

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

**CONSOLIDATED FINANCIAL STATEMENTS AND AUDITORS'  
REPORT**

**31 DECEMBER 2015**

**AUDITORS' REPORT TO THE SHAREHOLDERS OF  
ZAMIL INDUSTRIAL INVESTMENT COMPANY (A SAUDI JOINT STOCK COMPANY) AND ITS  
SUBSIDIARIES**

**Scope of Audit:**

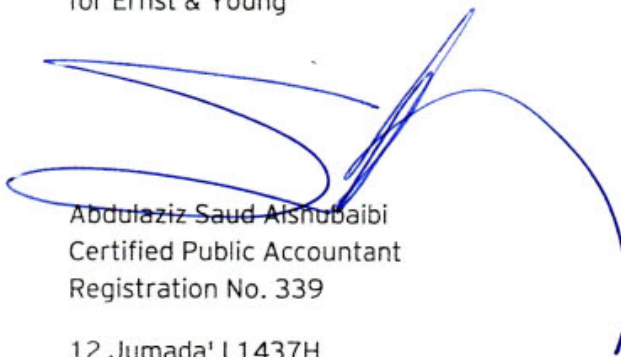
We have audited the accompanying consolidated balance sheet of Zamil Industrial Investment Company, A Saudi Joint Stock Company ("the Company") and its subsidiaries (collectively referred to as the "Group") as at 31 December 2015 and the related consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended. These consolidated financial statements are the responsibility of the Company's board of directors 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 statements 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 financial position of the Group as at 31 December 2015 and the consolidated results of its operations and its cash flows for the year then ended in accordance with the accounting standards generally accepted in the Kingdom of Saudi Arabia.
- ii) comply with the requirements of the Regulations for Companies and the Company's by-laws in so far as they affect the preparation and presentation of the consolidated financial statements.

for Ernst & Young



Abdulaziz Saud Alshubai  
Certified Public Accountant  
Registration No. 339

12 Jumada' I 1437H  
21 February 2016

Al Khobar



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

CONSOLIDATED BALANCE SHEET

As at 31 December 2015

|                                                               | Note | 2015<br>SR'000   | 2014<br>SR'000   |
|---------------------------------------------------------------|------|------------------|------------------|
| <b>ASSETS</b>                                                 |      |                  |                  |
| <b>CURRENT ASSETS</b>                                         |      |                  |                  |
| Cash and cash equivalents                                     | 4    | 355,424          | 309,721          |
| Accounts receivable and prepayments                           | 5    | 1,882,036        | 1,791,828        |
| Amounts due from related parties                              | 9    | 38,651           | 58,823           |
| Value of work executed in excess of billings                  | 6    | 284,009          | 330,121          |
| Current portion of net investment in finance lease            | 7    | 19,904           | 19,078           |
| Inventories                                                   | 8    | 1,764,507        | 1,597,271        |
| <b>TOTAL CURRENT ASSETS</b>                                   |      | <b>4,344,531</b> | <b>4,106,842</b> |
| <b>NON-CURRENT ASSETS</b>                                     |      |                  |                  |
| Property, plant and equipment                                 | 10   | 1,390,010        | 1,415,984        |
| Investments in associates                                     | 11   | 93,340           | 96,498           |
| Available for sale investments                                | 12   | 89,496           | 110,336          |
| Net investments in finance lease                              | 7    | 405,710          | 425,614          |
| Amounts due from a related party                              | 9    | 33,850           | 33,850           |
| Other intangible assets                                       | 13   | 6,397            | 20,926           |
| Goodwill                                                      | 14   | 80,126           | 110,706          |
| <b>TOTAL NON-CURRENT ASSETS</b>                               |      | <b>2,098,929</b> | <b>2,213,914</b> |
| <b>TOTAL ASSETS</b>                                           |      | <b>6,443,460</b> | <b>6,320,756</b> |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                   |      |                  |                  |
| <b>CURRENT LIABILITIES</b>                                    |      |                  |                  |
| Accounts payables and accruals                                | 15   | 1,353,114        | 1,292,313        |
| Billings in excess of value of work executed                  | 16   | 94,876           | 80,726           |
| Amounts due to related parties                                | 9    | 21,332           | 22,609           |
| Short term loans                                              | 17   | 1,956,147        | 1,993,448        |
| Current portion of term loans                                 | 18   | 138,350          | 156,463          |
| Provision for zakat and income tax                            | 19   | 58,721           | 52,616           |
| <b>TOTAL CURRENT LIABILITIES</b>                              |      | <b>3,622,540</b> | <b>3,598,175</b> |
| <b>NON-CURRENT LIABILITIES</b>                                |      |                  |                  |
| Term loans                                                    | 18   | 313,338          | 403,915          |
| Employees' terminal benefits                                  | 20   | 356,558          | 320,931          |
| <b>TOTAL NON-CURRENT LIABILITIES</b>                          |      | <b>669,896</b>   | <b>724,846</b>   |
| <b>TOTAL LIABILITIES</b>                                      |      | <b>4,292,436</b> | <b>4,323,021</b> |
| <b>SHAREHOLDERS' EQUITY</b>                                   |      |                  |                  |
| <b>EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE COMPANY</b> |      |                  |                  |
| Share capital                                                 | 21   | 600,000          | 600,000          |
| Statutory reserve                                             |      | 280,471          | 254,170          |
| Retained earnings                                             |      | 955,036          | 840,330          |
| Proposed dividends                                            | 22   | 60,000           | 60,000           |
| Foreign currency translation reserve                          |      | (10,361)         | (11,980)         |
| <b>NON-CONTROLLING INTERESTS</b>                              | 23   | <b>265,878</b>   | <b>255,215</b>   |
| <b>TOTAL SHAREHOLDERS' EQUITY</b>                             |      | <b>2,151,024</b> | <b>1,997,735</b> |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>             |      | <b>6,443,460</b> | <b>6,320,756</b> |

The attached notes 1 to 33 form part of these consolidated financial statements.

**Zamil Industrial Investment Company (A Saudi Joint Stock Company) and its Subsidiaries**  
**CONSOLIDATED STATEMENT OF INCOME**

Year ended 31 December 2015

|                                                                                                         |      | 2015<br>SR'000     | 2014<br>SR'000     |
|---------------------------------------------------------------------------------------------------------|------|--------------------|--------------------|
|                                                                                                         | Note |                    |                    |
| <b>REVENUE</b>                                                                                          |      |                    |                    |
| Sales                                                                                                   |      | 4,599,875          | 4,630,323          |
| Contracts revenue                                                                                       |      | 870,221            | 805,805            |
| Finance lease income                                                                                    |      | 18,499             | 19,291             |
|                                                                                                         |      | <u>5,488,595</u>   | <u>5,455,419</u>   |
| <b>DIRECT COSTS</b>                                                                                     |      |                    |                    |
| Cost of sales                                                                                           |      | (3,426,227)        | (3,447,392)        |
| Contracts costs                                                                                         |      | (757,085)          | (660,640)          |
|                                                                                                         |      | <u>(4,183,312)</u> | <u>(4,108,032)</u> |
| <b>GROSS PROFIT</b>                                                                                     |      | <b>1,305,283</b>   | <b>1,347,387</b>   |
| <b>EXPENSES</b>                                                                                         |      |                    |                    |
| Selling and distribution                                                                                | 24   | (456,996)          | (534,592)          |
| General and administration                                                                              | 25   | (440,768)          | (406,920)          |
|                                                                                                         |      | <u>(897,764)</u>   | <u>(941,512)</u>   |
| <b>INCOME FROM MAIN OPERATIONS</b>                                                                      |      | <b>407,519</b>     | <b>405,875</b>     |
| Other income, net                                                                                       | 26   | 32,479             | 19,006             |
| Financial charges                                                                                       |      | (68,514)           | (81,488)           |
| Impairment loss on goodwill                                                                             | 14   | (30,580)           | (23,957)           |
| Impairment loss on available for sale investments                                                       | 12   | (20,840)           | -                  |
| Other intangible assets written off                                                                     | 13   | (14,428)           | -                  |
|                                                                                                         |      | <u>(102,853)</u>   | <u>(86,439)</u>    |
| <b>INCOME BEFORE SHARE IN RESULTS OF ASSOCIATES, NON-CONTROLLING INTERESTS AND ZAKAT AND INCOME TAX</b> |      | <b>305,636</b>     | <b>319,436</b>     |
| Share in results of associated companies                                                                | 11   | (3,158)            | 902                |
|                                                                                                         |      | <u>(3,158)</u>     | <u>902</u>         |
| <b>INCOME BEFORE NON-CONTROLLING INTERESTS, ZAKAT AND INCOME TAX</b>                                    |      | <b>302,478</b>     | <b>320,338</b>     |
| Non-controlling interests                                                                               | 23   | (11,125)           | (21,494)           |
|                                                                                                         |      | <u>(11,125)</u>    | <u>(21,494)</u>    |
| <b>INCOME BEFORE ZAKAT AND INCOME TAX</b>                                                               |      | <b>291,353</b>     | <b>298,844</b>     |
| Zakat and income tax                                                                                    | 19   | (28,346)           | (38,504)           |
|                                                                                                         |      | <u>(28,346)</u>    | <u>(38,504)</u>    |
| <b>NET INCOME FOR THE YEAR</b>                                                                          |      | <b>263,007</b>     | <b>260,340</b>     |
| <b>EARNINGS PER SHARE</b>                                                                               |      |                    |                    |
| Attributable to main operations                                                                         | 27   | 6.79               | 6.76               |
| Attributable to net income                                                                              | 27   | 4.38               | 4.34               |
| Weighted average number of shares outstanding (Thousand shares)                                         | 21   | 60,000             | 60,000             |



