DUR HOSPITALITY COMPANY
(A Saudi Joint Stock Company)
Condensed Consolidated Interim Financial Statement
For the six month period ended 30 June 2017
together with the
Independent Auditors' Review Report

DUR HOSPITALITY COMPANY
(A Saudi Joint Stock Company)
Condensed Consolidated Interim Statement of Financial Statement
As at 30 June 2017

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INDEPENDENT AUDITORS' REPORT ON REVIEW OF INTERIM FINANCIAL STATEMENTS

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

Introduction

We have reviewed the accompanying 30 June 2017 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 30 June 2017;
- the condensed consolidated statement of profit or loss for the three and six-month period ended 30 June 2017;
- the condensed consolidated statement of comprehensive income for the three and six-month period ended 30 June 2017;
- the condensed consolidated statement of changes in equity for the six-month period ended 30 June 2017;
- the condensed consolidated statement of cash flows for the six-month period ended 30 June 2017; 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 30 June 2017 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

كي بي إم جي الفوزان وشركاه
محاسبون ومراجعون قانونيون
C.R. 46
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KPMG Al Fozan & Partners

Khalil Ibrahim Al Sedais
License No. 371

Riyadh on: 7 Dhul Qa'da 1438H
Corresponding to: 30 July 2017

KPMG Al Fozan & Partners Certified Public Accountants, a registered company in the Kingdom of Saudi Arabia, and a non-partner member firm of the KPMG network of independent firms affiliated with KPMG International Cooperative, a Swiss entity.

DUR HOSPITALITY COMPANY
(A Saudi Joint Stock Company)
Condensed Consolidated Interim Statement of Financial Position (Un-Audited)
As at 30 June 2017
(Saudi Riyals)

	Notes	30 June 2017 Unaudited	31 December 2016 (Adjusted)
Assets			
Property and equipment, net	5	**1,704,773,802**	1,677,267,545
Capital work in progress		**454,276,695**	375,977,222
Investments in equity accounted investees		**30,436,392**	30,436,391
Available for sale investments		**7,000,000**	7,000,000
Total Non-Current Assets		**2,196,486,889**	2,090,681,158
Inventories		**25,489,471**	26,596,735
Trade receivables		**92,691,828**	66,747,009
Due from related parties	6	**22,572,609**	6,837,765
Prepayments and other current assets		**30,153,768**	27,132,154
Cash and cash equivalents		**137,514,410**	188,460,042
Total Current assets		**308,422,086**	315,773,705
Total assets		**2,504,908,975**	2,406,454,863
Equity and Liabilities			
Equity			
Share capital		**1,000,000,000**	1,000,000,000
Statutory reserve		**500,000,000**	500,000,000
Other reserve		**143,002,490**	143,002,490
Retained earnings		**147,046,746**	135,455,804
Equity attributable to owners of the Company		**1,790,049,236**	1,778,458,294
Non-controlling interests		**36,521,444**	37,292,773
Total equity		**1,826,570,680**	1,815,751,067
Non-Current Liabilities			
Long term loans – non-current portion	7	**375,029,359**	283,392,860
Employee benefits		**55,386,242**	55,557,047
Total Non-Current Liabilities		**430,415,601**	338,949,907
Current Liabilities			
Long term loans – current portion	7	**6,219,635**	31,500,000
Trade payables		**22,842,588**	21,338,692
Due to related parties	6	**14,345,197**	18,164,371
Accrued expenses and other current liabilities		**140,851,563**	115,446,302
Dividends payable		**47,298,210**	47,387,302
Zakat provision		**16,365,501**	17,917,222
Total Current Liabilities		**247,922,694**	251,753,889
Total Liabilities		**678,338,295**	590,703,796
Total equity and liabilities		**2,504,908,975**	2,406,454,863

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 and six month period ended 30 June 2017
(Saudi Riyals)

