ZAMIL INDUSTRIAL INVESTMENT COMPANY
(SAUDI JOINT STOCK COMPANY) AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS AND
AUDITORS' REPORT
YEAR ENDED DECEMBER 31, 2012

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(SAUDI JOINT STOCK COMPANY) AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS AND AUDITORS' REPORT
YEAR ENDED DECEMBER 31, 2012

Deloitte & Touche
Bakr Abulkhair & Co.
Public Accountants - License No. 96
ABT Building, Al-Khobar
P.O. Box 182
Dammam 31411
Kingdom of Saudi Arabia

Tel: +966 (0) 3 887 3937
Fax: +966 (0) 3 887 3931
www.deloitte.com
Head Office: Riyadh

AUDITORS' REPORT

To the stockholders
Zamil Industrial Investment Company
Dammam
Saudi Arabia

Scope of Audit:

We have audited the consolidated balance sheet of Zamil Industrial Investment Company ("the parent company"), a Saudi joint stock company, and its subsidiaries as of December 31, 2012 and the related consolidated statements of income, stockholders' equity and cash flows for the year then ended, and notes 1 to 29 which form an integral part of these consolidated financial statements as prepared by the Company in accordance with Article 123 of the Regulations for Companies and presented to us with all the necessary information and explanations. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

Unqualified Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2012 and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting standards in the Kingdom of Saudi Arabia appropriate to the nature of the Company and its subsidiaries, and comply with the relevant provisions of the Regulations for Companies and the Articles of the Company as these relate to the preparation and presentation of these consolidated financial statements.

Deloitte & Touche
Bakr Abulkhair & Co.

ديلويت آند توش
بكر أبو الخير وشركاهم
محاسبون قانونيون
ترخيص رقم ٩٦ Lic. 96
C.P.A
Deloitte & Touche
Bakr Abulkhair & Co.

Nasser M. Al-Sagga
License No. 322
13 Rabi' II, 1434
February 23, 2013

ZAMIL INDUSTRIAL INVESTMENT COMPANY
(SAUDI JOINT STOCK COMPANY) AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET
AS OF DECEMBER 31, 2012

	Note	2012 SR 000	2011 SR 000
ASSETS			
Current assets			
Cash and cash equivalents		**338,820**	285,867
Accounts receivable and prepayments	3	**2,034,486**	1,743,295
Advances to an unconsolidated subsidiary	4	**338,870**	244,328
Inventories	5	**1,820,265**	1,878,550
Amounts due from related parties	10	**80,376**	107,599
Total current assets		**4,612,817**	4,259,639
Non-current assets			
Investments	6	**260,422**	321,004
Property, plant and equipment	7	**1,592,890**	1,444,502
Deferred charges	8	**16,706**	11,777
Goodwill	9	**169,906**	176,251
Total non-current assets		**2,039,924**	1,953,534
TOTAL ASSETS		**6,652,741**	6,213,173
LIABILITIES, STOCKHOLDERS' EQUITY AND NON-CONTROLLING INTERESTS			
Current liabilities			
Notes and accounts payable, accruals and provisions	11	**995,070**	850,155
Amounts due to related parties	10	**78,588**	91,881
Advances from customers		**361,768**	272,142
Murabaha and tawarruq finances	13	**2,591,748**	2,386,554
Short term loans	14	**97,398**	72,952
Current portion of term loans	15	**313,227**	287,334
Total current liabilities		**4,437,799**	3,961,018
Non-current liabilities			
Term loans	15	**218,962**	393,914
Employees' terminal benefits		**272,063**	251,366
Long term payables		**15,795**	24,086
Total non-current liabilities		**506,820**	669,366
TOTAL LIABILITIES		**4,944,619**	4,630,384
Stockholders' equity and non-controlling interests			
Share capital	16	**600,000**	600,000
Statutory reserve	26	**204,600**	184,455
Retained earnings		**623,204**	533,695
Proposed cash dividends	17	**45,000**	45,000
Unrealised loss on investments		**(1,916)**	(1,075)
Translation loss on consolidation		**(21,708)**	(12,403)
Total stockholders' equity		**1,449,180**	1,349,672
Non-controlling interests	18	**258,942**	233,117
Total stockholders' equity and non-controlling interests		**1,708,122**	1,582,789
TOTAL LIABILITIES, STOCKHOLDERS' EQUITY AND NON-CONTROLLING INTERESTS		**6,652,741**	6,213,173

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

ZAMIL INDUSTRIAL INVESTMENT COMPANY
(SAUDI JOINT STOCK COMPANY) AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME
YEAR ENDED DECEMBER 31, 2012

