

**Fawaz Abdulaziz Al Hokair & Co.
and its subsidiaries
(A Saudi Joint Stock Company)**

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2012

Fawaz Abdulaziz Al Hokair & Co. and its subsidiaries
(A Saudi Joint Stock Company)

CONSOLIDATED FINANCIAL STATEMENTS AND AUDITORS' REPORT
FOR YEAR ENDED 31 MARCH 2012

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**AUDITORS' REPORT TO THE SHAREHOLDERS
OF FAWAZ ABDULAZIZ AL HOKAIR & CO.
(A SAUDI JOINT STOCK COMPANY)**

Scope of audit


We have audited the accompanying consolidated balance sheet of Fawaz Abdulaziz Al Hokair & Co. - A Saudi Joint Stock Company (the "Company") and its subsidiaries (the "Group") as at 31 March 2012 and the related consolidated statements of income, cash flows and changes in equity for the year then ended. These consolidated financial statements are the responsibility of the Group's management and have been prepared by them in accordance with the provisions of Article 123 of the Regulations for Companies and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable degree of assurance to enable us to express an opinion on the consolidated financial statements.

Unqualified opinion

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

- i. present fairly, in all material respects, the consolidated financial position of the Group as at 31 March 2012 and the results of its operations and its cash flows for the year then ended in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.
- ii. comply with the requirements of the Regulations for Companies and the Company's Bylaws in so far as they affect the preparation and presentation of the consolidated financial statements.

for Ernst & Young


Rashid S. Al-Rashoud
Certified Public Accountant
Registration No. 366



Riyadh: 21 Jumada II 1433H
(12 MAY 2012)

Fawaz Abdulaziz Al Hokair & Co. and its subsidiaries
(A Saudi Joint Stock Company)

CONSOLIDATED BALANCE SHEET

As at 31 March 2012

	Note	2012 SR	2011 SR
ASSETS			
CURRENT ASSETS			
Cash and bank balances	4	198,046,896	107,325,209
Prepayments and other assets	5	290,629,443	297,773,971
Amounts due from related parties	6	166,460,718	132,327,814
Inventories	7	745,960,234	598,552,027
TOTAL CURRENT ASSETS		1,401,097,291	1,135,979,021
NON-CURRENT ASSETS			
Amount due from a related party	6	-	58,591,026
Investments in associates and others	8	244,691,259	219,006,864
Property and equipment	9	790,048,962	613,196,531
Intangible assets - Goodwill	10	61,437,764	61,437,764
Other intangible assets	12	78,140,539	81,140,321
TOTAL NON-CURRENT ASSETS		1,174,318,524	1,033,372,506
TOTAL ASSETS		2,575,415,815	2,169,351,527
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Short-term murabaha financing and loans	13	126,683,796	85,902,670
Current portion of murabaha financing and term loans	13	100,000,000	75,000,000
Trade accounts payables		242,728,009	285,309,411
Accrued expenses and other payables	14	310,290,659	330,501,793
Amount due to a related party	6	8,846,434	-
TOTAL CURRENT LIABILITIES		788,548,898	776,713,874
NON-CURRENT LIABILITIES			
Murabaha financing and term loans	13	312,518,000	225,000,000
End-of-service indemnities		49,151,887	41,810,205
TOTAL NON-CURRENT LIABILITIES		361,669,887	266,810,205
TOTAL LIABILITIES		1,150,218,785	1,043,524,079
EQUITY			
SHAREHOLDERS' EQUITY			
Share capital	1	700,000,000	700,000,000
Statutory reserve	16	189,173,723	144,435,623
Retained earnings		513,026,490	250,383,594
TOTAL SHAREHOLDERS' EQUITY		1,402,200,213	1,094,819,217
MINORITY INTERESTS		22,996,817	31,008,231
TOTAL EQUITY		1,425,197,030	1,125,827,448
TOTAL LIABILITIES AND EQUITY		2,575,415,815	2,169,351,527

The accompanying notes 1 to 28 form an integral part of these consolidated financial statements

Fawaz Abdulaziz Al Hokair & Co. and its subsidiaries
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 March 2012

	Note	2012 SR	2011 SR
Sales			
Cost of sales		3,202,666,514 (1,755,304,065)	2,574,608,385 (1,435,476,323)
GROSS PROFIT		1,447,362,449	1,139,132,062
Selling and marketing expenses	17	(808,753,608)	(688,936,746)
General and administrative expenses	18	(99,184,076)	(86,075,116)
Depreciation and amortization		(113,776,169)	(102,185,831)
INCOME FROM MAIN OPERATIONS		425,648,596	261,934,369
Share in losses of associates, net	8	(744,800)	(17,441,749)
Financing charges		(17,723,345)	(16,404,674)
Other income	19	76,940,213	106,681,343
INCOME BEFORE ZAKAT AND INCOME TAX AND MINORITY INTERESTS		484,120,664	334,769,289
Zakat and income tax	15	(35,857,558)	(15,088,839)
INCOME BEFORE MINORITY INTERESTS		448,263,106	319,680,450
Minority interests		(882,110)	(4,208,714)
NET INCOME FOR THE YEAR		447,380,996	315,471,736
EARNINGS PER SHARE:			
Attributable to income from main operations	22	6.08	3.74
Attributable to net income for the year	22	6.39	4.51

