

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



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## REVIEW REPORT ON THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

### *Scope of Review*

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

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

### *Conclusion*

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

**For KPMG Al Fozan & Partners**  
**Certified Public Accountants**

Khalil Ibrahim Al Sedais  
License No. 371



Riyadh on: 20 Muharram 1438H  
Corresponding to: 21 October 2016

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

	<u>Note</u>	<u>30 September</u> <u>2016</u>	<u>30 September</u> <u>2015</u> <u>(Restated Note 10)</u>
<b><u>Assets</u></b>			
<b>Current assets</b>			
Cash on hand and at banks	(4)	166,304,547	216,877,127
Trade receivables, net		68,724,347	79,587,262
Investment in securities held for trading	(7-2)	24,246,863	--
Inventories		27,537,729	28,733,767
Prepayments and other current assets	(5)	20,861,690	18,912,789
Due from related parties		6,385,159	4,367,967
<b>Total current assets</b>		<b>314,060,335</b>	<b>348,478,912</b>
<b>Non-current assets</b>			
Investments in equity accounted investees	(6)	32,452,859	33,088,556
Available for sale investments	(7-1)	7,000,000	56,793,792
Property and equipment, net	(8)	1,652,267,44	1,522,371,965
Projects in progress	(9)	358,895,524	272,125,892
<b>Total non-current assets</b>		<b>2,050,615,82</b>	<b>1,884,380,205</b>
<b>Total assets</b>		<b>2,364,676,16</b>	<b>2,232,859,117</b>
<b><u>Liabilities and equity</u></b>			
<b>Current liabilities</b>			
Current portion of long term loans	(11)	31,500,000	15,596,864
Trade payables		25,791,076	3,813,981
Accrued expenses and other current liabilities	(12)	108,022,074	120,691,386
Dividends payable		53,366,488	63,008,863
Due to related parties		14,338,820	11,866,211
Zakat provision		17,904,257	15,332,316
<b>Total current liabilities</b>		<b>250,922,715</b>	<b>230,309,621</b>
<b>Non-current liabilities</b>			
Long-term loans	(11)	259,751,715	139,399,221
Employees' end of service benefits		53,238,018	52,338,179
<b>Total non-current liabilities</b>		<b>312,989,733</b>	<b>191,737,400</b>
<b>Total liabilities</b>		<b>563,912,448</b>	<b>422,047,021</b>
<b><u>Equity</u></b>			
<b>Equity attributable to the Company's shareholders</b>			
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		120,666,913	122,496,871
Unrealized gains on available for sale investments		--	8,147,349
<b>Total equity attributable to Company's shareholders</b>		<b>1,763,669,403</b>	<b>1,773,646,710</b>
Non-controlling interest		37,094,309	37,165,386
<b>Total equity</b>		<b>1,800,763,712</b>	<b>1,810,812,096</b>
<b>Total liabilities and equity</b>		<b>2,364,676,160</b>	<b>2,232,859,117</b>

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

**DUR HOSPITALITY COMPANY**  
(A Saudi Joint Stock Company)  
**INTERIM CONSOLIDATED STATEMENT OF INCOME (UN-AUDITED)**  
**For the three and nine months period ended 30 September 2016**  
*(Saudi Riyals)*

