



Saudi Hotels and Resorts Co.
Annual Report

December 2013

الشركة السعودية للفنادق والمناطق السياحية
SAUDI HOTELS AND RESORTS CO. (SHARACO)



Saudi Hotels & Resorts Co. (SHARACO)

Paid-up Capital: SAR 1,000,000,000

C.R.: 1010010726

Head Office: Tel: 011 4816666 Fax: 011 4801666

P. O. Box 5500 Riyadh – 11422

Website: www.sharaco.com.sa

E-mail: info@sharaco.com.sa

Legal Deposit No. 0534/21

Date: 5/2/1421H

ISSN 951 X 1319



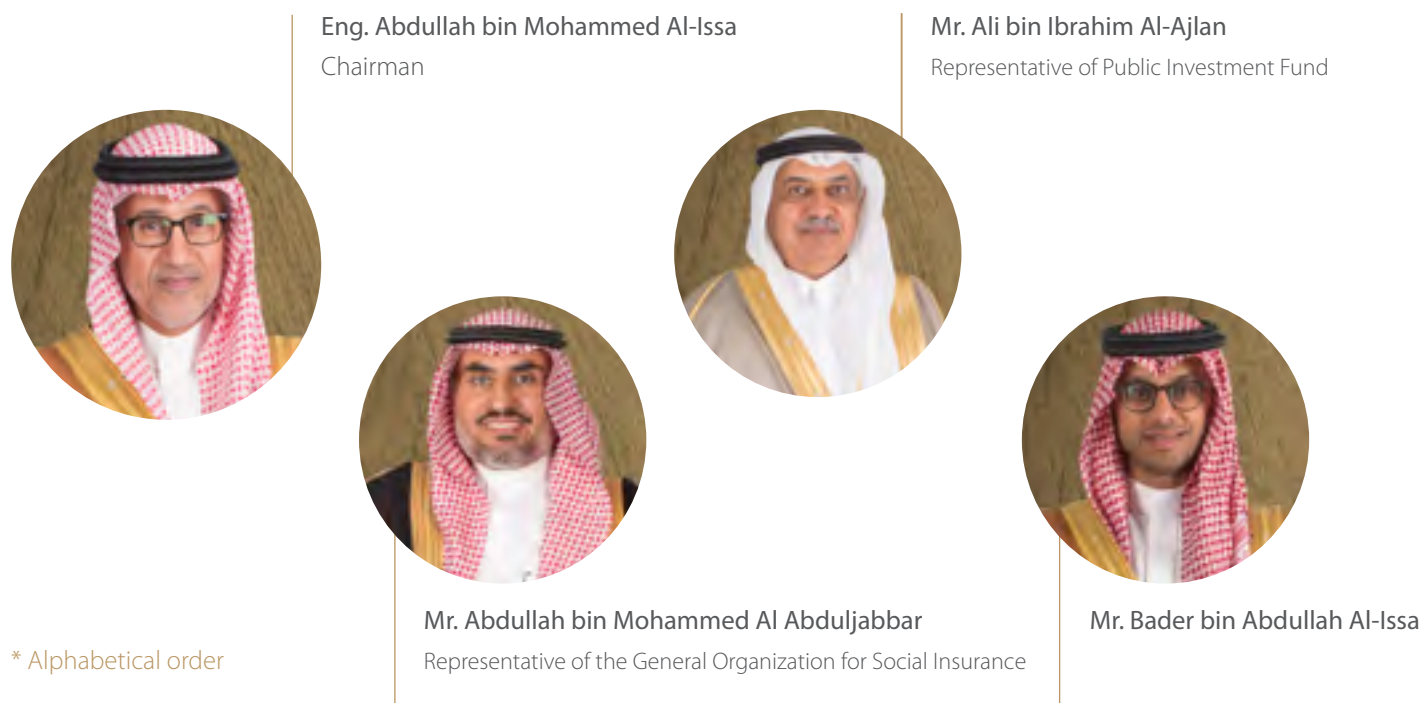
| Property | Phone | Fax |
|--------------------------------------|-------------|-------------|
| Makarim Ajjad Makkah Hotel | 012 5720500 | 012 5746061 |
| Makarim Riyadh Hotel | 011 2204500 | 011 2204505 |
| Makarim Tabuk Hotel | 014 4221212 | 014 4220101 |
| Makarim Umm Alqura Hotel | 012 5356100 | 012 5356200 |
| Makarim Al-Shurufat Hotel | 012 5356100 | 012 5356200 |
| Makarim Al-Bait Hotel | 012 5669292 | 012 5669393 |
| Makarim Mina Hotel | 012 5669292 | 012 5669393 |
| Makarim Annakheel Hotel & Resort | 012 6562101 | 012 6562510 |
| Makarim Residence Al-Andalus | 012 6695154 | 012 6601651 |
| Makarim Residence Al-Rawdah | 012 6685301 | 012 6685308 |
| Riyadh Marriott Hotel | 011 4779300 | 011 4779089 |
| Diplomat Courtyard Marriott Hotel | 011 2817300 | 011 2817900 |
| Marriott Executive Apartments Riyadh | 011 4783463 | 011 4783625 |
| Al-Jazeera Bader Compound | 011 4921135 | 011 4921102 |
| Al-Jazeera East Compound | 011 2422970 | 011 2422905 |
| Al-Takhassusi Plaza | 011 4882766 | 011 4882766 |
| Darraq | 011 4816666 | 011 4801666 |
| Al-Rawdah Amusement Park | 011 2319607 | 011 2377642 |
| Al-Watan Park | 011 4093121 | 011 4093119 |

Contents

| | |
|--|------|
| The Board of Directors | . 6 |
| Chairman's Address | . 6 |
| Key Activities | . 8 |
| Strategy | . 9 |
| Owned Properties | . 12 |
| Managed properties | . 16 |
| Projects Under Construction and Renovation | . 27 |
| Projects Under Study and Design | . 28 |
| Human Resources | . 30 |
| Investments | . 34 |
| Financial Results | . 36 |
| The Board of Directors Shares and Affiliations | . 43 |
| Board of Directors Committees | . 47 |
| Major Shareholders | . 49 |
| Leverage | . 50 |
| Key Income Contributors | . 51 |
| Geographical Analysis of Income | . 52 |
| Statutory Payments Due | . 52 |
| Dividends Policy | . 53 |
| Corporate Governance | . 53 |
| Risk Profile | . 54 |
| Acknowledgment | . 55 |
| Recommendations | . 56 |
| Independent Auditor's Report | . 57 |
| Consolidated Statement of Financial Position | . 58 |
| Consolidated Statement of Income | . 60 |
| Consolidated Statement of Cash Flow | . 61 |
| Changes-in-Equity Statement | . 62 |
| Notes on the Consolidated Financial Statement | . 64 |



The Board of Directors



Chairman's Address

Messrs / Shareholders of Saudi Hotels and Resorts Company

The Board of Directors is pleased to present the company's Annual Report and Financial Statements for the fiscal year ending as of December 31, 2013, complying with the requirements of companies, regulations, registrations and governing rules issued by the Saudi Capital Market Authority.

We are also pleased to share the company's 2013 financial results showing SAR 36,874,89 a 9% increase in operational revenues, as a result of the two new properties (Diplomat Courtyard Marriott Hotel and Marriott Executive Apartments Riyadh) added to the operational portfolio in 2012.

SHARACO has achieved a great deal in 2013 including renovations of Riyadh Marriott Hotel and Makarim Tabuk Hotel, and re-launching of the Villas Project in the Diplomatic Quarter equipped with smart houses system under the name Darraq (meaning luxury homes).

The company also started a re-branding process for the parent company, Makarim hotel operation and real-estate business sector.

We have also updated the company's strategy to elaborate the future objectives and to create elements for sustainable success, Allah willing.

The company prides itself in having achieved higher Saudization percentage last year. It is aimed to increase the percentage even further by attracting and retaining some of the best talents and by providing them with genuine opportunities for professional training and personal development.

SHARACO is committed to excellence and maintaining best industry practices by constantly providing quality products and services that will further strengthens its leadership in the hospitality industry. The company is also keen to develop its business relation with strategic

Mr. Fahed bin Abdullah Al-Qassim



Mr. Mos'ab bin Suliman Al-Muhaidib



Dr. Saleh bin Ali Al-Hathloul



Mr. Misfer bin Ali Al-Hamdan
Representative of Public Pension Fund



Mr. Nasser bin Mohammed Al-Sebaiei

partners locally, regionally and internationally. This will reflect positively on the company's level of services and profitability.

SHARACO also contributes to the community and is eager to play its social role based on its sense of responsibility as a corporation that cherishes the values of honesty, integrity, responsibility and creativity; and one that has its business strategy rooted in a promise of continuous growth through strict compliance with the Islamic Sharia laws in all transactions.

Examples of the company's recent social activities include a blood donation campaign and participation in the Food Bank Program that collects quality leftover meals from parties and social events and deliver them to those in need.

We take this opportunity to thank our valued customers for their loyalty and our shareholders for their endless

support. We also like to thank our team of qualified professionals for all their hard work and dedication. Above all, we thank Allah the Almighty whose blessing has always been key to our success.

Also the key to our success were, in fact, the consolidated efforts of the Stakeholders that we sincerely thank.

We hope that all these great efforts will continue and develop in order for us to achieve our strategic goals and better serve the company.

Allah is the Guardian of Success!

Chairman of the Board of Directors



1. Key Activities

The Saudi Hotels & Resorts Co. (SHARACO) was established as a Saudi joint stock company to serve the following purposes:

1. To build, acquire, manage, operate, lease, rent, invest and engage in the business of hotels, motels, restaurants, resorts, amusement centers and travel agencies of various levels and sizes in urban, suburban touristic and roadside areas.
2. To own and develop land plots for building or renting purposes.
3. To provide services to Hajj and Umrah visitors to the two Holy Mosques.
4. To carry out, in the capacity of main contractor and / or subcontractor, for all activities necessary for various undertakings referred to above in line with the purposes intended therefor.
5. To achieve a higher level of services in the aforementioned properties and to suitably equip the same as instructed by the Board of Directors.

The company may undertake all the above activities directly or through third parties and may contract all necessary projects that would ensure proper execution of the above.



Diplomatic Quarter Hotel
enticing design inspired by
its breathtaking surroundings

2. Strategy

In light of the recent developments in the company's business environment, and in line with the board of directors' vision to take the company further up to a higher course of development and profitability, the company's strategy has undergone a review that focuses on the company's activities as hotel and resorts developer and operator and taking part in major housing projects in the Kingdom with the aim to increase revenues and multiply the return on investment in the coming years, Allah willing. Implementing this new strategy will require:


1. Investing in the development of hotels and resorts and increasing financial leverage while maintaining acceptable levels of profit distribution and risks.
2. Partnering with international hotel operators to build a brand name at a faster pace.
3. Makarim Hospitality Group focusing on 3 and 4 Star hotels in the holy cities of Makkah and Madinah.
4. Restructuring the company and creating two new business units: one for the business development and another for the hotel operation and management.

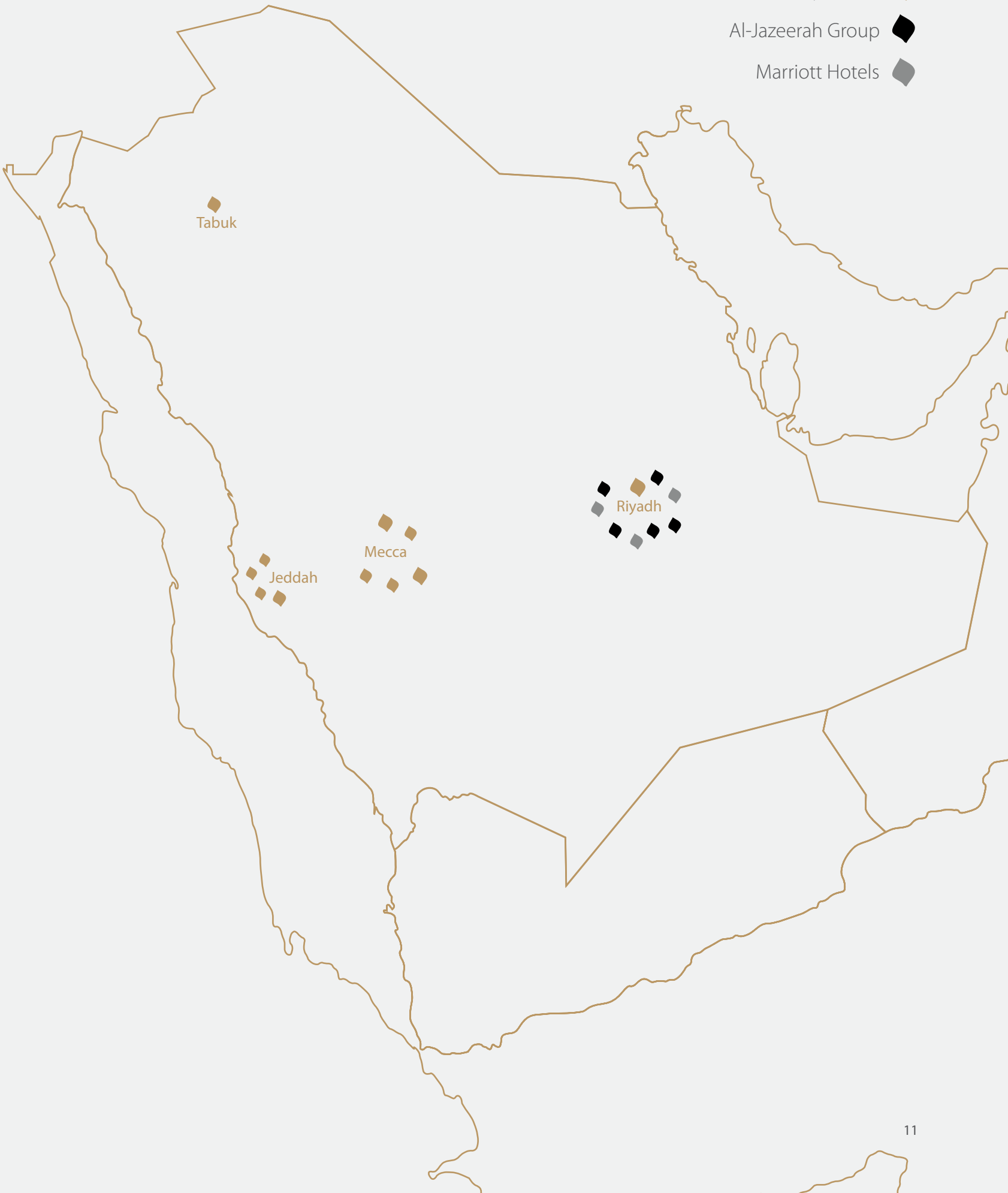


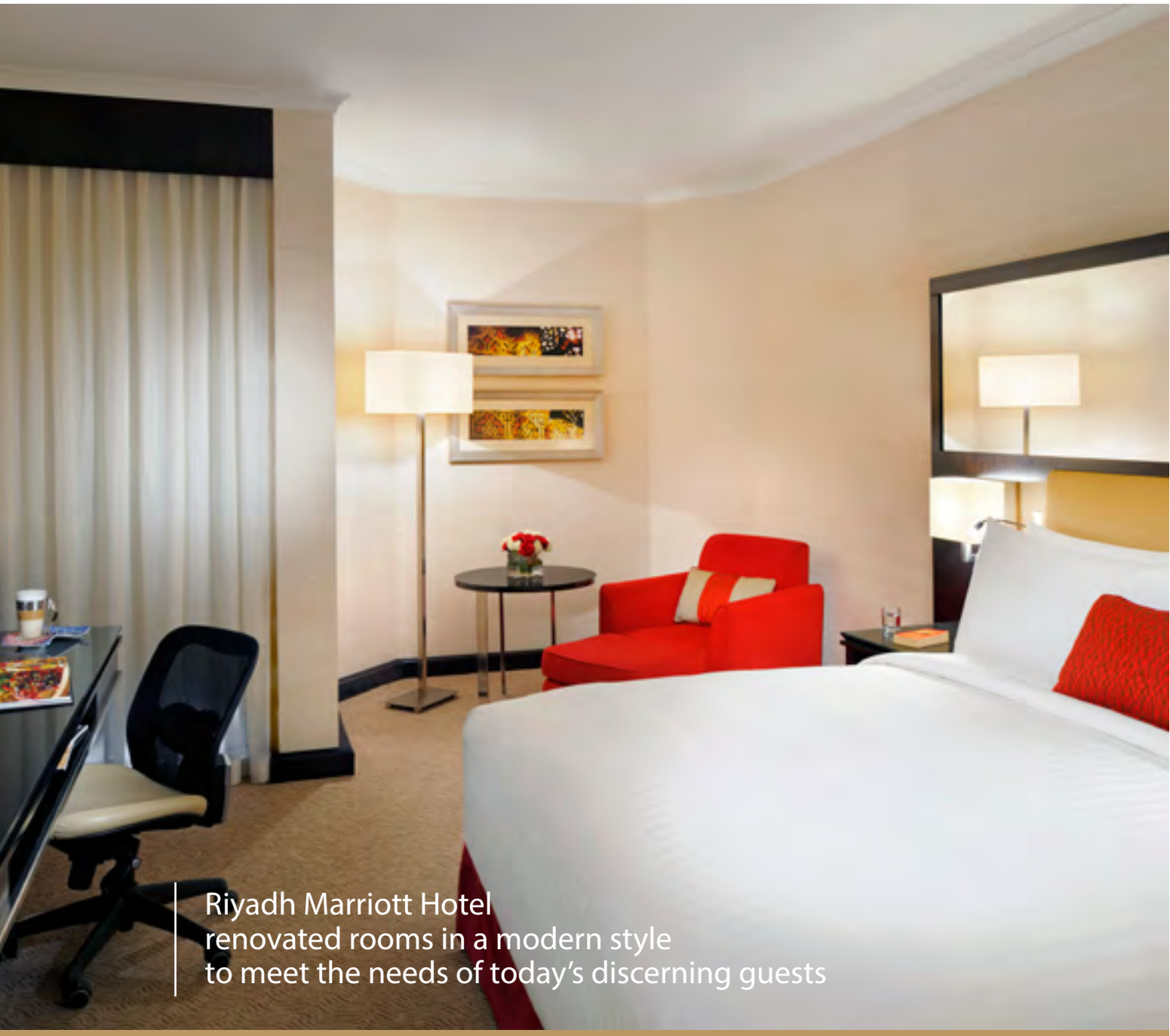
Saudi Hotels & Resorts Co. Business Units & Properties