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

## CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2015

|                                                                        | 2015<br>SR'000   | 2014<br>SR'000   |
|------------------------------------------------------------------------|------------------|------------------|
| <b>OPERATING ACTIVITIES</b>                                            |                  |                  |
| Income before share of non-controlling interests, zakat and income tax | 302,478          | 320,338          |
| Adjustments for:                                                       |                  |                  |
| Depreciation                                                           | 161,381          | 156,033          |
| Amortisation of other intangible assets                                | 675              | 1,296            |
| Amortisation of prepaid financial charges                              | 1,385            | 1,847            |
| Impairment loss on goodwill                                            | 30,580           | 23,957           |
| Impairment loss on available for sale investments                      | 20,840           | -                |
| Other intangible assets written off                                    | 14,428           | -                |
| Employees' terminal benefits, net                                      | 35,627           | 26,926           |
| Financial charges                                                      | 68,514           | 79,641           |
| (Gain)/loss on disposal of property, plant and equipment               | (922)            | 467              |
| Share in results of associates                                         | 3,158            | (902)            |
| Gain on disposal of investments in associates                          | -                | (14,080)         |
|                                                                        | <b>638,144</b>   | <b>595,523</b>   |
| Changes in operating assets and liabilities:                           |                  |                  |
| Accounts receivable and prepayments                                    | (90,208)         | (28,270)         |
| Amounts due from related parties                                       | 20,172           | 4,378            |
| Value of work executed in excess of billings                           | 46,112           | 25,422           |
| Net investment in finance lease                                        | 19,078           | 18,287           |
| Inventories                                                            | (167,236)        | 327,830          |
| Accounts payables and accruals                                         | 58,801           | (19,940)         |
| Billings in excess of value of work executed                           | 14,150           | 418              |
| Amounts due to related parties                                         | (1,277)          | (12,838)         |
| Cash from operations                                                   | <b>537,736</b>   | <b>910,810</b>   |
| Financial charges paid                                                 | (68,514)         | (79,641)         |
| Zakat and income tax paid                                              | (22,241)         | (44,875)         |
| Net cash from operating activities                                     | <b>446,981</b>   | <b>786,294</b>   |
| <b>INVESTING ACTIVITIES</b>                                            |                  |                  |
| Purchase of property, plant and equipment                              | (136,614)        | (137,522)        |
| Proceeds from disposal of property, plant and equipment                | 2,129            | 4,961            |
| Proceeds from disposal of investments in associates                    | -                | 16,875           |
| Addition to other intangible assets                                    | (574)            | (14,646)         |
| Net cash used in investing activities                                  | <b>(135,059)</b> | <b>(130,332)</b> |
| <b>FINANCING ACTIVITIES</b>                                            |                  |                  |
| Proceeds from short term loans                                         | 19,163,196       | 15,112,921       |
| Repayments of short term loans                                         | (19,200,497)     | (15,879,326)     |
| Proceeds from term loans                                               | 72,987           | 529,928          |
| Repayments of term loans                                               | (183,062)        | (221,794)        |
| Dividends paid                                                         | (120,000)        | (120,000)        |
| Non-controlling interests, net                                         | (462)            | (15,503)         |
| Net cash used in financing activity                                    | <b>(267,838)</b> | <b>(593,774)</b> |
| <b>INCREASE IN CASH AND CASH EQUIVALENT</b>                            | <b>44,084</b>    | <b>62,188</b>    |
| Cash and cash equivalents at the beginning of the year                 | 309,721          | 250,966          |
| Net movement in foreign currency translation reserve                   | 1,619            | (3,433)          |
| <b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>                | <b>355,424</b>   | <b>309,721</b>   |

(Continued)

The attached notes 1 to 33 form part of these consolidated financial statements.

**Zamil Industrial Investment Company (A Saudi Joint Stock Company) and its Subsidiaries**  
**CONSOLIDATED STATEMENT OF CASH FLOWS (continued)**  
Year ended 31 December 2015

**NON-CASH TRANSACTIONS:**

|                                                                                                                 |         |         |
|-----------------------------------------------------------------------------------------------------------------|---------|---------|
| Goodwill re-classified to investment in associate on de-consolidation of a subsidiary (note 11)                 | -       | 23,880  |
| Net assets of a subsidiary transferred to investment in associate on de-consolidation of a subsidiary (note 11) | -       | 22,916  |
| Receivable on account of disposal of investment in an associate                                                 | -       | 5,625   |
| Consolidation of net assets of an associate on de-recognition of investment in an associate (note 11)           | -       | (367)   |
| Consideration of a consolidated subsidiary settled through a related party                                      | -       | (353)   |
| Foreign exchange loss on property, plant and equipment                                                          | 2,290   | 3,916   |
| Directors remuneration accrued during the year                                                                  | (2,000) | (2,000) |



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

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY

Year ended 31 December 2015

EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE COMPANY

|                                                      | <i>Share capital</i><br><i>SR'000</i> | <i>Statutory</i><br><i>reserve</i><br><i>SR'000</i> | <i>Retained</i><br><i>earnings</i><br><i>SR'000</i> | <i>Proposed</i><br><i>dividends</i><br><i>SR'000</i> | <i>Foreign</i><br><i>currency</i><br><i>translation</i><br><i>reserve</i><br><i>SR'000</i> | <i>Total</i><br><i>SR'000</i> |
|------------------------------------------------------|---------------------------------------|-----------------------------------------------------|-----------------------------------------------------|------------------------------------------------------|--------------------------------------------------------------------------------------------|-------------------------------|
| Balance at 31 December 2013                          | 600,000                               | 228,136                                             | 728,024                                             | 60,000                                               | (7,618)                                                                                    | 1,608,542                     |
| Net income for the year                              | -                                     | -                                                   | 260,340                                             | -                                                    | -                                                                                          | 260,340                       |
| Transfer to statutory reserve                        | -                                     | 26,034                                              | (26,034)                                            | -                                                    | -                                                                                          | -                             |
| Dividends paid (note 22)                             | -                                     | -                                                   | (60,000)                                            | (60,000)                                             | -                                                                                          | (120,000)                     |
| Proposed cash dividends (note 22)                    | -                                     | -                                                   | (60,000)                                            | 60,000                                               | -                                                                                          | -                             |
| Directors' remuneration                              | -                                     | -                                                   | (2,000)                                             | -                                                    | -                                                                                          | (2,000)                       |
| Net movement in foreign currency translation reserve | -                                     | -                                                   | -                                                   | -                                                    | (4,362)                                                                                    | (4,362)                       |
| Balance at 31 December 2014                          | 600,000                               | 254,170                                             | 840,330                                             | 60,000                                               | (11,980)                                                                                   | 1,742,520                     |
| Net income for the year                              | -                                     | -                                                   | 263,007                                             | -                                                    | -                                                                                          | 263,007                       |
| Transfer to statutory reserve                        | -                                     | 26,301                                              | (26,301)                                            | -                                                    | -                                                                                          | -                             |
| Dividends paid (note 22)                             | -                                     | -                                                   | (60,000)                                            | (60,000)                                             | -                                                                                          | (120,000)                     |
| Proposed cash dividends (note 22)                    | -                                     | -                                                   | (60,000)                                            | 60,000                                               | -                                                                                          | -                             |
| Directors' remuneration                              | -                                     | -                                                   | (2,000)                                             | -                                                    | -                                                                                          | (2,000)                       |
| Net movement in foreign currency translation reserve | -                                     | -                                                   | -                                                   | -                                                    | 1,619                                                                                      | 1,619                         |
| <b>Balance at 31 December 2015</b>                   | <b>600,000</b>                        | <b>280,471</b>                                      | <b>955,036</b>                                      | <b>60,000</b>                                        | <b>(10,361)</b>                                                                            | <b>1,885,146</b>              |

