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

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

30 JUNE 2017

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the six-months period ended 30 June 2017

Table of contents

Building a better working world

Ernst & Young & Co. (Public Accountants)
4th Floor – Juffali Building
PO Box 3795
Al Khobar 31952
Saudi Arabia
Registration Number: 45

Tel: +966 13 849 9500
Fax: +966 13 882 7224

www.ey.com

Review report on the interim condensed consolidated financial statements to the shareholders of Zamil Industrial Investment Company (A Saudi Joint Stock Company)

Introduction:

We have reviewed the accompanying interim condensed consolidated statement of financial position of Zamil Industrial Investment Company ("the Company") and its subsidiaries (collectively referred to as "the Group") as at 30 June 2017, and the related interim condensed consolidated statements of income and comprehensive income, for the three-months and six-months periods ended 30 June 2017, and the related interim condensed consolidated statements of changes in equity and cash flows for the six-months period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34") endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review:

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" endorsed in the Kingdom of Saudi Arabia. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion:

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 endorsed in the Kingdom of Saudi Arabia.

for Ernst & Young

Abdulaziz Saud Alshubaibi
Certified Public Accountant
Registration No. 339

9 Dhu-al-Qa'dah 1438 H
1 August 2017

Alkhobar

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME

For the three-months and six-months periods ended 30 June 2017

	Notes	*For the three-months period ended 30 June*		*For the six-months period ended 30 June*	
		2017	*2016*	***2017***	*2016*
		SR'000	*SR'000*	***SR'000***	*SR'000*
		(Unaudited)	*(Unaudited)*	***(Unaudited)***	*(Unaudited)*
REVENUES					
Sales		**875,966**	1,173,815	**1,645,605**	2,214,355
Contracts revenue		**245,234**	230,066	**469,249**	408,202
Finance lease income		**4,231**	4,445	**8,516**	8,942
		1,125,431	1,408,326	**2,123,370**	2,631,499
DIRECT COSTS					
Cost of sales		**(664,853)**	(914,026)	**(1,245,298)**	(1,717,590)
Contracts cost		**(193,161)**	(185,386)	**(378,958)**	(334,668)
		(858,014)	(1,099,412)	**(1,624,256)**	(2,052,258)
GROSS PROFIT		**267,417**	308,914	**499,114**	579,241
EXPENSES					
Selling and distribution		**(104,181)**	(96,252)	**(176,756)**	(185,097)
General and administration		**(98,070)**	(113,132)	**(192,885)**	(215,952)
OPERATING INCOME		**65,166**	99,530	**129,473**	178,192
Share in results of associates and a joint venture		**454**	(77)	**1,458**	2,083
Other income, net		**1,478**	2,168	**12,310**	7,798
Financial charges		**(21,631)**	(22,339)	**(44,609)**	(42,248)
INCOME BEFORE ZAKAT AND INCOME TAX		**45,467**	79,282	**98,632**	145,825
Zakat and income tax	5	**(6,323)**	(22,376)	**(11,580)**	(30,839)
NET INCOME FOR THE PERIOD		**39,144**	56,906	**87,052**	114,986
ATTRIBUTABLE TO:					
Shareholders' of the parent company		**36,453**	51,220	**78,230**	104,117
Non-controlling interests		**2,691**	5,686	**8,822**	10,869
		39,144	56,906	**87,052**	114,986
EARNINGS PER SHARE:					
Basic and diluted, earnings per share attributable to the shareholders' the parent company	9	**0.61**	0.85	**1.30**	1.74

The attached notes 1 to 15 form part of these interim condensed consolidated financial statements.

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three-months and six-months periods ended 30 June 2017

	For the three-months period ended 30 June		*For the six-months period ended 30 June*	
	2017	*2016*	***2017***	*2016*
	SR'000	*SR'000*	***SR'000***	*SR'000*
	(Unaudited)	*(Unaudited)*	***(Unaudited)***	*(Unaudited)*
Net income for the period	**39,144**	56,906	**87,052**	114,986
Other comprehensive income				
Other comprehensive income to be reclassified to income in subsequent periods:				
Exchange differences on translation of foreign operations	**626**	(1,262)	**3,853**	(6,392)
Unrealised gain on available for sale investments	**158**	-	**2,158**	-
Other comprehensive income for the period	**784**	(1,262)	**6,011**	(6,392)
TOTAL COMPREHENSIVE INCOME	**39,928**	55,644	**93,063**	108,594
ATTRIBUTABLE TO:				
Shareholders' of the parent company	**37,237**	49,958	**84,241**	97,725
Non-controlling interests	**2,691**	5,686	**8,822**	10,869
	39,928	55,644	**93,063**	108,594

The attached notes 1 to 15 form part of these interim condensed consolidated financial statements.

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

	Notes	*30 June 2017 SR'000 (Unaudited)*	*31 December 2016 SR'000 (Note 14)*
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment		**1,135,990**	1,145,168
Other intangible assets		**5,605**	6,016
Investments in associates and a joint venture		**82,324**	79,314
Available for sale investments		**90,504**	88,346
Net investments in finance lease		**374,229**	384,945
Goodwill		**21,126**	21,126
Deferred tax assets		**5,030**	4,957
TOTAL NON-CURRENT ASSETS		**1,714,808**	1,729,872
CURRENT ASSETS			
Inventories		**1,375,255**	1,452,760
Accounts receivable		**1,950,343**	1,861,268
Advances, other receivables and prepayments		**261,544**	223,685
Value of work executed in excess of billings		**338,766**	262,266
Current portion of net investment in finance lease		**21,209**	20,765
Cash and cash equivalents		**183,614**	272,393
TOTAL CURRENT ASSETS		**4,130,731**	4,093,137
TOTAL ASSETS		**5,845,539**	5,823,009
EQUITY AND LIABILITIES			
EQUITY			
Share capital	6	**600,000**	600,000
Statutory reserve	7	**180,000**	300,000
Retained earnings		**943,515**	745,285
Foreign currency translation reserve		**(20,873)**	(24,726)
Available-for-sale reserve		**2,158**	-
Proposed dividends	8	**-**	60,000
EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT COMPANY		**1,704,800**	1,680,559
NON-CONTROLLING INTERESTS		**230,780**	225,467
TOTAL EQUITY		**1,935,580**	1,906,026
NON-CURRENT LIABILITIES			
Term loans		**146,682**	195,246
Employees' defined benefit liabilities		**321,062**	329,056
TOTAL NON-CURRENT LIABILITIES		**467,744**	524,302
CURRENT LIABILITIES			
Accounts payable		**431,238**	364,759
Accruals and provisions		**434,462**	478,505
Short term loans		**2,160,836**	2,059,749
Current portion of term loans		**128,299**	141,088
Billings in excess of value of work executed		**36,944**	58,288
Advances from customers		**202,307**	234,871
Zakat and income tax provision	5	**48,129**	55,421
TOTAL CURRENT LIABILITIES		**3,442,215**	3,392,681
TOTAL LIABILITIES		**3,909,959**	3,916,983
TOTAL EQUITY AND LIABILITIES		**5,845,539**	5,823,009

The attached notes 1 to 15 form part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six-months period ended 30 June 2017

