

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

**Interim Condensed Consolidated Financial Statements for**  
**the three months period ended March 31, 2013**  
**(Unaudited)**

with  
**Independent Auditors' Review Report**

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

**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**  
**FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2013**

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**REVIEW REPORT ON THE INTERIM  
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**The Shareholders  
Red Sea Housing Services Company  
(A Saudi Joint Stock Company)  
Al-Jubail, Kingdom of Saudi Arabia**

***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 at March 31, 2013, the related interim consolidated statement of income, the interim consolidated statement of cash flows, interim consolidated statement of changes in equity for the three months period ended on March 31, 2013 and the attached condensed consolidated notes 1 to 7 which form an integral part of these interim condensed consolidated financial statements. These interim condensed 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. Our responsibility is to express a conclusion on these interim condensed financial statements based on our review.

We conducted our review in accordance with the auditing Standard on Review of Interim Financial Reporting issued by the Saudi Organization for Certified Public Accountants (SOCPA). A review consists principally of applying analytical procedures to financial data and information and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express such an opinion.

***Conclusion:***

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.

**For KPMG Al Fozan & Al Sadhan**

**Tareq Abdulrahman Al Sadhan**  
License No: 352



Al Khobar, April 20, 2013  
Corresponding to: Jumada Thani 10, 1434H

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

**Interim consolidated balance sheet**

**As at March 31, 2013**

(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	As at March 31, 2013 (Unaudited)	As at December 31, 2012 (Audited)	As at March 31, 2012 (Unaudited)
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents		111,554	104,939	76,784
Accounts receivable		147,475	128,779	231,771
Contract work-in-progress		161,584	169,199	119,236
Inventories		180,050	177,672	182,938
Advances to suppliers		13,746	7,665	20,867
Due from related parties		480	520	528
Prepayments and other receivables		32,024	27,459	32,664
<b>Total current assets</b>		<b>646,913</b>	<b>616,233</b>	<b>664,788</b>
<b>Non-current assets</b>				
Property, plant and equipment		213,073	213,339	202,439
Investment properties		401,303	396,792	401,795
Operating lease payments		8,028	7,635	8,374
Goodwill	5	26,479	-	-
<b>Total non-current assets</b>		<b>648,883</b>	<b>617,766</b>	<b>612,608</b>
<b>Total assets</b>		<b>1,295,796</b>	<b>1,233,999</b>	<b>1,277,396</b>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Short-term bank borrowings including current portion of medium-term loans		194,986	146,471	186,697
Accounts payable		61,875	56,149	69,686
Advances from customers		31,187	14,603	23,520
Accrued and other liabilities		56,804	80,874	68,549
Provision for zakat		21,925	17,533	14,934
<b>Total current liabilities</b>		<b>366,777</b>	<b>315,630</b>	<b>363,386</b>
<b>Non-current liabilities</b>				
Medium-term loans		53,535	74,634	137,424
Employee termination benefits		31,847	29,509	14,407
<b>Total non-current liabilities</b>		<b>85,382</b>	<b>104,143</b>	<b>151,831</b>
<b>Total liabilities</b>		<b>452,159</b>	<b>419,773</b>	<b>515,217</b>
<b>Equity</b>				
Equity attributable to shareholders of the Company:				
Share capital		400,000	400,000	300,000
Statutory reserve		81,907	81,907	69,845
Retained earnings		380,546	348,829	411,826
Currency translation differences		(6,840)	(8,212)	(11,241)
		<b>855,613</b>	<b>822,524</b>	<b>770,430</b>
Minority interest		(11,976)	(8,298)	(8,251)
<b>Total equity</b>		<b>843,637</b>	<b>814,226</b>	<b>762,179</b>
<b>Total liabilities and equity</b>		<b>1,295,796</b>	<b>1,233,999</b>	<b>1,277,396</b>

The notes 1 through 7 on pages 5 to 11 form an integral part of these interim condensed consolidated financial statements.