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

### 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<br/>Percentage</i> |             |
|-------------------------------------------------------------------------------------------|-------------------------------------------|-------------|
|                                                                                           | <i>2015</i>                               | <i>2014</i> |
| Universal Building System limited - Jersey                                                | -                                         | 100%        |
| 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%        |
| Ikhtebare 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) Co. 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. Ltd - 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%      |



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2015

**1 ORGANIZATION AND ACTIVITIES (continued)**

|                                                                 | <i>Effective Ownership<br/>Percentage</i> |             |
|-----------------------------------------------------------------|-------------------------------------------|-------------|
|                                                                 | <b>2015</b>                               | <b>2014</b> |
| Gulf Insulation Group ("GIG")                                   | <b>51%</b>                                | 51%         |
| -Saudi Rockwool Factory Company Ltd. ("SRWF") - Saudi Arabia    | <b>51%</b>                                | 51%         |
| -First Insulation Company Ltd. ("FIC") - Saudi Arabia           | <b>51%</b>                                | 51%         |
| -Arabian Fiberglass Insulation Co. Ltd - Saudi Arabia ("AFICO") | <b>51%</b>                                | 51%         |
| Saudi Preinsulated Pipes Industries Company Limited ("SPPI")    | <b>51%</b>                                | 51%         |
| Middle East Air Conditioners Company Limited - Saudi Arabia     | <b>51%</b>                                | 51%         |
| Zamil Hudson Company Limited - Saudi Arabia                     | <b>50%</b>                                | 50%         |
| Petro-Chem Zamil Company Limited - Saudi Arabia                 | <b>50%</b>                                | 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 conditions 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.

On 14 April 2015, Universal Building System Limited - Jersey, a subsidiary, was dissolved. As the subsidiary did not have any assets or liabilities on that date, no loss or profit have been recognised in the consolidated statement of income in respect of the dissolution.

On 1 October 2014, the Company lost its control over Rabiah Nasser and Zamil Concrete Industrial Co. Ltd ("RANCO") - which is registered in Saudi Arabia and engaged in the production of concrete products, asphalt and polystyrene. Accordingly, RANCO had been de-consolidated effective the same date with recognition of an impairment loss of SR 9 million relating to goodwill considering the loss of control and future expected performance of RANCO (note 11).

On 1 January 2014, the Group acquired the remaining 50% of Saudi Central Energy Company Limited. Accordingly, the assets, liabilities and results of operations of this subsidiary have been consolidated effective from 1 January 2014. The legal formalities in respect of this transaction have been completed on 19 November 2015.

**2 BASIS OF PREPARATION**

These 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 consolidated financial statements are prepared on the basis of the individual financial statements of the Company and the 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 consolidated statement of income and within shareholders' equity in the consolidated balance sheet, separately from shareholders' equity attributable to the Company.

**3 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:

**Accounting convention**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2015

**3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Use of estimates**

The preparation of 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 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 transits                   | - cost of direct materials which are under shipment and for which risks and rewards have passes to the company and are stated at cost. |

**Net investment in finance lease**

Leases where the Group transfers substantially all of the risks and benefits of ownership of the assets through its contractual agreement to the customer are considered as finance leases. The amounts due from the lessee are recorded in the consolidated balance sheet as financial assets and are carried at the amount of the net investment in the finance lease after making provision for impairment. Net investment in finance lease comprises gross amounts receivable under finance leases less unearned finance income.

**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 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 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.

**Investments in associates**

Investment in an associate where the Group has significant influence over the investee financial and operational decisions, normally where the Group own stake between 20% to 50% of the capital of the investee company, is accounted for using the equity method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2015

**3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Investments in associates (continued)**

Under the equity method, the investment in an associate is carried in the consolidated balance sheet at cost adjusted by the changes in the Group's share of net assets of the associate. The consolidated statement of income reflects the share in results of the associates. Where there has been a change recognized directly in the equity of the associate, the Group recognizes its share of any change and discloses this, when applicable, in the consolidated statement of changes in shareholder's equity. Profits and losses resulting from transactions between the Group and the associates are eliminated to the extent of interest in an associate.

The financial statements of the associates are prepared for the same period as the Company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

**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 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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2015

**3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Business combination and goodwill (continued)**

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 consolidated statement of income.

**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 consolidated statement of income.

**Impairment and uncollectibility of financial assets**

An assessment is made at each consolidated balance sheet date to determine whether there is an objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognised in the consolidated statement of income. Impairment is determined as follows:

- (a) For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the consolidated statement of income
- (b) For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flow discounted at the current market rate of return for a similar financial asset.

**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.

**Loans and borrowings**

Loans and borrowings are recognised at the proceeds received value by the Group.

**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 (note 15).

**Zakat and income tax**

Zakat is provided for the Company and for subsidiaries operate inside the Kingdom of Saudi Arabia in accordance with Saudi Arabian fiscal operation. Income tax is provided for in accordance with fiscal authorities in which the Group's subsidiaries operate outside the Kingdom of Saudi Arabia. Provision for zakat and income tax is charged to the consolidated statement of income. Additional amounts, if any, that may become due on finalization of the zakat and income tax assessments are accounted for in the year in which assessments is finalized.

**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.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2015

**3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Statutory reserve**

As required by Saudi Arabian Regulations for Companies, the Company has transferred 10% of its income for the year to the statutory reserve. The Company may resolve to discontinue such transfers when the reserve totals 50% of the share capital. The reserve is not available for distribution.

**Revenue**

Sales

Sales represent the invoiced value of goods supplied and services rendered by the Group during the year. 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 recognized 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 consolidated balance sheet date is classified as "value of construction work executed in excess of billings" under current assets in the consolidated balance sheet. Amounts billed in excess of work completed at the consolidated balance sheet date is classified as "billings in excess of value of construction work executed" under current liabilities in the 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.

Finance income

Finance income in respect of the net investment in finance lease 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**

Transaction

The Group's consolidated financial statements are presented in Saudi Riyals ("SR"), which is also the Company's functional currency. The items included in the financial statements of each entity are measured using its functional currency.

The Group uses the direct method of consolidation and on disposal of a foreign operation, the gain or loss that is reclassified to profit or loss reflects the amount that arises from using this method.

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the consolidated balance sheet date. All differences are taken to the consolidated statement of income.

Forward exchange contracts

Forward foreign exchange contracts that are entered in order to hedge a foreign currency liability are recorded at the spot rate at the inception of the contract. Any discounts or premiums are credited or charged to the consolidated statement of income over the life of the contract.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2015

**3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Foreign currencies (continued)**

Forward exchange contracts(continued)

Forward foreign exchange contracts that are entered into in order to hedge a future identifiable foreign currency commitment are recorded at the spot rate at the inception of the contract. Any discounts or premiums and transaction gains or losses to the date of recording the related foreign currency transaction are deferred and included in the measurement of the related transactions.

Translation

Financial statements of foreign operations are translated in to SR using the exchange rate at each 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 year by the weighted average of number of shares outstanding during the year.

