**	**57,462**



3.2 Current year's operational results compared to last year's results

The following table shows the significant differences in operating results compared to last year's:

Description (SAR'...)	2017G	2018G	Change	Change%
Revenues	483,604	454,062	(29,542)	(6.1%)
Cost of revenues	(353,093)	(345,981)	7,112	(2.0%)
Gross profit	**130,511**	**108,081**	**(22,430)**	**(17.2%)**
Sales and marketing expenses	(1,668)	(1,056)	612	(36.7%)
General and administrative expenses	(33,499)	(37,493)	(3,994)	11.9%
Operational profit	**95,344**	**69,532**	**(25,812)**	**(27.1%)**
Charges	(1,093)	(6,620)	(5,527)	505.7%
Finance revenues	664	1,420	756	113.9%
Other revenues	5,178	5,501	323	6.2%
Losses of investments in equity accounted investees	(4,162)	(1,083)	3,079	(74.0%)
Lawsuit allocations	-	(7,354)	(7,354)	-
Pre-Zakat profit	**95,931**	**61,396**	**(34,535)**	**(36.0%)**
Zakat	(5,065)	(5,141)	(76)	1.5%
Net profit	**90,866**	**56,255**	**(34,611)**	**(38.1%)**
Profit of:				
Shareholders	**90,631**	**57,462**	**(33,169)**	**(36.6%)**
Non-controlling equity	235	(1,207)	(1,442)	(613.6%)
	90,866	56,255	(34,611)	(38.1%)

The Board of Directors approved the final financial results of the Company for 2018, with a decrease in revenues to approx. SAR 29.5 million, down (6.1%) from the previous year 2017. Net Operating Income for 2018 was approximately SAR 69.5 million, with a decrease of SAR 25.8 million (27.1%) from 2017.

Net profit has decreased to approx. SAR 57.5 million in 2018, down by 36.6% compared to 2017. The decrease was caused by the reduction in revenues of the company's hotels in Riyadh given the lower demand by business sector due to the increasing number of rooms supply in the market as a result of the new openings. The causes for the decrease also included the lower average daily rate in Riyadh and the partial closure of some of the company's facilities in Riyadh for upgrading and renovation works to keep pace with the growing competition in the hotel market. The net profit of this year was also affected by the accounting processing of finance expenses of the completed projects along with the final judgment passed to raise the lawsuit allocation by SAR 7.3 million to become SAR 15 million for the lawsuit between the company and Riyadh Municipality on increase of the rent of previous investment in Al Rawda Park. The company exited this investment in 2014 G. The final judgment was in favor of the company compared to the amount of SAR 40.2 million demanded by the municipality.

3.3 Assets and liabilities for the last five years

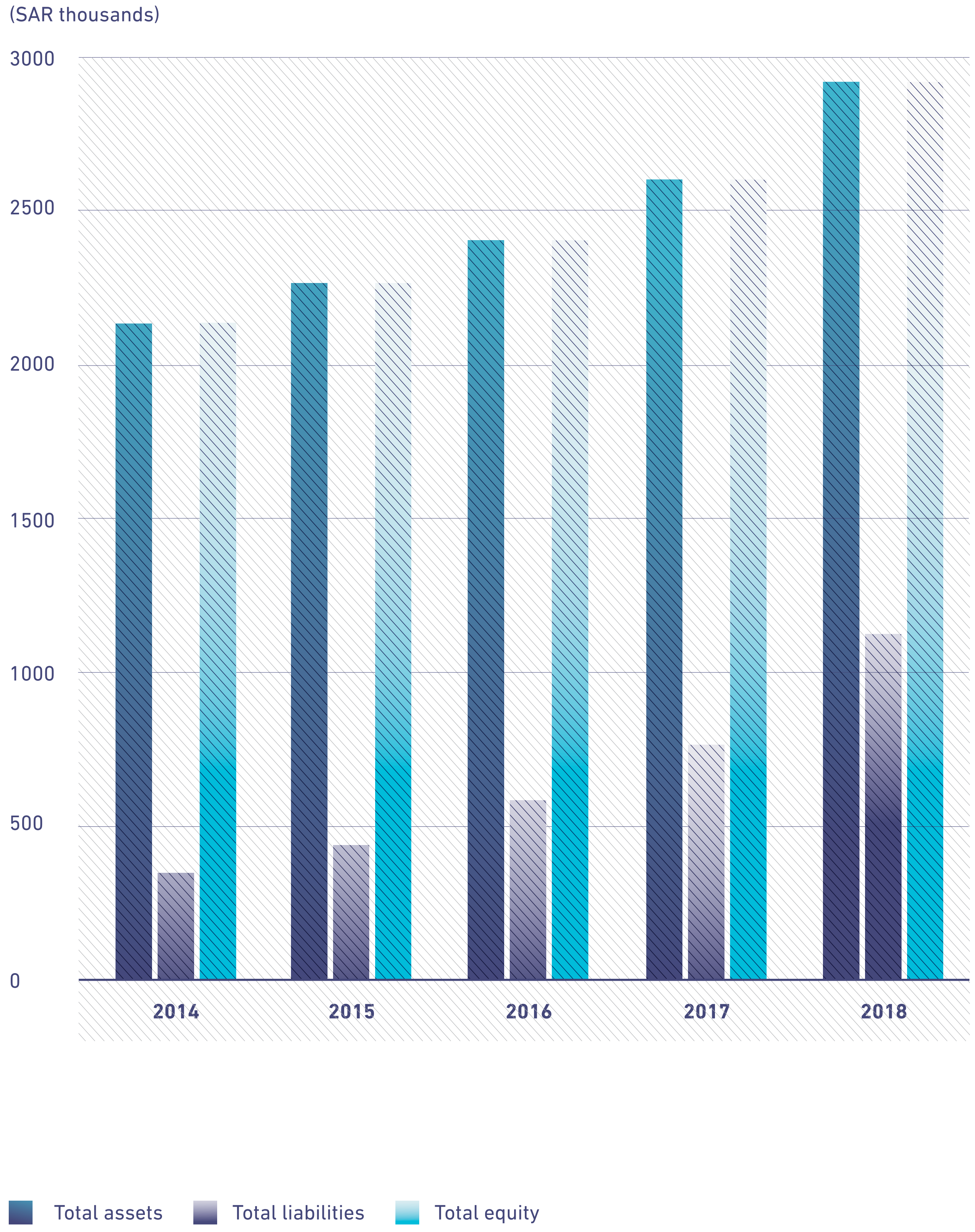
The following table shows a statement of assets and liabilities for the last five years:

Description (SAR'...)	2014G	2015G	2016G	2017G	2018G
Total current assets	408,692	334,281	315,774	302,941	312,333
Total non-current assets	303,608	295,185	413,414	416,830	717,612
Net property and equipment	1,424,467	1,648,075	1,677,267	1,886,311	1,894,298
Total assets	**2,136,767**	**2,277,541**	**2,406,455**	**2,606,082**	**2,924,243**
Total current liabilities	209,284	204,559	251,754	294,409	401,239
Total non-current liabilities	144,252	238,788	338,950	486,442	712,006
Total liabilities	**353,536**	**443,347**	**590,704**	**780,851**	**1,113,245**
Total shareholders' equity	1,779,270	1,796,162	1,778,458	1,787,621	1,774,665
Non-controlling equity	3,961	38,032	37,293	37,610	36,333
Total liabilities and equity	**2,136,767**	**2,277,541**	**2,406,455**	**2,606,082**	**2,924,243**
Percentage of equity to assets	83%	79%	74%	69%	61%

3.4 Changes in shareholders' equity for the last five years

The following table shows a statement of change to equity for the last five years:

Year	Equity (SAR'000)	Increase (decrease)	Change (%)
2014	1,779,270	(21,939)	-1.2%
2015	1,796,162	16,892	0.9%
2016	1,778,458	(17,704)	-1.0%
2017	1,787,621	9,163	0.5%
2018	1,774,665	(12,956)	-0.7%



3.5 Loans

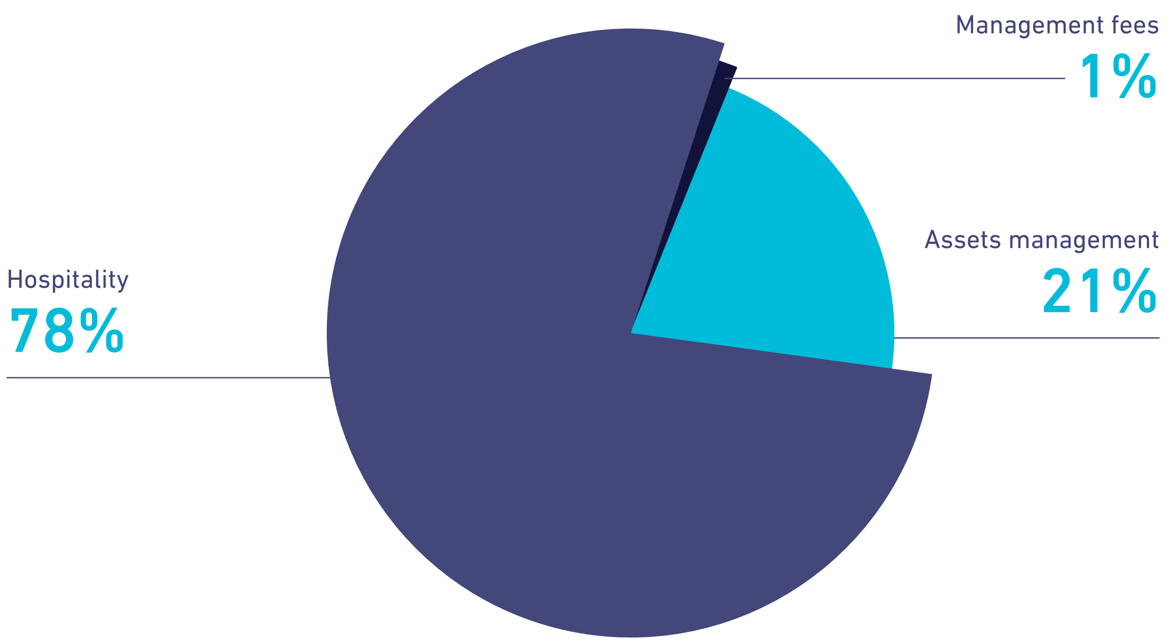
The Company obtained several loans to finance different projects as follows (in thousand riyals):

Description	Total loan amount	Term of loan	Total payments received from the loan	Total installments paid in 2018	Total repayments	Company's total indebtedness by the end of 2018G
Loans from local banks	1,494,798	5-7 years	992,078	37,490	244,061	748,017

3.6 Key activities contributing to revenue

The table below shows the contribution of the three main activities in the total revenues of the company during 2018G:

Sector	Sector revenue (SAR'000)	Ratio
Hospitality	352,801	78%
Assets management	95,872	21%
Management fees	5,389	1%
Total	**454,062**	**100%**



3.7 Geographical distribution of revenues

Dur's activities are distributed in three main geographic regions within the Kingdom, namely Riyadh, Makkah and Tabuk. The following table shows the income distribution in the three regions during 2018 G:

Region (SAR'000)	Revenues
Riyadh	324,943
Makkah	114,094
Tabuk	15,025
Total	**454,062**

* Dur does not operate any branches outside the Kingdom of Saudi Arabia

Revenues by region (SAR millions)

3.8 Statutory payments due

The following table outlines the due statutory payments by the Company and its subsidiaries as on the end of 2018:

Description	Dues as on the end of the year
Social insurance contributions	946,163
Zakat	5,140,558
VAT	275,277

The company and its associate companies are subject to Zakat according to the regulations of the General Authority of Zakat and Tax (GAZT) in Saudi Arabia. The Zakat provision is recognized on annual basis and charged to the income statement at the end of each year, after being audited by a chartered accountant.

The company and its affiliates are submitting their Zakat declarations independently based on financial statements of every company. Dur Hospitality has provided its Zakat declarations to GAZT until the end of the fiscal year 2017 and obtained Zakat Certificates.

3.9 Dividends Policy

1. The Company's dividend distribution is made, after deducting all overheads and other costs, in compliance with Article 42 of its Articles of Association as outlined below:

- Set aside the determined Zakat
- 10% of the net profits shall be withheld to form a statutory reserve. The Annual General Assembly may discontinue this withholding of the net profits when the said reserve reaches 30% of the capital;
- Part of the remaining balance shall be distributed among the Shareholders as an initial payment which shall represent 5% of the paid-up capital;
- The Annual General Assembly may after that form other reserves to the extent that would be in the best interest of the company or ensure distribution of fixed profits among shareholders.
- The remaining shall be entirely or partially distributed among the Shareholders as an additional share in the profits or carried forward to other years as may be decided by the Annual General Assembly.

The Board of Directors, mandated by the ordinary general assembly every year, may distribute interim dividends semi-annually or quarterly according to the regulations issued by the competent authority.

2. As the Company is keen to reward its shareholders and meet their expectations, and in light of the company's impressive growth and expansion, the Board of Directors has decided to distribute dividends among shareholders for 2018 as described in the following statement:

	Dividends during the year (%) 06/09/2018G	Dividends proposed by the end of the year (%)	Net profit
Ratio (%)	2.5%	2.5%	5%
Amount per share (SAR)	0.25	0.25	0.50
Total (SAR millions)	25	25	50

3. The shareholder shall be entitled to his share in the net profits in accordance with the General Assembly resolution issued in this regard. The resolution shall indicate the maturity date and the distribution date. The entitlement to the profits for the shareholders recorded in the shareholders' registers shall be at the end of the maturity date and for those registered in Securities Depository Center at the end of the day of trade following the maturity date. The Board of Directors shall implement the resolution of the Regular General Assembly on the distribution of profits within the specified period.

3.10 Risks

The potential risks that may be facing Dur are as follows:

01
Risks Related to Market and Nature of Business:

The potential risks related to market and nature of business that may be facing Dur are as follows:

- Hajj and Umrah seasons are adversely affected due to external regulatory conditions or factors;
- Competition increase in the hotel market in Riyadh and Makkah, which may influence the performance of the company's hotels in the same cities;
- Change of policies and regulations of concerned government agencies, especially labor office regulations and nationalization percentages;
- Rise in essential services' fees and prices such as power, water, and consumables;
- External and economic factors that may influence the development and completion of projects; and.
- Economic conditions and decline in oil prices, which could lead to reduced public spending

02
Credit Risks

The risk resulting from failure of a party to meet its financial obligations when becoming due, which caused financial losses to the other party. The financial assets that are likely to expose to concentrations of credit risk consist primarily of cash at banks and trade receivables. The Company's cash is deposited in local banks of good credit rating, so credit risk is limited. The credit risk of trading receivables is also limited because most of the Company's transactions are concentrated with high net worth clients. The Company's management monitors and follows up the balances of trade receivables to minimize any credit risk related to them, follow their collection and take any necessary action to protect the Company interests.

03
Currency Rate

This type of risk relates to the possible fluctuations in financial assets and liabilities denominated in the relative values of foreign currencies. However, because most of the Company's major transactions are done in Saudi Riyals, the currency and exchange risks of the Company are minimal

04
Fair Value and Cash Flow

The level of these risks is primarily associated with changes in commissions` rates prevailing on the financial position and cash flows of the Company. The Company's commission rate risk arises from Islamic Murabaha, short-term loans, and long-term bank debts, which have floating commission rates. All debts and deposits are subject to repricing on a regular basis. The management monitors changes in commission rates and believes that risks of fair value and cash flows of commission rates are not significant for the Company.

05
Liquidity Risks

Liquidity risk is the risk when the Company will encounter difficulty in raising funds to meet the obligations associated with financial instruments. Liquidity risk may result from the inability to sell a financial asset quickly at an amount close to its fair value. The mitigation of this requires constant monitoring to ensure availability of sufficient liquidity with the company, through follow-up of expected collection schedules from the clients as well as the bank funding instruments available to the Company to meet its future obligations when fall due.