	Notes	Six months ended 30 June 2017	Six months ended 30 June 2016 (*Adjusted – Note 9)*	Three months ended 30 June 2017	Three months ended 30 June 2016 (*Adjusted – Note 9)*
Hospitality income		**207,721,106**	234,577,316	109,045,269	116,780,275
Rental income		**37,945,998**	31,618,709	19,363,002	16,190,694
Management fees		**2,809,553**	3,953,997	1,639,862	2,248,041
Total revenues	*4*	**248,476,657**	270,150,022	130,048,133	135,219,010
Cost of revenues		**(177,884,329)**	(188,770,347)	(91,632,148)	(96,023,628)
Gross profit		**70,592,328**	81,379,675	38,415,985	39,195,382
Other income		**4,354,370**	590,012	3,345,841	294,281
Selling and distribution expenses		**(572,085)**	(429,091)	(572,085)	(188,259)
General and administrative expenses		**(13,657,095)**	(18,408,643)	(6,395,827)	(9,081,679)
Operating profit		**60,717,518**	63,131,953	,34793,914	30,219,725
Finance income		**492,463**	345,623	90,531	209,224
Finance expenses		**(535,195)**	(578,746)	(314,528)	(529,768)
Profit before zakat		**60,674,786**	62,898,830	34,569,917	29,899,181
Zakat		**(2,920,000)**	(2,391,006)	(1,460,000)	(1,090,499)
Profit for the period		**57,754,786**	60,507,824	33,109,917	28,808,682
Profit attributable to:					
Owners of the Company		**58,390,942**	60,463,997	33,479,934	,29064,123
Non-controlling interests		**(636,156)**	43,827	(370,017)	(255,441)
Profit for the period		**57,754,786**	60,507,824	33,109,917	28,808,682
Earnings per share					
Basic and Diluted earnings per share (SR)		**0.58**	0.60	0.33	0.29

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 and six month period ended 30 June 2017
(Saudi Riyals)

	Six months ended 30 June 2017	Six months ended 30 June 2016 *(Adjusted – Note 9)*	**Three months ended 30 June 2017**	Three months ended 30 June 2016 *(Adjusted – Note 9)*
Profit for the period	**57,754,786**	60,507,824	**33,109,917**	28,808,682
Other comprehensive loss:				
Items that are or may be reclassified subsequently to profit or loss				
Available for sale investments – change in fair value	--	(106,882)	--	(3,094,482)
Other comprehensive loss for the period	--	(106,882)	--	(3,094,482)
Total comprehensive income for the period	**57,754,786**	60,400,942	**33,109,917**	25,714,200
Total comprehensive income for the period Attributable to:				
Owners of the Company	**58,320,334**	60,411,350	**33,394,969**	25,943,545
Non-controlling interests	**(565,548)**	(10,408)	**(285,052)**	(229,345)
Total comprehensive income for the period	**57,754,786**	60,400,942	**33,109,917**	25,714,200

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 of Statement of Change in Equity (Un-Audited)
For the six month period ended 30 June 2017
(Saudi Riyals)

For the six months ended 30 June 2017

	Attributable to owners of the Company						
	Share capital	**Statutory reserve**	**Other reserve**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
Balance at 1 January 2017	**1,000,000,000**	**500,000,000**	**143,002,490**	**143,983,184**	**1,786,985,674**	**37,471,187**	**1,824,456,861**
Transition adjustments:							
Splitting of property and equipment by components	--	--	--	**(6,143,588)**	**(6,143,588)**	**(31,094)**	**(6,174,682)**
Defined benefits plan actuarial losses	--	--	--	**(2,383,792)**	**(2,383,792)**	**(147,320)**	**(2,531,112)**
Balance at 1 January 2017 (Adjusted)	**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 period:							
Profit for the period	--	--	--	**58,390,942**	**58,390,942**	**(636,156)**	**57,754,786**
Dividends	--	--	--	**(45,000,000)**	**(45,000,000)**	**(135,173)**	**(45,135,173)**
Board of Directors' remunerations	--	--	--	**(1,800,000)**	**(1,800,000)**	--	**(1,800,000)**
Balance at 30 June 2017	**1,000,000,000**	**500,000,000**	**143,002,490**	**147,046,746**	**1,790,049,236**	**36,521,444**	**1,826,570,680**

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 of Statement of Change in Equity (Un-Audited)
For the six month period ended 30 June 2017
(Saudi Riyals)

