

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

**CONSOLIDATED FINANCIAL STATEMENTS AND AUDITORS'
REPORT**

31 DECEMBER 2016

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

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 2016 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 management and have been prepared by them in accordance with the provisions of Article 123 of the Regulations for Companies and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial 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 consolidated financial position of the Group as at 31 December 2016 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 Aishubaibi
Certified Public Accountant
Registration No. 339



13 Jumada' II 1438 H
12 March 2017

Al Khobar

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

CONSOLIDATED BALANCE SHEET

As at 31 December 2016

	Notes	2016 SR'000	2015 SR'000
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	4	275,614	355,424
Accounts receivable and prepayments	5	2,026,818	1,882,036
Amounts due from related parties	9	69,516	38,651
Value of work executed in excess of billings	6	262,266	284,009
Current portion of net investment in finance lease	7	20,765	19,904
Inventories	8	1,485,392	1,764,507
TOTAL CURRENT ASSETS		4,140,371	4,344,531
NON-CURRENT ASSETS			
Property, plant and equipment	10	1,282,181	1,390,010
Investments in associates	11	88,936	93,340
Available for sale investments	12	88,346	89,496
Net investments in finance lease	7	384,945	405,710
Amounts due from a related party	9	33,850	33,850
Other intangible assets	13	6,016	6,397
Goodwill	14	80,126	80,126
TOTAL NON-CURRENT ASSETS		1,964,400	2,098,929
TOTAL ASSETS		6,104,771	6,443,460
CURRENT LIABILITIES			
Accounts payables and accruals	15	1,058,698	1,352,771
Billings in excess of value of work executed	16	58,288	94,876
Amounts due to related parties	9	20,059	21,675
Short term loans	17	2,059,749	1,956,147
Current portion of term loans	18	141,088	138,350
Provision for zakat and income tax	19	55,421	58,721
TOTAL CURRENT LIABILITIES		3,393,303	3,622,540
NON-CURRENT LIABILITIES			
Term loans	18	195,246	313,338
Employees' terminal benefits	20	327,386	356,558
TOTAL NON-CURRENT LIABILITIES		522,632	669,896
TOTAL LIABILITIES		3,915,935	4,292,436
SHAREHOLDERS' EQUITY			
EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE COMPANY			
Share capital	21	600,000	600,000
Statutory reserve		300,000	280,471
Retained earnings		1,014,929	955,036
Proposed dividends	22	60,000	60,000
Foreign currency translation reserve		(35,087)	(10,361)
		1,939,842	1,885,146
NON-CONTROLLING INTERESTS	23	248,994	265,878
TOTAL SHAREHOLDERS' EQUITY		2,188,836	2,151,024
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		6,104,771	6,443,460

The attached notes 1 to 34 form part of these consolidated financial statements.

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

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2016

	Notes	2016 SR'000	2015 SR'000
REVENUE			
Sales		4,003,482	4,664,986
Contracts revenue		929,492	805,110
Finance lease income		17,674	18,499
		<u>4,950,648</u>	<u>5,488,595</u>
DIRECT COSTS			
Cost of sales		(3,004,667)	(3,491,329)
Contracts costs		(736,731)	(691,983)
		<u>1,209,250</u>	<u>1,305,283</u>
GROSS PROFIT			
EXPENSES			
Selling and distribution	24	(425,727)	(438,736)
General and administration	25	(459,681)	(459,028)
		<u>323,842</u>	<u>407,519</u>
INCOME FROM MAIN OPERATIONS			
Other income, net	26	37,784	18,051
Financial charges		(95,502)	(68,514)
Impairment loss on non-current assets	27	(32,469)	(51,420)
		<u>233,655</u>	<u>305,636</u>
INCOME BEFORE SHARE IN RESULTS OF ASSOCIATES, NON-CONTROLLING INTERESTS AND ZAKAT AND INCOME TAX			
Share in results of associates	11	(4,404)	(3,158)
		<u>229,251</u>	<u>302,478</u>
INCOME BEFORE NON-CONTROLLING INTERESTS, ZAKAT AND INCOME TAX			
Non-controlling interests	23	14,895	(11,125)
		<u>244,146</u>	<u>291,353</u>
INCOME BEFORE ZAKAT AND INCOME TAX			
Zakat and income tax	19	(26,932)	(28,346)
De-recognition of deferred tax assets		(16,192)	-
		<u>201,022</u>	<u>263,007</u>
NET INCOME FOR THE YEAR			
EARNINGS PER SHARE			
Attributable to main operations	28	5.40	6.79
Attributable to net income	28	3.35	4.38
Weighted average number of shares outstanding (Thousand shares)	21	60,000	60,000