	Attributed to shareholders of the parent company								
	Share capital	*Statutory reserve*	*Retained earnings*	*Foreign currency translation reserve*	*Available-for-sale reserve*	*Proposed dividends*	*Total*	*Non-controlling interests*	*Total equity*
	SR '000	*SR '000*	*SR '000*	*SR '000*	*SR '000*	*SR '000*	*SR '000*	*SR '000*	*SR '000*
Balance at 1 January 2017	600,000	300,000	745,285	(24,726)	-	60,000	1,680,559	225,467	1,906,026
Net income for the period	-	-	78,230	-	-	-	78,230	8,822	87,052
Other comprehensive income	-	-	-	3,853	2,158	-	6,011	-	6,011
Total comprehensive income	-	-	78,230	3,853	2,158	-	84,241	8,822	93,063
Transfer *(Note 7)*	-	(120,000)	120,000	-	-	-	-	-	-
Dividends *(Note 8)*	-	-	-	-	-	(60,000)	(60,000)	-	(60,000)
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	(3,509)	(3,509)
Balance at 30 June 2017 (*Unaudited*)	**600,000**	**180,000**	**943,515**	**(20,873)**	**2,158**	**-**	**1,704,800**	**230,780**	**1,935,580**
Balance at 1 January 2016	600,000	280,471	736,766	-	-	60,000	1,677,237	236,271	1,913,508
Net income for the period	-	-	104,117	-	-	-	104,117	10,869	114,986
Other comprehensive income	-	-	-	(6,392)	-	-	(6,392)	-	(6,392)
Total comprehensive income	-	-	104,117	(6,392)	-	-	97,725	10,869	108,594
Dividends	-	-	-	-	-	(60,000)	(60,000)	-	(60,000)
Balance at 30 June 2016 (*Unaudited*)	**600,000**	**280,471**	**840,883**	**(6,392)**	**-**	**-**	**1,714,962**	**247,140**	**1,962,102**

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six-months period ended 30 June 2017

	For the six-months period ended 30 June	
	2017	*2016*
	SR'000	*SR'000*
	(Unaudited)	*(Unaudited)*
OPERATING ACTIVITIES		
Income before zakat and tax	**98,632**	145,825
Adjustments to reconcile income before zakat and income tax to net cash flows:		
Depreciation	**68,876**	73,310
Amortization of other intangible assets	**411**	713
Employees' defined benefit liabilities	**(7,994)**	1,783
Financial charges	**44,609**	42,248
Losses (gains) on disposal of property, plant and equipment	**57**	(747)
Share in results of associates and a joint venture	**(1,458)**	(2,083)
	203,133	261,049
Working capital adjustments:		
Inventories	**77,505**	176,602
Accounts receivable	**(89,075)**	(387,048)
Advances, other receivables and prepayments	**(37,859)**	(12,466)
Value of work executed in excess of billings	**(76,500)**	49,819
Net investment in finance lease	**10,272**	9,846
Accounts payable	**66,479**	(94,682)
Accruals and provisions	**(44,043)**	3,371
Billings in excess of value of work executed	**(21,344)**	(11,379)
Advances from customers	**(32,564)**	(51,977)
Cash from (used in) operations	**56,004**	(56,865)
Financial charges paid	**(44,609)**	(42,248)
Zakat and income tax paid	**(18,901)**	(24,028)
Net cash used in operating activities	**(7,506)**	(123,141)
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(55,317)**	(80,697)
Proceeds from disposal of property, plant and equipment	**384**	2,684
Additions to other intangible assets	**-**	(3,338)
Net cash used in investing activities	**(54,933)**	(81,351)
FINANCING ACTIVITIES		
Net movement in short term loans	**101,087**	230,245
Net movement in term loans	**(61,353)**	(47,092)
Dividends paid	**(60,000)**	(60,000)
Dividends paid to non-controlling interests	**(3,509)**	-
Net cash (used in) from financing activities	**(23,775)**	123,153
DECREASE IN CASH AND CASH EQUIVALENTS	**(86,214)**	(81,339)
Cash and cash equivalents at the beginning of the period	**272,393**	352,812
Movement in foreign currency translation reserve, net	**(2,565)**	(414)
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**183,614**	271,059
NON-CASH TRANSACTIONS:		
Exchange differences on investment in associates	**1,552**	-
Unrealised gain on available for sale investments	**2,158**	-
Exchange differences on property, plant and equipment	**4,822**	(5,105)
Exchange differences on deferred tax assets	**44**	(873)

The attached notes 1 to 15 form part of these interim condensed consolidated financial statements.

1 CORPORATE INFORMATION

Zamil Industrial Investment Company ("the Company") was converted to a Saudi Joint Stock Company in accordance with the Ministerial Resolution number 407 dated 14 Rabi' I 1419 H (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 1396 H (corresponding to 14 September 1976) with the following branches in the Kingdom of Saudi Arabia:

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

The Company has investment in the following subsidiaries:

	Effective ownership percentage	
	30 June 2017	*31 December 2016*
Zamil Steel Holding Company - Saudi Arabia	**100%**	100%
- Zamil Steel Pre-Engineered Buildings Factory Company - Saudi Arabia	**100%**	100%
- Zamil Structural Steel Factory Company - Saudi Arabia	**100%**	100%
- Zamil Tower and Galvanizing Factory Company - Saudi Arabia	**100%**	100%
- Zamil Process Equipment Factory Company - Saudi Arabia	**100%**	100%
- Buildings Components Factory Company - Saudi Arabia	**100%**	100%
- Al Zamil Steel Construction Company - Saudi Arabia	**100%**	100%
- Al Zamil for Inspection and Maintenance of Industrial Projects Company - Saudi Arabia	**100%**	100%
Zamil Air Conditioners Holding 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 and Refrigeration Services - Saudi Arabia	**100%**	100%
- Ikhtebar Company Limited - Saudi Arabia	**100%**	100%
- Eastern District Cooling Company Limited - Saudi Arabia	**100%**	100%
- Zamil Energy Services Company ("ZESCO") - Saudi Arabia	**100%**	100%
Zamil Steel Building Company - Egypt	**100%**	100%
Zamil Steel Buildings (Shanghai) Company Limited - China	**100%**	100%
Cooling Europe Holdings GmbH - Austria	**100%**	100%
Clima Tech air conditioners GmbH - Austria	**100%**	100%
Zamil Steel Buildings India Private Limited - India	**100%**	100%
Zamil Steel Engineering India Private Limited - India	**100%**	100%
Arabian Stonewool Insulation Company - Saudi Arabia	**100%**	100%
Zamil Industrial Investment Company - UAE	**100%**	100%
Zamil Steel Industries Abu Dhabi (LLC) - UAE	**100%**	100%
Zamil Steel Buildings (Thailand) Company Limited - Thailand	**100%**	100%
Zamil Structural Steel Company - Egypt	**100%**	100%
Zamil Construction India (Pvt.) Limited - India	**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%
Zamil Air Conditioners India Private Limited ("ZAC") - India	**100%**	100%
Saudi Central Energy Company Limited	**100%**	100%
Zamil Industrial Investment Company Asia Pte. Limited - Singapore	**100%**	100%
Zamil Steel Buildings Vietnam Company Limited	**92.27%**	92.27%
Gulf Insulation Group ("GIG")	**51%**	51%
Saudi Preinsulated Pipes Industries Company Limited ("SPPI")	**51%**	51%

1 CORPORATE INFORMATION (continued)

	Effective Ownership Percentage	
	30 June 2017	*31 December 2016*
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.

The interim condensed consolidated financial statements of the Group as of 30 June 2017 were authorised for issuance in accordance with the Board of Directors resolution on 1 August 2017 (corresponding to 9 Dhu-al-Qa'dah 1438H).

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard, "Interim Financial Reporting" ("IAS 34") as endorsed in Kingdom of Saudi Arabia (KSA). These are also the Group's first interim condensed consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") for part of the period covered by the first annual financial statements prepared in accordance with IFRS as endorsed in Kingdom of Saudi Arabia, and accordingly International Financial Reporting Standard, "First-time Adoption of International Financial Reporting Standards" ("IFRS 1") as endorsed in KSA has been applied. Refer to Note 14 for information on the first time adoption of IFRS as endorsed in KSA, by the Group.

