

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

CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

With
INDEPENDENT AUDITORS' REPORT

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

CONSOLIDATED FINANCIAL STATEMENTS WITH INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED DECEMBER 31, 2012

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INDEPENDENT AUDITORS' REPORT

**The Shareholders
Red Sea Housing Services Company
Jubail, Kingdom of Saudi Arabia**

We have audited the accompanying consolidated financial statements of Red Sea Housing Services Company and its subsidiaries ("the Company") which comprise the balance sheet as at December 31, 2012 and the related statements of income, cash flows and changes in equity for the year then ended and the attached notes (1) through (25) which form an integral part of the financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia and in compliance with article 123 of the Regulations for Companies and the Company's Articles of Association and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. Management has provided us with all the information and explanations that we require relating to our audit of these financial statements.

Auditors' responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Opinion

In our opinion, the consolidated financial statements taken as a whole:

- 1) present fairly, in all material respects, the financial position of the Company as at December 31, 2012, and the results of its operations and of its cash flows for the year then ended in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia appropriate to the circumstances of the Company; and
- 2) comply with the requirements of the Regulations for Companies and the Company's Articles of Association with respect to the preparation and presentation of consolidated financial statements.

For KPMG Al Fozan & Al Sadhan

Tareq Abdulrahman Al Sadhan
License No. 352



Al Khobar, February 24, 2013
Corresponding to: Rabi Thani 14, 1434H

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

Consolidated Balance Sheet

As at December 31, 2012

(All amounts in Saudi Riyals unless otherwise stated)

	Note	As at December 31, 2012	As at December 31, 2011
ASSETS			
Current assets			
Cash and cash equivalents	5	104,939,057	97,470,152
Accounts receivable	6	128,779,118	239,075,675
Contract work-in-progress		169,199,447	75,355,019
Inventories	7	177,671,894	190,582,215
Advances to suppliers		7,665,407	27,269,532
Due from related parties	15	519,441	527,977
Prepayments and other current assets	8	27,458,837	32,030,912
Total current assets		616,233,201	662,311,482
Non-current assets			
Investment properties	9	396,792,366	409,825,403
Property, plant and equipment	10	213,338,464	202,093,246
Prepayments	8	7,635,553	7,048,711
Total non-current assets		617,766,383	618,967,360
Total assets		1,233,999,584	1,281,278,842
LIABILITIES			
Current liabilities			
Borrowings	11	146,471,213	195,898,249
Accounts payable		56,148,630	92,031,974
Advances from customers		14,602,903	11,990,653
Accrued and other current liabilities	12	80,874,484	76,364,210
Provision for zakat	13	17,532,670	11,547,224
Total current liabilities		315,629,900	387,832,310
Non-current liabilities			
Borrowings	11	74,633,829	146,339,388
Employees' termination benefits	14	29,509,461	13,558,296
Total non-current liabilities		104,143,290	159,897,684
Total liabilities		419,773,190	547,729,994
EQUITY			
Equity attributable to shareholders of the Company:			
Share capital	16	400,000,000	300,000,000
Statutory reserve	17	81,906,835	69,844,692
Retained earnings		348,829,411	380,270,124
Currency translation differences		(8,212,137)	(8,313,788)
		822,524,109	741,801,028
Minority interest		(8,297,715)	(8,252,180)
Total equity		814,226,394	733,548,848
Total liabilities and equity		1,233,999,584	1,281,278,842

The notes 1 through 25 on pages 5 to 20 form an integral part of these consolidated financial statements.

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

Consolidated Statement of Income

For the year ended December 31, 2012

(All amounts in Saudi Riyals unless otherwise stated)

	Note	Year ended December 31 2012	Year ended December 31 2011
Revenues		864,845,179	775,580,110
Cost of revenues		(641,190,435)	(627,392,804)
Gross profit		223,654,744	148,187,306
Operating expenses			
Selling and marketing	18	(37,439,429)	(21,884,251)
General and administrative	19	(51,532,037)	(40,993,466)
Income from operations		134,683,278	85,309,589
Other income (expenses)			
Financial charges		(7,490,304)	(8,138,375)
Financial income		1,714,226	1,297,109
Other income, net		1,169,954	1,615,990
Income before foreign income tax, zakat and minority interest		130,077,154	80,084,313
Foreign income taxes	13	(111,100)	8,419,822
Zakat	13	(9,389,914)	(10,883,992)
Income before minority interest		120,576,140	77,620,143
Loss attributable to minority interest		45,290	275,178
Net income for the year attributable to equity shareholders		120,621,430	77,895,321
Earnings per share (Saudi Riyals):			
• Operating income		3.37	2.13
• Net income for the year attributable to equity holders	21	3.02	1.95

The notes 1 through 25 on pages 5 to 20 form an integral part of these consolidated financial statements.

