

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



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REVIEW REPORT ON THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

Scope of Review

We have reviewed the accompanying interim consolidated balance sheet of **Dur Hospitality Company** (the “Company”) and its subsidiaries (collectively referred to as the “Group”) as at 31 December 2016 and the related interim consolidated statement of income for the three-month period and year then ended, the interim consolidated statements of cash flows and changes in equity for the year then ended and the attached notes 1 through 22 which form an integral part of these interim consolidated financial statements. These interim consolidated financial statements are the responsibility of the Group’s management and have been prepared by them and submitted to us together with all the information and explanations which we required. Our responsibility is to provide a conclusion on the review of these interim consolidated financial statements based on our review.

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

Conclusion

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

For KPMG Al Fozan & Partners
Certified Public Accountants

Khalil Ibrahim Al Sedais
License No. 371

Riyadh on: 21 Rabi’ II 1438H
Corresponding to: 19 January 2017

DUR HOSPITALITY COMPANY
(A Saudi Joint Stock Company)
Interim Consolidated Balance Sheet (Un-Audited)
As at 31 December 2016
(Saudi Riyals)

	<u>Notes</u>	31 December 2016	31 December 2015 (restated Note 10) (Reviewed)
<u>Assets</u>			
Current assets			
Cash on hand and at banks	(4)	210,123,868	210,180,082
Trade receivables, net		68,556,038	72,247,311
Inventories		26,596,738	28,312,599
Prepayments and other current assets	(5)	28,265,422	21,406,454
Due from related parties		6,947,338	2,134,599
Total current assets		340,489,404	334,281,045
Non-current assets			
Investments in equity accounted investees	(6)	30,436,391	32,163,858
Available for sale investments	(7-1)	7,000,000	46,241,691
Property and equipment, net	(8)	1,683,442,191	1,648,075,221
Projects in progress	(9)	372,521,082	216,779,541
Total non-current assets		2,093,399,664	1,943,260,311
Total assets		2,433,889,068	2,277,541,356
<u>Liabilities and equity</u>			
Current liabilities			
Current portion of long term loans	(11)	31,500,000	9,294,281
Trade payables		16,889,543	14,770,828
Accrued expenses and other current liabilities	(12)	117,202,354	99,897,810
Dividends payable		70,473,154	53,366,488
Due to related parties		18,154,923	9,886,291
Zakat provision		18,455,311	17,343,025
Total current liabilities		272,675,285	204,558,723
Non-current liabilities			
Long-term loans	(11)	283,392,860	188,923,680
Provision for employees' end of service benefits		53,061,379	49,864,190
Total non-current liabilities		336,454,239	238,787,870
Total liabilities		609,129,524	443,346,593
<u>Equity</u>			
Equity attributable to the Company's shareholders			
Share capital		1,000,000,000	1,000,000,000
Statutory reserve		500,000,000	500,000,000
Contractual reserve		143,002,490	143,002,490
Retained earnings		144,285,867	147,086,755
Unrealized gains on available for sale investments		--	6,073,039
Total equity attributable to Company's shareholders		1,787,288,357	1,796,162,284
Non-controlling interest		37,471,187	38,032,479
Total equity		1,824,759,544	1,834,194,763
Total liabilities and equity		2,433,889,068	2,277,541,356

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

DUR HOSPITALITY COMPANY
(A Saudi Joint Stock Company)
Interim Consolidated Statement of Income (Un-Audited)
For the three-month period and year ended 31 December 2016
(Saudi Riyals)

	<i>Notes</i>	For the three-month period ended 31 December		For the year ended 31 December	
		2016	2015	2016	2015
					(Restated) (Reviewed)
Revenue	(14)	109,299,594	129,146,571	498,877,616	532,619,594
Cost of revenue	(15)	(79,490,185)	(91,702,484)	(350,861,122)	(353,420,876)
Gross profit		29,809,409	37,444,087	148,016,494	179,198,718
General and administrative expenses	(16)	(10,872,381)	(10,999,806)	(37,139,414)	(35,863,111)
Selling and marketing expenses		(726,182)	(520,645)	(1,509,105)	(1,194,844)
Realized gains from sale of investment in Securities held for trading		5,712,528	--	6,917,327	--
Other-than- temporary impairment in available for sale investments	(7)	--	(2,410,464)	--	(2,410,464)
Income/(loss) from investments in equity accounted investees	(6)	(1,727,467)	--	(1,727,467)	2,808,140
Operating income		22,195,907	23,513,172	114,557,835	142,538,439
Income from disposal of investments in equity accounted investees	(10)	--	--	--	892,546
Income from acquisition	(10)	--	--	--	1,563,304
Other income	(17)	3,619,425	2,338,278	4,557,243	8,418,435
Net income before Zakat and non- controlling interest		25,815,332	25,851,450	119,115,078	153,412,724
Zakat provision		(1,830,500)	(1,571,454)	(5,522,000)	(5,420,873)
Net income before non - controlling interest		23,984,832	24,279,996	113,593,078	147,991,851
Share of non-controlling interest in the net income of the subsidiaries		(365,878)	(857,434)	406,034	(1,162,206)
Net income for the period		23,618,954	23,422,562	113,999,112	146,829,645
Earnings per share from:	(18)				
Net income for the period		0.24	0.23	1.14	1.47
Operating income		0.22	0.24	1.15	1.43
Other income		0.04	0.02	0.046	0.084

