

## Annual Report

# 2014

Annual Report Dur Hospitality Company - December 2014

# JOUR



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**Eg. Abdullah bin Mohammad Al Issa**  
Chairman of the Board of Directors

## Chairman's Address

Messrs/ Shareholders of Dur  
Hospitality Company,

**May Allah`s peace, mercy and  
,blessings be upon all of you**

It is our pleasure as a Board of Directors to present to you the Annual Report of Dur Hospitality Company for the fiscal year of 2014, as well as the related financial statements and results until December 31st, 2014.

We are pleased to report a substantial increase of 11% in the revenues of the company compared to the previous reporting period. Our revenues reached the amount of 479,548,401 SAR, which includes a 47,110,379 SAR growth. This growth in revenues is due to return on the efforts put forth by the company in development, such as the renovation project of the Riyadh Marriott Hotel that directly caused a surge in return, as well as other endeavors such as the Makarim Ayyad Makkah Hotel during the Holy Hajj & Omrah Season.

The board's decision to exit from the recreational activities sector was reflected in a decrease in the fixed assets of the Al-Rawdah and Al-Watan Parks of the amount of 50,749,560 SAR. This step affected the Net Operating Income (NOI) for 2014 with a decrease of 38,647,491 SAR to reach the amount of 92,525,027 SAR. This comes in accordance to the new strategic transformational plan, which sets forth focusing on the hotels and the high-end residential compounds sectors.

However, discounting the effects of this strategic shift, the statements show an improvement in NOI by 9% compared to previous fiscal year. Collectively, the Net income has reached the amount of 103,767,019 SAR with a decrease of 39,253,636 SAR compared to the previous year. As always, our reports have been developed according to the current Corporate Governance System and Listing Rules that are issued by the Capital Market Authority in the Kingdom of Saudi Arabia.

Together we continue our success journey through the years, graced and blessed by Allah the Almighty. We set forth in implementing our vision with commitment through investments and leading contributions to the hospitality sector and industry. Our competitive advantage of excellence and openness keeps us ahead of our competition. We embraced partnerships and advancement within our work to proactively increase our market share.

Our development efforts go on in the course we set forth within our new strategic direction. Among the other glorified achievements perhaps the most important was the launch of the new identity of our company: Dur. This new identity reflects our future inclinations, and is an essential piece of our transformation into exciting new ambitions and growth targets. The direction is reflected into our action through our operations on daily basis.

We pray to Allah that the new identity reflects the expanded company's vision and its investment aspirations, setting the base for continual success on both the short and long terms. Our goal is for Dur to become a role model in the success and the development of the hospitality industry, providing excellence in services in all the markets we operate.

With our renewed identity, we reveal an image of a partnership friendly organization, attracting interest from both local and global entities. This identity replicates our social responsibility towards the locations where we operate. We are keen towards contributing effectively towards the development and growth of the social development, providing programs and endeavors now and in the future.

Our operational achievements include the completion of our renovation projects of Riyadh Marriott Hotel's rooms, Makarim Tabuk Hotel, and Makarim Annakheel Hotel. Additionally, we have started on a path of new projects such as the Riyadh Marriott Hotel Diplomatic Quarter, the Marriott Executive Apartments Riyadh, the Diplomatic Quarter, and Al Jubail Hotel. We also progress through the 3rd and 4th phase of Darraq Luxurious Villas Project.

Praise is to Allah, this year we were successful in expanding our partnership reach on many levels. Dur is now directly contributing to the establishment of the Saudi Hospitality Heritage Company, providing a 25% capital share. In addition to that, we have signed a master development agreement with Intercontinental Hotels Group (IHG), granting Dur franchise

rights for a number of Holiday Inn hotels and Apartments in the kingdom. An agreement has also been signed with Marriott International to run two new projects in the Diplomatic Quarter which are Riyadh Marriott Hotel Diplomatic Quarter and Marriott Executive Apartments Riyadh in the Diplomatic Quarter.

Additionally, and due to the fact that this sector has been causing losses in the recent years, we have adopted an exit strategy from recreation sector. We are now directing our efforts and focus towards our main activities which are represented in the hotel and real estate development industry and hotel operations.

Institutionally we continue our efforts in establishing and attracting national caliber and building internal capacity by nurturing a healthy work environment that motivates innovation, productivity, and team spirit. We put efforts into focusing on training and improving the capabilities of our human capital and enhancing their skills. Moreover, we are attracting the best national caliber in different managerial levels that are suitable to lead the company to achieve its goals and aspirations now and in the future. Simultaneously, we were able to achieve quantum leaps in improving internal operations and procedures including upgrading the information technology infrastructure, implementing new systems that support businesses, developing the new organizational structure, and adopting the best practices in investment and development operations.

Finally, I am honored to express our appreciation and gratitude to our esteemed shareholders and valued partners for their loyalty and infinite support. I extend my sincere gratitude for our employees for all the hard work and dedication they put forth into achieving the company's goals. Were it not for them, and Allah's blessings, none of this would have been possible.

We will continue to aspire and work towards achieving this company's strategic goals, efficiently and effectively.

Allah is the Guardian of Success!

We set forth in implementing our vision with commitment through investments and leading contributions to the hospitality sector and industry

# Board of Directors



**Dr. Saleh bin Ali Al Hathloul**  
Member



**Mr. Talal bin Abdulmohsen Al Malafekh**  
Member (Representative of Public Pension Agency)\*



**Mr. Nasser bin Mohammad Al Subaie**  
Member



**Mr. Abdullah bin Mohammad Al Abduljabbar**  
Member (Representative of General Organization of Social Insurance)



**Mr. Ali bin Ibrahim Al Ajlan**  
Member (Representative of Public Investment Fund)



**Mr. Bader bin Abdullah Al Issa**  
Member



**Mr. Fahad bin Abdullah Al Qasim**  
Member



**Mr. Musaab bin Suleiman Al Muhidib**  
Member

\* Mentioned here due to the retirement of Mr. Misfer bin Ali Al Hamdan from the Public Pension Agency, and the decision to appoint Mr. Talal bin Abdulmohsen Al Malafekh in his role. The Nominations & Rewards Committee has recommended the appointment and the Board of Directors initially approved it starting January 1st, 2015 to be valid through the board term that will end on December 31st, 2015.

# 1

## Chapter One

# About our Company

- 1-1 Key Activities
- 1-2 Strategic Direction
- 1-3 Our New Identity
- 1-4 Organizational Structure
- 1-5 Remarkable Events and Achievements in 2014

# 1-1 Key Activities



Dur Hospitality was established as a Saudi Shareholding Company pursuing the following objectives as per the Company' Articles of Association:

- Pursuing the activities of construction, ownership, administration, operation, investment, purchase, partnership, leasing, and rental of hotels, restaurants, motels, recreation centers, travel agencies, and private beaches based on their different levels and sizes in cities, main roads, and recreational provinces.
- Owning and purchasing lands, real estate property, and buildings as well as developing, dividing, sorting out, and establishing residential, commercial hotel solutions. Additionally, selling, renovating, renting, and utilizing them as possible. Moreover, providing management solutions and services for the premises or external clients and performing operations and maintenance tasks.
- Providing complete and state of the

art services for pilgrims and visitors of the Holly Mosque.

- Conducting all necessary primary and intermediary activities needed to execute, prepare, and proceed with different objectives and approaches of the above mentioned businesses in line with the their requirements.
- Achieving excellence in the provided services and products in the businesses above, in addition to ensuring they are in line with the company's vision and resonate with the decisions that the Board of Directors decides to make.

In achieving the above mentioned goals, the company might work individually or in partnership with other providers, and may sign any contractual deals that facilitate this direction.

## 1-2 Strategic Direction



Dur's strategic direction is based on the following pillars:

- Investing and developing in the luxurious hotels (3 – 4 stars) and classy residential compounds: Dur shall invest in hotel and real estate development projects in order to reach a portfolio of more than 25 hotel and real estate properties in the coming seven years –God's willing.
- Enhancing the performance of the current investments and assets.
- Establishing strategic partnerships and alliances with international companies and parties which are specialized in the hotel industry. Thus linking them with its business projects in the main and secondary cities in the Kingdom of Saudi Arabia.

- Developing the chain of Makarim Hotels to represent the religious brand of the hotel operations business in the Holy Cities.

Together, the above mentioned strategic directions contain the important investment goals required to achieve continuous growth for our company. Such growth will enhance income from operating revenues, and accordingly, our net profit, hence enhancing our shareholders' rights and their confidence in our brand and company. We look forward to increasing the annual revenues of the company threefold by the end of year 2023.



# 1-3 Our New Identity

The commercial name of our beloved company has been changed from "Saudi Hotels & Resorts Co. (SHARACO)" to "Dur Hospitality Company". This comes as a part of the rebranding plan to develop a new identity that reflects the company's renewed vision and its updated investment inclinations. This new brand encompasses the values of growth and novelty, and means being prepared for challenges, and innovatively ahead of changes in the market.

The new commercial name "Dur" is derived from Arabic "Dar" (which means "home") and home is the place that incarnates the finest meanings of hospitality. In one's Dar or home, a host strives to portray the highest levels of hospitality and service. He exerts his maximum effort to ensure the comfort and joy of his guests. They must feel welcome and at home.

The new name reflects the company's renewed direction and focus on the hospitality industry with both of its hotel and residential sectors. Similarly, the former name served during the past period as a reflection of the company's previous emphasis, which at that time was on expanding in the tourism sector, such as expanding in areas of tourism and entertainment.

A three letter identity that is modern and smooth, with colors that symbolize authenticity and reflect modernity simultaneously. It reflects our core values, starting with partnerships. Our success depends directly on our ability to attract potential partners and on the setup of these partnerships that ensures actually launching them. We aspire for key partnerships in everything we do. Whether with governmental entities, private companies, international operators, employees, legislative entities in tourism industry, or with regional societies, we understand the value of working together.

Dur aims at forming partnerships based on the concept of aligned visions, capabilities, acquaintances, skills, and resources in order to achieve the highest levels of synergy and effectiveness. Each party has to commit to adopting the highest standards of service and quality. This will ensure the success of these partnerships. In Dur, we believe in continuous improvement. We honor our partners in turn by asking them to have the best standards of quality and excellence.

In Dur, we aim to be a role model of success in the hospitality industry both locally and globally. Dur is a

valuable partner any local, regional, or international partner. Our vision is to become the most partner friendly choice in our sector.

We're committed, in terms of our new identity, to maintain the company's values that are represented in integrity, honesty, responsibility and the spirit of innovation and to adhere to the growth and development of the businesses that are restricted with the provisions of Islamic Sharia law in all of its dealings. Moreover, Dur aims to directly participate in developing the hospitality industry and improving its services. We believe this is possible through applying a development vision that combines modernity and authenticity. We do this, not only for financial success, maintaining the rights of the company's shareholders, and increasing profitability, but also for recognition purposes in providing excellent quality hospitality services that are elevated to the status of our families and guests in Kingdom of Saudi Arabia.

Dur is derived  
from the home,  
and the home is a  
place that embodies  
the truest meaning  
of the finest forms  
of hospitality.

# 1-4 Organizational Structure

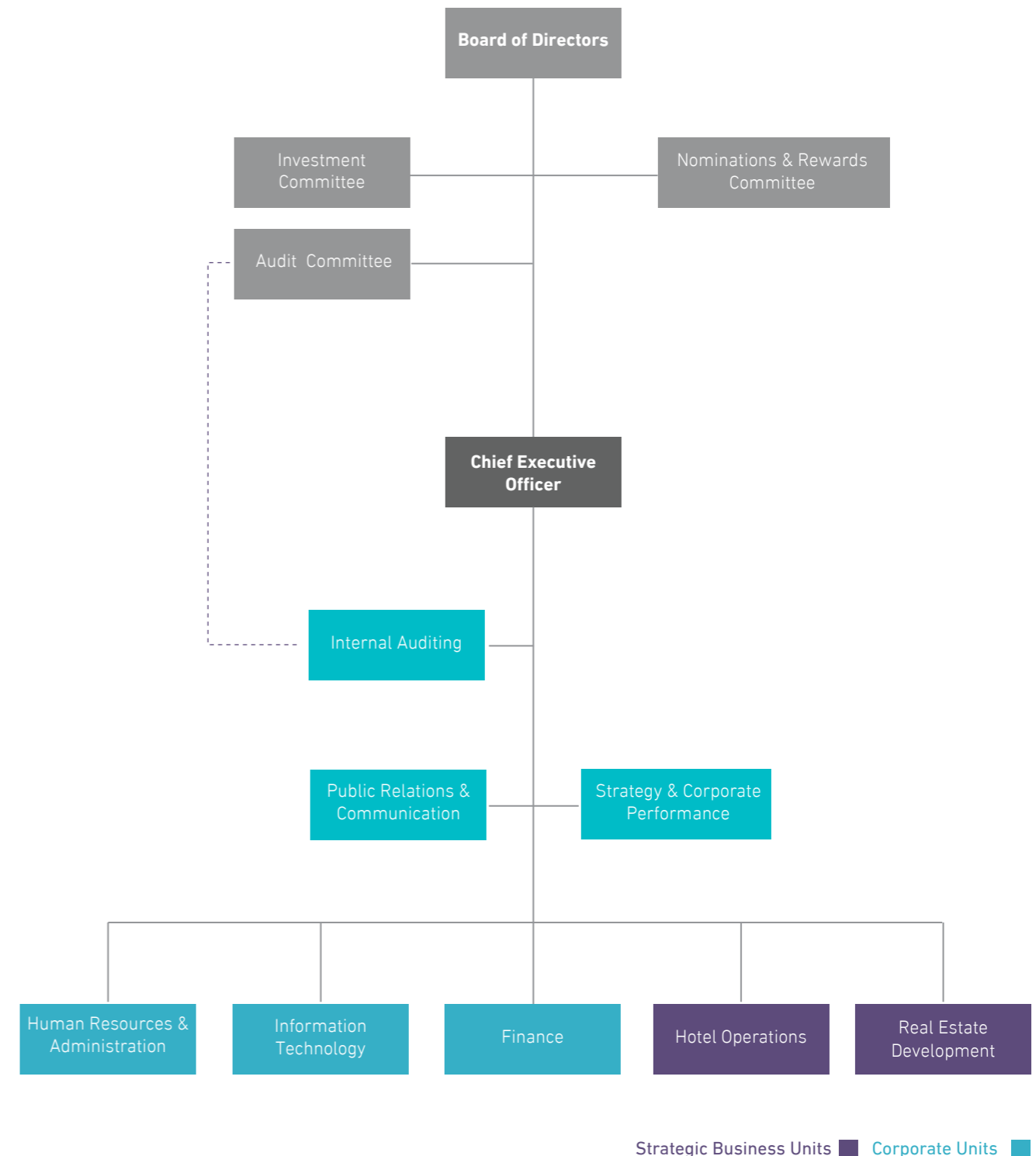
In an effort to keep up with the new strategic direction and implement our renewed transformational plan, we have developed a new organizational structure for Dur.

This renewed structure reflects these changes and new trends through the introduction of two new strategic business units in addition to the shared corporate units. The new structure is as follows:

- The Real Estate Development Unit: responsible for activities covering the development of hotel and real estate projects, starting from researching investment opportunities that are in line with the company's requirements and vision, establishing initial conceptions about the project, conducting feasibility studies, and managing real estate projects including procurement, design, and execution, all the way to delivering the final asset.

This unit is also concerned with managing the portfolio of the company's assets and monitoring the performance of the company's investments. It aims at ensuring the achievement of performance standards, and elevating relations with operators. Additionally, this unit executes operational activities such as managing and operating real estate properties and residential compounds included in the company's portfolio.

- Hotel Operations Unit: this unit is responsible for all procedures of managing and operating hotel properties, whether they are owned by the company or not. This unit manages and operates hotels under two main brands which are the Religious Makarim Brand, which specializes in religious services such as the Holy cities of Makkah and Al Madinah, and the International Brand of Holiday Inn that is related to hotels in other setups.



# 1-5 Remarkable Events and Achievements in 2014



His Excellency, and President of the Board of Directors, Engineer Abdullah Al-Essa, during the launch ceremony of Dur's new identity.

