Zamil Industrial Investment Co. | الزامل للصناعة

ZAMIL INDUSTRIAL INVESTMENT COMPANY (ZAMIL INDUSTRIAL) AND ITS SUBSIDIARIES (A Listed Saudi Joint Stock Company)

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2018 AND INDEPENDENT AUDITORS' REVIEW REPORT

Table of contents

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Ernst & Young & Co. (Public Accountants)
4th Floor – Juffali Building
PO Box 3795
Al Khobar 31952
Saudi Arabia
C.R No. 2051058792

Tel: +966 13 849 9500
Fax: +966 13 882 0087

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 31 March 2018, and the related interim condensed consolidated statement of income, interim condensed consolidated statement of comprehensive income, interim condensed consolidated statement of changes in equity and interim condensed consolidated statement of cash flows for the three-month 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

شركة ارنست ويونغ وشركاهم محاسبون قانونيون
ERNST & YOUNG & Co. PUBLIC ACCOUNTANTS
ترخيص مهني رقم ٤٥
PROFESSIONAL LICENCE No. 45

Waleed G. Tawfiq
Certified Public Accountant
Registration No. 437

9 Sha'ban 1439 H
25 April 2018

Alkhobar

INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME

For the three-month period ended 31 March 2018

	Notes	*For the three-month period ended 31 March* 2018 SR'000 (Unaudited)	2017 SR'000 (Unaudited)
REVENUES			
Sales		**756,736**	769,639
Contracts revenue		**209,196**	224,015
Finance lease income		**4,064**	4,285
		969,996	997,939
DIRECT COSTS			
Cost of sales		**(611,928)**	(602,551)
Contracts cost		**(164,437)**	(185,797)
		(776,365)	(788,348)
GROSS PROFIT		**193,631**	209,591
EXPENSES			
Selling and distribution		**(54,758)**	(52,370)
General and administration		**(95,558)**	(92,914)
OPERATING INCOME		**43,315**	64,307
Share in results of associates and a joint venture		**(11)**	1,004
Other income, net		**746**	10,832
Financial charges		**(20,774)**	(22,978)
INCOME BEFORE ZAKAT AND INCOME TAX		**23,276**	53,165
Zakat and income tax	4	**(4,134)**	(5,257)
NET INCOME FOR THE PERIOD		**19,142**	47,908
ATTRIBUTABLE TO:			
Shareholders of the parent company		**15,568**	41,777
Non-controlling interests		**3,574**	6,131
		19,142	47,908
EARNINGS PER SHARE:			
Basic and diluted, earnings per share attributable to the shareholders of the parent company	6	**0.26**	0.70

The attached notes 1 to 12 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-month period ended 31 March 2018

	For the three-month period ended 31 March	
	2018	*2017*
	SR'000	*SR'000*
	(Unaudited)	*(Unaudited)*
Net income for the period	**19,142**	47,908
Other comprehensive income		
Other comprehensive income to be reclassified to income in subsequent periods:		
Exchange differences on translation of foreign operations	**1,344**	3,227
Net other comprehensive income to be reclassified to income in subsequent periods	**1,344**	3,227
Other comprehensive income not to be reclassified to income in subsequent periods:		
Changes in the fair value of equity investments at fair value through other comprehensive income	**(4,389)**	2,000
Net other comprehensive income not to be reclassified to income in subsequent periods	**(4,389)**	2,000
Other comprehensive income for the period	**(3,045)**	5,227
TOTAL COMPREHENSIVE INCOME	**16,097**	53,135
ATTRIBUTABLE TO:		
Shareholders of the parent company	**12,523**	47,004
Non-controlling interests	**3,574**	6,131
	16,097	53,135

The attached notes 1 to 12 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 31 March 2018