	Note	2012 SR 000	2011 SR 000
Net sales	10,23	**5,354,874**	4,727,695
Cost of sales	10	**(4,189,754)**	(3,676,460)
Gross profit		**1,165,120**	1,051,235
Expenses			
Selling and distribution	19	**419,792**	414,640
General and administration	20	**377,303**	375,414
Amortisation of deferred charges	8	**2,831**	2,866
		799,926	792,920
Income from main operations	23	**365,194**	258,315
Permanent translation loss on consolidation		**-**	(13,428)
Other income, net	21	**12,467**	23,221
Financial charges	22	**(89,413)**	(61,166)
Income before share in results of associates and non-controlling interests, zakat and taxes		**288,248**	206,942
Share in results in associates, net	6	**(4,081)**	(4,142)
Income before non-controlling interest, zakat and taxes		**284,167**	202,800
Non-controlling interests		**(35,732)**	(24,757)
Income before zakat and taxes		**248,435**	178,043
Foreign taxes		**(3,047)**	(1,535)
Zakat	12	**(43,934)**	(22,318)
NET INCOME FOR THE YEAR		**201,454**	154,190
Earnings per share from net income		**SR 3.36**	SR 2.57
Earnings per share from continuing main operations		**SR 3.15**	SR 2.41
Earnings per share from other operations		**SR 0.21**	SR 0.16
Weighted average number of shares		**60,000,000**	60,000,000

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ZAMIL INDUSTRIAL INVESTMENT COMPANY
(SAUDI JOINT STOCK COMPANY) AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2012

	2012 SR 000	2011 SR 000
OPERATING ACTIVITIES		
Income before zakat and taxes	**248,435**	178,043
Adjustments for:		
Depreciation	**146,006**	138,356
Employees' terminal benefits, net	**22,528**	22,700
(Gain) loss on disposal of property, plant and equipment	**(1,206)**	886
Gain on sale of investments	**(3,197)**	-
Non-controlling interests	**35,732**	24,757
Share in results in associates, net	**4,081**	4,142
Amortisation of deferred charges	**3,037**	3,188
Financial charges	**89,413**	61,166
	544,829	433,238
Changes in operating assets and liabilities:		
Inventories	**66,374**	(162,765)
Receivables	**(320,721)**	(423,494)
Payables	**173,528**	(102,651)
Cash from (used in) operations	**464,010**	(255,672)
Financial charges paid	**(89,413)**	(61,166)
Zakat and foreign taxes paid	**(67,701)**	(20,948)
Net cash from (used in) operating activities	**306,896**	(337,786)
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(228,800)**	(240,545)
Proceeds from disposal of property, plant and equipment	**2,051**	2,451
Proceed from sale of investments	**9,537**	-
Deferred charges incurred	**(8,283)**	(3,137)
Investments	-	(94,190)
Acquisition of subsidiary	-	(150,000)
Net cash used in investing activities	**(225,495)**	(485,421)
FINANCING ACTIVITIES		
Dividends paid	**(90,000)**	(90,000)
Term loans, net	**(142,849)**	(92,852)
Change in short term loans, murabaha and tawarruq finances	**204,912**	976,458
Non-controlling interests, net	**(8,771)**	(7,653)
Net cash (used in) from financing activities	**(36,708)**	785,953
Net increase (decrease) in cash and cash equivalents	**44,693**	(37,254)
Cash and cash equivalents at the beginning of the year	**285,867**	296,171
Cash and cash equivalents acquired during the year	**10,827**	15,993
Movement in translation loss, net	**(2,567)**	10,957
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**338,820**	285,867

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

ZAMIL INDUSTRIAL INVESTMENT COMPANY
(SAUDI JOINT STOCK COMPANY) AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
YEAR ENDED DECEMBER 31, 2012

	Share capital SR	Statutory reserve SR	Retained earnings SR	Proposed cash dividends SR	Unrealised gain (losses) investment SR	Translation (losses) gains on consolidation SR	Total SR
January 1, 2011	600,000	169,036	486,924	45,000	1,368	(13,428)	1,288,900
Net income for the year	-	-	154,190	-	-	-	154,190
Transfer to statutory reserve	-	15,419	(15,419)	-	-	-	-
Directors' remuneration (note 10)	-	-	(2,000)	-	-	-	(2,000)
Dividends paid (note 17)	-	-	(45,000)	(45,000)	-	-	(90,000)
Proposed cash dividends (note 17)	-	-	(45,000)	45,000	-	-	-
Movement during the year, net	-	-	-	-	(2,443)	1,025	(1,418)
December 31, 2011	600,000	184,455	533,695	45,000	(1,075)	(12,403)	1,349,672
Net income for the year	**-**	**-**	**201,454**	**-**	**-**	**-**	**201,454**
Transfer to statutory reserve	**-**	**20,145**	**(20,145)**	**-**	**-**	**-**	**-**
Directors' remuneration (note 10)	**-**	**-**	**(1,800)**	**-**	**-**	**-**	**(1,800)**
Dividends paid (note 17)	**-**	**-**	**(45,000)**	**(45,000)**	**-**	**-**	**(90,000)**
Proposed cash dividends (note 17)	**-**	**-**	**(45,000)**	**45,000**	**-**	**-**	**-**
Movement during the year, net	**-**	**-**	**-**	**-**	**(841)**	**(9,305)**	**(10,146)**
December 31, 2012	**600,000**	**204,600**	**623,204**	**45,000**	**(1,916)**	**(21,708)**	**1,449,180**

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

1. ORGANIZATION AND ACTIVITIES

Zamil Industrial Investment Company ("the parent company") was converted into a closed Saudi Joint Stock Company in accordance with Ministerial Resolution 407 dated 14.3.1419H (corresponding to 8 July 1998). Prior to that, the parent company was operating as a limited liability company under the name of Zamil Steel Buildings Company Limited. On 9 February 2002, the parent company was officially listed on the Saudi Stock Exchange.