Disclosure and Transparency

04

Based on our commitment and relations towards our shareholders, investors and stakeholders, and in accordance with our belief in the importance of transparent communication, we hereby include in the following section the most important disclosures as well as the financial results. These records are in accordance with the Corporate Governance Requirements issued by the Capital Market Authority (CMA) and other related laws and regulations as follows:

4.1 What provisions of the Corporate Governance Requirements apply

The Company applies all the compulsory provisions of Corporate Governance Requirements issued by the CMA except:

Article	Paragraph	Text	Reasons for non-application
41	-	Developing the mechanisms needed to assess performance of the Board and its members, committees and executive management on annual basis by the Board upon recommendation of Nomination Committee	The paragraph is for guidance and the Company is currently completing the procedures needed to achieve this.
70	-	Forming risk management committee	The two articles are for guidance and the Company is currently applying the committee related roles and responsibilities via the Board and the Audit Committee
71	1	Defining the roles and responsibilities of the risk management	
83	1-4	Setting clear written policies and procedures to regulate the relationship with stakeholders to protect and preserve their rights by the Board.	The paragraph is for guidance and it will be presented before the Board for approval.
85	2-3	• Programs to grant staff shares in the Company or the profits made by the Company, pension schemes and creation of an independent fund to spend over such programs. • Creation of social institutions for the Company's staff	The two paragraphs are for guidance and the Company is currently considering the development of such programs.
87	-	The ordinary general assembly shall, upon proposal of the Board, develop a policy that ensures balance between the Company's objectives and the goals that the society aims to achieve in order to develop social and economic situations	The article is for guidance, but the Company is currently launching initiatives that support the goal of this policy. The Board shall discuss putting the policy as a proposal to be presented before the General Assembly.
88	1-4	Developing programs and determining the ways to offer company's initiative in social work	The article is for guidance and the Company is currently implementing certain programs mentioned in this Article.
95	-	Forming a corporate governance committee	The article is for guidance and the article shall be considered when the committee is formed

4.2 Board of Directors

Composition of the Board of Directors and its members' ownership in the Company

The current Board tenure started on 01/01/2016 for a period of three calendar years ending on 31 December 2018. The following table shows composition of the Company's Board of Directors, their holdings in the Company at the beginning and end of 2018:

No.	Name	Membership	Number of shares owned at the beginning of the year	Number of shares owned at the end of the year	Change
1	Eng. Abdullah bin Mohammad Al-Issa (Chairman)	Non-executive	1,449	1,449	-
2	Mr. Nasser bin Mohammad Alsebaiei (Deputy Chairman)	Independent	1,000	1,000	-
3	Dr. Saleh bin Ali Alhathloul	Independent	1,449	1,000	(449)
4	Eng. Fahad bin Abdullah Al-Sherif (Representative of the Public Investment Fund)	Non-executive	16,628,458	16,628,458	-
5	Mr. Abdullah bin Mohammad Alabduljabbar (Representative of the General Organization for Social Insurances)	Non-executive	6,540,591	6,540,591	-
6	Mr. Talal bin Abdul Mohsen Almulafikh (Representative of Public Pension Agency)	Independent	1,743,215	1,743,215	-
7	Mr. Fahad bin AbdullahAl Qassim	Independent	1,100	1,100	-
8	Mr. Musaab bin Suleiman Almuhaidib	Independent	1,000	1,000	-
9	Mr. Bader bin Abdullah Alissa	Non-executive	1,485	1,485	-

- The Board of Directors acknowledges that, with exception of the company's shares owned by members of the Board of Directors as described in the table above, there are no special interests, option rights, subscription rights or engagements to the board members, their wives, or their minor children in the company or its subsidiaries, whether in the company's shares or engagements with direct or indirect contracts, etc..
- No shares have been issued to the wives of board members and their minor children in the company. No shares also are owned by representatives of the legal entities in the Board of Directors, their wives and minor children.
- Since the Board's tenure expired on 31 December 2018 G, the Company held its second extra-ordinary general assembly on 11 September 2018 G. The meeting agenda included election of Board members via cumulative voting for three years starting from 01 January 2019 G and ending on 31 December 2021 G. The following members were elected:

1. Eng. Abdullah bin Mohammad Al-Issa
2. Mr. Nasser bin Mohammad Alsebaiei
3. Dr. Saleh bin Ali Alhathloul
4. Mr. Jihad bin Abdulrahman Al Qadhi (Representative of the Public Investment Fund)
5. Mr. Abdullah Abdulrahman Al Shamarani (Representative of the General Organization for Social Insurances)
6. Mr. Talal bin Abdul Mohsen Almulafikh (Representative of Public Pension Agency)
7. Mr. Musaab bin Suleiman Almuhaidib
8. Mr. Bader bin Abdullah Alissa
9. Ibrahim bin Ali Al Oboud (Representative of Al Nefaie Investment Group)

- The Board also passed a circular resolution on 01 January 2019 accepting resignation of Mr. Nasser bin Mohammad Alsebaiei for personal reasons and appointing Mr. Fahad bin Abdullah Al Qassim as a Board member to replace him until the end of the Board's tenure on 31 December 2021 G. However, the Board's approval shall not be final and the appointment of Mr. Al Qassim shall be presented before the next General Assembly for approval. The Board also decided to appoint Mr. Al Qassim as a Deputy Chairman of the Board of Directors as of 01 January 2019 G.

Board members' current or former membership in other companies inside and outside the KSA:

No.	Name	Current Companies	Legal Entity	Previous Companies	Legal Entity
1	Eng. Abdullah Al-Issa	1.Riyadh Bank	Listed joint stock companies	1.Arabian Cement Co.	Listed joint stock companies
		2.SABIC		2.Care Company	
		3.Ma'aden		3.Bahri	
		4.Mobily		4.Jadwa	Unlisted joint stock companies
				5.Cement Product Industry Ltd. Co	
				6. National Chemical Carriers Ltd. Co	
2	Mr. Nasser Alsebaiei	1. Bank Albilad	Listed joint stock companies	N/A	
		2. Mohammed Ibrahim Alsebaiei & Sons Company	Unlisted joint stock companies		
		3. Akwan Real Estate Company			
		4. Argan Projects Company			
3	Dr. Saleh Alhathloul	Saleh Alhathloul development Ltd. Co.	Limited liability company		
		Roaa Al Madinah	Closed joint stock company		
4	Eng. Fahad Al-Sherif	1. Saudi Heritage Hospitality Company	Unlisted joint stock companies		
		2. Bidaya Home Finance Co.			
5	Mr. Talal Almulafikh	N/A		National Company for Tourism	Unlisted joint stock companies
6	Mr. Abdullah Alabduljabbar	N/A			
7	Mr. Bader Alissa	1. Savola Group	Listed joint stock companies	1. Knowledge Economic City	Listed joint stock companies
		2. Banque Saudi Fransi		2. Saudi Fransi Capital	Unlisted joint stock companies
		3. Almarai		3. Masic Holding Company	
		4. Savola Food Company	Unlisted joint stock companies	4. Savola Packaging Systems Co.	
		5. United Sugar Company			
		6. Panda Retail Company		5. Kinan International Real Estate Development Company	
		7. Assilah Investment Co		6. Al-Aqeeq Real Estate Development Company	
		8. Afia International Co.		7. Sukoon International Company	

No.	Name	Current Companies	Legal Entity	Previous Companies	Legal Entity
8	Mr. Fahad Al Qassim	1. Dallah Health Services Company	Listed joint stock companies	1. Abdullatif Alissa Group Holding Company	Unlisted joint stock companies
		2. Jarir Marketing Co			
		3. Savola Group			
		4. Bank Albilad			
		5. Fahd bin Abdullah bin Abdulaziz al-Qasim and Sons Company for Trade and Investment	Unlisted joint stock companies		
		6. Dr. Mohammad Rashid Al Faqih and Partners			
		7. Rakeen Najd International Company for Investment & Commercial Development			
		8. Saudi Heritage Hospitality Company (Nuzul) - as representative of Dur			
		9. Saudi Post			
		10. Naqel Express – as representative of Saudi Post			
		11. Al Rajhi United			
		12. FinCorp Company for Corporate Advisory	Non-Saudi closes joint stock		
		13. Amwal Company for Financial Consultants	Limited liability company		
		14. Areez Investment Co			
		15. Raj Real Estate Company			
		16. AlRajhi Alpha Investment Holding Company			
		17. Rakeen Najd International Company			
9	Mr. Musaab Almuhaidib	1. Several companies from AlMuhaidib Group	Unlisted joint stock companies	1. Al-Rayyan Company	Unlisted joint stock companies
		2. Goldman Sachs Saudi Arabia			
		3. Masdar Company for building materials			
		4. Al Hassan Ghazy Ibrahim Shaker Company	Listed joint stock companies		
		5. Middle East Paper Company (MEPCO)			

* All companies mentioned above are located in the Kingdom of Saudi Arabia unless mentioned otherwise next to it.

Board member's names, current and previous positions, qualifications and experience:

No.	Name	Current Position	Previous Position	Qualifications	Experience
1	Eng. Abdullah Al-Issa	Businessman – CEO of Assila Investment Company..	CEO of Mask Holding company.	He holds a master's degree in Engineering Management and a bachelor's degree in Industrial Engineering from the Southern Methodist University in the United States.	Long experience in banking, real estate, food and hospitality since 1981.
2	Mr. Nasser Alsebaiei	Businessman	Businessman	He holds a bachelor's degree in administrative sciences - accounting.	More than 35 years of practical experience in banking and real estate.
3	Dr. Saleh Alhathloul	Businessman - Chairman of Saleh Al- Alhathloul Development Company Ltd.	Undersecretary of the Ministry of Municipal and Rural Affairs.	He received his PhD in architecture and environmental studies from Massachusetts Institute of Technology – US, and a master's degree in architecture and planning from Harvard University.	He held several positions, most notably a university professor and head of the Architecture Department at King Saud University, and Undersecretary of the Ministry of Municipal and Rural Affairs..
4	Eng. Fahad Al-Sherif	Vice President of Investment Management at the Public Investment Fund.	Head of Real Estate and Tourism Sector at the Public Investment Fund	Bachelor's degree from the Faculty of Civil Engineering at King Saud University. He also attended many courses and seminars in the field of his work.	He has held several significant positions during his career. He started as an engineer in the Real Estate Development Fund before moving to the Public Investment Fund to serve in several important positions, starting from the General Manager of the Hajj Housing Project at Mena in Makkah.
5	Mr. Talal Almulafikh	Director General of Finance and Budget at the Public Pension Agency	Assistant Director General of Finance and Budget at the Public Pension Agency	He received his master's degree in Financial Management from the University of Curtin in Australia in 2008. He also attended many courses and seminars in the field of his work.	Mr. Talal has held number of important positions during his career, starting from the general management of Arab National Bank since 1413H. He served in several positions in the Bank for 7 years until he moved to the Public Pension Agency in 1420H
6	Mr. Abdullah Alabduljabbar	Director General of the company's insurance rights and Official Spokesman of the General Organization for Social Insurance.	Several positions in the General Organization for Social Insurance	Master's degree in Law.	More than 30 years of experience in legal and insurance studies and consultancy
7	Mr. Bader Alissa	CEO of Amias Holding company and Chief Financial Officer of Assila Investment Company	Investment Portfolio Manager at Saudi HSBC Ltd. Co.	He holds a master's degree in Business Administration from Rice University – US and he is a Certified Financial Analyst (CFA).	Practical experience in financial analysis and investment and business leadership since 2001 (JPMorgan - UK, SABIC America, Savage Design Group, HSBC Saudi Arabia Ltd., Amias Holding Company, Assila Investment Company
8	Mr. Fahad Al Qassim	Businessman - Founder, Partner and Chairman of Amwal Financial Consulting Company.	CEO of Amwal Financial Consulting Company.	He holds a bachelor's degree in Administrative Sciences Accounting and completed the Management and Leadership Program at Oxford University	More than 28 years of experience in financial and administrative consulting, auditing, real estate activities, wholesale, retail and health
9	Mr. Musaab Almuhaidib	General Manager of Masdar Building Materials Company	CEO of Al Almuhaidib Technical Supplies Company.	He holds a master's degree in Business Administration from Liverpool University – UK and a bachelor's degree in Financial Science from Miami University.	Over 17 years of practical experience in business development and growth, mergers and acquisitions, project leadership and real estate operations.

Committee member's (non-Board and executive) names, current and previous positions, qualifications and experience:

No.	Name	Current Position	Previous Position	Qualifications	Experience
1	Mr. Ibrahim Al-Rwais	Financial Advisor at the Public Pension Agency and a Board member of several joint stock companies	Internal Auditor at the Public Pension Agency and supervisor of the financial control and internal audit units.	Bachelor's degree in Accounting from the Faculty of Administrative Sciences, King Saud University in 1982 and he attended many courses and seminars his field inside and outside the Kingdom	Mr. Ibrahim held number of important positions during his career, starting with the General Administration of Accounts at the Ministry of Finance in 1402H. He served in several positions until he moved to work in the Public Pension Agency since 1424H until now.
2	Mr. Abdulrahman Al-Duhaim	Board member in several joint stock companies	Executive Vice President of Dur Hospitality	Bachelor's degree in Accounting from the Faculty of Administrative Sciences, King Saud University in 1982 and he attended many courses and seminars in accounting, management and leadership inside and outside the Kingdom	Mr. Abdulrahman held several important positions during his career. He joined the General Organization for Social Insurance, Saudi Dar Consulting Services company and Dur Hospitality Company, at which he worked from 1986 to 2014.
3	Mr. Fawzi Bubshait	VP of Human Resources at Ma'aden	VP in charge of Human Resources at Ma'aden	Mr. Bubshait holds three master's degrees. The first one in Human Resources Management from Mays Business school in Texas. The second one in education from Minnesota University. The last one in computer engineering from King Fahd University of Petroleum and Minerals, from which he received his bachelor's degree in computer engineering.	Over 30 years practical experience in Management and development of human resources. He worked in human resources departments of leading oil and industrial companies, such as Saudi Aramco and Chevron, before joining Ma'aden in January 2012 as Director of Talent Management, Organization Design and Change Management. In 2013, he was promoted to vice president in charge of human resources, then became vice president of human resources in 2016. He is a Board member of the Saudi Technical Institute for Mining.