	Notes	31 March 2018 SR'000 (Unaudited)	31 December 2017 SR'000 (audited)
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment		**1,071,644**	1,089,888
Other intangible assets		**5,152**	5,575
Investments in associates and a joint venture		**80,995**	80,773
Equity instruments at fair value through other comprehensive income		**73,077**	77,466
Net investments in finance lease		**357,723**	363,283
Goodwill		**21,126**	21,126
Deferred tax assets		**7,015**	6,899
TOTAL NON-CURRENT ASSETS		**1,616,732**	1,645,010
CURRENT ASSETS			
Inventories		**1,352,245**	1,248,557
Accounts receivable		**1,930,418**	1,951,955
Advances, other receivables and prepayments		**262,117**	237,602
Contract assets		**334,038**	361,412
Current portion of net investment in finance lease		**21,894**	21,663
Cash and cash equivalents		**179,413**	215,524
TOTAL CURRENT ASSETS		**4,080,125**	4,036,713
TOTAL ASSETS		**5,696,857**	5,681,723
EQUITY AND LIABILITIES			
EQUITY			
Share capital	5	**600,000**	600,000
Statutory reserve		**180,000**	180,000
Retained earnings		**928,182**	910,136
Foreign currency translation reserve		**(24,089)**	(25,433)
Fair value reserve		**(15,269)**	-
EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT COMPANY		**1,668,824**	1,664,703
NON-CONTROLLING INTERESTS		**212,171**	211,677
TOTAL EQUITY		**1,880,995**	1,876,380
NON-CURRENT LIABILITIES			
Term loans		**66,955**	67,255
Employees' defined benefit liabilities		**290,914**	294,964
Deferred tax liabilities		**8,780**	8,366
TOTAL NON-CURRENT LIABILITIES		**366,649**	370,585
CURRENT LIABILITIES			
Accounts payable		**345,753**	365,874
Accruals and provisions		**453,557**	408,009
Short term loans		**2,306,744**	2,331,034
Current portion of term loans		**32,000**	34,669
Contract liabilities		**24,446**	23,218
Advances from customers		**237,289**	226,305
Zakat and income tax provision	4	**49,424**	45,649
TOTAL CURRENT LIABILITIES		**3,449,213**	3,434,758
TOTAL LIABILITIES		**3,815,862**	3,805,343
TOTAL EQUITY AND LIABILITIES		**5,696,857**	5,681,723

The attached notes 1 to 12 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 CHANGES IN EQUITY

For the three-month period ended 31 March 2018

	Attributed to shareholders of the parent company							
	Share capital	*Statutory reserve*	*Retained earnings*	*Foreign currency translation reserve*	*Fair value reserve*	*Total*	*Non-controlling interests*	*Total equity*
	SR '000	*SR '000*	*SR '000*	*SR '000*	*SR '000*	*SR '000*	*SR '000*	*SR '000*
Balance at 1 January 2018	600,000	180,000	910,136	(25,433)	-	1,664,703	211,677	1,876,380
Impact of IFRS 9 and IFRS 15 adoption *(note 2)*	-	-	2,478	-	(10,880)	(8,402)	(3,080)	(11,482)
Balance at 1 January 2018 (after amendment)	600,000	180,000	912,614	(25,433)	(10,880)	1,656,301	208,597	1,864,898
Net income for the period	-	-	15,568	-	-	15,568	3,574	19,142
Other comprehensive income	-	-	-	1,344	(4,389)	(3,045)	-	(3,045)
Total comprehensive income	-	-	15,568	1,344	(4,389)	12,523	3,574	16,097
Balance at 31 March 2018 (*Unaudited*)	**600,000**	**180,000**	**928,182**	**(24,089)**	**(15,269)**	**1,668,824**	**212,171**	**1,880,995**
Balance at 1 January 2017	600,000	300,000	805,285	(24,726)	-	1,680,559	225,467	1,906,026
Net income for the period	-	-	41,777	-	-	41,777	6,131	47,908
Other comprehensive income	-	-	-	3,227	2,000	5,227	-	5,227
Total comprehensive income	-	-	41,777	3,227	2,000	47,004	6,131	53,135
Dividends paid to non-controlling interests	-	-	-	-	-	-	(1,127)	(1,127)
Balance at 31 March 2017 (*Unaudited*)	**600,000**	**300,000**	**847,062**	**(21,499)**	**2,000**	**1,727,563**	**230,471**	**1,958,034**