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

Consolidated Statement of Cash Flows

For the year ended December 31, 2012

(All amounts in Saudi Riyals unless otherwise stated)

	Note	Yead ended December 31 2012	Yead ended December 31 2011
Cash flows from operating activities:			
Net income for the year		120,621,430	77,895,321
<u>Adjustments to reconcile net income to net cash generated from operating activities.</u>			
Depreciation of property, plant and equipment and investment properties	9,10	73,842,217	49,011,776
Amortization of operating lease payments		531,572	454,045
Loss (gains) from disposal of property and equipment and investment properties		(207,644)	147,290
Loss attributable to minority interest		(45,290)	(275,178)
Provision for employees' termination benefits		18,470,955	6,493,147
Zakat charge		9,389,914	10,883,992
(Recovery against)/Provision for doubtful debts	6	(914,390)	275,775
(Written off) Provision for inventory obsolescence	7	232,060	1,118,755
Change in currency translation difference		101,406	(7,912,962)
Impairment for property, plant and equipment and investment properties		2,543,496	-
<u>Changes in other operating activities:</u>			
Accounts and retentions receivable		111,210,947	7,078,169
Contract work-in-progress		(93,844,428)	61,620,362
Inventories		22,819,166	7,838,281
Advances to suppliers		19,604,125	(7,366,775)
Due from related parties		8,536	(84,307)
Prepayments and other current assets		4,195,413	(2,214,922)
Operating lease payment		(741,752)	(135,982)
Trade accounts payable		(35,883,344)	19,009,152
Advances from customers		2,612,250	2,228,194
Accrued and other current liabilities		8,227,568	(22,750,339)
Zakat paid		(3,404,468)	(10,220,567)
Employees' termination benefits paid		(2,519,790)	(4,207,060)
Net cash generated from operating activities		256,849,949	188,886,167
Cash flows from investing activities			
Purchase of investment properties		(61,506,046)	(319,096,832)
Purchase of property, plant and equipment		(27,733,357)	(40,998,945)
Proceeds from disposal of property and equipment and investment properties		990,954	1,218,382
Net cash used in investing activities		(88,248,449)	(358,877,395)
Cash flows from financing activities:			
Change in short-term borrowings		(49,427,035)	121,944,199
Change in medium-term borrowings		(71,705,560)	113,989,388
Dividends paid		(40,000,000)	(30,000,000)
Net cash (used in) /generated from financing activities		(161,132,595)	205,933,587
Net change in cash and cash equivalents		7,468,905	35,942,359
Cash and cash equivalents at beginning of the year		97,470,152	61,527,793
Cash and cash equivalents at end of the year		104,939,057	97,470,152
Supplemental schedule of non-cash information:			
Transfer of investment properties to property, plant and equipment and inventory at net book value		(13,112,847)	(13,577,404)

The notes 1 through 25 on pages 5 to 20 form an integral part of these consolidated financial statements.

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

Consolidated Statement of Changes in Shareholders' Equity

For the year ended December 31, 2012

(All amounts in Saudi Riyals unless otherwise stated)

	Note	Share capital	Statutory reserve	Retained earnings	Currency translation differences	Total attributable to equity shareholders	Loss attributable to minority interest	Total
January 1, 2011		300,000,000	62,055,160	340,164,335	(390,130)	701,829,365	(7,987,698)	693,841,667
Net income for the year		-	-	77,895,321	-	77,895,321	(275,178)	77,620,143
Transfer to statutory reserve	17	-	7,789,532	(7,789,532)	-	-	-	-
Dividends	22	-	-	(30,000,000)	-	(30,000,000)	-	(30,000,000)
Net movement in currency translation		-	-	-	(7,923,658)	(7,923,658)	-	(7,923,658)
Net movement in minority interest		-	-	-	-	-	10,696	10,696
December 31, 2011		300,000,000	69,844,692	380,270,124	(8,313,788)	741,801,028	(8,252,180)	733,548,848
Transfer to share capital		100,000,000	-	(100,000,000)	-	-	-	-
Net income for the year		-	-	120,621,430	-	120,621,430	(45,290)	120,576,140
Transfer to statutory reserve	17	-	12,062,143	(12,062,143)	-	-	-	-
Dividends	22	-	-	(40,000,000)	-	(40,000,000)	-	(40,000,000)
Net movement in currency translation		-	-	-	101,651	101,651	-	101,651
Net movement in minority interest		-	-	-	-	-	(245)	(245)
December 31, 2012		400,000,000	81,906,835	348,829,411	(8,212,137)	822,524,109	(8,297,715)	814,226,394

The notes 1 through 25 on pages 5 to 20 form an integral part of these consolidated financial statements..