	<i>Note</i>	For the		For the	
		Three months period ended		Nine months period ended	
		30	30	30	30
		September	September	September	September
		<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
					Restated
Revenue	(14)	119,428,000	144,185,998	389,578,022	406,089,980
Cost of revenue	(15)	<u>(82,801,996)</u>	<u>(94,424,591)</u>	<u>(271,370,937)</u>	<u>(264,421,210)</u>
<b>Gross profit</b>		<b>36,626,004</b>	49,761,407	<b>118,207,085</b>	141,668,770
General and administrative expenses	(16)	<u>(7,279,644)</u>	(9,025,317)	<u>(26,267,033)</u>	(24,407,742)
Selling and marketing expenses		<u>(353,832)</u>	(160,775)	<u>(782,923)</u>	(674,199)
Realized gains from sale of investment in Securities held for trading		109,813	--	109,813	--
Unrealized gains from evaluating the securities held for trading	(7)	1,094,986	--	1,094,986	--
Income from investments in equity accounted investees	(6)	--	--	--	2,808,140
<b>Operating income</b>		<u>30,197,327</u>	40,575,315	<u>92,361,928</u>	119,394,969
Income from disposal of investments in equity accounted investees	(10)	--	--	--	892,546
Income from acquisition	(10)	--	--	--	1,563,304
Other income	(17)	2,183	1,425,136	937,818	4,549,225
<b>Net income before Zakat and non-controlling interest</b>		<u>30,199,510</u>	42,000,451	<u>93,299,746</u>	126,400,044
Zakat provision		<u>(1,300,494)</u>	<u>(1,241,693)</u>	<u>(3,691,500)</u>	<u>(3,853,656)</u>
<b>Net income before non - controlling interest</b>		<b>28,899,016</b>	40,758,758	<b>89,608,246</b>	122,546,388
Share of non-controlling interest in the net profit of the subsidiaries		<u>816,361</u>	<u>(106,134)</u>	<u>771,912</u>	<u>(306,627)</u>
<b>Net income</b>		<u><u>29,715,377</u></u>	<u><u>40,652,624</u></u>	<u><u>90,380,158</u></u>	<u><u>122,239,761</u></u>
<b>Earnings per share from:</b>	(18)				
Net income		0.30	0.41	0.90	1.22
Operating income		0.30	0.41	0.92	1.19
Other income		0.00	0.014	0.009	0.05

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 nine months period ended 30 September 2016  
(Saudi Riyals)

	<u>Note</u>	<u>2016</u>	<u>2015</u> (Restated)
<b><u>Cash flows from operating activities</u></b>			
Net income for the period before Zakat and non-controlling interest		93,299,746	126,400,044
<i>Adjustments to reconcile net income to net cash flows generated from operating activities</i>			
Depreciation	(8)	42,753,830	37,057,516
Amortization of deferred expenses	(16)	1,865,799	1,865,799
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		--	(1,563,304)
Gains on sale of property and equipment	(17)	--	(1,115,300)
Provision for end of service benefits		10,196,742	7,971,662
Provision for doubtful debts	(16)	654,727	3,450,598
Provision for slow-moving inventories	(15)	281,250	1,227,612
Income from investments in equity accounted investees	(6)	--	(2,808,140)
		<u>147,957,108</u>	<u>171,593,941</u>
<b><u>Changes in operating assets and liabilities:</u></b>			
Trade receivables		2,868,237	(16,153,550)
Prepayments and other current assets		544,764	2,458,642
Due from related parties		(4,250,562)	(1,188,636)
Inventories		455,776	102,857
Trade payables		11,020,248	(358,564)
Accrued expenses and other current liabilities		8,124,264	8,257,654
Due to related parties		4,452,529	(2,703,833)
Proceeds from sale of investments in securities held for trading		10,016,776	--
Zakat paid		(3,130,268)	(5,195,895)
End of service benefits paid		(6,822,914)	(7,262,305)
<b>Net cash flows generated from operating activities</b>		<u>171,235,958</u>	<u>149,550,311</u>
<b><u>Cash flows from investing activities</u></b>			
Payments for purchase of property, equipment	(8)	(13,081,538)	(58,153,651)
Payments for projects in progress	(9)	(177,846,295)	(93,464,287)
Payments for investment in equity accounted investees	(6)	--	(15,937,500)
Proceeds from sale of property and equipment		--	1,114,487
Net cash from acquired companies	(10)	--	6,065,444
Proceeds from investment in equity accounted investees	(6)	--	1,800,000
<b>Net cash flows used in investing activities</b>		<u>(190,927,833)</u>	<u>(158,575,507)</u>
<b><u>Cash flows from financing activities</u></b>			
Proceeds from long-term loans	(11)	132,637,185	43,323,234
Repayment of long-term loans	(11)	(39,603,431)	--
Board of Directors remuneration paid		(1,800,000)	(1,800,000)
Dividends paid		(115,155,258)	(108,583,210)
<b>Net cash flows used in financing activities</b>		<u>(23,921,504)</u>	<u>(67,059,976)</u>
Net change in cash and cash equivalents during the period		<u>(43,613,379)</u>	<u>(76,085,172)</u>
Cash and cash equivalents at the beginning of the period		209,917,926	294,842,036
<b>Cash and cash equivalents at the end of the period</b>		<u>166,304,547</u>	<u>218,756,864</u>

