

DUR HOSPITALITY COMPANY
(A Saudi Joint Stock Company)
Interim Consolidated Financial Statements (Un-audited)
For the three and six month period ended 30 June 2016
together with
Independent Auditors' Review Report



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REVIEW REPORT ON THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

Scope of Review

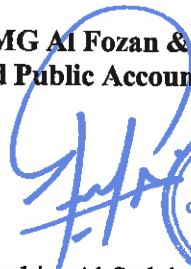
We have reviewed the accompanying interim consolidated balance sheet of Dur Hospitality Company and its subsidiaries (collectively referred to as "the Group") as at 30 June 2016, the related interim consolidated statement of income for the three and six-month period then ended, the interim consolidated statements of cash flows and changes in equity for the six-month period then ended and the attached notes (1) to (22) which form an integral part of the interim consolidated financial statements. These interim consolidated financial statements are the responsibility of the management of the Group and have been prepared by them and submitted to us together with all the information and explanations which we required. Our responsibility is to express a conclusion on these interim consolidated financial statements based on our review.

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

Conclusion

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

For KPMG Al Fozan & Partners
Certified Public Accountants


Khalil Ibrahim Al Sedais
License No. 371



Date: 26 Shawwal 1437H
Corresponding to: 31 July 2016

DUR HOSPITALITY COMPANY
(A Saudi Joint Stock Company)
INTERIM CONSOLIDATED BALANCE SHEET (UN-AUDITED)
As at 30 June 2016
(Saudi Riyals)

	<u>Note</u>	<u>30 June 2016</u>	<u>30 June 2015</u> (Restated Note 10)
<u>Assets</u>			
Current assets			
Cash on hand and at banks	(4)	166,098,940	836,033,293
Trade receivables, net		90,477,991	81,047,682
Inventories		28,024,740	30,239,763
Prepayments and other current assets	(5)	29,832,218	22,286,520
Due from related parties		5,147,296	3,110,019
Total current assets		319,581,185	430,520,017
Non-current assets			
Investment in equity accounted investees	(6)	32,452,859	33,088,556
Available for sale investments	(7)	46,134,809	65,844,921
Property and equipment, net	(8)	1,662,594,189	1,478,420,771
Projects in progress	(9)	313,924,004	243,198,145
Total non-current assets		2,055,105,861	1,820,552,393
Total assets		2,374,687,046	2,251,072,410
<u>Liabilities and equity</u>			
Current liabilities			
Current portion of long term loans	(11)	31,500,000	13,651,029
Trade payables		17,785,213	7,154,645
Accrued expenses and other current liabilities	(12)	118,536,170	123,380,053
Dividends payable		53,366,488	92,621,882
Due to related parties		14,069,675	12,169,074
Zakat provision		16,388,978	13,316,185
Total current liabilities		251,646,524	262,292,868
Non-current liabilities			
Long-term loans	(11)	245,172,893	126,207,634
Employees' end of service benefits		55,036,776	33,466,918
Total non-current liabilities		300,209,669	159,674,552
Total liabilities		551,856,193	421,967,420
<u>Equity</u>			
Equity attributable to the Company's shareholders			
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		135,951,536	131,844,247
Unrealized gains on available for sale investments		5,965,906	17,588,800
Total equity attributable to Company's shareholders		1,784,919,932	1,792,435,537
Non-controlling interest		37,910,921	36,669,453
Total equity		1,822,830,853	1,829,104,990
Total liabilities and equity		2,374,687,046	2,251,072,410

The accompanying notes from (1) to (22) form an integral part of these interim consolidated financial statements.

DUR HOSPITALITY COMPANY
(A Saudi Joint Stock Company)
INTERIM CONSOLIDATED STATEMENT OF INCOME (UN-AUDITED)
For the three and six-month period ended 30 June 2016
(Saudi Riyals)

	<i>Note</i>	For the three-month period ended		For the six-month period ended	
		30 June 2016	30 June 2015 (Restated Note 10)	30 June 2016	30 June 2015 (Restated Note 10)
Revenue	(14)	135,219,010	127,900,837	270,150,022	260,933,194
Cost of revenue	(15)	(95,922,925)	(85,467,658)	(188,568,941)	(169,996,619)
Gross profit		39,296,085	42,433,179	81,581,081	90,936,575
General and administrative expenses	(16)	(9,611,447)	(9,546,586)	(18,987,389)	(15,382,425)
Selling and marketing expenses		(188,259)	(325,614)	(429,091)	(513,424)
Income from investments in equity accounted investees	(6)	--	1,600,955	--	2,808,140
Operating income		29,496,379	34,161,934	62,164,601	77,848,866
Income from disposal of investments in equity accounted investees	(10)	--	892,546	--	892,546
Gain from acquisition of subsidiaries	(10)	--	1,563,304	--	1,563,304
Other income	(17)	503,504	1,554,938	935,635	4,094,877
Net income before Zakat and non- controlling interest		29,999,883	38,172,722	63,100,236	84,399,593
Zakat provision		(1,090,499)	(1,462,524)	(2,391,006)	(2,611,963)
Net income before non - controlling interest		28,909,384	36,710,198	60,709,230	81,787,630
Share of non-controlling interest in the net profit of the subsidiaries		255,131	(84,007)	(44,449)	(200,493)
Net income		29,164,515	36,626,191	60,664,781	81,587,137
Earnings per share from:	(18)				
Net income		0.29	0.37	0.61	0.82
Operating income		0.29	0.34	0.62	0.78
Other income		0.005	0.016	0.009	0.04

The accompanying notes from (1) to (22) form an integral part of these interim consolidated financial statements.