The parent company is registered in Saudi Arabia under Commercial Registration number 2050004215.

The consolidated financial statements include the financial statements of the parent company's head office, its branches and its subsidiaries, collectively referred to as "the group" in these consolidated financial statements, as listed below:

Branches:

- Zamil Air Conditioners, engaged in the manufacture and assembly of room and central air conditioners and other related activities.

- Zamil Glass Industries, engaged in the production of glass.

Subsidiaries:	Effective ownership percentage	
	2012	2011
Universal Building Systems Limited – Jersey	**100**	100
Zamil Steel Holding Company (formerly known Zamil Steel Company) and subsidiaries - Saudi Arabia	**100**	100
Zamil Steel Buildings Company – Egypt	**100**	100
Zamil Steel Buildings (Shanghai) Company Limited – China	**100**	100
Zamil Steel, Polska – Poland	**100**	100
Cooline Europe Holdings GmbH- Austria	**100**	100
Clima Tech Airconditioners GmbH – Austria	**100**	100
Zamil Steel Buildings India Private Limited	**100**	100
Zamil Steel Engineering India Private Limited	**100**	100
Arabian Stonewool Insulation Company- Saudi Arabia	**100**	100
Ikhtebar – Saudi Arabia	**100**	100
Zamil Energy Services Company (ZESCO) – Saudi Arabia	**100**	100
Zamil Industrial Investment Company, Emirates	**100**	100
Zamil Steel Industries Abu Dhabi (LLC) – UAE	**100**	100
Zamil Steel Buildings (Thailand) Co. Ltd.	**100**	100
Al Zamil for Inspection and Maintenance of Industrial Projects Co. Ltd – Saudi Arabia	**100**	100
Al Zamil Steel Construction Company – Saudi Arabia	**100**	100
Zamil Structural Steel Company – Egypt	**100**	100
Zamil Construction India Pvt. Ltd.	**100**	100
Building Components Solutions – Saudi Arabia	**100**	100
Zamil Information Technology Global Private Limited – India	**100**	100
Zamil Higher Institute for Industrial Training Company Limited – Saudi Arabia	**100**	100
Zamil Industrial Investment Company Asia Pte. Ltd. - Singapore	**100**	100
Second Insulation Company Limited – Saudi Arabia	**100**	100

Subsidiaries: *(Continued)*	Effective ownership percentage	
	2012	2011
Advantec Coils Private Limited- India (refer note below)	**100**	30
Canam Asia Limited – Saudi Arabia (refer note below)	**100**	65
Gulf Insulation Company and subsidiaries	**51**	51
Zamil Steel Buildings - Vietnam Company Limited	**92.27**	92.27
Middle East Airconditioners Company Limited – Saudi Arabia	**51**	51
Zamil Hudson Company Limited – Saudi Arabia	**50**	50
Petro-Chem Zamil Company Limited – Saudi Arabia	**50**	50
Rabiah and Nasser and Zamil Concrete Industrial Co. Ltd – Saudi Arabia	**50**	50
Geoclima S.r.l., Italy (refer note below)	**40**	85

The group exercises control on the above mentioned entities and are therefore considered the subsidiaries of the group.

In 2012, the parent company acquired controlling interest in an existing investee company, Advantec Coils (Pvt) Ltd., India, which has become a wholly owned subsidiary effective January 1, 2012. The operations of Advantec Coils (Pvt) Ltd., and carrying value of net assets amounting to SR 23.2 million as at January 1, 2012 have been consolidated in the consolidated financial statements resulting in an initial goodwill recognition of SR 36.9 million after translation loss effect. Based on additional information obtained and after purchase price allocation to the identifiable assets of the acquiree, the Goodwill has been adjusted down to SR 26.3 million.

Additionally in 2012, the parent company disposed off 45% interest in Geoclima S.r.l., Italy (a subsidiary) and recognized a gain of SR 3.2 million. The investee company has been deconsolidated and recognized as an investment in associates by using equity method.

In 2011, Second Insulation Company, a wholly owned subsidiary of the parent Company, acquired 51% of controlling interest in Gulf Insulation Company, a Saudi closed joint stock company registered in Saudi Arabia. Gulf Insulation Company (GIG) has the following subsidiaries and an associate:

	Ownership of GIG %
Saudi Preinsulated Pipes Industries Company Limited (SPPI)	100%
First Insulation Company Limited (FIC)	100%
Arabian Fiberglass Insulation Company Limited (AFICO)	51%
Armacell Zamil Middle East Company Limited	49%

In 2012, the Company acquired the remaining non-controlling interests in Canam Asia to make it as a wholly owned subsidiary without any additional cost to the Company.

Portion of the parent company’s shares in the above subsidiaries, is registered in the names of certain directors or employees as nominee shareholders on behalf of the parent company in order to comply with the regulations in which the above subsidiaries are operating.

The consolidated financial statements have been presented in Saudi Riyals.

2. 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 are as follows:

Basis of consolidation
Operating entities controlled by the parent company are classified as subsidiaries and consolidated regardless of the country of their registration. Significant inter-group balances and transactions are eliminated upon consolidation. Entities under formation are accounted for at cost.

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

Accounts receivable
Accounts receivable include sales made on trade credit which are outstanding at the balance sheet date, net of provision for amounts estimated to be uncollectible.