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

**Interim consolidated statement of income**  
**For the three months period ended March 31, 2013**  
(All amounts in Saudi Riyals thousands unless otherwise stated)

	<u>Note</u>	<b>Three month period ended March 31</b>	
		<b>2013</b>	<b>2012</b>
		<b>(Unaudited)</b>	<b>(Unaudited)</b>
Revenues		205,421	220,998
Cost of revenues		<u>(151,747)</u>	<u>(169,281)</u>
Gross profit		53,674	51,717
<b>Operating expenses</b>			
Selling and marketing		(8,189)	(7,034)
General and administrative		<u>(11,492)</u>	<u>(7,968)</u>
Operating income		33,993	36,715
<b>Other income (expenses)</b>			
Financial charges		(1,731)	(1,386)
Financial income		821	538
Other income (expense), net		<u>632</u>	<u>(936)</u>
Income before foreign income taxes, zakat and minority interest		33,715	34,931
Foreign income taxes		(41)	-
Zakat		<u>(2,050)</u>	<u>(3,386)</u>
Income before minority interest		31,624	31,545
Loss attributable to minority interest		<u>93</u>	<u>11</u>
<b>Net income attributable to equity shareholders</b>		<u><b>31,717</b></u>	<u><b>31,556</b></u>
<b>Earnings per share (Saudi Riyals):</b>			
• Operating income		<u><b>0.85</b></u>	<u>0.92</u>
• Income attributable to equity holders	7	<u><b>0.79</b></u>	<u>0.79</u>

The notes 1 through 7 on pages 5 to 11 form an integral part of these interim condensed consolidated financial statements.

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

**Interim consolidated statement of cash flows**  
**For the three months period ended March 31, 2013**  
(All amounts in Saudi Riyals thousands unless otherwise stated)

	<b>Three months period ended March 31,</b>	
	<b>2013 (Unaudited)</b>	<b>2012 (Unaudited)</b>
<b>Cash flow from operating activities</b>		
Net income for the period	31,717	31,556
<u>Adjustments to reconcile net income to net cash provided by operating activities:</u>		
Depreciation of property, plant and equipment and investment properties	18,700	17,983
Amortization of operating lease payments	146	114
( Profit)/Loss from disposal of property and equipment and investment properties	(36)	3,727
Loss attributable to minority interest	(93)	(11)
Recovery against doubtful debts provision	-	(220)
Provision for slow moving inventories	103	13
Change in currency translation differences	1,372	(2,927)
<u>Changes in working capital</u>		
Accounts and retentions receivable	(16,206)	7,525
Contract work-in-progress	7,615	(43,881)
Inventories	(2,481)	11,064
Advances to suppliers	(6,081)	6,403
Due from related parties	40	-
Prepayments and other current receivables	(4,565)	(1,435)
Operating lease payments	(539)	-
Trade accounts payable	(13,760)	(22,346)
Advances from customers	16,584	11,529
Accrued and other current liabilities	(24,070)	(7,815)
Provision for zakat – net	891	3,387
Employee termination benefits – net	2,338	849
Net cash generated from operating activities	<u>11,675</u>	<u>15,515</u>
<b>Cash flow from investing activities</b>		
Purchase of property, plant and equipment and investment properties	(21,334)	(18,097)
Proceeds from disposal of property and equipment and investment properties	43	-
Acquisition of subsidiary	(11,185)	-
Net cash (used in) investing activities	<u>(32,476)</u>	<u>(18,097)</u>
<b>Cash flow from financing activities</b>		
Change in short-term borrowings	48,515	(9,201)
Change in medium-term loans	(21,099)	(8,915)
Change in minority interest	-	12
Net cash generated from/(used in) financing activities	<u>27,416</u>	<u>(18,104)</u>
<b>Net change in cash and cash equivalents</b>	<b>6,615</b>	<b>(20,686)</b>
Cash and cash equivalents at beginning of period	<u>104,939</u>	<u>97,470</u>
<b>Cash and cash equivalents at end of period</b>	<b><u>111,554</u></b>	<b><u>76,784</u></b>
<b>Supplemental schedule of non-cash information:</b>		
Transfer of investment property to inventories at net book value	<u>-</u>	<u>3,433</u>

The notes 1 through 7 on pages 5 to 11 form an integral part of these interim condensed consolidated financial statements.

