

DUR HOSPITALITY COMPANY
(A Saudi Joint Stock Company)
Condensed Consolidated Interim Financial Statements
For the nine months period ended 30 September 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 September 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 September 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 September 2017;
- the condensed consolidated statement of profit or loss for the three month and nine month periods ended 30 September 2017;
- the condensed consolidated statement of comprehensive income for the three month and nine month periods ended 30 September 2017;
- the condensed consolidated statement of changes in equity for the nine month periods ended 30 September 2017;
- the condensed consolidated statement of cash flows for the nine months period ended 30 September 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 September 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: 4 Safar 1439H
Corresponding to: 24 October 2017

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

	<i>Notes</i>	30 September 2017	31 December 2016
Assets			
Property and equipment, net	5	1,691,241,698	1,677,267,545
Capital work in progress		520,914,571	375,977,222
Investments in equity accounted investees		30,436,391	30,436,391
Available for sale investments		7,000,000	7,000,000
Total Non-Current Assets		<u>2,249,592,660</u>	<u>2,090,681,158</u>
Inventories		24,469,206	26,596,735
Trade receivables		73,311,491	66,747,009
Due from related parties	6	24,535,219	6,837,765
Prepayments and other current assets		31,243,508	27,132,154
Cash and cash equivalents		112,827,765	188,460,042
Total Current assets		<u>266,387,189</u>	<u>315,773,705</u>
Total assets		<u>2,515,979,849</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		122,058,291	135,455,804
Equity attributable to owners of the Company		<u>1,765,060,781</u>	<u>1,778,458,294</u>
Non-controlling interests		35,819,127	37,292,773
Total equity		<u>1,800,879,908</u>	<u>1,815,751,067</u>
Non-Current Liabilities			
Long term loans – non-current portion	7	370,220,435	283,392,860
Employee benefits		57,398,840	55,557,047
Total Non-Current Liabilities		<u>427,619,275</u>	<u>338,949,907</u>
Current Liabilities			
Long term loans – current portion	7	37,491,064	31,500,000
Trade payables		28,840,792	21,338,692
Due to related parties	6	14,863,120	18,164,371
Accrued expenses and other current liabilities		146,864,195	115,446,302
Dividends payable		45,336,439	47,387,302
Zakat provision		14,085,056	17,917,222
Total Current Liabilities		<u>287,480,666</u>	<u>251,753,889</u>
Total Liabilities		<u>715,099,941</u>	<u>590,703,796</u>
Total equity and liabilities		<u>2,515,979,849</u>	<u>2,406,454,863</u>

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

DUR HOSPITALITY COMPANY
(A Saudi Joint Stock Company)
Condensed Consolidated Interim Statement of Profit or Loss (Un-Audited)
For the three and nine months period ended 30 September 2017
(Saudi Riyals)

	<u>Notes</u>	<u>Nine month period ended 30 September 2017</u>	<u>Nine month period ended 30 September 2016</u>	<u>Three month period ended 30 September 2017</u>	<u>Three month period ended 30 September 2016</u>
Hospitality income		292,625,636	335,227,472	84,904,530	100,650,156
Rental income		58,258,327	48,616,337	20,312,329	16,997,628
Management fees		5,205,416	5,734,213	2,395,863	1,780,216
Total revenues	4	<u>356,089,379</u>	<u>389,578,022</u>	<u>107,612,722</u>	<u>119,428,000</u>
Cost of revenues		<u>(261,712,976)</u>	<u>(271,673,046)</u>	<u>(83,828,647)</u>	<u>(82,902,699)</u>
Gross profit		<u>94,376,403</u>	<u>117,904,976</u>	<u>23,784,075</u>	<u>36,525,301</u>
Other income		4,577,873	459,071	223,503	(130,941)
Selling and distribution expenses		(965,347)	(782,924)	(393,262)	(353,833)
General and administrative expenses		(21,151,755)	(25,430,780)	(7,494,660)	(7,022,137)
Realized gain from sale of investments in securities held for trading		--	109,813	--	109,813
Unrealized gain from evaluating the securities held for trading		--	1,094,987	--	1,094,987
Operating profit		<u>76,837,174</u>	<u>93,355,143</u>	<u>16,119,656</u>	<u>30,223,190</u>
Finance income		360,662	478,747	(131,802)	133,124
Finance expenses		(753,820)	(836,253)	(218,625)	(257,507)
Profit before zakat		<u>76,444,016</u>	<u>92,997,637</u>	<u>15,769,229</u>	<u>30,098,807</u>
Zakat		(4,380,000)	(3,691,500)	(1,460,000)	(1,300,494)
Profit for the period		<u>72,064,016</u>	<u>89,306,137</u>	<u>14,309,229</u>	<u>28,798,313</u>
Profit attributable to:					
Owners of the Company		73,402,487	90,078,982	15,011,544	29,614,985
Non-controlling interests		(1,338,471)	(772,845)	(702,315)	(816,672)
Profit for the period		<u>72,064,016</u>	<u>89,306,137</u>	<u>14,309,229</u>	<u>28,798,313</u>
Earnings per share					
Basic and Diluted earnings per share (SR)		<u>0,73</u>	<u>0,90</u>	<u>0,15</u>	<u>0,30</u>