Actions taken by the Board of Directors to inform its members, especially non-executives, of the shareholders' proposals and remarks about the Company and its performance:

The Board of Directors has authorized the Company to take the necessary measures to enable shareholders to communicate their proposals, observations and remarks through the communication channels provided at the Investor Relations Department, consisting of the following:

Phone number for investors:	011\4816666 Ext. No. (500)
Fax for investors:	011/4801666
E-mail for investors:	IR@Dur.SA

Board of Directors Meetings' Record for 2018 G:

The following table depicts the members' attendance to these meetings:

	Number of Meetings: 5					
Name	Meeting 1 26/02/2018G	Meeting 2 29/03/2018G	Meeting 3 22/05/2018G	Meeting 4 11/09/2018G	Meeting 5 18/12/2018G	Total
Eng. Abdullah Al-Issa	✓	✓	✓	✓	✓	5
Mr. Nasser Alsebaiei	✓	✓	✓	✓	✓	5
Dr. Saleh Alhathloul	✓	✓	✓	✓	✓	5
Eng. Fahad Al-Sherif	✓	✓	✓	✓	✓	5
Mr. Talal Almulafikh	✓	✓	✓	✓	✓	5
Mr. Abdullah Alabdul-jabbar	✓	✓	✓	✓	✓	5
Mr. Bader Alissa	✓	✓	✓	✓	✓	5
Mr. Fahad Al- Qassim	✓	✓	✓	✓	✓	5
Mr. Musaab Almuhaidib	✗	✓	✓	✓	✓	4
Date of last GA meeting: 11/09/2018G						

The following table depicts the dates of the shareholders general assemblies held during the fiscal year 2018 and the Board members attending these meetings:

	Number of assemblies: 2	
Name	49th Regular GA meeting date: 29/03/2018G	12th extraordinary GA meeting Date 11/09/2018G
Eng. Abdullah Al-Issa	✓	✓
Mr. Nasser Alsebaiei	✓	✓
Dr. Saleh Alhathloul	✓	✓
Eng. Fahad Al-Sherif	✓	✓
Mr. Abdullah Alabduljabbar	✓	✓
Mr. Talal Almulafikh	✓	✓
Mr. Fahad Al- Qassim	✓	✓
Mr. Musaab Almuhaidib	✓	✓
Mr. Bader Alissa	✓	✓

Board Members Remunerations:

The total compensation paid to members of the Board for attending the Board meetings and related committees' meetings in 2018, as well as their remuneration for the fiscal year 2017, is listed in the table below (amount in Saudi Riyals):

	Fixed bonuses			Variable bonuses	
	Lump sum	Allowance for Attendance of Meetings	Total	(Periodic)	Total
First: Independent members					
Dr. Saleh Alhathloul	200,000	15,000	215,000	-	215,000
Mr. Talal Almulafikh	200,000	15,000	215,000	-	215,000
Mr. Nasser Alsebaiei	200,000	15,000	215,000	-	215,000
Mr. Fahad Al-Qassim	200,000	15,000	215,000	-	215,000
Mr. Musaab Almuhaidib	200,000	12,000	212,000	-	212,000
Total	**1,000,000**	**72,000**	**1,072,000**	**-**	**1,072,000**
Second: non-executive members					
Eng. Abdullah Al-Issa	200,000	15,000	215,000	200,000	415,000
Eng. Fahad Al-Sherif	200,000	15,000	215,000	-	215,000
Mr. Abdullah Alabduljab-bar	200,000	15,000	215,000	-	215,000
Mr. Bader Alissa	200,000	15,000	215,000	-	215,000
Total	**800,000**	**60,000**	**860,000**	**200,000**	**1,060,000**
Grand Total	**1,800,000**	**132,000**	**1,932,000**	**200,000**	**2,132,000**

Committees Members Remuneration:

	Fixed bonuses* (Except allowance for Attendance of Meetings)	Allowance for Attendance of Meetings	Total
Audit Committee members:			
Eng. Fahad Al-Sherif (Chairman)	50,000	15,000	65,000
Mr. Talal Almulafikh	50,000	15,000	65,000
Mr. Ibrahim Al-Rwais (non-board member)	50,000	15,000	65,000
Mr. Abdulrahman Al-Duhaim (non-board member)	50,000	15,000	65,000
Total	**200,000**	**60,000**	**260,000**
Nomination and Remuneration Committee members:			
Mr.Musaab Almuhaidib (Chairman)	50,000	9,000	59,000
Mr. Abdullah Alabduljabbar	50,000	9,000	59,000
Mr. Fawzi Bubshait (non-board member)	50,000	9,000	59,000
Total	**150,000**	**27,000**	**177,000**
Investment Committee members:			
Mr. Fahad Al-Qassim (Chairman)	50,000	15,000	65,000
Dr. Saleh Alhathloul	50,000	18,000	68,000
Mr. Bader Alissa	50,000	18,000	68,000
Dr. Badr Albadr (non-board member)	-	18,000	18,000
Total	**150,000**	**69,000**	**219,000**
Grand Total	**500,000**	**156,000**	**656,000**

* Note that these Remunerations belong to the fiscal year 2017, which was disbursed during 2018.

Remuneration of the Board of Directors and Committees Policy:

In remuneration disbursement, the Company relies on the following:

1. The Board member shall be entitled to an annual remuneration of a maximum amount of SAR (200,000) per member or as may be determined by the regular shareholder's general assembly upon proposal of the Board.
2. The member of the Board Directors and its committees shall be entitled to an attendance allowance of SAR 3,000 per member for each meeting. The Company shall bear the expenses of travel, accommodation and transportation when any member of the Board of Directors and its committees attend a meeting held outside the city of residence
3. The Board of Directors may approve other remunerations - periodically or annually - for Board members and its committees.
4. Committees members shall be entitled to an annual remuneration of no more than SAR (100,000); the Committee member should not be an employee.

Note: These remunerations do not deviate from the approved remuneration policy.

4.3 Board Committees

First: Nomination and Remuneration Committee:

The Committee held three meetings in 2018 and reported to the Board. The Ordinary General Assembly of Shareholders approved at the meeting held on 20 April 2017 the regulations and framework of the Nomination and Remuneration Committee. The Nomination and Remuneration Committee consists of:

No.	Name	Position	Meeting 1 21/02/2018G	Meeting 2 13/09/2018G	Meeting 3 13/12/2018G	Total
1	Mr.Musaab Almuhaidib	Chairman	✓	✓	✓	3
2	Mr. Abdullah Alabduljabba	Member	✓	✓	✓	3
3	Mr. Fawzi Bubshait	Member	✓	✓	✓	3

Tasks and functions of the Nomination and Remuneration Committee:

01. Remunerations:

- Developing a policy for the remuneration of Board members, committees and Senior Executives recommend it to the Board of Directors to be approved by the Ordinary General Assembly.
- Revising the remuneration policy periodically to ensure its consistency with changes that may occur in the legislation and regulations, the company's strategic objectives and the skills and qualifications required to achieve them. In addition, recommending the proposed changes to this policy to the Board of Directors.
- Recommending the remuneration of the Board members, its committees and Senior Executives at the company to the Board of Directors in accordance with the policy approved by the Company's Ordinary General Assembly.
- Preparing an annual report on the remuneration granted to the Board of Directors, its committees and senior executives.
- Identifying the types of remunerations awarded to company's employees and recommending them

02. Board of Directors:

- Developing a policy and criteria for the Board of Directors membership and recommending it to the Board to be approved by the company's Ordinary General Assembly.
- Recommending the nominations for to the Board of Directors membership in accordance with the approved membership policy.
- Reviewing annually the skills needed for the Board of Directors' membership.
- Setting a description of capabilities and qualifications required for membership
- Determining the time that a member needs to devote for the board's activities.
- Reviewing the membership policy periodically to ensure its consistency with changes that may occur in the legislation and regulations, the company's strategic objectives and the skills and qualifications required to achieve them. In addition, recommending the proposed changes to this policy to the Board of Directors.
- Studying cases of conflicting interest for those wishing to nominate for Board of Directors membership and recommending them.
- Examining the Board of Directors' structure and make recommendations regarding possible changes.
- Identifying weaknesses and strengths of the Board of Directors, and proposing solutions for the company's best interest.
- Establishing procedures in case of the vacancy of a Board or committee member's position and recommending them.
- Recommending the performance criteria for evaluating the Board of Directors work, its members and its committees, to the Board of Directors.

03. Board Members:

- Determining the time that a member needs to devote for the board's activities
- Reviewing annually the liberation of the independent members and the absence of any conflict of interest if the member serves on another company's board.
- Developing a job description of executive members, non-executive members and independent members
- Recommending to the Board of Directors to re-nominate or dismiss a Board member or its committees' members.

04. Induction program for new members:

- Recommending the Board of Directors to develop an induction program for new Board members that covers the company's activity, its work nature and its financial and legal aspects.

05. Senior Executives:

- Recommending the appropriate policies and criteria for the senior executives' appointment to the Board of Directors and identifying and reviewing the required capabilities and skills periodically to ensure their consistency with the changes that may occur to the company's strategic objectives and the skills and qualifications required to achieve them.
- Developing a job description for senior executives, reviewing the organizational structure and recommending the possible changes.
- Developing the succession procedures in case of the vacancy of a Senior Executive's position and recommending them.

Second: Audit Committee:

The Committee held five meetings in 2018. The General Assembly of Shareholders approved the regulations and framework of the Audit Committee at its meeting held on 20 April 2017. The Audit Committee reconstituted its members as follows:

No.	Name	Position	Meeting 1 23/01/2018G	Meeting 2 19/02/2018G	Meeting 3 24/04/2018G	Meeting 4 01/08/2018G	Meeting 5 06/11/2018G	Total
1	Eng. Fahad Al-Sherif	Chairman	✓	✓	✓	✓	✓	5
2	Mr. Talal Almulafikh	Member	✓	✓	✓	✓	✓	5
3	Mr. Ibrahim Al-Rwais	Member	✓	✓	✓	✓	✓	5
4	Mr. Abdulrahman Al-Duhaim	Member	✓	✓	✓	✓	✓	5

Tasks and functions of the Audit Committee:

The Audit Committee is responsible for monitoring the company's business and verifying the safety and integrity of its financial statements and internal control systems. The committee's tasks include the following:

01. Financial Reports

- Reviewing the company's financial statements and its financial performance announcements and recommending them to the Board of Directors.
- Providing technical opinion as to whether the Board of Directors' report and financial statements have been prepared in accordance with the specific regulatory requirements for their preparation and presentation.
- Examining the unusual issues included in the financial statements and presenting relevant recommendations, if necessary.
- Examining any issues raised by the Company's Chief Financial Officer, his deputy, Compliance Officer of the Company or the Auditor.
- Revising accounting estimates on substantial issues included in the financial reports.
- Revising company's accounting and financial policies and providing guidance and recommendation to the Board of Directors.

02. Study of internal control systems:

- Revising internal and financial control and risk management systems in order to ensure their effectiveness through periodic reports of internal audit department or others on the adequacy and effectiveness of internal and financial control systems and risk management systems, as well as continuing the implementation of recommendations and corrective measures of the contained remarks.
- Preparing a report for the Board of Directors including its opinion on the adequacy of these systems, recommendations to address substantial issues and any recommendations for the development of such systems for the further work that it has done within its purview.

03. Internal audit management

- Studying and revising the periodic reports of the internal audit department and follow up the implementation of the corrective measures of the contained remarks
- Supervising the internal audit function to ensure its efficiency in the implementation of its functions and responsibilities.
- Filing recommendation to the Board of Directors on appointing or dismissing the Director of the Internal Audit and annually assess his performance.
- Filing recommendation to the Board of Directors on approving the organizational structure and job descriptions of the Internal Audit Department and ensuring its independence in the company's organizational structure.
- Studying and approving the annual audit plan with the Internal Audit Department.

04. Auditor

- Recommending the nomination and dismissal of auditors to the Board of Directors, determining their fees and evaluating their performance after ensuring their independence and reviewing the scope of their work and terms of their contracts.
- Ensuring the independence of the Auditor and the effectiveness of his work in line with the regulating rules and standards.
- Reviewing the Audit's plan of the company and his work and ensuring his compliance with the regulatory regulations of his work.
- Answering the inquiries of the company's Auditor and providing the necessary support to enable him to perform his duties
- Studying the auditor's reports and his remarks on the financial statements and following up actions taken thereupon.

05. Ensuring Compliance

- Reviewing the regulatory bodies' reports on the company's compliance with the regulations and instructions and ensuring that the necessary procedures are taken.
- Ensuring the company's compliance with relevant rules, regulations, instructions and policies.
- Reviewing the proposed contracts and agreements with related parties and providing its views thereon to the Board of Directors.
- Recommending to the Board the actions to be taken with regard to issues that it considers necessary for action by the Board.

06. Remarks arrangements

- Developing the appropriate mechanism to enable the company's employees to provide their remarks on any deviation from the company's internal regulations, including the regulations related to the preparation of the company's financial statements. This mechanism ensures that the remark provider's rights are not affected.
- Developing the appropriate procedures to follow up and monitor the remarks made by the company's employees and ensuring the independence of these procedures.

Third: Investment Committee

The Investment Committee held six meetings in 2018 and submitted its reports to the Board of Directors. The Committee consists of:

No.	Name	Position	Meeting 1 18/02/2018G	Meeting 2 29/03/2018G	Meeting 3 14/05/2018G	Meeting 4 03/06/2018G	Meeting 5 09/09/2018G	Meeting 6 16/12/2018G	Total
1	Mr. Fahad AlQassim	Chairman	✓	✓	✗	✓	✓	✓	5
2	Dr. Saleh Alhathloul	Member	✓	✓	✓	✓	✓	✓	6
3	Mr. Bader Alissa	Member	✓	✓	✓	✓	✓	✓	6
4	Dr. Badr Albadr	Member	✓	✓	✓	✓	✓	✓	6

Tasks and functions of the Investment Committee:

1. Working with the Executive Management to develop an investment strategy and policy at the company in accordance with the nature of its business, activities and risks, and recommending them.
2. Reviewing the investment strategy and policy periodically to ensure its consistency with the changes that may occur to the company's external environment, the legislation regulating its business, its strategic objectives or others, and recommending to the Board of Directors regarding the proposed changes to this policy.
3. Overall supervision of the Company's investment activities and develop appropriate procedures for measuring and evaluating investment performance.
4. Studying and assessing the investment opportunities proposed by the Company's management in relation to the following transactions and recommending them:
    - Mergers or acquisitions of companies, businesses or assets.
    - Any termination, sale, transfer of ownership or exit or disposition of an existing investment.
    - Joint projects under a partnership or Joint Venture Agreement
    - Investing in new or existing projects or in expansion projects and expansions of projects in which the Company has an interest
    - Any investment opportunity that the company's management wishes to conduct.
    - Studying the financing prospects of the above transactions.
5. Ensuring that the proposed investment opportunities comply with the related rules, regulations and instructions.
6. Identifying and prioritizing the proposed investment offerings
7. Studying the executive management's periodic reports on the workflow of the approved investment opportunities.

4.4 Executive Management

The Company's Executive Management, authorized by the Board of Directors, manages the Company's business and is represented by the Chief Executive Officer with assistance of his deputies and heads of divisions and subsidiaries. This management handles all operational responsibilities of the Company's activities, including operational, financial, administrative, technical, informational and risk management aspects, plus all activities related to the Company's business. Committees will be created by the Executive management to assist in exceptional functions when needed.

Senior Executives of the Company in 2018:

Name	Position
Dr. Badr bin Hamoud AlBadr	Chief Executive Officer (CEO)
Mr. Abdul Mohsen bin Abdul Wahab Al-Hammad	Chief Financial Officer
Mr. Sultan bin Bader Al-Otaibi	VP Assets & Properties
Mr. Ahmed bin Mubarak Baharethah	Accounting Manager and Secretary of the Board of Directors

Ownership of the Senior Executives, their wives and minor children in the company in 2018:

Name	Ownership beginning of the year	Ownership-end of the year	Change during the year	Change%
Dr. Badr bin Hamoud AlBadr	2,429	2,429	-	-
Mr. Abdul Mohsen bin Abdul Wahab Al-Hammad	-	-	-	-
Mr. Sultan bin Bader Al-Otaibi	-	-	-	-
Mr. Ahmed bin Mubarak Baharethah	-	-	-	-

* Senior executives' wives and minor children do not hold any shares in the Company.

Remunerations of the top five executives during 2018:

Description	Amount (SAR)
Salaries and compensations	4,169,124
Allowances	1,459,193
Bonuses and incentives	1,372,454
Total	**7,000,771**

* CEO and CFO are among the five top executives.