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

Notes to the consolidated financial statements

For the year ended December 31, 2012

(All amounts in Saudi Riyals unless otherwise stated)

1 GENERAL INFORMATION

Red Sea Housing Services Company (the "Company") and 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 and maintenance, construction of utilities and civil work.

The Company was incorporated as a Saudi joint stock company pursuant to Ministerial Resolution No. 2532 dated 2 Ramadan 1427 H (September 25, 2006). The registered address of the Company is P.O Box 1531, Jubail 31951 Jubail, Saudi Arabia.

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 December 31,</u>	
		<u>2012</u>	<u>2011</u>
Red Sea Housing Services (Ghana) Limited ("RSQ")	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 Libya ("RSL")	Libya	90%	90%
Red Sea Housing Services Company Dubai FZE ("RSD")	U.A.E.	100%	100%
Red Sea for Buidling Materials and Equipments Trading Company	KSA	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 consolidated financial statements.

Accumulated losses of RSQ and RSA as of December 31, 2012 exceeded their share capital. The Group management believes that such accumulated losses will be absorbed once RSQ and RSA obtain new contracts. The Company will continue to provide the necessary financial support to RSQ and RSA in order to meet their obligations as they become due. The total assets and the carrying value of property, plant and equipment of RSQ as of December 31, 2012 were Saudi Riyals 0.037 million and Saudi Riyals Nil, respectively. The total assets and carrying value of investment properties of RSA as of December 31, 2012, were Saudi Riyal 41.4 million and Saudi Riyals 30.2 million, respectively.

RSN and RSL have not started commercial operations as at December 31, 2012.

The Company also has licenses to operate branches in Papua New Guinea (PNG), Abu Dhabi, Afghanistan and Equatorial Guinea. Abu Dhabi, Afghanistan and Equatorial Guinea did not have any operations through December 31, 2012.

During the year the Company has formed a new subsidiary, Red Sea for Buidling Materials and Equipments Trading Company. This subsidiary is registered in Saudi Arabia under Commercial Registration number 4030234571 dated Thul-Quada 17, 1433 corresponding to October 03, 2012. The subsidiary did not commence its commercial operation through December 31, 2012.

These consolidated financial statements were approved by the Company's Board of Directors on February 24, 2013 (Rabi Thani 14, 1434 H).

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

Notes to the consolidated financial statements

For the year ended December 31, 2012

(All amounts in Saudi Riyals unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The accompanying consolidated financial statements have been prepared under the historical cost convention on the accrual basis of accounting and on a going concern assumption, and in compliance with accounting standards promulgated by Saudi Organization for Certified Public Accountants ("SOCPA").

2.2 Critical accounting estimates and judgments

The preparation of financial statements in conformity with generally accepted accounting principles 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 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. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets within the next reporting period are discussed below:

(a) Provision for doubtful debts

Provision for doubtful debts reflects the estimate of losses arising from the failure or inability of the customers to make the required payments in the normal course of business. Collections from customers are continuously monitored and provisions are recognized based on the ageing of the accounts receivable, the customers' credit worthiness, general market conditions and the historic write-off experience. Changes to the estimated provision are made if the financial condition of the customers improves or deteriorates.

(b) Provision for inventory obsolescence

Provision against obsolete inventories is recognized considering age, physical condition and expected utilization of inventories. Such estimates are influenced by level of customization of products, technological changes and expected internal consumption of inventories. These factors could result in variation in provision recognized against inventory obsolescence.

(c) Estimated cost for fixed price contracts

Estimated cost to complete for the fixed price contracts are calculated based on the best estimates of the cost to be recognized under the percentage of completion method and these are reviewed on an ongoing basis.

(d) Useful lives of property, plant and equipment and investment properties

Management estimates useful lives and residual values of property, plant and equipment and investment properties based on the intended use of assets and the economic lives of those assets. Subsequent changes in circumstances such as expected usage, physical wear and tear, and technological or commercial obsolescence of assets concerned could result in the actual useful lives or residual values differing from initial estimates.

2.3 Group accounting

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. 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 Company's share of the identifiable net assets acquired, if any, is recorded as goodwill. Goodwill, if any, arising from acquisition of subsidiaries is reported under "intangible assets" and tested annually for impairment and carried at cost, net of impairment losses, if any.

The accompanying consolidated financial statements include the accounts of the Company, all of its branches and subsidiaries.

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

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

Notes to the consolidated financial statements

For the year ended December 31, 2012

(All amounts in Saudi Riyals unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Segment reporting

(a) Business segment

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

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

(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) Functional and presentation currency

These consolidated financial statements are presented in Saudi Riyals which is the functional 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 consolidated statement of income.

