

**RED SEA HOUSING SERVICES COMPANY AND SUBSIDIARIES**  
(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE  
THREE-MONTH PERIOD ENDED MARCH 31, 2016  
AND LIMITED REVIEW REPORT

**RED SEA HOUSING SERVICES COMPANY AND SUBSIDIARIES**  
**(A Saudi Joint Stock Company)**  
**INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2016**

	<b>Pages</b>
Limited review report	1
Interim consolidated balance sheet	2
Interim consolidated income statement	3
Interim consolidated cash flow statement	4
Interim consolidated statement of changes in shareholders' equity	5
Notes to the interim consolidated financial statements	6 - 12



## **LIMITED REVIEW REPORT**

April 20, 2016

To the shareholders of Red Sea Housing Services Company:  
(A Saudi Joint Stock Company)

### **Scope of review**


We have reviewed the accompanying interim consolidated balance sheet of Red Sea Housing Services Company (the "Company") and its subsidiaries (collectively referred to as the "Group") as of March 31, 2016 and the interim consolidated statements of income, cash flows and changes in shareholders' equity for the three-month period then ended, and the related notes which form an integral part of these interim consolidated financial statements. These interim consolidated financial statements are the responsibility of the Group's management and have been prepared by them and submitted to us together with all the information and explanations which we required.

We conducted our limited review in accordance with the standard of Review of Interim Financial Reporting issued by the Saudi Organization for Certified Public Accountants. A limited review consists principally of applying analytical procedures to financial data and information and making inquiries of persons responsible for financial and accounting matters. The scope of such limited review is substantially less than an audit conducted in accordance with auditing standards generally accepted in Saudi Arabia, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

### **Review conclusion**

Based on our limited review, we are not aware of any material modifications that should be made to the accompanying interim consolidated financial statements for them to be in conformity with accounting standards generally accepted in Saudi Arabia.

**PricewaterhouseCoopers**

By: 

Ali H. Al Basri  
License Number 409

**RED SEA HOUSING SERVICES COMPANY AND SUBSIDIARIES**  
**(A Saudi Joint Stock Company)**  
**Interim consolidated balance sheet**  
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	As at March 31, 2016 (Unaudited)	As at December 31, 2015 (Audited)	As at March 31, 2015 (Unaudited)
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents		121,596	58,837	98,475
Accounts receivable		265,243	350,471	171,460
Advances to suppliers		20,702	16,620	25,905
Contract work-in-progress		45,484	5,885	135,013
Inventories		233,495	178,186	191,627
Prepayments and other receivable		43,315	35,988	37,335
		<u>729,835</u>	<u>645,987</u>	<u>659,815</u>
<b>Non-current assets</b>				
Properties for rentals		542,625	611,354	608,577
Property, plant and equipment		225,992	223,353	224,260
Accounts receivable, non-current		67,028	64,778	-
Other non-current assets		39,901	40,154	37,768
		<u>875,546</u>	<u>939,639</u>	<u>870,605</u>
<b>Total assets</b>		<u>1,605,381</u>	<u>1,585,626</u>	<u>1,530,420</u>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Short-term borrowings		106,301	103,592	142,715
Current portion of medium-term borrowings		99,700	106,033	81,458
Accounts payable		50,924	51,780	67,665
Advances from customers		25,512	24,191	16,264
Accrued and other liabilities		87,961	99,426	85,580
Provision for zakat and income taxes		18,426	16,428	19,981
		<u>388,824</u>	<u>401,450</u>	<u>413,663</u>
<b>Non-current liabilities</b>				
Medium-term borrowings		153,830	172,583	91,146
Employee termination benefits		46,592	43,073	35,147
Other non-current liabilities		29,763	12,490	12,052
		<u>230,185</u>	<u>228,146</u>	<u>138,345</u>
<b>Total liabilities</b>		<u>619,009</u>	<u>629,596</u>	<u>552,008</u>
<b>Equity</b>				
Equity attributable to shareholders of the Company:				
Share capital		600,000	600,000	600,000
Statutory reserve		120,463	120,463	112,853
Retained earnings		332,911	300,832	322,383
Currency translation adjustments		(54,016)	(52,190)	(43,972)
Total shareholders' equity		<u>999,358</u>	<u>969,105</u>	<u>991,264</u>
Non-controlling interests		(12,986)	(13,075)	(12,852)
<b>Total equity</b>		<u>986,372</u>	<u>956,030</u>	<u>978,412</u>
<b>Total liabilities and equity</b>		<u>1,605,381</u>	<u>1,585,626</u>	<u>1,530,420</u>
<b>Contingencies and commitments</b>	4			

The accompanying notes from 1 to 4 form an integral part of these interim consolidated financial statements.