The attached notes 1 to 12 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 CASH FLOWS

For the three-month period ended 31 March 2018

	For the three-month period ended 31 March	
	2018	*2017*
	SR'000	*SR'000*
	(Unaudited)	*(Unaudited)*
OPERATING ACTIVITIES		
Income before zakat and income tax	**23,276**	53,165
Adjustments to reconcile income before zakat and income tax to net cash flows:		
Depreciation	**31,078**	34,637
Amortization of other intangible assets	**423**	671
Employees' defined benefit liabilities	**(4,050)**	(8,761)
Financial charges	**20,774**	22,978
Loss on disposal of property, plant and equipment	**-**	38
Share in results of associates and a joint venture	**11**	(1,004)
	71,512	101,724
Working capital adjustments:		
Inventories	**(103,688)**	7,914
Accounts receivable	**14,022**	(36,694)
Advances, other receivables and prepayments	**(24,515)**	(33,184)
Contract assets	**23,407**	(9,230)
Net investment in finance lease	**5,329**	5,108
Accounts payable	**(20,121)**	49,757
Accruals and provisions	**45,548**	13,419
Contract liabilities	**1,228**	(6,753)
Advances from customers	**10,984**	(6,236)
Cash from operations	**23,706**	85,825
Financial charges paid	**(20,774)**	(22,978)
Zakat and income tax paid	**-**	(1,195)
Net cash from operating activities	**2,932**	61,652
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(12,939)**	(40,061)
Proceeds from disposal of property, plant and equipment	**74**	240
Net cash used in investing activities	**(12,865)**	(39,821)
FINANCING ACTIVITIES		
Net movement in short term loans	**(24,290)**	684
Net movement in term loans	**(2,969)**	(12,287)
Dividends paid to non-controlling interests	**-**	(1,127)
Net cash used in financing activities	**(27,259)**	(12,730)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(37,192)**	9,101
Cash and cash equivalents at the beginning of the period	**215,524**	272,393
Movement in foreign currency translation reserve, net	**1,081**	(2,011)
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**179,413**	279,483
NON-CASH TRANSACTIONS:		
Increase in impairment loss against accounts receivable on adoption of IFRS 9	**7,515**	-
Adjustment to contract assets on adoption of IFRS 15	**3,967**	-
Exchange differences on investment in associates	**233**	653
Changes in the fair value of equity investments at fair value through other comprehensive income	**(4,389)**	2,000
Exchange differences on property, plant and equipment	**31**	4,541
Exchange differences on income and deferred taxes	**61**	44

The attached notes 1 to 12 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 9 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

The Company has investment in the following subsidiaries:

	Effective ownership percentage	
	31 March 2018	*31 December 2017*
Zamil Steel Holding Company Limited - Saudi Arabia	**100%**	100%
- Zamil Steel Pre-Engineered Buildings Company Limited - Saudi Arabia	**100%**	100%
- Zamil Structural Steel Company Limited - Saudi Arabia	**100%**	100%
- Zamil Towers & Galvanizing Company Limited - Saudi Arabia	**100%**	100%
- Zamil Process Equipment Company Limited - Saudi Arabia	**100%**	100%
- Building Component Solutions Company Limited - Saudi Arabia	**100%**	100%
- Zamil Steel Construction Company Limited - Saudi Arabia	**100%**	100%
- Zamil Inspection & Maintenance of Industrial Projects Company Limited - Saudi Arabia	**100%**	100%
- Metallic Construction and Contracting Company Limited - Egypt	**100%**	-
Zamil Air Conditioners Holding Company Limited - Saudi Arabia	**100%**	100%
- Zamil Air Conditioners & Home Appliances Company Limited - Saudi Arabia	**100%**	100%
- Zamil Central Air Conditioners Company Limited - Saudi Arabia	**100%**	100%
- Zamil Air Conditioning & Refrigeration Services Company Limited - Saudi Arabia	**100%**	100%
- Ikhtebar Company Limited - Saudi Arabia	**100%**	100%
- Eastern District Cooling Company Limited - Saudi Arabia	**100%**	100%
- Zamil Energy Services Company Limited - Saudi Arabia	**100%**	100%
- Zamil Air Conditioning and Refrigeration Services Company W.L.L - Bahrain	**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%
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 Structural Steel Company - Egypt	**100%**	100%
Zamil Construction India Private Limited - India	**100%**	100%
Zamil Information Technology Global Private Limited - India	**100%**	100%
Zamil Higher Institute for Industrial Training - Saudi Arabia	**100%**	100%
Second Insulation Company Limited - Saudi Arabia	**100%**	100%
Zamil Air Conditioners India Private Limited - India	**100%**	100%
Saudi Central Energy Company Limited - Saudi Arabia	**100%**	100%
Zamil Industrial Investment Company Asia Pte. Limited - Singapore	**100%**	100%
Zamil Steel Buildings Vietnam Company Limited - Vietnam	**92.27%**	92.27%
Gulf Insulation Group - Saudi Arabia	**51%**	51%
Saudi Preinsulated Pipes Industries - Saudi Arabia	**51%**	51%
Zamil Hudson Company Limited - Saudi Arabia	**50%**	50%
Petro-Chem Zamil Company Limited - Saudi Arabia	**50%**	50%

1 CORPORATE INFORMATION (continued)

The Company and its subsidiaries listed above (collectively referred to as the "Group") are engaged in design and engineering, manufacturing and fabrication of construction materials, pre-engineering steel buildings, steel structures, air conditions and climate control systems for commercial, industrial and residential applications, telecom and 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 31 March 2018 were authorised for issuance in accordance with the Board of Directors resolution on 25 April 2018 (corresponding to 9 Sha'ban 1439 H).

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation
These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” as endorsed in Kingdom of Saudi Arabia (KSA). The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements as at 31 December 2017. In addition the results of the operations for the period ended 31 March 2018 do not necessarily represent an indicator for the results of the operations for the year ending 31 December 2018.

These interim condensed consolidated financial statements are prepared using historical cost convention except for the remeasurement of equity instruments at fair value through other comprehensive income, using the accrual basis of accounting. For employees and other post-employment benefits, actuarial present value calculation is used.

These interim condensed consolidated financial statements are presented in Saudi Riyals (“SR”) which is also the functional currency of the Group. All values are rounded to the nearest thousands (“SR ‘000”), except when otherwise indicated.

Changes to the Group’s accounting policies
The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2017, except for the adoption of new standards effective as of 1 January 2018. The Group has not early adopted any other standard, interpretation or amendment that has been issued but not yet effective.

The Group applies, for the first time, IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments. As required by IAS 34, the nature and effect of these changes are disclosed below.

IFRS 15 Revenue from Contracts with Customers
IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised 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 standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group elected the modified retrospective method and applied the standard retrospectively to only the most current period presented in the financial statements. The Group recognised the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of retained earnings at the date of initial application i.e. 1 January 2018 which is allowable as per the standard. Accordingly, the information presented for the previous corresponding period has not been restated.

The Group generates its revenue from sale of goods, rendering of services, and long-term contracts. The goods and services are sold both on their own in separately identified contracts with customers and together as a bundled package of goods and/or services.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Changes to the Group's accounting policies (continued)
IFRS 15 Revenue from Contracts with Customers (continued)
(a) Sale of goods
The Group's contracts with customers for the sale of goods generally include one performance obligation. The Group has concluded that revenue from sale of goods should be recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods. Therefore, the adoption of IFRS 15 did not have an impact on the timing of revenue recognition and the amount of revenue recognised.