(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 the 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 income 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 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 less than one year from the purchase date.

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

Notes to the consolidated financial statements

For the year ended December 31, 2012

(All amounts in Saudi Riyals unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 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 objective 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 consolidated statement of income and reported under "General and administrative expenses". When an accounts receivable is uncollectible, it is 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 consolidated statement of income.

2.9 Inventories

Inventories are carried at the lower of cost or net realizable value. Cost is determined using the weighted average method. The cost of finished products include the cost of raw materials, labor and production overheads.

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

2.10 Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation and impairment except projects under construction which are carried at cost net of impairment, if any. Land is not depreciated. Depreciation is charged to the consolidated statement of income, 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 the proceeds with the carrying amount and are included in the consolidated statement of income.

Maintenance and normal repairs, which do not materially extend the estimated useful life of an asset, are charged to the consolidated statement of income as and when incurred. Major renewals and improvements, if any, are capitalized if they enhance future economic benefits.

2.11 Investment properties

Properties held for long-term rental yields, which are not occupied by the Group, are recorded at cost net of accumulated depreciation. Land is not depreciated. Depreciation is calculated over their estimated useful lives, less any residual value and depreciated between 2 to 20 years using the straight-line method.

Expenditures for maintenance and repairs that do not materially extend the asset's life are included in expenses. Gains and losses on disposals are determined by comparing proceeds with the carrying amounts and are included in the consolidated statement of income.

2.12 Impairment of non-current assets

Investment properties, property, plant and equipments 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 the 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 consolidated statement of income.

RED SEA HOUSING SERVICES COMPANY AND SUBSIDIARIES
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Notes to the consolidated financial statements

For the year ended December 31, 2012

(All amounts in Saudi Riyals unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.13 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 consolidated statement of income.

2.14 Accounts payable and accruals

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

2.15 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.

Provisions and accruals cover commercial (including contractual liabilities in respect of demobilization and site restoration costs), employee related and traveling and logistical expenses, in the course of operating activities, and are measured using assumptions that take account of the most likely outcomes.

2.16 Zakat and taxes

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

Foreign branches and subsidiaries, 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 consolidated statement of income. The Company's subsidiary in the UAE is not subject to any zakat or income taxes in the UAE.

2.17 Employee termination benefits

Employee termination benefits required by Saudi Labor and Workman Law are accrued by the Company and charged to the consolidated statement of income. 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.

2.18 Revenues

Revenues from building sales 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 as contract work-in-progress. Billings in excess of costs and estimated earnings on uncompleted contracts are included in current liabilities as advance billings.

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

2.19 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.

2.20 Dividends

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

RED SEA HOUSING SERVICES COMPANY AND SUBSIDIARIES
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Notes to the consolidated financial statements

For the year ended December 31, 2012

(All amounts in Saudi Riyals unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.21 Operating leases

Rental expenses under operating leases are charged to the consolidated statement of income over the terms of the related leases. 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 consolidated balance sheet and is amortized over the period of the related lease agreements.

3 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments carried on the balance sheet include cash and cash equivalents, deposits, accounts receivable, retentions receivable, due from related parties, borrowings, accounts payable and accrued and other current liabilities. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

A financial asset and liability is offset and the net amount reported in the financial statements, when the Group has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the asset and liability simultaneously.

Risk management is carried out by senior management. The most important types of risk are currency risk fair value and cash flow interest rate risks, credit risk, liquidity risk and fair value.

3.1 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group's transactions are principally in Saudi Riyals, US Dollars, UAE Dirham, Ghanaian Cedi and Papua New Guinea Kina.

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures. The Group also has investments in foreign subsidiary, whose net assets are exposed to currency translation risk. Currently, such exposures are mainly related to exchange rate movements between Saudi Riyals against UAE Dirham, US Dollars, Algerian Dinar and PNG Kina. Such exposures are recorded as a separate component of shareholders' equity in the accompanying financial statements. The Group's management monitors such exposures and it believes that foreign currency exposure applicable to Group's operation are not significant, except for the impact of fluctuations in exchange rate of PNG Kina against Saudi Riyal, in the year.

3.2 Cash flow interest rate risks

Cash flow interest rate risk is the exposure to various risks associated with the effect of fluctuations in the prevailing interest rates on the Group's financial position and cash flows. The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's interest rate risks arise mainly from its medium and short-term bank borrowings (see Note 11) which are at floating rates of interest, and are subject to re-pricing on a regular basis. Management monitors the changes in interest rates and believes that the cash flow interest rate risk to the Group is not significant.