The attached notes 1 to 34 form part of these consolidated financial statements.

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	2016 SR'000	2015 SR'000
OPERATING ACTIVITIES		
Income before share of non-controlling interests, zakat and income tax	229,251	302,478
Adjustments for:		
Depreciation	158,849	161,381
Amortisation of other intangible assets	953	675
Amortisation of prepaid financial charges	2,736	1,385
Impairment loss on non-current assets	32,469	51,420
Obsolete inventory written-off	10,993	-
Other intangible assets written-off	-	14,428
Employees' terminal benefits, net	(29,172)	35,627
Financial charges	95,502	68,514
Gains on disposal of property, plant and equipment	(515)	(922)
Share in results of associates	4,404	3,158
	505,470	638,144
Changes in operating assets and liabilities:		
Accounts receivable and prepayments	(160,974)	(90,208)
Amounts due from related parties	(30,865)	20,172
Value of work executed in excess of billings	21,743	46,112
Net investment in finance lease	19,904	19,078
Inventories	268,122	(167,236)
Accounts payables and accruals	(286,655)	58,458
Billings in excess of value of work executed	(36,588)	14,150
Amounts due to related parties	(1,616)	(934)
Cash from operations	298,541	537,736
Financial charges paid	(95,502)	(68,514)
Zakat and income tax paid	(30,232)	(22,241)
Net cash from operating activities	172,807	446,981
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(110,450)	(138,904)
Proceeds from disposal of property, plant and equipment	2,982	2,129
Net movement in amounts due from a related party	-	-
Addition to other intangible assets	(572)	(574)
Net cash used in investing activities	(108,040)	(137,349)
FINANCING ACTIVITIES		
Net movement in short term loans	103,602	(37,301)
Net movement in term loans	(118,090)	(110,075)
Dividends paid	(120,000)	(120,000)
Non-controlling interests, net	(1,989)	(462)
Net cash used in financing activities	(136,477)	(267,838)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENT	(71,710)	41,794
Cash and cash equivalents at the beginning of the year	355,424	309,721
Net movement in foreign currency translation reserve	(8,100)	3,909
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	275,614	355,424
NON-CASH TRANSACTIONS:		
De-recognition of deferred tax assets	16,192	-
Foreign currency translation losses	16,626	2,290
Directors remuneration accrued during the year	1,600	2,000

The attached notes 1 to 34 form part of these consolidated financial statements.

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

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY

For the year ended 31 December 2016

EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE COMPANY

	<i>Share capital</i> <i>SR'000</i>	<i>Statutory</i> <i>reserve</i> <i>SR'000</i>	<i>Retained</i> <i>earnings</i> <i>SR'000</i>	<i>Proposed</i> <i>dividends</i> <i>SR'000</i>	<i>Foreign</i> <i>currency</i> <i>translation</i> <i>reserve</i> <i>SR'000</i>	<i>Total</i> <i>SR'000</i>
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
Balance at 31 December 2015	600,000	280,471	955,036	60,000	(10,361)	1,885,146
Net income for the year	-	-	201,022	-	-	201,022
Transfer to statutory reserve	-	19,529	(19,529)	-	-	-
Dividends paid (note 22)	-	-	(60,000)	(60,000)	-	(120,000)
Proposed cash dividends (note 22)	-	-	(60,000)	60,000	-	-
Directors' remuneration	-	-	(1,600)	-	-	(1,600)
Net movement in foreign currency translation reserve	-	-	-	-	(24,726)	(24,726)
Balance at 31 December 2016	600,000	300,000	1,014,929	60,000	(35,087)	1,939,842