## Launching the New Identity of the Company

as a part of the strategic transformational program, we've launched our new identity "Dur Hospitality Company". This new identity was launched in a special ceremony for the company's staff and in another special ceremony attended by several of governmental, economic, and financial figures, as well as businessmen, investors, and media representatives.

The new identity and the transformational program were announced in a joint press conference that was held by the Chairman of the Board, Eng. Abdullah bin Mohammad Al Issa and the CEO of the company, Dr. Bader bin Hamoud Al Bader.

The conference took place after the completion of the extraordinary businesses of the General Assembly for the company's shareholders to vote for the new identity of the company, which was held in the evening of Tuesday, November 11th, 2014 in the Riyadh Marriott Hotel.

## Signing the Master Development Agreement with the Intercontinental Hotels Group (IHG)

Dur completed this year the signing of the Master Development Agreement with the Intercontinental Hotels Group (IHG). The agreement grants Dur Company franchise rights for a number of hotels of its trademark "Holiday Inn" in the Kingdom for a renewable period of 15 years. This agreement will enable "Dur" to develop a number of Holiday Inn Hotels and Apartments in different regions of Saudi Arabia over the coming five years. The agreement was announced during a joint press conference held by the two companies' management teams in the head office of Dur Hospitality Company.

This franchising deal enhances the

status of the company and supports its investment position on the map of hospitality industry. It supports its plan for upcoming investments and developing a number of hotels in several Saudi cities. This agreement comes based on our new identity and in line with the beginning of implementing the transformational program. It reemphasizes the expansion plan and direction of contracting new partnerships with leading and international trademarks in the hospitality industry.

The Intercontinental Hotels Group was chosen based its competitive capability and market share and our belief that the new "Holiday Inn" hotels that we plan to develop, will create an extra value for hospitality industry in KSA.

# 1-5 Remarkable Events and Achievements in 2014

## Signing Management Contract with Marriott International for operating Riyadh Marriott Hotel, Diplomatic Quarter & Marriot Executive Apartments Riyadh, Diplomatic Quarter

Praise be to Allah, we have completed the signing of an agreement with the Marriott International for the operation of two new projects under implementation in the Diplomatic Quarter in (1) the Riyadh Marriott Hotel, Diplomatic Riyadh: Quarter, and (2) the Marriot Executive Apartments Riyadh, Diplomatic Quarter.

This agreement is considered an important and promising investment opportunity for "Dur" in terms of geographical location and international trademark. These two projects will form the first international hotel that will open its doors within the Diplomatic Quarters in Riyadh, which is one of the most prestigious areas in the Kingdom. The Diplomatic Quarter entails the residence of diplomatic missions and a number of and governmental and financial institutions as well as a number of private leading companies in the Kingdom of Saudi Arabia.

The opening ceremony of the two projects will, God willing, take place in 2017, and will be managed and operated by Marriott International under a long-term agreement with Dur. The total investment value, which was recorded to develop these two hotels, is around 300 Million SAR.

The Riyadh Marriott Hotel in the Diplomatic Quarters will offer 80 rooms, while the Marriot Executive Apartments Riyadh in DQ will offer 140 suites. This agreement comes as a translation of the strategic transition program of the Dur and its new identity for the expansion of its investments and partnerships with leading international trademarks in the industry.



Mr. Alex, President & Managing Director of Marriott International in the Middle East & Africa and His Excellency & President of the Board of Directors, Engineer Abdullah Alissa, during the signing ceremony.

## Exiting the Recreational Sector

Based on our renewed vision and strategic direction, we have worked towards exiting the recreational sector this year. This exit strategy included leaving investments such as Al-Rawdah Amusement Park and Al-Watan Park. The sector in question was causing annual operating losses due to the low demand on in the city of Riyadh and the Kingdom which is mainly caused by the severe weather conditions of the country.

Dur now intends to focus its resources on the luxurious real estate sector as outlined above. Moreover, the savings efforts and expenses can be redirected towards its main activities for which it is more specialized and distinguished by The completion of in the industry.

the exit process will be finalized by the beginning of 2015.

Accordingly, the necessary financial measures were taken to handle the impact resulted from this measure. The preliminary financial results of the company for the fourth quarter of 2014 where handled in line with the required accounting standards, and a final settlement in the financial statements was in line with a drop in fixed assets by the amount of 50.7 Million SAR.

## Investment in the Saudi Heritage Hospitality Company

in line with our renewed vision and identity, we have taken ample measures to invest in the Saudi Heritage and

Hospitality Company (a closed shareholding company that is under establishing). This investment of 25% percentage of the company's capital has the amount of 62,500,000 SAR. The Saudi Heritage and Hospitality Company was founded by the General Commission for Tourism and Antiquities with a capital of 250 Million SAR. Its vision is to develop and invest in heritage buildings owned by the government specialized for heritage accommodation and hospitality. The company's head office will be in Riyadh and necessary measures are currently being undertaken to establish the company.

# 2

## Chapter Two Business Sectors

- 2-1 Assets and Properties
- 2-2 Projects
- 2-3 Strategic Investments & Contributions\*
- 2-4 Human Resources
- 2-5 Corporate Social Responsibility Engagements

## 2-1

# Assets and Properties

Dur's assets and properties portfolio is comprised of three main sectors:

- I. Company Owned Properties: properties owned by the company but managed by other operators.
- II. Company Owned and Managed Properties: these entities are owned and operated by through Dur through our hotel operation arm and hotel brands.
- III. Properties Owned by Other Operators: which the company manages via its hotel operation arm.

Regarding the financial performance of these properties, we have been able to enhance the properties and assets' operative performance raising the occupancy rate by 11% to reach a percentage of 69.4% this year. The total rate for the revenue per available room (RevPAR) increased by 9% reaching 380 SAR. This has been achieved while sustaining the average daily rate (ADR) at 560 SAR per room despite the ongoing improvement and renovation projects in some hotels which rendered many rooms out of operation. A detailed breakdown of these sectors follows:

## Company Owned Properties



Riyadh Marriott Hotel post-renovations.

### The Riyadh Marriot Hotel

one of the most luxurious and prestigious 5-star hotels in Saudi Arabia. It's strategically located in the vital center of Riyadh, and it's only 30 minutes away from King Khaled International Airport.

Riyadh Marriott Hotel has 418 rooms and suites, in addition to a number of high-class restaurants and meeting rooms equipped with the latest technological needs and services. It also has the Makarim banquet hall which can hold meetings, conventions, weddings, and other events.

The fitness center at the Marriott is one of the main properties in the hotel as it offers guests and visitors the most exquisite, and luxurious service levels.

### Marriott Executive Apartments Riyadh

opening in 2012, these unique apartments are located near the Riyadh Marriott Hotel. They cater perfectly to the needs of businessmen visiting Riyadh for long periods of time. These are providing the best solution by offering spacious apartments and suites equipped with the latest services needed by businessmen.

Marriott Executive Apartments Riyadh is comprised of 14 floors housing 117 suites of different sizes that come in 1, 2, or 3 bedroom suites. This setup ensures meeting most tastes and needs. The complex also houses a restaurant and a fitness center.

### The Diplomat Courtyard Marriott Hotel

located opposite the southern entrance of the Diplomatic Quarter in Riyadh this hotel, which was opened in 2012, is an accessible, quiet area for business needs with a theme underlining the concepts of peace and relaxation. As the first Courtyard chain hotel to open in Riyadh, offers the guests a perfect ambience which creates a unique business centered experience, with the addition of advanced technology and smart spaces creating a perfect environment for work and relaxation. The Courtyard operates 286 fully-equipped rooms and suites. Additionally, it offers customers access to a restaurant, a fitness center, a business center, and a number of meeting rooms that are equipped with state-of-the-art technology and service.

**Owned by: Dur Hospitality Company**  
**Operated by: Marriott International**

## Company Owned and Managed Properties



### Makarim Ajjad Makkah Hotel

this 5-star Makarim Ajjad Makkah Hotel adds value to the experience of Makkah's visitors and pilgrims. With its unique features such as the prime location near the Holy Mosque, a few steps away from the King Abdul-Aziz Gate, the accessibility of the Holy Sites (Mina, Muzdalifa, and Arafat), and its spectacular view of the Holy Mosque, it has become one of the most prominent destinations for pilgrims and visitors. The hotel offers services targeted at the religious tourism sector while taking all required aspects into consideration.

The Makarim Ajjad Makkah Hotel holds 411 single, double, triple, and quadruple rooms, with special rooms, and luxurious suites with a distinctive architectural style.

**Owned by: Makkah Hotels, Ltd. which is %99.44 owned by Dur Hospitality Company.  
Operated by: Dur Hospitality - Makarim**

### Makarim Annakheel Hotel & Resort

located on the north Obhour Bay in Jeddah, 20 minutes away from the city of Jeddah and 15 minutes away from King Abdul-Aziz International Airport, this resort holds 112 luxurious villas, 21 hotel apartments, and a hotel that has 43 rooms and suites. Moreover, it offers meeting rooms, a restaurant, separate male and female fitness centers, a marina for yachts and marine activities, sand beaches, and a seaside plaza with a capacity for 800 people. In 2014, Dur had finished renovating the hotel and is currently renovating the villas and hotel apartments.

**Owned by: Annakheel Village Resorts, Co. which is %98.73 owned by Dur  
Operated by: Dur Hospitality – Makarim**



Makarim Palms Hotel & Resort post-renovations.

## Company Owned and Managed Properties



Makarim Tabuk Hotel After Redecoration

### Makarim Tabuk Hotel

located on Al Madinah – Tabuk road and holds up to 83 luxurious rooms and suites. In 2014, Dur had completed renovating this hotel boosting its abilities in offering premium service. Dur has renovated the hotel to compete against other hotels in the expected competition of the market.

The hotel is known for its grand restaurant, Al Waleema, which serves a wide array of international and oriental cuisine dishes. It also holds a hall suitable for conventions and events with a capacity of 250 people. Makarim Tabuk Hotel is the only hotel that offers fitness center services to guests and business.

**Owned by: Tabuk Hotels, Co. %97.14 of which capital is owned by Dur Hospitality. Operated: Dur Hospitality – Makarim**

### Darraq

located in the Diplomatic Quarter, Darraq was created to meet the aspirations of those who were seeking a high-standard residence in a high-end area in Riyadh. Darraq entails a selection of 144 residential units of different sizes. These units come into 6 models varying between villas of different sizes and residential apartments. It provides its residence with complete privacy and around-the-clock maintenance services.

**Owned by: Dur Hospitality  
Operated by: Dur Hospitality Al-Jazira**





## Company Owned and Managed Properties



### Al-Takhassusi Plaza

Al-Takhassusi Plaza is one of Riyadh's most important commercial centers. Strategically located at the intersection of Makkah Al-Mukarrama Road and Al-Takhassusi Street, the center covers an area of over 40,000 m<sup>2</sup>. Near to the King Faisal Specialist Hospital and Research Center, the Plaza offers its visitors a wide selection of famous international and local brands providing individual and family needs of food, clothing, restaurants, cafes, as well as other commercial and servicing properties.

**Owner: Dur Hospitality**  
**Operator: Dur Hospitality Al-Jazira**

### Al-Jazira East Compound

covering over 20,000 m<sup>2</sup> in East Riyadh, this compound is composed of 19 villas and 59 furnished singles apartments. The apartments are divided in two buildings with each having its own entrance. The compound also houses different gardens and playgrounds, in addition to a fitness center that has two sport halls, a steam bath, a sauna, an adults' pool and another for children. Moreover, the compound houses green spaces and children's playgrounds, and offers full maintenance services and transportation to malls and schools.

**Owned by: Dur Hospitality**  
**Operated by: Dur Hospitality Al-Jazira**

Darraq



## Company Owned and Managed Properties



Makarim Riyadh Hotel

### Makarim Riyadh Hotel

located in Riyadh and is considered the closest hotel to King Khaled International Airport. It holds 248 rooms and suites equipped to the highest hotelier standards. Makarim Riyadh Hotel houses a selection of fine restaurants including the Panorama which offers a vast range of international dishes in a charming atmosphere and with a panoramic view.

Makarim Riyadh Hotel also houses a number of meeting rooms, a hall with a capacity of 400 people, a business center, a fitness center and sports' halls.

**Owned by: General Authority of Civil Aviation, rented by Dur.**  
**Operated by: Dur Hospitality - Makarim**

### Makarim Umm Alqura Hotel

The 5-star Makarim Umm Alqura Hotel is located on Ajjad Road near the Ring Road leading to the Holy Sites, and its proximity to the Holy Mosque being a 5-minute drive away is an added benefit to the hotel.

The hotel is composed of 12 floors of 336 rooms and suites, a number of restaurants, meeting rooms, and shops. Its unique architectural design combines luxury and elegance, and the rooms are spacious suiting all tastes and needs. It also offers triple and quadruple rooms that meet the demands of families, rooms for people with special needs, free Wi-Fi all over the hotel, 6 large elevators that ensure the comfort of our guests, and a parking lot that fits 80 cars.

**Owned by: Assila Investment Company**  
**Operated by: Dur Hospitality - Makarim**

### Makarim Al-Bait Hotel

Makarim Al-Bait Hotel is located on King Abdul-Aziz Street in the Shesha district in Makkah 3 kilometers away from the Holy Mosque and nearer to Aljamarat. The hotel has 270 comfortable and luxurious rooms and suites. It also offers many services and houses many properties like restaurants, meeting rooms, shops, and free Wi-Fi all over the hotel. The hotel also offers a free shuttle service to and from the Holy Mosque in air-conditioned buses.

**Owned by: Assila Investment Company**  
**Operated by: Dur Hospitality - Makarim**

A stern focus on the quality of hospitality services has led to an escalation in the ranks of global travel sites.

%3 ▲

Google

%3 ▲

Booking.com

## Company Owned and Managed Properties



Makarim Residence Al-Andalus Compound

### Makarim Mina Hotel

opened in 2013 this 4-star hotel is located in Al-Aziziah district in Makkah near the Holy Site of Mina. The hotel has 294 rooms and suites, restaurants, meeting rooms, shops, and provides free Wi-Fi all over the hotel.

**Owned by:** His Excellency Sheikh Mohammed Ibn Ibrahim Al-Ghamdi  
**Operated by:** Dur Hospitality - Makarim

### Makarim Al-Shurufat Hotel

The 4-star hotel is located near the Makarim Umm Alqura hotel and the area of Kadi, 1800 meters away from the Holy Mosque. It's a 7-storey building housing 104 luxurious rooms.

**Owned by:** Shurufat Al Safwa Company  
**Operated by:** Dur Hospitality - Makarim

### Al-Jazira Bader Compound

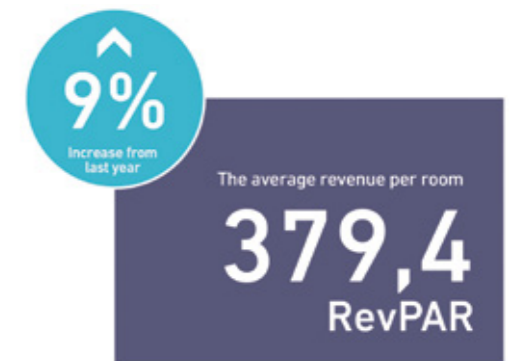
located in east Riyadh in Al-Rayyan district, it comprises 40 luxuriously-furnished villas. The compound offers the residents privacy and a tranquil, familial air. It also includes many sports facilities and a shuttle service to schools and malls.

**Owner:** Assila Investment Company  
**Operator:** Dur Hospitality – Al-Jazira

### Makarim Residence Al-Andalus Compound

located in Al-Andalus district off Tahlia Street in Jeddah. It's comprised of 30 villas luxuriously furnished with 5-star standards. The villas enjoy elements of privacy, security, and a familial atmosphere in addition to business services, athletic and recreational facilities, and drivers' rooms.

**Owner:** Assila Investment Company  
**Operator:** Dur Hospitality – Al-Jazira



## Company Owned and Managed Properties



Makarim Residence Al-Rawdah Compound

### Makarim Residence Al-Rawdah Compound

located in Jeddah and comprised of 28 residential villas of different sizes, a parking lot, an administration and support services building, and a fitness center. The compound enjoys an air of tranquility and familial privacy, luxurious hotelier service, and spectacular design.