For the six months ended 30 June 2016

	Attributable to owners of the Company							
	Share capital	Statutory reserve	Other reserve	Fair value reserve for available for sale investments	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 2016	1,000,000,000	500,000,000	143,002,490	6,073,039	147,086,755	1,796,162,284	38,032,479	1,834,194,763
Transition adjustments:								
Splitting of property and equipment by components	--	--	--	--	(5,742,022)	(5,742,022)	(29,851)	(5,771,873)
Defined benefits plan actuarial losses	--	--	--	--	(888,114)	(888,114)	(54,886)	(943,000)
Balance at 1 January 2016 (Adjusted)	**1,000,000,000**	**500,000,000**	**143,002,490**	**6,073,039**	**140,456,619**	**1,789,532,148**	**37,947,742**	**1,827,479,890**
Total comprehensive income for the period:								
Profit for the period	--	--	--	--	**60,463,997**	**60,463,997**	**43,827**	**60,507,824**
Other comprehensive loss for the period	--	--	--	**(107,133)**	--	**(107,133)**	**249**	**(106,884)**
Dividends	--	--	--	--	**(70,000,000)**	**(70,000,000)**	**(155,258)**	**(70,155,258)**
Board of Directors' remunerations	--	--	--	--	**(1,800,000)**	**(1,800,000)**	--	**(1,800,000)**
Balance at 30 June 2016	**1,000,000,000**	**500,000,000**	**143,002,490**	**5,965,906**	**129,120,616**	**1,778,089,012**	**37,836,560**	**1,815,925,572**

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 of Statement of Cash Flow (Un-Audited)
For the six month period ended 30 June 2017
(Saudi Riyals)

	Notes	Six month period ended 30 June 2017	Six month period ended 30 June 2016
Cash flow from operating activities			
Profit for the period before zakat		**60,674,786**	62,898,830
Adjustments for:			
Depreciation	5	**29,015,556**	28,765,829
Amortization		**–**	1,243,866
Gain on sale of property and equipment		**(3,088,790)**	--
Employee benefits		**3,680,669**	7,823,290
Provision for doubtful debts		**236,332**	513,634
Write-down of inventories		**535,755**	187,500
		91,054,308	101,432,949
Change in:			
-Trade receivables		**(26,181,151)**	(18,744,314)
-Prepayments and other current assets		**(3,021,614)**	(8,425,764)
-Inventories		**571,509**	62,514
-Due form related parties		**(15,734,844)**	(3,012,699)
-Trade payables		**1,503,896**	3,014,388
-Accrued expenses and other current liabilities		**25,316,168**	18,638,359
-Due to related parties		**(3,819,174)**	4,183,384
Cash generated from operating activities		**69,689,098**	97,148,817
Zakat paid		**(4,471,721)**	(3,345,053)
Employee benefits paid		**(3,851,473)**	(2,650,704)
Net cash from operating activities		**61,365,904**	91,153,060
Cash flow from investing activities			
Proceeds from sale of property and equipment		**6,262,990**	--
Purchase of property and equipment	5	**(5,339,186)**	(141,471,720)
Additions of capital work in progress		**(132,656,301)**	–
Net cash used in investing activities		**(131,732,497)**	(141,471,720)
Cash flow from financing activities			
Proceeds from long term loans		**100,965,952**	114,023,537
Repayment of long term loans		**(34,609,818)**	(35,568,605)
Dividends for shareholders		**(45,000,000)**	(70,000,000)
Dividends for non-controlling interests		**(135,173)**	(155,258)
Board of Directors' remunerations		**(1,800,000)**	(1,800,000)
Net cash from financing activities		**19,420,961**	6,499,674
Net decrease in cash and cash equivalents		**(50,945,632)**	(43,818,986)
Cash and cash equivalents at 1 January		**188,460,042**	209,917,926
Cash and cash equivalents at 30 June		**137,514,410**	166,098,940

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

(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 of 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 30 June 2017 are as follows:

Name of the subsidiary	Capital	Shareholding %
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%

The following are details of the subsidiaries and their activities:

Makkah Hotels company LLC

Makkah Hotels Limited company 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.

1. REPORTING ENTITY (CONTINUED)

1.2 The condensed Consolidated Interim Financial Statements (continued)

Alnakheel for Tourist Areas Limited

Alnakheel for Tourist Areas Limited company 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.

