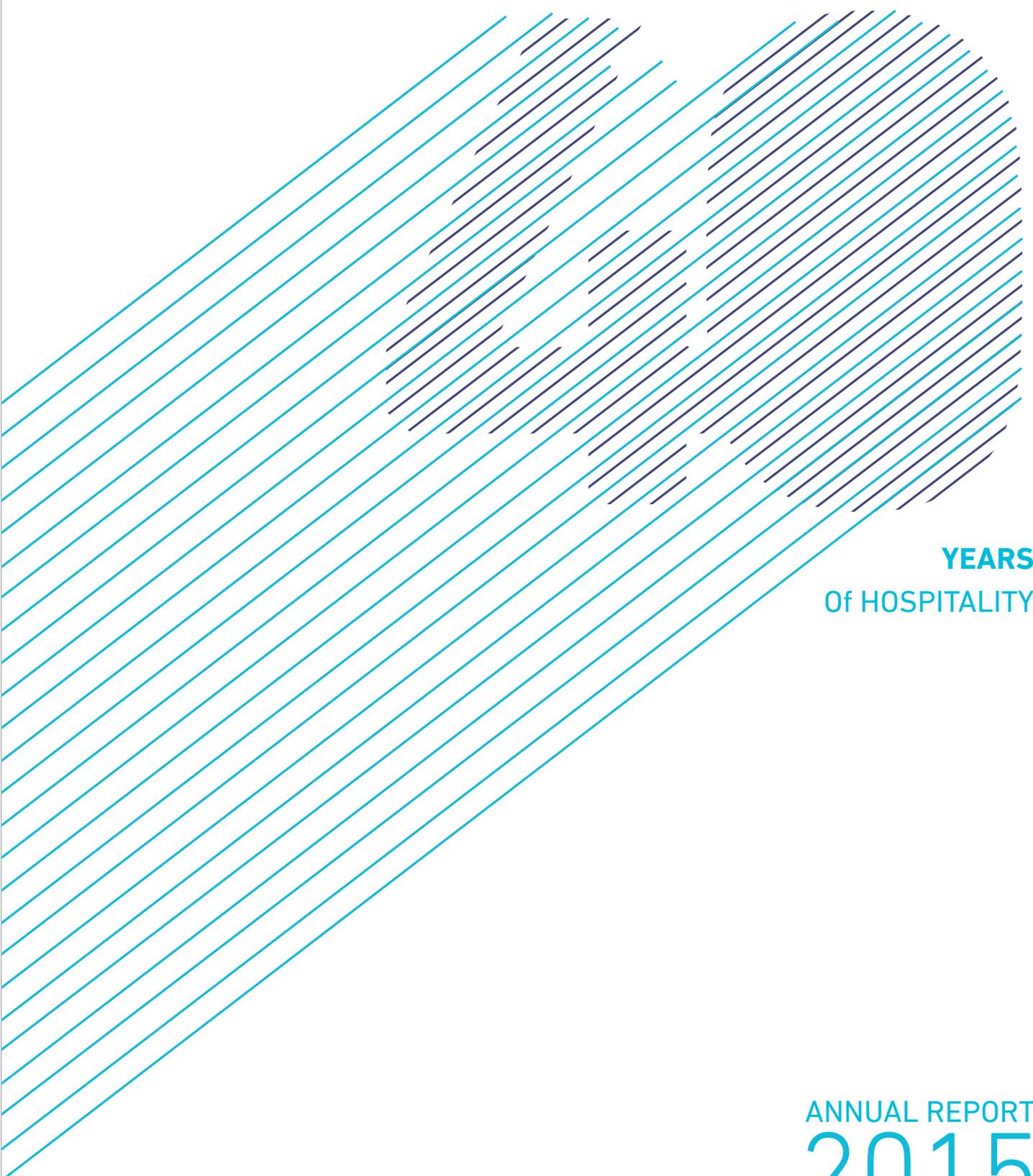
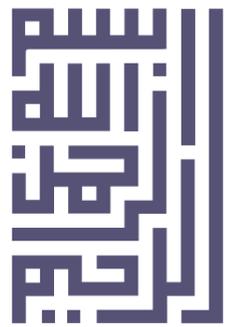


# J9JUR



**YEARS**  
Of HOSPITALITY

ANNUAL REPORT  
**2015**



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# Chairman's Letter

Dear Shareholders of Dur Hospitality Company, Peace, mercy and blessings of Allah be upon you

The Board of Directors of Dur Hospitality Company is pleased to present the Annual Report, which outlines the financial and operating performance of Dur for the fiscal year 2015.

Starting with profitability, we are pleased to declare a revenue growth of 11% compared with 2014, a total revenues swing of SAR 533 million, due to an operational improvement of most of the Company's properties.

Our 2015 achievements drive us to pursue our vision. This tough-minded vision wasn't a flashy-but-improbable dream. Rather it was our view, backed up by decades of experience, of where hospitality around the kingdom was headed, thus proved to be successful throughout the years and resulted in achieving sustainable growth and increasing our market share.

This year has witnessed several significant achievements.

We continued to improve our competitiveness through the launch of the new corporate identity of our hotel brand "Makarem". Makarem is specialized in the provision of

traditional Saudi hospitality for the visitors of the holy cities, as we consider it our duty as a Saudi company to offer the guests of the Two Holy Mosques services with the highest hospitality standards during their spiritual journey.

To further fuel growth, we relaunched Holiday Inn Tabuk, the first yield of the strategic alliance signed with the InterContinental Hotels Group (IHG). Furthermore, we launched the new Makarem Ajjad Makkah Hotel, in line with the new Makarem brand identity, featuring 411 deluxe rooms and suites, in addition to meeting rooms and restaurants.

Additionally, we have celebrated the extension of our partnership with the General Authority of Civil Aviation (GACA) for 20 additional years through renewing operating agreement of King Khaled Airport Hotel in Riyadh. We will renovate the hotel entirely, increase its capacity, and develop its supporting facilities. After the renovation is completed, Dur Hospitality will operate the hotel through an international brand.

As part of our continued efforts to develop three and four-star hotels, we have acquired some properties in Jeddah and Hofuf and leased a land plot from the

Royal Commission for Jubail and Yanbu to establish new hotels in Yanbu.

On a corporate level, the company continually attracts promising Saudi talents with the objective of balancing its international workforce to improve the company's competitiveness. We have successfully managed to raise the company's Saudization rate to 33% this year, compared with 24% in 2014. We have also been keen on creating a motivational work environment that encourages creativity and promotes the spirit of cooperation.

This year marks the 40th anniversary of Dur Hospitality, and during these four decades, Dur diligently led a journey full of excellence, inspiration, and innovation in line with the Kingdom's development and prosperity.

It was a solid year, but we believe that we have made enormous progress over the last years in part because we set a strategic direction for the company that was right for us, right for our industry, right for our customers and, most importantly, right for our investors. Finally, and as we embark on a

new era for Dur conglomerate, we look forward to new challenges and new opportunities that the next years will bring. We are forever indebted to each and everyone who've had a hand in our success, to our valued partners for their loyalty, to our esteemed shareholders for their continued support and our employees for their grit and determination.

We look forward to continuing as a united front.

\* This report has been prepared in compliance with the Corporate Governance Regulations and Listing Rules issued by the Capital Market Authority (CMA) of the Kingdom of Saudi Arabia.

# Board of Directors



**Eng. Abdullah bin Mohammad Al-Issa**  
Chairman



**Dr. Saleh bin Ali A Hathloul**  
Board Member



**Mr. Nasser bin Mohammad Al Subaiei**  
Board Member



**Mr. Talal bin Abdul Muhsen Al Malafekh**  
(Representative of Public Pension Agency)



**Mr. Abdullah bin Mohammad Alabduljabbar**  
(Representative of the General Organization for Social Insurances)



**Eng. Fahad bin Abdullah Al Sharif**  
Board Member (Representative of Public Investment Fund)\*



**Mr. Badr bin Abdullah Al Issa**  
Board Member



**Mr. Fahad bin Abdullah Al Qassim**  
Board Member



**Mr. Mus'ab bin Sulaiman Al Muhaideb**  
Board Member

\* On 31 /12/ 2015 the board members have been re-elected for a new tenure of three years starting from 01 / 01 / 2016 having Engineer Fahad bin Abdullah Al-Sharif as the representative of the Public Investment Fund, instead of Mr. Ali bin Ibrahim Al Ajlan. On this occasion, the Board wishes to appreciate his Excellency for his efforts during the past period. The board also welcomes the new member Engineer Fahad bin Abdullah-Al Sharif and wishes him success.

Dur Hospitality was established as a Saudi joint stock company with a share capital of one Billion Saudi Riyals in accordance with the Council of Ministers' Resolution No. 1776, dated 18 Dhu al-Hijjah 1395H (Royal Decree No. M/69, dated 28 Rajab 1395H) under commercial registration number 1010010726, dated 6 Muharram 1397H, registered in the city of Riyadh.





# 01

## The Breakthrough

Dur Hospitality, former Saudi Hotels & Resorts "SHARACO", was established in 1976 as a leading Saudi hospitality company and been recognized for its extensive record in managing, developing and operating a comprehensive portfolio of hotels and residential compounds across The Kingdom of Saudi Arabia.

# 1-1

## A Vision of Hospitality Through Time

To be the partner of choice in the hospitality and real estate industries across the Kingdom in the fields of investment, development, and operations, adopting international standards with a local spirit. We aim for reaching new heights of success through sustained growth and Kingdom-wide expansion.

# 1- 2

## Spectrum of Activities

In the 40 years since our founding, we have gradually defined the hospitality industry and established a portfolio of excellent top notch hotels, including our flagship Makarem brand, which is one of the most recognized hotel brands in the Kingdom. As well as the prosperous partnering with prestigious hotel brands as Holiday Inn and Marriott.

### The Company's objectives according to its by-laws are:

- Developing, owning, managing, and operating different level and size hotels as well as premium compounds in the Kingdom.
- Acquiring lands, real estate properties, and facilities to develop residential, commercial and hotel buildings for the purpose of utilizing them in different ways. Additionally, Dur manages the property for its benefits or external clients as well as providing operation and maintenance services.

- Providing services for Umrah performers and visitors of the Prophet's Holy Mosque, Al-Masjid an-Nabawi.

- Conducting all fundamental principals and intermediary business actions needed to execute, prepare, and proceed with different objectives and approaches of the above-mentioned business activities in line with their requirements and purposes.

- Providing high-quality standards in services at the property level and as directed by the Board of Directors.

In performing the business activities mentioned earlier, the company may work individually or through partnerships, and may enter into any contractual deals that facilitate this direction.

# 1- 3 Delivering on Our Strategy

2015 was a significant milestone on Dur Hospitality path toward our long-term goals: By 2023, we want to triple the annual revenues of the company through expanding our projects portfolio. Our operational plans specify outputs and key performance indicators, which enables us to prioritize objectives so that they align with our 2023 strategic plan.

This strategy is based on the five following directions:

- Focus its investments on three to four-star hotels and luxurious residential compounds;
- Attain a company portfolio of over 25 hotels and real estate properties during the coming six years;
- Enhance the performance of the current investments and assets;
- Establish strategic partnerships and alliances with international hotel operators to employ their expertise in our hotel operation activities across the major cities of Saudi Arabia; and
- Develop "Makarem Hotels" chain into the spiritual hotel brand specialized in the two Holy Cities.

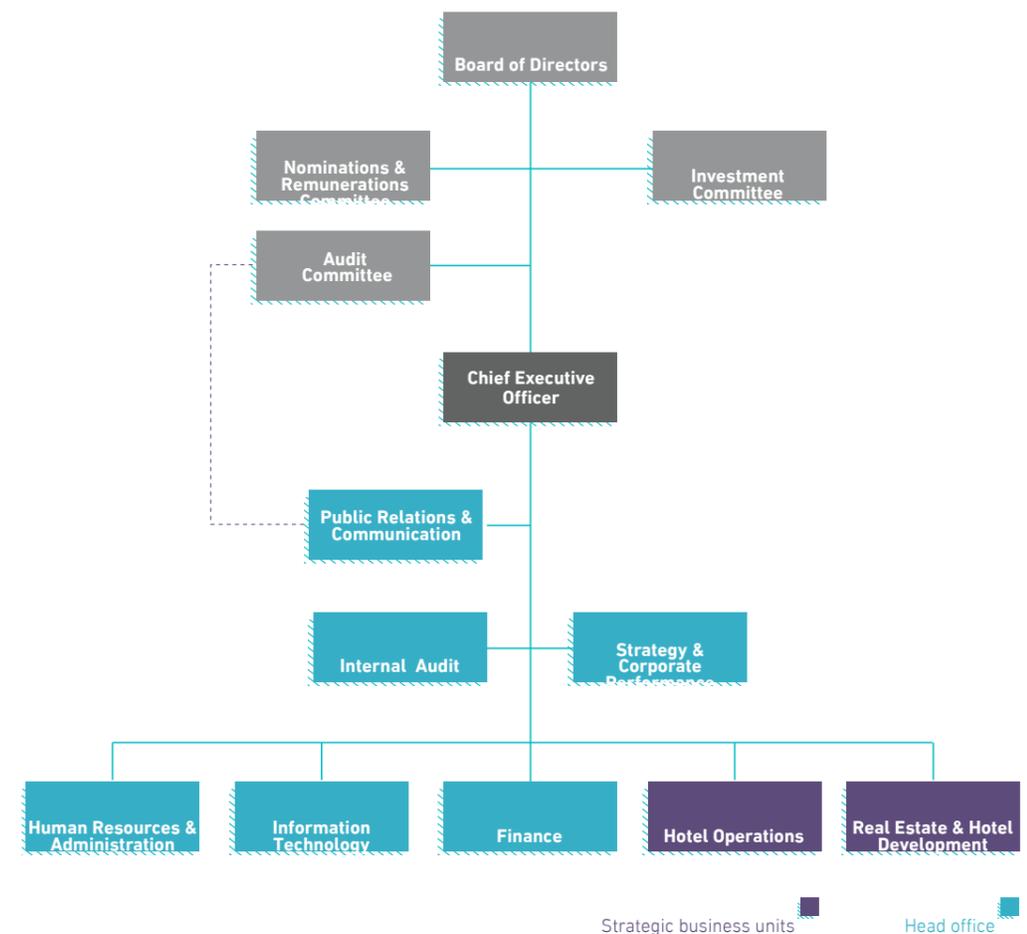
Together, those directions constitute important investment factors to achieve continuous revenue growth and measurably high net profit from operating returns thus maintaining our shareholders' equity and confidence.

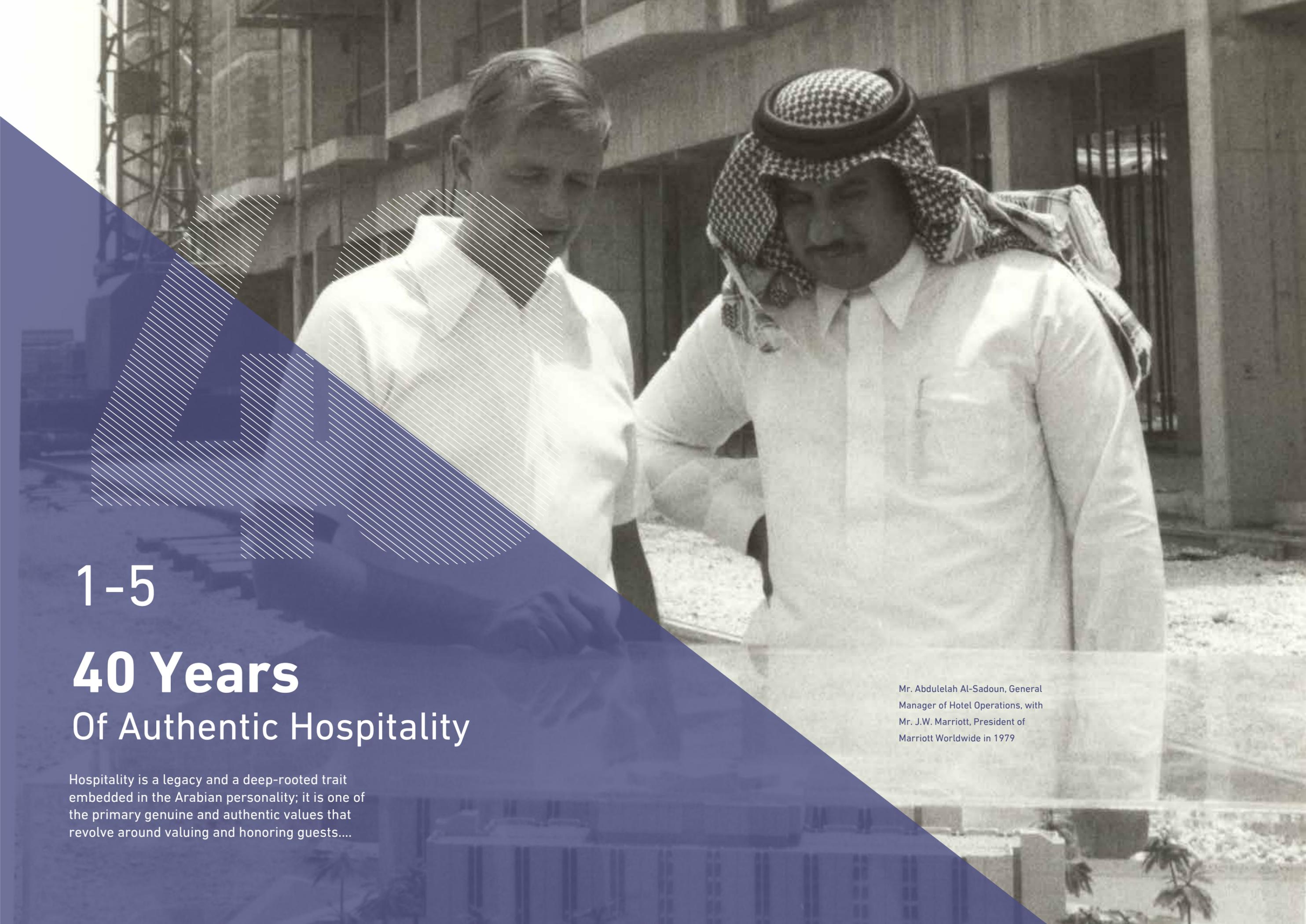
# 1- 4 Organizational Structure

Excellent performance is based on a clear strategy and a strong team that drives its execution. To excel in a highly dynamic and complex environment, Dur`s diverse teams require strong leaders. We aim to improve our leadership team continuously and foster a unique performance culture.

Our diverse workforce blends different cultural backgrounds and work experiences which is an important success factor. We actively manage diversity and have made significant progress over the past years.