The accompanying notes 1 to 28 form an integral part of these consolidated financial statements

Fawaz Abdulaziz Al Hokair & Co. and its subsidiaries
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 March 2012

	2012 SR	2011 SR
OPERATING ACTIVITIES		
Income before zakat and income tax and minority interests	484,120,664	334,769,289
Adjustments for:		
Depreciation and amortization	113,776,169	102,185,831
Provision for end-of-service indemnities	12,003,260	7,258,581
Share in losses of associates, net	744,800	17,441,749
Gain on disposal of property and equipment	(582,248)	-
Gain on sale of investment property	-	(12,383,836)
	<u>610,062,645</u>	<u>449,271,614</u>
Changes in operating assets and liabilities:		
Prepayments and other receivables	7,144,528	(183,975,842)
Related parties balances	33,304,556	(16,075,242)
Inventories	(147,408,207)	(99,913,697)
Trade accounts payable	(42,581,402)	106,167,653
Accrued expenses and other payables	(31,166,652)	55,736,784
	<u>429,355,468</u>	<u>311,211,270</u>
Cash from operations		
Zakat and income tax paid	(24,902,040)	(3,637,140)
End-of-service indemnities paid	(4,661,578)	(3,374,593)
	<u>399,791,850</u>	<u>304,199,537</u>
INVESTING ACTIVITIES		
Investments in associates and others	(31,429,195)	(5,534,864)
Proceeds from sale of investment property	-	36,000,000
Purchase of property and equipment	(298,197,453)	(63,703,806)
Proceeds from disposal of property and equipment	22,028,263	-
Other intangible assets	(5,877,380)	(8,290,915)
	<u>(313,475,765)</u>	<u>(41,529,585)</u>
Net cash used in investing activities		
FINANCING ACTIVITIES		
Proceeds from murabaha financing and loans, net	153,299,126	15,902,670
Dividends paid	(140,000,000)	(260,529,000)
Minority interests	(8,893,524)	9,071,062
	<u>4,405,602</u>	<u>(235,555,268)</u>
Net cash from (used in) financing activities		
INCREASE IN CASH AND BANK BALANCES		
	<u>90,721,687</u>	<u>27,114,684</u>
Cash and bank balances at the beginning of the year	107,325,209	76,795,990
Cash and bank balances from acquired subsidiaries	-	3,414,535
	<u>198,046,896</u>	<u>107,325,209</u>
CASH AND BANK BALANCES AT THE END OF THE YEAR		
NON-CASH TRANSACTIONS:		
Dividends payable (note 14)	-	54,471,000
Acquisition of subsidiaries through related party balances (note 6)	-	48,320,954
Minority interest in acquired subsidiaries	-	1,860,581

The accompanying notes 1 to 28 form an integral part of these consolidated financial statements

Fawaz Abdulaziz Al Hokair & Co. and its subsidiaries
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 March 2012

	Attributable to equity holders of the parent					
	Share capital SR	Statutory reserve SR	Retained earnings SR	Total shareholders' equity SR	Minority interests SR	Total equity SR
Balance at 31 March 2010	700,000,000	112,888,449	281,459,032	1,094,347,481	15,867,874	1,110,215,355
Net income for the year	-	-	315,471,736	315,471,736	4,208,714	319,680,450
Transfer to statutory reserve (note 16)	-	31,547,174	(31,547,174)	-	-	-
Dividends	-	-	(315,000,000)	(315,000,000)	-	(315,000,000)
Movement in minority interests	-	-	-	-	10,931,643	10,931,643
Balance at 31 March 2011	700,000,000	144,435,623	250,383,594	1,094,819,217	31,008,231	1,125,827,448
Net income for the year	-	-	447,380,996	447,380,996	882,110	448,263,106
Transfer to statutory reserve (note 16)	-	44,738,100	(44,738,100)	-	-	-
Dividends (note 20)	-	-	(140,000,000)	(140,000,000)	-	(140,000,000)
Movement in minority interests	-	-	-	-	(8,893,524)	(8,893,524)
Balance at 31 March 2012	700,000,000	189,173,723	513,026,490	1,402,200,213	22,996,817	1,425,197,030

The accompanying notes 1 to 28 form an integral part of these consolidated financial statements

Fawaz Abdulaziz Al Hokair & Co. and its subsidiaries
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 March 2012

1. ORGANIZATION AND ACTIVITIES

Fawaz Abdulaziz Al Hokair & Co. ("the Company") is a listed Saudi Joint Stock Company registered in Riyadh, Kingdom of Saudi Arabia under commercial registration No. 1010076209 dated 20 Sha'ban 1410H (corresponding to 18 March 1990). The Company's share capital amounted to SR 700 million divided into 70 million shares (2011: 70 million shares) of SR 10 each.