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

DUR HOSPITALITY COMPANY
(A Saudi Joint Stock Company)
Condensed Consolidated Interim Statement Of Comprehensive Income (Un-Audited)
For the three month and nine month period ended 30 September 2017
(Saudi Riyals)

	Nine month period ended 30 September 2017	Nine month period ended 30 September 2016	Three month period ended 30 September 2017	Three month period ended 30 September 2016
Profit for the period	72,064,016	89,306,137	14,309,229	28,798,313
Other comprehensive income	--	--	--	--
Total comprehensive income for the period	72,064,016	89,306,137	14,309,229	28,798,313
Total comprehensive income for the period				
Attributable to:				
Owners of the Company	73,402,487	90,078,982	15,011,544	29,614,985
Non-controlling interests	(1,338,471)	(772,845)	(702,315)	(816,672)
Total comprehensive income for the period	72,064,016	89,306,137	14,309,229	28,798,313

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

DUR HOSPITALITY COMPANY
(A Saudi Joint Stock Company)
Condensed Consolidated Interim Statement of Changes in Equity (Un-Audited)
For the nine month period ended 30 September 2017
(Saudi Riyals)

For the nine month period ended 30 September 2017:

	Attributable to owners of the Company				Total	Non-controlling interests	Total equity
	Share capital	Statutory reserve	Other reserve	Retained earnings			
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)	<u>1,000,000,000</u>	<u>500,000,000</u>	<u>143,002,490</u>	<u>135,455,804</u>	<u>1,778,458,294</u>	<u>37,292,773</u>	<u>1,815,751,067</u>
Total comprehensive income for the period	--	--	--	73,402,487	73,402,487	(1,338,471)	72,064,016
Dividends	--	--	--	(85,000,000)	(85,000,000)	(135,175)	(85,135,175)
Board of Directors' remunerations	--	--	--	(1,800,000)	(1,800,000)	--	(1,800,000)
Balance at 30 September 2017	<u>1,000,000,000</u>	<u>500,000,000</u>	<u>143,002,490</u>	<u>122,058,291</u>	<u>1,765,060,781</u>	<u>35,819,127</u>	<u>1,800,879,908</u>

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

DUR HOSPITALITY COMPANY
(A Saudi Joint Stock Company)
Condensed Consolidated Interim Statement of Changes in Equity (Un-Audited)
For the nine month period ended 30 September 2017
(Saudi Riyals)

For the nine month period ended 30 September 2016:

	Attributable to owners of the Company							Non-controlling interests	Total equity
	Share capital	Statutory reserve	Other reserve	Fair value reserve for available for sale investments	Retained earnings	Total			
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	--	--	--	--	90,078,982	90,078,982	(772,845)	89,306,137	
Dividends	--	--	--	--	(115,000,000)	(115,000,000)	(155,258)	(115,155,258)	
Board of Directors' remunerations	--	--	--	--	(1,800,000)	(1,800,000)	--	(1,800,000)	
Transfer of unrealized gains on investments to statement of profit or loss	--	--	--	(6,073,039)	--	(6,073,039)	--	(6,073,039)	
Balance at 30 September 2016	1,000,000,000	500,000,000	143,002,490	--	113,735,601	1,756,738,091	37,019,639	1,793,757,730	

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

DUR HOSPITALITY COMPANY
(A Saudi Joint Stock Company)
Condensed Consolidated Interim Statement of Cash Flow (Un-Audited)
For the nine months period ended 30 September 2017
(Saudi Riyals)

