

**NATIONAL METAL MANUFACTURING AND CASTING  
COMPANY (MAADANIYAH)  
(A Saudi Joint Stock Company)**

**FINANCIAL STATEMENTS**

**31 DECEMBER 2012**

**AUDITORS' REPORT TO THE SHAREHOLDERS OF  
NATIONAL METAL MANUFACTURING AND CASTING COMPANY (MAADANIYAH)  
(A SAUDI JOINT STOCK COMPANY)**

**Scope of Audit:**

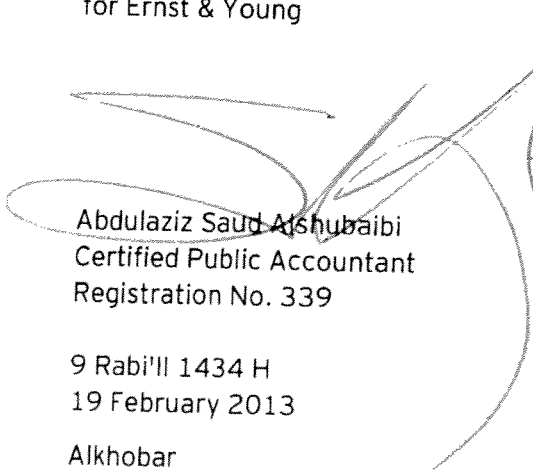
We have audited the accompanying balance sheet of National Metal Manufacturing and Casting Company (MAADANIYAH) - A Saudi Joint Stock Company (the "Company") as at 31 December 2012 and the related statements of income, cash flows and changes in shareholders' equity for the year then ended. These financial statements are the responsibility of the Company 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 financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable degree of assurance to enable us to express an opinion on the financial statements.

**Unqualified Opinion:**

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

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

for Ernst & Young

  
Abdulaziz Saud Alshubaibi  
Certified Public Accountant  
Registration No. 339



9 Rabi'II 1434 H  
19 February 2013

Alkhobar

NATIONAL METAL MANUFACTURING AND CASTING COMPANY  
(MAADANIYAH) (A Saudi Joint Stock Company)

BALANCE SHEET

As At 31 December 2012

	Note	2012 SR	2011 SR
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	3	24,078,398	12,088,496
Accounts receivable and prepayments	4	92,931,748	86,895,192
Inventories	5	144,135,445	168,409,321
<b>TOTAL CURRENT ASSETS</b>		<b>261,145,591</b>	<b>267,393,009</b>
<b>NON CURRENT ASSETS</b>			
Property, plant and equipment	7	184,004,810	194,035,373
Intangible assets	8	63,205,309	63,875,305
<b>TOTAL NON CURRENT ASSETS</b>		<b>247,210,119</b>	<b>257,910,678</b>
<b>TOTAL ASSETS</b>		<b>508,355,710</b>	<b>525,303,687</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable and accruals	9	26,641,219	28,140,701
Notes payable	10	30,968,336	50,163,130
Short term loans	11	28,975,821	26,100,400
Current portion of term loans	12	15,914,385	17,914,385
Zakat provision	13	6,436,404	6,178,795
<b>TOTAL CURRENT LIABILITIES</b>		<b>108,936,165</b>	<b>128,497,411</b>
<b>NON CURRENT LIABILITIES</b>			
Term loans	12	25,133,334	30,510,719
Employees' terminal benefits		16,707,465	14,595,097
<b>TOTAL NON CURRENT LIABILITIES</b>		<b>41,840,799</b>	<b>45,105,816</b>
<b>TOTAL LIABILITIES</b>		<b>150,776,964</b>	<b>173,603,227</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	14	281,120,890	255,564,450
Statutory reserve	14	18,318,701	30,390,627
Retained earnings	14	58,139,155	65,745,383
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>357,578,746</b>	<b>351,700,460</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>508,355,710</b>	<b>525,303,687</b>

The attached notes 1 to 23 form part of these financial statements.