The objectives of the Company as per its Bylaws are to engage in the following activities:

- Wholesale and retail trading in ready-made cloth for men, women and children, shoes, textiles, house and office furniture, perfumes, natural cosmetics, ornaments and beauty materials and their compounds and traditional jewelry.
- Wholesale and retail trading in sports wares and shoes and their complementary.
- Management and operation of optics centers, wholesale and retail trading in eye glasses and sun glasses, contact lenses, optical equipment and accessories.
- Trading agencies.
- Purchase of land and construction of buildings thereon for the purpose of running the Company's activities and business.
- Manufacture, wholesale and retail in Ibayas, robes, scarfs and other women embroidered gowns.
- Wholesale and retail trading in gold, silver, jewelry, precious stones, diamonds, gold ornaments and precious metals.
- Wholesale and retail trading in communication equipment and related accessories and spare parts, maintenance and operation through trading agencies.

2. BASIS OF CONSOLIDATION

These consolidated financial statements include the assets, liabilities and result of operations of the Company and the following subsidiaries:

Subsidiary company	Country of incorporation	Direct and indirect shareholding %	
		2012	2011
Al Waheedah Equipment Co. Ltd.	Kingdom of Saudi Arabia	100	100
Haifa B. Al Kalam & Partners International Co. for Trading	Kingdom of Saudi Arabia	100	100
Saudi Retail Co. Ltd.	Kingdom of Saudi Arabia	100	100
Wahba Trading Company Limited	Kingdom of Saudi Arabia	100	100
Kazakhstan Group (*)	Republic of Kazakhstan	85	85
Al Farida Trading Agencies Company	Kingdom of Saudi Arabia	70	70
Retail Group Egypt	Arab Republic of Egypt	98	98
Retail Group Jordan	Hashemite Kingdom of Jordan	95	95
Retail Group of America LLC (note 11)	United States of America	100	-
Retail Group Azerbaijan (**)	Republic of Azerbaijan	90	-

(*) Kazakhstan Group represents three entities namely Retail Management Kazakhstan, Fashion Retail Kazakhstan and Global Apparel Kazakhstan. All these entities are 85% directly owned.

(**) During the year ended 31 March 2012, the Company established nine companies, all are 95% indirectly owned entities, collectively known as "Retail Group Azerbaijan", all of these companies are registered in the Republic of Azerbaijan. The ownership of these entities was changed from 95% to 90% during the final quarter of the year ended 31 March 2012.

The principal activities of all the above subsidiary companies are wholesale and retail trading.

Indirect shareholding represents cross ownership among the subsidiary companies.

Fawaz Abdulaziz Al Hokair & Co. and its subsidiaries
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 March 2012

2. BASIS OF CONSOLIDATION (continued)

A subsidiary is an entity in which the Company has direct and indirect equity interest of more than 50% and/or over which it exerts effective control. The financial statements of the subsidiary companies are prepared using accounting policies which are consistent with those of the Company. The subsidiary companies are consolidated from the date on which the Company is able to exercise effective control.

All significant inter-company balances and transactions have been eliminated on consolidation.

Minority interest in the net assets (excluding goodwill) of consolidated subsidiary companies is identified separately from the Company's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in subsidiary's equity are allocated against the interest of the Company except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia. The significant accounting policies adopted by the Company and its subsidiaries in preparing the consolidated financial statements are as follows:

Accounting convention

The consolidated financial statements are prepared under the historical cost convention, as modified to include the measurement, at fair value, of investments in available for sale securities.

Use of estimates

The preparation of the consolidated financial statements in conformity with generally accepted accounting standards requires 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 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 event and activities actual result ultimately may differ from those estimates.

Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined on a weighted average cost basis.

Investments

Investments in associates

Investments in associates in which the Company and its subsidiaries have equity interest between 20% to 50% or over which they exercise significant influence are recorded using the equity method, under which the investment is stated initially at cost and adjusted thereafter for the post acquisition changes in the net assets of the investee companies. The Company and its subsidiaries share in the net earnings or losses of the associates are included in the consolidated statement of income.

Investments in available for sale securities

Investments in available for sale securities are stated at fair value and included under non-current assets in the consolidated balance sheet. Unrealized gains or losses are included in the statement of changes in equity until the investment is derecognized or the investment is determined to be impaired. On derecognition or impairment, the cumulative gains or losses previously reported in the equity is included in the consolidated statement of income for the year.

Fair value is determined based on the market value if an open market exists; otherwise cost is considered to be the fair value.