**RED SEA HOUSING SERVICES COMPANY AND SUBSIDIARIES**  
**(A Saudi Joint Stock Company)**  
**Interim consolidated income statement**  
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	Three-month period ended March 31,	
		2016 (Unaudited)	2015 (Unaudited)
Revenues		271,777	275,443
Cost of revenues		(196,656)	(208,285)
Gross profit		75,121	67,158
<b>Operating expenses</b>			
Selling and marketing		(13,767)	(10,840)
General and administrative		(22,059)	(21,888)
Income from operations		39,295	34,430
<b>Other income (expenses)</b>			
Financial charges		(3,219)	(2,113)
Financial income		379	184
Other, net		(1,373)	(121)
Income before foreign income taxes, zakat and non-controlling interests		35,082	32,380
Foreign income taxes		(764)	(239)
Zakat		(2,150)	(2,450)
Income before non-controlling interests		32,168	29,691
(Income) loss attributable to non-controlling interests		(89)	347
<b>Net income for the period</b>		<b>32,079</b>	<b>30,038</b>
<b>Earnings per share (Saudi Riyals):</b>	2.22		
Operating income		0.65	0.57
Net income for the period		0.53	0.50

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**RED SEA HOUSING SERVICES COMPANY AND SUBSIDIARIES**  
**(A Saudi Joint Stock Company)**  
**Interim consolidated cash flow statement**  
(All amounts in Saudi Riyals thousands unless otherwise stated)

	<b>Three-month period ended March 31,</b>	
	<b>2016</b>	<b>2015</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>Cash flows from operating activities</b>		
Net income for the period	32,079	30,038
<u>Adjustments for non-cash items:</u>		
Depreciation of property, plant and equipment and properties for rentals	27,126	29,319
Impairment for property, plant and equipment	1,020	766
Loss from disposal of property and equipment and properties for rentals	37	9
Income (loss) attributable to non-controlling interests	89	(347)
Provision for doubtful debts	(33)	(312)
Provision for slow-moving inventories	326	(304)
<u>Changes in working capital:</u>		
Accounts receivable	83,011	53,679
Advances to suppliers	(4,082)	(4,778)
Contract work-in-progress	(39,599)	643
Inventories	13,006	(7,323)
Prepayments, other receivable and other assets	(7,074)	(5,731)
Accounts payable	(856)	(25,119)
Advances from customers	1,321	(1,390)
Accrued and other liabilities	3,982	(14,814)
Provision for zakat and income taxes	1,998	2,224
Employee termination benefits	3,519	2,211
<b>Net cash generated from operating activities</b>	<b>115,870</b>	<b>58,771</b>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment and properties for rentals	(30,734)	(65,516)
Proceeds from disposal of property and equipment and properties for rentals	-	39
<b>Net cash utilized in investing activities</b>	<b>(30,734)</b>	<b>(65,477)</b>
<b>Cash flows from financing activities</b>		
Change in short-term borrowings	2,709	29,121
Proceeds from medium-term borrowings	5,806	15,000
Repayments of medium-term borrowings	(30,892)	(17,396)
<b>Net cash (utilized in) generated from financing activities</b>	<b>(22,377)</b>	<b>26,725</b>
<b>Net increase in cash and cash equivalents</b>	<b>62,759</b>	<b>20,019</b>
Cash and cash equivalents at beginning of period	58,837	78,456
<b>Cash and cash equivalents at end of period</b>	<b>121,596</b>	<b>98,475</b>

The accompanying notes from 1 to 4 form an integral part of these interim consolidated financial statements.

