

DUR HOSPITALITY COMPANY
(A Saudi Joint Stock Company)
Condensed Consolidated Interim Financial Statements
For the three months period and year ended 31 December 2017
together with the
Independent Auditors' Review Report



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

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 31 December 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 31 December 2017;
- the condensed consolidated statement of profit or loss for the three months period and year ended 31 December 2017;
- the condensed consolidated statement of comprehensive income for the three months period and year ended 31 December 2017;
- the condensed consolidated statement of changes in equity for the year ended 31 December 2017;
- the condensed consolidated statement of cash flows for the year ended 31 December 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.

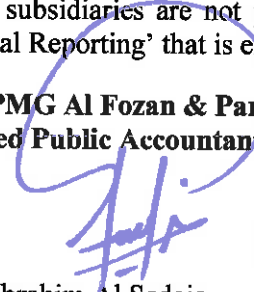
Scope of review

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 31 December 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


Khalil Ibrahim Al Sedais
License No. 371



Riyadh on: 13 Jumada'I 1439H
Corresponding to: 30 January 2018

DUR HOSPITALITY COMPANY
(A Saudi Joint Stock Company)
Condensed Consolidated Interim Statement of Financial Position (Un-Audited)
As at 31 December 2017
(Saudi Riyals)

	<u>Notes</u>	<u>31 December</u> <u>2017</u>	<u>31 December</u> <u>2016</u>
Assets			
Property and equipment, net	5	1,886,310,833	1,677,267,545
Capital work in progress		383,555,729	375,977,222
Investments in equity accounted investees		26,274,475	30,436,391
Available for sale investments		7,000,000	7,000,000
Total Non-Current Assets		<u>2,303,141,037</u>	<u>2,090,681,158</u>
Inventories		23,798,440	26,596,735
Trade receivables		84,513,392	66,747,009
Due from related parties	6	21,757,752	6,837,765
Prepayments and other current assets		19,864,668	27,132,154
Cash and cash equivalents		153,006,897	188,460,042
Total Current assets		<u>302,941,149</u>	<u>315,773,705</u>
Total assets		<u>2,606,082,186</u>	<u>2,406,454,863</u>
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		140,141,370	135,455,804
Equity attributable to owners of the Company		<u>1,783,143,860</u>	<u>1,778,458,294</u>
Non-controlling interests		37,300,145	37,292,773
Total equity		<u>1,820,444,005</u>	<u>1,815,751,067</u>
Non-Current Liabilities			
Long term loans – non-current portion	7	432,258,650	283,392,860
Employee benefits		59,520,525	55,557,047
Total Non-Current Liabilities		<u>491,779,175</u>	<u>338,949,907</u>
Current Liabilities			
Long term loans – current portion	7	37,491,064	31,500,000
Trade payables		36,431,184	21,338,692
Due to related parties	6	14,899,759	18,164,371
Accrued expenses and other current liabilities		144,617,711	115,446,302
Dividends payable		45,301,426	47,387,302
Zakat provision		15,117,862	17,917,222
Total Current Liabilities		<u>293,859,006</u>	<u>251,753,889</u>
Total Liabilities		<u>785,638,181</u>	<u>590,703,796</u>
Total equity and liabilities		<u>2,606,082,186</u>	<u>2,406,454,863</u>

The accompanying notes from (1) to (10) form an integral part of these condensed consolidated interim financial statements.