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

**DUR HOSPITALITY COMPANY**  
(A Saudi Joint Stock Company)  
**INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UN-AUDITED)**  
For the nine months period ended 30 September 2016  
(Saudi Riyals)

	Equity attributable to shareholders of the Company						Non-controlling interests	Total equity
	Share capital	Statutory Reserve	Contractual Reserve	Retained earnings	Unrealized gains	Total		
Balance at 1 January 2015	1,000,000,000	500,000,000	143,002,490	122,057,110	14,210,564	1,779,270,164	3,961,227	1,783,231,391
Net income for the period	--	--	--	119,783,911	--	119,783,911	306,627	120,090,538
Dividends	--	--	--	(120,000,000)	--	(120,000,000)	(162,160)	(120,162,160)
Unrealized losses on available-for-sale investments	--	--	--	--	(6,063,215)	(6,063,215)	(3,612)	(6,066,827)
Board of Directors' remunerations	--	--	--	(1,800,000)	--	(1,800,000)	--	(1,800,000)
Share of non-controlling interest from fair value of subsidiaries' share capital during the year (note 10)	--	--	--	--	--	--	31,500,000	31,500,000
<b>Balance at 30 September 2015 before restatement</b>	<b>1,000,000,000</b>	<b>500,000,000</b>	<b>143,002,490</b>	<b>120,041,021</b>	<b>8,147,349</b>	<b>1,771,190,860</b>	<b>35,602,082</b>	<b>1,806,792,942</b>
Adjustments from fair value of acquired subsidiaries during the period (note 10)	--	--	--	2,455,850	--	2,455,850	1,563,304	4,019,154
<b>Balance at 30 September 2015 (Restated)</b>	<b>1,000,000,000</b>	<b>500,000,000</b>	<b>143,002,490</b>	<b>122,496,871</b>	<b>8,147,349</b>	<b>1,773,646,710</b>	<b>37,165,386</b>	<b>1,810,812,096</b>
Balance at 1 January 2016	1,000,000,000	500,000,000	143,002,490	147,086,755	6,073,039	1,796,162,284	38,021,479	1,834,183,763
Net income for the period	--	--	--	90,380,158	--	90,380,158	(771,912)	89,608,246
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)
<b>Balance at 30 September 2016</b>	<b>1,000,000,000</b>	<b>500,000,000</b>	<b>143,002,490</b>	<b>120,666,913</b>	<b>--</b>	<b>1,763,669,403</b>	<b>37,094,309</b>	<b>1,800,763,712</b>

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 nine months period ended 30 September 2016  
(Saudi Riyals)

**1. ORGANIZATION AND ACTIVITIES**

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

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

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 equity that enables it to exercise control over them. These subsidiaries as at 30 September 2016 are as follows:

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

The below are details of the subsidiaries and their activities:

**Riyadh Company for Hotels and Entertainment Limited Company**

Riyadh Company for Hotels and Entertainment Limited is a limited liability company established in the Kingdom of Saudi Arabia and registered under the Commercial Registration No. 1010099444 dated 3 Rabi I, 1413H (corresponding to 31 August 1992). The company's purpose is to construct, buy, rent and 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 nine months period ended 30 September 2016**  
(Saudi Riyals)

**1. ORGANIZATION AND ACTIVITIES (CONTINUED)**

**Gulf for Tourist Area Limited Company**

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

**Makkah Hotels Limited Company**

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

**Alnakheel for Tourist Area Limited Company**

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

**Tabuk Hotels Limited Company**

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

**Saudi Hotel Services Company LLC**

Saudi Hotel Service Company is a limited liability company established in Kingdom of Saudi Arabia under commercial registration No. 1010010454 dated 11 Dhu Al-Q'dah 1433H corresponding to 4 November 1996. The main activities of the Company are to build five star tourist hotels in the city of Riyadh, manage, invest and perform all legal procedures related to the hotel and all other essential and intermediate work necessary to execute, prepare and direct different activities of the hotel in the way consistent with the set objective and contract with others in all matters related to the hotel. The company conducts its activity through managing and operating Riyadh Palace Hotel under License No. 1306 dated 25 Dhu Al-Qa'adah 1416H (corresponding to 16 April 1996).