	Nine month period ended 30 September 2017	Nine month period ended 30 September 2016
<u>Notes</u>	<u>September 2017</u>	<u>September 2016</u>
Cash flow from operating activities		
Profit for the period before zakat	76,444,016	92,997,637
<i>Adjustments for:</i>		
Depreciation	5 45,736,299	43,055,939
Amortization	--	1,865,799
Unrealized gain from evaluating the securities held for trading	--	(1,094,987)
Gain on sale of property and equipment	(3,088,796)	--
Employee benefits	5,693,267	10,196,742
Provision for doubtful debts	155,804	654,727
Write-down of inventories	675,000	281,250
	125,615,590	147,957,107
<i>Changes in:</i>		
-Trade receivables	(6,720,286)	2,868,237
-Prepayments and other current assets	(4,111,354)	544,765
-Inventories	1,452,529	455,776
-Due from related parties	(17,697,454)	(4,250,562)
-Trade payables	7,502,100	11,020,248
-Accrued expenses and other current liabilities	29,367,030	8,124,264
-Due to related parties	(3,301,251)	4,452,529
-Proceeds from sale of securities held for trading	--	10,016,776
Cash generated from operating activities	132,106,904	181,189,140
Zakat paid	(8,212,166)	(3,130,268)
Employee benefits paid	(3,851,474)	(6,822,914)
Net cash from operating activities	120,043,264	171,235,958
Cash flow from investing activities		
Proceeds from sale of property and equipment	6,262,996	--
Purchase of property and equipment	5 (7,949,496)	(13,081,538)
Additions of capital work in progress	(199,872,505)	(177,846,295)
Net cash used in investing activities	(201,559,005)	(190,927,833)
Cash flow from financing activities		
Proceeds from long term loans	163,216,956	132,637,185
Repayment of long term loans	(70,398,317)	(39,603,431)
Dividends	(85,135,175)	(115,155,258)
Board of Directors' remunerations	(1,800,000)	(1,800,000)
Net cash from financing activities	5,883,464	(23,921,504)
Net decrease in cash and cash equivalents	(75,632,277)	(43,613,379)
Cash and cash equivalents at 1 January	188,460,042	209,917,926
Cash and cash equivalents at 30 September	112,827,765	166,304,547

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

DUR HOSPITALITY COMPANY
(A Saudi Joint Stock Company)
Notes to the Condensed Consolidated Interim Financial Statements (Un-Audited)
For the nine month period ended 30 September 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 30 September 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 Ajjad Makkah Hotel in Makkah.

DUR HOSPITALITY COMPANY
(A Saudi Joint Stock Company)
Notes to the Condensed Consolidated Interim Financial Statements (Un-Audited)
For the nine months period ended 30 September 2017
(Saudi Riyals)

1. REPORTING ENTITY (CONTINUED)

1.2 The Condensed Consolidated Interim Financial Statements (continued)

Saudi Hotel Services Company LLC

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

Alnakheel for Tourist Areas Company Limited

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

Tabuk Hotels Company LLC

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

Jude Alia Company Limited

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

The Security Source Company Limited

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

DUR HOSPITALITY COMPANY
(A Saudi Joint Stock Company)
Notes to the Condensed Consolidated Interim Financial Statements (Un-Audited)
For the nine months period ended 30 September 2017
(Saudi Riyals)

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 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 30 September 2016; and comprehensive income of the Group for the three month and nine month period ended 30 September 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 nine months period ended 30 September 2017
(Saudi Riyals)

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 nine months period ended 30 September 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
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2. BASIS OF PREPARATION (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 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	Management fees	Property management	Total
	2017	2017	2017	2017
Segments revenues	292,625,636	5,205,416	58,258,327	356,089,379
Segments costs	(235,858,699)	(2,558,442)	(23,295,835)	(261,712,976)
Segments gross profit	56,766,937	2,646,974	34,962,492	94,376,403
Finance income	227,145	--	--	227,145
Depreciation and amortization	38,017,037	--	5,336,016	43,353,053
Segments assets	1,720,551,710	--	702,923,300	2,423,475,010
Property and equipment, capital work in progress	1,451,959,924	--	667,691,509	2,119,651,433
Segments liabilities	192,004,991	--	523,094,950	715,099,941