DUR HOSPITALITY COMPANY
(A Saudi Joint Stock Company)
Condensed Consolidated Interim Statement of Profit or Loss (Un-Audited)
For the three months and year ended 31 December 2017
(Saudi Riyals)

	Notes	Year ended 31 December 2017	Year ended 31 December 2016	Three month period ended 31 December 2017	Three month period ended 31 December 2016
Hospitality income		395,114,826	424,924,485	102,489,190	89,697,013
Rental income		82,139,079	66,668,698	23,880,752	18,052,362
Management fees		6,349,845	7,619,595	1,144,429	1,550,219
Total revenues	4	483,603,750	499,212,778	127,514,371	109,299,594
Cost of revenues		(353,092,614)	(352,116,679)	(91,379,638)	(79,590,888)
Gross profit		130,511,136	147,096,099	36,134,733	29,708,706
Other income		5,178,307	3,509,564	600,434	3,050,493
Selling and distribution expenses		(1,667,673)	(1,509,105)	(702,326)	(726,182)
General and administrative expenses		(31,149,428)	(36,321,833)	(9,997,673)	(10,567,867)
Realized gain from sale of investments in securities held for trading		--	6,917,327	--	5,712,528
(Loss) from investments in equity accounted investees		(4,161,917)	(1,727,467)	(4,161,917)	(1,727,467)
Operating profit		98,710,425	117,964,585	21,873,251	25,450,211
Finance income		663,536	1,047,679	302,874	568,932
Finance expenses		(1,092,616)	(1,140,767)	(338,796)	(304,514)
Profit before zakat		98,281,345	117,871,497	21,837,329	25,714,629
Zakat		(5,065,120)	(4,983,911)	(685,120)	(1,830,500)
Profit for the year / period		93,216,225	112,887,586	21,152,209	23,884,129
Profit attributable to:					
Owners of the Company		92,981,244	113,294,863	19,577,757	24,250,318
Non-controlling interests		234,981	(407,277)	1,574,452	(366,189)
Profit for the year / period		93,216,225	112,887,586	21,152,209	23,884,129
Earnings per share					
Basic and Diluted earnings per share (SR)		0.93	1.13	0.20	0.24

The accompanying notes from (1) to (10) form an integral part of these condensed consolidated interim financial statements.

DUR HOSPITALITY COMPANY
(A Saudi Joint Stock Company)
Condensed Consolidated Interim Statement of Comprehensive Income (Un-Audited)
For the three months and year ended 31 December 2017
(Saudi Riyals)

	Year Ended 31 December 2017	Year ended 31 December 2016	Three month period ended 31 December 2017	Three month period ended 31 December 2016
Profit for the year / period	93,216,225	112,887,586	21,152,209	23,884,129
Other comprehensive income				
Items that are reclassified to profit or loss				
Available for sale investments – change in fair value	--	(6,073,039)	--	(6,073,039)
Items that are not reclassified to profit or loss				
Defined benefit plan actuarial losses	(1,588,112)	(1,588,112)	(1,588,112)	(1,588,112)
Total comprehensive income for the year / period	91,628,113	105,226,435	19,564,097	16,222,978
Total comprehensive income for the period				
Attributable to:				
Owners of the Company	91,485,566	105,726,146	18,082,079	16,681,601
Non-controlling interests	142,547	(499,711)	1,482,018	(458,623)
Total comprehensive income for the year / period	91,628,113	105,226,435	19,564,097	16,222,978

The accompanying notes from (1) to (10) form an integral part of these condensed consolidated interim financial statements.

DUR HOSPITALITY COMPANY
(A Saudi Joint Stock Company)
Condensed Consolidated Interim Statement of Changes in Equity (Un-Audited)
For the year ended 31 December 2017
(Saudi Riyals)

