

HALWANI BROTHERS COMPANY
(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

30 JUNE 2012

LIMITED REVIEW REPORT TO THE SHAREHOLDERS OF HALWANI BROTHERS COMPANY (A SAUDI JOINT STOCK COMPANY)

Scope of review

We have reviewed the accompanying consolidated balance sheet of Halwani Brothers Company (a Saudi joint stock company) ("the Company") and its subsidiary as at 30 June 2012 and the related consolidated statement of income for the three-month and six-month periods then ended, and the related consolidated statements of cash flows and changes in shareholders' equity for the six-month period then ended. These interim consolidated financial statements are the responsibility of the Board of Directors and have been prepared by them and submitted to us together with all the information and explanations which we required. We conducted our limited review in accordance with the Saudi Organization for Certified Public Accountants' auditing standard on interim financial reporting. A limited review consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted 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 limited review, we are not aware of any material modifications that should be made to the accompanying interim consolidated financial statements for them to be in conformity with accounting standards generally accepted in the Kingdom of Saudi Arabia.

for Ernst & Young


Ahmed I. Reda
Certified Public Accountant
Licence No. 356



24 Shaban 1433 H
14 July 2012

Jeddah

Halwani Brothers Company (A Saudi Joint Stock Company)

CONSOLIDATED BALANCE SHEET

As at 30 June 2012

	Note	2012 SR (Unaudited)	2011 SR (Unaudited)
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		128,434,201	60,982,973
Accounts receivable, net		117,847,820	128,442,291
Inventories, net		187,648,522	192,798,797
Prepaid expenses and other assets		23,058,736	18,059,510
Due from related parties		1,455,238	1,955,569
TOTAL CURRENT ASSETS		458,444,517	402,239,140
NON-CURRENT ASSETS			
Property and equipment, net		280,537,513	231,921,299
TOTAL ASSETS		738,982,030	634,160,439
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Current portion from term loan	5	268,329	-
Murabaha and mudaraba contracts		58,904,738	-
Accounts payable		73,172,693	61,596,124
Due to related parties		1,383,605	564,550
Accrued expenses and other payables		39,545,515	34,608,204
Zakat Payable		4,790,397	4,477,456
TOTAL CURRENT LIABILITIES		178,065,277	101,246,334
NON-CURRENT LIABILITIES			
Deferred tax liability		2,719,316	851,074
Employees' terminal benefits		28,520,449	27,916,807
Term loan	5	12,545,581	-
TOTAL NON-CURRENT LIABILITIES		43,785,346	28,767,881
TOTAL LIABILITIES		221,850,623	130,014,215
SHAREHOLDERS' EQUITY			
Capital	3	285,714,300	285,714,300
Statutory reserve		129,306,461	121,670,520
General reserve		-	9,005,096
Retained earnings		126,724,498	108,338,790
Translation adjustments of financial statements of a subsidiary		(24,613,852)	(20,582,482)
TOTAL SHAREHOLDERS' EQUITY		517,131,407	504,146,224
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		738,982,030	634,160,439

The attached notes 1 to 12 form part of these unaudited interim consolidated financial statements.

Halwani Brothers Company (A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF INCOME

For the period ended 30 June 2012

	<i>For the three-month period ended</i>		<i>For the six-month period ended</i>	
	<i>30 June</i>		<i>30 June</i>	
	<i>2012</i>	<i>2011</i>	<i>2012</i>	<i>2011</i>
<i>Note</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Sales	223,517,754	215,576,298	440,258,031	409,467,232
Cost of sales	(155,008,577)	(149,146,855)	(305,221,209)	(281,364,436)
GROSS PROFIT	68,509,177	66,429,443	135,036,822	128,102,796
Selling and distribution expenses	(24,859,490)	(24,383,802)	(53,528,183)	(49,983,155)
General and administration expenses	(12,030,759)	(9,956,193)	(23,038,174)	(19,058,119)
Provision for slow moving items	(150,000)	(406,191)	(300,000)	(556,191)
Provision for doubtful debts	(731,678)	(1,572,924)	(1,427,922)	(1,772,924)
Other provisions	-	(630,795)	-	(630,795)
NET INCOME FROM THE OPERATIONS	30,737,250	29,479,538	56,742,543	56,101,612
Financing expenses	(940,162)	-	(1,470,675)	-
Returns on time deposits	171,708	183,819	297,669	374,602
Other income	318,894	636,616	497,533	1,697,506
Other expenses	(23,916)	(484,714)	(714,896)	(797,277)
NET INCOME FOR THE PERIOD BEFORE ZAKAT AND INCOME TAX	30,263,774	29,815,259	55,352,174	57,376,443
Zakat	(2,378,811)	(2,177,215)	(4,757,622)	(4,354,431)
Income tax	(5,095,615)	(4,268,514)	(9,710,922)	(7,973,343)
NET INCOME	22,789,348	23,369,530	40,883,630	45,048,669
Earnings per share:	4			
From net income from operations	1.08	1.03	1.99	1.96
From net income	0.80	0.82	1.43	1.58

The attached notes 1 to 12 form part of these unaudited interim consolidated financial statements.