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).

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 Limited company

The Security Source Limited company 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.

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.

2. BASIS OF PREPRATION

Statement of Compliance

The accompanying condensed consolidated interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by Saudi Organization for Certified Public Accountants (SOCPA). Up to and including the year ended 31 December 2016, the Group prepared and presented statutory financial statements in accordance with SOCPA and the requirements of the Saudi Arabian Regulations for Companies and the Company's By laws in so far as they relate to the preparation and presentation of the financial statements. In these financial statements, the term "SOCPA GAAP" refers to accounting standard before the adoption of IFRS.

For financial periods commencing 1 January 2017, the applicable regulations require the Group to prepare and present financial statements in accordance with International Financial Reporting Standards ("IFRS") that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by SOCPA. As part of this requirement, Group has prepared these condensed consolidated interim financial statements.

As required by the Capital Market Authority ("CMA") through its circular dated 16th October 2016 the Group needs to apply the cost model to measure the property, plant and equipment, investment property, and intangible assets upon adopting the IFRS for three years period starting from the IFRS adoption date.

As these condensed consolidated interim financial statements prepared in accordance with IAS 34 Interim Financial Reporting are for part of a period covered by its first IFRS financial statements, IFRS 1 First-time Adoption of International Financial Reporting Standards has been applied.

An explanation of how the transition to IFRS has affected the previously reported equity as at 30 June 2016; and comprehensive income of the Group for the three and six months ended 30 June 2016, including the nature and effect of significant changes in accounting policies from those used in the Group's financial statements for the year ended 31 December 2016 is provided in (Note 9).

The condensed consolidated interim financial statements should be read in conjunction with the Group's SOCPA GAAP annual financial statements for the year ended 31 December 2016, and the Group's interim financial statements for the quarter ended 31 March 2017 prepared in accordance with IFRS applicable to interim financial statements.

2. BASIS OF PREPRATION (CONTINUED)

BASIS OF MEASUREMENT

These interim financial statements have been prepared on the historical cost basis, except for the following:

- Defined benefits plan are 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 operation results of the six month period ended 30 June 2017 may not represent an accurate indicator for the annual results of the Group.

FUNCTIONAL AND PRESENTATION CURRENCY

These Condensed Consolidated Interim financial statements are presented in Saudi Riyals ("SR"), which is the Group's functional currency and presentation currency.

USE OF JUDGEMENT AND ESTIMATES

The estimates at date of transition to IFRS and as at the end of earliest reporting period presented are consistent with those made for the same dates in accordance with SOCPA (after adjustments to reflect any differences in accounting policies) apart from post-employment benefits where application of SOCPA did not require estimation.

The estimates used by the Group to present these amounts in accordance with IFRS reflect conditions at the date of transition to IFRS and as at the end of earliest reporting period presented.

The preparation of the Group's condensed consolidated interim financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

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

- Provision for 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.

2. BASIS OF PREPRATION (CONTINUED)

USE OF JUDGEMENT AND ESTIMATES (CONTINUED)

- Defined benefit obligations

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

The parameter most subject to change is the discount rate. In determining the appropriate discount rate, management considers the interest rates of corporate bonds in currencies consistent with the currencies of the post-employment benefit obligation with at least an 'AA' rating or above, as set by an internationally acknowledged rating agency, and extrapolated as needed along the yield curve to correspond with the expected term of the defined benefit obligation. The underlying bonds are further reviewed for quality. Those having excessive credit spreads are removed from the analysis of bonds on which the discount rate is based, on the basis that they do not represent high quality bonds.

The mortality rate is based on publicly available mortality tables for the specific countries. Those mortality tables tend to change only at intervals in response to demographic changes. Future salary increases and are based on expected future inflation rates for the respective countries.

- Property and equipment: Useful lives of property and equipment

The useful life of each of the Group's items of property and equipment is estimated based on the period over which the asset is expected to be available for use. Such estimation is based on a collective assessment of practices of similar businesses, internal technical evaluation, experience with similar assets and application of judgment as to when the assets become available for use and the commencement of the depreciation charge.