The interim condensed consolidated financial statements do not include all the information and disclosures required in annual financial statements to be prepared in accordance with IFRS as endorsed in KSA and other standards and pronouncements that are issued by the SOCPA, which would be produced for the year ending 31 December 2017.

The interim condensed consolidated financial statements have been prepared on a historical cost basis, except for available-for-sale investments that have been measured at fair value. The interim condensed consolidated financial statements are presented in SAR and all values are rounded to the nearest thousand (SAR 000), except when otherwise indicated.

Basis of consolidation

The interim condensed consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 30 June 2017. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the interim condensed consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)
Income and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in interim condensed consolidated statement of income. Any investment retained is recognised at fair value.

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 condensed consolidated statement of financial position and within shareholders' equity in the interim condensed consolidated statement of financial position, separately from the equity attributable to the shareholders of the Company.

Property, plant and equipment /depreciation
Property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Group depreciates them separately based on their specific useful lives. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in interim condensed consolidated statement of income as incurred. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, as follows:

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

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the interim condensed consolidated statement of income when the asset is derecognised. The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

Intangible assets /amortisation
Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in interim condensed consolidated statement of income in the period in which the expenditure is incurred. The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the interim condensed consolidated statement of income in the expense category that is consistent with the function of the intangible assets.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets /amortisation (continued)

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Costs which have a long term future benefit are treated as other intangible assets and are amortized over the estimated period of benefit.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the interim condensed consolidated statement of income when the asset is derecognised.

Investments in associates and a joint venture

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries. The Group’s investments in its associate and joint venture are accounted for using the equity method. Under the equity method, the investment in an associate or a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group’s share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is not tested for impairment separately.

The interim condensed consolidated statement of income reflects the Group’s share of the results of operations of the associate or joint venture. Any change in OCI of those investees is presented as part of the Group’s OCI. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture. The aggregate of the Group’s share of profit or loss of an associate and a joint venture is shown on the face of the interim condensed consolidated statement of income outside operating profit and represents profit or loss after tax and noncontrolling interests in the subsidiaries of the associate or joint venture. The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, and then recognises the loss as ‘Share of profit of an associate and a joint venture’ in the interim condensed consolidated statement of income. Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in the interim condensed consolidated statement of income.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through income statement, loans and receivables, or AFS financial assets, as appropriate. All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through income statement, transaction costs that are attributable to the acquisition of the financial asset.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification, as described below:

Financial assets at fair value through income statement

Financial assets at fair value through income statement include financial assets held for trading and financial assets designated upon initial recognition at fair value through income statement. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39. For investments to be designated as at FVPL, the following criteria must be met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on a different basis; or
- The assets and liabilities are part of a group of financial assets, financial liabilities, or both, which are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

Subsequent to initial recognition, they are remeasured at fair value. Changes in fair value are recorded in ‘Fair value gains and losses’. Finance income is accrued and presented in ‘Investment income’, using the effective interest rate (EIR). Dividend income is recorded in ‘Investment income’ when the right to the payment has been established.

Loans and receivables

This category is the most relevant to the Group. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the EIR method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the interim condensed consolidated statement of income. The losses arising from impairment are recognised in the interim condensed consolidated statement of income in finance costs for loans and in cost of sales or other operating expenses for receivables. This category generally applies to trade and other receivables and net investment in finance lease.

Available for sale (AFS) financial assets

AFS financial assets include equity investments and debt securities. Equity investments classified as AFS are those that are neither classified as held for trading nor designated at fair value through income statement. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial measurement, AFS financial assets are subsequently measured at fair value with unrealised gains or losses recognised in OCI and credited to the AFS reserve until the investment is derecognised, at which time, the cumulative gain or loss is recognised in statement of income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the AFS reserve to the interim condensed consolidated statement of income. Finance income earned whilst holding AFS financial assets is reported as finance income using the EIR method.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Available for sale (AFS) financial assets (continued)

The Group evaluates whether the ability and intention to sell its AFS financial assets in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the AFS category, the fair value at the date of reclassification becomes its new amortised cost and any previous gain or loss on the asset that has been recognised in equity is amortised to income statement over the remaining life of the investment using the EIR. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the interim condensed consolidated statement of income.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's interim condensed consolidated statement of financial position) when:

The rights to receive cash flows from the asset have expired or the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a passthrough arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost (continued)

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the interim condensed consolidated statement of income. Finance income (recorded as finance income in the interim condensed consolidated statement of income) continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans, together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the interim condensed consolidated statement of income.

AFS financial assets

For AFS financial assets, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as AFS, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. ‘Significant’ is evaluated against the original cost of the investment and ‘prolonged’ against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the interim condensed consolidated statement of income – is removed from OCI and recognised in the interim condensed consolidated statement of income. Impairment losses on equity investments are not reversed through income statement; increases in their fair value after impairment are recognised in OCI.

The determination of what is ‘significant’ or ‘prolonged’ requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

In the case of debt instruments classified as AFS, the impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the interim condensed consolidated statement of income.

Future finance income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the interim condensed consolidated statement of income, the impairment loss is reversed through the interim condensed consolidated statement of income.

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, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree’s identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

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. This includes the separation of embedded derivatives in host contracts by the acquiree.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combination and goodwill (continued)
Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with the changes in fair value recognised in the interim condensed consolidated statement of income.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in interim condensed 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 that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation 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 consolidated statement of income.

Impairment of non-financial assets
The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset’s recoverable amount. An asset’s recoverable amount is the higher of an asset’s or CGU’s fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group’s CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations are recognised in the interim condensed consolidated statement of income in expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset’s or CGU’s recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset’s recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the interim condensed consolidated statement of income.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)
Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill at each reporting date.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Inventories
Inventories are stated at the lower of cost and net realizable value. Costs are those expenses incurred in bringing each product to its present location and condition and is calculated on the following basis:

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

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

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.

Statutory reserve
As required by Saudi Arabian Regulations for Companies, the Company must transfer 10% of its income to the statutory reserve. The Company may resolve to discontinue such transfers when the reserve totals 50% of the share capital (reduced to 30% in accordance with new Saudi Arabian Regulations for Companies effective 29 April 2016). The reserve is not available for distribution.

Financial liabilities
Initial recognition and measurement
Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through income statement, loans and borrowings or payables as appropriate. All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. The Group’s financial liabilities include trade and other payables, loans and borrowings including bank overdrafts.

Subsequent measurement
The measurement of financial liabilities depends on their classification, as described below:

Loans and borrowings
This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in income statement when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the interim condensed consolidated statement of income. This category generally applies to interest-bearing loans and borrowings.

Derecognition
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the interim condensed consolidated statement of income.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Offsetting of financial instruments
Financial assets and financial liabilities are offset and the net amount is reported in the interim condensed consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Employees' defined benefit liabilities
The Group operates a non-funded employee end-of-service benefit plan, which is classified as defined benefit obligation under IAS 19 'Employee Benefits'. A defined benefit plan is a plan which is not a defined contribution plan. The liability recognized in the interim condensed consolidated statement of financial position for a defined benefit plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets at that date. The defined benefit obligation is calculated by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting estimated future cash outflows using market yields at the end of the reporting period of high quality corporate bonds that have terms to maturity approximating to the estimated term of the postemployment benefit obligations. Actuarial gains and losses arising from changes in actuarial assumptions and experience adjustments are recognized in equity through other comprehensive income in the period in which they arise.

Provisions
Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the interim condensed consolidated statement of income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Contingencies
Contingent liabilities are not recognized in the interim condensed consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Liabilities which are probable, they are recorded in the interim condensed consolidated statement of financial position under accounts payable and accruals. A contingent asset is not recognized in the interim condensed consolidated financial statements but disclosed when an inflow of economic benefits is probable.