31 March 2012

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments (continued)

Investment properties

Investment properties that are held for capital appreciations or lease income are stated at cost less accumulated depreciation and are reviewed annually for any decline in the value of the investment. Depreciation on investment properties is charged over the estimated useful life of the investment property on a straight line method using a depreciation rate of 3% per year. Gains (losses) from these investments are reported upon the sale of investments. Income from lease of such properties is recognized in the consolidated statement of income.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any impairment in value. Expenditure on maintenance and repairs is expensed, while expenditure for betterment is capitalized. Depreciation is provided over the estimated useful lives of the applicable assets using the straight line method. Land and capital work in progress are not depreciated. The estimated rates of depreciation/amortization of other classes of assets are as follows:

	<u>Depreciation percentage</u>
Buildings	3%
Leasehold improvements	12.5%
Furniture and office equipment	10% - 25%
Motor vehicles	25%

Intangible assets

Goodwill

Goodwill arising from investments in subsidiaries represents the excess of the cost of acquisition over the Company's interests in the fair value of the net assets of these subsidiaries at the date of acquisition. The carrying amount of the goodwill is reviewed annually to determine whether there is any indication of impairment. If any such indication exists the carrying amount of goodwill is reduced to the estimated recoverable amount. Goodwill after initial recognition is measured at cost less accumulated impairment losses, if any.

Other intangible assets

Other intangible assets represent software implementation cost, key money, trademarks and other deferred charges, and are amortized using the straight line method over the estimated period of benefit.

The estimated period of amortization of the principal classes of other intangible assets is as follows:

	<u>Years</u>
Software implementation cost	25
Key money	10
Deferred charges	4

Trademarks are not subject to amortization. These are tested for impairment on annual basis.

Impairment of non-current assets

The Company and its subsidiaries periodically reviews the carrying amounts of their non-current tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Company and its subsidiaries estimate the recoverable amount of the cash generating unit to which that asset belongs.

31 March 2012

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-current assets (continued)

If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash generating unit is reduced to its recoverable amount. Impairment loss is recognized as an expense immediately.

Except for goodwill, 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 so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash generating unit in prior periods. A reversal of an impairment loss is recognized as income immediately.

Accounts payable and accrued expenses

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

Provisions

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

Zakat and income tax

Zakat is provided in accordance with the Regulations of the Department of Zakat and Income Tax ("DZIT") in the Kingdom of Saudi Arabia and on an accrual basis. The provision is charged to the consolidated statement of income. Differences, if any, resulting from the final assessments are adjusted in the year of their finalization.

For subsidiaries outside the Kingdom of Saudi Arabia, provision for corporate tax is computed in accordance with tax regulations of the respective countries and charged to the consolidated statement of income.

Dividends

Interim dividends are recorded as and when declared and approved by the Board of Directors. Annual final dividends are recognized as a liability at the time of their approval by the General Assembly.

End-of-service indemnities

End-of-service indemnities, required by the Saudi Arabian Labor Law, are provided in the consolidated financial statements based on the employees' length of service by the Company and its subsidiaries as of the consolidated balance sheet date. Foreign subsidiaries have pension schemes for their eligible employees in relevant foreign jurisdictions.

Revenue recognition

Sales are recognized when goods are delivered and invoices are issued to customers.

Dividend income is recognized when dividends are declared.

Expenses

Selling and marketing expenses principally comprise of costs incurred in the distribution and sale of the Company and its subsidiaries products. All other expenses are classified as general and administrative expenses.

Leasing

Rental proceeds under operating leases are recognized as income on a straight line basis over the term of the operating leases.

Rentals payments under operating leases are charged as expenses on a straight line basis over the term of the operating leases.

Fawaz Abdulaziz Al Hokair & Co. and its subsidiaries
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 March 2012

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency translation

Foreign currency transactions are translated into Saudi Riyals at the rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in foreign currencies at the consolidated balance sheet date are translated at the exchange rates prevailing at that date. Gains and losses from settlement and translation of foreign currency transactions are included in the consolidated statement of income.

Assets and liabilities of the consolidated subsidiary companies denominated in foreign currencies are translated into Saudi Riyals at exchange rates prevailing at the consolidated balance sheet date. Revenues and expenses of the consolidated subsidiary companies denominated in foreign currencies are translated into Saudi Riyals at average exchange rates during the year. Component of equity, other than retained earnings, are translated at the rates prevailing at the date of their occurrence. Exchange differences arising from such translations, if material, are included in the cumulative translation adjustment account under equity in the consolidated balance sheet.

Segment reporting

A segment is a distinguishable component of the Company and its subsidiaries that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographic segment), which is subject to risks and rewards that are different from those of other segments.

4. CASH AND BANK BALANCES

	2012 SR	2011 SR
Cash at banks	192,510,891	101,504,903
Cash in hand	5,536,005	5,820,306
	<u>198,046,896</u>	<u>107,325,209</u>

5. PREPAYMENTS AND OTHER ASSETS

	2012 SR	2011 SR
Advances to suppliers	120,865,812	99,893,892
Prepaid rent	79,636,383	115,915,407
Margin on letters of credit and guarantee	23,777,682	30,606,572
Receivable from Saudi Development Fund	13,957,726	6,201,140
Employee receivables	10,169,626	10,673,327
Margin compensation receivable	9,993,596	6,030,510
Receivable against credit cards sales	7,087,249	2,187,989
Receivable against sale of investment	5,067,397	5,067,397
Dividend receivable	2,179,652	3,156,944
Receivable against sale of brand	8,000,593	14,910,000
Others	9,893,727	3,130,793
	<u>290,629,443</u>	<u>297,773,971</u>