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NATIONAL METAL MANUFACTURING AND CASTING COMPANY  
(MAADANIYAH) (A Saudi Joint Stock Company)

STATEMENT OF INCOME  
Year ended 31 December 2012

	Note	2012 SR	2011 SR
Sales		400,670,588	361,464,641
Cost of sales		(365,262,960)	(327,348,345)
<b>GROSS PROFIT</b>		<b>35,407,628</b>	<b>34,116,296</b>
<b>EXPENSES</b>			
Selling and distribution	15	(12,464,869)	(11,328,398)
General and administration	16	(13,086,408)	(14,340,371)
		<b>(25,551,277)</b>	<b>(25,668,769)</b>
<b>INCOME FROM MAIN OPERATIONS</b>		<b>9,856,351</b>	<b>8,447,527</b>
Other income, net	17	2,577,175	1,850,960
Financial charges		(2,700,240)	(2,825,838)
<b>INCOME BEFORE ZAKAT</b>		<b>9,733,286</b>	<b>7,472,649</b>
Zakat	13	(3,855,000)	(4,285,979)
<b>NET INCOME FOR THE YEAR</b>		<b>5,878,286</b>	<b>3,186,670</b>
<b><u>EARNINGS PER SHARE (SR):</u></b>			
Attributable to income from main operations		0.35	0.30
Attributable to net income for the year		0.21	0.11
Weighted average number of shares outstanding	14	28,112,089	28,112,089

The attached notes 1 to 23 form part of these financial statements.

**NATIONAL METAL MANUFACTURING AND CASTING COMPANY**  
**(MAADANIYAH) (A Saudi Joint Stock Company)**

**STATEMENT OF CASH FLOWS**

Year ended 31 December 2012

	2012 SR	2011 SR
<b>OPERATING ACTIVITIES</b>		
Income before zakat	9,733,286	7,472,649
Adjustments for:		
Depreciation of property, plant and equipment	15,706,117	15,643,577
Amortisation of intangible assets	669,996	669,996
Provision for employees' terminal benefits	2,921,283	2,150,142
Financial charges	2,700,240	2,825,838
Gain on disposal of property, plant and equipment	(55,820)	-
	<b>31,675,102</b>	<b>28,762,202</b>
Changes in operating assets and liabilities:		
Receivables	(6,036,556)	(25,688,382)
Inventories	24,273,876	13,431,565
Payables and notes payable	(20,694,276)	14,310,344
Cash from operations	<b>29,218,146</b>	<b>30,815,729</b>
Financial charges paid	(2,700,240)	(2,825,838)
Employees' terminal benefits paid	(808,915)	(9,170,628)
Zakat paid	(3,597,391)	(602,576)
Net cash from operating activities	<b>22,111,600</b>	<b>18,216,687</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(5,707,114)	(12,205,445)
Proceeds from disposal of property, plant and equipment	87,380	-
Net cash used in investing activities	<b>(5,619,734)</b>	<b>(12,205,445)</b>
<b>FINANCING ACTIVITIES</b>		
Repayment of short term loans	(96,027,394)	(101,704,200)
Proceeds from short term loans	98,902,815	94,472,226
Repayment of term loans	(17,424,385)	(12,181,052)
Proceeds from term loans	10,047,000	13,960,000
Net cash used in financing activities	<b>(4,501,964)</b>	<b>(5,453,026)</b>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>11,989,902</b>	<b>558,216</b>
Cash and cash equivalents at the beginning of the year	<b>12,088,496</b>	<b>11,530,280</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<b>24,078,398</b>	<b>12,088,496</b>

The attached notes 1 to 23 form part of these financial statements

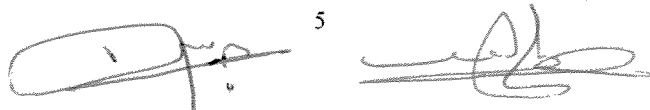
NATIONAL METAL MANUFACTURING AND CASTING COMPANY  
(MAADANIYAH) (A Saudi Joint Stock Company)

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Year ended 31 December 2012

	<i>Share capital SR</i>	<i>Statutory reserve SR</i>	<i>Retained earnings SR</i>	<i>Total SR</i>
Balance at 31 December 2010	255,564,450	30,071,960	62,877,380	348,513,790
Net income for the year	-	-	3,186,670	3,186,670
Transfer to statutory reserve	-	318,667	(318,667)	-
Balance at 31 December 2011	255,564,450	30,390,627	65,745,383	351,700,460
Increase of capital (note I4)	25,556,440	(12,659,755)	(12,896,685)	-
Net income for the year	-	-	5,878,286	5,878,286
Transfer to statutory reserve	-	587,829	(587,829)	-
<b>Balance at 31 December 2012</b>	<b>281,120,890</b>	<b>18,318,701</b>	<b>58,139,155</b>	<b>357,578,746</b>

The attached notes 1 to 23 form part of these financial statements.