**Owned by: Assila Investment Company**  
**Operated by: Dur Hospitality - Al-Jazira**

### Dur Al-Maather Compound

Located in Al-Maather district in Riyadh, Dur Al-Maather is comprised of 73 villas of different sizes and a fitness center.

**Owned by: Saudi Commission for Health Specialties**  
**Operated by: Dur Hospitality - Al-Jazira**

### Dur Al-Yasmin Residential Compound

located in Al-Rawdah district in Jeddah and is comprised of 168 residential units including a number of apartments of different sizes and independent rooms, a fitness center, a parking lot and other services. The compound will be in operation in the first quarter of 2015, God willing.

**Owned by: Assila Investment Company**  
**Operated by: Dur Hospitality Al Jazira**

### Al-Rawdah Amusement Park

built on a land leased from the Municipality of Riyadh in Al-Rawdah district covering over 70,000 m<sup>2</sup> and offers its visitors different rides that

suit all ages in addition to a multi-purpose hall. The Park's activity will be fully terminated in 2015 as previously stated.

### Al-Watan Amusement Park

built on a land leased from the Higher Commission for the Development of Arriyadh in King Abdul-Aziz Historical Center in the middle of Riyadh. It's a unique park that has a miniature model of the Kingdom in which the features of main cities appear. It also holds the Riyadh Water Tower in the middle of it, in addition to amusement playgrounds, traditionally-designed chalets, lakes, and a number of restaurants. The Park's activity will be fully terminated in 2015 as previously stated

### **Makarim Tabuk Hotel Renovation**

the hotel located on Al-Madinah Road in Tabuk has been completely renovated and witnessed an increase in room number from 79 to 83 rooms and suites which boost its capability in providing services. Moreover, the façade and the back of the hotel have been improved as well.

83

Suites & Rooms

### **Darraq Refitting (Second Phase):**

Darraq is comprised of 28 villa-like residential units of different sizes. These units have been named after elements of the local environment and the culture of the Arabian Peninsula like Al-Nakhlah, Al-Sidrah, and Al-Talha to give an authentic, oriental impression in a modern environment.

Darraq provides its residence with complete privacy and around-the-clock maintenance services. It has been constructed as a collection of smart houses that rises to the aspirations of those who want to reside in a high-standard house in a high-end area.

28

Housing Units

# 2-2 Projects Projects In Progress

## Makarim Annakheel Hotel and Resort Renovation

This resort is currently under renovation and holds 112 luxurious villas, 21 hotel apartments, and a hotel that has 43 rooms and suites, in addition to meeting rooms, a restaurant, separate male and female fitness centers, a marina for yachts and marine activities, sand beaches, and a seaside plaza with a capacity of 800 people. We completed the renovation of the hotel and are currently completing the villas and apartments in accordance with the project plan.

44 Million Riyals

Project Cost

133

luxurious villas and hotel apartments

Suites & Rooms

## The Riyadh Marriott Hotel – Diplomatic Quarter and Marriott Executive Apartments Riyadh – Diplomatic Quarter Development

The project is located in the Diplomatic Quarter in Riyadh. It's a 5-star, fully-serviced hotel standing on a 25,000 m<sup>2</sup> land leased from the Higher Commission for The Development of Arriyadh. The hotel is comprised of 80 hotel rooms and 140 5-star, luxurious executive apartments, in addition to a main restaurant, a banquet hall with a capacity of 400 guests, a fitness center, and a parking lot with a capacity of 220 cars. Construction of the hotel is expected to begin in early 2015 and last 36 months. Marriott International has been set to undertake the management and operation of the hotel upon completion of the project.

300 Million Riyals

Project Cost

80

Hotel Rooms

140

Luxury Hotel Apartments

## Darraq Development (Third Phase)

the third phase of the Darraq project is being executed with a total cost of 269 Million SAR. The project, which is comprised of 102 villas and 35 residential apartments, will be built on a collection of lands leased from the Higher Commission for The Development of Arriyadh in the Diplomatic Quarter in Riyadh with a total space of 77,278 m<sup>2</sup>.

The monetary effect of the project is expected to appear in the second quarter of 2015 as the project will be self-funded by Dur with the addition of credit facilities from banks. Darraq has been constructed as a collection of smart houses that for customers seeking high-standard housing solutions in a high-end area.

269 Million Riyals

Project Cost

102

Villa

35

Apartments

## Darraq Development (Fourth Phase)

According to the plan of transformation and the new strategy of Dur, it has been agreed that Sulaiman Al-Suwaih Group will undertake the execution of the fourth phase of Darraq with a total cost of 117,839, 371 SAR.

The project, which is comprised of 35 villas and 10 apartment buildings, will be built on a collection of lands leased from the Higher Commission for The Development of Arriyadh in the Diplomatic Quarter in Riyadh with a total space of 42,964 m<sup>2</sup> with an execution period of 18 months starting with the handover to Sulaiman Al-Suwaih's group. The monetary effect of the project is expected to appear in the third quarter of 2016 as the project will be self-funded by Dur with the addition of credit facilities from banks.

117 Million Riyals

Project Cost

45

Villa

10

Apartments

# 2-2 Projects

## Projects Under Study and Design

### Makarim Annakheel Hotel and Resort Expansion

we are currently studying adding 107 luxurious hotel rooms to Makarim Annakheel Hotel which is on North Obhour Bay in Jeddah. The goal is to reinforce the hotel's competitive force in the Jeddah market and to keep up with the high demand for hotels in the city.

### Makarim Tabuk Hotel Expansion

we are currently studying adding 60 luxurious executive apartments in the Makarim Tabuk Hotel on Al-Madinah Road in Tabuk, in addition to a banquet hall that fits 400 to 500 people. This will reinforce the hotel's competitive force in the Tabuk market and to keep up with the high demand for hotels in the city.

### Jubail Hotel Development

the Royal Commission for Jubail and Yanbu has agreed to dedicate two lands in Industrial Jubail with a collective space of 10,041 m<sup>2</sup> to construct and operate an economical hotel and shops.

The period for this arrangement will extend for a period of 20 Hijri years starting when the agreement goes into effect for a yearly rent of 803,312 SAR paid in advance.

Calculating the rent starts a year after the date of the designation notice. The project will be self-funded by the company and aided with facilities from a bank. The construction is expected to take 42 months beginning on the date of agreement. The monetary effect is expected to appear on the company's revenue in the first quarter of 2018.

### Staff Residence (Twaiq District) Development

out of our keenness to improve the services we provide our employees with, we are studying building a residential compound for Dur employees on 7,095 m<sup>2</sup> west of Riyadh in Tuwaiq District. The compound will comprise of 630 rooms and include many recreational facilities like gardens and sports' spaces in addition to a fitness center.

### Staff Residence (Wadi Laban District) Development

similar to the above mentioned project, we are studying building a residential compound for employees with families on 5,000 m<sup>2</sup> west of Riyadh in Wadi Laban District. The compound will comprise of 66 apartments and include many recreational facilities like gardens and sports' spaces in addition to a fitness center.

### Al-Hada Residential Compound Development

additionally, we are studying the execution of Al-Hada Residential Compound Project which will comprise of 157 residential apartments on a land of 19,889 m<sup>2</sup> in Al-Hada district in Riyadh. The project will be self-funded with the aid of credit facilities from banks.

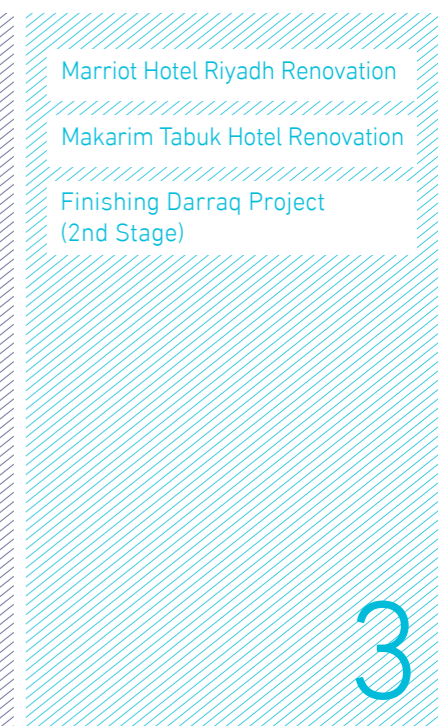
### Projects under Study and Design



### Projects under Development and Execution



### Completed Projects



The status of projects for investment control process stages

## 2-3 Strategic Investments & Contributions

Dur has engaged itself in key endeavors and strategic projects that will ensure a bright future for the company and its stakeholders. Our main investments and strategic contributions in 2014 include the following

### 1

Dur has successfully acquired shares in the Saudi Company for Hotel Services, which is owned by Abdulaziz Al Abdullah Al Suleiman & His Brothers. The acquisition of 1,000 shares was valued at a total value of 15 Million SAR. Accordingly, Dur's ownership in the capital of the capital increased from 30% to 40%.

Moreover, and due to the increase in available cash over requirements of the Saudi Company for Hotel Services, the company has decided to reduce the company's capital from 100 Million to 70 Million SAR rendering a reduction percentage of 30% out of available capital. The reduction amount has been given to the partners. Dur Hospitality received its share from the reduction which is 12 Million SAR.

### 2

The Source of Security Company (LLC) was established with a capital of 100,000 SAR. This establishment was constructed between Dur Hospitality and Mr. Abdurahman Abdullah Al-Dehaim\*\*. The capital distribution is 95% of capital for Dur Hospitality and 5% for Mr. Abdurahman Abdullah Al-Dehaim. The company's objectives are providing safety and security services for the company and its establishments.

### 3

Moreover, the Joud Al Alya'a Company (LLC) was established with a capital of 100,000 SAR. The company was constructed between Dur Hospitality and Mr. Abdurahman Abdullah Al-Dehaim. The capital distribution is 99% for Dur Hospitality and 1% for Mr. Abdurahman Abdullah Al-Dehaim\*\*. The company's objectives are providing maintenance, building and constructions services for all different establishments of the company.

\* We would like to state that there are no debt instruments issued from any of the subsidiaries mentioned above.

\*\* Mr. Abdurahman Abdullah Al-Dehaim, Former Executive Deputy CEO who resigned in 12014/12/.

Company Name	Main Activity	Capital (SAR)	Subsidiaries	Contributed %	Revenue 2014
<b>Makkah Hotels Co. Ltd</b>	Hotels	165,600,000	Makarim Ajyad Makkah Hotel	99.44	81,431,106
<b>An Nakheel Company for Tourist Areas</b>	Hotels Real Estate	59,250,000	Makarim An Nakheel Village Jeddah	98.73	31,515,880
<b>Tabuk Hotels Co. Ltd</b>	Hotels	27,300,000	Makarim Tabuk Hotel	97.14	18,182,832
<b>Saudi Hotel Services Company</b>	Hotels	100,000,000	Riyadh Palace Hotel - Riyadh	40	51,433,947
<b>Al Madinah Hotels Co. Ltd</b>	Hotels Real Estate	1,000,000	-	50	Under liquidation
<b>National Company for Tourism</b>	Hotels Real Estate	422,000,000	A Number of establishments in Aseer	1.65	Incomplete Final Accounts Preparation
<b>Makarim Al Maarifa Hospitality Co. Ltd</b>	Real Estate	21,400,000	Under study in Madinah	50	Not practicing
<b>Media Marketing Services Co</b>	Marketing/ Promotion Public Relations	2,000,000	-	25	Under liquidation
<b>Security Source Co. Ltd</b>	Safety and Security	100,000	-	95	Not practicing
<b>Joud Al Alya'a Co. Ltd</b>	Buildings and Constructions	100,000	-	99	Not practicing

\* We would like to state that there are no debt instruments issued from any of the subsidiaries mentioned above.

\*\* Mr. Abdurahman Abdullah Al-Dehaim, Former Executive Deputy CEO who resigned in 12014/12/.



# 2-4 Human Resources

The previous fiscal year was one where the company made substantial efforts and achievements in developing its human resources performance and satisfaction at the job. Below we summarize the most important endeavors for this year:

## Development of a New Organizational Structure

a new model of operations which reflects our renewed strategic direction has been developed. The new Organizational Structure was completed through restructuring the functions of Dur, and dividing them into strategic working units and corporate units and departments. Additionally, Job Profiling was completed for most functions. This process started with analyzing, defining the required tasks and responsibilities for each job and determining the required academic qualifications, practical experience and behavioral competencies and professionalism, and resulted in clear profiles needed for each job in the company.

## Job Satisfaction Survey

With the goal of measuring employee satisfaction at Dur, a comprehensive survey covering all career levels has been conducted. This study will be used to determine the company's place in the market and identify the areas where improvement is needed. Dur also participated in the Best Work Environment Contest in 2014 and had a satisfactory place among all the participated companies in Saudi Arabia.

## Work Environment & Organizational Culture (Ahlan)

Ahlan was started as an initiative by the Human Resources Department at Dur. Its core idea is about communicating the renewed organizational vision and strategic messages to the employees. This stresses aligning the entire organization with its future stance.

Additionally, Ahlan aimed at helping employees acquire additional needed skills to achieve strategic career goals. The program helps in enhancing their role in improving the work environment and strengthening the new acquired institutional culture

## Workforce Nationalization

in line with the belief of Dur in national caliber, we have worked relentlessly on attracting and retaining the best national human resources in the Kingdom to our company's team.

Dur has signed several agreements with national training centers in the hospitality sector for recruitment and employment ends. Moreover, we provided practical on the job training for applicants. This was done in collaboration with Takamul Holding Company, represented in the human resources fund.

Additionally, Dur was honored and acknowledged by the Minister of Labor Mr. Adel Faqeh for participating in launching the Doroub program which is a key initiative in supporting Saudization.

## Automation of Human Resources Operations

in line with our constant efforts to utilize key technological developments and breakthroughs, the Corporate Resources Management Program was launched seeking to automate the calculation of wages and vacations, and other staff requirements like assignments and training.

## Performance Management

the system for managing and measuring performance has been developed and activated in order to allow the company to recognize outstanding employees to be rewarded and to help the average employees improve by using semiannual evaluations. The system is built around two main factors:

1. Key Performance Indicators (KPIs) Based Evaluation.
2. Competency based evaluation. i.e., behavioral, professional and leadership competencies assigned for each job.

## Incentives and Remuneration

In Dur, we strongly believe in motivating our staff and rewarding them for their efforts, innovation and devotion. Remuneration and incentives plans have been successfully designed and executed. These link remuneration with performance and goals. The program also helped promoting Saudi employees to work in the company's projects, and setting suitable and motivational allowances to fully rely on them in future for the company's expansion plans.

## Training and Development

due to our belief in the importance of developing our human resources, we have provided our employees with more than 17,000 hours of training last year.

Of those, more than 15,000 training hours tackled employee soft skills. While the other 2,000 targeted technical training specialized in the hospitality

sector. These courses covered many central work areas for the company such as Project Management, Strategic Planning, Leadership and Team Work.

## Knowledge Management and Sharing

several internal workshops have been held at Dur with the goal of sharing knowledge and experience across organizational levels. The purpose of these sessions is exchanging ideas and giving opportunities for each employee to learn from other departments' experiences and activities. In total, more than 12 workshops were held in various topics related to the field of the company's work.

## A Glance towards the Future

At Dur we have several goals and aspirations for developing our human capital within the near future. Specifically, we aim at:

- Achieving a nationalization rate of at least 35%.
- Completely automating our human resources operations for all activities.
- Designing and developing Career Paths, Succession Planning and proper Job Placement systems for key jobs at Dur.
- Improving Incentives and Remunerations plans for our employees.
- Providing extensive training and development in several fields related to our core business.



2014	2013
24% Saudization	21% Saudization
995 Number of Employees	995 Number of Employees
172,4 Thousand Riyals Productivity Per Capita <small>dependent on total profit</small>	152,9 Thousands Riyals Productivity Per Capita <small>dependent on total profit</small>

## 2-5 Corporate Social Responsibility Engagements

As a leading company in the hospitality sector in the Kingdom of Saudi Arabia, we value our role and social contribution towards the community and society we live in. Dur places a high level of priority on helping our country achieve its cultural and development goals. Ever since its beginnings, our company has been committed to serving its community with all means possible. It continuously seeks ways to develop social programs harmoniously in line with the spirit of the company's identity.

