



**Board of Directors' Report**  
**For**  
**The Fiscal Year ending on 31/12/2014**

## Members of the Board of Directors

	Chairman of the Board	<b>SHK. Ahmed Hassan Fitaihi</b>
	Member of the Board	<b>Dr. Ibrahim Hassan Al-Madhoun</b>
	Member of the Board	<b>Dr. Mohammed Ali Hassan Ikhwan</b>
	Member of the Board	<b>Eng. Abdulmalik Abdullah Fathaddin</b>

	Member of the Board	<b>Mr. Majed Diaa-u-ddin Karim</b>
	Member of the Board	<b>Dr. Mohammed Ahmed Hassan Fitaihi</b>
	Member of the Board	<b>Mrs. Maha Ahmed Hassan Fitaihi</b>

# **Board of Directors' Report**

## **for the fiscal year 2014**

### **Submitted to the 16<sup>th</sup> Assembly General Meeting of the shareholders of the Company**

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**In the name of Allah, the most gracious, the most merciful**

**And may peace and blessings be upon our prophet Mohamed, his family and companions**

**To the kind attention of The Shareholders of Fitaihi Holding Group**

**Peace and the blessings of Allah be upon you,**

The Board of Directors of Fitaihi Holding Group is pleased to provide you with the Annual Report of the Group as well as its performance through the fiscal year 2014.

### **About the Group**

Ahmed Hassan Fitaihi & Co. (a Saudi limited liability company) was registered in Jeddah city under the commercial register No. 4030085128 on 2/8/1412H, corresponding to 5/2/1992.

The decree of the Minister of Trade No. 1058 dated 09/09/1418AH, corresponding to 07/01/1998 approved the transformation of Ahmed Hassan Fitaihi & Co. from a limited liability company into a joint-stock company. Subsequently, the company name was amended to be Fitaihi Holding Group on the approval of the extraordinary general assembly of the company that was held on 01/05/1429H corresponding to 06/05/2008.

The name “Fitaihi”, goes back to the year 1907; and it is a famous brand name in the field of gold, jewelry and luxury items; such as gifts, crystal, silverware, antiques, chinaware, men’s wear, women’s and children’s wear, and textiles made of the highest quality and of the most important international brand names. The Group expanded its business, as it works in the retail sector (through its branches that carry the brand names of Fitaihi, Miss Fitaihi, Fitaihi Junior, Baby Fitaihi, Tatto Tatti, Laura Manitti, Le Panaché and Mamlouki). Also, the Group entered into the real estate investment sector through its affiliated Company (Gulf MEDMAC for Real Estate Investment) which did not start to operate until now, as well as its activity in the investment sector through (Sodouq International Holding Investment Company), in addition to its investments in the medical sector through its stake in the (International Medical Center) in Jeddah, and also in (Dar El-Fouad Hospital) in Cairo. Retail outlets are located mainly in Jeddah and Riyadh, in addition to some other branches in Medina, Khobar, Makkah Yanbu, and Al-Ahsaa. The capital of Fitaihi Holding Group amounts to 550 million SAR, divided into 55 million shares. Fitaihi Holding Group is, the only company in its field in the Kingdom, registered on the Saudi Stock Exchange Market (Tadawul) since the year 2000. The Group is managed by a Board of Directors, which composed of prominent figures with extensive experience in the financial, administrative and commercial fields. The Group has a strategic vision for the coming phase, and it eagerly wishes to implement it, especially in relation to its geographic expansion and the exploitation of new investment opportunities; to maximize the rights of the stockholders and increase profitability.

## **Chapter 1: Main Activities of the Group**<sup>1</sup>

**The main activities of the group include the following, according to its Statute:**

- Manufacture, retail and wholesale trade of jewelry, and precious metals and stones.
- Retail and wholesale trade of household utensils, tableware, antiques, gifts, accessories, fabrics and garments.
- Establishing and investing in companies with a percentage that would enable the company to manage and control such companies.
- Establishing, owning, managing, operating and maintenance of hospitals, health centers and medical rehabilitation units.

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<sup>1</sup> Clause No. 1, of Article No. 43 - Listing Rules (The requirements of the Board of Directors' report).

## **Chapter 2: The Group's Strategies<sup>2</sup>**

**The Group's general strategies are represented in three main Axes as follows:**

### **The First Axis:**

The first axis is represented in developing the Group's infrastructure and preparing it to achieve future goals and plans by attracting, training and developing qualified human resources, developing administrative structures and creating modern administrative systems which are consistent with the strategic approach of the group.

### **The Second Axis:**

The second axis is related to the Group's growth strategy through geographic expansion, opening new sales outlets, and acquiring companies in the framework of the Group's activities, or merging with them.

### **The Third Axis:**

The third axis is related to the strategy of diversifying income resources by exploiting promising opportunities in new fields, and benefiting from the Group's capacities and resources.

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<sup>2</sup> Clause No. 2, of Article No. 43 - Listing Rules (The requirements of the Board of Directors' report)

### **A- Strategy of Geographic Expansion**

The Management has adopted an ambitious plan for increasing its geographic expansion by opening more branches, especially in the line of women's accessories (fashion jewelry). In 2014, the Group opened 3 new branches under the brand name of **Laura Manitti** in important commercial centers of Jeddah. Currently 2 new branches are in the phase of decorations for the trademark Le Panaché in Jeddah. By the grace of Allah, more branches, in different cities of the Kingdom, will be opened through the year 2015 as expected.

### **B- Strategy of Acquisitions:**

The Group's management is keen on supporting its strategy of acquisition due to its desire to reach out and attract new customers who will strengthen the Group's activities, and increase its share in the luxury goods market of the Kingdom; which will reflect positively, by the will of Allah, on the sales and profitability of the Company, and thus maximize the rights of stockholders.

Recently, the Group succeeded in taking over the trademark "Le Panaché", which is considered a famous brand in Jeddah for chocolate, crystals, silver-plated items. The executive management works now on developing this trademark in order to maximize the ROI.

The Group's Management is always searching for good investment opportunities which may enable it to acquire or merge with new existing activities, after careful studies, to increase the return on the rights of shareholders.



### **Future expectations for the Group's business and potential risks:**

Currently the Group seeks to expand its business and activities. It is pursuing all available investment opportunities and exploiting all human and material possibilities to achieve this goal.

#### **A- Risks of Investing in shares:**

Investments in shares have a lot of advantages; such as the increase in the price of shares, and receiving dividends. However, the investment in shares carries many risks which include the decline in the fair value of the shares due to a change in the shares indicators level, or economic activities, or the value of each share separately.

Investments available for purchase, are subject to the risks of volatility in share prices and foreign currency exchange values where the Company has investments in the Saudi stock market and effective investments in the Egyptian stock market. As a result of this, their fair value is affected by the exchange rate of the Egyptian pound versus the American dollar, and consequently the Saudi Riyal, from time to time, especially in the shadow of the current economic and political conditions in the Arab Republic of Egypt, which may have a negative impact on the value of these investments.

#### **B- Non-profitable branches and activities:**

The Company management regularly conducts detailed studies on the performance of every commercial name, branch, and area. This report shows mainly the volume and levels of sales for every branch separately. It also refers to some of the assumptions on which its work can depend; however it is probable that some branches may not achieve the expected results because of external factors such as changes in market condition, customer behaviors or changes in the public taste. In such conditions, the company may be forced to close or modify some of its branches to achieve the Company's general goals, especially increasing sales and profitability.

### **C- Inventory:**

Amongst the most important risks that might face the companies, working in the field of the retail sector in general, and luxury goods in particular, is the inability of these companies to market its goods. On the other hand, excess inventory leads to freezing part of the capital and affects profitability negatively. The Group estimates the decrease in the value of inventory according to its accumulated experience, analyzing the age and status of its inventories. This decline is equal to the difference between the cost of inventory and its estimated market value. In case the future actual conditions are less than expected by management, it may lead to decreasing the inventory again as the estimates and assumptions based on the estimation of the decrease value of inventory may vary, from time to time, according to any future updates.

### **D- The risks related to geographic expansion:**

The Company plans to open more branches inside and outside of Saudi Arabia and also to launch new brand names. The capacity of the Company to manage such expansion depends on planning, following up and finding suitable locations for its branches, and continuing to apply and develop financial and operational systems, computer systems and savings, training and managing its human resources. As long as the Company has the capacity to cover its capital costs, the costs of establishment, production, distribution, marketing and administration costs incurred in developing such new branches, the Company does not foresee any prominent risks if new competitors enter the same activities, owing to the excellent commercial reputation of the Company.

### **E- Risks related to Human Resources (HR):**

The performance of the Company depends mainly on the experience, skills and abilities of its executive officers and other senior staff members. The future performance of the Company depends on its ability to attract highly competent and qualified staff and also to keep them, as the competition is strong, at this time, for those employees who have the extensive experience that is required. The Company continues the implementation of the human resources strategies and the best practices aimed at decreasing the voluntary departure of employees, to reduce the effect of the loss of key employees. However, there are no guarantees that the company business will not be affected in case it is not able to attract, develop and maintain qualified staff or to replace them by staff enjoying the same level of qualifications, skills and experience.

The Company may be harmed as a result of losing the services of one or more of its key staff who cannot be replaced, in the short or medium term, which can lead to failure in some operations, and might adversely affect the Company's financial situation and results. The Company has been able, up to now, to replace employees who left the Company by other qualified employees. The Company always seeks to attract qualified and professional employees, in addition to developing the abilities of the current employees to carry out important duties and more responsibilities, and in order to be promoted to higher level positions.

### **F- Other risks that the Company might face:**

- 1- The Company's performance is connected directly with the economic status of the Kingdom; because the financial solvency of its target customers may be influenced by this economic status.
- 2- The growth of the Company is linked to its ability to increase sales by opening new branches. The Company tries to achieve this goal by undertaking a lot of activities such as planning, choosing locations and comparing between them, taking the lease decision, negotiating the prices,

terms and other conditions of the signed contracts, preparing and furnishing locations, and setting up computer systems, and linking them to the headquarters; accordingly the success of the company, to achieve this growth, depends on its ability to carry out all these activities successfully.