**DUR HOSPITALITY COMPANY**  
(A Saudi Joint Stock Company)  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UN-AUDITED)**  
**For the nine months period ended 30 September 2016**  
(Saudi Riyals)

**2. BASIS OF PREPARATION**

***Statement of compliance***

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

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

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

***Basis of measurement***

The interim consolidated financial statements have been prepared on historical cost basis (except for 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.

Comparative figures are reviewed in accordance with allocation of purchase price for assets and liabilities acquired which are owned by the Saudi Company for Hotels Services (Note 10).

***Functional and presentation currency***

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

***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.

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**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UN-AUDITED)**  
**For the nine months period ended 30 September 2016**  
(Saudi Riyals)

**2. BASIS OF PREPARATION**

*Use of estimates and judgments (continued)*

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.

**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 (Acquisition)***

Business combinations are accounted for using the purchase method. The cost of an acquisition is measured at the fair value of the assets given, equity instrument issued and liabilities incurred or assumed at the date of exchange, and includes costs directly attributable to the acquisition. Identifiable assets acquired and liabilities 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.

**DUR HOSPITALITY COMPANY**  
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**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UN-AUDITED)**  
For the nine-months period ended 30 September 2016  
(Saudi Riyals)

**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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.

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)
Current accounts at banks	84,079,360	157,423,628
Islamic Murabaha	81,751,487	58,925,399
Cash on hand	473,700	528,100
	<u>166,304,547</u>	<u>216,877,127</u>

**5. PREPAYMENTS AND OTHER CURRENT ASSETS**

	<u>2016</u>	<u>2015</u> (Restated)
Advances to suppliers	7,108,435	2,317,129
Real estate contributions	5,383,841	5,383,841
Prepaid insurance	2,588,335	2,880,306
Staff housing allowances	2,160,304	2,123,415
Staff loans	1,451,035	1,307,217
Prepaid fees and subscriptions	1,035,046	980,870
Prepaid maintenance	740,038	730,000
Prepaid rent	215,408	2,567,609
Other current assets	429,248	872,402
	<u>21,111,690</u>	<u>19,162,789</u>
Impairment of other current assets	<u>(250,000)</u>	<u>(250,000)</u>
	<u>20,861,690</u>	<u>18,912,789</u>

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**6. INVESTMENT IN EQUITY ACCOUNTED INVESTEEES**

	<u>2016</u>	<u>2015</u>
Balance at 1 January	32,452,859	59,334,775
Additions (6-1)	--	15,937,500
Investment income during the period (6-2)	--	2,808,140
Transfer of investments from associates to subsidiaries (6-3)	--	(43,191,859)
Dividends	--	(1,800,000)
Balance at 30 September	<u>32,452,859</u>	<u>33,088,556</u>

(6-1) Additions in investment during the period ended 30 September 2015 represent the amount of SR 15.9 million which represents a part of the Group's share in capital of Saudi Hospitality Heritage Company (a closed joint stock company) which was formed during 2014, amounted to SR 62.5 million (represents 25% of the Company's share capital). The Group subscribed to shares in the Saudi Hospitality Heritage Company which has a share capital of SR 250 million.

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

There is no investment income for the abovementioned investees during the nine months period ended 30 September 2016 as these investees have not commenced their business activities yet.