# NATIONAL METAL MANUFACTURING AND CASTING COMPANY (MAADANIYAH) (A Saudi Joint Stock Company)

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## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2012

### 1 ACTIVITIES

National Metal Manufacturing and Casting Company (MAADANIYAH) - A Saudi Joint Stock Company (the "Company") was incorporated in accordance with the Ministerial Resolution number 253 dated 13 Rabi' I, 1411H (corresponding to October 2, 1990) and registered as a Saudi Joint Stock Company under commercial registration number 2055002251 dated 16 Jumada' I, 1411 (corresponding to December 3, 1990) issued in Al Jubail.

The Company has the following branch:

<u>Branch name</u>	<u>Commercial registration number</u>	<u>Date</u>
Axels, Foundries and Spare parts	2050016156	29/5/1406 H

The Company is engaged in the following activities:

Manufacturing of drawn steel wire rod, pre-stressed concrete steel wire strand (PC strand), spring wire, matters spring wire, strengthening wire strand for electrical power and high and low galvanized steel wire, fasteners, nails, bolts and welding wire, manufacturing of metal casting of various types, manufacturing of axles, various qualities of suspensions and spare parts for trucks, vehicles and equipment, wholesale and retail trade in the Company's products, building materials, including the import and export abroad, ownership of land and property and constructing buildings on them, ownership of patents and their use to achieve industrial objectives inside and outside the Kingdom of Saudi Arabia, tenders and contracting business and commercial agencies of local or foreign companies inside and outside the Kingdom of Saudi Arabia.

### 2 SIGNIFICANT ACCOUNTING POLICIES

The 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 financial statements are prepared under the historical cost convention.

#### Use of estimates

The preparation of 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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

#### Cash and cash equivalents

Cash and cash equivalents consists of bank balances, cash in hand and term deposits that are readily convertible into known amounts of cash and have original maturities period of three months or less.

#### Accounts receivable

Accounts receivable are stated at original invoice less allowance for any uncollectable amounts. An estimate for doubtful debts is made when collection of the full amounts is no longer probable. Bad debts are written off as incurred.

#### Inventories

Inventories are stated at the lower of cost and market value, with due allowance for obsolete or slow moving items. Cost is determined as follows:

Raw and packaging materials, spare parts and consumables	- purchase cost on a weighted average basis.
Production in progress and finished goods	- cost of direct materials and labour plus attributable overheads based on a normal level of activity using a weighted average basis.

NATIONAL METAL MANUFACTURING AND CASTING COMPANY  
(MAADANIYAH) (A Saudi Joint Stock Company)

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2012

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value. Freehold land and 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.

Leasehold improvements are amortised on a straight-line basis over the shorter of the useful life of the improvements or the term of the lease.

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

**Intangible assets**

Goodwill is measured at cost being the excess of the cost of the interest acquired in an entity over the Company's interest in the fair value of the net assets of the acquired entity. Following initial recognition, the goodwill is measured at cost less any impairment losses.

The appraisal fees for Saudi Industrial Development Fund (SIDF) which was paid in advance for obtaining the (SIDF) loans are deferred and amortised over the remaining loans' periods.

**Impairment of non current assets**

*- For property, plant and equipment.*

The carrying values of property, plant and equipment 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.

*-For goodwill*

For the purpose of impairment testing, from the acquisition date, goodwill is allocated to each of the Company'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 Company are assigned to those units or groups of units.

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

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

**Dividends**

Dividends are recognised as a liability at the time of their approval by the Annual General Meeting. Interim dividends are recorded as and when approved by the Board of Directors.

