

**ZAMIL INDUSTRIAL INVESTMENT COMPANY (A SAUDI  
JOINT STOCK COMPANY) AND ITS SUBSIDIARIES**

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
(UN-AUDITED) AND AUDITORS' LIMITED REVIEW REPORT  
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2016**

LIMITED REVIEW REPORT TO THE SHAREHOLDERS OF  
ZAMIL INDUSTRIAL INVESTMENT COMPANY (A SAUDI JOINT STOCK COMPANY)

**Scope of limited review:**

We have reviewed the accompanying interim consolidated balance sheet of Zamil Industrial Investment Company, A Saudi Joint Stock Company (the "Company") and its Subsidiaries (collectively referred to as the "Group") as at 30 June 2016 and the related interim consolidated statement of income for three and six months periods then ended and the interim consolidated statement of cash flows for the six months period then ended. These interim consolidated financial statements have been prepared by the Group's management and submitted to us together with all the information and explanations which we required. We conducted our limited review in accordance with the Standard on Review of Interim Financial Reporting issued by the Saudi Organization for Certified Public Accountants (SOCPA). A limited 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 conducted in accordance with Generally Accepted Auditing Standards, the objective of which is the expression of an opinion regarding 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



Abdulaziz Saud Alshubaibi  
Certified Public Accountant  
Registration No. 339



16 Shawwal 1437H  
21 July 2016

Al Khobar

Zamil Industrial Investment Company (A Saudi Joint Stock Company) and its Subsidiaries

INTERIM CONSOLIDATED BALANCE SHEET (UN-AUDITED)

As at 30 June 2016

	Note	2016 SR'000	2015 SR'000
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents		280,087	332,647
Accounts receivable		2,027,088	1,664,704
Advances, other receivables and prepayments		231,590	409,701
Value of work executed in excess of billings		234,190	170,594
Amounts due from related parties		42,725	65,009
Current portion of net investment in finance lease		20,330	19,487
Inventories		1,583,034	1,630,907
<b>TOTAL CURRENT ASSETS</b>		<b>4,419,044</b>	<b>4,293,049</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		1,384,220	1,404,569
Investments in associates		95,303	96,764
Available for sale investments		89,496	110,336
Net investments in finance lease		395,438	415,767
Amounts due from related parties		33,850	33,850
Other intangible assets		9,022	19,723
Goodwill		80,126	110,706
<b>TOTAL NON-CURRENT ASSETS</b>		<b>2,087,455</b>	<b>2,191,715</b>
<b>TOTAL ASSETS</b>		<b>6,506,499</b>	<b>6,484,764</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable, accruals and provisions		947,055	992,921
Billings in excess of value of work executed		83,497	79,299
Advance from customers		261,019	378,752
Amounts due to related parties		22,503	15,109
Zakat and income tax provision		49,340	48,162
Short term loans		2,186,392	2,033,893
Current portion of term loans		133,150	134,384
		<b>3,682,956</b>	<b>3,682,520</b>
<b>NON-CURRENT LIABILITIES</b>			
Term loans		271,446	365,388
Employees' terminal benefits		355,122	342,046
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>626,568</b>	<b>707,434</b>
<b>TOTAL LIABILITIES</b>		<b>4,309,524</b>	<b>4,389,954</b>
<b>SHAREHOLDERS' EQUITY</b>			
<b>EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE COMPANY</b>			
Share capital	5	600,000	600,000
Statutory reserve		280,471	254,170
Retained earnings		1,056,224	987,425
Foreign currency translation reserve		(16,753)	(15,064)
		<b>1,919,942</b>	<b>1,826,531</b>
<b>NON-CONTROLLING INTERESTS</b>		<b>277,033</b>	<b>268,279</b>
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>2,196,975</b>	<b>2,094,810</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>6,506,499</b>	<b>6,484,764</b>

The attached notes 1 to 11 form part of these interim consolidated financial statements.