- 3- The ability of the Company to continue its growth relates to its capacity to provide human resources at the appropriate time and training them to meet the requirements of the new branches, and attract a staff that enjoys effective administrative skills, and the required experience.
- 4- The volume of sales and profitability of the Company is affected by the seasons; hence the profitability of the Company may be exposed to instability, from time to time, during the same year.
- 5- The Company works in a highly competitive environment where a lot of other retail and wholesale companies work in the same field of the Company. The growth of the Company and its profits depend, not only on the ability to compete successfully, but also on maintaining its advanced competitive position.
- 6- As the Company depends largely on computer systems in the management of its assets and the control of its financial activities and records, the continuation of the Company in the performance of its activities is related to the continued efficient operation of these systems.
- 7- The Company may be influenced by some risks, similar to those affecting its suppliers, such as the rise in the cost of production (especially gold, diamonds and precious stones), also economic conditions and the political situation in their countries, so the Company always seeks to expand the base of the suppliers and to extend into the regions, where its suppliers work, to reduce the risks as much as possible.

## Chapter 3: Outline of Financial Results

### Income Statement (in thousands of SAR):

Income Statement (in thousands of SAR)	2014	2013	2012	2011	2010
Income from activities	322,085	262,198	262,924	212,456	178,787
Expenses of Activity	(155,542)	(125,917)	(130,248)	(104,052)	(88,297)
<b>Aggregate of activity profit</b>	166,543	136,281	<b>132,676</b>	<b>108,404</b>	<b>90,490</b>
Market, administrative and general expenses	(115,981)	(93,965)	(84,108)	(78,681)	(60,857)
Other net income (expenses)	971	597	452	(164)	(0,446)
Temporary impairment in investment and available financial assets for sale	0	0	(6,032)	(64,325)	0
Zakat	(7,104)	(7,198)	(8,907)	(11,500)	(7,435)
<b>Net income (loss)</b>	<b>44,429</b>	<b>35,715</b>	<b>34,081</b>	<b>(46,266)</b>	<b>21,752</b>

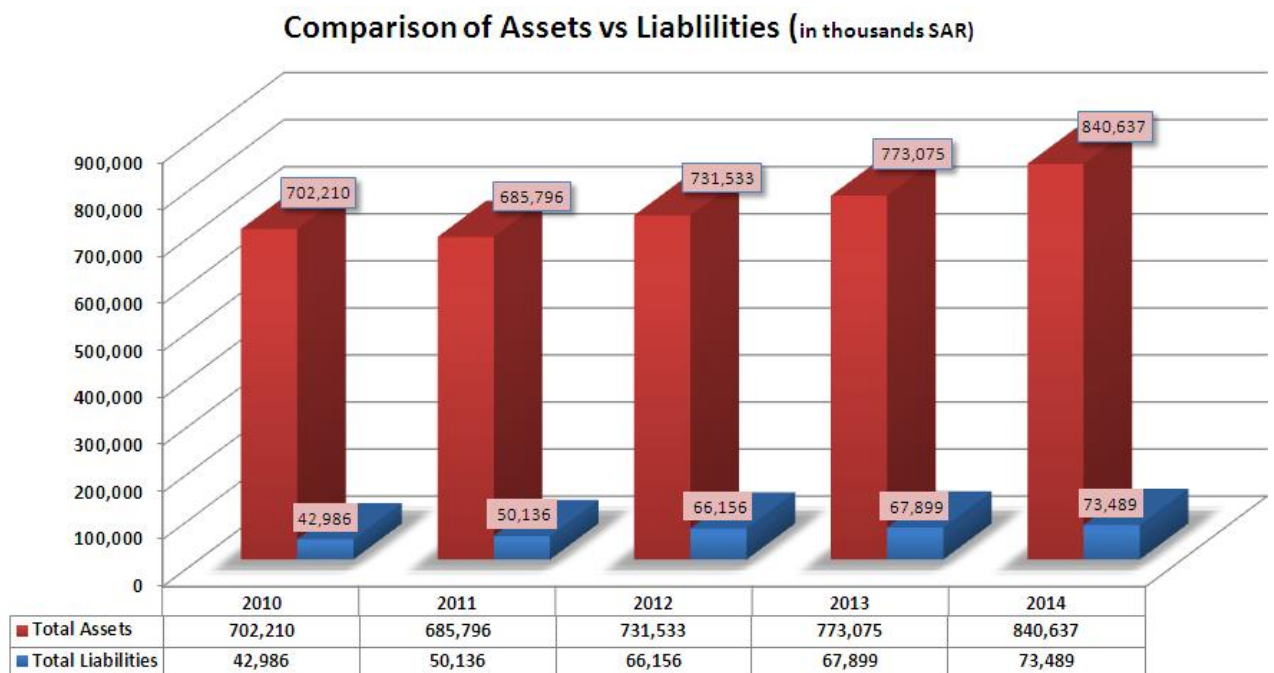
**Financial statements (in thousands of SAR):**

<b>Financial statements (in thousands of SAR)</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
Current assets	300,966	313,386	358,461	326,406	310,367
Current liabilities	52,591	49,641	50,297	35,735	31,407
<b>Working capital</b>	<b>248,375</b>	<b>263,745</b>	<b>308,164</b>	<b>290,671</b>	<b>278,960</b>
Non-current assets (long term assets)	420,784	344,314	266,328	255,189	285,295
Fixed assets (under implementation)	118,887	115,375	106,744	104,201	106,548
<b>Total assets</b>	<b>840,637</b>	<b>773,075</b>	<b>731,533</b>	<b>685,796</b>	<b>702,210</b>
Current liabilities	52,951	49,641	50,297	35,735	31,407
Non-current liabilities	20,897	18,258	15,859	14,401	11,579
<b>Total liabilities</b>	<b>73,488</b>	<b>67,899</b>	<b>66,156</b>	<b>50,136</b>	<b>42,986</b>
Paid-up capital	550,000	550,000	550,000	500,000	500,000
Reserves and retained earning	217,149	155,176	115,377	135,660	159,224
Shareholders' rights	767,149	705,167	665,377	635,660	659,224
<b>Current liabilities and shareholders' rights</b>	<b>840,637</b>	<b>773,075</b>	<b>731,533</b>	<b>685,796</b>	<b>702,210</b>

\* Current liabilities include liabilities for suppliers, and special provisions related to legal ZAKAT.

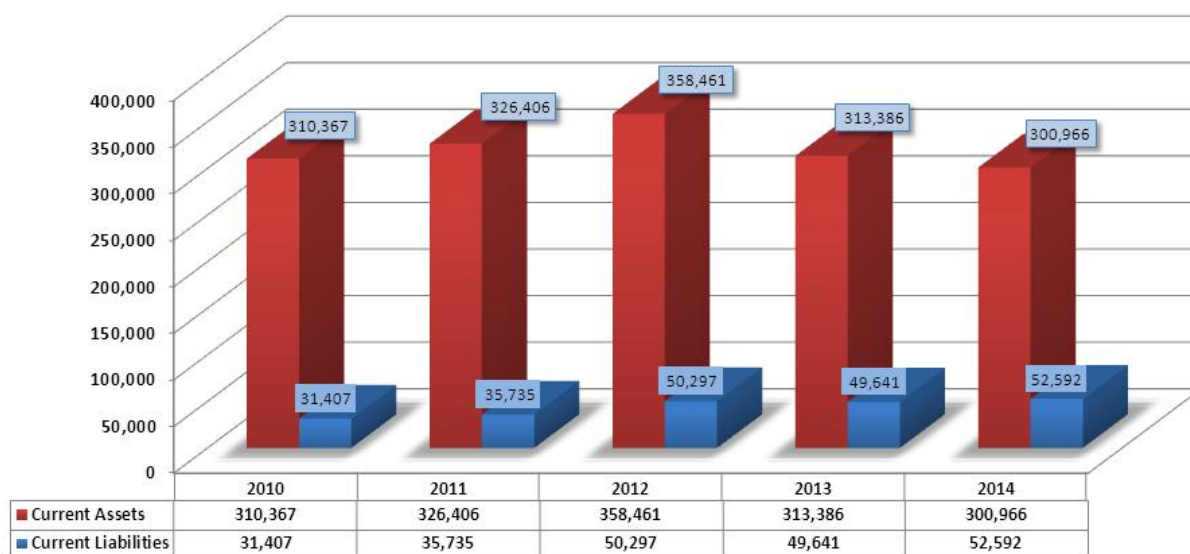
## Chapter 4: The Group's Assets and Liabilities<sup>3</sup>

The total assets of the Group amounts to 840.637 million SAR as of 31/12/2014, of which 35.8% are current assets of 300.966 million SAR, against current liabilities of 52.591 million SAR, with a current ratio of approximately 5.7 times, reflecting the Group's ability to meet its short-term obligations.



<sup>3</sup> Clause No. 3 of Article No. 43- Listing Rules (The requirements of the Board of Directors' report)

### Comparison of Current Assets vs Current Liabilities (in thousands SAR)



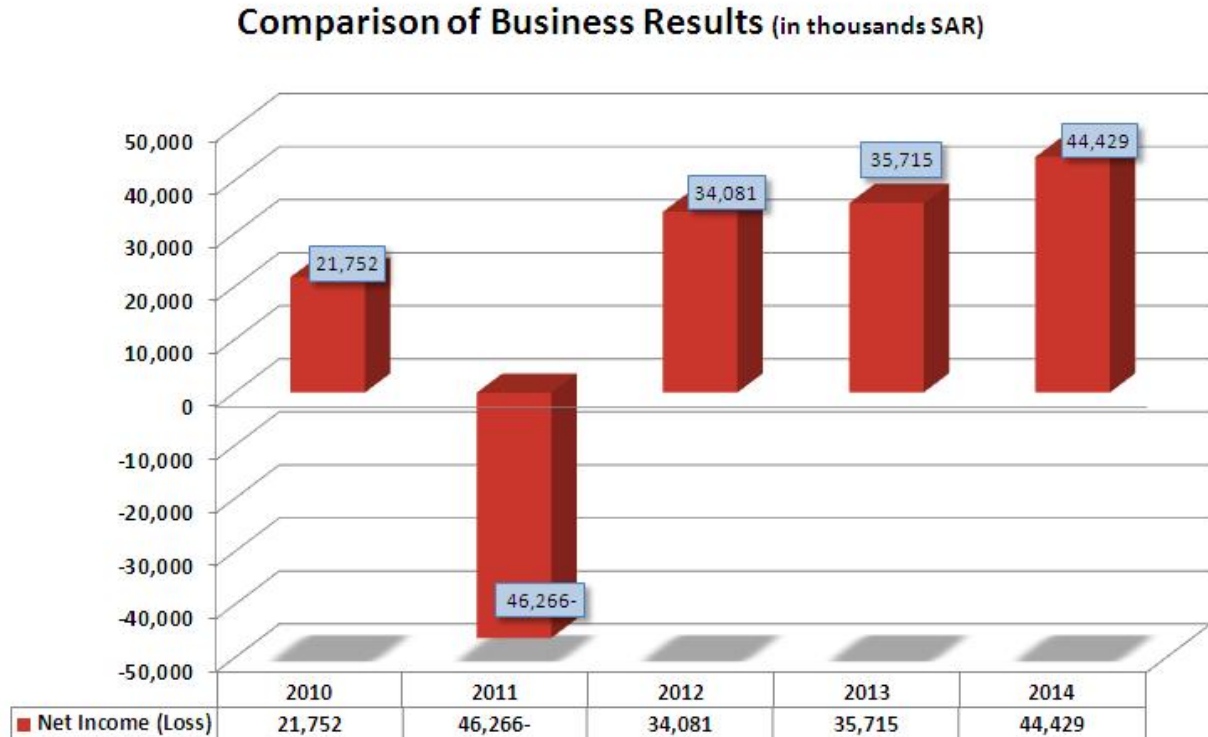
The total liabilities of the group amounted to 73.49 million SAR at the end of 2014, compared with 67.90 million SAR at the end of 2013, representing an increase by 8.2%. The total liabilities amounted to 8.7% of the total assets, and 9.6% of the total equity.