Makarim Hospitality Group 

Al-Jazeera Group 

Marriott Hotels 





Riyadh Marriott Hotel renovated rooms in a modern style to meet the needs of today's discerning guests

3. Owned Properties

1. Riyadh Marriott Hotel

Riyadh Marriott Hotel is one of the most luxurious five-star hotels in the Kingdom of Saudi Arabia. It's ideally located in the heart of Riyadh, only 30 minutes away from King Khalid International Airport.

The hotel boasts of 420 guest rooms and suites, a number of luxury restaurants and meeting rooms equipped with the latest technology and services. The hotel also houses the Makarim Hall, a much sought-after venue for meetings, conferences, weddings and other social events.

Another highlight of the Riyadh Marriott Hotel is the state-of-the-art Bodyline Health Club and a Spa offering the finest and most luxurious fitness and recreation facilities.

2. Marriott Executive Apartments

Located next to the Marriott Riyadh Hotel, this new Marriott property launched in 2012 caters specifically to the needs and desires of businessmen planning for an extended stay in Riyadh.

This elegant 14-floor hotel apartments boasts of 117 spacious, one, two and three-bedroom hotel apartments and suites equipped with the latest amenities to meet even the most demanding guests' tastes and needs. The property also features world-class dining and fitness facilities.



3. Diplomat Courtyard Marriott Hotel

Opened in 2012, the hotel is conveniently located opposite to the southern entrance of the Diplomatic Quarter in Riyadh. The hotel is ideally located, accessible and offers a calm and peaceful environment away from the hustle and bustle of the city.

It is the first of the "Courtyard" brand of Marriott chain to be opened in the Kingdom. The hotel is characterized by its tranquility and relaxed businessmen-friendly ambience; an environment that integrates advanced technology into flexible spaces enabling guests to work and relax at the same time.

The Diplomat Courtyard by Marriott Hotel consists of 286 fully-equipped guest rooms and suites with a dining facility, state-of-the-art health club, business center and meeting rooms fitted with the latest technologies to satisfy business and corporate conference needs.



Darraq luxury talks

4. Darraq (Previously known as: Future Homes)

Ideally located in the Diplomatic Quarter - a model district that contains all the services and facilities required by modern residents. The project is intended for those aspiring to rent high-standard residence in a luxurious quarter. The project consists of 144 residential units in 6 different models of villas and apartments of various sizes.

The names of the units are derived from the local environment and the Arabian culture; Al-Nakhlāa, Al-Sidraa and Al-Talhaa are but a few examples of unit names that evoke an Arabian impression in a modern ambience.

The project provides complete privacy and round-the-clock maintenance services for the residents.

5. Al-Takhassusi Plaza

Sprawling over 40,000 m², Al-Takhassusi Plaza is one of the most important commercial centers in Riyadh with a large hypermarket, a number of restaurants, cafés, shop spaces and administrative offices located at the intersection of Makkah road - Al-Takhassusi Street, a lively environment with close proximity to the King Faisal Specialist Hospital and Research Center. Al-Takhassusi Plaza offers the world's best brand outlets to the individual and family needs.

6. Residential Compounds

The company owns two distinctive residential compounds featuring complete privacy, security, tranquility and magnificent design that cleverly respond to the aspirations and tastes of the residents:

1. Al-Jazeera East Compound

20,000 m² East of Riyadh, a separate part of which is occupied by the company employees and consists of 19 villas in two buildings of 59 bachelors furnished rooms. The building is separated from the villas with designated entrances. The inter-twined facility includes a health club, gardens and playgrounds, in addition to a health club with two sports halls, a steam bath, sauna and two separate swimming pools for adults and children. The development is also lush with green landscaping and playgrounds for children. In addition, to full maintenance services a shuttle bus service from major shopping centers and schools is provided.

2. Al-Jazeera Residence Compound

Located at Al-Maathar District, Riyadh. This development consists of 73 villas of various sizes and an integrated health club. The compound is equipped with the latest security system.



4. Managed Properties

1. Hotel Properties

Makarim Hospitality Group, the company's hotel operating arm, manages and operates the hotels and resort properties owned by SHARACO and third parties in line with the Group's new strategy of expanding into the hotel operation and management business.

The group has an integrated team of employees with world-class experience in hotel management and operation, as well as hotel management systems. The group participates in major local, regional and international exhibitions of the hospitality industry. It also maximizes the use of available online and offline media channels. The group is armed with a unique knowledge of the local business environment and in depth understanding of the market needs. Makarim Hospitality Group aims to strengthen its ability to launch new projects within the kingdom.

The Group operates and manages the following hotels and resorts:





80.3% Global Review Index (online reputation) achieved in 2013 at Makarim Ajjad Makkah Hotel

1. Makarim Ajjad Makkah Hotel

This is a 5-star luxurious hotel within walking distance of the Holy Mosque. The location of the hotel also provides an easy access to the Holy Sites including Mina, Muzdalifa and Arrafat.

The hotel boasts of 411 single, double, triple, quadruple, suites and special needs guest rooms. Every suite in this magnificent property is designed with a distinctive charm and furnished with elegance.

Makarim Ajjad Makkah Hotel is also famous for housing the largest hotel lobby in Makkah. Free internet service throughout the hotel is another standard feature of the property.

The hotel is owned by Makkah Hotels Company Ltd. A company that is 99.44% owned by SHARACO.

2. Makarim Umm Alqura Hotel

This is a 5-star luxurious hotel located at Ajjad Street and just a five minute drive from the Holy Mosque near the Ring Road for an easy access to the Holy Sites including Mina, Muzdalifa and Arrafat.

The hotel is a striking 12-storey structure combining luxury and elegance boasts of 336 single, double, triple and quadruple spacious guest rooms, suites and special needs guest rooms that meet the tastes and needs of individuals and families alike.

The Hotel features a fine dining restaurant, meeting rooms, retail outlets, free internet, six large elevators and parking facility for 80 cars. The hotel is owned by Assila Investment Company.

3. Makarim Al-Shurufat Hotel

This new 7-storey, 104-room hotel building is located alongside of Makarim Umm Alqura Hotel in the vicinity of Kadi tunnel, about 1800m from the Holy Mosque. The Hotel's luxurious guest rooms are equipped with electronic door locks, digital safe, complementary tea and coffee tray, direct international call service, high speed wireless internet access, 32" flat screen TV, mini fridge, 24-hour room service, as well as laundry and dry clean service, in addition to foreign exchange service and air-conditioned shuttle to and from the Haram. The hotel is owned by Shurufat Al Safwa Company.



1,8 Million guests served
at Makarim Hotels and Resorts





Total of 1,896
hotel rooms in
Makarim Hotels and Resorts

4. Makarim Al-Bait Hotel

The Hotel, owned by Assila Investment Company, is located on King Abdul Aziz Street in the Shesha area of the Holy city of Makkah near the Jamarat, just 3 km from the Haram.

The Hotel boasts of its 270 luxurious rooms and suites with several distinguished amenities including dining facilities, meetings rooms, retail outlets, free internet, free air-conditioned shuttle bus service between the Hotel and the Haram and free car park for up to 100 cars.

5. Makarim Mina Hotel

The hotel was inaugurated in 2013, is located in Al-Azizia district of Makkah and consists of 294 rooms and suites. Other facilities include restaurants, meeting rooms, retail outlets, free internet service and much more. The hotel is owned by His Excellency Sheikh Mohammed Ibrahim Al-Ghamdi.

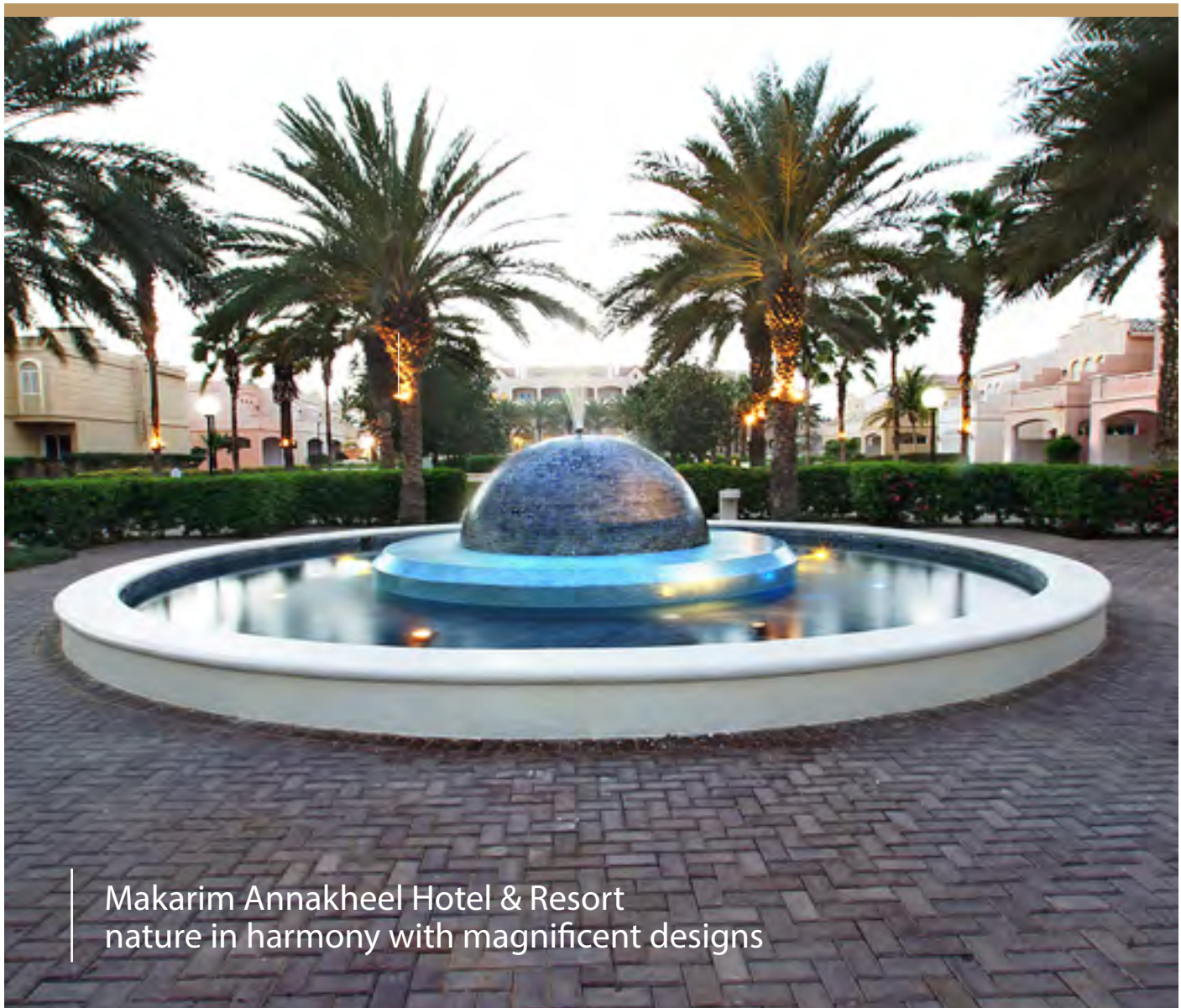
6. Makarim Annakheel Hotel & Resort - Jeddah

This is a luxurious beachfront resort located on the north Obhur bay, about 40 minutes drive from Jeddah city center and 20 minutes from King Abdul Aziz International Airport.

The resort boasts of 112 furnished villas, 21 apartments and a hotel featuring 43 elegant rooms and suites. The hotel also features meeting rooms, restaurants, separate health clubs for men and women, berth for yachts and boats, a sandy beach offering an array of marine activities and a seaside Plaza that can accommodate up to 800 guests.

Privacy and comfort were strictly considered in the design of Makarim Annakheel Hotel & Resort. An 88% of the project area features greenery that inspires comfort and tranquility. The hotel & resort also offer free internet service throughout the property.

Renovation works for the hotel rooms, public areas and facilities in the hotel & resort are scheduled for completion in 2014. The resort is owned by Annakheel Village Resorts Co. , a company that is 98.73% owned by SHARACO.



Makarim Annakheel Hotel & Resort
nature in harmony with magnificent designs

7. Makarim Riyadh Hotel

A luxurious five-star hotel in the heart of Riyadh. The Makarim Riyadh Hotel is the closest hotel to the King Khalid International Airport. Away from the bustling city, the hotel features 248 spacious rooms and suites equipped to the highest international hospitality standards.

The hotel is home to two exclusive restaurants. Aldiwan – a restaurant that prides itself in its superior class of cuisine and service. The Panoramic rooftop Restaurant – an á la carte fine dining restaurant that serves some of the world's finest dishes along with a fabulous view of the airport runways. A candlelight dinner coupled with scenic panoramic views from a calm and cozy corner is a special treat to any guest.

The Makarim Riyadh Hotel also features multiple meeting rooms, a banquet hall for up to 400 guests, business center, health club and kids amusement areas. The vast areas of lush greenery are a sight to sore eyes. Some other amenities include free internet access, ample parking facility and rooms for guests with special needs. The hotel is leased from the General Authority for Civil Aviation and operated by Makarim Hospitality Group.





Rooms at Makarim Tabuk Hotel have been renovated to a sparkling elegance


8. Makarim Tabuk Hotel

Makarim Tabuk is located on Al Medina - Tabuk road and has a collection of 82 luxurious rooms and suites. In 2013, the hotel rooms were revamped in order to upgrade the Hotel's level of quality of furnishing.

The hotel also houses the Al-Waleemah Restaurant serves international and Eastern ala carte' menu, buffet breakfast, luncheons and dinners. It also features a banquet hall that can accommodate up to 250 guests.

Makarim Tabuk is the only hotel in Tabuk that offers health club with olympic size swimming pool and International standard tennis court to the hotel guests and the community. The 150-car parking area is designed to serve a large number of vehicles for the various events and wedding parties. Free internet service is available throughout the hotel.