Senior Executives CVs:

No.	Name	Current Position	Previous Position	Qualifications	Experience
1	Dr. Badr AlBadr	Chief Executive Officer of Dur Hospitality	Chief Executive Officer of Cisco Saudi Arabia	He received a master's and doctorate degrees from Washington University and a bachelor's degree from King Fahd University of Petroleum and Minerals. He has participated in many leadership programs at universities such as Oxford, Cornell and George Washington	He led Cisco company in Saudi Arabia, served as CEO of Awal Net company, CEO of Al-Alamiah Internet and Communication Company. He is a Board member of several companies and national committees.
2	Mr. Abdul Mohsen AlHammad	Chief Financial Officer	Chief Financial Officer of Colleges of Excellence	He holds a bachelor's degree in Accounting from King Saud University in Riyadh.	He has held several executive positions, such as Chief Executive of finance, information Technology and Administration Department at several Saudi Joint Stock Companies (Sahara Petrochemical Company, Mohammad Abdul Aziz Al Rajhi and Sons Holding Company and Building Materials Company). He also a member of Board of Directors and Audi committees at several companies
3	Mr. Sultan Al-Otaibi	Vice President of Property and Assets	General Manager of Makarem Hotel Group	He holds a master's degree in hospitality from Emirates Academy of Hospitality Management in partnership with University of Lausanne and a bachelor's degree in Accounting from King Saud University in Riyadh and three specialized courses from Cornell University.	More than 19 years in finance and business leadership in the hotel and real estate sector.
4	Mr. Ahmed Baharethah	Director of Accounting Department and Secretary of the Board of Directors	Head of Accounts Department	He holds a bachelor's degree in Accounting from King Saud University in Riyadh.	More than 30 years of practical experience in accounting and business leadership in the hotel sector.

4.5 Subsidiaries and Affiliates

Dur Hospitality Company invests in 13 companies; all of them are limited liability companies, except for the Saudi Heritage Hospitality Company "Nuzul" which is a closed joint stock company. All investees have been established and conducting their business in Saudi Arabia and focus their activities on hotel and real estate business.

No.	Affiliate	Main Activity	Year of Incorporation	Capital (SAR)	Affiliate-owned facility	Dur contribution %	Total revenues 2018 (SAR)
01	Makkah Hotels Co. Ltd	Hotel	1982G	165,600,000	Makarem Ajyad Makkah Hotel	99.44%	77,306,833
02	An Nakheel Company for Tourist Areas	Hotel – Real Estate	1992G	59,250,000	Annakheel Makarem Village in Jeddah	98.73%	36,787,574
03	Tabuk Hotels Co, Ltd	Hotel	1985G	27,300,000	Holiday In Hotel Tabuk	97.14%	15,025,750
04	Saudi Hotel Services Company	Hotel	1976G	70,000,000	Riyadh Palace Hotel – Riyadh	70%	21,177,324
05	National Company for Tourism	Hotel – Real Estate	1989G	422,000,000	A Number of premises in Aseer	1.65%	Preparation of final accounts has not been completed yet
06	Makarem Al Maarifa Hospitality Co, Ltd	Real Estate	2012G	21,400,000	Establish a hotel in Madinah	50%	
07	Security Source Co, Ltd	Security and safety	2015G	100,000	-	95%	
08	Joud Al Alya'a Co, Ltd	Construction	2014G	100,000	-	100%	
09	Al Sawaed Al Karima Company	Support services	2015G	100,000	-	99%	These affiliates have not generated revenues yet
10	Saudi Heritage Hospitality Company (Nuzul)	Hotel	2015G	62,500,000	Samhan Hotel – under design	25%	
11	Sufraa Al Iwaa Company	Hotel	2018G	100,000	Marriott Hotel and Executive apartments in the Diplomatic Quarter	100%	
12	Wahat Dara Ltd.	Hotel	2018G	100,000	-	100%	
13	Al Madinah Hotels Co, Ltd	Hotel – Real Estate	1983G	1,000,000	-	50%	Under liquidation

We note that no debt instruments have been issued to any of the affiliates above.

4.6 Disclosures

The Company is committed to disclose all relevant information related to its business activities and financial results in full transparency. Below is an outline of such disclosures:

1. The board acknowledges that:

- The charts of accounts have been properly prepared.
- The internal control system is sound and has been effectively implemented.
- There is no doubt that the Company is able to proceed with its ongoing business.

2. No deviation from SOCPA standards.
3. The company has not received any report on any interest in voting shares belonging to people (other than members of the Board of Directors and senior executives and their relatives) informing the company of such rights under Article 45 of CMA's Listing Rules.
4. The company has no convertible debt instruments, contractual securities, subscription right memoranda, or similar rights given or granted by the Company during the financial year.
5. There were no convertible or subscription rights attached to the convertible debt instruments, contractual securities, subscription right memoranda, or similar rights issued or granted by the Company.
6. There was no redemption, purchase or cancellation by the Company or its associates of any redeemable debts.
7. There was no arrangement under which a member of the Board of Directors or a senior executive has waived his salary or compensation.
8. There was no arrangement or agreement whereby any shareholder has waived any entitlement to profits.
9. There were no specific investments or set aside reserves, established for the Company's employees except the provisions for bonuses and end-of -service benefits as stipulated in the Saudi Labor Law. The provision for the end of service benefits for Dur's employees as on 31 December 2018 amounted to SAR 56,480,888.
10. The chartered accountant didn't have reservations on any of the Company's annual financial statements.
11. The Board of Directors has not recommended replacing the chartered accountant before the end of his designated period.
12. No penalties, sanctions or precautionary restrictions have been imposed on the company by any regulatory, supervisory or judicial bodies during the fiscal year 2018 G.

4.7 Results of the annual review of the efficiency of internal control

The Company works continuously on developing the internal control system and implementing it effectively. The Company has an Internal Audit Department to ensure the application of appropriate control systems and identify the risks that the company might encounter and how to deal with them in transparency. The Internal Audit Department also verifies the company's various transactions according to the approved audit plan, reviews all documents, transactions, and reports regularly to the Audit Committee and Board of Directors.

During the year, the Internal Audit Department reported its auditing findings and raised some recommendations. No fundamental observations requiring any corrective actions were found. The standard observations contained therein are being followed up and avoided.

4.8 Transactions with Related Parties

There were no new contracts to which the Company was a party where there is an interest for some board members, the Chief Executive Officer, Chief Financial Officer, or anyone who has relationship with any of them except for the following:

1. 10-year management and operation contracts for Al Andalus Residence Compound, Makarem Umm Al Qura Hotel, Makarem Al-Bait Hotel, Al Rawdah Residence Compound, AlJazirah Badr Compound and Dur AlYasamin Residential Compound, all of which are owned by Assila Investment Company, whose management members include the Chairman of the Board of Directors, Eng. Abdullah bin Mohammed AlIssa and board member Mr. Badr bin Abdullah Al-Issa.

   These are management and operation contracts according to which the Company manages and operates such facilities in return for a specific percentage of the total revenues and the total operating profit of each facility.

   The Company's fees generated from the management and operation of these facilities are totaling SAR 2,765,107 in 2018 G, compared to SAR 2,757,676 in 2017.

   The table below provides the details of these fees:

Description (SAR)	Contracting year	2017G	2018G
Al Andalus Residence Compound	1995G	596,826	659,996
Makarem Umm Al Qura Hotel	2008G	733,281	712,824
Al Rawdah Residence Compound	2010G	408,945	292,209
Makarem Al-Bait Hotel	2008G	335,020	416,934
Al-Jazirah Badr Compound	1998G	80,454	189,477
Dur Al-Yasamin Compound	2014G	603,150	493,667
Total		**2,757,676**	**2,765,107**

2. A contract has been signed for an automatically renewable term of 10 years for operation and management Makarem Mina Hotel, owned by the heirs of Sheikh Mohammed bin Ibrahim Al-Ghamdi (a major shareholder), who owns 5% of Dur Hospitality capital. The Company received an amount of SAR 472,176 in fees for management and operation in 2018.
3. On 17 August 2016, Dur Hospitality signed two memoranda of understanding with Dar Hijrah Real Estate Development and Investment (owned by the Public Investment Fund, which is a related party), whereby Dur Hospitality will be operating two hotels at Dar Al-Hijrah project in Madinah for 15 years starting from the grand opening. Dar Al-Hijrah Real Estate Development and Investment will develop the two hotels within Dar Al-Hijrah project, one of the developments proposed for the development of Madinah, located 3 km to the southwest of the Prophet's Mosque. But the project is on hold now.

4. As "Assila Investment Company" and "Abdullah bin Mohammed Al-Issa and Sons Company" are among Dur's shareholders, it should be noted that Eng. Abdullah bin Mohammed Al-Issa (Chairman) and Mr. Badr bin Abdullah Al-Issa (board member) have interests in "Assila Investment Company". The following table shows the change in share ownership of these two companies in 2018 G:

Name	No. of shares- beginning of the year	No. of shares- end of the year	Change	Ownership at the end of the year
Assila Investment Company	27,143,784	27,143,784	-	27.1%
Abdullah Mohammed Al-Issa and Sons	28,982	28,982	-	0.03%

5. On 10/06/2015, a contract was signed between Dur Hospitality Company and Assila Investment Company whose management includes the Chairman; Engineer Abdullah bin Mohammed Al-Issa and board member Mr. Badr bin Abdullah Al-Issa. According to this agreement, Assila Company will lease 400 m2 office space in the Courtyard by Marriott hotel owned by Dur Hospitality with an annual rent of SAR 400,000 per annum for three calendar years..
6. On 18/06/2015, an agreement was signed between Dur Hospitality Company and the Saudi Heritage Hospitality Company "Nuzul", where Mr. Fahad Al Sherif and Fahad Al Qassim are board members and Dur CEO Mr. Badr Albadr. Under this agreement Dur obtained an amount of SAR 1412408 in 2018 G for providing support and technical services to Nuzul for the development of its first project, Samhan Heritage Hotel in Dir'iyya, in order to benefit from the extensive experience of Dur in this area.
7. Below are the details of amounts of transactions made with the related parties and the ensuing balances during the fiscal years ended on 31 December 2017 and 2018:

Due from Related Parties:

	Nature of Transactions	Amount of Transactions		Balance	
		2018G	2017G	2018G	2017G
Makarem Al Maarifa Co	Technical and administrative fees	**463,521**	1,024,330	**18,365,582**	20,554,162
Makarem Al-Bait Hotel		**416,934**	335,020	**1,381,480**	63,129
Dur Al-Yasamin Compound		**490,929**	-	**876,559**	-
Al-Jazirah Badr		**182,978**	586,057	**790,858**	480,733
Makarem Umm Al Qura Hotel		**712,824**	708,616	**508,673**	225,752
Makarem Mina Hotel		**-**	260,000	**-**	266,892
Other		**1,120,852**	909,234	**326,942**	167,084
Total				**22,250,094**	**21,757,752**

Due to related parties:

	Nature of transactions	Amount of transactions		Balance	
		2018G	2017G	2018G	2017G
Al Madinah Hotels Co, Ltd	Technical and administrative	**-**	895,959	**14,651,496**	13,327,063
Al-Jazirah & Al Daoudiya Compounds		**-**	-	**18,957,438**	-
Al Rawdah Residence Compound		**308,805**	408,945	**2,656,756**	158,331
Makarem Mina Hotel		**492,377**	-	**1,759,008**	-
Al-Maather Compound		**420,375**	519,238	**492,052**	84,084
Al Andalus Residence Compound		**659,995**	988,023	**775,912**	1,330,281
Makarem Alshorofat Hotel		**112,131**	-	**152,679**	-
Dur Al-Yasamin Compound		**-**	385,358	**-**	1,786,389
Total				**39,445,341**	**16,686,148**

4.9 Major Shareholders

Dur Hospitality Company has not received any notice of ownership during 2018 under Article 45 of the listing rules. In any case, the following shareholders owned at least 5% of the Company's capital in 2018:

Shareholder	Owned shares – beginning of the year	Owned shares – end of the year	Ownership % - end of the year
Assila Investment Company	27,143,784	27,143,784	27.1%
Public Investment Fund	16,628,458	16,628,458	16.6%
Sheikh Mohammad bin Ibrahim Al Issa	12,001,449	12,001,449	12%
General Organization for Social Insurance	6,540,591	6,540,591	6.5%
Heirs of Sheikh Mohammed bin Ibrahim Al-Ghamdi	5,000,000	-	0%

4.10 Statement of the number of the company's applications for the register of shareholders:

No. of the company's applications for the register of shareholders	Application Date	Application reasons
1	01/01/2018G	Company procedures
2	28/03/2018G	General Assembly
3	29/03/2018G	General Assembly
4	02/04/2018G	Profit File
5	27/08/2018G	Profit File
6	10/09/2018G	Company procedures
7	11/09/2018G	General Assembly
8	16/09/2018G	Company procedures

Consolidated Financial Statements 31 December 2018

Building a better working world

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Independent Auditor's Report
To the shareholders of Dur Hospitality Company
(A Saudi Joint Stock Company)

Opinion

We have audited the consolidated financial statements of Dur Hospitality Company ("the Company") and its subsidiaries (collectively referred to as "the Group"), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by the Saudi Organization for Certified Public Accountants.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with professional code of conduct and ethics that are endorsed in the Kingdom of Saudi Arabia are relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming auditor's opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

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Independent Auditor's Report
To the shareholders of Dur Hospitality Company
(A Saudi Joint Stock Company) (continued)

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of property and equipment	
At 31 December 2018, total property and equipment of the Group amounted to SR 1.9 billion, representing 65% of total assets. The Group's management, on an annual basis, reviews the carrying values of its property and equipment to assess whether there is an indication of impairment. If an indication exists, the management estimates the recoverable amounts. Determining the recoverable amounts of the cash generating units that relates to an asset involves valuation methods that include financial and market assumptions that are based on forecasted information; such as: • Projected revenues • Projected operating costs • Projected capital expenditures • Industry trends • Market growth rates and discount rate We considered this as a key audit matter, since the assessment of impairment of property and equipment requires a significant degree of judgment by management in determination of the above mentioned assumptions, relating to forcasted information. Also, the potential impact of any changes in the estimation of recoverable amounts could be material on the consolidated fincanical position and consolidated results of operation of the Group. Refer to note (2.3) of the consolidated financial statements for the accounting policy of impairment of non-financial assets and note (11) for the disclosure of property and equipment.	The procedures we performed included the following: • Assessed the design and implementation and operating effectiveness of the Group's internal controls to determine whether impairment indications exist or not. • Assessed the appropriateness of the Group's identification of cash generating unit (CGU). • Reviewed the reasonableness of the methodology used by management to estimate the recoverable amount of each CGU. • Evaluated the Group's assumptions and estimates, used in the preparation of discounted cash flow model that determine the recoverable amounts, including those related to forecasted operating revenues, operating costs and capital expenditures. • Involved specialists to assess the Group's methodology and underlying assumptions including financial assumptions, industry trends, market growth rates and discount rate. • Checked the mathematical accuracy of the discounted cash flow model used by management and agreed input data to the latest budget. • Assessed the adequacy of the Group's disclosures relating to impairment of non-financial assets in the consolidated financial statements.

Independent Auditor's Report
To the shareholders of Dur Hospitality Company
(A Saudi Joint Stock Company) (continued)

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Review of estimated useful lives of the Group's buildings and buildings renovations	
The Group owns and operates a number of hotels and commercial properties. The carrying value of buildings and its renovation that relate to these properties ("the buildings"), is SR 1 billion, representing around 34% of total assets as at 31 December 2018. The management reviews the estimated useful lives of the buildings on an annual basis. This review includes significant judgment by the Group's management to assess and estimate the buildings useful lives. Useful life of an asset is mainly impacted by its future economic benefits. However, there are other factors, such as: ‣ expected physical wear and tear ‣ future usage of the assets ‣ potential changes in market demand ‣ expected technical and commercial obsolescence We considered this as a key audit matter, since this assessment requires significant degree of management judgment. Also, the potential impact of any changes in the above mentioned factors could be material to the consolidated financial position and consolidated results of operation of the Group. Refer to note (2.3) of the consolidated financial statements for the accounting policy of property and equipment, note (3) for significant assumptions and estimates and note (11) for the disclosure of property and equipment.	The procedures we performed included the following: • Obtained an understanding of the procedures performed by management to estimate the useful lives of the buildings. • Tested, on a sample basis, the supporting documents, used by management in the estimation process of the buildings useful lives; such as reports prepared by the Group's Technical Department and external advisor. • Reviewed the benchmarking reports prepared by management that cover relevant industry and historical experience relating to the buildings estimated useful lives. • Assessed the adequacy of the Group's disclosures in respect of estimation of the buildings useful lives in the consolidated financial statements.