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

1 ORGANIZATION AND ACTIVITIES

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

<i>Commercial registration number</i>	<i>Date</i>	<i>Location</i>
2050099363	8 Jumada' II 1435 H	Dammam
2050033721	1 Safar 1419H	Dammam
2050064535	10 Rabi' II 1430H	Dammam

The Company has investment in the following subsidiaries:

	<i>Effective Ownership Percentage</i>	
	<i>2016</i>	<i>2015</i>
Zamil Steel Holding Company - Saudi Arabia	100%	100%
-Zamil Steel Pre-Engineered Building Company - Saudi Arabia	100%	100%
-Zamil Structural Steel Company - Saudi Arabia	100%	100%
-Zamil Tower and Galvanizing Company - Saudi Arabia	100%	100%
-Zamil Process Equipment Company - Saudi Arabia	100%	100%
Zamil Air Conditioners and Household Appliances - Saudi Arabia	100%	100%
Zamil Central Air Conditioners - Saudi Arabia	100%	100%
Zamil Air Conditioners Holding Company - Saudi Arabia	100%	100%
Zamil Air Conditioners and Refrigeration Services - Saudi Arabia	100%	100%
Zamil Steel Building Company - Egypt	100%	100%
Zamil Steel Buildings (Shanghai) Company Limited - China	100%	100%
Cooline 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 2016

1 ORGANIZATION AND ACTIVITIES (continued)

	<i>Effective Ownership Percentage</i>	
	2016	2015
Gulf Insulation Group ("GIG")	51%	51%
Saudi Preinsulated Pipes Industries Company Limited ("SPPI")	51%	51%
Middle East Air Conditioners Company Limited - Saudi Arabia ("MEAC")	51%	51%
Zamil Hudson Company Limited - Saudi Arabia	50%	50%
Petro-Chem Zamil Company Limited - Saudi Arabia	50%	50%

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

2 BASIS OF PREPARATION

The Ministry of Commerce and Investment commenced the implementation of the new Companies Regulations effective 25 Rajab 1437H corresponding to 2 May 2016 ("the effective date"). The new regulations shall replace the Companies Regulations promulgated by Royal Decree No. M/6 dated 22 Rabi'I 1385H and it shall supersede all provisions that are inconsistent therewith. Companies existing as at the effective date of the regulations shall make all necessary amendments to their By Laws to comply with the requirements of the provisions of the new companies regulations within a period of one year of the effective date of the companies' regulations.

As at the consolidated balance sheet date, the Company was in the process to make the necessary amendments to the company's By Laws as required by the new regulations. Therefore, these consolidated financial statements have been prepared in accordance with the old Companies Regulations. Subsequent to the consolidated balance sheet date, the Company has completed all the necessary amendments to the Company's By Laws as required by the new companies' regulations.

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:

Basis of consolidation

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 Group's management prepared the financial statements of the subsidiaries 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.

Accounting convention

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2016

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 and net realisable value. Costs are those expenses incurred in bringing each product to its present location and condition and is calculated on the following basis:

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

Net investment in finance lease

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

The amount of net investment in finance lease is recorded in the consolidated balance sheet as a financial asset and classified as net investment in finance lease at the gross amount receivable under the finance lease less unearned finance income. Provision is made against net investment in finance lease as soon as any receivable is considered doubtful by the management.

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

The Group's investment in an associates is accounted for using the equity method of accounting. An associate is an entity in which the Group has significant influence over the investee financial and operational decisions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2016

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 shareholders' 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2016

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combination and goodwill (continued)

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.

