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

INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) AND AUDITORS' LIMITED REVIEW REPORT

FOR THE YEAR ENDED 31 DECEMBER 2015

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LIMITED REVIEW REPORT TO THE SHAREHOLDERS OF ZAMIL INDUSTRIAL INVESTMENT COMPANY (A SAUDI JOINT STOCK COMPANY) AND ITS SUBSIDIARIES

Scope of limited review:

We have reviewed the accompanying interim consolidated balance sheet of Zamil Industrial Investment Company, a Saudi Joint Stock Company ("the Company") and its Subsidiaries (collectively referred to as the "Group") as at 31 December 2015 and the related interim consolidated statement of income for three months period and the year then ended and the interim consolidated statement of cash flows for the year then ended. These interim consolidated financial statements have been prepared by the Group's management and submitted to us together with all the information and explanations which we required. We conducted our limited review in accordance with the Standard on Review of Interim Financial Reporting issued by the Saudi Organization for Certified Public Accountants ("SOCPA"). The limited review consists principally of applying analytical procedures to financial data and information 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 financial statements taken as a whole. Accordingly, we do not express such an opinion.

Conclusion of limited review:

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 accounting standards generally accepted in the Kingdom of Saudi Arabia.

for Ernst & Young

ترخيص
مهني رقم ٤٥
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9 Rabi' II 1437H
19 January 2016
Alkhobar

INTERIM CONSOLIDATED BALANCE SHEET
As at 31 December 2015

	Note	*31 December 2015 (Unaudited) SR '000'*	*31 December 2014 (Audited) SR '000'*
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		**353,437**	309,721
Accounts receivable		**1,598,682**	1,511,618
Advances, other receivables and prepayments		**430,874**	472,521
Value of work executed in excess of billings		**103,038**	151,121
Amounts due from related parties		**40,499**	61,975
Current portion of net investment in finance lease		**19,904**	19,078
Inventories		**1,767,036**	1,597,271
TOTAL CURRENT ASSETS		**4,313,470**	4,123,305
NON-CURRENT ASSETS			
Property, plant and equipment		**1,394,010**	1,415,984
Investment in associated companies		**166,568**	160,248
Available for sale investments		**46,586**	46,586
Net investment in finance lease		**405,710**	425,614
Amounts due from related parties		**33,850**	33,850
Deferred charges		**5,029**	20,926
Goodwill		**80,706**	110,706
TOTAL NON-CURRENT ASSETS		**2,132,459**	2,213,914
TOTAL ASSETS		**6,445,929**	6,337,219
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accounts payable, accruals and provisions		**1,070,445**	1,029,559
Billings in excess of value of work executed		**96,184**	80,726
Advance from customers		**324,139**	308,821
Zakat and income tax provision		**54,490**	43,637
Short term loans		**1,942,919**	1,993,448
Current portion of term loans		**127,750**	156,463
TOTAL CURRENT LIABILITIES		**3,615,927**	3,612,654
NON-CURRENT LIABILITIES			
Term loans		**326,420**	405,899
Employees' terminal benefits		**356,122**	320,931
TOTAL NON-CURRENT LIABILITIES		**682,542**	726,830
TOTAL LIABILITIES		**4,298,469**	4,339,484

(Continued)

The attached notes 1 to 9 form an integral part of these interim consolidated financial statements.

INTERIM CONSOLIDATED BALANCE SHEET (Continued)
As at 31 December 2015

	Note	*31 December 2015 (Unaudited) SR '000'*	*31 December 2014 (Audited) SR '000'*
SHAREHOLDERS' EQUITY			
EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE COMPANY			
Share capital	4	**600,000**	600,000
Statutory reserve		**280,471**	254,170
Retained earnings		**955,036**	840,330
Foreign currency translation reserve		**(16,574)**	(11,980)
Proposed dividends	5	**60,000**	60,000
		1,878,933	1,742,520
NON-CONTROLLING INTEREST		**268,527**	255,215
TOTAL SHAREHOLDERS' EQUITY		**2,147,460**	1,997,735
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**6,445,929**	6,337,219