2

Zamil Industrial Investment Company (A Saudi Joint Stock Company) and its Subsidiaries

INTERIM CONSOLIDATED STATEMENT OF INCOME (UN-AUDITED)

For the three and six months periods ended 30 June 2016

	<i>For the three months period ended 30 June</i>		<i>For the six months period ended 30 June</i>	
	<i>2016</i>	<i>2015</i>	<i>2016</i>	<i>2015</i>
	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>
<b>REVENUE</b>				
Sales	1,181,256	1,238,014	2,236,767	2,307,388
Contracts revenue	230,066	200,795	408,202	390,370
	<u>1,411,322</u>	<u>1,438,809</u>	<u>2,644,969</u>	<u>2,697,758</u>
<b>DIRECT COSTS</b>				
Cost of sales	(902,589)	(958,376)	(1,706,025)	(1,745,845)
Contracts cost	(187,353)	(163,177)	(336,635)	(329,233)
	<u>(1,089,942)</u>	<u>(1,121,553)</u>	<u>(2,042,660)</u>	<u>(2,075,078)</u>
<b>GROSS PROFIT</b>	<b>321,380</b>	<b>317,256</b>	<b>602,309</b>	<b>622,680</b>
<b>EXPENSES</b>				
Selling and distribution	(114,537)	(109,516)	(217,827)	(229,375)
General and administration	(107,639)	(110,494)	(207,814)	(198,566)
	<u>99,204</u>	<u>97,246</u>	<u>176,668</u>	<u>194,739</u>
<b>INCOME FROM MAIN OPERATIONS</b>	<b>99,204</b>	<b>97,246</b>	<b>176,668</b>	<b>194,739</b>
Other income, net	2,168	17,039	7,798	26,490
Financial charges	(22,339)	(18,778)	(42,248)	(35,498)
	<u>79,033</u>	<u>95,507</u>	<u>142,218</u>	<u>185,731</u>
<b>INCOME BEFORE SHARE IN RESULTS OF ASSOCIATES, NON- CONTROLLING INTERESTS, ZAKAT AND INCOME TAX</b>	<b>79,033</b>	<b>95,507</b>	<b>142,218</b>	<b>185,731</b>
Share in results of associates	(92)	(1,108)	1,964	853
	<u>78,941</u>	<u>94,399</u>	<u>144,182</u>	<u>186,584</u>
<b>INCOME BEFORE NON- CONTROLLING INTERESTS, ZAKAT AND INCOME TAX</b>	<b>78,941</b>	<b>94,399</b>	<b>144,182</b>	<b>186,584</b>
Non-controlling interests	(5,787)	(7,353)	(11,155)	(13,064)
	<u>73,154</u>	<u>87,046</u>	<u>133,027</u>	<u>173,520</u>
<b>INCOME BEFORE ZAKAT AND INCOME TAX</b>	<b>73,154</b>	<b>87,046</b>	<b>133,027</b>	<b>173,520</b>
Zakat and income tax	(10,188)	(8,254)	(14,647)	(16,493)
Deferred tax assets written off	(12,188)	(4,431)	(16,192)	(8,932)
	<u>50,778</u>	<u>74,361</u>	<u>102,188</u>	<u>148,095</u>
<b>NET INCOME FOR THE YEAR</b>	<b>50,778</b>	<b>74,361</b>	<b>102,188</b>	<b>148,095</b>
<b>EARNINGS PER SHARE FOR THE PERIOD</b>				
	<u>1.65</u>	<u>1.62</u>	<u>2.94</u>	<u>3.25</u>
Attributable to net income	<u>0.85</u>	<u>1.24</u>	<u>1.70</u>	<u>2.47</u>
Weighted average number of shares outstanding (thousand shares)	<u>60,000</u>	<u>60,000</u>	<u>60,000</u>	<u>60,000</u>

The attached notes 1 to 11 form part of these interim consolidated financial statements.