The estimated useful life of each asset is reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the asset. It is possible, however, that future results of operations could be materially affected by changes in the amounts and timing of recorded expenses brought about by changes in the factors mentioned above. A reduction in the estimated useful life of any item of property and equipment would increase the recorded operating expenses and decrease non-current assets.

3. 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 first condensed consolidated interim financial statements in accordance with IFRS as at and for the three month period ended 31 March 2017.

4. 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.

Reportable	Operations
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.

(Saudi Riyals)

4. OPERATING SEGMENTS (CONTINUED)

	Reported segments			
	Hospitality 2017	Management fees 2017	Property management 2017	Total 2017
Segments revenues	207,721,106	2,809,553	37,945,998	248,476,657
Segments costs	(160,473,889)	(2,430,821)	(14,979,619)	(177,884,329)
Segments gross profit	47,247,217	378,732	22,966,379	70,592,328
Finance income	209,081	--	--	209,081
Depreciation and amortization	24,739,505	--	3,572,245	28,311,750
Segments assets	1,674,736,512	--	737,112,334	2,411,548,846
Property and equipment, capital work in progress	1,402,976,557	--	663,013,812	2,065,990,369
Segments liabilities	211,626,475	--	466,711,820	678,338,295

	Reported segments			
	Hospitality 2016	Management fees 2016	Property Management 2016	Total 2016
Segments revenues	234,577,316	3,953,997	31,618,709	270,150,022
Segments costs	(173,082,131)	(3,655,481)	(12,032,735)	(188,770,347)
Segments gross profit	61,495,185	298,516	19,585,974	81,379,675
Finance income	205,233	--	--	205,233
Depreciation and amortization	19,352,242	--	4,214,669	23,566,911
Segments assets	1,524,240,218		746,942,136	2,271,182,354
Property and equipment, capital work in progress	1,243,897,756	--	629,115,745	1,873,013,501
Segments liabilities	224,129,893	--	328,658,302	552,788,197

(Saudi Riyals)

4. OPERATING SEGMENTS (CONTINUED)

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

	2017	2016
Profit from reported segment	**70,592,328**	81,379,675
Un allocated amount:		
Other income	**4,354,370**	590,012
Selling and distribution expenses	**(572,085)**	(429,091)
General and administrative expenses	**(13,657,095)**	(18,408,643)
Finance income	**492,463**	345,623
Finance expense	**(535,195)**	(578,746)
Total Un allocated amount	**(9,917,542)**	(18,480,845)
Consolidated profit before zakat	**60,674,786**	62,898,830

(Saudi Riyals)

5. PROPERTY AND EQUIPMENT, NET

	30 June 2017							
	Lands	Buildings	Improvements on buildings	Furniture	Vehicles	Devices and equipment	Elevator and central air conditioning	Total
Cost:								
Balance at 1 January	727,818,069	1,248,756,234	42,560,242	248,694,714	8,087,545	59,389,001	34,526,501	2,369,832,306
Additions	--	438,428	290,840	1,167,759	34,542	3,407,617	--	5,339,186
Transferred from capital work progress	--	24,422,242	2,939,178	22,793,439	--	4,201,968	--	54,356,827
Disposals	(3,146,750)	--	--	--	(57,500)	(100,000)	--	(3,304,250)
Balance at 30 June	724,671,319	1,273,616,904	45,790,260	272,655,912	8,064,587	66,898,586	34,526,501	2,426,224,069
Accumulated depreciation:								
Balance at 1 January	--	430,742,388	23,881,325	177,199,130	7,813,522	26,465,384	26,463,012	692,564,761
Charged for the year	--	15,646,563	3,025,711	5,630,585	78,400	4,432,891	201,406	29,015,556
Depreciation of disposals	--	--	--	--	(30,050)	(100,000)	--	(130,050)
Balance at 30 June	--	446,388,951	26,907,036	182,829,715	7,861,872	30,798,275	26,664,418	721,450,267
Net Book Value:								
30 June 2017	724,671,319	827,227,953	18,883,224	89,826,197	202,715	36,100,311	7,862,083	1,704,773,802
31 December 2016	727,818,069	818,013,846	18,678,917	71,495,584	274,023	32,923,617	8,063,489	1,677,267,545

Capital commitments

During the six months ended 30 June 2017, the Group entered into a contract to buy property, plant and equipment for SR 440 million (six months ended 30 June 2016 for SR 431 million and year ended 31 December 2016 for SR 440 million). These relate to contracts signed for the construction of Safarat Ditrict Hotel, the third, fourth and fifth phase of Darraq project, Alnakheel Village and Aljubail Hotel.