DUR HOSPITALITY COMPANY
(A Saudi Joint Stock Company)
INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS (UN-AUDITED)
For the six-month period ended 30 June 2016
(Saudi Riyals)

	<u>Note</u>	<u>2016</u>	<u>2015</u> (Restated Note 10)
<u>Cash flows from operating activities</u>			
Net income before Zakat and non-controlling interest		63,100,236	84,399,593
<i>Adjustments to reconcile net income to net cash generated from operating activities</i>			
Depreciation	(8)	28,564,422	23,566,911
Amortization of deferred expenses	(16)	1,243,866	1,243,866
Gain on sale of property and equipment	(17)	--	(1,115,300)
Provision for end of service benefits		7,823,291	8,423,722
Provision for doubtful debts	(16)	513,634	2,626,502
Provision for slow-moving inventories	(15)	187,500	300,000
Income from investments in equity accounted investees	(6)	--	(2,808,140)
		<u>101,432,949</u>	<u>116,637,154</u>
<u>Changes in operating assets and liabilities:</u>			
Trade receivables		(18,744,314)	(18,795,133)
Prepayments and other current assets		(8,425,764)	(2,943,283)
Due from related parties		(3,012,699)	3,968,352
Inventories		62,514	(4,468,158)
Trade payables		3,014,388	(4,195,539)
Accrued expenses and other current liabilities		18,638,359	14,283,140
Due to related parties		4,183,384	(2,400,970)
Zakat paid		(3,345,053)	(5,970,334)
End of service benefits paid		(2,650,704)	(18,986,336)
Net cash flows generated from operating activities		<u>91,153,060</u>	<u>77,128,893</u>
<u>Cash flows from investing activities</u>			
Payments for purchase of property, equipment and projects in progress		(141,471,720)	(68,594,284)
Payments for investment in equity accounted investees	(6)	--	(15,937,500)
Proceeds from sale of property and equipment	(17)	--	1,115,300
Net cash from acquired companies	(10)	--	6,065,444
Proceeds from investment in equity accounted investees	(6)	--	1,800,000
Net cash flows used in investing activities		<u>(141,471,720)</u>	<u>(75,551,040)</u>
<u>Cash flows from financing activities</u>			
Proceed from long-term loans	(11)	114,023,537	28,185,812
Repayment from long-term loans	(11)	(35,568,605)	--
Board of Directors remuneration paid		(1,800,000)	(1,800,000)
Dividends paid		(70,155,258)	(28,969,668)
Net cash flows generated from/ (used in) financing activities		<u>6,499,674</u>	<u>(2,583,856)</u>
Net change in cash and cash equivalents during the period		<u>(43,818,986)</u>	<u>(1,006,003)</u>
Cash and cash equivalents at the beginning of the period		<u>209,917,926</u>	<u>294,842,036</u>
Cash and cash equivalents at the end of the period		<u>166,098,940</u>	<u>293,836,033</u>

The accompanying notes from (1) to (22) form an integral part of these interim consolidated financial statements.

DUR HOSPITALITY COMPANY
(A Saudi Joint Stock Company)
INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UN-AUDITED)
For the six-month period ended 30 June 2016
(Saudi Riyals)

Equity attributable to shareholders of the Company

	Share capital	Statutory reserve	Contractual reserve	Retained earnings	Unrealized gains	Total	Non-controlling interests	Total equity
Balance at 1 January 2015	1,000,000,000	500,000,000	143,002,490	122,057,110	14,210,564	1,779,270,164	3,961,227	1,783,231,391
Net income for the period	--	--	--	79,131,287	--	79,131,287	200,493	79,331,780
Dividends	--	--	--	(70,000,000)	--	(70,000,000)	(161,638)	(70,161,638)
Unrealized gains on available-for-sale investments (Note 7)	--	--	--	--	3,378,236	3,378,236	(393,933)	2,984,303
Board of Directors' remunerations	--	--	--	(1,800,000)	--	(1,800,000)	--	(1,800,000)
Share of non-controlling interest from fair value of subsidiaries' share capital during the year (Note 10)	--	--	--	--	--	--	31,500,000	31,500,000
Balance at 30 June 2015 before restatement	1,000,000,000	500,000,000	143,002,490	129,388,397	17,588,800	1,789,979,687	35,106,149	1,825,085,836
Adjustments from fair value for acquired subsidiaries during the period (Note 10)	--	--	--	2,455,850	--	2,455,850	1,563,304	4,019,154
Balance at 30 June 2015 (Restated)	1,000,000,000	500,000,000	143,002,490	131,844,247	17,588,800	1,792,435,537	36,669,453	1,829,104,990
Balance at 1 January 2016	1,000,000,000	500,000,000	143,002,490	147,086,755	6,073,039	1,796,162,284	38,021,479	1,834,183,763
Net income for the period	--	--	--	60,664,781	--	60,664,781	44,449	60,709,230
Dividends	--	--	--	(70,000,000)	--	(70,000,000)	(155,257)	(70,155,257)
Board of Directors' remunerations	--	--	--	(1,800,000)	--	(1,800,000)	--	(1,800,000)
Unrealized (losses) gains on available-for-sale investments (Note 7)	--	--	--	--	(107,133)	(107,133)	251	(106,882)
Balance at 30 June 2016	1,000,000,000	500,000,000	143,002,490	135,951,536	5,965,906	1,784,919,932	37,910,921	1,822,830,853