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	140,456,619	1,789,532,148	37,947,742	1,827,479,890
Profit for the year	--	--	--	--	113,294,863	113,294,863	(407,277)	112,887,586
Other comprehensive losses for the year	--	--	--	(6,073,039)	(1,495,678)	(7,568,717)	(92,434)	(7,661,151)
Total comprehensive income for the year	--	--	--	(6,073,039)	111,799,185	105,726,146	(499,711)	105,226,435
Dividends	--	--	--	--	(116,800,000)	(116,800,000)	(155,258)	(116,955,258)
Balance at 31 December 2016	1,000,000,000	500,000,000	143,002,490	--	135,455,804	1,778,458,294	37,292,773	1,815,751,067
Balance at 1 January 2017	1,000,000,000	500,000,000	143,002,490	--	135,455,804	1,778,458,294	37,292,773	1,815,751,067
Profit for the year	--	--	--	--	92,981,244	92,981,244	234,981	93,216,225
Other comprehensive losses for the year	--	--	--	--	(1,495,678)	(1,495,678)	(92,434)	(1,588,112)
Total comprehensive income for the year	--	--	--	--	91,485,566	91,485,566	142,547	91,628,113
Dividends	--	--	--	--	(86,800,000)	(86,800,000)	(135,175)	(86,935,175)
Balance at 31 December 2017	1,000,000,000	500,000,000	143,002,490	--	140,141,370	1,783,143,860	37,300,145	1,820,444,005

The accompanying notes from (1) to (10) form an integral part of these condensed consolidated interim financial statements.

DUR HOSPITALITY COMPANY
(A Saudi Joint Stock Company)
Condensed Consolidated Interim Statement of Cash Flow (Un-Audited)
For the year ended 31 December 2017
(Saudi Riyals)

	<u>Notes</u>	Year ended 31 December <u>2017</u>	Year ended 31 December <u>2016</u>
Cash flow from operating activities			
Profit for the period before zakat		98,281,345	117,871,497
<i>Adjustments for:</i>			
Depreciation	5	64,065,745	55,134,745
Amortization		--	2,487,732
Realized gain from sale of investments in securities held for trading		--	(6,917,327)
Unrealized gain from investment available for sale		--	(6,073,039)
Gain on sale of property and equipment		(3,079,388)	--
Share of losses of equity accounted investees		4,161,916	1,727,467
Employee benefits		5,693,267	10,196,742
Provision for doubtful debts		1,294,052	1,478,478
Provision no longer required		(973,222)	(2,511,957)
Write-down of inventories		905,510	610,000
		<u>170,349,225</u>	<u>174,004,265</u>
<i>Changes in:</i>			
-Trade receivables		(18,087,213)	6,021,825
-Prepayments and other current assets		7,267,486	(5,725,700)
-Inventories		1,892,785	1,105,864
-Due from related parties		(14,919,987)	(4,703,166)
-Trade payables		15,092,492	6,567,866
-Accrued expenses and other current liabilities		29,171,409	16,060,449
-Dividends payable		(2,085,876)	--
-Due to related parties		(3,264,612)	8,278,080
-Proceeds from sale of securities held for trading		--	46,159,018
Cash generated from operating activities		<u>185,415,709</u>	<u>247,768,501</u>
Zakat paid		(7,864,480)	(4,409,714)
Employee benefits paid		(3,317,901)	(7,035,677)
Net cash from operating activities		<u>174,233,328</u>	<u>236,323,110</u>
Cash flow from investing activities			
Proceeds from sale of property and equipment		6,357,455	--
Purchase of property and equipment	5	(21,126,745)	(16,265,517)
Additions of capital work in progress		(262,838,862)	(235,518,729)
Net cash used in investing activities		<u>(277,608,152)</u>	<u>(251,784,246)</u>
Cash flow from financing activities			
Proceeds from long term loans		272,098,471	127,894,535
Repayment of long term loans		(117,241,618)	(11,219,636)
Dividends		(86,800,000)	(122,778,545)
Dividends paid for non-controlling interest		(135,175)	(155,258)
Net cash from financing activities		<u>67,921,678</u>	<u>(6,258,904)</u>
Net decrease in cash and cash equivalents		(35,453,145)	(21,720,040)
Cash and cash equivalents at 1 January		188,460,042	210,180,082
Cash and cash equivalents at 31 December		<u>153,006,897</u>	<u>188,460,042</u>

The accompanying notes from (1) to (10) form an integral part of these condensed consolidated interim financial statements.