Inventories
Inventories are stated at the lower of cost and net realisable value. Cost is determined as follows:

Raw materials	-	Purchase cost on weighted average basis.
Work-in-process and finished goods	-	Cost of direct materials and labour plus attributable Overheads based on normal level of activity.

Investments
Investments in marketable equity securities are classified according to the group's intent with respect to those securities. Marketable equity securities held to maturity are stated at amortized cost, adjusted for the related premium or discount. Marketable equity securities held for trading are stated at fair value and unrealized gains and losses thereon are included in the consolidated statement of income. Marketable equity securities available for sale are stated at fair value and unrealized gains and losses thereon are included in consolidated stockholders' equity. Where the fair value is not readily determinable, such marketable equity securities are stated at cost less allowance for impairment in value.

Income from the investments in marketable equity securities is recognized when dividends are received.

An associate is an enterprise over which the group is in a position to exercise significant influence, through participation in the financial and operating policy decisions of the investee. The results of associates are incorporated in these financial statements using the equity method of accounting. The carrying amount of such investments is reduced to recognize any impairment in the value of the individual investments.

Subsidiaries and associates which are dormant or under development stage or where the information is not available are stated at cost.

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 interests in the acquiree either at fair value or at the proportionate share of the acquirer's identifiable net assets. Acquisition costs incurred are expensed.

Business combination and goodwill – *(continued)*
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 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 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 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. When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and goodwill is recognised in the consolidated statement of income.

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 capital work in progress are not depreciated. Depreciation is provided on other property, plant and equipment at rates calculated to write off the cost of each asset over its expected useful life.

The estimated useful lives of the assets for the calculation of depreciation are as follows:

	Years
Buildings on leasehold land	20 - 40
Plant, equipment, furniture, fixtures and vehicles	2 - 20

Expenditure for repair and maintenance are charged to income. Improvements that increase the value or materially extend the life of the related assets are capitalised.

Permanent impairment of non-current assets
At each balance sheet date, the group reviews the carrying values of property, plant and equipment and other non-current assets to determine whether there is any indication that those assets have suffered impairment. If such indicators exist, the recoverable amount of the asset is estimated in order to determine the extent of impairment (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash generating unit to which the asset belongs.

The carrying value of the asset (or cash generating unit) is reduced to the recoverable value when the recoverable value is below the carrying value. Impairment loss is recognized as expense when incurred.

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.

Where an impairment loss subsequently reverses, the carrying value of the asset (or cash generating unit) other than goodwill is increased to the revised estimate of its recoverable amount, 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 years. The reversal of impairment loss other than goodwill is recognized as income once identified.

Deferred charges
Expenses which have a long term future benefit are treated as deferred charges and are amortised over the estimated periods of benefit not exceeding five years.

Loans front-end fees represents the fee relating to the loans from Saudi Industrial Development Fund (“SIDF”). These costs are being amortized over the period of the loans and the amortization is capitalized as part of capital work-in-progress (if applicable) up to the date of commencement of commercial operations and subsequently it is charged to the consolidated statement of income.

Warranties
Amounts are provided on an estimated basis to meet probable future costs under warranty commitments.

Zakat and income tax
Zakat is provided for in accordance with Saudi Arabian fiscal regulations. Income tax is provided for in accordance with foreign fiscal authorities in which the group’s foreign subsidiaries operate. The liabilities are charged directly to the consolidated statement of income. The zakat charge and income tax, assessable on the non-controlling stockholders is included in non-controlling interest.

Employees' terminal benefits
Provision is made for amounts payable under the employment contracts applicable to employees’ accumulated periods of service at the balance sheet date.

Foreign subsidiaries make provision in accordance with the laws of countries in which subsidiaries operate.

Revenue recognition
Net sales represent the invoiced value of goods supplied, services rendered and work executed by the group during the year. For central air conditioning and pressure vessels jobs, revenue and proportionate profit are recognised when the outcome of the contract can be determined with reasonable certainty. If losses are foreseen, they are provided for in full.

Costs in excess of progress billings are disclosed under accounts receivable and prepayments in the consolidated balance sheet. Whereas billings in excess of cost are disclosed under notes and accounts payable, accruals and provisions in the consolidated balance sheet.

Expenses
Selling and distribution expenses are those that specifically relate to salesmen, warehousing, delivery vehicles and warranty cost as well as provision for doubtful debts. All other expenses other than direct cost, amortization of deferred charges and financial charges are classified as general and administration expenses.

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

Financial statements of foreign operations are translated into Saudi Riyals using the exchange rate at the balance sheet date for assets and liabilities and the average exchange rate for revenues, expenses, gains and losses. Components of equity, other than retained earnings, are held at the historical rates. Translation adjustments are recorded as a separate component of consolidated shareholders' equity. Translation loss that is considered permanent is charged to the consolidated statement of income.

Earnings per share
Earnings per share are computed by dividing net income for the year by the weighted average number of shares outstanding during the year ended December 31, 2012 of 60 million shares (2011: 60 million shares).

Earnings per share from the continuing main operations are computed by dividing the operating income less Zakat and tax, finance charges, net share of loss from associates and non-controlling interests for the period by the weighted average number of shares outstanding.

Earnings per share from other operations are computed by dividing the other income for the periods by the weighted average number of shares outstanding.

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.