Zakat and income tax
Zakat and income tax
Zakat is provided for the Company and for subsidiaries operate inside the Kingdom of Saudi Arabia in accordance with Regulations of the General Authority of Zakat and Tax (GAZT) prevailing in the Kingdom of Saudi Arabia. Income tax is provided for in accordance with fiscal authorities in which the Company’s subsidiaries operate outside the Kingdom of Saudi Arabia. Provision for zakat and income tax is charged to the interim condensed consolidated statement of income.

Deferred tax
Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Revenue recognition
Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is received. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group has concluded that it is the principal in all of its revenue arrangements since it is the primary obligor in all the revenue arrangements, has pricing latitude, and is also exposed to inventory and credit risks. The specific recognition criteria described below must also be met before revenue is recognised.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Sale of goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods. Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. The Group provides normal warranty provisions for general repairs for one to five years on its certain products, in line with industry practice. A liability for potential warranty claims is recognised at the time the product is sold. The Group does not provide any extended warranties or maintenance contracts to its customers.

Rendering of services

Revenue from the rendering of services comprising of mainly maintenance and engineering services is recognised when such contracted services have been performed. When the contract outcome cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

Contract revenue

Revenue associated with the long term contracts is recognised by reference to the percentage of completion method of each contract activity when:

(i) the total contract revenue can be measured reliably;
(ii) it is probable that the economic benefits associated with the contract will flow to the Group;
(iii) the costs to complete the contract and the stage of completion at the balance sheet date can be measured reliably; and
(iv) the contract costs attributable to the contract can be clearly identified and measured reliably so that actual contract costs incurred can be compared with prior estimates.

When the outcome of a contract cannot be estimated reliably (principally during early stages of a contract), contract revenue is recognised only to the extent of costs incurred that are expected to be recoverable.

In applying the percentage of completion method, revenue recognised corresponds to the total contract revenue multiplied by the actual completion rate based on the proportion of total contract costs incurred to date and the estimated cost to complete.

When the stage of completion is determined by reference to the contract costs incurred up to the reporting date, only those contract costs that reflect work performed are included in costs incurred up to the reporting date. The following costs are excluded from contract costs:

(i) Contract costs that relate to future activity on the contract, such as costs of materials that have been delivered to a contract site or set aside for use in a contract but not yet installed, used or applied during contract performance, unless the materials have been made especially for the contract.

(ii) Payments made to subcontractors in advance of work performed under the subcontract.

When an uncertainty arises about the collectability of an amount already included in contract revenue, and already recognised in the consolidated statement of income, the uncollectable amount or the amount in respect of which recovery has ceased to be probable is recognised as an expense rather than as an adjustment of the amount of contract revenue.

Revenue from change orders is recognised when:

(i) It is expected with reasonable assurance that customer will approve the change orders; and
(ii) The amount of change orders can be measured reliably.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. The amount of such a loss is determined irrespective of:

(i) Whether or not work has commenced on the contract.
(ii) The stage of completion of contract activity.
(iii) The amount of profits expected to arise on other contracts which are not treated as a single construction contract.

Change in the estimate of contract revenue or contract costs, or the effect of a change in the estimate of the outcome of a contract, is accounted for as a change in accounting estimate and accordingly accounted for prospectively.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Contract revenue (continued)

The value of work completed but not billed at the date of interim condensed consolidated statement of financial position is classified as "value of work executed in excess of billings" under current assets in the interim condensed consolidated statement of financial position. Amounts billed in excess of work completed at the interim condensed consolidated statement of financial position date is classified as "billings in excess of value of work executed" under current liabilities in the interim condensed consolidated statement of financial position.

Finance income

Finance income, including income arising from finance leases and other financial instruments, is recognised using the effective interest method.

Expenses

Expenses are recognised when incurred based on the accrual basis of accounting. 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.

Operating leases

Leases in which substantially all the risks and benefits of ownership of the asset are not transferred to the Group are classified as operating leases. Operating lease payments are recognised as an operating expense in the interim condensed consolidated statement of income on a straight-line basis over the lease term.

Foreign currencies

The Group’s interim condensed consolidated financial statements are presented in Saudi Riyal, which is also the parent company’s functional currency. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that 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 interim condensed consolidated statement of income reflects the amount that arises from using this method.

Transaction and balances

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 reporting date.

All differences arising on settlement or translation of monetary items are taken to the statement of income with the exception of differences on foreign monetary items that form part of a net investment in a foreign operation. These are recognised in OCI until the disposal of the net investment, at which time they are reclassified to interim condensed consolidated statement of income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently restated. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of a gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in OCI or interim condensed consolidated statement of income, respectively).

Group companies

On consolidation, the assets and liabilities of foreign operations are translated into Saudi Riyal at the rate of exchange prevailing at the reporting date and their statements of income are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in OCI. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is reclassified to interim condensed consolidated statement of income.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Current versus non-current classification
The Group presents assets and liabilities in the interim condensed consolidated statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

Fair value measurement
The Group measures financial instruments such as available for sale investments at fair value at each interim condensed statement of financial position date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the interim condensed consolidated financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)
For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above. 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.

3 SIGNIFICANT ACCOUNTING ESTIMATES, JUDGEMENTS AND ASSUMPTIONS

The preparation of the Group's interim condensed consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of asset or liability affected in future periods.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation, uncertainty, and critical judgments in applying accounting policies (that have the most significant effect on the amount recognized in the interim condensed consolidated financial statements) includes:

Impairment of non-financial assets
An impairment exists when the carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a DCF model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

Valuation of defined benefit obligations
The cost of the defined benefit pension plan and other post-employment benefits and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases and other assumptions. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

Impairment of trade receivables
An estimate of the collectible amount of trade receivables is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and a provision applied according to the length of time past due.

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

Useful lives of property, plant and equipment (continued)
During the period, the management performed a comprehensive exercise to identify significant component parts of an item of property, plant and equipment for depreciating these parts separately. Accordingly, the management also reassessed the estimated useful life of such significant parts of property, plant and equipment. Such change is considered as a change in accounting estimate and has been accounted for prospectively starting from 1 January 2017.

4 STANDARDS ISSUED BUT NOT YET EFFECTIVE

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for the financial instruments project: classification and measurement; impairment; and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Group plans to adopt the new standard on the required effective date.

Classification and measurement

The Group does not expect a significant impact on its balance sheet or equity on applying the classification and measurement requirements of IFRS 9.

The equity shares in non-listed companies are intended to be held for the foreseeable future. The Group expects to apply the option to present fair value changes in OCI, and, therefore, believes the application of IFRS 9 would not have a significant impact. If the Group were not to apply that option, the shares would be held at fair value through profit or loss, which would increase the volatility of recorded profit or loss.

Loans as well as trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. Thus, the Group expects that these will continue to be measured at amortised cost under IFRS 9. However, the Group will analyse the contractual cash flow characteristics of those instruments in more detail before concluding whether all those instruments meet the criteria for amortised cost measurement under IFRS 9.

Impairment

IFRS 9 requires the Group to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Group will perform a detailed analysis which considers all reasonable and supportable information, including forward-looking elements to determine the extent of the impact.

Hedge accounting

The Group does not have hedge relationships, accordingly, the Group does not expect any impact as a result of applying IFRS 9.

IFRS 15 Revenue from contracts with customers

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018, when the IASB finalizes their amendments to defer the effective date of IFRS 15 by one year. Early adoption is permitted. The Group plans to adopt the new standard on the required effective date. During 2016, the Group performed a preliminary assessment of IFRS 15, which is subject to changes arising from a more detailed ongoing analysis. Furthermore, the Group is considering the clarifications issued by the IASB in April 2016 and will monitor any further developments.