We at Dur are keeping tabs on developments taking place in all society aspects, whether economic, cultural or social. Accordingly, we have designated a special entity (Corporate Social Responsibility Committee) with the role of developing a set of engagements that will maximize the company's social contribution, and implement the company's policy and plans regarding its social presence. The committee has the role of planning Dur's social engagements, ensuring execution, and coordinating budgetary issues internally.

The Corporate Social Responsibility Committee is currently developing Dur's Corporate Social Responsibility programs for 2015. This comes in line with the new company's identity and its strategic objectives. In the same context, it will continue the work started in 2014 through the implementation of several programs, initiatives and social responsibility activities. The list below shows the some of our achievements in this area:



Employees from the company's various departments involved in the distribution of iftaar meals during Ramadan.

### Dur Iftar Program

In Ramadan this year, we started an Iftar program in collaboration with King 8 packaged meals for travelers before Iftar time. More than 13,000 meals had been served by 70 volunteers from our working group.

1300

Iftar Meals

70

volunteers



An entry in the "Productive Families" exhibition.

### Productive Families Program

we organized an exhibition for productive families in collaboration with Social Affairs Agency at Al Watan Park – Riyadh. More than 26 productive families participated. More than 10,000 visitors attended the exhibition producing a welcome sight. The program was held in March 2014.

10,000

Visitors

26

Productive Families

### Furniture Donation Program

in our support for charitable causes, we donated the furniture of our establishment Makarim An Nakheel – Jeddah to social causes. This came in par during the project of renovating and improving the hotel and resort.

### Blood Donation Program

the head office working group launched a campaign for donating blood in collaboration with King Faisal Specialist Hospital.

# 3

## Chapter Three

# Financial Statements and Business Results

- 3-1 Income Statement
- 3-2 Financial Results for the Past Five Years
- 3-3 Loans
- 3-4 Revenues from Main Activities
- 3-5 Geographical Analysis of Revenues
- 3-6 Statutory Payments Due
- 3-7 Dividends Policies
- 3-8 Risks

# Financial Statements & Business Results

The Board of Directors approved the final financial results of the company. The results show an increase in Consolidated Revenues of 47,110,379 SAR, rendering total revenues of 479,548,401 SAR. This shows an increase of 11% for the same period of the previous fiscal year.

Our Total Operating Profit rose as a result of improving most of the company's operations efficiency and effectiveness. Examples include the improvements of revenue in Riyadh Marriott Hotel due to the completion of the renovations, improved revenue from the Umrah and Hajj seasons at Makarim Ajyad Makkah Hotel, and improved return on the Darraq project and Takhassusi Plaza.

Moreover, and due to the effects of the decreased value of fixed assets for Al Rawdah Park and Al Watan Park at 50,749,560 SAR, the Net operating profit for 2014 saw a decrease of 38,647,491 SAR (Total 92,525,027 SAR). The board's decision to exit the Recreational Activities Industry rendered this short term change.

Excluding that effect shows an improvement in Net Operating Profit for the activity by 9% from the previous fiscal year. Our company's Net Profit after Zakat and Minority Interest for the year reached 103,767,019 SAR with decrease of 39,253,636 SAR and by 27.5% from the previous year 2013. Finally, it is worth noticing that the residential compound in the Al Ma'athar District in Riyadh has been sold. This compound is comprised of 73 residential units with an estimated value of 100 Million SAR. The company has recorded a profit of 14.5 Million SAR from this transaction. The financial results have been recorded in 2nd Quarter Results in the company's Financial Statements.

479,548,401<sup>SR</sup>

Total revenue of activities

%11

Increase in revenue

92,525,027<sup>SR</sup>

Operating Profit in the year 2014

## 3-1 Income Statement

The table below shows the Income Statement of Dur compared to the previous fiscal year

Statement (SAR)	2014	2013	Change	Change Percentage (%)
<b>Activity Revenues</b>	479,548,401	432,438,022	47,110,379	10.9
<b>Activity Expenses</b>	(314,961,420)	(294,054,811)	(20,906,609)	(7.1)
<b>Total Activity Profit</b>	164,586,981	138,383,211	26,203,770	18.9
<b>Administrative &amp; General Expenses</b>	(29,272,093)	(19,113,807)	(10,158,286)	(53)
<b>Decrease in Assets' Value</b>	(49,733,029)	-	(49,733,029)	(100)
<b>Investment Revenues in Holdings</b>	6,943,168	11,903,114	(4,959,946)	(41.7)
<b>Operational Profit</b>	92,525,027	131,172,518	(38,647,491)	(29.5)
<b>Other Revenues</b>	19,667,074	18,792,454	874,620	4.7
<b>Net Profit before Zakat and Non-Controlling Equity</b>	112,192,101	149,964,972	(37,772,871)	(25.2)
<b>Zakat</b>	(8,051,569)	(6,630,165)	(1,421,404)	(21.4)
<b>Net Profit before non-controlling equity</b>	104,140,532	143,334,807	(39,194,275)	(27.3)
<b>Net rights of a non-controlling equity</b>	(373,513)	(314,152)	(59,361)	(18.9)
<b>Net Profit</b>	103,767,019	143,020,655	(39,253,636)	(27.5)

# 3-2 Financial Results for the Past Five Years

## 1 Income Statement for 2014

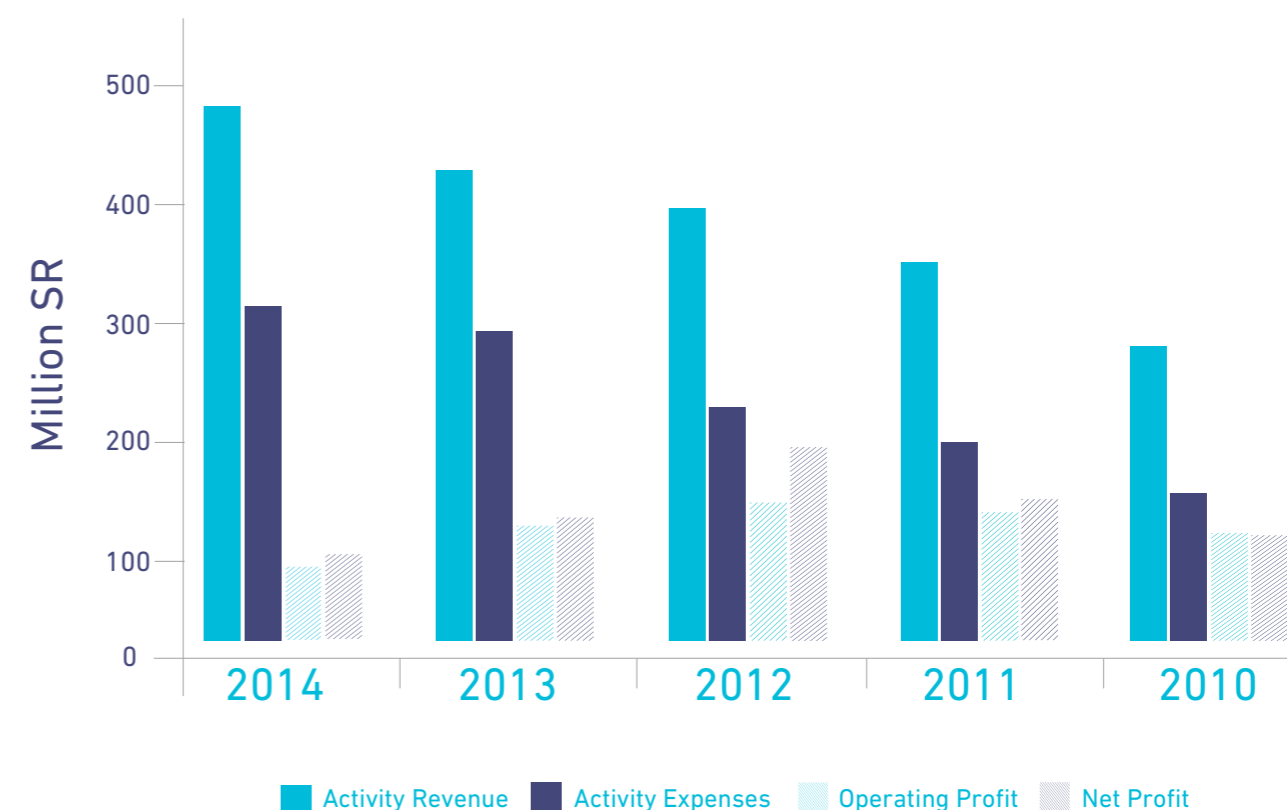
The income statement below gives a summary of the financial results for the past five years

Statement (SAR)	2010	2011	2012	2013	2014
<b>Activity Revenues</b>	281,034,970	358,032,978	396,103,132	432,438,022	479,548,401
<b>Activity Cost</b>	(156,269,826)	(201,012,272)	(235,080,031)	(294,054,811)	(314,961,420)
<b>Total activity profit</b>	124,765,144	157,020,706	161,023,101	138,383,211	164,586,981
<b>Administrative &amp; General Expenses</b>	0*	(14,582,570)	(16,999,535)	(19,113,807)	(29,272,093)
<b>Decrease of Assets' Value</b>	-	0	-	-	(49,733,029)
<b>Investment Revenues in Holdings</b>	0	0	5,986,234	11,903,114	6,943,168
<b>Operational Profit</b>	124,765,144	142,438,136	150,009,800	131,172,518	92,525,027
<b>Other Revenues</b>	4,235,765	16,751,215	57,768,264**	18,792,454	19,667,074
<b>Net Profit before Companies' Zakat and minority share</b>	129,000,909	159,189,351	207,778,064	149,964,972	112,192,101
<b>Zakat Provision</b>	(4,690,410)	(5,275,513)	(8,010,540)	(6,630,165)	(8,051,569)
<b>Minority share in associated Companies Profits</b>	(1,572,460)	(545,361)	(898,090)	(314,152)	(373,513)
<b>Net Profit</b>	122,738,039	153,368,477	198,869,434	143,020,655	103,767,019

\* As of 2011, all general and administrative expenses are separated under their own heading.

\*\* Other revenues of 2012 include the profit of the sale of the company's land in the eastern region of \$ 56 Million SAR.

## Statement of Assets & Liabilities for the Past Five Years



## 3-2 Financial Results for the Past Five Years

### Statement of Assets & Liabilities for the Past Five Years

The following table shows the Statement of Financial Assets for the past five years:

Statement (SAR)	2010	2011	2012	2013	2014
<b>Total Current Assets</b>	246,309,239	235,206,127	297,541,104	306,077,845	406,679,642
<b>Total Non current Assets</b>	464,361,206	456,655,231	206,661,254	264,986,456	303,608,286
<b>Net Fixed Assets</b>	1,175,607,788	1,269,810,247	1,543,489,576	1,535,318,009	1,424,467,385
<b>Total Assets</b>	1,886,278,233	1,961,671,605	2,047,691,935	2,106,382,310	2,134,755,313
<b>Total Current Liabilities</b>	144,006,032	179,928,342	197,293,871	178,227,829	207,271,979
<b>Total Non Current Liabilities</b>	60,903,621	57,722,664	54,257,632	123,294,543	144,251,943
<b>Minority Interest in associates</b>	18,450,387	17,450,322	7,083,994	3,650,768	3,961,227
<b>Total Equity</b>	1,662,918,193	1,706,570,277	1,789,056,438	1,801,209,170	1,779,270,164
<b>Total Liabilities Equity &amp;</b>	1,886,278,233	1,961,671,605	2,047,691,935	2,106,382,310	2,134,755,313
<b>Ratio of Equity to Assets</b>	%88	% 86	% 87	% 85,5	% 83

### Statement of Shareholders' Equity for the past five years

The following table shows the changes in shareholders' equity during the past five years (SAR):

Year	Equity (SAR)	Increase (Decrease)	Change Percentage (%)
<b>2014</b>	1,779,270,164	(21,939,006)	(1.21)
<b>2013</b>	1,801,209,170	12,152,732	0.68
<b>2012</b>	1,789,056,438	82,486,161	4.8
<b>2011</b>	1,706,570,277	43,652,084	2.6
<b>2010</b>	1,662,918,193	(38,261,692)	(2.6)

## 3-3 Loans

The following table shows the loans that the company has acquired:

Statement	Total Loan Amount	Total loan payments received	Received Payments of the Loan	Total of paid payment of the loan during year	Total Paid	Balance at the end of 2014	Payments Due for 2015	Clarification
<b>Governmental Loans</b>	80,000,000	80,000,000	-	6,785,714	68,214,287	11,785,713	6,785,713	Payments will be completed by the end of 1438 H.
<b>Bank Loans (Cost Plus Financing Murabaha)</b>	577,700,000	99,887,138	32,212,708	-	-	99,887,138	4,664,727	Loan Payments will be paid over a period of 7-10 years beginning from 2015.
<b>Total</b>	657,700,000	179,887,178	32,212,708	6,785,714	68,214,287	111,672,851	11,450,440	

## 3-4 Revenues from Main Activities

Revenue from main activities of the company contributed effectively in the company's results for 2014 compared to 2013. The table below shows the percentage of the contribution of each activity within the total of the company:

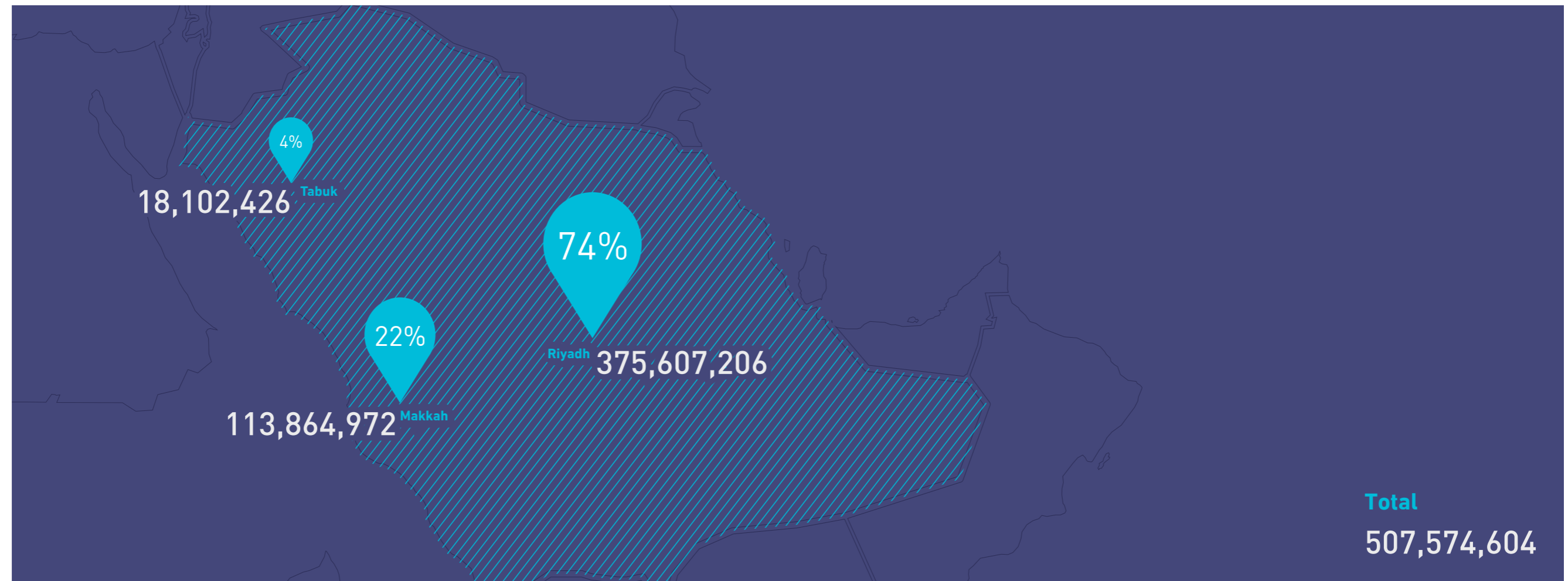
Statement	Percentage of Total Revenues for
<b>Hotels ownership</b>	82 %
<b>Real estate Ownership</b>	13 %
<b>Administration and Operations</b>	5 %

## 3-5 Geographical Analysis of Revenues

Revenue from main activities of the company contributed effectively in the company's results for 2014 compared to 2013. The table below shows the percentage of the contribution of each activity within the total of the company:

Statement	Amount (SAR)	Percentage
Riyadh	375,607,206	% 74
Makkah	113,864,972	% 22
Tabuk	18,102,426	% 4
<b>Total</b>	<b>507,574,604</b>	<b>% 100</b>

\* Dur does not operate any branches outside the Kingdom of Saudi Arabia.