**Provisions**

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

**Accounts payable and accruals**

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



NATIONAL METAL MANUFACTURING AND CASTING COMPANY  
(MAADANIYAH) (A Saudi Joint Stock Company)

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2012

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Zakat**

Zakat is provided for in accordance with Saudi Arabian fiscal regulations. The provision is charged to the statement of income. Additional amounts, if any, that may become due on finalisation of the assessment are accounted for in the year in which the assessment is finalised.

**Employees' terminal benefits**

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

**Statutory reserve**

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

**Revenue recognition**

Revenue is recognised when goods are delivered or services are rendered to customers, net of discounts.

**Foreign currencies**

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

**Expenses**

Selling and distribution expenses are those that specifically relate to marketing personnel, advertisements, promotions as well as bad debts expense. All other expenses, other than cost of sales and financial charges, are classified as general and administration expenses.

**Borrowing costs**

Borrowing costs that are directly attributable to the construction of an asset are capitalised up to stage when substantially all the activities necessary to prepare the qualifying asset for its intended use are completed and, thereafter, such costs are charged to the statement of income.

**Earnings per share**

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

The earnings per share from net income is calculated by dividing the net income for the year by the weighted average number of shares outstanding during the year.

**Segmental reporting**

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

**Impairment and uncollectibility of financial assets**

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognised in the 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 statement of income;
- (b) For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset;
- (c) For assets carried at amortised cost, impairment is the difference between the carrying amount and the present value of future cash flows discounted at the original effective interest rate.

**NATIONAL METAL MANUFACTURING AND CASTING COMPANY**  
**(MAADANIYAH) (A Saudi Joint Stock Company)**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
At 31 December 2012

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Fair values**

The fair values of commission-bearing items are estimated based on discounted cash flows using commission rates for items with similar terms and risk characteristics.

**Operating lease**

Operating lease payments are recognised as an expense in the statement of income on a straight line basis over the lease term.

**3 CASH AND CASH EQUIVALENTS**

	<i>2012</i> <i>SR</i>	<i>2011</i> <i>SR</i>
Term deposits	13,946,468	4,324,812
Bank balances and cash	10,131,930	7,763,684
	<u>24,078,398</u>	<u>12,088,496</u>

**4 ACCOUNTS RECEIVABLE AND PREPAYMENTS**

	<i>2012</i> <i>SR</i>	<i>2011</i> <i>SR</i>
Trade accounts receivable	88,777,148	83,664,616
Less: provision for doubtful debts	(1,673,899)	(1,649,509)
Trade accounts receivable, net	<u>87,103,249</u>	<u>82,015,107</u>
Prepaid expenses	2,236,909	2,054,709
Advances to suppliers	1,742,217	1,578,463
Amounts due from a related party (note 6)	2,850	191,025
Other receivables	1,846,523	1,055,888
	<u>92,931,748</u>	<u>86,895,192</u>

**5 INVENTORIES**

	<i>2012</i> <i>SR</i>	<i>2011</i> <i>SR</i>
Raw materials	54,421,454	50,135,645
Finished goods	41,418,418	57,851,151
Spares and consumables	19,670,613	19,579,285
Goods in transit	18,378,543	30,812,726
Work in progress	10,092,855	10,007,965
Other inventories	834,898	724,938
	<u>144,816,781</u>	<u>169,111,710</u>
Less: Provision for slow moving inventories	(681,336)	(702,389)
	<u>144,135,445</u>	<u>168,409,321</u>

**NATIONAL METAL MANUFACTURING AND CASTING COMPANY  
(MAADANIYAH) (A Saudi Joint Stock Company)**

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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

At 31 December 2012

**6 RELATED PARTY TRANSACTIONS AND BALANCES**

The Company has provided machining and maintenance services amounted to SR 19,600 (2011: SR 266,865) to Tasnee Petrochemical, a company owned by a shareholder of the Company.

Pricing policies and terms of payment for these transactions are approved by the Company's management.

Amounts due from a related party are shown in note 4.