DUR HOSPITALITY COMPANY
(A Saudi Joint Stock Company)
Notes to the Condensed Consolidated Interim Financial Statements (Un-Audited)
For the three months and year ended 31 December 2017
(Saudi Riyals)

1. REPORTING ENTITY

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

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

1.1 Share Capital

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

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

1.2 The Condensed Consolidated Interim Financial Statements

The condensed consolidated interim financial statements include the financial statements of Dur Hospitality Company and its subsidiaries (collectively referred to as "the Group") in which the Company owns direct share in their equity that enables it to exercise control over them. These subsidiaries as at 31 December 2017 are as follows:

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

The following are details of the subsidiaries and their activities:

Makkah Hotels Company LLC

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

DUR HOSPITALITY COMPANY
(A Saudi Joint Stock Company)
Notes to the Condensed Consolidated Interim Financial Statements (Un-Audited)
For the three months and year ended 31 December 2017

1. REPORTING ENTITY (CONTINUED)

1.2 The Condensed Consolidated Interim Financial Statements (continued)

Saudi Hotel Services Company LLC

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

Alnakheel for Tourist Areas Company Limited

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

Tabuk Hotels Company LLC

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

Jude Alia Company Limited

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

The Security Source Company Limited

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

DUR HOSPITALITY COMPANY
(A Saudi Joint Stock Company)
Notes to the Condensed Consolidated Interim Financial Statements (Un-Audited)
For the three months and year ended 31 December 2017

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 PREPARATION

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 "Saudi GAAP" refers to accounting standard before the adoption of International Financial Reporting Standards IFRS that are endorsed in the Kingdom of Saudi Arabia.

For financial periods commencing 1 January 2017, the applicable regulations require the Group to prepare and present financial statements in accordance with ("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 31 December 2016; and comprehensive income of the Group for the three month and year ended 31 December 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.

DUR HOSPITALITY COMPANY

(A Saudi Joint Stock Company)

Notes to the Condensed Consolidated Interim Financial Statements (Un-Audited)

For the three months and year ended 31 December 2017

2. BASIS OF PREPARATION (CONTINUED)

BASIS OF MEASUREMENT

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

The financial performance for the three months and year ended 31 December 2017 may not represent an accurate indicator for the annual financial performance 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 receivables

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.

DUR HOSPITALITY COMPANY
(A Saudi Joint Stock Company)
Notes to the Condensed Consolidated Interim Financial Statements (Un-Audited)
For the three months and year ended 31 December 2017

2. BASIS OF PREPARATION (CONTINUED)

USE OF JUDGMENT 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 months period ended 31 March 2017.

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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.

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

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4. OPERATING SEGMENTS (CONTINUED)

	Reported segments			
	Hospitality 2017	Management Fees 2017	Property management 2017	Total 2017
Segments revenues	395,114,826	6,349,845	82,139,079	483,603,750
Segments costs	(302,980,216)	(4,151,630)	(45,960,768)	(353,092,614)
Segments gross profit	92,134,610	2,198,215	36,178,311	130,511,136
Finance income	316,845	--	--	316,845
Depreciation and amortization	50,792,746	--	9,645,651	60,438,397
Segments assets	1,607,350,119	--	906,227,230	2,513,577,349
Property and equipment, capital work in progress	1,317,939,997	--	859,421,729	2,177,361,726
Segments liabilities	212,868,527	--	572,769,654	785,638,181
	Reported segments			
	Hospitality 2016	Management Fees 2016	Property Management 2016	Total 2016
Segments revenues	424,924,485	7,619,595	66,668,698	499,212,778
Segments costs	(304,015,123)	(3,920,820)	(44,180,736)	(352,116,679)
Segments gross profit	120,909,362	3,698,775	22,487,962	147,096,099
Finance income	477,553	--	--	477,553
Depreciation and amortization	44,321,562	--	6,717,816	51,039,378
Segments assets	1,338,598,413	--	1,043,359,086	2,381,957,499
Property and equipment, capital work in progress	1,296,601,024	--	665,202,833	1,961,803,857
Segments liabilities	200,434,994	--	390,268,801	590,703,796