The hotel is owned by Tabuk Hotels Co. A company that is 97.14% owned by SHARACO.



New look
for the distinctive lobby
at Riyadh Marriott Hotel

2. Real Estate Properties

The Al-Jazeera Group, the company's real estate operating arm, manages and operates a number of real estate properties. Based on the experiences gained from running SHARACO-owned properties, Al-Jazeera Group went a step further to present their services to other customers seeking to add a distinctive management facet to their hotel properties in a real five-star hospitality style. The Group now manages and operates the following Properties:



1. Al-Jazeera Bader Compound

Al-Jazeera Bader is a stylish deluxe residential compound that comprises of 40 fully furnished villas standing proudly in a unique location in the East of Riyadh in the Al-Rayan District.

These two-story villas are built to offer complete privacy and tranquility of an ideal family home. Additional features include sports facilities, central satellite TV and a regular shuttle bus service to and from the city's commercial centers and schools. The compound is owned by Assila Investment Co.

2. Makarim Residence Al-Andalus

The Makarim Residence compound is located in Al-Andalus district, off Tahlia Street, Jeddah. The property features 30 two-story luxury villas furnished to five-star hotel standards.

The ground floor includes a reception hall, a guest room, dining space, a fully equipped kitchen, maid's room with private bathroom, and a laundry room. The top floor consists of a master bedroom plus two bedrooms each with an ensuite bathroom, and a private living room.

All villas in the compound enjoy the luxury of total privacy, security, and family atmosphere with an array of business services, sports and amusement facilities and driver rooms. The compound is owned by Assila Investment Co.

3. Makarim Residence Al-Rawdah

The Makarim Residence compound is located in Jeddah, next to Tahlia Street. The property consists of 28 villas of various sizes, a private parking, an administration and support services building, and a modern health club.

The compound was developed for families to enjoy a calm and private atmosphere with magnificent design and prestigious hotel services. The compound is owned by Assila Investment Co.



Working
brilliantly

4. Amusement Parks

1. Al-Rawdah Park

Established on 70,000m² of land leased from the Riyadh Municipality in Al-Rawdah district, the Park offers various types of rides and multi-purpose playgrounds to suit different ages as well as a multi-purpose hall.

2. Al-Watan Park

Established on land leased from High Commission for the Development of Arriyadh in King Abdul Aziz Historical Center in central Riyadh. This unique Park features a miniature model of the Kingdom highlighting landmarks of the main cities of the kingdom. The park also features a number of amusement playgrounds, traditionally designed chalets, water surfaces and restaurants. In the middle of the Park stands the Riyadh's famous Water Tower - a landmark of the city of Riyadh.

5. Projects Under Construction and Renovation

1. Makarim Annakheel Hotel & Resort

Preparations are now underway to renovate the Hotel and Villas in Makarim Annakheel Hotel & Resort to maintain our leading position in the Jeddah hospitality market.

2. Makarim Tabuk Hotel

The company has now completed refurbishing rooms and corridors of Makarim Tabuk Hotel and proceeded to the development of hotel's public areas including the banquet hall, the restaurant and the lobby.

3. Riyadh Marriott Hotel

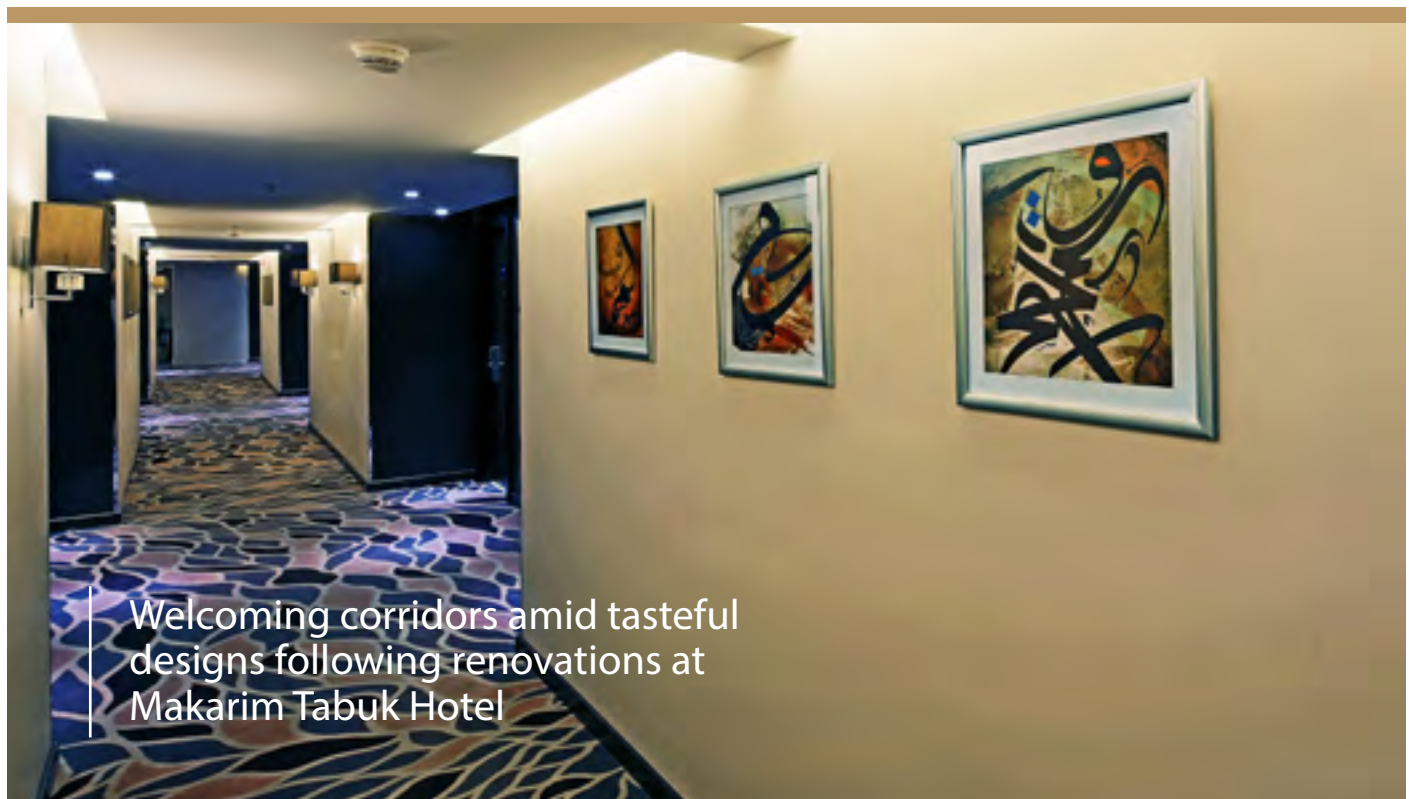
In 2013, the company has completed refurbishing the rooms and corridors of Marriott Riyadh Hotel to keep up with the ever-changing Riyadh hotel market sector. The Hotel serves its guests and visitors to the highest international standards.

4. Darraq (Phase II)

Final work has been completed for the be-spoke villas of Darraq Phase II project, which consists of 28 villas built on plots owned by the company in the Diplomatic Quarter in Riyadh.

5. Darraq (Phase III)

The company has started work on the Darraq Phase III project. This project consists of 120 housing units of various sizes on a plot leased out from High Commission for the Development of Arriyadh in the Diplomatic Quarter. The project is due for completion in the second half of 2015.



Welcoming corridors amid tasteful designs following renovations at Makarim Tabuk Hotel



With lofty heights and comforting arms
Riyadh Marriott Hotel embraces you
and your friends and loved ones

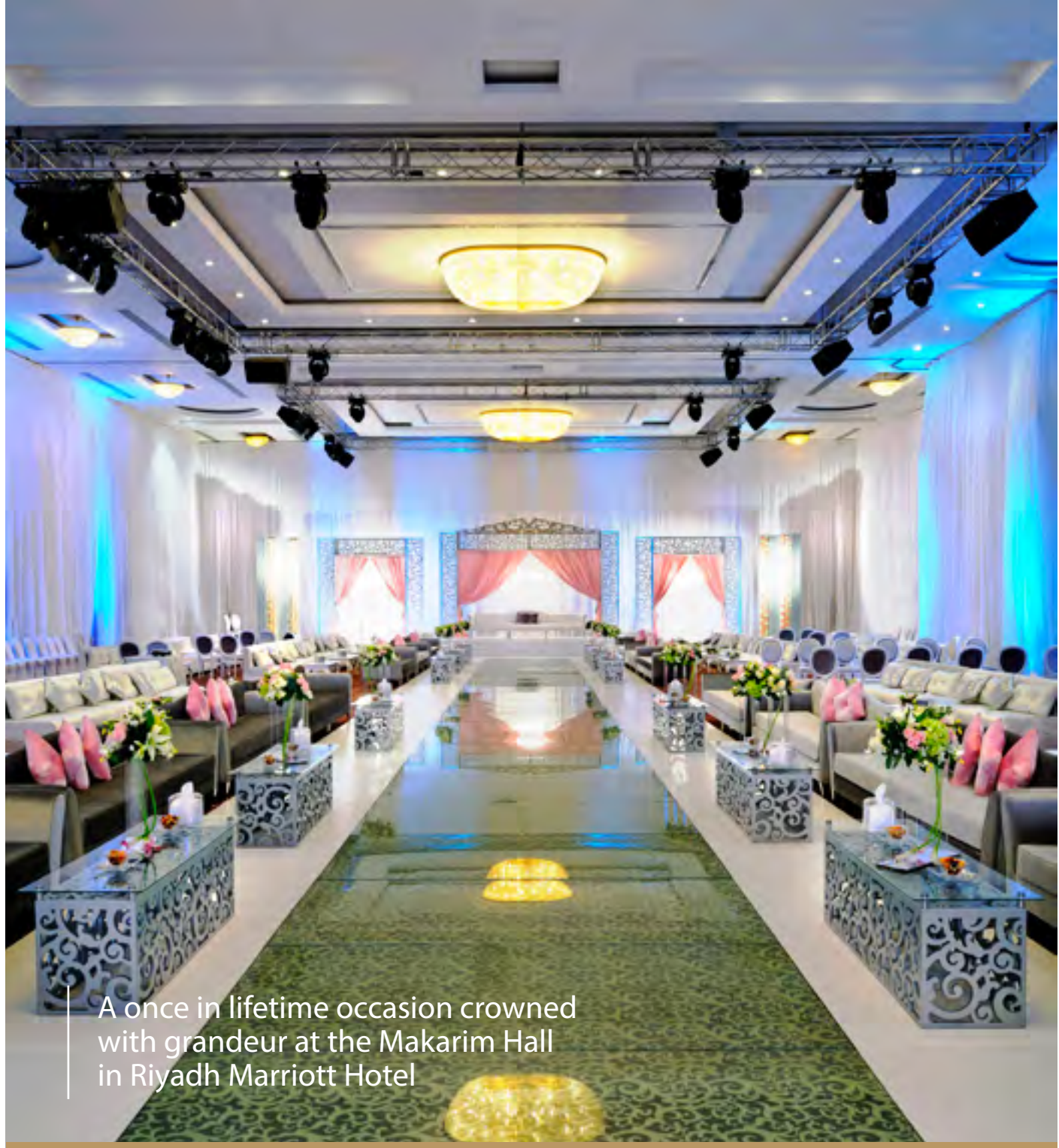
6. Projects under Study and Design

1. Diplomatic Quarter Hotel

Designs are now being updated for the new proposed Diplomatic Quarter Hotel in Riyadh. An international architectural design competition was organized by the company and the winning design was well received and appreciated by all concerned. It has also been approved by the High Commission for the Development of Arriyadh.

2. Al-Huda Residential Compound

A specialized consultancy firm has been engaged to conduct an optimal use of land study for the Southern and Western areas of Diplomat Courtyard Marriott Hotel. This will help the company to decide on an appropriate plan that would make optimum use of the available 28,580m² of land.



A once in lifetime occasion crowned with grandeur at the Makarim Hall in Riyadh Marriott Hotel

3. Darraq (Phase IV)

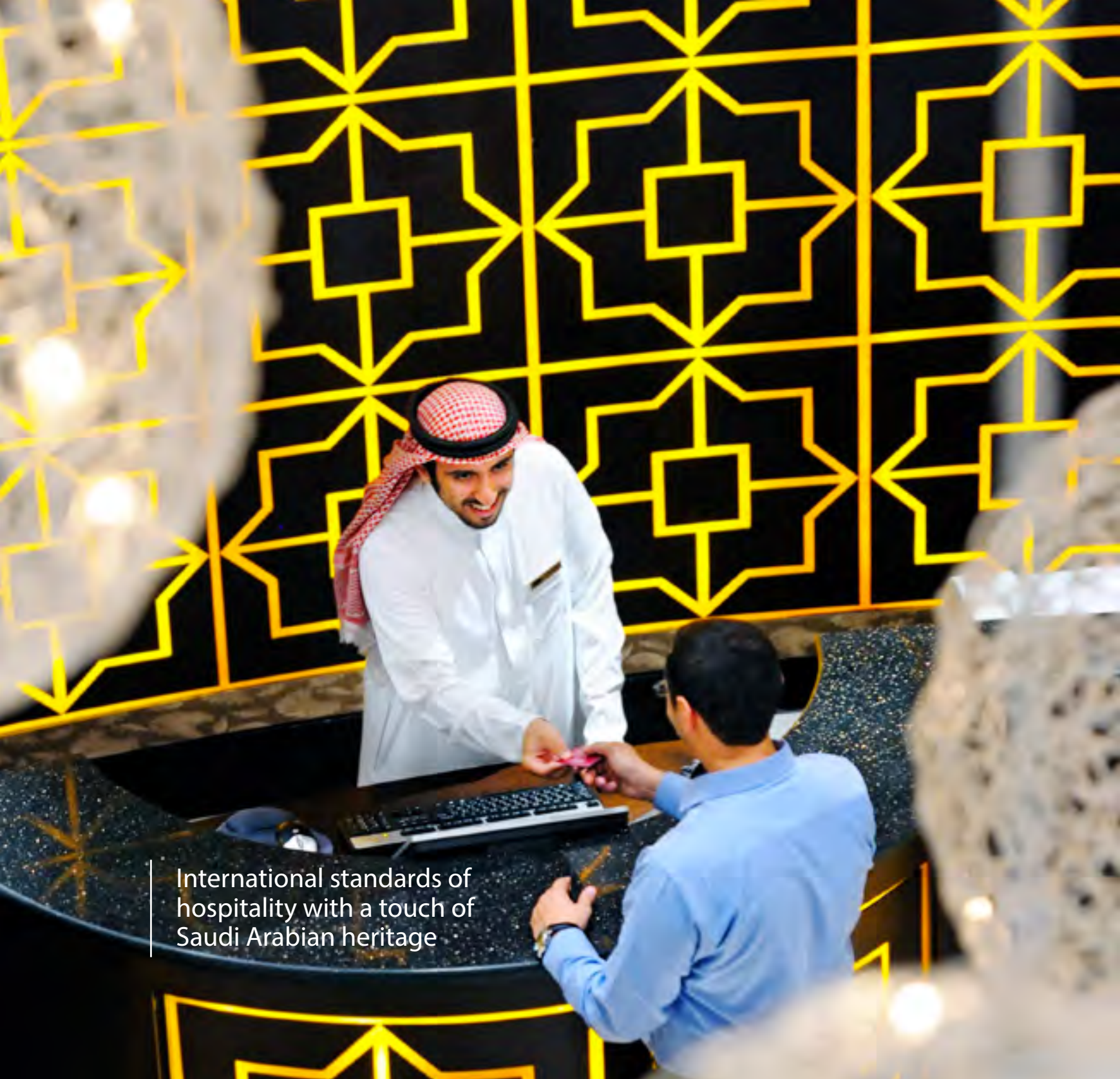
A process is now underway to get the designs of Darraq (Phase IV) project approved by the High Commission for the Development of Arriyadh. The project will be built on a plot of land leased from the High Commission in the Diplomatic Quarter.

4. Employee Family Housing Property

Design work is scheduled to start for the family housing planned on a 5,000m² plot of land owned by the company in the Wadi Allaban Area, Riyadh.