Sale of goods

Contracts with customers in which the sale of goods is generally expected to be the only performance obligation are not expected to have any impact on the Group's profit or loss. The Group expects the revenue recognition to occur at a point in time when control of the asset is transferred to the customer, generally on delivery of the goods. In preparing for IFRS 15, the Group is considering the following:

4 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

IFRS 15 Revenue from contracts with customers (continued)
Sale of goods (continued)

(i) Variable consideration
Some contracts with customers provide a right of return, trade discounts or volume rebates. Currently, the Group recognises revenue from the sale of goods measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. If revenue cannot be reliably measured, the Group defers revenue recognition until the uncertainty is resolved. Such provisions give rise to variable consideration under IFRS 15, and will be required to be estimated at contract inception.

IFRS 15 requires the estimated variable consideration to be constrained to prevent over-recognition of revenue. The Group continues to assess individual contracts to determine the estimated variable consideration and related constraint.

(ii) Warranty obligations
The Group provides warranties for its certain products mainly in its air conditioners segment and does not provide extended warranties or maintenance services in its contracts with customers. As such, the Group expects that such warranties will be assurance-type warranties which will continue to be accounted for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets consistent with its current practice.

Rendering of services
The Group provides engineering and maintenance services within its steel segment. These services are sold either on their own in contracts with the customers or bundled together with the sale of goods to a customer. Currently, the Group accounts for the sale of goods and service as separate deliverables of bundled sales and usually consideration between these deliverables is separately agreed as part of sale contract with the customer. The Group recognises service revenue when services fully rendered. Under IFRS 15, for contracts with single price both for sale of goods and rendering of services allocation will be made based on relative stand-alone selling prices. As a result, the allocation of the consideration and, consequently, the timing of the amount of revenue recognised in relation to these sales may be impacted. The Group has preliminarily assessed that the services are satisfied over time given that the customer simultaneously receives and consumes the benefits provided by the Group. Accordingly, the Group does not expect any significant impact on the application of these amendments.

Equipment received from customers
When an entity receives, or expects to receive, non-cash consideration, IFRS 15 requires that the fair value of the non-cash consideration is included in the transaction price. The Group do not have any such arrangements and accordingly these amendments are not expected to have any impact on the Group.

Presentation and disclosure requirements
IFRS 15 provides presentation and disclosure requirements, which are more detailed than under current IFRS. The presentation requirements represent a significant change from current practice and significantly increases the volume of disclosures required in Group's financial statements. Many of the disclosure requirements in IFRS 15 are completely new. The Group has started preliminary assessment for amendments required to systems, internal controls, policies and procedures necessary to collect and disclose the required information.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. The Group will apply these amendments when they become effective.

4 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17. IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. During the year, the Group plans to assess the potential effect of IFRS 16 on its consolidated financial statements.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration.

Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognised on or after:

(i) The beginning of the reporting period in which the entity first applies the interpretation; or

(i) The beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

The IFRIC is effective for annual periods beginning on or after 1 January 2018. Early application of interpretation is permitted and must be disclosed. First-time adopters of IFRS are also permitted to apply the interpretation prospectively to all assets, expenses and income initially recognised on or after the date of transition to IFRS.

The amendments are intended to eliminate diversity in practice, when recognising the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration received or paid in foreign currency. The Group is assessing the potential effect of the amendments on its consolidated financial statements.

IFRS 1 First-time Adoption of International Financial Reporting Standards

Deletion of short-term exemptions for first-time adopters - Short-term exemptions in paragraphs E3–E7 of IFRS 1 were deleted because they have now served their intended purpose. The amendment is effective from 1 January 2018.

4 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

IAS 28 Investments in Associates and Joint Ventures
Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice. The amendments clarifies that:

- An entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss.
- If an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

The amendments should be applied retrospectively and are effective from 1 January 2018, with earlier application permitted. If an entity applies those amendments for an earlier period, it must disclose that fact.

5 ZAKAT AND INCOME TAX

a) Zakat
The provision for the period 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 (2016: same).

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, 2015 and 2016 have been filed with the GAZT. However, the assessments have not yet been raised by the GAZT. The Zakat and income tax regulations in Saudi Arabia are subject to different interpretations and the assessments to be raised by the GAZT could be different from the declarations filed by the Company.

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

c) Deferred tax assets
During the period, the Group has booked an amount of SR 29 thousands as deferred tax benefit (30 June 2016: deferred tax assets of SR 16,177 thousands have been written off).

6 SHARE CAPITAL

The authorised, issued and fully paid share capital of the Company is divided into 60 million shares (31 December 2016: 60 million shares) of SR 10 each.

7 STATUTORY RESERVE

In accordance with new Saudi Arabian Regulations for Companies effective from 29 April 2016 and amended by laws of the parent company, the statutory reserve limit have been reduced from 50% to 30% of the share capital. Accordingly, the shareholders in their Annual General Assembly held on 4 May 2017 (corresponding to 8 Sha'ban 1438H) resolved to transfer back the excess amount of SAR 120 million from statutory reserve to retained earnings.

8 DIVIDENDS

On 19 January 2017 (corresponding to 21 Rabi' II 1438H), 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. On 4 May 2017 (corresponding to 8 Sha'ban 1438H), the Annual General Assembly approved the payment of the proposed dividend for the year 2016. Dividends have been fully paid in the current period.

9 EARNINGS PER SHARE

Basic and diluted earnings per share is calculated by dividing the net income for the period attributable to the shareholders of the parent company by the weighted average number of outstanding shares during the period as follows:

	Three-months period ended 30 June (Unaudited)		*Six-months period ended 30 June (Unaudited)*	
	2017	*2016*	***2017***	*2016*
Net income for the period attributable to the shareholders of the parent company (SR '000)	**36,453**	51,220	**78,230**	104,117
Weighted average number of outstanding shares during the period (share '000)	**60,000**	60,000	**60,000**	60,000
Basic and diluted earnings per share attributable to the shareholders of the parent company	**0.61**	0.85	**1.30**	1.74

10 CONTINGENT LIABILITIES

The Group's bankers have issued performance and payments guarantees, on behalf of the Group, amounting to SR 1,002 million (31 December 2016: SR 1,050 million).

11 RELATED PARTY 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.

Amounts due from related parties at 30 June 2017 amounting to SR 93,220 thousands (31 December 2016: SR 80,116 thousands) have been included in the accounts receivable in interim condensed consolidated statement of financial position. Amounts due to related parties at 30 June 2017 amounting to SR 21,496 thousands (31 December 2016: SR 20,059 thousands) have been included in the accounts payable in interim condensed consolidated statement of financial position. Transactions with related parties' included in the interim condensed consolidated statement of income are as follows:

Relationship and name of related party	*Nature of transactions*	***Six-months period ended 30 June (Unaudited)***	
		2017 SR '000	*2016 SR '000*
Entity with significant influence over the Group			
Zamil Group Holding Company	Sales	**1,322**	1,508
	Purchases	**325**	110
Joint venture			
Middle East Air Conditioners	Sales	**6,517**	9,025
Other related parties	Sales	**48,002**	5,548
	Purchases	**24,310**	34,292

The compensation to the key management personnel during the period amounted to SR 5,851 thousands (30 June 2016: SR 6,218 thousands).

Pricing policies and terms of payments of transactions with related parties are approved by the Group's management. Outstanding balances at the period-end are unsecured, interest free and settled in cash.