## 3-6 Statutory Payments Due

The following table highlights the statutory payments due by the company:

Statement	Due by End of Year
Social Insurance Contributions	247,730
Leases	6,752,390

The company and its associate companies are subject to Zakat according to the regulations of the Department of Zakat and Income in Saudi Arabia. The Zakat is a payable provision is held annually and deducted from the income statement at the end of each year, after being revised by a legal accountant. Zakat for the company and its sister companies in 2014 have reached 8,051,569 SAR.

# 3-7 Dividends Policies

1

The net profits of the company will be distributed in accordance with the provisions of Article (42) of the Statute which is in the following manner:

- a. Deducting the amount of imposed Zakat according to Shari'a laws.
- b. Setting 10% of the net profits aside as a provision to create a Statutory Reserve. It is in the rights of the Ordinary General Assembly to withhold this provision when the mentioned reserve reaches half of the capital of the company. Taking note that the balance of the reserve has reached 50% of the capital in this year.
- c. Deducting 5% of the net profit to form a Contractual Reserve allocated for maintenance purposes determined by the Board of Directors. This provision may be withheld when the reserved amount reaches one tenth of the capital of the company. Taking note that the balance of this reserve amounted to more than 10% of the capital this year.
- d. Distributing the first payment to investors, this equals 5% of the capital.
- e. An amount of the remaining funds will be used to reward the company's Board Members first payment to shareholders, within the regulations of the specialized authorities.
- f. The remaining amount will be distributed amongst the esteemed shareholders afterwards partially or wholly as an additional share in the profits or be carried on for future periods.

2

Based on the company's grateful stance towards its shareholders, and due to the impressive growth and expansion of our company, the board has decided the following:

- a. For the first half of the year 2014, an amount of 50 halala per share has been distributed to the shareholders as profits. This amount aggregates to 50 Million SAR collectively.
- b. For the second half of the year 2014, an amount of 70 halala per share has been distributed to the shareholders as profits. This amount aggregates to 70 Million SAR collectively.
- c. In total, an amount of 120 halala per share has been distributed to the shareholders as profits. This amount aggregates to 120 Million SAR collectively, which represents 12% of the Company's Capital.



Year	Net Profit (SAR)	Cash Distributions (SAR)	Ratio of Cash Distribution to Net Profit	Ratio of Distribution to Capital
2014	103,767,019	120,000,000	115 %	12 %
2013	143,020,655	120,000,000	84 %	12 %
2012	198,869,434	150,000,000	75 %	15 %
2011	153,368,477	103,509,146	67 %	15 %
2010	122,738,039	103,509,146	84 %	15 %



#### Currency Risks

- This type of risk is possible due to the changing rates of currency in the market. However, and due to the fact that the company does all its operations only through Saudi Riyals, this risk is minimal.

#### Interest Rate Risks

- This risk manifests itself in the changing interest rates on the company's loans, which in turn affects the company's financial stability. The company pays close attention to getting the best market interest rates on its transactions and constantly monitors current rates for any risks on the company.

#### Liquidity Risks

- Liquidity risks happen if the company is not able to provide cash that will allow it to answer to its financial duties. This might be the case if the company is unable to sell one of its fixed assets quickly enough and with fair value. The mitigation of this requires constant monitoring of the cash reserves of the company, balancing credit for customers and liabilities for lenders.

# 4

## Chapter Four

# Transparency and Disclosure

- 4-1 Corporate Governance
- 4-2 Members of the Board of Directors
- 4-3 Transactions with Related Parties
- 4-4 Fines and Penalties
- 4-5 Board of Directors Meetings Record
- 4-6 Remunerations and Compensations
- 4-7 Formed Committees by the Board of Directors
- 4-8 Major Shareholders
- 4-9 Acknowledgements

# Transparency and Disclosure

Based on our commitment and respect towards our shareholders, and in accordance with our belief in the importance of transparency and proper closure, we are happy to include the following part covering the most important disclosures from our side, according to the requirements of the Capital Market Authority and other related entities as follows:

## 4-1 Corporate Governance

The company applies all related laws and regulations of the stock exchange committee except for the Accumulative Voting method for choosing the board members due to the disagreement of the General Assembly on using it.

## 4-2 Members of the Board of Directors

The board of directors consists of the following members:

Name	Membership Category	Number of Shares Owned by (Member or entity he represents) in Dur Hospitality	Ownership Percentage at the beginning of the year (%)	Ownership Percentage at the end of the year (%)	Membership in Other Joint-Stock Companies
<b>Abdullah bin Mohammad Al Issa</b>	Non-executive	1,449	0.001	0.001	1. Riyadh Bank 2. Arabian Cement Co. 3. SABIC 4. National Company for Medical Care
<b>Dr. Saleh bin Ali Al Hathloul</b>	Independent	1,449	0.001	0.001	-
<b>Mr. Ali bin Ibrahim Al Ajlan (Representative of Public Pension Agency)*</b>	Non-executive	16,628,458	16.6	16.6	-
<b>Mr. Misfer bin Ali Al Hamdan (Representative of Public Investment Fund)</b>	Independent	1,743,215	1.7	1.7	Saudi Pharmaceutical Industries & Medical Appliances Corporation
<b>Mr. Nasser bin Mohammad Al Subaiei</b>	Independent	1000	0.001	0.001	Bilad Bank
<b>Mr. Abdullah bin Mohammad Al Abduljabbar (Representative of the General Organization for Social Insurances)</b>	Non-executive	6,540,591	6.5	6.5	-
<b>Mr. Badr bin Abdullah Al Issa</b>	Non-executive	1,485	0.001	0.001	Safola Group
<b>Mr. Fahad bin Abdullah Al Qassim</b>	Independent	1,100	0.001	0.001	1. Safola Group 2. Jarir 3. Dallah
<b>Mr. Mus'ab bin Sulaiman Al Muhaideb</b>	Independent	1000	0.001	0.001	Al Hasan Ghazi Shaker Company

\* The company has received the request of the Public Pension Agency to appoint Mr. Talal bin Abdulmohsin Al Mulafikh as a member (Independent) in Board of Directors instead of Mr. Misfer bin Ali Al Hamdan (Independent) due to his retirement from his post.

## 4-3 Transactions with Related Parties

There are no contractual obligations for the company from which one or more of the Board Members, Chief Executive Officer (CEO), Chief Financial Officer (CFO) or any other member of the company benefits. Except for following valid contractual transactions for the company:

- Contract of the management and operation for a period of 10 years for the following entities:

Al Andalus Residence Compound, Makarim Umm Al Qura Hotel, Makarim Al Bait Hotel, Rawdhah Compound Residence, and Al Jazeera Badr Compound and Dur Al Yasmin Residential Compound owned by Assila Investment Company.

The following Members are part of the management team for these entities:

- Chairman of the Board of Directors:  
Abdullah bin Mohammed al-Issa
- Member of the Board of Directors:  
Mr. Badr bin Abdullah Al-Issa.

It is worth mentioning that these contracts are for the management and operation of these entities. The company receives a specific percentage of total revenues and a specific percentage of total operating profit for each establishment.

The company has received fees totaling 3,349,038 SAR for the management and operation of these establishments during 2014.

- Mr. Abdulrahman Abdullah Al Dehaim, former Deputy CEO who resigned on 1st December, 2014, owns 5% of the capital of Security Source Co., Ltd. and Dur Hospitality owns the remaining 95%.

Moreover, Mr. Abdulrahman owns 1% of the capital of Joud Al Alya Co. Ltd., and Dur hospitality owns the remaining 99%. There are no transactions between the company and those companies yet because none of these companies are active.

- A management and operation contract exists for a period of 10 years with the Makarim Al-Mona Hotel owned by Mr. Mohammed Bin Ibrahim Al-Ghamdi (a major shareholder), who owns 5% of Dur Hospitality. The company has received an amount of 658,692 SAR during 2014 as fees for the management and operation of the hotel.
- There are no shares owned by wives and/ or minor children of the members of the Board of Directors in the company. Moreover, no shares are owned by representatives of legal entities in the Board and/ or their wives and/ or minor children.

- There are no shares or debt instruments of the company or any of its subsidiaries owned by senior executives of the company or their wives and/or their minor children, except for 1,249 shares owned by the company's CEO, Dr. Badr bin Homoud Al-Badr. There are no benefits or subscription rights in the relevant eligible stock for voting belonging to members of the Board of Directors and senior executives and/ or their wives and minor children.

- In regards to Masik Holding Company, it is worth mentioning that Mr. Abdullah Bin Mohammed Al-Issa & Sons are among the shareholders of Dur hospitality, and in line with the regulatory regulations, it should be noted that Eng. Abdullah bin Mohammed Al-Issa (Chairman) and Mr. Badr Bin Abdullah Al-Issa (Board Member) have shares and interests with Masik Holding Company. Also, both of Mr. Abdullah bin Mohammed Al-Issa and Mr. Badr bin Abdullah Al-Issa (board member) have an interest with Abdullah bin Mohammed Al-Issa & Son.

The following table summarizes the change in the ownership of shares for these companies in 2014:

Name	Number of Shares at the Beginning of the year	Number of Shares at the end of the year	Change
Masik Holding Company	26,315,809	27,143,784	3.1%
Abdullah Mohammad Al Issa & Sons Company	28,982	28,982	-

## 4-4 Fines and Penalties

- February 5th, 2014: Dur Hospitality Company has been fined with an amount of 10,000 SAR due to its breach of Paragraph D in Article 10 of the Corporate Governance Regulations of the country. The article calls for setting clear and specific policies and standards for the membership in the board of directors, and putting it into action after the approval by the General Assembly.
- April 5th, 2014: Dur Hospitality Company has been fined by the Capital Market Authority with an amount of 20,000 SAR due to its breach of Paragraph A in Article 40 of the Listing Rules and paragraph (5) of paragraph (a) of the Companies' Advertising Instructions. The article calls for specific procedures and instructions for advertising.

It should be noted that there is no pending punishment, penalty or restriction on the company has been issued by the Capital Market Authority or from any other supervisory, regulatory or judicial body.

## 4-5 Board of Directors Meetings Record

There were seven meetings of the Board of Directors during 2014. The following table recorded the members' attendance to these meetings:

Name	1st Meeting	2nd Meeting	3rd Meeting	4th Meeting	5th Meeting	6th Meeting	7th Meeting	Total
Abdullah bin Mohammad Al Issa	✓	✓	✓	✓	✓	✓	✓	7
Dr. Saleh bin Ali Al Hathloul	✓	✓	✓	✓	✓	✓	✓	7
Mr. Ali bin Ibrahim Al Ajlal (Representative of Public Investment Fund)	✓	✓	✓	✓	✓	✓	✓	7
Mr. Misfer bin Ali Al Hamdan (Representative of Public Pension Agency)*	✓	✓	✓	✓	✓	✓	✓	7
Mr. Nasser bin Mohammad Al Sebaiei	✓	✓	✓	✓	✓	✓	✓	7
Mr. Abdullah bin Mohammad Al Abduljabbar (Representative of the General Organization for Social Insurances)	✓	✓	✓	✓	✓	✓	✓	7
Mr. Badr bin Abdullah Al Issa	✓	✓	✓	✓	✓	✓	✓	7
Mr. Fahad bin Abdullah Al Qassim	✓	✓	✓	✓	✓	✓	✓	7
Mr. Musa'ab bin Sulaiman Al Muhaidib	✓	✓	✓	✓	✓	✓	✓	7

\* The company has received the request of the Public Pension Agency to appoint Mr. Talal bin Abdulmohsen Al Malafekh as a member (Independent) in Board of Directors instead of Mr. Misfer bin Ali Al Hamdan (Independent) due to his retirement from his post.

## 4-6 Remunerations and Compensations

The table below shows the remunerations and compensations of 2014 paid for all member of the Board of Directors (and six of senior executives) including the CEO and CFO:

Statement (SAR)	& Non-executive Independent Board Members	Senior Executives
<b>Wages and Compensations</b>	-	*8,387,494
<b>Allowances</b>	493,000	1,733,635
<b>Remunerations and Incentives</b>	2,100,000	1,765,620
<b>Total</b>	2,593,000	11,886,749

\* Includes a 3,434,250 SAR reward end of service paid to the Vice Executive President who left his post. This amount was calculated in accordance with the work contract and the work system.

### 1

- The board of directors has decided in his (215) meeting which was held in January 16th, 2013 granting:
  - A bonus of 200,000 SAR to the Chairman of the Board of Directors, Eng. Abdullah bin Mohammad Al Issa for his efforts in developing and expanding the company.
  - Remuneration payments of 50,000 SAR for each member of the Audit Committee (non-board members) after the approval of the annual final accounts of the shareholders association.

### 2

- The following entities/ persons are currently engaged in some of the company's activities. Accordingly, and in alignment with Article VIII of the Corporate Governance Regulations issued by the Capital Market Authority, these activities have been licensed by the General Assembly in March 30th, 2014 for one year, and will be presented to the next assembly to be renewed according to the governance list:

- General Organization for Social Insurance
- Public Pension Association
- Board Member Mr. Nasser bin Mohammad Al Subaie.
- Board Member Dr. Saleh bin Ali Al Hathloul.
- Board Member Mr. Fahad bin Abdullah Al Qassem.
- Board Member Mr. Musa'ab bin Sulaiman Al Muhaidib.

### 3

- Moreover, the following entities/ persons have the intention to engage in some of the company's activities. Accordingly, and in alignment with Article VIII of the Corporate Governance Regulations issued by the Capital Market Authority, these activities will be sent for approval by the General Assembly in the next assembly to be approved according to the governance list:
  - General Investments Fund.
  - Board Member Mr. Fahad bin Abdullah Al Qassem.
  - Board Member Mr. Mus'ab bin Sulaiman Al Muhaideb.

## 4-7 Formed Committees by the Board of Directors

### Nomination and Remuneration Committee

The Ordinary General Assembly of Shareholders approved at its meeting held on March 19th, 2013 the regulations and work framework of the Nomination and Remuneration Committee. The Committee held three meetings during 2014 and submitted its report to the Board of Directors. The Nomination and Remuneration Committee consists of:

Name	Position	Attendance
<b>Abdullah bin Mohammad Al Issa</b>	Chairman	3
<b>Dr. Saleh bin Ali Al Hathloul</b>	Member	3
<b>Mr. Misfer bin Ali Al Hamdan</b>	Member	3
<b>Mr. Abdullah bin Mohammad Al Abduljabbar</b>	Member	3

### Tasks of the Nomination and Remuneration Committee:

- Recommending nominations for membership to the Board of Directors in accordance with approved policies and standards. (e.g., excluding nominees with a previous conviction of a crime involving moral misconduct).
- Identifying weaknesses and strengths of the Board of Directors, and proposing solutions in accordance with the company's best interest.
- Defining the skills needed for the membership of the Board of Directors and preparing a description of the capabilities and qualifications required for membership of the Board of Directors, including time allocation requirements that member needs to devote for the board's tasks.
- Ensuring on an annual basis the independence of the members and the absence of any conflict of interest if the member serves another company's board.
- Reviewing the structure of the Board of Directors and making recommendations regarding changes that can be made.
- Developing clear policies for compensation and remuneration of directors and senior executives and keeping in mind when setting those policies the performance standards.