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 and income tax is provided for the Company and for subsidiaries operate inside the Kingdom of Saudi Arabia in accordance with Saudi Arabian fiscal regulations. 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 2016

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 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 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

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2016

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2016

4 CASH AND CASH EQUIVALENTS

	<i>2016</i>	<i>2015</i>
	<i>SR'000</i>	<i>SR'000</i>
Bank balances and cash	271,307	331,153
Time deposits	4,307	24,271
	275,614	355,424

5 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	<i>2016</i>	<i>2015</i>
	<i>SR'000</i>	<i>SR'000</i>
Trade accounts receivable	1,797,438	1,703,344
Retentions receivable	150,150	67,411
	1,947,588	1,770,755
Less: allowances for doubtful debts	(149,555)	(124,812)
	1,798,033	1,645,943
Prepaid expenses	38,780	44,256
Advances to suppliers	43,026	64,206
Other receivables	146,979	127,631
	2,026,818	1,882,036

At 31 December 2016, trade accounts receivable at nominal value of SR 150 million (2015: SR 125 million) were impaired. Movements in the allowance for doubtful debts were as follows:

	<i>2016</i>	<i>2015</i>
	<i>SR'000</i>	<i>SR'000</i>
At the beginning of the year	124,812	111,925
Allowance for the year	57,581	33,034
Written-off during the year	(32,838)	(20,147)
At the end of the year	149,555	124,812

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>2016</i>	<i>2015</i>
	<i>SR'000</i>	<i>SR'000</i>
Value of the work executed to date	1,145,783	1,075,779
Less: Amounts received and receivable as progress billings	(883,517)	(791,770)
	262,266	284,009

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2016

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>2016</i> <i>SR'000</i>	<i>2015</i> <i>SR'000</i>
Gross investments in lease (see (b) below)	541,790	579,368
Less: Unearned finance income	(136,080)	(153,754)
	405,710	425,614
Analysed as:		
Net investment in finance lease, current	20,765	19,904
Net investment in finance lease, non-current	384,945	405,710

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

	<i>2016</i> <i>SR'000</i>	<i>2015</i> <i>SR'000</i>
Within one year	37,578	37,578
After one year but not more than five years	187,888	150,312
Five years onwards	316,324	391,478
	541,790	579,368

8 INVENTORIES

	<i>2016</i> <i>SR'000</i>	<i>2015</i> <i>SR'000</i>
Raw materials	695,326	982,220
Finished goods	634,291	535,103
Work in progress	72,972	140,318
Goods in transit	82,803	106,866
	1,485,392	1,764,507

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2016

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
ZNA Infra Private Limited - India formerly Zamil Infra Private Limited	Associate
Geoclima - Italy	Associate
Rabiah Nasser and Zamil Concrete Industrial Co. Ltd - Saudi Arabia ("RANCO")	Associate
Zamil Architectural Holding Company	Affiliate
Zamil Group Holding Company	Affiliate
Hudson Products Corporation	Affiliate
Petrochem Development Co. Inc.	Affiliate
United Carton Industries	Affiliate

The following are the details of 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>	
		<u>2016</u>	<u>2015</u>
		<u>SR'000</u>	<u>SR'000</u>
Affiliate	Sales	92,637	13,722
Affiliate	Purchases	63,825	56,365
Key managerial personnel	Directors remuneration and other benefits paid by the Company	6,610	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:*

	<u>2016</u>	<u>2015</u>
	<u>SR'000</u>	<u>SR'000</u>
United Carton Industries	24,441	-
Zamil Architectural Holding Company	17,831	8,721
RANCO	10,148	13,330
Geoclima - Italy	4,326	4,989
Others	12,770	11,611
	<u>69,516</u>	<u>38,651</u>

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

	<u>2016</u>	<u>2015</u>
	<u>SR'000</u>	<u>SR'000</u>
RANCO	33,850	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 yearend balance is shown under non-current assets in the consolidated balance sheet as it is not expected to be settled during 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2016