Zamil Industrial Investment Company (A Saudi Joint Stock Company) and its Subsidiaries

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS (UN-AUDITED)

For the six months period ended 30 June 2016

	<i>For the six months period ended 30</i>	
	<i>2016</i>	<i>2015</i>
	<i>SR'000</i>	<i>SR'000</i>
<b>OPERATING ACTIVITIES</b>		
Income before share of non-controlling interests, zakat and income tax	144,182	186,584
Adjustments for:		
Depreciation	79,445	79,713
Amortization of other intangible assets	713	1,203
Employees' terminal benefits, net	(1,436)	21,115
Financial charges	42,248	35,498
Gains on disposal of property, plant and equipment	(747)	(47)
Deferred tax assets written off	(16,192)	(8,932)
Share in results of associates	(1,964)	(853)
	<u>246,249</u>	<u>314,281</u>
Changes in operating assets and liabilities:		
Net investment in finance lease	9,846	9,438
Accounts receivable	(381,145)	(106,528)
Advances, other receivables and prepayments	4,503	16,262
Value of work executed in excess of billings	49,819	(19,473)
Amounts due from related parties	(4,074)	(3,034)
Inventories	181,473	(33,636)
Accounts payable, accruals and provisions	(94,174)	(13,861)
Billings in excess of value of work executed	(11,379)	(1,427)
Advance from customers	(51,866)	69,931
Amounts due to related parties	1,171	(10,652)
	<u>(49,577)</u>	<u>221,301</u>
Cash (used in) from operations	(49,577)	221,301
Financial charges paid	(42,248)	(35,498)
Zakat and income tax paid	(24,028)	(11,968)
	<u>(115,853)</u>	<u>173,835</u>
Net cash (used in) from operating activities	(115,853)	173,835
<b>INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(75,591)	(68,773)
Proceeds from disposal of property, plant and equipment	2,684	522
Other intangible assets acquired	(3,338)	-
	<u>(76,245)</u>	<u>(68,251)</u>
Net cash used in investing activities	(76,245)	(68,251)
<b>FINANCING ACTIVITIES</b>		
Dividends paid	(60,000)	(60,000)
Net movement in short term loans	230,245	40,445
Net movement in term loans	(47,092)	(60,606)
	<u>123,153</u>	<u>(80,161)</u>
Net cash from (used in) financing activities	123,153	(80,161)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(68,945)	25,423
Cash and cash equivalents at the beginning of the period	355,424	309,721
Movement in foreign currency translation reserve, net	(6,392)	(2,497)
	<u>280,087</u>	<u>332,647</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	280,087	332,647
<b>NON-CASH TRANSACTIONS:</b>		
Directors remuneration accrued during the period	1,000	1,000

The attached notes 1 to 11 form part of these interim consolidated financial statements.

# Zamil Industrial Investment Company (A Saudi Joint Stock Company) and its Subsidiaries

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UN-AUDITED)

At 30 June 2016

### 1 ORGANIZATION AND ACTIVITIES

Zamil Industrial Investment Company ("the Company") is converted to a Saudi Joint Stock Company in accordance with the Ministerial Resolution number 407 dated 14 Rabi' I 1419H (corresponding to 8 July 1998). Prior to that the Company was operating as a limited liability company under the name of Zamil Steel Buildings Company Limited. The Company is registered in the Kingdom of Saudi Arabia under Commercial Registration number 2050004215 dated 19 Ramadan 1396H (corresponding to 14 September 1976) with the following branches in the Kingdom of Saudi Arabia:

<i>Commercial registration number</i>	<i>Date</i>	<i>Location</i>
4030030354	19 Rajab 1401H	Jeddah
2050033721	1 Safar 1419H	Dammam
1010037370	25 Rabi' II 1401H	Riyadh
2050064535	10 Rabi' II 1430H	Dammam
3550015950	14 Rabi' I 1421H	Dammam
4031039954	23 Jumada' I 1421H	Dammam

The Company has investment in the following subsidiaries:

	<i>Effective ownership percentage</i>	
	<i>2016</i>	<i>2015</i>
Zamil Steel Holding Company - Saudi Arabia	100%	100%
-Zamil Steel Pre-Engineered Building Company - Saudi Arabia	100%	100%
-Zamil Structural Steel Company - Saudi Arabia	100%	100%
-Zamil Tower and Galvanizing Company - Saudi Arabia	100%	100%
-Zamil Process Equipment Company - Saudi Arabia	100%	100%
Zamil Air Conditioners and Household Appliances - Saudi Arabia	100%	100%
Zamil Central Air Conditioners - Saudi Arabia	100%	100%
Zamil Air Conditioners Holding Company - Saudi Arabia	100%	100%
Zamil Air Conditioners and Refrigeration Services - Saudi Arabia	100%	100%
Zamil Steel Building Company - Egypt	100%	100%
Zamil Steel Buildings (Shanghai) Company Limited - China	100%	100%
Cooling Europe Holdings GmbH - Austria	100%	100%
Clima Tech air conditioners GmbH - Austria	100%	100%
Zamil Steel Buildings India Private Limited - India	100%	100%
Zamil Steel Engineering India Private Limited - India	100%	100%
Arabian Stonewool Insulation Company - Saudi Arabia	100%	100%
Ikhtebar Company Limited - Saudi Arabia	100%	100%
Zamil Energy Services Company ("ZESCO") - Saudi Arabia	100%	100%
Zamil Industrial Investment Company - UAE	100%	100%
Zamil Steel Industries Abu Dhabi (LLC) - UAE	100%	100%
Zamil Steel Buildings (Thailand) Company Limited - Thailand	100%	100%
Al Zamil Steel Construction Company - Saudi Arabia	100%	100%
Zamil Structural Steel Company - Egypt	100%	100%
Zamil Construction India PVT. Ltd. - India	100%	100%
Buildings Components Solutions Company - Saudi Arabia	100%	100%
Zamil Information Technology Global Private Limited - India	100%	100%
Zamil Higher Institute for Industrial Training Company - Saudi Arabia	100%	100%
Second Insulation Company Limited - Saudi Arabia	100%	100%
Eastern District Cooling Company Limited - Saudi Arabia	100%	100%
Zamil Air Conditioners India Private Limited ("ZAC") - India	100%	100%
Saudi Central Energy Company Limited	100%	100%
Zamil Industrial Investment Company Asia Pte. Limited - Singapore	100%	100%
Al Zamil for Inspection and Maintenance of Industrial Projects Company Ltd.- Saudi Arabia	100%	100%
Zamil Steel Buildings Vietnam Company Limited	92.27%	92.27%

# Zamil Industrial Investment Company (A Saudi Joint Stock Company) and its Subsidiaries

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UN-AUDITED) (continued)  
At 30 June 2016

1 ORGANIZATION AND ACTIVITIES (continued)	Effective Ownership Percentage	
	2016	2015
Gulf Insulation Group ("GIG")	51%	51%
-Saudi Rockwool Factory Company Ltd. ("SRWF") - Saudi Arabia	51%	51%
-First Insulation Company Ltd. ("FIC") - Saudi Arabia	51%	51%
-Arabian Fiberglass Insulation Co. Ltd - Saudi Arabia ("AFICO")	51%	51%
Saudi Preinsulated Pipes Industries Company Limited ("SPPI")	51%	51%
Middle East Air Conditioners Company Limited - Saudi Arabia	51%	51%
Zamil Hudson Company Limited - Saudi Arabia	50%	50%
Petro-Chem Zamil Company Limited - Saudi Arabia	50%	50%

The Company and its subsidiaries listed above (collectively referred to as the "Group") are engaged in design and engineering, manufacturing and fabrication of construction materials, pre-engineering steel buildings, steel structures, air conditioners and climate control systems for commercial, industrial and residential applications, telecom and transmutation towers, process equipment, fiberglass, rockwool and engineering plastic foam insulation, and solar power projects.

## 2 INTERIM PERIOD RESULTS

The Group has made all necessary adjustments which are important to present fairly in all material respects the interim financial position and interim results of operations. The interim financial results may not be considered an indicative of the actual results for the whole year.

## 3 BASIS OF PREPARATION

These interim consolidated financial statements include assets, liabilities and the results of the operations of the Company and its subsidiaries as disclosed in note (1) above. A subsidiary company is that in which the Group has, directly or indirectly, long term investment comprising an interest in the voting capital which it exerts control. A subsidiary company is consolidated from the date on which the Group obtains control until the date that control ceases. The interim consolidated financial statements are prepared on the basis of the individual interim financial statements of the Company and the interim financial statements of its subsidiaries. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. All intra-group balances, income, expenses, unrealized gains and losses resulting from intra-group transactions are eliminated in full.