As part of our commitment to the new strategic direction and transformational plan, we have developed two strategic business units: The Hotel and Real Estate Development Unit and the Hotel Operating Business Unit. The head office shared departments are structured as follows:





1-5

# 40 Years Of Authentic Hospitality

Hospitality is a legacy and a deep-rooted trait embedded in the Arabian personality; it is one of the primary genuine and authentic values that revolve around valuing and honoring guests....

Mr. Abdulelah Al-Sadoun, General  
Manager of Hotel Operations, with  
Mr. J.W. Marriott, President of  
Marriott Worldwide in 1979

We, at Dur Hospitality, are proud to leave a clear imprint in the Kingdom of Saudi Arabia as pioneers in genuine hospitality innovation. Throughout our four decades' journey, we continued to grow in parallel with the country's development and continually strived to keep the betterment of our society and the growth of the Kingdom at the forefront. This is what truly moves us forward to building a shared future and investing in the next generation.



King Salman bin Abdulaziz, Custodian of the Two Holy Mosques, and Prince Abdulaziz bin Mohammed bin Ayyaf Al Muqrin, former Mayor of the city Riyadh, inaugurates Al Watan Park in 2006.

Since its founding in 1976, Dur Hospitality adopted the concept of international hospitality standards through partnering with Marriott International to develop a chain of five-star hotels in the Kingdom. Such a partnership enabled us to be the first publicly-listed company in Saudi Arabia.



King Salman bin Abdulaziz, Custodian of the Two Holy Mosques, launches Al-Mostaqbal Homes in 1997, during his tenure as Governor of Riyadh and President of the High Commission for the Development of ArRiyadh



His Royal Highness Prince Saud bin Abdul Muhsin, former deputy governor of Makkah Province, and His Royal Highness Prince Badr bin Abdul Muhsin, viewing the Palm Village architectural model in 1995.

Today, Dur Hospitality operates and owns more than 20 hotels and residential properties, where the number of its employees reached 1,700 professionals. Additionally, a wide variety of hospitality developments in the Kingdom ranging from hotels to upscale residential complexes are among our portfolio projects. The company is also excelling in hotel operation, owning some diverse investment projects in the hotel and hospitality industry.



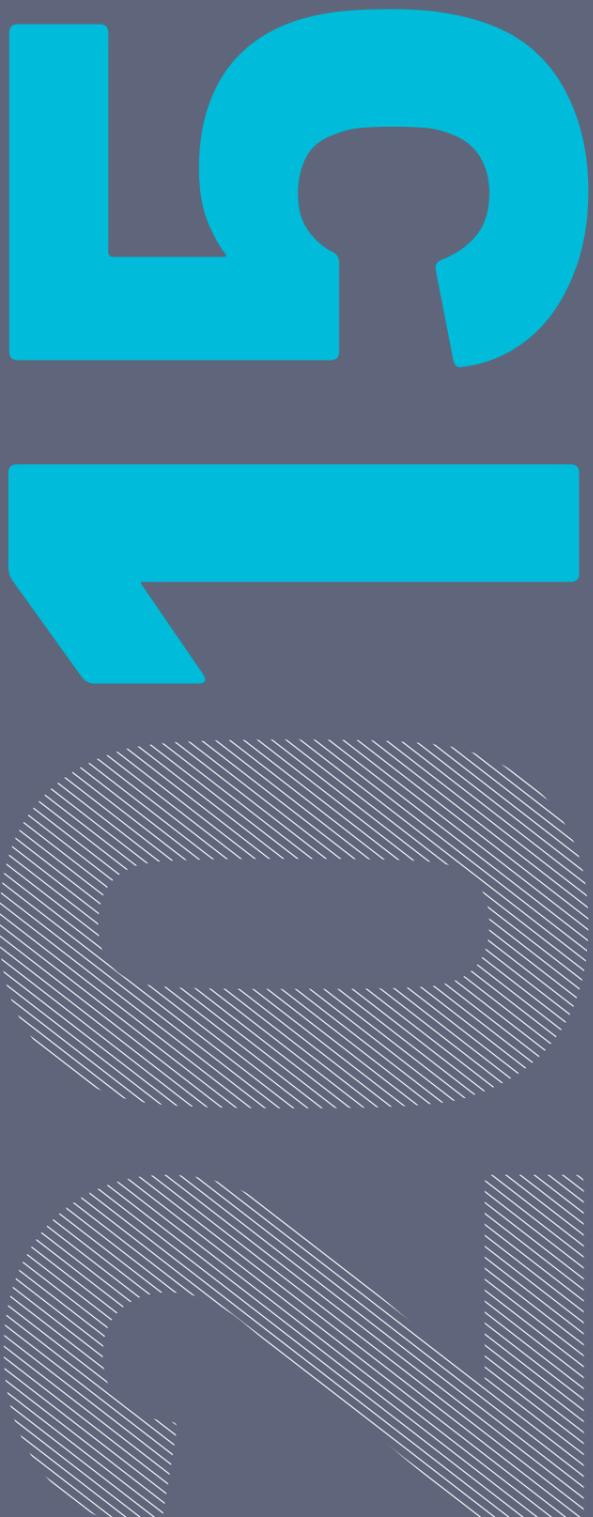
His Royal Highness the late Prince Sattam bin Abdulaziz (may Allah bless his soul) tours the "Gulf Tourism Village" project, accompanied by His Royal Highness Prince Sultan bin Salman, President of the Saudi Commission for Tourism and National Heritage, in 1988.



His Excellency Mr. Suleiman bin Saad Al-Hameed, former Chairman of the Board, honors Abdullah bin Mohammed Al-Issa, at present Chairman of the Board, in 1995 .

Dur Hospitality is also an active community partner; we diligently work to serve and empower the community members and preserve the community's values and traditions which made it one of the most successful corporations in the Kingdom.





## 1-6 A History of Success and Incessant Recognition

Dur Hospitality historical milestones and a variety of achievements characterize our company's journey. Led by our long-term vision and guided by our values, we continued to implement our strategy of developing and aggressively investing in the hospitality sector of the Kingdom.

Our clear focus on this strategy and the dedication of our employees were critical to delivering reliable performance – despite a highly volatile and challenging environment. Thus, 2015 was another successful year for Dur Hospitality.

Following is a brief overview of our 2015 most prominent achievements:



### Launching the New Corporate Identity of Makarem Hotels

On the sidelines of the Arabian Travel Market exhibition, we unveiled the new identity of "Makarem Hotels" along with Dur's strategy that supports Makarem's operational brand in the holy cities of Makkah and Al-Madinah. Consequently, the new Makarem identity was launched to emphasize on serving the visitors of the Two Holy Cities.



### Developing King Khaled Airport Hotel and extending the agreement with the General Authority of Civil Aviation

Dur has successfully concluded an agreement with the General Authority of Civil Aviation to develop Makarem Al Riyadh Hotel located at King Khaled International Airport. This agreement extends the current contract to operate the hotel for 20 additional years. According to the new arrangement, a great hotel capacity increase will be employed raising room-count from 248 to 348 rooms and developing its integrated spa. After development, Dur will then operate the hotel under a global brand.



### Acquiring 70% of the Saudi Hotel Services Company

During this year, we raised our investment share in the Saudi Hotel Services Co., owner of the Riyadh Palace Hotel, to 70%. The hotel is one of the most prestigious hotels located in Murabba' District, Riyadh. This five-star hotel comprises 304 rooms, event halls, meeting rooms and a spa.



### Founding Holiday Inn Tabuk

In agreement with the Master Development Agreement signed with InterContinental Hotels Group (IHG), we launched the Holiday Inn Tabuk to replace former Makarem Tabuk Hotel. The 83-room Holiday Inn Tabuk Hotel is considered to be the first of its kind in the Kingdom's North. It is strategically located at Prince Fahad bin Sultan Street, just 3 kilometers away from Prince Sultan Bin Abdul Aziz Airport.

## Establish Assawa'ed Alkarima Company

Assawa'ed Alkarima, a limited liability company, was founded with a capital of SAR 100,000. The main purpose of the company is to provide support services for the company and its various facilities.

## Acquiring New Properties In Various Cities in The Kingdom

In pursuing our strategy to develop 3 to 4-star hotels in areas experiencing exponential growth, we invested in the following:

- Purchased a land plot in Jeddah with an area of 3,850 square meters to develop a hotel and serviced apartments;
- Purchased a land plot in Al Hofuf spread out on 10,135 square meters and
- Leased a land in Yanbu with an area of approximately 7,647 square meters to develop a 3-star hotel in Yanbu. The area was leased from the Royal Commission for Jubail and Yanbu.

## A Joint Venture with the Saudi Hospitality Heritage, Nuzul

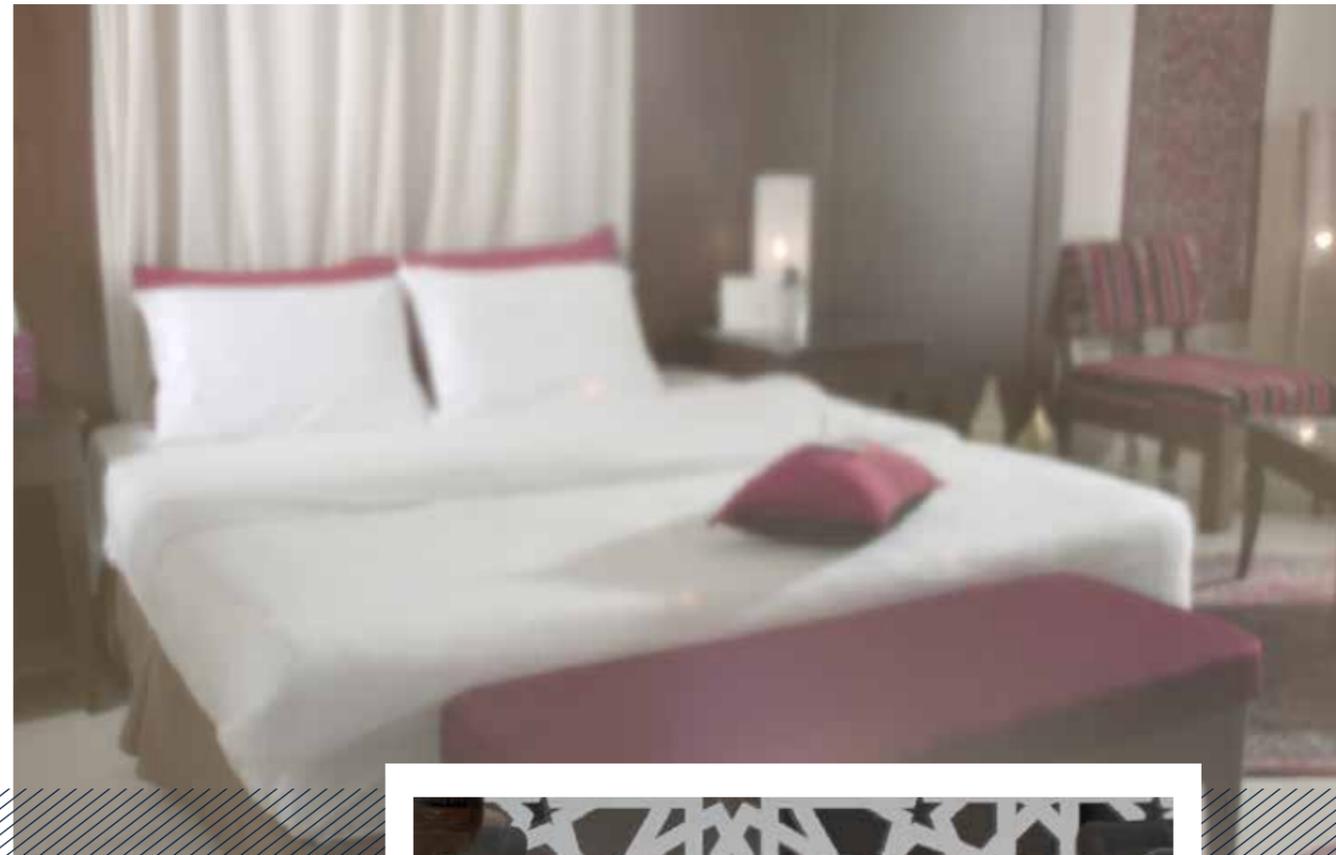
Dur Hospitality concluded a joint venture with the Saudi Hospitality Heritage Company "Nuzul" that aims to develop "Samhan Heritage Hotel," the preliminary project of "Nuzul". The Custodian of the Two Holy Mosques King Salman bin Abdulaziz -May God protect him- laid the foundation stone upon patronizing the inauguration of Albuja'iri District at Historic Dir'iyya.



# 1-7 Makarem, A More Spiritual Journey

How can we summarize long decades of innovation, perfection, and expertise? How do we convey the meaning of fine taste and dedicated service that have always guided our journey? How to portray the authenticity and uniqueness of the hospitality we provide to visitors of the Two Holy Cities, which inspired our guests across the Kingdom?

The answer is simply, "Makarem".



Through 40 years of authentic hospitality, Dur recognized one of its old goals that targeted the most important and valued segment; Religious Tourists. After 20 years of operating in the Kingdom, Makarem Hotels revamped its corporate identity in 2015 to emphasize on the visitors of the two holy cities of Makkah and Al-Madinah to provide them with exceptional attuned to their every need.

Makarem is now Dur`s only hotel brand that goes beyond traditional hospitality services through enriching the visitors` spiritual journey starting from the moment they arrive until the time they depart.

Within a short period, Makarem established itself as an ideal destination for local and international visitors



of the Two Holy Mosques. The brand`s well-earned reputation stems from its deep and comprehensive understanding of guests` needs, providing them with world-class accommodation and religious guidance services while they perform their Islamic rituals of Hajj and Umrah. This knowledge is reflected in our passion for offering an unparalleled high standard hotel experience that holds within its folds the genuine spirit of local traditions and values.

Makarem manages and operates hotels at the highest standards, making them the first choice for our business partners. We are committed



to achieving the same level of success in any property within our brand through meeting and exceeding the expectations of our shareholders, owners, employees, guests, importers and partners.

Today, Makarem boasts a wide portfolio of more than 1,900 rooms, with a dedicated team of professional that have outstanding expertise offering high-end hospitality, within a remarkable spirit of initiative.

# Main Business Sectors

- 2 - 1 Assets and Properties
- 2 - 2 Projects Sector
- 2 - 3 Human Resources
- 2 - 4 Corporate Initiatives

# 2-1

## Assets and Properties

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

2.1.1 Company owned properties: include properties owned by Dur and operated by others;

2.1.2 Company owned/leased and managed properties: include entities owned or leased and operated by Dur through one of its operational arms and hotels brands;

2.1.3 Properties owned by others and operated by Dur: include entities owned by third-parties and operated through Dur's operational arms.

Following is a breakdown of these sectors:

## 2.1.1 Company Owned Properties



### Riyadh Marriott Hotel

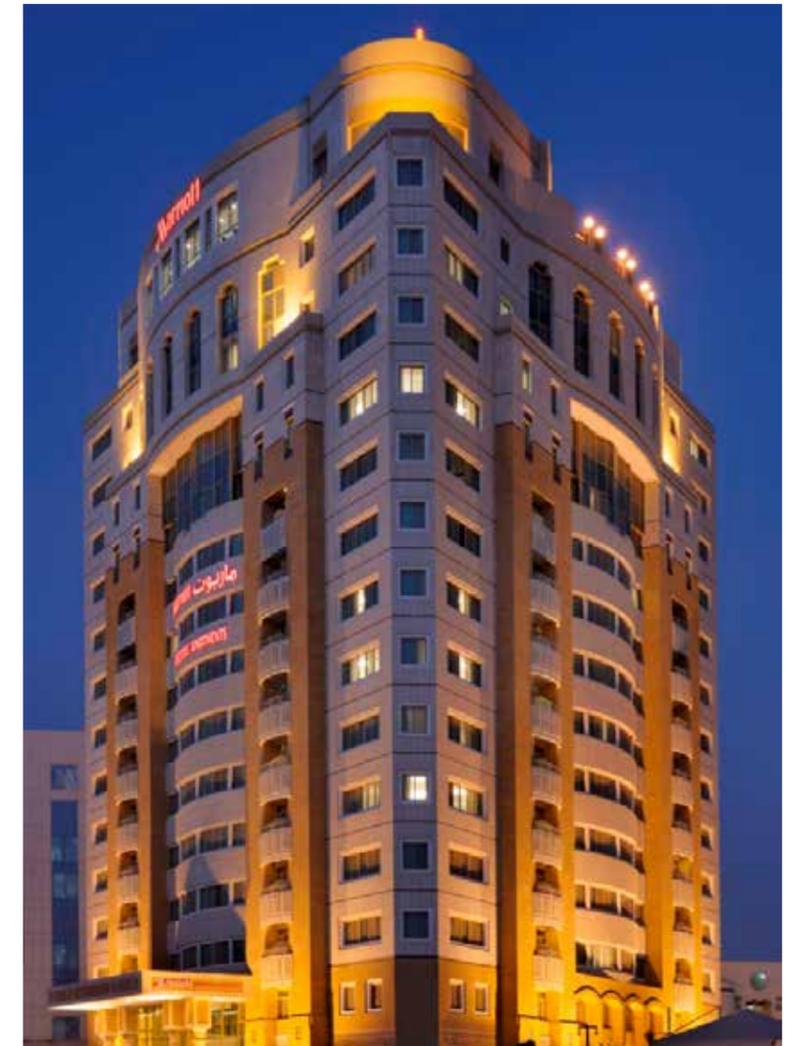
Strategically located in the vital center of Riyadh, the newly-renovated Riyadh Marriott Hotel is one of the most luxurious and prestigious 5-star hotels in Saudi Arabia. It features 418 rooms and suites, in addition to a number of high-class restaurants and meeting rooms equipped with the latest technological needs. It also has the Makarem Banquet Hall, the venue of many meetings, con-

ventions, celebrations and other events. The fitness center at the Marriott is one of the leading properties in the hotel as it offers guests a healthy escape from their increasingly hectic lives through the most exquisite and luxurious service levels.

 **418** Room & Suite

### Marriott Executive Apartments

Located near the Riyadh Marriott Hotel, these unique apartments were launched in 2012. Marriott Executive Apartments cater perfectly to the needs of businesspeople visiting and staying in Riyadh through offering spacious apartments and suites equipped with all businesspeople needs. Marriott Executive Apartments Riyadh is comprised of 13 floors housing 117 suites of



different sizes that come in 1, 2, or 3 bedroom suites. This setup ensures meeting most tastes and needs of customers. The complex also features a restaurant and a fitness center.