9 RELATED PARTIES' TRANSACTIONS AND BALANCES (continued)

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

	2016	2015
	SR'000	SR'000
Energy Central Company B.S.C. - Bahrain	14,900	14,764
Hudson Products Corporation	-	2,512
Others	5,159	4,399
	20,059	21,675

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2016

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 to 5 years

	<i>Freehold land</i>	<i>Buildings on leasehold land</i>	<i>Machinery</i>	<i>Furniture, fixtures and equipment</i>	<i>Motor vehicles</i>	<i>Capital work-in- progress</i>	<i>Total 2016</i>	<i>Total 2015</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	115,055	885,426	1,585,543	224,116	101,953	43,732	2,955,825	2,848,777
Additions	-	4,082	23,650	14,090	9,761	58,867	110,450	138,904
Disposal	-	(2,150)	(27,971)	(4,309)	(3,412)	(139)	(37,981)	(23,388)
Transfer	-	17,370	21,263	2,272	-	(40,905)	-	-
Foreign currency translation	(2,775)	(10,955)	(11,671)	(10,753)	(2,621)	(125)	(38,900)	(8,468)
At the end of the year	112,280	893,773	1,590,814	225,416	105,681	61,430	2,989,394	2,955,825
<i>Depreciation and impairment:</i>								
At the beginning of the year	-	384,447	947,204	156,612	77,552	-	1,565,815	1,432,793
Charge for the year	-	36,100	91,560	19,438	11,751	-	158,849	161,381
Disposal	-	(1,895)	(18,522)	(2,841)	(3,238)	-	(26,496)	(22,181)
Impairment loss (note 27)	-	-	31,319	-	-	-	31,319	-
Foreign currency translation	-	(3,300)	(8,778)	(7,986)	(2,210)	-	(22,274)	(6,178)
At the end of the year	-	415,352	1,042,783	165,223	83,855	-	1,707,213	1,565,815
<i>Net book amounts:</i>								
At 31 December 2016	112,280	478,421	548,031	60,193	21,826	61,430	1,282,181	
At 31 December 2015	115,055	500,979	638,339	67,504	24,401	43,732		1,390,010

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2016

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

	2016	2015	2016	2015
	<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%	47,625	45,603
Energy Central Company B.S.C. - Bahrain (note (ii))	25%	25%	14,900	16,339
ZNA Infra Private Limited - India formerly Zamil Infra Private Limited (note (iii))	51%	51%	9,204	13,813
Geoclima S.r.l - Italy (note (iv))	40%	40%	12,757	10,367
IIB Paper Company Limited - Bahrain (note (v))	20.83%	20.83%	4,450	7,218
			88,936	93,340

- (i) 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. The investment carrying value includes embedded goodwill of SR 23.9 million (2015: 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) ZNA Infra Private Limited - India formerly "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 ZNA Infra Private Limited - India formerly "Zamil Infra Private Limited" is more than 50%, it is considered as an associate of the Group as the Group has significant influence only over the investee company's operational and financial decisions but not controlling these decisions.
- (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 (2015: 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:

	2016	2015
	<i>SR'000</i>	<i>SR'000</i>
At the beginning of the year	93,340	96,498
Share in results of associates	(4,404)	(3,158)
At the end of the year	88,936	93,340

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2016

12 AVAILABLE FOR SALE INVESTMENTS

	<i>2016</i> <i>SR'000</i>	<i>2015</i> <i>SR'000</i>
Kinan International For Real Estate Development Company Limited (note (i))	46,586	46,586
PLG Photovoltaic Limited (note (ii))	41,760	42,910
	88,346	89,496

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 the 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% non-voting and 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 SR1.2 million due to the decline in the value of foreign currency as such decline considered prolonged.