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

Interim consolidated statement of changes in equity  
For the three months period ended March 31, 2013  
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Share capital	Statutory reserve	Retained earnings	Currency translation differences	Total attributable to equity shareholders	Minority interest	Total Equity
<b>(Unaudited)</b>							
<b>January 1, 2013</b>	<b>400,000</b>	<b>81,907</b>	<b>348,829</b>	<b>(8,212)</b>	<b>822,524</b>	<b>(8,298)</b>	<b>814,226</b>
Net income for the period	-	-	31,717	-	31,717	(93)	31,624
Currency translation difference	-	-	-	1,372	1,372	-	1,372
Net movement in minority interest	-	-	-	-	-	(3,585)	(3,585)
<b>March 31, 2013</b>	<b>400,000</b>	<b>81,907</b>	<b>380,546</b>	<b>(6,840)</b>	<b>855,613</b>	<b>(11,976)</b>	<b>843,637</b>
<b>(Unaudited)</b>							
<b>January 1, 2012</b>	<b>300,000</b>	<b>69,845</b>	<b>380,270</b>	<b>(8,314)</b>	<b>741,801</b>	<b>(8,252)</b>	<b>733,549</b>
Net income for the period	-	-	31,556	-	31,556	(11)	31,545
Currency translation difference	-	-	-	(2,927)	(2,927)	-	(2,927)
Net movement in minority interest	-	-	-	-	-	12	12
<b>March 31, 2012</b>	<b>300,000</b>	<b>69,845</b>	<b>411,826</b>	<b>(11,241)</b>	<b>770,430</b>	<b>(8,251)</b>	<b>762,179</b>

The notes 1 through 7 on pages 5 to 11 form an integral part of these interim condensed consolidated financial statements.

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

**Notes to the interim condensed consolidated financial statements**  
**For the three months period ended March 31, 2013**  
(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") consists of the Company, a Saudi joint stock company, and its foreign subsidiaries and branches as described below in this note.

The objectives of the Group, among others, are to purchase land and real estate for the purpose of developing and improving them and to manufacture residential and commercial buildings thereon, and to ultimately sell or lease them, in addition to food supply and catering services. The Group's objectives also include producing non-concrete residential units, general contracting, maintenance, construction of utilities and civil work.

The Company was incorporated as a Saudi joint stock company pursuant to Ministerial Resolution No. 2532 dated Ramadan 2, 1427 H (September 25, 2006). The Company's share capital comprises of 40 million shares with a par value of Saudi Riyals 10 per share at 31 March 2013.

The accompanying interim condensed consolidated financial statements include all adjustments, comprising mainly of normal recurring accruals, considered necessary by the Group's management to present fairly the interim consolidated statement of financial position, results of operations and cash flows. The interim results may not represent an accurate indication of the annual results of the Group. These interim condensed consolidated financial statements and notes thereto should be read in conjunction with the annual audited consolidated financial statements and the related notes for the year ended December 31, 2012.

**Foreign subsidiaries and branches**

The Company has investments in the following consolidated subsidiaries:

<u>Name</u>	<u>Country of incorporation</u>	<u>Ownership interest (%) at March 31,</u>	
		<u>2013</u>	<u>2012</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	KSA	95%	-
Premier Paints Company (Refer to Note 5)	KSA	76.95%	-

In accordance with the By-Laws of RSQ, the Company has the power to govern the financial and operating policies of RSQ. Accordingly, RSQ accounts have been consolidated in the accompanying interim condensed consolidated financial statements.

RSN and RSL have not started commercial operations.

At March 31, 2013, property plant and equipment of RSL include approximately Saudi Riyals 51.4 million related to facilities which are under construction in Libya. Due to the political crisis and war situation in Libya, management is continuously monitoring and assessing the carrying value of the property, plant and equipment. Management has written off SR 3.7 million of the assets of RSL based on initial examination of facility. A provision of SR 6.3 million is in place against any unidentified damage to the facilities.

The Company also has licenses to operate branches in Papua New Guinea (PNG), Abu Dhabi, Afghanistan and Equatorial Guinea. Afghanistan and Equatorial Guinea did not have any operation.

The accompanying interim condensed consolidated financial statements were approved by the Company's Board of Directors on April 20, 2013 (Jumada Thani 10, 1434 H)

**2. Summary of significant accounting policies**

The accompanying interim condensed consolidated financial statements have been prepared in accordance with the Standard of Interim Financial Reporting issued by the Saudi Organization for Certified Public Accountants ("SOCPA"). The interim financial statements are prepared under the historical cost convention. Significant accounting policies adopted by the Group in the preparation of its interim condensed consolidated financial statements are in conformity with those described in the Group's audited consolidated financial statements for the year ended December 31, 2012, which are summarized as follows:



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

Notes to the interim condensed consolidated financial statements  
For the three months period ended March 31, 2013  
(All amounts in Saudi Riyals thousands unless otherwise stated)

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**2. Summary of significant accounting policies (continued)**

**2.1 Use of estimates and judgments**

The preparation of interim condensed consolidated financial statements in conformity with generally accepted accounting standards in the Kingdom of Saudi Arabia requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the interim condensed consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

**2.2 Group accounting basis**

These interim condensed consolidated financial statements include the accounts of the Company and its subsidiaries and branches in which the Group has effective ownership interest of 50% or more and/or controls more than one half of the voting rights or otherwise has the power to govern their financial and operating policies. Significant inter-group transactions and balances between Group companies are eliminated in consolidation.