 **117** Suite

 **Owner**  
Dur Hospitality Company

 **Operator**  
Marriott International



## The Diplomat Courtyard Marriott

The Diplomat Courtyard Marriott has been launched in 2012 on the opposite southern entrance of the Diplomatic Quarter in Riyadh, an accessible and 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, it offers the guests a perfect ambiance which creates a unique business centered experience, with the addition of advanced technology and smart spaces creating an ideal environment for work and relaxation.

The Courtyard features 286 rooms and suites. Additionally, it offers customers access to a restaurant, a fitness center, a business center, and a number of meeting rooms equipped with advanced technology that caters to the requirements of businesses.



**286** Room & Suite

**Owner**  
Dur Hospitality Company

**Operator**  
Marriott International

## 2.1.2 Company Owned and Managed Properties



### Makarem Annakheel Hotel and Resort

A luxurious beachfront resort located on the North Obhur Bay - Jeddah. Makarem Annakheel Hotel and Resort features 112 luxurious villas, 21 hotel apartments, and 43 rooms. Moreover, it offers meeting rooms, a restaurant, separate gender fitness centers, a marina for yachts and another one

for marine activities, sand beaches, and a seaside plaza with a capacity of 800 people. Dur has completed renovating the hotel as well as the first 4 phases of the villas and hotel apartments. Work is underway to renovate the remaining villas as per the project plan.

**Owner**  
Annakheel Village Resorts Company, Dur Hospitality has 98.73% of Capital share

**Operator**  
Dur Hospitality Company – Makarem

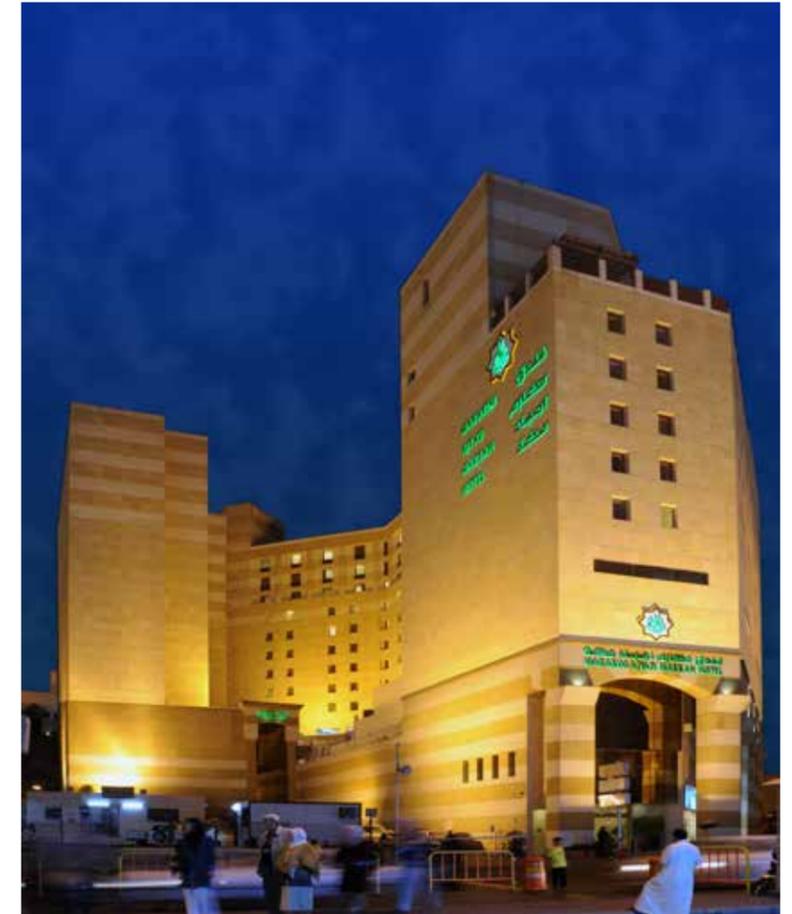
-  **112** Luxury Villas
-  **21** Hotel Apartments
-  **43** Room & Suite



### Makarem Ajjad Makkah Hotel

Launched with the new Makarem brand in 2015, the 5-star Makarem Ajjad Makkah Hotel is distinguished with its prime location near the Holy Mosque in Makkah, a few steps away from King Abdulaziz Gate. This hotel comprises 411 single, double, triple, and quadruple rooms as well as luxurious suites.

-  **411** Room & Suite
- Owner**  
Makkah Hotels Company Ltd., Dur Hospitality has 99.44% of Capital share
- Operator**  
Dur Hospitality Company – Makarem





## Holiday Inn Tabuk

Located on Al Madinah–Tabuk road and close to the center of Tabuk with convenient access to vital transportation links, Holiday Inn Tabuk features 83 luxurious rooms and suites. Dur has re-launched this hotel in 2015 under the name of Holiday Inn Tabuk, boosting its ability to offer premium services. The hotel is known for its grand restaurant, Al Waleema, which serves a broad range of international and oriental cuisine dishes. Boasting an array of leisure facilities for guests to enjoy, the hotel houses an outdoor swimming pool, a recently renovated gym and fitness center, sauna, tennis court, as well as providing a banquet hall for conventions and events with a capacity of 250 people.

**83** Room & Suite

**Owner**  
Tabuk Hotels Company Ltd., Dur Hospitality has 97.14% of Capital share

**Operator**  
Dur Hospitality Company - under concession from Intercontinental Hotels Group (IHG)



## Makarem Riyadh Hotel

The 5-star Makarem Riyadh Hotel is the closest hotel to King Khaled International Airport. It features 248 rooms and suites equipped to the highest industry standards. Makarem Riyadh Hotel houses a selection of fine restaurants including the Panorama, which offers an extensive collection of international dishes in a charming atmosphere and with a panoramic view. The hotel also features some meeting rooms, a hall with a capacity of 400 people, a business center, and a fitness center. As indicated previously

in this report, an agreement has been concluded in 2015 with the General Authority of Civil Aviation to develop the hotel by increasing its capacity to 348 rooms as well as developing its supporting facilities then operating the hotel through an International brand.

**248** Room & Suite

**Owner**  
General Authority of Civil Aviation, rented by Dur Hospitality

**Operator**  
Dur Hospitality Company – Makarem

## Riyadh Palace Hotel

When national traditions and values are mixed with hotel culture and services of international standards and professionalism, it is, for sure, represented by Riyadh Palace Hotel resting on more than 30 years of rich experience. During this year, Dur Hospitality Company has increased its stake in the Saudi Hotel Services Company to 70%, which owns and operates this hotel. This old hotel is located in the center of Riyadh in close vicinity to the most important ministries, agencies, and commercial banks. In the context of the relentless pursuit to keep up with the finest hotel service standards, the hotel has



recently witnessed the renewal of some of its facilities such as the banquet hall, the business center, the lobby and a fitness club.

**303** Room & Suite

**Owner**  
Saudi Hotel Services Company, Dur Hospitality has 70% of Capital share

**Operator**  
Saudi Hotel Services Company

## Darraq Residential Project

A collection of luxury residential units distributed within the Diplomatic Quarter in Riyadh, where all features of luxury, privacy and security are available, in addition to the distinctive facilities, parks, schools, sport clubs and private recreation centers. The complex consists of 188 housing units of different sizes, comprising six models ranging from villas of different sizes and apartments.

All residential units feature smart home systems to provide more protection, luxury and comfort. Sustainable development as well as energy consumption rationalization techniques are also applied.



**188** Housing Units

**Owner**  
The High Commission for the Development of Riyadh.

**Operator**  
Dur Hospitality Company

## Al-Jazira East Compound

Al-Jazira East Compound covers an area of 20,000 m<sup>2</sup> in the eastern part of Riyadh. This compound is composed of 19 villas and 59 furnished singles rooms distributed in 2 separate buildings with separate entrances from the villas.

The compound features also different recreational facilities such as gardens and playgrounds and a fitness center with two sport halls, a steam room, a sauna, an adults' pool and another for children. Moreover, the compound features green spaces and children's playgrounds and offers full maintenance services and transportation to malls and schools.



**19** Villas

**59** Furnished Single Rooms

**Owner and Operator**  
Dur Hospitality Company



## Al-Takhassusi Plaza

Al-Takhassusi Plaza is one of Riyadh's most important commercial centers. It is strategically located at the intersection of Makkah Al-Mukarrama Road and Al-Takhassusi Street, next to King Faisal Specialist Hospital and Research Center.

The Plaza offers its visitors a wide selection of famous international and local brands, a shopping center and several restaurants.

**Owner and Operator**  
Dur Hospitality Company

## 2.1.3 Properties Owned by Others and Operated by Dur

### Makarem Umm Alqura Hotel

The 5-star Makarem Umm Alqura Hotel is located on Ajyad Road near the Ring Road leading to the Holy Sites. A modern accommodation in close vicinity to the Holy Mosque being a 5-minute drive away. The hotel features 12 floors with 336 rooms and suites, some restaurants, meeting rooms, shops, and 80 car parking lots.

**336** Room & Suite

**Owner**  
Assila Investment  
Company

**Operator**  
Dur Hospitality Company



### Makarem Al-Bait Hotel

Makarem Al-Bait Hotel is located on King Abdul-Aziz Street, Shesha district in Makkah, 3 kilometers away from the Holy Mosque, in close vicinity to Aljamarat. The 4-star hotel features 270 rooms and suites. It also offers many services and houses such as restaurants, meeting rooms and shops.

**270** Room & Suite

**Owner**  
Assila Investment  
Company

**Operator**  
Dur Hospitality Company



## Makarem Mina Hotel

This 4-star hotel was opened in 2013 and located in Al- Aziziah district in Makkah near the Holy Site of Mina. The hotel features 294 rooms and suites as well as other facilities such as restaurants, meeting rooms and shops.

**294** Room & Suite

**Owner**  
Sheikh Mohammad bin Ibraheem Al-Ghamdi

**Operator**  
Dur Hospitality Company

## Makarem Al-Shurufat Hotel

Makarem Al-Shurufat Hotel is located near Makarem Umm Alqura Hotel in close vicinity of Kudai district, 1800 meters away from the Holy Mosque. It's a 7-storey modern building housing 104 luxurious rooms.

**104** Rooms

**Owner**  
Assila Investment Company

**Operator**  
Dur Hospitality Company



## Al-Andalus Residence Compound

This compound is located in Al-Andalus district branches off Tahlia Street in Jeddah. The property features 30 luxurious villas furnished to five-star hotel standards. All villas in the compound enjoy the luxury of total privacy, security, and a familial atmosphere in addition to business services, sports, and recreational facilities, and drivers' rooms.

**30** Furnished Villas

**Owner**  
Assila Investment Company

**Operator**  
Dur Hospitality Company



## Al-Rawdah Residence Compound

Al-Rawdah Residence Compound is located in Jeddah and comprised of 28 residential villas of different sizes, parking lots, administration and support services building and a fitness center. The compound enjoys an air of tranquility and familial privacy, luxurious hotelier service, and elegant design.

**28** Furnished Villas

**Owner**  
Assila Investment Company

**Operator**  
Dur Hospitality Company



## Al-Jazira Bader Compound

Al Jazira Bader compound occupies a unique location at the quarter East of Riyadh. The compound has 40 two-floor luxuriously furnished villas.

The compound is characterized by privacy, security, peaceful family atmosphere as well as sports facilities and transportation.

**40** Furnished Villas

**Owner**  
Assila Investment Company

**Operator**  
Dur Hospitality Company

## Dur Al-Maather Compound

Al-Maather Compound is located in Al-Maather District in Riyadh and comprised of 73 villas of different sizes, as well as integrated fitness center and car parking facilities. It is strategically located, making it easy for occupants to reach government departments and large corporations all over Riyadh. The compound also offers a welcoming feeling, spacious walkways, upscale and unmatched organization, in addition to beautiful landscaping providing families with a wonderful healthy atmosphere.

**73** Furnished Villas

**Operator**  
Dur Hospitality Company

**Owner**  
Saudi Commission for Health Specialists



## Dur Alyasmin Residential Compound

Al-Yasamin Residential Compound is located at 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, parking lots and other facilities. The compound will be up and running in the first quarter of 2016.

**168** Residential Units

**Owner**  
Assila Investment Company

**Operator**  
Dur Hospitality Company

## 2-2 Projects Sector

We derive competitive advantage from our experience and specialty in the development of hotels and residential compounds projects, where we attempt to improve the execution processes on a sustainable basis to ensure that progress of the project is in line with the plans, given time, cost and quality. In light of the above.

We hold ourselves to the highest of standards thus we work hard to develop methods to comply with the best international practices to achieve the desired goals. This is what truly moves us forward.

Following is a breakdown of the most important projects we have accomplished during 2015 in addition to our under development projects.



### Completed Projects

The Launch of Makarem Ayyad Makkah Hotel new identity

Re-launch of Holiday Inn Hotel Tabuk

2



### Projects in progress

Renovation of Anna-kheel Hotel and Resort

Development of Riyadh Marriott Hotel & Marriott Hotel Suites at Riyadh Diplomatic Quarters

Development of Darraq Project (Phase 3)

Development of Darraq Project (Phase 4)

Development of Twaiq Housing Compound

Development of Alwadi Residential Compound

6



### Projects under study and design

Development of a hotel in Aljubail

Expansion of Holiday Inn Hotel-Tabuk

Expansion of Makarem Annakheel Hotel & Resort

Development of Hotel Suites building in Tabuk

Development of Makarem Riyadh Hotel at King Khaled International Airport

Development of a hotel in Jeddah

Development of a hotel in Al-Ahsa

Development of Al-Hada Residential Compound-Riyadh

Development of King Khaled Street land

Development of a hotel in Yanbu

10



## 2.2.1 Completed Projects

### **The Launch of Makarem Ayyad Makkah Hotel New Identity**

The renovation work of Makarem Ayyad Makkah Hotel is completed in accordance with the new identity for Makarem. The hotel boasts 411 guest rooms and suites, meeting rooms and restaurants, so as to cope with the strategic plan to re-launch Makarem with a new identity in the cities of the Two Holy Mosques. These hotels offer religious experience to its guests and establish high standards of hospitality in line with the best international standards.

### **Re-launch of Holiday Inn Hotel Tabuk**

During the last year, Dur re-launched the Holiday Inn Hotel Tabuk to replace former Makarem Tabuk Hotel. The Holiday Inn Tabuk Hotel is the first hotel developed under the initial development agreement concluded with InterContinental Hotels Group (IHG).

The agreement includes plans to develop a number of IHG branded hotels to be operated under franchise agreements.

### **Renovating Annakheel Hotel and Resort**

Makarem Annakheel Hotel and Resort is currently under a swift renovation. It features 112 luxury villas, 21 executive apartments, a 43-room and suite hotel, as well as meeting rooms, a restaurant, a fitness club for men and a spa for women, a marina for yachts and marine activities, sandy beaches halls and a seaside Plaza which can accommodate 800 people.

Dur has completed the hotel renovation as well as the first 4 phases of the villas and hotel apartments. Work is underway to renovate the remaining villas and hotel apartments as per the project plan.

### **Development of Riyadh Marriott Hotel & Marriott Executive Apartments at Riyadh Diplomatic Quarters**

The project execution work has commenced on a 25,000 square meters' land inside the Diplomatic Quarter in Riyadh. The project comprises an 80-rooms hotel and 140 luxurious 5-star serviced apartments, a main restaurant, meeting rooms, a banquet hall, a fi center and parking lots.

Execution will take 24 months. An agreement has been made with Marriott International Inc. to manage and operate the hotel.



## 2.2.2 Projects in Progress



## Projects in progress

### **Darraq Project Development (Phase 3)**

The total costs of the third phase of Darraq Project will be SAR 224 million. The 90 villas and 35 residential apartments project will be constructed on a land leased from the High Commission for the Development of Riyadh within the Diplomatic Quarter in Riyadh, with a total area of 44,981 square meters.

All residential units feature smart home systems to provide more protection, luxury and comfort. Sustainable development as well as energy consumption rationalization techniques are also applied.

### **Darraq Project Development (Phase 4)**

The contractor has been given approval to proceed with execution of phase 4 of Darraq project at a total cost of SAR 180 million. The 59 villa and 45 apartment project will be constructed on land plots rented from the - within the Diplomatic Quarter in Riyadh, with a total area of 52,729 square meters.

These units are also characterized by smart home systems to provide sustainable development as well as energy consumption rationalization techniques.

### **Development of Twaiq Housing Compound**

The company is keen to upgrade the services provided to its employees and hence it is constructing a 464-room housing compound for its hotel employees over a land plot of approximately 7,000 square meters in Twaiq district, in the western side of Riyadh. The compound will include several recreational facilities such as gardens, playgrounds and a fitness club.

### **Development of Alwadi Housing Compound**

Dur is keen to upgrade the services provided to its employees and hence it is constructing a 66-apartment housing compound for the families of its hotel employees over a land plot of approximately 5,000 square meters in Wadi Laban district, in the western side of Riyadh.

The compound will include several recreational facilities such as gardens, playgrounds and a fitness club.



## 2.2.3 Projects Under Study and Design

### Hotel Development in Jubail

The Royal Commission for Jubail and Yanbu has approved the allocation of two land plots in Jubail Industrial City of a total area of approximately 10,000 square meters, for construction and operation of a cheap hotel and shops. The completion of the project is expected to take 24 months.

### Expansion of Makarem Hotel & Resort

The addition of 107 luxury hotel rooms and a banquet hall as well as the renovation of the marina in Makarem Annakheel hotel, which is located on the northern bay of Abhor in Jeddah are under study, so as to enhance the hotel's competitiveness in Jeddah market as well as meeting the huge demand that is currently seen in the city. It is expected to issue a notice to proceed to the contractor in mid-2016 with an execution period of 24 months.

### Expansion of the Holiday Inn Hotel Tabuk

The design of an additional banquet hall that can accommodate up to 400 people is underway along with the development of the current service area of the hotel, which is strategically located on Al-Madina - Tabuk road, in an area that is considered to be the best in Tabuk.

### Development of Ho- tel suites building in Tabuk

The design of a luxurious executive suites building comprising 60 units with provided amenities, is ongoing. The building will be located in the vicinity of the Holiday Inn Hotel Tabuk.

### Development of Makarem Riyadh Hotel (Airport)

The company is currently working on the development of Makarem Riyadh Hotel (Airport) by adding an expansion of 100 rooms and suites as well as a spa for ladies. The company is working also on renovating all of the current hotel rooms and components, such as the lobby, restaurants and public areas. The company will operate the hotel through an international hotel brand.

