

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

**Interim Condensed Consolidated Financial Statements for
the Six-Month Period ended June 30, 2012**
with
Independent Accountants' Review Report

RED SEA HOUSING SERVICES COMPANY AND SUBSIDIARIES
(A Saudi Joint Stock Company)
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2012

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**REVIEW REPORT ON THE INTERIM
CONDENSED 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 30 June 2012, the related interim consolidated statement of income, the interim consolidated statement of cash flows, interim consolidated statement of changes in equity for the six months period ended on 30 June 2012 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, 18 July 2012
Corresponding to: 28 Shabaan 1433H



RED SEA HOUSING SERVICES COMPANY AND SUBSIDIARIES

(A Saudi Joint Stock Company)

Interim consolidated balance sheet

As at June 30, 2012

(All amounts in Saudi Riyals thousands unless otherwise stated)

| | As at June 30, 2012 | As at December 31, 2011 | As at June 30, 2011 |
|---|---------------------------|-------------------------------|---------------------------|
| | (Unaudited) | (Audited) | (Unaudited) |
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | 47,830 | 97,470 | 149,852 |
| Accounts receivable | 184,151 | 239,076 | 179,238 |
| Contract work-in-progress | 143,952 | 75,355 | 123,832 |
| Inventories | 217,958 | 190,582 | 223,516 |
| Advances to suppliers | 14,743 | 27,270 | 25,054 |
| Due from related parties | 528 | 528 | 528 |
| Prepayments and other receivables | 37,138 | 31,229 | 36,958 |
| Total current assets | 646,300 | 661,510 | 738,978 |
| Non-current assets | | | |
| Property, plant and equipment | 206,494 | 202,093 | 184,216 |
| Investment properties | 376,466 | 409,825 | 255,134 |
| Operating lease payments | 8,235 | 7,850 | 8,089 |
| Retentions receivable | - | - | 32,845 |
| Total non-current assets | 591,195 | 619,768 | 480,284 |
| Total assets | 1,237,495 | 1,281,278 | 1,219,262 |
| Liabilities | | | |
| Current liabilities | | | |
| Short-term bank borrowings including current portion of medium-term loans | 176,528 | 195,898 | 137,710 |
| Accounts payable | 61,519 | 92,032 | 63,133 |
| Advances from customers | 28,755 | 11,991 | 12,472 |
| Accrued and other liabilities | 70,550 | 76,364 | 88,240 |
| Provision for zakat | 11,529 | 11,547 | 7,274 |
| | 348,881 | 387,832 | 308,829 |
| Non-current liabilities | | | |
| Medium-term loans | 123,081 | 146,339 | 179,986 |
| Employee termination benefits | 14,114 | 13,558 | 12,785 |
| | 137,195 | 159,897 | 192,771 |
| Total liabilities | 486,076 | 547,729 | 501,600 |
| Equity | | | |
| Equity attributable to shareholders of the Company: | | | |
| Share capital | 400,000 | 300,000 | 300,000 |
| Statutory reserve | 69,845 | 69,845 | 62,055 |
| Retained earnings | 302,548 | 380,270 | 363,779 |
| Currency translation differences | (12,697) | (8,314) | (21) |
| | 759,696 | 741,801 | 725,813 |
| Minority interest | (8,277) | (8,252) | (8,151) |
| Total equity | 751,419 | 733,549 | 717,662 |
| Total liabilities and equity | 1,237,495 | 1,281,278 | 1,219,262 |

Contingencies and commitments (Note 4)

These financial statements appearing on pages 1 through 10 were approved by the Board of Directors on July 18, 2012, and have been signed hereunder on its behalf by :

Don Sumner (CEO)

Sanjay Wadhvani (CFO)

The notes 1 through 7 on pages 5 to 10 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 six month period ended June 30, 2012
(All amounts in Saudi Riyals thousands unless otherwise stated)