**RED SEA HOUSING SERVICES COMPANY AND SUBSIDIARIES**  
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**Interim consolidated statement of changes in shareholders' equity**  
 (All amounts in Saudi Riyals thousands unless otherwise stated)

	<b>Share capital</b>	<b>Statutory reserve</b>	<b>Retained earnings</b>	<b>Currency translation adjustments</b>	<b>Total</b>
<b>January 1, 2016 (Audited)</b>	600,000	120,463	300,832	(52,190)	<b>969,105</b>
Net income for the period	-	-	32,079	-	<b>32,079</b>
Currency translation adjustments	-	-	-	(1,826)	<b>(1,826)</b>
<b>March 31, 2016 (Unaudited)</b>	<b>600,000</b>	<b>120,463</b>	<b>332,911</b>	<b>(54,016)</b>	<b>999,358</b>
<b>January 1, 2015 (Audited)</b>	600,000	112,853	292,345	(34,261)	970,937
Net income for the period	-	-	30,038	-	30,038
Currency translation adjustments	-	-	-	(9,711)	(9,711)
<b>March 31, 2015 (Unaudited)</b>	<b>600,000</b>	<b>112,853</b>	<b>322,383</b>	<b>(43,972)</b>	<b>991,264</b>

The accompanying notes from 1 to 4 form an integral part of these interim consolidated financial statements.

**RED SEA HOUSING SERVICES COMPANY AND SUBSIDIARIES**  
**(A Saudi Joint Stock Company)**  
**Notes to the interim consolidated financial statements**  
**For the three-month period ended March 31, 2016 (Unaudited)**  
(All amounts in Saudi Riyals thousands unless otherwise stated)

**1. General information**

Red Sea Housing Services Company (the "Company") and its subsidiaries (collectively the "Group") consist of the Company, a Saudi joint stock company, and its Saudi and foreign subsidiaries and branches. The objectives of the Group, among others, are to purchase land and real estate for the purpose of developing them and to build residential and commercial buildings thereon, and to ultimately sell or lease them. The Group's objectives also include manufacturing non-concrete residential units, general contracting, maintenance, construction of utilities and civil work. In addition, the Group is also involved in manufacturing and sale of paints and providing related services.

The Company is a Saudi joint stock company registered in the Kingdom of Saudi Arabia under Commercial Registration No 4030286984, pursuant to Ministerial Resolution No. 2532 dated 2 Ramadan 1427 H (September 25, 2006). The registered address of the Company is Jeddah, Al Rawdah District, Prince Mohammad Bin Abdulaziz Street, Kingdom of Saudi Arabia.

The accompanying interim consolidated financial statements include the accounts of the Company and its following subsidiaries, operating under individual commercial registrations:

	<u>Country of incorporation</u>	<u>Effective ownership (%) at March 31,</u>	
		<u>2016</u>	<u>2015</u>
Red Sea Housing Services (Ghana) Limited ("RSG")	Ghana	100%	100%
SARL Red Sea Housing Services Algeria Limited ("RSA")	Algeria	98%	98%
Red Sea Housing Services Company Qatar LLC ("RSQ")	Qatar	49%	49%
Red Sea Housing Services Company Nigeria Limited ("RSN")*	Nigeria	97%	97%
Red Sea Housing Services Company Dubai FZE ("RSD")	UAE	100%	100%
Red Sea Housing Services Company Libya ("RSL")*	Libya	90%	90%
Red Sea Building Materials and Equipments Trading Company ("RSBM")	Saudi Arabia	100%	100%
Red Sea for Specialized Investments Company ("RSSI")*	Saudi Arabia	100%	100%
Premier Paints Company ("PPC")	Saudi Arabia	81%	81%
Red Sea Housing Services (Mozambique), LDA ("RSM")	Mozambique	100%	100%
Red Sea Housing Services LLC ("RSO")	Oman	100%	100%
Red Sea Housing Services Pty Ltd.	Australia	100%	100%
Red Sea Affordable Housing Company ("RSAHC")*	Saudi Arabia	100%	100%
Red Sea Real Estate Development Company ("RSREDC")*	Saudi Arabia	100%	100%
Red Sea Residential City Company ("RSRCC")*	Saudi Arabia	100%	100%
Red Sea Housing Services Singapore Pte. Ltd. ("RSHS")*	Singapore	100%	-
Red Sea Housing Services Malaysia Sdn. Bhd. ("RSSM")*	Malaysia	100%	-
Red Sea Housing Services Inc. ("RSC")	Canada	100%	-

\* These subsidiaries have not yet started commercial operations.