5. Employee Bachelor's Housing Property

A consultancy firm has been assigned the design work of the bachelor's housing facility planned to be built for the company's single employees on a 5,345m² plot owned by the company in Tuwaiq District, Riyadh.



International standards of
hospitality with a touch of
Saudi Arabian heritage

7. Human Resources

The year 2013 witnessed a number of efforts and achievements aimed at developing the company's human resources. In this context, and to meet objectives of its business strategy, the company has completed Phase I of the human resources information system project, including:

1. Developing the Organizational Structure and Salary Scale

We have reviewed the company's business model and developed an organizational structure to match and reflect the company's new business strategy. This has been brought

into effect by restructuring the departments and re-distributing tasks and responsibilities to help the company carry out its duties and meet market challenges more effectively. This included job analysis, better definition of job functions, responsibilities, qualifications, experience, behavioral and professional competencies as required.

The company has also restructured its salary scale, as well as the benefits and compensation plans based on job-analysis. This has also been benchmarked against market rates and peer companies in order to maintain the company's competitive advantage, retain distinguished staff and attract new talent from the job market.

2. Improving Skill Competencies and Abilities

Last year, the company did its best to develop its wealth of human resources. Through this exercise we have managed to attract some high-profile and experienced talents to fill the then-existing vacancies. The company also managed to activate a number of relevant initiatives dedicated to achieving the company's strategic goals.

3. Performance Measurement and Management

A performance measurement and management plan has been introduced to help recognize, reward and develop star performers and also to assist average ones to develop and improve their skills. Two main criteria were used in the appraisal process:

1. Measurable, time-limited performance goals to be measured against the overall strategic objectives set for each sector and property. Then regular follow up on performance is to be carried out against these goals in order to ensure objectivity, that goals are realistic and to point out weaker areas for improvement as early as possible.
2. Behavioral and professional competencies as well as leadership attributes required for each position.

4. Incentives

We, at SHARACO, take pride in motivating our employees and rewarding their efforts, ideas, and dedication. The new incentive scheme links reward to performance and achievement of objectives. The new scheme also intends to further encourage Saudi employees to work for the company offering them an attractive allowance system, so that the company will be able to rely on them in its future development and expansion plans.

5. Training and Development

We believe in the importance of our human resources. Hence, SHARACO has invested in training to increase the efficiency of its employees to the highest possible levels and empower each one of them to play their part in achieving the company's ambitious plans. Several training courses were held on various subjects, such as project management, strategic planning, leadership and team building.

6. Department of Human Resource Development

The department supervises the company's manpower planning and recruitment process. It also supports Saudization, training and management performance throughout the company.

Phase 1 of the Human Resources Information System project and the Employee's Self-Service System, that will aid employees in the company, is now complete.

7. Knowledge-based Partnership

In 2013, SHARACO Human Resources department held more than 7 workshops for the purpose of knowledge exchange amongst company employees across various disciplines.

8. Saudization

SHARACO has placed Saudization high on its agenda and actively works for the Saudization of many positions by attracting qualified Saudi talents on one hand, and training Saudi graduates and motivating them to work in SHARACO's various business sectors, on the other.

9. Looking Forward

SHARACO aspires for more development in human resources operations and systems and has set the following objectives for 2014:



Spaciousness filled with contentment
Splendor adorned with refinement
Marriott Executive Apartments Riyadh

1. To increase Saudization rate to 28%.
2. To activate the Human Resources Information System for automation of HR operation from salaries and employee services to training and performance measurement.
3. To develop SHARACO's HR Policies and Procedures Manual, and the Employee's Code of Conduct.
4. To develop employee career paths and replacement plans for key positions in the company.
5. To train employees in various areas, including English language, management and communication skills, creative thinking, hotel business and hospitality skills, and engineering projects. The company is also working on the implementation of the Competence Management Program to prepare distinguished staff for higher-ranking positions based on the 'Promotion from Within' principle.



8. Investments

The Saudi Hotels and Resorts Company now invests in eight affiliate companies, with limited liability, all of which are based in the Kingdom and carry out their activities on the Saudi territory.

These companies have their activities centered on hotel and real estate business sectors.

| | Company | Main Activity | Share Capital (SAR) | Affiliate Property | Affiliate Percentage Contribution (%) | Affiliate Total Revenue in 2013 |
|---|------------------------------------|--|---------------------|---------------------------------|---------------------------------------|---------------------------------|
| 1 | Makkah Hotels Co. Ltd. | Hotel | 165,600,000 | Makarim Ajyad Makkah Hotel | 99.44 | 75,132,527 |
| 2 | Annakheel Village Resorts Co. Ltd. | Hotel Real Estate | 59,250,000 | Makarim Annakhell Resort Jaddah | 98.73 | 39,132,487 |
| 3 | Tabuk Hotels Co. Ltd. | Hotel | 27,300,000 | Makarim Tabuk Hotel | 97.14 | 13,786,399 |
| 4 | Saudi Hotel Services Co. Ltd. | Hotel | 100,000,000 | Riyadh Palace Hotel | 30 | 53,345,000 |
| 5 | Al Madina Hotels Co. Ltd. | Hotel Real Estate | 1,000,000 | - | 50 | Under liquidation |
| 6 | National Co. for Tourism | Hotel Real Estate | 422,000,000 | A number of properties in Aseer | 1.65 | final accounts pending |
| 7 | Makarim Al-Maarifa Co. | Real Estate | 21,400,000 | Under study in Medina | 50 | |
| 8 | Marketing Media Co. | Marketing Promotion & Public Relations | 2,000,000 | - | 25 | Under liquidation |

* Note: none of the above companies projected any debts

It is to be noted that the company has received a letter from Knowledge Economic City (KEC) Company indicating that KEC Shareholders General Assembly did not endorse the KEC land sale contract signed between KEC and Makarem Al-Maarifa Co. SHARACO's lawyer was consulted on the issue and the company's position is confirmed to be right, with first installment of the SAR17.5M sale price having been paid by SHARACO and KEC, at 50% each.



Makarim Ajyad Makkah Hotel
just steps away from the
Grand Mosque



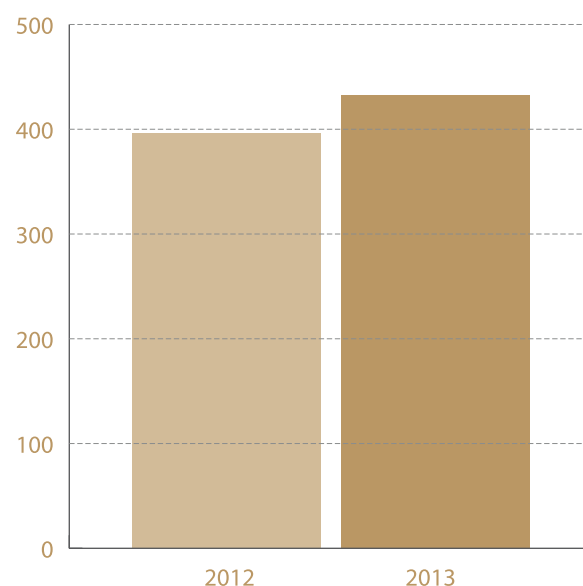
A gentle embrace encircles us
making the job easier to complete
and sweetening our gatherings and conversations

9. Financial Results

The company's consolidated list of revenue for the financial year ended on 31/12/2013 shows total revenues of SAR 463,673,589 and total costs reaching SAR 313,708,617. Thus, net year income, after deducting Zakat and rights of minority shareholders, reached SAR 143,020,655; a SAR 55,848,779 (28%) down from previous year's figure. This is due to the SAR 56M net profit from the sale in 2012 of the company land in the Eastern Region, decreased revenues from both Riyadh Marriott Hotel (owing to a partial closure of the hotel for revamping and furnishing) and Makarim Ajyad Makkah Hotel (because of the decreased number of Umra visas issued in 2013). The following table outlines changes in the year 2013 Income Statement in comparison with the previous year.

| Description | 2013 | 2012 | Change ± | (%) of Change |
|--|--------------------|--------------------|-------------------|---------------|
| Activities revenues | 432,978,021 | 396,103,132 | 36,874,889 | 9.3 |
| Activities expenses | 294,594,810 | 235,080,031 | 59,514,779 | 25.3 |
| Total activity profit | 138,383,211 | 161,023,101 | (22,639,890) | (14) |
| Administrative & General Expenses | 19,113,807 | 16,999,535 | 2,114,272 | 12.4 |
| Investment revenues in Holdings | 11,903,114 | 5,986,234 | 5,916,880 | 98.8 |
| Operational profits | 131,172,518 | 150,009,800 | (18,837,282) | (12.5) |
| Other sources of revenues | 18,792,454 | 57,768,264 | (38,975,810) | (67.4) |
| Net profit before zakat and the rights of non-controlling equity | 149,964,972 | 207,778,064 | (57,813,092) | (27.8) |
| Zakat | 6,630,165 | 8,010,540 | (1,380,375) | (17.2) |
| Net profit before non-controlling equity | 143,334,807 | 199,767,524 | (56,432,717) | (28.2) |
| Net rights of non-controlling equity | 314,152 | 898,090 | (583,938) | (65) |
| Net Profits | 143,020,655 | 198,869,434 | 55,848,779 | (28) |

Revenue Comparison 2012 / 2013



Accordingly, the calculation of the proposed dividend for 2013 will be as follows:

| Statement | Amount (SAR) |
|--|-------------------|
| Net income for the year (after Zakat) | 143,020,655 |
| Less: | |
| Statutory Reserve (10%) * | - |
| Dividends (down payment) 5% of the capital | (50,000,000) |
| The remainder of the year, net income | 93,020,655 |
| Less: | |
| Directors' remuneration | (1,800,000) |
| Dividends (second batch) 7% of capital | (70,000,000) |
| The remainder is added to the retained earnings | 21,220,655 |

* General Assembly decided during the ordinary shareholders meeting held on 1/4/2012 AD to stop the statutory reserve due to reach half of the company's capital.



800 employees
at your service
at Makarim Hotels and Resorts

The table below shows summary financial results for the previous five years:

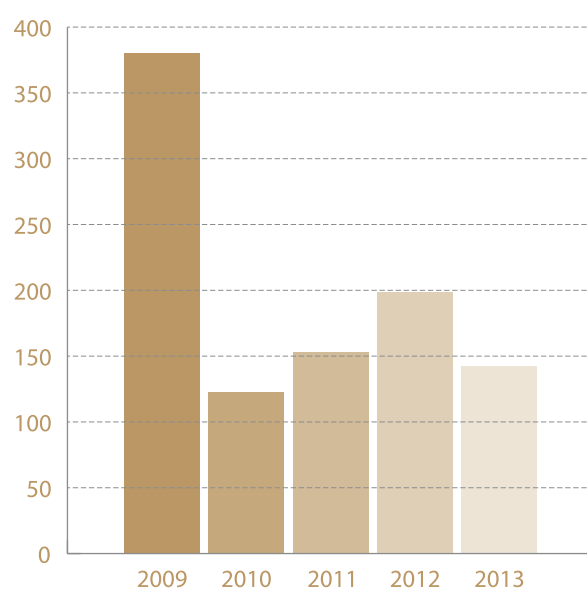
1. Income Statement:

| Statement | 2009 | 2010 | 2011 | 2012 | 2013 |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|
| Revenue | *733,262,808 | 281,034,970 | 358,032,978 | 396,103,132 | 432,978,021 |
| Expenses | 347,602,234 | 156,269,826 | 201,012,272 | 235,080,031 | 294,594,810 |
| Gross profit | 385,660,574 | 124,765,144 | 157,020,706 | 161,023,101 | 138,383,211 |
| General and administrative expenses | 0 | 0 | 14,582,570 | 16,999,535 | 19,113,807 |
| Investment income in Holdings | 0 | 0 | 0 | 5,986,234 | 11,903,114 |
| Operational profit | 385,660,574 | 124,765,144 | 142,438,136 | 150,009,800 | 131,172,518 |
| Other income | 6,935,345 | 4,235,765 | 16,751,215 | **57,768,264 | 18,792,454 |
| Net profit before zakat of associated companies and minority share | 392,595,919 | 129,000,909 | 159,189,351 | 207,778,064 | 149,964,972 |
| Zakat | 11,926,247 | 4,690,410 | 5,275,513 | 8,010,540 | 6,630,165 |
| Minority share in profits of associated companies | 102,518 | 1,572,460 | 545,361 | 898,090 | 314,152 |
| Net | 380,567,154 | 122,738,039 | 153,368,477 | 198,869,434 | 143,020,655 |

(*2009) The sale of Alkhaleej Village

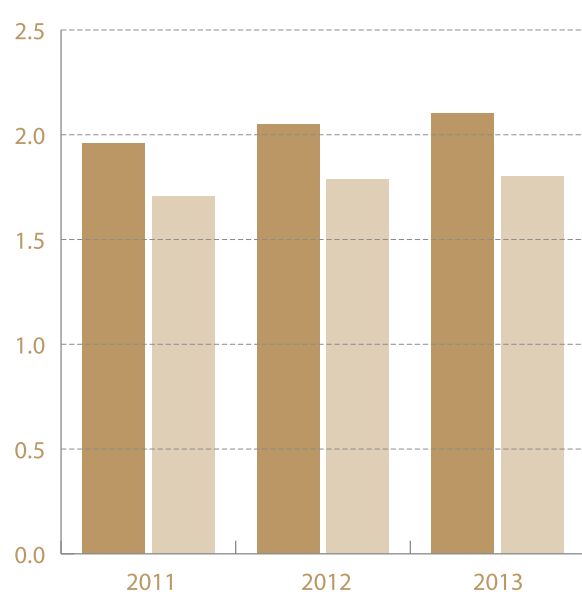
(**2012) The sale of Dammam Land

Summary of operational profit for the previous five years



2. Statement of Financial Position (Balance Sheet)

| Statement | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|
| Total Current Assets | 435,505,119 | 246,309,239 | 235,206,127 | 297,541,104 | 306,077,845 |
| Total non-current assets | 276,798,257 | 464,361,206 | 456,655,231 | 206,661,254 | 264,435,720 |
| Net Fixed Assets | 1,126,635,130 | 1,175,607,788 | 1,269,810,247 | 1,543,489,576 | 1,535,318,009 |
| Total Assets | 1,838,938,506 | 1,886,278,233 | 1,961,671,605 | 2,047,691,935 | 2,105,831,574 |
| Total current liabilities | 135,376,215 | 144,006,032 | 179,928,342 | 197,293,871 | 178,227,829 |
| Total non-current liabilities | 63,490,647 | 60,903,621 | 57,722,664 | 54,257,632 | 123,294,543 |
| Minority interests in associates | 15,415,143 | 18,450,387 | 17,450,322 | 7,083,994 | 3,650,768 |
| Total shareholders' equity | 1,624,656,501 | 1,662,918,193 | 1,706,570,277 | 1,789,056,438 | 1,800,658,434 |
| Total liabilities and shareholders' equity | 1,838,938,506 | 1,886,278,233 | 1,961,671,605 | 2,047,691,935 | 2,105,831,574 |



Total shareholders' equity Total Assets

Magnificence and hospitality together
at Najd Hall for special occasions
Riyadh Marriott Hotel





Professional
hotel services

10. The Board of Directors Shares and Affiliations

1. The Board of Directors comprises of the following members:

| | Name | Membership category | Number of shares owned (by the member or entity he represents) in SHARACO | Ownership beginning of the year (%) | Percentage of ownership end of the year (%) | Other Corporations the member is also part of their Board of Directors |
|---|--|---------------------|---|-------------------------------------|---|--|
| 1 | Eng. Abdullah bin Mohammed Al-Issa | Non-executive | 1,449 | 0.001 | 0.001 | 1. Riyad Bank 2. Arabian Cement 3. Sabic 4. National Company for Medical Care |
| 2 | Dr. Saleh bin Ali Al-Hathloul | Independent | 1,449 | 0.001 | 0.001 | - |
| 3 | Mr. Ali bin Ibrahim Al-Ajlan (Representative of the Public Investment Fund) | Non-executive | 16,628,458 | 16.6 | 16.6 | - |
| 4 | Mr. Misfer bin Ali Al-Hamdan (Representative of the PPA) | Independent | 1,743,215 | 1.7 | 1.7 | The Saudi Company for Pharmaceutical Manufacturers |
| 5 | Mr. Nasser bin Mohammed Al-Sebaiei | Independent | 1000 | 0.001 | 0.001 | Bilad Bank |
| 6 | Mr. Abdullah bin Mohammed Al Abduljabbar (Representative of the General Organization for Social Insurance) | Non-executive | 6,540,591 | 6.5 | 6.5 | - |
| 7 | Mr. Bader bin Abdullah Al-Issa | Non-executive | 1,485 | 0.001 | 0.001 | Safola Group |
| 8 | Mr. Fahed bin Abdullah Al-Qassim | Independent | 1,100 | 0.001 | 0.001 | 1. Safola Group 2. Jarir 3. Dallah |
| 9 | Mr. Mos'ab bin Suliman Al-Muhaidib | Independent | 1000 | 0.001 | 0.001 | Ghazi Shaker Co. |



2. There are no new contracts which the company has entered into, that members of the board, the Chief Executive Officer, the Chief Financial Officer or anyone associated therewith, have interest in.

