

**HALWANI BROTHERS COMPANY**  
**(A Saudi Joint Stock Company)**

**INTERIM CONDENSED CONSOLIDATED FINANCIAL**  
**STATEMENTS (UNAUDITED)**

**AS AT 30 JUNE 2011**

**LIMITED REVIEW REPORT TO THE SHAREHOLDERS OF  
HALWANI BROTHERS COMPANY (A SAUDI JOINT STOCK COMPANY)  
ON THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**Scope of review**

We have reviewed the interim consolidated balance sheet of Halwani Brothers Company (a Saudi joint stock company) and its subsidiary as at 30 June 2011 and the related interim consolidated statement of income for the three-month and six-month periods then ended, and the related interim consolidated statements of cash flows and changes in shareholders' equity for the six-month period then ended, which have been prepared by the Company's Board of Directors and submitted to us together with all the information and explanations which we required. We conducted our review in accordance with the standard on examining interim financial statements issued by the Saudi Organization for Certified Public Accountants (SOCPA). A review is limited primarily to analytical procedures applied to financial data and inquiries of Company's personnel on financial and accounting matters. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion on the financial statements taken as a whole. Accordingly, we do not express such an opinion.

**Conclusion**

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

for Ernst & Young

Ahmed I. Reda  
Certified Public Accountant  
Licence No. 356



6 Shaban 1432 H  
7 July 2011

Jeddah

# Halwani Brothers Company (A Saudi Joint Stock Company)

## INTERIM CONSOLIDATED BALANCE SHEET

As at 30 June 2011

	Note	2011 SR (Unaudited)	2010 SR (Unaudited)
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents		60,982,973	132,562,323
Accounts receivable, net		128,442,291	135,623,635
Inventories, net		192,798,797	134,667,817
Prepaid expenses and other assets		18,059,510	13,788,680
Due from related parties		1,955,569	4,656,322
<b>TOTAL CURRENT ASSETS</b>		<b>402,239,140</b>	<b>421,298,777</b>
<b>NON-CURRENT ASSETS</b>			
Property and equipment, net		231,921,299	170,656,772
<b>TOTAL ASSETS</b>		<b>634,160,439</b>	<b>591,955,549</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable		61,596,124	54,572,273
Due to related parties		564,550	549,901
Accrued expenses and other payables		34,608,204	32,141,372
Zakat Payable		4,477,456	3,917,403
<b>TOTAL CURRENT LIABILITIES</b>		<b>101,246,334</b>	<b>91,180,949</b>
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax liability		851,074	1,830,682
Employees' terminal benefits		27,916,807	27,166,200
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>28,767,881</b>	<b>28,996,882</b>
<b>TOTAL LIABILITIES</b>		<b>130,014,215</b>	<b>120,177,831</b>
<b>SHAREHOLDERS' EQUITY</b>			
Capital	3	285,714,300	285,714,300
Statutory reserve		121,670,520	113,392,244
General reserve		9,005,096	9,005,096
Retained earnings		108,338,790	78,891,446
Translation adjustments of financial statements of a subsidiary		(20,582,482)	(15,225,368)
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>504,146,224</b>	<b>471,777,718</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>634,160,439</b>	<b>591,955,549</b>

The attached notes 1 to 10 form part of these unaudited interim condensed consolidated financial statements.