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

DUR HOSPITALITY COMPANY
(A Saudi Joint Stock Company)
Interim Consolidated Statement of Cash Flows (Un-Audited)
For the year ended 31 December 2016
(Saudi Riyals)

	<u>Notes</u>	<u>2016</u>	<u>2015</u> (Restated) (Reviewed)
<u>Cash flows from operating activities</u>			
Net income for the period before Zakat and non-controlling interest		119,115,078	153,412,724
<i>Adjustments to reconcile net income to net cash flows generated from operating activities</i>			
Depreciation	(8)	54,731,863	54,004,007
Amortization of deferred charges	(16)	2,487,732	2,487,732
Unrealized gains from investments in securities held for trading	(7)	(1,094,986)	--
Income from disposal of investments in equity accounted investees		--	(892,546)
Income from acquisition		--	(1,563,300)
Gains on sale of property and equipment	(17)	--	(1,126,089)
Provision for end of service benefits		10,196,742	7,971,663
Provision for doubtful debts		1,478,478	5,512,893
Provisions no longer required		(2,511,957)	--
Impairment of available for sale investments		--	2,410,464
Provision for slow-moving inventories	(14)	610,000	1,027,206
Realized gains from sale of investments in securities held for trading	(7)	(6,917,327)	--
Unrealized gains from available for sale investments		(6,073,039)	--
Income from investments in equity accounted investees	(6)	1,727,467	(2,808,140)
		174,845,037	220,436,614
<u>Changes in operating assets and liabilities:</u>			
Trade receivables		4,724,751	(35,816,178)
Prepayments and other current assets		(6,858,968)	(2,323,671)
Due from related parties		(4,812,739)	804,884
Inventories		1,105,861	842,084
Trade payables		2,118,715	7,252,028
Accrued expenses and other current liabilities		17,304,545	(4,614,304)
Due to related parties		8,268,632	(924,117)
Proceeds from sale of investments in securities held for trading	(7)	46,159,018	--
Zakat paid		(4,409,714)	(4,752,404)
Provision for employee's end of service benefits paid		(6,999,553)	(3,970,062)
Net cash flows generated from operating activities		231,445,585	176,934,874
<u>Cash flows from investing activities</u>			
Payments for purchase of property and equipment	(8)	(16,265,517)	(101,771,859)
Payments for projects in progress	(9)	(232,062,589)	(143,816,614)
Payments for investment in equity accounted investees	(6)	--	2,808,140
Proceeds from sale of property and equipment		--	6,798,536
Net cash from acquired companies	(10)	--	6,065,444
Proceeds from investments in equity accounted investees	(6)	--	1,800,000
Net cash flows used in investing activities		(248,328,106)	(228,116,353)
<u>Cash flows from financing activities</u>			
Proceeds from long-term loans	(11)	127,894,535	96,778,927
Repayment of long-term loans	(11)	(11,219,636)	(10,233,817)
Board of Directors remuneration paid		(1,800,000)	(1,800,000)
Dividends paid		(98,048,592)	(118,225,585)
Net cash flows used in financing activities		16,826,307	(33,480,475)
Net change in cash and cash equivalents during the year		(56,214)	(84,661,954)
Cash and cash equivalents at the beginning of the year		210,180,082	294,842,036
Cash and cash equivalents at the end of the year		210,123,868	210,180,082

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

DUR HOSPITALITY COMPANY
(A Saudi Joint Stock Company)
Interim Consolidated Statement of Changes In Equity (Un-Audited)
For the year ended 31 December 2016
(Saudi Riyals)

Equity attributable to shareholders of the Company

	Share capital	Statutory reserve	Contractual reserve	Retained earnings	Unrealized gains	Total	Non-controlling interests	Total equity
Balance at 1 January 2015	1,000,000,000	500,000,000	143,002,490	122,057,110	14,210,564	1,779,270,164	3,961,227	1,783,231,391
Net income for the year	--	--	--	144,373,794	--	144,373,794	1,172,206	145,536,000
Dividends	--	--	--	(120,000,000)	--	(120,000,000)	(162,160)	(120,162,160)
Unrealized losses on available-for-sale investments	--	--	--	--	(8,137,525)	(8,137,525)	(3,099)	(8,140,624)
Board of Directors' remunerations	--	--	--	(1,800,000)	--	(1,800,000)	--	(1,800,000)
Share of non-controlling interest from carrying value in subsidiaries' share capital during the year (Note 10)	--	--	--	--	--	--	31,500,000	31,500,000
Balance at 30 Sep 2015 – as previously stated	1,000,000,000	500,000,000	143,002,490	144,630,904	6,073,039	1,793,706,433	36,458,174	1,830,164,607
Adjustments resulted from fair value of acquired subsidiaries during the period (Note 10)	--	--	--	2,455,850	--	2,455,851	1,574,305	4,030,156
Balance at 31 December 2015 - (restated)	1,000,000,000	500,000,000	143,002,490	147,086,755	6,073,039	1,796,162,284	38,032,479	1,834,194,763
Balance at 1 January 2016	1,000,000,000	500,000,000	143,002,490	147,086,755	6,073,039	1,796,162,284	38,021,479	1,834,183,763
Net income for the year	--	--	--	113,999,112	--	113,999,112	(406,034)	113,593,078
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 income (Note 7)	--	--	--	--	(6,073,039)	(6,073,039)	--	(6,073,039)
Balance at 31 December 2016	1,000,000,000	500,000,000	143,002,490	144,285,867	--	1,787,288,357	37,471,187	1,824,759,544

