

AUDITORS' REPORT (LIMITED REVIEW) ON INTERIM CONSOLIDATED FINANCIAL STATEMENTS

To the stockholders
Zamil Industrial Investment Company
Dammam, Saudi Arabia

Scope of Review


We have reviewed the interim consolidated balance sheet of Zamil Industrial Investment Company ("the parent company"), a Saudi Joint Stock Company, and its subsidiaries as of June 30, 2012 and the related interim consolidated statement of income for the three months and six months periods then ended, interim consolidated cash flows for the six months then ended, and notes 1 to 5 which form an integral part of these interim consolidated financial statements as prepared by the parent company and presented to us with all the necessary information and explanations. These interim consolidated financial statements are the responsibility of the parent company's management.

We conducted our review in accordance with the standard of auditing applicable to interim financial reporting in the Kingdom of Saudi Arabia issued by the Saudi Organization for Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the consolidated financial statements taken as a whole. Accordingly, we do not express such an opinion.

Review Results

Based on our limited review, we are not aware of any material modifications that should be made to the accompanying interim consolidated financial statements for them to be in conformity with generally accepted accounting standards in the Kingdom of Saudi Arabia.

Deloitte & Touche
Bakr Abulkhair & Co.


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July 16, 2012



INTERIM CONSOLIDATED STATEMENT OF INCOME (Un audited)

All Figures in SAR '000

Particulars	2011	2012	2011	2012
	Apr-Jun	Apr-Jun	Jan-Jun	Jan-Jun
Net sales	1,325,210	1,344,786	2,291,927	2,446,889
Cost of sales	1,044,173	1,061,247	1,790,066	1,922,740
Gross profit	281,037	283,539	501,861	524,149
Less: Expenses				
Selling & distribution expenses	101,583	102,395	189,742	195,021
General & administration expenses	95,929	84,331	168,962	161,503
Income from main operations	83,525	96,813	143,157	167,625
Other income	6,947	5,970	9,606	5,999
Company's share of profits in associates, net	2,026	(2,570)	3,598	88
Financial charges	(20,578)	(20,294)	(35,424)	(39,771)
Non-controlling interests + tax	(18,242)	(16,367)	(25,947)	(28,663)
Income before zakat	53,678	63,552	94,990	105,278
Zakat	5,750	7,785	10,307	12,002
Net income	47,928	55,767	84,683	93,276
Earnings per share from net income	0.80	0.93	1.41	1.55
Earnings per share from continuing main operations	0.68	0.83	1.25	1.45
Earnings per share from other operations	0.12	0.10	0.16	0.10

INTERIM CONSOLIDATED BALANCE SHEET (Un audited)

Particulars	As at 30.06.2011	As at 30.06.2012
Assets		
Current Assets		
Cash and cash equivalents	230,861	394,216
Trade accounts and notes receivables	1,307,557	1,468,950
Advances, other receivables and prepayments	374,224	379,732
Advances to an unconsolidated subsidiary	103,387	264,181
Inventories	1,854,668	1,850,040
Amounts due from related parties & affiliates	69,131	115,910
Total Current Assets	3,939,828	4,473,029
Non-Current Assets		
Investments	293,274	332,192
Property, plant and equipment	1,385,391	1,478,324
Deferred charges	11,691	11,288
Goodwill	135,462	176,251
Total Non-Current Assets	1,825,818	1,998,055
Total Assets	5,765,646	6,471,084
Liabilities, Shareholders' Equity and Non-controlling interests		
Current Liabilities		
Notes & accounts payable, accruals & provisions	925,952	792,917
Amounts due to related parties & affiliates	5,548	93,293
Advances from customers	252,231	342,525
Murabaha and tawarruq finances	1,936,858	2,646,719
Short term loans	44,936	54,431
Current portion of term loans	243,686	287,835
Total Current Liabilities	3,409,211	4,217,720
Non-Current Liabilities		
S I D F loans	71,029	57,141
Other long term loans	438,150	274,331
Employee's terminal benefits	244,798	272,569
Total Non-Current Liabilities	753,977	604,041
Total Liabilities	4,163,188	4,821,761
Shareholders' Equity and Non-controlling interests		
Share capital	600,000	600,000
Statutory reserve	177,504	193,783
Retained earnings	563,139	617,643
Unrealized gain/(loss) on investments	831	(1,173)
Translation loss on consolidation	(16,635)	(21,894)
	1,324,839	1,388,359
Non-controlling interests	277,619	260,964
Total Shareholders' Equity and Non-controlling interests	1,602,458	1,649,323
Total Liabilities, Shareholders' Equity and Non-controlling interests	5,765,646	6,471,084

