

SAUDI HOTELS AND RESORTS COMPANY
A SAUDI JOINT STOCK COMPANY

CONSOLIDATED FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT ACCOUNTANTS
DECEMBER 31, 2010

REPORT OF INDEPENDENT ACCOUNTANTS

January 25, 2011

To the **Shareholders**
Saudi Hotels and Resorts Company

We have audited the accompanying consolidated balance sheet of the **Saudi Hotels and Resorts Company** ("the Company") and its subsidiaries companies as of December 31, **2010** and the related consolidated income statement, statement of cash flows and statement of changes in shareholders' equity for the year then ended, including the accompanying Notes from **(1)** to **(15)** which represent an integral part of these financial statements. The accompanying financial statements are prepared in accordance with Article 123 of the regulations for saudi companies and the Company's articles of association. These financial statements, the underlying records of which are maintained in Arabic and in the Kingdom, are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

In our opinion, the financial statements:

- Present fairly, in all material respects, the consolidated financial position of Saudi Hotels and Resorts company as of December 31, **2010** and the consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended in conformity with generally, accepted accounting standards in saudi arabia and appropriate to circumstance of the company.
- Comply with regulations of companies and the company's articles of association regarding the preparation and presentation of the financial statements.

The automated accounting records maintained by the company, comply with its financial statements.

Suliman A. Al-Kharashi
C.A. License No. 91

SAUDI HOTELS AND RESORTS COMPANY
A SAUDI JOINT STOCK COMPANY
CONSOLIDATED BALANCE SHEET

		DECEMBER 31,	
	NOTE	2010	2009
		(SR)	(SR)
<u>ASSETS</u>			
<u>CURRENT ASSETS:</u>			
Cash		38,460,243	32,539,483
Short term investments	3	137,699,884	350,203,315
Accounts receivable, net	4	31,194,920	29,042,057
Inventories	5	15,261,608	14,957,323
Prepaid expenses and other current assets	6	23,692,584	8,762,941
Total current assets		246,309,239	435,505,119
Long term investments	7	182,051,634	102,302,169
Fixed assets, net	8	1,175,607,788	1,126,635,130
Projects under study and in progress		281,845,209	173,977,628
Deferred expenses		464,363	518,460
Total assets		1,886,278,233	1,838,938,506
<u>LIABILITIES AND SHAREHOLDERS' EQUITY:</u>			
<u>CURRENT LIABILITIES:</u>			
Current portion of loans	9	12,357,143	11,071,428
Accounts payable		24,685,497	23,258,217
Dividends payables		36,643,963	29,866,470
Accrued expenses and other current liabilities	10	70,319,429	71,180,100
Total current liabilities		144,006,032	135,376,215
Long term loans	9	32,142,857	38,928,572
End of service indemnity	2	28,760,764	24,562,075
Minority interest in subsidiaries companies		18,450,387	15,415,143
Total liabilities		223,360,040	214,282,005
<u>SHAREHOLDERS' EQUITY:</u>			
Share capital	1	690,060,970	690,060,970
Statutory reserve		345,030,485	162,989,715
Contractual reserve		408,493,096	354,171,651
Retained earnings		222,725,789	434,736,633
Unrealized (loss) gain on investment		(3,392,147)	(17,302,468)
Total shareholders' equity		1,662,918,193	1,624,656,501
Total liabilities and shareholders' equity		1,886,278,233	1,838,938,506

The accompanying notes are an integral part of these financial statements.

SAUDI HOTELS AND RESORTS COMPANY
A SAUDI JOINT STOCK COMPANY

CONSOLIDATED INCOME STATEMENT

	<u>NOTE</u>	FOR THE YEAR ENDED DECEMBER 31,	
		2010	2009
		(SR)	(SR)
Operating revenues	11	281,034,970	733,262,808
Operating expenses	12	<u>(135,384,213)</u>	<u>(326,644,606)</u>
Gross operating profit		145,650,757	406,618,202
Depreciation	8	<u>(20,885,613)</u>	<u>(20,957,628)</u>
Net operating profit		124,765,144	385,660,574
Other revenues	13	<u>4,235,765</u>	<u>6,935,345</u>
Net profit before Zakat and minority interest		129,000,909	392,595,919
Zakat of associated companies	14	<u>(2,223,845)</u>	<u>(2,472,448)</u>
Net profit after Zakat of subsidiaries companies		126,777,064	390,123,471
Minority interest in subsidiaries companies		<u>(1,572,460)</u>	<u>(102,518)</u>
Net profit before Zakat		125,204,604	390,020,953
Zakat for the year	14	(2,466,565)	(9,453,799)
Net profit of the year		<u>122,738,039</u>	<u>380,567,154</u>
Earning per share from main activities		1,81	5,59
Earning (loss) per share from other activities		0,06	0,10
Earning per share		<u>1,78</u>	<u>5,51</u>