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

<u>Name of the company</u>	<u>2016</u>		<u>2015</u>	
	<u>%</u>	<u>Investment amount</u>	<u>%</u>	<u>Investment amount</u>
Saudi Hospitality Heritage Company	25%	15,937,500	25%	15,937,500
Makarim Al Maarifa Hospitality Co.	50%	10,700,000	50%	10,700,000
Al Madinah Hotels Co. Ltd.	50%	5,026,359	50%	5,757,056
Media Marketing Services Co.	25%	500,000	25%	500,000
Joud Al Alya'a Co. Ltd.	99%	99,000	99%	99,000
Security Sources Co. Ltd.	95%	95,000	95%	95,000
Al Sawaed Al Karima Co. Ltd.	99%	95,000	99%	--
Balance at 30 September		<u>32,452,859</u>		<u>33,088,556</u>

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

**7. INVESTMENTS IN SECURITIES**

**(7-1) Available for sale investments**

	<u>2016</u>	<u>2015</u>
Balance at 1 January	46,241,691	62,860,618
Unrealized losses	(1,119,028)	(6,066,826)
	<u>45,122,663</u>	<u>56,793,792</u>
Reclassification to investment in securities held for trading	(38,122,663)	--
Balance at 30 September	<u>7,000,000</u>	<u>56,793,792</u>

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**7. INVESTMENTS IN SECURITIES (CONTINUED)**

**(7-2) Held for trading**

	<u>2016</u>	<u>2015</u>
Balance at 1 January	--	--
Reclassification from investment in securities available for sale	38,122,663	
Unrealized losses due to change in fair value	(3,859,024)	--
Sale of investments	<u>(10,016,776)</u>	--
	<u>24,246,863</u>	<u>--</u>

- Based on the recommendation of Investment Committee held on 12 Jumada II 1437H corresponding to 21 March 2016 and the meeting of the Board of Directors held on 20 JumadaII 1437H corresponding to 29 March 2016, it has been resolved to liquidate available for sale investments in the stock market before the end of 2016. Thus, available for sale investment are reclassified in the interim consolidated financial statements into investment in securities held for trading.
- Unrealized gains from evaluating securities held for trading in the amount of SR 1,094,986 are charged to the interim consolidated statement of income on 30 September 2016 and stated as follows:

Balance of unrealized gains as of reclassification of available for sale		
Investments to securities held for trading		4,954,010
Unrealized losses due to measuring fair value		<u>(3,859,024)</u>
Unrealized gains for the period ended 30 September 2016		<u>1,094,986</u>

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**8. PROPERTY AND EQUIPMENT, NET**

	<u>Lands</u>	<u>Buildings</u>	<u>Improvements</u>	<u>Furniture</u>	<u>Vehicles</u>	<u>Devices and equipment</u>	<u>2016 Total</u>	<u>2015 Total (Restated)</u>
<b>Cost</b>								
Balance at 1 January (Restated)	727,818,069	1,214,173,634	38,876,752	239,217,556	8,087,545	51,559,917	2,279,733,473	2,087,562,992
Additions	--	2,330,273	18,000	4,939,362	--	5,793,903	13,081,538	58,153,651
Transferred from projects in progress	--	32,598,358	--	1,266,155	--	--	33,864,513	--
Disposals	--	--	--	--	--	--	--	(67,607,606)
Additions due to acquisition of a subsidiary	--	--	--	--	--	--	--	60,601,414
<b>Balance at 30 September</b>	<b>727,818,069</b>	<b>1,249,102,265</b>	<b>38,894,752</b>	<b>245,423,073</b>	<b>8,087,545</b>	<b>57,353,820</b>	<b>2,326,679,524</b>	<b>2,138,710,451</b>
<b>Accumulated depreciation</b>								
Balance at 1 January	--	421,645,351	18,047,265	165,845,426	7,488,516	18,631,694	631,658,252	646,889,377
Charge for the year	--	22,709,534	4,300,788	11,412,617	378,380	3,952,511	42,753,830	37,057,516
Deprecation of disposals	--	--	--	--	--	--	--	(51,167,093)
Impairment of assets	--	--	--	--	--	--	--	(16,441,314)
<b>Balance at 30 September</b>	<b>--</b>	<b>444,354,885</b>	<b>22,348,053</b>	<b>177,258,043</b>	<b>7,866,896</b>	<b>22,584,205</b>	<b>674,412,082</b>	<b>616,338,486</b>
<b>Net carrying value</b>								
At 30 Sep 2016	<u>727,818,069</u>	<u>804,747,380</u>	<u>16,546,699</u>	<u>68,165,030</u>	<u>220,649</u>	<u>34,769,615</u>	<u>1,652,267,442</u>	
At 30 Sep 2015	<u>678,564,669</u>	<u>720,225,279</u>	<u>13,084,229</u>	<u>63,974,542</u>	<u>723,219</u>	<u>31,660,730</u>		<u>1,522,371,965</u>