Fawaz Abdulaziz Al Hokair & Co. and its subsidiaries
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 March 2012

6. RELATED PARTY TRANSACTIONS AND BALANCES

During the year, the Company and its subsidiaries transacted with related parties. The terms of those transactions are approved by management in the ordinary course of business. The significant transactions and the related amounts are as follows:

	2012 SR	2011 SR
Rental payments including advances	220,318,314	210,896,370
Sales	31,492,955	68,392,261
Construction works	27,949,321	23,264,417
Key management personnel salaries and benefits	13,749,674	10,105,750
Payments made on behalf of associate	3,880,375	-
Service fees	830,000	-
Board of Directors' remuneration and compensation	400,000	600,000

Amounts due from related parties consist of the following:

	<i>Nature of transactions</i>	<i>Relationship</i>	2012 SR	2011 SR
<i>Current</i>				
Arabian Centers Company	Rental	Affiliate	107,633,220	100,121,130
Retail Group Lebanon	Sales	Affiliate	40,144,953	32,206,684
Fawaz Abdulaziz Al Hokair Real Estate Co.	Construction work	Affiliate	15,012,131	-
Burberry Saudi Co. Ltd.	Services and payments	Associate	3,670,414	-
			<u>166,460,718</u>	<u>132,327,814</u>
<i>Non-current</i>				
Fawaz Abdulaziz Al Hokair Real Estate Co.	Construction	Affiliate	-	58,591,026

Amount due to a related party consists of the following

	<i>Nature of transactions</i>	<i>Relationship</i>	2012 SR	2011 SR
Egyptian Centers for Real Estate Development	Rental	Affiliate	8,846,434	-

7. INVENTORIES

	2012 SR	2011 SR
Goods available for sale	738,782,980	590,312,651
Goods in transit	67,988,888	39,742,280
Provision for inventory shortages	(85,191,903)	(52,431,101)
	<u>721,579,965</u>	<u>577,623,830</u>
Supplies	40,644,330	29,908,190
Provision for slow-moving supplies	(16,264,061)	(8,979,993)
	<u>745,960,234</u>	<u>598,552,027</u>

Fawaz Abdulaziz Al Hokair & Co. and its subsidiaries
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
31 March 2012

8. INVESTMENTS IN ASSOCIATES AND OTHERS

	Ownership %	Country of incorporation	2012 SR	2011 SR
Associates:				
Burberry Saudi Co. Ltd. (a)	40.0	Kingdom of Saudi Arabia	31,255,200	-
Investate Reality BSC	13.9	Kingdom of Bahrain	22,472,000	24,472,000
FG 4 Limited	50.0	United Arab Emirates	187,780	94,259
			<u>53,914,980</u>	<u>24,566,259</u>
Others:				
Galleria Mall (b)	16.67	Kingdom of Saudi Arabia	94,252,274	99,252,274
Trade Center Co. Ltd.	9.32	Kingdom of Saudi Arabia	94,000,000	94,000,000
Other investments			2,524,005	1,188,331
			<u>190,776,279</u>	<u>194,440,605</u>
			<u>244,691,259</u>	<u>219,006,864</u>

Movement in associates during the year ended 31 March 2012 is as follows:

	Balance at 31 March 2011 SR	Additions SR	Share in earnings (losses) SR	Balance at 31 March 2012 SR
Burberry Saudi Co. Ltd. (a)	-	30,000,000	1,255,200	31,255,200
Investate Reality BSC	24,472,000	-	(2,000,000)	22,472,000
FG 4 Limited	94,259	93,521	-	187,780
	<u>24,566,259</u>	<u>30,093,521</u>	<u>(744,800)</u>	<u>53,914,980</u>

- a) On 26 March 2011, the Company entered into a partnership agreement with Burberry International Holdings Limited (a member of the Burberry UK), to establish Burberry Saudi Co. a limited liability company based in Riyadh, Kingdom of Saudi Arabia to market and sell products under the brand name "Burberry". The entity was established on 16 Rajab 1432H (corresponding to 18 June 2011).
- b) Investment in Galleria mall represents the Company's share in a Musharaka venture. The venture is for the construction and management of a mall and a hotel. The investment is amortized over the period of 19 years being the legal term life of the investment.