# Halwani Brothers Company (A Saudi Joint Stock Company)

## INTERIM CONSOLIDATED STATEMENT OF INCOME

For the year ended 30 June 2011

	For the three-month period ended 30 June		For the six-month period ended 30 June	
	2011	2010	2011	2010
	Note SR (Unaudited)	SR (Unaudited)	SR (Unaudited)	SR (Unaudited)
Sales	215,576,298	179,153,977	409,467,232	352,299,031
Cost of sales	(149,146,855)	(119,925,529)	(281,364,436)	(235,491,595)
<b>GROSS PROFIT</b>	<b>66,429,443</b>	<b>59,228,448</b>	<b>128,102,796</b>	<b>116,807,436</b>
Selling and distribution expenses	(24,383,802)	(23,516,536)	(49,983,155)	(46,127,363)
General and administration expenses	(9,956,193)	(9,051,185)	(19,058,119)	(18,228,026)
Provision for slow moving items	(406,191)	(150,000)	(556,191)	(300,000)
Provision for doubtful debts	(1,572,924)	(300,000)	(1,772,924)	(1,300,000)
Other provisions	(630,795)	(778,489)	(630,795)	(1,420,578)
<b>NET INCOME FROM THE OPERATIONS</b>	<b>29,479,538</b>	<b>25,432,238</b>	<b>56,101,612</b>	<b>49,431,469</b>
Returns on time deposits	183,819	321,164	374,602	771,174
Other income	636,616	1,283,804	1,697,506	1,890,855
Other expenses	(484,714)	(217,205)	(797,277)	(454,655)
<b>NET INCOME FOR THE PERIOD BEFORE ZAKAT AND INCOME TAX</b>	<b>29,815,259</b>	<b>26,820,001</b>	<b>57,376,443</b>	<b>51,638,843</b>
Zakat	(2,177,215)	(1,884,000)	(4,354,431)	(3,768,000)
Income tax	(4,268,514)	(3,229,581)	(7,973,343)	(5,204,606)
<b>NET INCOME</b>	<b>23,369,530</b>	<b>21,706,420</b>	<b>45,048,669</b>	<b>42,666,237</b>
<b>Earnings per share:</b>	4			
From net income from main operations	1.03	0.89	1.96	1.73
From net income	0.82	0.76	1.58	1.49

The attached notes 1 to 10 form part of these unaudited interim condensed consolidated financial statements.

# Halwani Brothers Company (A Saudi Joint Stock Company)

## INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For the period ended 30 June 2011

	2011 SR (Unaudited)	2010 SR (Unaudited)
<b>OPERATING ACTIVITIES</b>		
Net income for the period before zakat and income tax	57,376,443	51,638,843
Adjustments for:		
Provision for doubtful debts	1,772,924	1,300,000
Provision for slow moving items	556,191	300,000
Depreciation	9,358,020	9,023,805
Employees terminal benefits, net	283,188	308,677
Loss/(gain) on sale of property and equipment	285,606	(759,846)
Other provisions	630,795	1,420,578
	<u>70,263,167</u>	<u>63,232,057</u>
Changes in operating assets and liabilities:		
Accounts receivable	(4,609,759)	(17,400,551)
Inventories	(13,339,640)	(3,168,192)
Prepaid expenses and other assets	(2,383,690)	(1,878,129)
Due from/to related parties	2,457,563	(318,178)
Accounts payable	(6,069,791)	9,461,290
Accrued expenses and other payables	(3,834,421)	7,051,661
	<u>42,483,429</u>	<u>56,979,958</u>
<b>Cash from operations</b>	<u>42,483,429</u>	<u>56,979,958</u>
Zakat paid	(8,891,540)	(8,732,711)
Tax paid	(10,092,727)	(5,586,000)
	<u>23,499,162</u>	<u>42,661,247</u>
<b>Net cash from operating activities</b>	<u>23,499,162</u>	<u>42,661,247</u>
<b>INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(33,681,130)	(25,214,164)
Proceeds from sale of property and equipment	67,087	1,703,850
	<u>(33,614,043)</u>	<u>(23,510,314)</u>
<b>Net cash used in investing activities</b>	<u>(33,614,043)</u>	<u>(23,510,314)</u>
<b>FINANCING ACTIVITY</b>		
Dividends	(42,857,145)	(28,571,430)
Directors' remuneration	(2,200,000)	(1,204,569)
	<u>(45,057,145)</u>	<u>(29,775,999)</u>
<b>Net cash used in financing activity</b>	<u>(45,057,145)</u>	<u>(29,775,999)</u>
<b>DECREASE IN CASH AND CASH EQUIVALENTS</b>	<u>(55,172,026)</u>	<u>(10,625,066)</u>
Effect of foreign exchange rate changes on cash and cash equivalents	(745,366)	(1,012,623)
Cash and cash equivalents at the beginning of the period	116,900,365	144,200,012
	<u>60,982,973</u>	<u>132,562,323</u>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<u>60,982,973</u>	<u>132,562,323</u>
<b>SUPPLEMENTARY INFORMATION FOR NON-CASH TRANSACTIONS:</b>		
Effect of exchange rate change on translating a subsidiary's financial statements	<u>3,368,657</u>	<u>4,171,329</u>