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

Cost of revenue (Note 15)	<u>2016</u>	<u>2015</u>
	40,570,528	35,850,496
General and administrative expenses (Note 16)	<u>2,183,302</u>	<u>1,207,020</u>
	<u>42,753,830</u>	<u>37,057,516</u>

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**9. PROJECTS IN PROGRESS**

	<u>2016</u>	<u>2015</u> <u>Restated</u>
Balance at 1 January	216,779,541	180,527,404
Additions during the period	177,846,295	93,464,287
Transferred to property and equipment (Note 8)	(33,864,513)	--
Adjustments	<u>(1,865,799)</u>	<u>(1,865,799)</u>
Balance at 30 September	<u>358,895,524</u>	<u>272,125,892</u>

As at 30 September 2016, projects in progress represent mainly Darraq Project (Phase III and IV) in which their total cost to date amounted to SR 155 million (2015: SR 130 million). Phase III of the project is expected to be completed in the first half of 2017. In addition to the renovation project of Alnakheel village amounting to SR 51.5 million (2015: SR 46 million). Moreover, Al Safarat District Hotel project amounting to SR 52.5 million (2015: SR 13.4 million).

**10. BUSINESS COMBINATION**

On 27 Jumada II 1436H, corresponding to 16 April 2015, the Group acquired 10% shares 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 share of the Group in the 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 management completed the final fair value assessment of the assets and liabilities of Saudi Hotel Services Company (acquired company) within the maximum measurement period of one year from the date of acquisition which was on 30 April 2015 as mentioned above.

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

	<b>Recognized fair value on acquisition <u>June 2015 (Final)</u></b>
<b><u>Assets</u></b>	
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	<u>37,565,444</u>
	<u>123,196,058</u>
<b><u>Liabilities</u></b>	
Accrued expenses and other current liabilities	11,227,719
Zakat provision	<u>1,757,326</u>
	<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	<u>(33,063,304)</u>
	<u>75,584,405</u>
<b>Total cost of acquisition</b>	
Cash consideration	31,500,000
Fair value of the Group's shares before acquisition listed based on equity method	<u>44,084,405</u>
Total	<u>75,584,405</u>
<b>Cash flows on acquisition</b>	
Cash acquired from the subsidiary	37,565,444
Cash consideration	<u>(31,500,000)</u>
<b>Net cash flows</b>	<u>6,065,444</u>

1. Costs related to acquisition amounted to SR 75,000 were stated in general and administrative expenses in the interim consolidated financial statements for the period ended 30 September 2016.
2. The Company recognized the amount of SR 892,000 as a gain from measurement of the fair value of the Group's shares before acquiring the Saudi Hotel Services Company.
3. In the interim condensed statement of income from 30 April 2015 to 31 December 2015 the Group has recognized revenue and profits of SR 22.3 million and SR 2 million respectively for Saudi Hotel Service Company. Further, revenue and profits of SR 12.7 million and SR 256,000 have been recognized from 1 January 2016 to 30 September 2016.
4. The following illustration presents the net profit for the period, non-controlling interest and retained earnings as a result of the purchase price allocation from the fair value of the acquired net assets

	<u>30 Sep 2015</u>	<u>Restatement</u>	<u>30 Sep 2015</u>
	<u>Before restatement</u>		<u>After restatement</u>
Net profits	119,783,911	2,455,850	122,239,761
Non-controlling interest	35,602,082	1,563,304	37,165,386
Retained earning	120,041,021	2,455,850	122,496,871

**11. LONG-TERM LOANS**

The Group entered into long-term financing agreements with Ministry of Finance in addition to several local banks to obtain funding in the form of financing, forward sale and Shariah-compliant Murabaha, with a total value of SR 371.9 million (2015: SR 371.9 million), at variable Murabaha rates. As at 30 September 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 total 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 proceeds of the contracts that the bank has issued final letters of guarantee and / or letters of guarantee - down payment.