13 OTHER INTANGIBLE ASSETS

	<i>2016</i> <i>SR'000</i>	<i>2015</i> <i>SR'000</i>
<i>Cost</i>		
At the beginning of the year	10,207	24,061
Additions	572	574
Written off during the year	-	(14,428)
At 31 December	10,779	10,207
<i>Accumulated amortisation</i>		
At the beginning of the year	3,810	3,135
Charge for the year	953	675
At 31 December	4,763	3,810
<i>Net carrying value</i>		
At 31 December	6,016	6,397

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 20 to 30 years.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2016

14 GOODWILL

	<i>2016</i>	<i>2015</i>
	<i>SR'000</i>	<i>SR '000</i>
At the beginning of the year	80,126	110,706
Impairment loss	-	(30,580)
At the end of the year	80,126	80,126

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.

SPPI

During 2015, the recoverable amount of SPPI was 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 recognised an impairment loss of SR 30.58 million against goodwill with the entire carrying amount of SR 30.58 million as at 31 December 2015. Consequently, the carrying amount of goodwill as at 31 December 2016 is nil (2015: same).

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. The projected cash flows projections have been updated to reflect the future demands of the products of GIG. The cash flows beyond the five year period are extrapolated using a 2% growth rate that is the same as the long term average growth rate for the industry in which the GIG operates. As a result of the analysis, the management did not identify an impairment for this CGU during the year (2015: same).

15 ACCOUNTS PAYABLES AND ACCRUALS

	<i>2016</i>	<i>2015</i>
	<i>SR'000</i>	<i>SR'000</i>
Accounts payable	344,700	520,444
Accrued expenses	308,657	356,142
Advances from customers	234,937	312,885
Accrued contract costs	153,853	139,415
Warranties provision	16,551	23,885
	1,058,698	1,352,771

16 BILLINGS IN EXCESS OF VALUE OF WORK EXECUTED

	<i>2016</i>	<i>2015</i>
	<i>SR'000</i>	<i>SR'000</i>
Progress billings received or receivable	580,842	600,584
Less: value of work executed	(522,554)	(505,708)
	58,288	94,876

At 31 December 2016

17 SHORT TERM LOANS

	2016	2015
	SR'000	SR'000
Short term loans	115,263	135,507
Murabaha and tawarruq finances	1,944,486	1,820,640
	2,059,749	1,956,147

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

	2016	2015
	SR'000	SR'000
Commercial banks (note 'A' below)	204,688	321,538
Saudi Industrial Development Fund ("SIDF") (note 'B' below)	139,714	140,015
	344,402	461,553
Less: Current portion:		
Term loans from the commercial banks (note 'A' below)	(104,688)	(116,850)
Term loans from Saudi Industrial Development Fund ("SIDF") (note 'B' below)	(36,400)	(21,500)
	(141,088)	(138,350)
Less: SIDF prepaid financial charges	(8,068)	(9,865)
Non-current portion	195,246	313,338

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 2016, the outstanding loan was SR 200 million (2015: SR 300 million) including a current portion of SR 100 million (2015: SR 100 million).
 - ii) The Group also obtained a loan facility of SR 25 million from a local bank. This loan 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 2016, the outstanding loan was SR 4.7 million (2015: SR 10.9 million) including current portion of SR 4.7 million (2015: SR 6.3 million).
 - 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. Entire loan amount of SR 10.6 million payable as at 31 December 2015 has been paid during the year.
- 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 Group 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.

18 TERM LOANS (continued)

Following are the combined aggregate amounts of future maturities of the term loans:

<i>Year</i>	<i>SR'000</i>
2017	141,088
2018	135,800
2019	33,000
2020	17,850
2021	8,764
2022 and onwards	7,900
	<u>344,402</u>

19 ZAKAT AND INCOME TAX

a) Zakat

Charge for the year

The zakat charge consists of:

	<i>2016</i> <i>SR'000</i>	<i>2015</i> <i>SR'000</i>
Current year provision	<u>22,612</u>	<u>22,150</u>

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 (2015: same).