The attached notes 1 to 10 form part of these unaudited interim condensed consolidated financial statements.

Halwani Brothers Company (A Saudi Joint Stock Company)  
INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
For the period ended 30 June 2011

	Note	2011 SR (Unaudited)	2010 SR (Unaudited)
<b>CAPITAL</b>	3	285,714,300	285,714,300
<b>STATUTORY RESERVE</b>			
Opening balance		117,165,653	109,125,620
Transferred from retained earnings		4,504,867	4,266,624
Closing balance		121,670,520	113,392,244
<b>GENERAL RESERVE</b>		9,005,096	9,005,096
<b>RETAINED EARNINGS</b>			
Opening balance		112,852,133	70,267,832
Net profit for the period		45,048,669	42,666,237
Transfer to statutory reserve		(4,504,867)	(4,266,624)
Dividends		(42,857,145)	(28,571,430)
Director's remuneration		(2,200,000)	(1,204,569)
Closing balance		108,338,790	78,891,446
<b>TRANSLATION ADJUSTMENTS OF FINANCIAL STATEMENTS OF A SUBSIDIARY</b>			
Opening balance		(17,213,825)	(11,054,039)
Translation difference during the period		(3,368,657)	(4,171,329)
Closing balance		(20,582,482)	(15,225,368)
<b>TOTAL SHAREHOLDERS' EQUITY</b>		504,146,224	471,777,718

The attached notes 1 to 10 form part of these unaudited interim condensed consolidated financial statements.



# Halwani Brothers Company (A Saudi Joint Stock Company)

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) At 30 June 2011

### 1 ACTIVITIES

Halwani Brothers Company is a Saudi Joint Stock company registered in the Kingdom of Saudi Arabia under Commercial Registration No. 4030005702 issued in Jeddah on 11 Rabie II 1388 H (corresponding to 7 July 1968).

The Company is engaged in manufacturing, packaging, wholesale and retail trade in food products.

The interim condensed consolidated financial statements comprise the interim financial statements of the parent company and Halwani Brothers Company Egypt (Egyptian Joint Stock Company), a fully owned subsidiary. The subsidiary is engaged in the manufacturing and packaging of foodstuff.

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The interim condensed consolidated financial statements are prepared in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia and in accordance with the interim financial statements standard issued by the Saudi Organization for Certified Public Accountants. The accounting policies adopted in preparing these interim condensed consolidated financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2010. These interim condensed consolidated financial statements do not include all the information and disclosures required for the full financial statements prepared in accordance with accounting standards generally accepted in Kingdom of Saudi Arabia. The significant accounting policies adopted are as follows:

#### Accounting convention

The interim condensed consolidated financial statements are prepared under the historical cost convention

#### Basis of consolidation

The interim condensed consolidated financial statements comprise the financial statements of the parent company and its subsidiary as explained in note (1) above. All inter-company transactions and balances are eliminated on consolidation.

#### Use of estimate

The preparation of the interim condensed consolidated financial statements in conformity with standards generally accepted 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.

#### Cash and cash equivalents

Cash and cash equivalents consists of bank balances, cash on hand and short-term deposits that are readily convertible into known amounts of cash and have a maturity of three months or less when purchased.

#### Accounts receivable

Accounts receivable are stated at original invoice amount less a provision for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred and accounts receivable is stated in net.

#### Inventories

Inventories of raw materials, finished goods, packaging materials, work-in-progress and spare parts are stated at the lower of cost or estimated net realizable value. Cost of raw materials, packaging materials and spare parts are determined using the moving average method.