NATIONAL METAL MANUFACTURING AND CASTING COMPANY (MAADANIYAH)  
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2012

7 PROPERTY, PLANT AND EQUIPMENT

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

Buildings	33 years
Machinery and equipment	25 - 33 years
Furniture, fixtures and office equipment	5 - 10 years
Motor vehicles	4 years
Tools and others	3 - 13 years

	<i>Freehold land and buildings SR</i>	<i>Machinery and equipment SR</i>	<i>Furniture, fixtures and office equipment SR</i>	<i>Motor vehicles SR</i>	<i>Tools and others SR</i>	<i>Work in progress SR</i>	<i>Total 2012 SR</i>	<i>Total 2011 SR</i>
<i>Cost:</i>								
At the beginning of the year	95,605,308	312,561,441	4,028,962	7,687,367	20,679,213	9,002,398	449,564,689	437,359,244
Additions	721,536	1,151,380	518,264	483,500	616,604	2,215,830	5,707,114	12,205,445
Disposals	-	-	(86,730)	(147,450)	-	-	(234,180)	-
Transfers	4,229,754	2,586,631	923,524	-	501,800	(8,241,709)	-	-
At the end of the year	100,556,598	316,299,452	5,384,020	8,023,417	21,797,617	2,976,519	455,037,623	449,564,689
<i>Depreciation:</i>								
At the beginning of the year	48,500,634	178,234,580	3,295,827	6,517,755	18,980,520	-	255,529,316	239,885,739
Charge for the year	3,032,536	11,121,497	410,843	578,260	562,981	-	15,706,117	15,643,577
Disposals	-	-	(55,172)	(147,448)	-	-	(202,620)	-
At the end of the year	51,533,170	189,356,077	3,651,498	6,948,567	19,543,501	-	271,032,813	255,529,316
<i>Net book amounts:</i>								
At 31 December 2012	49,023,428	126,943,375	1,732,522	1,074,850	2,254,116	2,976,519	184,004,810	
At 31 December 2011	47,104,674	134,326,861	733,135	1,169,612	1,698,693	9,002,398		194,035,373

**NATIONAL METAL MANUFACTURING AND CASTING COMPANY  
(MAADANIYAH) (A Saudi Joint Stock Company)**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

At 31 December 2012

**7 PROPERTY, PLANT AND EQUIPMENT (continued)**

Certain buildings of the Company with a net book value of SR 45.88 million (2011: SR 43.26 million) are constructed on parcels of land leased from the Royal Commission for Jubail and Yanbu and Saudi Organization for Industrial Estate and Technology Zones for a nominal annual rent. The Company has the option of renewing the lease agreements on expiry of the initial lease term. While there are buildings with net book value of SR 3.55 million (2011: SR 3.75 million) are constructed on land owned by the Company.

The property, plant and equipment with a net book value of SR 176.37 million (2011: SR 190.19 million) are mortgaged to the Saudi Industrial Development Fund (SIDF) as a security against the term loans (note 12).

Depreciation charge for the year was allocated in the statement of income as follows:

	<b>2012</b>	<b>2011</b>
	<b>SR</b>	<b>SR</b>
Production cost	<b>14,258,037</b>	14,174,719
Selling and distribution expenses	<b>420,449</b>	503,430
General and administration expenses	<b>1,027,631</b>	965,428
	<b><u>15,706,117</u></b>	<b><u>15,643,577</u></b>

**8 INTANGIBLE ASSETS**

	<i>Goodwill</i>	<i>Prepaid</i>	<i>Total</i>	<i>Total</i>
	<i>SR</i>	<i>financing costs</i>	<i>2012</i>	<i>2011</i>
		<i>SR</i>	<i>SR</i>	<i>SR</i>
<i>Cost:</i>				
At the beginning of the year	61,921,139	3,350,000	<b>65,271,139</b>	65,271,139
At the end of the year	<u>61,921,139</u>	<u>3,350,000</u>	<b><u>65,271,139</u></b>	<u>65,271,139</u>
<i>Amortisation:</i>				
At the beginning of the year	-	1,395,834	<b>1,395,834</b>	725,838
Charge for the year	-	669,996	<b>669,996</b>	669,996
At the end of the year	<u>-</u>	<u>2,065,830</u>	<b><u>2,065,830</u></b>	<u>1,395,834</u>
<i>Net book amounts:</i>				
At 31 December 2012	<u>61,921,139</u>	<u>1,284,170</u>	<b><u>63,205,309</u></b>	
At 31 December 2011	<u>61,921,139</u>	<u>1,954,166</u>		<b><u>63,875,305</u></b>

Goodwill is not amortised, however it is tested for impairment on annual basis, no impairment was identified based on the current year testing performed (2011: no impairment). Prepaid financing costs are amortised over 5 years.