SAUDI HOTELS AND RESORTS COMPANY
A SAUDI JOINT STOCK COMPANY
STATEMENT OF CONSOLIDATED CASH FLOWS

	FOR THE YEAR ENDED DECEMBER 31,	
	2010	2009
	(SR)	(SR)
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Net income	125,204,604	390,020,953
<u>Adjustments to reconcile net income to net cash provided (used) by operating activities:</u>		
Depreciation	20,885,613	20,957,628
Amortization of deferred expenses	148,495	129,615
End of service provision	5,216,098	5,459,253
(increase) Decrease in accounts receivable	(2,152,863)	13,952,530
(Increase) decrease in inventories	(304,285)	1,069,194
(Increase) Decrease in prepaid expenses and other current assets	(14,929,643)	1,983,970
Increase (Decrease) in accounts payable	1,427,280	(515,757)
Increase (decrease) in dividends payables	6,777,493	(63,275)
(Decrease) in advance collections	-	(400,000,000)
Increase in accrued expenses and other current liabilities	7,502,241	3,404,138
Zakat paid	(10,829,477)	(3,899,889)
End of service indemnity paid	(1,017,409)	(3,534,242)
Net cash provided from operating activities	137,928,147	28,964,118
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Fixed assets additions	(69,864,551)	(240,190,686)
Fixed assets disposal, net	-	126,924,326
Depreciation on project in progress	6,280	-
(Increase) in deferred expenses	(94,398)	(648,075)
Decrease in investments	146,664,287	228,008,213
(Increase) in project under study and in progress	(107,867,581)	(1,163,063)
Net cash (used by) provided from investing activities	(31,155,963)	112,930,715
<u>CASH FLOWS FROM FINANCING ACTIVITIES:</u>		
Loans paid during the year		

	(5,500,000)	(2,500,000)
Dividends	(98,302,234)	(126,010,974)
Previous years adjustments	(84,434)	-
Used from reserves	-	(9,031,711)
Changes in minority interest	<u>3,035,244</u>	<u>2,036,471</u>
Net cash (used by) financing activities	<u>(100,851,424)</u>	<u>(135,506,214)</u>
Net increase in cash	5,920,760	6,388,619
Cash at beginning of the year	<u>32,539,483</u>	<u>26,150,864</u>
Cash at end of the year	<u>38,460,243</u>	<u>32,539,483</u>

The accompanying notes are an integral part of these financial statements.

SAUDI HOTELS AND RESORTS COMPANY
A SAUDI JOINT STOCK COMPANY

STATEMENT OF CONSOLIDATED CHANGES IN SHAREHOLDERS EQUITY

	<u>Capital</u>	<u>Statutory reserve</u>	<u>Contractual reserve</u>	<u>Retained earnings</u>	<u>Unrealised gain (loss) on investment</u>	<u>Total</u>
Balance at January 1, 2009	690,060,970	123,987,620	363,203,362	219,182,548	(48,352,924)	1,348,081,576
Dividends	-	-	-	(126,010,974)	-	(126,010,974)
Used from reserves	-	-	(9,031,711)	-	-	(9,031,711)
Net income for the year 2009	-	-	-	390,020,953	-	390,020,953
Appropriation to statutory reserve	-	39,002,095	-	(39,002,095)	-	-
Zakat for the year	-	-	-	(9,453,799)	-	(9,453,799)
Unrealized gain on investment	-	-	-	-	31,050,456	31,050,456
Balance at December 31, 2009	690,060,970	162,989,715	354,171,651	434,736,633	(17,302,468)	1,624,656,501
Dividends	-	-	-	(98,302,234)	-	(98,302,234)

Used from reserves	-	-	-	(84,434)	-	(84,434)
Net income for the year 2010	-	-	-	125,204,604	-	125,204,604
Appropriation to statutory reserve	-	182,040,770	-	(182,040,770)	-	-
Appropriation to contractual reserve	-	-	54,321,445	(54,321,445)	-	-
Zakat for the year	-	-	-	(2,466,565)	-	(2,466,565)
Unrealized gain on investment	-	-	-	-	13,910,321	13,910,321
Balance at December 31, 2010	690,060,970	345,030,485	408,493,096	222,725,789	(3,392,147)	1,662,918,193