**2.3 Segment reporting**

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in producing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

**2.4 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.

**2.5 Short-term deposits**

Short-term deposits include placements with banks and other short-term highly liquid investments with original maturities of more than three months but not more than one year from the purchase date.

**2.6 Accounts receivable**

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

**2.7 Inventories**

Inventories are valued at the lower of cost or net realizable value. Cost is determined on the weighted-average method. The cost of finished goods 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.

**2.8 Investment properties**

Properties held for long-term rental yields, which are not occupied by the Group, are carried at cost less accumulated depreciation and accumulated impairment losses, if any. Land is not depreciated. Depreciation is charged to the interim consolidated statement of income, using the straight-line method, to allocate the costs of the related assets to their residual values over the estimated useful lives of 2 to 20 years.

Expenditures for maintenance and repairs that do not materially extend the asset's useful life are charged to the interim consolidated statement of income 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 statement of income.

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

**Notes to the interim condensed consolidated financial statements**  
**For the three months period ended March 31, 2013**  
(All amounts in Saudi Riyals thousands unless otherwise stated)

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**2. Summary of significant accounting policies (continued)**

**2.9 Property, plant and equipment**

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

	<u>Number of Years</u>
• Buildings and residential houses	10 – 40
• Machinery and equipment	4 – 15
• Furniture and fixtures and office equipment	4 – 5
• Motor vehicles	4 – 8

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

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

**2.10 Impairment of non-current assets**

Property, plant and equipment, investment properties and other 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. Impairment losses recognized on intangible assets are not reversible.

**2.11 Borrowings**

Borrowings are recognized at the proceeds received, net of transaction costs incurred.

**2.12 Accounts payable and accruals**

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

**2.13 Provisions**

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

**2.14 Employee termination benefits**

Employee termination benefits are accrued in accordance with the labor and workman laws of the countries in which the Company and its subsidiaries operate, and charged to the interim consolidated statement of income.

**2.15 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 condensed consolidated financial statements is the statutory reserve of the Company. This reserve currently is not available for distribution to the shareholders.

**2.16 Dividends**

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

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

**Notes to the interim condensed consolidated financial statements**  
**For the three months period ended March 31, 2013**  
(All amounts in Saudi Riyals thousands unless otherwise stated)

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**2. Summary of significant accounting policies (continued)**

**2.17 Business combinations**

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The group measures goodwill at the acquisition date as:

- The fair value of the consideration transferred; plus
- The recognized amount of any non-controlling interests in the acquire; plus
- The net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

**2.18 Goodwill**

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill acquired in business combinations is not amortized, instead goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose identified according to operating segment.

**2.19 Revenue recognition**

Revenue from contracts is 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 incomplete contracts are recognized in the period in which they are determined. Costs and estimated earnings in excess of billings on incomplete contracts are included in current assets as contract work-in-progress. Billings in excess of costs and estimated earnings on incomplete contracts are included in current liabilities as advances from customers.

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

**2.20 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 standards. Allocations between cost of revenue and selling, marketing, general and administrative expenses, when required, are made on a consistent basis.

**2.21 Operating leases**

Rental expenses under operating leases are charged to interim consolidated statement of income over the terms of the related leases.

**2.22 Zakat and income taxes**

The Company is subject to zakat in accordance with the regulations of the Department of Zakat and Income Tax ("DZIT"). Provision for zakat is charged to the interim consolidated statement of income. Additional zakat payable on the finalization of the Company's assessments are accounted for when determined by the DZIT.

Foreign subsidiaries and branches, except RSG which has a 10 year tax holiday period from the date of commencement of its operations, are subject to income taxes in their respective countries of domicile. Such income taxes are charged to the interim consolidated statement of income. The Establishment in the UAE is not subject to any zakat or income taxes in the UAE.