The Company also has licenses to operate branches in Papua New Guinea, Abu Dhabi, Afghanistan and Equatorial Guinea. Abu Dhabi, Afghanistan and Equatorial Guinea did not have any operations through March 31, 2016.

Subsequent to March 31, 2016, the Group has entered into a purchase agreement to acquire 90% of AM Modular Sdn Bhd, Malaysia, a Malaysian limited liability company for a purchase consideration of Saudi Riyals 26.2 million. This company is involved in designing and manufacturing of pre-fabricated modular buildings. Under the terms of the purchase agreement, the payment of the purchase consideration will be made in four instalments, of which first will be made in 2016 of Saudi Riyals 11.2 million and remaining in three annual instalments. The fair values of the net assets acquired and the resultant goodwill, if any, are yet to be finalized by the Group management.

At March 31, 2016, property, plant and equipment of RSL represents facilities which are under construction in Libya, with a carrying value of Saudi Riyals 27.3 million (2015: Saudi Riyals 30.2 million), net of impairment loss of Saudi Riyals 16.3 million (2015: Saudi Riyals 12.8 million). Due to the political crisis in Libya, management is continuously monitoring and assessing the carrying value of property, plant and equipment.

The accompanying interim consolidated financial statements were approved by the Company's Board of Directors on April 20, 2016.



**RED SEA HOUSING SERVICES COMPANY AND SUBSIDIARIES**  
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**Notes to the interim consolidated financial statements**  
**For the three-month period ended March 31, 2016 (Unaudited)**  
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**2. Summary of significant accounting policies**

The principal accounting policies applied in the preparation of these interim consolidated financial statements are set out below. These policies have been consistently applied to all periods presented.

**2.1 Basis of preparation**

The accompanying interim consolidated financial statements have been prepared under the historical cost convention on the accrual basis of accounting, and in compliance with the Standard of Interim Financial Reporting issued by the Saudi Organization for Certified Public Accountants ("SOCPA"). Significant accounting policies adopted by the Group in the preparation of such interim consolidated financial statements are in conformity with those described in the Group's audited consolidated financial statements for the year ended December 31, 2015.

The accompanying interim consolidated financial statements include all adjustments comprising mainly of normal recurring accruals considered necessary by the Group's management to present a fair statement of the financial position, results of operations and cash flows. The interim results of the operations for the three-month period ended March 31, 2016 may not represent a proper indication for the annual results of operations. These interim consolidated financial statements and notes should be read in conjunction with the annual audited consolidated financial statements and the related notes for the year ended December 31, 2015.

**2.2 Critical accounting estimates and judgments**

The preparation of interim consolidated financial statements in conformity with generally accepted accounting standards in Saudi Arabia requires the use of certain critical estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the reporting date of the interim consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

**2.3 Investments in subsidiaries**

Subsidiaries are entities over which the Company has the power to govern the financial and operating policies to obtain economic benefit generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given or liabilities incurred or assumed at the date of acquisition, plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. Goodwill arising from acquisition of subsidiaries is reported under "Other non-current assets" in the interim consolidated balance sheet. Goodwill is tested annually for impairment and carried at cost, net of impairment losses.

Inter-company transactions, balances and unrealized gains and losses on transactions between the Group companies are eliminated. Unrealized losses are also eliminated.

**2.4 Segment reporting**

**(a) Business segment**

A business segment is group of assets, operations or entities:

- (i) engaged in revenue producing activities;
- (ii) results of operations of which are continuously analyzed by management in order to make decisions related to resource allocation and performance assessment; and
- (iii) financial information is separately available.