Leasing
Leases are classified as capital leases wherever the terms of the lease transfer substantially all the rights and rewards of ownership to the lessee. All other leases are classified as operating leases. Rentals payable under operating leases are charged to consolidated statement of income on a straight line basis over the term of the operating lease.

3. ACCOUNTS RECEIVABLE AND PREPAYMENTS

	2012	2011
	SR 000	SR 000
Trade accounts and notes receivable	**1,559,119**	1,388,391
Prepaid expenses	**38,356**	29,529
Retentions receivable	**47,077**	40,003
Advances, deposits and other receivables	**183,033**	173,242
Revenue recognised in excess of billings	**206,901**	112,130
	2,034,486	1,743,295

4. ADVANCES TO AN UNCONSOLIDATED SUBSIDIARY

The parent company has given advance to Eastern District Cooling Company Limited, an unconsolidated subsidiary. The subsidiary is in the process of obtaining project financing loan from a commercial bank. Accordingly, the balance is expected to be recovered during 2013.

5. INVENTORIES

	2012 SR 000	2011 SR 000
Materials, supplies and stores	**1,079,514**	1,166,334
Work-in-progress	**184,403**	193,378
Finished goods	**395,233**	386,583
Goods-in-transit	**161,115**	132,255
	1,820,265	1,878,550

6. INVESTMENTS

	2012 SR 000	2011 SR 000
Investments in listed companies	**8,796**	8,796
Unrealised loss on revaluation	**(1,916)**	(1,075)
Available for sale investments	**6,880**	7,721
Investment in associates	**134,290**	194,031
Investment in an unconsolidated subsidiary	**72,666**	72,666
Other investments	**46,586**	46,586
	260,422	321,004

Investment in associates comprise of the following which are equity accounted:

1. 27.5% share in Saudi Aerated Concrete Industries Company (a Saudi limited liability company). The principal activities of the company are the production of aerated concrete blocks and partitions.

2. 25% share in Energy Central Company B.S.C. (Bahrain). The principal activities of the company are to provide metered energy, central refrigeration and other support and environmental services for large-scale infrastructure development in the Gulf region. Energy Central Company owns 49% share in Saudi Central Energy Company.

3. 51% Share in Saudi Central Energy Company (a Saudi limited liability company). The principal activities of the company are to undertake and execute the contracts for the installation and treatment of energy and water plants, electricity generating stations and their operation and maintenance, and laying networks for its transportation and distribution. Saudi Central Energy Company is controlled by Energy Central Company B.S.C. (Bahrain) and is therefore considered as an associate of the group.

4. 49% share of Gulf Insulation Group in Armacell Zamil Middle East Company Limited (also refer note 9). The principal activities of the Company are to manufacture rubber adhesive, foam rubber insulation and related accessories and sundries.

5. 51% share in Zamil Infra Private Limited. The principal activities of the company are supply of telecom towers, accompanying shelters fitted with the appropriate sandwich panels, customized air conditioning equipment and power interface units. It will also supply a range of related support products, along with comprehensive installation and maintenance services.

6. 20.83% share in IIB Paper Company Limited (Limited Liability Company registered in Cayman Islands). The principal activity of the company is the production of tissue paper.

7. During the year, 45% shares in Geoclima S.r.l was disposed off out of 85% share held as at December 31, 2011 and therefore, Geoclima S.r.l. deconsolidated during the year and remaining 40% shares in Geoclima S.r.l. is recognized as an investment in associates as at December 31, 2012.

Combined summarized financial information of the above associated companies as of the consolidated balance sheet date is as follows:

	2012 **SR 000**	2011 SR 000
Working capital	**141,897**	134,468
Other assets - net of liabilities	**126,575**	129,025
Net assets	**268,472**	263,493
The group’s equity in net assets	**134,290**	155,194
Revenue	**244,389**	533,525
Net (loss) gain	**(26,446)**	10,647
The group’s share of loss	**(4,081)**	(4,142)

Investment in an unconsolidated subsidiary comprise of 100% share in Eastern District Cooling Company Limited, a Saudi limited liability company. The principal activity of the company is production of industrial cooling water. The Company has not started its normal operations during the year.

Other investments comprise of 2.11% Share in Kinan International For Real Estate Development Company Limited (a Saudi limited liability company). The principal activities of the company are to invest in real estates like buying, construction and leasing of land and buildings.