Fitaihi Holding Group asserts the lack of any loans (whether payable on demand or otherwise) as of the end of the fiscal year 2014. Accordingly, no amounts were paid out by the Company for loans during the fiscal year 2014.<sup>4</sup>

<sup>4</sup> Clause No. 12 of Article No. 43- Listing Rules (The requirements of the Board of Directors' report)



## Chapter 5: Income /Losses<sup>5</sup>



The net income during the year 2014 amounted to 44.43 million SAR, compared with the net income of 35.72 million SAR in the year 2013, an increase by 24.4%, mainly due to the total difference between the following positive and passive aspects:

### POSITIVE ASPECTS

#### 1- Increase in gross profit of sales:

In the year 2014, the Group achieved sales amounting to 298.4 million SAR, compared to 249.4 in the year 2013, representing an increase of 19.65%. The increase is due to the sales growth in gold and jewelry, which had a positive impact

<sup>5</sup> Clause No. 5 of Article No. 43- Listing Rules (The requirements of the board of directors' report)

on the improvement in gross profit of sales totaling 142.9 million SAR in 2014, compared with 123.5 million SAR in 2013, an increase amounting to 19.4 million SAR.

**2- Increase in investment income:**

The investment income amounted to 23.63 million SAR in the year 2014; compared with 12.25 million SAR in 2013, representing an increase by 92.90%, mainly due to the achieved gains resulted from the sale of 1.43 million shares in “Oriental Weavers Carpet Co.”.

**PASSIVE ASPECTS**

**1- Increase in expenses:**

The expenses amounted to 115.67 million SAR in the year 2014; compared with 93.72 million SAR in 2013, representing an increase by 23.42%, due to the increase in labor costs, rents (because of opening new branches), keeping the distinctive human cadres, in addition to the increase in marketing and advertising expenses related to building and supporting the brand names.

**2- Decrease in the net of other revenues and expenses:**

The net of other revenues and expenses decreased with an amount of 187 thousand SAR in the year 2014; compared with the year 2013.

## Chapter 6: Sales<sup>6</sup>

The Group achieved total sales of 298.4 million SAR in the year 2014, compared with 249.4 million SAR in 2013, which represents an increase of 19.65%. This increase is attributed to the sales growth in gold and jewelry by 27%, which achieved sales amounting to 209.4 million SAR in the year 2014; compared with sales amounting to 164.7 million SAR in 2013. In addition to the sales increase in other product lines by 4%, totaling 89 million SAR in the year 2014; compared with sales amounting to 84.7 million SAR in 2013.



<sup>6</sup>Item 5 of Article 43- registration and listing rules (The requirements of the Board of Directors' report)

**The following table shows the analysis of sales by activities:**

Year	Description	In thousands of SAR		
		Kingdom of Saudi Arabia	Outside of the Kingdom	Total
2014	Sales			
	Gold and Jewelry	209.373	-	209.373
	Other	89.073	-	89.073
	<b>Total</b>	<b>298.447</b>		<b>298.447</b>
2013	Sales			
	Gold and Jewelry	164.650	12	164.662
	Other	84.722	-	84.722
	<b>Total</b>	<b>249.372</b>	<b>12</b>	<b>249.384</b>

**The following table shows the impact of each activity on total revenues:**

Description	2014	2013
Revenues of commercial activities	298.447	249.384
Revenues of investment activities	23.639	12.252
<b>Total Revenues</b>	<b>322.086</b>	<b>261.636</b>

**The following table shows the geographical analysis of sales<sup>7</sup>:**

Description	2014	2013
	In thousands of SAR	In thousands of SAR
Western Region sales	200.935	170.391
Central Region sales	91.253	75.712
Eastern Region sales	6.259	3.269
Outside of the Kingdom	-	12
<b>Total sales</b>	<b>298.447</b>	<b>249.384</b>

**The following table shows the geographical analysis of revenues:<sup>8</sup>**

Description	2014	2013
	In thousands of SAR	In thousands of SAR
<b>Retail sector revenues</b>		
Kingdom of Saudi Arabia	<b>298.447</b>	249,372
Outside of the Kingdom	-	12
	<b>298.447</b>	<b>249,384</b>
<b>Investment Sector revenues</b>		
Kingdom of Saudi Arabia	<b>1.060</b>	5,674
Arab Republic of Egypt	<b>22.579</b>	6,578
	<b>23.639</b>	<b>12,252</b>
<b>Total sales</b>	<b>322.086</b>	<b>261.636</b>

<sup>7</sup> Clause No. 4 of Article No. 43 – Listing Rules (The requirements of the Board of Directors' report)

<sup>8</sup> Clause No. 4 of Article No. 43 – Listing Rules (The requirements of the Board of Directors' report)

### **The Group's business segment results<sup>9</sup>:**

The activities of the parent company (Fitaihi Holding Company) and its subsidiary **Luxury Goods Trading Company Ltd** focus on the trade of gold, jewelry, precious goods, clothing, and accessories. The main activity of Sodouq Investment Holding Co. is the investment activities, while **Medmac Gulf Real Estate Investment Co.** focuses on real estate activities (has not started its operations yet). The principal activity of the **Mahabbat Commercial Company** is the retail of accessories and watches, while the activity of **Tawteen Saudi Company for Maintenance and Operation** is providing services of public maintenance and the maintenance of air conditioners, computers, cleaning and operation of factories, companies, buildings and shops, in addition to maintaining machinery, equipment and vehicles (also has not started its operations yet).

### **The segments of the Company's activities consist of the following:**

<b>2014</b> <b>In thousands of SAR</b>	<b>Commercial activity</b>	<b>Investment activity</b>	<b>Real estate activity</b>	<b>Total</b>
<b>Income</b>	298.447	23.639	-	<b>322.086</b>
<b>Gross profit from activity</b>	142.904	23.639	-	<b>166.543</b>
<b>Net income for the year</b>	20.790	23.639	-	<b>44.429</b>
<b>Assets</b>	419.784	420.784	69	<b>840.637</b>
<b>Liabilities</b>	73.652	-	-	<b>73.652</b>

<sup>9</sup> Clause No. 1 of Article No. 43- Listing Rules (The requirements of the Board of Directors' report)

<b>2013</b>	<b>Commercial activity</b>	<b>Investment activity</b>	<b>Real estate activity</b>	<b>Total</b>
<b>In thousands of SAR</b>				
<b>Income</b>	249.384	12.252	-	<b>261.636</b>
<b>Gross profit from activity</b>	123.467	12.252	-	<b>135.719</b>
<b>Net income for the year</b>	23.463	12.252	-	<b>35.715</b>
<b>Assets</b>	428.592	344.314	169	<b>773.075</b>
<b>Liabilities</b>	67.899	-	-	<b>67.899</b>

**The following table shows the names of the affiliated companies, their main activity, the location of their main headquarters and the country where they were established:**<sup>10</sup>

	Luxury Goods Trading Co. Ltd	Medmac Gulf Real Estate Investment Co. Ltd	Sodouq International Investment Holding Co. Ltd	Mahabbat Commercial Co. Ltd	Tawteen Saudi Company for Maintenance and Operation Ltd
<b>Main activity</b>	Sale and purchase of precious metals, precious stones and jewelry.	Purchasing lands for the purpose of building thereupon and investing them via sale or rent for the benefit of the company and the management and development of the real estate.	Participating in the establishment of companies and investments with a ratio enabling the company to administer and control these companies.	Wholesale and retail trade in accessories, watches, household utensils, tableware, antiques, mirrors, and ready-made clothing.	Providing public maintenance services, and maintaining air-conditioners, cleaning, operation for factories, companies, buildings, shops and the maintenance of the machinery, equipment, vehicles and devices, in addition to commercial services and export and marketing to other countries
<b>Ownership</b>	<b>80%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>Status</b>	Operating	Does not practice activity currently	Operating	Operating	Does not practice activity currently
<b>Capital - SAR</b>	5 million	100 million	100 million	100 thousand	100 thousand
<b>No. of shares owned</b>	40,000	100,000	100,000	100	100
<b>Loans to affiliates - SAR</b>	12.08 million	-	5.99 million	7.66 million	-
<b>Loans from affiliated companies -</b>			85.28 million		

<sup>10</sup> Items No. 7 & 8 of Article No. 43- Listing Rule (The requirements of the Board of Directors' report)



<b>SAR</b>					
<b>Main headquarters</b>	Jeddah	Jeddah	Jeddah	Jeddah	Jeddah
<b>Country of establishment</b>	Kingdom of Saudi Arabia	Kingdom of Saudi Arabia	Kingdom of Saudi Arabia	Kingdom of Saudi Arabia	Kingdom of Saudi Arabia

## **Chapter 7: Investments**

### **International Medical Center (IMC):**

The capital of the IMC is 689 million SAR, of which a percentage of 19.34% is owned by Fitaihi Holding Group.

Since the opening of the IMC Hospital in 2006, by the honorable Custodian of the Two Holy Mosques, King Abdullah bin Abdul Aziz, its operators are working to achieve its mission of making it a unique form of health care in the region. Year after year, pioneering achievements are added to this vital sector of society. In 2011, the IMC Hospital had the honor of holding the leading position, being the first entity in the Kingdom to join the UN Charter for responsible management practices, and for issuing its first report on social responsibility, ratified by the GRI of the United Nations, with (A) grade. This makes the IMC the first health entity in the Kingdom and in the world, to be awarded such a classification. Thus, the IMC was chosen for the King Khalid Award for Responsible Competitiveness by the Saudi competitiveness index this year.