SAUDI HOTELS AND RESORT COMPANY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010

NOTE 1 - THE COMPANY AND NATURE OF BUSINESS:

- **Saudi Hotels and Resorts Company** ("the Company") is a Saudi Joint Stock Company and was incorporated on Muharram 6, 1397 H. (corresponding to December 27, 1976) under Royal Decree No. M69 and operates under Commercial Registration Number **1010010726** issued in Riyadh.
- Based on the approval of Capital Market Authority on 18/1/2008 the company's capital increased from SR 500 million to SR **690,060,970** paid in full, the par value is SR 10 per share.
- The purposes of the company are the construction, acquisition, management operations, investments, purchasing, joint venture of hotels, restaurants, motels, rest areas, amusement parks, tourist and travel agencies and private beaches inside cities, highways and in public resort areas. Also acquisition, renting and development of real estate and constructing buildings. As well as performing all related catering services. The Company shall carry out its purposes by itself or through contracting others jointly or separately.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis Of Accounting:

The financial statements, which are expressed in Saudi Riyals (SR), have been prepared under the historical cost convention, and with the standard of general presentation and disclosure and in accordance with accounting principles generally accepted in Saudi Arabia and in accordance with the requirements of the regulations for companies and the company's articles of association.

The consolidated financial statements include the assets, liabilities, revenues and expenses of the company and all subsidiaries after accounting for minority interests in subsidiaries companies on the date of financial statements. The ownership for the subsidiaries was :

Subsidiaries	Ownership %
▪ Makkah Hotels Company Ltd.	99.44%
▪ Tabouk Hotels Company Ltd.	97.14%
▪ Al-Medinah Hotels Company Ltd.	50.00%
▪ Al Nakheel Resort Areas Company Ltd.	98.73%

All debit and credit balances have been eliminated between the company and the subsidiaries from the consolidated statements in accordance with the requirements of consolidated financial statements standard.

Revenue Recognition

Revenues for the company and subsidiaries are recognized in this consolidated statement when services are rendered to guests. Revenues between the company and the subsidiaries are eliminated from the consolidated statements, or between subsidiaries them selves.

Expenses Recognition

Expenses for the company and subsidiaries are recognised in this consolidated statements and subsidiaries after eliminating expenses between the company and the subsidiaries, or between subsidiaries them selves .

Inventories

Inventories are valued at the lower of cost or net realizable value with due allowance for any obsolete or slow moving items. Cost is determined on average cost.

Allowance for doubtful accounts

The allowance for doubtful accounts is established through a charge against income, and is based on management's estimate for possible loss on realization of account receivable.

Investments

- The investments in share capital of other companies with ownership percentage which less than 50% and over 20% are recorded in accordance to the equity method and variation of revaluation is recorded in the shareholders' equity.
- The investments of the company in the share capital of other companies with ownership percentage 20% or less are recorded at historical cost and the revenues of the investments are recorded in other revenues when they are approved for distribution. The company provides provision against investment losses realised or expected

Fixed Assets

Fixed assets are stated at cost with additions and improvements, which extend the assets' capacity, and useful lives being capitalized. Depreciation is provided on as straight-line basis as following:

- Buildings 50 – 75 years
- Furniture and Fixture 10 years
- Equipments and Machineries 10 years
- Vehicles 4 years

Foreign Currencies

Foreign currency transactions are recorded at the rates of exchange prevailing at the time of the respective transactions. At the balance sheet date, foreign currency assets and liabilities are revalued into Saudi Riyals at the prevailing market rates. Revaluation and exchange gain or losses are included in income statement.

Employees' End of Service Indemnity

Provision is made for amount payable under the Saudi Arabian Labor Law applicable to employees' accumulated periods of service to the date of the balance sheet and compensated vacation and air tickets costs as of the balance sheet date are accrued currently through a charge to expenses.

Statutory Reserve

In accordance with the Company's articles of association and the regulations for companies in the Kingdom of Saudi Arabia, the Company allocates 10% of its net profit each year to form a statutory reserve. The company may discontinue this practice when this reserve reaches one-half of its share capital.

Contractual Reserve

In accordance with the Company's articles of associations, the company allocates 5% of its net profit each year to form a contractual reserve. The company may discontinue this practice when the reserve reaches 10% of its share capital. This reserve is used for maintenance and the loss of investments or as decided by the Board.

Zakat

In accordance with regulations of the department of Zakat and Income Tax in the Kingdom of Saudi Arabia the company is subject to Zakat.