The accompanying notes from (1) to (22) form an integral part of these interim consolidated financial statements,

DUR HOSPITALITY COMPANY
(A Saudi Joint Stock Company)
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UN-AUDITED)
For the six-month period ended 30 June 2016
(Saudi Riyals)

1. ORGANIZATION AND ACTIVITIES

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

The Company's name has been changed to Dur Hospitality Company from Saudi Hotels and Resorts Company according to resolution of the Extraordinary General Assembly and approved by Ministry of Commerce on 18 Muharram 1436H (corresponding to 11 November 2014). The amended Commercial Registration has been issued under the new name of the Company on 27 Muharram 1436H (corresponding to 20 November 2014).

The Company's activities comprise of constructing, owning, operating, managing, investing, buying, entering into partnership, renting hotels, restaurants, motels, rest stops, entertainment centers, travel agencies, private beaches which varies in grade and size in cities, public roads and tourism areas. In addition the activities include owning, developing lands and constructing buildings on lands or putting them out for rent, providing services to pilgrims and visitors to the Prophet's Mosque and carrying out all core and intermediate business required to implement, process and starting various activities of the above mentioned works in line with the its 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 is SR 1,000,000,000 divided into 100 million shares of SR 10 per share.

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

1-2 Interim Consolidated financial statements

The interim consolidated 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 equity that enables it to exercise control over them. These subsidiaries as at 30 June 2016 are as follows:

<u>Name of the subsidiary</u>	<u>Share capital</u> <u>(SR)</u>	<u>Ownership %</u>
Riyadh Company for Hotels and Entertainment LLC	302,500,000	100 %
Gulf for Tourist Area Limited Company	206,000,000	100 %
Makkah Hotels Limited Company	165,600,000	99.44 %
Alnakheel for Tourist Areas Limited Company	59,250,000	98.73 %
Tabuk Hotels Limited Company	27,300,000	97.14 %
Saudi Hotel Services Company	70,000,000	70 %

All the subsidiaries listed above are controlled by the Group from previous periods including comparative period.

DUR HOSPITALITY COMPANY
(A Saudi Joint Stock Company)
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UN-AUDITED)
For the six-month period ended 30 June 2016
(Saudi Riyals)

1. ORGANIZATION AND ACTIVITIES (CONTINUED)

The below are details of the subsidiaries and their activities:

Riyadh Company for Hotels and Entertainment Limited Company

Riyadh Company for Hotels and Entertainment Limited is a limited liability company established in the Kingdom of Saudi Arabia and registered under the Commercial Registration No. 1010099444 dated 3 Rabi' I, 1413H (corresponding to 31 August 1992). The company's purpose is to construct, buy, rent and carrying out the management of residential, commercial and entertainment properties, hotels, restaurants, motels, rest stops, tourist beaches and gymnasiums.

Gulf for Tourist Area Limited Company

Gulf Tourist Area Limited Company is a limited liability company established in the Kingdom of Saudi Arabia and registered under the Commercial Registration No. 1010074800 dated 18 Jumada I 1410H (corresponding to 17 December 1989). The company's purpose is to construct, own, rent and sell residential and commercial and entertainment properties, hotels, restaurants, rest stops, tourism beaches, gymnasiums and sports clubs.

Makkah Hotels Limited Company

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

Alnakheel for Tourist Area Limited Company

Alnakheel for Tourist Area Limited Company is a limited liability company established 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 and commercial and entertainment properties, hotels, restaurants, rest stops, tourism beaches, gymnasiums and sports clubs. 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 in relation to this acquisition.

Tabuk Hotels Limited Company

Tabuk Hotels Limited Company is a limited liability company established 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, investing or entering into partnership for hotels and restaurants. The company owns Makarim 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 in relation to this acquisition.

DUR HOSPITALITY COMPANY
(A Saudi Joint Stock Company)
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UN-AUDITED)
For the six-month period ended 30 June 2016
(Saudi Riyals)

1. ORGANIZATION AND ACTIVITIES (CONTINUED)

Saudi Hotel Services Company LLC

Saudi Hotel Service Company is a limited liability company established in Kingdom of Saudi Arabia under commercial registration No. 1010010454 dated 11 Dhu Al-Q'dah 1433H corresponding to 4 November 1996. The main activities of the company are to build five star tourist hotels in the city of Riyadh, manage, invest and perform all legal procedures related to the hotel and all other essential and intermediate work necessary to execute, prepare and direct different activities of the hotel in the way consistent with the set objective and contract 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).