7. PROPERTY, PLANT AND EQUIPMENT

	Freehold land SR 000	Buildings on leasehold land SR 000	Plant, equipment, furniture, fixtures and vehicles SR 000	Capital work-in-progress SR 000	**Total 2012 SR 000**	Total 2011 SR 000
Cost:						
January 1	77,479	717,802	1,483,948	394,065	2,673,294	2,085,241
Additions	**5,111**	**12,926**	**58,004**	**152,759**	**228,800**	240,545
Purchase price allocations	**10,655**	**13,888**	**13,879**	**-**	**38,422**	-
Acquisition of subsidiaries	**896**	**8,525**	**53,130**	**-**	**62,551**	388,909
Disposals	**-**	**(464)**	**(35,376)**	**(112)**	**(35,952)**	(27,586)
Transfers	**-**	**33,365**	**26,750**	**(60,115)**	**-**	-
Translation loss	**(344)**	**(2,441)**	**(6,527)**	**(13)**	**(9,325)**	(13,815)
December 31	**93,797**	**783,601**	**1,593,808**	**486,584**	**2,957,790**	2,673,294
Depreciation:						
January 1	**-**	303,116	925,676	**-**	1,228,792	966,402
Charge for the year	**-**	**31,103**	**114,903**	**-**	**146,006**	138,356
Acquisition of subsidiaries	**-**	**1,276**	**18,335**	**-**	**19,611**	152,176
Disposals	**-**	**(438)**	**(26,046)**	**-**	**(26,484)**	(24,249)
Translation loss	**-**	**(387)**	**(2,638)**	**-**	**(3,025)**	(3,893)
December 31	**-**	**334,670**	**1,030,230**	**-**	**1,364,900**	1,228,792
Net book value						
At 31 December 2012	**93,797**	**448,931**	**563,578**	**486,584**	**1,592,890**	**-**
At 31 December 2011	77,479	414,686	558,272	394,065	-	1,444,502

Capital work-in-progress represents mainly the cost incurred in respect of new building, expansion, upgrading of production facilities, new production line under construction, plant and equipment acquired for general modernisation for Zamil Steel Holding Company (Saudi Arabia), Zamil Air Conditioners (Saudi Arabia) and for other subsidiaries.

Certain property plant and equipment of the branches and consolidated subsidiaries are mortgaged as a security against the loans obtained from the financial institutions (see note 15).

8. DEFERRED CHARGES

	2012 SR 000	2011 SR 000
At the beginning of the year	**11,777**	11,838
Incurred during the year	**8,283**	3,137
Transfers, net	**(317)**	-
Amortised during the year	**(3,037)**	(3,188)
Translation loss	**-**	(10)
At the end of the year	**16,706**	11,777

9. GOODWILL

	2012 SR 000	2011 SR 000
Goodwill recognized on acquiring subsidiaries	**169,906**	176,251

At the December 31, 2011, purchase consideration exceeded net book value of Gulf Insulation Group ("GIG") by SR 114 million. During the year, the group's management allocated the consideration paid to the respective assets based on the additional information obtained during the measurement period and the resultant amount was reduced from the goodwill of the Group amounting to SR 27.8 million.

During the year 45% shares in Geoclima S.r.l was disposed off out of 85% share held as at December 31, 2011 and therefore, Geoclima S.r.l. deconsolidated during the year and consequently related goodwill amounted to SR 3.2 million was derecognised.

During the year, the Company acquired additional 70% shares in Advantec Colis Private Limited, India, that resulted in an initial recognition of goodwill amounting to SR 36.9 million after translation loss effect. Based on the additional information obtained and after purchase price allocation to the identifiable assets of the acquiree, the Goodwill has been adjusted down to SR 26.3 million.

Pursuant to the board of directors' meeting of Rabiah and Nassar & Zamil Concrete Industrial Co. Ltd. ("RANCO"), the parent company assumed the control of RANCO effective from January 1, 2011. After acquiring the control of RANCO, the Goodwill originally recorded in the amount of SR 34.5 million was reassessed and adjusted accordingly.

10. RELATED PARTY TRANSACTIONS

Related parties represent associated companies, key personnel of the group, and entities controlled, jointly controlled or significantly influenced by such parties. The following are the details of major related party transactions during the year:

	2012 SR 000	2011 SR 000
Companies affiliated to Al Zamil Group:		
Purchase of goods and services	**110,085**	91,577
Sale of goods and services	**(45,878)**	(23,374)

The group also paid SR 6 million (2011: SR 6 million) to certain directors as salary and other benefits in their capacity as executives of the group.

Directors' remuneration amounted to SR 1.8 million (2011: SR 2 million).

Prices and terms of payment for these transactions are approved by the directors.

Amounts due from and due to related parties are shown in the consolidated balance sheet under current assets and current liabilities respectively and consist of amounts due from/to Al Zamil Group of companies.

11. NOTES AND ACCOUNTS PAYABLE, ACCRUALS AND PROVISIONS

	2012 SR 000	2011 SR 000
Trade accounts and notes payable	**328,326**	248,117
Accrued contractual costs	**103,776**	95,955
Accrued expenses and provisions	**438,474**	373,222
Zakat provision (note 12)	**38,196**	58,916
Billings in excess of value of work executed	**86,298**	73,945
	995,070	850,155

12. ZAKAT

The zakat charge for the year consists of:

	2012 SR 000	2011 SR 000
Current year provision	**43,934**	22,318

The current year's provision is based on the following:

	2012 SR 000	2011 SR 000
Equity	**1,427,604**	1,255,960
Opening provisions and other adjustments	**366,413**	328,445
Book value of long term assets net of long term liabilities	**(1,446,424)**	(1,254,421)
	347,593	329,984
Zakatable profit for the year	**273,961**	242,748
Zakat base	**621,554**	572,732

The differences between the financial and the zakat results are mainly due to elimination of the group's share of profit in foreign subsidiaries which are consolidated in the financial statements and adjustments for certain costs/claims based on the relevant fiscal regulations.

The group is settling its zakat based on the consolidated financials of its wholly owned subsidiaries.