| | Three-month period ended June 30 | | Six-month period ended June 30 | |
|---|---|--------------------|---|--------------------|
| | 2012 | 2011 | 2012 | 2011 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| Revenues | 196,452 | 188,777 | 417,450 | 394,046 |
| Cost of revenues | (150,341) | (151,258) | (319,622) | (304,996) |
| Gross profit | 46,111 | 37,519 | 97,828 | 89,050 |
| Operating expenses | | | | |
| Selling and marketing | (6,831) | (3,016) | (13,865) | (10,902) |
| General and administrative | (7,796) | (9,328) | (15,764) | (17,325) |
| Income from operations | 31,484 | 25,175 | 68,199 | 60,823 |
| Other income (expenses) | | | | |
| Financial charges | (1,851) | (2,114) | (3,237) | (4,141) |
| Financial income | 188 | 91 | 726 | 245 |
| Other income (expense), net | 878 | (2,499) | (58) | (1,965) |
| Income before foreign income taxes, zakat and minority interest | 30,699 | 20,653 | 65,630 | 54,962 |
| Foreign income taxes | - | 3,630 | - | 5,085 |
| Zakat | - | (2,997) | (3,386) | (6,607) |
| Income before minority interest | 30,699 | 21,286 | 62,244 | 53,440 |
| Minority interest | 23 | 99 | 34 | 175 |
| Net income | 30,722 | 21,385 | 62,278 | 53,615 |
| Earnings per share (Saudi Riyals): | | | | |
| • Operating income | 0.78 | 0.62 | 1.70 | 1.52 |
| • Net income | 0.76 | 0.53 | 1.55 | 1.34 |

The notes 1 through 7 on pages 5 to 10 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 six month period ended June 30, 2012
(All amounts in Saudi Riyals thousands unless otherwise stated)

| | Six-month period ended June 30, | |
|--|--|-----------------------------|
| | 2012 (Unaudited) | 2011 (Unaudited) |
| Cash flow from operating activities | | |
| Net income for the period | 62,278 | 53,615 |
| <u>Adjustments for non-cash items</u> | | |
| Depreciation of property, plant and equipment and investment Properties | 36,825 | 18,260 |
| Amortization of operating lease payments | 252 | 215 |
| Loss from disposal of property and equipment and investment properties | 3,723 | 161 |
| Loss attributable to minority interest | (34) | (175) |
| Recovery against doubtful debts provision | (723) | (24) |
| Provision/(Reversal) for slow moving inventories | 224 | (1,150) |
| Change in currency translation differences | (4,383) | 369 |
| <u>Changes in working capital</u> | | |
| Accounts and retentions receivable | 55,648 | 34,371 |
| Contract work-in-progress | (68,597) | 13,143 |
| Inventories | (27,600) | (36,404) |
| Advances to suppliers | 12,527 | (5,151) |
| Due from related parties | - | (84) |
| Prepayments and other current receivables | (5,909) | (7,944) |
| Trade accounts payable | (30,513) | (9,890) |
| Advances from customers | 16,764 | 2,710 |
| Accrued and other current liabilities | (5,814) | (10,875) |
| Provision for zakat – net | (18) | (3,610) |
| Employee termination benefits – net | 556 | 1,513 |
| Net cash generated from operating activities | 45,206 | 49,050 |
| Cash flow from investing activities | | |
| Purchase of property, plant and equipment and investment Properties | (12,320) | (142,806) |
| Proceeds from disposal of property and equipment and investment properties | 93 | 677 |
| Net cash (used in) investing activities | (12,227) | (142,129) |
| Cash flow from financing activities | | |
| Change in short-term borrowings | (19,370) | 63,756 |
| Change in medium-term loans | (23,258) | 147,636 |
| Dividend paid | (40,000) | (30,000) |
| Change in minority interest | 9 | 11 |
| Net cash (used in)/generated from financing activities | (82,619) | 181,403 |
| Net change in cash and cash equivalents | (49,640) | 88,324 |
| Cash and cash equivalents at beginning of period | 97,470 | 61,528 |
| Cash and cash equivalents at end of period | 47,830 | 149,852 |
| Supplemental schedule of non-cash information: | | |
| Transfer of investment property to inventories at net book value | 5,160 | 15,481 |

The notes 1 through 7 on pages 5 to 10 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 six month period ended June 30, 2012
(All amounts in Saudi Riyals thousands unless otherwise stated)

| | Share capital | Statutory reserve | Retained earnings | Currency translation differences | Total attributable to equity shareholders | Loss attributable to minority interest | Total |
|-----------------------------------|----------------|-------------------|-------------------|----------------------------------|---|--|----------------|
| (Unaudited) | | | | | | | |
| January 1, 2012 | 300,000 | 69,845 | 380,270 | (8,314) | 741,801 | (8,252) | 733,549 |
| Transfer to share capital | 100,000 | - | (100,000) | - | - | - | - |
| Net income for the period | - | - | 62,278 | - | 62,278 | (34) | 62,244 |
| Dividend paid during the period | - | - | (40,000) | - | (40,000) | - | (40,000) |
| Currency translation difference | - | - | - | (4,383) | (4,383) | - | (4,383) |
| Net movement in minority interest | - | - | - | - | - | 9 | 9 |
| June 30, 2012 | 400,000 | 69,845 | 302,548 | (12,697) | 759,696 | (8,277) | 751,419 |
| (Unaudited) | | | | | | | |
| January 1, 2011 | 300,000 | 62,055 | 340,164 | (390) | 701,829 | (7,987) | 693,842 |
| Transfer to share capital | - | - | - | - | - | - | - |
| Net income for the period | - | - | 53,615 | - | 53,615 | (175) | 53,440 |
| Dividend paid during the period | - | - | (30,000) | - | (30,000) | - | (30,000) |
| Currency translation difference | - | - | - | 369 | 369 | - | 369 |
| Net movement in minority interest | - | - | - | - | - | 11 | 11 |
| June 30, 2011 | 300,000 | 62,055 | 363,779 | (21) | 725,813 | (8,151) | 717,662 |