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS (Un audited)

Particulars	Period ended 30.06.2011	Period ended 30.06.2012
From Operations		
Net income	84,683	93,276
Depreciation	68,594	67,145
Zakat provision	10,307	12,002
Loss on disposal of property, plant and equipment	103	(5)
Company's share of profits in associates, net	(3,598)	(88)
Non-controlling interests	24,336	27,827
Amortisation of deferred charges	1,174	480
Inventories	(179,545)	28,510
Receivables	(325,838)	(149,003)
Payables & accruals	(35,777)	37,474
End of service benefits, net	21,378	21,203
Zakat & taxes paid	(6,042)	(63,239)
Net cash (used in) from operating activities	(340,225)	75,582
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(91,459)	(106,682)
Acquisition of assets related to subsidiary	(120,922)	-
Proceeds from disposal of property, plant and equipment	503	1,338
Investments	(31,318)	-
Goodwill	(73,184)	-
Deferred charges	(1,000)	-
Cash used in investing activities	(317,380)	(105,344)
FINANCING ACTIVITIES		
Changes in short term loans, murabaha & tawarruq finances	577,817	266,007
Changes in term loans	(53,593)	(82,070)
Dividends paid	(45,000)	(45,000)
Changes in non-controlling interests	112,682	-
Cash from financing activities	591,906	138,937
(Decrease)/Increase in cash and cash equivalents	(65,699)	109,175
Cash and cash equivalents at January 1	299,361	285,867
Movement in translation loss, net	(2,801)	(826)
Cash and cash equivalents at June 30	230,861	394,216

CHIEF FINANCIAL OFFICER

CHIEF EXECUTIVE OFFICER

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

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS AND SIX MONTHS PERIODS ENDED JUNE 30, 2012**

1. STATUS AND ACTIVITIES

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

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

The parent company and its subsidiaries (collectively referred to as “the group”) are engaged in the manufacturing, marketing and maintenance of air conditioners, steel industry and glass industry. The parent company has a branch in Dammam and subsidiaries in Saudi Arabia, Egypt, Vietnam, Austria, Italy, India, China and United Arab Emirates, etc.

The share capital of the parent company, amounting to SR 600 million (30 June 2011: SR 600 million) is divided into 60 million shares of SR 10 each (30 June 2011: 60 million shares of SR 10 each).

2. SIGNIFICANT ACCOUNTING POLICIES

The interim consolidated financial statements are prepared under the historical cost convention modified to include the measurement at fair value of available for sale investments. The group adopts the following accounting policies:

Interim period results

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

Basis of consolidation

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

Use of estimates

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

Sales

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

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

ZAMIL INDUSTRIAL INVESTMENT COMPANY AND ITS SUBSIDIARIES
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NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE THREE MONTHS AND SIX MONTHS PERIODS ENDED JUNE 30, 2012

Inventories

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

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

Deferred charges

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

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

Expenses

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

Property, plant and equipment/depreciation

Property, plant and equipment are initially recorded at cost and are stated at cost less accumulated depreciation and any impairment in value. Freehold land and capital work-in-progress are not depreciated. Depreciation is provided on other property, plant and equipment at rates calculated to write off the cost of each asset over its expected useful life.