The movement in the zakat provision was as follows:

	2012 SR 000	2011 SR 000
At the beginning of the year	**58,916**	54,037
Provided during the year	**43,934**	22,318
Acquired during the year	**-**	1,974
Payments during the year	**(64,654)**	(19,413)
At the end of the year	**38,196**	58,916

Status of assessments

Zakat assessments have been agreed with the Department of Zakat and Income Tax (the DZIT) up to 2010. The 2011 assessment is under the DZIT's review.

13. MURABAHA AND TAWARRUQ FINANCES

Murabaha and tawarruq finances were obtained from local commercial banks and are secured by credit agreements and corporate guarantees. The facilities carry financial charges at commercial rates and are repayable within one year from the consolidated balance sheet date.

14. SHORT TERM LOANS

Short term loans were obtained from local and foreign commercial banks. The loans are for duration of less than one year with an option to roll over and they carry commission at commercial rates.

15. TERM LOANS

	2012	2011
	SR 000	SR 000
Loan No. 1	**113,789**	77,509
Loan No. 2	**-**	6,210
Loan No. 3	**225,000**	450,000
Loan No. 4	**66,640**	100,000
Loan No. 5	**36,471**	40,000
Loan No. 6	**1,254**	7,529
Loan No. 7	**53,159**	**-**
Loan No. 8	**35,876**	**-**
	532,189	681,248
Less: current portion	**(313,227)**	(287,334)
	218,962	393,914

Loan No. 1 represents the loans obtained by Zamil Steel Holding Company, Building Component Solutions and Arabian Fiberglass Insulation Company Limited from Saudi Industrial Development Fund ("SIDF"). These loans carry appraisal fees which are being amortised over the terms of the loans and are repayable in semi- annual unequal instalments, the last being payable on 15/10/1439H (corresponding to 29 June 2018). At 31 December 2012, the SIDF loans outstanding were SR 113.8 million (2011: SR 77.5 million) including current portion of SR 23.4 million (2011: SR 18.8 million). The loans are secured by mortgage over the property, plant and equipment of the branches and consolidated subsidiaries. The loans agreements also contain certain covenants in respective of maintenance of financial ratios.

As of December 31, 2011 Loan no.2 represents various medium and long term loans obtained by Geoclima S.r.l. repayable in monthly, quarterly and half yearly unequal instalments. Geoclima S.r.l. was deconsolidated during the year due to sale of controlling interests by the Company.

Loan No. 3 represents loans obtained by the parent Company amounting to SR 1,000 million from local banks to finance its working capital requirements. At 31 December 2012, the loans outstanding were SR 225 million (2011: SR 450 million) including current portion of SR 225 million (2011: SR 225 million). These loans are repayable in half yearly and yearly unequal instalments. The loans carry finance charges at SIBOR plus a margin and these loans are secured by corporate guarantees and order notes. The loan agreements contain certain financial covenants which the parent company is required to comply with.

Loan No. 4 represents a loan obtained by the parent company amounting to SR 100 million from a local bank. At 31 December 2012, the loan outstanding was SR 66.6 million (2011: SR 100 million) including a current portion of SR 33.4 million (2011: SR 33.4 million). The loan is payable in half yearly equal instalments.

Loan No. 5 represents the loan amounting to SR 40 million from a local bank obtained by Arabian Fiberglass Insulation Company Limited, a subsidiary of Gulf Insulation Group. At 31 December 2012, the loan outstanding was SR 36.5 million (2011: SR 40 million) including current portion of SR 14.1 million (2011: SR 2.5 million). The loan is repayable in 34 equal monthly instalments.

Loan No. 6 represents the term loan obtained by Saudi Preinsulated Pipes Industries Company ("SPPI"), a subsidiary of Gulf Insulation Group, amounting to SR 7.5 million from a local bank. At 31 December 2012, the loan outstanding was SR 1.3 million (2011: SR 7.5 million) and the entire loan is classified as a current liability (2011: SR 5 million). This loan is repayable in six quarterly equal instalments.

Loan No. 7 represents short term loan obtained by Gulf Insulation Group which has outstanding balance of SR 53.2 million as at year end. The loan carries finance charges at commercial rate. The management has classified these loans as non-current liabilities in the consolidated financial statement as GIG committed to bridge these loans with SIDF loans.

Loan No. 8 represents various loans obtained by Rabiah-Nassar and Zamil Concrete Industries Company Limited, a subsidiary, from local commercial bank for its working capital and capital expenditure requirements. At 31 December 2012, the loan outstanding was SR 35.9 million (2011: Nil) including a current portion of SR 16.1 million. These loans are repayable in 1 to 3 years.

Loan instalments due in 2013 are shown as current liabilities.

16. SHARE CAPITAL

The share capital of the parent company amounting to SR 600 million (2011: SR 600 million) is divided into 60 million shares of SR 10 each (2011: 60 million share of SR 10 each).

17. PROPOSED CASH DIVIDENDS

In 2012, the parent company paid a cash dividend of SR 0.75 per share totalling SR 45 million for the year 2011 (2011 – SR 0.75 per share totalling SR 45 million for the year 2010).

In 2012, the parent company also paid an interim dividend of SR 0.75 per share totalling SR 45 million for the year 2012 (2011 – Interim dividend of SR 0.75 per share totalling SR 45 million).

The board of directors have proposed a final cash dividend of SR 0.75 per share for the year 2012 totalling SR 45 million being 7.5% of the share capital (2011: SR 0.75 per share totalling SR 45 million being 7.5% of the share capital) for the approval of the stockholders in their annual general assembly.