Independent Auditor's Report
To the shareholders of Dur Hospitality Company
(A Saudi Joint Stock Company) (continued)

Other Information included in the Group's 2018 Annual Report

Other information consists of the information included in the Group's 2018 annual report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information in its annual report. The Group's 2018 annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

When we read the Group's 2018 annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those Charged with Governance.

Responsibilities of Management and those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by the Saudi Organization for Certified Public Accountants and the provisions of Companies' Law and Company's By-laws, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those Charged with Governance are responsible for overseeing the Group's financial reporting process

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Independent Auditor's Report
To the shareholders of Dur Hospitality Company
(A Saudi Joint Stock Company) (continued)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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Independent Auditor's Report
To the shareholders of Dur Hospitality Company
(A Saudi Joint Stock Company) (continued)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those Charged with Governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those Charged with Governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those Charged with Governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

for Ernst & Young

Fahad M. Al-Toaimi
Certified Public Accountant
Registration No. 354

Riyadh: 7 Rajab 1440H
(14 March 2019)

شركة ارنست ويونغ وشركاهم محاسبون قانونيون
ERNST & YOUNG & Co. PUBLIC ACCOUNTANTS
ترخيص مهني رقم ٤٥
PROFESSIONAL LICENCE No. 45

Consolidated statement of financial position

As at 31 December 2018

	Note	2018	2017
		Saudi Riyal	Saudi Riyal
Assets			
Current assets			
Cash and cash equivalents	5	**139,789,605**	153,206,897
Trade receivables	6	**104,053,300**	84,313,392
Due from related parties	7	**22,250,094**	21,757,752
Prepayments and other current assets	8	**23,410,446**	19,864,668
Inventories	9	**22,829,074**	23,798,440
Total current assets		**312,332,519**	302,941,149
Non-current assets			
Investment at fair value through other comprehensive income (FVOCI)		**7,000,000**	7,000,000
Investment in equity accounted investees	10	**25,191,200**	26,274,475
Property and equipment	11	**1,894,297,557**	1,886,310,833
Capital work in progress	12	**685,421,245**	383,555,729
Total non-current assets		**2,611,910,002**	2,303,141,037
Total assets		**2,924,242,521**	2,606,082,186
Liabilities and equity			
Liabilities, Current liabilities			
Trade payables		**16,398,327**	34,644,795
Accrued expenses and other current liabilities	13	**190,202,409**	145,167,711
Due to related parties	7	**39,445,341**	16,686,148
Term loans - current portion	14	**92,491,060**	37,491,064
Dividend payable		**47,074,234**	45,301,426
Provision for zakat	15	**15,627,777**	15,117,862
Total current liabilities		**401,239,148**	294,409,006
Non-current liabilities			
Term loans - noncurrent portion	14	**655,525,586**	432,258,650
Employees' terminal benefits liabilities	16	**56,480,888**	54,182,936
Total non-current liabilities		**712,006,474**	486,441,586
Total liabilities		**1,113,245,622**	780,850,592
Equity			
Share capital	17	**1,000,000,000**	1,000,000,000
Statutory reserve	18	**500,000,000**	500,000,000
Contractual reserve	19	**143,002,490**	143,002,490
Retained earnings		**131,662,069**	144,618,292
Equity attributable to equity holders of the parent		**1,774,664,559**	1,787,620,782
Non-controlling interest		**36,332,340**	37,610,812
Total equity		**1,810,996,899**	1,825,231,594
Total liabilities and equity		**2,924,242,521**	2,606,082,186

Consolidated statement of income

For the year ended 31 December 2018

	Note	2018	2017
		Saudi Riyal	Saudi Riyal
Hospitality income	21	**352,800,574**	395,114,826
Rental income		**95,872,309**	82,139,079
Management fees income	21	**5,389,534**	6,349,845
Total revenue		**454,062,417**	483,603,750
Cost of revenue	22	**(345,981,459)**	(353,092,614)
Gross profit		**108,080,958**	130,511,136
Expenses			
Selling and marketing		**(1,056,191)**	(1,667,673)
General and administration	23	**(37,493,432)**	(33,499,428)
Total expenses		**(38,549,623)**	(35,167,101)
Operating income		**69,531,335**	95,344,035
Financial charges	14	**(6,620,108)**	(1,092,616)
Finance income		**1,420,543**	663,536
Other income, net		**5,501,221**	5,178,307
Share in net results of equity accounted investees	10	**(1,083,275)**	(4,161,917)
Additional charges for a legal liability	24	**(7,353,987)**	-
Income before zakat		**61,395,729**	95,931,345
Zakat	15	**(5,140,558)**	(5,065,120)
Net income for the year		**56,255,171**	90,866,225
Attributable to:			
Equity holders of the parent		**57,462,355**	90,631,244
Non-controlling interest		**(1,207,184)**	234,981
		56,255,171	90,866,225
Basic and diluted earnings per share	25	**0.56**	0.91

Consolidated statement of comprehensive income

For the year ended 31 December 2018

	Note	2018	2017
		Saudi Riyal	Saudi Riyal
Net income for the year		**56,255,171**	90,866,225
Other comprehensive income **Items that will not to be reclassified to consolidated statement of income:** Actuarial (loss) gain on re-measurement of employees' terminal benefits liabilities	16	**(6,247,982)**	3,749,477
Other comprehensive (loss) income for the year		**(6,247,982)**	3,749,477
Total comprehensive income for the year		**50,007,189**	94,615,702
Attributable to:			
Equity holders of the parent		**50,665,062**	94,162,488
Non-controlling interest		**(657,873)**	453,214
		50,007,189	94,615,702

Consolidated statement of changes in equity

For the year ended 31 December 2018

	Note	Share capital	Statutory reserve	Contractual reserves	Retained earnings	Total	Non-controlling interest	Total equity
		Saudi Riyal	Saudi Riyal	Saudi Riyal	Saudi Riyal	Saudi Riyal	Saudi Riyal	Saudi Riyal
For the year ended 31 December 2018								
At the beginning of the year		1,000,000,000	500,000,000	143,002,490	144,618,292	1,787,620,782	37,610,812	1,825,231,594
Impact of adopting IFRS 9 at 1 January 2018	2.4	-	-	-	(8,621,285)	(8,621,285)	(620,599)	(9,241,884)
Restated balance at the beginning of the year		1,000,000,000	500,000,000	143,002,490	135,997,007	1,778,999,497	36,990,213	1,815,989,710
Net income for the year		-	-	-	57,462,355	57,462,355	(1,207,184)	56,255,171
Other comprehensive loss for the year		-	-	-	(6,797,293)	(6,797,293)	549,311	(6,247,982)
Total comprehensive income for the year		-	-	-	50,665,062	50,665,062	(657,873)	50,007,189
Dividends	20	-	-	-	(55,000,000)	(55,000,000)	-	(55,000,000)
At the end of the year		**1,000,000,000**	**500,000,000**	**143,002,490**	**131,662,069**	**1,774,664,559**	**36,332,340**	**1,810,996,899**
For the year ended 31 December 2017								
At the beginning of the year		1,000,000,000	500,000,000	143,002,490	135,455,804	1,778,458,294	37,292,773	1,815,751,067
Net income for the year		-	-	-	90,631,244	90,631,244	234,981	90,866,225
Other comprehensive income for the year		-	-	-	3,531,244	3,531,244	218,233	3,749,477
Total comprehensive income for the year		-	-	-	94,162,488	94,162,488	453,214	94,615,702
Dividends	20	-	-	-	(85,000,000)	(85,000,000)	(135,175)	(85,135,175)
At the end of the year		1,000,000,000	500,000,000	143,002,490	144,618,292	1,787,620,782	37,610,812	1,825,231,594

Consolidated statement of cash flows

For the year ended 31 December 2018

	Note	2018	2017
		Saudi Riyal	Saudi Riyal
Operating activities			
Income before zakat		**61,395,729**	95,931,345
Adjustments for:			
Depreciation	**11**	**67,412,889**	64,065,745
Provision for trade receivable expected credit loss, net		**(203,466)**	320,830
Provision of slow moving inventory	**9**	**1,172,378**	905,510
Share in net results of equity accounted investees	**10**	**1,083,275**	4,161,917
Gain on sale of property and equipment		**-**	(3,079,388)
Employees' terminal benefits provision	**16**	**7,666,415**	5,693.267
		138,527,220	167,999,226
Changes in operating assets and liabilities:			
Trade receivables		**(19,536,442)**	(17,887,213)
Prepayments and other current assets		**(3,545,778)**	7,267,486
Inventories		**(203,012)**	1,892,785
Due from related parties		**(492,342)**	(14,919,987)
Trade payables		**(18,246,469)**	13,306,103
Accrued expenses and other current liabilities		**40,332,706**	27,635,533
Due to related parties		**22,759,193**	(1,478,223)

	Note	2018	2017
		Saudi Riyal	Saudi Riyal
Cash from operations		**159,595,076**	183,815,710
Zakat paid	**15**	**(7,747,726)**	(7,864,480)
Employee benefits paid	**16**	**(11,616,445)**	(3,317,901)
Net cash from operating activities		**140,230,905**	172,633,329
Investing activities			
Additions to property and equipment	**11**	**(22,602,134)**	(21,126,745)
Additions to capital work in progress	**12**	**(354,662,995)**	(262,838,862)
Proceeds from sale of property and equipment		**-**	6,357,455
Dividends from investment		**350,000**	-
Net cash used in investing activities		**(376,915,129)**	(277,608,152)
Financing activities			
Proceeds from term loans, net		**278,266,932**	154,856,853
Dividends for shareholders	**20**	**(55,000,000)**	(85,000,000)
Dividends for non-controlling interests		**-**	(135,175)
Net cash from financing activities		**223,266,932**	69,721,678
Net decrease in cash and cash equivalents		**(13,417,292)**	(35,253,145)
Cash and cash equivalents at the beginning of the year		**153,206,897**	188,460,042
Cash and cash equivalents at the end of the year		**139,789,605**	153,206,897

1. Corporate information

Dur Hospitality Company (the "Company" or the "Parent Company") is a Saudi Joint Stock Company formed under the Regulations for Companies and is registered in the Kingdom of Saudi Arabia ("KSA") under the commercial registration number 1010010726 dated 6 Muharram 1397H (corresponding to 27 December 1976).

The Company's activities comprise of the construction, acquisition, operation, management, entering into partnership and renting of hotels, restaurants, motels, rest stops, entertainment centers, travel agencies, private and public roads and tourism areas. In addition, the activities include the acquisition, development and sale of lands and construction of buildings thereon or renting lands, providing services to pilgrims and visitors of the Prophet's (PBUH) Mosque. The Company shall carry out its activities by itself or through others jointly or separately.

The Company has invested in the following subsidiaries, which are included in these consolidated financial statements:

		Direct and indirect Ownership %	
Subsidiary	Share Capital Saudi Riyal	31 December 2018	31 December 2017
Makkah Hotels Company Limited	165,600,000	**99.44%**	99.44%
Saudi Hotel Services Company	70,000,000	**70%**	70%
Alnakheel for Tourist Areas Company Limited	59,250,000	**98.73%**	98.73%
Tabuk Hotels Company Limited	27,300,000	**97.14%**	97.14%
Jude Alia Company Limited	100,000	**99%**	99%
Almasdar Alamny Company Limited	100,000	**95%**	95%
Al Sawaed Al Kareemah Investment and Real Estate Development Company	100,000	**95%**	95%
Sofraa Al Ewaa Hospitality Company (One Person Company)	100,000	**100%**	100%
Dara Oasis Company Limited (One Person Company)	100,000	**100%**	100%

The Company and its subsidiaries are collectively described as (the "Group") in these consolidated financial statements.

The following are details of the subsidiaries and their activities:

- **Makkah Hotels Company Limited**

Makkah Hotels Company Limited is a Saudi limited liability company and is registered under the commercial registration number 4031011879 dated 20 Ramadan 1402H (corresponding to 12 July 1982). The company is engaged in hospitality services inside and outside the KSA. The Company owns Makarem Ajyad Hotel in Makkah.

- **Saudi Hotel Services Company Limited**

Saudi Hotel Services Company is a Saudi limited liability company and is registered under the commercial registration number 1010010454 dated 11 Dhul-Qadah 1396H (corresponding to 4 November 1976). The company owns Crown Plaza - Riyadh Palace Hotel.

- **Alnakheel for Tourist Areas Company Limited**

Alnakheel for Tourist Areas Company Limited is a Saudi limited liability company and is registered under the commercial registration number 4030092204 dated 22 Jumad Thani 1413H (corresponding to 17 December 1992). The company owns Makarem Alnakheel Hotel and Resort in Jeddah..

- **Tabuk Hotels Company Limited**

Tabuk Hotels Company Limited is a Saudi limited liability company and is registered under the commercial registration number 3550006303 dated 5 Rabi Thani 1406H (corresponding to 17 December 1985). The company owns Holiday Inn Tabuk Hotel.

- **Jude Alia Company Limited**

Jude Alia Company Limited is a Saudi limited liability company and is registered under the commercial registration number 1010428949 dated 25 Safar 1436H (corresponding to 17 December 2014). The principal activities of the company include building and construction.

- **Almasdar Alamny Company Limited**

Almasdar Alamny Company Limited is a Saudi limited liability company and is registered under the commercial registration number 1010433370 dated 16 Rajab 1436H (corresponding to 5 May 2015). The company is engaged in providing special civil security guard services in KSA pursuant to the Public Security letter number (3/1078413) dated 28 Rajab 1435H (corresponding to 27 May 2014).

- **Al Sawaed Al Kareemah Investment and Real Estate Development Company**

Al Sawaed Al Kareemah Investment and Real Estate Development Company is a Saudi limited liability company and is registered under the commercial registration number 1010437489 dated 26 Dhul-Qadah 1436H (corresponding to 10 September 2015). The company is engaged in construction, transportation, storage, refrigeration, financial and business services, as well as tourist accommodation services pursuant to the license of the Saudi Commission for Tourism and National Heritage No. (37/0096/F) dated 6 Safar 1437H (corresponding to 18 November 2015).

- **Sofraa Al Ewaa Hospitality Company**

Sofraa Al Ewaa Hospitality Company is Saudi One Person limited liability company and is registered under commercial registration number 1010901133 dated 27 Safar 1439H (corresponding to 16 November 2017). The company is engaged in providing hospitality services, establishment of restaurants, hotels and exhibitions.

- **Dara Oasis Company Limited**

Dara Oasis Company Limited is a Saudi One Person limited liability company and is registered under commercial registration number 1010901132 dated 27 Safar 1439H (corresponding to 16 November 2017). The company is engaged in providing tourism activities.

2. Significant accounting policies

2.1 Basis of preparation and measurement

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as endorsed in KSA and other standards and pronouncements that are issued by the Saudi Organization for Certified Public Accountants ("SOCPA") (referred to thereafter as "IFRS as endorsed in KSA").

The consolidated financial statements have been prepared on a historical cost basis. The consolidated financial statements are presented in Saudi Riyal ("SR").

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2018. The financial statements of the subsidiaries are prepared for the same reporting period as that of the Company, using consistent accounting policies.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has the following:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee, if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the period are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income ('OCI') are attributed to the equity holders of the parent and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. When a Group loses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary, and any related non-controlling interest and other components of equity. Any resulting gain or loss is recognized in the consolidated statement of income. Any interest retained in the former subsidiary is measured at fair value when control is lost.

2.3 Summary of significant accounting policies

The following are the significant accounting policies applied by the Group in preparing these consolidated financial statements:

Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at the acquisition date, fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in the general and administration expenses.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held), over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in the consolidated statement of income. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

2. Significant accounting policies (Continued)

Investment in equity accounted investees

An equity accounted investee ("the investee") is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policies decisions of the investee, but is not control or joint control over those policies.