Following is the movement in the investment in Galleria Mall:

	2012 SR	2011 SR
Cost		
At the beginning of the year	104,252,274	100,000,000
Addition	-	4,252,274
At the end of the year	<u>104,252,274</u>	<u>104,252,274</u>
Accumulated amortization		
At the beginning of the year	5,000,000	-
Charge for the year	5,000,000	5,000,000
At the end of the year	<u>10,000,000</u>	<u>5,000,000</u>
Net book value	<u>94,252,274</u>	<u>99,252,274</u>

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9. PROPERTY AND EQUIPMENT

	Land SR	Buildings and leasehold improvements SR	Furniture and office equipment SR	Motor vehicles SR	Capital work in progress SR	Total 2012 SR	Total 2011 SR
Cost							
At the beginning of the year	68,991,690	868,942,545	147,959,866	9,931,044	17,406,540	1,113,231,685	1,013,544,066
Additions	-	195,069,505	47,348,637	259,690	55,519,621	298,197,453	63,703,806
Transfers	-	17,406,571	-	-	(17,406,571)	-	-
Disposals / write off	-	(23,972,460)	(529,587)	(52,733)	-	(24,554,780)	(3,673,599)
Related to acquired subsidiaries	-	-	-	-	-	-	39,657,412
At the end of the year	68,991,690	1,057,446,161	194,778,916	10,138,001	55,519,590	1,386,874,358	1,113,231,685
Accumulated depreciation							
At the beginning of the year	-	417,689,788	72,843,419	9,501,947	-	500,035,154	408,249,795
Charge for the year	-	83,472,407	16,071,804	354,796	-	99,899,007	85,305,463
Disposals / write off	-	(2,929,336)	(165,575)	(13,854)	-	(3,108,765)	(2,829,436)
Related to acquired subsidiaries	-	-	-	-	-	-	9,309,332
At the end of the year	-	498,232,859	88,749,648	9,842,889	-	596,825,396	500,035,154
Net book value							
At 31 March 2012	68,991,690	559,213,302	106,029,268	295,112	55,519,590	790,048,962	
At 31 March 2011	68,991,690	451,252,757	75,116,447	429,097	17,406,540		613,196,531

Land includes certain plots amounting to SR 16 million owned by an affiliate. The transfer of the title deed of these plots of land to the Company was in process as at 31 March 2012.

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10. INTANGIBLE ASSETS - GOODWILL

During April 2009, the Company acquired 100% equity ownership in Wahba Trading Company Limited (the "subsidiary"). At the date of acquisition the fair value of net assets of the subsidiary was SR 118,553,647 and the cost of acquisition was SR 179,991,411 accordingly a goodwill amounting to SR 61,437,764 arose at acquisition of this subsidiary.

Impairment test

Goodwill is tested annually for impairment by management in the fourth quarter of the financial year. Management has determined that goodwill carrying amount is less than its recoverable amount. Recoverable amount was determined on the basis of value-in-use calculation. This calculation uses cash flow projections for five years based on financial budgets approved by management. Cash flows beyond the budgets are extrapolated using the estimated growth rate of 2%. In management's opinion, the growth rate assumption does not exceed the long-term average growth rate for fashion retail business in which the Company operates. Key assumptions for the value-in-use calculation are set out below.

	<i>Percentage</i>
Discount rate	15%
Budgeted gross margins	52.5%
Average annual growth rate for sale	5%
Terminal growth rate	2%

The discount rates used are pre-zakat and reflect specific risks relating to the subsidiary. Management has determined the budgeted gross margins based on past performance and its expectations for the market development.

Sensitivity to changes in assumptions

With regard to the assessment of value-in-use for the subsidiary, any adverse changes in a key assumption would result in an impairment loss. The key assumptions, where reasonably possible changes could result in impairment, are the terminal growth rate and the discount rate used.

11. ACQUISITION OF SUBSIDIARIES

- a) During the year ended 31 March 2012, the Company established 100% owned entity namely Retail Group of America, a limited liability company registered in the United States of America, which acquired certain assets of Strasburg-Jarvis Inc., a company registered in the United States of America, for a purchase price of USD 2.2 million (equivalent to SR 8.25 million).
- b) During the year ended 31 March 2010, the Company signed a Memorandum of Understanding to purchase 100% interest in Retail Group Gulf (RGG). During the year ended 31 March 2012, the Company decided not to proceed with this acquisition due to the non-viability of the investment opportunity.

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12. OTHER INTANGIBLE ASSETS

	Software Implementation Cost SR	Key money SR	Deferred charges SR	Trademarks SR	Total 2012 SR	Total 2011 SR
Cost						
At the beginning of the year	35,221,948	50,861,006	19,931,400	23,266,655	129,281,009	111,094,412
Related to acquired subsidiary	-	-	-	-	-	9,905,309
Addition	-	4,546,593	1,330,787	-	5,877,380	8,932,740
Transfer	-	-	-	-	-	(651,452)
At the end of the year	35,221,948	55,407,599	21,262,187	23,266,655	135,158,389	129,281,009
Accumulated amortization						
At the beginning of the year	2,834,572	32,603,281	12,702,835	-	48,140,688	33,278,881
Related to acquired subsidiary	-	-	-	-	-	3,132,481
Amortization	1,409,263	4,011,682	3,456,217	-	8,877,162	11,738,953
Transfer	-	-	-	-	-	(9,627)
At the end of the year	4,243,835	36,614,963	16,159,052	-	57,017,850	48,140,688
Net book value						
31 March 2012	30,978,113	18,792,636	5,103,135	23,266,655	78,140,539	
31 March 2011	32,387,376	18,257,725	7,228,565	23,266,655		81,140,321

13. MURABAHA FINANCING AND LOANS

The Company has medium and short-term Murabaha facilities with local commercial banks amounting to SR 410 million. As at 31 March 2012, the facilities have been fully utilized. The outstanding balance of these facilities as at 31 March 2012 was SR 334.3 million. The facilities are secured by promissory notes by the Company.