The attached notes 1 to 9 form an integral part of these interim consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF INCOME
For the three months period and the year ended 31 December 2015

	Note	*For the three months period ended 31 December*		*For the year ended 31 December*	
		2015	*2014*	***2015***	*2014*
		SR '000'	*SR '000'*	***SR '000'***	*SR '000'*
		(Unaudited)	*(Unaudited)*	***(Unaudited)***	*(Audited)*
REVENUE					
Sales		**749,121**	856,929	**4,335,656**	4,462,233
Contracts revenue		**706,260**	628,940	**1,155,788**	993,186
		1,455,381	1,485,869	**5,491,444**	5,455,419
DIRECT COSTS					
Cost of sales		**(627,287)**	(488,029)	**(3,366,083)**	(3,337,540)
Contracts cost		**(443,165)**	(597,056)	**(809,714)**	(783,803)
		(1,070,452)	(1,085,085)	**(4,175,797)**	(4,121,343)
GROSS PROFIT		**384,929**	400,784	**1,315,647**	1,334,076
EXPENSES					
Selling and distribution		**(145,993)**	(152,574)	**(490,433)**	(521,281)
General and administration		**(109,414)**	(128,312)	**(414,736)**	(406,920)
INCOME FROM MAIN OPERATIONS		**129,522**	119,898	**410,478**	405,875
Other (expenses)/income, net		**(8,210)**	10,954	**3,609**	19,006
Financial charges		**(18,494)**	(20,877)	**(73,956)**	(81,488)
Impairment of goodwill		**(30,000)**	(23,957)	**(30,000)**	(23,957)
Deferred charges written off		**(14,428)**	-	**(14,428)**	-
INCOME BEFORE SHARE IN RESULTS OF ASSOCIATED COMPANIES, NON-CONTROLLING INTEREST AND ZAKAT AND INCOME TAX		**58,390**	86,018	**295,703**	319,436
Share in net results of associated companies		**4,759**	(1,771)	**6,907**	902
INCOME BEFORE NON-CONTROLLING INTEREST AND ZAKAT AND INCOME TAX		**63,149**	84,247	**302,610**	320,338
Non-controlling interest		**753**	(9,242)	**(13,312)**	(21,494)
INCOME BEFORE ZAKAT AND INCOME TAX		**63,902**	75,005	**289,298**	298,844
Income tax		**(2,561)**	(4,780)	**(5,010)**	(12,246)
Zakat		**(3,887)**	(5,301)	**(21,281)**	(26,258)
NET INCOME FOR THE PERIOD/YEAR		**57,454**	64,924	**263,007**	260,340
EARNINGS PER SHARE FOR THE PERIOD/YEAR:					
Attributable to main operations		**2.16**	2.00	**6.84**	6.76
Attributable to net income		**0.96**	1.08	**4.38**	4.34
Weighted average number of shares outstanding (thousand shares)	4	**60,000**	60,000	**60,000**	60,000

The attached notes 1 to 9 form an integral part of these interim consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2015