Status of assessments

The status of assessments of the Company including its wholly owned subsidiaries and major partially owned subsidiaries are as follows:

i) The Company and its wholly owned subsidiaries

The zakat assessments of the Company and its wholly owned Saudi subsidiaries as a whole have been agreed with the General Authority of Zakat and Tax ("the GAZT") up to 2013. The zakat declarations for the years 2014 and 2015 have been filed with the GAZT. However, the assessments have not yet been raised by the GAZT.

ii) Partially owned subsidiaries

SPPI

Zakat assessments have been agreed with the GAZT up to 2007. The zakat declarations for the years from 2008 to 2015 have been filed with the GAZT. However, the assessments have not yet been raised by the GAZT.

GIG

Zakat and income tax assessments have been agreed with the GAZT up to 2007. The zakat declarations for the years from 2008 to 2015 have been filed with the GAZT. However, the assessments have not yet been raised by the GAZT.

MEAC

Zakat and income tax assessments have been agreed with the GAZT up to 2003. The zakat declarations for the years from 2004 to 2015 have been filed with the GAZT. However, the assessments have not yet been raised by the GAZT.

19 ZAKAT AND INCOME TAX (continued)

a) Zakat (continued)

Status of assessments (continued)

Zakat base and the income tax provision have been computed based on the Company's understanding of zakat and income tax regulations enforced in the Kingdom of Saudi Arabia. The Zakat and income tax regulations in Saudi Arabia are subject to different interpretations and the new zakat and income tax regulations are expected to be announced in due course. The assessments to be raised by the GAZT could be different from the declarations filed by the Company.

b) Income tax

Charge for the year

The income tax charge consists of:

	2016 SR'000	2015 SR'000
Current year provision	4,320	6,196

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

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 2016 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 2014. The income tax returns for the years ended 31 March 2015 and 31 March 2016 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 2014. The income tax returns for the years ended 31 March 2015 and 31 March 2016 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 up to 31 March 2016 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 ("the TA") of Vietnam up to the year 2012. The income tax returns for the years 2013, 2014 and 2015 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 Egyptian tax authorities ("the tax authorities") up to the year 2004. The income tax returns for the years from 2005 to 2015 have been filed with the tax authorities. However, the final assessments have not yet been raised by tax authorities.

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.

19 ZAKAT AND INCOME TAX (continued)

b) Income tax (continued)

Movement in provision

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

	2016 SR'000	2015 SR'000
At the beginning of the year	58,721	52,616
Provided during the year	26,932	28,346
Payments during the year	(30,232)	(22,241)
At the end of the year	<u>55,421</u>	<u>58,721</u>

20 EMPLOYEES' TERMINAL BENEFITS

The movements in employees' terminal benefits are as follows:

	2016 SR'000	2015 SR'000
At the beginning of the year	356,558	320,931
Charge for the year	41,984	70,376
Payments during the year	(67,196)	(34,749)
Recalssification	(3,960)	-
At the end of the year	<u>327,386</u>	<u>356,558</u>

21 SHARE CAPITAL

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

22 DIVIDENDS

The board of directors in their meeting held on 27 July 2016 (corresponding to 22 Shawwal 1437 H) resolved to distribute interim cash dividends of SR 1 per share totaling SR 60 million representing 10% of share capital to shareholders which have been fully paid during the year (2015: The board of directors in their meeting held on 22 July 2015 (corresponding to 6 Shawwal 1436H) resolved to distribute interim cash dividends of SR 1 per share totaling SR 60 million representing 10% of share capital to shareholders which have fully been paid during the year).