Cost of finished goods and work-in-progress include direct materials, direct labour and appropriate allocation of manufacturing overheads. Provision is made for slow moving inventories.

# Halwani Brothers Company (A Saudi Joint Stock Company)

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(continued)

At 30 June 2011

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Property and equipment / depreciation

Property and equipment are stated at cost less accumulated depreciation and any impairment in value. Free-hold land is not depreciated the cost less estimated residual value of other property and equipment is depreciated on a straight-line basis over the estimated useful lives of the assets.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less cost to sell and their value in use.

Expenditures for repair and maintenance are charged to income. Betterments that increase the value or materially extend the life or the related assets are capitalized.

#### Impairment and uncollectibility of financial assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognised in the interim consolidated income statement. Impairment is determined as follows:

- (a) For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the interim consolidated income statement;
- (b) For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset;
- (c) For assets carried at amortised cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective interest rate.

#### Accounts payable and accruals

Liabilities are recognized for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

#### End of service benefits

Benefits payable to the employees of the Company at the end of their services is provided for in accordance with the guidelines set by the Saudi Arabian Labour Law.

#### Zakat and income tax

According to the financial accounting standard for Zakat, Zakat provision for each separate fiscal period is measured and recorded in accordance with the provisions and rules of Zakat applied in the Kingdom of Saudi Arabia based on accrual basis. Such provision is charged to the interim consolidated statement of income. As at 30 June 2011 a zakat provision has been estimated.

The subsidiary is subject to income tax which is accounted for in accordance with the tax rules in Egypt.

#### Revenue recognition

Revenue is recognized when goods are delivered to the customer, net of commercial and quantity discounts.

#### Selling and distribution expenses and general and administration expenses

Selling and distribution expenses are those expenses related to salesmen and distribution, and other related expenses. All other expenses are included under general and administrative expenses.

#### Provisions

Provisions are recognized when the Company has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and may be measured reliably.

#### Financial charges

Financial charge attributable to the construction of a fixed asset are capitalised during construction period up to completion of asset for the intended purpose. Subsequently, all financial charges are taken to consolidated interim statement of income.



## Halwani Brothers Company (A Saudi Joint Stock Company)

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(continued)

At 30 June 2011

#### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Foreign currency translations

Transactions in foreign currencies are recorded in Saudi Riyals at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the interim consolidated balance sheet date. All differences are taken to the interim consolidated statement of income.

Interim financial statements of foreign operations are translated into Saudi Riyals using the exchange rate at the interim consolidated balance sheet date for assets and liabilities, and the average exchange rate during the period for revenues and expenses. Components of equity, other than retained earnings, are translated at the rate ruling at the date of occurrence of respective component. Translation adjustments are recorded as a separate component in the interim consolidated statement of changes in shareholders' equity.

#### 3 CAPITAL

Capital is divided into 28,571,430 shares of SR 10 each (28,571,430 shares for the year 2010).

#### 4 EARNINGS PER SHARE

Earnings per share on net operating income is calculated by dividing net operating income for the period by the weighted average number of shares of 28,571,430 shares during the period. Earnings per share on net income is calculated by dividing the net income for the period by the weighted average number of shares of 28,571,430 shares during the period.

#### 5 COMMITMENTS

- On 4 July 2009, the Board of Directors resolved to construct an industrial compound with construction cost of SR 52 million for the 1<sup>st</sup> phase and other additional works valued at SR 3 million. Accordingly, the Company signed a contract with a local contractor to start the 1<sup>st</sup> phase of the project. Up to 30 June 2011, the contract work completed amounted to SR 54 million.
- On 17 October 2010, the Board of Directors resolved to construct a labours house for the Company labours with construction cost of SR 6 million for the 1<sup>st</sup> phase. On 30 October 2010, the Company signed a contract with a local contractor to start the 1<sup>st</sup> phase of the project. Up to 30 June 2011, the contract work completed amounted to SR 5.6 million.
- On 15 June 2010, the Company signed a loan agreement with Saudi Industrial Development Fund ("SIDF") amounting to SR 165.2 million to finance the new industrial compound project of the Company in Jeddah. All existing properties and equipment of the new project and those to be constructed were pledged to SIDF as a security for the loan. The Company has not received any payment of the loan up to the issue date of these interim condensed consolidated financial statements.
- During 2010, the subsidiary entered into a contract of SR 4.9 million with a contractor for the expansion of the meat processing factory. As at 30 June 2011, the subsidiary paid SR 2.2 million under the contract.