### Hotel Development in Al-Ahsa

The company announced its acquisition of a land plot in Hofuf, the governorate of Al-Ahsa totaling to 10,135 square meters in area, for the development of a hotel. The company is currently investigating the best investment and design options for the development of the hotel. A proper consulting firm will be engaged to develop the designs. designs and permits are being finalized to commence the work in the hotel.

### Hotel Development in Jeddah

According to the strategic expansion plan, Dur is studying the construction of a hotel comprising of 250 rooms and serviced apartments. The project will be developed on a land plot of approximately 3,850 square meters at Al-Madina road, Al-Mohammadiya district, Jeddah. Soil studies, surveys, designs and permits are being finalized to commence the work in the hotel.

### Development of Al-Hada Residential Compound

A study is underway to develop Al-Hada Residential Compound Project comprising 106 apartments on a plot of approximately 20,000 square meters in Al-Hada district, Riyadh.

### Development of King Khaled Street Land

The company is currently studying the development of a land plot with a total area of approximately 29,500 square meters, which was previously acquired by the company, on King Khaled Street in Riyadh. The company is investigating the best options for its development, and will invite international consulting firms to carry out the project design.

### Hotel Development in Yanbu

The Royal Commission for Jubail and Yanbu has rented a land plot in Yanbu Province totaling to 7467 square meters to develop a 150 room and serviced apartment hotel. The company is currently investigating the best investment and design options for the development of the project. A proper consulting firm will be engaged to develop the designs.

## 2 - 3 Human Resources; Beyond Potentials

In 2015, the company made substantial efforts and achievements in developing its human resources. Below is an outline of the most important endeavors:

### Job Satisfaction Survey

With the goal of measuring employee satisfaction at Dur, a comprehensive survey covering all career levels has been conducted. The survey aims to determine the company's areas where improvement is needed. Dur will always seek development and improvement to assume higher ranks in the near future.

### Workforce Nationalization – Saudization

In line with our direction to build and qualify national talents, Dur worked relentlessly to attract the best Saudi candidates at all company levels. Our Human Resources Division signed several agreements with national training centers in the hospitality sector for attracting, training and employing. Dur has managed to raise its nationalization ratio to 33%.

### Performance Management and Assessment

A performance appraisal system has been developed to identify the outstanding employees and continuously reward and encourage them. Which also helps the average employees improve themselves through semi-annual assessments and end-of-year performance evaluation based on two main factors:

1. Appraisal based on measurable performance objectives and defined by a specific period.
2. Appraisal based on behavioral, professional and leadership competencies assigned for each job.

### Incentives and Remuneration

In Dur, we firmly believe in motivating our staff and rewarding them for their efforts, innovation and devotion. Incentives plans link remuneration with performance and reaching targets. The program also helped to promote Saudi employees to work in the company's projects, and setting suitable and motivational allowances to rely fully on them for the company's future expansion plans.

### Training and Development

Stemmed from our belief in the importance of developing our human resources, we constantly pursue to invest in training our employees to upgrade their proficiency and help them contribute to realizing the company's ambitious plans. In 2015, we have conducted more than 3,478 man-hours of training as compared to 2,250 man-hours in 2014, a significant rise by 50%. These courses covered many fields as general skills, project management, strategic planning, leadership and team building.

### Knowledge Sharing

In 2015, we continued our trend of holding in-house workshops that contribute to sharing knowledge and experience among the company's internal departments. 16 workshops were held, since the launch of this activity in mid-2014, in various topics related to the growth and development of the work environment.

Those include:

- Investment Control Process;
- Vitality in Common Work Areas;
- Together to Secure a Sustainable Environment;
- Performance Management;
- Green Buildings; and

## Forward-Looking

We aspire to develop our HR processes further and increase their efficiency by next year. As we seek to:

- Attain Saudization ratio of 38% by the end of 2016;
- Complete the methods of human resources in regard to training, performance measurement and recruitment processes;
- Design and develop employee career plans as well as progressive plans for key positions;
- Develop the incentives and rewards` plan to suit the functional groups;
- Complete the training and development in various related fields; and
- Support talents by planning their career paths to qualify them for leadership positions.

	2013	2014	2015
<b>Saudization Ratio</b>	21%	24%	33%



# 2 - 4 Corporate Initiative

As a Saudi exemplar in the hospitality sector in the Kingdom, and in line with our new identity, we attach utmost importance to the service of the community and the environment. We exert continuous efforts to develop social programs through which we can provide our expertise and capabilities, and develop creative and innovative ideas that reflect positively on the social life. In this context, our Social Responsibility Committee defined their strategic objectives then implemented a number of programs activities and initiatives. Following is a summary of the most prominent CSR achievements in 2015:



## Blood Donation Program

Our head office Social Responsibility Committee organized, in collaboration with the Blood Bank Center at King Faisal Specialist Hospital, a blood donation campaign for employees of the company. This campaign comes in continuation of the blood donation campaigns undertaken by the company periodically.



## “Naqaa” Recycling Program

We launched during this year, “Naqaa Program”, which aims to raise the awareness of natural resources conservation and recycling methods. Special containers have been placed at the headquarters for waste sorting and screening and provide periodic reports on the company’s performance in the consumption of paper and the best methods to minimize such consumption, which we aspire to standardize in all company premises.



## Sponsorship of the initiative “Smile, you are Blessed”

In cooperation with the team of the initiative “Smile, you are blessed” to support cancer patients, we organized an Iftar ceremony for cancer children and their families at «Makarem Riyadh Hotel». We also hosted the group of volunteers to conduct their annual celebration.

The activities of the initiative “Smile, you are Blessed” has been working to support cancer patients for more than two years to raise awareness of cancer and the importance of early diagnosis, provide emotional support to patients and their families and establish awareness programs of cancer, along with the provision of educational and entertainment services and initiatives for people suffering from cancer across the Kingdom.

## Signing an Agreement with the Saudi Food Bank “Ita`am”

Recently, we have signed a cooperation agreement with the Saudi Food Bank “Ita`am” in order to save the leftovers surplus of our hotels, restaurants and wedding halls and distribute the excess of it in accordance with the international quality and safety standards. The agreement also raises awareness of the need for proper handling of food leftovers, and maintains optimum use of, and benefit from the surplus.



## Durna Program to Host Events

Over the past year, we have hosted a number of events in order to contribute to the institutions and social service charities, including:

- Hosting the Council of Saudi Committee for Parkinson patients;
- Hosting the contest of “Be for Health”, a Tasami initiative of social entrepreneurship; and
- Hosting the Board of Directors meeting of the Saudi ADHD Society (AFTA)

# Financial and Operational Performance

3 - 1 Financial Results` 5-Year  
Summary

- 1. Income Statement
- 2. Statement Of Assets  
& Liabilities
- 3. Statement Of Changes In  
Shareholders' Equity

3 - 2 Long-Term Borrowings

3 - 3 Main Activities Contributing  
To Revenues

3 - 4 Geographical Distribution Of  
Revenues

3 - 5 Statutory Payments Due

3 - 6 Dividends Policy

3 - 7 Risks

# 3 - 1 Financial Results` 5 Year Summary

## 3.1.1 Income Statement

The tables below provide a reconciliation of the company's income statement results as for the past five years:

SAR'000	2011G	2012G	2013G	2014G	2015G	Change 14/15	Change (%) 14/15
<b>Revenues</b>	358,033	396,103	432,438	479,548	532,620	53,072	11%
<b>Cost of revenues</b>	(201,012)	(235,080)	(294,055)	(312,078)	(353,421)	(41,343)	13%
<b>Gross profit</b>	<b>157,021</b>	<b>161,023</b>	<b>138,383</b>	<b>167,470</b>	<b>179,199</b>	<b>11,729</b>	<b>7%</b>
<b>General &amp; administrative expenses</b>	(14,583)	(17,000)	(19,114)	(31,567)	(35,863)	(4,296)	14%
<b>Selling and marketing expenses</b>	-	-	-	(588)	(1,195)	(607)	103%
<b>Impairment of property and equipment</b>	-	-	-	(49,733)	-	49,733	(100%)
<b>Impairment of available-for-sale investments</b>	-	-	-	-	(2,411)	(2,411)	-
<b>Income of investments in equity accounted investees</b>	-	5,986	11,903	6,943	2,808	(4,135)	(60%)
<b>Operational Profit</b>	<b>142,438</b>	<b>150,010</b>	<b>131,173</b>	<b>92,525</b>	<b>142,538</b>	<b>50,013</b>	<b>54%</b>
<b>Other income</b>	16,751	57,768	18,792	19,667	8,419	(11,248)	(57%)
<b>Net income before Zakat and non-controlling interests</b>	<b>159,189</b>	<b>207,778</b>	<b>149,965</b>	<b>112,192</b>	<b>150,957</b>	<b>38,765</b>	<b>35%</b>
<b>Zakat provision</b>	(5,276)	(8,011)	(6,630)	(8,052)	(5,421)	2,631	(33%)
<b>Net income before non-controlling interests</b>	<b>153,914</b>	<b>199,768</b>	<b>143,335</b>	<b>104,140</b>	<b>145,536</b>	<b>41,396</b>	<b>40%</b>
<b>Share of non-controlling interest in the net profit of the subsidiaries</b>	(545)	(90)	(314)	(373)	(1,162)	(789)	212%
<b>Net income</b>	<b>153,368</b>	<b>199,676</b>	<b>143,021</b>	<b>103,767</b>	<b>144,374</b>	<b>40,607</b>	<b>39%</b>

- Some figures in the report have been restated to cope with the method of presentation for the financial year.
- Due to Dur's acquisition of (70%) of the Saudi Hotel Services Company capital, the income statements of that company has been consolidated with the financial statements of Dur as of 01 / 05 / 2015.



The Board of Directors approved the final financial results of the company for the fiscal year 2015. The rise of revenues for the key activities contributed to the growth of the total business revenues to SAR 533, higher by 11% compared to 2014. Net Operating Income was approximately SAR 143 million, an increase of SAR 50 million or 39% over 2014.

Operational Profit	143 Million Riyal
Growth amount	50 Million Riyal
Growth% vs 2014	54%

2015 net profit increased to SAR 143 million, up by 39% compared to 2014 as a result of improvement in most of the company's operating facilities. The corresponding period last year was affected by disposal of the residual net carrying value of fixed assets for each of Arrawdah and Alwatan parks amounting to SAR 50.8 million, according to the company's strategic plan to exit from entertainment industry. It was also affected by the extraordinary rise in the gain from the sale of the residential complex at Al Ma'ather district in Riyadh for a total amount of SAR 14.5 million. Notably, there was an increase in general and administrative expenses due to the expansion of the company's activities and a decrease in the company's share in the profits of investees.

## 3.1.2 Statement of Assets & Liabilities

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

Statement (SAR'000)	2011G	2012G	2013G	2014G	2015G
Total Current Assets	235,206	297,541	306,078	408,692	336,599
Total Non-current Assets	456,655	206,661	264,986	303,608	296,360
Net Property and Equipment	1,269,810	1,543,490	1,535,318	1,424,467	1,647,559
<b>Total Assets</b>	<b>1,961,672</b>	<b>2,047,692</b>	<b>2,106,382</b>	<b>2,136,767</b>	<b>2,280,518</b>
Total Current Liabilities	179,928	197,294	178,228	209,284	211,565
Total Non-current Liabilities	57,723	54,258	123,295	144,252	238,788
<b>Total Liabilities</b>	<b>237,651</b>	<b>251,552</b>	<b>301,522</b>	<b>353,536</b>	<b>450,353</b>
Total Equity	1,706,570	1,789,056	1,801,209	1,779,270	1,793,706
Non-controlling interest	17,450	7,084	3,651	3,961	36,458
<b>Total Liabilities &amp; Equity</b>	<b>1,961,672</b>	<b>2,047,692</b>	<b>2,106,382</b>	<b>2,136,767</b>	<b>2,280,518</b>
Ratio of Equity to Assets	86%	87%	85.50%	83%	80%

• Due to Dur's acquisition of 70% of the Saudi Hotel Services Company, the financial statements of that company has been consolidated with the financial statements of Dur starting from 2015.

## 3.1.3 Statement of Changes in Shareholders' Equity

The following table shows the statement of change in shareholders' equity for the past five years:

Year	Shareholders' Equity (SAR '000)	Increase (Decrease)	Change (%)
2015	1,793,706	14,000	0.8%
2014	1,779,270	(21,939)	-1.2%
2013	1,801,209	12,153	0.7%
2012	1,789,056	82,486	4.8%
2011	1,706,570	43,652	2.6%

## 3-2 Borrowings

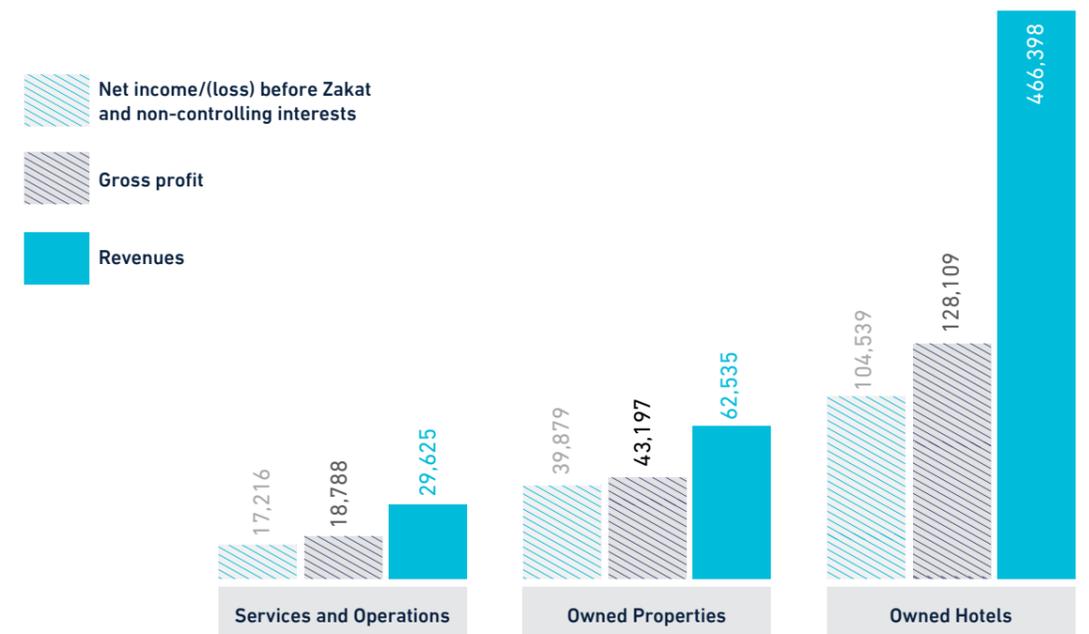
The Company obtained several loans to finance different projects as follows: (in Saudi Riyals)

Description	Total Loan Amount	Total payments received from the Loan	Received from the Loan during the Year	Total installments paid during 2015	Total Repayments	Balance as at the end of 2015	Due payments during 2016	Note
Governmental Loans	80,000,000	80,000,000	-	6,785,714	75,000,000	5,000,000	2,500,000	Repayment will be completed by the end of 1438H
Local Bank Loans (Islamic Murabaha)	577,700,000	196,665,668	96,778,531	3,448,104	3,448,104	193,217,564	6,865,045	Repayment will be effected on instalments during a period of 7 - 10 years starting 2015
<b>Total</b>	<b>657,700,000</b>	<b>276,665,668</b>	<b>96,778,531</b>	<b>10,233,818</b>	<b>78,448,104</b>	<b>198,217,564</b>	<b>9,365,045</b>	

## 3-3 Main Activities Contributing to Revenues

The table below shows the contribution of the three main activities in the total revenues of the company as well as other related aspects during 2015:

Statement (SAR'000)	Owned Hotels	Owned Properties	Services and Operations	Others	Exchanged Transactions	Total
Revenues	466,398	62,535	29,625	4,358	(30,297)	532,620
Cost of Revenues	(338,289)	(19,338)	(10,837)	(14,429)	29,472	(353,421)
Gross profit	128,109	43,197	18,788	(10,070)	(825)	179,199
Net income/(loss) before Zakat and non-controlling interests	104,539	39,879	17,216	(10,677)	-	150,957



### 3 - 4

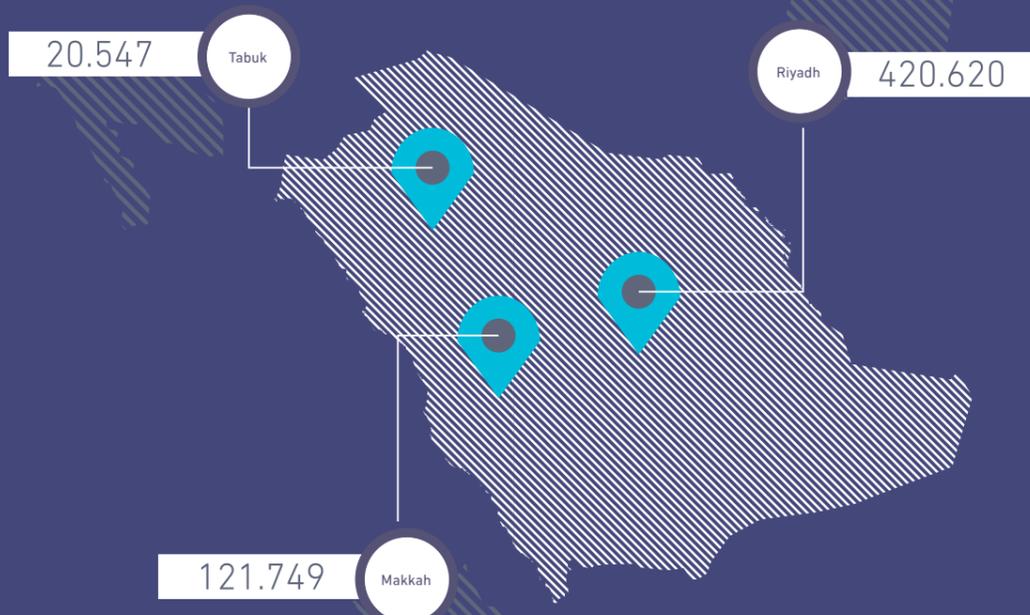
## Geographical Distribution of Revenues

Dur's activities are distributed in three main geographic regions within the Kingdom, namely Riyadh, Makkah and Tabuk.