3.3 Credit risk

Credit risk is the risk that one party will fail to discharge an obligation and will cause the other party to incur a financial loss. At December 31, 2012 approximately 73.3% of accounts receivable including retentions were due from 11 customers (2011 – 11 customers accounting for 75.8%). Management believes that this concentration of credit risk is mitigated as such proportion of balances are outstanding mainly from customers with whom there has been a sound relationship and an established track record of payments. Cash and short-term deposit balances are placed with banks of sound credit ratings.

3.4 Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. Liquidity risk is managed by monitoring on a regular basis that sufficient funds are available through committed credit facilities to meet any future commitments.

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3 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

3.1 Fair value

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. As the Group's financial instruments are compiled under the historical cost convention, differences can arise between the book values and fair value estimates. Management believes that the fair values of the Group's financial assets and liabilities are not materially different from their carrying values.

4 SEGMENT INFORMATION

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

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

Selected financial information as of December 31 and for the years then ended, summarized by the above business segments, is as follows (SR 000's):

<u>2012</u>	<u>Manufacturing and sale</u>	<u>Rentals</u>	<u>Total</u>
Total assets	750,406	483,593	1,233,999
Revenues	580,693	284,152	864,845
Net income	56,797	63,824	120,621
<u>2011</u>	<u>Manufacturing and sale</u>	<u>Rentals</u>	<u>Total</u>
Total assets	815,772	465,506	1,281,278
Revenues	585,297	190,283	775,580
Net income	36,184	41,711	77,895

During the year ended December 31, 2012, approximately 49% of total revenues from manufacturing and sale segment was derived from 6 customers (2011: 4 customers representing approximately 58%).

During the year ended December 31, 2012, approximately 76% of total revenues from rental segment was derived from 5 customers (2011: 5 customers representing approximately 79%).

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4 SEGMENT INFORMATION (Continued)

The Group's operations are conducted in Saudi Arabia, UAE, Ghana, PNG, Algeria and certain other geographical areas. Selected financial information as of December 31 and for the years then ended, summarized by geographic area, is as follows (SR 000's):

<u>2012</u>	<u>Saudi Arabia</u>	<u>UAE</u>	<u>Ghana</u>	<u>PNG</u>	<u>Algeria</u>	<u>Libya</u>	<u>Others</u>	<u>Total</u>
Investment properties	360,802	-	-	5,735	30,255	-	-	396,792
Property, plant and equipment	19,480	50,298	37,848	53,611	436	51,665	-	213,338
Revenues	461,642	155,466	200,494	40,284	6,959	-	-	864,845
Net income (loss)	89,520	17,673	36,200	(21,234)	(1,376)	-	(162)	120,621
<u>2011</u>	<u>Saudi Arabia</u>	<u>UAE</u>	<u>Ghana</u>	<u>PNG</u>	<u>Algeria</u>	<u>Libya</u>	<u>Others</u>	<u>Total</u>
Investment properties	370,493	106	-	6,430	32,796	-	-	409,825
Property, plant and equipment	10,376	55,506	39,133	55,853	691	40,192	342	202,093
Revenues	252,845	231,875	154,528	131,850	4,482	-	-	775,580
Net income (loss)	54,151	25,878	35,569	(32,017)	(5,501)	-	(185)	77,895

5 CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at the year ended December 31, comprise of the following

	<u>2012</u>	<u>2011</u>
Short term deposits	61,266,000	61,772,315
Cash at bank – current account	43,200,209	35,051,567
Cash in hand	472,848	646,270
	<u>104,939,057</u>	<u>97,470,152</u>

Short term deposits are held with commercial banks and yield financial income at prevailing market rates. At December 31, 2012, short term deposits with original maturities in excess of 90 days are classified as short-term deposits.

6 ACCOUNTS RECEIVABLE

Accounts receivable as at the year ended December 31, comprise of the following:

	<u>2012</u>	<u>2011</u>
Trade receivables	117,842,919	182,023,711
Less: provision for doubtful debts	(8,608,788)	(9,523,178)
	<u>109,234,131</u>	<u>172,500,533</u>
Retentions – current	19,544,987	66,575,142
Total	<u>128,779,118</u>	<u>239,075,675</u>

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6 ACCOUNTS RECEIVABLE (Conitnued)

Retentions represent withholding from periodic contract billings and are due in accordance with the contractual terms. Retention amounts due within twelve-months after the consolidated balance sheet date are classified as current in the accompanying consolidated financial statements.