Achieving its message to follow the best international standards of medical treatment, the Hospital has received the approval of the Joint Commission International (JCI) of health services quality in 2008, with the highest success rates in the region. Moreover, the concept of "healing by design" adopted by the IMC Hospital received the Makkah Award for Excellence in 2011, sponsored by His Royal Highness Prince Khalid Al-Faisal bin Abdul Aziz Al Saud, Governor of Makkah Region. The award for the best hospital design in the Middle East was granted by the World Hospital Build and Infrastructure Conference in 2011, in addition to the award for the best reference laboratories in the Middle East within

the Arab Health Congress in 2012, and the award for the best health entity in the Kingdom within the classification of Thompson House for Publication in 2011.

On the medical level, the hospital continues to attract world expertise in sub-specialties, helping to build centers for excellence at the region level. In 2014, the intermediate and intensive cardiac care unit was opened with a total capacity of ten beds, in addition to the Lithotripsy Unit, equipped with the latest international technologies. Further, the medical imaging and radiology center has been equipped with one of the latest CT-Scan imaging devices in the world, making it a pioneer in the field of modern diagnostic techniques in the Middle East.

On the operational level, more than half a million visits have been registered in the outpatient clinics, in addition to 23,000 admission status in 2014, with an increase of over 4.5% compared with 2013. More than 10,000 surgeries have been performed, including the complex surgical processes in the sub-specialties, such as the cardiology, blood vessels, neurology, spine, and orthopedics, making the IMC a pioneer in such specialties, at the regional level.

The IMC, in 2014, seek, within its strategic plan, to get a new accreditation from the International Joint Commission and the Australian Council for Quality, and got the highest appreciation in the whole region. It also about to operate an outpatient complex in the north of Jeddah, and started a study of the Medical Tower Project, including the expansion of the outpatient and admission section.

The IMC has witnessed a high growth in its revenues, having a significant impact on improving profitability. The Board of Directors of the IMC, during its AG meeting held on 11 October 2010, based on the achievements of the IMC, as an appreciation of the role played by the Chairman of the Board of Directors, Dr. Walid Ahmed Hassan Fitaihi, since the establishment of the Company, issued a

recommendation that was approved unanimously, that the share of Dr. Walid Ahmed Hassan Fitaihi in the IMC's capital should be increased to 10%, by transferring 10% of the annual profits (before interests, consumption, amortization and zakat) to Dr. Walid Ahmed Hassan Fitaihi, starting from 2010, periodically until his share reaches the 10% of the capital, and provided that the capital is increased from 638.58 million SAR to 689.93 million SAR gradually, and according to his share in those profits, on an annual basis.

By applying such a mechanism, the capital of the IMC was increased, during the fiscal year 2014, from 670.024 million SAR to 689.93 million SAR, so as to increase the share of Dr. Walid Ahmed Hassan Fitaihi in the capital from 3.86% to 6.76 %, representing his share in the profits for 2012. It is also expected to increase the capital during the fiscal year 2014 from 670.24 million SAR to 689.93 million SAR, and thus increasing the share of Dr. Walid Ahmed Hassan Fitaihi in the capital of IMC, i.e. from 6.76% to 9.42%, representing his share in the profits for 2013.

### **Al-Jouf Agriculture Development Co.**

A Saudi joint stock company with a paid up capital 300 million SAR. The main business of the project is the agricultural and animal products. The project location is in best area of the kingdom regarding its rich soil, climate as well as water. The project area is 60,000 hectares, and focuses on different corps and products such as wheat, potato, onion, fruits, honey bee, yellow corn, olive, and olive oil. This investment is in line with the Group's strategy of diversification of activities in different vital sectors.

### **Luxury Goods Trading Co. Ltd (LGTC):**

The share of Fitaihi Holding Group in the capital of the Luxury Goods Trading Co. Ltd. amounts to 80% of its total capital, or 5 million SAR, while the rest of 20% is owned by Dr. **Mohammed Ahmed H. Fitaihi**. The LGTC has operating assets of 27.1 million SAR. The financial statements for the year 2014 also reflect the integration of the figures of **LGTC's** results with Fitaihi Holding Group's figures.

It is worth mentioning that the **LGTC** operates in the sale and purchase of precious metals, precious stones and jewelry, and was founded in Jeddah on 16/04/2004, and it has 18 outlets, in Riyadh, Jeddah, Khobar, Medina, Dammam and Al-Ahsaa, carrying the brand names of (Fitaihi Junior), (Baby Fitaihi) and (Mamlouki). Moreover, the Company is pursuing an ambitious plan in order to increase its geographic expansion by opening more branches inside and outside the Kingdom of Saudi Arabia.

Through the last years, **LGTC** received many regional and local awards, from the World Competitiveness Forum held in Riyadh, the World "Self-Made" Conference, held in Istanbul and Dubai, and from Forbes Magazine M.E.

Eng. **Mohammed Fitaihi** has obtained recently, in December 2014, the doctoral degree in Business Administration from WALDEN University in USA.

### **Mahabbat Commercial Company Ltd.:**

In the framework of the restructuring of the Group's activities, the Group has founded "Mahabbat Commercial Company" with a capital of 100 thousand SAR in order to organize the trade of accessories under a separate legal entity, so that the Company shall be able to set goals, strategies and a business plan for this activity,

as well as facilitating the attraction of the specialized human calibers thereof, and to improve the measurement accuracy of the performance specifically for the activities in which the group operates . This was done by transferring the assets and obligations of all of Fitaihi Holding Group's branches that operate in the accessories activity to Mahabbat Commercial Company. Mahabbat Commercial Company currently has 22 branches, in Jeddah, Riyadh, Khobar and Makkah, all of which carry the brand name "Tatto Tatti," the well-known name in the field of women's accessories, watches and gifts. More branches are currently to be opened in the different cities of the Kingdom, under the brand names "Tatto Tatti" and "Laura Manitti."

#### **Tawteen Saudi Company for Maintenance and Operation Ltd.:**

In the framework of the restructuring of the Group's activities, the Group has also founded "Tawteen Saudi Company for Maintenance and Operation Ltd. with a capital of 100 thousand SAR, in order to provide the services of general maintenance and the maintenance of air conditioners, computers, cleaning, operation of factories, companies, buildings, and shops, in addition to maintaining machinery, equipment, vehicles, and devices. (has not started its operational activity yet).

## **Investments:**

**The following table shows the Group's investments as of 31/12/2014:**

(Figures in Thousands of SAR)

	<b>2014</b>			<b>2013</b>
	<b>Quoted ownership of shares in the stock market</b>	<b>Non-quoted ownership of shares in the stock market</b>	<b>Total</b>	<b>Total</b>
<b>Cost:</b>				
Beginning of year	154,763	164,363	<b>319,126</b>	273,067
Additions	59,046	-	<b>59,046</b>	217,089
Redemptions	(27,900)	-	<b>(27,900)</b>	(171,030)
End of year	185,909	164,363	<b>164,363</b>	350,272
<b>Unrealized gains from Investments available for sale:</b>				
Beginning of year	25,188	-	<b>25,188</b>	(6,739)
Net transactions through the year	45,324	-	<b>45,324</b>	31,927
End of year	70,512	-	<b>70,512</b>	25,188
<b>Book Value</b>	256,421	164,363	<b>420,784</b>	344,314

### **Dar Al-Fouad Hospital:**

Dar Al-Fouad Hospital in Egypt is deemed to be a pioneer in cardiothoracic surgery, vascular neurosurgery and organ transplants, in addition to providing integrated medical services through 1360 members of the medical, administrative and nursing staff in all specialties.

### **Sodouq International Investment Holding Co., the investment arm of Fitaihi Holding Group, owns long-term strategic investments as follows:**

#### **Oriental Weavers Carpet Co.:**

The Oriental Weavers Co. in Egypt is the largest producer of mechanical carpets in the world, founded in 1980. It is worth mentioning that the Oriental Weavers Co. exports more than 60% of its production to nearly 130 countries through its distribution outlets located in Egypt, the United Kingdom, the United Arab of Emirates and the United States.

#### **Arab Ceramic Company (Aracemco):**

The Aracemco Co., founded in 1975, in the Arab Republic of Egypt and operates in the field of ceramic industries and sanitary fixtures. The factories of the company are producing with full capacity in order to satisfy the requirements of the Egyptian and Middle East markets, in addition to develop contemporary models to coup with customers' taste.



### **Dividends distribution policy:**<sup>11</sup>

- 1) Ensuring the provision of the necessary liquidity to fulfill all the operational and investment expenses of the Company, comes on top of the Company's priorities, taking into account the prevailing conditions of the Company, future investment patterns, Company's growth and the economic climate, as well as the volume of available liquidity, the financial needs of the Company and available investment opportunities.
- 2) Dividends are distributed annually on the recommendation of the Board of Directors, and after the approval of the General Assembly of the Company's shareholders on the distribution and its method (within six months after the end of each fiscal year). Therefore, the Company's annual net profits shall be distributed after deducting all the general expenses and other costs as follows:
  - a) Setting-aside (10%) of the net profits to form a statutory reserve, while the General Assembly can stop this setting-aside of profits when the reserve reaches half of the capital.
  - b) The General Assembly can set aside (1%) of the profits to form other reserves.
  - c) After that, and from the rest of net profits, a first payment equal to (5%) can be distributed to shareholders.
  - d) After all the above points, the remuneration of the Board of Directors will be allocated, while the rest of the net profits can be distributed thereafter to the shareholders as an additional share of dividends.

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<sup>11</sup> Clause No. 9 of Article No. 43- Listing Rules (The requirements of the Board of Directors' report)

- 3) Dividends are distributed to shareholders listed, in the Central Depository Center, at the end of the trading session of the day of the General Assembly meeting that approves the distribution.

**The interests and rights of the members of the Board of Directors, senior executives and stakeholders in shares:<sup>12</sup>**

Name	Shares at the start of 2014		Shares at the end of 2014		Net change during the year of the shares owned	
	No. of shares	%	No. of shares	%	No. of shares	%
Ahmed Hassan Ahmed Fitaihi	12,500,000	22.73%	12,545,000	22.81%	45,000	<b>0.08%</b>
Eng. Mohammed Ahmed Hassan Fitaihi	1,102,493	2%	1,102,493	2%	0	0.00%
Dr. Ibrahim Hassan Al Madhoun	1,000	0.0018%	10,000	0.0018%	0	0.00%
Dr. Mohammed Hassan Ikhwan	2,650	0.005%	4,000	0.007%	1,350	<b>0.002%</b>
Eng. Abdulmalik Abdullah Fathaddin	1,000	0.0018%	10,000	0.0018%	0	0.00%
Mr. Majed Diaa-u-ddin Karim	1,100	0.002%	1,100	0.002%	0	0.00%
Mrs. Maha Ahmed Hassan Fitaihi	549,996	1%	549,996	1%	0	0.00%
Mr. Hussein Ali Hussein Yarimi*	10,340	0.02%	10,340	0.02%	0	0.00%
Ms. Shahira Abdulhay Gari**	22	0%	22	0%	0	0.00%

\* Mr. Hussein Ali Hussein Yarimi works as the Director of the Jewelry Sector at Fitaihi Holding Group.