In general the contracts for the sale of goods do not provide customers with a right of return and volume rebates. Accordingly, the application of the constraint on variable consideration did not have any impact on the revenue recognised by the Group.

The Group provides warranties for its certain products mainly in its air conditioners segment and does not provide extended warranties in its contracts with customers. As such, most warranties are assurance-type warranties under IFRS 15, which the Group accounts for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets, consistent with its practice prior to the adoption of IFRS 15.

(b) Rendering of services
The Group's air conditioners segment also provides installation services as part of its long-term contracts with customers for mechanical, electrical and central air conditioning projects. These services are sold either separately or bundled together with the long-term contracts with customers. The installation services can be obtained from other providers and do not significantly customise or modify the air conditioners and other electrical equipment.

Prior to the adoption of IFRS 15, the Group accounted for the equipment and installation service as separate deliverables within the bundled sales and recognised revenue based on the invoiced amounts.

Under IFRS 15, the Group assessed that there are two performance obligations in a contract for bundled sales of equipment and installation services, because its promises to transfer equipment and provide installation services are capable of being distinct and separately identifiable.

The Group performed a re-allocation of contract consideration based on the relative stand-alone selling prices of the equipment and installation services, which decreased the amount allocated to installation services. Therefore, the Group reduced its contract assets with a corresponding adjustment to retained earnings.

Under IFRS 15, the Group concluded that revenue from installation services will continue to be recognised over time, using an input method to measure progress towards complete satisfaction of the service similar to the previous accounting policy, because the customer simultaneously receives and consumes the benefits provided by the Group. Revenue from the sale of the equipment will continue to be recognised at a point in time, upon delivery of the equipment.

The following tables show the adjustments recognised for individual line item affected by the changes on adoption of IFRS 15 with corresponding impact charged to retained earnings at 1 January 2018:

	31 December 2017 SR '000	*Adjustments SR '000*	***1 January 2018 SR '000 (Restated)***
Contract assets	361,412	(3,967)	**357,445**

IFRS 9 Financial Instruments:
IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Group has applied the exemption for not to restate the comparative information for prior periods with respect to classification and measurement.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Changes to the Group's accounting policies (continued)
IFRS 9 Financial Instruments (continued):
(a) Classification and measurement
Except for certain trade receivables, under IFRS 9, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Under IFRS 9, debt financial instruments are subsequently measured at fair value through profit or loss (FVPL), amortised cost, or fair value through other comprehensive income (FVOCI). The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the 'SPPI criterion').

At transition date to IFRS 9, the Group has financial assets measured at amortised cost and equity instruments at FVOCI. The new classification and measurement of the Group's financial assets are, as follows:

Debt instruments at amortised cost for financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion. This category includes the Group's trade and other receivables.

Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition. This category only includes equity instruments, which the Group intends to hold for the foreseeable future and which the Group has irrevocably elected to so classify upon initial recognition or transition. The Group classified its unquoted equity instruments as equity instruments at FVOCI. Equity instruments at FVOCI are not subject to an impairment assessment under IFRS 9. Under IAS 39, the Group's unquoted equity instruments were classified as AFS financial assets.

Upon adoption of IFRS 9, the Group has reclassified impairment loss (fair value adjustments) recorded at 31 December 2017 against its equity instruments at FVOCI to fair value reserve from retained earnings at 1 January 2018.

	31 December 2017 SR '000	*Adjustments SR '000*	***1 January 2018 SR '000 (Restated)***
Fair value reserve	-	(10,880)	**(10,880)**

The effect of adopting IFRS 9 on the carrying amounts of financial assets at 1 January 2018 relates to the new impairment requirements, as described further below.

The accounting for the Group's financial liabilities remains largely the same as it was under IAS 39. Accordingly, the adoption of IFRS 9 has not had a significant effect on the Group's accounting policies related to financial liabilities.

