

DUR HOSPITALITY COMPANY
(A Saudi Joint Stock Company)
Condensed Consolidated Interim Financial Statements
For the three months period ended 31 March 2018
together with the
Independent Auditors' Review Report



KPMG Al Fozan & Partners
Certified Public Accountants
KPMG Tower
Salahudeen Al Ayoubi Road
P O Box 92876
Riyadh 11663
Kingdom of Saudi Arabia

Telephone +966 11 874 8500
Fax +966 11 874 8600
Internet www.kpmg.com.sa

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

Independent Auditors' Report On Review Of Interim Financial Statements

The Shareholders
Dur Hospitality Company
(A Saudi Joint Stock Company)
Riyadh, Kingdom of Saudi Arabia

Introduction

We have reviewed the accompanying 31 March 2018 condensed consolidated interim financial statements of **Dur Hospitality Company** ("the Company") and its subsidiaries (collectively referred to as "the Group") which comprises:

- the condensed consolidated statement of financial position as at 31 March 2018;
- the condensed consolidated statement of profit or loss for the three month period ended 31 March 2018;
- the condensed consolidated statement of comprehensive income for the three month period ended 31 March 2018;
- the condensed consolidated statement of changes in equity for the three month period ended 31 March 2018;
- the condensed consolidated statement of cash flows for the three month period ended 31 March 2018;
- and
- the notes to the condensed consolidated interim financial statements.

Management is responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with IAS 34, 'Interim Financial Reporting' that is endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review

Scope of review

We conducted our review in accordance with the International Standard on Review Engagements 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' that is endorsed in the Kingdom of Saudi Arabia. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying 31 March 2018 condensed consolidated interim financial statements of Dur Hospitality Company and its subsidiaries are not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting' that is endorsed in the Kingdom of Saudi Arabia.

**For KPMG Al Fozan & Partners
Certified Public Accountants**



Khalil Ibrahim Al Sedais
License No.: 371



Riyadh on: 9 Sha'aban 1439H
Corresponding to: 25 April 2018

DUR HOSPITALITY COMPANY
(A Saudi Joint Stock Company)
CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION
(Un-Audited)
As at 31 March 2018
(Saudi Riyals)

	<u>Notes</u>	31 March <u>2018</u>	31 December <u>2017</u>
Assets			
Property and equipment, net	6	1,871,021,098	1,886,310,833
Capital work in progress		463,310,859	383,555,729
Investments in equity accounted investees		25,974,475	26,274,475
Available for sale investments		7,000,000	7,000,000
Total Non-Current Assets		<u>2,367,306,432</u>	<u>2,303,141,037</u>
Inventories		23,256,338	23,798,440
Trade receivables		79,349,474	84,313,392
Due from related parties	7	19,910,578	21,757,752
Prepayments and other current assets		29,021,598	19,864,668
Cash and cash equivalents		207,789,991	153,206,897
Total Current assets		<u>359,327,979</u>	<u>302,941,149</u>
Total assets		<u>2,726,634,411</u>	<u>2,606,082,186</u>
Equity and Liabilities			
Equity			
Share capital		1,000,000,000	1,000,000,000
Statutory reserve		500,000,000	500,000,000
Contractual reserve		143,002,490	143,002,490
Retained earnings		132,744,753	144,618,292
Equity attributable to owners of the Company		<u>1,775,747,243</u>	<u>1,787,620,782</u>
Non-controlling interests		38,340,891	37,610,812
Total equity		<u>1,814,088,134</u>	<u>1,825,231,594</u>
Non-Current Liabilities			
Long term loans – non-current portion	8	480,098,036	432,258,650
Employee benefits		51,978,789	54,182,936
Total Non-Current Liabilities		<u>532,076,825</u>	<u>486,441,586</u>
Current Liabilities			
Long term loans – current portion	8	52,931,060	37,491,064
Trade payables		48,513,122	34,644,795
Due to related parties	7	32,329,428	16,686,148
Accrued expenses and other current liabilities		155,068,456	145,167,711
Dividends payable		75,250,279	45,301,426
Zakat provision		16,377,107	15,117,862
Total Current Liabilities		<u>380,469,452</u>	<u>294,409,006</u>
Total Liabilities		<u>912,546,277</u>	<u>780,850,592</u>
Total equity and liabilities		<u>2,726,634,411</u>	<u>2,606,082,186</u>

The accompanying notes from (1) to (9) form an integral part of these condensed consolidated interim financial statements.