\*\* Ms. Shahira Gari is the Deputy Director General of the of ladies' branches.

<sup>12</sup> Item 11 No. of Article No. 43 - Listing Rules (The requirements of the Board of Directors' report)

**The following table shows the number of shares owned by the wives of the members of the Board of Directors, senior executives and their relatives:**<sup>13</sup>

Wives and sons names	Relationship	Board Member or executive	Shares Qt.	Ownership%
Mrs. Thoraya Jamil Attar	Wife	Ahmed Hassan Fitaihi	549,996	1%
Dr. Walid Ahmed Hassan Fitaihi	Son	Ahmed Hassan Fitaihi	1,102,493	2%
Mr. Hassan Ahmed Hassan Fitaihi	Son	Ahmed Hassan Fitaihi	1,099,993	2%
Ms. Huda Ahmed Hassan Fitaihi	Daughter	Ahmed Hassan Fitaihi	549,996	1%

\*\* It is worth mentioning that the above-mentioned ownership percentages did not change during the fiscal year 2014.

Dr. Walid Ahmed Hassan Fitaihi heads the Board of Directors of the IMC Hospital Co. (one of the investments of Fitaihi Holding Group), and owns 9.42% of the Hospital's capital. He is a first-degree relative to the Chairman of the Board of Directors of Fitaihi Holding Group.

Dr. Mohamed Ahmed Hassan Fitaihi, Member of the Board of Directors, holds the position of the CEO of the “Luxury Goods Trading Co. Ltd” (one of the subsidiaries of Fitaihi Holding Group) and he owns 20% of its capital. His total salaries and other advantages, for the management of this Company during the fiscal year 2014 amounted to 1,368,011 SAR.

<sup>13</sup> Clause No. 11 of Article No. 43 - Listing Rules (The requirements of the Board of Directors' report)

It is worth mentioning that 2 shareholders having interests in the class of shares with the right to vote, attributed to people (except for Board Members, senior executives, their wives and relatives) have informed the Company of those rights under Article No. 45 from the Listing Rules, or any change in those rights during the last fiscal year.<sup>14</sup>

<b>Shareholder's Name</b>	<b>Notification Date</b>	<b>QTY before change</b>	<b>QTY after change</b>	<b>Percentage owned as of 31/12/2014</b>
<b>Riadh Mohammad A. Alhumaidan</b>	10/06/2014	4.73%	5%	<b>8.77%</b>
	23/07/2014	5%	6%	
	16/10/2014	6%	7%	
	14/12/2014	7%	8%	
<b>Rasheed Rashid Saad Bin-Owain</b>	05/08/2014	4.96%	5%	<b>Less than 5%</b>

The Company has not issued any convertible instruments or any contractual securities. No subscription rights memoranda or similar rights, were issued or granted by the company during the fiscal year 2014.<sup>15</sup>

The Company did not issue any subscription or conversion rights under convertible debt instruments to shares or contractual securities. No choice

<sup>14</sup> Clause No. 10 of Article No. 43 - Listing Rules (The requirements of the Board of Directors' report)

<sup>15</sup> Clause No. 13 of Article No. 43 - Listing Rules (The requirements of the Board of Directors' report)

rights, subscription rights memoranda or similar rights were issued or granted by the Company during the fiscal year 2014<sup>16</sup>.

The Company has not performed any refund, purchase or cancellation of refundable debt tools, nor of the rest of the securities, and do not distinguish between the listed securities purchased, and those purchased by its subsidiaries during the fiscal year 2014.<sup>17</sup>

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<sup>16</sup> Clause No. 14 of Article No. 43 - Listing Rules (The requirements of the Board of Directors' report)

<sup>17</sup> Clause No. 15 of Article No. 43 - Listing Rules (The requirements of the Board of Directors' report)

## **Chapter 8: The Board of Directors**

**The Board of Directors, in its sixth cycle, consists of seven members as follows, whose membership is in effect till 21/04/2016.<sup>18</sup>**

<b>Board Member's name</b>	<b>Position</b>	<b>Independent</b>	<b>Executive</b>	<b>Non-executive</b>
Ahmed Hassan Ahmed Fitaihi	Chairman of the Board		a	
Dr. Ibrahim Hassan Al Madhoun	Board Member	a		
Dr. Mohammed Hassan Ikhwan	Board Member	a		
Eng. Abdul Malik Abdullah Fathaddin	Board Member	a		
Mr. Majed Daa-u-ddin Fadul Karim	Board Member	a		
Dr. Mohamed Ahmed Hassan Fitaihi	Board Member		a	
Mrs. Maha Ahmed Hassan Fitaihi	Board Member			a

### **Communication with shareholders and investors:-**

The Group recognizes the importance of communicating with its shareholders, providing them with information, and keeping with the principle of disclosure and transparency, the group has made the following:

- Publication of the quarterly financial statements and final accounts for the fiscal year 2014, on Tadawul website, and also publishing them in two

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<sup>18</sup> Clause (C) of Article No. 9 - Corporate Governance Regulations (Disclosure in the Board of Directors' report)

newspapers of the Kingdom of Saudi Arabia, within the time limits set the rules.

- Compliance with the advertisements format, determined by the Capital Market Authority and the material information that must be included therein, and the dates of publication of such advertisements.
- Preparing the Board of Directors' Annual Reports, in accordance with the disclosure requirements and the reference model prepared by the Capital Market Authority.
- All the Company's shareholders, without exception, can read the minutes of the meetings of the General Assemblies of the Company, and any annual reports of the Board of Directors, either in person or by requesting them to be sent via e-mail or fax.

**Board of Directors' undertaking as required by the Corporate Governance Regulations:**

The Listing Rules and the Corporate Governance Regulations, issued by the Capital Market Authority, emphasize the need of disclosure, in the Board of Directors' Annual Report, of all the required items according to the annual report model prepared by the CMA. In case of the non-application of any of its paragraphs, it shall be mentioned in the report, along with a written explanation in Disclosure Form No. (4) & (8), and reporting to the CMA about it. Accordingly, we would like to indicate that the Group has disclosed in this report the applicable requirements. The Board of Directors also confirms that the following subjects are not applicable to the Group, and that the Board shall disclose them, upon application or occurrence:



- The Group does not currently apply the Optional Rights Plans.
- The Group has not converted its debt instruments to shares
- There have been no agreements or waivers with any of the shareholders or one of the Group's executives or officers or any of its subsidiary companies, hereby assigning their rights in the profits or in any other essential interest. However, it is worth mentioning that the Chairman of the Board and Chief Executive Officer Shk. Ahmed Hassan Fitaihi has not received any allowances or remunerations during the fiscal year 2014 (without a contract or waiver agreement).<sup>19</sup>

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<sup>19</sup> Clause No. 19 and No. 20 of Article No. 43 - Listing Rules (The requirements of the Board of Directors' report)

### **Senior executives' remunerations and compensations:<sup>20</sup>**

The following table shows the details of the remunerations paid and compensations for each of the members of the Board of Directors and for the five senior executives who received the highest remunerations and compensations from the Group (including the Chief Financial Officer):

<b>Description</b>  (figures in SAR)	<b>Members of the Executive Board</b>  <b>Dr. Mohamed Ahmed Fitaihi</b>	<b>Non-executive or independent Members of the Board</b>	<b>Five senior executives who received the highest remunerations and compensations</b>  (Including the Chief Financial Officer)
Salaries and compensations	720,000	-	2,127,733
Allowances	252,000	-	752,360
Annual and periodic incentives and rewards		-	444,476
Monthly and annual paid compensations of other in-kind advantages	396,011	-	<b>A car for the regional director in Riyadh, the marketing director and the development manager.</b>

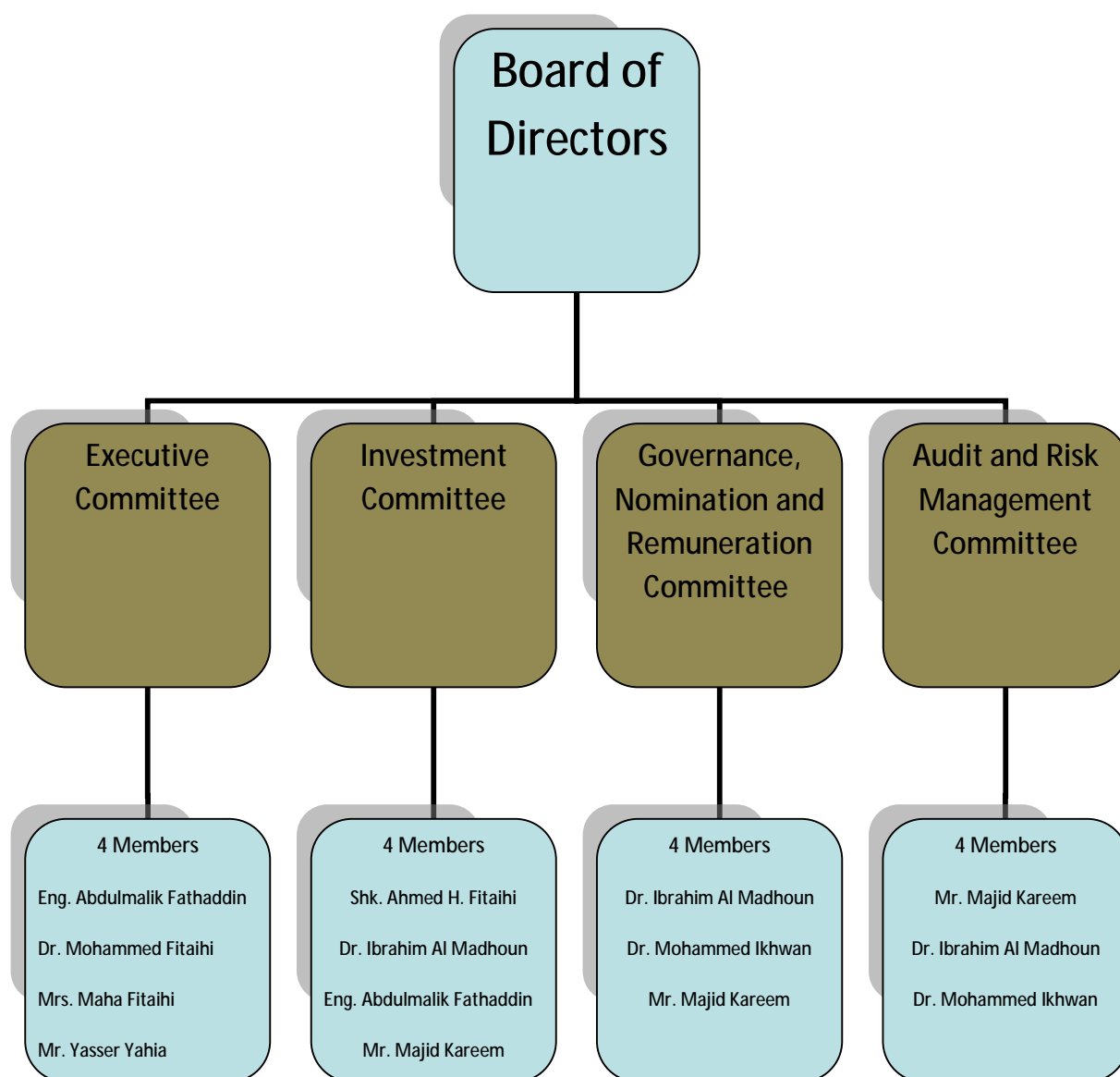
Worth mentioning that the Chairman of the Board and Chief Executive Officer Shk. Ahmed Hassan Fitaihi has not received any allowances or remunerations during the fiscal year 2014 (without a contract or waiver agreement).<sup>21</sup>