The company now runs 10-years Operation and Management contracts for Makarim Residence Al-Andalus compound, Makarim Umm Alqura Hotel, Makarim Al-Bait Hotel, Makarim Residence Al-Rawdah compound, and Al-Jazeera Bader Compound, all owned by Assila Investment Co., in the board of which Eng. Abdullah bin Mohammed Al-Issa and Mr. Bader bin Abdullah Al-Issa (both members of SHARACO Board) are members.

In return for operating and managing these properties under the said 10 years O&M contracts, the company receives a specified percentage of the gross revenues and a specified percentage of the total operating profits of each property.

In 2013, the company received a total remuneration of SAR 3,414,479 in return for operating and managing these properties.

3. There are no shares held by wives or minor children of members of the board or by representatives of the board or wives or minor children thereof.
4. No shares are owned by the top executives who are working in the company , their wives or minor children except 1,249 shares owned by the CEO Dr. Badr Hamoud AlBadr. And no interest or rights in voting shares that belongs to any members of the board or top Executives, their wives or minor children in shares or debit instruments for the company or any subsidiaries thereof.



5. Since Masek Holding Company and Messers Eng. Abdullah bin Mohammed Al-Issa & Sons Company are both shareholders of SHARACO, and in compliance with the regulations of the Saudi Financial Market Authority, mention is to be made in this Annual Report that Eng. Abdullah bin Mohammed Al-Issa (Chairman of the Board) and Mr. Bader bin Abdullah Al-Issa (Member of the Board) have interest in Masek Holding Company, and that Eng. Abdullah bin Mohammed Al-Issa and Mr. Bader bin Abdullah Al-Issa (Member of the Board) both have interests in Eng. Abdullah bin Mohammed Al-Issa & Sons Co.

The table below shows changes in ownership of these companies in 2013:

| | Name | Number of shares beginning of the year | Shares end of the year | Change |
|---|--------------------------------------|--|------------------------|--------|
| 1 | Mask Holding Company | 26,315,809 | 26,315,109 | - |
| 2 | Abdullah bin Mohammed Al-Issa & Sons | 28,982 | 28,982 | - |

6. On 7/10/2013, a SAR 10,000 penalty was imposed on the company by the Saudi Financial Market Authority for breaching Article Ninth/A of CMA's Corporate Governance Regulations as the company failed to refer in its 2012 Annual Report and Financial Statement to those provisions of the Regulations that the company did not implement and the needed justifications for not implementing them.

7. The Board of Directors held nine meetings in 2013. Below is the meetings attendance list:

| Name | 1st Meeting | 2nd Meeting | 3rd Meeting | 4th Meeting | 5th Meeting | 6th Meeting | 7th Meeting | 8th Meeting | 9th Meeting | Total |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------|
| 1 Eng. Abdullah bin Mohammed Al-Issa | Present | Present | Present | Present | Present | Present | Present | Present | Present | 9 |
| 2 Dr. Saleh bin Ali Al-Hathloul | Present | Present | Present | Present | Present | Present | Present | Not Present | Present | 8 |
| 3 Mr. Ali bin Ibrahim Al-Ajlan (Representative of the Public Investment Fund) | Present | Present | Present | Present | Present | Present | Present | Present | Present | 9 |
| 4 Mr. Misfer bin Ali Al-Hamdan (Representative of the PPA) | Present | Present | Present | Present | Present | Present | Present | Present | Present | 9 |
| 5 Mr. Nasser bin Mohammed Al-Sebaiei | Present | Present | Present | Present | Present | Present | Present | Present | Present | 9 |
| 6 Mr. Abdullah bin Mohammed Al Abduljabbar (Representative of the General Organization for Social Insurance) | Present | Present | Present | Present | Present | Present | Present | Present | Present | 9 |
| 7 Mr. Bader bin Abdullah Al-Issa | Present | Present | Present | Present | Present | Present | Present | Present | Present | 9 |
| 8 Mr. Fahed bin Abdullah Al-Qassim | Present | Present | Present | Present | Present | Not Present | Present | Present | Present | 8 |
| 9 Mr. Mos'ab bin Suliman Al-Muhaidib | Present | Present | Present | Present | Present | Present | Present | Present | Present | 9 |

8. Compensations and bonuses:

The table below shows compensations and bonuses paid to each member of the board and to the top five Chief Executives of the company including the CEO and the CFO in 2013:

| Statement | Council members and the independent non-executive | Senior executives |
|---------------------------|---|-------------------|
| Salaries and compensation | - | 4,430,676 |
| Allowances | 393,000 | 1,550,737 |
| Bonuses | 1,800,000 | 1,307,500 |
| Total | 2,193,000 | 7,288,913 |

9. By Resolution No. 215 dated 16/01/2013, the Board of Directors approved an extra SAR 200,000 annual bonus for the Chairman of the Board in return of his efforts for the service of the company and a one-off SAR 50,000 bonus for each member of the Audit Committee who are not members of the board. These bonuses are to be paid upon endorsement by the general assembly of the company's 2013 final accounts.

10. Where as,

- Assila Investment Co., in the board of which Eng. Abdullah bin Mohammed Al-Issa (Chairman) and Mr. Bader bin Abdullah Al-Issa (Member of the Board) are also members.
- The General Organization for Social Insurance
- The Public Pension Authority
- Mr. Nasser bin Mohammed Al-Sebaieji, member of SHARACO Board
- Dr. Saleh bin Ali Al-Hathloul, member of SHARACO Board

All have businesses in some of the company's areas of activities. A permission for the same shall be solicited and maintained annually from the company's general assembly, as per Article Eighth of the Corporate Governance Regulation of the Capital Market Authority.

11. Board of Directors Committees

1. The Nomination and Remuneration Committee :

The company's general assembly of shareholders on 19/03/2013 approved the standard controls and procedures for the Nomination and Remuneration Committee. The Committee had held just one meeting in 2013 and reported results to the board. Members of the Committee are:

| Name | Position | Attendance |
|--|----------|------------|
| Eng. Abdullah bin Mohammed Al-Issa | Chairman | 1 |
| Dr. Saleh bin Ali Al-Hathloul | Member | 1 |
| Mr. Misfer bin Ali Al-Hamdan | Member | 1 |
| Mr. Abdullah bin Mohammed Al Abduljabbar | Member | 1 |

Tasks of the Nomination and Remuneration Committee

- To present nominations for membership of the board according to the policies and criteria endorsed by the board for the same. In particular, no nomination shall be made of a person that has been convicted of a crime or felony involving a breach of honor or public trust.
- To review annually the set of skills and qualifications required for membership of the board and to set descriptions for the same including percentage of time a Director should dedicate to work in the board.
- To review structure of the board and present recommendations for possible changes thereto.
- To identify strengths and weaknesses of the board and recommend remedies for weaknesses that would be in the company's interest.
- To annually check and verify independence of the independent members of the board and, where such member holds a position in another company's board of directors, that there is no conflict of interest.
- To develop clear policies for compensation and bonuses of members of the board and top executives with pronounced variability in relation to performance.

2. The Audit Committee :

The company's general assembly held on 19/03/2013 approved the standard controls and procedures for the Audit Committee. And the Committee held 8 meetings in 2013. Membership of the Committee:

| Name | Position | Attendance |
|--|----------|------------|
| Mr. Ali bin Ibrahim Al-Ajlan (Member of the Board) | Chairman | 7 |
| Mr. Mos'ab bin Suliman Al-Muhaidib (Member of the Board) | Member | 8 |
| Mr. Ibrahim bin Salem Al-Rwais | Member | 8 |
| Mr. Abdulrahman bin Saleh Al-Khulaifi | Member | 8 |

Tasks of the Audit Committee

- To review initial and annual financial statements before presentation to the board, and to state the Committee's opinion and recommendations thereon.
- To review accounting and finance policies adopted by the company and proposed changes thereto, stating the Committee's opinion and recommendations thereon before presentation to the board for approval.
- To evaluate efficacy of the company's risk assessment process as well as the risk monitoring and control measures taken by the company management.
- To review efficacy of the internal auditing system of the company and generate periodic evaluation reports to be presented to the board along with the Committee's opinion and recommendations on the subject.
- To ensure a sound mechanism is in place for the use of the company's assets and resources to its best interests, and to review proper use of authority by company employees.
- To consider and make recommendation to the board as to the selection, appointment and fee of the company's external auditors in line with External Auditors Selection & Appointment Procedure (part of the Audit Committee's Controls and Procedures). A special attention should be paid to independence of the recommended external auditors.
- To study external auditor's reports and comments on the company's financial statements and follow up thereon. The Committee should also look into reports and comments of the external supervisory bodies, raise the Committee's opinion around and see to the implementation of appropriate steps to address those concerns.
- To supervise the Internal Audit Department in order to verify effectiveness of the process in fulfilling the tasks assigned to the Department by the board, and to verify the Department's independence.
- To review applications for the position of Chief Internal Auditor, compensations, allowances and benefits of the same, to make justified selection of the successful candidate, and to consider replacement of the incumbent Chief Internal Auditor for reasons of resignation, incompetence, or otherwise removal from office, and make recommendations on the above to the board.
- To solicit services of such a person or body corporate as the Committee may from time to time see fit for performing specific tasks or analysis that might help the Committee do their job, and to estimate remuneration for the same.

3. The Investment Committee

The board has decided to create a committee for investment. The committee held 6 meetings in 2013 with full attendance of its members and reported results to the board. Membership of the Investment Committee:

| Name | Position | Attendance |
|------------------------------------|----------|------------|
| Mr. Nasser bin Mohammed Al-Sebaiei | Chairman | 6 |
| Mr. Fahed bin Abdullah Al-Qassim | Member | 5 |
| Mr. Bader bin Abdullah Al-Issa | Member | 6 |
| Dr. Badr Hamoud AlBader | Member | 6 |

Tasks of the Investment Committee

- To recommend investment priorities and to set selection criteria for investment projects, recommend and seek approval of the same and present them to the Board of Directors.
- To recommend and/or approve investment proposals as well as to buy and sell properties and land within the investment priority limits.
- To review the company's investment plans and make necessary recommendations thereon.
- To review and assess efficacy and inclusiveness of the standard controls and procedures for the Investment Committee.
- To carry out any other tasks requested by the board

12. Major Shareholders

Below is a list of senior shareholders who own 5% or more of the company's capital as of 31/12/2013.

| Name | Shares owned at the end of the year | Ownership | Shares owned at the beginning of the year | Change |
|---|-------------------------------------|-----------|---|--------|
| Mask Holding Company | 26,315,109 | 26.3% | 26,315,109 | - |
| Public Investment Fund | 16,628,458 | 16.6% | 16,628,458 | - |
| Mr. Mohammed bin Ibrahim Al-Issa | 12,828,675 | 12.8% | 12,828,675 | - |
| General Organization for Social Insurance | 6,540,591 | 6.5% | 6,540,591 | - |
| Mr. Mohammed bin Ibrahim Al-Ghamdi | 5,000,000 | 5% | 4,139,500 | 20.7% |

* Source: Saudi Stock Exchange (Tadawul).

13. Leverage

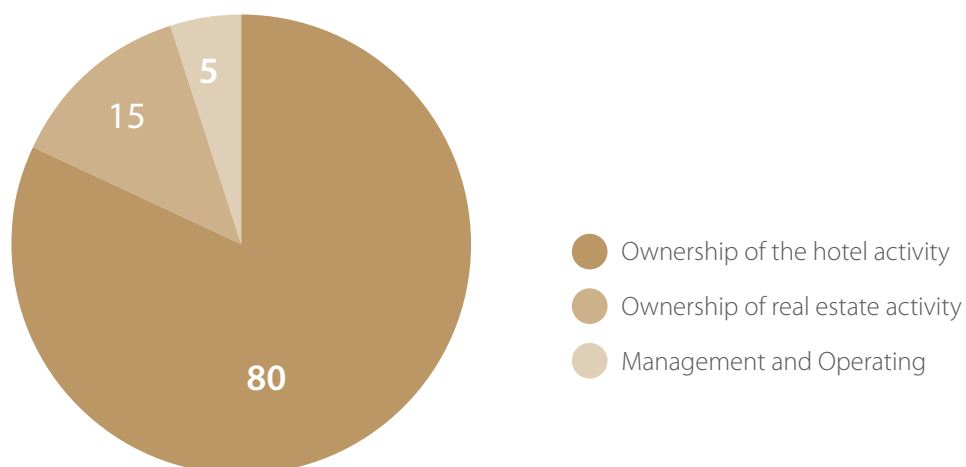
The company secured the following loans to finance the development of various projects:

| | Statement | Total Loan Value | Total loan amount received | Total loan amount paid during 2013 | Amount paid | Balance by end of 2013 | Description |
|---|-------------------------------------|--------------------|----------------------------|------------------------------------|-------------------|------------------------|--|
| 1 | Government Loans | 80,000,000 | 80,000,000 | 6,785,714 | 61,428,573 | 18,571,427 | Will be paid fully by the end of 1438H |
| 2 | Local Banks' loans (Murabaha based) | 577,700,000 | 67,674,431 | - | - | 67,674,431 | Will be paid in installments over a period of 7-10 years |
| | Total | 657,700,000 | 147,674,431 | 6,785,714 | 61,428,573 | 86,245,858 | |

14. Key Income Contributors

The company's main activities have favorably contributed to company's performance in 2013 when compared with 2012. The table below shows percentage contribution of individual activities to company's total income:

| Statement | Percent of total revenues in 2013 |
|-----------------------------------|-----------------------------------|
| Ownership of the hotel activity | 80% |
| Ownership of real estate activity | 15% |
| Management and Operating | 5% |

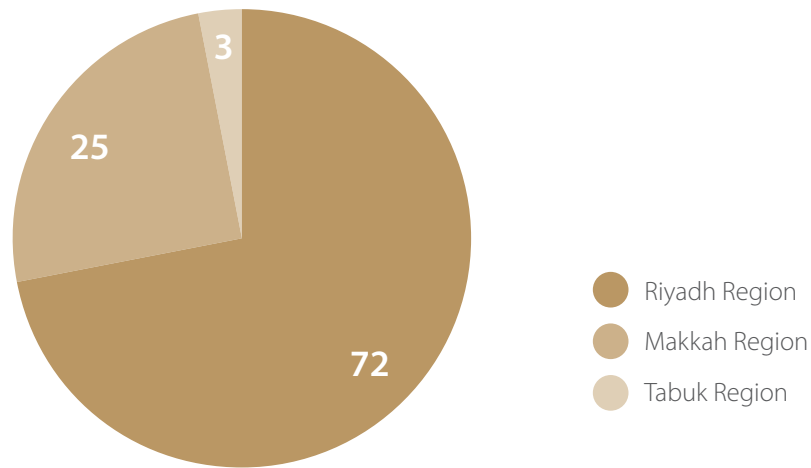


15. Geographical Analysis of Income

Below is the structure of income of SHARACO's activities in the Kingdom of Saudi Arabia:

| Region | Amount (SAR) | Percent |
|---------------|--------------------|-------------|
| Riyadh Region | 332,236,966 | 72% |
| Makkah Region | 112,755,049 | 25% |
| Tabuk Region | 13,733,003 | 3% |
| Total | 458,725,018 | 100% |

*The company has no branches or properties outside the Saudi territory.