## Audit Committee

The General Assembly approved on its meeting held March 19th, 2013 the framework for the activities of the Audit Committee. The committee has held five meetings in 2014 and is composed of

Name	Position	Attendance
<b>Mr. Ali bin Ibrahim Al Ajlan</b> (Member of Board of Directors)	Chairman	5
<b>Mr. Mus'ab bin Sulaiman Al Muhaidib</b> (Member of Board of Directors)	Member	5
<b>Mr. Ibrahim bin Salem Ar Rowais</b>	Member	5
<b>Mr. Abdulrahman bin Saleh Al Khalify</b>	Member	5

### The tasks of the Audit Committee include the following:

- Reviewing and studying the Annual Financial statements of the company and providing recommendation and opinions before submission to the Board of Directors.
- Reviewing and studying the accounting and financial policies of the company and providing recommendation and opinions before approval of the Board of Directors.
- Reviewing and examining the effectiveness of the company's risk mitigation procedures, and ensuring the company's preparation for addressing these risks.
- Reviewing and revising the Internal Audit system of the company and providing recommendation and opinions before approval of the Board of Directors.
- Ensuring the efficiency of the company in utilizing its resources and assets and ensuring the highest effectiveness. Additionally, the committee oversees the use of the employees for the permitted resources at hand.
- Recommending the hiring of an External Auditor and determining its fee structure in line with its regulatory framework, and ensuring the independence of the external auditor.
- Reviewing, revising and studying any observations provided by the company's external auditor on the financial statements and providing follow up on any pending issues. Moreover, providing opinion and information for the sufficient handling of these observations.
- Supervising the Internal Audit process and verifying their effectiveness in implementing the tasks set by the Board of Directors, thus ensuring its independence.
- Studying and revising applications for the position of Director of Internal Audit and deciding the remuneration structure for the position. Moreover, the committee shall decide the most suitable candidate for the position. Finally, the committee shall have the right to terminate the current Director of Internal Audit, either due to resignation, disability or exemption, and raise all available the recommendations in this regard to the Board of Directors.
- Acquiring assistance or support from any entities/ persons the committee deems suitable to help the committee complete its work requirements. As well as defining their remuneration and scope of work.

## Investment Committee

The Board of Directors approved on its meeting held December 17th, 2012 forming the Investment Committee. The committee has held eight meetings in 2014 and is composed of:

Name	Position	Attendance
<b>Mr. Nasser bin Mohammad Al Sebaiei</b>	Chairman	8
<b>Mr. Fahad bin Abdullah Al Qassim</b>	Member	8
<b>Mr. Badr bin Abdullah Al Issa</b>	Member	8
<b>Dr. Badr bin Homoud Al Badr</b>	Member	8

### The Committee's tasks are summarized as follows:

- Recommending the company's investment investment priorities and developing criteria and standards for investment projects selection, in addition to recommending and working on their adoption and approval by the Board of Directors.
- Recommending or approving investment opportunities, and buying and selling of property and land within the limits of the investment priorities.
- Reviewing the companies' investment plans and submitting the necessary recommendations.
- Reviewing and evaluating on annual basis the effectiveness and thoroughness of the Investment controls and requesting the approval of the Board of Directors on the proposed changes.
- Performing any other tasks requested by the Board of Directors.

## 4-8 Major Shareholders

The table below shows Dur's major shareholders who own five percent and more of the company's capital as of 12/31/2014:

Name	Owned Shares at the End of the Year	Ownership Percentage	Owned Shares at the Beginning of the Year	Change (%)
Masik Holding Company	27,143,784	%27.1	26,315,109	3.1
General Investment Fund	16,628,458	%16.6	16,628,458	-
Mohammad bin Ibrahim Al Issa	12,001,449	%12	12,828,675	(6.4)
General Organization for Social Insurance	6,540,591	%6.5	6,540,591	-
Shiekh. Mohammad bin Ibrahim Al Ghamdi	5,000,000	%5	5,000,000	-

The list above was prepared based on the Saudi Stock Market Records (Tadawul) in 12/31/2014.

## 4-9 Acknowledgements

The board acknowledges the following points:

1

The charts of accounts have been prepared accurately according to the generally accepted accounting standards, company circumstances, the Law of Companies, the company Statute and standards of the Saudi Organization for Certified Public Accountants (SOCPA), except for the case of Makarim Al-Maarifa. Co. that is currently inactive, where the Equity Method is used for evaluating company investments in 2013, and Marketing Media Company that went into liquidation.

2

The internal control system is sound enough to shed virtually no doubts on the company's ability to carry on the business. It has been effectively implemented and is constantly reviewed by the company. The Internal Control Department sees to the implementation of the relevant regulations and draws the picture of risks for the company and deals with them transparently. It constantly reviews revenues and expenses, examines documents and transactions and periodically reports results of the Department work to the Audit Committee and the Chairman of the Board. From this year's reports, no serious issues seem to require any corrective measures. The remaining issues are being followed up on and dealt with.

3

No penalty or sanction imposed or precautionary attachments placed on the company by the Saudi Capital Market or any other supervisory, regulatory or judicial entity, except as indicated in (Article Ninth/6).

4

Members of the board have no holdings in the capital of the company's subsidiaries.

5

No member of the board has benefited from a cash loan offered by the company, nor did the company provide guarantee to any loan that was otherwise solicited by any member of the board.

6

No debt instruments were issued by the company in the fiscal year that are convertible to shares, options, warrants or other rights, nor did any interest, options, or subscription rights exist in the fiscal year for any member of the board or top executives, wives or minor children thereof in any shared or debt instruments issued by the company or any of its subsidiaries.

7

There were no conversion or subscription rights attached to debt instruments that are convertible to shares, options, warrants, or similar rights issued by the Company.

8

There was no redemption, purchase or cancellation by the company of any redeemable debt instruments.

9

There was no arrangement or agreement whereby any shareholder, member of the board or top executive has waived any right to dividends, emolument or compensation.



# Independent Auditors' Report

The Shareholders

**Dur Hospitality Company**  
Saudi Joint Stock Company  
Riyadh – Kingdom of Saudi Arabia

We have audited the accompanying consolidated financial statements of Dur Hospitality Company ("the Company") and its subsidiaries (collectively referred to as "the Group") which comprise the consolidated balance sheet as at 31 December 2014 and the related consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended and the attached notes (1) through (29) which form an integral part of the consolidated financial statements.

## Management's responsibility for the consolidated financial statements

Management is responsible for the preparation fair presentation of these financial statements in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia and in compliance with Article (123) of the Regulations for Companies and the Company's By-Law and Article of Association and for such internal controls as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. Management has provided us with all the information and explanations that we require relating to our audit of these financial statements.

## Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with generally accepted auditing standards in the Kingdom of Saudi Arabia. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risks assessments, we consider internal control relevant to the group's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal controls. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have is sufficient and appropriate to provide a basis for our opinion.

## Opinion

In our opinion, the consolidated financial statements taken as a whole:

- 1) Present fairly, in all material respects, the financial position of the Group as at 31 December 2014, and \ of its results of operations and its cash flows for the year then ended in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia appropriate to the circumstances of the Group; and
- 2) Comply with the requirements of the Regulations for Companies and the Company's by-law with respect to the preparation and presentation of the financial statements.

For KPMG Al Forzan & Al Sadhan



**Khalil Ibrahim Al Sedais**  
License No. 371  
Date: 30 Rabi'II 1436 H  
Corresponding to: 19 February 2015

## Conclusion

In conclusion, the Board of Directors is pleased to seize this opportunity to give its sincere thanks and appreciation to all the company's shareholders, business partners, regulatory and legislative bodies and valued customers for their trust and support. We ask Allah Almighty to give us the ability to enhance this trust and support further progress and growth. The Board also extends its thanks to the executive administration and all members of the working group for their sincere efforts and their outstanding performance during 2014. We look forward to more achievements and excellence during the year 2015.

**Wishing the company continued success and progress, Allah willing.**

# Consolidated Balance Sheet

as of 31 December 2014

Assets	Note	2014	2013
<b>Current assets</b>			
Cash on hand and at banks	(4)	294,842,036	200,147,614
Trade receivables, net	(5)	54,365,601	49,555,442
Prepayments and other receivables	(6)	28,521,069	25,986,715
Inventories	(7)	25,771,605	29,081,402
Due from related parties	(18)	3,179,331	1,306,672
<b>Total current assets</b>		<b>406,679,642</b>	<b>306,077,845</b>
<b>Non-current assets</b>			
Fixed assets, net	(9)	1,424,467,385	1,535,318,009
Projects under construction	(10)	181,412,893	139,284,729
Available-for-sale investments	(11)	62,860,618	66,275,871
Equity accounted investees	(12)	59,334,775	58,723,455
Deffered expenses		702,401	
<b>Total non-current assets</b>		<b>1,728,075,671</b>	<b>1,800,304,465</b>
<b>Total assets</b>		<b>2,134,755,313</b>	<b>2,106,382,310</b>
<b>Liabilities and shareholder's equity</b>			
<b>Current liabilities</b>			
Trade payables		5,067,492	4,375,315
Accounts and other payable	(13)	109,836,860	101,815,371
Current portion of long-term loans	(14)	11,450,440	6,785,713
Due to related parties	(28)	14,570,044	5,519,649
Dividend payable		51,429,913	45,474,663
Zakat provision	(15)	14,917,230	14,257,118
<b>Total current liabilities</b>		<b>207,271,979</b>	<b>178,227,829</b>
<b>Non-current liabilities</b>			
Long-term loans	(14)	100,222,411	79,460,146
End of service benefits		44,029,532	43,834,397
<b>Total non-current liabilities</b>		<b>144,251,943</b>	<b>123,294,543</b>
<b>Total liabilities</b>		<b>351,523,922</b>	<b>301,522,372</b>
<b>Shareholder's equity</b>			
<b>Equity attributable to the Companys shareholders</b>			
Share Capital	(1 -1)	1,000,000,000	1,000,000,000
Statutory reserve	(16)	500,000,000	500,000,000
Contractual reserve	(17)	143,002,490	143,002,490
Retained earnings	(18)	122,057,110	140,090,091
Unrealized gain on available for sale investments		14,210,564	18,116,589
<b>Total equity attributable to Company's</b>		<b>1,779,270,164</b>	<b>1,801,209,170</b>
Non-controlling interest		3,961,227	3,650,768
<b>Total shareholder's equity</b>		<b>1,783,231,391</b>	<b>1,804,859,938</b>
<b>Total liabilities and shareholder's equity</b>		<b>2,134,755,313</b>	<b>2,106,382,310</b>

The accompanying notes from (1) to (29) form an integral part of these consolidated financial statements.

# Consolidated Income Statement

by the end of 31 December 2014

	Note	2014	2013
Revenue	(19)	479,548,401	432,438,022
Cost of Revenues	(20)	(314,961,420)	(294,054,811)
<b>Gross profit</b>		<b>164,586,981</b>	<b>138,383,211</b>
General and administrative expenses	(21)	(29,272,093)	(19,113,807)
Impairment of assets	(22)	(49,733,029)	--
Investment income in equity accounted investees	(12)	6,943,168	11,903,114
<b>Operating profit</b>		<b>92,525,027</b>	<b>131,172,518</b>
<b>Othr income</b>	<b>(23)</b>	<b>19,667,074</b>	<b>18,792,454</b>
<b>Net income before Zakat and non-controlling interests</b>		<b>112,192,101</b>	<b>149,964,972</b>
Zakat expenses	(15)	(8,051,569)	(6,630,165)
<b>Net income before non-controlling interests</b>		<b>104,140,532</b>	<b>143,334,807</b>
Share of non-controlling interest in the net profit of the subsidiaries		(373,513)	(314,152)
<b>Net income</b>		<b>103,767,019</b>	<b>143,020,655</b>
<b>Earnings per share from:</b>			
Net income	(24)	1,04	1,43
Operating profit	(24)	0,93	1,31
Other income	(24)	0,20	0,19

The accompanying notes from (1) to (29) form an integral part of these consolidated financial statements.

# Consolidated Cash Flow Statement

by the end of 31 December 2014

	Note	2014	2013
<b>Cash flows from operating activities</b>			
Net income before Zakat		112,192,101	149,964,972
<b>Adjustments to reconcile net income to net cash generated from operating activities:</b>			
Depreciation and amortization		49,164,196	39,169,530
Provision for end of service benefits		12,428,677	11,454,183
Provision for doubtful debts	(5)	2,882,696	2,311,156
Impairment of assets	(22)	49,733,029	--
Provision for impairment of inventories	(7)	1,016,531	--
Income from equity accounted investees	(12)	6,943,168	11,903,114
Gain from sale of fixed assets	(23)	(14,825,644)	(250,019)
		<b>205,648,418</b>	<b>190,746,708</b>
<b>Changes in operating assets and liabilities:</b>			
Trade receivables		(7,692,855)	12,095,568
Prepayments and other receivables		(2,534,354)	4,933,935
Inventories		2,293,266	(9,631,364)
Due from related parties		(1,872,659)	3,149,787
Trade payables		692,177	(6,637,405)
Accounts and other payable		8,021,489	(3,005,227)
Due from related parties		9,050,395	6,059,846
Zakat paid	(15)	(7,391,457)	(15,018,537)
End of service benefits paid		(12,233,542)	(3,305,987)
<b>Net cash flows generated from operating activities</b>		<b>193,980,878</b>	<b>179,387,324</b>

	Note	2014	2013
<b>Cash flows from operating activities</b>			
Payments for purchase of fixed assets and projects	(9&10)	(115,005,072)	(140,915,018)
Proceeds from sale of fixed assets		100,358,352	252,866
Proceeds from available-for-sale investments	(11)	7,600	49,947,821
Payments for available for sale investments and equity accounted investees	(12)	(15,194,000)	--
Proceeds from profits received of equity accounted	(12)	21,025,000	5,400,000
<b>Net cash flows (used in) investing activities</b>		<b>(8,808,120)</b>	<b>(85,314,331)</b>
<b>Cash flows from financing activities</b>			
Proceeds from long-term loans		32,212,707	67,674,431
Payments for long-term loans		(6,785,715)	(6,785,714)
Payments for shareholders dividends		(114,105,328)	(131,440,813)
Payments for board of directors remuneration		(1,800,000)	(1,800,000)
<b>Net cash flows (used in) financing activities</b>		<b>(90,478,336)</b>	<b>(72,352,096)</b>
Net change in cash and cash equivalents during the year		94,694,422	21,720,897
Cash and cash equivalents at the beginning of the year		200,147,614	180,529,430
Cash related to Al Madinah company disposed during the year		--	(2,102,713)
<b>Cash and cash equivalents at the end of the year</b>	<b>(4)</b>	<b>294,842,036</b>	<b>200,147,614</b>

The accompanying notes from (1) to (29) form an integral part of these consolidated financial statements.

# Consolidated Statement of Altered Equities

by the end of 31 December 2014

## 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 2013	1,000,000,000	500,000,000	143,002,490	138,869,436	7,184,512	1,789,056,438	7,083,994	1,796,140,432
Net income for the year				143,020,655		143,020,655	314,152	143,334,807
Dividends				(140,000,000)		(140,000,000)	(248,933)	(140,248,933)
Board of director's remuneration			--	(1,800,000)		(1,800,000)		(1,800,000)
Reclassification of investments in Al Madinah							(5,664,721)	(5,664,721)
Reclassification of unrealized losses of investments in Al Madinah							2,154,579	2,154,579
Unrealized gains on available for sale investments					10,932,077	10,932,077	11,697	10,943,774
<b>Balance at 31 December 2013</b>	<b>1,000,000,000</b>	<b>500,000,000</b>	<b>143,002,490</b>	<b>140,090,091</b>	<b>18,116,589</b>	<b>1,801,209,170</b>	<b>3,650,768</b>	<b>1,804,859,938</b>
Net income for the year				103,767,019		103,767,019	373,513	104,140,532
Dividends (Note 18)				(120,000,000)		(120,000,000)	(60,578)	(120,060,578)
Boards of director's remuneration				(1,800,000)		(1,800,000)		(1,800,000)
Unrealized losses on available for sale investments					(3,906,025)	(3,906,025)	(2,476)	(3,908,501)
<b>Balance at 31 December 2014</b>	<b>1,000,000,000</b>	<b>500,000,000</b>	<b>143,002,490</b>	<b>122,057,110</b>	<b>14,210,564</b>	<b>1,779,270,164</b>	<b>3,961,227</b>	<b>1,783,231,391</b>

The accompanying notes from (1) to (29) form an integral part of these consolidated financial statements.