(b) Impairment
The adoption of IFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

For contract assets and trade and other receivables, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Changes to the Group's accounting policies (continued)
IFRS 9 Financial Instruments (continued):
The Group considers a financial asset in default when contractual payments are 360 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

The adoption of the ECL requirements of IFRS 9 resulted in increases in impairment allowances of the Group's debt financial assets. The increase in allowance resulted in adjustment to retained earnings at 1 January 2018.

	31 December 2017	*Adjustments*	***1 January 2018***
	SR '000	*SR '000*	***SR '000***
			(Restated)
Accounts receivable	1,951,955	(7,515)	**1,944,440**

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.

The significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those described in the last annual consolidated financial statements, except for new significant judgments and key sources of estimation uncertainty related to the application of IFRS 15 and IFRS 9, as described in note 2 above.

4 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 (2017: 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 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 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
During the period, the Group has booked a net deferred tax expense of SR 333 thousands (31 March 2017: net deferred tax benefit of SR 35 thousands).

5 SHARE CAPITAL

The authorised, issued and fully paid share capital of the Company is divided into 60 million shares (31 December 2017: same) of SR 10 each.

6 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-month period ended 31 March (Unaudited)	
	2018	*2017*
Net income for the period attributable to the shareholders of the parent company (SR '000)	**15,568**	41,777
Weighted average number of outstanding shares during the period (share)	**60,000**	60,000
Basic and diluted earnings per share attributable to the shareholders of the parent company	**0.26**	0.70

7 CONTINGENT LIABILITIES

The Group's bankers have issued performance and payments guarantees, on behalf of the Group, amounting to SR 1,180 million (2017: SR 1,097 million).

8 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. The next senior and ultimate parent company of the Group is Zamil Group Holding Company (a Saudi Closed Joint Stock Company) registered in Dammam, Kingdom of Saudi Arabia.

The Group in the normal course of business carries out transactions with various related parties. 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*	***Three-month period ended 31 March (Unaudited)***	
		2018	*2017*
		SR '000	*SR '000*
Ultimate parent company			
Zamil Group Holding Company	Sales	**326**	463
	Purchases	**-**	90
Joint venture			
Middle East Air Conditioners Company Limited	Sales	**1,653**	1,938
Other related parties	Sales	**2,741**	18,767
	Purchases	**3,277**	11,350

The compensation to the key management personnel during the period amounted to SR 1,718 thousands (31 March 2017: SR 2,909 thousands).

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

Amounts due from related parties at 31 March 2018 amounting to SR 62,255 thousands (31 December 2017: SR 65,341 thousands) have been included in the accounts receivable in interim condensed consolidated statement of financial position. Amounts due to related parties at 31 March 2018 amounting to SR 22,351 thousands (31 December 2017: SR 18,173 thousands) have been included in the accounts payable in interim condensed consolidated statement of financial position.

9 SEGMENTAL INFORMATION

For management purposes, the Group is organised into business units based on its products and services and has four 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.

No operating segments have been aggregated to form the above reportable operating segments. 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 three-month period ended 31 March 2018 (SR '000)

	Air conditioner industry	*Steel industry*	*Insulation industry*	*Corporate and others*	*Total segments*	*Adjustments and eliminations*	*Consolidated*
Revenue:							
External customer	**412,201**	**482,421**	**73,188**	**2,186**	**969,996**	**-**	**969,996**
Inter-segment	**-**	**-**	**3,926**	**1,317**	**5,243**	**(5,243)**	**-**
Total revenue	**412,201**	**482,421**	**77,114**	**3,503**	**975,239**	**(5,243)**	**969,996**
Timing of revenue recognition:							
At a point in time	**292,135**	**389,227**	**77,114**	**3,503**	**761,979**	**(5,243)**	**756,736**
Over time	**120,066**	**93,194**	**-**	**-**	**213,260**	**-**	**213,260**
	412,201	**482,421**	**77,114**	**3,503**	**975,239**	**(5,243)**	**969,996**
Gross profit	**81,522**	**86,100**	**25,379**	**630**	**193,631**	**-**	**193,631**
Operating income	**26,366**	**15,312**	**8,535**	**(6,898)**	**43,315**	**-**	**43,315**
Unallocated income (expenses):							
Share in results of associates and a joint venture							**(11)**
Other income, net							**746**
Financial charges							**(20,774)**
Income before zakat and tax							**23,276**
Zakat and income tax							**(4,134)**
Net income for the period							**19,142**