The following table shows the income distribution in the three areas:

Region (in SAR'000)	Revenues
Riyadh	420,620
Makkah	121,749
Tabuk	20,547
<b>Total</b>	<b>562,917</b>
Exchanged transactions	(30,297)
<b>Total (Net)</b>	<b>532,620</b>

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



### 3-5

## Statutory Payments Due

The following table outlines the statutory payments due by the company and its subsidiaries as at the end of 2015:

Description	Dues as the end of the year
Social Insurance Contributions	515,757

The company and its associate companies are subject to Zakat according to the regulations of the Department of Zakat and Income Tax (DZIT) in Saudi Arabia. The Zakat provision is recognized annually and charged to the income statement at the end of each year, after being audited by a chartered accountant. Zakat provision for the company and its associate companies for the year 2015 was SAR 5,420,873 .

The company and its associates are submitting their zakat declarations independently based on financial statements of every company. Dur Hospitality has provided its Zakat declarations to DZIT until the end of the fiscal year 2014. The subsidiaries have not been able to pay their dues until the fiscal year 2014 due to the request of some documents by DZIT, which the company is working to satisfy. The Zakat due on the subsidiaries and still pending until the fiscal year 2014 amounted to SAR 3,045,549.

## 3-6 Dividends Policy

12%

Total recommended dividend distribution for 2015 amounting to SR 120 million, representing 12% of Capital

1. The Company's dividend distribution is primarily aligned to net earnings are distributed in compliance with Article 42 of its By-Laws as outlined below:
  - Set aside the determined Zakat;
  - 10% of the net profits shall be withheld to form a statutory reserve. The Ordinary General Assembly may discontinue this withholding of the net profits when the said reserve reaches half of paid-up capital. The balance of the reserve reached 50% of the capital;
  - 5% of the net profit shall be set aside to form an additional reserve allocated for maintenance works and other purposes determined by the Board of Directors. This provision may be discontinued when the reserved amount reaches one-tenth of the company's capital. The balance of this reserve reached more than 10% of the capital;
  - Part of the remaining balance shall be distributed to the Shareholders as an initial payment which shall represent 5% of the paid-up capital; and
- An amount of the remaining funds shall be used to reward the company's Board Members as permitted by the regulations of the competent authorities. The remaining shall be entirely or partially distributed among the Shareholders as an additional share in the profits or carried forward to other years.
2. As the company is keen to reward its shareholders and meet their expectations, and thanks to the company's impressive growth and expansion, the Board of Directors has decided to distribute dividends to shareholders for the first half of 2015 at 50 Halala per share, totaling to SAR 50 million. The board recommended in its session held on 15/02/2016 to distribute 70 Halala per share for the second half of 2015 totaling to SAR 70 Million. This brings the total amount of dividends distributed for 2015 to 120 Halala per share representing 12% of the Company's capital after obtaining approval of the Shareholder Meeting on the date to be announced later on Tadawul's website.

The following table outlines the net profits for the last 5 years and the cash dividend distributions:

Year	Net Income (SAR)	Cash Dividends (SAR)
2015G	144,373,794	120,000,000*
2014G	103,989,443	120,000,000
2013G	143,020,655	120,000,000
2012G	198,869,434	150,000,000
2011G	153,368,477	103,509,146

\* Subject to the approval of the Shareholders Assembly

# 3-7 Risks

In the ordinary course of any business, the financial position of the company is routinely subject to a variety of risks. The potential risks that may be facing Dur are as follows:

## Risks Related to Market and Nature of Business

1. Hajj and Umrah seasons are adversely affected due to external regulatory conditions or factors;
2. Competition increase in the hotel market in Riyadh, which may influence the performance of the company's hotels in the same city;
3. Change of policies and regulations of concerned government agencies, especially labor office regulations and nationalization percentages;
4. Rise in essential services' fees and prices such as power, water, and consumables;
5. External and economic factors that may influence the development and completion of projects; and
6. Economic conditions and decline in oil prices, which could lead to reduced public spending.

## Credit Risks

The risk resulting from failure of a party to meet its financial obligations when becoming due, which caused financial losses to the other party. And also the financial assets that are likely to expose to concentrations of credit risk consist primarily of cash at banks and trade receivables. The company's cash is deposited in local banks of good credit rating, so credit risk is limited.

The credit risk of trading receivables is also limited because most of the company's transactions are concentrated with high net worth clients. The company's management monitors and follows up the balances of trade receivables to minimize any credit risk related to them, follow their collection and take any necessary action to protect the company interests.

## Currency Rate Fluctuations

This type of risk relates to the possible fluctuations in financial assets and liabilities denominated in the relative values of foreign currencies. However, because most of the company's major transactions are done in Saudi Riyals, the currency and exchange risks of the company are minimal.

## Interest Rates Risks

The level of these risks is primarily associated with changes in commissions' rates prevailing on the financial position and cash flows of the company. The Company's commission rate risk arises from Islamic Murabaha, short-term loans, and long-term bank debts, which have floating commission rates. All debts and deposits are subject to re-pricing on a regular basis. The management monitors changes in commission rates and believes that risks of fair value and cash flows of commission rates are not significant for the company.

## Liquidity Risks

Liquidity risk is the risk when the group will encounter difficulty in raising funds to meet commitment associated with financial portfolio. Liquidity risk may result from the inability to sell a financial asset quickly at an amount close to its fair value. The mitigation of this requires constant monitoring to ensure availability of sufficient liquidity with the company, through follow-up of expected collection schedules from the clients as well as the bank funding instruments available to the company to meet its future obligations when due.

# Transparency and Disclosures

4 - 1 Subsidiaries and Affiliates

4 - 2 Disclosures

4 - 3 Annual Review Results

4 - 4 Corporate Governance

4 - 5 Board of Directors

4 - 6 Board Committees

4 - 7 Executive Management

4 - 8 Transactions with Related Parties

4 - 9 Major Shareholders

4 - 10 Applying International Accounting Standards Conclusion

## Transparency and Disclosure

Based on our commitment and relations towards our shareholders, investors, and stakeholders, and in accordance with our belief in the importance of transparent communication, we hereby include in the following section the most important disclosures as well as the financial results. These records are in accordance with the Corporate Governance Requirements issued by the Capital Market Authority (CMA) and other related laws and regulations as follows:

### 4-1 Subsidiaries and Affiliates

The investees of Dur Hospitality Company are 12 companies, all of them are limited liability companies ,except for the Saudi Heritage Hospitality Company "Nuzul" which is a closed joint stock company All investees have been established and conducting their business in Saudi Arabia and focus their activities on hotel and real estate business, as illustrated below:

Company Name	Main Activity	Capital (SAR)	Subsidiaries	Contributed	Total Revenues – 2015 (SAR)
Makkah Hotels Co. Ltd	Hotels	165,600,000	Makarem Ajyad Makkah Hotel	99.44%	83,939,892
An Nakheel Company for Tourist Areas	Hotels - Real Estate	59,250,000	Makarem An Nakheel Village Jeddah	98.73%	38,954,878
Tabuk Hotels Co, Ltd	Hotels	27,300,000	Makarem Tabuk Hotel	97.14%	20,559,941
Saudi Hotel Services Company	Hotels	100,000,000	Riyadh Palace Hotel - Riyadh	70%	22,810,282
Al Madinah Hotels Co, Ltd	Hotels - Real Estate	1,000,000	-	50%	Under liquidation
National Company for Tourism	Hotels Real Estate	422,000,000	A Number of premises in Aseer	1.65%	Incomplete Final Accounts Preparation
Makarem Al Maarifa Hospitality Co, Ltd	Real Estate	21,400,000	Under study in Madinah	50%	Not yet in business
Media Marketing Services Co	Marketing/ Promotion Public Relations	2,000,000	-	25%	Under liquidation
Security Source Co, Ltd	Safety and Security	100,000	-	95%	Not yet in business
Joud Al Alya'a Co, Ltd	Buildings and Constructions	100,000	-	99%	Not yet in business
Asswae'd Alkareema Company	Provision of maintenance services	100,000	-	99%	Not yet in business
Saudi Heritage Hospitality Company (Nuzul)	Hospitality	62,500,000	-	25%	Recently established

No debts have been issued from any of the entities mentioned above.

## 4-2 Disclosures

An active and open communication policy ensuring prompt and continuous information dissemination is an important component of the value-based management approach at Dur. The company is committed to disclosing all relevant information related to its business activities and financial results with transparency. Up-to-date information is likewise incorporated in the regular financial reporting undertaken by the Company. Following is an outline of such disclosures:

The board acknowledges that :

- The charts of accounts have been prepared accurately.
- The internal control system is sound and has been effectively implemented.
- There is no doubt as that the Company's is able to proceed its ongoing business.
- No deviation from SOCPA standards except the company's investments in Makarem Al-Ma`arifa Hospitality Co. where the Equity Method is used for evaluating business investments in 2015 since this company has not started its activities yet, as well as the Marketing Media Company that went into liquidation.
- The company has not received any communication regarding any interest in shares that are eligible for votes belonging to persons (other than members of the Board of Directors and senior executives and their relatives) informing the company of such rights under Article 45 of CMA's Listing Rules.
- The company has no transferrable debt categories, contractual securities, subscription right memorandums, or similar rights issued or granted by the Company during the financial year.
- There were no convertible or subscription rights attached to the debt that are convertible into shares, options, warrants, or similar rights issued by the Company.
- There was no redemption, purchase or cancellation by the company or its associates of any redeemable debts.
- There was no arrangement under which a member of the Board of Directors or a senior executive has waived his salary or compensation.
- There was no arrangement or agreement whereby any shareholder has waived his rights for profits.
- There were no specific investments or set aside reserves, established for the company's employees except the provisions for end-of-service benefits as stipulated in the Saudi Labor Law. The provision for the end of service benefits for Dur's employees as at 31 December 2015 amounted to SAR 49,864,190.
- The chartered accountant didn't conceal any of the company's annual financial statements.
- The Board of Directors has not recommended replacing the chartered accountant before the end of his designated period.
- No penalties, sanctions or precautionary restrictions have been imposed on the company by any regulatory, supervisory or judicial bodies during the fiscal year 2015.

## 4-3 Annual Review Results

The company works continuously on developing the internal control system and implementing it effectively. The company has an Internal Audit Department to ensure the application of appropriate control systems and identify the risks that the company might encounter and how to deal with them in transparency.

The Internal Audit Department also verifies the company's various transactions according to the approved audit plan, reviews all documents, transactions, and reports regularly to the Audit Committee and Board of Directors.

During the year, the Internal Audit Department reported its auditing findings and raised some recommendations. No fundamental observations requiring any corrective actions were found. The standard observations contained therein are being followed up and avoided.

## 4-4 Corporate Governance

The company implements all the provisions of the Corporate Governance Regulations issued by the Capital Market Authority, except for the following:

Article No.	Article Text	Reason of Non-compliance
Article 6-B	In voting in the General Assembly for the nomination to the board members, the accumulative voting method shall be applied.	Because the Shareholders general meeting has not approved this provision.
Article 6-D	Investors who are judicial persons and who act on behalf of others - e.g. investment funds- shall disclose in their annual reports their voting policies, actual voting, and ways of dealing with any material conflict of interests that may affect the practice of the fundamental rights in relation to their investments.	Because this provision does not apply to the company.
Article 12-I	A judicial person who is entitled under the company's Articles of Association to appoint representatives in the Board of Directors, is not entitled to nomination vote of other members of the Board of Directors.	Because this provision does not apply to the company. All board members are elected through voting in the shareholders general assembly.

## 4-5 Board of Directors

The board of directors consists of the following members in its tenure expired on 31/ 12 / 2015\*

Name	Membership Category	Number of Shares Owned at the beginning of the year	Number of Shares Owned at the end of the year	Change	Membership in Other Joint-Stock Companies
Eng. Abdullah bin Mohammad Al Issa (Chairman)	Non-executive	1,449	1,449	-	1. Riyadh Bank 2. SABIC 3. Arabian Cement Co. 4. Mobily
Dr. Saleh bin Ali A Hathloul	Independent	1,449	1,449	-	-
Mr. Ali bin Ibrahim Al Ajlan (Representative of Public Investment Fund)*	Independent	16,628,458	16,628,458	-	-
Mr. Talal bin Abdul Muhesen Al Malafekh (Representative of Public Pension Agency)	Independent	1,743,215	1,743,215	-	National Company for Tourism (Unlisted)
Mr. Nasser bin Mohammad Al Subaiei	Independent	1,000	1,000	-	1- Bank Albilad 3. Mohammed Ibrahim Al-Subaie & Sons Company (Unlisted) 4. Akwan Real Estate Company (Unlisted) 5. Argan Projects Company (Unlisted)
Mr. Abdullah bin Mohammad Alabduljabbar (Representative of the General Organization for Social Insurances)	Non-executive	6,540,591	6,540,591	-	-
Mr. Badr bin Abdullah Al Issa	Non-executive	1,485	1,485	-	1. Savola Group 2. Alfransi Capital (Unlisted) 3. Economic Knowledge City Company 4. Savola Group 5. United Sugar Company (Unlisted) 6. Panda Retail Company (Unlisted) 7. Afia International Company (Unlisted) 8. Assilah Investment Co (Unlisted)
Mr. Fahad bin Abdullah Al Qassim	Independent	1,100	1,100	-	1. Dallah Health Services Company 2. Jarir Marketing Co. 3. Savola Group 4. Abdullatif Alissa Group Holding (Unlisted) 5. Fahd bin Abdullah bin Abdulaziz al-Qasim and Sons Company for Trade and Investment (Unlisted) 6. Saudi hospitality heritage Company (Unlisted)
Mr. Mus'ab bin Sulaiman Al Muhaideb	Independent	1,000	1,000	-	1. Several companies from Al-Mhaideb Group (Unlisted) 2. Goldman Sachs Saudi Arabia (Unlisted) 3. Masdar Company for building materials (Unlisted) 4. Shaker Group

- The Board of Directors acknowledges that, with the exception of the company's shares owned by the members of the Board of Directors and described in the table above, there are no special interests, option rights, offering rights or engagements to the board members, their wives, or their minor children in the company or its subsidiaries, whether in the company's shares or engagements with direct or indirect contracts, etc.
- No shares have been issued to the wives of board members and their minor children in the company. No shares also are owned by representatives of the legal entities in the Board of Directors, their wives and minor children.

\* As the previous tenure of the board expired on 31/ 12 / 2015 , the board members have been re-elected for a new tenure of three years starting from 01/ 01 / 2016 for a. Engineer / Fahad Bin Abdullah Al-Sharif is elected as the representative of the Public Investment Fund, instead of Mr. Ali bin Ibrahim Al-Ajlan. On this occasion, the Board wishes to record appreciation for his Excellency for his efforts during the past period. The board also welcomes the new member Engineer / Fahd bin Abdullah al-Sharif and wishes him success.

## 4.5.1 Board of Directors Meeting' Record

### Board of Directors Meetings Record, 2015

There were five meetings of the Board of Directors during 2015. The following table depicts the members' attendance to these meetings:

	Name	1st Meeting 2015/02/19	2nd Meeting 2015/04/07	3rd Meeting 2015/06/02	4th Meeting 2015/10/20	5th Meeting 2015/12/15	total
1	Eng. Abdullah bin Mohammad Al Issa	✓	✓	✓	✓	✓	5
2	Dr. Saleh bin Ali Al Hathloul	✓	✓	✓	✓	✓	5
3	Mr. Ali bin Ibrahim Al Ajlan (Representative of Public Investment Fund)	✓	✓	✓	✓	✓	5
4	Mr. Talal bin Abdul Muhsen Al Malafekh (Representative of Public Pension Agency)*	✓	✓	✓	✓	✓	5
5	Mr. Nasser bin Mohammad Al Sebaiei	✓	✓	✓	✓	✓	5
6	Mr. Abdullah bin Mohammad Al Abduljabbar (Representative of the General Organization for Social Insurances)	✓	✓	✓	✓	✓	5
7	Mr. Badr bin Abdullah Al Issa	✓	✓	✓	✓	✓	5
8	Mr. Fahad bin Abdullah Al Qassim	✓	✓	✓	✓	✓	5
9	Mr. Musa'ab bin Sulaiman Al Muhaidib	✓	✓	✓	✓	✓	5

## 4.5.2 Board Remunerations

The total compensation paid to members of the Board for attending the Board meetings and related committees' meetings as well as their remuneration for the year 2014 as approved by the Shareholders meeting held during the year, is listed in the table below.:

Name	Allowance For Attendance of Meetings	Bonus after Distribution of Dividends	Total
Eng. Abdullah bin Mohammad Al Issa (Chairman)	30,000	200,000	230,000
Dr. Saleh bin Ali Al Hathloul	33,000	200,000	233,000
Mr. Ali bin Ibrahim Al Ajlan (Representative of Public Investment Fund)	33,000	200,000	233,000
Mr. Abdullah bin Mohammad Al Abduljabbar (Representative of the General Organization for Social Insurances)	30,000	200,000	230,000
Mr. Talal bin Abdul Muhsen Al Malafekh (Representative of Public Pension Agency)	15,000	200,000	215,000
Mr. Nasser bin Mohammad Al Sebaiei	36,000	200,000	236,000
Mr. Badr bin Abdullah Al Issa	39,000	200,000	239,000
Mr. Fahad bin Abdullah Al Qassim	36,000	200,000	236,000
Mr. Musa'ab bin Sulaiman Al Muhaidib	30,000	200,000	230,000
<b>Total</b>	<b>282,000</b>	<b>1,800,000</b>	<b>2,082,000</b>

In 2015, an additional annual bonus of SAR 200,000 was paid to the Chairman of the Board for his efforts in serving the company. A lump sum bonus of SAR 50,000 for each member of the Audit Committee of non-members of the Board was also distributed for the fiscal year 2014 as directed by the Board.

# 4-6 Board Committees

## Nomination and Remuneration Committee

The Ordinary General Assembly of Shareholders approved at the meeting held on the 19th of March, 2013 the regulations and work framework of the Nomination and Remuneration Committee. The Committee held five meetings during 2015 and submitted its report to the Board of Directors. The Nomination and Remuneration Committee consists of:

As the previous tenure of the board expired on 31/ 12 / 2015 , the new board decided to re-form the committee for three years as of 01 / 01/ 2016. The Committee is composed of the following members:

- |    |  |          |
|----|--|----------|
| 1. | Engineer Abdullah bin Mohammad Al Issa   | Chairman |
| 2. | Mr. Abdullah bin Mohammad Al Abduljabbar | Member   |
| 3. | Mr. Musaab bin Sulaiman Almuhaideb       | Member   |
| 4. | Mr. Fawzi bin Abdulrahman Bubshait       | Member   |

	Name	Position	1st Meeting 2015/04/07	2nd Meeting 2015/06/02	3rd Meeting 2015/10/20	4th Meeting 2015/11/02	5th Meeting 2015/12/13	Total
1	Eng. Abdullah bin Mohammad Al Issa	Chairman	✓	✓	✓	✓	✓	5
2	Dr. Saleh bin Ali Al Hathloul	Member	✓	✓	✓	✓	✓	5
3	Mr. Abdullah bin Mohammad Al Abduljabbar	Member	✓	✓	✓	✓	✓	5
4	Mr. Fawzi bin Abdulrahman Bubshait	Member	✓	✓	✓	✓	✓	5

### Tasks of the Nomination and Remuneration Committee:

- Recommending the nominations for to the Board of Directors membership by approved policies and criteria (e.g. excluding any person previously convicted of a crime involving moral misconduct).
- Reviewing annually the skills needed for the Board of Directors` membership and setting a description of capabilities and qualifications required for membership, including the time that a member needs to devote for the board`s activities.
- Reviewing the Board of Directors` structure and recommending possible changes.
- Identifying weaknesses and strengths of the Board of Directors, and proposing solutions for the company`s best interest.
- Ensuring the liberation of the independent members and the absence of any conflict of interest if the member serves on another company`s board.
- Developing clear compensation and remuneration policies for directors and senior executives, keeping in mind the performance standards when setting these policies.