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4. OPERATING SEGMENTS (CONTINUED)

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

	<u>2017</u>	<u>2016</u>
Gross profit from reported segment	130,511,136	147,096,099
Un allocated amount:		
Other income	5,178,307	3,509,564
Selling and distribution expenses	(1,667,673)	(1,509,105)
General and administrative expenses	(31,149,428)	(36,321,833)
Finance income	663,536	1,047,679
Finance expense	(1,092,616)	(1,140,767)
Realized gain from sale of investment in Securities held for trading	—	6,917,327
Gain / (loss) from investment in equity	(4,161,917)	(1,727,467)
Total Un allocated amount	(32,229,791)	(29,224,602)
Consolidated profit before zakat	98,281,345	117,871,497

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5. PROPERTY AND EQUIPMENT, NET

	31 December 2017							
	<u>Lands</u>	<u>Buildings</u>	<u>Improvement s on buildings</u>	<u>Furniture</u>	<u>Vehicles</u>	<u>Devices and equipment</u>	<u>Elevator and central air conditioning</u>	<u>Total</u>
<u>Cost:</u>								
Balance at 1 January	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	--	--	2,258,327	1,834,480	193,542	8,690,396	8,150,000	21,126,745
Transferred from capital work progress	--	183,246,559	2,939,178	36,963,823	--	4,471,318	27,639,477	255,260,355
Disposals	(3,146,750)	--	--	--	(57,500))13,418,858(--	(16,623,108)
Balance at 31 December	724,671,319	1,432,002,793	47,757,747	287,493,017	8,223,587	59,131,857	70,315,978	2,629,596,298
<u>Accumulated depreciation:</u>								
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	--	34,462,788	5,983,378	12,626,685	106,113	8,528,428	2,358,353	64,065,745
Depreciation of disposals	--	--	--	--	(30,050))13,314,991(--	(13,345,041)
Balance at 31 December	--	465,205,176	29,864,703	189,825,815	7,889,585	21,678,821	28,821,365	743,285,465
<u>Net Book Value:</u>								
31 December 2017	724,671,319	966,797,617	17,893,044	97,667,202	334,002	37,453,036	41,494,613	1,886,310,833
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 year ended 31 December 2017, the Group entered into a contract to buy property, plant and equipment for SR 273.5 million (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, Aljubail Hotel, Makarem Riyadh Expand and Ajyad Makkah Renovation.

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6. RELATED PARTIES

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

Details of transactions amounts and resulted balances are:

6/1 Due from related parties	Relationship	Nature of transaction	Transactions amount		Balance	
			31 December 2017	31 December 2016	31 December 2017	31 December 2016
Umm AlQura Makarim Hotel	Affiliate	Services	1,730,442	10,305,666	225,752	2,568,033
Makarim Al Marifa Company	Affiliate	Services	1,024,330	1,090,109	20,554,162	1,667,076
Andalusia Residence Complex	Affiliate	Services	488,023	659,815	--	983,228
Al Jazira Badr	Affiliate	Services	586,057	1,147,860	480,733	978,305
Al Rawdah Residence Complex	Affiliate	Services	391,735	1,850,927	--	354,277
Saudi Company for Heritage Hospitality	Associate	Services	909,234	1,958,617	167,084	286,846
Makarem Mena Hotel	Affiliate	Services	260,000	--	266,892	--
Makarim ALBait Hotel	Affiliate	Services	931,023	--	63,129	--
Ascela Investment Company	Affiliate	Services	470,000	470,943	--	--
					21,757,752	6,837,765

6/2 Due to related parties

	Relationship	Nature of transaction	Transactions amount		Balance	
			31 December 2017	31 December 2016	31 December 2017	31 December 2016
Makarim ALBait Hotel	Affiliate	Services	--	2,962,225	--	2,847,223
Al Madinah Limited Company LLC	Associate	Payments on behalf	895,959	1,825,027	13,327,063	13,327,063
Al Mazzar Compound	Affiliate	Services	715,840	862,460	84,084	1,607,549
Aljazira Compound Riyadh	Affiliate	Services	213,290	545,517	1,488,612	382,536
					14,899,759	18,164,371