Halwani Brothers Company (A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the period ended 30 June 2012

	2012 SR (Unaudited)	2011 SR (Unaudited)
OPERATING ACTIVITIES		
Net income for the period before zakat and income tax	55,352,174	57,376,443
Adjustments for:		
Provision for doubtful debts	1,427,922	1,772,924
Provision for slow moving items	300,000	556,191
Depreciation	11,396,728	9,358,020
Employees terminal benefits, net	276,271	283,188
Loss/(gain) on sale of property and equipment	(185,056)	285,606
Other provisions	-	630,795
	<u>68,568,039</u>	<u>70,263,167</u>
Changes in operating assets and liabilities:		
Accounts receivable	(11,977,496)	(4,609,759)
Inventories	(11,788,697)	(13,339,640)
Prepaid expenses and other assets	(7,126,131)	(2,383,690)
Due from/to related parties	415,232	2,457,563
Accounts payable	15,932,106	(6,069,791)
Accrued expenses and other payables	6,973,862	(3,834,421)
Cash from operations	<u>60,996,915</u>	<u>42,483,429</u>
Zakat paid	(8,799,111)	(8,891,540)
Income tax paid	(18,393,132)	(10,092,727)
Net cash from operating activities	<u>33,804,672</u>	<u>23,499,162</u>
INVESTING ACTIVITIES		
Purchase of property and equipment	(26,044,523)	(33,681,130)
Proceeds from sale of property and equipment	185,056	67,087
Net cash used in investing activities	<u>(25,859,467)</u>	<u>(33,614,043)</u>
FINANCING ACTIVITY		
Dividends	(57,142,860)	(42,857,145)
Directors' remuneration	(2,200,000)	(2,200,000)
Murabaha and mudaraba contracts	58,904,738	-
Net cash used in financing activity	<u>(438,122)</u>	<u>(45,057,145)</u>
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	<u>7,507,083</u>	<u>(55,172,026)</u>
Effect of foreign exchange rate changes on cash and cash equivalents	(153,756)	(745,366)
Cash and cash equivalents at the beginning of the period	121,080,874	116,900,365
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	<u>128,434,201</u>	<u>60,982,973</u>
SUPPLEMENTARY INFORMATION FOR NON-CASH TRANSACTIONS:		
Effect of exchange rate change on translating a subsidiary's financial statements	2,231,055	3,368,657
Amortisation of term loan administration fees	134,160	-

The attached notes 1 to 12 form part of these unaudited interim consolidated financial statements.

Halwani Brothers Company (A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 30 June 2012

	Note	2012 SR (Unaudited)	2011 SR (Unaudited)
CAPITAL	3	285,714,300	285,714,300
STATUTORY RESERVE			
Opening balance		125,218,098	117,165,653
Transferred from retained earnings		4,088,363	4,504,867
Closing balance		129,306,461	121,670,520
GENERAL RESERVE			
Opening balance		9,005,096	9,005,096
Transferred to retained earnings		(9,005,096)	-
Closing balance		-	9,005,096
RETAINED EARNINGS			
Opening balance		140,266,995	112,852,133
Net profit for the period		40,883,630	45,048,669
Transferred to statutory reserve		(4,088,363)	(4,504,867)
Transferred from general reserve		9,005,096	-
Dividends		(57,142,860)	(42,857,145)
Director's remuneration		(2,200,000)	(2,200,000)
Closing balance		126,724,498	108,338,790
TRANSLATION ADJUSTMENTS OF FINANCIAL STATEMENTS OF A SUBSIDIARY			
Opening balance		(22,382,797)	(17,213,825)
Translation difference during the period		(2,231,055)	(3,368,657)
Closing balance		(24,613,852)	(20,582,482)
TOTAL SHAREHOLDERS' EQUITY		517,131,407	504,146,224

The attached notes 1 to 12 form part of these unaudited interim consolidated financial statements.

Halwani Brothers Company (A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

At 30 June 2012

1 ACTIVITIES

Halwani Brothers Company ("The Company", "The Parent 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 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.

The interim consolidated financial statements were authorised for issuance by the Board of Directors on 24 Shaban 1433 H (corresponding to 14 July 2012).

2 SIGNIFICANT ACCOUNTING POLICIES

The interim 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 information standard issued by the Saudi Organization for Certified Public Accountants. The accounting policies adopted in preparing these interim consolidated financial statements are consistent with those used in the preparation of the company's consolidated financial statements for the year ended 31 December 2011. These interim consolidated financial statements do not include all the information and disclosures required for the full annual 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 consolidated financial statements are prepared under the historical cost convention

Basis of consolidation

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

Use of estimate

The preparation of the interim consolidated financial statements in conformity with accounting 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 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 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 are stated at net amount.

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, finished goods, 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 spare parts.