During the year ended 31 March 2010, the Company concluded an agreement with a local financing bank to reschedule part of its short-term Murabaha facility amounting to SR 300 million into a medium-term Murabaha which will be repayable in equal quarterly installments of SR 25 million each commencing from July 2011. The Murabaha facility carries markup at SIBOR plus agreed margin per annum.

In addition to the above, the Company has signed a long term Murabaha financing agreement with International Finance Corporation, a member of World Bank Group, amounting to USD 50 million (SR 187.5 million) on 1 October 2011. As per the terms of the agreement, the term of the Murabaha facility is for a period of five and half years. The Murabaha facility is repayable in equal semi-annual installments commencing after the two years from the date of the first disbursement. As of 31 March 2012, the Company has fully utilized this facility. The Murabaha facility carries markup at LIBOR plus agreed margin per annum.

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14. ACCRUED EXPENSES AND OTHER PAYABLES

	2012 SR	2011 SR
Payable to contractors and others	103,407,159	53,755,909
Rent	63,533,192	78,418,182
Employees' salaries and benefits	58,627,142	37,870,732
Provision for zakat and foreign income tax (note 15)	47,236,530	41,495,886
Government duties	12,129,317	15,739,354
Royalty payable	10,044,977	10,472,399
Accrued consignment	4,989,875	4,569,493
Utilities	2,672,656	5,932,835
Dividend payable	1,971,000	54,471,000
Sales tax payable	-	4,593,681
Others	5,678,811	23,182,322
	<u>310,290,659</u>	<u>330,501,793</u>

15. ZAKAT AND INCOME TAX

Charge for the year:

The charge for the year for zakat and income tax is as follows:

	2012 SR	2011 SR
Zakat provision for the year	34,945,105	9,296,726
Income tax provision for the year	912,453	5,792,113
	<u>35,857,558</u>	<u>15,088,839</u>

The zakat provision represents the zakat charged in the financial statement of the Company and its subsidiaries which are subject to zakat. Zakat is charged at the higher of net income subject to zakat or the zakat base in accordance with regulation of the Department of Zakat and Income Tax ("DZIT"). In the current year the zakat charge is based on the net income subject to zakat.

Movement in provision for zakat and income tax

Zakat	2012 SR			2011 SR
	<i>Fawaz Abdulaziz Al Hokair & Co.</i>	<i>Subsidiaries</i>	<i>Total</i>	<i>Total</i>
Balance at beginning of the year	17,814,268	17,889,505	35,703,773	30,044,187
Provision for the year	24,982,105	9,963,000	34,945,105	9,296,726
Payment during the year	(24,436,485)	-	(24,436,485)	(3,637,140)
Balance at end of the year	<u>18,359,888</u>	<u>27,852,505</u>	<u>46,212,393</u>	<u>35,703,773</u>

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15. ZAKAT AND INCOME TAX (continued)

Income tax on foreign subsidiaries

	2012 SR	2011 SR
Balance at beginning of the year	5,792,113	-
Provision for the year	912,453	5,792,113
Payment during the year	(465,555)	-
Adjustment for previous year	(5,214,874)	-
Balance at end of the year	<u>1,024,137</u>	<u>5,792,113</u>

Status of assessments

Zakat status of the Company and its local subsidiaries

The Company has filed its zakat returns with DZIT for all years up to the year ended 31 March 2011. The zakat returns for the years ended 31 March 2008, 2009, 2010 and 2011 are under review of DZIT.

During the year ended 31 March 2012, the Company received zakat assessment for the years ended 31 March 2002 to 2007, which showed additional claims from DZIT amounting to SR 10 million. The Company has objected on certain items amounted to SR 4 million and accordingly submitted a letter of guarantee for the objected amount and received the final zakat certificate for the said years. The procedures of objection on the remaining amount of SR 6 million are in process to be submitted to the DZIT.

Income tax status of foreign subsidiaries

The income tax returns have been filed and assessed by the relevant tax authorities for all years up to the year ended 31 March 2011 for the subsidiary in Jordan.

For the subsidiaries in Egypt and Kazakastan, the income tax returns have been filed for all years upto the year ended 31 March 2011 and 31 December 2011 respectively. The income tax returns are under review by the relevant tax authorities.

16. STATUTORY RESERVE

In accordance with Regulations for Companies in Saudi Arabia, the Company has established a statutory reserve by the appropriation of 10% of net income until the reserve equals 50% of the share capital. This reserve is not available for dividend distribution.