	Reported segments			
	Hospitality	Management fees	Property Management	Total
	2016	2016	2016	2016
Segments revenues	335,227,472	5,734,213	48,616,337	389,578,022
Segments costs	(246,176,491)	(2,293,382)	(23,203,173)	(271,673,046)
Segments gross profit	89,050,981	3,440,831	25,413,164	117,904,976
Finance income	338,357	--	--	338,357
Depreciation and amortization	5,045,105	--	35,525,423	40,570,528
Segments assets	1,555,575,747	--	711,484,857	2,267,060,604
Property and equipment, capital work in progress	1,280,105,294	--	633,442,115	1,913,547,409
Segments liabilities	207,267,348	--	357,577,102	564,844,450

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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	94,376,403	117,904,976
Un allocated amount:		
Other income	4,577,873	459,071
Selling and distribution expenses	(965,347)	(782,924)
General and administrative expenses	(21,151,755)	(25,430,780)
Finance income	360,662	478,747
Finance expense	(753,820)	(836,253)
Realized gain from sale of investment in Securities held for trading	--	109,813
Unrealized gain from evaluating the securities held for trading	--	1,094,987
Total Un allocated amount	<u>(17,932,387)</u>	<u>(24,907,339)</u>
Consolidated profit before zakat	<u>76,444,016</u>	<u>92,997,637</u>

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5. PROPERTY AND EQUIPMENT, NET

	30 September 2017							
	<u>Lands</u>	<u>Buildings</u>	<u>Improvements on buildings</u>	<u>Furniture</u>	<u>Vehicles</u>	<u>Devices and equipment</u>	<u>Elevator and central air conditioni ng</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	--	438,428	311,340	1,353,780	193,542	5,652,406	--	7,949,496
Transferred from capital work progress	--	24,422,242	3,517,507	22,793,439	--	4,201,968	--	54,935,156
Disposals	(3,146,750)	--	--	--	(57,500)	(100,000)	--	(3,304,250)
Balance at 30 September	<u>724,671,319</u>	<u>1,273,616,904</u>	<u>46,389,089</u>	<u>272,841,933</u>	<u>8,223,587</u>	<u>69,143,375</u>	<u>34,526,501</u>	<u>2,429,412,708</u>
<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	--	25,012,670	4,532,025	9,122,928	83,047	6,784,223	201,406	45,736,299
Depreciation of disposals	--	--	--	--	(30,050)	(100,000)	--	(130,050)
Balance at 30 September	<u>--</u>	<u>455,755,058</u>	<u>28,413,350</u>	<u>186,322,058</u>	<u>7,866,519</u>	<u>33,149,607</u>	<u>26,664,418</u>	<u>738,171,010</u>
<u>Net Book Value:</u>								
30 September 2017	<u>724,671,319</u>	<u>817,861,846</u>	<u>17,975,739</u>	<u>86,519,875</u>	<u>357,068</u>	<u>35,993,768</u>	<u>7,862,083</u>	<u>1,691,241,698</u>
31 December 2016	<u>727,818,069</u>	<u>818,013,846</u>	<u>18,678,917</u>	<u>71,495,584</u>	<u>274,023</u>	<u>32,923,617</u>	<u>8,063,489</u>	<u>1,677,267,545</u>

Capital commitments

During the nine month period ended 30 September 2017, the Group entered into a contract to buy property, plant and equipment for SR 260 million (year ended 31 December 2016 for SR 440 million). These relate to contracts signed for the construction of Safarat Ditriect 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	
			30 September 2017	31 December 2016	30 September 2017	31 December 2016
Umm AlQura Makarim Hotel	Affiliate	Services	1,730,442	10,305,666	1,914,800	2,568,033
Makarim Al Marifa Company	Affiliate	Services	1,024,330	1,090,109	20,191,406	1,667,076
Andalusia Residence Complex	Affiliate	Services	488,023	659,815	712,845	983,228
Al Jazira Badr	Affiliate	Services	586,057	1,147,860	303,522	978,305
Al Rawdah Residence Complex	Affiliate	Services	391,735	1,850,927	754,006	354,277
Saudi Company for Heritage Hospitality	Associate	Services	909,234	1,958,617	101,352	286,846
Makarim ALBait Hotel	Affiliate	Services	931,023	--	157,288	--
Aseela Investment Company	Affiliate	Services	470,000	470,943	400,000	--
					24,535,219	6,837,765