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

Employees' terminal benefits

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

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

Foreign currencies

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

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

ZAMIL INDUSTRIAL INVESTMENT COMPANY AND ITS SUBSIDIARIES
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NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE THREE MONTHS AND SIX MONTHS PERIODS ENDED JUNE 30, 2012

Investments

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

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

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

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

Business combination and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any minority interests in the acquiree. For each business combination, the acquirer measures the minority interest in the acquiree either at fair value or at the proportionate share of the acquirer'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 the group's net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in the interim consolidated statement of income.

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

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed off, the goodwill associated with the operation disposed off is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed off in this circumstance is measured based on the relative values of the operation disposed off and the portion of the cash-generating unit retained. When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and goodwill is recognised in the interim consolidated statement of income.

ZAMIL INDUSTRIAL INVESTMENT COMPANY AND ITS SUBSIDIARIES
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NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE THREE MONTHS AND SIX MONTHS PERIODS ENDED JUNE 30, 2012

Permanent impairment of non-current assets

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

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

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

Where an impairment loss subsequently reverses, the carrying value of the asset (cash generating unit) other than goodwill is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash generating unit) in prior years. The reversal of impairment loss other than goodwill is recognized as income once identified.

Zakat and income tax

Zakat is provided for in accordance with Saudi Arabian fiscal regulations. Income tax is provided for in accordance with foreign fiscal authorities in which the group's foreign subsidiaries operate. The liabilities are charged direct to the interim consolidated statement of income. The zakat charge and income tax, assessable on the minority shareholders is included in minority interest. Additional amounts, if any, that become due on finalisation of assessment are accounted for in the period in which assessment is finalised.

The zakat and income tax provision for the interim period is calculated based on the estimated zakat and income tax provision for the whole year. The difference between the provision made during the interim period and the actual provision for the period based on detailed zakat and income tax calculation for the year is accounted for at year end.

Earnings per share

Earnings per share are computed by dividing net income for the periods by the weighted average number of shares outstanding, during the six months ended June 30, 2012 totalling to 60 million shares (note 1) (2011: 60 million shares).

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

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

ZAMIL INDUSTRIAL INVESTMENT COMPANY AND ITS SUBSIDIARIES
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NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE THREE MONTHS AND SIX MONTHS PERIODS ENDED JUNE 30, 2012

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

3. SEGMENTAL ANALYSIS

(a) Analysis of sales, income/(loss) from main operations and net assets by activity:

	Sales SR'000		Income/ (loss) from main operations SR'000		Net assets SR'000	
	30 June 2011 (audited)	30 June 2012 (unaudited)	30 June 2011 (audited)	30 June 2012 (unaudited)	30 June 2011 (audited)	30 June 2012 (unaudited)
Air conditioner industry	896,629	887,263	75,224	82,281	357,965	447,288
Steel industry	1,143,266	1,310,601	34,089	48,321	773,155	782,979
Glass and fibreglass insulation	170,208	181,333	27,437	33,831	152,819	113,340
Concrete	81,824	67,692	8,769	5,495	69,192	54,280
Head office	-	-	(2,362)	(2,303)	(28,292)	(9,528)
	2,291,927	2,446,889	143,157	167,625	1,324,839	1,388,359

(b) Analysis of sales, and income/(loss) from main operations by geographical location:

	Sales SR'000		Income (loss) from main operations SR'000	
	30 June 2011 (audited)	30 June 2012 (unaudited)	30 June 2011 (audited)	30 June 2012 (unaudited)
Saudi Arabia:				
Local sales	1,438,944	1,639,790	110,078	128,221
Export sales	448,907	440,376	27,272	29,659
Other Asian countries	221,567	207,047	4,278	6,314
Africa	138,701	159,676	(431)	3,431
Europe	43,808	-	1,960	-
	2,291,927	2,446,889	143,157	167,625

5. DIVIDENDS

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

4. CONTINGENT LIABILITIES

At 30 June 2012, the group has outstanding bank guarantees amounting to SR 993 million (30 June 2011: SR 849 million) issued during the normal course of the business.