## Audit Committee

The General Assembly of Shareholders approved the regulations and framework of the Audit Committee at its meeting held on 19 March 2013. The Committee held six meetings during 2015. The Audit Committee consists of:

	Name	Position	1st Meeting 2015/01/19	2nd Meeting 2015/02/18	3rd Meeting 2015/04/20	4th Meeting 2015/07/30	5th Meeting 2015/09/01	6th Meeting 2015/10/19	Total
1	Mr. Ali bin Ibrahim Al Ajlan (Board Member)	Chairman	✓	✓	✓	✓	✓	✓	6
2	Mr. Mus'ab bin Sulaiman Al Muhaidib (Board Member)	Member	✓	✓	✓	✗	✓	✓	5
3	Mr. Ibrahim bin Salem Ar Rowais	Member	✓	✓	✓	✓	✓	✓	6
4	Mr. Abdulrahman bin Saleh Al Khalify	Member	✓	✗	✓	✓	✓	✓	5

As the previous tenure of the board expired on 31/ 12 / 2015, the new board decided to re-form the committee for three years as of 01 / 01/ 2016. The Committee members are:

- |   |          |
|---|----------|
| 1. Engineer Fahd bin Abdullah Al-Sharif   | Chairman |
| 2. Mr. Talal bin Abdul Muhsen Al Malafekh | Member   |
| 3. Mr. Ibrahim bin Salem Ar Rowais        | Member   |
| 4. Mr. Abdulrahman bin Saleh Al-Khlaifi   | Member   |

### Tasks of the Audit Committee:

- Reviewing the annual financial statements of the company and providing recommendation before discussing their contents with the Board of Directors.
- Revising accounting and financial policies of the company and providing guidance before the Board of Directors' approval.
- Monitoring the effectiveness of the company's risk mitigation procedures, and ensuring the company's preparation for addressing these risks.
- Reviewing the Internal Audit system of the company and submitting a recommendations' report to the Board of Directors to evaluate its efficiency.
- Ensuring the availability of the right methods in utilizing the Company's resources and assets and ensuring the highest effectiveness. Additionally, the committee oversees the use of proper authority among staff.
- Recommending an External Auditor and determining its fee structure in line with its regulatory framework, and ensuring his corporate independence.
- Reviewing the reports and any observations provided by the company's external auditor on the financial statements and providing follow up on any pending issues. Moreover, reviewing the reports and remarks provided by the external regulatory bodies and providing opinion and information for the sufficient handling of these observations.
- Supervising the internal audit function to ensure its efficiency in the implementation of work defined by the board and ensure independence.
- Studying and reviewing applications for the position of Internal Audit Manager and deciding his remunerations, allowances and other benefits for the position. Moreover, the committee shall determine the most suitable candidate for the position. Finally, the committee shall have the right to terminate the current Internal Audit Manager, either due to resignation, disability or exemption, and raise the relevant recommendations in this regard to the Board of Directors.
- Acquiring assistance from any entity/person the committee sees suitable to help complete its work requirements, as well as defining their remuneration.

## Strategy and Investment Committee

The General Assembly of Shareholders approved at its meeting held on the 19th of March 2013, the regulations and work framework of the Strategy and Investment Committee. The Committee held seven meetings during 2015 attended by all of its members. The committee consists of:

	Name	Position	1st Meeting 2015/02/18	2nd Meeting 2015/03/29	3rd Meeting 2015/05/25	4th Meeting 2015/09/08	5th Meeting 2015/10/12	6th Meeting 2015/12/07	7th Meeting 2015/12/15	Total
1	Mr. Nasser bin Mohammad Al Sebaiei	Chairman	✓	✓	✓	✓	✓	✓	✓	7
2	Mr. Fahad bin Abdullah Al Qassim	Member	✓	✓	✓	✓	✓	✓	✓	7
3	Mr. Badr bin Abdullah Al Issa	Member	✓	✓	✓	✓	✓	✓	✓	7
4	Dr. Badr bin Homoud Al Badr	Member	✓	✓	✓	✓	✓	✓	✓	7

### Tasks of the Strategy and Investment Committee:

- Recommending the company's 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 acquiring and selling of property and land within the limits of the investment priorities.
- Reviewing the company's 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.

## 4-7 Executive Management

The company's Executive Management, authorized by the Board of Directors, manages the company's businesses, represented by the Chief Executive Officer, who is assisted by his deputies and heads of divisions and subsidiaries. This department handles all operational responsibilities of the company's activities, including operational, financial, administrative, technical, informational and risk management aspects, plus all activities related to the work of the company. Committees are formed by the Executive management to assist in exceptional functions when needed.

Senior executives of the company in 2015

Name	Position
Dr. Badr bin Homoud Al Badr	Chief Executive Officer (CEO)
Mr. Yasser bin Mohammed Al Quhaidan	Chief Financial Officer
Mr. Sultan bin Bader Al-Otaibi	VP Assets & Properties
Mr. Khalid bin Mohammed Al-Asqa	VP Projects Sector
Mr. Ahmed bin Mubarak Baharethah	Accounting Manager

Ownership of the senior executives, their wives and minor children in the company in 2015\*:

Name	Ownership-opening of the year	Ownership-closing of the year	Change during the year	Change (%)
Dr. Badr bin Homoud Al Badr	1,249	2,429	1,180	94%
Mr. Yasser bin Mohammed Al Quhaidan	-	-	-	-
Mr. Sultan bin Bader Al-Otaibi	-	-	-	-
Mr. Khalid bin Mohammed Al-Asqa	-	-	-	-
Mr. Ahmed bin Mubarak Baharethah	-	-	-	-

\*Senior executives' wives and minor children did not own any shares in the company

Remunerations of the top five executives during 2015\*:

Statement	Amount (SAR)
Salaries and compensations	4,233,807
Allowances	1,481,833
Bonuses and incentives	1,831,095
<b>Total</b>	<b>7,546,735</b>

\* CEO and CFO are among five top executive.

## 4-8 Transactions with Related Parties

There were no new contracts in which the company was a party where there is an interest for some board members, the Chief Executive Officer, Chief Financial Officer, or anyone who has relationship with any of them except for the following:

- 10-year management and operation contracts for Al Andalus Residence Compound, Makarem Umm AlQura Hotel, Makarem Al-Bait Hotel, Al Rawdah Compound, Al-Jazirah Badr Compound and Dur Al-Yasamin Residential Compound, all of which are owned by Assila Investment Company, whose management members include the Chairman of the Board of Directors, Engineer Abdullah bin Mohammed Al-Issa and board member Mr. Badr bin Abdullah Al-Issa.

The said contracts are management and operation contracts according to which the company manages and operates such facilities in return for a specific percentage of total revenues and of the total operating profit of each facility.

The company's fees generated from this activity amounts to SAR 3,198,279 during 2015 compared to SAR 3,349,038 during 2014.

The following table shows the breakdown of those fees:

Statement (SAR)	2015G	2014G
Residence Andalus Compound	494,738	419,542
Makarem Umm Alqura Hotel	1,376,957	1,432,435
Residence Rawdhah Compound	471,496	385,924
Makarem Al-Bait Hotel	366,619	666,869
Al-Jazirah Badr Compound	488,469	444,268
<b>Total</b>	<b>3,198,279</b>	<b>3,349,038</b>

- Mr. Abdulrahman Abdullah Al-Duhaim, currently is the Board Secretary, owns 5% of Security Source Company Ltd. capital, while Dur Hospitality owns 95% of the capital of that company. Mr. Abdulrahman also owns 1% of Joud Al-Alyaa' Company Ltd. capital, while Dur owns 99% of its capital. Mr. Abdulrahman relinquished its stake in Security Source Company Ltd. To Joud Al-Alyaa' Company Ltd., during January 2016.
- There is a 10-year operation and management contract for Makarem Mina Hotel, owned by Sheikh Mohammed bin Ibrahim Al-Ghamdi (a substantial shareholder), who owns 5% of Dur Hospitality capital. The company received an amount of SAR 355,928 as fees for management and operation during 2015.  
As "Assila Investment Company" and "Abdullah bin Mohammed Al-Issa and Sons Company" are among Dur`s shareholders, and in line with the instructions of CMA, it should be noted that Engineer Abdullah bin Mohammed Al-Issa (Chairman) and Mr. Badr bin Abdullah Al-Issa (board member) have interests in "Assila Investment Company". Both of them have interest also in "Abdullah bin Mohammed Al-Issa and Sons". The following table shows the change in share ownership of these two companies during 2015.

Name	No. of shares at the beginning of the year	No. of shares at the end of the year	Change	Ownership (%) at the end of the year
Assila Investment Company	-	27,143,784	27,143,784	27.1%
Abdullah bin Mohammed al-Issa and Sons Company	28,982	28,982	-	0.03%

- On 10/ 06 /2015, a contract was signed between Dur Hospitality Company and Assila Investment Company whose management includes the Chairman; Engineer Abdullah bin Mohammed Al-Issa and board member Mr. Badr bin Abdullah Al-Issa. According to this agreement, Assila Company will lease 400 m2 office space in the Courtyard by Marriott hotel owned by Dur Hospitality with an annual rent of SAR 400,000 per annum for three calendar years.
- On 18/ 06 /2015, an agreement was signed between Dur Hospitality Company and the Saudi Heritage Hospitality Company "Nuzul", under which Dur shall provide support and technical services to Nuzul for the development of its first project, Samhan Heritage Hotel in Dir'iyya, in order to benefit from the extensive experience of Dur in this area.

- Some members of the Board of Directors, or legal persons they represent, trade in some activities similar to the activities of the company (e.g. hotels and real estate). Under Article 8 of Corporate Governance Regulations issued by the Capital Market Authority, a license has been obtained from the Shareholders General Meeting on 07/ 04 /2015 for one year and will be presented at the next shareholder meeting, for renewal according to the Corporate Governance Regulations. These individuals or legal persons are as follows:

1. Assila Investment Company, whose management include the Chairman, Engineer Abdullah bin Mohammed Al-Issa, and board member Mr. Badr bin Abdullah Al-Issa
2. Public Investment Fund
3. General Organization for Social Insurance
4. Public Pension Agency
5. HE Board Member Mr. Nasser bin Mohammed Al-Subaie.
6. HE Board Member Dr. Saleh bin Ali Al-Hathloul
7. HE Board Member Mr. Fahad bin Abdullah Al-Qasim
8. HE Board Member Mr. Mus'ab Bin Suleiman Al-Muhaidib

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

A. Due from Related Parties

Name	Nature of transactions	Amount of transactions		Balance	
		2015G	2014G	2015G	2014G
Al-Jazira Bader Compound	Services	1,147,860	5,602,716	947,977	844,088
Jood Al-Alyaa' Company Ltd.,	Expenses on behalf	694,805	3,200	697,601	3,200
Saudi Heritage Hospitality Company	Services	1,958,617	-	295,904	-
Andalus Residence Compound	Services	659,815	743,879	164,145	236,279
Asswae'd Alkareema Company	Services	12,930	-	12,930	-
Makarem Umm Alqura Hotel	Services	10,305,666	2,255,967	78,743	1,906,748
Rawdhah Residence Compound	Services	1,850,927	-	15,403	28,061
Makarem Almaarifah Company	Services	1,090,109	-	-	157,675
Security Source Co, Ltd	Services	1,700	-	1,700	-
<b>Total</b>				<b>2,214,403</b>	<b>3,176,051</b>

B. Due to Related Parties

Name	Nature of transactions	Amount of transactions		Balance	
		2015G	2014G	2015G	2014G
Makarem Al-Bait Hotel	services	2,962,225	6,413,625	4,107,424	5,961,658
Madinah Company Ltd.	Expenses on behalf	1,825,027	960,000	2,960,235	1,135,207
Makarem Mina Hotel	services	862,460	2,618,123	2,273,114	3,196,084
Al-Jazira Riyadh Compound	services	545,517	2,358,263	545,518	746,754
<b>Total</b>				<b>9,886,291</b>	<b>11,039,703</b>

## 4-9 Major Shareholders

Dur Hospitality Company has not received any notice of ownership during 2015 (from any person except the members of the Board of Directors and Senior Executives and their families and minor children whose details are indicated above), under Article 45 of the listing rules. In any case, the following shareholders owned at least 5% of the company's capital in 2015:

Shareholder	No. of shares at the beginning of the year	No. of shares at the end of the year	Ownership (%) at the end of the year
Masek Holding Company	27,143,784	-	-
Assila Investment Company	-	27,143,784	27.1%
Public Investment Fund	16,628,458	16,628,458	16.6%
Sheikh Mohammad bin Ibrahim Al-Issa	12,001,449	12,001,449	12%
General Organization for Social Insurance (GOSI)	6,540,591	6,540,591	6.5%
Sheikh Mohammad bin Ibrahim Al-Ghamdi	5,000,000	5,000,000	5%

## 4-10

# Applying International Accounting Standards

According to the circulation of the Capital Market Authority (CMA) dated 25/ 03 / 2014 calling for the implementation of the international accounting standards at once after finalizing their approval by the Saudi Organization for Certified Public Accountants (SOCPA) on the financial statements prepared for the financial periods beginning on 01/ 01/ 2017 for the financial companies listed on the capital market, which means that the financial statements for the first quarter of 2017 of listed companies in the capital market must be prepared in accordance with international accounting standards approved by the Saudi Organization for certified public Accountants (SOCPA).

As it is necessary to prepare early for the application of international accounting standards and the consequences of such implementation with regard to reviewing the accounting policies and training the related staff, Dur Company has taken the initiative to start the transformation project from the accounting standards applicable in the Kingdom of Saudi Arabia issued by the Saudi Organization for Certified Public Accountants (SOCPA) standards to the international financial reporting (IFRS). The company has appointed an expert consultant for support and assistance in the implementation of the company's transformational plan and take the necessary measures during the year 2016 in preparation for the actual application in 2017.

The company's business plan for the application of international accounting standards will include:

1. Diagnosis of international standards likely to impact the company's financial and accounting reports.
2. Study and evaluate the impact resulting from the transformational changes.
3. Design, development, and application of the transition to international accounting standards.
4. Training of staff within the relevant departments to do so.
5. Issuance of financial and accounting reports of the Company in accordance with these standards, commencing from the first quarter of fiscal year 2016 for the purposes of analysis and comparison

## Conclusion

The Board of Directors is pleased to take this opportunity thank all the business partners, regulatory, legislative bodies and esteemed customers for their trust and support. Appreciation is equally due to the employees for their exceptional commitment this past year and for moving the company forward. The Board would also like to thank the members of the Management Board who have steered the company successfully through challenging market conditions for their outstanding performance.

**We look forward to more achievements and excellence through coming years.**

# 5. Auditors' Report and Financial Statements of 2015

## To: 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 - Saudi Joint Stock Company ("the Company") and its subsidiaries (collectively referred to as "the Group") which comprise the consolidated balance sheet as at 31 December 2015 and the related consolidated statements of income, cash flows and changes in 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 and fair presentation of these consolidated 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 Laws and for such internal controls as management determines is necessary to enable the preparation of consolidated 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 consolidated financial statements.

### Auditors' responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the group's preparation and fair presentation of the consolidated 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 policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained 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 2015, 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 laws with respect to the preparation and presentation of the financial statements.

For KPMG Al Fozan & Partners  
Certified Public Accountants



A handwritten signature in blue ink, appearing to read 'Khalil Ibrahim Al-Sudais'.