2. BASIS OF PREPARATION

Statement of compliance

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

These interim consolidated financial statements do not include all the information and explanations presented in the annual financial statements which are prepared in accordance with the generally accepted accounting standards in the Kingdom of Saudi Arabia; therefore these interim consolidated financial statements should be read in conjunction with the annual consolidated audited financial statements of the Group for the year ended 31 December 2015.

The presented results in these interim consolidated financial statements may not represent an accurate indicator for the results and operations for the full year.

Basis of measurement

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

Comparative figures are reviewed in accordance with allocation of purchase price for assets and liabilities acquired which are owned by the Saudi Company for Hotels Services (Note 1).

Functional and presentation currency

These interim consolidated financial statements are presented in Saudi Riyal (SR) which is the functional currency of the activities.

Use of estimates and judgments

The preparation of the interim consolidated financial statements requires the management to make judgments, estimates and assumptions, which have an effect on the application of accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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

Information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have significant effect on the amounts recognized in the financial statements are as follows:

DUR HOSPITALITY COMPANY
(A Saudi Joint Stock Company)
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UN-AUDITED)
For the six-month period ended 30 June 2016
(Saudi Riyals)

2. BASIS OF PREPARATION (CONTINUED)

Use of estimates and judgments(continued)

Useful lives of property and equipment

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

Impairment of trade receivable

A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the agreement. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators of objective evidence that the trade receivable is impaired. For significant individual amounts, assessment is made on an individual basis. Amounts, which are not individually significant, but are overdue, are assessed collectively and a provision is recognized considering the length of time considering past recovery rates.

Impairment of available for sale investments

The management exercises judgment to calculate the impairment loss of available for sale investments. This includes the assessment of objective evidence which causes a non-temporary decline in the value of investments. In case of equity instruments, any significant and prolonged decline in the fair value of equity investment below its cost is considered as objective evidence for such impairment. The determination of what is 'significant' and 'prolonged' requires management's judgment. The management also considers impairment testing to be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

3. SIGNIFICANT ACCOUNTING POLICIES

3-1 *Basis of consolidation*

Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are currently exercisable are taken into account. Subsidiaries are fully consolidated from the date of acquisition, the date on which the Company obtains control, and are continued to be consolidated until the date that such control ceases.

The accompanying interim consolidated financial statements comprise the interim financial statements of the parent company and subsidiaries as shown in Note (1) in which the company owns controlling interest.

All intra-Group balances, transactions, expenses, gains and losses resulting from intra-Group transactions that are recognized in assets, are eliminated in full. Also, any unrealized gains and losses arising from intra-Group transactions are eliminated on consolidation.

DUR HOSPITALITY COMPANY
(A Saudi Joint Stock Company)
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UN-AUDITED)
For the six-month period ended 30 June 2016
(Saudi Riyals)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3-1 *Basis of consolidation (continued)*

Subsidiaries (continued)

These interim consolidation financial statements include financial statements of subsidiaries, which have been prepared for the same reporting period of the Company, using consistent accounting policies.

Non-Controlling Interest (NCI)

Non-controlling interests represents the interests in subsidiaries, not held by the Company which are measured at their proportionate share in the subsidiary's identifiable net assets. Transactions with Non-controlling interests parties are treated as transactions with parties external to the Group.

3-2 *Business combination (Acquisition)*

Business combinations are accounted for using the purchase method. The cost of an acquisition is measured at the fair value of the assets given, equity instrument issued and liabilities incurred or assumed at the date of exchange, and includes costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and liabilities incurred or assumed in a business combination are measured initially at fair values at the date of acquisition. The excess of the cost of the business combination over the Group's share in the net fair value of the acquiree's identifiable assets and liabilities and contingent liabilities is classified as goodwill. If the cost of the acquired investee is less than its fair value as of the acquisition date, such difference is adjusted by reducing the fair values of the non-current assets of the acquired investee in proportion to their book values.

3-3 *Property and equipment*

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

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of property and equipment. All other expenditure is recognized in the consolidated income statement when incurred.

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

The estimated useful lives of assets will be depreciated as follow:

	<u>Useful life</u>
Buildings	70 – 75 years
Improvements	5 years
Furniture	10 years
Devices and equipment	5 years
Vehicles	4 years

DUR HOSPITALITY COMPANY
(A Saudi Joint Stock Company)
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UN-AUDITED)
For the six-month period ended 30 June 2016
(Saudi Riyals)

4. CASH ON HAND AND AT BANKS

	<u>2016</u>	<u>2015</u> (Restated)
Current accounts at banks	118,199,390	211,706,226
Islamic Murabaha	47,484,850	81,723,107
Cash on hand	414,700	406,700
	<u>166,098,940</u>	<u>293,836,033</u>

5. PREPAYMENTS AND OTHER CURRENT ASSETS

	<u>2016</u>	<u>2015</u> (Restated)
Advances to suppliers	7,467,648	386,947
Real estate contributions	5,383,841	5,383,841
Prepaid rent	4,578,996	4,315,890
Prepaid insurance	4,652,295	4,620,100
Staff housing allowances	2,257,016	2,314,430
Prepaid fees and subscriptions	1,507,621	490,835
Staff loans	1,712,173	1,359,678
Prepaid maintenance	1,273,076	2,610,005
Other current assets	1,249,552	1,054,794
	<u>30,082,218</u>	<u>22,536,520</u>
Impairment of other assets	(250,000)	(250,000)
	<u>29,832,218</u>	<u>22,286,520</u>