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

DUR HOSPITALITY COMPANY
(A Saudi Joint Stock Company)
Notes to the Interim Consolidated Financial Statements (Un-Audited)
For the year ended 31 December 2016
(Saudi Riyals)

1. ORGANIZATION AND ACTIVITIES

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

The Company's activities comprise of constructing, owning, operating, managing, investing, buying, entering into partnership, renting hotels, restaurants, motels, rest stops, entertainment centers, travel agencies, private beaches which varies in grade and size in cities, public roads and tourism areas. In addition the activities include owning, developing 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 share capital of the Company is SR 1,000,000,000 divided into 100 million shares of SR 10 each.

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

1-2 Interim Consolidated financial statements

The interim consolidated financial statements include the financial statements of Dur Hospitality Company and its subsidiaries (collectively referred to as "the Group") in which the Company owns direct share in their equity that enables it to exercise control over them. These subsidiaries as at 31 December 2016 are as follows:

<u>Name of the subsidiary</u>	<u>Share capital</u> (SR)	<u>Ownership %</u>
Riyadh Company for Hotels and Entertainment LLC	302,500,000	100 %
Gulf for Tourist Area Limited Company	206,000,000	100 %
Makkah Hotels Limited Company	165,600,000	99.44 %
Saudi Hotel Services Company	70,000,000	70 %
Alnakheel for Tourist Areas Limited Company	59,250,000	98.73 %
Tabuk Hotels Limited Company	27,300,000	97.14 %
Jude Alia Company Limited	100,000	99%
The Security Source Limited Company	100,000	95%
Al Sawaed Al Kareemah Company	100,000	95%

Details of the subsidiaries and their activities are as follows:

Riyadh Company for Hotels and Entertainment Limited Company

Riyadh Company for Hotels and Entertainment Limited is a limited liability company and was formed in the Kingdom of Saudi Arabia and registered under the Commercial Registration No. 1010099444 dated 3 Rabi' I, 1413H (corresponding to 31 August 1992). The Company's principal activities include establishment, acquisition, lease, and carry out the management of residential, commercial and entertainment properties, hotels, restaurants, motels, rest stops, tourist beaches and gymnasiums.

DUR HOSPITALITY COMPANY
(A Saudi Joint Stock Company)
Notes to the Interim Consolidated Financial Statements (Un-Audited)
For the year ended 31 December 2016
(Saudi Riyals)

1. ORGANIZATION AND ACTIVITIES (CONTINUED)

Gulf for Tourist Area Limited Company

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

Makkah Hotels Limited Company

Makkah Hotels Limited Company is a limited liability company 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 Company's principal activities include carry-out hotel activity in general inside and outside the Kingdom through owning, investing or participating in hotels and restaurants. The Company owns Makarim Ajjad Makkah Hotel in Makkah.

Alnakheel for Tourist Area Limited Company

Alnakheel for Tourist Area Limited Company is a limited liability company and was formed in Kingdom of Saudi Arabia and registered under the Commercial Registration No. 4030092204 dated 22 Jumada' II 1413H (corresponding to 17 December 1992). The Company's principal activities include establishment, own, lease and sell of residential, commercial and entertainment properties, hotels, restaurants, rest stops, tourism beaches, gymnasiums and sports clubs.

The Company owns Makarim Annakheel Village in Jeddah. During 2008, the Company has acquired further 48% of the Company's shares from several other shareholders. The Company is in the process of completing the legal proceedings for amending the Articles of Association in this regard.

Tabuk Hotels Limited Company

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's principal activities include establishment of a five star hotel in a northern region in Tabuk including hotel facilities, services, and carrying out hotel activities in general inside and outside the Kingdom through owning, leasing, participating in hotels and restaurants.

The Company owns Makarim Tabuk Hotel in Tabuk. During 2008, the Company acquired father 44% of the Company's share capital from several other shareholders. The Company is in the process of completing the legal proceedings for amending the Articles of Association in this regard.

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 perform 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.

DUR HOSPITALITY COMPANY
(A Saudi Joint Stock Company)
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(Saudi Riyals)

1. ORGANIZATION AND ACTIVITIES (CONTINUED)

Saudi Hotel Services Company LLC (continued)

The Company conducts its activity through managing and operating Riyadh Palace Hotel under License No. 1306 dated 25 Dhu Al-Qa'adah 1416H (corresponding to 16 April 1996).