DUR HOSPITALITY COMPANY
(A Saudi Joint Stock Company)
CONDENSED CONSOLIDATED INTERIM STATEMENT OF PROFIT OR LOSS
(Un-Audited)
For the three months period ended 31 March 2018
(Saudi Riyals)

	<i>Notes</i>	Three months period ended 31 March <u>2018</u>	Three months period ended 31 March <u>2017</u>
Hospitality income		91,987,400	98,675,837
Rental income		21,920,319	18,582,996
Management fees		1,165,083	1,169,691
Total revenues	5	<u>115,072,802</u>	<u>118,428,524</u>
Cost of revenues		<u>(86,635,692)</u>	<u>(86,252,181)</u>
Gross profit		28,437,110	32,176,343
Other income		825,160	1,008,529
Selling and distribution expenses		(477,563)	--
General and administrative expenses		(8,260,466)	(7,481,935)
Loss from investments in equity accounted investees		(300,000)	--
Operating profit		<u>20,224,241</u>	<u>25,702,937</u>
Finance income		222,729	401,932
Finance expenses		(280,430)	--
Profit before zakat		<u>20,166,540</u>	<u>26,104,869</u>
Zakat		(1,310,000)	(1,460,000)
Profit for the period		<u>18,856,540</u>	<u>24,644,869</u>
Profit attributable to:			
Owners of the Company		18,126,461	24,911,008
Non-controlling interests		730,079	(266,139)
Profit for the period		<u>18,856,540</u>	<u>24,644,869</u>
Earnings per share			
Basic and Diluted earnings per share (SR)		<u>0.18</u>	<u>0.25</u>

The accompanying notes from (1) to (9) form an integral part of these condensed consolidated interim financial statements.

DUR HOSPITALITY COMPANY
(A Saudi Joint Stock Company)
CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME
(Un-Audited)
For the three months period ended 31 March 2018
(Saudi Riyals)

	Three months period ended 31 March <u>2018</u>	Three months period ended 31 March <u>2017</u>
Profit for the period	<u>18,856,540</u>	<u>24,644,869</u>
Total comprehensive income for the period	<u>18,856,540</u>	<u>24,644,869</u>
Total comprehensive income for the period		
Attributable to:		
Owners of the Company	<u>18,126,461</u>	24,911,008
Non-controlling interests	<u>730,079</u>	<u>(266,139)</u>
Total comprehensive income for the period	<u>18,856,540</u>	<u>24,644,869</u>

The accompanying notes from (1) to (9) form an integral part of these condensed consolidated interim financial statements.

DUR HOSPITALITY COMPANY
(A Saudi Joint Stock Company)
CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY (Un-Audited)
For the three months period ended 31 March 2018
(Saudi Riyals)

	Attributable to owners of the Company						Non-controlling interests	Total equity
	Share capital	Statutory reserve	Contractual reserve	Retained earnings	Total	Total		
Balance at 1 January 2017	1,000,000,000	500,000,000	143,002,490	135,455,804	1,778,458,294	37,292,773	1,815,751,067	
Total comprehensive income for the year	--	--	--	24,911,008	24,911,008	(266,139)	24,644,869	
Balance at 31 March 2018	<u>1,000,000,000</u>	<u>500,000,000</u>	<u>143,002,490</u>	<u>160,366,812</u>	<u>1,803,369,302</u>	<u>37,026,634</u>	<u>1,840,395,936</u>	
Balance at 1 January 2018	1,000,000,000	500,000,000	143,002,490	144,618,292	1,787,620,782	37,610,812	1,825,231,594	
Total comprehensive income for the period	--	--	--	18,126,461	18,126,461	730,079	18,856,540	
Dividends	--	--	--	(30,000,000)	(30,000,000)	--	(30,000,000)	
Balance at 31 March 2018	<u>1,000,000,000</u>	<u>500,000,000</u>	<u>143,002,490</u>	<u>132,744,753</u>	<u>1,775,747,243</u>	<u>38,340,891</u>	<u>1,814,088,134</u>	

The accompanying notes from (1) to (9) form an integral part of these condensed consolidated interim financial statements.