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

Transactions with key management personnel

Salaries, bonuses and end of service of the Group's key management persons	31 December 2017	31 December 2016
	5,550,773	5,284,117

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7. LOANS AND BORROWINGS

	31 December 2017	31 December 2016
Non-current liabilities:		
Secured bank loan	432,258,650	283,392,860
Current liabilities:		
Secured bank loan	37,491,064	31,500,000
	<u>469,749,714</u>	<u>314,892,860</u>

Terms and repayments schedule

The terms and conditions of outstanding loans are as follows:

	<u>Currency</u>	<u>Rate</u>	<u>Face Value</u>	<u>Carrying amount</u>	<u>Year of maturity</u>
Balance at 1 January 2017				314,892,860	
Proceeds during the period:					
Local bank	SR	Sibor+ Agreed interest rate	318,900,000	272,098,471	2024
Repayment:					
Local bank	SR	Sibor+ Agreed interest rate	(117,241,618)	(117,241,618)	
Balance at 31 December 2017				<u>469,749,714</u>	

The Group has a secured bank loan in the form of financing, forward sale and Murabaha, with a total value of SR 771.9 million (2016: SR 371.9 million) at variable Murabaha rates. This financing is secured by promissory notes issued for the entire amount of facilities with the local commercial bank as beneficiaries and waiving the proceeds of Darraq rentals (Phase II and III) with an annual value of SR 42.6 million along with the letter of undertaking to waive proceeds of the contracts for which the bank issues final letters of guarantee and /or letters of guarantee - advance payment.

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8. FINANCIAL INSTRUMENTS

Financial assets

	31 December 2017	31 December 2016
Financial assets classified as available for sale		
Available for sale investments *	<u>7,000,000</u>	<u>7,000,000</u>
Total financial assets classified as available for sale	<u>7,000,000</u>	<u>7,000,000</u>
Financial assets carried at amortized cost		
Trade receivables	<u>84,513,392</u>	<u>66,747,009</u>
Due from related parties	<u>21,757,752</u>	<u>6,837,765</u>
Total financial assets carried at amortized cost	<u>106,271,144</u>	<u>73,584,774</u>
Total financial assets	<u>113,271,144</u>	<u>80,584,774</u>
Total current assets	<u>106,271,144</u>	<u>73,584,774</u>
Total non-current assets	<u>7,000,000</u>	<u>7,000,000</u>

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

Financial liabilities

	31 December 2017	31 December 2016
Financial liabilities carried at amortized cost		
Trade payables	<u>36,431,184</u>	<u>21,338,692</u>
Loans and borrowings	<u>469,749,714</u>	<u>314,892,860</u>
Due to related parties	<u>14,899,759</u>	<u>18,164,371</u>
Total financial liabilities carried at amortized cost	<u>521,080,657</u>	<u>354,395,923</u>
Total current liabilities	<u>88,822,007</u>	<u>71,003,063</u>
Total non-current liabilities	<u>432,258,650</u>	<u>283,392,860</u>

The carrying amounts 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 (Saudi GAAP). An explanation of how the transition from Saudi 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 (CONTINUED)

9/1 Reconciliation of statement of financial position and equity as at 31 December 2016