6/2 Due to related parties

	Relationship	Nature of transaction	Transactions amount		Balance	
			30 September 2017	31 December 2016	30 September 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	1,235,960	1,607,549
Aljazira Compound Riyadh	Affiliate	Services	213,290	545,517	300,097	382,536
					14,863,120	18,164,371

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

Transactions with key management personnel

	30 September 2017	30 September 2016
Salaries, bonuses and end of service of the Group's key management persons	3,982,502	4,063,927

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7. LOANS AND BORROWINGS

	30 September 2017	31 December 2016
Non-current liabilities:		
Secured bank loan	370,220,435	283,392,860
Current liabilities:		
Secured bank loan	<u>37,491,064</u>	<u>31,500,000</u>
	<u>407,711,499</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	218,900,000	163,216,956	2023
Repayment:					
Local bank	SR	Sibor+ Agreed interest rate	(70,398,317)	<u>(70,398,317)</u>	--
Balance at 30 September 2017				<u>407,711,499</u>	

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 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

	30 September 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	<u>7,000,000</u>	<u>7,000,000</u>
Financial assets carried at amortized cost		
Trade receivables	73,311,491	66,747,009
Due from related parties	24,535,219	6,837,765
Total financial assets carried at amortized cost	<u>97,846,710</u>	<u>73,584,774</u>
Total financial assets	<u>104,846,710</u>	<u>80,584,774</u>
Total current assets	<u>97,846,710</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

	30 September 2017	31 December 2016
Financial liabilities carried at amortized cost		
Trade payables	28,840,792	21,338,692
Loans and borrowings	407,711,499	314,892,860
Due to related parties	14,863,120	18,164,371
Total financial liabilities carried at amortized cost	<u>451,415,411</u>	<u>354,395,923</u>
Total current liabilities	<u>81,194,976</u>	<u>71,003,063</u>
Total non-current liabilities	<u>370,220,435</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 (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 September 2016

	SOCPA GAAP	Effect of transition to IFRSs	IFRS
Assets			
Property and equipment, net	1,652,267,442	(6,073,980)	1,646,193,462
Capital work in progress	358,895,524	--	358,895,524
Investments in equity-accounted investees	32,452,859	--	32,452,859
Available for sale investments	7,000,000	--	7,000,000
Total Non-Current Assets	2,050,615,825	(6,073,980)	2,044,541,845
Inventories	27,537,729	--	27,537,729
Trade receivables	68,724,347	--	68,724,347
Investment held for trade	24,246,863	--	24,246,863
Due from related parties	6,385,159	--	6,385,159
Prepayments and other current assets	20,861,690	--	20,861,690
Cash and cash equivalents	166,304,547	--	166,304,547
Total Current assets	314,060,335	--	314,060,335
Total assets	2,364,676,160	(6,073,980)	2,358,602,180
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	120,666,912	(6,931,311)	113,735,601
Equity attributable to owner of the Company	1,763,669,402	(6,931,311)	1,756,738,091
Non-controlling interests	37,105,308	(85,669)	37,019,639
Total equity	1,800,774,710	(7,016,980)	1,793,757,730
Liabilities			
Non-Current Liabilities			
Long term loans – non-current portion	259,751,715	--	259,751,715
Employee benefits	53,238,018	943,000	54,181,018
Total Non-Current Liabilities	312,989,733	943,000	313,932,733
Current Liabilities			
Long term loans – current portion	31,500,000	--	31,500,000
Trade payables	25,791,076	--	25,791,076
Due to related parties	14,327,821	--	14,327,821
Accrued expenses and other current liabilities	108,022,075	--	108,022,075
Dividends payable	53,366,488	--	53,366,488
Zakat provision	17,904,257	--	17,904,257
Total Current Liabilities	250,911,717	--	250,911,717
Total Liabilities	563,901,450	943,000	564,844,450
Total equity and liabilities	2,364,676,160	(6,073,980)	2,358,602,180

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9. EXPLANATION OF TRANSITION TO IFRS (Continuation)

9/2 Reconciliation of profit or loss for the nine month period ended at 30 September 2016