Jude Alia Company Limited

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

The Security Source Limited Company

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

Al Sawaed Al Kareemah Company

Al Sawaed Al Kareemah 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, 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

a) *Statement of compliance*

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

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

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

b) *Basis of measurement*

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

DUR HOSPITALITY COMPANY
(A Saudi Joint Stock Company)
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For the year ended 31 December 2016
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2. BASIS OF PREPARATION (CONTINUED)

b) *Basis of measurement (continued)*

Comparative figures have been amended by allocating purchase price for the acquired assets and liabilities of the Saudi Company for Hotels Services (Note 10).

c) *Functional and presentation currency*

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

d) *Use of estimates and judgments*

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

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

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

Useful lives of property and equipment

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

Impairment of trade receivable

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

Impairment of available for sale investments

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

DUR HOSPITALITY COMPANY
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3. SIGNIFICANT ACCOUNTING POLICIES

3-1 *Basis of consolidation*

Subsidiaries

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

The accompanying interim consolidated financial statements comprise the interim financial statements of the parent company and subsidiaries as shown in Note (1-2) in which the Company owns controlling interest.

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

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

Non-Controlling Interest (NCI)

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

3-2 *Business combination (acquisitions)*

Business combinations are accounted for using the purchase method. Cost of an acquisition is measured at the fair value of the assets given, equity instrument issued and liabilities incurred or assumed at the date of exchange, and includes costs directly attributable to the acquisition. Identifiable assets acquired and liabilities incurred or assumed in a business combination are measured initially at fair values at the date of acquisition. The excess of the cost of the business combination over the Group's share in the net fair value of the acquiree's identifiable assets and liabilities and contingent liabilities is classified as goodwill. If the fair value of net assets of the acquired investee as of the acquisition date is more than total fair values of transferred consideration, non-controlling interest in the acquired investee and previous share in that investee, such difference must be recorded in the interim consolidated statement of income.

3-3 *Property and equipment*

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

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

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

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Notes to the Interim Consolidated Financial Statements (Un-Audited)
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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3-3 *Property and equipment (continued)*

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

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

3-4 *Investment in securities held for trading*

Investments in securities held for trading which are purchased for trading purposes are initially recognized at fair value then re-measured and recorded in balance sheet at fair value within current assets. Realized gains and losses from sale of securities held for trading and changes in fair value are charged to the interim consolidated statement of income.

4. CASH ON HAND AND AT BANKS

	<u>2016</u>	<u>2015</u> (Restated) (Reviewed)
Current accounts at banks	109,234,083	150,726,583
Islamic Murabaha	100,425,585	58,925,399
Cash on hand	464,200	528,100
	<u>210,123,868</u>	<u>210,180,082</u>

5. PREPAYMENTS AND OTHER CURRENT ASSETS

	<u>2016</u>	<u>2015</u> (Restated) (Reviewed)
Advances to suppliers	8,468,567	4,061,484
Real estate contributions	5,383,841	5,383,841
Prepaid rent	4,445,938	4,099,634
Prepaid insurance	3,829,872	2,877,936
Prepaid fees and subscriptions	1,619,454	1,320,800
Staff housing allowances	1,603,257	1,429,421
Prepaid maintenance	1,277,489	1,128,022
Staff advances and custodies	1,240,138	1,050,610
Other current assets	646,866	304,706
	<u>28,515,422</u>	<u>21,656,454</u>
Impairment of other current assets	(250,000)	(250,000)
	<u>28,265,422</u>	<u>21,406,454</u>

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6. INVESTMENT IN EQUITY ACCOUNTED INVESTEEES

	<u>2016</u>	<u>2015</u> (Restated) (Reviewed)
Balance at 1 January	32,163,858	59,045,775
Additions (6-1)	--	16,032,500
Investment (loss)/income during the period (6-2)	(1,727,467)	2,808,140
Transfer of investments from associates to subsidiaries (6-3)	--	(43,191,859)
Groups' share in unrealized losses	--	(730,698)
Dividends	--	(1,800,000)
Balance	<u>30,436,391</u>	<u>32,163,858</u>

(6-1) Additions in investments during the period ended 31 December 2016 represent an amount of SR 15.9 million which represents a part of the Group's share in share capital of Saudi Hospitality Heritage Company (a closed joint stock company) which was formed during 2014, amounted to SR 62.5 million (represents 25% of the Company's share capital). The Group subscribed in shares of the Saudi Hospitality Heritage Company in which its share capital amounted to SR 250 million.

(6-2) Investment loss during the period ended 31 December 2016 represent the Group's share in income and loss of the equity accounted invitees. At 31 December 2015, investments loss represent the Group's share in income of the Saudi Hotel Services company which has no respective income in the year ended 31 December 2016 due to consolidation of the financial statements of the Company within the financial statements of the Group.

(6-3) Transfer of investment from associates to subsidiaries represents the Group's acquisition of 30% of Saudi Hotel Services Company's shares. Therefore, the Group owns a controlling interest, based on which these financial statements have been consolidated as mentioned in Note 1 and Note 10.