6. INVESTMENT IN EQUITY ACCOUNTED INVESTEEES

	<u>2016</u>	<u>2015</u>
Balance at 1 January	32,452,859	59,334,775
Additions (6-1)	--	15,937,500
Investment income during the period (6-2)	--	2,808,140
Transfer of investments from associates to subsidiaries (6-3)	--	(43,191,859)
Group share of unrealized loss	--	--
Dividends	--	(1,800,000)
	<u>32,452,859</u>	<u>33,088,556</u>

(6-1) Addition in investment during the period ended 30 June 2015 represent the amount of SR 15,9 million which represents a part of the Group's share in capital of Saudi Hospitality Heritage Company (a closed joint stock company) which was formed during 2014, amounted to SR 62,5 million (represents 25% of the Company share capital). The Group subscribed to shares in the Saudi Hospitality Heritage Company which has share capital of SR 250 Million.

(6-2) Investment income during the period ended 30 June 2015 represent the Group's share in capital of Saudi Hotel Services company which has no respective income in the period ended 30 June 2016 due to consolidation of the financial statements of the company within the financial statements of the Group.

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6. INVESTMENT IN EQUITY ACCOUNTED INVESTEEES (CONTINUED)

(6-3) The transfer of investment from associates to subsidiaries represents the increase in the Group's stake in Saudi Hotel Services Company shares by 30%. Accordingly, financial statements of Saudi Hotel Service Company has been consolidated as mentioned in Note 1 and Note 10.

All the above companies are registered in the Kingdom of Saudi Arabia and have not commenced business activities.

7. AVAILABLE FOR SALE INVESTMENTS

	<u>2016</u>	<u>2015</u>
Balance at 1 January	46,241,691	62,860,618
Unrealized (loss) profit	<u>(106,882)</u>	<u>2,984,303</u>
Balance at 30 June	<u>46,134,809</u>	<u>65,844,921</u>

Available-for-sale investments represent investments in equity portfolios and the Group's share in National Company for Investment and Development of Tourism (a limited liability company) registered in the Kingdom of Saudi Arabia.

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8. PROPERTY AND EQUIPMENT, NET

	<u>Lands</u>	<u>Buildings</u>	<u>Improvements</u>	<u>Furniture</u>	<u>Vehicles</u>	<u>Devices and equipment</u>	<u>Total</u>	<u>Total (Restated)</u>
Cost								
Balance at 1 January (Restated)	727,818,069	1,214,173,634	38,876,752	239,217,556	8,087,545	51,559,917	2,279,733,473	2,073,939,446
Additions	--	1,553,516	18,000	4,404,656	--	3,217,705	9,193,877	16,557,920
Transferred from projects in progress	--	32,598,358	--	1,266,155	--	25,000	33,889,513	--
Disposals	--	--	--	--	--	--	--	(67,607,606)
Acquired assets from equity accounted investees	--	--	--	--	--	--	--	60,446,614
Balance at 30 June	727,818,069	1,248,325,508	38,894,752	244,888,367	8,087,545	54,802,622	2,222,816,863	2,083,336,374
Accumulated depreciation								
Balance at 1 January	--	421,645,351	18,047,265	165,845,426	7,488,516	18,631,694	631,658,252	648,956,306
Charge for the year	--	15,009,207	2,830,710	7,971,432	222,215	2,530,859	28,564,423	23,566,911
Depreciation of disposals	--	--	--	--	--	--	--	(51,166,300)
Impairment of assets	--	--	--	--	--	--	--	(16,441,314)
Balance at 30 June	--	436,654,558	20,877,975	173,816,858	7,710,731	21,162,553	660,222,675	604,915,603
Net carrying value								
At 30 June 2016	727,818,069	811,670,950	18,016,777	71,071,509	376,814	33,640,070	1,662,594,189	1,478,420,771
At 30 June 2015	649,748,496	717,105,612	14,651,515	64,189,693	762,745	31,962,710	1,662,594,189	1,478,420,771

• Depreciation charge for the period ended 30 June is as follows:

	2016	2015
Cost of revenue (Note 15)	27,122,584	23,082,856
General and administrative expenses (Note 16)	1,441,839	484,055
	<u>28,564,423</u>	<u>23,566,911</u>

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9. PROJECTS IN PROGRESS

	<u>2016</u>	<u>2015</u> <u>Restated</u>
Balance at 1 January	216,779,541	180,527,404
Additions during the period	132,277,842	67,607,336
Transferred to property and equipment (Note 8)	(33,889,513)	--
Adjustments	<u>(1,243,866)</u>	<u>(4,936,595)</u>
Balance at 30 June	<u>313,924,004</u>	<u>243,198,145</u>

As at 30 June 2016, projects in progress represent mainly Darraq Project (Phase III and IV) in which their total cost until that date amounted to SR 129 million (2015: SR 130 million). Phase III of the project is expected to be completed in the first half of 2017. In addition to the renovation project of Alnakheel village amounting to SR 51 million (2015: SR 46 million). Moreover, Al Safarat District Hotel project amounting to SR 48.5 million (2015: SR 13,4 million).