Non-controlling interest represents the portion of profit or loss and net assets that are not held by the Group and are presented separately in the interim consolidated statement of income and within shareholders' equity in the interim consolidated balance sheet, separately from the equity attributable to the shareholders of the Company.

## 4 SIGNIFICANT ACCOUNTING POLICIES

The interim 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 Group in preparing its interim consolidated financial statements, summarized below, are consistent with those used in the preparation of the last audited consolidated financial statements for the year ended 31 December 2015.

The significant accounting policies adopted are as follows:

**4 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Accounting convention**

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

**Use of estimates**

The preparation of interim consolidated financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of interim consolidated financial statements and the reported amounts of revenue and expenses during the reporting period.

**Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand, bank balances and time deposits with original maturity of three months or less from the acquisition date which are subject to an insignificant risk of changes in value.

**Accounts receivable**

Accounts receivable are stated at original invoice amount less allowance 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 when there is no possibility of recovery.

**Inventories**

Inventories are stated at the lower of cost or market value. Costs are those expenses incurred in bringing each product to its present location and condition and is calculated on the following basis:

Raw materials	- purchase cost on a weighted average basis.
Work in progress and finished goods	- cost of direct materials and labour plus attributable overheads based on a normal level of activity.
Goods in transit	- cost of direct materials which are under shipment and for which risks and rewards have been passed to the company and are stated at cost.

**Net investment in finance lease**

Where the Group determines a long term cooling water arrangement to be or to contain a lease and where the Group transfers substantially all the risks and benefits incidental to ownership of the leased item, the arrangement is considered as a finance lease. A finance lease is presented as net investment in finance lease and is recognised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments received are apportioned between finance income and the reduction of the net investment in finance lease so as to achieve a constant rate of commission on the remaining balance of the asset.

**Available for sale investments**

These represent investments which are neither bought with the intention of being held to maturity nor for trading purposes. Such investments are stated at fair value. Changes in fair value are credited or charged to the interim consolidated statement of changes in shareholders' equity. Where there is an objective evidence that investments may be impaired, the estimated recoverable amount of those investments is determined and any impairment loss for the difference between the recoverable amount and the carrying amount is recognized in the interim consolidated statement of income.

For investment traded in active market, fair value is determined by reference to quoted market bid prices. For unquoted equity investments, fair value is determined by reference to the market value of similar investments or is based on the expected discounted cash flows and other relevant factors. Cost is considered to be the fair value where there is no reliable fair value information is available for such investments.

Where partial holdings are sold, the related carrying values of such investments are accounted for on a weighted average basis.



#### 4 SIGNIFICANT ACCOUNTING POLICIES (continued)

##### **Investments in associates**

The Group's investment in an associates is accounted for using the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture.

##### **Property, plant and equipment /depreciation**

Property, plant and equipment are initially recorded at cost and are stated at cost less accumulated depreciation and any impairment in value. Freehold land and construction work in progress are not depreciated. The cost of other property, plant and equipment is depreciated on a straight line basis over the estimated useful lives of the assets.

Expenditure for repair and maintenance are charged to the interim consolidated statement of income as incurred. Improvements that increase the value or materially extend the useful life of the related assets are capitalised.

##### **Other intangible assets /amortisation**

Costs which have a long term future benefit are treated as other intangible assets and are amortized over the estimated period of benefit.

##### **Business combination and goodwill**

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Goodwill is initially measured at cost being the excess of the consideration transferred over fair value of the Group's net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in the interim consolidated statement of income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units, or groups of cash generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Where goodwill forms part of a cash generating unit ("CGU") and part of the operation within that unit is disposed off, the goodwill associated with the operation disposed off is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed off in this circumstance is measured based on the relative values of the operation disposed off and the portion of the cash generating unit retained.

Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount of the cash-generating unit (group of cash-generating units) to which goodwill has been allocated, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill at each reporting date.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and goodwill is recognised in the interim consolidated statement of income.

**4 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Impairment of non-current assets**

The carrying values of non-current assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use. The excess of carrying value over the estimated recoverable amounts is charged to the interim consolidated statement of income.

**Accounts payable and accruals**

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether or not billed to the Group.

**Provisions**

Provision is made when the Group has 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.

**Prepaid financial charges**

Prepaid financial charges represent the debt acquisition fees which are paid in advance for obtaining the term loans. These financial charges are deferred and amortised over the remaining loan periods using the effective interest method or on straight line basis method, providing that using straight line method will not have results that are materially different from using the effective interest method. The unamortised balance is presented as a contra account with loan balance.

**Warranties**

Amounts are accrued on an estimated basis to meet possible future costs under warranty commitments and are included under accounts payables and accruals.

**Zakat and income tax**

Zakat and income tax is provided for in the interim consolidated financial statements based on the period share of the estimated zakat and income tax for the whole year. Differences between the estimated zakat and income tax for the interim period and the zakat and income tax provision that is calculated based on the detailed calculation of the zakat and income tax at year end are accounted for at that time.

**Employees' terminal benefits**

Provision is made for amounts payable related to the accumulated periods of service at the balance sheet date in accordance with the employees' contracts of employment.

**Revenue**

Sales

Sales represent the invoiced value of goods supplied and services rendered by the Group during the period. Sales from sale of goods are recognised, net of discount, when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably; normally on delivery to the customer. Sales from rendering of services are recognised when contracted services are performed.

Contract revenue

Revenue on long term contracts, where the outcome can be reliably estimated, is recognised under the percentage of completion method by reference to the stage of completion of the contract activity. The stage of completion is measured by calculating the proportion of the costs incurred to date to the estimated total costs of a contract. The value of work completed but not billed at the interim consolidated balance sheet date is classified as "value of construction work executed in excess of billings" under current assets in the interim consolidated balance sheet. Amounts billed in excess of work completed at the interim consolidated balance sheet date is classified as "billings in excess of value of construction work executed" under current liabilities in the interim consolidated balance sheet. Profit is not recognized on a contract until the management believes that the outcome of that contract can be assessed with reasonable certainty. In the case of unprofitable contracts, a provision is made for foreseeable losses in full.

# Zamil Industrial Investment Company (A Saudi Joint Stock Company) and its Subsidiaries

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UN-AUDITED) (continued)

At 30 June 2016

### 4 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Revenue (continued)

##### Finance income

Finance income is recognized over the period of the installments on a systematic basis based on the internal rate of return.

##### Expenses

Selling and distribution expenses are those that specifically relate to salesmen, sales department, warranties, warehousing, delivery vehicles as well as allowance for doubtful debts. All other expenses related to main operations are allocated on a consistent basis to direct costs and general and administration expenses in accordance with allocation factors determined as appropriate by the Group.

##### Foreign currencies

##### Transactions

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

##### Translation

Financial statements of foreign operations are translated in to SR using the exchange rate at each interim consolidated balance sheet date, for assets and liabilities, and average exchange rate for each period for revenue, expenses, gains and losses. Components of equity other than retained earnings, are translated at the rate ruling at the date of occurrence of each component. Translation adjustments are recorded as a separate component in shareholders' equity.

##### Segmental reporting

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

##### Earnings per share

Earnings per share attributable to main operations is calculated by dividing income from main operations for the period by the weighted average of number of shares outstanding during the period.

Earnings per share attributable to net income is calculated by dividing the net income for the period by the weighted average of number of shares outstanding during the period.

##### Operating lease

Lease is classified as operating lease whenever the terms of the lease do not transfer substantially all the risks and reward of ownership to the lessee. Operating lease payments are recognized as an expense in the interim consolidated statement of income on a straight line basis over the lease term on an accrual basis.

##### Fair values

For investments traded in active markets, fair value is determined by reference to quoted market bid prices.

For unquoted equity investments, fair value is determined by reference to the market value of a similar investment or is based on the expected discounted cash flows and other relevant factors. Cost is considered to be the fair value where there is no reliable fair value information available for such investments.