**RED SEA HOUSING SERVICES COMPANY AND SUBSIDIARIES**  
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Notes to the interim condensed consolidated financial statements  
For the three months period ended March 31, 2013  
(All amounts in Saudi Riyals thousands unless otherwise stated)

**2. Summary of significant accounting policies (continued)**

**2.23 Foreign currency translation**

The interim condensed consolidated financial statements are presented in Saudi Riyals, which is the functional currency of the Company. Foreign currency transactions are translated into Saudi Riyals at the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are adjusted to reflect their Saudi Riyals equivalents as of the interim consolidated balance sheet date. Exchange adjustments, which were not significant for the period, are charged or credited to the interim consolidated statement of income.

Monetary assets and liabilities of foreign subsidiaries and branches are translated at the exchange rates in effect at the date of interim condensed consolidated financial statements reporting dates of the Company. The components of foreign subsidiaries' equity accounts, except retained earnings, are translated at the exchange rates in effect at the dates the related items originated. The elements of foreign subsidiaries' and branches' income statements are translated using the weighted-average exchange rate for the period. Adjustments resulting from the translation of reported amounts in foreign subsidiaries' and branches' financial statements into Saudi Riyals are reported as a separate component of shareholders' equity.

**2.24 Earnings per share**

Earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the number of ordinary shares outstanding during the year.

**3. Segment information**

The Group has two operating divisions:

- Red Sea Industrial housing
- Red Sea building materials

**a) Red Sea Industrial housing division**

Red Sea Industrial housing division's operations are principally in the following business segments:

- Manufacturing and sale of non-concrete residential and commercial buildings
- Rentals of properties ; and

Selected financial information as of March 31, 2013 and 2012 and for the three month periods then ended, summarized by the above business segments, is as follows:

<b>2013 (Unaudited)</b>	<b><u>Manufacturing and sale</u></b>	<b><u>Rentals</u></b>	<b><u>Total</u></b>
Total assets	792,774	471,022	1,263,796
Revenues	133,486	71,864	205,350
Net income	14,459	17,868	32,327
<b>2012 (Audited)</b>	<b><u>Manufacturing and sale</u></b>	<b><u>Rentals</u></b>	<b><u>Total</u></b>
Total assets	816,853	460,543	1,277,396
Revenues	158,874	62,124	220,998
Net income	11,479	20,077	31,556

During the three months period ended March 31, 2013, approximately 55% of total revenues from manufacturing and sale segment was derived from 8 customers (2012: 8 customers representing approximately 65%).

During the three months period ended March 31, 2013, approximately 76% of total revenues from rental segment was derived from 4 customers (2012: 4 customers representing approximately 76%).

**RED SEA HOUSING SERVICES COMPANY AND SUBSIDIARIES**  
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**3. Segment information (continued)**

Red Sea industrial housing division's operations are conducted in Saudi Arabia, UAE, Ghana, Papua New Guinea (PNG), Algeria and certain other geographical areas. Selected financial information as of March 31, 2013 and 2012 summarized by geographic area, is as follows:

<u>2013 (Unaudited)</u>	<u>Saudi Arabia</u>	<u>UAE</u>	<u>Ghana</u>	<u>Papa New Guinea</u>	<u>Algeria</u>	<u>Libya</u>	<u>Qatar</u>	<u>Total</u>
Investment properties	354,209	11,660	-	5,498	29,936	-	-	401,303
Property, plant and equipment	20,369	51,711	37,270	49,968	369	51,398	-	211,085
Revenues	123,658	56,161	14,524	7,668	3,339	-	-	205,350
Net income / (loss)	25,107	5,757	909	390	166	-	(2)	32,327
 <u>2012 (Unaudited)</u>	 <u>Saudi Arabia</u>	 <u>UAE</u>	 <u>Ghana</u>	 <u>Papa New Guinea</u>	 <u>Algeria</u>	 <u>Libya</u>	 <u>Qatar</u>	 <u>Total</u>
Investment properties	362,710	105	-	6,579	32,401	-	-	401,795
Property, plant and equipment	10,223	55,306	38,318	57,556	695	40,341	-	202,439
Revenues	119,444	40,998	47,426	11,390	1,740	-	-	220,998
Net income / (loss)	28,291	5,462	10,790	(12,727)	(254)	-	(6)	31,556

**b) Red Sea building material division**

Red Sea building material division's operations are principally in the following business segment:

- Manufacturing and sale of paints.