16. Statutory Payments Due

Statuary payments due to be paid by the company and its subsidiaries are as follows:

| Statement | Due by the end of the year |
|--------------------------------|----------------------------|
| Zakat | 6,630,165 |
| Social insurance contributions | 368,750 |
| Rents | 5,407,795 |

17. Dividends Policy

1. SHARACO's net profit to be distributed as per Article 42 of the company's Memorandum of Association:
 - Deducting the legal Zakat.
 - Deducting 10% of the net profits for statutory reserve. The ordinary General Assembly may stop this practice when the said reserve reaches half of the paid up capital. This year, the statutory reserve reached 50% of the paid up capital.
 - Deducting 5% of the profits for an agreed-upon reserve to be allocated for maintenance works and for purposes set by the Board of Directors. This allocation could be stopped when the said reserve reaches 10% of the capital. This year, the agreed-upon reserve reached 10% of the paid up capital.
 - From the remainder of that, a down payment shall be distributed to shareholders which is equivalent to 5% of the paid up capital.
 - A percentage of the remaining amounts shall be allocated to the remuneration of the Board of Directors according to regulations of the relevant authorities. The rest or part thereof may then be distributed to shareholders as dividends or carried forward to the next years.
2. Out of company's care for meeting shareholders expectations of higher income, and in line with the new wave of expansion and continuous growth of company's activities and revenues, the Board of Directors decided to propose to the General Assembly distribution of profits for the first half of 2013 at 50 halala per share, with a total amount of SAR 50,000,000

The remaining part of the SAR 120,000,000 amount of 2013 profits proposed for distribution (representing 12% of the capital) shall, by special resolution of the General Assembly SAR 70,000,000, shall be distributed to shareholders at 70 halala per share.

18. Corporate Governance

The company implements the Corporate Governance Regulations of the Capital Market Authority except Accumulative Voting for electing Directors, which is rejected by the General Assembly of Shareholders. In addition to the corporate responsibility as the company is working on developing its own program, this will continue to be the case until this voting method is approved by resolution of the General Assembly of Shareholders. Also to be approved by the General Assembly are policies, standards and procedures for membership of the company's Board of Directors as per Article Tenth/D of the Corporate Governance Regulation of the Capital Market Authority. The company is in the process of updating its internal Corporate Governance Regulation to match that of the Capital Market Authority.

19. Risk Profile

The company may have to face the following risks:

1. The company's hotel properties in Riyadh may be affected by a decline of occupancy ratio due to increased hotel openings in the city expected when the new hotel projects are completed. However, the risk could be reduced by the increased volume of infrastructure projects in the city of Riyadh foreseen in the next couple of years that would cause the number of city visitors/commuters to grow. Excellent location and specifications of the company's hotels is yet another risk reduction factor.
2. Makkah hotel properties may be affected by a possible decrease in the number of Haj & Omra visas for reasons of public health or otherwise. However, diversity of company's activities and geographical distribution of its investments in the Kingdom are expected to reduce this risk for Makkah properties and avoid major fluctuations.
3. An inherent risk factor is the nature of hospitality projects with a lengthy lead-time and delayed return on investment. However, market dynamics could change. This is why the company is keen to keep an eye on market fluctuations in order to react quickly.

20. Acknowledgment

The company's Board of Directors acknowledges that:

1. The charts of accounts have been prepared accurately according to the generally accepted accounting standards, company circumstances, the Law of Companies, the company Statute and standards of the Saudi Organization for Certified Public Accountants (SOCPA), except for the case of Makarim Al-Maarifa. Co. that is currently inactive, where the Equity Method is used for evaluating company investments in 2013, and Marketing Media Company that went into liquidation.
2. The internal control system is sound enough to shed virtually no doubts on the company's ability to carry on the business. It has been effectively implemented and is constantly reviewed by the company. The Internal Control Department sees to the implementation of the relevant regulations and draws the picture of risks for the company and deals with them transparently. It constantly reviews revenues and expenses, examines documents and transactions and periodically reports results of the Department work to the Audit Committee and the Chairman of the Board. From this year's reports, no serious issues seem to require any corrective measures. The remaining issues are being followed up on and dealt with.
3. No penalty or sanction imposed or precautionary attachments placed on the company by the Saudi Capital Market or any other supervisory, regulatory or judicial entity, except as indicated in (Article Ninth/6).
4. Members of the board have no holdings in the capital of the company's subsidiaries.
5. No member of the board has benefited from a cash loan offered by the company, nor did the company provide guarantee to any loan that was otherwise solicited by any member of the board.
6. No debt instruments were issued by the company in the fiscal year that are convertible to shares, options, warrants or other rights, nor did any interest, options, or subscription rights exist in the fiscal year for any member of the board or top executives, wives or minor children thereof in any shared or debt instruments issued by the company or any of its subsidiaries.
7. There were no conversion or subscription rights attached to debt instruments that are convertible to shares, options, warrants, or similar rights issued by the Company.
8. There were no redemption, purchase or cancellation by the company of any redeemable debt instruments.
9. There were no arrangement or agreement whereby any shareholder, member of the board or top executive has waived any right to dividends, emolument or compensation.

21. Recommendations

In view of the above, the Board of Directors presents the following recommendations to the Shareholders' kind attention:

1. To endorse the Board of Directors' report.
2. To endorse the financial statements and Auditor's report for the financial year of 2013.
3. To adopt the 2013 profit distribution plan proposed by the board at 1.20 riyal per share and 12% of the capital, knowing that a dividend of 50 halala per share has already been distributed for the first half year of 2013, with the remaining profits having to be distributed for the second half year at 70 halala per share to such holders of shares as may be registered in Tadawul as of the time of closure thereof on the day of the General Assembly meeting.
4. To agree to renew, by one year from date of the General Assembly meeting, license for the operation and management contracts of Makarim Residence Al-Andalus compound, Makarim Residence Al-Rawdah compound, Makarim Umm Alqura Hotel, Makarim Al-Bait Hotel and Al-Jazeera Bader Compound, all owned by Aseela Investment Co.
5. To agree to the selection and fee of the new company Auditor from the list of candidates proposed by the Audit Committee to audit the company's 2014 annual and quarterly financial statements.
6. To adopt policies, standards and procedures for membership of the company's Board of Directors as per Article Tenth/D of the Corporate Governance Regulation of the Capital Market Authority.
7. To allow members of the board mentioned in (Article Ninth/10) to do business in the same company's activity areas for a period of one year from date of the General Assembly.
8. To agree to pay SAR 1,800,000 bonus to members of the board for the fiscal year ending on 31/12/2013.

Wishing the company a steady progress, Allah willing.

Independent Auditor's Report

To: The Shareholders / Saudi Hotels and Resorts Company Saudi Joint Stock Company
Riyadh - Kingdom of Saudi Arabia

We have audited the accompanying consolidated financial statements of Saudi Hotels and Resorts Company ("the Company") and its subsidiaries (collectively referred to as "the Group") which comprise the consolidated balance sheet as at 31 December 2013 and the related consolidated statement of income, cash flows and changes in shareholders' equity for the year then ended and the attached notes (1) through (27) which form an integral part of the consolidated financial statements.

Management's responsibility

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

Auditors' responsibility

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

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

We believe 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 2013, 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 Regulation for Companies and the Company's By-Law with respect to the preparation and presentation of the financial statements.

Date: 18 Rabi'II 1435 H
Corresponding to: 18 February 2014



For KPMG Al Fazan & Al Sadhan


Khalil Ibrahim Al Sedais
License No.: 371

Consolidated Statement of Financial Position

As at 31 December 2013 (Saudi Riyals)

| * | Assets | Note | 2013 | 2012 |
|----------|---|-------|----------------------|----------------------|
| 1 | Current assets | | | |
| | Cash and cash equivalents | (4) | 200,147,614 | 180,529,430 |
| | Trade receivables, net | (5) | 49,555,442 | 38,712,345 |
| | Prepayments and other receivables | (6) | 25,986,715 | 40,053,602 |
| | Inventories | (7) | 29,081,402 | 24,789,268 |
| | Due from related parties | (8-1) | 1,306,672 | 13,456,459 |
| | Total current assets | | 306,077,845 | 297,541,104 |
| 2 | Non-current assets | | | |
| | Fixed assets, net | (9) | 1,535,318,009 | 1,543,489,576 |
| | Projects in construction | (10) | 139,284,729 | 29,002,454 |
| | Available-for-sale investments | (11) | 66,275,871 | 130,583,448 |
| | Investments in equity accounted investees | (12) | 58,172,719 | 46,004,884 |
| | Deferred expenses | | 702,401 | 1,070,469 |
| | Total non-current assets | | 1,799,753,729 | 1,750,150,831 |
| | Total assets | | 2,105,831,574 | 2,047,691,935 |

| * | Liabilities and shareholders' equity | Note | 2013 | 2012 |
|---|--------------------------------------|-------|--------------------|--------------------|
| 1 | Current liabilities | | | |
| | Suppliers | | 4,375,315 | 7,629,906 |
| | Accounts and other payable | (13) | 92,627,991 | 109,715,038 |
| | Current portion of long-term loans | 14)) | 6,785,713 | 6,785,713 |
| | Due to related parties | (8-2) | 14,707,029 | 8,647,183 |
| | Dividend payable | | 45,474,663 | 36,666,543 |
| | Zakat provision | (15) | 14,257,118 | 27,849,488 |
| | Total current liabilities | | 178,227,829 | 197,293,871 |
| 2 | Non-current liabilities | | | |
| | Long-term loans | (14) | 79,460,146 | 18,571,429 |
| | End of service benefits | | 43,834,397 | 35,686,203 |
| | Total non-current liabilities | | 123,294,543 | 54,257,632 |
| | Total liabilities | | 301,522,372 | 251,551,503 |

| * | Shareholders' equity | Note | 2013 | 2012 |
|---|--|-------|----------------------|----------------------|
| 1 | Equity attributable to the Company's shareholders | | | |
| | Share capital | (1-1) | 1,000,000,000 | 1,000,000,000 |
| | Statutory reserve | (16) | 500,000,000 | 500,000,000 |
| | Contractual reserve | (17) | 143,002,490 | 143,002,490 |
| | Retained earnings | (18) | 140,090,091 | 138,869,436 |
| | Unrealized gain on available for sale investments | | 17,565,853 | 7,184,512 |
| | Total equity attributable to company's shareholders | | 1,800,658,434 | 1,789,056,438 |
| 2 | Non-controlling interest | | 3,650,768 | 7,083,994 |
| | Total shareholders' equity | | 1,804,309,202 | 1,796,140,432 |
| | Total liabilities and shareholders' equity | | 2,105,831,574 | 2,047,691,935 |

*The accompanying notes from (1) to (27) form an integral part of these consolidated financial statements.

Consolidated Statement of Income

For the year ended 31 December 2013 (Saudi Riyals)

| * | Income | Note | 2013 | 2012 |
|---|---|------|--------------------|--------------------|
| | Operating revenue | (19) | 432,978,021 | 396,103,132 |
| | Operating expenses | (20) | (294,594,810) | (235,080,031) |
| | Gross operating profit | | 138,383,211 | 161,023,101 |
| | General and administrative expenses | (21) | (19,113,807) | (16,999,535) |
| | Investment income in equity accounted investees | (12) | 11,903,114 | 5,986,234 |
| | Operating income | | 131,172,518 | 150,009,800 |
| | Other income | (22) | 18,792,454 | 57,768,264 |
| | Net income before Zakat and non-controlling interests | | 149,964,972 | 207,778,064 |
| | Zakat provision | (15) | (6,630,165) | (8,010,540) |
| | Net income before non-controlling interests | | 143,334,807 | 199,767,524 |
| | Share of non-controlling interest in the net profit of the subsidiaries | | (314,152) | (898,090) |
| | Net income | | 143,020,655 | 198,869,434 |

| * | Earnings per share from: | Note | 2013 | 2012 |
|---|-------------------------------|------|------|------|
| | Net income | (23) | 1.43 | 1.99 |
| | Operating income | (23) | 1.31 | 1.50 |
| | Net other income and expenses | (23) | 0.19 | 0.58 |

* The accompanying notes from (1) to (27) form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flow

For the year ended 31 December 2013 (Saudi Riyals)

| | 2013 | 2012 |
|---|---------------------|----------------------|
| Cash flows from operating activities | | |
| Net income for the year | 143,020,655 | 198,869,434 |
| Adjustments to reconcile net income to net cash generated from operating activities: | | |
| Depreciation of fixed assets | 38,385,939 | 28,654,193 |
| Share of on-controlling interest in the net profit of the subsidiaries | 314,152 | 898,090 |
| Zakat provision | 6,630,165 | 8,010,540 |
| Amortization of deferred expenses | 368,067 | 374,267 |
| Provision for end of service benefits | 11,454,183 | 3,472,757 |
| Provision for doubtful debts | 2,466,875 | - |
| Income from equity accounted investees | (11,903,114) | (5,986,234) |
| Gain from sale of fixed assets | (250,019) | (56,486,748) |
| Settlement of projects in progress | 415,524 | 8,032 |
| | 190,902,427 | 177,814,331 |
| Changes in operating assets and liabilities: | | |
| Trade receivables | 11,939,849 | 5,895,177 |
| Prepayments and other receivables and related parties | 8,083,722 | (21,132,188) |
| Inventories | (9,631,364) | (5,816,623) |
| Suppliers | (6,637,405) | (24,952,120) |
| Accounts and other payable and related parties | 3,054,619 | 44,359,350 |
| Zakat paid | (15,018,537) | (9,379,563) |
| End of service benefits paid | (3,305,987) | (152,074) |
| | 179,387,324 | 166,636,290 |
| Net cash flows generated from operating activities | 179,387,324 | 166,636,290 |
| Cash flows from investing activities | | |
| (Payments) for purchase of fixed assets and projects in progress | (140,915,018) | (32,982,714) |
| Proceeds from sale of fixed assets | 252,866 | 67,991,519 |
| Proceeds from available-for-sale investments | 49,947,821 | - |
| (Payments) for available for sale investments and equity accounted investees | - | (15,843,740) |
| Proceeds from profits received of equity accounted investees | 5,400,000 | 6,000,000 |
| | (85,314,331) | 25,165,065 |
| Net cash flows (used in)/generated from investing activities | (85,314,331) | 25,165,065 |
| Cash flows from financing activities | | |
| Proceed from long-term loans | 67,674,431 | - |
| (Payments) for long-term loans | (6,785,714) | (14,642,858) |
| (Payments) for shareholders dividends | (131,440,813) | (133,959,629) |
| (Payments) for board of directors remuneration | (1,800,000) | (1,800,000) |
| Utilized from contractual reserve | - | (117,522) |
| | (72,352,096) | (150,520,009) |
| Net cash flows (used) in financing activities | (72,352,096) | (150,520,009) |
| Net change in cash and cash equivalents during the year | 21,720,897 | 41,281,346 |
| Cash and cash equivalents at the beginning of the year | 180,529,430 | 139,248,084 |
| Cash related to Al Madinah Company disposed during the year | (2,102,713) | - |
| | 200,147,614 | 180,529,430 |
| Cash and cash equivalents at the end of the year | 200,147,614 | 180,529,430 |

* The accompanying notes from (1) to (27) form an integral part of these consolidated financial statements.