DUR HOSPITALITY COMPANY
(A Saudi Joint Stock Company)
CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOW (Un-Audited)
For the three months period ended 31 March 2018
(Saudi Riyals)

	<i>Notes</i>	Three months period ended 31 March <u>2018</u>	Three months period ended 31 March <u>2017</u>
Cash flow from operating activities			
Profit for the period before zakat		20,166,540	26,104,869
<i>Adjustments for:</i>			
Depreciation	5	16,955,246	14,337,960
Share of losses of equity accounted investee		300,000	--
Gain on sale of property and equipment		--	(101,830)
Employee benefits		1,818,125	1,865,865
Provision for doubtful debts		135,448	47,664
Reversal of provision		(721,879)	--
Write-down of inventories		275,000	--
		<u>38,928,479</u>	<u>42,254,528</u>
<i>Changes in:</i>			
-Trade receivables		5,550,349	(23,029,921)
-Prepayments and other current assets		(9,156,930)	(6,810,768)
-Inventories		267,102	954,247
-Due form related parties		1,847,174	3,656,962
-Trade payables		13,868,326	6,808,356
-Accrued expenses and other current liabilities		9,900,746	16,343,934
-Dividends payable		(51,147)	(744,792)
-Due to related parties		15,643,280	--
Cash generated from operating activities		<u>76,797,380</u>	<u>39,432,546</u>
Zakat paid		(50,755)	--
Employee benefits paid		(4,022,272)	(3,851,474)
Net cash from operating activities		<u>72,724,353</u>	<u>35,581,073</u>
Cash flow from investing activities			
Proceeds from sale of property and equipment		--	128,830
Purchase of property and equipment	5	(1,665,512)	(4,106,787)
Additions of capital work in progress		(79,755,130)	(71,463,968)
Net cash used in investing activities		<u>(81,420,641)</u>	<u>(75,441,925)</u>
Cash flow from financing activities			
Proceeds from long term loans		72,652,147	22,073,610
Repayment of long term loans		(9,372,765)	(1,554,909)
Net cash from financing activities		<u>63,279,382</u>	<u>20,518,701</u>
Net decrease in cash and cash equivalents		54,583,094	(19,342,151)
Cash and cash equivalents at 1 January		153,206,897	188,460,042
Cash and cash equivalents at 31 March		<u>207,789,991</u>	<u>169,117,891</u>

The accompanying notes from (1) to (9) form an integral part of these condensed consolidated interim financial statements.

DUR HOSPITALITY COMPANY
(A Saudi Joint Stock Company)
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Un-Audited)
For the three months period ended 31 March 2018
(Saudi Riyals)

1. REPORTING ENTITY

Dur Hospitality Company (formerly known as Saudi Hotels and Resorts Company) ("the Company" or "the Parent Company") is a Saudi Joint Stock Company formed under the Regulations for Companies and registered in Saudi Arabia under the Commercial Registration No. 1010010726 dated 6 Muharram 1397H (corresponding to 27 December 1976).

The Company's activities comprise of constructing, owning, operating, managing, investing, buying, entering into partnership, renting hotels, restaurants, motels, rest stops, entertainment centres, travel agencies, private beaches which vary in grade and size in cities, public roads and tourism areas. In addition, the activities include owning, developing and dividing lands and constructing buildings on them or renting them, providing services to pilgrims and visitors to the Prophet's Mosque in addition to carrying out all core and intermediate business required to implement process and start various activities of the above mentioned works in line with their purposes. The Company shall carry out its purposes by itself or through contracting others jointly or separately.

1.1 Share Capital

The Company's capital amounting SR 1,000,000,000 is divided into 100 million shares of SR 10 per share.

The Company's head office is located in the city of Riyadh
P.O. Box 5500 Riyadh 11422
Kingdom of Saudi Arabia

1.2 The Condensed Consolidated Interim Financial Statements

The condensed consolidated interim financial statements include the financial statements of Dur Hospitality Company and its subsidiaries (collectively referred to as "the Group") in which the Company owns direct share in their equity that enables it to exercise control over them. These subsidiaries as at 31 March 2018 are as follows:

<u>Name of the subsidiary</u>	<u>Capital</u>	<u>Shareholding</u> %
Makkah Hotels company LLC	165,600,000	99.44%
Saudi Hotel Services company	70,000,000	70%
Alnakheel for Tourist Areas Limited company	59,250,000	98.73%
Tabuk Hotels company LLC	27,300,000	97.14%
Jude Alia company Limited	100,000	99%
The Security Source Limited company	100,000	95%
Al Sawaed Al Kareemah Investment and Real Estate Development company	100,000	95%
Dara Oasis company limited. (sole proprietorship)	100,000	100%
Hotel Hospitality Ambassadors Company (sole proprietorship)	100,000	100%

The following are details of the subsidiaries and their activities:

Makkah Hotels Company LLC

Makkah Hotels Company Limited is a limited liability company and was formed in the Kingdom of Saudi Arabia and registered under the Commercial Registration No. 4031011879 dated 20 Ramadan 1402H (corresponding to 12 July 1982). The purpose of the company is to work in the hospitality activity in general inside and outside the Kingdom through owning, investing or entering in to partnership for hotels and restaurants. The company owns Makarim Ajyad Makkah Hotel in Makkah.

DUR HOSPITALITY COMPANY
(A Saudi Joint Stock Company)
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Un-Audited)
For the three months period ended 31 March 2018
(Saudi Riyals)

1. REPORTING ENTITY (CONTINUED)

1.2 The Condensed Consolidated Interim Financial Statements (continued)

Saudi Hotel Services Company LLC

Saudi Hotel Service company is a limited liability company and was formed in the Kingdom of Saudi Arabia under the Commercial Registration No. 1010010454 dated 11 Dhu Al-Qa'dah 1433H corresponding to 4 November 1996. The principal activities of the company include establishment of a five-star tourist hotel in the city of Riyadh, its management, investment and performing all related legal proceedings in addition to conducting all basic and intermediate work necessary to execute, prepare and direct different activities of the hotel in the way that consistent with the purpose in which it is intended, and contracting with others in all matters related to the hotel. The company conducts its activity through managing and operating Riyadh Palace Hotel under License No. 1306 dated 25 Dhu Al-Qa'adah 1416H (corresponding to 16 April 1996).

Alnakheel for Tourist Areas Company Limited

Alnakheel for Tourist Areas Company Limited is a limited liability company and was formed in Kingdom of Saudi Arabia and registered under the Commercial Registration No. 4030092204 dated 22 Jumada II 1413H (corresponding to 17 December 1992). The company's purpose is to construct, own, rent and sell of residential, commercial and leisure properties, hotels, restaurants, guesthouses, tourism beaches amusement parks and gymnasiums. The company owns Makarim Annakheel Village in Jeddah. During 2008, the company acquired an additional 48% in the company's share capital from several other shareholders. The company is still in the process of completing the legal procedures to amend the Article of Association and the Commercial Registration in relation to this acquisition.

Tabuk Hotels Company LLC

Tabuk Hotels Limited company is a limited liability company and was formed in Kingdom of Saudi Arabia and registered under the Commercial Registration No. 3550006303 dated 5 Rabi II 1406H (corresponding to 17 December 1985). The company is engaged in the establishment of a five star hotel in a northern region of Tabuk including hotel facilities, services, and hotel activity in general inside and outside the Kingdom through owning, renting or entering into partnership for hotels and restaurants. The company owns Holiday Inn Tabuk Hotel in Tabuk. During 2008, the company acquired an additional 44% in the company's share capital from several other shareholders. The company is still in the process of completing the legal procedures to amend the Article of Association and the Commercial Registration in relation to this acquisition.

Jude Alia Company Limited

Jude Alia company Limited is a limited liability company and was formed in the Kingdom of Saudi Arabia under the Commercial Registration No. 1010433370 dated 27 Dhu Al-Hijjah 1435H, corresponding to 21 October 2014. The principal activities of the company include building and construction.

The Security Source Company Limited

The Security Source Company Limited is a limited liability company and was formed in the Kingdom of Saudi Arabia under the Commercial Registration No. 1010428949 dated 16 Shawwal 1435H, corresponding to 13 August 2014. The principal activities of the company include securing and providing special civil security guard services throughout the Kingdom of the third class with a number not exceeding four hundred Saudi civil security guard pursuant to the Public Security letter No. (3/1078413) dated 28 Rajab 1435H.