	SOCPA GAAP	Effect of transition to IFRSs	IFRS
Hospitality income	335,227,472	--	335,227,472
Rental income	48,616,337	--	48,616,337
Management fees	5,734,213	--	5,734,213
Total revenues	389,578,022	--	389,578,022
Cost of revenues	(271,370,937)	(302,109)	(271,673,046)
Gross profit	118,207,085	(302,109)	117,904,976
Other income	459,071	--	459,071
Selling and distribution expenses	(782,924)	--	(782,924)
General and administrative expenses	(25,430,780)	--	(25,430,780)
Realized gain from sale of investment in Securities held for trading	109,813	--	109,813
Unrealized gain from evaluating the securities held for trading	1,094,987	--	1,094,987
Operating profit	93,657,252	(302,109)	93,355,143
Finance income	478,747	--	478,747
Finance expenses	(836,253)	--	(836,253)
Profit before zakat	93,299,746	(302,109)	92,997,637
Zakat expenses	(3,691,500)	--	(3,691,500)
Profit for the period	89,608,246	(302,109)	89,306,137
Profit attributable to:			
Owners of the Company	90,380,158	(301,176)	90,078,982
Non-controlling interests	(771,912)	(933)	(772,845)
Profit for the period	89,608,246	(302,109)	89,306,137
Profit per share:			
Basic and diluted earnings per share (in SR)	0,90	(0,003)	0,90

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9. EXPLANATION OF TRANSITION TO IFRS (Continuation)

9/3 Reconciliation of comprehensive income for the nine-month period ended at 30 September 2016

	SOCPA GAAP	Effect of transition to IFRSs	IFRS
Profit for the period	89,608,246	(302,109)	89,306,137
Other comprehensive income	--	--	--
Total comprehensive income	<u>89,608,246</u>	<u>(302,109)</u>	<u>89,306,137</u>
Total comprehensive income attributable to:			
Owners of the Company	90,380,158	(301,176)	90,078,982
Non-controlling interests	<u>(771,912)</u>	<u>(933)</u>	<u>(772,845)</u>
	<u>89,608,246</u>	<u>(302,109)</u>	<u>89,306,137</u>

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9. EXPLANATION OF TRANSITION TO IFRS (Continuation)

9/4 Reconciliation of profit or loss for the three months period ended 30 September 2016

	SOCPA GAAP	Effect of transition to IFRSs	IFRS
Hospitality income	100,650,156	--	100,650,156
Rental income	16,997,628	--	16,997,628
Management fees	1,780,216	--	1,780,216
Total revenues	119,428,000	--	119,428,000
Cost of revenues	(82,801,996)	(100,703)	(82,902,699)
Gross profit	36,626,004	(100,703)	36,525,301
Other income	(130,941)	--	(130,941)
Selling and distribution expenses	(353,833)	--	(353,833)
General and administrative expenses	(7,022,137)	--	(7,022,137)
Realized gain from sale of investment in Securities held for trading	109,813	--	109,813
Unrealized gain from evaluating the securities held for trading	1,094,987	--	1,094,987
Operating profit	30,323,893	(100,703)	30,223,190
Finance income	133,124	--	133,124
Finance expenses	(257,507)	--	(257,507)
Profit before zakat	30,199,510	(100,703)	30,098,807
Zakat expenses	(1,300,494)	--	(1,300,494)
Profit for the period	28,899,016	(100,703)	28,798,313
Profit attributable to:			
Owners of the Company	29,715,377	(100,392)	29,614,985
Non-controlling interests	(816,361)	(311)	(816,672)
	28,899,016	(100,703)	28,798,313
Profit per share:			
Basic and diluted earnings per share (in SR)	<u>0.30</u>	<u>(0.001)</u>	<u>0.30</u>

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9. EXPLANATION OF TRANSITION TO IFRS (Continuation)

9/5 Reconciliation of comprehensive income for the three months period ended 30 September 2016

	SOCPA GAAP	Effect of transition to IFRSs	IFRS
Profit for the period	28,899,016	(100,703)	28,798,313
Other comprehensive income	—	—	—
Total comprehensive income	<u>28,899,016</u>	<u>(100,703)</u>	<u>28,798,313</u>
Total comprehensive income attributable to:			
Owners of the Company	29,715,377	(100,392)	29,614,985
Non-controlling interests	<u>(816,361)</u>	<u>(311)</u>	<u>(816,672)</u>
	<u>28,899,016</u>	<u>(100,703)</u>	<u>28,798,313</u>

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