The attendance allowances of the meetings of the Board of Directors and its related committees, in the year 2014, amount to SAR 187,500.

<sup>20</sup> Clause No. (F) 1 and 2 of Article No. 9 - Corporate Governance Regulations (Disclosure in the Board of Directors' report)

<sup>21</sup> Clause No. 19 and No. 20 of Article No. 43 - Listing Rules (The requirements of the Board of Directors' report)

**Board of Directors and its subcommittees:**



### **The Meetings of the Board of Directors:**<sup>22</sup>

In order to enhance the work of the Board of Directors of the Group, the Board of Directors held during its sixth cycle, through the year 2014, six meetings as detailed herein under:

<b>Member's name</b>	<b>position</b>	<b>1<sup>st</sup> meeting 19/01/2014</b>	<b>2<sup>nd</sup> meeting 14/04/2014</b>	<b>3<sup>rd</sup> meeting 13/07/2014</b>	<b>4<sup>th</sup> meeting 17/07/2014</b>	<b>5<sup>th</sup> meeting 28/09/2014</b>	<b>5<sup>th</sup> meeting 15/10/2014</b>	<b>Total</b>
<b>Ahmed Hassan Ahmed Fitaichi</b>	Chairman	a	a	a	a	a	a	<b>6</b>
<b>Dr. Ibrahim Hassan al-Madhoun</b>	Member	a	a	a	a	a	a	<b>6</b>
<b>Dr. Mohammed Hassan Ikhwan</b>	Member	a	a	a	a	a	a	<b>6</b>
<b>Eng. Abdulmalik Fathaddin</b>	Member	a	a	a	a	a	a	<b>6</b>
<b>Mr. Majed Daa-u-ddin Karim</b>	Member	a	a	a	a	a	a	<b>6</b>
<b>Dr. Mohammed Ahmed Fitaichi</b>	Member	a	a	a	a	a	a	<b>6</b>
<b>Mrs. Maha Ahmed Fitaichi</b>	Member	a	a	a	a	a	a	<b>6</b>

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<sup>22</sup> Clause No. 16 of Article No. 43 - Listing Rules (The requirements of the Board of Directors' report)

**The most important resolutions and recommendations of the Board of Directors during the fiscal year 2014:**

Sr.	Date of Resolution	Content of Resolution
1	03/04/2014	Partial selling of the shares owned by the Group in Oriental Weavers Carpet Co.
2	28/09/2014	Takeover of the brand name Le Panache'.
3	20/01/2015	Board of Directors' recommendation not to distribute dividends for the fiscal year ending on 31/12/2014; in order to support the expansion in the Company's activities, as the Company is self-independent in financing its activities.

### **The participation of the Board of Directors in the membership of the Boards of Directors of other joint stock companies:**<sup>23</sup>

Some of the members of the Board of Directors are members of the Boards of Directors of other joint stock companies. The table below identifies the names of these members and the names of these joint stock companies:

<b>Name</b>	<b>Names of the joint stock companies</b>
Mr. Ahmed Hassan Ahmed Fitaihi	- Sukoon International Co. Chairman of the Board of Directors
Dr. Ibrahim Hassan Al-Madhoun	- Red Sea Housing Services Co. - Almarai Company - Herfi Food Services Co. - Al-Obaikan Group for Investment
Dr. Mohammed Ali Hassan Ikhwan	- Gulf General Cooperative Insurance Company - Red Sea Housing Services Company - National Gas & Industrialization Co.
Mr. Majed Diaa-u-ddin Fadul Karim	- Gulf General Cooperative Insurance Company - Hanco (Al Tala'a International Transportation Co. Limited
Mrs. Maha Ahmed H. Fitaihi	- Oriental Weavers Carpet Co. - Egypt - Arab Ceramic Company - Egypt

### **Sub-Committees of the Board of Directors:**<sup>24</sup>

There are four sub-committees of the Board of Directors, of which their members were appointed by the Board of Directors. These committees help the Board of Directors and the executive management in performing their roles, in order to achieve the objectives of the Group.

**The details are as the following:**

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<sup>23</sup> Clause (B) of Article No. 9 - Corporate Governance Regulations (Disclosure in the Board of Directors' report)

<sup>24</sup> Clause (D) of Article No. 9 - Corporate Governance Regulations (Disclosure in the Board of Directors' report)

### **1. The Audit and Risk Management Committee:**

The Audit Committee is formed of non-executive members of the Board of Directors and includes specialists in financial and accounting affairs to validate the adequacy of the Internal Audit Systems and their effective performance, and to provide any recommendations to the Board of Directors that will activate and develop the systems to achieve the objectives of the Group, and protect the interests of shareholders and investors. During the third extraordinary General Assembly held on 6/5/2008, the shareholders approved the selection rules of the members of the Audit Committee, the Remuneration Committee, the term of their membership (which is 3 years, expiring at the end of the term of the Board of Directors) in addition to the style of work of both committees in accordance with Articles No. 14 and No. 15 of the Corporate Governance Regulations issued by the Capital Market Authority. The Committee consists of 3 members from the Board of Directors, as shown in the following table:

<b>Name</b>	<b>Position</b>
Mr. Majed Daa-u-ddin Karim	Head of Committee (Board member)
Dr. Ibrahim Hassan Al-Madhoun	A member of the Committee (Board member)
Dr. Mohammed Hassan Ikhwan	A member of the Committee (Board member)

### **A summary of the roles and responsibilities of the Audit Committee:**

1. Supervision of the Internal Audit Department of the Company in order to verify its efficiency in performing the work and missions assigned by the Board of Directors.
2. Survey of the internal auditing system and develop a written report to indicate its views and recommendations in this regard.
3. Study of the internal audit reports and monitor the performance of the remedying procedures of the notes provided in it.

4. Make recommendations to the Board of Directors on assigning chartered accountants, replacing them and deciding on their remunerations. When recommending their assignment, the assurance of their independence must be taken into consideration.
5. Follow up the work of the chartered accountants, and approve any work beyond the scope of the audit assigned to them during the performance of the annual audit.
6. Study of the audit plan with the chartered accountant, and put additional notes (if any).
7. Study of the notes of the chartered accountant on the financial statements and follow up the procedures in this regard (if any).
8. Study of the initial and annual financial statements before presenting them to the Board of Directors, and express any views or recommendations.
9. Study of the applicable accounting policies, and express any views or recommendations.
10. Assess of the internal control system including the accounting system from both the theoretical and practical points of view.
11. Conduct of tests on a selected sample of financial operations of the Company.
12. Review and verification of the independence of the external auditors.
13. Study and solving of any problems that the external auditors may face during the audit operations.
14. Supervision of the relationship of the Company with the external auditors.



**The Audit and Risk Management Committee held (5) meetings during the fiscal year 2014 as follows:\*\***

Member's name	Position	1 <sup>st</sup> meeting 19/1/2014	2 <sup>nd</sup> meeting 15/2/2014	3 <sup>rd</sup> meeting 14/4/2014	4 <sup>th</sup> meeting 13/7/2014	5 <sup>th</sup> meeting 15/10/2014	Total
Mr. Majed Diaa-uddin Karim	Head	a	a	a	a	a	5
Dr. Ibrahim Hassan Al- Madhoun	member	a	a	a	a	a	5
Dr. Mohammed Ali Hassan Ikhwan	member	a	a	a	a	a	5

\*\* This is in addition to field visits to the branches and meetings with some of the Departments of the Company (especially the Finance Department) to supervise its work from time to time, and sometimes supervise the inventory taking as well.

Currently the Audit and Risk Management Committee is studying the offers of some Certified Public Accountants, who submitted their offers to audit the accounts of the Group for the fiscal year 2015, in order to select one of them. The Committee will recommend one of these offers to the General Assembly of the shareholders for the approval on the selection.

**2. The Governance, Nominations and Remunerations Committee:**

During the third extraordinary General Assembly held on 6/5/2008, the shareholders approved the selection rules of the members of the Audit Committee members and the Governance, Nominations and Remunerations Committee, the term of their membership (which is 3 years, expiring at the end of the term of the Board of Directors) in addition to the style of work of both committees in accordance with Articles No. 14 and No. 15 of the Corporate Governance Regulations issued by the Capital Market Authority. The

Committee consists of 3 members from the Board of Directors, as shown in the following table:

Name	Position
Dr. Ibrahim Hassan Al- Madhoun	Head of Committee (Board member)
Dr. Mohammed Ali Hassan Ikhwan	A member of the Committee (Board member)
Mr. Majed Diao-u-ddin Karim	A member of the Committee (Board member)

\*\* The Assembly General of the shareholders did not fix the remunerations for the members of this committee.