**RED SEA HOUSING SERVICES COMPANY AND SUBSIDIARIES**  
**(A Saudi Joint Stock Company)**  
**Notes to the interim consolidated financial statements**  
**For the three-month period ended March 31, 2016 (Unaudited)**  
(All amounts in Saudi Riyals thousands unless otherwise stated)

(b) Geographical segment

A geographical segment is group of assets, operations or entities engaged in revenue producing activities within a particular economic environment that are subject to risks and returns different from those operating in other economic environments.

**2.5 Foreign currency translations**

(a) Reporting currency

These interim consolidated financial statements are presented in Saudi Riyals which is the reporting currency of the Company.

(b) Transactions and balances

Foreign currency transactions are translated into Saudi Riyals using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies other than Saudi Riyals are recognized in the interim consolidated income statement.

(c) Group companies

The results and financial position of foreign subsidiaries having reporting currencies other than Saudi Riyals are translated into Saudi Riyals as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet;
- (ii) income and expenses for each income statement are translated at average exchange rates; and
- (iii) components of the equity accounts are translated at the exchange rates in effect at the dates of the related items originated.

Cumulative adjustments resulting from the translations of the financial statements of the foreign subsidiaries into Saudi Riyals are reported as a separate component of equity.

When investment in foreign subsidiaries is disposed off or sold, currency translation differences that were recorded in equity are recognized in interim consolidated income statement as part of gain or loss on disposal or sale.

**2.6 Cash and cash equivalents**

Cash and cash equivalents include cash in hand and with banks and other short-term highly liquid investments with maturities of three months or less from the purchase date.

**2.7 Accounts receivable**

Accounts receivable are carried at original invoice amount less provision for doubtful debts. A provision against doubtful debts is established when there is a significant doubt evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Such provisions are charged to the interim consolidated income statement and reported under "General and administrative expenses". When accounts receivable are uncollectible, they are written-off against the provision for doubtful debts. Any subsequent recoveries of amounts previously written-off are credited against "General and administrative expenses" in the interim consolidated income statement.

**2.8 Inventories**

Inventories are carried at the lower of cost or net realizable value. Cost is determined on the weighted-average method. The cost of finished products includes the cost of raw materials, direct labor and manufacturing overheads.

Net realizable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

**RED SEA HOUSING SERVICES COMPANY AND SUBSIDIARIES**  
**(A Saudi Joint Stock Company)**  
**Notes to the interim consolidated financial statements**  
**For the three-month period ended March 31, 2016 (Unaudited)**  
(All amounts in Saudi Riyals thousands unless otherwise stated)

**2.9 Properties for rentals**

Properties held for long-term rental yields, which are not occupied by the Group, are recorded at cost less accumulated depreciation. Land is not depreciated. Depreciation is charged to the interim consolidated income statement, using the straight-line method, to allocate the costs of the related assets to their residual values over the estimated useful lives of 4 to 25 years.

Maintenance and normal repairs which do not materially extend the estimated useful life of an asset are charged to the interim consolidated income statement as and when incurred. Gains and losses on disposals are determined by comparing proceeds with the carrying amounts and are included in the interim consolidated income statement.

**2.10 Property, plant and equipment**

Property, plant and equipment are carried at cost less accumulated depreciation and accumulated impairment losses, if any, except projects under construction which is carried at cost. Land is not depreciated. Depreciation is charged to the interim consolidated income statement, using the straight-line method, to allocate the costs of the related assets to their residual values over the following estimated useful lives:

	Number of years
• Buildings and residential houses	10 - 40
• Machinery and equipment	4 - 15
• Furniture, fixtures and office equipment	4 - 5
• Vehicles	4 - 8

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the interim consolidated income statement.

Maintenance and normal repairs which do not materially extend the estimated useful life of an asset are charged to the interim consolidated income statement as and when incurred. Major renewals and improvements, if any, are capitalized and the assets so replaced are retired.

**2.11 Impairment of non-current assets**

Non-current assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's fair value less cost to sell and value in use. For the purpose of assessing impairment, assets are grouped at lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-current assets other than intangible assets that suffered impairment are reviewed for possible reversal of impairment at each reporting date. Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined, had no impairment loss been recognized for the assets or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income immediately in the interim consolidated income statement. Impairment losses on goodwill are not reversible.

**2.12 Borrowings**

Borrowings are recognized at the proceeds received, net of transaction costs incurred, if any. Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalized as part of those assets. Other borrowing costs are charged to the interim consolidated income statement.