17. SELLING AND MARKETING EXPENSES

	2012 SR	2011 SR
Rent	435,497,621	388,883,011
Employees' salaries and benefits	275,841,077	221,715,535
Advertising and publishing	32,584,243	24,893,619
Utilities and maintenance	31,244,161	25,928,968
Travel	10,166,714	8,219,078
Packing materials	8,138,171	6,772,858
Insurance	3,138,928	1,975,855
Others	12,142,693	10,547,822
	<u>808,753,608</u>	<u>688,936,746</u>

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18. GENERAL AND ADMINISTRATIVE EXPENSES

	2012 SR	2011 SR
Employees' salaries and related expenses	61,386,876	52,095,762
Bank charges	14,630,797	10,779,156
Utilities	5,800,045	5,027,949
Travel	4,017,956	4,170,851
Rent	2,700,656	2,464,009
Others	10,647,746	11,537,389
	<u>99,184,076</u>	<u>86,075,116</u>

19. OTHER INCOME

	2012 SR	2011 SR
Dividend income	10,234,287	55,036,557
Foreign exchange gain	29,967,207	14,692,438
Gain on sale of brand	6,123,895	14,523,344
Gain from sale of investment	14,262,055	12,383,836
Proceeds from insurance claim	3,054,268	5,275,781
Reversal of unused accrued charges	3,975,000	-
Discounts	3,664,926	-
Service fees	830,000	-
Rental income	-	301,318
Miscellaneous	4,828,575	4,468,069
	<u>76,940,213</u>	<u>106,681,343</u>

20. DIVIDENDS

The Board of Directors in their meeting on 19 Safar 1433H (corresponding to 13 January 2012) recommended to distribute interim cash dividends of SR 140,000,000 (SR 2 per share) for the first nine months of current year.

21. CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

At 31 March, the Company and its subsidiaries had contingent liabilities and capital commitments as follows:

	2012 SR	2011 SR
Letters of credit and guarantee	438,597,640	354,422,298
Capital commitments-property and equipments	145,838,622	89,222,435
Capital commitments-investments	-	30,000,000

22. EARNINGS PER SHARE

Earnings per share from income from main operations and from net income for the year is calculated by dividing income from main operations and net income for the year by the number of outstanding ordinary shares during the year amounting to 70 million shares.

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23. SEGMENT INFORMATION

The Company and its subsidiaries mainly sell fashion apparels and operate through its various retail outlets mainly scattered in the Kingdom of Saudi Arabia. Further, the Company operates through certain subsidiaries in the international markets, in Jordan, Egypt, Republic of Kazakhstan, United States of America and Republic of Azerbaijan.

Since the Company and its subsidiaries carry out their activities through one business segment in various geographical areas, segment reporting is provided by geographical area only.

The selected segment information is provided by geographical segments as follows:

	<i>Domestic</i> SR'000	<i>International</i> SR'000	<i>Intersegment elimination</i> SR'000	<i>Total</i> SR'000
<i>As at 31 March 2012</i>				
Total assets	3,167,556	407,121	(999,261)	2,575,416
Total liabilities	1,243,610	352,971	(446,362)	1,150,219
Sales	2,942,248	260,419	-	3,202,667
<i>As at 31 March 2011</i>				
Total assets	2,990,867	210,141	(1,031,656)	2,169,352
Total liabilities	1,529,922	129,523	(615,921)	1,043,524
Sales	2,345,973	228,635	-	2,574,608

24. 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 Company'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 Company's financial assets and liabilities are not materially different from their carrying values.

25. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments carried on the balance sheet principally include cash and bank balances, related parties, prepayments, other assets, trade payables, accruals and other liabilities.

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 and its subsidiaries have no significant concentration of credit risk. Cash is substantially placed with national banks with sound credit ratings. Prepayment and other assets are carried net of provision for doubtful debts, if any.

Commission rate risk is the exposure to various risks associated with the effect of fluctuations in the prevailing commission rates on the Company and its subsidiaries' financial position and cash flows. The Company and its subsidiaries monitor the fluctuations in commission rates and believe that the effect of the commission rate risk is not material.

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company and its subsidiaries' transactions are principally in Saudi riyals, Euros and U.S. dollars. Management monitors the fluctuations in currency exchange rates, and the effect of the currency fluctuation was beneficial to the Company and its subsidiaries during the year.

Liquidity risk is the risk that the Company and its subsidiaries will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity is managed periodically by ensuring its availability in amounts sufficient to meet any future commitments. The management believes that the Company and its subsidiaries are not exposed to significant risks in relation to liquidity.

31 March 2012

26. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Board of Directors on 21 Jumada II 1433H (corresponding to 12 May 2012).

27. SUBSEQUENT EVENT

On 21 April 2012, the Company signed a Memorandum of Understanding for three months to purchase 100% equity interest in Nesk Group for Trading Projects, an establishment registered in the Kingdom of Saudi Arabia, and operates fashion retail stores all over the Kingdom of Saudi Arabia with franchise rights of a number of international fashion brands.

28. COMPARATIVE FIGURES

Certain figures for 2011 have been reclassified to conform with the presentation in the current year.