The considerations made in determining significant influence are similar to those necessary to determine control over subsidiaries.

The Group's investments in its investees are accounted for using the equity method. Under the equity method, the investment is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the investees since the acquisition date. Goodwill relating to the investees is included in the carrying amount of the investment and is not tested for impairment separately.

The consolidated statement of income reflects the Group's share of the results of operations of the investees. Any change in statement of other comprehensive income of those investees is presented as part of the Group's consolidated statement of other comprehensive income. In addition, when there has been a change recognised directly in the equity of the investees, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the investees are eliminated to the extent of the interest in those investees.

The aggregate of the Group's share of profit or loss of an investee is shown separately on the face of the consolidated statement of income.

The consolidated financial statements of the investees are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its investees. At each reporting date, the Group determines whether there is any objective evidence that the investment in the investee is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the investee and its carrying value and recognises the loss as part of 'Share in net results of equity accounted investees' in the consolidated statement of income.

Revenue

• Revenue from contracts with customers

The Group provides hospitality services and property management to its customers. Revenue from contracts from customers are recognized when the control over the goods and services are transferred to the customer in an amount that reflects the compensation earned by the Group for those goods and services. The Group has concluded that it acts as a principal for all its revenue arrangements except for property management as usually it control the goods and services before they are transferred to the customer.

• Hospitality services

Primarily derived from hotel operations, including the rental of rooms and food and beverage sales at the point in time when goods are provided to customers. Revenue from rooms occupancy is recognized over time.

• Properties management fees

Earned from hotels managed by the Group, usually under long-term contracts with the hotel owner. Management fees include a base fee, which is generally a percentage of hotel revenue, and/or an incentive fee, which is generally based on the hotel's profitability; recognised when earned on an accrual basis under the terms of the contract.

Foreign currencies

The Group's consolidated financial statements are presented in Saudi Riyal, which is also the Group's functional currency. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group uses the direct method of consolidation and on disposal of a foreign operation, the gain or loss that is reclassified to consolidated statement of income reflects the amount that arises from using this method.

• Transactions and balances

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency spot rate at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the consolidated financial statements date. All differences are recognised in consolidated statement of income.

• Translation of group companies

Financial statements of the foreign operation are translated into Saudi Riyal using the exchange rate at each consolidated statement of financial position date, for assets and liabilities, and the average exchange rate for each period for revenues, expenses, gains and losses. Components of equity, other than retained earnings, are translated at the rate ruling at the date of occurrence of each component. The exchange differences arising on the translation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the consolidated statement of comprehensive income.

Defined employee benefits

• Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

• Defined contribution plans

Retirement benefit in the form of General Organization of Social Insurance ('GOSI') is a defined contribution scheme. The Group has no obligation, other than the contribution payable to the GOSI. The Group recognises contribution payable to the GOSI as an expense when due.

• Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The net pension liability recognised in the consolidated statement of financial position in respect of defined benefit post-employment plans is the present value of the projected defined benefit obligation (DBO) at the statement of financial position date. The defined benefit obligation is calculated annually by qualified actuaries using the projected unit credit method. Re-measurement amounts, if any, are recognised and reported within other reserves under the consolidated statement of changes in equity with corresponding debit or credit to consolidated statement of other comprehensive income that comprises of actuarial gains and losses on the defined benefits obligation

Zakat

The Company and its subsidiaries are subject to Zakat in accordance with the zakat regulation issued by the General Authority of Zakat and Tax ("GAZT") in the KSA, which is also subject to interpretations. Zakat is levied at a fixed rate of 2.5% on the higher of adjusted Zakatable profit or based on net equity using the basis defined in the zakat regulation (the Zakat base). The management establishes provisions where appropriate on the basis of amounts expected to be paid to the GAZT and periodically evaluates positions taken in the Zakat returns with respect to situations in which applicable Zakat regulation is subject to interpretation. Zakat provision is charged to the consolidated statement of income. Additional Zakat liability, if any, related to prior years' assessments arising from GAZT are accounted for in the period in which the final assessments are finalised

2. Significant accounting policies (Continued)

Inventories

Inventories are measured at the lower of cost and net realisable value. Cost is determined using the weighted average method. Cost of inventory includes purchase price plus all incurred expenditures in order to bring the inventory to its existing location and condition. Net realisable value comprises estimated selling price in the ordinary form of business, less selling expenses. A provision for obsolete, slow moving and defective inventories is made, when necessary.

Property and equipment

• Recognition and measurement

Items of property and equipment are measured at cost, which includes capitalised borrowing costs, less accumulated depreciation and any accumulated impairment losses.

Any gain or loss on disposal of an item of property and equipment is recognised in the consolidated statement of income.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

• Subsequent expenditure

Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Group.

• Depreciation

Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is recognised in the consolidated statement of income. Land is not depreciated.

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted prospectively, if appropriate.

Capital work-in-progress

Capital work-in-progress is stated at cost and is not depreciated. Depreciation on capital work-in-progress commences when the assets are ready for their intended use and it is transferred to property and equipment. Finance costs on borrowings to finance the construction of qualified assets are capitalised during the period of time that is required to complete and prepare the asset for its intended use..

Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets

• Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them.

• Trade receivable

For trade receivables hat do not contain a significant financing component, the Group applied a practical expedient. Accordingly, trade receivable are measured using the transaction price as described by IFRS 15. Refer to accounting policies for contracts with customers.

• Financial assets designated at fair value through other comprehensive income

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through other comprehensive income when they meet the definition of equity under IAS 32 'Financial Instruments: Presentation' and are not held for trading. The classification is determined on an instrument-by instrument basis.

Gains and losses on these financial assets are never recycled to the consolidated statement of income. Dividends are recognised as other income in the consolidated statement of income when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in consolidated statement of comprehensive income. Equity instruments designated at fair value through other comprehensive income are not subject to impairment assessment.

The Group elected to classify irrevocably its non-listed equity investments under this category.

The Group does not have any financial assets held at fair value through other comprehensive income (debt instruments) and at fair value through profit or loss.

• Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is primarily derecognised when:

- The rights to receive cash flows from the asset have expired.
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:

1. the Group has transferred substantially all the risks and rewards of the asset, or
2. the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

• Impairment of financial assets

For financial assets not classified at fair value through profit or loss and other comprehensive income, the Group assesses at each reporting date whether there is any objective evidence that such financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and a loss event has an impact on the estimated future cash flows of the financial asset or the Group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that debtors or a Group of debtors are experiencing significant financial difficulty, default or delinquency in principal payments, the probability that they will enter into bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For trade receivables and contract assets, the Group applies a simplified approach in calculating expected credit losses (ECLs).

Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. Refer to the accounting policies in note 2.4 for ECL policy.

2. Significant accounting policies (Continued)

Financial liabilities

• Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include term loans, accounts payable and due to related parties.

• Loans and borrowings

This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate (EIR) method. Gains and losses are recognised in consolidated statement of income when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the consolidated statement of income.

• Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the consolidated statement of income.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Cash and cash equivalents

For the purposes of the consolidated statement of cash flows, cash and cash equivalents includes cash, bank balances and deposits with original maturities of three months or less. Bank overdraft is classified as current liabilities.

Impairment of Non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit", or "CGU"). If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs. An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in the consolidated statement of income. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

For assets excluding goodwill, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date. The arrangement is assessed for whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

• Group as a lessee

Finance leases that transfer to the Group substantially all of the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and a reduction in the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the consolidated statement of income.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in the consolidated statement of income on a straight-line basis over the lease term.

• Group as a lessor

Leases in which the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

• Rental income

Rental income is recognised on a straight-line basis over the term of lease; lease incentives granted are recognised as an integral part of the total rental income, over the term of lease.

2. Significant accounting policies (Continued)

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits from the asset's highest and best use or by selling it to another market participant that would utilise the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy. This is described as follows based on the lowest level input that is significant to the fair value measurement as a whole:

- Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the consolidated financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. The Group determines the policies and procedures for both recurring fair value measurement, and for non-recurring measurement.

At each reporting date, the Group analyses the movements in the values of assets and liabilities which are required to be remeasured or re-assessed as per the Group's accounting policies. For this analysis, the Group verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. The Group also compares the change in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable. For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognised in the consolidated statement of income on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

Dividend

The Group recognises a liability to make cash or non-cash distributions to shareholders of equity when the distribution is authorised and the distribution is no longer at the discretion of the Group. Final dividends are recognised as a liability at the time or at the period of their approval by the General Assembly. Interim dividends are recorded as and when approved by the Board of Directors. A corresponding amount is recognised directly in the consolidated statement of changes in equity.

Segment reporting

A reporting segment is a component of the Group that engaged in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operation segments' operating results are reviewed regularly by the Group's chief operating decision makers about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

2. Significant accounting policies (Continued)

2.4 Changes in significant accounting policies

The Group applies, for the first time IFRS 9 (Financial Instruments) and IFRS 15 (Revenue from Contracts with Customers) and that require restatement of previous financial statements effective as of 1 January 2018. The nature and effect of these changes are disclosed below. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the consolidated financial statements of the Group.

IFRS 15 Revenue from Contracts with Customers ("IFRS 15"):

Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 Construction Contracts ("IAS 11"), IAS 18 Revenue and related Interpretations ("IAS 18") and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group adopted IFRS 15 using the modified retrospective method of adoption where the comparative information for each of the primary financial statements will not be restated and are presented based on the requirements of IAS 11, IAS 18 and related Interpretations. The adoption of IFRS 15 did not have a material impact on the Group's consolidated financial statements.

Under IFRS 15, revenue is recognised when a customer obtains control of the services. Determining the timing of the transfer of control – at a point in time or over time – requires judgment.

IFRS 9 Financial Instruments ("IFRS 9"):

Financial Instruments

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39") for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Group did not restate the comparative information for the period beginning 1 January 2017 due to the adoption of IFRS 9. The comparative information for each of the primary financial statements were not restated and are presented based on the requirements of IAS 39.

The effect of adopting IFRS 9 on the carrying amounts of financial assets at 1 January 2018 relates solely to the new impairment requirements, as described further below:

- **Impairment:**

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' ("ECL") model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at 'Fair Value through Other Comprehensive Income' ("FVOCI"), but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

The adoption of IFRS 9 has resulted in a reduction of the opening balance of retained earnings and non-controlling interest as of 1 January 2018 by SR 8.6 million and SR 621 thousand respectively, which has been recognised in the consolidated statement of changes in equity for the year ended 31 December 2018.

The financial assets at amortised cost consist of trade receivables and cash and cash equivalents. Under IFRS 9, allowance from credit losses are measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

The Group measures allowance for credit losses at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort.

This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

- **Measurement of ECLs**

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

- **Credit-impaired financial assets**

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

- **Presentation of impairment**

Allowance for credit losses of financial assets that are measured at amortised cost are deducted from the gross carrying amount of the assets. Impairment losses related to trade and other receivables are presented separately in the consolidated statement of income.

2. Significant accounting policies (Continued)

IFRIC Interpretation 22:

Foreign Currency Transactions and Advance Consideration

The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. These amendments do not have any impact on the Group's consolidated financial statements.

Amendments to IAS 40:

Transfers of Investment Property

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. These amendments do not have any impact on the Group's consolidated financial statements.

Amendments to IFRS 2:

Classification and Measurement of Share-based Payment Transactions:

The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The Group's accounting policy for cash-settled share based payments is consistent with the approach clarified in the amendments. In addition, the Group has no share-based payment transaction with net settlement features for withholding tax obligations and had not made any modifications to the terms and conditions of its share-based payment transaction. Therefore, these amendments do not have any impact on the Group's consolidated financial statements.

Amendments to IFRS 4:

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts:

The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing IFRS 17 Insurance Contracts, which replaces IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach. These amendments are not relevant to the Group.

Amendments to IAS 28:

28 Investments in Associates and Joint Ventures - Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice

The amendments clarify that an entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. If an entity, that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which: (a) the investment entity, associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. These amendments do not have any impact on the Group's consolidated financial statements.

Amendments to IFRS 1:

First-time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters

Short-term exemptions in paragraphs E3–E7 of IFRS 1 were deleted because they have now served their intended purpose. These amendments are not relevant to the Group.

2. Significant accounting policies (Continued)

2.5 New standards issued but not effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 16

Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 'Leases', IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC-15 'Operating Leases-Incentives' and SIC-27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

The Group will adopt IFRS 16 'Leases' ("IFRS 16") from its mandatory adoption date of 1 January 2019 by applying the simplified transition approach as permitted under the specific transition provisions in the standard. As a result, comparatives for the 2018 financial year will not be restated. The Group is in the process of finalizing its calculation of the final amount for the right-of-use assets and lease liability as at 1 January 2019.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17. IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

IFRIC Interpretation 23

Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances.

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. . The Group intends to adopt this interpretation when it become effective.

Amendments to IFRS 9:

Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

The amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted. These amendments have no impact on the consolidated financial statements of the Group.

Amendments to IFRS 10 and IAS 28

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. The Group will apply these amendments when they become effective.

2. Significant accounting policies (Continued)

Amendments to IAS 19:

Plan Amendment, Curtailment or Settlement

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event.
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognised in consolidated statement of income. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognised in consolidated statement of comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Group.

Amendments to IAS 28:

Long-term interests in associates and joint ventures

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 Investments in Associates and Joint Ventures.

The amendments should be applied retrospectively and are effective from 1 January 2019, with early application permitted. Since the Group does not have such long-term interests in its associate and joint venture, the amendments will not have an impact on its consolidated financial statements.

Annual Improvements 2015-2017 Cycle (issued in December 2017)

These improvements include:

• IFRS 3 Business Combinations

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments will apply on future business combinations of the Group.

• IFRS 11 Joint Arrangements

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments are currently not applicable to the Group but may apply to future transactions.

• IAS 12 Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period. These amendments do not have any impact on the Group's consolidated financial statements.

• IAS 23 Borrowing Costs

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. Since the Group's current practice is in line with these amendments, the Group does not expect any effect on its consolidated financial statements.

3. Significant assumptions and estimates

In preparing these consolidated financial statements, management has made estimates and assumptions that affect the application of the Group's accounting policies and the 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 estimates are recognised prospectively.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Impairment of non-financial assets

An impairment exists when the carrying value of an asset or cash generating units ("CGU") exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a DCF model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

Expected credit loss of trade receivable

The Group has applied the standard's simplified approach of impairment in accordance with IFRS 9 and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Employees' terminal benefits liabilities

The present value of the Employees' terminal benefits liabilities is determined using actuarial valuations. An actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed annually.

Property and equipment useful life and residual value

Any change in the estimated useful life or depreciation pattern will be accounted for prospectively. During the year, the Group has revised its accounting estimates of the useful lives of certain buildings from 75 to 60 years and for certain buildings renovations from 5 to 10 years, based on the expected future use of those buildings and renovations and the advice of an engineering expert. Had there been no change in the useful lives, the net income for the year and the net book value of property and equipment would have decreased by SR 511,916.

4. Operating segments

The Group has the following strategic divisions, which represents its reportable segments. These segments offer different services and are managed separately because they have different economic characteristics – such as trends in sales growth, rates of return and level of capital investment – and have different marketing strategies.