10. BUSINESS COMBINATION

On 27 Jumada II 1436H, corresponding to 16 April 2015, the Group has acquired 10% interest in the Saudi Hotel Services Company for cash consideration of SR 10.5 million. On 11 Rajab 1436H, corresponding to 30 April 2015 (date of acquisition), the Group has acquired an additional of 20% interest for cash consideration of SR 21 million. As a result of which, the share of the Group in the net assets of Saudi Hotel Services Company incurred from 40% to 70%. The legal procedures to amend the Articles of Association are still under process. Accordingly, the Group has consolidated Saudi Hotel Services Company as a subsidiary rather than treating it as an equity accounted investee.

The Group management completed the final fair value assessment of the assets and liabilities of Saudi Hotel Services Company (acquired company) within the maximum measurement period of one year from the date of acquisition.

Net assets acquired were valued using initial assessment and stated in the interim consolidated financial statements as at 30 June 2015, 30 September 2015, 31 March 2016 and the annual consolidated financial statements as at 31 December 2015. Accordingly the comparative figure in the interim consolidated financial statements have been restated with the final fair value assessment of the net assets acquired. The following illustrative the acquisition cost, fair value of net assets acquired, non-controlling interest and the gain from the acquisition.

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10. BUSINESS COMBINATION (CONTINUED)

	Recognized fair value on acquisition June 2015 (Final)
<u>Assets</u>	
Property and equipment	71,955,119
Trade receivables	8,198,812
Prepayments and other assets	1,153,271
Inventories	4,323,412
Cash on hand and at banks	37,565,444
	123,196,058
<u>Liabilities</u>	
Accrued expenses and other current liabilities	11,227,719
Zakat provision	1,757,326
	12,985,045
Net acquired assets	110,211,013
Fair value of net assets	110,211,013
Gain from the acquisition	(1,563,304)
Non-controlling interest	(33,063,304)
	75,584,405
<u>Total cost of acquisition</u>	
Cash consideration	31,500,000
Fair value of equity account investee	44,084,405
Total	75,584,405
Cash flows on acquisition	
Cash acquired from the subsidiary	37,565,444
Cash consideration	(31,500,000)
Net cash flows	6,065,444

1. Costs related to acquisition amounted to SR 75 K were stated in general and administrative expenses in the interim consolidated financial statements for the period ended 30 June 2016.
2. The Company recognized the amount of SR 892 K as a gain from assessment of investment in the Saudi Hotel Services Company before acquisition.
3. In the interim condensed statement of income from 30 April 2015 to 31 December 2015 the Group has recognized revenue and profits of SAR 22.3 M and SAR 2 M respectively for Saudi Hotel Service Company. Further, revenue and profits of SAR 14 M and SAR 100 K have been recognized from 1 June 2016 to 30 June 2016.
4. The following illustrative present for net profit, non-controlling interest and retained earnings as a result of completing fair value assessment of the acquired net assets.

	30 June 2015 Before restatement	restatement	30 June 2015 After restatement
Net profits	79,131,287	2,455,850	81,587,137
Non-controlling interest	35,106,149	1,563,304	36,669,453
Retained earning	129,388,397	2,455,850	131,844,247

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11. LONG-TERM LOANS

The Group entered into long-term financing agreements with Ministry of Finance in addition to several local banks to obtain funding in the form of financing, forward sale and Shariah-compliant Murabaha, with a total value of SR 371.9 million (2015: SR 371.9 million), at variable Murabaha rates. As at 30 June 2016, the utilized amounts under these agreements amounted to SR 276.7 million (2015: SR 139.8 million).

This finance is secured by promissory notes issued for the total amount of facilities with the local commercial banks as beneficiaries and waiving the proceeds of rental Darraq (Phase II and III) with an annual value of SR 42.6 million along with the proceeds of the contracts that the bank has issued final letters of guarantee and / or letters of guarantee - down payment.

The movement of long term loans as at 30 June is as follows:

	2016		2015	
	Ministry of Finance	Local Commercial bank	Total	Total
Balance at beginning of the period	5,000,000	193,217,961	198,217,961	111,672,851
Withdrawals during the period	-	83,454,932	83,454,932	28,185,815
Repayment during the period	(5,000,000)	--	(5,000,000)	
Balance at end of the period	--	276,672,893	276,672,893	139,858,663

The long term loans are presented in the interim consolidated balance sheet as at 30 June as follows:

Current portion of long-term loans – current liabilities	--	31,500,000	31,500,000	13,651,029
Non-current portion of long term loans – non-current liabilities	--	245,172,893	245,172,893	126,207,634
	--	276,672,893	276,672,893	139,858,663

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12. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	<u>2016</u>	<u>2015</u> <u>Restated</u>
Revenue received in advance	31,936,274	30,799,270
Accrued staff salaries and benefits	25,848,369	23,066,472
Performance bond retentions	16,729,139	16,678,991
Advances from customers	16,283,497	23,778,105
Due to governmental bodies (12-1)	9,186,651	9,186,651
Accrued rent	7,274,741	7,242,315
Accrued maintenance and utilities	6,624,456	6,680,720
Management fees accrued to international operating companies	1,616,763	2,674,581
Accrued insurance	886,201	830,930
Professional and consultancy fees	602,110	513,987
Accrued advertisement	515,163	513,716
Other liabilities	1,032,806	1,414,315
	<u>118,536,170</u>	<u>123,380,053</u>

(12-1) This balance includes an amount due to the Civil Aviation Authority (the owner of Makarem Riyadh Hotel) and consists of obligations to finance pre operating expenses. It has not been agreed on a fixed schedule to settle this balance.