	For the year ended 31 December	
	2015	*2014*
	SR '000'	*SR '000'*
	(Unaudited)	*(Audited)*
OPERATING ACTIVITIES		
Income before non-controlling interest, zakat and income tax	**302,610**	320,338
Adjustments for:		
Depreciation	**160,026**	156,033
Amortisation	**1,469**	3,143
Impairment of goodwill	**30,000**	23,957
Deferred charges written off	**14,428**	-
Employees' terminal benefits, net	**35,191**	26,926
Financial charges	**73,956**	79,641
(Gain)/loss on sale of property, plant and equipment	**(314)**	467
Share of results of associated companies	**(6,907)**	(902)
Gain on sale of investments	**-**	(14,080)
	610,459	595,523
Changes in operating assets and liabilities:		
Accounts receivable	**(87,064)**	(40,992)
Advances, other receivables and prepayments	**41,647**	21,237
Value of work executed in excess of billings	**48,083**	3,596
Amounts due from related parties	**21,476**	1,227
Net investments in finance lease	**19,078**	18,287
Inventories	**(169,765)**	327,830
Accounts payable, accruals and provisions	**46,771**	68,174
Billings in excess of value of work executed	**15,458**	418
Advance from customers	**15,318**	(83,787)
Cash from operations	**561,461**	911,513
Financial charges paid	**(73,956)**	(79,641)
Zakat and income tax paid	**(15,438)**	(44,487)
Net cash from operating activities	**472,067**	787,385
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(146,213)**	(141,438)
Proceeds from sale of property, plant and equipment	**1,177**	4,961
Proceeds from sale of investments, net	**-**	16,875
Deferred charges	**-**	(14,646)
Net cash used in investing activities	**(145,036)**	(134,248)
FINANCING ACTIVITIES		
Dividends paid	**(120,000)**	(120,000)
Net movement in short term loans	**(50,529)**	(766,405)
Net movement in term loans	**(108,192)**	307,043
Non-controlling interest, net	**-**	(15,503)
Net cash used in financing activities	**(278,721)**	(594,865)
INCREASE IN CASH AND CASH EQUIVALENT	**48,310**	58,272
Bank balances and cash at the beginning of the year	**309,721**	250,966
Movement in foreign currency translation reserve, net	**(4,594)**	483
CASH AND CASH EQUIVALENT AT THE END OF THE YEAR	**353,437**	309,721
SUPPLEMENTAL NON-CASH TRANSACTIONS:		
Foreign exchange loss on property, plant and equipment	**7,298**	3,916
Directors remuneration accrued during the year	**2,000**	2,000
Foreign exchange loss on investment in associated companies	**587**	929

The attached notes 1 to 9 form an integral part of these interim consolidated financial statements.

1 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 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).

The Company has the following subsidiaries:

	Effective ownership percentage	
	2015	2014
- 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 Refrigerating Services - Saudi Arabia	100%	100%
- Zamil Steel Building Company - Egypt	100%	100%
- Zamil Steel Buildings (shanghai) Company Limited - China	100%	100%
- Cooling Europe Holdings GmbH- Austria	100%	100%
- Clima Tech Air Conditioners GmbH - Austria	100%	100%
- Zamil Steel Buildings India Private Limited	100%	100%
- Zamil Steel Engineering India Private Limited	100%	100%
- Arabian Stone wool Insulation Company - Saudi Arabia	100%	100%
- Ikhtebar Company - Saudi Arabia	100%	100%
- Zamil Energy Services Company (ZESCO) - Saudi Arabia	100%	100%
- Zamil Industrial Investment Company, Emirates	100%	100%
- Zamil Steel Industries Abu Dhabi (LLC) - UAE	100%	100%
- Zamil Steel Buildings (Thailand) Co. Ltd.	100%	100%
- Al Zamil Steel Construction Company - Saudi Arabia	100%	100%
- Zamil Structural Steel Company - Egypt	100%	100%
- Zamil Construction India PVT. Ltd.	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	100%	100%
- Zamil Air Conditioners India Private Limited - India	100%	100%
- Saudi Central Energy Company Limited (see note (a) below)	100%	100%
- Gulf Insulation Group	51%	51%
-Saudi Rockwool Factory Company - Saudi Arabia	51%	51%
-First Insulation Company - Saudi Arabia	51%	51%
-Arabian Fiberglass Insulation Co. Ltd. - Saudi Arabia	51%	51%
- Zamil Steel Buildings- Vietnam Limited Company	92.27%	92.27%
- Middle East Air Conditioners Company Limited - Saudi Arabia	51%	51%
- Zamil Hudson Company Limited - Saudi Arabia	50%	50%
- Petro - Chem Zamil Company Limited - Saudi Arabia	50%	50%
- Saudi Preinsulated Pipes Industries Company Limited	51%	51%
- Zamil Industrial Investment Company Asia Ple. Ltd - Singapore	100%	100%
- Al-Zamil for Inspection and Maintenance of Industrial Projects Company - Saudi Arabia	100%	100%
- Rabiah Nasser and Zamil Concrete Industrial Co. Ltd - Saudi Arabia ("RANCO")- (see note (b) below)	50%	50%

1 ACTIVITIES (continued)

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

notes:

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

(b) On 1 October 2014, the Company lost its control over RANCO which was maintained through its designated managing director. Accordingly, RANCO had been deconsolidated effective the same date and has been presented as an associated company.