**9 ACCOUNTS PAYABLE AND ACCRUALS**

	<b>2012</b>	<b>2011</b>
	<b>SR</b>	<b>SR</b>
Trade accounts payable	<b>15,414,976</b>	13,635,761
Accrued expenses	<b>6,175,626</b>	8,142,233
Advances from customers	<b>1,398,971</b>	1,448,515
Other payables	<b>3,651,646</b>	4,914,192
	<b><u>26,641,219</u></b>	<b><u>28,140,701</u></b>

**NATIONAL METAL MANUFACTURING AND CASTING COMPANY  
(MAADANIYAH) (A Saudi Joint Stock Company)**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

At 31 December 2012

**10 NOTES PAYABLE**

Balance comprise of post financing arrangement under letters of credit from local banks, which are guaranteed by promissory notes issued by the Company.

**11 SHORT TERM LOANS**

Short term financing facilities are obtained from local commercial banks, they bear commissions at commercial rates and are secured by promissory notes issued by the Company.

**12 TERM LOANS**

	2012 SR	2011 SR
Saudi Industrial Development Fund (SIDF)	28,200,000	26,063,000
Commercial bank	12,847,719	22,362,104
Total term loans	41,047,719	48,425,104
Less: current portion	(15,914,385)	(17,914,385)
Non current portion	25,133,334	30,510,719

*Saudi Industrial Development Fund loans*

The Company has obtained a loan from the SIDF to finance a portion of the expansion project of the drawn wire and related products factory at Jubail Industrial City and another loan to finance the development and modernisation costs of Axles, Foundries and Spare Parts Factory at the Second Industrial City in Dammam which was settled during 2011, and a third loan to finance the expansion of Axles, Foundries and Spare Parts Factory. These loans are commission free but carry appraisal fees and are secured by a mortgage over the Company's property, plant and equipment and by promissory notes issued by the Company. The loans are payable in unequal semiannual installments.

The facility agreements with SIDF contain certain covenants, which include among other things, requires certain financial ratios to be maintained.

*Commercial bank loans*

This represents a long term Islamic loan obtained from a local commercial bank, the loan is payable in 8 semiannual equal installments of SR 3.09 million each, with first installment paid on 16 February 2010. During 2011 the Company obtained another loan to finance the expansion costs of Axles, Foundries and Spare Parts Factory at the Second Industrial City in Dammam, the loan is payable in 6 semiannual equal installments of SR 1.67 million each, with first installment paid on 12 February 2012.

These loans carry financial charges at commercial rates and are secured by promissory notes issued by the Company.

The installments due within one year from the balance sheet date are shown in the balance sheet under current liabilities.

Aggregate maturities of the term loans at 31 December 2012 were as follows:

Year ending 31 December	SR
2013	15,914,385
2014	10,733,334
2015	8,400,000
2016	6,000,000
	41,047,719

**NATIONAL METAL MANUFACTURING AND CASTING COMPANY  
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**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
At 31 December 2012

**13 ZAKAT**

**Charge for the year**

The zakat charge consists of:

	<b>2012</b>	<b>2011</b>
	<b>SR</b>	<b>SR</b>
Provision for the year	<b>3,855,000</b>	3,825,000
Adjustment for previous years	-	460,979
Charge for the year	<b>3,855,000</b>	<b>4,285,979</b>

Adjustment for previous years resulted from certain costs disallowed by the Department of Zakat and Income Tax at the time of final assessments.