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6. RELATED PARTIES

During its ordinary course of business, the Group transacts with the below 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:

6/1 Due from related parties

	Relationship	Nature of transaction	Transactions amount		Balance	
			30 June 2017	31 December 2016	**30 June 2017**	31 December 2016
Umm AlQura Makarim Hotel	Affiliate	Services	**1,067,031**	10,305,666	**1,182,150**	2,568,033
Makarim Al Marifa Company	Affiliate	Services	**683,997**	1,090,109	**19,851,073**	1,667,076
Andalusia Residence Complex	Affiliate	Services	**287,617**	659,815	**778,221**	983,228
Al Jazira Badr	Affiliate	Services	**299,942**	1,147,860	**361,359**	978,305
Al Rawdah Residence Complex	Affiliate	Services	**61,318**	1,850,927	**42,468**	354,277
Saudi Company for Heritage Hospitality	Associate	Services	**102,776**	1,958,617	**357,338**	286,846
Aseela Investment Company	Affiliate	Services	**470,000**	470,943	**--**	--
					22,572,609	6,837,765

6/2 Due to related parties

	Relationship	Nature of transaction	Transactions amount		Balance	
			30 June 2017	31 December 2016	**30 June 2017**	31 December 2016
Makarim ALBait Hotel	Affiliate	Services	**479,628**	2,962,225	**195,748**	2,847,223
Al Madinah Limited Company LLC	Associate	Payments on behalf	**826,901**	1,825,027	**13,327,063**	13,327,063
Makarim Menaa Hotel	Affiliate	Services	**50,868**	862,460	**680,404**	1,607,549
Aljazira Compound Riyadh	Affiliate	Services	**213,523**	545,517	**141,982**	382,536
					14,345,197	18,164,371

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

Transactions with key management personnel

	30 June 2017	30 June 2016
Salaries, bonuses and end of service of the Group's key management persons	**2,402,239**	3,204,075

(Saudi Riyals)

7. LOANS AND BORROWINGS

	30 June 2017	31 December 2016
Non-current liabilities:		
Secured bank loan	**375,029,359**	283,392,860
Current liabilities:		
Secured bank loan	**6,219,635**	31,500,000
	381,248,994	314,892,860

Terms and repayments schedule

The terms and conditions of outstanding loans are as follows:

	Currency	Rate	Face Value	Carrying amount	Year of maturity
Balance at 1 January 2017				314,892,860	
Proceeds during the period:					
Local bank	**SR**	Sibor+ Agreed interest rate	218,900,000	100,965,952	2023
Repayment:					
Local bank	**SR**	Sibor+ Agreed interest rate	(1,554,909)	(34,609,818)	--
Balance at 30 June 2017				381,248,994	

The Group has a secured bank loan in the form of financing, forward sale and Murabaha, with a total value of SR 371.9 million (2016: SR 371.9 million) at variable Murabaha rates. This finance 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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8. FINANCIAL INSTRUMENTS

Financial assets

	30 June 2017	31 December 2016
Financial assets classified as available for sale		
Available for sale investments *	7,000,000	7,000,000
Total financial assets classified as available for sale	7,000,000	7,000,000
Financial assets carried at amortized cost		
Trade receivables	92,691,828	66,747,009
Due from related parties	22,572,609	6,837,765
Total financial assets carried at amortized cost	115,264,437	73,584,774
Total financial assets	122,264,437	80,584,774
Total current assets	115,264,437	73,584,774
Total non-current assets	7,000,000	7,000,000

* Available for sale investment include unquoted securities amounting to SR 7,000,000 carried at cost less impairment due to absences of an active market.