**A summary of the duties and responsibilities of the Governance, Remunerations, and Nominations Committee:**

1. Ensure the compliance of the Company with the requirements of the corporate governance guidelines of the Company, and all the rules and regulations issued by the competent authorities in this regard.
2. Present periodic reports to the Board of Directors on the aspects and points that have not been adhered to and express its recommendations for remedial or completing measures.
3. Work on the update of the corporate governance guidelines of the Company whenever there are any new organizational amendments or regulations, and notify the Board, the Committee Members and the executive directors about these amendments.
4. Ensure the distribution of the corporate governance guidelines to all the Board members, Committee members and the executive management staff, and explain its content when required.
5. Make recommendations on nominations for membership of the Board of Directors in accordance with the approved policies and standards, taking care not to nominate any person previously convicted of a crime involving abuse of confidence and lack of integrity.

6. The annual review of the appropriate skills required for membership of the Board of Directors, and the development of a description of the abilities and qualifications required for membership of the Board of Directors, including the time needed to perform the work assigned to the Board of Directors.
7. Review the structure of the Board of Directors and make recommendations regarding changes that can be made.
8. Identify the strengths and weaknesses of the Board of Directors and propose remedial actions in accordance with the interest of the company.
9. Ensure the independence of the members annually, and the absence of any conflict of interest, when any member of the Board of Directors also serves on the Board of any other company.
10. Develop clear policies for the remunerations and compensations of the members of the Board of Directors and senior executives. Standards related to performance are taken into consideration while developing these policies.

**The Remunerations, Nominations and Governance Committee held (4) meetings during the fiscal year 2014 as follows:**

<b>Member's name</b>	<b>Position</b>	<b>1<sup>st</sup> meeting 15/01/2014</b>	<b>2<sup>nd</sup> meeting 10/04/2014</b>	<b>3<sup>rd</sup> meeting 12/07/2014</b>	<b>4<sup>th</sup> meeting 15/10/2014</b>	<b>Total</b>
Dr. Ibrahim Hassan Al- Madhoun	Head	a	a	a	a	<b>4</b>
Dr. Mohammed Hassan Ikhwan	Member	a	a	a	a	<b>4</b>
Mr. Majed Daa-u-ddin Karim	Member	a	a	a	a	<b>4</b>

### **3. The Investment Committee:**

The essential duty of this Committee is to develop general principles for the investments of the Group by identifying investment controls and risk levels, and to evaluate the investment opportunities, then to make recommendations to the Board of Directors in this regard. The Committee consists of (4) members of the Board of Directors as provided in the following table:

<b>Name</b>	<b>Position</b>
Shk. Ahmed Hassan Fitaihi	Head of Committee (Chairman of the Board of Directors)
Dr. Ibrahim Hassan Al-Madhoun	A member of the Committee (a member of the Board of Directors)
Eng. Abdulmalik Abdullah Fathaddin	A member of the Committee (a member of the Board of Directors)
Mr. Majed Diaa-u-ddin Karim	A member of the Committee (a member of the Board of Directors)

The Investment Committee held (5) meetings during the fiscal year 2014, as follows:

<b>Member's name</b>	<b>Position</b>	<b>1<sup>st</sup> meeting 15/1/2014</b>	<b>2<sup>nd</sup> meeting 23/2/2014</b>	<b>3<sup>rd</sup> meeting 03/04/2014</b>	<b>4<sup>th</sup> meeting 01/07/2014</b>	<b>5<sup>th</sup> meeting 27/09/2014</b>	<b>Total</b>
Shk. Ahmed Hassan Fitaihi	Head	a	a	a	a	a	<b>5</b>
Dr. Ibrahim Hassan Al – Madhoun	Member	a	a	a	a	a	<b>5</b>
Eng. Abdulmalik Abdullah Fathaddin	Member	a	a	a	a	a	<b>5</b>
Mr. Majed Diaa Karim Al- Din	member	a	a	a	a	a	<b>5</b>

**Term of membership of the Committee:** 3 years, expiring at the end of the current cycle of the Board of Directors.

#### 4. **The Executive Committee:**

The Board of Directors formed a subcommittee, from members of the Board of Directors, so called the Executive Committee. The most important and essential duties of the Committee are the following:

- a. Review and assess the regulations and general strategies of work, and develop the objectives, operational plans and the annual budgets to be approved by the Board of Directors.
- b. Develop future plans, general budgets and administrative powers to be approved by the Board of Directors.
- c. Supervise performance in accordance with the regulations of the Company, and according to the strategies, plans and objectives approved by the Board of Directors, in an efficient way reflecting the work variables.
- d. Study and review the processes of procuring assets, operational expenditures, loan requests from banks and bank guarantees to be presented to the Board of Directors for ratification.
- e. Recruit the required staff and create the organizational and administrative structure including selection, appointment and dismissal of the executive levels. It is also entitled to delegate the executive officers to perform these duties.
- f. Perform any other duties assigned to it by the Board of Directors.

The Committee consists of (4) members as shown in the following table:

<b>Name</b>	<b>Position</b>
Eng. Abdulmalik Abdullah Fathaddin	Head of Committee (a member of the Board of Directors)
Dr. Mohamed Ahmed Hassan Fitaihi	A member of the Committee (a member of the Board of Directors)
Mrs. Maha Ahmed Hassan Fitaihi	A member of the Committee (a member of the Board of Directors)
Mr. Yasser Yahia Abdul-Hamid	A member of the Committee (Chief Financial Officer (CFO))

The Executive Committee held (4) meetings during the fiscal year 2014, as follows:

Member's name	Position	1 <sup>st</sup> meeting 26/2/2014	2 <sup>nd</sup> meeting 31/3/2014	3 <sup>rd</sup> meeting 3/6/2014	4 <sup>th</sup> meeting 11/10/2014	Total
Eng. Abdulmalik Abdullah Fathaddin	Head	a	a	a	a	4
Eng. Mohamed Ahmed Hassan Fitaihi	Member	a	a	a	a	4
Mrs. Maha Ahmed Hassan Fitaihi	Member	a	a	-	a	3
Mr. Yasser Yahia Abdul-Hamid	Member	a	a	a	a	4

**Term of membership of the Committee:** One year, renewable as per the resolution of the Board of Directors.

**Transactions with related parties:**<sup>25</sup>

1. The Company has entered into and concluded a lease contract for the sixth floor (for 5 years) with the Chairman of the Board of Directors H. E. Sheikh Ahmed Hassan Fitaihi, with a contract value of 404,404 SAR, after obtaining the consent from the General Assembly of the shareholders on 4/4/2012. The following are the most important conditions of the stipulated contract:
  - a. The annual rent for the sixth floor in the new building is 404,404 SAR, which is the highest average rental value estimated at the time.
  - b. The lease contract term is five calendar years (the contract may be extended for similar periods with increments of 25% in the annual rent in the second term of the contract.

<sup>25</sup> Clause No. 17 and No. 18 of Article No. 43 – Listing Rules (Requirements of the Board of Directors' report)

- c. The tenant shall pay the whole amount in the beginning of each lease year.
  - d. If either of the parties wishes not to renew the lease contract, the party shall give notice to the other, 3 months prior to the expiry date of the contract.
2. Dr. Mohamed Ahmed Hassan Fitaihi, a member of the Board of Directors, occupies the position of the General Manager of the Luxury Goods Trading Co. Limited, and owns 20% of its capital, while, Fitaihi Holding Group owns 80% of the capital.

**Regulatory due payments:**<sup>26</sup>

The following table shows the due payments for the Department Of Zakat & Income Tax for the fiscal year 2014, and it also shows the payments owing to the **General Organization for Social Insurance (GOSI)** for employees as of December 2014, and was paid on January 2015.

<b>Description – (Figures in thousands SAR)</b>	<b>2014</b>	<b>2013</b>
Zakat and Income Tax	11,477	11,811
The General Organization for Social Insurance	345	226
<b>Total of legal due payments</b>	<b>11,822</b>	<b>12,037</b>

<sup>26</sup> Clause No. 21 of Article No. 43 - Listing Rules (Requirements of the Board of Directors' report)

## **Chapter 9: – Human Resources**

The Group recruited and provided training for many Saudi calibers, which contributed significantly to increasing the percentage of Saudization of the Company to 47.64% at the end of 2014. This is considered to be a very good percentage by which the Company is classified in the Green color Category of the companies in “**Nitaqat**” Program generalized by the Ministry of Labor in the Kingdom of Saudi Arabia. Worth mentioning that the Group had identified the requirements of training to ensure the development of the skills and abilities of the employee as per the requirements of his/her job, in line with the Group's strategies, giving the priority of training to Saudi employees. The Group contributed in providing many job opportunities to a large number of Saudi girls and has trained them in the fields of accounting, marketing, sale of jewelry and luxury products, leadership skills and English language. The number of Saudi female in the Company has reached 218 employees in all departments and branches of the Company in Jeddah, Riyadh, Khobar, Yanbu and Makkah, which is 36.82% of the total number of the employees as of the end of 2014.



## **Chapter 10: Corporate Governance**

Fitaihi Holding Group always takes care to abide by the rules of the Corporate Governance which ensures the application of comprehensive internal control systems, transparency policies, and commitment to the principles of risk management. The Group uses the latest performance criteria in controlling the work performance, including the instructions issued by the Capital Market Authority and the Ministry of Industry and Trade. The Group has approved its Corporate Governance's Manual. Based on the two paragraphs (G) of Article No.1 and (A) of Article No. 9 of the Corporate Governance Regulations issued by the Capital Market Authority, the Group applies the Articles provided therein in respect of the following:<sup>27</sup>

1. The shareholders' and General Assembly's rights in terms of facilitating the practice of their rights and the information obtained, their rights during the Company's General Assemblies, their rights to vote, their rights in the share profits, the right to sell the shares, as well as the duty of the Executive Management to provide shareholders with all the accurate and comprehensive information to enable them to practice their rights to the fullest, in addition, these information are regularly updated at specific times without distinguishing among the shareholders.
2. The general policies of disclosure and transparency in the report of the Board of Directors.
3. The Board of Directors, its essential functions, responsibilities, formation, subcommittees, remunerations and conflict of interests.
4. The regular publication of the annual and quarterly financial reports for the fiscal years at specified dates on Tadawul.
5. The annual report of the Board of Directors in accordance with the Listing Rules issued by the Capital Market Authority, and according to regulations of the Corporate Governance.

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<sup>27</sup> Clause (A) of article No. 9 – Corporate Governance Regulations (Disclosure in the Board of Directors' Report)

6. Compliance with the advertisement format that the Capital Market Authority has identified and with the dates of publishing of the essential information in accordance with the instructions of the CMA regarding the corporate advertisements.
7. The members of the Board of Directors have signed the covenants, undertakings and disclosure forms that are required by the Capital Market Authority.
8. Compliance with all the amendments made by the Capital Market Authority in the Corporate Governance Regulations.