Movement in provision for doubtful debts is as follows:

	2012	2011
Balance as at January 1	9,523,178	9,344,830
Additions during the year	732,917	275,775
Release during the year	(1,647,307)	(97,427)
Balance as at December 31	8,608,788	9,523,178

7 INVENTORIES

Inventories as at the years ended December 31, comprise of the following:

	2012	2011
Raw materials	102,302,115	123,016,404
Finished products	77,901,090	68,587,080
Less: provision for inventory obsolescence	(3,152,574)	(2,920,514)
Goods in transit	621,263	1,899,245
	177,671,894	190,582,215

The movement in provision for inventory obsolescence is as follows:

	2012	2011
Balance as at January 1	2,920,514	3,145,162
Additions during the year	640,159	1,118,755
Release during the year	(408,099)	(1,343,403)
Balance as at December 31	3,152,574	2,920,514

8 PREPAYMENTS AND OTHER CURRENT ASSETS

Prepayments and other current assets as at the years ended December 31, comprise of the following:

	2012	2011
Prepaid expenses and deposits	16,428,939	26,069,123
Prepaid lease expense	8,060,463	7,850,283
Advances to employees	2,325,445	1,951,889
Other receivables	7,886,461	2,112,280
Interest receivable	393,082	1,096,048
	35,094,390	39,079,623
Less : Prepaid lease expense – Long term portion	(7,635,553)	(7,048,711)
	27,458,837	32,030,912

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9 INVESTMENT PROPERTIES

The movement in investment properties during the year ended December 31, 2012 comprise of following:

	Land	Buildings and residential houses	Projects under construction	Total
<u>Cost</u>				
Balance at January 1,	4,227,897	481,523,510	36,935,652	522,687,059
Additions	-	4,867,815	56,638,231	61,506,046
Impairment	-	(4,182,377)	-	(4,182,377)
Transfers	-	23,604,772	(23,604,772)	-
Transfer to property, plant and equipment	-	(108,037)	(10,709,340)	(10,817,377)
Transfer to inventories	-	(2,730,403)	-	(2,730,403)
Currency translation differences	-	(128,372)	-	(128,372)
Balance at December 31,	4,227,897	502,846,908	59,259,771	566,334,576
<u>Accumulated Depreciation</u>				
Balance at January 1,	-	112,861,656	-	112,861,656
Charge for the year	-	58,777,830	-	58,777,830
Impairment	-	(1,655,523)	-	(1,655,523)
Transfer to property, plant and equipment	-	(36,648)	-	(36,648)
Transfer to inventories	-	(398,285)	-	(398,285)
Currency translation differences	-	(6,820)	-	(6,820)
Balance as at December 31,	-	169,542,210	-	169,542,210
<u>Net Book Value</u>				
At December 31, 2012	4,227,897	333,304,698	59,259,771	396,792,366
At December 31, 2011	4,227,897	368,661,854	36,935,652	409,825,403

Investment properties are held for long-term rental yields and are not occupied by the Company. Also see Note 20 with respect to operating leases.

At December 31, 2012, projects under construction represent costs primarily related to on-going projects in Red Sea Housing Services Company KSA.

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10 PROPERTY, PLANT AND EQUIPMENT

The movement in property, plant and equipment during the year ended December 31, 2012 comprise of the following:

	Land	Buildings and residential houses	Machinery and equipment	Furniture, fixtures and office equipment	Vehicles	Projects under construction	Total
Cost							
Balance at January 1,	2,250,000	135,438,375	42,125,127	11,505,922	43,976,861	40,991,398	276,287,683
Additions	-	1,206,103	3,263,286	648,138	2,425,243	20,190,588	27,733,358
Disposals	-	-	(2,049)	(18,920)	(1,654,693)	-	(1,675,662)
Transfers	-	407,772	-	-	-	(407,772)	-
Transfer from investment properties	-	10,767,382	-	49,995	-	-	10,817,377
Transfer to inventories	-	(7,549,276)	(1,555,917)	-	-	-	(9,105,193)
Currency translation differences	-	(537,741)	(75,611)	(62,416)	(464,747)	(648,017)	(1,788,532)
Impairment	-	-	-	(4,927)	(51,078)	(3,717,294)	(3,773,299)
Balance at December 31,	2,250,000	139,732,615	43,754,836	12,117,792	44,231,586	56,408,903	298,495,732
Accumulated Depreciation							
Balance at January 1,	-	30,284,253	20,822,086	6,542,655	16,545,443	-	74,194,437
Charge for the year	-	5,650,730	4,609,718	1,464,216	3,339,723	-	15,064,387
Disposals	-	-	(1,963)	(1,910)	(888,478)	-	(892,351)
Transfer from investment properties	-	12,320	-	24,328	-	-	36,648
Transfer to inventories	-	(2,773,240)	(341,861)	-	-	-	(3,115,101)
Currency translation differences	-	(26,479)	(13,122)	(13,005)	(38,783)	-	(91,389)
Impairment	-	-	-	(4,602)	(34,761)	-	(39,363)
Balance as at December 31,	-	33,147,584	25,074,858	8,011,682	18,923,144	-	85,157,268
Net Book Value							
At 31 December 2012	2,250,000	106,585,031	18,679,978	4,106,110	25,308,442	56,408,903	213,338,464
At 31 December 2011	2,250,000	105,154,122	21,303,041	4,963,267	27,431,418	40,991,398	202,093,246

The Group has various operating lease arrangements for plots of land upon which the Group and its subsidiaries' production facilities are located. Also see Note 20.