DUR HOSPITALITY COMPANY
(A Saudi Joint Stock Company)
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(Un-Audited)
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1. REPORTING ENTITY (CONTINUED)

1.2 The Condensed Consolidated Interim Financial Statements (continued)

Al Sawaed Al Kareemah Investment and Real Estate Development Company

Al Sawaed Al Kareemah Investment and Real Estate Development Company is a limited liability company and was formed in the Kingdom of Saudi Arabia under the Commercial Registration No. 1010437489 dated 30 Sha'ban 1436H, corresponding to 17 June 2015. The principal activities of the company include construction, building, transportation, storage, refrigeration, financial and business and other services, personal, community and social services, trading, information technology, as well as tourist accommodation services pursuant to license of the Saudi Commission for Tourism and National Heritage No. (37/0096/F) dated 6 Safar 1437H.

Hotel Hospitality Ambassadors Company (sole proprietorship)

The Hotel Hospitality Ambassadors Company (sole proprietorship) is a limited liability company registered in the Kingdom of Saudi Arabia under Commercial Registration No. 1010901133 dated 27 Safar 1439H corresponding to 16 November 2017. The company's activities are in tourism, restaurants, hotels and exhibitions. And after obtaining the necessary licenses from the competent authorities.

Dara Oasis company limited. (sole proprietorship)

Oasis Dara Company Limited (sole proprietorship) Limited Liability Company registered in the Kingdom of Saudi Arabia under Commercial Registration No. 1010901131010901133 dated 27 Safar 1439H corresponding to 16 November 2017. The company's activities are in tourism, And after obtaining the necessary licenses from the competent authorities.

2. BASIS OF PREPARATION

Statement of Compliance

These Condensed Consolidated Interim Financial Statements have been prepared in accordance with IAS 34 Interim Financial Reporting that is endorsed in Kingdom of Saudi Arabia and other standards and pronouncements that are issued by Saudi Organization for Certified Public Accountants ("SOCPA") and should be read in conjunction with the Group's last annual Consolidated Financial Statements as at and for the year ended 31 December 2017 ("last annual Financial Statements"). They do not include all of the information required for a complete set of IFRS Financial Statements however, accounting policies and selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual Financial Statements.

BASIS OF MEASUREMENT

These interim financial statements have been prepared on the historical cost basis, except for defined benefits plan which measured at present value of future obligations using Projected Unit Credit Method. Furthermore, these condensed consolidated interim financial statements are prepared using the accrual basis of accounting and the going concern concept.

The financial performance for the three months period ended 31 March 2018 may not represent an accurate indicator for the annual financial performance of the Group.

DUR HOSPITALITY COMPANY
(A Saudi Joint Stock Company)
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Un-Audited)
For the three months period ended 31 March 2018
(Saudi Riyals)

2. BASIS OF PREPARATION (CONTINUED)

FUNCTIONAL AND PRESENTATION CURRENCY

These condensed consolidated interim financial statements are presented in Saudi Riyals (“SR”), which is the Group’s presentation currency.

3. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

Except as described below, the accounting policies applied in these interim financial statements are the same as those applied in the Group’s consolidated financial statements as at and for the year ended 31 December 2017.

The changes in accounting policies are also expected to be reflected in the Group’s consolidated financial statements as at and for the year ending 31 December 2018.

The Group has adopted IFRS 15 Revenue from Contracts with Customers (see A) and IFRS 9 Financial Instruments (see B) from 1 January 2018. Other new standards are effective from 1 January 2018 but they do not have a material effect on the Group’s financial statements.

The effect of applying these standards is illustrated in point (a) and (b) below.

A. IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, and related interpretations.

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 15 did not have a material impact on the Group’s revenue recognition.

The details of the new significant accounting policies and the nature of the changes to previous accounting policies in relation to the Group’s various services are set out below.

Type of service	Nature, timing of satisfaction of performance obligations, significant payment terms	Nature of change in accounting policy
Revenue arrangements with guests	The Group identifying goods or services promised to a customer (e.g. room stays, food and beverages) that represent performance obligations.	Revenue is recognised when rooms are occupied and food and beverages are sold.
Management fees	The Group identifying services promised to a customer (owning company). The management is determining the pattern of revenue recognition (management fees) that represent performance obligations.	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; recognized when earned on an accrual basis under the terms of the contract.

DUR HOSPITALITY COMPANY
(A Saudi Joint Stock Company)
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(Un-Audited)
For the three months period ended 31 March 2018
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3. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. IFRS 9 Financial Instruments

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

The details of the new significant accounting policies are set out below:

i- Classification and measurement of financial assets and financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale.