(c) On 14 April 2015, Universal Building System Limited - Jersey, a subsidiary, was dissolved. The subsidiary did not have any assets or liabilities on that date. Accordingly, there is no loss or profit recognised.

2 BASIS OF PREPARATION

These interim 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 interim consolidated financial statements are prepared on the basis of the individual interim financial statements of the Company and the interim financial statements of its subsidiaries. The interim financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. All intra-Group balances, income, expenses, unrealized gains and losses resulting from intra-Group transactions are eliminated in full.

Non-controlling interest represents the portion of profit or loss and net assets that are not held by the Group and are presented separately in the interim consolidated statement of income and within shareholders’ equity in the interim consolidated balance sheet, separately from shareholders' equity attributable to the Company.

3 SIGNIFICANT ACCOUNTING POLICIES

The accompanying interim consolidated financial statements have been prepared in accordance with the Standard on Review of Interim Financial Reporting issued by the Saudi Organization for Certified Public Accountants (SOCPA). The significant accounting policies adopted by the Group in preparing its interim consolidated financial statements, summarized below, are consistent with those used in the preparation of the last audited consolidated financial statements for the year ended 31 December 2014.

Accounting convention

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

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 revenue and expenses during the reporting period.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents
Cash and cash equivalents comprise cash on hand, bank balances and short-term, highly liquid investments that are readily convertible to know amounts of cash and 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 market value. Costs are those expenses incurred in bringing each product to its present location and condition and is calculated on the following basis:

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

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 interim 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 interim 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.

Prepaid financing costs
Prepaid financing costs represent the debt acquisition fees for the loan front end fees for Saudi Industrial Development Fund ("SIDF") which were paid in advance for obtaining the loans. These financing costs are deferred and amortized 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 unamortized balance is presented as a contra account with loans balances.

Net investment in finance lease
Leases where the Group transfers substantially all of the risks and benefits of ownership of the assets through its contractual agreement to the customer are considered as finance leases. The amounts due from the lessee are recorded in the interim consolidated balance sheet as financial assets and are carried at the amount of the net investment in the finance lease after making provision for impairment. Net investment in finance lease comprises gross amounts receivable under finance leases less unearned finance income.
Provision is made against net investment in finance lease, as soon as it is considered doubtful for recovery by the management. Bad debts are written off when incurred.

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Statutory reserve
As required by Saudi Arabian Regulations for Companies, the Company has transferred 10% of the 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.

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

Property, plant and equipment
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.

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

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

Deferred charges

Expenses which have a long term future benefit are treated as deferred charges and are amortized over the estimated period of benefit.

Business combinations
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 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.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations (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 interim statement of income.

Goodwill is tested for impairment at least annually, 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.

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.

Impairment and uncollectibility of financial assets
An assessment is made at each interim 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 interim 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 interim consolidated 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.

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.

Warranties

Amounts are accrued on an estimated basis to meet possible future costs under warranty commitments and are included under accounts payables, accruals and provisions in the interim consolidated balance sheet.

Zakat and income tax
Zakat is provided for the Company and for subsidiaries operate inside the Kingdom of Saudi Arabia in accordance with Saudi Arabian fiscal operation. Income tax is provided for in accordance with fiscal authorities in which the Group's subsidiaries operate outside the Kingdom of Saudi Arabia. Provision for zakat and income tax is charged to the interim 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 assessment is finanlized.

Revenue recognition
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.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

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 interim consolidated balance sheet date is classified as "value of construction work executed in excess of billings" under current assets in the interim consolidated balance sheet. Amounts billed in excess of work completed at the interim consolidated balance sheet date is classified as "billings in excess of value of construction work executed" under current liabilities in the interim 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. Contract revenue corresponds to the initial amount of revenue agreed in the contract and any variations in contract work, claims and incentive payments to the extent that it is probable that they will result in revenue, and they can be reliably measured.