### 5 SHARE CAPITAL

The authorised, issued and fully paid share capital of the Company amounting to SR 600 million (2015: SR 600 million) is divided into 60 million shares of SR 10 each (2015: 60 million shares of SR 10 each).

## Zamil Industrial Investment Company (A Saudi Joint Stock Company) and its Subsidiaries

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### NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UN-AUDITED) (continued)

At 30 June 2016

#### **6 DIVIDENDS**

On 11 Rajab 1437H (corresponding to 18 April 2016), The Annual General Assembly approved the payment of final cash dividends for the year 2015 of SR 1 per share (totaling to SR 60 million). Dividends have been fully paid in the current period.

On 20 Jumada' II 1436 H (corresponding to 9 April 2015), The Annual General Assembly approved the payment of final cash dividends for the year 2014 of SR 1 per share (totaling to SR 60 million). Dividends have been fully paid during 2015.

#### **7 CONTINGENT LIABILITIES**

The Group's bankers have issued performance and payments guarantees, on behalf of the Group, amounting to SR 1,108 million (2015: SR 1,035 million).

#### **8 STATUS OF ZAKAT ASSESSMENTS**

Zakat assessments for the parent Company have been agreed with the General Authority for Zakat and Tax ("the GAZT") up to 2013. The Zakat declarations for the years 2014 and 2015 are still under the GAZT's review.

## Zamil Industrial Investment Company (A Saudi Joint Stock Company) and its Subsidiaries

### NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UN-AUDITED) (continued)

At 30 June 2016

#### 9 SEGMENTAL INFORMATION

Consistent with the Group's internal reporting process, business segments have been approved by board of directors in respect of the Group's activities. Transactions between the business segments are reported at cost. The Group's revenue, gross profit and net assets by business and geographical segments, are as follows:

##### Business segments

###### For the six months period ended 30 June 2016 (SR '000)

	Air conditioner industry	Steel industry	Insulation	Head office and others	Total
Revenue	<b>1,202,488</b>	<b>1,269,187</b>	<b>170,796</b>	<b>2,498</b>	<b>2,644,969</b>
Income (loss) from main operations	<b>88,806</b>	<b>75,137</b>	<b>21,794</b>	<b>(9,069)</b>	<b>176,668</b>
Net assets	<b>801,135</b>	<b>817,924</b>	<b>133,834</b>	<b>167,049</b>	<b>1,919,942</b>

###### For the six months period ended 30 June 2015 (SR '000)

	Air conditioner industry	Steel industry	Insulation	Head office and others	Total
Revenue	1,246,037	1,279,300	168,789	3,632	2,697,758
Income (loss) from main operations	115,032	68,605	20,723	(9,621)	194,739
Net assets	645,544	768,198	131,379	281,410	1,826,531

##### Geographical segments

###### For the six months period ended 30 June 2016 (SR '000)

	Saudi Arabia	Other Asian countries	Africa	Europe	Total
Revenue	<b>2,198,939</b>	<b>283,617</b>	<b>160,421</b>	<b>1,992</b>	<b>2,644,969</b>
Income (loss) from main operations	<b>170,736</b>	<b>(1,254)</b>	<b>7,436</b>	<b>(250)</b>	<b>176,668</b>

###### For the six months period ended 30 June 2015 (SR '000)

	Saudi Arabia	Other Asian countries	Africa	Europe	Total
Revenue	2,171,802	299,609	222,030	4,317	2,697,758
Income (loss) from main operations	183,122	(2,256)	13,603	270	194,739

#### 10 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. Financial instruments comprise of financial assets and financial liabilities. The Group's financial assets consist of cash and cash equivalents, accounts receivable, amounts due from related parties and net investment in finance lease. Its financial liabilities consist of short term loans, term loans, accounts payable and amounts due to related parties.

The fair values of financial instruments are not materially different from their carrying values at the balance sheet date.

#### 11 COMPARATIVE FIGURES

Certain of the prior period amounts have been reclassified to conform with the presentation in the current period.