	Saudi GAAP	Effect of transition to IFRSs	IFRS
Assets			
Non-Current Assets			
Property and equipment, net	1,683,442,227	(6,174,682)	1,677,267,545
Capital work in progress	375,977,222	--	375,977,222
Investments in equity-accounted investees	30,436,391	--	30,436,391
Available for sale investment	7,000,000	--	7,000,000
Total non-Current Assets	<u>2,096,855,840</u>	<u>(6,174,682)</u>	<u>2,090,681,158</u>
Current assets			
Inventories	26,596,735	--	26,596,735
Trade receivables	66,747,009	--	66,747,009
Due from related parties	6,837,765	--	6,837,765
Prepayments and other current assets	27,132,154	--	27,132,154
Cash and cash equivalents	188,460,042	--	188,460,042
Total current assets	<u>315,773,705</u>	<u>--</u>	<u>315,773,705</u>
Total assets	<u>2,412,629,545</u>	<u>(6,174,682)</u>	<u>2,406,454,863</u>
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	143,983,184	(8,527,380)	135,455,804
Equity attributable to owner of the Company	<u>1,786,985,674</u>	<u>(8,527,380)</u>	<u>1,778,458,294</u>
Non-controlling interests	37,471,187	(178,414)	37,292,773
Total equity	<u>1,824,456,861</u>	<u>(8,705,594)</u>	<u>1,815,751,067</u>
Liabilities			
Non-Current Liabilities			
Long term loans – non-current portion	283,392,860	--	283,392,860
Employee benefits	53,025,935	2,531,112	55,557,047
Total Non-Current Liabilities	<u>336,418,795</u>	<u>2,531,112</u>	<u>338,949,907</u>
Current Liabilities			
Long term loans –current portion	31,500,000	--	31,500,000
Trade payables	21,338,692	--	21,338,692
Due to related parties	18,164,371	--	18,164,371
Accrued expenses and other current liabilities	115,446,302	--	115,446,302
Dividend payable	47,387,302	--	47,387,302
Zakat provision	17,917,222	--	17,917,222
Total Current Liabilities	<u>251,753,889</u>	<u>--</u>	<u>251,753,889</u>
Total Liabilities	<u>588,172,684</u>	<u>2,531,112</u>	<u>590,703,796</u>
Total equity and liabilities	<u>2,412,629,545</u>	<u>(6,174,682)</u>	<u>2,406,454,863</u>

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9. EXPLANATION OF TRANSITION TO IFRS (CONTINUED)

9/2 Reconciliation of profit or loss for the year ended at 31 December 2016

	Saudi GAAP	Effect of transition to IFRSs	IFRS
Hospitality income	424,924,485	--	424,924,485
Rental income	66,668,698	--	66,668,698
Management fees	7,619,595	--	7,619,595
Total Revenues	499,212,778	--	499,212,778
Cost of revenues	(351,713,870)	(402,809)	(352,116,679)
Gross profit	147,498,908	(402,809)	147,096,099
Other income	3,509,564	--	3,509,564
Selling and distribution expenses	(1,509,105)	--	(1,509,105)
General and administrative expenses	(36,321,833)	--	(36,321,833)
Realized gain from sale of investment in security held for trading	6,917,327	--	6,917,327
Share of losses of equity accounted investee	(1,727,467)	--	(1,727,467)
Operating profit	118,367,394	(402,809)	117,964,585
Finance income	1,047,679	--	1,047,679
Finance expenses	(1,140,767)	--	(1,140,767)
Profit before zakat	118,274,306	(402,809)	117,871,497
Zakat expenses	(4,983,911)	--	(4,983,911)
Profit for the year	113,290,395	(402,809)	112,887,586
Profit attributable to:			
Owners of the Company	113,696,429	(401,566)	113,294,863
Non-controlling interests	(406,034)	(1,243)	(407,277)
Profit for the year	113,290,395	(402,809)	112,887,586
Earning per share:			
Basic and diluted earning per share (in SR)	1.13	(0.004)	1.13

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9. EXPLANATION OF TRANSITION TO IFRS (CONTINUED)

9/3 Reconciliation of comprehensive income for the year ended at 31 December 2016