Investee companies are as follows:

<u>Name of the company</u>	<u>2016</u>		<u>2015</u>	
	%	Investment value	%	Investment value
Saudi Hospitality Heritage Company	25%	15,937,500	25%	15,937,500
Makarim Al Ma'arifa Hospitality Co.	50%	10,700,000	50%	10,700,000
Al Madinah Hotels Company Limited	50%	4,142,290	50%	5,026,358
Media Marketing Services Company	25%	500,000	25%	500,000
		<u>30,436,392</u>		<u>32,163,858</u>

All the aforementioned companies are registered in the Kingdom of Saudi Arabia.

7. INVESTMENTS IN SECURITIES

(7-1) Available for sale investments

	<u>2016</u>	<u>2015</u> (Restated) (Reviewed)
Balance at 1 January	46,241,691	62,860,618
Unrealized losses	-	(7,409,927)
	<u>46,241,691</u>	<u>55,450,691</u>
Other-than-temporary impairment	-	(2,410,464)
Monetization of investment portfolio	-	(6,798,536)
Transfer to investment in securities held for trading	(39,241,691)	-
Balance at 31 December	<u>7,000,000</u>	<u>46,241,691</u>

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7. INVESTMENTS IN SECURITIES (CONTINUED)

(7-2) Investments in securities held for trading

	<u>2016</u>	<u>2015</u> (Restated) (Reviewed)
Balance at 1 January	--	--
Transferred from investment in securities held for trading	39,241,691	--
Realized income	6,917,327	--
Sale of investments	(46,159,018)	--
	<u> --</u>	<u> --</u>

- Based on the recommendation of Investment Committee in its meeting held on 12 Jumada II 1437H corresponding to 21 March 2016, and the meeting of the Board of Directors held on 20 Jumada II 1437H corresponding to 29 March 2016, it has been resolved to authorize the management for monetization the available for sale investments in the stock market by the end of 2016. Therefore, the available for sale investment have been reclassified in the interim consolidated financial statements into investment in securities held for trading.

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8. PROPERTY AND EQUIPMENT, NET

	<u>Lands</u>	<u>Buildings</u>	<u>Improvements</u>	<u>Furniture</u>	<u>Motor vehicles</u>	<u>Devices and equipment</u>	<u>Total 2016</u>	<u>Total 2015</u> (Restated) (Reviewed)
Cost								
Balance at 1 January	727,818,069	1,214,173,634	38,876,752	239,217,556	8,087,545	51,559,917	2,279,733,473	2,073,939,442
Additions	--	3,161,002	522,489	4,752,942	--	7,829,084	16,265,517	101,771,859
Transferred from projects in progress	--	69,109,100	--	4,724,216	--	--	73,833,316	105,076,724
Disposals	--	--	--	--	--	--	--	(71,302,061)
Additions due to acquisition of a subsidiary	--	--	--	--	--	--	--	70,247,509
Balance at 31 December	727,818,069	1,286,443,736	39,399,241	248,694,714	8,087,545	59,389,001	2,369,832,306	2,279,733,473
Accumulated depreciation								
Balance at 1 January	--	421,645,351	18,047,265	165,845,426	7,488,516	18,631,694	631,658,252	648,956,306
Charge for the year	--	29,387,739	5,834,096	11,353,704	325,006	7,831,318	54,731,863	54,004,007
Depreciation of disposals	--	--	--	--	--	--	--	(71,302,061)
Balance at 31 December	--	451,033,090	23,881,361	177,199,130	7,813,522	26,463,012	686,390,115	631,658,252
Net carrying value								
At 31 December 2016	727,818,069	835,410,646	15,517,880	71,495,584	274,023	32,925,989	1,683,442,191	
At 31 December 2015	727,818,069	792,528,283	20,829,487	73,372,130	529,029	32,928,223		1,648,075,221

- Depreciation charge for the period ended 31 December is as follows:

	<u>2016</u>	<u>2015</u> (Restated) (Reviewed)
Cost of revenue (Note 15)	51,039,378	52,276,012
General and administrative expenses (Note 16)	3,692,485	1,727,995
	<u>54,731,863</u>	<u>54,004,007</u>

During 2016, the Group's management started a comprehensive study of the estimated useful lives for the Group's buildings using one of the companies specialized in this field. This study has not yet been completed up to the date of the financial statements. Based on certain initial result reached from this study, the Group's management estimated that there is no significant adjustment on useful lives applicable currently which range from 70 – 75 year.

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9. PROJECTS IN PROGRESS

	<u>2016</u>	<u>2015</u> (Restated) (Reviewed)
Balance at 1 January	216,779,541	180,527,383
Additions during the year	232,062,589	143,816,614
Transferred to property and equipment (Note 8)	(73,833,316)	(105,076,724)
Adjustments	<u>(2,487,732)</u>	<u>(2,487,732)</u>
Balance at 31 December	<u>372,521,082</u>	<u>216,779,541</u>

As at 31 December 2016, projects in progress represent mainly Darraq Project (Phase III and IV) in which their total cost to date amounted to SR 157 million (2015: SR 130 million). Phase III of the project, the renovation project of Alnakheel village amounting to SR 51.5 million (2015: SR 46 million), and Al Safarat District Hotel project amounting to SR 63 million (2015: SR 13.4 million) are expected to be completed in the first half of 2017.