# Complimentary Notes On Consolidated Financial Statements

by the end of 31 December 2014

## 1 . ORGANIZATION AND ACTIVITIES

Dur Hospitality Company ("the Company" or "the Parent Company") is a Saudi Joint-Stock Company established under the Regulations for Companies and registered in Saudi Arabia under the Royal Decree No. (69/M) and registered in the Commercial Registration under No. 1010010726 dated 6 Muharram 1397H (corresponding to 27 December 1976) as a Saudi Joint Stock Company.

The Company's name has been changed to be Dur Hospitality Company instead of Saudi Hotels and Resorts Company according to resolution of the Extraordinary General Assembly and approved by Ministry of Trade on 18 Muharram 1436H (corresponding to 11 November 2014). The amended Commercial Registration has been issued under the new name of the Company on 27 Muharram 1436H (corresponding to 20 November 2014).

The Company's activities comprise of construct, own, operate, manage, invest, buy, enter into partnership, rent hotels, restaurants, motels, rests, entertainment centers, travel agencies, private beaches which varies in grade and size in cities and tourism areas. In addition to own, develop and construct buildings on land or put them out for rent, providing services to pilgrims and visitors to the Prophet's Mosque and carry out all core and intermediate business required to implement, process and start various activities of the above-mentioned works in line with the its 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 with par value of SR 10 per share.

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

### 1.2 Consolidated financial statements

The accompanying consolidated financial statements include the financial statements of Dur Hospitality Company and its subsidiaries (collectively referred to as «the Group»). These companies as at 31 December 2014 and 2013 are as follows:

Name of the subsidiary	Capital	Ownership%
Riyadh Company for Hotels and Entertainment LLC	302,500,000	100%
Gulf for Tourist Aea Limited Company	206,000,000	100%
Makkah Hotels Company LLC	165,600,000	99,44%
AlNakheel for Tourist Areas Limited Company	59,250,000	98,73%
Tabuk Hotels Company LLC	27,300,000	97,14%

All subsidiaries listed above are limited liability companies and registered in Saudi Arabia. Following 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, 1413 H (corresponding to 31 August 1992). The company purpose is to in the construct, buy, rent and carrying out the management of residential, commercial and entertainment properties, hotels, restaurants, motels, guesthouses, tourist beaches and gymnasiums.

#### Gulf for Touristic Area Limited Company

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

#### Makkah Hotels Company LLC

Makkah Hotels Company LLC is a limited liability company established in the Kingdom of Saudi Arabia and registered under the Commercial Registration No. 4031011879 dated 20 Ramadan 1402 H (corresponding to 12 July 1982). The company purpose is to work in the hospitality activity in general inside and outside the Kingdom through own, invest or enter in to partnership for hotels and restaurants. The company owns Makarim Ajjad Makkah Hotel in Makkah El Mokarama.

#### Alnakheel for Touristic Area Limited

Alnakheel for Touristic Area Limited. – a Limited Liability Company has been established in Kingdom of Saudi Arabia and registered under the Commercial Registration No. 4030092204 dated 22 Jumada II, 1413 H (corresponding to 17 December 1992). The Company purpose is to construct, own, rent and sell of residential and commercial properties, leisure and hotels, restaurants, guesthouses, 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 capital from several other partners. The Company is still in the process of completing the legal procedures to amend the Article of Association and the Commercial Registration in relation to this aspect.

#### Tabuk Hotels Company LLC

Tabuk Hotels Company LLC is a limited liability company established in Kingdom of Saudi Arabia and registered under the Commercial Registration No. 3550006303 dated 5 Rabi' II 1406 H (corresponding to 17 December 1985). The company is engaged in the establishment of a first class hotel in a northern region of Tabuk including hotel facilities, services, and hotel activity in general inside and outside the Kingdom through own, invest or enter 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 capital from several other partners. The Company is still in the process of completing the legal procedures to amend the Article of Association and the Commercial Registration in relation to this aspect.

## Basis of preparation

### Statement of compliance

The accompanying 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).

### Basis of measurement

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

### Functional and presentation currency

These 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 consolidated financial statements requires the management to make judgment, 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 financial statements are as follows:

### Impairment of accounts receivable

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

## 2. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements. Certain comparative figures have been restated to conform to the current year presentation.

### Basis of consolidation

The accompanying consolidated financial statements include the financial statements of the parent Company and its subsidiaries as shown in Note (1-2) above in which the Company owns controlling interest. Control exists when the Company has the power to use or direct the assets of the entity so as to obtain benefits from its activities. Financial statements of the subsidiaries are included in the consolidated financial statements from the date that control began until control ceases and are not included if the subsidiaries are under restructuring. To determine the control, the potential voting rights that can be exercised are taken into account.

For the purpose of preparation of consolidated financial statements; all balances and significant financial transactions between the Company and its subsidiaries have been eliminated. Any unrealized profits and losses arising from intra-group transactions have been eliminated upon consolidation of financial statements. The consolidated financial statements include the financial statements of the subsidiaries which are prepared for the same financial period as of the Company using consistent accounting policies.

### Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash at banks in current accounts and other short-term highly liquid investments with original maturities of three month or less, if any, which are available to the Company without any restrictions.

### Trade receivables

Trade receivables are stated at original invoice amount less provisions made for doubtful debts. A provision against doubtful debts is established when there is objective evidence that the Group will not be able to collect the amounts due according to the original terms of receivables. Bad debts are written off when identified, against its related provisions. The provisions are charged to consolidated statement of income and any subsequent recovery of receivable amounts previously written off are credited to statement of income.

### Inventories

Inventories are measured at the lower of cost and net realizable value. Cost is determined using the weighted average method. Cost of inventory includes purchase price plus all incurred expenditures in order to bring the inventory to its existing location and condition. Net realizable value comprises estimated selling price in the ordinary form of business, less selling expenses. A provision for obsolete and slow moving inventories is made, when necessary.

### Fixed assets

Fixed assets are measured at cost, less accumulated depreciation and 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. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in the statement of income.

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the fixed assets. All other expenditure is recognized in the income statement when incurred. Depreciation is charged to the income statement on a straight-line method over the estimated useful lives of assets.

Management reviews useful lives on a regular basis. Revision is made on status of the assets and the expected useful life of the assets that enable them to achieve the purpose for which it was purchased.

## 3. Significant Accounting Policies

### Impairment of non-financial assets

The carrying amount of fixed assets and other non-current assets is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment losses, if any, are recognized in the consolidated statement of income for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell or value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

### Projects under construction

Projects under construction represent the expenditure incurred by the Group in order to build and construct new facilities and equipment which are capitalized before the start of its commercial use. Projects under progress are transferred to the fixed assets when the asset is intended for use in its specific purpose.

### Investments

When applying the Company's accounting policies, the Company decides the appropriate classification of its investment when buying an investment, either as available for sale or as an investment in associates and companies under joint control. This classification reflects the management's intention in respect of each investment, and each class of relevant investment subjects to the accounting treatment related thereto, as follows:

#### Available-for-sale investments

Available for-sale-investments are classified as available for sale if the company has no significant influence or control or intention to use the assets of investee to gain economic benefits, and it is not the purpose of these investments to resale in the short term or keep them until maturity. On acquisition, these investments are recorded at fair value, and after the acquisition, they are measured at fair value at the balance sheet date. The fair value is the value that under which these investments can be traded in an active market. When there is no active market for these investments, the fair value is identified through any other appropriate indicators. When the fair value can't be identified, it is stated at cost as the most appropriate alternative objectively reliable to measure the fair value. Unrealized gains or losses are recognized as a separate component of equity. Unrealized losses resulting from the temporary impairment in fair value of these investments are recognized in the income statement as they occurred.

#### Investments in equity accounting investees (associates and jointly controlled entities)

Investments in equity accounting investees represent in associates and jointly control entities. Associates are those companies where a company has significant influence over their financial and operating policies. When a company has an equity share ranging from 20% to 50% of the capital, it is considered a significant indication that it has the ability to significantly influence as long as these investments are not considered as held for trading investments.

Jointly controlled entities are those companies in which a company has joint control over its activities, were established by contractual agreement, and require unanimous approval on the strategic financial operational decisions.

Investment in associates and jointly controlled entities is recorded at cost when it is acquired or established, and is subsequently adjusted taking into account changes in a company's share in the net assets of the associates and jointly controlled entities, according to the equity method. The company's share in the net profit or loss of associates and jointly controlled entities is recorded in the consolidated statement of income for the current period.

### Trade payables and accrued expenses

Trade payables are recognized based on the net payable amount or the expected payment for goods and services received whether billed or not by the supplier.

### Provisions

Provision for liabilities of uncertain value or duration are recognized when the Company has a legal or constructive obligation arising as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. When time value of money is significant, the provisions are presented with the fair value of the expected expenditure to settle the obligation.

### Zakat

Zakat is computed in accordance with the regulations of the Department of Zakat and Income Tax (DZIT) in Saudi Arabia. Provision for Zakat is recognized in the consolidated statement of income. Any differences between provision made and final assessment are recorded in the year in which the final assessment is received from DZIT.

### Revenue recognition

#### Revenue from services

Revenue from hotel services is recognized upon rendering services to hotel guests and visitors.

#### Management and operation fees

Management fees are calculated according to the management agreement with the owing companies.

#### Revenue from properties leased to others

Revenue from properties leased to others is recognized upon completion contracting procedures and entry into force of the lease on a straight-line basis over the period of the lease. Investment in associates and jointly controlled entities

### Operating leases

Payments under operating leases are recognized in the statement of income on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense over the lease term.

### Expenses

Selling and marketing expenses are those arising from the Company's efforts underlying the marketing, selling and distribution functions. All other expenses, excluding cost of sales and finance charges, are classified as general and administrative expenses. Allocations of common expenses between cost of sales and selling, marketing, general and administrative expenses, when required, are made on a consistent basis.

### Foreign currency transactions

Transactions in foreign currencies are translated to Saudi Riyal using the rates of exchange prevailing at the dates of the respective transactions. At balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated to Saudi Riyal using prevailing exchange rates prevailing on that date. Gains and losses resulting from changes in exchange rates are recognized in the consolidated statement of income.

### Borrowing costs

Borrowing costs are charged as finance charges in the consolidated statement of income during the year in which the Company or its subsidiaries have incurred such costs. If such borrowing costs are related to assets that are qualified for capitalization, then these costs are capitalized as part of the asset cost till the asset is ready to use.

### Dividends

Interim dividends are recognized when approved by the board of directors. Annual dividends are recorded when approved by the shareholders.

### Financial instruments

Financial assets and liabilities are recorded when the Company or its subsidiaries become a party to the contractual provisions of the instrument. The carrying value of all financial assets and liabilities reflected in the financial statements approximate their fair value. Fair value is determined on the basis of objective evidence at the consolidated balance sheet date.

### Earnings per share

Earnings per share are calculated from each of operation income and other income and net income for the year on the weighted average basis of outstanding shares during the year.

### Segment reporting

Segments information of the group is presented according to the business segment as well as the geographical segment. Business segments are identified by the group management in accordance with the internal reporting structure, which include hotels sector, properties sector, services and management sector. Geographical segments are based on the geographical location of the Group's operations. The Group operates mainly in Makkah, Riyadh and Tabuk.

	2014	2013
<b>4. Cash on hand and at banks</b>		
Banks time deposits	192,715,421	101,124,566
Banks current accounts	101,795,415	98,673,848
Cash on hand	331,200	349,200
	<u>294,842,036</u>	<u>200,147,614</u>

	2014	2013
<b>5. Trade Receivables, Net</b>		
Trade receivables	64,979,597	59,990,774
Less: Provision for doubtful debts	(10,613,996)	(10,435,332)
	<u>54,365,601</u>	<u>49,555,442</u>

Following is summary of the movement in the doubtful debts provision as at 31 December:

Balance at the beginning of the year	10,435,332	8,152,980
Provided during the year	2,882,696	2,311,156
Write-offs	(2,704,032)	(28,804)
<b>Balance at the end of the year</b>	<u>10,613,996</u>	<u>10,435,332</u>

#### 6. Prepayments and other receivables

Prepaid expenses	11,742,682	10,283,885
Accrued income	7,883,671	2,388,633
Real estate contributions	5,383,841	5,383,841
Staff receivables and advances	1,589,567	1,125,256
Advances to suppliers	365,607	5,581,162
Other debit balances	1,555,701	1,223,938
	<u>28,521,069</u>	<u>25,986,715</u>

#### 7. Inventories

Linens and furnishings	6,724,998	7,865,046
China and silverware	5,578,928	6,533,589
Kitchen tools and equipment	4,687,325	5,363,414
Operation supplies	3,201,549	3,438,380
Spare parts	3,115,181	2,999,062
Foods & beverages	2,413,510	2,040,496
Stationery and prints	1,066,645	841,415
	<u>26,788,136</u>	<u>29,081,402</u>
Provision for obsolete and slow-moving inventories	1,016,531	-
	<u>25,771,605</u>	<u>29,081,402</u>

#### 8. Related Parties

During its ordinary course of business, the group transacts with affiliate hotels and affiliate resorts, which are managed by the Group, as the Group has two brands, specialized in the management of hotels and tourist areas, which are Makarim and Aljazira. These transactions are made in an arms' length transaction and approved by management. The transactions represent services exchanged between the entities.

Details of transactions amounts and resulted balances during the financial year ended 31 December are as follows:

Due from related parties	Nature of transactions	Transactions amount		Balance	
		2014	2013	2014	2013
Umm AlQura Makarim Hotel	Services	2,255,967	8,537,421	1,906,748	522,145
Al Jazira Badr	Services	5,602,716	3,145,539	844,088	277,539
Andalos Villas	Services	743,879	387,479	236,279	155,151
Makarim Al Marifa Company	Services		103,058	157,675	157,675
Makarim Residence	Services		28,494	28,061	32,740
Makarim Al Shoaifat	Services	2,611	5,891	3,280	5,891
Jude Alia Limited	Expenses on behalf			3,200	
Al Jazira Riyadh Compound	Services		1,546,666		155,531
				<u>3,179,331</u>	<u>1,306,672</u>

Related parties	Nature of transactions	Transactions amount		Balance	
		2014	2013	2014	2013
Makarim AlBait Hotel	Services	6,413,625	3,486,854	5,961,658	1,700,686
Makarim Mina Hotel	Services	2,618,123	3,054,375	3,196,084	1,631,364
Al Madinah Limited Company LLC	Expenses on behalf	960,000	12,201,426	1,135,207	175,207
Al Maathar Compound	Services	3,185,278		2,564,325	
AlJazira and Dawodya	Services		1,975,238	913,449	1,959,825
Al Jazira Compound	Services	2,358,263		746,754	
Al Qamar Resort	Services		4,236,230	52,567	52,567
				<u>14,570,044</u>	<u>5,519,649</u>



## 9. Fixed Assets, Net

	2014					2013	
	Lands	Buildings & improvements	Furniture and Fixtures	Tools & Equipment	Vehicles	Total	Total
<b>Cost:</b>							
Balance at 1 January	614,828,298	1,195,683,778	212,562,616	69,521,397	8,472,282	2,101,068,371	2,071,377,325
Additions	9,981,208	6,182,463	1,463,353	6,482,181	57,500	24,166,705	30,217,219
Disposals	(11,900,000)	(76,098,928)	(9,900,929)	--	(134,000)	(98,033,857)	(526,173)
Transferred from projects under construction	--	27,573,972	18,648,500	--	--	46,222,472	--
<b>Balance at 31 December</b>	<b>612,909,506</b>	<b>1,153,341,285</b>	<b>222,773,540</b>	<b>76,003,578</b>	<b>8,395,782</b>	<b>2,073,423,691</b>	<b>2,101,068,371</b>
<b>Accumulated depreciation:</b>							
Balance at 1 January	--	362,924,671	152,385,178	43,657,851	6,782,662	565,750,362	527,887,749
Depreciation for the year	--	28,300,799	13,289,120	3,692,441	691,704	45,974,064	38,385,939
Disposals	--	(3,191,520)	(9,240,929)	--	(68,700)	(12,501,149)	(523,326)
Impairment loss	--	47,299,017	311,788	2,122,224	--	49,733,029	--
<b>Balance at 31 December</b>		<b>435,332,967</b>	<b>156,745,157</b>	<b>49,472,516</b>	<b>7,405,666</b>	<b>648,956,306</b>	<b>565,750,362</b>
<b>Net Book Value:</b>							
31 December 2014	612,909,506	718,008,318	66,028,383	26,531,062	990,116	1,424,467,385	
31 December 2015	614,828,298	832,759,107	60,177,438	25,863,546	1,689,620		1,535,318,009

- At 31 December 2014, lands and buildings include approximately SR 119.5 million and SR 72.6 million, respectively (2013: SR 112.2 million and SR 69.1 million, respectively) belong to lands of Marriott Al Riyadh Hotel and Alnakheel Village and whatever buildings constructed thereon, which are fully mortgaged against the loan, which was obtained from the Ministry of Finance as shown in Note (14).