Khalil Ibrahim Al-Sudais  
License No. 371

# CONSOLIDATED BALANCE SHEET

As at 31 December 2015 (Saudi Riyal)

ASSETS	Note	2015G	2014G
<b>Current assets</b>			
Cash on hand and at banks	(4)	211.797.663	297.594.388
Trade receivables, net	(5)	72.351.307	62.252.549
Inventories	(6)	28.274.755	25.771.605
Prepayments and other current assets	(7)	21.960.671	19.897.454
Due from related parties	(8 - 1)	2.214.403	3.176.051
<b>Total current assets</b>		<b>336.598.799</b>	<b>408.692.047</b>
<b>Non-current assets</b>			
Investments in equity accounted investees	(9)	32.452.858	59.334.775
Available-for-sale investments	(10)	46.241.691	62.860.618
Property and equipment, net	(11)	1.647.559.470	1.424.467.385
Projects under progress	(12)	217.665.030	181.412.893
<b>Total non-current assets</b>		<b>1.943.919.049</b>	<b>1.728.075.671</b>
<b>Total assets</b>		<b>2.280.517.848</b>	<b>2.136.767.718</b>
<b>Liabilities and equity</b>			
<b>Current liabilities</b>			
Current portion of long-term loans	(15)	9.294.281	11.450.440
Trade payables		19.601.566	11.350.185
Accrued expenses and other current liabilities	(14)	103.289.382	109.096.913
Dividend payable		53.366.488	51.429.913
Due to related parties	(8 - 2)	9.886.291	11.039.703
Zakat provision	(16)	16.127.363	14.917.230
<b>Total current liabilities</b>		<b>211.565.371</b>	<b>209.284.384</b>
<b>Non-current liabilities</b>			
Long-term loans	(15)	188.923.680	100.222.411
Employees' end of service benefits		49.864.190	44.029.532
<b>Total non-current liabilities</b>		<b>238.787.870</b>	<b>144.251.943</b>
<b>Total liabilities</b>		<b>450.353.241</b>	<b>353.536.327</b>
<b>Shareholders' equity</b>			
<b>Equity attributable to the Company's shareholders</b>			
Share capital	(1-1)	1.000.000.000	1.000.000.000
Statutory reserve		500.000.000	500.000.000
Contractual reserve	(17)	143.002.490	143.002.490
Retained earnings		144.630.904	122.057.110
Unrealized gain on available-for-sale investments		6.073.039	14.210.564
<b>Total equity attributable to Company's shareholders</b>		<b>1.793.706.433</b>	<b>1.779.270.164</b>
Non-controlling interests		36.458.174	3.961.227
<b>Total equity</b>		<b>1.830.164.607</b>	<b>1.783.231.391</b>
<b>Total liabilities and equity</b>		<b>2.280.517.848</b>	<b>2.136.767.718</b>

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

# CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2015 (Saudi Riyal)

	Note	2015G	2014G
Revenue	(18)	532.619.594	479.548.401
Cost of revenues	(19)	(353.420.876)	(312.078.722)
<b>Gross Profit</b>		<b>179.198.718</b>	<b>167.469.679</b>
General and administrative expenses	(20)	(35.863.111)	(31.567.145)
Selling and marketing expenses		(1.194.844)	(587.646)
Impairment of property and equipment	(23)	--	(49.733.029)
Impairment of available-for-sale investments		(2.410.464)	--
Income of investments in equity accounted investees	(9)	2.808.140	6.943.168
<b>Operating profit</b>		<b>142.538.439</b>	<b>92.525.027</b>
Other income	(21)	8.418.434	19.667.074
<b>Net income before Zakat and non-controlling interests</b>		<b>150.956.873</b>	<b>112.192.101</b>
Zakat provision	(16)	(5.420.873)	(8.051.569)
<b>Net income before non-controlling interests</b>		<b>145.536.000</b>	<b>104.140.532</b>
Share of non-controlling interest in the net profit of the subsidiaries		(1.162.206)	(373.513)
<b>Net income</b>		<b>144.373.794</b>	<b>103.767.019</b>
<b>Earnings per share from:</b>			
Net income	(22)	1.44	1.04
Operating profit	(22)	1.43	0.93
Other income	(22)	0.084	0.20

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

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2015 (Saudi Riyal)

	Note	2015G	2014G
<b>Cash flows from operating activities</b>			
Net income before Zakat and non-controlling interests		150.956.873	112.192.101
Adjustments to reconcile net income to net cash generated from operating activities:			
Depreciation of property and equipment		54.004.007	45.974.064
Amortization of deferred charges		2.487.732	3.190.132
Provision for end of service benefits		14.826.341	12.428.677
Provision for doubtful debts	(5)	5.523.086	2.882.696
Impairment of receivables		400.000	--
Impairment of property and equipment		--	49.733.029
Impairment in available for sale investments	(10)	2.410.464	--
Provision for inventories	(6)	1.027.206	1.016.531
Income from investments in equity accounted investees	(9)	(2.808.140)	(6.943.168)
Gain from sale of property and equipment	(21)	(1.126.089)	(14.825.644)
		<b>227.701.480</b>	<b>205.648.418</b>
<b>Changes in operating assets and liabilities:</b>			
Trade receivables		(13.901.316)	(7.692.855)
Prepayments and other current assets		(924.967)	(2.534.354)
Inventories		842.082	2.293.266
Due from related parties		964.928	(1.872.659)
Trade payables		7.845.931	3.444.529
Accrued expenses and other current liabilities		(11.795.975)	8.021.489
Due to related parties		(4.683.753)	9.050.395
Zakat paid	(16)	(4.752.403)	(7.391.457)
End of service benefits paid		(10.546.600)	(12.233.542)
<b>Net cash flows generated from operating activities</b>		<b>190.749.407</b>	<b>196.733.230</b>
<b>Cash flows from investing activities</b>			
Payments for purchase of property and equipment and projects under progress		(244.702.963)	(115.005.072)
Proceeds from sale of property and equipment		1.126.089	100.358.352
Proceeds from available-for-sale investments	(10)	6.798.536	7.600
Payments for investment in equity accounted investees	(9)	(16.032.500)	(15.194.000)
Net cash acquired from acquired subsidiary	(13)	7.945.181	--
Proceeds from investments in equity accounted investees		1.800.000	21.025.000
<b>Net cash flows used in investing activities</b>		<b>(243.065.657)</b>	<b>(8.808.120)</b>
<b>Cash flows from financing activities</b>			
Proceed from long-term loans		96.778.927	32.212.707
Repayment of long-term loans		(10.233.817)	(6.785.715)
Dividends for shareholders		(118.225.585)	(114.105.328)
Board of directors remuneration		(1.800.000)	(1.800.000)
<b>Net cash flows used in financing activities</b>		<b>(33.480.475)</b>	<b>(90.478.336)</b>
Net change in cash and cash equivalents during the year		<b>(85.796.725)</b>	<b>97.446.774</b>
Cash and cash equivalents at the beginning of the year		297.594.388	200.147.614
<b>Cash and cash equivalents at the end of the year</b>	(4)	<b>211.797.663</b>	<b>297.594.388</b>

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

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015 (Saudi Riyal)

## 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 2014	1.000.000.000	500.000.000	143.002.490	140.090.091	18.116.589	1.801.209.170	3.650.768	1.804.859.938
Net income for the year	--	--	--	103.767.019	--	103.767.019	373.513	104.140.532
Dividends	--	--	--	(120.000.000)	--	(120.000.000)	(60.578)	(120.060.578)
Board of directors' 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>
<b>Balance at 1 January 2015</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>
Net income for the year	--	--	--	144.373.794	--	144.373.794	1.162.206	145.536.000
Dividends (Note 26)	--	--	--	(120.000.000)	--	(120.000.000)	(162.160)	(120.162.160)
Unrealized losses on available-for-sale investments	--	--	--	--	(8.137.525)	(8.137.525)	(3.099)	(8.140.624)
Board of directors' remuneration	--	--	--	(1.800.000)	--	(1.800.000)	--	(1.800.000)
Share of non-controlling interests in Subsidiaries' capital acquired during the period – Note (13)	--	--	--	--	--	--	31.500.000	31.500.000
<b>Balance at 31 December 2015</b>	<b>1.000.000.000</b>	<b>500.000.000</b>	<b>143.002.490</b>	<b>144.630.904</b>	<b>6.073.039</b>	<b>1.793.706.433</b>	<b>36.458.174</b>	<b>1.830.164.607</b>

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

(Saudi Riyal)

## 1. ORGANIZATION AND ACTIVITIES

Dur Hospitality Company (formerly known as Saudi Hotels and Resorts Company) ("the Company" or "the Parent Company") is a Saudi Joint-Stock Company was formed under the Regulations for Companies and registered in Saudi Arabia 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 include 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 with others jointly or separately.

## 1-1 Share Capital

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

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

## 1-2 The consolidated financial statements

The consolidated financial statements include the financial statements of Dur Hospitality Company and its subsidiaries (collectively referred to as "the Group" in which the Company owns direct or indirect interest enables it to exercise control over them. These companies as at 31 December 2015 are as follows:

Name of the subsidiary	Capital	Shareholding %
Riyadh Company for Hotels and Entertainment LLC	302.500.000	100%
Gulf for Tourist Area 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%
Saudi Hotel Services Company	70,000,000	70%

All the subsidiaries listed above are controlled by the Group from previous periods including comparative period, except for Saudi Hotel Services Company in which a controlling interest was acquired therein during the second quarter of 2015.

## Riyadh Company for Hotels and Entertainment Limited Company

Riyadh Company for Hotels and Entertainment Limited is a limited liability company established in the Kingdom of Saudi Arabia and registered under the Commercial Registration No, 1010099444 dated 3 Rabi' I, 1413H (corresponding to 31 August 1992), The company's purpose is to construct, buy, rent and 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 Tourist Area Limited Company is a limited liability company established in the Kingdom of Saudi Arabia and registered under the Commercial Registration No, 1010074800 dated 18 Jumada I 1410H (corresponding to 17 December 1989), The company's purpose is to construct, own, rent and sell of residential and commercial properties, leisure and hotels, restaurants, guesthouses, tourism beaches, gymnasiums and sports clubs.

## Makkah Hotels Company LLC

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

## Alnakheel for Touristic Areas Limited

Alnakheel for Touristic Areas Limited Company is a Limited Liability Company established in Kingdom of Saudi Arabia and registered under the Commercial Registration No. 4030092204 dated 22 Jumada II 1413H (corresponding to 17 December 1992). The Company 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 share capital from several other shareholders. The Company is still in the process of completing the legal procedures to amend the Article of Association and the Commercial Registration in relation to this acquisition.

## Tabuk Hotels Company LLC

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

## Saudi Hotel Services Company LLC

Saudi Hotel Service Company is a limited liability company established in Kingdom of Saudi Arabia under commercial registration No, 1010010454 dated 11 Dhu Al-Q'dah 1433H corresponding to 04 November 1996. The main activities of the company are to build five star tourist hotels in the city of Riyadh, and perform all legal procedures related to the hotel and all other essential and intermediate work necessary to execute, prepare and direct different activities of the hotel in the way consistent with the set objective and contract with others in all what related to the hotel. The company conduct its activity through managing and operating Riyadh Palace Hotel under License no,1306 dated 25 Dhu Al-Qa'adah 1416H (corresponding to 16 April 1996).

## 2. 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 activity.

### 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:

### Useful lives of property and equipment

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

### Impairment of trade receivable

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

### Impairment of available for sale investments

The management exercises judgment to calculate the impairment loss of available for sale investments. This includes the assessment of objective evidence which causes an other than temporary decline in the value of investments.

In case of equity instruments any significant and prolonged decline in the fair value of equity investment below its cost is considered as objective evidence for such impairment. The determination of what is 'significant' and 'prolonged' requires management's judgment. The management also considers impairment testing to be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

### 3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

#### Subsidiaries

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

The accompanying consolidated financial statements comprise of the interim condensed financial statements of the parent company and the subsidiaries as shown in Note (1.2) in which the Company owns controlling interest.

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

#### Non-Controlling Interest (NCI)

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

#### 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 Group without any restrictions.

#### Business combination (Acquisition)

Business combinations are accounted for using the purchase method. The cost of an acquisition is measured as the fair value of the assets given, equity instrument issued and liabilities incurred or assumed at the date of exchange, and includes costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at fair values at the date of acquisition. The excess of the cost of the business combination over the Group's share in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities is classified as goodwill. If the cost of the acquired investee is less than its fair value as of the acquisition date, such difference is adjusted by reducing the fair values of the non-current assets of the acquired investee in proportion to their book values.

#### 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.

#### 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 revenues.

#### 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.

#### Investments

When applying the Group's accounting policies, the Group 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 not held for trading and Group has no significant influence or control. These investments are recorded initially and subsequently re-measured at fair value. Any changes in fair value are recorded in equity as a fair value reserve until the exclusion of those investments. Any significant and prolonged decline in the available for sale investments (if any) is recorded in the consolidated statement of income. The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business at the consolidated balance sheet date.

For investments where there is no active market, including investments in unquoted private equity, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument, which is substantially the same; discounted cash flow analysis and option pricing models, otherwise the cost is considered to be the fair value for these investments.

## Investments in equity accounted investees (associates)

Associates are those companies where a Group has significant influence over their financial and operating policies. The significant influence exists in general when the Company owns between 20% and 50% of the voting rights in the other entity.

Associates are accounted for using the equity method (equity accounted investee), which are initially recognized at cost including goodwill identified on acquisition. The Group's share in its investees' post-acquisition income and losses is recognized in the consolidated statement of income and its share in post-acquisition movements in reserves is recognized in the Group's equity. When the Group's share of losses exceeds its interest in an equity accounted investee, the Group's carrying amount is reduced to nil and recognition of further losses is continued when the Group has incurred legal or constructive obligations or made payments on behalf of an investee.

Unrealized gains on transactions between the Group and its equity accounted investees are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

## Property and equipment

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

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

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of individual item of property and equipment. The estimated useful lives of assets will be depreciated as follow:

	Useful life
Buildings	70 – 75 year
Leasehold improvements	5 year
Furniture	10 year
Devices and equipment	5 year
Vehicles	4 year

## Projects under progress

Projects under progress 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 property and equipment when the asset is intended for use in its specific purpose.

## Borrowings

Borrowings are recognized at the proceeds received, net of transaction costs incurred. Borrowing costs that are directly attributable to the construction of a qualifying asset are capitalized up to stage when substantially all the activities necessary to prepare the qualifying asset for its intended use are completed and, otherwise, such costs are charged to 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 group 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 until the asset is ready to use.

## 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

A provision is recognized if, as a result of past events, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probably that an outflow of economic benefit, will be required to settle the obligation.

## Employees' end of service benefits

Employees' end of service benefits, calculated in accordance with the Saudi Arabian labor regulations, are accrued and charged to the statement of income. The liability is calculated at the present value of the vested benefits to which the employee is entitled should his service be terminated at the balance sheet date.

## Zakat

Zakat is calculated 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 is recognized to the extent of the following recognition requirements:

- it is probable that the economic benefits will flow to the Group,
- it can be reliably measured, regardless of when the payment is being made
- the cost incurred to date and expected future costs are identifiable and can be measured reliably.

Revenue is measured at the fair value of the consideration received or the contractually defined terms of payment. The specific recognition criteria described below must also be met before the revenue is recognized.

## Revenue from hospitality

Revenue from hotel accommodation, food and beverage services and other related services are recognized after excluding discounts and fees for the municipality to the stage in which the provision of those services.

## Management and operation fees

Management fees are calculated by an agreed rate according to the contract with the management of the owner companies.

## Revenue from lease

Revenue from the lease are recognized on a straight-line basis over the period of the lease.

## Expenses

Selling and marketing expenses are those arising from the Group'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.

## Statutory reserve

In accordance with its By-laws and the Regulations for Companies in Kingdom of Saudi Arabia, the Company is required to transfer 10% of its net income for the year to a statutory reserve until such reserve equals 50% of its share capital. This Statutory Reserve is not available for distribution to shareholders.

## 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.

## 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.

## Dividends

Annual dividends are recorded when approved by the shareholders.

## 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. The group management in accordance with the internal reporting structure identifies business segments, 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.

## 4. CASH ON HAND AND AT BANKS

	2015G	2014G
Islamic Murabaha deposits (4-1)	115.825.331	195.467.773
Banks current accounts	95.488.232	101.795.415
Cash on hand	484.100	331.200
	<b>211.797.663</b>	<b>297.594.388</b>

### 4-1 Islamic Murabaha

Islamic Murabaha deposits represent Murabaha deposits with commercial banks at an average yield of 0.8%. The maturity average of those deposits ranges between 30 to 90 days.

## 5. TRADE RECEIVABLES, NET

	2015G	2014G
Trade receivables	90.838.717	72.866.545
Less: provision for doubtful debts	(18.487.410)	(10.613.996)
	<b>72.351.307</b>	<b>62.252.549</b>

Summary of the movement in the provision for doubtful debts as at 31 December is as follows:

	2015G	2014G
Balance at the beginning of the year	10.613.996	10.435.332
Provided during the year (note -20)	5.523.086	2.882.696
Provisions resulting from acquisition on subsidiaries	2.987.705	--
Write-off bad debts	(637.377)	(2.704.032)
Balance at the end of the year	<b>18.487.410</b>	<b>10.613.996</b>

## 6. INVENTORIES

	2015G	2014G
Linens and furnishings	7.016.929	6.724.998
Accessories and silverware	6.655.055	5.578.928
Kitchen tools and equipment	4.650.128	4.687.325
Operation supplies	2.771.064	3.201.549
Spare parts	3.796.680	3.115.181
Foods and beverages	2.645.145	2.413.510
Stationery and prints	1.273.696	1.066.645
	<b>28.808.697</b>	<b>26.788.136</b>
Provision for obsolete and slow-moving inventories	(533.942)	(1.016.531)
	<b>28.274.755</b>	<b>25.771.605</b>

Summary of the movement in the provision for inventories as at 31 December is as follows:

	2015G	2014G
Balance at the beginning of the year	1.016.531	--
Additions (Note 19)	1.027.206	1.016.531
Provisions resulting from acquisition on subsidiaries	222.352	--
Write-offs	(1.732.147)	--
Balance at the end of the year	<b>533.942</b>	<b>1.016.531</b>

## 7. PREPAYMENTS AND OTHER CURRENT ASSETS

	2015G	2014G
Real estate contributions	5.383.841	5.383.841
Advances to suppliers	4.061.484	3.761.398
Advance insurance	4.198.736	2.905.726
Advance rent	4.099.634	4.563.633
Staff advances and deposits	2.178.632	1.588.450
Staff housing allowances	1.429.421	487.142
Others	1.008.923	1.207.264
	<b>22.360.671</b>	<b>19.897.454</b>
Impairment of receivables	(400.000)	--
	<b>21.960.671</b>	<b>19.897.454</b>

## 8. RELATED PARTIES

During its ordinary course of business, the Group transacts with associate companies and hotels. 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:

### 8-1 Due from related parties

Related parties	Nature of transactions	Transactions amount		Balance	
		2015G	2014G	2015G	2014G
Al Jazira Badr	Services	1.147.860	5.602.716	947.977	844.088
Jude Alia Limited	Expenses on behalf	694.805	3.200	697.601	3.200
Saudi Company for Heritage hospitality	Services	1.958.617	--	295.904	--
Andalusia Residence Complex	Services	659.815	743.879	164.145	236.279
Al Sawaed Al Kareemah Co.	Services	12.930	--	12.930	--
Umm AlQura Makarim Hotel	Services	10.305.666	2.255.967	78.743	1.906.748
Al Rawdah Residence Complex	Services	1.850.927	--	15.403	28.061
Makarim Al Marifa Company	Services	1.090.109	--	--	157.675
The security source limited company	Services	1.700	--	1.700	--
				<b>2.214.403</b>	<b>3.176.051</b>

### 8-2 Due to related parties

Related parties	Nature of transactions	Transactions amount		Balance	
		2015G	2014G	2015G	2014G
Makarim ALBait Hotel	Services	2.962.225	6.413.625	4.107.424	5.961.658
Al Madinah Limited Company LLC	Expenses on behalf	1.825.027	960.000	2.960.235	1.135.207
Makarim Mina Hotel	Services	862.460	2.618.123	2.273.114	3.196.084
Aljazira Compound Riyadh	Services	545.517	2.358.263	545.518	746.754
				<b>9.886.291</b>	<b>11.039.703</b>

## 9. INVESTMENTS IN EQUITY ACCOUNTED INVESTEEES

	2015	2014
Balance at 1 January	59,334,775	58,723,455
Additions (9.1)	16,032,500	15,194,000
Investment income during the year	2,808,140	6,943,168
Investments transferred from associates to subsidiaries (Note 13) (9.2)	(43,191,859)	--
The Group's share in unrealized losses	(730,698)	(500,848)
Group share of reduction of capital of Saudi Company for Hotel Service	--	(12,000,000)
Dividends	(1,800,000)	(9,025,000)
	<b>32,452,858</b>	<b>59,334,775</b>

(9.1)

Additions in Investments in equity accounted investees during the year represent the amount of SR 15.9 million which represents a part of the Group's share in capital of Saudi Hospitality Heritage Company (a closed joint-stock company) which was formed during 2014, amounted to SR 62.5 million (represent 25% of the Company share capital). The Group has subscribed in the Saudi Hospitality Heritage Company which has share capital of SAR 250 Million.