#### 6 FAIR VALUES OF FINANCIAL INSTRUMENTS

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. The Company's financial assets consist of cash and cash equivalents, accounts receivable, due from related parties and other assets, its financial liabilities consist of accounts payable, due to related parties and other payables.

The fair values of financial instruments are not materially different from their carrying values.

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**7 RISK MANAGEMENT**

**Interest rate risk**

The Company doesn't have any interest bearing liabilities and its financial assets are invested on Islamic basis, accordingly, the Company is not exposed to interest rate risk.

**Liquidity risk**

Liquidity risk arises from the inability of the Company to meet commitments associated with financial obligations when they fall due. The Company monitors its liquidity requirements on monthly basis and the management ensures that cash is available to meet any obligations when they arise.

The current financial liabilities of the Company consist of accounts payable, accruals, due to related parties and other liabilities. Substantially these financial liabilities are expected to be settled within twelve months from interim consolidated balance sheet date and the Company expects to have adequate funds to do so.

**Credit risk**

Credit risk is the risk that one party will fail to discharge an obligation and cause the other party to incur a financial loss. The Company seeks to manage its credit risk with respect to customers by setting credit limits for individual customers and by monitoring outstanding receivables. The Company also obtains letters of guarantees and letters of credit from certain customers as security. The 10 largest customers account for 41% of outstanding accounts receivable as at 30 June 2011 (2010: 44%).

With respect to credit risk arising from the other financial assets of the Company, including cash and cash equivalents, due from related parties and other assets, the Company's exposure to credit risk arises from default of the counter parties, with a maximum exposure equal to the carrying amount of these instruments.

**Currency risk**

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Company is subject to fluctuations in foreign exchange rates in the normal course of its business, in addition to the exchange rate of the Egyptian pound as 44% of the Company's consolidated revenues come from the subsidiary (Halwani Brothers Egypt). The Company did not undertake significant transactions in currencies other than Saudi Riyals and US Dollars during the period. As the Saudi Riyal is pegged to the US Dollar, balances in US Dollars are not considered to represent significant currency risk.

**Business risk**

Business risks arise from several external factors including epidemic diseases like bird flu and swine flu that generally affect meat processing industry. Other risk may arise from the possible shortage of agriculture crops used as basic raw materials in food processing.

**Raw material price risk**

The Company is using various raw materials as production inputs in its production process. Such raw materials are subject to price fluctuations that may affect the business results of the Company. To minimise such risk, the management monitors the prices of raw materials and take the decisions to purchase in view of price forecasts.

## **8 KEY SOURCES OF ESTIMATION UNCERTAINTY**

### **Impairment of accounts receivable**

An estimate of the collectible amount of trade accounts receivable is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and an allowance applied according to the length of time past due, based on historical recovery rates.

### **Impairment of inventories**

Inventories are held at the lower of cost and net realisable value. When inventories become old or obsolete, an estimate is made of their net realisable value. For individually significant amounts this estimation is performed on an individual basis. Amounts which are not individually significant, but which are old or obsolete, are assessed collectively and an allowance applied according to the inventory type and the degree of ageing or obsolescence, based on historical selling prices.

## **9 INTERIM FINANCIAL RESULTS**

The results included in these interim condensed consolidated financial statements may not be an accurate indication of the annual operating results.

## **10 RECLASSIFICATION**

Certain figures of the period ended 30 June 2010 have been reclassified to conform to presentation in the period ended 30 June 2011.