Halwani Brothers Company (A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

At 30 June 2012

2 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 are not depreciated; the cost less estimated residual value of property and equipment, from the date of purchase or installation is depreciated on a straight-line basis over the estimated useful lives.

The carrying values of property and equipment are reviewed for impairment in the value 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 or their value in use.

Expenditures for repair and maintenance are charged to interim consolidated statement of income. Betterments that increase the value of the related assets or materially extend its lives 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 consolidated income statement. Impairment in value is determined as follows:

- (a) For assets carried at fair value, impairment in value is the difference between cost and fair value, less any impairment loss previously recognised in the consolidated income statement;
- (b) For assets carried at cost, impairment in value 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 assets;
- (c) For assets carried at amortised cost, impairment in value is the difference between carrying value and the present value of 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.

Employees' terminal 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 consolidated statement of income. As at 30 June 2012 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

Sales are recognized when goods are delivered to the customer, net of commercial or 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 administration 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 charges attributable to the construction of a fixed asset are capitalised during the construction period up to completion of the asset for the intended purpose. Subsequently, all financial charges are taken to consolidated statement of income.

Halwani Brothers Company (A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

At 30 June 2012

2 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 consolidated balance sheet date. All differences are taken to the consolidated statement of income.

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

Segment report

Segment report is an essential part of the Company is selling or providing products or services (business segment), or the sale and supply of products or services in a particular economic environment (geographical segment), and the risks and benefits of each sector on the risks and benefits of other sectors. The Company follows the geographical segment is given for the conduct of the Company for part of its activities outside Saudi Arabia.

3 CAPITAL

Capital is divided into 28,571,430 shares of SR 10 each (28,571,430 shares for the year 2011).

4 EARNINGS PER SHARE

Earnings per share from 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 that period. Earnings per share from net income are calculated by dividing the net income for the period by the weighted average number of shares of 28,571,430 shares during that period.

5 TERM LOAN

	<i>2011</i> <i>SR</i>
Saudi Industrial Development Fund (SIDF)	12,813,910
Less:	
Current portion of term loan	(268,329)
Non current portion	<u>12,545,581</u>

- 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. During the year 2011 the Company has received the 1st payment from SIDF as follows:

	<i>2011</i> <i>SR</i>
Total facility	14,776,000
Less:	
Origination and arrangement fees	(1,962,090)
	<u>12,813,910</u>

Halwani Brothers Company (A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

At 30 June 2012

6 SEGMENTAL REPORTING

Geographical segmental reporting is adopted by the Company for its internal reports. The following table outlines sales, gross profit, total assets and liabilities and net book value of property and equipment for individual geographical segments:

	Saudi Arabia		Republic of Egypt		Other countries		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
	SR '000	SR '000	SR '000	SR '000	SR '000	SR '000	SR '000	SR '000
Sales	197,868	193,067	187,993	169,590	54,397	46,810	440,258	409,467
Gross profit	62,906	61,233	55,293	52,236	16,838	14,634	135,037	128,103
Total assets	528,800	438,548	210,182	195,612	-	-	738,982	634,160
Total liabilities	113,622	80,232	108,229	49,782	-	-	221,851	130,014
Property and equipment, net	220,835	191,741	59,703	40,180	-	-	280,538	231,921

7 COMMITMENTS

- On 17 October 2010, the Board of Directors decided to construct a labours' housing unit with construction cost of SR 6 million (1st phase), in addition to other works amounting to SR 0.57 million. On 30 October 2010, the Company signed a contract with a local contractor for the 1st phase construction work of the housing unit. Construction work was completed and the final acceptance has not yet been received.
- On 23 October 2011, the Board of Directors has awarded the construction of the (2nd phase) of the industrial compound (does not include electric and mechanical works) with construction cost amounting to SR 70 million. Accordingly, the Company signed a contract with a local contractor for the construction of industrial compound (2nd phase). Up to 30 June 2012, the contract work completed amounted to SR 1.7 million.
- On 21 December 2011, the Company entered into a SR 24 million contract with a foreign contractor for the supply and erection of partitions and insulation panels for the second phase of the industrial compound. Up to 30 June 2012, the Company paid advance payment amounting to SR 6.1 million.

8 CONTINGENT LIABILITIES

The Department of Zakat and Income Tax has raised final zakat assessments for the years 1998 through 2008 claiming zakat differences of SR 8.8 million. The Company has filed an appeal against the zakat assessment. The management believes the outcome will be favourable. Accordingly, the zakat liability under the assessments has not been provided for in these consolidated financial statements

Halwani Brothers Company (A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

At 30 June 2012

9 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 term loan, accounts payable, due to related parties, Islamic murabaha and mudarba contracts and other payables.

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

10 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 current portion of term loan, 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 58% of outstanding accounts receivable as at 30 June 2012 (30 June 2011: 50%).

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 48% 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 year. 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, in addition to risks resulting from the political disturbances that republic of Egypt is currently exposing and their potential impact on the subsidiary's business results.

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.

11 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 expected selling prices.

12 INTERIM FINANCIAL RESULTS

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