(9.2)

After the Group acquired 30% of interest of Saudi Hotel Services Company, it became having a controlling interest, based on which the financial statements have been consolidated as shown in Notes (1) and (13).

## 10. AVAILABLE FOR SALE INVESTMENTS

	2015G	2014G
Balance at 1 January	62.860.618	66.275.871
Unrealized (losses)	(7.409.927)	(3.407.653)
Impairment	(2.410.464)	--
Liquidation of investment portfolio	(6.798.536)	(7.600)
	<b>46.241.691</b>	<b>62.860.618</b>

Available-for-sale investments represent investments in equity portfolios and the Group's share in National Company for Investment and Development of Tourism (A Saudi Closed Joint-Stock Company) registered in the Kingdom of Saudi Arabia.

## 11. PROPERTY AND EQUIPMENT, NET

	Land	Buildings	Furniture and fixtures	Vehicles	Tools and equipment	Improvements	2015G Total	2014G Total
<b>Cost:</b>								
Balance at 1 January	612.909.506	1.133.903.464	222.773.540	8.395.782	76.003.578	19.437.823	2.073.423.691	2.101.068.371
Additions	79.416.232	8.008.200	10.349.551	324.100	2.287.383	1.386.393	101.771.859	24.166.705
Disposals	--	(31.880.236)	(4.593.937)	(787.150)	(34.040.737)	--	(71.302.061)	(98.033.857)
Assets acquired from acquired subsidiaries	31.890.704	29.686.937	3.447.732	114.975	5.107.161	--	70.247.509	--
Transferred from projects under progress	--	76.545.871	7.968.588	--	2.509.726	18.052.539	105.076.724	46.222.472
<b>Balance at 31 December</b>	<b>724.216.442</b>	<b>1.216.264.236</b>	<b>239.947.423</b>	<b>8,047,707</b>	<b>51.865.161</b>	<b>38.876.755</b>	<b>2.279.217.722</b>	<b>2.073.423.691</b>
<b>Accumulated depreciation:</b>								
Balance at 1 January	--	422.740.388	156.745.157	7.405.666	49.472.516	12.592.581	648.956.306	565.750.362
Charged for the year	--	30.785.199	13.694.206	870.001	3.199.915	5.454.666	54.004.007	45.974.064
Disposals	--	(31.880.236)	(4.593.937)	(787.151)	(34.040.737)	--	(71.302.061)	(12.501.149)
Impairment loss	--	--	--	--	--	--	--	49.733.029
<b>Balance at 31 December</b>	<b>--</b>	<b>421.645.351</b>	<b>165.845.426</b>	<b>7.488.516</b>	<b>18.631.694</b>	<b>18.047.247</b>	<b>631.658.252</b>	<b>648.956.306</b>
<b>Net Book Value:</b>								
<b>31 December 2015</b>	<b>724.216.442</b>	<b>794.618.885</b>	<b>74.101.997</b>	<b>559.191</b>	<b>33.233.467</b>	<b>20.829.508</b>	<b>1.647.559.470</b>	
31 December 2014	612.909.506	711.163.076	66.028.383	990.116	26.531.062	6.845.242		1.424.467.385

Land and buildings include Alnakheel Village land including whatever built thereon of buildings, facilities and furniture, which are fully mortgaged against the loan, which was obtained from the Ministry of Finance as shown in Note (15).

Depreciation was charged for the year ended 31 December as follows:

	2015G	2014G
Cost of revenues (Note 19)	52.276.012	45.181.608
General and administrative expenses (Note 20)	1.727.995	792.456
	<b>54.004.007</b>	<b>45.974.064</b>

## 12. PROJECTS UNDER PROGRESS

	2015G	2014G
Balance at 1 January	181.412.893	139.284.729
Additions during the year	<b>146.997.864</b>	90.838.367
Transferred to property and equipment (Note 11)	<b>(105.076.724)</b>	(46.222.472)
Adjustments	<b>(5.669.003)</b>	(2.487.731)
	<b>217.665.030</b>	181.412.893

As at 31 December 2015, projects under construction represent mainly Darraq Project (Phase III and IV) in which their total cost until that date amounted to SR 129,579,958 (2014: SR 36,440,133). Phase III of the project is expected to be completed in the first half of 2017. In addition to the renovation project of Alnakheel village amounting to SR 45,673,733 (2014: SR 25,488,381). Moreover, Al Safarat district hotel project amounting to SR 13,425,786 (2014: SR 7,754,977).

## 13. BUSINESS COMBINATION

On 27 Jumada II 1436H, corresponding to 16 April 2015, the Group has acquired 10% interest in the Saudi Hotel Services Company for cash consideration of SR 10.5 million. On 11 Rajab 1436H, corresponding to 30 April 2015 (date of acquisition), the Group has acquired an additional of 20% interest for cash consideration of SR 21 million. As a result of which, the share of the Group in the net assets of Saudi Hotel Services Company became 70% from 40%, The legal procedures to amend the Articles of Association is still under process. Accordingly, the Group has consolidated Saudi Hotel Services Company as subsidiary rather than treated as an investment according to equity accounted method.

The Group has recognized provisional values of the net assets; and will prepare a study of the fair value for the net assets acquired, which could result in modifying the provisional values of the net assets retrospectively. The assets and liabilities provisionally determined as follows:

### Acquired value

<b>Assets:</b>	
Property and equipment	70.247.509
Project under progress	885.489
Accounts receivables and other current assets	10.010.296
Inventories	4.403.218
Cash on hand and at banks	39.445.181
	<b>124.991.693</b>
<b>Liabilities:</b>	
Payables and other current liabilities	19.450.029
Zakat provision	541.664
	<b>19.991.693</b>
Provisional amount of net asset	<b>105.000.000</b>

As the provisional amounts of the net asset, are not different from the estimated value of the Company under which the cash consideration paid, therefore, no goodwill has been recognized

### Cash outflows on acquisition

Net cash acquired from the subsidiary	39.445.181
Cash consideration	(31.500.000)
Net cash outflows acquired from the subsidiary	<b>7.945.181</b>

As a result of the acquisition mentioned above, a non-controlling interest has been recorded in these consolidated financial statements amounted to SAR 31.5 million.

## 14. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	2015G	2014G
Revenue received in advance	<b>32.936.766</b>	33.853.917
Accrued staff salaries and benefits	<b>26.648.809</b>	24.401.570
Performance bond retentions	<b>18.264.783</b>	21.727.926
Due to governmental bodies (14-1)	<b>9.186.651</b>	9.186.651
Accrued rentals	<b>8.948.616</b>	7.525.415
Accrued services expenses	<b>2.226.096</b>	3.468.265
Management fees payable to international operating companies	<b>2.137.610</b>	3.799.911
Others	<b>2.940.051</b>	5.133.258
	<b>103.289.382</b>	109.096.913

(14-1) This balance includes an amount due to the Civil Aviation Authority (the owner of Makarem Riyadh Hotel) and consists of obligations to finance pre-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.

## 15. 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 Shariah-compliant Murabaha, with a total value of SR 669.2 million (2014: SR 637.7 million), at variable Murabaha rates. The utilized amounts under those agreements amounted SR 198.2 million until 31 December 2015 (2014: SR 111.7 million).

This loan is secured by the mortgage the land of Alnakheel village and whatever built thereon, such as facilities, equipment and furniture. The loans from local banks are secured by promissory notes amounting to SR 263.8 million for the benefit of the commercial local banks, and waiving the proceeds of rental Darraq (Phase I 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:

			2015G	2014G
	Ministry of Finance	Commercial local banks	Total	Total
Balance at beginning of the year	11.785.713	99.887.138	111.672.851	86.245.859
Withdrawals during the year	--	96.778.927	96.778.927	32.212.707
	(6.785.713)			
Paid during the year		(3.448.104)	(10.233.817)	(6.785.715)
Balance at end of the year	5.000.000	193.217.961	198.217.961	111.672.851

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

Current portion of long-term loans – current liabilities	2.500.000	6.794.281	9.294.281	11.450.440
Non-current portion of long-term loans – non-current liabilities	2.500.000	186.423.680	188.923.680	100.222.411
	5.000.000	193.217.961	198.217.961	111.672.851

## 16. 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 and Zakat is 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 2014 and paid the Zakat payable accordingly. However, the Company is still waiting to get the final assessments from the DZIT. Zakat returns for the year ended 31 December 2014 have not been filed with the DZIT for its subsidiaries: Alnakheel Resorts Limited, Tabouk Hotel Company and Makkah Hotel Company. The management is in the process to file these returns during the subsequent period.

### Zakat base

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

	2015G	2014G
Net income adjusted (1) as follows:	150.956.873	112.192.101
Provisions during the year	24.187.097	65.080.377
<b>Zakat base (a)</b>	<b>175.143.970</b>	<b>177.272.478</b>
<b>Add:</b>		
Capital	1.000.000.000	1.000.000.000
Reserves	643.002.490	643.002.490
Retained earnings	122.057.110	140.090.091
Long term loans	198.217.961	111.672.851
Dividends payable	53.366.488	51.429.913
Provisions	87.262.090	42.036.184
	2.104.525.929	1.988.231.529
<b>Less:</b>		
Property and equipment	(1.646.858.210)	(1.424.467.385)
Projects under progress	(216.418.868)	(181.412.893)
Dividends	(120.025.585)	(115.905.328)
Investments	(79.220.247)	(122.195.393)
	(2.062.522.910)	(1.843.980.999)
<b>Zakat base (b)</b>	<b>216.834.920</b>	<b>321.523.008</b>
<b>Zakat base, greater of (a) or (b)</b>	<b>216.834.920</b>	<b>321.523.008</b>
<b>Zakat charge at 2.5%</b>	<b>5.420.873</b>	<b>8.038.075</b>

### Zakat provision

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

	2015G	2014G
Balance at the beginning of the year	14.917.230	14.257.118
Provided during the year	5.420.873	8.051.569
Payment made during the year	(4.752.403)	(7.391.457)
Provision for Zakat resulting from acquisition on subsidiary	541.663	--
	16.127.363	14.917.230

## 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. 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.

	Hotels	Properties owned	Services and operating	Others	Transactions between business segments	Total
<b>31 December 2015</b>						
Revenues	466.397.823	62.535.550	29.625.265	4.358.314	(30.297.358)	532.619.594
Cost of revenues	(338.288.780)	(19.338.357)	(10.837.391)	(14.428.706)	29.472.358	(353.420.876)
Gross income/(loss)	128.109.043	43.197.193	18.787.874	(10.070.392)	(825.000)	179.198.718
Trade receivables	55.798.710	16.552.597	--	--	--	72.351.307
Property and equipment	861.572.979	785.986.491	--	--	--	1.647.559.470
Loans	5.000.000	193.217.961	--	--	--	198.217.961
Net income/(loss) before Zakat and non-controlling interests	104.539.179	39.878.619	17.215.750	(10.676.674)	--	150.956.873

### 31 December 2014

Revenues	413.621.092	57.155.841	26.324.376	10.473.296	(28.026.204)	479.548.401
Cost of revenues	(299.608.654)	(14.147.680)	(6.902.136)	(18.246.456)	26.826.204	(312.078.722)
Gross income / (loss)	114.012.438	43.008.161	19.422.240	(7.773.160)	(1.200.000)	167.469.679
Trade receivables	54.262.587	7.883.671	--	106.294	--	62.252.549
Property and equipment	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 and non-controlling interests	109.318.053	41.791.453	18.861.859	(57.779.264)	--	112.192.101

## 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	Revenues	Net profit before zakat and Non-controlling interests
<b>As at 31 December 2015</b>				
Riyadh	4.623.549.804	1.385.354.685	420.620.436	108.292.124
Makkah	436.544.220	79.306.121	121.749.169	40.797.199
Tabuk	51.068.461	5.226.809	20.547.347	1.926.943
	5.111.162.485	1.469.887.615	562.916.952	151.016.266
Transactions between segments	(2.830.644.637)	(1.019.534.374)	(30.297.358)	(59.393)
	2.280.517.848	450.353.241	532.619.594	150.956.873
<b>As 31 December 2014</b>				
Riyadh	4.346.261.578	1.211.652.790	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
	4.828.781.791	1.301.502.513	507.574.605	112.192.101
Transactions between segments	(2.692.014.073)	(947.966.186)	(28.026.204)	--
	2.136.767.718	353.536.327	479.548.401	112.192.101

## 19. COST OF REVENUES

Cost of revenues as at 31 December represent the following:

	2015G	2014G
Salaries and related costs	149.758.102	120.531.017
Depreciation of property and equipment (Note 11)	52.276.012	45.181.608
Foods and beverages	43.883.521	40.311.047
Operational supplies	26.244.048	26.321.584
Electricity, water and telephone	19.362.967	17.812.467
Rents	16.791.924	17.691.432
Services and operating fees	15.070.027	17.441.772
Promotional activities	7.745.962	7.730.161
Maintenance and repair	7.972.833	6.879.649
Commissions to travel and tourism agents and collection of credit cards	4.556.709	2.938.468
Security and guard	4.535.189	4.080.105
Insurance	1.446.334	1.117.653
Impairment of inventories (Note 6)	1.027.206	1.016.531
Others	2.750.042	3.025.228
	353.420.876	312.078.722

## 20. GENERAL AND ADMINISTRATIVE EXPENSES

	2015G	2014G
Salaries and related costs	19.200.604	16.469.363
Provision for doubtful debts (Note-5)	5.523.086	2.882.696
Amortization of deferred charges	2.487.732	3.190.132
Professional and consultancy fees	1.953.064	1.237.500
Depreciation of property and equipment	1.727.995	792.456
Subscriptions and attestation charges	992.947	1.145.379
Electricity, water and telephone	607.842	432.297
Impairment of receivables (Note-7)	400.000	--
Maintenance and cleaning	682.669	505.650
Change of brand identity for the company	--	3.146.556
Others	2.287.172	1.765.116
	<b>35.863.111</b>	<b>31.567.145</b>

## 21. OTHER INCOME

Other income as at 31 December represent the following:

	2015G	2014G
Delay penalties	1.980.000	--
Reversal	1.594.783	3.500.000
Gain from sale of property and equipment (21-1)	1.126.089	14.825.644
Rent for parking and office spaces	1.157.224	--
Murabaha income	561.150	526.095
Scraps sales	98.248	--
Human resources income	555.136	--
Others	1.345.804	815.335
	<b>8.418.434</b>	<b>19.667.074</b>

(21-1) Capital gains represent net income during the year ended 31 December 2014, 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 completed on 12 Shaban 1435H (corresponding to 10 June 2014). The net book value of the compound amounted to SR 85.5 million.

## 22. 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 (2014: 100 million shares), without excluding the minority interests share in operating profit or their share of the net income.

## 23. IMPAIRMENT OF ASSETS

During the year ended 31 December 2014, 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), it was resolved to cease the operations during 2015, This was due to the operations in the industry not being economically feasible and resulted operational losses.

In addition, further investment in both parks is not feasible due to level of demand for the activities and competition. As a result, impairment loss for the full carrying amount of the assets has been recorded in the consolidated statement of income.

## 24. CAPITAL COMMITMENTS

The Company's outstanding future capital commitments as at 31 December 2015 amounting to SR 395 million (2014: SR 211 million), which are related to contracts signed for the construction of the third and fourth phase of Darraq project and Alnakheel Village.

## 25. CONTINGENT LIABILITIES

The Group has issued letters of guarantee amounting to SR 22.7 million at 31 December 2015 (2014: SR 20.6 million). These guarantees are without a cash margin.

## 26. DIVIDENDS

The Shareholders General Assembly meeting held on 18 Jumada II 1436H corresponding to 7 April 2015 agreed on a cash dividend to the shareholders for the year 2014 amounted to SR 120 million at SR 1.2 per each share (2014: amounted to SR 120 million for the year 2013 at SR 1.2 per each share).

## 27. OPERATING LEASES

### 27-1 The Group as lessee

The Group has an operating lease for initial period of one year to ten years with options to renew the lease after lease period. Rental expenses for the year ended 31 December 2015 amounted to SR 15 million (2014: SR 15 million).

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

	2015G	2014G
2015G	--	15.000.000
2016G	15.000.000	15.000.000
2017G	15.000.000	15.000.000
2018G	15.000.000	15.000.000
2019G	15.000.000	15.000.000
2020G	15.000.000	15.000.000
<b>Total</b>	<b>75.000.000</b>	<b>90.000.000</b>

### 27-2 The Group as lessor

The Group has leased certain commercial and residential properties to third parties under operating lease arrangements. The leases are for initial period of one year to three years with options to renew the leases after lease periods. Lease amount is fixed annually. The cost and book value of the leased assets at 31 December 2015 amounted to SR 444,012,997 (2014: SR 355,013,054) and SR 398,802,800 (2014: SR 318,691,688) respectively.

At December 31, the minimum lease income for non-cancellable leases are as follow:

	2015	2014G
2015G	--	9.200.000
2016G	9,813,332	8.594.521
<b>Total</b>	<b>9,813,332</b>	<b>17.794.521</b>

## 28. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

### Credit risk

Credit Risk is the risk that one party will fail to discharge an obligation and will cause the other party to incur a financial loss. Financial assets that may have significant concentration consist of credit risks include cash at bank and trade receivables.

Cash held with the Group are placed with local banks of sound credit ratings, so the credit risk is limited. The credit risk related to trade receivables is limited because most of the Group's transactions are concentrated with creditworthy customers. The Group monitors its customers' balances on regular basis to reduce the related credit risks follow up on collections and take necessary action to maintain the Group assets.

### Currency risk

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

### Fair value and cash flow interest rate risks

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

### Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from the inability to sell a financial asset quickly at an amount close to its fair value.

Liquidity risk is managed by monitoring on a regular basis that sufficient funds are available to meet the group's future commitments through following-up expected collection schedules of trade receivables and banks facilities available for the Group.

### Fair value

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

## 29. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements have been approved by the Board of Directors on 8th Jumada I 1437 H (corresponding to 17 February 2016).

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