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

**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 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.

The fair value of forward foreign exchange contracts is calculated by reference to current forward exchange rate with the same maturity.

**Derivative financial instruments**

The Group uses derivative financial instruments such as foreign currency forward contracts to hedge its risk associated primarily with foreign currency fluctuations in respect of purchasing inventories from overseas suppliers. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2015

**4 CASH AND CASH EQUIVALENTS**

|                        | <i>2015</i>    | <i>2014</i>   |
|------------------------|----------------|---------------|
|                        | <i>SR'000</i>  | <i>SR'000</i> |
| Bank balances and cash | <b>331,153</b> | 283,994       |
| Time deposits          | <b>24,271</b>  | 25,727        |
|                        | <b>355,424</b> | 309,721       |

**5 ACCOUNTS RECEIVABLE AND PREPAYMENTS**

|                                     | <i>2015</i>      | <i>2014</i>   |
|-------------------------------------|------------------|---------------|
|                                     | <i>SR'000</i>    | <i>SR'000</i> |
| Trade accounts receivable           | <b>1,703,182</b> | 1,610,070     |
| Retention receivables               | <b>67,411</b>    | 46,558        |
|                                     | <b>1,770,593</b> | 1,656,628     |
| Less: allowances for doubtful debts | <b>(124,650)</b> | (111,763)     |
|                                     | <b>1,645,943</b> | 1,544,865     |
| Prepaid expenses                    | <b>44,256</b>    | 51,638        |
| Advances to suppliers               | <b>64,206</b>    | 31,736        |
| Other receivables                   | <b>127,631</b>   | 163,589       |
|                                     | <b>1,882,036</b> | 1,791,828     |

At 31 December 2015, trade accounts receivable at nominal value of SR 128 million (2014: SR 112 million) were impaired. Movements in the allowance for doubtful debts were as follows:

|                              | <i>2015</i>     | <i>2014</i>   |
|------------------------------|-----------------|---------------|
|                              | <i>SR'000</i>   | <i>SR'000</i> |
| At the beginning of the year | <b>111,763</b>  | 66,195        |
| Allowance for the year       | <b>33,034</b>   | 47,587        |
| Written-off during the year  | <b>(20,147)</b> | (2,019)       |
| At the end of the year       | <b>124,650</b>  | 111,763       |

Unimpaired receivables are expected, on the basis of past experience, to be fully recoverable. It is not the practice of the Group to obtain collateral over receivables and the vast majority are, therefore, unsecured.

**6 VALUE OF WORK EXECUTED IN EXCESS OF BILLINGS**

|                                                            | <i>2015</i>      | <i>2014</i>   |
|------------------------------------------------------------|------------------|---------------|
|                                                            | <i>SR'000</i>    | <i>SR'000</i> |
| Value of the work executed to date                         | <b>1,075,779</b> | 1,394,591     |
| Less: Amounts received and receivable as progress billings | <b>(791,770)</b> | (1,064,470)   |
|                                                            | <b>284,009</b>   | 330,121       |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2015

**7 NET INVESTMENT IN FINANCE LEASE**

Eastern District Cooling Company ("EDCC"), a subsidiary, entered into an energy performance contract during 2008 with Saudi Iron and Steel Company ("Hadeed") for a period of 20 years. As per the terms stipulated in the agreement it is agreed to design, construct, operate and maintain a District Cooling Plant (DCP) at the premises of Hadeed. At the end of the contract term all the rights, title and interest in the DCP will be transferred to Hadeed for an all-inclusive lump sum payment of SR 53.3 million. During 2013, the construction of DCS was completed and it was transferred to Hadeed under finance lease agreement on 1 April 2013.

The net investment in finance lease and the future minimum lease payments are as follows:

a) Net investment in finance lease consists of:

|                                            | <i>2015</i><br><i>SR'000</i> | <i>2014</i><br><i>SR'000</i> |
|--------------------------------------------|------------------------------|------------------------------|
| Gross investments in lease (see (b) below) | <b>579,368</b>               | 616,945                      |
| Less: Unearned finance income              | <b>(153,754)</b>             | (172,253)                    |
|                                            | <b>425,614</b>               | 444,692                      |

Analysed as:

|                                              |                |         |
|----------------------------------------------|----------------|---------|
| Net investment in finance lease, current     | <b>19,904</b>  | 19,078  |
| Net investment in finance lease, non-current | <b>405,710</b> | 425,614 |

b) The future minimum lease payments to be received consists of:

|                                             | <i>2015</i><br><i>SR'000</i> | <i>2014</i><br><i>SR'000</i> |
|---------------------------------------------|------------------------------|------------------------------|
| Within one year                             | <b>37,578</b>                | 37,578                       |
| After one year but not more than five years | <b>150,312</b>               | 150,312                      |
| Five years onwards                          | <b>391,478</b>               | 429,055                      |
|                                             | <b>579,368</b>               | 616,945                      |

**8 INVENTORIES**

|                  | <i>2015</i><br><i>SR'000</i> | <i>2014</i><br><i>SR'000</i> |
|------------------|------------------------------|------------------------------|
| Raw materials    | <b>982,220</b>               | 1,017,977                    |
| Work in progress | <b>140,318</b>               | 105,231                      |
| Finished goods   | <b>535,103</b>               | 362,723                      |
| Goods in transit | <b>106,866</b>               | 111,340                      |
|                  | <b>1,764,507</b>             | 1,597,271                    |



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2015

## 9 RELATED PARTIES' TRANSACTIONS AND BALANCES

Related parties represent major shareholders, directors and key management personnel of the Group, and entities controlled or significantly influenced by such parties. Following is the list of major related parties of the Group:

| <u>Name of related party</u>                                                 | <u>Nature of relationship</u> |
|------------------------------------------------------------------------------|-------------------------------|
| Energy Central Company B.S.C. - Bahrain                                      | Associate                     |
| Zamil Infra Private Limited - India                                          | Associate                     |
| Geoclima - Italy                                                             | Associate                     |
| Rabiah Nasser and Zamil Concrete Industrial Co. Ltd - Saudi Arabia ("RANCO") | Associate                     |
| Armaceil Zamil Middle East Company                                           | Associate                     |
| Zamil Architectural Holding Company                                          | Affiliate                     |
| Al Zamil Group B.S.C.C - Bahrain                                             | Affiliate                     |
| Zamil Group Holding Company                                                  | Affiliate                     |
| Zamil Alpla Plastics Middle East                                             | Affiliate                     |
| Hudson Products Corporation                                                  | Affiliate                     |
| Petrochem Development Co. Inc.                                               | Affiliate                     |

The following are the details of major related parties' transactions during the year:

a) Transactions with related parties' included in the consolidated statement of income are as follows:

| <u>Related party</u>     | <u>Nature of transaction</u>                                  | <u>Amount of transaction</u> |                              |
|--------------------------|---------------------------------------------------------------|------------------------------|------------------------------|
|                          |                                                               | <i>2015</i><br><i>SR'000</i> | <i>2014</i><br><i>SR'000</i> |
| Affiliate                | Sales                                                         | 13,722                       | 8,238                        |
| Affiliate                | Purchases                                                     | 52,547                       | 61,414                       |
| Key managerial personnel | Directors remuneration and other benefits paid by the Company | 6,800                        | 6,800                        |

Pricing policies and terms of payments of transactions with related parties are approved by the Group's management.

The breakdown of amounts due from /to related parties is as follows:

a) *Amounts due from related parties shown in the consolidated balance sheet under current assets:*

|                                     | <i>2015</i><br><i>SR'000</i> | <i>2014</i><br><i>SR'000</i> |
|-------------------------------------|------------------------------|------------------------------|
| RANCO                               | 13,330                       | 29,479                       |
| Zamil Architectural Holding Company | 8,721                        | 7,882                        |
| Geoclima - Italy                    | 4,989                        | 4,971                        |
| Al Zamil Group B.S.C.C - Bahrain    | 2,155                        | 1,587                        |
| Zamil Group Holding Company         | 1,821                        | 2,544                        |
| Zamil Alpla Plastics Middle East    | 1,736                        | 351                          |
| Zamil Infra Private Limited - India | 1,723                        | 3,619                        |
| Armaceil Zamil Middle East Company  | -                            | 5,729                        |
| Others                              | 4,176                        | 2,661                        |
|                                     | <b>38,651</b>                | <b>58,823</b>                |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2015

**9 RELATED PARTIES' TRANSACTIONS AND BALANCES (continued)**

***b) Amounts due from a related party shown in the consolidated balance sheet under non-current assets:***

|       |               |        |
|-------|---------------|--------|
| RANCO | <b>33,850</b> | 33,850 |
|-------|---------------|--------|

This amount represents a loan provided to finance RANCO's working capital and carries no financial charges and has no fixed repayment date. The loan is shown under non-current assets in the consolidated balance sheet as it is not expected to be settled during 2015.