The estimated useful life of the assets are as follows:

Asset	Useful life
Buildings	50-75 years
Improvements	5 years
Furniture & Fixtures	10 years
Tools & Equipment	5 years
Vehicles	4 years

## 10. Projects under construction

	2014	2013
Balance at 1 January	139,284,729	29,002,454
Additions during the year	90,838,367	110,697,799
Transferred to fixed assets (Note9)	(46,222,472)	--
Adjustments	(2,487,731)	(415,524)
	<b>181,412,893</b>	<b>139,284,729</b>

- As at 31 December 2014, projects under construction represent mainly the second and third phase of Darraq Project, amounted to SR 108,705,339 (2013: SR 65,528,045). The second phase of the project is expected to be completed in May 2015, and the third phase in the first half of 2017. In addition, project to renewal of Tabuk Hotel and Alnakheel Village amounted to SR 39,067,119 (2013: SR 4,788,100).

## 11. Available for sale investments

	2014	2013
Balance at 1 January	66,275,871	130,583,448
Unrealized (losses)/ gains	(3,407,653)	8,238,460
Disposal/ liquidation of investment portfolio	(7,600)	(49,947,821)
Disposal of investments belong to AlMadinah Co.		(22,598,216)
	<b>62,860,618</b>	<b>66,275,871</b>

Available-for-sale investments represent investments in equity portfolios and the group share in National Company for Investment and Development of tourism (Saudi Closed Joint-Stock Company) registered in the Kingdom of Saudi Arabia.

## 12. Equity accounted investees

	2014	2013
Balance at 1 January	58,723,455	46,004,884
Additions (12-1)	15,194,000	--
Investment income during the year	6,943,168	11,903,114
The company's share in reduction of capital (12-2)	(12,000,000)	--
Dividends	(9,025,000)	(5,400,000)
Reclassification of investments in Al Madiah	--	3,510,142
The company's share in unrealized (losses)/profits	(500,848)	2,705,315
	<b>59,334,775</b>	<b>58,723,455</b>

(12-1) During the first quarter of 2014, the group acquired on additional share amounting to 1000 shares (10%) in Saudi Hotel Services Company with a total amount of SR 15 million, and the Company's share became (40%).

(12-2) During the second quarter of 2014, the capital of Saudi Hotel services Company has been reduced by SR 30 million. The Company's share of such reduction amounted to SR 12 million equivalent to 40%.

## 13. Accounts and other payables

	2014	2013
Accrued expenses	39,450,546	42,330,965
Revenue received in advance	30,962,137	29,591,300
Retentions	22,598,617	12,396,664
Sundry Accounts payable (12-1)	11,210,625	11,665,791
Management fees payable to international operating companies	3,799,911	4,106,187
Other credit balances	1,815,024	1,724,464
	<b>109,836,860</b>	<b>101,815,371</b>

(13-1) The balance includes an amount of SR 9,186,651 represents due to the Civil Aviation Authority (the owner of Makarem Riyadh Hotel) and consists of obligations to finance pre-opening expenses and revenues have not been supplied to the owner belong to the previous contract. It has not been agreed on a fixed schedule to settle this balance.

## 14. Long-term loans

The Group entered into long-term financing agreements with the Ministry of Finance in addition to several local banks to obtain funding in the form of financing, forward sale and Murabaha, with a total value of SR 371.9 million (2013: SR 371.9 million), at variable Murabaha rates. The utilized amounts under those agreements amounted SR 111.7 million until 31 December 2014 (2013: SR 86.2 million).

This financing of Ministry of Finance is secured by mortgage the land of Alnakheel village whatever built on such land, such as facilities, equipment and furniture, In addition to mortgage land on which the Marriott Al Riyadh Hotel. The loans from local banks is secured by promissory notes for the full value of the facilities for the benefit of the commercial local banks, and depositing the proceeds of rental Darraq (Phase II and III) with an annual value of SR 42.6 million, in addition to the proceeds of the contracts that the bank has issued final letters of guarantee and / or letters of guarantee - down payment.

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

	2014		2013	
	Ministry of Finance	Commercial local banks	Total	Total
Balance at beginning of the year	18,571,428	67,674,431	86,245,859	25,357,142
Withdrawals during the year	--	32,212,707	32,212,707	67,674,431
Paid during the year	(6,785,715)	--	(6,785,715)	(6,785,714)
<b>Balance at end of the year</b>	<b>11,785,713</b>	<b>99,887,138</b>	<b>111,672,851</b>	<b>86,245,859</b>

The long-term loans are presented in the consolidated balance sheet as at 31 December as follows:

Current position of long-term Loans - current liabilities	6,785,713	4,664,727	11,450,440	6,785,713
Long-term loans - non-current liabilities	5,000,000	95,222,411	100,222,411	79,460,146
	<b>11,785,713</b>	<b>99,887,138</b>	<b>111,672,851</b>	<b>86,245,859</b>

## 15. Zakat

### Zakat status

The Company and its subsidiaries file their Zakat declarations independently based on the relevant financial statements of each company, therefore, Zakat base is identified calculated for the company and its subsidiaries independently, and is shown in the consolidated statement of income for the Group.

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 2013 and paid the Zakat payable accordingly. However, the company is still waiting to get the final assessments from the DZIT.

### Zakat base

Zakat is calculated for the year ended 31 December using the Zakat base as follows:

	2014	2013
Net income adjusted as follows	112,192,101	149,964,972
Provisions during the year	65,080,377	13,921,058
<b>Zakat base (a)</b>	<b>177,272,478</b>	<b>163,886,030</b>
Adjusted net income	177,272,478	163,886,030
<b>Add:</b>		
Capital	1,000,000,000	1,000,000,000
Reserves	643,002,490	643,002,490
Retained earnings	140,090,091	138,869,436
Long term loans	111,672,851	86,245,859
Dividends payable	51,429,913	19,353,959
Provisions	42,036,184	40,533,644
	<b>1,988,231,529</b>	<b>1,928,005,388</b>
<b>Less:</b>		
Fixed assets	(1,424,467,385)	(1,535,724,978)
Projects under progress	(181,412,893)	(139,987,130)
Dividends	(115,905,328)	(91,800,000)
Investments	(122,195,393)	(58,172,719)
	<b>(1,843,980,999)</b>	<b>(1,825,684,827)</b>
<b>Zakat base (b)</b>	<b>321,523,008</b>	<b>266,206,591</b>
<b>Zakat base, greater of (a) or (b)</b>	<b>321,523,008</b>	<b>266,206,591</b>
<b>Zakat charge at 2.5%</b>	<b>8,038,075</b>	<b>6,655,165</b>

Zakat provision movement for the year ended 31 December is as follows:

	2014	2013
	14,257,118	27,849,488
	8,051,569	6,630,165
	(7,391,457)	(15,018,537)
	(5,203,998)	(5,203,998)
	<b>14,917,230</b>	<b>14,257,118</b>

## 16. Statutory reserve

In accordance with the Regulations for Companies in the Kingdom of Saudi Arabia and the Company's By-law, the Company should transfer 10% of its annual net income to the statutory reserve. However, the balance of the statutory reserve has exceeded half of the Company's capital; therefore, the company has ceased to transfer any additional amounts to statutory reserve.

## 17. Contractual reserve

In accordance with the Company's By-law, the Company allocates 5% of its annual net income to a contractual reserve. The Company may decide to stop this allocation when the reserve reaches 10% of the share capital.

## 18. Retained earnings

The shareholders' General Assembly held on 29 Jumada I 1435 H (corresponding to 30 March 2014), approved to pay cash dividend to shareholders for 2013 amounting to SR 120 million by (SR 1.2) per share at (12%) of the capital. An amount of SR 50 million were distributed as an interim dividends during the first half of year 2013, by (SR 0.5) per share at (5%) of the capital. In addition, an amount of SR 70 million were distributed as an interim dividends to the shareholders during the second half of the year 2013, by (SR0.7) per share at (7%) of the capital.

Also, it has been approved to pay a reward to the members of the Company's Board of Directors for the year 2013 in the amount of SR 1.8 million (2013: SR 1.8 million for the year 2012).

On 15 Ramadan 1435H (corresponding to 14 July 2014), the board of directors approved the distribution of interim dividends to the shareholders for the first half of 2014 by (SR0.5) per share with a total of (SR 50) million at (5%) of capital.

## 19. Segment reporting

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

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

## Segment Reporting

	Hotels	Properties owned	Services and operating	Others	Transactions between business segments	Total
<b>31 December 2014</b>						
Revenues	413,621,092	57,155,841	26,324,376	10,473,296	(28,026,204)	479,548,401
Cost of revenues	(302,491,352)	(14,147,680)	(6,902,136)	(18,246,456)	26,826,204	(314,961,420)
Total income/ (loss)	111,129,740	43,008,161	19,422,240	(7,773,160)	(1,200,000)	164,586,981
Trade receivables	54,262,587	--	--	103,014	--	54,365,601
Fixed assets	841,849,474	582,617,911	--	--	--	1,424,467,385
Loans	11,785,713	99,887,138	--	--	--	111,672,851
Net income/(loss) before Zakat	109,318,053	41,791,453	18,861,859	(57,779,264)	--	112,192,101
<b>31 December 2014</b>						
Revenues	366,364,340	57,781,013	24,100,371	10,479,294	(26,286,996)	432,438,022
Cost of revenues	(276,407,419)	(18,343,698)	(6,870,075)	(17,460,615)	25,026,996	(294,054,811)
Total income/ (loss)	89,956,921	39,437,315	17,230,296	(6,981,321)	(1,260,000)	138,383,211
Trade receivables	49,211,290	--	--	344,152	--	49,555,442
Fixed assets	900,605,730	583,046,658	--	51,665,621	--	1,535,318,009
Loans	18,571,428	67,674,431	--	--	--	86,245,859
Net income/(loss) before Zakat	100,597,075	39,238,128	17,147,215	(7,017,446)	--	149,964,972

### 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:

	Assets	Liabilities	Revenue	Net income before Zakat
<b>As at 31 December 2014</b>				
Riyadh	4,344,249,173	1,209,640,385	375,607,206	68,500,941
Makkah	420,846,532	72,416,469	113,864,972	38,653,792
Tabuk	61,673,681	17,433,254	18,102,427	5,037,368
Transactions between segments	4,826,769,386 (2,692,014,073)	1,299,490,108 (947,966,186)	507,574,605 (28,026,204)	112,192,101 --
	<b>2,134,755,313</b>	<b>351,523,922</b>	<b>479,548,401</b>	<b>112,192,101</b>
<b>As at 31 December 2013</b>				
Riyadh	4,179,657,103	1,078,015,658	332,236,966	110,631,611
Makkah	367,614,861	44,647,902	112,755,049	36,657,031
Tabuk	47,475,952	8,068,053	13,733,003	2,676,330
Transactions between segments	4,594,747,916 (2,488,365,606)	1,130,731,613 (829,209,241)	458,725,018 (26,286,996)	149,964,972 --
	<b>2,106,382,310</b>	<b>301,522,372</b>	<b>432,438,022</b>	<b>149,964,972</b>

## 20. Cost of Revenues

Cost of revenues as at 31 December represent the following:

	2014	2013
Salaries and related costs	116,421,760	111,014,572
Depreciation of fixed assets	45,181,608	37,604,694
Foods and beverages	32,459,715	30,321,971
Operational supplies	30,792,353	24,043,335
Rents	18,005,268	18,690,707
Services and operating fees	17,662,846	14,550,346
Electricity, water and telephone	17,639,005	16,139,470
Maintenance and repair	11,682,047	11,716,065
Sales and marketing	6,395,354	4,571,628
Commissions to travel and tourism agents and collection of credit cards	4,302,932	3,411,783
Provision for doubtful debts	2,882,696	2,311,156
Fees and subscriptions	1,544,333	1,091,369
Provision for slow-moving inventories	1,016,531	--
Pre-operating expenses	--	8,558,658
Others	8,974,972	10,029,057
	<u>314,961,420</u>	<u>294,054,811</u>

## 21. General and administrative expenses

Cost of revenues as at 31 December represent the following:

	2014	2013
Salaries and related costs	16,469,363	13,913,245
Amortization of deferred expenses	3,190,132	368,067
Change of brand identity for the company	3,146,556	--
Professional and consultancy fees	1,237,500	903,000
Subscriptions and attestations charges	1,145,379	642,109
Depreciation of fixed assets	792,456	781,245
Advertisement and publicity	587,646	213,556
Maintenance and cleaning	505,650	494,329
Electricity, water and telephone	432,297	76,410
Others	1,765,114	1,721,846
	<u>29,272,093</u>	<u>19,113,807</u>

## 22. Impairment of assets

During the period, the group reviewed the carrying amounts of assets of Alwatan & Alrawdha Parks, according to the Board of Directors' resolution dated 8 Rabi Awwal 1436H (corresponding to 30 September 2014), to cease the entertainment industry during 2015, due to the economic infeasibility from the continuation in the industry, and realizing frequent operational losses. In addition, the trend to development of investment in both parks will not achieve any feasibility, due to the nature of activities and level of demand and competition. An impairment loss for the full carrying amount of such assets that has been included in statement of income.

## 23. Other income

Other income as at 31 December represent the following:

	2014	2013
Capital gains (23-1)	14,825,644	250,019
Settlement of provisions	3,500,000	--
Murabaha income	526,095	12,239,879
Compensations	--	3,871,246
Others	815,335	2,431,310
	<u>19,667,074</u>	<u>18,792,454</u>

(23-1) Capital gains represent net income from sale of the residential compound in Almaathar district consists of (73) apartment amounting to SR 100 million. The legal proceedings for transfer of ownership have been completed on 12 Shaban 1435H (corresponding to 10 June 2014). The net book value of the compound amounted to SR 85.5 million.

## 24. Earnings per share

Earnings per share were calculated based on weighted-average number of ordinary shares issued and outstanding during the period of 100 million shares (2013: 100 million shares), without excluding the minority interests share in operating profit or their share of the net income.

## 25. Capital commitments

The Company's outstanding future capital commitments as at 31 December 2014 amounting to SR 198.6 million (2013: SR 166.7 million), which are related to contracts signed for the construction of the third phase of Darraq project (Almustaqbal Houses previously), in addition to renovations of Tabuk Hotel and Alnakheel Village.

## 26. Contingent liabilities

The Group has issued bank letters of guarantee for SR 30.9 million at 31 December 2014 (2013: SR 23 million). These letters have been issued in favor of the Civil Aviation Authority in the amount of SR 28.3 million for lease agreement of Makarim Al Riyadh Hotel, and Royal Commission for Jubail and Yanbu in the amount of SR 803 thousand, for the lease agreement of plot of land to set up a hotel in Jubail. These guarantees are without a cash margin.

## 27. Fair value of financial instruments

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 consolidated financial statements are prepared under the historical cost method, differences may arise between the book values and the fair value estimates. The Group's financial assets consist of cash and cash equivalents, accounts and other receivables. Management believes that the fair value of the Group's financial assets and liabilities are not materially different from their carrying values.

## 28. Risk Management

### Credit 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 Company are principally in Saudi Riyal, the Company's currency and foreign exchange risk exposure is very limited.

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### Interest rate risk

Interest rate risk is the risk that the interest rates of Company's debts will fluctuate. The Company's debt represents loans and other credit facilities. To limit this exposure, the Company's management obtains the best available credit facilities, regularly monitors the prevailing interest rates in the market, and takes necessary action to control any risks that may result in fluctuation of interest rates

### 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 accounts receivables and banks facilities available for the Group.

## 29. Approval of the financial statements

The consolidated financial statements have been approved by the Board of Directors on 30 Rabi'II 1436 H (corresponding to 19 February 2015).

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