**2.13 Accounts payable and accruals**

Liabilities are recognized for amounts to be paid for goods and services received, whether or not billed to the Group.

**2.14 Provisions**

Provisions are recognized when; the Group has a present legal or constructive obligation as a result of a past event; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated.

**RED SEA HOUSING SERVICES COMPANY AND SUBSIDIARIES**  
**(A Saudi Joint Stock Company)**  
**Notes to the interim consolidated financial statements**  
**For the three-month period ended March 31, 2016 (Unaudited)**  
(All amounts in Saudi Riyals thousands unless otherwise stated)

**2.15 Zakat and income taxes**

The Company is subject to zakat in accordance with the regulations of the Department of Zakat and Income Tax ("DZIT"). Foreign shareholders in the consolidated Saudi Arabian subsidiaries are subject to income taxes. Income tax provision related to the foreign shareholders in such subsidiaries are charged to the non-controlling interests. Provision for zakat for the Company and zakat related to the Company's ownership in the Saudi Arabian subsidiaries is charged to the interim consolidated income statement. Additional zakat payable, if any, at the finalization of the Company's assessments are accounted for when determined by the DZIT.

Foreign subsidiaries and branches are subject to income taxes in their respective countries of domicile, except RSD, which is not subject to any zakat or income taxes in the UAE. Such income taxes are charged to the interim consolidated income statement.

The Company and its Saudi Arabian subsidiaries withhold taxes on certain transactions with non-resident parties, including dividend payments to foreign shareholders of the Saudi Arabian subsidiaries, if any, in the Kingdom of Saudi Arabia as required under Saudi Arabian Income Tax Law.

**2.16 Employee termination benefits**

Employee termination benefits required by Saudi Labor and Workman Law are accrued by the Company and its Saudi Arabian subsidiaries and charged to the interim consolidated income statement. The liability is calculated as the current value of the vested benefits to which the employee is entitled, should the employee leave at the balance sheet date. Termination payments are based on employees' final salaries and allowances and their cumulative years of service, as stated in the laws of Saudi Arabia.

The foreign subsidiaries provide currently for employee termination and other benefits as required under the laws of their respective countries of domicile. There are no funded or unfunded benefit plans established by the foreign subsidiaries.

**2.17 Revenues**

Revenues from sale of goods are recognized upon delivery of products.

Revenues from contracts are recognized on the percentage-of-completion method, measured by the percentage of actual cost incurred to-date to estimated total cost for each contract. When the contract is at an early stage and its outcome cannot be reliably estimated, revenue is recognized to the extent of costs incurred, which are considered recoverable. Contract costs include all direct material and labor costs and those indirect costs related to the contracts. Changes in cost estimates and losses on uncompleted contracts are recognized in the period they are determined. Costs and estimated earnings in excess of billings on uncompleted contracts are included in current assets and billings in excess of costs incurred and estimated earnings, if any, are included in current liabilities as contract work-in-progress.

Rental income is recognized on the accrual basis in accordance with terms of the contracts entered into with tenants.

**2.18 Selling, marketing, general and administrative expenses**

Selling, marketing, general and administrative expenses include direct and indirect costs not specifically part of cost of revenues as required under generally accepted accounting principles. Allocations between cost of revenues and selling, marketing, general and administrative expenses, when required, are made on a consistent basis.

**2.19 Dividends**

Dividends are recorded in the interim consolidated financial statements in the period in which they are approved by the shareholders of the Company.

**2.20 Operating leases**

Rental expense under operating leases is charged to the interim consolidated income statement over the terms of the respective lease. Long-term prepayments of annual rentals for operating leases related to leasehold land and lump sum consideration paid to acquire the right to lease a plot of land from a previous lessee is classified as non-current in the interim consolidated balance sheet and is amortized over the period of the related lease agreements.