	Saudi GAAP	Effect of transition to IFRSs	IFRS
Profit for the period	113,290,395	(402,809)	112,887,586
Other Comprehensive loss:			
Items that are reclassified subsequently to profit or loss			
Available for sale investments – change in fair value	(6,073,039)	--	(6,073,039)
Items that are not reclassified subsequently to profit or loss			
Defined benefit plan actuarial losses	--	(1,588,112)	(1,588,112)
Other Comprehensive loss	(6,073,039)	(1,588,112)	(7,661,151)
Total comprehensive income for the year	107,217,356	(1,990,921)	105,226,435
Total comprehensive income attributable to:			
Owners of the Company	107,623,390	(1,897,244)	105,726,146
Non-controlling interests	(406,034)	(93,677)	(499,711)
	107,217,356	(1,990,921)	105,226,435

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9. EXPLANATION OF TRANSITION TO IFRS (CONTINUED)

9/4 Reconciliation of profit or loss for the three months period ended 31 December 2016

	Saudi GAAP	Effect of transition to IFRSs	IFRS
Hospitality income	89,697,013	--	89,697,013
Rental income	18,052,362	--	18,052,362
Management fees	1,550,219	--	1,550,219
Total revenues	109,299,594	--	109,299,594
Cost of revenues	(79,490,185)	(100,703)	(79,590,888)
Gross profit	29,809,409	(100,703)	29,708,706
Other income	3,050,493	--	3,050,493
Selling and distribution expenses	(726,182)	--	(726,182)
General and administrative expenses	(10,567,867)	--	(10,567,867)
Realized gain from sale of investment in Securities held for trading	5,712,528	--	5,712,528
Share of losses of equity accounted investee	(1,727,467)	--	(1,727,467)
Operating profit	25,550,914	(100,703)	25,450,211
Finance income	568,932	--	568,932
Finance expenses	(304,514)	--	(304,514)
Profit before zakat	25,815,332	(100,703)	25,714,629
Zakat expenses	(1,830,500)	--	(1,830,500)
Profit for the period	23,984,832	(100,703)	23,884,129
Profit attributable to:			
Owners of the Company	24,350,710	(100,392)	24,250,318
Non-controlling interests	(365,878)	(311)	(366,189)
	23,984,832	(100,703)	23,884,129
Earning per share:			
Basic and diluted earnings per share (in SR)	0.24	(0.001)	0.24

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9. EXPLANATION OF TRANSITION TO IFRS (CONTINUED)

9/5 Reconciliation of comprehensive income for the three months period ended 31 December 2016

	Saudi GAAP	Effect of transition to IFRSs	IFRS
Profit for the period	23,984,832	(100,703)	23,884,129
Other Comprehensive loss:			
Items that are reclassified subsequently to profit or loss			
Available for sale investments – change in fair value	(6,073,039)	--	(6,073,039)
Items that are not reclassified subsequently to profit or loss			
Defined benefit plan actuarial losses	--	(1,588,112)	(1,588,112)
Total comprehensive income	<u>23,984,832</u>	<u>(1,688,815)</u>	<u>16,222,978</u>
Total comprehensive income attributable to:			
Owners of the Company	24,350,710	(1,596,070)	16,681,601
Non-controlling interests	(365,878)	(92,245)	(458,623)
	<u>23,984,832</u>	<u>(1,688,815)</u>	<u>16,222,978</u>

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9. EXPLANATION OF TRANSITION TO IFRS (CONTINUED)

A. Provision for employees' end of service benefits

Under Saudi 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 that are endorsed in the Kingdom of Saudi Arabia, 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 Saudi GAAP and IFRS that are endorsed in the Kingdom of Saudi Arabia 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 Saudi GAAP and IFRS that are endorsed in the Kingdom of Saudi Arabia at the date of transition has been recognized against retained earnings.

C. 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 that are endorsed in the Kingdom of Saudi Arabia and under Saudi GAAP.

10. CONTINGENT LIABILITIES

The Group has issued letters of guarantee amounting to SR 39.2 million at 31 December 2017 (2016: SR 36.8 million). These guarantees are without a cash margin.