The following summary describes the operations of each reportable segment:

Sector	Operations
Hospitality	Represents hotels owned by the Group and revenues generated through them whether these hotels are operated by the Group or by a third party.
Property management	Represents management and operation of hotels and properties that are not owned by the Group.
Property rental	Represents properties owned by the Group which are leased to others. These properties primarily comprises of residential compounds and commercial complexes.
Others	Represents corporate office and other support services departments

Following is a summary of certain financial information for the two years ended 31 December:

2018 (SR)	Hospitality	Property Management	Property Rental	Others	Elimination	Total
Revenue from external customer	352,800,574	5,389,534	95,872,309	-	-	**454,062,417**
Inter-segment revenue	1,731,846	20,277,930	6,436,378	-	(28,446,154)	**-**
Cost of revenue	(301,111,715)	(5,158,809)	(39,710,935)	-	-	**(345,981,459)**
Gross profit	51,688,859	230,725	56,161,374	-	-	**108,080,958**
Depreciation	49,532,959	-	13,855,235	4,024,695	-	**67,412,889**
Property and equipment	892,930,909	-	905,388,119	95,978,529	-	**1,894,297,557**
Capital work in progress	506,209,670	-	179,211,575	-	-	**685,421,245**
Total assets	1,703,745,900	-	1,124,518,092	95,978,529	-	**2,924,242,521**
Total liabilities	208,521,700	-	904,723,922	-	-	**1,113,245,622**

2017 (SR)	Hospitality	Property Management	Property Rental	Others	Elimination	Total
Revenue from external customer	395,114,826	6,349,845	82,139,079	-	-	483,603,750
Inter-segment revenue	1,653,998	21,344,053	6,450,238	-	(29,448,289)	-
Cost of revenue	(313,427,583)	(4,189,995)	(35,475,036)	-	-	(353,092,614)
Gross profit	81,687,243	2,159,850	46,664,043	-	-	130,511,136
Depreciation	50,793,420	-	9,644,976	3,627,349	-	64,065,745
Property and equipment	934,384,268	-	859,421,729	92,504,836	-	1,886,310,833
Capital Work in progress	278,644,809	-	104,910,920	-	-	383,555,729
Total assets	1,419,819,469	-	1,093,757,881	92,504,836	-	2,606,082,186
Total liabilities	212,868,527	-	567,982,065	-	-	780,850,592

Reconciliation of information on reportable segments to income before zakat of the Group for the two years ended 31 December:

	2018	2017
	Saudi Riyal	Saudi Riyal
Gross profit of operating segments	**108,080,958**	130,511,136
Un-allocated amount:		
Other income	**5,501,221**	5,178,307
Selling and marketing expenses	**(1,056,191)**	(1,667,673)
General and administration expenses	**(37,493,432)**	(33,499,428)
Additional charges for a legal liability	**(7,353,987)**	-
Finance income	**1,420,543**	663,536
Financial charges	**(6,620,108)**	(1,092,616)
Share in net results of equity accounted investees	**(1,083,275)**	(4,161,917)
Total un-allocated amount	**(46,685,229)**	(34,579,791)
Income before zakat	**61,395,729**	95,931,345

5. Cash and cash equivalents

	2018	2017
	Saudi Riyal	Saudi Riyal
Short term deposits (*)	**113,300,004**	100,042,457
Bank balances	**25,926,151**	52,645,040
Cash on hand	**563,450**	519,400
	139,789,605	153,206,897

(*) Short term deposits represent Murabaha deposits with commercial banks. The maturity average of those deposits ranges between 30 to 90 days.

6. Trade receivables

	2018	2017
	Saudi Riyal	Saudi Riyal
Trade receivables	**130,343,530**	101,565,205
Provision for expected credit loss	**(26,290,230)**	(17,251,813)
	104,053,300	84,313,392

Movement in provision for expected credit loss for the two years ended 31 December:

	2018	2017
	Saudi Riyal	Saudi Riyal
At the beginning of the year	**17,251,813**	17,229,912
Impact of adopting IFRS 9 at 1 January 2018 (note 2.4)	**9,241,884**	-
Charge for the year (note 23)	**1,684,780**	1,294,052
Recovered during the year	**(1,888,247)**	(973,222)
Bad debts written off during the year	**-**	(298,929)
	26,290,230	17,251,813
At the end of the year		

Aging analysis of trade receivables

Following is the provision criteria used for expected credit loss for trade receivables as of 31 December:

	Total	1-60 days	61-90 days	91-365 days	1-2 years	2-3 years	>3 years
	Saudi Riyal	Saudi Riyal	Saudi Riyal	Saudi Riyal	Saudi Riyal	Saudi Riyal	Saudi Riyal
Provision for expected credit loss							
2018	**26,290,230**	**480,749**	**1,287,366**	**2,185,985**	**5,133,360**	**2,811,502**	**14,391,268**
2017	17,251,813	169,251	315,448	1,509,224	1,805,030	2,914,198	10,538,662
Trade receivables							
2018	**130,343,530**	**29,027,836**	**17,058,830**	**25,369,410**	**17,550,040**	**7,010,981**	**34,326,433**
2017	101,565,205	44,400,363	9,385,812	19,406,248	6,922,260	5,895,646	15,554,876

7. Related party transactions and balances

During its ordinary course of business, the Group transacts with related parties mentioned below, these transactions are made in accordance with terms approved by management. The transactions represent services exchanged between the entities:

Details of transactions amounts and resulted balances are as follows:

a) Due from related parties

Related Party	Relation	Nature of transaction	Amount of transactions for the two years ended 31 December		Balance	
			2018	2017	**2018**	2017
			Saudi Riyal	Saudi Riyal	Saudi Riyal	Saudi Riyal
Makarem Al Ma'arifa Hospitality Company	Associate	Technical fees income	**463,521**	1,024,330	**18,365,582**	20,554,162
Makarim Al Bait Hotel	Affiliate	Management fees income	**416,934**	335,020	**1,381,480**	63,129
AL Yasmin Compound	Affiliate	Management fees income	**490,929**	-	**876,559**	-
Al Jazira Badr	Affiliate	Management fees income	**182,978**	586,057	**790,858**	480,733
Um Al qura Hotel	Affiliate	Management fees income	**712,824**	708,616	**508,673**	225,752
Makarem Mena Hotel	Affiliate	Management fees income	**-**	260,000	**-**	266,892
Others	Affiliates	Technical fees income	**1,120,852**	909,234	**326,942**	167,084
					22,250,094	21,757,752

b) Due to related parties

Related Party	Relation	Nature of transaction	Amount of transactions for the two years ended 31 December		Balance	
			2018	2017	**2018**	2017
			Saudi Riyal	Saudi Riyal	Saudi Riyal	Saudi Riyal
Al Madinah Hotels Company limited	Associate	Management fees income	**-**	895,959	**14,651,496**	13,327,063
Al Jazira and Dawudia Compounds	Affiliate	Management fees income	**-**	-	**18,957,438**	-
Al Rawda Residence Compound	Affiliate	Management fees income	**308,805**	408,945	**2,656,756**	158,331
Makarem Mena Hotel	Affiliate	Management fees income	**492,377**	-	**1,759,008**	-
Al Mazzar Compound	Affiliate	Management fees income	**420,375**	519,238	**492,052**	84,084
Al Andalus Residence Compound	Affiliate	Management fees income	**659,995**	988,023	**775,912**	1,330,281
Makarim Al Shurafat	Affiliate	Management fees income	**112,131**	-	**152,679**	-
AL Yasmin Compound	Affiliate	Management fees income	**-**	385,358	**-**	1,786,389
					39,445,341	16,686,148

Transactions with key management personnel:

	Amount of transactions for the two year ended 31 December	
	2018	2017
	Saudi Riyal	Saudi Riyal
Salaries, bonuses and end of service of the Group's key management persons	**6,065,138**	5,550,773

Terms and conditions relating to related party balances

Outstanding balances with related parties at the year end are unsecured, interest free, settled in cash and due within 12 months of statement of consolidated financial position date. There have been no guarantees provided or received for any related party receivables or payables. For the two years ended 31 December 2018 and 2017, the Group has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each reporting period by examining the financial position of the related party and the market in which the related party operates.

8. Prepayments and other current assets

	2018	2017
	Saudi Riyal	Saudi Riyal
Advances to real estate projects	**5,383,841**	5,383,841
Non trade receivables	**4,398,209**	1,185,931
Prepaid insurance	**3,793,302**	3,517,700
Staff advances	**3,008,421**	2,840,560
Advances to suppliers	**1,245,649**	213,162
Prepaid rent	**1,013,525**	4,504,178
Others	**4,567,499**	2,219,296
	23,410,446	19,864,668

9. Inventories

	2018	2017
	Saudi Riyal	Saudi Riyal
Linens and furnishings	**5,402,450**	6,047,033
Operation supplies	**4,573,630**	5,377,249
Accessories and silverware	**3,780,442**	3,761,364
Spare parts	**3,415,408**	2,185,788
Foods and beverages	**2,545,878**	2,694,332
Kitchen tools and equipment	**2,387,860**	3,319,520
Stationery and prints	**738,316**	425,063
	22,843,984	23,810,349
Less: provision for slow moving inventories	**(14,910)**	(11,909)
	22,829,074	23,798,440

Movement in provision for slow moving inventories for the two years ended 31 December:

	2018	2017
	Saudi Riyal	Saudi Riyal
At the beginning of the year	**11,909**	300,754
Charge for the year (note 22)	**1,172,378**	905,510
Inventory written off during the year	**(1,169,377)**	(1,194,355)
At the end of the year	**14,910**	11,909

10. Investment in equity accounted investees

Investment in equity accounted investees represent investments in the following companies which are limited liability companies. All companies below are registered in the Kingdom of Saudi Arabia. The Group's investments in these companies is accounted for using the equity method in the consolidated financial statements.

	2018	2017	**2018**	2017
Equity accounted investees	%	%	Saudi Riyal	Saudi Riyal
Saudi Company for Heritage Hospitality	**25**	25	**11,509,205**	12,092,481
Makarem Al Ma'arifa Hospitality Company	**50**	50	**9,539,705**	9,539,705
Al Madinah Hotels Company Limited	**50**	50	**4,142,290**	4,142,289
Media Marketing Services Company	**25**	25	**-**	500,000
			25,191,200	26,274,475

Movement in the investment in equity accounted investees for the two years ended 31 December:

	2018	2017
	Saudi Riyal	Saudi Riyal
At the beginning of the year	**26,274,475**	30,436,392
Share in net results	**(1,083,275)**	(4,161,917)
At the end of the year	**25,191,200**	26,274,475

11. Property and equipment

The estimated useful lives of the assets for the calculation of depreciation are as follows:

Buildings	50-75 years
Building improvements	5 - 10 years
Furniture	10 years
Motor vehicles	4 years
Devices and equipment	5 years
Elevators and central air conditioning	40 years

11. Property and equipment

	Lands	Buildings	Building improvements	Furniture	Motor vehicles	Devices and equipment	Elevators and central air conditioning	Total
Cost:	Saudi Riyal	Saudi Riyal	Saudi Riyal	Saudi Riyal	Saudi Riyal	Saudi Riyal	Saudi Riyal	Saudi Riyal
At the beginning of the year	724,671,319	1,391,192,997	88,567,543	287,493,017	8,223,587	59,131,857	70,315,978	**2,629,596,298**
Additions	-	10,400,000	2,706,200	1,527,761	112,000	7,580,735	275,438	**22,602,134**
Disposals	-	-	-	(400,200)	-	(1,289,112)	-	**(1,689,312)**
Transfer from capital work in progress (note 12)	-	44,524,625	-	368,541	-	7,097,486	806,827	**52,797,479**
At the end of the year	**724.671.319**	**1,446,117,622**	**91,273,743**	**288.989.119**	**8.335.587**	**72.520.966**	**71,398,243**	**2,703,306,599**
Depreciation:								
At the beginning of the year	-	432,347,862	62,722,017	189,825,815	7,889,585	21,676,449	28,823,737	**743,285,465**
Charge for the year	-	27,014,536	12,827,413	14,235,857	64,733	9,316,400	3,953,950	**67,412,889**
Disposals	-	-	-	(400,200)	-	(1,289,112)	-	**(1,689,312)**
At the end of the year	-	459,362,398	75,549,430	203,661,472	7,954,318	29,703,737	32,777,687	**809,009,042**
Net book values:								
As at 31 December 2018	**724,671,319**	**986,755,224**	**15,724,313**	**85,327,647**	**381,269**	**42,817,229**	**38,620,556**	**1,894,297,557**

	Lands	Buildings	Leasehold improvements	Furniture	Motor vehicles	Devices and equipment	Elevators and central air conditioning	Total
Cost:	Saudi Riyal	Saudi Riyal	Saudi Riyal	Saudi Riyal	Saudi Riyal	Saudi Riyal	Saudi Riyal	Saudi Riyal
At the beginning of the year	727,818,069	1,208,384,866	82,931,610	248,694,714	8,087,545	59,389,001	34,526,501	2,369,832,306
Additions	-	-	2,258,327	1,834,480	193,542	8,690,396	8,150,000	21,126,745
Disposals	(3,146,750)	-	-	-	(57,500)	(13,418,858)	-	(16,623,108)
Transfer from capital work in progress (note 12)	-	182,808,131	3,377,606	36,963,823	-	4,471,318	27,639,477	255,260,355
At the end of the year	724,671,319	1,391,192,997	88,567,543	287,493,017	8,223,587	59,131,857	70,315,978	2,629,596,298
Depreciation:								
At the beginning of the year	-	405,988,657	48,635,056	177,199,130	7,813,522	26,463,012	26,465,384	692,564,761
Charge for the year	-	26,359,205	14,086,961	12,626,685	106,113	8,528,428	2,358,353	64,065,745
Disposals	-	-	-	-	(30,050)	(13,314,991)	-	(13,345,041)
At the end of the year	-	432,347,862	62,722,017	189,825,815	7,889,585	21,676,449	28,823,737	743,285,465
Net book values:								
As at 31 December 2017	724,671,319	958,845,135	25,845,526	97,667,202	334,002	37,455,408	41,492,241	1,886,310,833

The depreciation charge has been allocated in the consolidated statement of income for the two years ended 31 December as follows:

	2018	2017
	Saudi Riyal	Saudi Riyal
Cost of revenue (note 22)	**63,388,194**	60.438.397
General and administration expenses (note 23)	**4,024,695**	3.627.348
	67,412,889	64.065.745

12. Capital work in progress

Capital work in progress represents mainly the costs of construction of Marriot Hotel and Executive Apartment Project in Diplomatic Quarter amounting to SR 335.7 million (2017: SR 158.2 million), Darraq Housing Project (Phases IV, V) amounting to SR 101 million (2017: SR 70.2 million), expansion of Marriot Riyadh Airport Hotel amounting to SR 54.7 million (2017: SR 13.6 million), renovation cost of Makarem Ajyadh Makkah Hotel of SR 8.2 million (2017: SR 4.2 million) and cost for other projects is SR 185.8 million (2017: 137.4 million).

Capitalised borrowing costs

The amount of borrowing costs capitalised during the year ended 31 December 2018 was SR 14.3 million (year ended 31 December 2017: SR 9.3 million). The rate used to determine the amount of borrowing costs eligible for capalisation is the interest rate of the weighted average borrowings.

Movement in capital work in progress for the two years ended 31 December:

	2018	2017
	Saudi Riyal	Saudi Riyal
At the beginning of the year	**383,555,729**	375,977,222
Additions during the year	**354,662,995**	262,838,862
Transfers to property and equipment (note 11)	**(52,797,479)**	(255,260,355)
At the end of the year	**685,421,245**	383,555,729

13. Accrued expenses and other current liabilities

	2018	2017
	Saudi Riyal	Saudi Riyal
Revenue received in advance	**57,523,713**	58,403,467
Payable to contractors	**35,497,113**	14,535,138
Payable retentions	**30,583,463**	21,526,674
Accrued rentals	**26,023,727**	12,788,034
Accrued staff benefits	**22,807,868**	21,884,561
Accrued services expenses	**3,005,953**	8,349,196
Management fees payable	**910,533**	4,148,646
Others	**13,850,039**	3,531,995
	190,202,409	145,167,711

14. Term loans

The Group has secured term loans in the form of Murabaha financing with a total value of SR 1,424 million (2017: SR 371.9 million) which accrue Murabaha commission at market prevailing rates. These financing are secured by promissory notes and assignment of proceeds from Darraq project rentals.

The management assessed that the fair value of term loans approximate their carrying amounts.