RED SEA HOUSING SERVICES COMPANY AND SUBSIDIARIES
(A Saudi Joint Stock Company)
Notes to the interim condensed consolidated financial statements
For the six month period ended June 30, 2012
(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 30 million shares with a par value of Saudi Riyals 10 per share. Later on April 18, 2012, in Extra ordinary general assembly meeting, the shareholders approved the increase in number of shares outstanding from 30 million to 40 million by issuing 1 bonus share for each 3 shares held by the shareholder on that date.

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 fair interim consolidated statements 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, 2011.

Foreign subsidiaries and branches

The Company has investments in the following consolidated foreign subsidiaries:

| <u>Name</u> | <u>Country of incorporation</u> | <u>Ownership interest (%)</u> <u>at June 30,</u> | |
|--|---------------------------------|---|-------------|
| | | <u>2012</u> | <u>2011</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% |

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.

During the financial year 2009, the Company converted its branch in the United Arab Emirates (UAE) into an Establishment under the name of Red Sea Housing Services Company FZE (the "Establishment") owned 100% by the Company. The legal formalities to register this conversion have been completed. The Establishment is engaged in manufacturing of prefabricated residential and commercial units. Also, during the financial year 2009, the Establishment incorporated Red Sea Housing Services Company Libya (RSL) in which the Establishment has a 90% ownership interest with the remaining 10% held by a Libyan national. The legal formalities to register this company have been completed; however, it did not commence its commercial operations until June 30, 2012.

At June 30, 2012, property plant and equipment of RSL include approximately Saudi Riyals 46 million related to facilities which are under construction in Libya. Due to the political crisis and war situation in Libya, the management is continuously monitoring and assessing the situation. Management has written off SR 3.7 million of the assets of RSL based on initial examination of facility. A provision of SR 6.3million is in place against any unidentified damage to the facilities.

Further, during the year 2009 the Company incorporated two new branches in Papua New Guinea (PNG) and Abu Dhabi. The latter did not have significant operations through June 30, 2012.

The Company also has licenses to operate branches in Afghanistan and Equatorial Guinea which did not have any operations through June 30, 2012.

RED SEA HOUSING SERVICES COMPANY AND SUBSIDIARIES
(A Saudi Joint Stock Company)
Notes to the interim condensed consolidated financial statements
For the six month period ended June 30, 2012
(All amounts in Saudi Riyals thousands unless otherwise stated)

1. General information (continued)

Foreign subsidiaries and branches (continued)

Accumulated losses of RSQ as of June 30, 2012 exceeded its share capital. The Group management believes that such accumulated losses will be absorbed once RSQ obtains new contracts. The Company will continue to provide the necessary financial support to RSQ in order to meet its obligations as they become due. Carrying value of property, plant and equipment of RSQ as of June 30, 2012 was Saudi riyal Nil (2011 : Saudi riyal Nil).

The accompanying interim condensed consolidated financial statements were approved by the Company's Board of Directors on 18th July 2012.

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"). 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, 2011, which are summarized as follows:

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.

RED SEA HOUSING SERVICES COMPANY AND SUBSIDIARIES
(A Saudi Joint Stock Company)
Notes to the interim condensed consolidated financial statements
For the six month period ended June 30, 2012
 (All amounts in Saudi Riyals thousands unless otherwise stated)

2. Summary of significant accounting policies (continued)

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.

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:

Number of Years

| | |
|---|---------|
| • 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.

RED SEA HOUSING SERVICES COMPANY AND SUBSIDIARIES
(A Saudi Joint Stock Company)
Notes to the interim condensed consolidated financial statements
For the six month period ended June 30, 2012
(All amounts in Saudi Riyals thousands unless otherwise stated)

2. Summary of significant accounting policies (continued)

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 Group. 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.

2.17 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 accrual basis in accordance with the terms of the contracts entered into with the tenants.