12 SEGMENTAL INFORMATION

For management purposes, the Group is organised into business units based on its products and services and has three reportable segments, as follows:

- The air conditioners industry, which is engaged in production of window, split and central air conditioners, electrical and gas ovens, automatic dryers, microwave ovens, air-conditioning ducts/channels, household refrigerators, automatic washing machines and installation, maintenance, operation and leasing of air conditioning and refrigeration systems.
- The steel industry, which is engaged in construction, managing and operating industrial projects, constructing, managing and operating airports and warehouses, constructing and providing fire protection services for building and structures, building, repairing and maintaining the communication towers, business of steel sheets works, heavy equipment and its spare parts, storage tanks, installation containers and pumps and implementation of electric works.
- The insulation industry, which is engaged in production of complete line of insulation products including fiberglass for using in thermal insulation of central air conditioners, pre-insulated pipes, glass wool, rock wool and engineering plastic foam insulations.
- Corporate and others, which are engaged in providing corporate and shared services, training and investment activities.

The Board of directors monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on income and is measured consistently in the interim condensed consolidated financial statements.

Business segments

For the six-months period ended 30 June 2017 (SR '000)

	Air conditioner industry	*Steel industry*	*Insulation industry*	*Corporate and others*	*Total segments*	*Adjustments and eliminations*	*Consolidated*
Revenue:							
External customer	**973,244**	**994,513**	**153,286**	**2,327**	**2,123,370**	**-**	**2,123,370**
Inter-segment	**-**	**-**	**6,347**	**7,165**	**13,512**	**(13,512)**	**-**
Total revenue	**973,244**	**994,513**	**159,633**	**9,492**	**2,136,882**	**(13,512)**	**2,123,370**
Gross profit	**231,484**	**214,371**	**49,807**	**3,452**	**499,114**	**-**	**499,114**
Operating income (loss)	**59,291**	**62,746**	**18,093**	**(10,657)**	**129,473**	**-**	**129,473**
Unallocated income (expenses):							
Share in results of associates and a joint venture							**1,458**
Other income, net							**12,310**
Financial charges							**(44,609)**
Income before zakat and tax							**98,632**
Zakat and income tax							**(11,580)**
Net income for the period							**87,052**

12 SEGMENTAL INFORMATION (continued)

	For the six-months period ended 30 June 2016 (SR '000)						
	Air conditioner industry	*Steel industry*	*Insulation industry*	*Corporate and others*	*Total segments*	*Adjustments and eliminations*	*Consolidated*
Revenue:							
External customer	1,189,018	1,269,187	170,796	2,498	2,631,499	-	2,631,499
Inter-segment	-	-	-	10,626	10,626	(10,626)	-
Total revenue	1,189,018	1,269,187	170,796	13,124	2,642,125	(10,626)	2,631,499
Gross profit	266,799	252,736	51,639	8,067	579,241	-	579,241
Operating income (loss)	88,053	78,514	21,740	(10,115)	178,192	-	178,192
Unallocated income (expenses):							
Share in results of associates and a joint venture							2,083
Other income, net							7,798
Financial charges							(42,248)
Income before zakat and tax							145,825
Zakat and income tax							(30,839)
Net income for the period							114,986

	At 30 June 2017 (SR '000)						
	Air conditioner industry	*Steel industry*	*Insulation industry*	*Corporate and others*	*Total segments*	*Adjustments and eliminations*	*Consolidated*
Total assets	**2,957,614**	**2,033,848**	**605,274**	**786,674**	**6,383,410**	**(537,871)**	**5,845,539**
Total liabilities	**2,043,668**	**1,147,029**	**266,112**	**935,698**	**4,392,507**	**(482,548)**	**3,909,959**
Others:							
Investment in associates and a joint venture	**32,565**	**-**	**-**	**49,759**	**82,324**	**-**	**82,324**
Capital expenditure	**13,192**	**26,572**	**13,769**	**1,784**	**55,317**	**-**	**55,317**

	At 31 December 2016 (SR '000)						
	Air conditioner industry	*Steel industry*	*Insulation industry*	*Corporate and others*	*Total segments*	*Adjustments and eliminations*	*Consolidated*
Total assets	2,883,342	2,118,212	578,460	854,746	6,434,760	(611,751)	5,823,009
Total liabilities	1,976,179	1,250,844	252,112	1,044,928	4,524,063	(607,080)	3,916,983
Others:							
Investment in associates and a joint venture	30,792	-	-	48,522	79,314	-	79,314
Capital expenditure	26,144	54,115	25,650	4,540	110,449	-	110,449

Inter-segment revenues are eliminated upon consolidation and reflected in the ‘adjustments and eliminations’ column. All other adjustments and eliminations are part of detailed reconciliations presented further below. Capital expenditure consists of additions of property, plant and equipment and intangible assets.

12 SEGMENTAL INFORMATION (continued)

Geographic information

	For the six-months ended 30 June	
	2017	*2016*
	SR '000	*SR '000*
Revenue from external customers:		
Saudi Arabia	**1,695,539**	2,185,380
Other Asian countries	**319,370**	283,706
Africa	**108,461**	160,421
Europe	**-**	1,992
	2,123,370	2,631,499

	30 June 2017	*31 December 2016*
	SR '000	*SR '000*
Non-current operating assets:		
Saudi Arabia	**945,090**	951,771
Other Asian countries	**116,675**	118,906
Africa	**79,830**	80,507
	1,141,595	1,151,184

Non-current assets for this purpose consist of property, plant and equipment and other intangible assets.

13 FAIR VALUES OF FINANCIAL INSTRUMENTS

All financial instruments for which fair value is recognised or disclosed are categorised within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole, as follows:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

Financial assets consist of cash and cash equivalents, available for sale investments, accounts receivable, net investment in finance lease and some other current assets. Financial liabilities consist of term loans, short term loan, accounts payable and some other current liabilities. The fair values of financial assets and financial liabilities approximate their carrying amounts.

13 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

Set out below is an overview of financial assets, other than cash and cash equivalents, and financial liabilities, held by the Group as at, 30 June 2017:

	Carrying value	*Fair value*
	SR '000	*SR '000*
Financial assets:		
Accounts receivable	**1,950,343**	**1,950,343**
Net investments in finance lease	**395,438**	**395,438**
Available for sale investments	**90,504**	**90,504**
Other current assets	**70,836**	**70,836**
	2,507,121	**2,507,121**
Financial liabilities:		
Accounts payables	**431,238**	**431,238**
Short term loans	**2,160,836**	**2,160,836**
Term loans	**274,981**	**274,981**
Other current liabilities	**37,884**	**37,884**
	2,904,939	**2,904,939**

14 FIRST-TIME ADOPTION OF IFRS

For all periods up to and including the year ended 31 December 2016, the Group prepared and published its consolidated financial statements only in accordance with generally accepted accounting standards in KSA ("Saudi GAAP"). These interim condensed consolidated financial statements of the Group are in accordance with IAS 34, "Interim Financial Reporting" and IFRS 1, "First-time Adoption of International Financial Reporting Standards" that are endorsed in KSA.

Accordingly, the Group has prepared consolidated financial statements, which comply with IFRS as endorsed in KSA applicable for periods beginning on or before 1 January 2017, together with the comparative period data. In preparing the accompanying interim condensed consolidated financial statements, the Group's opening statement of financial position was prepared as at 1 January 2016 after incorporating certain adjustments made as required due to the first time adoption of IFRS as endorsed in KSA.

In preparing its opening statement of financial position as at 1 January 2016, the consolidated financial statements for the year ended 31 December 2016 and the interim condensed consolidated financial statements for the six months period ended 30 June 2016, in accordance with IFRS as endorsed in KSA, the Group has analyzed the impact and noted certain adjustments are required to the amounts reported previously in the consolidated financial statements prepared in accordance with Saudi GAAP. This note explains the principal adjustments made by the Group in restating its Saudi GAAP interim condensed consolidated financial statements for the three-months and six-months periods ended 30 June 2016, respectively. The impact on the Group's previously reported consolidated financial statements for the year ended 31 December 2016 and the opening balance sheet at 1 January 2016 was disclosed in the Group's interim condensed consolidated financial statements for the three-months period ended 31 March 2017.