15. Zakat

General description

The Company and its subsidiaries file their Zakat returns individually based on their financial statements. Therefore, Zakat base is identified and calculated for the Company and its subsidiaries individually, and total estimated Zakat is presented in the consolidated statement of income for the Group.

The Group has finalised its Zakat status with the General Authority of Zakat and Tax ("the GAZT") for all years up to and including 31 December 2009, the Group has further filed its Zakat returns for all years up to 2017 and paid the Zakat payable and obtained the relevant zakat certificate. However, the Group is still waiting to get the final assessments from the GAZT

Movement in provision for zakat for the two years ended 31 December:

	2018	2017
	Saudi Riyal	Saudi Riyal
At the beginning of the year	**15,117,862**	17,917,222
Provided during the year	**5,140,558**	5,065,120
Refund during the year	**3,117,083**	-
Payments made during the year	**(7,747,726)**	(7,864,480)
At the end of the year	**15,627,777**	15,117,862

Zakat base items that are used in calculation of zakat provision for the Group are summarised as follows as of 31 December:

	2018	2017
	Saudi Riyal	Saudi Riyal
Shareholders' equity	**1,798,304,038**	1,769,375,515
Opening provisions and other adjustments	**1,021,276,199**	402,727,276
Book value of long-term assets	**(2,613,957,919)**	(2,309,367,719)
	205,622,318	(137,264,928)
Zakatable income for the year	**65,193,076**	69,189,841
Zakat base	**205,622,318**	69,189,841

16. Employees' terminal benefits liabilities

General description

General description of the type of employees' terminal benefits liabilities plan and accounting policy for recognising actuarial gains and losses is disclosed in note 2.3 to the consolidated financial statements.

Principal actuarial assumptions

	2018	2017
Salary increase rate	**4.4%**	3%
Discount rate	**4.3%**	2.9%
Number of employees covered under terminal benefits plan	**1,371**	1,462

The actuarial valuation was conducted using Projected Unit Credit method.

Employee benefit expense for the two years ended 31 December:

	2018	2017
	Saudi Riyal	Saudi Riyal
Current service cost	**6,202,516**	3,843,871
Interest cost on benefit liabilities	**1,463,899**	1,849,396
Total benefit expense	**7,666,415**	5,693,267

Movement of present value of employees' terminal benefits liabilities for the two years ended 31 December:

	2018	2017
	Saudi Riyal	Saudi Riyal
Opening present value of employees' terminal benefits liabilities	**54,182,936**	55,557,047
Total benefit expense	**7,666,415**	5,693,267
Employees' terminal benefits paid	**(11,616,445)**	(3,317,901)
Actuarial loss (gain) on employees' terminal benefit liabilities	**6,247,982**	(3,749,477)
Closing present value of employees' terminal benefits liabilities	**56,480,888**	54,182,936

Employees' terminal benefits liabilities sensitivity analysis

A quantitative sensitivity analysis for significant assumption on the employees' terminal benefits liabilities as at 31 December is shown below:

	Salary rate		Discount rate	
Assumptions Sensitivity level	1% increase	1% decrease	1% increase	1% decrease
	Saudi Riyal	Saudi Riyal	Saudi Riyal	Saudi Riyal
2018	**58,840,213**	**54,265,395**	**54,360,180**	**58,760,094**
2017	54,724,765	53,641,107	46,859,425	54,518,352

The sensitivity analysis above has been undertaken based on a method that extrapolates the impact on the employee defined benefits obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period. The sensitivity analysis is based on a change in a significant assumption, keeping all other assumptions constant. The sensitivity analysis may not be representative of an actual change in the employee defined benefits obligation as it is unlikely that changes in assumptions would occur in isolation of one another.

17.Share capital

The authorised, issued and fully paid share capital of the Company consists of 100 million shares of SR 10 each (2017: 100 million shares of SR 10 each).

18. Statutory reserve

In accordance with the Company's bylaws, the Company is required to transfer 10% of its annual net income to a statutory reserve until the reserve equals to 30% of the paid share capital. Statutory reserve balance reached 50% of the share capital due to transfers in the prior years and the Company decided to discontinue such transfers. This reserve is not available for distribution.

19. Contractual reserve

In accordance with the Company's By-law, the Company allocates 5% of its annual net income to a contractual reserve. Due to transfers in prior years, the Company has decided to discontinue such transfer.

20. Dividends declaration and approval

On 8 August 2018, the Board of Directors approved interim cash dividends of SR 25 million (SR 0.25 per share) for the first half of the year 2018.

On 26 February 2018, the Board of Directors approved interim cash dividends of SR 30 million (SR 0.3 per share) for the second half of the year 2017. On 12 September 2017, the Board of Directors approved interim cash dividends of SR 40 million (SR 0.40 per share) for the first half of the year 2017. These were approved in addition to board of directors' remuneration of SR 1.8 million by General Assembly in its meeting held on 29 March 2018.

On 7 February 2017, the Board of Directors approved interim cash dividends of SR 45 million (SR 0.45 per share) for the second half of the year 2016. These were approved in addition to board of directors' remuneration of SR 1.8 million by General Assembly in its meeting held on 20 April 2017.

21. Revenue from contract with customers

The following is the disaggregation of the Group's revenue from contracts with customers for the two years ended 31 December:

2018	Hospitality	Property Management	Total
Type of goods or service	Saudi Riyal	Saudi Riyal	Saudi Riyal
Rooms	222,948,733	-	222,948,733
Food and beverage	115,655,268	-	115,655,268
Other hotel revenues	14,196,573	-	14,196,573
Management fee	-	5,389,534	5,389,534
Total revenue from contracts with customer	**352,800,574**	**5,389,534**	**358,190,108**
Timing of revenue recognition			
Services transferred over time	237,145,306	5,389,53	242,534,840
Goods transferred at a point in time	115,655,268	-	115,655,268
Total revenue from contracts with customers	**352,800,574**	**5,389,534**	**358,190,108**

2017	Hospitality	Property Management	Total
Type of goods or service	Saudi Riyal	Saudi Riyal	Saudi Riyal
Rooms	249,126,029	-	249,126,029
Food and beverage	131,412,756	-	131,412,756
Other hotel revenues	14,576,041	-	14,576,041
Management fee	-	6,349,845	6,349,845
Total revenue from contracts with customers	395,114,826	6,349,845	401,464,671
Timing of revenue recognition			
Services transferred over time	263,702,070	6,349,845	270,051,915
Goods transferred at a point in time	131,412,756	-	131,412,756
Total revenue from contracts with customers	395,114,826	6,349,845	401,464,671

22. Cost of revenue

	2018	2017
	Saudi Riyal	Saudi Riyal
Salaries and other related expenses	**146,043,129**	145,352,237
Depreciation (note 11)	**63,388,194**	60,438,397
Food and Beverage	**32,842,131**	38,235,631
Operation requirements and accessories	**23,343,443**	27,480,634
Utilities	**20,859,766**	20,534,120
Rent	**17,932,607**	15,096,914
Advertising and promotion activities	**12,479,810**	13,637,379
Service and operation fees	**10,072,937**	12,823,147
Repair and maintenance	**8,269,172**	9,281,235
Commission for travelling agency and credit card	**4,742,482**	4,606,778
Provision for slow moving inventories (note 9)	**1,172,378**	905,510
Security	**1,154,483**	982,118
Other	**3,680,927**	3,718,514
	345,981,459	353,092,614

23. General and administration expenses

	2018	2017
	Saudi Riyal	Saudi Riyal
Salaries and other related expenses	**19,297,325**	18,301,095
Depreciation (note 11)	**4,024,695**	3,627,348
Subscription	**2,818,892**	2,218,061
Board of director remuneration	**2,350,000**	2,350,000
Professional fee	**2,470,313**	1,871,153
Provision for expected credit loss (note 6)	**1,684,780**	1,294,052
Hospitality	**1,901,930**	1,736,247
Training	**1,039,238**	341,811
Electricity, water, and telecommunication	**489,959**	408,696
Insurance	**501,559**	509,214
Recruitment expenses	**424,536**	408,136
Maintenance	**237,122**	173,775
Entertainment expenses	**120,000**	120,000
Other	**133,083**	139,840
	37,493,432	33,499,428

24. Commitments and contingencies

1. Capital commitments

During the year ended 31 December 2018, the Group has entered into capital commitments of SR 129 million (2017: SR 273.5 million) related to its capital work in progress.

2. Contingencies

As at 31 December 2018, the Group had issued letters of guarantee amounting to SR 38.9 million (2017: SR 39.2 million). These guarantees are without cash margin.

3. Legal claim contingency

The Group is involved in litigation matters in the ordinary course of business, which are being defended. While the ultimate results of these matters cannot be determined with certainty, based on the advice of the legal counsel.

Further, the Group was involved in legal proceedings against a lessor ("the lessor") due to increasing rental charges for a property that was leased by the Group for the period from 2009 to 2014 ("the period"). On 28 November 2018, the court issued its final non-appealable ruling and ordered the Group to pay an amount of SR 14.3 million for leasing the property during the above mentioned period. The Group made a provision of SR 6.9 million in previous years for this legal case contingencies. Pursuant the court final ruling issued during the current year, the Group charged an amount of SR 7.4 million to the consolidated statement of income as an additional charge for this legal case.

4. Operating leases commitment

Group as lessee

Following is the future minimum rentals receivable under non-cancellable operating leases as of 31 December:

	2018	2017
	Saudi Riyal	Saudi Riyal
Within one year	**21,670,610**	15,250,610
More than one year but less than five years	**96,069,492**	93,021,473
More than five years	**438,643,140**	463,361,769
	556,383,242	571,633,852

During the current year, the Group commenced negotiation with a lessor to reduce annual rental rate for one its leased hotel. The total new annual rent rate is SR 21 million that covers the period from 1 July 2018 and subsequent years. As of the date of the consolidated financial statements, the outcome of this negotiation has not been finalised.

Group as lessor

The Group has entered into commercial leases. These non-cancellable leases have remaining terms of between 1 and 5 years. All leases include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions.

Following is the future minimum rentals receivable under non-cancellable operating leases as of 31 December:

	2018	2017
	Saudi Riyal	Saudi Riyal
Within one year	**24,408,710**	-
More than one year but less than five years	**22,386,293**	21,460,000
More than five years	**22,528,037**	14,000,000
	69,323,040	35,460,000

25. Basic and diluted earnings per share

Basic and diluted earnings per share for the year are calculated by dividing net income for the year by the weighted average number of issued and outstanding shares of 100 million during the two years ended 31 December 2018 and 2017.

26. Capital management

The Group's policy is to maintain a strong capital base to maintain investor, creditor and market confidence and to sustain future development of the business.

The Group monitors capital using a ratio of 'net debt' to 'equity'. Net debt is calculated as term loans, trade payables and due to related parties (as shown in the consolidated statement of financial position) less cash and cash equivalents.

Equity comprises all components of equity.

The Group's net debt to equity ratio at 31 December was as follows:

	2018	2017
	Saudi Riyal	Saudi Riyal
Term loans	**748,016,646**	469,749,714
Trade payable	**16,398,327**	34,644,795
Due to related parties	**39,445,341**	16,686,148
	803,860,314	521,080,657
Less: cash and cash equivalents	**(139,789,605)**	(153,206,897)
Net debt	**664,070,709**	367,873,760
Total equity	**1,810,996,899**	1,825,231,594
Net debt to equity ratio	**37%**	20%

27. Financial instruments

1. Financial instruments risk management objectives and policies

The Group is subjected to various financial risks due to its activities including: Market risk (including currency risk, fair value and cash flows of interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

Senior management is responsible for risk management. Financial instruments carried on the consolidated statement of financial position include bank balances, short term deposits, investments, trade receivable, due from/to related parties, term loans, and trade payables. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item. Financial asset and liability is offset and net amounts reported in the consolidated financial statements, when the Group has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and liability simultaneously.

2. Market risk

Market risk is the risk that changes in market prices such as foreign exchange rates, profit rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

3. Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group's transactions are principally in Saudi Riyals and US Dollars. The Saudi Riyal is pegged to the US Dollar.

The management closely and continuously monitors the exchange rate fluctuations.

4. Interest rate risk

Fair value and cash flow interest rate risks are the exposures to various risk associated with the effect of fluctuations in the prevailing interest rates on the Group's financial position and cash flows. The Group's exposure to interest rate risk primarily to the Group's borrowings. The Group manage its financing through optimising available cash and minimising borrowings.

5. Credit risk

Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its trade receivables, cash and cash equivalent and due from related parties as of 31 December:

	2018	2017
	Saudi Riyal	Saudi Riyal
Bank balances and short term deposits	**139,226,155**	152,687,497
Trade receivables	**104,053,300**	84,313,392
Due from related parties	**22,250,094**	21,757,752
	265,529,549	258,758,641

The carrying amount of financial assets represents the maximum credit exposure.

Trade receivables

Customer credit risk is managed subject to the Group's established policy, procedures and control relating to customer credit risk management. Credit quality of the customer assessed based on an extensive credit rating scorecard and individual credit limits defined in accordance with this assessment.

The Group measures the trade receivable net of provision for expected credit loss. For trade receivables, the Group applies a simplified approach in calculating expected credit losses (ECLs).

Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment (see note 6).

As at 31 December 2018, more than 22% (2017: 36%) of the Group's customers are corporate, and an expected credit loss has been recognised against these customers amounted to SR 3.3 million (2017: SR 3.4 million).

In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or corporate, their geographic location, industry, trade history with the Group and existence of previous financial difficulties.

6. Liquidity risk

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

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts and bank loans.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments as at 31 December:

2018	3 to 12 months	1 to 5 years	Total
	Saudi Riyal	Saudi Riyal	Saudi Riyal
Term loans	92,491,060	655,525,586	**748,016,646**
Trade payables	16,398,327	-	**16,398,327**
Due to related parties	39,445,341	-	**39,445,341**
	148,334,728	**655,525,586**	**803,860,314**

2017	3 to 12 months	1 to 5 years	Total
	Saudi Riyal	Saudi Riyal	Saudi Riyal
Term loans	37,491,064	432,258,650	469,749,714
Trade payables	34,644,795	-	34,644,795
Due to related parties	16,686,148	-	16,686,148
	88,822,007	432,258,650	521,080,657

28. Fair value measurement of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Financial instruments comprise of financial assets and financial liabilities. The Group's financial assets consist of bank balances, short term deposits, investments, trade receivables and due from related parties. Its financial liabilities consist of term loans, trade payables and due to related parties.

The management assessed that fair value of bank balances and short term deposits, investments, trade receivables, amounts due from related parties, term loans, trade payables and amounts due to related parties approximate their carrying amounts largely due to the short-term maturities of these instruments.

Financial Assets

	2018	2017
	Saudi Riyal	Saudi Riyal
Financial assets classified as available for sale		
Investment at FVOCI	**7,000,000**	7,000,000
Financial assets carried at amortised cost		
Trade receivables	**104,053,300**	84,313,392
Due from related parties	**22,250,094**	21,757,752
Total financial assets carried at amortised cost	**126,303,394**	106,071,144
Total financial assets	**133,303,394**	113,071,144
Total current financial assets	**126,303,394**	106,071,144
Total non-current financial assets	**7,000,000**	7,000,000
	133,303,394	113,071,144

Financial liabilities

	2018	2017
	Saudi Riyal	Saudi Riyal
Financial liabilities carried at amortised cost		
Trade payables	**16,398,327**	34,644,795
Term loans	**748,016,646**	469,749,714
Due to related parties	**39,445,341**	16,686,148
Total financial liabilities carried at amortised cost	**803,860,314**	521,080,657
Total current financial liabilities	**148,334,728**	88,822,007
Total non-current financial liabilities	**655,525,586**	432,258,650
	803,860,314	521,080,657

The carrying amounts of the financial assets and liabilities reasonably approximate to their fair values.

29. Approval of the consolidated financial statements

These consolidated financial statements were approved by the Board of Directors on 7 Rajab 1440H (corresponding to 14 March 2019).

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