Projects under construction at December 31, 2012 represent costs incurred on production facilities. The Group expects that such projects be completed in 2013.

At December 31, 2012, property plant and equipment of RSL include approximately Saudi Riyals 51.6 million related to facilities which are under construction in Libya. Due to the political crisis 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 the facility. A provision of Saudi Riyals 6.3 million has been maintained against the estimated damage to the facilities.

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11 BORROWINGS

Borrowing as at the year ended December 31, comprise of the following

Current portion:

	2012	2011
Short-term bank borrowings	60,410,597	83,187,637
Current portion of medium-term borrowings (see below)	86,060,616	112,710,612
	146,471,213	195,898,249

Short-term borrowings bear financing charges at market rates. Unused credit facilities available to the Group at December 31, 2012 amounted to approximately Saudi Riyals 327.4 million (2011: Saudi Riyals 382.1 million) and comprised principally of overdrafts, short-term loans and letters of credit and guarantee. Certain credit facility agreements contain covenants requiring maintenance of certain financial ratios and other matters.

Non-current portion:

	2012	2011
Medium-term borrowings	160,694,445	259,050,000
Less: current portion of medium-term borrowings	(86,060,616)	(112,710,612)
Non-current portion of medium-term borrowings	74,633,829	146,339,388

During 2011, the Company obtained a medium-term bank loan of SR 225 million from a bank in Saudi Arabia secured against the project of Saudi Arabian Mining Company "Ma'aden" and used towards the construction of camps. All of these loans are denominated in Saudi Riyals. Unused medium-term bank loans available to the Company at December 31, 2012 amounting to Saudi Riyals Nil million (2011: Saudi Riyals 15 million). These loans generally bear financial charges based on prevailing market rates. The aggregate maturities of these loans, based on their respective repayment schedules, are spread in 2013 through 2014. These medium-term loans are principally secured by promissory notes. The medium-term borrowing agreements contain covenants requiring maintenance of certain financial ratios and other matters.

The maturity profile of the non-current portion of the medium-term borrowings is as follows:

Year ending December 31:	2012	2011
2013	-	83,460,612
2014	74,633,829	62,878,776
	74,633,829	146,339,388

12 ACCRUED AND OTHER CURRENT LIABILITIES

Accrued and other current liabilities, as at the years ended December 31, comprise of the following:

	2012	2011
Employee-related	27,728,526	21,112,285
Unearned rental revenue	7,839,633	5,008,706
Accrued foreign income and value added taxes	859,400	2,163,192
Deposits	1,109,202	807,003
Provision for litigation (Note 27)	2,173,983	5,073,460
Accrued for project operation and catering cost	15,968,196	7,201,292
Accrued demobilization cost and other	10,638,650	13,138,650
Provision for impairment	6,255,954	9,965,462
Accrued sales commissions	835,791	2,014,076
Other	7,465,149	9,880,084
	80,874,484	76,364,210

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13 ZAKAT AND TAX

13.1 Components of zakat base

Zakat and foreign income tax are charged to the consolidated statement of income. Significant components of the Company's zakat base are comprised of shareholders' equity, provisions at the beginning of the year and adjusted net income, less deductions for the net book value of property, plant and equipment and investment properties adjusted as per DZIT regulations, and certain other items. Zakat is included in the consolidated statement of income for the years ended December 31, 2012 and 2011.

Income tax related to foreign subsidiaries and branches amounted to approximately Saudi Riyals 0.11 million for the year ended December 31, 2012 (2011: Tax benefit of Saudi Riyals 8.4 million).

13.2 Provision for zakat

	2012	2011
Balance as at January 1	11,547,224	10,883,799
Provision for the year	9,389,914	10,883,992
Payments during the year	(3,404,468)	(10,220,567)
Balance as at December 31	17,532,670	11,547,224

13.3 Status of final assessments

The Company has finalized its zakat status and obtained the zakat clearance certificates up to 2006. The Company has not received final assessments from the DZIT for the years 2007 through 2012.

14 EMPLOYEES' TERMINATION BENEFITS

The movement in employees' termination benefits is summarized below:

	2012	2011
Balance as at January 1	13,558,296	11,272,209
Provisions during the year	18,470,955	6,493,147
Payments during the year	(2,519,790)	(4,207,060)
Balance as at December 31	29,509,461	13,558,296

15 RELATED PARTY MATTERS

Related parties principally comprise of Dabbagh Group Holding Company Limited and its affiliated entities (collectively the "Dabbagh Group") which are the majority shareholders of the Company, and also includes the Group's minority shareholders and their affiliated entities.