Estimates

The estimates as at 31 December 2016 and 30 June 2016 are consistent with those made for the same dates in accordance with Saudi GAAP (after adjustments to reflect any differences in accounting policies).

14 FIRST-TIME ADOPTION OF IFRS (continued)

14.1 Group's reconciliation of equity as at 30 June 2016

	Notes	*Saudi GAAP*	*Re-measurements*	*IFRS*
		SR'000	*SR'000*	*SR'000*
Share capital		600,000	-	**600,000**
Statutory reserve		280,471	-	**280,471**
Retained earnings	14.1.1	1,056,224	(215,341)	**840,883**
Foreign currency translation reserve	14F	(16,753)	10,361	**(6,392)**
		1,919,942	(204,980)	**1,714,962**
Non-controlling interests	14G	277,033	(29,893)	**247,140**
Total equity		2,196,975	(234,873)	**1,962,102**

14.1.1 Reconciliation of retained earnings

Following is the analysis of the impact of IFRS re-measurements on retained earnings:

	Notes	*Impact on retained earnings at 1 January 2016*	*Impact on comprehensive income for the six-months period ended 30 June 2016*	*Cumulative impact on retained earnings at 30 June 2016*
		SR'000	*SR'000*	*SR'000*
Impairment loss on property, plant and equipment	14A	(152,755)	-	**(152,755)**
Depreciation of property, plant and equipment	14B	(3,934)	6,129	**2,195**
Impairment loss on investments in associates	14C	(61,556)	-	**(61,556)**
Group share in IFRS remeasurement adjustments in associates	14D	267	(65)	**202**
Net assets of a deconsolidated subsidiary	14E	(46,220)	-	**(46,220)**
Investment in a joint venture	14E	24,947	-	**24,947**
Foreign currency translation reserve	14F	(10,361)	-	**(10,361)**
Non-controlling interests	14G	29,607	109	**29,716**
Employees' defined benefit liabilities	14H	1,735	(3,244)	**(1,509)**
		(218,270)	2,929	**(215,341)**

14 FIRST-TIME ADOPTION OF IFRS (continued)

14.2 Group's reconciliation of statement of comprehensive income for the three-months period ended 30 June 2016

	Notes	*Saudi GAAP* *SR'000*	*Re-measurements / Reclassifications* *SR'000*	*IFRS* *SR'000*
REVENUES				
Sales	14E	1,176,811	(2,996)	**1,173,815**
Contracts revenue		230,066	-	**230,066**
Finance lease income		4,445	-	**4,445**
		1,411,322	(2,996)	**1,408,326**
DIRECT COSTS				
Cost of sales	14E	(902,589)	(11,437)	**(914,026)**
Contracts costs		(187,353)	1,967	**(185,386)**
GROSS PROFIT		321,380	(12,466)	**308,914**
EXPENSES				
Selling and distribution	14E	(114,537)	18,285	**(96,252)**
General and administration	14I	(107,639)	(5,493)	**(113,132)**
OPERATING INCOME		99,204	326	**99,530**
Share in results of associates and a joint venture	14D & 14E	(92)	15	**(77)**
Other income, net		2,168	-	**2,168**
Financial charges		(22,339)	-	**(22,339)**
INCOME BEFORE ZAKAT AND INCOME TAX		78,941	341	**79,282**
Zakat and income tax		(22,376)	-	**(22,376)**
NET INCOME FOR THE PERIOD		56,565	341	**56,906**
OTHER COMPREHENSIVE INCOME FOR THE PERIOD				
Other comprehensive income to be reclassified to income in subsequent periods:				
Exchange differences on translation of foreign operations	14F	-	(1,262)	**(1,262)**
Other comprehensive income for the period		**-**	(1,262)	**(1,262)**
TOTAL COMPREHENSIVE INCOME		56,565	(921)	**55,644**
ATTRIBUTABLE TO:				
Shareholders' of the parent company		50,778	(820)	**49,958**
Non-controlling interests		5,787	(101)	**5,686**
		56,565	(921)	**55,644**

14 FIRST-TIME ADOPTION OF IFRS (continued)

14.3 Group's reconciliation of statement of comprehensive income for the six-months period ended 30 June 2016

	Notes	*Saudi GAAP SR'000*	*Re-measurements / Reclassifications SR'000*	*IFRS SR'000*
REVENUES				
Sales	14E	2,227,825	(13,470)	**2,214,355**
Contracts revenue		408,202	-	**408,202**
Finance lease income		8,942	-	**8,942**
		2,644,969	(13,470)	**2,631,499**
DIRECT COSTS				
Cost of sales	14E	(1,706,025)	(11,565)	**(1,717,590)**
Contracts costs		(336,635)	1,967	**(334,668)**
GROSS PROFIT		602,309	(23,068)	**579,241**
EXPENSES				
Selling and distribution	14E	(217,827)	32,730	**(185,097)**
General and administration	14I	(207,814)	(8,138)	**(215,952)**
OPERATING INCOME		176,668	1,524	**178,192**
Share in results of associates and a joint venture	14D & 14E	1,964	119	**2,083**
Other income, net		7,798	-	**7,798**
Financial charges		(42,248)	-	**(42,248)**
INCOME BEFORE ZAKAT AND INCOME TAX		144,182	1,643	**145,825**
Zakat and income tax		(30,839)	-	**(30,839)**
NET INCOME FOR THE PERIOD		113,343	1,643	**114,986**
OTHER COMPREHENSIVE INCOME FOR THE PERIOD				
Other comprehensive income to be reclassified to income in subsequent periods:				
Exchange differences on translation of foreign operations	14F	-	(6,392)	**(6,392)**
Other comprehensive income for the period		-	(6,392)	**(6,392)**
TOTAL COMPREHENSIVE INCOME		113,343	(4,749)	**108,594**
ATTRIBUTABLE TO:				
Shareholders' of the parent company		102,188	(4,463)	**97,725**
Non-controlling interests		11,155	(286)	**10,869**
		113,343	(4,749)	**108,594**

14 FIRST-TIME ADOPTION OF IFRS (continued)

14A. Impairment of property, plant and equipment

Under Saudi GAAP, long-lived assets were reviewed for impairment when events or changes in circumstances indicated that their carrying value may exceed the recoverable amount. For the purposes of assessing impairment, assets were grouped at the lowest level for which identifiable cash flows were largely independent of the cash flows of other assets. If the estimated undiscounted cash flows for the asset group were less than the asset group's carrying amount, the impairment loss was measured as the excess of the carrying value over recoverable amount (higher of discounted future cash flows or fair value). Under IFRS, impairment of assets that do not generate cash inflows that are largely independent of those from other assets or groups of assets, is assessed at the CGU level based on the CGU's recoverable amount. Impairment loss is measured as the excess of carrying value over recoverable amount (fair value less cost of disposal or value in use i.e. discounted future cash flows).

At the date of transition to IFRS, as a result of the changes in methodology, the Group determined that the recoverable amount of property, plant and equipment of its certain subsidiaries, which is considered a CGU, was less than its carrying amount. The recoverable amount was based on the CGU's value in use using a pre-tax discount rates ranging from 12.4% to 15.6%, depending on the subsidiary owning the asset. This resulted in an impairment loss of SAR 152,755 thousands being recognised as at 1 January 2016. This amount has been recognised against retained earnings. Additionally, depreciation for the three-months and six-months periods ended 30 June 2016 was reduced by SR 3,326 thousands and SR 6,710 thousands respectively.