***c) Amounts due to related parties shown in the consolidated balance sheet under current liabilities:***

|                                         |               |        |
|-----------------------------------------|---------------|--------|
| Energy Central Company B.S.C. - Bahrain | <b>14,764</b> | 13,334 |
| Hudson Products Corporation             | <b>2,512</b>  | 2,061  |
| Petrochem Development Co. Inc.          | <b>-</b>      | 4,366  |
| Others                                  | <b>4,056</b>  | 2,848  |
|                                         | <b>21,332</b> | 22,609 |

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2015

### 10 PROPERTY, PLANT AND EQUIPMENT

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

|                                   |                |
|-----------------------------------|----------------|
| Buildings on leasehold land       | 20 to 40 years |
| Machinery                         | 5 to 20 years  |
| Furniture, fixtures and equipment | 3 to 5 years   |
| Motor vehicles                    | 3 years        |

|                                  | <i>Freehold land</i> | <i>Buildings on<br/>leasehold land</i> | <i>Machinery</i> | <i>Furniture,<br/>fixtures and<br/>equipment</i> | <i>Motor vehicles</i> | <i>Capital work-in-<br/>progress</i> | <i>Total<br/>2015</i> | <i>Total<br/>2014</i> |
|----------------------------------|----------------------|----------------------------------------|------------------|--------------------------------------------------|-----------------------|--------------------------------------|-----------------------|-----------------------|
|                                  | <i>SR'000</i>        | <i>SR'000</i>                          | <i>SR'000</i>    | <i>SR'000</i>                                    | <i>SR'000</i>         | <i>SR'000</i>                        | <i>SR'000</i>         | <i>SR'000</i>         |
| <i>Cost:</i>                     |                      |                                        |                  |                                                  |                       |                                      |                       |                       |
| At the beginning of the year     | 92,378               | 878,491                                | 1,534,324        | 220,700                                          | 90,923                | 31,961                               | <b>2,848,777</b>      | 3,038,598             |
| Additions                        | 23,350               | 7,458                                  | 25,215           | 13,671                                           | 16,197                | 53,013                               | <b>138,904</b>        | 141,438               |
| Disposal                         | -                    | (1,159)                                | (5,507)          | (11,964)                                         | (4,685)               | (73)                                 | <b>(23,388)</b>       | (52,257)              |
| De-consolidation of subsidiary   | -                    | -                                      | -                | -                                                | -                     | -                                    | -                     | (275,805)             |
| Transfer                         | -                    | 1,812                                  | 35,071           | 4,242                                            | -                     | (41,125)                             | -                     | 3,017                 |
| Translation loss                 | (673)                | (1,176)                                | (3,560)          | (2,533)                                          | (482)                 | (44)                                 | <b>(8,468)</b>        | (6,214)               |
| At the end of the year           | <b>115,055</b>       | <b>885,426</b>                         | <b>1,585,543</b> | <b>224,116</b>                                   | <b>101,953</b>        | <b>43,732</b>                        | <b>2,955,825</b>      | 2,848,777             |
| <i>Accumulated depreciation:</i> |                      |                                        |                  |                                                  |                       |                                      |                       |                       |
| At the beginning of the year     | -                    | 349,203                                | 861,088          | 151,343                                          | 71,159                | -                                    | <b>1,432,793</b>      | 1,430,213             |
| Charge for the year              | -                    | 36,496                                 | 94,252           | 19,376                                           | 11,257                | -                                    | <b>161,381</b>        | 156,033               |
| Disposal                         | -                    | (418)                                  | (5,370)          | (11,955)                                         | (4,438)               | -                                    | <b>(22,181)</b>       | (46,829)              |
| De-consolidation of subsidiary   | -                    | -                                      | -                | -                                                | -                     | -                                    | -                     | (106,589)             |
| Transfer                         | -                    | -                                      | -                | -                                                | -                     | -                                    | -                     | 2,263                 |
| Translation loss                 | -                    | (834)                                  | (2,766)          | (2,152)                                          | (426)                 | -                                    | <b>(6,178)</b>        | (2,298)               |
| At the end of the year           | -                    | <b>384,447</b>                         | <b>947,204</b>   | <b>156,612</b>                                   | <b>77,552</b>         | -                                    | <b>1,565,815</b>      | 1,432,793             |
| <i>Net book amounts:</i>         |                      |                                        |                  |                                                  |                       |                                      |                       |                       |
| <b>At 31 December 2015</b>       | <b>115,055</b>       | <b>500,979</b>                         | <b>638,339</b>   | <b>67,504</b>                                    | <b>24,401</b>         | <b>43,732</b>                        | <b>1,390,010</b>      |                       |
| At 31 December 2014              | 92,378               | 529,288                                | 673,236          | 69,357                                           | 19,764                | 31,961                               |                       | 1,415,984             |

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2015

### 10 PROPERTY, PLANT AND EQUIPMENT (continued)

The majority of the buildings are constructed on plots of land leased from The Saudi Industrial Property Authority (MODON) in Riyadh and first and second industrial city - Dammam for periods range from 4 to 25 years with various commencing dates range from the years 1993 to 2015.

Capital work-in-progress represents mainly the cost incurred in respect of new building, expansion, upgrading of production facilities, new production line and machinery and equipment acquired for general modernisation.

Certain property, plant and equipment are mortgaged as a security against the loans obtained from the financial institutions (note 17 and 18).

### 11 INVESTMENTS IN ASSOCIATES

|                                                     | <i>2015</i>                    | <i>2014</i> | <i>2015</i>   | <i>2014</i>   |
|-----------------------------------------------------|--------------------------------|-------------|---------------|---------------|
|                                                     | <i>Percentage of ownership</i> |             | <i>SR'000</i> | <i>SR'000</i> |
| Rabiah Nasser and Zamil Concrete Industrial Co. Ltd |                                |             |               |               |
| - Saudi Arabia ("RANCO") (note (i))                 | 50%                            | 50%         | <b>45,603</b> | 44,479        |
| Energy Central Company B.S.C. - Bahrain (note       | 25%                            | 25%         | <b>16,339</b> | 15,417        |
| Zamil Infra Private Limited - India (note (iii))    | 51%                            | 51%         | <b>13,813</b> | 23,581        |
| Geoclima S.r.l - Italy (note (iv))                  | 40%                            | 40%         | <b>10,367</b> | 8,764         |
| IIB Paper Company Limited - Bahrain (note (v))      | 20.83%                         | 20.83%      | <b>7,218</b>  | 4,257         |
|                                                     |                                |             | <b>93,340</b> | 96,498        |

- (i) On 1 October 2014, the Company lost its control over Rabiah Nasser and Zamil Concrete Industrial Co. Ltd ("RANCO") - which is registered in Saudi Arabia and engaged in the production of concrete products, asphalt and polystyrene. Accordingly, RANCO had been de-consolidated effective the same date with recognition an impairment loss of SR 9 million relating to goodwill considering the loss of control and future expected performance of RANCO and it is accounted for as an associate. The investment carrying value includes embedded goodwill of SR 23.9 million (2014: SR 23.9 million).
- (ii) Energy Central Company B.S.C is a closed Joint Stock Company incorporated in the Kingdom of Bahrain. The principal activities of the company are distribution of utility services including district cooling, seawater desalination, waste water treatment, power generation and other related services within the GCC countries.
- (iii) Zamil Infra Private Limited is registered in India as a private limited company under the Companies Act of India 1956. 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. The company is also engaged in supplying, installation and commissioning of solar energy plant and generation of solar electrical energy. Although, the Group's share in Zamil Infra Private Limited is more than 50%, it is considered as an associate of the Group as the non-controlling interest exercises control over the investee company.
- (iv) Geoclima S.r.l. Company is registered in Italy and it is engaged in the manufacturing of air conditioners. Originally a goodwill of SR 3.2 million was accounted for the value of investment in associate using equity method. The investment carrying value includes embedded goodwill of SR 1.5 million (2014: SR 1.5 million).
- (v) IIB Paper Company Limited is registered in Cayman Islands and is engaged in the production of tissue paper.