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**11. LONG-TERM LOANS (CONTINUED)**

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

	2016			2015
	<u>Ministry of Finance</u>	<u>Local Commercial banks</u>	<u>Total</u>	<u>Total</u>
Balance at beginning of the period	5,000,000	193,217,961	198,217,961	111,672,851
Withdrawals during the period	--	132,637,185	132,637,185	43,323,234
Repayment during the period	(5,000,000)	(34,603,431)	(39,603,431)	--
<b>Balance at end of the period</b>	<b>--</b>	<b>291,251,715</b>	<b>291,251,715</b>	<b>154,996,085</b>

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

	2016			2015
	<u>Ministry of Finance</u>	<u>Local Commercial banks</u>	<u>Ministry of Finance</u>	<u>Total</u>
Current portion of long-term loans – current liabilities	--	31,500,000	31,500,000	15,596,864
Non-current portion of long term loans – non-current liabilities	--	259,751,715	259,751,715	139,399,221
	--	291,251,715	291,251,715	154,996,085

**12. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES**

	2016	2015 (Restated)
Revenue received in advance	31,344,361	30,799,270
Accrued staff salaries and benefits	26,297,304	23,066,472
Performance bond retentions	17,528,047	23,778,105
Due to governmental bodies (12-1)	9,186,651	9,186,651
Accrued rent	9,000,113	7,242,315
Advances from customers	5,922,304	14,990,324
Accrued maintenance and utilities	5,283,899	6,680,720
Management fees accrued to international operating companies	1,502,563	2,674,581
Professional and consultancy fees	520,174	513,987
Accrued insurance	492,061	830,930
Accrued advertisement	264,881	513,716
Others	679,716	414,315
	<b>108,022,074</b>	<b>120,691,386</b>

(12-1) This balance includes an amount due to the Civil Aviation Authority (the owner of Makarem Riyadh Hotel) and consists of obligations to finance pre operating expenses and revenue not submitted to the owner regarding the previous contract. There are no terms agreed to settle this balance.

**13. ZAKAT**

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

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**13. ZAKAT (CONTINUED)**

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

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**14. SEGMENT REPORTING**

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

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

	Transactions between business segments					Total
	Hotels	Properties owned	Services and operating	Others	Transactions between business segments	
<b>30 September 2016</b>						
Revenue	336,467,971	53,174,571	23,559,534	528,361	(24,152,415)	389,578,022
Costs	(262,383,137)	(22,662,782)	(9,930,623)	(540,391)	24,145,996	(271,370,937)
Gross profit	74,084,834	30,511,789	13,628,911	(12,030)	13,581	118,207,085
Trade receivables, net	55,515,133	13,209,214	--	--	--	68,724,347
Property and equipment, net	477,087,150	1,175,180,292	--	--	--	1,652,267,442
Loans	--	291,251,715	--	--	--	291,251,715
Net income before Zakat and non-controlling interest	55,495,411	27,124,070	12,127,948	(46,692)	(1,401,991)	93,299,746
<b>30 September 2015</b>						
Revenue	355,448,251	45,743,709	23,523,130	4,118,273	(22,743,383)	406,089,980
Cost	(257,186,511)	(17,117,525)	(8,031,270)	(3,929,287)	21,843,383	(264,421,210)
Gross profit	98,261,740	28,626,184	15,491,860	(188,986)	(900,000)	141,668,770
Trade receivables, net	67,870,626	11,716,636	--	--	--	79,587,262
Property and equipment, net	835,122,059	687,249,906	--	--	--	1,522,371,965
Loans	11,785,713	143,210,372	--	--	--	154,996,085
Net income before Zakat and non-controlling interest	78,687,566	32,443,724	15,268,754	--	--	126,400,044