**The provisions of the Corporate Governance Regulations which are not applied:**<sup>28</sup>

1. Paragraph (D) of Article No. 12 in the Corporate Governance Regulations states: "It is prohibited to combine between the position of the Chairman of the Board of Directors and any other executive position in the Company such as Managing Director or Chief Executive Officer or Director General". However, the Chairman of the Board of Directors is H. E. Sheikh Ahmed Hassan Fitaihi occupies the position of the Chief Executive Officer as well. This is due to the difficulty in locating candidates with the required competences and expertise appropriate for performing the duties of the Chief Executive Officer, at the present time, in an activity similar to that of Fitaihi Holding Group. Nevertheless, the efforts continue to find the ideal candidate to occupy this position and reduce the burdens on the Chairman. The Board of Directors had constituted a subcommittee called the Executive Committee which consists of 4 members, 3 of them serving as members of the Board of Directors, while the fourth member occupies the position of CFO, in order to follow up the operational matters and to supervise the quality of the implementation of the recommendations and resolutions of the Board of Directors and its subcommittees, and to perform many of other duties indicated in the paragraph of the Executive Committee.

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<sup>28</sup> Clause (A) of Article No. 9 - Corporate Governance Regulations (The disclosure in the Board of Directors' Report)

2. Paragraph No. (B) of Article No. 10 of the Corporate Governance Regulations: “To ensure the application of appropriate control systems for risk management by identifying a general view about risks that Company might face, and develop them transparently”. The Audit and Risk Management Committee has expressed its views, in the Board of Directors' annual report for the fiscal year 2014, on the most important challenges and risks that the Group might face. The Board of Directors, its subcommittees and the Executive Management are administering these risks, but there is no comprehensive strategy or written policy for risk management for the entire Group and its subsidiary companies.

**Undertakings:**<sup>29</sup>

- The records of accounts were prepared properly.
- The internal control system was prepared on proper basis and was performed effectively.
- There is no doubt about the issuer for continuing its activities.
- The Company ensures compliance with the accounting criteria issued by the Saudi Organization for Certified Public Accountants.
- The Company confirms that it has not received any request from its external auditors to hold a General Assembly through the fiscal year.
- Fitaihi Holding Group asserts the lack of any loans (whether payable on demand or otherwise) as of the end of the fiscal year 2014. Accordingly no amounts were paid out for any loans during the fiscal year 2014.<sup>30</sup>
- The Company confirms that it has received no requests to hold a General Assembly, from shareholders holding 5% or more of the capital during the

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<sup>29</sup> Clause No. 23 of Article No. 43 – Listing rules (The requirements of the Board of Directors' Report)

<sup>30</sup> Clause No. 12 of Article No. 43 – Listing Rules (The requirements of the Board of Directors' Report)

fiscal year, or to add any other item(s) to the agenda of the General Assembly when drawn up.

- The Company confirms that it did not develop any procedure that may lead to hindering the exercise of the shareholders of their voting rights.
- The Company confirms that it was not subject to any penalty or reserve constraint from any supervising or organizing party or judicial authority during the fiscal year 2014.<sup>31</sup>
- The Company ensures that the shareholder has the right to gain a portion of the Companies' assets on liquidation, and the right to control the work of the Board of Directors, and to file a responsibility lawsuit against the members of the Board of Directors, according to the provisions of the Company's Statute.<sup>32</sup>
- No party, of legal status who acts on behalf of others, i.e. investment trusts, has requested to read the annual reports.
- There is no waiver agreement under which any of the shareholders of the company has waived rights in profits during the fiscal year 2014.<sup>33</sup>
- The shareholders have the right to receive their portion in the distributed profits, and to sell their shares, and to inquire about and ask for information without harming any of the interests of the Company or contradicting with the Capital Market Authority and its executive regulations.
- There are no investments or other reserves created for the sake of the Company's employees during the fiscal year 2014.<sup>34</sup>

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<sup>31</sup> Clause (F) of Article No. 9 - Corporate Governance Regulations (Disclosure in the Board of Directors report)

<sup>32</sup> Paragraph (A) of Article No. 3 - Corporate Governance Regulations (Disclosure in the Board of Directors report)

<sup>33</sup> Clause No. 20 of Article No. 43 – Listing Rules (The requirements of the Board of Directors' report)

<sup>34</sup> Clause No. 22 of Article No. 43 – Listing Rules (The requirements of the Board of Directors' report)

- The Company asserts that the report of the external auditor on the financial statements for the fiscal year 2014 did not include any reservations.<sup>35</sup>
- There is no recommendation from the Board of Directors to change the external auditor before the end of three consecutive financial years.<sup>36</sup>
- The re-formulation and update of the List of Rules of Business Conduct & Ethics of the Employees was completed, in accordance with the proper professional and moral criteria, and which regulates the relationship between them and the interest groups.
- The Company assures that it has not provided any monetary loans whatsoever to any of the members of the Board of Directors, and did not guarantee any loans for any one of them.
- There are no contracts or ongoing work to which the company is a party, and no interest has been paid to any of the members of the Board of Directors or the Chief Executive Officer or the CFO or to any other person other than what is provided for in this report.

**The Objectives of the Annual Audit for the Efficiency of Internal Control Procedures:**

- Achievement of the principal target of the Company represented in achieving profit.
- Ensure the documentation of all the financial operations of the Company.
- Commitment to the accounting criteria of measurement and disclosure.
- Protection of accounting records against access of unauthorized parties.
- Utilization of control methods which guarantee proper calculation of the accounting elements.

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<sup>35</sup> Clause No. 25 of Article No. 43 – Listing Rules (The requirements of the Board of Directors’ report)

<sup>36</sup> Clause No. 26 of Article No. 43 – Listing Rules (The requirements of the Board of Directors’ report)

- Compliance with the applicable regulations and rules that regulate the field of the company's activity.
- Compliance with the instructions of the governmental and controlling authorities that regulate the Capital Market in the KSA.
- Compliance with the applicable regulations in accordance with governance systems and the Articles of Incorporation of the Company.
- Commitment to the policies and administrative decisions that regulate the work of the Company.

**The results of the annual audit for the Efficiency of Internal Control Procedures:**<sup>37</sup>

The scope of the internal control includes the following policies and procedures which:

- Relate to keeping records in the way that ensures providing of detailed and accurate information and reflect the true transactions in the company's assets.
- Provide reasonable assurances that the recorded transactions allow the preparation of the financial statements in accordance with accounting principles in KSA.
- Provide reasonable assurances in relation with prohibiting or discovering, in the proper time, any unauthorized transaction in the company's assets that might have a considerable effect on the financial statements.

All the control systems, even if they very well designed, might not discover or prohibit all mistakes.

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<sup>37</sup> Clause (G) of Article No. 9 – Corporate Governance Regulations – (Disclosure in the Board of Directors' report)

All business cycles have been studied: revenues, inventory, suppliers' accounts, fixed assets, financial reports (including Zakat), wages and employment costs, and IT systems.

Some decisions have been taken regarding the development and improvement of the procedures and control activities related mainly to the business cycles of inventory, fixed assets and financial reporting.

It was recommended to continue the update of the computer systems, consolidating the systems used by all branches of the Company and the affiliated Companies. The Company is currently working on applying the new ERP system "Oracle E-business suite".

## **Chapter 11: Social Responsibility**

- The Group has contributed to the development of society by adopting and supporting many programs with value added for society including the following:
  1. Sponsorship of the Ceremony Honoring the Girl Guides of the KSA.
  2. Sponsorship of an event held at “Aloun Center” in Jeddah.
  3. Sponsorship of an event held at Quran Studies Section, for Memorizing Quran, Kind Abdulaziz University in Jeddah.
  4. Sponsorship of the ceremony of “Social Kinder Garden House” in Jeddah.

Fitaihi Holding Group is considered one of the leaders in providing job opportunities for girls, as it provided many job opportunities to Saudi girls and trained them on the fields of accounting, human resources, jewelry sales and luxury goods. There are 57 outlets for the Group in Jeddah, Riyadh, Khobar, Yanbu, Makkah, Al-Ahsaa and Medina for the retail of gold, jewelry, and luxury goods, in addition to branches for ladies’ accessories, staffed 100% with Saudi girls.

### **The main points of social responsibility provided in the Corporate Governance Regulations of the Group, are listed as follows:**

1. We provide our customers with the finest products and highest quality of service with the highest rates of safety.
2. We do not accept any illegal practices at work, and we adhere to transparency and honesty in all our works.
3. We provide a safe work environment for all the employees of the Group.
4. We contribute to serving our country by recruiting Saudi girls and young men, and through donations and charity contributions.



5. We provide the employees with continuous training courses in different fields by certified trainers.
6. We take care of the human, mental and health circumstances of all the Company's employees.
7. The Company established a playing court for employees near to their accommodation in Jeddah, and it sponsored most of the sports events in which our employees participated.
8. The Company believes that its investment in the medical projects is moral; as one of its objectives is serving the society.

## **Chapter 12: AG Meeting Agenda**

1. Approval of the Board of Directors' Report for the fiscal year ending on 31/12/2014, and all the information and proposals included therein.
2. Approval of the Auditor's Report and the consolidated financial statements for the fiscal year ending on 31/12/2014.
3. Approval of the Discharge of the Board of directors from their liability regarding their activities undertaken through the fiscal year ending on 31/12/2014.
4. Approval on the BOD recommendation of transferring the profits of the fiscal year 2014 to the retained earnings.
5. Renewal of the approval of the lease of the sixth floor of the new building, near to Fitaihi Center in Medina Road, to the Chairman of the Board of Directors, Shk. Ahmed Hassan Fitaihi, at an annual rent of 404,404 SAR for 5 years renewable in accordance with the conditions and details provided in the Board of Directors' Report for the fiscal year 2014.
6. Approval on the payment of attendance allowance for the BOD; (3000 SAR) for each board meeting/member, and (1500 SAR) for each sub-committee/member, a total amount of 187,500 SAR.
7. Approval on the audit fees and the appointment of the external auditor, who was selected by the Audit Committee, for the audit of the financial statements of the Group for the fiscal year 2015.

## **Conclusion**

The Board of Directors thanks the shareholders of the Group for their trust and assistance, and for their attendance at the meeting of the General Assembly, and the customers of the Group, for their trust, and the executive management of the Group, for their fruitful efforts and distinguished performance throughout the whole year.

At the end, we have to thank the Almighty Allah for His generosity and for the success that He granted us.

**The Board of Directors**

11/02/2015

Disclaimer: This is a translation of Fitaihi Board of Directors' Report for the fiscal Year 2014, while, as per the regulations, the Arabic version remains the only official copy.