Financial liabilities

	30 June 2017	31 December 2016
Financial liabilities carried at amortized cost		
Trade Payables	22,842,588	21,338,692
Loans and borrowings	381,248,994	314,892,860
Due to related parties	14,345,197	18,164,371
Total financial liabilities carried at amortized cost	418,436,779	354,395,923
Total current liabilities	43,407,420	71,003,063
Total non-current liabilities	375,029,359	283,392,860

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

9. EXPLANATION OF TRANSITION TO IFRS

As stated in (Note -2), these condensed consolidated interim financial statements have been prepared in accordance with IAS 34. In preparing its opening IFRS condensed consolidated interim statement of financial position, the Group has adjusted amounts reported previously in Condensed Consolidated financial statements prepared in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia (SOCPA GAAP). An explanation of how the transition from SOCPA GAAP to IFRSs has affected the Group's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

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9. EXPLANATION OF TRANSITION TO IFRS (Continuation)

9/1 Reconciliation of statement of financial position and equity as at 30 June 2016

	SOCPA GAAP	Effect of transition to IFRSs	IFRS
Assets			
Property and equipment, net	1,662,594,189	(5,973,279)	1,656,620,910
Capital work in progress	313,924,004	--	313,924,004
Investments in equity-accounted investees	32,452,859	--	32,452,859
Available for sale investments	46,134,809	--	46,134,809
Total Non-Current Assets	2,055,105,861	(5,973,279)	2,049,132,582
Inventories	28,024,740	--	28,024,740
Trade receivables	90,477,991	--	90,477,991
Due from related parties	5,147,296	--	5,147,296
Prepayments and other current assets	29,832,218	--	29,832,218
Cash and cash equivalents	166,098,940	--	166,098,940
Total Current assets	319,581,185	--	319,581,185
Total assets	2,374,687,046	(5,973,279)	2,368,713,767
Equity and Liabilities			
Equity			
Share capital	1,000,000,000	--	1,000,000,000
Statutory reserve	500,000,000	--	500,000,000
Other reserve	143,002,490	--	143,002,490
Fair value reserve for available for sale investments	5,965,906	--	5,965,906
Retained earnings	135,951,536	(6,830,920)	129,120,616
Equity attributable to owner of the Company	1,784,919,932	(6,830,920)	1,778,089,012
Non-controlling interests	37,921,919	(85,359)	37,836,560
Total equity	1,822,841,851	(6,916,279)	1,815,925,572
Liabilities			
Non-Current Liabilities			
Long term loans – non-current portion	245,172,893	--	245,172,893
Employee benefits	55,036,776	943,000	55,979,776
Total Non-Current Liabilities	300,209,669	943,000	301,152,669
Current Liabilities			
Long term loans – current portion	31,500,000	--	31,500,000
Trade payables	17,785,213	--	17,785,213
Due to related parties	14,069,675	--	14,069,675
Accrued expenses and other current liabilities	118,525,172	--	118,525,172
Dividend payable	53,366,488	--	53,366,488
Zakat provision	16,388,978	--	16,388,978
Total Current Liabilities	251,635,526	--	251,635,526
Total Liabilities	551,845,195	943,000	552,788,195
Total equity and liabilities	2,374,687,046	(5,973,279)	2,368,713,767

(Saudi Riyals)

9. EXPLANATION OF TRANSITION TO IFRS (Continuation)

9/2 Reconciliation of profit or loss for the six-month period ended at 30 June 2016

	SOCPA GAAP	Effect of transition to IFRSs	IFRS
Hospitality income	234,577,316	--	234,577,316
Rental income	31,618,709	--	31,618,709
Management fees	3,953,997	--	3,953,997
Total revenues	270,150,022	--	270,150,022
Cost of revenues	(188,568,941)	(201,406)	(188,770,347)
Gross profit	81,581,081	(201,406)	81,379,675
Other income	590,012	--	590,012
Selling and distribution expenses	(429,091)	--	(429,091)
General and administrative expenses	(18,408,643)	--	(18,408,643)
Operating profit	63,333,359	(201,406)	63,131,953
Finance income	345,623	--	345,623
Finance expenses	(578,746)	--	(578,746)
Profit before zakat	63,100,236	(201,406)	62,898,830
Zakat expenses	(2,391,006)	--	(2,391,006)
Profit for the period	60,709,230	(201,406)	60,507,824
Profit attributable to:			
Owners of the Company	60,664,781	(200,784)	60,463,997
Non-controlling interests	44,449	(622)	43,827
Profit for the period	60,709,230	(201,406)	60,507,824
Profit per share:			
Basic and diluted earnings per share (in SR)	0.61	(0.002)	0.61