The Zakat provision is based on the following:

	<b>2012</b>	<b>2011</b>
	<b>SR</b>	<b>SR</b>
Equity	<b>351,700,460</b>	348,513,790
Opening allowances and other adjustments	<b>16,946,995</b>	14,784,714
Book value of long term assets (net of related financing)	<b>(215,496,438)</b>	(213,627,475)
	<b>153,151,017</b>	149,671,029
Zakatable income/(loss) for the year	<b>1,526,956</b>	(5,908,926)
Zakat base	<b>154,677,973</b>	143,762,103

The differences between the financial and the zakatable results are mainly due to adjustments for certain costs based on the relevant fiscal regulations.

**Movements in provision**

The movement in the zakat provision was as follows:

	<b>2012</b>	<b>2011</b>
	<b>SR</b>	<b>SR</b>
At the beginning of the year	<b>6,178,795</b>	11,063,444
Provided during the year	<b>3,855,000</b>	4,285,979
Payments during the year	<b>(3,597,391)</b>	(9,170,628)
Balance at the end of the year	<b>6,436,404</b>	6,178,795

**Status of assessments**

The assessments for the years up to 2008 have been finalised by the Department of Zakat and Income Tax (DZIT) and accepted by Company. The Company has submitted Zakat declarations for the years 2009 and 2010, and the assessments for these years have been raised by the DZIT with an additional liability of SR 4.7 million. The Company has filed an appeal against the DZIT assessment. The declaration for the year 2011 was filed and still awaiting DZIT review.

**NATIONAL METAL MANUFACTURING AND CASTING COMPANY  
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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

At 31 December 2012

**14 SHARE CAPITAL**

Share capital is divided into 28,112,089 shares (2011: 25,556,445 shares) of SR 10 each.

On 24 April 2012, the Board of Directors of the Company proposed to increase the share capital by capitalising a portion of retained earnings and a portion of statutory reserve amounting to SR 12,896,685 and SR 12,659,755, respectively. The capital increased by way of distributing bonus shares at 1 share for each 10 shares to the shareholders registered in the Company's shareholders' register at the close of the Extraordinary General Assembly business day. Legal formalities in respect of the share capital increase have been completed.

The earnings per share for the comparative figures of 2011 has been adjusted retrospectively to account for the effect of the bonus shares issued as required by the relevant accounting standards.

**15 SELLING AND DISTRIBUTION EXPENSES**

	<b>2012</b>	<b>2011</b>
	<b>SR</b>	<b>SR</b>
Transportation and distribution	6,803,942	5,940,125
Salaries and employee cost	3,793,874	3,174,611
Depreciation	420,449	503,430
Provision for doubtful debts	24,389	660,675
Others	1,422,215	1,049,557
	<b>12,464,869</b>	<b>11,328,398</b>

**16 GENERAL AND ADMINISTRATION EXPENSES**

	<b>2012</b>	<b>2011</b>
	<b>SR</b>	<b>SR</b>
Salaries and employee costs	7,863,494	7,295,278
Professional fees	1,329,450	2,390,062
Depreciation	1,027,631	965,428
Amortisation	669,996	669,996
Repairs and maintenance	409,037	326,724
Business travel	394,232	567,950
Telephone and utilities	304,499	828,999
Board of directors' expenses	180,380	264,456
Others	907,689	1,031,478
	<b>13,086,408</b>	<b>14,340,371</b>

**17 OTHER INCOME, NET**

	<b>2012</b>	<b>2011</b>
	<b>SR</b>	<b>SR</b>
Scrap sales	875,761	924,234
Compensations from vendors and settlements of insurance claims	628,669	576,055
Gain/(loss) from foreign exchange	361,356	(201,553)
Rental income	294,500	259,950
Gain on disposal of property, plant and equipment	55,820	-
Others	361,069	292,274
	<b>2,577,175</b>	<b>1,850,960</b>



**NATIONAL METAL MANUFACTURING AND CASTING COMPANY  
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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

At 31 December 2012

**18 SEGMENTAL INFORMATION**

Consistent with the Company's internal reporting process, business segments have been approved by management in respect of the Company's activities. Transactions between the business segments are reported as recorded by the Company's transfer pricing system. The Company's sales, gross profit and net assets, by business segment, are as follows:

	<i>Transformation industries SR</i>	<i>Engineering and metal forming industries SR</i>	<i>Total SR</i>
<b><u>31 December 2012:</u></b>			
Sales	284,727,187	115,943,401	400,670,588
Gross profit for the year	25,919,751	9,487,877	35,407,628
Net assets	222,137,875	135,440,871	357,578,746
<b><u>31 December 2011:</u></b>			
Sales	268,258,012	93,206,629	361,464,641
Gross profit for the year	27,457,829	6,658,467	34,116,296
Net assets	213,274,650	138,425,810	351,700,460

**Geographical segments**

All of the Company's operating assets are located in the Kingdom of Saudi Arabia.