Movements in investments in associates are as follows:

|                                                                     | <i>2015</i>    | <i>2014</i>   |
|---------------------------------------------------------------------|----------------|---------------|
|                                                                     | <i>SR'000</i>  | <i>SR'000</i> |
| At the beginning of the year                                        | <b>96,498</b>  | 58,516        |
| Recognised on de-consolidation of a subsidiary (see note (i) above) | -              | 46,796        |
| De-recognised on consolidation of an associate as a subsidiary      | -              | (367)         |
| Share in results of associates                                      | <b>(3,158)</b> | 902           |
| Disposal                                                            | -              | (9,349)       |
| At the end of the year                                              | <b>93,340</b>  | 96,498        |



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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2015

### 12 AVAILABLE FOR SALE INVESTMENTS

|                                                                            | <i>2015</i><br><i>SR'000</i> | <i>2014</i><br><i>SR'000</i> |
|----------------------------------------------------------------------------|------------------------------|------------------------------|
| Kinan International For Real Estate Development Company Limited (note (i)) | <b>46,586</b>                | 46,586                       |
| PLG Photovoltaic Limited (note (ii))                                       | <b>42,910</b>                | 63,750                       |
|                                                                            | <b>89,496</b>                | 110,336                      |

i) This investment represents 2.11% share in Kinan International For Real Estate Development Company Limited, unlisted company which is registered in Saudi Arabia and is engaged in real estate activities. The investment is stated at cost as cost is considered to be fair value where there is no available fair value information for such investment.

ii) This investment represents 75.6% unquoted share in PLG Photovoltaic Limited, unlisted company which is registered in India and is engaged in the activity of providing solar energy. During the year, the Company recognised an impairment loss of SR 20.8 million due to the decline in the value of foreign currency as such decline considered significant and prolonged.

### 13 OTHER INTANGIBLE ASSETS

|                                 | <i>2015</i><br><i>SR'000</i> | <i>2014</i><br><i>SR'000</i> |
|---------------------------------|------------------------------|------------------------------|
| <i>Cost</i>                     |                              |                              |
| At the beginning of the year    | <b>24,061</b>                | 13,275                       |
| Additions                       | <b>574</b>                   | 14,646                       |
| Reclassified                    | -                            | (2,888)                      |
| Written off during the year     | <b>(14,428)</b>              | -                            |
| Disposal                        | -                            | (972)                        |
| At 31 December                  | <b>10,207</b>                | 24,061                       |
| <i>Accumulated amortisation</i> |                              |                              |
| At the beginning of the year    | <b>3,135</b>                 | 4,945                        |
| Charge for the year             | <b>675</b>                   | 1,296                        |
| Reclassified                    | -                            | (2,134)                      |
| Written off during the year     | -                            | (972)                        |
| At 31 December                  | <b>3,810</b>                 | 3,135                        |
| <i>Net carrying value</i>       |                              |                              |
| At 31 December                  | <b>6,397</b>                 | 20,926                       |

Other intangible assets mainly represent amounts paid to acquire lease rights to use plots of land in Vietnam and are amortised over a period of 30 years.

During 2014, SIDF front end fees, deducted from loans by Saudi Industrial Development Fund ("SIDF") loans, have been reclassified as part of term loans (note 18).

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2015

### 14 GOODWILL

|                                                                                           | <i>2015</i><br><i>SR'000</i> | <i>2014</i><br><i>SR '000</i> |
|-------------------------------------------------------------------------------------------|------------------------------|-------------------------------|
| At the beginning of the year                                                              | <b>110,706</b>               | 158,543                       |
| Re-classified to investment in associate on de-consolidation<br>of a subsidiary (note 11) | -                            | (23,880)                      |
| Impairment loss                                                                           | <b>(30,580)</b>              | (23,957)                      |
|                                                                                           | <b>80,126</b>                | 110,706                       |

During 2011, the Group acquired 51% of the voting shares of Gulf Insulation Group ("GIG"), a company registered in the Kingdom of Saudi Arabia. During 2012, the Group exercised purchase price allocation which is resulting a goodwill of SR 110 million.

During 2014, GIG transferred 51% ownership of its wholly owned subsidiary Saudi Preinsulated Pipes Industries Company Limited ("SPPI") to one of its partner, Second Insulation Company Limited ("SICL"), a wholly owned subsidiary of the Group. Accordingly, the Group performed its annual impairment test in December 2015 considering the allocation of goodwill to GIG and SPPI and performing impairment view on CGUs based on the available information and comparing carrying values to their estimated recoverable amounts based on appropriate method.

#### SSPI

The recoverable amount of SPPI has been determined based on a value in use calculation using cash flow projection from financial budgets approved by senior management covering a five-year period. As a result of the analysis, the management has recognized an impairment loss of SR 30.58 million in the current year against goodwill with a carrying amount of SR 30.58 million as at 31 December 2014.

#### GIG

The recoverable amount of GIG is also determined based on a value in use calculation using cash flow projection from financial budgets approved by senior management covering a five-year period. As a result of the analysis, the management did not identify an impairment for this CGU.

### 15 ACCOUNTS PAYABLES AND ACCRUALS

|                         | <i>2015</i><br><i>SR'000</i> | <i>2014</i><br><i>SR'000</i> |
|-------------------------|------------------------------|------------------------------|
| Accounts payable        | <b>520,787</b>               | 355,554                      |
| Accrued expenses        | <b>356,142</b>               | 508,254                      |
| Advances from customers | <b>312,885</b>               | 308,821                      |
| Accrued contract costs  | <b>139,415</b>               | 94,739                       |
| Warranties provision    | <b>23,885</b>                | 24,945                       |
|                         | <b>1,353,114</b>             | 1,292,313                    |

**16 BILLINGS IN EXCESS OF VALUE OF WORK EXECUTED**

|                                          | 2015<br>SR'000 | 2014<br>SR'000 |
|------------------------------------------|----------------|----------------|
| Progress billings received or receivable | 600,584        | 756,998        |
| Less: value of work executed             | (505,708)      | (676,272)      |
|                                          | <b>94,876</b>  | <b>80,726</b>  |

**17 SHORT TERM LOANS**

|                                | 2015<br>SR'000   | 2014<br>SR'000   |
|--------------------------------|------------------|------------------|
| Short term loans               | 135,507          | 110,389          |
| Murabaha and tawarruq finances | 1,820,640        | 1,883,059        |
|                                | <b>1,956,147</b> | <b>1,993,448</b> |

The short term loans, Murabaha and Tawarruq finances were obtained from various local banks to meet the working capital requirements. These loans are secured by promissory notes and assignment of certain contract proceeds, corporate guarantees and a mortgage on the Group's property, plant and equipment (note 10). These borrowings carry commission charges at prevailing market borrowing rates.