The adoption of IFRS 9 has not had a significant effect on the Group's accounting policies related to financial liabilities and financial instruments.

The impact of IFRS 9 on the classification and measurement of financial assets is set out below:

Under IFRS 9, on initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – equity investment; or FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This choice is made for each investment.

A financial asset (unless it is a trade receivable without a significant financing component that is initially measured at the transaction price) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition.

The following accounting policies apply to the subsequent measurement of financial assets.

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses (see (ii) below). Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

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.

DUR HOSPITALITY COMPANY
(A Saudi Joint Stock Company)
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(Un-Audited)
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3. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ii. Impairment of financial assets

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 FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

The financial assets at amortised cost consist of trade receivables and cash and cash equivalents.

Under IFRS 9, loss allowances 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 loss allowances at an amount equal to 12-month 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 entity 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.

4. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied in these condensed consolidated interim financial statements are in accordance with International Financial Reporting Standards "IFRS" that is endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA which are consistent with those that were applied in the Group's annual consolidated financial statements in accordance with IFRS as at and for the year ended 31 December 2017.

Standards issued but not yet effective

Following are the new standards and amendments to standards effective, applicable to the Group, for annual periods beginning after 1 January 2019 and earlier application is permitted; however, the Group has not early adopted them in preparing these interim condensed consolidated financial statements.

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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IFRS 16 Leases

IFRS 16 introduces a single, on-statement of financial position lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance including 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. The standard is effective for annual periods beginning on or after 1 January 2019.

The actual impact of applying IFRS 16 on the interim consolidated financial statements in the period of initial application will depend on future economic conditions, including the Group's borrowing rate at 1 January 2019, the composition of the Group's lease portfolio at that date, the Group's latest assessment of whether it will exercise any lease renewal options and the extent to which the Group chooses to use practical expedients and recognition exemptions.

Determining whether an arrangement contains a lease

On transition to IFRS 16, the Group can choose whether to:

- Apply the IFRS 16 definition of a lease to all its contracts; or
- Apply a practical expedient and not reassess whether a contract is, or contains, a lease.

Transition

As a lessee, the Group can either apply the standard using a:

- Retrospective approach; or
- Modified retrospective approach with optional practical expedients.

The lessee applies the election consistently to all of its leases. The Group currently plans to apply IFRS 16 initially on 1 January 2019. The Group has not yet determined which transition approach to apply. As a lessor, the Group is not required to make any adjustments for leases in which it is a lessor except where it is an intermediate lessor in a sub-lease.

5. OPERATING SEGMENTS

The Group has the following three strategic divisions, which are its reportable segments. These divisions 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.

<u>Reportable</u>	<u>Operations</u>
Hospitality	Represents hotels owned by the Group and revenues generated from them whether these hotels are operated by the Group or by an external operator independent of the Group.
Property management	Represents properties owned by the Group which are utilized by or leased to others and this primarily comprises of residential compounds and commercial properties.
Management fees	Represents managing and operating of hotels and properties, which are not owned by the Group.

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5. OPERATING SEGMENTS (CONTINUED)

	Reported segments		
	Hospitality	Management fees	Property management
	2018	2018	2018
31 March 2018			Total
Segments revenues	91,987,400	1,165,083	21,920,319
Segments costs	(72,500,189)	(1,473,958)	(9,661,545)
Segments gross profit	16,487,211	(308,875)	12,258,774
Finance income	81,801	--	--
Depreciation and amortization	15,587,295	--	3,062,227
Segments assets	606,067,929	--	2,027,861,646
Property and equipment, capital work in progress	1,002,142,458	--	1,239,684,664
Segments liabilities	214,080,981	--	698,465,296

	Reported segment		
	Hospitality	Management fees	Property Management
	2017	2017	2017
31 March 2017			Total
Segments revenues	98,675,837	1,169,691	18,582,996
Segments costs	(75,938,911)	(1,056,299)	(9,256,971)
Segments gross profit	22,736,926	113,392	9,326,025
Finance income	401,932	--	--
Depreciation and amortization	11,675,020	--	2,662,940
Segment assets	649,461,389	--	1,806,300,950
Property and equipment, capital work in progress	930,382,457	--	1,166,360,007
Segment liabilities	162,108,108	--	471,296,279