The division was setup in October 2012 and did not commence until Premier Paints Company was acquired in February 2013. Accordingly no comparative information is available.

<u>2013 (Unaudited)</u>	<u>Manufacturing and sale</u>
Total assets	32,000
Revenues	71
Net (loss)	(610)

Red Sea building material division's operations are conducted in Saudi Arabia. Selected financial information as of March 31, 2013 is as follows:

<u>2013 (Unaudited)</u>	<u>Saudi Arabia</u>
Property, plant and equipment	1,988
Revenues	71
Net (loss)	(610)

**4. Contingencies and commitments**

At March 31, 2013, the Group had outstanding bank guarantees and letters of credit amounting to approximately Saudi Riyals 66 million and Saudi Riyals 3.5 million, respectively (March 31, 2012: Saudi Riyals 93 million and Saudi Riyals 0.92 million respectively), issued in the normal course of business. Also, rental commitments under operating lease contracts amounted to Saudi Riyals 42 million at March 31, 2013 (March 31, 2012: Saudi Riyals 53.3 million).

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**5. Acquisition of a subsidiary**

On February 06, 2013 RedSea Building Materials and Equipment Trading Company, a subsidiary of Red Sea Housing Services Company (the "Company") acquired 81% of Premier Paints Company (previously known as 'Sherwin Williams Saudi Arabia Limited').

Property, plant and equipments	1,618
Trade and Other receivables	2,490
Cash and cash equivalents	10
Accounts Payables and other liabilities	(19,486)
Zakat and tax payable	(3,501)
Net identifiable assets and liabilities	(18,869)
Minority interest	(3,585)
Share of net liabilities	(15,284)
Cash Consideration paid	11,195
Goodwill arising on acquisition	26,479

The fair value of the assets acquired are yet to be finalized and the assessment of goodwill arising is provisional at March 31, 2013.

**6. Provision for litigation and claims**

On June 30, 2010, a preliminary court in Algeria issued a ruling against RSA, the Company's subsidiary in Algeria, to pay custom duties and penalties amounting to approximately Saudi Riyals 40.7 million for not complying with certain requirements of customs duty exemptions, which were earlier granted to RSA for its investment and operations in Algeria. The Group's management believes that such custom duties and penalties were imposed due to misinterpretation of the nature of certain exemption requirements. The subsidiary had approached the customs authorities in Algeria requesting a negotiated settlement, and upon demand of the customs authorities, had provided a bank guarantee of Saudi Riyals 10.5 million in favour of the customs authorities. The subsidiary has also filed an appeal against the ruling of the preliminary court, and the Group's management is pursuing with its efforts, both judicially and with negotiation with customs department to reduce the amount imposed by the preliminary court ruling. As at December 31, 2010, the Company had recorded a full provision of Saudi Riyals 40.7 million in respect of the custom duties and penalties. In the second quarter ended June 30, 2011, the bank guarantee was cancelled, and an equal amount has been paid to the customs authorities as a partial settlement. During the third quarter ended September, 30 2011, the Company further paid amounts totaling Saudi Riyals 23.0 million against the original claim of Saudi Riyals 40.7 million. The Company has reached an out of court settlement with the Algerian Customs Authorities. In the third quarter ended September 30, 2012 seized assets by Customs Authorities with net book value of SR 2.54 million has been written off and to that extent the provision has also reduced.

**7. Earnings per share**

The shareholders, in their extra ordinary general assembly meeting held on April 18, 2012, approved the increase in share capital from SR 300 million to SR 400 million, and increase the number of shares outstanding from 30 million to 40 million by issuing 1 bonus share for each 3 shares held by the shareholder on the day of the EGM.

Earnings per share are calculated on the weighted average number of issued shares at March 31, 2013 amounting to 40 million shares. The weighted average number of shares of issued shares has been retrospectively adjusted for the prior period to reflect the effect of the bonus share issue.

Earnings per share are calculated by dividing the net income available for shareholders, by dividing total number of shares outstanding, including the impact of bonus shares, during the year as follows:

(In Saudi riyal thousand)	March 31, 2013	March 31, 2012
Income attributable to equity holders	31,717	31,556
(In thousands of shares)		
Share capital as of January 1	30,000	30,000
Effect of increase in shares due to bonus share issuance	10,000	10,000
Total number of shares outstanding as at March 31	40,000	40,000
Earnings per share	0.79	0.79