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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>
<b><u>As at 30 September 2016</u></b>			
Riyadh	2,447,690,782	604,245,855	301,574,567
Makkah	441,982,318	79,782,178	101,120,287
Tabuk	49,023,256	5,334,041	11,035,583
	<u>2,938,696,356</u>	<u>689,362,074</u>	<u>413,730,437</u>
Transactions between segments	<u>(574,020,196)</u>	<u>(126,449,626)</u>	<u>(24,152,415)</u>
	<u>2,364,676,160</u>	<u>563,912,448</u>	<u>389,578,022</u>
 <b><u>As at 30 September 2015</u></b>			
Riyadh	4,594,037,520	1,373,695,794	309,766,384
Makkah	441,381,269	84,852,072	102,763,101
Tabuk	52,839,571	6,025,486	16,303,878
	<u>5,088,258,360</u>	<u>1,464,573,352</u>	<u>428,833,363</u>
Transactions between segments	<u>(2,855,399,243)</u>	<u>(1,042,526,331)</u>	<u>(22,743,383)</u>
	<u>2,232,859,117</u>	<u>422,047,021</u>	<u>406,089,980</u>

**15. COST OF REVENUES**

	<u>2016</u>	<u>2015</u>
Salaries and related costs	107,850,780	104,177,662
Depreciation (Note 8)	40,570,528	35,850,496
Foods and beverages	32,085,040	34,859,589
Operational supplies	23,308,987	24,352,183
Telephone, Internet and utilities	17,477,199	16,118,341
Rents	13,519,925	13,506,300
Promotional activities	9,013,303	9,077,783
Services and operating fees	8,870,685	8,456,680
Maintenance and repair	6,295,934	6,474,233
Commissions to travel agencies and credit cards	5,286,087	3,900,951
Security and guard	3,100,112	2,982,891
Insurance	743,080	1,036,590
Information systems expenses	657,848	650,413
Training	485,308	226,422
Cleaning and hospitality	293,265	305,400
Impairment of inventories	281,250	1,227,612
Hiring expenses	222,584	283,450
Others	1,309,022	934,214
	<u>271,370,937</u>	<u>264,421,210</u>

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**16. GENERAL AND ADMINISTRATIVE EXPENSES**

	<u>2016</u>	<u>2015</u>
Salaries and related costs	14,562,546	14,515,977
Professional and consultancy fees	2,395,382	1,129,536
Depreciation (Note 8)	2,183,302	1,207,020
Amortization of deferred charges	1,865,799	1,865,799
Subscriptions and attestation charges	1,192,851	509,589
Hospitality, maintenance and cleaning	941,881	412,367
Bank charge	836,253	192,325
Provision for doubtful debts	654,727	3,450,598
Telephone and utilities	269,803	355,503
Training	269,535	64,185
Donations	266,828	16,250
Hiring fees	215,543	--
Insurance	201,743	32,170
Others	410,840	656,423
	<u>26,267,033</u>	<u>24,407,742</u>

**17. OTHER INCOME**

	<u>2016</u>	<u>2015</u>
Murabaha income	478,747	504,190
Rental of parking and office spaces (17-1)	459,071	478,063
Human resource revenue	--	311,029
Gains from sale of property and equipment	--	1,115,300
Delay penalties	--	1,980,000
Other various revenue	--	160,643
	<u>937,818</u>	<u>4,549,225</u>

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

**18. EARNINGS PER SHARE**

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

**19. CAPITAL COMMITMENTS**

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

**20. CONTINGENT LIABILITIES**

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

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**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 30 September 2016 amounted to SR 15 million (2015: SR 15 million).

As at 30 September, 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
<b>Total</b>	<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 30 September 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 30 September, the minimum lease income for leases are as follow:

	<u>2016</u>	<u>2015</u>
2016	--	9,200,000
2017	1,700,000	1,700,000
<b>Total</b>	<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.

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**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, 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.