10. BUSINESS COMBINATION

On 27 Jumada' II 1436H, corresponding to 16 April 2015, the Group has acquired 10% of the share capital in the Saudi Hotel Services Company for cash consideration of SR 10.5 million. On 11 Rajab 1436H, corresponding to 30 April 2015 (date of acquisition), the Group has acquired an additional 20% of shares for cash consideration of SR 21 million. As a result of which, the Group's share in net assets of Saudi Hotel Services Company increased from 40% to 70%. Accordingly, the Group has consolidated Saudi Hotel Services Company as a subsidiary rather than treating it as an equity accounted investee.

The Group's management has completed the final fair value assessment of the assets and liabilities of Saudi Hotel Services Company (the acquired company) within the maximum measurement date of one year from the date of acquisition which was on 30 April 2015 as mentioned above.

As the acquired net assets were recognized using initial assessment and stated in the interim consolidated financial statements as at 31 December 2015, 30 September 2015, 31 March 2016 and the annual consolidated financial statements of the Group as at 31 December 2015. Accordingly, comparative figures presented in the interim consolidated financial statements have been restated by the final fair value assessment of the net assets acquired.

The following table illustrates the acquisition list, fair value of net assets acquired, non-controlling interest and the income from the acquisition:

	Recognized fair value on acquisition <u>June 2015</u> (Final)
<u>Assets</u>	
Property and equipment	71,955,119
Trade receivables	8,198,812
Prepayments and other current assets	1,153,271
Inventories	4,323,412
Cash on hand and at banks	37,565,444
	<u>123,196,058</u>
<u>Liabilities</u>	
Accrued expenses and other current liabilities	11,227,719
Zakat provision	1,757,326
	<u>12,985,045</u>
Net acquired assets	<u>110,211,013</u>

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10. BUSINESS COMBINATION (CONTINUED)

	<u>2016</u>
Net acquired assets	110,211,013
Income from acquisition	(1,563,304)
Non-controlling equity	(33,063,304)
	<u>75,584,405</u>
Total cost of acquisition	
Cash consideration	31,500,000
Fair value of the Group's shares before acquisition listed based on equity method	44,084,405
Total	<u>75,584,405</u>
Cash flows on acquisition	
Cash acquired from the subsidiary	37,565,444
Cash consideration	(31,500,000)
Net cash flows	<u>6,065,444</u>

1. Costs of acquisition amounted to SR 75,000 was were charged to the general and administrative expenses in the interim consolidated financial statements for the period ended 31 December 2016.
2. The Company has recognized an amount of SR 892,000 as an income from measurement of the fair value of the Group's shares before acquiring the Saudi Hotel Services Company.
3. Revenue and profit included in the interim consolidated statement of income from 30 April 2015 up to 31 December 2015 of Saudi Hotel Service Company amounted to SR 22.3 million and SR 2 million, respectively. Further, revenue and loss included in the interim consolidated statement of income from 1 January 2016 up to 31 December 2016 amounted to SR 22 million and SR (3.8) million, respectively.
4. Comparative figures adjustments for net income for the period, non-controlling interest and retained earnings as a result of completing the study for allocation purchase price of fair value for net assets of the acquired company:

	31 December 2015 - <u>as previously stated</u>	<u>Restatement</u>	31 December 2015 - <u>restated</u>
Net income	144,373,794	2,455,851	146,829,645
Non-controlling interest	36,458,174	1,574,305	38,032,479
Retained earning	144,630,904	2,455,851	147,086,755

11. LONG-TERM LOANS

The Group has signed long-term financing agreements with Ministry of Finance and several local commercial banks to obtain financing in the form of financing, forward sale and Shariah-compliant Murabaha, with a total value of SR 371.9 million (2015: SR 371.9 million), at variable Murabaha rates. As at 31 December 2016, the utilized amounts under these agreements amounted to SR 291 million (2015: SR 155 million).

This finance is secured by promissory notes issued for the entire amount of facilities with the local commercial banks 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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11. LONG-TERM LOANS (CONTINUED)

The movement of long-term loans as at 31 December is as follows:

	<u>2016</u>			<u>2015</u> (Reviewed)
	<u>Ministry of Finance</u>	<u>Local commercial banks</u>	<u>Total</u>	<u>Total</u>
Balance at beginning of the year	5,000,000	193,217,961	198,217,961	111,672,851
Withdrawals during the year	--	127,894,535	127,894,535	96,778,927
Repayment during the year	(5,000,000)	(6,219,636)	(11,219,636)	(10,233,817)
Balance at end of the year	--	314,892,860	314,892,860	198,217,961

Long-term loans were presented in the interim consolidated balance sheet as at 31 December as follows:

Current portion of long-term loans – current liabilities	--	31,500,000	31,500,000	9,294,281
Non-current portion of long term loans – non-current liabilities	--	283,392,860	283,392,860	188,923,680
	--	314,892,860	314,892,860	198,217,961

12. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	<u>2016</u>	<u>2015</u> (Restated) (reviewed)
Revenue received in advance	42,100,994	31,514,165
Accrued staff salaries and benefits	24,089,860	21,668,138
Performance bond retentions	18,589,072	18,591,399
Due to governmental bodies (12-1)	9,186,651	9,186,651
Accrued rent	7,409,950	7,029,866
Advances from customers	6,760,608	5,060,680
Accrued maintenance and utilities	4,267,634	2,09,384
Management fees due to international operating companies	2,174,414	2,834,650
Accrued insurance	1,259,591	985,410
Professional and consultancy fees	531,640	416,000
Accrued advertisement	329,147	219,103
Others	502,793	293,364
	117,202,354	99,897,810

(12-1) this balance comprise of the amount due to the Civil Aviation Authority (the owner of Makarem Riyadh Hotel) which consists of obligations to finance pre-operating expenses and revenue undelivered to the owner relating the previous contract. There are no terms agreed to settle this balance.

13. ZAKAT

The Company and its subsidiaries file their Zakat returns individually based on the financial statements belong to each Company. Therefore, Zakat base is identified and Zakat is calculated for the Company and its subsidiaries individually, and total estimated Zakat is presented in the interim consolidated statement of income for the Group.

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13. ZAKAT (CONTINUED)

Dur Hospitality Company has finalized its Zakat status with the General Authority of Zakat and Tax (GAZT) for the years up to and including 31 December 2009, filed its Zakat returns for all years up to 2015 and paid the Zakat payable accordingly. However, the Company is still waiting to get the final assessments from the GAZT. No Zakat returns have been filed for its subsidiaries (Alnakheel Resorts Limited, Tabouk Hotel Company and Makkah Hotel Company) with GAZT for the years ended 31 December 2014 and 31 December 2015. Management is in the process of filing these returns during the subsequent period and the year ended 31 December 2015.

Zakat charge as at 31 December 2016 is as follows:

	<u>2016</u>	<u>2015</u> (Restated) (reviewed)
Income before Zakat	119,115,078	153,412,724
Zakat	<u>(5,522,000)</u>	<u>(5,420,873)</u>
	<u>113,593,078</u>	<u>147,991,851</u>

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14. SEGMENT REPORTING

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

- Hotels segment: represented in hotels and revenue achieved therefrom whether these hotels are self-operated by Makarim Hospitality or Al Jazira or through an external operator independent from the Group.
- Properties owned segment: represents properties owned by the Group which are utilized by others on lease and represents mainly residential compound and commercial centers.
- Services and operating segment: represents managing and operating of hotels and properties, whether they are owned by the Group or not.

	<u>Hotels</u>	<u>Properties owned</u>	<u>Services and operating</u>	<u>Others</u>	<u>Transactions between business segments</u>	<u>Total</u>
<u>31 December 2016</u>						
Revenue	426,578,483	72,526,470	28,813,677	600,000	(29,641,014)	498,877,616
Costs	(335,380,195)	(31,189,346)	(14,390,338)	(266,315)	30,365,072	(350,861,122)
Gross profit	91,198,288	41,337,124	14,423,339	333,685	724,058	148,016,494
Trade receivables, net	56,140,078	12,415,960	--	--	--	68,556,038
Property and equipment, net	476,515,872	1,206,926,318	--	--	--	1,683,442,191
Loans	--	314,892,860	--	--	--	314,892,860
Net income before Zakat and non-controlling interest	71,722,345	36,515,297	12,507,699	293,795	(1,924,058)	119,115,078
<u>31 December 2015</u>						
Revenue	464,751,654	62,527,721	29,625,265	4,358,314	(28,643,360)	532,619,594
Cost	(336,004,254)	(19,415,023)	(10,772,023)	(14,672,936)	27,443,360	(353,420,876)
Gross profit	128,747,400	43,112,698	18,853,242	(10,314,622)	(1,200,000)	179,198,718
Trade receivables, net	54,367,065	17,880,246	--	--	--	72,247,311
Property and equipment, net	860,871,719	787,203,502	--	--	--	1,648,075,221
Loans	5,000,000	193,217,961	--	--	--	198,217,961
Net income before Zakat and non-controlling interest	103,336,726	43,365,716	17,259,386	(10,549,104)	--	153,412,724

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14. SEGMENT REPORTING (CONTINUED)

Geographical segments:

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

	<u>Assets</u>	<u>Liabilities</u>	<u>Revenue</u>
<u>As at 31 December 2016</u>			
Riyadh	2,499,828,756	635,568,481	394,236,831
Makkah	441,475,172	75,864,763	120,330,030
Tabuk	46,904,753	4,134,298	13,951,769
	<u>2,988,208,681</u>	<u>715,567,542</u>	<u>528,518,630</u>
Transactions between segments	(554,319,612)	(106,438,017)	(29,641,014)
	<u>2,433,889,069</u>	<u>609,129,525</u>	<u>498,877,616</u>
 <u>As at 31 December 2015</u>			
Riyadh	4,623,446,175	1,381,367,435	409,966,438
Makkah	435,696,803	78,312,168	121,749,169
Tabuk	50,754,937	4,913,285	20,547,347
	<u>5,109,897,915</u>	<u>1,464,592,888</u>	<u>552,262,954</u>
Transactions between segments	(2,832,356,559)	(1,021,246,295)	(28,643,360)
	<u>2,277,541,356</u>	<u>443,346,593</u>	<u>532,619,594</u>