Due from related parties at December 31, 2012 of Saudi Riyals 519,441 (2011: Saudi Riyals 527,977) principally relates to amounts due from entities related to Group's minority shareholders in the normal course of business.

16 SHARE CAPITAL

The Company's share capital as of December 31, comprise of the following:

	2012	2011
Opening number of shares	30,000,000	30,000,000
Issued during the year	10,000,000	-
Closing number of shares	40,000,000	30,000,000

The shareholders, in their extra ordinary general assembly meeting held on April 18, 2012, approved to 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. The shares have a parvalue of Saudi Riyals 10 per share.

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17 STATUTORY RESERVE

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

18 SELLING AND MARKETING EXPENSES

Selling and marketing expenses during the years ended December 31, comprise of the following:

	2012	2011
Employee related costs	31,142,120	18,486,060
Sales commission	3,368,100	2,932,679
Others	2,929,209	465,512
	<u>37,439,429</u>	<u>21,884,251</u>

19 GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expense for the years ended December 31, comprise of the following:

	2012	2011
Employee related costs	35,106,646	19,013,352
Depreciation	2,298,587	2,006,317
Professional fees	3,320,381	2,223,998
Traveling	2,042,026	617,459
Utilities	950,967	1,181,178
Insurance	989,052	336,171
Net provision for doubtful debts	240,276	178,348
Provision for Libyan Factory	-	9,970,635
Others	6,584,102	5,466,008
	<u>51,532,037</u>	<u>40,993,466</u>

20 OPERATING LEASES

Expenses

The Group has various operating leases for its offices, warehouses and production facilities. Rental expenses for the year ended December 31, 2012 amounted to Saudi Riyals 17.1 million (2011: Saudi Riyals 16.7 million). Future rental commitments under these operating leases at December 31, 2012 are as follows (in SR million).

Year ending December 31:	2012	2011
2012	-	7.1
2013	6.4	13.5
2014	7.5	8.6
2015	6.6	6.7
2016	6.5	6.5
Thereafter	<u>14.0</u>	<u>13.6</u>
	<u>41.0</u>	<u>56.0</u>

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20 OPERATING LEASES (continued)

Income

The Group leased out various residential houses (See Note 9) under operating lease agreements. Rental income from such leases for the year ended December 31, 2012 amounted to Saudi Riyals 284 million (2011: Saudi Riyals 190.2 million).

Operating leases for rental income with terms expiring within one year and in excess of one year as of December 31, 2012 are as follows (in SR million):

Year ending December 31:

2013	277
2014	141
	<u>418</u>

21 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 December 31, 2012 and December 31, 2011 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 total number of shares outstanding, including the impact of bonus shares, during the year as follows:

	<u>December 31, 2012</u>	<u>December 31, 2011</u>
(In Saudi riyal thousand)		
Income attributable to equity holders	<u>120,621</u>	<u>77,895</u>
(In thousands of shares)		
Share capital as of January 1	30,000	30,000
Effect of increase in shares due to bonus share issuance	<u>10,000</u>	<u>10,000</u>
Total number of shares outstanding as at September 30	<u>40,000</u>	<u>40,000</u>
Earnings per share	<u>3.02</u>	<u>1.95</u>

22 DIVIDENDS

The shareholders in their extra ordinary general assembly meeting held on April 18, 2012 declared dividends to the shareholders amounting to Saudi Riyals 40 million (Saudi Riyals 1 per share) (2011: Saudi Riyals 30 million Saudi Riyals 1 per share).

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23 KEY MANAGEMENT REMUNERATION

The total remuneration of the key management personnel for the year ended December 31, 2012 amounted to Saudi Riyals 33.5 million (2011: Saudi Riyals 12.3 million). The remuneration includes salaries and other benefits as per the Group's policy.

The Managing Director and the General Managers of Ghana and Jubail operations are each entitled to a fixed monthly salary as well as to an annual bonus and an additional incentive exceeding the higher of either the annual actual net profit of the Group or the annual budgeted net profit as approved by the Board of Directors.

Key management personnel are those persons, including the Managing Director, having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly.

24 CONTINGENCIES

The Group was contingently liable for bank guarantees and letters of credit issued in the normal course of business amounting to Saudi Riyals 70.4 million and Saudi Riyal 5.8 million respectively, at December 31, 2012 (2011: Saudi Riyals 99 million and Saudi Riyals 0.6 million, respectively).

25 PROVISION FOR LITIGATION

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 as settlement. 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 2.53 million has been written off and to that extent the provision has also reduced.