Changes-in-Equity Statement

For the year ended 31 December 2013 (Saudi Riyals)

| Changes | Equity attributable to | |
|---|------------------------|--------------------|
| | Share capital | Statutory reserve |
| Balance at 1 January 2013 | 1,000,000,000 | 500,000,000 |
| Net income for the year | - | - |
| Shareholders' Dividends (Note 18) | - | - |
| Board of directors' remuneration | - | - |
| Reclassification of investments in Al Madinah Company (Note 11-2) | - | - |
| Reclassification of unrealized losses for investments in Al Madinah Company | - | - |
| Unrealized profits on available for sale investments | - | - |
| Balance at 31 December 2013 | 1,000,000,000 | 500,000,000 |
| Balance at 1 January 2012 | 690,060,970 | 357,550,945 |
| Transferred to capital increase | 309,939,030 | - |
| Transferred to statutory reserve | - | 142,449,055 |
| Shareholders' net profit for the year | - | - |
| Dividends | - | - |
| Board of directors' remuneration | - | - |
| Unrealized profits on available for sale investments | - | - |
| Utilized from contractual reserve | - | - |
| Al Madinah Company capital reduction | - | - |
| Balance at 31 December 2012 | 1,000,000,000 | 500,000,000 |

* The accompanying notes from (1) to (27) form an integral part of these consolidated financial statements.

shareholders of the Company

| | Contractual reserve | Retained earnings | Unrealized profits/(losses) | Total | Non- controlling interests | Total equity |
|--|---------------------|--------------------|-----------------------------|----------------------|----------------------------|----------------------|
| | 143,002,490 | 138,869,436 | 7,184,512 | 1,789,056,438 | 7,083,994 | 1,796,140,432 |
| | - | 143,020,655 | - | 143,020,655 | 314,152 | 143,334,807 |
| | - | (140,000,000) | - | (140,000,000) | (248,933) | (140,248,933) |
| | - | (1,800,000) | - | (1,800,000) | - | (1,800,000) |
| | - | - | - | - | (5,664,721) | (5,664,721) |
| | - | - | 2,154,578 | 2,154,578 | 2,154,579 | 4,309,157 |
| | - | - | 8,226,763 | 8,226,763 | 11,697 | 8,238,460 |
| | 143,002,490 | 140,090,091 | 17,565,853 | 1,800,658,434 | 3,650,768 | 1,804,309,202 |
| | 408,443,096 | 257,871,100 | (7,355,834) | 1,706,570,277 | 17,450,322 | 1,724,020,599 |
| | (170,933,359) | (139,005,671) | - | - | - | - |
| | (94,389,725) | (48,059,330) | - | - | - | - |
| | - | 198,869,434 | - | 198,869,434 | 898,090 | 199,767,524 |
| | - | (129,006,097) | - | (129,006,097) | (138,000) | (129,144,097) |
| | - | (1,800,000) | - | (1,800,000) | - | (1,800,000) |
| | - | - | 14,540,346 | 14,540,346 | 873,582 | 15,413,928 |
| | (117,522) | - | - | (117,522) | - | (117,522) |
| | - | - | - | - | (12,000,000) | (12,000,000) |
| | 143,002,490 | 138,869,436 | 7,184,512 | 1,789,056,438 | 7,083,994 | 1,796,140,432 |

Notes on the Consolidated Financial Statement

For the year ended 31 December 2013

Note 1: Organization and Activities

Saudi Hotels and Resorts Company ("the Company" or "the Holding Company") is a Saudi Joint-Stock Company established according to the Saudi Companies Law and registered in the Kingdom of Saudi Arabia under the Commercial Registration No. 1010010726 dated 6 Muharram 1397H (corresponding to 27 December 1976) as a Saudi Joint Stock Company.

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

1. Capital

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

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

2. Consolidated Financial Statements

The consolidated financial statements comprise of Saudi Hotels and Resorts Company and its subsidiaries collectively referred to as "the Group" in which the Company owns a share in its equity whether direct or indirect and allow it to control these Companies. The details of the company's subsidiaries as at 31 December 2013 and 2012 are as follows:

| Name of the subsidiary | Capital | Ownership % |
|---|-------------|-------------|
| 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% |

All subsidiaries listed above are limited liability companies registered in the Kingdom of Saudi Arabia. Following are details of the subsidiaries and their activities:

- Riyadh Company for Hotels and Entertainment Limited Company
 Riyadh Company for Hotels and Entertainment Limited is a limited liability company established in the Kingdom of Saudi Arabia and registered under the Commercial Registration No. 1010099444 dated 3 Rabi' I, 1413 H (corresponding to 31 August 1992). The company purpose is to in the construct, buy, rent and carrying out the management of residential, commercial and entertainment properties, hotels, restaurants, motels, guesthouses, tourist beaches and gymnasiums.
- Gulf for Touristic Area Limited Company
 Gulf Touristic Area Limited Company – a limited liability company established in the Kingdom of Saudi Arabia and registered under the Commercial Registration No. 1010074800 dated 18 Jumada I 1410 H (corresponding to 17 December 1989). The company purpose is to in construct, own, rent and sell of residential and commercial properties, leisure and hotels, restaurants, guesthouses, tourism beaches, gymnasiums and sports clubs.
- Makkah Hotels Company LLC
 Makkah Hotels Company LLC is a limited liability company established in the Kingdom of Saudi Arabia and registered under the Commercial Registration No. 4031011879 dated 20 Ramadan 1402 H (corresponding to 12 July 1982). The company purpose is to work in the hospitality activity in general inside and outside the Kingdom through own, invest or enter in to partnership for hotels and restaurants. The company owns Makarim Ajjad Makkah Hotel in Makkah El Mokarama.
- Alnakheel for Touristic Area Limited
 Alnakheel for Touristic Area Limited. – a Limited Liability Company has been established in Kingdom of Saudi Arabia and registered under the Commercial Registration No. 4030092204 dated 22 Jumada II, 1413 H (corresponding to 17 December 1992). The Company purpose is to construct, own, rent and sell of residential and commercial properties, leisure and hotels, restaurants, guesthouses, tourism beaches, gymnasiums and sports clubs. The Company owns Makarim Annakheel Village in Jeddah. During 2008, the Company acquired an additional 48% in the company's capital from several other partners. The Company is still in the process of completing the legal procedures to amend the Article of Association and the Commercial Registration in relation to this aspect.
- Tabuk Hotels Company LLC
 Tabuk Hotels Company LLC is a limited liability company established in Kingdom of Saudi Arabia and registered under the Commercial Registration No. 3550006303 dated 5 Rabi' II 1406 H (corresponding to 17 December 1985). The company is engaged in the establishment of a first class hotel in a northern region of Tabuk including hotel facilities, services, and hotel activity in general inside and outside the Kingdom through own, invest or enter into partnership for hotels and restaurants. The Company owns Makarim Tabuk Hotel in Tabuk. During 2008, the Company acquired an additional 44% in the company's capital from several other partners. The Company is still in the process of completing the legal procedures to amend the Article of Association and the Commercial Registration in relation to this aspect.

Note 2: Basis of Preparation

1. 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).

2. 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.

3. Functional and presentation currency

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

4. 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.

The most important items of the consolidated financial statements, which require the use of estimates and assumptions by management, related to the following:

- Useful lives of fixed assets
- Provisions.
- Investments classification.
- Fair value of investments.
- Contingencies

Note 3: Significant Accounting Policies

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

1. Basis of consolidation

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

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

2. Cash and cash equivalents

Cash and cash equivalents include cash on hand and at banks, short-term liquidity investments (if any) and time deposits with a maturity not exceeding three months from the date of deposited.

3. Inventories

Inventories are stated at the lower of cost or 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 is the estimated selling price less estimated selling expenses.

A provision for obsolete and slow moving inventories is made, when necessary.

4. Fixed Assets

Fixed assets are stated at historical cost, less accumulated depreciation and any impairment losses, if any, except for owned lands, which are stated at historical cost. Cost includes expenditures that are directly attributable to the acquisition of an asset and to bring the asset in operational status to achieve the purpose for the purchase of the asset. Finance costs of borrowings to finance the construction of the assets are capitalized during the construction period required to complete and prepare the asset for its intended use. Gains resulted from of fixed assets are identified using the carrying value.

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

Annual depreciation is charged to the statement of income on a straight-line method over the estimated useful lives.

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

Note 3: Significant Accounting Policies (Continued)

5. Impairment of 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.

6. Projects under construction

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

7. Investments

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

- Available-for-sale investments
Available for-sale-investments are classified as available for sale if the company has no significant influence or control or intention to use the assets of investee to gain economic benefits, and it is not the purpose of these investments to resale in the short term or keep them until maturity. On acquisition, these investments are recorded at cost, and after the acquisition, they are measured at fair value at the balance sheet date. The fair value is the value that under which these investments can be traded in an active market. When there is no active market for these investments, the fair value is identified through any other appropriate indicators. When the fair value can't be identified, it is stated at cost as the most appropriate alternative objectively reliable to measure the fair value. Unrealized gains or losses are recognized as a separate component of equity. Unrealized losses resulting from the temporary impairment in fair value of these investments are recognized in the income statement as they occurred.
- Investments in equity accounting investees (associates and jointly controlled entities)
Investments in equity accounting investees represent in associates and jointly control entities. Associates are those companies where a company has significant influence over their financial and operating policies. When a company has an equity share ranging from 20% to 50% of the capital, it is considered a significant indication that it has the ability to significantly influence as long as these investments are not considered as held for trading investments.

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

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

8. Deferred expenses

Expenses that are expected to result in future benefits are capitalized in the consolidated balance sheet. These expenses are amortized according to the straight-line method over the expected useful life of the future benefits, which ranges from 3 to 5 years.

9. Suppliers

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

10. Provisions and contingencies

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

- Provision for trade receivables
The Group form a provision for trade receivables against expected losses resulting from the inability of customers to pay off their debts to the Group. When assessing the adequacy of the provision, the management's estimation is based on the overall economic conditions, aging of trade receivables, and historical experience in the debt write-off, the creditworthiness of customers, and the change in payment terms. In case of any change in the economy, market or in a specific client, adjustments are made in the provision calculated in the consolidated financial statements for the current period.
- Provision for inventories
The Group considers the need for forming a provision for obsolete and slow moving inventories during the year according to the experience of management, based on the ages of goods items.
- Contingencies
When it is probable that there will be future outflow of economic benefits or the amount cannot be estimated reliably, these obligations are disclosed as a contingent liability unless the probability of the outflow is insignificant. A contingent liability dependent on the occurrence or none occurrence of one or more events in future is also disclosed as a contingent liability unless the probability of the outflow is insignificant.

11. Zakat

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

12. 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.

Note 3: Significant Accounting Policies (Continued)

13. Revenue recognition

- Revenue from services
Revenue from hotel services is recognized upon rendering services to hotel guests and visitors.
- Management and operation fees
Management fees are calculated on an percentage of total revenue, according to the management agreement between the company and the owner of the property.
- Revenue from properties leased to others
Revenue from properties leased to others is recognized upon completion contracting procedures and entry into force of the lease on a straight-line basis over the period of the lease.
- Other income
Other income including revenue of sale of properties is recognized when earned by signing sale agreement and transferring risks and rewards associated with ownership of property to the buyer.

14. 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.

15. Expenses

All costs and expenses are recognized on an accrual basis. All expenses, other than direct operating cost and finance charges, are classified as general and administrative expenses.

16. 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.

17. Borrowing costs

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

18. Dividend

Interim dividend is recognized when approved by the board of directors. Annual dividend is recorded when approved by the shareholders' General Assembly.

19. Financial instruments

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

20. Earnings per share

Earnings per share are calculated from each of operation income, net expenses and other income and net income for the year on the weighted average basis of outstanding shares during the year. In the event of dividend paid in the form of bonus shares, impact of such dividend is calculated on the assumption that these dividends have been made since the beginning of the financial year.

21. Segment reporting

Business segments information of Company is presented according to the nature of the Company's activities and according to the geographical distribution of the activities carried out by the Group. Business segments are identified by the Company's management in accordance with the general form of the internal reporting structure of the Company for business segments, which include hotels sector, recreational centers, properties sector owned, services and operation sector, and geographical segments which are based on the geographical location of the Group's operations. The Group operates mainly in Makkah, Riyadh and Tabuk.

Note 4: Cash and Cash Equivalents

| | 2013 | 2012 |
|------------------------|--------------------|--------------------|
| Banks time deposits | 101,124,566 | 110,344,468 |
| Banks current accounts | 98,673,848 | 69,948,762 |
| Cash on hand | 349,200 | 236,200 |
| | 200,147,614 | 180,529,430 |

Note 5: Trade Receivables, Net

| | 2013 | 2012 |
|------------------------------|-------------------|-------------------|
| Trade receivables | 59,990,774 | 46,865,325 |
| Less: | | |
| Provision for doubtful debts | (10,435,332) | (8,152,980) |
| | 49,555,442 | 38,712,345 |

Note 6: Prepayments and other Receivables

| | 2013 | 2012 |
|------------------------|-------------------|-------------------|
| Prepaid expenses | 10,283,885 | 10,917,425 |
| Advances to Suppliers | 5,581,162 | 17,879,400 |
| Land purchased debtors | 5,383,841 | 5,383,841 |
| Accrued revenues | 2,388,633 | 3,377,169 |
| Staff receivables | 1,125,256 | 832,181 |
| Others | 1,223,938 | 1,663,586 |
| | 25,986,715 | 40,053,602 |

Note 7: Inventories

| | 2013 | 2012 |
|-----------------------------|-------------------|-------------------|
| Linens and furnishings | 7,865,046 | 6,172,920 |
| Kitchen tools and equipment | 5,363,414 | 5,160,924 |
| China and Silverware | 6,533,589 | 5,219,469 |
| Spare parts | 2,999,062 | 3,009,382 |
| Operation supplies | 3,438,380 | 2,691,601 |
| Foods and beverage | 2,040,496 | 1,798,217 |
| Stationery and prints | 841,415 | 736,755 |
| | 29,081,402 | 24,789,268 |

Note 8: Related Parties

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

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

1. Due from related parties

| Related parties | Transactions amount | | Balance | |
|-----------------------------------|---------------------|-----------|------------------|-------------------|
| | 2013 | 2012 | 2013 | 2012 |
| Umm AlQura Makarim Hotel | 8,537,421 | 8,557,832 | 522,145 | 1,363,647 |
| Al Jazira Badr Compound | 3,145,539 | 835,128 | 277,539 | 697,109 |
| Makarim Al Marifa Company | 103,058 | 54,617 | 157,675 | 54,617 |
| Al Jazira Riyadh Compound | 1,546,666 | 3,635,035 | 155,531 | 243,510 |
| Andalos Villas | 387,479 | 475,493 | 155,151 | 138,977 |
| Makarim Residence | 28,494 | 61,234 | 32,740 | 61,234 |
| Makarim Al Shoraifat Hotel | 5,891 | - | 5,891 | - |
| Marriott Courtyard Hotel (8-1/1) | - | - | - | 3,682,237 |
| Marriott Hotel Apartments (8-1/1) | - | - | - | 4,283,390 |
| Aljazira and Dawodya compounds | - | 2,015,915 | - | 2,082,487 |
| Makarim AlBait Hotel | - | 894,059 | - | 572,788 |
| Al Qamar Resort | - | 2,130,174 | - | 167,674 |
| Makarim Mina Hotel | - | 7,600,284 | - | 108,789 |
| | | | 1,306,672 | 13,456,459 |

* At 31 December 2012, the balance represents preopening expenses for each of Marriott Courtyard Hotel and Marriott Hotel Apartments, which are recorded as operating expenses as at 31 December 2013.

2. Due to related parties

| Related parties | Transactions amount | | Balance | |
|----------------------------------|---------------------|--------|-------------------|------------------|
| | 2013 | 2012 | 2013 | 2012 |
| Civil Aviation Authority (8-2/1) | - | - | 9,187,380 | 8,586,651 |
| Aljazira and Dawodya compounds | 1,975,237 | - | 1,959,825 | - |
| Makarim AlBait Hotel | 3,486,854 | - | 1,700,686 | - |
| Makarim Mina Hotel | 3,054,375 | - | 1,631,364 | - |
| Al Madinah Limited Company LLC | 12,201,426 | - | 175,207 | - |
| Al Qamar Resort | 4,236,230 | - | 52,567 | - |
| Marriott Doha | - | 60,000 | - | 60,000 |
| Others | - | - | - | 532 |
| | | | 14,707,029 | 8,647,183 |

* This balance represents amount due to the Civil Aviation Authority (the owner of Makarim Al Riyadh Hotel) for finance the pre-opening expenses, and revenue not transferred to the owner related to the previous contract, and no specific schedule for the payment of this balance.