13. ZAKAT

The Company and its subsidiaries file their Zakat declarations separately based on the respective financial statements of each Company. Therefore, Zakat base is identified and Zakat is calculated for the Company and its subsidiaries separately, and is shown in the interim consolidated statement of income for the Group.

Dur Hospitality Company has finalized its Zakat status with the Department of Zakat and Income Tax (DZIT) for the years up to 31 December 2009, and has filed its Zakat returns for the years until 2015 and paid the Zakat payable accordingly. However, the Company is still waiting to get the final assessments from the DZIT. Zakat returns for the year ended 31 December 2014 and 2015 have not been filed with the DZIT for its subsidiaries: Alnakheel Resorts Limited, Tabouk Hotel Company and Makkah Hotel Company. The management is in the process of filing these returns subsequent to the period.

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14. SEGMENT REPORTING

The Group activities are divided into three main business segments as follows:

- Hotels segment: represented in hotels and revenues achieved from them whether these hotels are self operated by Makarim Hospitality or Al Jazira or through an external operator independent from the Group.
- Properties owned segment: represents properties owned by the Group which are utilized by lease to others and represent mainly residential compound and commercial centers.
- Services and operating segments: represents managing and operating of hotels and properties, whether owned or non-owned by the Group.

	Hotels	Properties owned	Services and operating	Others	Transactions between business segments	Total
30 June 2016						
Revenue	235,314,956	33,975,536	15,008,383	300,000	(14,448,853)	270,150,022
Costs	(188,945,021)	(11,389,562)	(3,359,608)	--	15,125,250	(188,568,941)
Gross profit	46,369,935	22,585,974	11,648,775	300,000	676,397	81,581,081
Trade receivables, net	64,106,107	26,371,884	--	--	--	90,477,991
Property and equipment, net	481,767,705	1,180,826,484	--	--	--	1,662,594,189
Long-term loans	--	276,672,893	--	--	--	276,672,893
Net income (loss) before Zakat and non-controlling interest	32,980,520	20,422,249	10,692,969	280,895	(1,276,397)	63,100,236
30 June 2015						
Revenue	230,046,370	29,066,161	14,250,220	2,923,582	(15,353,139)	260,933,194
Cost	(163,325,655)	(8,856,017)	(5,513,216)	(8,254,870)	15,953,139	(169,996,619)
Gross profit	66,720,715	20,210,144	8,737,004	(5,331,288)	600,000	90,936,575
Trade receivables, net	68,381,137	12,666,545	--	--	--	81,047,682
Property and equipment, net	878,220,875	600,199,896	--	--	--	1,478,420,771
Long-term loans	45,363,808	94,494,855	--	--	--	139,858,663
Net income (loss) before Zakat and non-controlling interest	73,467,837	23,255,858	9,664,786	(21,988,888)	--	84,399,593

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14. SEGMENT REPORTING (CONTINUED)

Geographical segments:

The Group's activities are distributed in three major geographical regions within the Kingdom, which are Riyadh, Makkah, and Tabuk. The basic financial data for each are as follows:

	<u>Assets</u>	<u>Liabilities</u>	<u>Revenue</u>
<u>As at 30 June 2016</u>			
Riyadh	2,473,781,900	592,838,580	218,089,237
Makkah	441,529,657	96,501,053	58,728,695
Tabuk	49,965,905	5,319,002	7,780,943
	<u>2,965,277,462</u>	<u>694,658,635</u>	<u>284,598,875</u>
Transactions between segments	<u>(590,590,416)</u>	<u>(142,802,442)</u>	<u>(14,448,853)</u>
	<u>2,374,687,046</u>	<u>551,856,193</u>	<u>270,150,022</u>
 <u>As at 30 June 2015</u>			
Riyadh	4,560,531,337	1,228,084,459	208,156,984
Makkah	423,113,960	86,394,110	56,658,273
Tabuk	57,130,508	10,335,534	11,471,076
	<u>5,040,775,805</u>	<u>1,324,814,103</u>	<u>276,286,333</u>
Transactions between segments	<u>(2,789,703,395)</u>	<u>(902,846,683)</u>	<u>(15,353,139)</u>
	<u>2,251,072,410</u>	<u>421,967,420</u>	<u>260,933,194</u>

15. COST OF REVENUES

	<u>2016</u>	<u>2015</u>
Salaries and related costs	82,470,798	63,351,457
Depreciation (Note 8)	27,122,584	23,082,856
Operational supplies	19,821,025	18,448,560
Foods and beverages	15,439,449	16,817,497
Telephone and utilities	10,364,386	9,321,657
Services and operating fees	8,710,951	8,786,866
Rents	8,066,372	8,807,255
Maintenance and repair	4,454,199	7,589,473
Promotional activities	4,226,263	6,826,959
Commissions to travel agencies and credit cards	2,773,764	1,682,243
Security and guard	1,379,356	1,344,488
Insurance	1,000,958	980,712
Training	344,583	321,745
Cleaning and hospitality	205,325	189,120
Impairment of inventories	187,500	300,000
Others	2,001,428	2,145,731
	<u>188,568,941</u>	<u>169,996,619</u>