2.18 Selling, marketing, general and administrative expenses

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

2.19 Operating leases

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

2.20 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
(A Saudi Joint Stock Company)
Notes to the interim condensed consolidated financial statements
For the six month period ended June 30, 2012
(All amounts in Saudi Riyals thousands unless otherwise stated)

2. Summary of significant accounting policies (continued)

2.21 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.

2.22 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'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 June 30, 2012 and 2011 and for the six-month periods then ended, summarized by the above business segments, is as follows:

| <u>2012 (Unaudited)</u> | <u>Manufacturing and sale</u> | <u>Rentals</u> | <u>Total</u> |
|-------------------------|-----------------------------------|----------------|--------------|
| Total assets | 817,253 | 420,242 | 1,237,495 |
| Revenues | 283,627 | 133,823 | 417,450 |
| Net income | 25,753 | 36,525 | 62,278 |

| <u>2011 (Unaudited)</u> | <u>Manufacturing and sale</u> | <u>Rentals</u> | <u>Total</u> |
|-------------------------|-----------------------------------|----------------|--------------|
| Total assets | 936,450 | 282,812 | 1,219,262 |
| Revenues | 321,528 | 72,518 | 394,046 |
| Net income | 24,608 | 29,007 | 53,615 |

The Group's operations are conducted in Saudi Arabia, UAE, Ghana, Papua New Guinea (PNG), Algeria and certain other geographical areas. Selected financial information as of June 30, 2012 and 2011 and for the six-month periods then ended, summarized by geographic area, is as follows:

| <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 | 337,618 | 104 | - | 6,558 | 32,186 | - | - | 376,466 |
| Property, plant and equipment | 10,039 | 54,163 | 37,799 | 57,758 | 791 | 45,944 | - | 206,494 |
| Revenues | 236,508 | 71,517 | 88,313 | 18,173 | 2,939 | - | - | 417,450 |
| Net income (loss) | 51,552 | 9,990 | 22,025 | (19,980) | (1,302) | - | (7) | 62,278 |

RED SEA HOUSING SERVICES COMPANY AND SUBSIDIARIES
(A Saudi Joint Stock Company)
Notes to the interim condensed consolidated financial statements
For the six month period ended June 30, 2012
(All amounts in Saudi Riyals thousands unless otherwise stated)

3. Segment information (continued)

| 2011 (Unaudited) | Saudi Arabia | UAE | Ghana | Papa New Guinea | Algeria | Libya | Qatar | Total |
|-------------------------------|---------------------|------------|--------------|------------------------|----------------|--------------|--------------|--------------|
| Investment properties | 215,429 | - | - | 6,118 | 33,587 | - | - | 255,134 |
| Property, plant and equipment | 10,934 | 47,784 | 35,624 | 48,575 | 886 | 40,014 | 399 | 184,216 |
| Revenues | 77,760 | 159,539 | 64,241 | 89,704 | 2,802 | - | - | 394,046 |
| Net income (loss) | 15,065 | 21,994 | 12,862 | 6,294 | (2,454) | (23) | (123) | 53,615 |

4. Contingencies and commitments

At June 30, 2012, the Group had outstanding bank guarantees and letters of credit amounting to approximately Saudi Riyals 86 million and Saudi Riyals 1.39 million, respectively (June 30, 2011: Saudi Riyals 109 million and Saudi Riyals 5.6 million respectively), issued in the normal course of business. Also, rental commitments under operating lease contracts amounted to Saudi Riyals 48.7 million at June 30, 2012 (June 30, 2011: Saudi Riyals 81.2 million).

During 2011, the Company received assessments from the DZIT for the years 2005 and 2006 resulting in additional zakat liability of Saudi Riyals 3.8 million. The Company appealed against the assessments with the Preliminary Appeal Committee. The Appeal has been ruled in favor of the Company during the current period. The zakat assessments of the Company now stand finalized up-to the year 2006.

5. 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. There have not been any updates on the appeal since then.

6. Dividends

The shareholders, in their extra ordinary general assembly meeting held on April 18, 2012, approved to declare dividends of Saudi Riyals 40 million (Saudi Riyal 1 per share), (2011: Saudi Riyals 30 million, i.e. Saudi Riyals 1 per share).

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. It will be financed by debiting SR 100 million from retained earnings as of December 31, 2011.

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) | June 30, 2012 | June 30, 2011 |
|--|----------------------|----------------------|
| Net income for the period | 62,278 | 53,615 |
| (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 June 30 | 40,000 | 40,000 |
| Earnings per share | 1.55 | 1.34 |