**19 CAPITAL COMMITMENTS**

The Company's commitment for capital expenditures at year end amounted to SR 1.57 million (2011: SR 0.77 million).

**20 CONTINGENT LIABILITIES**

The Company' bankers have issued uncovered letters of guarantee and letter of credit on behalf of the Company, limited to SR .06 million and SR 39.53 million, respectively (2011: SR 0.06 million and SR 24.88 million, respectively).

# NATIONAL METAL MANUFACTURING AND CASTING COMPANY (MAADANIYAH) (A Saudi Joint Stock Company)

## NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2012

### 21 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 Company is subject to commission rate risk, on its commission bearing assets and liabilities, including term deposits, short term loans and term loans. The Company's management manages the risk by monitoring the interest rates on a regular basis.

#### 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 Company seeks to manage its credit risk with respect to customers by setting credit limits for individual customers and by monitoring outstanding receivables.

#### Liquidity risk

Liquidity risk is the risk that the Company 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 Company manages its liquidity risk by ensuring that bank facilities are available. The Company's invoicing terms require amounts to be paid within 60 to 90 days of the date of the invoice. Trade payables are normally settled within 90 days of the date of purchase.

#### Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Company did not undertake significant transactions in currencies other than Saudi Riyals, US Dollars, Euro and GBP during the year.

The table below summarises the Company's exposure in different currencies in Saudi Riyals based on exchange rates at 31 December 2012 and 2011

	<i>SAR SR</i>	<i>USD SR</i>	<i>EUR SR</i>	<i>Other SR</i>	<i>Total SR</i>
<b><u>31 December 2012</u></b>					
Cash and cash equivalents	22,073,496	2,002,465	2,437	-	24,078,398
Trade accounts receivables	51,751,496	37,025,652	-	-	88,777,148
Accounts payable and accruals	16,893,959	2,942,919	6,758,447	45,894	26,641,219
<b><u>31 December 2011</u></b>					
Cash and cash equivalents	10,687,929	1,392,667	7,900	-	12,088,496
Trade accounts receivables	58,102,757	25,561,859	-	-	83,664,616
Accounts payable and accruals	22,313,827	1,001,451	4,779,529	45,894	28,140,701

### 22 FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. The Company's financial assets consist of cash and cash equivalents and receivables, its financial liabilities consist of payables, accrued expenses, short term loans and term loans.

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

**NATIONAL METAL MANUFACTURING AND CASTING COMPANY  
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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

At 31 December 2012

**23 KEY SOURCES OF ESTIMATION UNCERTAINTY**

**Impairment of accounts receivable**

An estimate of the collectible amount of trade accounts receivable is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and an allowance applied according to the length of time past due, based on historical recovery rates.

Any difference between the amounts actually collected in future periods and the amounts expected will be recognised in the statement of income.

**Impairment of inventories**

Inventories are held at the lower of cost and net realisable value. When inventories become old or obsolete, an estimate is made of their net realisable value. For individually significant amounts this estimation is performed on an individual basis. Amounts which are not individually significant, but which are old or obsolete, are assessed collectively and the allowance applied according to the inventory type and the degree of ageing or obsolescence, based on historical selling prices.

**Useful lives of property, plant and equipment**

The Company's management determines the estimated useful lives of its property, plant and equipment for calculating depreciation. This estimate is determined after considering the expected usage of the asset or physical wear and tear. Management review the useful lives annually and future depreciation charge would be adjusted where the management believes the useful lives differ from previous estimates.

**Goodwill impairment**

The Company's management estimates the possible impairment at each reporting date. This estimate is determined after considering the expected future cash flows of respective cash generating unit.