Further, subsequent to year end the board of directors proposed a final cash dividend of SR 1 per share for the year 2016 totaling SR 60 million being 10% of the share capital for the approval of the shareholders in their Annual General Assembly (2015: The board of directors at their meeting held on 21 December 2015 (corresponding to 10 Rabi' I 1437H) proposed a final cash dividend of SR 1 per share for the year 2015 totaling SR 60 million being 10% of the share capital which is subsequently approved by the shareholders in their Annual General Assembly meeting held on 18 April 2016 (corresponding to 11 Rajab 1437

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2016

23 NON-CONTROLLING INTERESTS

The movements in non-controlling interests are as follows:

	<i>2016</i> <i>SR'000</i>	<i>2015</i> <i>SR'000</i>
At the beginning of the year	265,878	255,215
Share in results	(14,895)	11,125
Net movement	(1,989)	(462)
At the end of the year	<u>248,994</u>	<u>265,878</u>

24 SELLING AND DISTRIBUTION EXPENSES

	<i>2016</i> <i>SR'000</i>	<i>2015</i> <i>SR'000</i>
Employees' costs	222,424	251,821
Allowance for doubtful debts (note 5)	57,581	33,034
Transportation	28,134	35,192
Advertising and sales promotion	23,120	19,998
Warranties	18,740	22,143
Rent and utilities	16,379	12,968
Depreciation	15,786	17,283
Repairs and maintenance	3,055	4,278
Business travel	6,791	7,952
Support services	6,152	7,521
Communication and IT services	2,760	1,717
Others	24,805	24,829
	<u>425,727</u>	<u>438,736</u>

25 GENERAL AND ADMINISTRATION EXPENSES

	<i>2016</i> <i>SR'000</i>	<i>2015</i> <i>SR'000</i>
Employees' costs	344,991	357,404
Communication and IT services	20,196	14,839
Depreciation	25,701	28,478
Support services	5,845	4,374
Rent and utilities	14,691	10,428
Professional fees	9,264	5,683
Business travel	6,532	4,488
Repairs and maintenance	7,465	7,371
Office supplies	4,830	4,450
Others	20,166	21,513
	<u>459,681</u>	<u>459,028</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2016

26 OTHER INCOME, NET

	2016 SR'000	2015 SR'000
Foreign currency exchange gains	23,481	8,344
Dividends income	-	1,070
Gain on disposal of property, plant and equipment	515	922
Other intangible assets written-off	-	(14,428)
Others	13,788	22,143
	<u>37,784</u>	<u>18,051</u>

27 IMPAIRMENT LOSS ON NON- CURRENT ASSETS

	2016 SR'000	2015 SR'000
Impairment loss on property, plant and equipment	31,319	-
Impairment loss on available for sale investment	1,150	20,840
Impairment loss on goodwill (note14)	-	30,580
	<u>32,469</u>	<u>51,420</u>

28 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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2016

29 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, income (loss) from main operations and net assets by business and geographical segments, are as follows:

Business segments

	2016				
	Air conditioner industry	Steel industry	Insulation	Head office and others	Total
Revenue	2,252,254	2,361,974	330,041	6,379	4,950,648
Income (loss) from main operations	174,734	140,236	27,775	(18,903)	323,842
Net assets	790,192	684,075	122,976	342,599	1,939,842

	2015				
	Air conditioner industry	Steel industry	Insulation	Head office and others	Total
Revenue	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

Geographical segments

	2016				
	Saudi Arabia	Other Asian countries	Africa	Europe	Total
Revenue	4,118,607	551,583	276,821	3,637	4,950,648
Income (loss) from main operations	329,314	(5,425)	143	(190)	323,842

	2015				
	Saudi Arabia	Other Asian countries	Africa	Europe	Total
Revenue	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

30 CONTINGENT LIABILITIES

The Group's bankers have issued performance and payments guarantees, on behalf of the Group, amounting to SR 1,050 million (2015: SR 1,165 million).

31 CAPITAL COMMITMENTS

The board of directors have approved future capital expenditure amounting to SR 21 million (2015: SR 70 million), relating to certain expansion projects.

32 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 time deposits, 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, Egyptian Pound 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, Japanese Yen and Egyptian Pound. The Group manages currency risk exposure to Euros, Japanese Yen and Egyptian Pound by continuously monitoring the currency fluctuations.

33 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.

34 COMPARATIVE FIGURES

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