18. NON-CONTROLLING INTERESTS

Non-controlling interests are as follows:

	2012 %	2011 %
Zamil Hudson Company Ltd.	**50**	50
Petro-Chem Zamil Company Limited	**50**	50
Rabiah and Nasser & Zamil Concrete Industrial Company Limited	**50**	50
Middle East Airconditioners Company Limited	**49**	49
Gulf Insulation Group	**49**	49
Zamil Steel Buildings - Vietnam Company Limited	**7.73**	7.73
Geoclima S.r.l (refer note 1)	**-**	15
Canam Asia Limited (refer note 1)	**-**	35

19. SELLING AND DISTRIBUTION EXPENSES

	2012 SR 000	2011 SR 000
Employee costs	**220,852**	221,511
Advertising and sales promotion	**45,854**	41,285
Services	**14,806**	13,084
Rent and utilities	**6,219**	8,476
Transportation, business travel and entertainment	**52,174**	49,199
Warranty	**22,476**	21,777
Depreciation	**9,750**	9,487
Repairs and maintenance	**2,134**	1,706
Provision for doubtful debts	**12,854**	18,498
Others	**32,673**	29,617
	419,792	414,640

20. GENERAL AND ADMINISTRATION EXPENSES

	2012 SR 000	2011 SR 000
Employee costs	**261,722**	248,136
Depreciation	**21,067**	18,375
Services	**68,194**	69,097
Supplies	**2,556**	2,128
Others	**23,764**	37,678
	377,303	375,414

21. OTHER INCOME, NET

	2012 SR 000	2011 SR 000
Exchange (loss) gains, net	**(1,446)**	7,138
Gains on sale of investments	**3,197**	-
Dividend income	**2,076**	1,784
Gain (loss) on disposal of property, plant and equipment	**1,206**	(886)
Others	**7,434**	15,185
	12,467	23,221

22. FINANCIAL CHARGES

Financial charges are incurred on notes payable, murabaha and tawaruq finances, short term loans, term loans and amortisation of loans front end fees relating to loans from SIDF.

23. SEGMENTAL ANALYSIS

(a) Analysis of sales, operating income (loss) and net assets by activities:

	Sales SR 000		Operating income (loss) SR 000		Net assets SR 000	
	2012	2011	**2012**	2011	**2012**	2011
Air conditioner industry	**2,184,563**	1,836,334	**191,444**	160,197	**461,717**	384,357
Steel industry	**2,689,364**	2,416,980	**144,485**	89,604	**851,451**	759,434
Glass & insulation	**322,970**	324,983	**40,282**	39,355	**114,672**	100,403
Concrete	**156,444**	149,398	**13,695**	(11,644)	**59,184**	49,353
Head office and others	**1,533**	-	**(24,712)**	(19,197)	**(37,844)**	56,125
	5,354,874	4,727,695	**365,194**	258,315	**1,449,180**	1,349,672

(b) Analysis of sales, and operating income by geographical location:

	Sales SR 000		Operating income SR 000	
	2012	2011	**2012**	2011
Saudi Arabia:				
Local sales	**3,512,949**	2,923,650	**273,163**	189,483
Export sales	**838,163**	971,349	**54,802**	56,613
Total sales of Saudi Arabia	**4,351,112**	3,894,999	**327,965**	246,096
Other Asian countries	**677,683**	477,530	**25,389**	6,392
Africa	**310,980**	280,024	**12,614**	3,699
Europe	**15,099**	75,142	**(774)**	2,128
	5,354,874	4,727,695	**365,194**	258,315

24. CONTINGENT LIABILITIES

The group's bankers have issued, on behalf of the group, performance bonds in respect of certain contracts amounting to SR 995 million (2011: SR 826 million).

25. CAPITAL COMMITMENTS

The directors have approved future capital expenditure amounting to SR 73.85 million (2011: SR 52 million).

26. 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.

27. RISK MANAGEMENT

Credit risk
Credit risk is the risk that one party will fail to discharge an obligation and will cause the other party to incur a financial loss. The group seeks to limit its credit risk with respect to customers by setting credit limits for individual customers and by monitoring outstanding receivables. At the balance sheet date, no significant concentrations of credit risk were identified by management. However, the trade receivables from foreign customers are secured by letters of credit.

Liquidity risk
Liquidity risk is the risk that the group will encounter difficulty in raising funds to meet commitments associated with financial instruments. The group limits its liquidity risk by ensuring that bank facilities are available. The group’s terms of sales require amounts to be paid within 90 days of the date of sale. Trade payables are normally settled within 90 days of the date of purchase.

Currency risk
Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. As a result of investment in foreign countries, the consolidated balance sheet can be affected by movements in the exchange rate of Saudi Riyals against currencies of these foreign countries.

There are transactional currency exposures also. Such exposures arise mainly from sales or purchases by the foreign subsidiaries in currencies of their respective countries, which are not pegged with the functional currency of the parent company.

28. 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 group’s financial assets consist of bank balances and cash, receivables and amounts due from related parties and affiliates and its financial liabilities consist of murabah, short term loans, term loans, notes and payables and amounts due to related parties and affiliates.

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

29. COMPARATIVE FIGURES

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