14B. Depreciation of property, plant and equipment

Under Saudi GAAP, the Group recognised the spare parts, stand-by equipment and servicing equipment as inventories and these were not depreciated. As a result of additional guidance under IFRS, such equipment are recognised as property, plant and equipment and are depreciated over their estimated useful life when they meet the definition of property, plant and equipment. At the date of transition to IFRS, an amount of SAR 3,473 was reclassified to property, plant and equipment net of accumulated depreciation. At the transition date resultant depreciation of SR 3,934 thousands have been charged to retained earnings. Depreciation charge on such assets for the three-months and six-months periods ended 30 June 2016 amounting to SR 286 thousands and SR 581 thousands respectively was charged to consolidated statement of income.

14C. Impairment on investment in associates

Under Saudi GAAP, investment in associates were reviewed for impairment when events or changes in circumstances indicated that their carrying value may exceed the recoverable amount sum of the undiscounted future cash flows expected from use and eventual disposal. For the purposes of assessing impairment, assets were grouped at the lowest level for which identifiable cash flows were largely independent of the cash flows of other assets. If the estimated undiscounted cash flows for the asset group were less than the asset group's carrying amount, the impairment loss was measured as the excess of the carrying value over recoverable amount (higher of discounted future cash flows or fair value). Under IFRS, impairment of assets that do not generate cash inflows that are largely independent of those from other assets or groups of assets, is assessed at the CGU level based on the CGU's recoverable amount, impairment loss is measured as the excess of the carrying value over recoverable amount (fair value less cost of disposal or value in use (discounted future cash flows)). At the date of transition to IFRS, as a result of the changes in methodology, the Group determined that the recoverable amount in its investment in an associate, which is considered a CGU, was less than its carrying amount. The recoverable amount was based on the CGU's value in use using a pre-tax discount rates of 12.4%. This resulted in an impairment loss of SR 61,556 thousands being recognised as at 1 January 2016. This amount has been recognised against retained earnings.

14D. IFRS remeasurement adjustments in associates

The Group has investment in associates and it accounts for such investments under equity accounting. Until the year ended 31 December 2015, one of the associate, Rabiah-Nassar and Zamil Concrete Industries Company (RANCO), prepared its financial statements in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia. Beginning 1 January 2017 onwards the Group would be required to prepare its financial statements in accordance with the IFRS and accordingly the management of the associate has also decided to prepare its financial statements under IFRS. In this regard, a preliminary special-purpose opening IFRS statement of financial position have been prepared as part of the associate's conversion to International Financial Reporting Standards (IFRS) and remeasurement adjustments amounting to SR 533 thousands were made in the preliminary opening statement of financial position of the associate at the transition date i.e. 1 January 2016.

14 FIRST-TIME ADOPTION OF IFRS (continued)

14D. IFRS remeasurement adjustments in associates (continued)

The Group owns 50% equity interest in the investee company and accordingly it has recorded an amount of SR 267 thousands in its books to account for its share related to such remeasurement adjustments. This amount has been recognised against retained earnings. Additionally, the Group's share in the preliminary IFRS remeasurement adjustments in the books of the associate for the three-months and six-months periods ended 30 June 2016 amounting to SR 32 thousands and SR 65 thousands respectively was charged to interim condensed consolidated statement of income.

14E. Deconsolidation of a subsidiary

Under Saudi GAAP, the Group was including the assets, liabilities and results of operations of a joint venture (Middle East Air Conditioners) in its consolidated financial statements on the assumption that it controls the entity as it owns 51% voting rights in it. Under IFRS, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee-
- The ability to use its power over the investee to affect its returns

As a result of management assessment under additional guidance available in IFRS, the Group has determined that it does not control the joint venture even though it owns more than 50% of the voting rights. This is because the Group cannot exercise its voting rights to take major operational decisions and all such decisions are subject consent and approval of other partner that owns the remaining 49% of the equity interest in the investee company. Accordingly, no assets, liabilities and the results of operations of this investee company have been included in the interim condensed consolidated financial statements and it has been considered as an investment in a joint venture and results of the operations have been accounted for using equity method of accounting.

The results of the operations of this investee company for the three-months and six-months period ended 30 June 2016 was as follows:

	For the three-months period ended 30 June 2016 SR 000	***For the six-months period ended 30 June 2016 SR 000***
Sales	**12,021**	**22,495**
Cost of sales	**(10,524)**	**(19,917)**
Gross profit	**1,497**	**2,578**
Selling and distribution expenses	**(1,405)**	**(2,217)**
Net income for the period	**92**	**361**

The above results of the operations of this investee company have been deconsolidated from the interim condensed consolidated financial statements of the Group for the three-months and six-months periods ended 30 June 2016 prepared under IFRS. However, share in results of the investee company for the three-months and six-months periods ended 30 June 2016 amounting to SR 47 thousands and SR 184 thousands respectively have been recognised in the interim condensed consolidated statement of income.

14F. Foreign currency translation

Under Saudi GAAP, the Group recognised translation differences on foreign operations in a separate component of equity. Under IFRS, the Group has applied first time adoption exemption to reset the cumulative translation differences to nil on the transition date i.e. 1 January 2016. The resulting adjustment was recognised against retained earnings. Further, the translation differences on foreign operations for the three-months and six-months period ended 30 June 2017 have been recognised through other comprehensive income.

14 FIRST-TIME ADOPTION OF IFRS (continued)

14G. Non-controlling interest

As part of the Group’s conversion to International Financial Reporting Standards (IFRS), the Group’s opening IFRS statement of financial position has been prepared as at 1 January 2016, the Group’s date of transition to IFRS. In this regard certain remeasurement adjustments have been made in upon first time adoption of IFRS. Accordingly, non-controlling interest have also been remeasured on account of share of remeasurement adjustments related subsidiaries containing to non-controlling interest. Remeasurement adjustments related to non-controlling interests at 1 January 2016 were as follows:

	1 January 2016 SR 000
Derecognition of non-controlling interest of Middle East Air Conditioners on it deconsolidation at transition date	**21,274**
IFRS re-measurement adjustments related to non-controlling interests	**8,333**
	29,607

Additionally, IFRS re-measurement adjustments attributable to non-controlling interest for the three-months and six- months periods ended 30 June 2016 amounting to SR 53 thousands and SR 109 thousands respectively have been recognised in the interim condensed consolidated statement of comprehensive income respectively.

14H. Defined benefit obligation

Under the Saudi GAAP, the Group was required to recognize the provision for employees' end-of-service benefits for the amounts payable at the statement of financial position date in accordance with the employees' contracts of employment applicable to employees' accumulated periods of service.

However under IAS 19, the Company is required to recognize an amount of a liability that equals to the net amount of present value of the defined benefit obligation, deferred actuarial gains and losses, deferred past service costs and the fair value of any plan assets at statement of financial position.

Accordingly, the Group has restated employees' end-of-service benefits as at 1 January 2016, 30 June 2016 and 31 December 2016. The impact of restatement which pertains to 2015 and periods prior to 2015, has been charged to opening retained earnings as at 1 January 2016.

14I. Board of directors’ remuneration

Under Saudi GAAP, accepted practice was to charge the Directors’ remuneration in the statement of changes in equity, However under IFRS, amounts of Directors' remuneration should be charged to consolidated statement of income. Accordingly, directors' remuneration for the six-months period ended 30 June 2016 amounting to SR 1,000 thousands have been recognised through interim condensed consolidated statement of income.

15 SUBSEQUENT EVENTS

In the opinion of management, there have been no further significant subsequent events since the period ended 30 June 2017 that would have a material impact on the financial position of the Group as reflected in these interim condensed consolidated financial statements.