**18 TERM LOANS**

|                                                                             | 2015<br>SR'000   | 2014<br>SR'000   |
|-----------------------------------------------------------------------------|------------------|------------------|
| Commercial banks (note 'A' below)                                           | 321,538          | 472,299          |
| Saudi Industrial Development Fund ("SIDF") (note 'B' below)                 | 140,015          | 93,313           |
|                                                                             | <b>461,553</b>   | <b>565,612</b>   |
| Less: Current portion:                                                      |                  |                  |
| Term loans from the commercial banks (note 'A' below)                       | (116,850)        | (130,178)        |
| Term loans from Saudi Industrial Development Fund ("SIDF") (note 'B' below) | (21,500)         | (26,285)         |
|                                                                             | <b>(138,350)</b> | <b>(156,463)</b> |
| Less: SIDF prepaid financial charges                                        | (9,865)          | (5,234)          |
| Non-current portion                                                         | <b>313,338</b>   | <b>403,915</b>   |

A Term loans from the commercial banks comprise the following:

- i) The Group obtained a loan facility of SR 500 million from a local bank. This loan is secured by promissory notes. The loan is repayable in 10 semiannual equal instalments commencing from 30 June 2014. The facility is subject to interest at SIBOR plus margin. At 31 December 2015, the outstanding loan was SR 300 million (2014: SR 400 million) including a current portion of SR 100 million (2014: SR 100 million).
- ii) The Group also obtained a loan facility of SR 25 million from a local bank. This loans is secured by promissory notes and assignment of certain contract proceeds, corporate guarantees and a mortgage on the Group's property, plant and equipment (note 10). The loan is repayable in 16 equal quarterly instalments commencing from October 2013. The facility is subject to interest at SIBOR plus margin. At 31 December 2015, the outstanding loan was SR10.9 million (2014: SR 17.2 million) including current portion of SR 6.3 million (2014: SR 6.3 million).

At 31 December 2015

**18 TERM LOANS (continued)**

- iii) Further, the Group obtained a loan facility of SR 25 million. These loans are secured by promissory notes and assignment of certain contract proceeds, corporate guarantees and a mortgage on the Group's property, plant and equipment (note 10). The loan is repayable in 36 unequal monthly instalments commencing from January 2014. The facility is subject to interest at SIBOR plus margin. At 31 December 2015, the outstanding loan was SR 10.6 million (2014: SR 19 million) and represents a current portion payable during 2016 (2014: SR 8.4 million including as a current portion).
- B The Group also obtained loan facility of SR 140 million from SIDF for financing the construction of the plant. The loan is secured by a mortgage on the Group's property, plant and equipment (note 10). The loans are repayable in unequal installments.

The Company is required to comply with certain covenants which include, among other things, certain financial ratios to be maintained under all the loan facility agreements mentioned above.

Following are the combined aggregate amounts of next six years' maturities of the term loans:

| <i>Year</i> | <i>SR'000</i> |
|-------------|---------------|
| 2016        | 138,350       |
| 2017        | 135,188       |
| 2018        | 134,600       |
| 2019        | 31,500        |
| 2020        | 15,750        |
| 2021        | 6,165         |



## 19 ZAKAT AND INCOME TAX

### a) Zakat

#### Charge for the year

The zakat charge consists of:

|                        | 2015<br>SR'000 | 2014<br>SR'000 |
|------------------------|----------------|----------------|
| Current year provision | <b>22,150</b>  | 26,258         |

The provision for the year is based on zakat base of the Company and its wholly owned Saudi subsidiaries as a whole and individual zakat base of other Saudi subsidiaries (2014: same).

#### Status of assessments

The zakat assessments of the Company and its wholly owned Saudi subsidiaries as a whole have been agreed with the Department of Zakat and Income Tax ("the DZIT") up to 2012. The zakat assessment for the years 2013 and 2014 have been filed with the DZIT. However, the final declarations have not yet been raised by the DZIT.

#### SPPI

Zakat assessments have been agreed with the DZIT up to 2007. The zakat assessment for the years from 2008 to 2014 have been filed with the DZIT. However, the final declarations have not yet been raised by the DZIT.

#### SRWF

Zakat assessments have been agreed with the DZIT up to 2013. The zakat assessment for the year 2014 has been filed with the DZIT. However, the final declaration has not yet been raised by the DZIT.

#### AFICO

Zakat assessments have been agreed with the DZIT up to 2003. The zakat assessments for the years from 2004 to 2014 have been filed with the DZIT. However, the final declarations have not yet been raised by the DZIT.

#### FIC

Zakat assessments have been filed with the DZIT for the years from 2008 to 2014. However, the final declarations have not yet been raised by the DZIT.

#### GIG

Zakat assessments have been agreed with the DZIT up to 2007. The zakat assessment for the years from 2008 to 2014 have been filed with the DZIT. However, the final declarations have not yet been raised by the DZIT.

Zakat base has been computed based on the managements' understanding of the zakat regulations enforced in the Kingdom of Saudi Arabia. The zakat regulations in Saudi Arabia are subject to different interpretations, and the assessments to be raised by the DZIT could be different from the declarations filed by the respective company.

### b) Income tax

#### Charge for the year

The income tax charge consists of:

|                        | 2015<br>SR'000 | 2014<br>SR'000 |
|------------------------|----------------|----------------|
| Current year provision | <b>6,196</b>   | 12,246         |

Income tax provision is provided for in accordance with fiscal authorities in which the Group's subsidiaries operate outside the Kingdom of Saudi Arabia

**19 ZAKAT AND INCOME TAX (continued)**

**b) Income tax (continued)**

**Status of assessments**

The status of assessment of the major foreign subsidiaries are as follows:

**Zamil Air Conditioners India Private Limited ("ZAC - India")**

Income tax assessments have been agreed with the Department of Income Tax of India ("the DIT") up to the year ended 31 March 2009. The income tax returns for the years ended 31 March 2010 to 31 March 2015 have been filed with the DIT. However, the final assessments have not yet been raised by the DIT.

**Zamil Steel Buildings India Private Limited - India ("ZSB - India")**

Income tax assessments have been agreed with the DIT up to the year ended 31 March 2012. The income tax returns for the years ended 31 March 2013 to 31 March 2015 have been filed with the DIT. However, the final assessments have not yet been raised by the DIT.

**Zamil Construction India Pvt. Limited ("ZCON - India")**

Income tax assessments have been agreed with the DIT up to the year ended 31 March 2012. The income tax returns for the years ended 31 March 2013 to 31 March 2015 have been filed with the DIT. However, the final assessments have not yet been raised by the DIT.

**Zamil Information Technology Global Private Limited - India ("ZITG - India")**

The income tax returns of the company for the years ended upto 31 March 2015 have been filed with the DIT. However, the final assessments have not yet been raised by the DIT for any of the year.

**Zamil Steel Buildings Vietnam Limited Company ("ZSB - Vietnam")**

Income tax assessments have been agreed with the tax authorities of Vietnam ("the TA") up to the year 2012. The income tax returns for the years 2013 and 2014 have been filed with the TA. However, the final assessments have not yet been raised by the TA.

**Zamil Structural Steel - S.A.E - Private Free Zone (ZSS - Egypt)**

The company, was established under the free zone system according to the provision of Investment Guarantees and Incentive Law number 8 of 1997. Accordingly, the company is exempted from corporate taxes and withholding taxes and these privileges will continue to apply for the lifetime of the company.

**Zamil Steel Buildings Company Egypt - S.A.E(ZSB - Egypt)**

Income tax assessments have been agreed with the TA up to the year 2004. The income tax returns for the years from 2005 to 2014 have been filed with the TA. However, the final assessments have not yet been raised by the TA.

Income tax has been computed based on the managements' understanding of the income tax regulations enforced in their respective countries. The income tax regulations are subject to different interpretations, and the assessments to be raised by the tax authorities could be different from the income tax returns filed by the respective company.

**Movement in provision**

The movement in the zakat and income tax provision for the year was as follows:

|                                          | 2015<br>SR'000 | 2014<br>SR'000 |
|------------------------------------------|----------------|----------------|
| At the beginning of the year             | 52,616         | 60,006         |
| Provided during the year                 | 28,346         | 38,504         |
| De-consolidation of subsidiary (note 11) | -              | (1,123)        |
| Consolidation of a subsidiary (note 11)  | -              | 104            |
| Payments during the year                 | (22,241)       | (44,875)       |
| At the end of the year                   | <u>58,721</u>  | <u>52,616</u>  |

At 31 December 2015

**20 EMPLOYEES' TERMINAL BENEFITS**

The movements in employees' terminal benefits are as follows:

|                              | <i>2015</i>     | <i>2014</i>   |
|------------------------------|-----------------|---------------|
|                              | <i>SR'000</i>   | <i>SR'000</i> |
| At the beginning of the year | <b>320,931</b>  | 295,196       |
| Charge for the year          | <b>70,376</b>   | 48,553        |
| Payments during the year     | <b>(34,749)</b> | (22,818)      |
| At the end of the year       | <b>356,558</b>  | 320,931       |

**21 SHARE CAPITAL**

The authorised, issued and fully paid share capital of the Company amounting to SR 600 million (2014: SR 600 million) is divided into 60 million shares of SR 10 each (2014: 60 million share of SR 10 each).