Note 9: Fixed Assets, Net

| | Lands | Buildings and improvements | |
|--|--------------------|----------------------------|--|
| * Cost | | | |
| Balance at 1 January | 598,074,684 | 1,190,894,715 | |
| Additions | 16,753,614 | 4,789,063 | |
| Disposals | - | - | |
| Transferred from projects under construction | - | - | |
| Balance at 31 December | 614,828,298 | 1,195,683,778 | |
| * Accumulated depreciation | | | |
| Balance at 1 January | - | 340,891,555 | |
| Depreciation for the year | - | 22,033,116 | |
| Accumulated depreciation for disposals | - | - | |
| Balance at 31 December | - | 362,924,671 | |
| Net Book Value on 31 December 2013 | 614,828,298 | 832,759,107 | |
| Net Book Value on 31 December 2012 | 598,074,684 | 850,003,160 | |

- * At 31 December 2013, lands and buildings include approximately SR 112.2 million and SR 69.1 million, respectively (2012: SR 108.9 million and SR 69.9 million, respectively) belong to lands of Marriott Al Riyadh Hotel and Alnakheel Village and whatever buildings constructed thereon, which are fully mortgaged against the loan, which was obtained from the Ministry of Finance as shown in Note (14).

| | Furniture and fixtures | Tools and equipment | Vehicles | Total 2013 | Total 2012 |
|--|------------------------|---------------------|------------------|----------------------|----------------------|
| | 210,336,596 | 63,550,449 | 8,520,881 | 2,071,377,325 | 1,774,350,988 |
| | 2,248,094 | 5,970,948 | 455,500 | 30,217,219 | 8,997,640 |
| | (22,074) | - | (504,099) | (526,173) | (16,811,956) |
| | - | - | - | - | 304,840,653 |
| | 212,562,616 | 69,521,397 | 8,472,282 | 2,101,068,371 | 2,071,377,325 |
| | 140,339,795 | 40,368,118 | 6,288,281 | 527,887,749 | 504,540,741 |
| | 12,064,610 | 3,289,733 | 998,480 | 38,385,939 | 28,654,193 |
| | (19,227) | - | (504,099) | (523,326) | (5,307,185) |
| | 152,385,178 | 43,657,851 | 6,782,662 | 565,750,362 | 527,887,749 |
| | 60,177,438 | 25,863,546 | 1,689,620 | 1,535,318,009 | |
| | 69,996,801 | 23,182,331 | 2,232,600 | | 1,543,489,576 |

Note 10: Projects in Progress

| | 2013 | 2012 |
|-----------------------------|--------------------|-------------------|
| Balance at 1 January | 29,002,454 | 309,866,065 |
| Additions during the year | 110,697,799 | 23,985,074 |
| Transferred to fixed assets | - | (304,840,653) |
| Disposals | (415,524) | (8,032) |
| | 139,284,729 | 29,002,454 |

* As at 31 December 2013, projects under construction represent mainly the second and third phase of Al Mustaqbal Houses Project, and project to renewal for hotel Marriott Al Riyadh amount to SR 46.7, SR 8.9, SR 40.6 million, respectively.

Note 11: Available for Sale Investments

| | 2013 | 2012 |
|---|-------------------|--------------------|
| Balance at 1 January | 130,583,448 | 110,025,780 |
| Additions | - | 5,143,740 |
| Unrealized gain | 8,238,460 | 15,413,928 |
| Liquidation of investment portfolio (11-1) | (49,947,821) | - |
| Disposal of investments belong to Al Madinah Co. (11-2) | (22,598,216) | - |
| | 66,275,871 | 130,583,448 |

* At 31 December 2013, available-for-sale investments represent investment portfolio. Saudi companies equity shares which is managed by brokerage companies licensed in the Kingdom. The company liquidated one of its portfolio in local companies during the fourth quarter of 2013.

* During the second quarter of 2013, the treatment of investment in Al Madinah Company was approved as an investment in jointly controlled entities rather than consolidated within the Group's financial statements.

Note 12: Investments in Equity Accounted Investees

| | 2013 | 2012 |
|---|-------------------|-------------------|
| Balance at 1 January | 46,004,884 | 35,318,650 |
| Additions | - | 10,700,000 |
| Investment income during the year | 11,903,114 | 5,986,234 |
| Reclassification of investment in Al Madinah Co. (11-2) | 5,664,721 | - |
| Dividend received | (5,400,000) | (6,000,000) |
| | 58,172,719 | 46,004,884 |

Note 13: Accounts and other Payables

| | 2013 | 2012 |
|--|-------------------|--------------------|
| Accrued expenses | 44,809,376 | 47,858,609 |
| Unearned revenue | 29,591,300 | 23,150,564 |
| Retentions | 12,396,664 | 20,456,375 |
| Management fees payable to international operating companies | 4,106,187 | 3,159,455 |
| Accounts payable – Ministry of Islamic Affairs | - | 14,030,680 |
| Others | 1,724,464 | 1,059,355 |
| | 92,627,991 | 109,715,038 |

Note 14: Long-term Loans

The Group entered into long-term financing agreements with the Ministry of Finance without interests in addition to several local banks to obtain funding in the form of financing, forward sale and Murabaha, with a total value of SR 675.7 million (2012: SR 298.9 million), at variable price finance and Murabaha. The loans balances under these agreements amounted SR 86.2 million until 31 December 2013 (2012: SR 25.4 million).

This financing is secured by mortgage the lands of Alnakheel village whatever buildings, facilities, equipment and furniture and mortgage constructed thereon, and by mortgage the land on which the Marriott Al Riyadh Hotel was constructed thereon in favor of the Ministry of Finance, as well as the issuance of bonds to the order of the full amount of the facilities for the benefit of the local bank, and depositing the proceeds of rental Al Mustaqbal Houses (Phase II and III) with an annual value of SR 42.6 million, in addition to the letter of undertaking to give away 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:

| | Ministry of Finance | Commercial local banks | Total 2013 | Total 2012 |
|-----------------------------------|---------------------|------------------------|-------------------|-------------------|
| Balance at beginning of the year | 25,357,142 | - | 25,357,142 | 40,000,000 |
| Withdrawals during the year | - | 67,674,431 | 67,674,431 | - |
| Paid during the year | (6,785,714) | - | (6,785,714) | (14,642,858) |
| Balance at end of the year | 18,571,428 | 67,674,431 | 86,245,859 | 25,357,142 |

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

| | Ministry of Finance | Commercial local banks | Total 2013 | Total 2012 |
|--|---------------------|------------------------|-------------------|-------------------|
| Current portion of long-term loans – current liabilities | 6,785,713 | - | 6,785,713 | 6,785,713 |
| Long-term loans – non-current liabilities | 11,785,715 | 67,674,431 | 79,460,146 | 18,571,429 |
| | 18,571,428 | 67,674,431 | 86,245,859 | 25,357,142 |

Note 15: Zakat

1. Zakat status

The Company and its subsidiaries filed 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 estimated total Zakat is shown in the consolidated statement of income for the Group.

The Company has completed its Zakat status with the DZIT for the years up to 31 December 2009, and submitted its zakat returns for the years until 2012 and paid the Zakat payable. However, the company is still waiting to get the final assessments from the DZIT.

2. Zakat base

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

| | 2013 | 2012 |
|------------------------------------|--------------------|--------------------|
| Net income and adjusted as follows | 148,964,972 | 207,778,064 |
| Provisions during the year | 13,921,058 | 4,648,012 |
| Zakat base | 162,886,030 | 212,426,076 |
| Adjusted net income | 162,886,030 | 212,426,076 |
| Total additional amounts | 1,928,005,388 | 2,064,209,265 |
| Total deducted amounts | (1,825,684,827) | (1,956,213,741) |
| Zakat base | 265,206,591 | 230,421,600 |

3. Zakat provision

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

| | 2013 | 2012 |
|--|-------------------|-------------------|
| Balance at the beginning of the year | 27,849,488 | 29,218,511 |
| Zakat charge for the year | 6,630,165 | 8,010,540 |
| Payment made during the year | (15,018,537) | (9,379,563) |
| Exclude Zakat of Al Madinah Co. LLC (11-2) | (5,203,998) | - |
| | 14,257,118 | 27,849,488 |

Note 16: Statutory Reserve

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

Note 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 will reach 10% of its share capital.

Note 18: Retained Earnings

The shareholders' General Assembly held on 7 Jumada I 1434 H (corresponding to 19 March 2013), approved to pay cash dividend to shareholders for 2012 amounting to SR 150 million by (SR 1,5) per share with a total amount of SR 150 million at (15%) of the capital, of which SR 60 million were distributed as an interim dividends during the year 2012, by (SR 0.6) per share, and paid an amount of (SR 90) million during the year 2013, as well as approved to pay a reward to the members of the board of directors of the company for the year 2013 at SR 1.8 million (2012: SR 1.8 million).

On 15 Ramadan 1434H (corresponding to 23 July 2013), the board of directors approved the distribution of interim dividends to shareholders for the first half of 2013 by (50) Halalas per share with a total of (SR 50) million at (5%) of capital. These dividends were declared and paid to the Company's shareholders during 2013.

Note 19: Segment Reporting

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

- Hotels and entertainment segments sector: represented in hotels and entertainment centers and whatever achieved revenues of them as the owner of these hotels and centers that are operated by self-through 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 and entertainment centers | Properties owned | Services and operating | Others | Intercompany transactions | Total |
|---------------------------|----------------------------------|------------------|------------------------|-------------|---------------------------|---------------|
| * 31 December 2013 | | | | | | |
| Revenues | 366,364,340 | 68,260,307 | 24,100,371 | - | (25,746,997) | 432,978,021 |
| Expenses | (276,407,419) | (28,501,080) | (6,870,075) | (7,303,233) | 24,486,997 | (294,594,810) |
| Total income | 89,956,921 | 39,759,227 | 17,230,296 | (7,303,233) | (1,260,000) | 138,383,211 |
| Trade receivables | 49,211,290 | - | - | 344,152 | - | 49,555,442 |
| Fixed assets | 952,271,351 | 583,046,658 | - | - | - | 1,535,318,009 |
| Loans | 18,571,428 | 67,674,431 | - | - | - | 86,245,859 |
| * 31 December 2012 | | | | | | |
| Revenues | 321,331,890 | 65,314,305 | 33,209,822 | - | (23,752,885) | 396,103,132 |
| Expenses | (221,188,437) | (24,082,480) | (8,266,956) | (4,155,043) | 22,612,885 | (235,080,031) |
| Total income | 100,143,453 | 41,231,825 | 24,942,866 | (4,155,043) | (1,140,000) | 161,023,101 |
| Trade receivables | 38,368,193 | - | - | 344,152 | - | 38,712,345 |
| Fixed assets | 848,919,266 | 694,570,310 | - | - | - | 1,543,489,576 |
| Loans | 25,357,142 | - | - | - | - | 25,357,142 |

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

| | Assets | Liabilities | Revenue |
|----------------------------------|------------------------|----------------------|---------------------|
| * As at 31 December 2013 | | | |
| Riyadh | 4,179,106,367 | 1,078,015,658 | 332,236,966 |
| Makkah | 367,614,861 | 44,647,902 | 112,755,049 |
| Tabouk | 47,475,952 | 8,068,053 | 13,733,003 |
| | 4,594,197,180 | 1,130,731,613 | 458,725,018 |
| Intercompany transactions | (2,488,365,606) | (829,209,241) | (25,746,997) |
| | 2,105,831,574 | 301,522,372 | 432,978,021 |
| * As at 31 December 2012 | | | |
| Riyadh | 3,923,311,791 | 944,735,817 | 291,511,708 |
| Makkah | 397,895,620 | 59,968,098 | 114,140,402 |
| Tabouk | 41,342,775 | 4,269,642 | 14,203,907 |
| | 4,362,550,186 | 1,008,973,557 | 419,856,017 |
| Intercompany transactions | (2,314,858,251) | (757,422,054) | (23,752,885) |
| | 2,047,691,935 | 251,551,503 | 396,103,132 |

Note 20: Operating Expenses

Operating expenses as at 31 December represent the following:

| | 2013 | 2012 |
|----------------------------------|--------------------|--------------------|
| Salaries and related costs | 111,066,953 | 81,815,853 |
| Fixed assets depreciation | 37,604,694 | 27,988,074 |
| Foods and beverages | 30,321,971 | 26,875,713 |
| Operational supplies | 27,498,426 | 22,979,815 |
| Rent | 18,327,865 | 18,397,551 |
| Electricity, water and telephone | 15,060,347 | 15,732,856 |
| Services and operating fees | 14,145,234 | 14,620,966 |
| Maintenance and repair | 10,245,464 | 10,679,621 |
| Pre-operating expenses (20-1) | 8,558,658 | - |
| Sales and marketing | 4,571,327 | 3,193,216 |
| Fees and subscriptions | 1,644,043 | 271,485 |
| Others | 15,549,828 | 12,524,881 |
| | 294,594,810 | 235,080,031 |

* This includes an amount of SR 7,965,627 represents preopening expenses for each of Marriott Courtyard Hotel and Marriott Executive Apartments Hotel which have been reported under due from related parties for the year ended 31 December 2012 (Note 8-1).

Note 21: General and Administrative Expenses

General and administrative expenses as at 31 December represent the following:

| | 2013 | 2012 |
|---|-------------------|-------------------|
| Salaries and related costs | 13,220,245 | 11,155,585 |
| Professional and consultancy fees | 903,000 | 713,020 |
| Fixed assets depreciation | 781,245 | 666,119 |
| Remuneration and allowances to attendance of the Board of Directors | 693,000 | 571,500 |
| Subscriptions and attestation charges | 642,109 | 332,434 |
| Amortization of deferred expenses | 368,067 | 374,267 |
| Hospitality | 265,220 | 198,240 |
| Maintenance and cleaning | 229,109 | 199,864 |
| Advertising | 213,556 | 254,495 |
| Electricity, water and telephone | 76,410 | 269,962 |
| Others | 1,721,846 | 2,264,049 |
| | 19,113,807 | 16,999,535 |

Note 22: Other Income

Other income as at 31 December represent the following:

| | 2013 | 2012 |
|----------------------|-------------------|-------------------|
| Murabaha income | 12,239,879 | 275,678 |
| Compensations (22-1) | 3,871,246 | - |
| Capital gain | 250,019 | 56,486,748 |
| Others | 2,431,310 | 1,005,838 |
| | 18,792,454 | 57,768,264 |

* Compensations related to the collected amount for termination of management and operating contract of Moon Resort in Jeddah.

Note 23: Earnings per Share

Earnings per share have been calculated on the basis of weighted-average number of ordinary shares issued and outstanding during the period of 100 million shares (2012: 100 million shares after taking the capital increase shares, which was made during the first quarter of 2012, with retroactive effect), without excluding the minority interests share in operating profit or their share of the net income and other expenses.

Note 24: Capital Commitments and Contingent Liabilities

The Company's outstanding future capital commitments as at 31 December 2013 amounted to SR 166.7 million (2012: SR 173.3 million) which are related to contracts signed for the completion of the second phase of finishing for Al Muzaqbal residence and the construction of the third phase.

The Group has issued bank letters of guarantee for SR 23 million at 31 December 2013 (2012: SR 28 million). These letters have been issued in favor of the Civil Aviation Authority for lease agreement of Makarim Al Riyadh Hotel without a monetary cap.

Note 25: Fair Value of Financial Instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. As the accompanying financial statements are prepared under the historical cost method, differences may arise between the book values and the fair value estimates. The Company's financial assets consist of cash and cash equivalents, accounts receivable and other assets, while the Company's financial liabilities consist of bank facilities, trade payables, dividends, accrued expenses and other liabilities.

Management believes that the fair value of the Group's financial assets and liabilities are not materially different from their carrying values.

Note 26: Risk Management

1. 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 of credit risks principally include cash at bank and accounts receivables. Cash and cash equivalents are placed with local banks of sound credit ratings, so the credit risk is limited. The credit risk related to accounts receivables is limited because most of the Group's transactions are concentrated with Creditworthy customers. The Company monitors its customers' balances on regular basis to reduce the related credit risks follow up on collections and take necessary action to manage the Company's assets.

2. Currency risk

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

3. Interest rate risk

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

4. Liquidity risk

Liquidity risk is the risk that an enterprise 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 Company's future commitments through following-up expected collection schedules of accounts receivables and banks facilities available for the Group.

Note 27: Approval of the Financial Statements

The consolidated financial statements have been approved by the Board of Directors on 18 Rabi'II 1435H (corresponding to 18 February 2013).