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16. GENERAL AND ADMINISTRATIVE EXPENSES

	<u>2016</u>	<u>2015</u>
Salaries and related costs	10,472,122	8,402,018
Professional and consultancy fees	1,822,621	415,817
Depreciation (Note 8)	1,441,839	484,055
Amortization of deferred charges	1,243,866	1,243,866
Subscriptions and attestation charges	965,525	324,505
Hospitality, maintenance and cleaning	593,675	162,408
Bank charge	578,746	492,062
Provision for doubtful debts	513,634	2,626,502
Training	242,219	192,325
Telephone and utilities	147,830	149,560
Others	965,312	889,307
	<u>18,987,389</u>	<u>15,382,425</u>

17. OTHER INCOME

	<u>2016</u>	<u>2015</u>
Rental of parking and office spaces (17-1)	504,568	616,200
Murabaha income	345,623	282,939
Gains from sale of property and equipment	--	1,115,300
Delay penalties	--	1,980,000
Others	85,444	100,438
	<u>935,635</u>	<u>4,094,877</u>

(17-1) Rental of parking and office spaces include rental value for office spaces of Asilah for Investment Company (related party) at Marriott Courtyard Hotel,

18. EARNINGS PER SHARE

Earnings per share is calculated based on weighted-average number of shares issued and outstanding during the period ended 30 June 2016 and the period ended 30 June 2015 which are 100 million shares (2015: 100 million shares).

19. CAPITAL COMMITMENTS

The Group's outstanding future capital commitments as at 30 June 2016 amounting to SR 440 million (2015: SR 286.5 million), which are related to contracts signed for the construction of Safarat Ditriect Hotel, the third and fourth phase of Darraq project and Alnakheel Village.

20. CONTINGENT LIABILITIES

The Group has issued letters of guarantee amounting to SR 22.7 million at 30 June 2016 (2015: SR 22.7 million). These guarantees are without a cash margin.

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20. OPERATING LEASES

20-1 The Group as a lessee

The Group has an operating lease for a hotel. The lease is for initial period of one year to ten years with options to renew the lease after lease period. Rental expenses for the period ended 30 June 2016 amounted to SR 15 million (2015: SR 15 million).

As at 30 June, the Company's obligations under operating leases are aggregated as follow:

	<u>2016</u>	<u>2015</u>
2016	-	15,000,000
2017	15,000,000	15,000,000
2018	15,000,000	15,000,000
2019	15,000,000	15,000,000
2020	15,000,000	15,000,000
Total	<u>60,000,000</u>	<u>75,000,000</u>

20-2 The Group as a lessor

The Group has leased certain commercial and residential properties to other parties under operating lease arrangements. The leases are for initial period of one year to three years with options to renew the leases after lease periods. Lease amount is fixed annually. The cost and book value of the leased assets at 30 June 2016 amounted to SR 207,309,106 (2015: SR 207,195,569) and SR 205,888,901 (2015: SR 205,888,901) respectively.

At 30 June, the minimum lease income for leases are as follow:

	<u>2016</u>	<u>2015</u>
2016	-	9,200,000
2017	1,700,000	1,700,000
Total	<u>1,700,000</u>	<u>10,900,000</u>

21. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments carried on the consolidated balance sheet consist of cash and cash equivalents, trade receivables and other current assets, investments, short-term loans, trade payables and other current liabilities and long-term loans.

Credit risk

Credit Risk is the risk that one party will fail to discharge an obligation when due and will cause the other party to incur a financial loss. Financial assets that may have significant concentration consist of credit risks include cash at bank and trade receivables. Cash held with the Group are placed with local banks of sound credit ratings, so the credit risk is limited. The credit risk related to trade receivables is limited because most of the Group's transactions are concentrated with creditworthy customers. The Group monitors its customers' balances on regular basis to reduce the related credit risks follow up on collections and take necessary action to maintain the Group assets.

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21. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Currency risk

Currency risk is the risk that the value of a financial assets and liabilities will fluctuate due to changes in foreign exchange rates. Since all significant transactions of the Group are principally in Saudi Riyal, the Group currency and foreign exchange risk exposure are very limited.

Fair value and cash flow interest rate risks

Fair value and cash flow interest rate risks are the exposures to various risks associated with the effect of fluctuations in the prevailing interest rates on the Group's financial position and cash flows. The Group's interest rate risk arise mainly from Islamic Murabaha, short term bank deposits and long term debts, which are at floating rates of interest. All deposits and debts are subject to re-pricing on a regular basis. Management monitors the changes in interest rates and believes that the fair value and cash flow interest rate risks to the Group are not significant.

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 the 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 to meet the Group's future commitments through following-up expected collection schedules of trade receivables and banks facilities available for the Group when due.

Fair value

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. As the accompanying interim consolidated financial statements are prepared under the historical cost method, except available for sale investments, which are measured at their fair value, differences, may arise between the book values and the fair value estimates. Management believes that the fair value of the Group's financial assets and liabilities are not materially different from their carrying values.