Expenses

Selling and distribution expenses are those that specifically relate to salesmen, sales department, royalties, warranties, warehousing, delivery vehicles as well as allowance for doubtful debts. All other expenses than other financial charges are allocated on a consistent basis to cost of sales and general and administration expenses in accordance with allocation factors determined as appropriate by the Group.

Foreign currencies

Transactions

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

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

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

Translation

Financial statements of foreign operations are translated in to SR using the exchange rate at each interim 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.

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 period/year by the weighted average of number of shares outstanding during the period/year.

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

Operating lease
Rentals payable under operating leases are charged to the interim consolidated statement of income on a straight line basis over the term of the operating lease.

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.

4 SHARE CAPITAL

The authorised, issued and fully paid share capital of the Company is divided into 60,000,0000 shares (2014: 60,000,000 shares) of SR 10 each.

5 DIVIDENDS

On 20 Jumada' II 1436 H (corresponding to 9 April 2015), the Annual General Assembly approved the payment of final cash dividends of year 2014 of SR 1 per share (totaling to SR 60 Million). Dividends have been fully paid in the current period (31 December 2014: On 16 Jumada' II 1435 H (corresponding to 16 April 2014), the Annual General Assembly approved the payment of final cash dividends of year 2013 of SR 1 per share (totaling to SR 60 Million). Dividends have been fully paid during 2014).

On 4 Shawal 1436H (corresponding to 20 July 2015), the Board of Directors, resolved to distribute cash dividends for the first half of year 2015 of SR 1 per share (totaling to SR 60 Million). Dividends have been fully paid during the year (31 December 2014: On 24 Ramadan 1435H (corresponding to 21 July 2014), the Board of Directors, resolved to distribute the payment of cash dividends for the first half of year 2014 of SR 1 per share (totaling to SR 60 Million). Dividends have been fully paid during 2014).

On 10 Rabi' I 1437 H (corresponding to 21 December 2015), the Board of Directors, proposed cash dividends of year 2015 of SR 1 per share (totaling to SR 60 Million).

6 CONTINGENT LIABILITIES

The Group's bankers have issued performance and payments guarantees, on behalf of the Group, amounting to SR 1,160 million (2014: SR 1,123 million).

7 STATUS OF ZAKAT ASSESSMENTS

Zakat assessments have been agreed with the Department of Zakat and Income Tax ("the DZIT") up to 2012. The Zakat declarations for the years 2013 and 2014 are still under the DZIT's review.

8 SEGMENT INFORMATION

Consistent with the Group's internal process, business segments have been approved by the management in respect for its activities. The Group have the following segments:

A- Analysis of sales, income from main operations and net assets by activity:

	Sales *SR '000'*	*Income from main operations* *SR '000'*	*Net assets* *SR '000'*
For the year ended and as at 31 December 2015			
Air condition industry	**2,472,026**	**237,118**	**900,865**
Steel industry	**2,690,851**	**164,603**	**1,038,126**
Insulation	**321,386**	**27,348**	**128,320**
Head office	**7,181**	**(18,591)**	**(188,378)**
	5,491,444	**410,478**	**1,878,933**
For the year ended and as at 31 December 2014			
Air condition industry	2,463,798	219,612	761,828
Steel industry	2,535,521	194,580	983,613
Insulation	292,932	30,783	125,978
Concrete	155,412	(6,320)	-
Head office	7,756	(32,780)	(128,899)
	5,455,419	405,875	1,742,520

8 SEGMENT INFORMATION (continued)

B- Analysis of sales, income from main operations and net assets by geographical locations:

	Sales *SR '000'*	*Income from main operations* *SR '000'*
For the year ended and as at 31 December 2015		
Saudi Arabia		
Local sales	**3,958,218**	**336,111**
Export sales	**545,524**	**41,313**
Other Asian countries	**594,160**	**10,291**
Africa	**384,377**	**22,101**
Europe	**9,165**	**662**
	5,491,444	**410,478**
For the year ended and as at 31 December 2014		
Saudi Arabia		
Local sales	4,013,077	306,200
Export sales	515,939	43,295
Other Asian countries	581,746	24,892
Africa	334,430	31,402
Europe	10,227	86
	5,455,419	405,875

9 COMPARATIVE FIGURES

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