15. COST OF REVENUE

	<u>2016</u>	<u>2015</u> (Restated) (Reviewed)
Salaries and related costs	142,315,559	143,758,102
Depreciation (Note 8)	51,039,378	52,276,012
Foods and beverages	45,500,671	46,883,521
Operational supplies	25,824,442	25,244,048
Telephone, Internet and utilities	22,896,282	21,362,967
Services and operating fees	16,706,331	16,070,027
Rents	13,483,128	13,791,924
Maintenance and repair	11,161,933	11,972,833
Promotional activities	10,899,949	10,745,962
Commissions to travel agencies and credit cards	4,209,959	4,556,709
Insurance	1,442,930	1,446,334
Security and guard	1,281,986	1,535,189
Information systems expenses	1,219,903	550,745
Cleaning and hospitality	823,485	1,347,908
Impairment in inventories	610,000	1,027,206
Training	794,128	417,569
Others	651,058	433,820
	<u>350,861,122</u>	<u>353,420,876</u>

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16. GENERAL AND ADMINISTRATIVE EXPENSES

	<u>2016</u>	<u>2015</u> (Restated) (Reviewed)
Salaries and related costs	19,958,440	19,200,604
Depreciation (Note 8)	3,692,485	1,727,995
Professional and consultancy fees	2,940,604	1,953,064
Amortization of deferred charges	2,487,732	2,487,732
Subscriptions and attestation charges	1,866,537	992,947
Provision for doubtful debts	1,478,478	5,523,086
Bank charges	1,140,767	795,779
Hospitality	1,035,146	389,468
Insurance	375,566	315,001
Telephone and utilities	367,519	607,842
Training	327,457	206,726
Donations	360,251	59,202
Maintenance and cleaning	229,311	293,211
Entertainment	120,000	412,350
Others	759,121	898,104
	<u>37,139,414</u>	<u>35,863,111</u>

17. OTHER INCOME

	<u>2016</u>	<u>2015</u> (Restated) (Reviewed)
Reversal of provisions	2,511,957	1,594,783
Murabaha income	1,047,679	561,150
Rental of parking and office spaces (17-1)	715,395	1,157,224
Gains on sale of property and equipment	9,393	1,126,089
Demurrage charges	--	1,980,000
Scraps	--	98,248
Human resource revenue	--	555,136
Other various revenue	272,819	1,345,805
	<u>4,557,243</u>	<u>8,418,435</u>

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

18. EARNINGS PER SHARE

Earnings per share is calculated based on weighted-average number of shares issued and outstanding during the year ended 31 December 2016 and the year ended 31 December 2015 which are 100 million shares (2015: 100 million shares).

19. CAPITAL COMMITMENTS

The Group's outstanding future capital commitments as at 31 December 2016 amounting to SR 440 million (2015: SR 286.5 million), which are related to contracts signed for the construction of Safarat Ditriect Hotel, the third and fourth phase of Darraq project and Alnakheel Village.

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20. CONTINGENT LIABILITIES

The Group has issued letters of guarantee amounting to SR 22.7 million at 31 December 2016 (2015: SR 22.7 million). These guarantees are without a cash margin.

21. OPERATING LEASES

21-1 The Group as a lessee

The Group has an operating lease for initial period of one year to ten years with options to renew the lease after lease period. Rental expenses for the period ended 31 December 2016 amounted to SR 15 million (2015: SR 15 million).

As at 31 December, the Company's obligations under operating leases are aggregated as follow:

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

21-2 The Group as a lessor

The Group has leased certain commercial and residential properties to other parties under operating lease arrangements. The leases are for initial period of one year to three years with options to renew the leases after lease period. Lease amount is fixed annually. The cost and book value of the leased assets at 31 December 2016 amounted to SR 207,309,106 (2015: SR 207,195,569) and SR 205,888,901 (2015: SR 205,888,901) respectively.

As at 31 December, the minimum lease income for leases are as follow:

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

22. FAIR VALUE FOR FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

Credit risk

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

DUR HOSPITALITY COMPANY
(A Saudi Joint Stock Company)
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For the year ended 31 December 2016
(Saudi Riyals)

**22. FAIR VALUE FOR FINANCIAL INSTRUMENTS AND RISK MANAGEMENT
(CONTINUED)**

Currency risk

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

Fair value and cash flow interest rate risks

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

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from the inability to sell a financial asset quickly at an amount close to its fair value. Liquidity risk is managed by monitoring on a regular basis that sufficient funds are available to meet the Group's future commitments through following-up expected collection schedules of trade receivables and banks facilities available for the Group when due.

Fair value

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