(Saudi Riyals)

9. EXPLANATION OF TRANSITION TO IFRS (Continuation)

9/3 Reconciliation of other comprehensive income for the six-month period ended at 30 June 2016

	SOCPA GAAP	Effect of transition to IFRSs	IFRS
Profit for the period	60,709,230	(201,406)	60,507,824
Other comprehensive loss:			
Items that are or may be reclassified subsequently to profit or loss			
Available for sale investments – change in fair value	--	(106,882)	(106,882)
Other comprehensive loss	--	(106,882)	(106,882)
Total comprehensive income	60,709,230	(308,288)	60,400,942
Total comprehensive income attributable to:			
Owners of the Company	60,664,781	(253,431)	60,411,350
Non-controlling interests	44,449	(54,857)	(10,408)
	60,709,230	(308,288)	60,400,942

(Saudi Riyals)

9. EXPLANATION OF TRANSITION TO IFRS (Continuation)

9/4 Reconciliation of profit or loss for the three month period ended 30 June 2016

	SOCPA GAAP	Effect of transition to IFRSs	IFRS
Hospitality income	116,780,275	--	116,780,275
Rental income	16,190,694	--	16,190,694
Management fees	2,248,041	--	2,248,041
Total revenues	135,219,010	--	135,219,010
Cost of revenues	(95,922,925)	(100,703)	(96,023,628)
Gross profit	39,296,085	(100,703)	39,195,382
Other income	294,281	--	294,281
Selling and distribution expenses	(188,259)	--	(188,259)
General and administrative expenses	(9,081,679)	--	(9,081,679)
Operating profit	30,320,428	(100,703)	(30,219,725)
Finance income	209,224	--	209,224
Finance expenses	(529,768)	--	(529,768)
Profit before zakat	29,999,884	(100,703)	29,899,181
Zakat expenses	(1,090,499)	--	(1,090,499)
Profit for the period	28,909,385	(100,703)	28,808,682
Profit attributable to:			
Owners of the Company	29,164,515	(100,392)	29,064,123
Non-controlling interests	(255,130)	(311)	(255,441)
	28,909,385	(100,703)	28,808,682
Profit per share:			
Basic and diluted earnings per share (in SR)	0.29	(0.001)	0.29

(Saudi Riyals)

9. EXPLANATION OF TRANSITION TO IFRS (Continuation)

9/5 Reconciliation of other comprehensive income for the three month period ended 30 June 2016

	SOCPA GAAP	Effect of transition to IFRSs	IFRS
Profit for the period	28,909,385	(100,703)	28,808,682
Other comprehensive loss:			
Items that are or may be reclassified subsequently to profit or loss			
Available for sale investments – change in fair value	--	(3,094,482)	(3,094,482)
Other comprehensive loss	--	(3,094,482)	(3,094,482)
Total comprehensive income	28,909,385	(3,195,185)	25,714,200
Total comprehensive income attributable to:			
Owners of the Company	29,164,515	(3,220,970)	25,943,545
Non-controlling interests	(255,130)	25,785	(229,345)
	28,909,385	(3,195,185)	25,714,200

9. EXPLANATION OF TRANSITION TO IFRS (Continuation)

A. Provision for employees' end of service benefits

Under SOCPA GAAP, the Group accrued costs relating to its employees' end of service benefits such that the vested benefits to which the employee is entitled should be his services be terminated at the Condensed Consolidated Interim balance sheet date. Under IFRS, costs relating to the employees' end of service benefits are recognized based on an actuarial valuation using the projected unit method. The difference in employees' end of service benefits based on SOCPA GAAP and IFRS at the date of transition has been recognized against retained earnings.

B. Split of property and equipment by component

The Group has split its building to components; each component is depreciated in line with its useful economic life. The difference in the net book value of property and equipment between SOCPA GAAP and IFRS at the date of transition has been recognized against retained earnings.

C. Reclassification of Statement of cash flows

As of 1 January 2016, there were no material difference between condensed consolidated interim statement of cash flows presented under IFRS and under SOCPA GAAP.