9 SEGMENTAL INFORMATION (continued)

For the three-month period ended 31 March 2017 (SR '000)

	Air conditioner industry	*Steel industry*	*Insulation industry*	*Corporate and others*	*Total segments*	*Adjustments and eliminations*	*Consolidated*
Revenue:							
External customer	407,193	508,552	80,806	1,388	997,939	-	997,939
Inter-segment	-	-	4,076	5,880	9,956	(9,956)	-
Total revenue	407,193	508,552	84,882	7,268	1,007,895	(9,956)	997,939
Timing of revenue recognition:							
At a point in time	296,106	391,339	84,882	7,268	779,595	(9,956)	769,639
Over time	111,087	117,213	-	-	228,300	-	228,300
	407,193	508,552	84,882	7,268	1,007,895	(9,956)	997,939
Gross profit	72,615	105,123	27,574	4,279	209,591	-	209,591
Operating income	25,558	31,713	11,663	(4,627)	64,307	-	64,307
Unallocated income (expenses):							
Share in results of associates and a joint venture							1,004
Other income, net							10,832
Financial charges							(22,978)
Income before zakat and tax							53,165
Zakat and income tax							(5,257)
Net income for the period							47,908

At 31 March 2018 (SR '000)

	Air conditioner industry	*Steel industry*	*Insulation industry*	*Corporate and others*	*Total segments*	*Adjustments and eliminations*	*Consolidated*
Total assets	**2,749,647**	**2,072,553**	**572,813**	**735,227**	**6,130,240**	**(433,383)**	**5,696,857**
Total liabilities	**1,891,083**	**1,246,978**	**257,884**	**948,311**	**4,344,256**	**(528,394)**	**3,815,862**
Others:							
Investment in associates and a joint venture	**29,770**	**-**	**-**	**51,225**	**80,995**	**-**	**80,995**
Capital expenditure	**3,274**	**6,870**	**2,313**	**482**	**12,939**	**-**	**12,939**

At 31 December 2017 (SR '000)

	Air conditioner industry	*Steel industry*	*Insulation industry*	*Corporate and others*	*Total segments*	*Adjustments and eliminations*	*Consolidated*
Total assets	2,777,894	2,006,235	558,098	766,439	6,108,666	(426,943)	5,681,723
Total liabilities	1,933,192	1,191,888	244,935	960,341	4,330,356	(525,013)	3,805,343
Others:							
Investment in associates and a joint venture	29,528	-	-	51,245	80,773	-	80,773
Capital expenditure	20,842	40,633	23,218	5,614	90,307	-	90,307

9 SEGMENTAL INFORMATION (continued)

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.

Geographic information

	For the three-month ended 31 March	
	2018	*2017*
	SR '000	*SR '000*
Revenue from external customers:		
Saudi Arabia	**736,455**	797,170
Other Asian countries	**155,949**	152,116
Africa	**77,592**	48,653
	969,996	997,939

	31 March 2018	*31 December 2017*
	SR '000	*SR '000*
Non-current operating assets:		
Saudi Arabia	**893,880**	908,967
Other Asian countries	**105,569**	108,496
Africa	**77,347**	78,000
	1,076,796	1,095,463

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

10 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, equity instruments at fair value through other comprehensive income, 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.

11 SUBSEQUENT EVENTS

In the opinion of management, there have been no further significant subsequent events since the period ended 31 March 2018 that would have a material impact on the financial position of the Group as reflected in these interim condensed consolidated financial statements.

12 COMPARATIVE FIGURES

Certain of the prior period figures have been reclassified to conform with the presentation in the current period.