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5. OPERATING SEGMENTS (CONTINUED)

Reconciliation of information on reportable segments to net profit of the Group

	31 March 2018	31 March 2017
Profit from reported segment	28,437,110	32,176,343
Un allocated amount:		
Other income	825,160	1,008,529
Selling and distribution expenses	(477,563)	--
General and administrative expenses	(8,260,466)	(7,481,935)
Finance income	222,729	401,932
Finance expense	(280,430)	--
Loss from investments in equity accounted investees	(300,000)	--
Total Un allocated amount	<u>(8,270,570)</u>	<u>(6,071,475)</u>
Consolidated profit before zakat	<u>20,166,540</u>	<u>26,104,869</u>

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6. PROPERTY AND EQUIPMENT, NET

	31 March 2018							
	<u>Lands</u>	<u>Buildings</u>	<u>Improvements on buildings</u>	<u>Furniture</u>	<u>Vehicles</u>	<u>Devices and equipment</u>	<u>Elevator and central air conditioning</u>	<u>Total</u>
<u>Cost:</u>								
Balance at 1 January	724,671,319	1,432,002,793	47,757,747	287,493,017	8,223,587	59,131,857	70,315,978	2,629,596,298
Additions	--	--	--	65,161	36,000	1,561,680	2,671	1,665,512
	<u>724,671,319</u>	<u>1,432,002,793</u>	<u>47,757,747</u>	<u>287,558,177</u>	<u>8,259,587</u>	<u>60,693,538</u>	<u>70,318,648</u>	<u>2,631,261,809</u>
<u>Accumulated depreciation:</u>								
Balance at 1 January	--	465,205,176	29,864,703	189,825,815	7,889,585	21,676,449	28,823,737	743,285,465
Charged for the year	--	6,911,740	3,416,657	3,492,767	12,067	1,716,376	1,405,639	16,955,246
	<u>--</u>	<u>472,116,916</u>	<u>33,281,360</u>	<u>193,318,582</u>	<u>7,901,652</u>	<u>23,392,825</u>	<u>30,229,376</u>	<u>760,240,711</u>
<u>Net Book Value:</u>								
31 March 2018	<u>724,671,319</u>	<u>959,885,877</u>	<u>14,176,386</u>	<u>94,239,595</u>	<u>357,935</u>	<u>37,300,713</u>	<u>40,089,272</u>	<u>1,871,021,098</u>
31 December 2017	<u>724,671,319</u>	<u>966,797,617</u>	<u>17,893,044</u>	<u>97,667,202</u>	<u>334,002</u>	<u>37,455,408</u>	<u>41,492,241</u>	<u>1,886,310,833</u>

Capital commitments

During the three month period ended 31 March 2018, the Group entered into a contract to buy property, plant and equipment for SR 14 million (year ended 31 December 2017 for SR 273 million). These relate to contracts signed for the construction of Safarat Ditrict Hotel, the third, fourth and fifth phase of Darraq project, Aljubail Hotel, Makarem Riyadh Expand and Ajyad Makkah Renovation.

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7. RELATED PARTIES

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:

7/1 Due from related parties

	<u>Relationship</u>	<u>Nature of transaction</u>	<u>Transactions amount</u>			<u>Balance</u>	
			31 March 2017	31 March 2018	31 December 2017	31 March 2018	31 December 2017
Makarim Al Marifa Company	Affiliate	Technical fees	190,780	338,835	1,024,330	18,428,951	20,554,162
AL Yasmin Compound	Affiliate	Management fees	153,741	169,882	--	383,493	--
Makarim residence Compound	Affiliate	Management fees	199,870	116,726	--	343,181	--
Makarim ALBait Hotel	Affiliate	Management fees	911,670	223,556	931,023	335,531	63,129
Al Jazira Badr	Affiliate	Management fees	860,614	288,318	586,057	288,318	480,733
Saudi Company for Heritage Hospitality	Associate	Technical fees	1,019,102	496,849	909,234	131,104	167,084
Umm AlQura Makarim Hotel	Affiliate	Management fees	2,315,400	--	1,730,442	--	225,752
Makarim Mena Hotel	Affiliate	Management fees	--	--	260,000	--	266,892
Asecla Investment Company	Affiliate	Rent	400,000	400,000	400,000	--	--
						19,910,578	21,757,752