**22 DIVIDENDS**

The board of directors in their meeting held on 22 July 2015 (corresponding to 6 Shawwal 1436H) proposed interim cash dividends of SR 1 per share totalling SR 60 million representing 10% of share capital to shareholders which have been paid during the year (2014: the board of directors in their meeting held on 21 July 2014 (corresponding to 24 Ramadan 1435H) proposed interim cash dividends of SR 1 per share totaling SR 60 million representing 10% of share capital to shareholders which was paid during 2014).

Further, the board of directors at their meeting held on 21 December 2015 (corresponding to 10 Rabi' I 1437H) proposed a cash dividend of SR 1 per share for the year 2015 totalling SR 60 million being 10% of the share capital for the approval of the shareholders in their Annual General Assembly (2014: The board of directors at their meeting held on 19 January 2015 (corresponding to 28 Rabi' I 1436H) proposed a cash dividend of SR 1 per share for the year 2014 totalling SR 60 million being 10% of the share capital which was subsequently approved by the shareholders in the General Assembly Meeting held on 9 April 2015 (corresponding to 28 Jumada' II 1436H) and have been paid during the year).

**23 NON-CONTROLLING INTERESTS**

The movements in non-controlling interests are as follows:

|                                            | <i>2015</i>    | <i>2014</i>   |
|--------------------------------------------|----------------|---------------|
|                                            | <i>SR'000</i>  | <i>SR'000</i> |
| At the beginning of the year               | <b>255,215</b> | 272,139       |
| De-consolidation of a subsidiary (note 11) | -              | (22,915)      |
| Dividends paid by subsidiaries             | -              | (12,630)      |
| Share in results                           | <b>11,125</b>  | 21,494        |
| Net movement                               | <b>(462)</b>   | (2,873)       |
| At the end of the year                     | <b>265,878</b> | 255,215       |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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**24 SELLING AND DISTRIBUTION EXPENSES**

|                                 | <i>2015</i>    | <i>2014</i>    |
|---------------------------------|----------------|----------------|
|                                 | <i>SR'000</i>  | <i>SR'000</i>  |
| Employees' costs                | 256,644        | 278,575        |
| Business travel                 | 9,172          | 9,485          |
| Transportation                  | 35,507         | 59,082         |
| Allowance for doubtful debts    | 33,034         | 47,587         |
| Advertising and sales promotion | 30,085         | 51,701         |
| Warranties                      | 22,143         | 25,211         |
| Depreciation                    | 17,283         | 12,575         |
| Rent and utilities              | 15,439         | 17,409         |
| Repairs and maintenance         | 3,278          | 2,072          |
| Others                          | 34,411         | 30,895         |
|                                 | <b>456,996</b> | <b>534,592</b> |

**25 GENERAL AND ADMINISTRATION EXPENSES**

|                               | <i>2015</i>    | <i>2014</i>    |
|-------------------------------|----------------|----------------|
|                               | <i>SR'000</i>  | <i>SR'000</i>  |
| Employees' costs              | 336,975        | 297,860        |
| Depreciation                  | 28,478         | 21,345         |
| Communication and IT services | 20,732         | 17,539         |
| Rent and utilities            | 8,885          | 11,887         |
| Professional fees             | 5,877          | 10,236         |
| Office supplies               | 4,664          | 4,194          |
| Business travel               | 3,712          | 2,862          |
| Others                        | 31,445         | 40,997         |
|                               | <b>440,768</b> | <b>406,920</b> |

**26 OTHER INCOME, NET**

|                                                           | <i>2015</i>   | <i>2014</i>   |
|-----------------------------------------------------------|---------------|---------------|
|                                                           | <i>SR'000</i> | <i>SR'000</i> |
| Foreign currency exchange gain /(loss)                    | 8,344         | (4,577)       |
| Gains on disposal of investments in associates            | -             | 14,080        |
| Dividends income                                          | 1,070         | 2,140         |
| Gain /(loss) on disposal of property, plant and equipment | 922           | (467)         |
| Others                                                    | 22,143        | 7,830         |
|                                                           | <b>32,479</b> | <b>19,006</b> |

**27 EARNING PER SHARE**

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

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

## 28 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

|                                     | 2015                     |                |            |                        |           |
|-------------------------------------|--------------------------|----------------|------------|------------------------|-----------|
|                                     | Air conditioner industry | Steel industry | Insulation | Head office and others | Total     |
| Sales                               | 2,476,207                | 2,683,812      | 321,386    | 7,190                  | 5,488,595 |
| Income /(loss) from main operations | 236,511                  | 164,972        | 25,459     | (19,423)               | 407,519   |
| Net assets                          | 727,149                  | 806,175        | 127,318    | 224,504                | 1,885,146 |
|                                     | 2014                     |                |            |                        |           |
|                                     | Air conditioner industry | Steel industry | Insulation | Head office and others | Total     |
| Sales                               | 2,463,798                | 2,535,521      | 292,932    | 163,168                | 5,455,419 |
| Income /(loss) from main operations | 219,612                  | 194,580        | 30,783     | (39,100)               | 405,875   |
| Net assets                          | 587,228                  | 745,688        | 125,978    | 283,626                | 1,742,520 |

### Geographical segments

|                             | 2015         |                       |         |        |           |
|-----------------------------|--------------|-----------------------|---------|--------|-----------|
|                             | Saudi Arabia | Other Asian countries | Africa  | Europe | Total     |
| Sales                       | 4,506,460    | 588,130               | 384,373 | 9,632  | 5,488,595 |
| Income from main operations | 376,057      | 9,738                 | 21,351  | 373    | 407,519   |
|                             | 2014         |                       |         |        |           |
|                             | Saudi Arabia | Other Asian countries | Africa  | Europe | Total     |
| Sales                       | 4,529,016    | 581,746               | 334,430 | 10,227 | 5,455,419 |
| Income from main operations | 349,495      | 24,892                | 31,402  | 86     | 405,875   |

## 29 CONTINGENT LIABILITIES

The Group's bankers have issued performance and payments guarantees, on behalf of the Group, amounting to SR 1,165 million (2014: SR 1,123 million).

## 30 CAPITAL COMMITMENTS

The board of directors have approved future capital expenditure amounting to SR 70 million (2014: SR 52 million), relating to certain expansion projects.

### 31 RISK MANAGEMENT

#### Commission rate risk

Commission rate risk is the risk that the value of financial instruments will fluctuate due to changes in the market commission rates. The Group is subject to commission rate risk on its commission bearing short term loans and term loans. The Group manages its exposure to commission rate risk by continuously monitoring movements in commission rates.

#### Market risk

Equity price risk arises from changes in the fair values of equity investments. Equity price risk is managed by the investment department of the Group. The unquoted equity price risk exposure arises from the Group's investment portfolio. The Group manages this through diversification of investments in terms of geographical distribution, placing limits on individual and total equity instruments and industry concentration.

#### 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 manage its credit risk with respect to banks by only dealing with reputable banks and with respect to customers by setting credit limits for individual customers, monitoring outstanding receivables and ensuring close follow ups. At the consolidated balance sheet date, no significant concentration of credit risk were identified by the management.

#### Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. The Group manages its liquidity risk by ensuring that bank facilities are available. The Group's terms of sales require amounts to be paid within 30 to 60 days of the date of submitting the invoice. Trade payables are normally settled within 60 to 120 days of the date of purchase.

#### Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to change in foreign exchange rates. The Group is subject to fluctuations in foreign exchange rates in the normal course of its business. The Group did not undertake significant transactions in currencies other than Saudi Riyals, US Dollars, Japanese Yen and Euros during the year. As Saudi Riyals are pegged to US Dollars, balances in US Dollars are not considered to represent significant currency risk. The Group is exposed to currency risk on transactions and balances in Euros. The Group manages currency risk exposure to Euros by monitoring the currency fluctuations. In addition, the Group uses forward exchange contracts to hedge anticipated purchases of raw material from suppliers in Japan.

### 32 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.

### 33 COMPARATIVE FIGURES

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