**RED SEA HOUSING SERVICES COMPANY AND SUBSIDIARIES**  
**(A Saudi Joint Stock Company)**  
**Notes to the interim consolidated financial statements**  
**For the three-month period ended March 31, 2016 (Unaudited)**  
(All amounts in Saudi Riyals thousands unless otherwise stated)

**2.21 Statutory reserve**

In accordance with the Regulations for Companies in the Kingdom of Saudi Arabia, the Company is required to transfer 10% of net income for the year to a statutory reserve until such reserve equals 50% of its share capital. Such transfer is made at end of the fiscal year. The statutory reserve in the accompanying interim consolidated financial statements is the statutory reserve of the Company. This reserve currently is not available for distribution to the shareholders of the Company.

**2.22 Earnings per share**

Earnings per share for the three-month period ended March 31, 2016 and 2015 has been computed by dividing the operating income and net income for such periods by the weighted average number of 60 million shares outstanding during such periods.

**2.23 Reclassification**

Certain amounts in the comparative 2015 financial statements have been reclassified to conform to the 2016 presentation.

**3. Segment information**

The Group's operations are principally in the following business segments:

- Manufacturing and sale of non-concrete residential and commercial buildings;
- Rentals of properties; and
- Manufacturing and sale of paints and related services.

Selected financial information as of March 31, 2016 and 2015 and for the three-month periods then ended, summarized by the above business segments, is as follows:

	<b>Non-concrete residential and commercial buildings</b>	<b>Rentals of properties</b>	<b>Painting materials</b>	<b>Total</b>
<b><u>2016 (Unaudited)</u></b>				
Total assets	816,566	709,313	79,502	1,605,381
Revenues	144,898	109,310	17,569	271,777
Net income	7,210	24,558	311	32,079

**2015 (Unaudited)**

Total assets	712,488	751,780	66,152	1,530,420
Revenues	165,594	101,374	8,475	275,443
Net income (loss)	11,458	21,275	(2,695)	30,038

During the three-month period ended March 31, 2016, approximately 78% of the total revenues from non-concrete residential and commercial buildings segment were derived from 6 customers (2015: approximately 65% from 6 customers).

During the three-month period ended March 31, 2016, approximately 74% of the total revenues from rental segment were derived from 4 customers (2015: approximately 86% from 4 customers).

**RED SEA HOUSING SERVICES COMPANY AND SUBSIDIARIES**  
**(A Saudi Joint Stock Company)**  
**Notes to the interim consolidated financial statements**  
**For the three-month period ended March 31, 2016 (Unaudited)**  
(All amounts in Saudi Riyals thousands unless otherwise stated)

The Group's operations are conducted in Saudi Arabia, UAE, Ghana, Papua New Guinea, Algeria, Australia and certain other geographical areas. Selected financial information as of March 31, 2016 and 2015 and for the three-month periods then ended, summarized by geographic area, is as follows:

<b><u>2016 (Unaudited)</u></b>	<b>Saudi Arabia</b>	<b>UAE</b>	<b>Ghana</b>	<b>Papua New Guinea</b>	<b>Algeria</b>	<b>Australia</b>	<b>Other</b>	<b>Total</b>
Properties for rentals	494,606	934	-	1,436	26,025	-	19,624	542,625
Property, plant and equipment	93,728	49,702	33,045	20,549	756	484	27,728	225,992
Revenues	199,041	30,471	20,310	13,595	5,756	6	2,598	271,777
Net income (loss)	34,585	664	170	323	252	(981)	(2,934)	32,079
<b><u>2015 (Unaudited)</u></b>								
Properties for rentals	548,111	2,509	-	1,991	27,153	-	28,813	608,577
Property, plant and equipment	81,836	52,464	33,484	24,845	326	575	30,730	224,260
Revenues	156,732	81,198	12,963	18,795	1,237	428	4,090	275,443
Net income (loss)	20,634	11,938	(1,825)	1,079	(1,241)	(906)	359	30,038

**4. Contingencies and commitments**

At March 31, 2016, the Group had outstanding bank guarantees and letters of credit amounting to approximately Saudi Riyals 62.4 million and Saudi Riyals 1.6 million, respectively (2015: Saudi Riyals 54.9 million and Saudi Riyals 4.5 million, respectively), issued in the normal course of business. Also, rental commitments under operating lease contracts amounted to Saudi Riyals 29.2 million at March 31, 2016 (2015: Saudi Riyals 21.0 million).