7/2 Due to related parties

	<u>Relationship</u>	<u>Nature of transaction</u>	<u>Transactions amount</u>			<u>Balance</u>	
			31 March 2017	31 March 2018	31 December 2017	31 March 2018	31 December 2017
Al Madinah Limited Company LLC	Associate	Payments on behalf	826,901	2,382,539	895,959	14,855,366	13,327,063
Umm AlQura Makarim Hotel	Affiliate	Management fees	--	495,564	--	7,071,251	--
Al Rawda residence Compound	Affiliate	Management fees	213,523	3,826,809	1,850,927	3,364,688	158,331
Makarim Mena Hotel	Affiliate	Management fees	314,980	2,838,768	--	2,838,768	--
Al Mazzar Compound	Affiliate	Management fees	740,920	2,760,000	715,840	2,374,352	84,084
Al Andalus residence Compound	Affiliate	Management fees	528,735	1,819,900	988,023	1,825,003	1,330,281
AL Yasmin Compound	Affiliate	Management fees	--	--	1,786,389	--	1,786,389
						32,329,428	16,686,148

All outstanding balances with these related parties are to be settled in cash.

Transactions with key management personnel

Salaries, bonuses and end of service of the Group's key management persons

	31 March 2018	31 March 2017
	1,448,043	1,078,526

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8. LOANS AND BORROWINGS

	31 March 2018	31 December 2017
Non-current liabilities:		
Secured bank loan	480,098,036	432,258,650
Current liabilities:		
Secured bank loan	52,931,060	37,491,064
	533,029,096	469,749,714

Terms and repayments schedule

The terms and conditions of outstanding loans are as follows:

	<u>Currency</u>	<u>Rate</u>	<u>Face Value</u>	<u>Carrying Amount</u>	<u>Year of maturity</u>
Balance at 1 January 2018				469,749,714	
Proceeds during the period:					
Local bank	SR	Sibor+ Agreed interest rate	318,900,000	72,652,147	2023
Repayment:					
Local bank	SR	Sibor+ Agreed interest rate	(9,372,765)	(9,372,765)	
Balance at 31 March 2018				533,029,096	--

The Group has a secured bank loan in the form of financing, forward sale and Murabaha, with a total value of SR 771.9 million (2017: SR 371.9 million) at variable Murabaha rates. This financing is secured by promissory notes issued for the entire amount of facilities with the local commercial bank as beneficiaries and waiving the proceeds of Darraq rentals (Phase II and III) with an annual value of SR 42.6 million along with the letter of undertaking to waive proceeds of the contracts for which the bank issues final letters of guarantee and /or letters of guarantee - advance payment.

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9. FINANCIAL INSTRUMENTS**Financial assets**

	31 March 2018	31 December 2017
Financial assets classified as available for sale		
Equity Investment at FVOCI *	<u>7,000,000</u>	<u>7,000,000</u>
Total financial assets classified as Equity Investment at FVOCI	<u>7,000,000</u>	<u>7,000,000</u>
Financial assets carried at amortized cost		
Trade receivables	<u>79,349,474</u>	<u>84,313,392</u>
Due from related parties	<u>19,910,578</u>	<u>21,757,752</u>
Total financial assets carried at amortized cost	<u>99,260,052</u>	<u>106,071,144</u>
Total financial assets	<u>106,260,052</u>	<u>113,071,144</u>
Total current assets	<u>99,260,052</u>	<u>106,071,144</u>
Total non-current assets	<u>7,000,000</u>	<u>7,000,000</u>

* Equity Investment at FVOCI include unquoted securities amounting to SR 7,000,000 carried at cost less impairment due to absence of an active market.

Financial liabilities

	31 March 2018	31 December 2017
Financial liabilities carried at amortized cost		
Trade payables	<u>45,645,165</u>	<u>34,644,795</u>
Loans and borrowings	<u>533,029,096</u>	<u>469,749,714</u>
Due to related parties	<u>32,329,428</u>	<u>16,686,148</u>
Total financial liabilities carried at amortized cost	<u>611,003,689</u>	<u>521,080,657</u>
Total current liabilities	<u>130,905,653</u>	<u>88,822,007</u>
Total non-current liabilities	<u>480,098,036</u>	<u>432,258,650</u>
	<u>611,003,689</u>	<u>521,080,657</u>

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