

Annual Report

2019





Zamil Industrial Investment Co.
P.O. Box 14441 Dammam 31424
Kingdom of Saudi Arabia

zamilindustrial.com

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Board of Directors

Khalid A. Al Zamil



Chairman

Abdallah Saleh Jum'ah



Vice-Chairman

Ahmed Abdullah Al Zamil



Adib Abdullah Al Zamil



As a representative of
Zamil Group Holding
Company

Mohammed A. Al Ghaith



As a representative of the
Public Pension Agency

Mohammad S. Al Harbi



Khalid M. Al Fuhaid



Abdulla Mohammed Al Zamil



Chief Executive Officer

Vision

To be a Winning Industrial Leader Creating Superior Values for Business and Community



Honesty and Integrity

We believe that goodwill and a good reputation are integral to our business. We uphold honesty, integrity, professionalism and a high level of business ethics. We are prudent and fair in dealings with our stakeholders.



Customers and Excellence

We are diligent in understanding and fulfilling our customers' needs. We strive to please our customers by ensuring excellence in quality and service. We listen to our customers and "go the extra mile" to satisfy them.



Innovation and Change

We are passionate about meaningful innovation. We are a learning organization. We learn from our experiences and global best practices, and we innovate to create leading local solutions leveraging world class knowledge. We embrace positive change arising from innovation and our aspirations to grow our business.

Mission

To Win Markets' and Stakeholders' Trust Through Industrial Competence and Mutual Prosperity



Leadership and Prudence

We cultivate talent and leadership to create sound business solutions, to best meet our customer needs, and to develop markets, people and shareholder value. We do so by optimizing the use of funds, resources, materials and technologies. We build prudence and cost-effectiveness into our leadership culture and pass on the benefits to our customers.



Community and Prosperity

We believe in mutual prosperity. We aspire to thrive in business while bringing progress and prosperity to our own people and the communities where we operate. Our culture, our ideas, our practices, our environmental concern and our teamwork inspire us to create superior values for people and communities around us.





Chairman's Message

On behalf of the Board of Directors, I am pleased to present to you the annual report of Zamil Industrial Investment Company (Zamil Industrial) on the company's overall performance and the outcome of its activities and investments inside the Kingdom of Saudi Arabia and abroad, as well as the auditors' report and the consolidated financial statements for the fiscal year ended 31 December 2019.

Zamil Industrial achieved good revenues in 2019, only slightly lower than in 2018 despite the challenges facing the domestic industrial sector in general and the construction industry in particular, as well as the economic situation and market conditions in which we operate, which we had to overcome. During 2019, Zamil Industrial sectors witnessed a continuation of the performance of the previous year, as they maintained a similar level of sales, but the increase in input costs and severe competition led to pressure on selling prices, decreasing them significantly and adversely affecting gross margins.

Under the current economic situation, especially the trade tensions, the slowdown in global growth, and the increase in debt levels by which most companies in the region have been affected during the past year, we have continued to reduce expenditures so as to adapt to the conditions and challenges at hand. We are redirecting more of our business to privately funded projects; enhancing operational expenditure-based activities and operations related to continuing government projects as opposed to

capital expenditure-based ventures, including maintenance, repair, and after-sales service; maintaining an effective, low-cost structure; and seriously considering opportunities to reduce costs and increase productivity at all the company's manufacturing facilities, while maintaining the highest standards of governance, transparency, risk management, ethics and core values.

While the domestic economy is going through a transformation period, which offers emerging opportunities as well as new challenges, an improvement in the performance of the Saudi economy is expected in the coming period. The IMF expects the Saudi economy to grow by 1.9% in 2020 and by 2.2% in 2021.

Growth is expected to improve slightly even in the nonpetroleum sector, thanks to an expansionary budget featuring several incentive packages designed to support growth, with revenues in the 2020 budget amounting to SAR 833 billion, reflecting the optimistic outlook of the government. The new Saudi budget confirms the government's keenness to continue implementing





Chairman's Message (continued)

major spending plans; executing major projects, vision realization programs, infrastructure development, and social protection network programs; and developing services provided to citizens in accordance with the Kingdom's Vision 2030. Also, the budget focuses on developing non-oil sectors to contribute to building the country's economy, which remains completely dependent on oil revenues.

Consequently, the Kingdom's overall economic situation has stabilized, and structural changes to the economy are making their way toward Vision 2030. The Kingdom's economic diversification

strategy is an important element in Vision 2030, with the aim of expanding the investment base in the country. Additionally, the recent initiatives announced by the Ministry of Industry and Mineral Resources – which include the Saudi government's decision to bear the cost of expatriates working in the industrial firms for 5 years, studying energy and electricity prices for factories, and making the Ministry of Industry and Mineral Resources a main point of reference for all industrial sectors – will support the industrial sector and enable it to achieve its goals.

We are confident that the wise steps of our government and the Supreme Economic Council will bear fruit in the foreseeable future. This will reflect the local investment climate and support the company's business in achieving returns and maximizing value for shareholders. We also believe that the government's efforts and its focus on achieving sustainability and balance in public finances are beneficial to local businesses and support the decision-making processes.

Regarding our export markets, construction and infrastructure projects remain strong in general, especially in the Gulf Cooperation Council countries, as well as in other regions where we operate. However, the continuous decline in the value of the local currency in both Egypt and India, along with the state of economic slowdown and new taxes during the last period, are adversely affecting production costs.

Zamil Industrial, however, has continued to conduct its usual activities in those markets and increased its exports to various other countries. Even as governments seek to stem the economic slowdown with new financial plans and the possibility of more different business opportunities, profit margins remain under severe pressure due to strong competition in the markets.

Zamil Industrial generated gross revenue of SAR 4,278.2 million (USD 1,140.1 million) in 2019, compared with 4,313.6 million (USD 1,150.3 million) in 2018, a decrease of 0.8%. Gross profits were SAR 597.9 million (USD 159.4 million), compared with SAR 715.4 million (USD 190.8 million) for the same period in 2018, a decrease of 16.4 percent.

The net loss for the year, after deducting Zakat and tax, was SAR 138.8 million (USD 37.1 million), compared with a net loss of SAR 139.8 million (USD 37.3 million) in 2018. The net loss marginally decreased for the year due to the increase in profit of associated companies; increase in other income; lower provision for expected credit loss





of financial assets; and reduction in loss from discontinued operations. However, the impact of the aforementioned factors was offset by the following: reduction in gross profit margins in the AC and Steel sectors due to increase in input costs, pressure on selling prices and severe competition; increase in financial charges; and increase in tax.

The loss per share, after deducting Zakat and tax, was SAR 2.31, compared with a loss per share of SAR 2.33 in 2018. Shareholders' equity saw a 9% decrease, to SAR 1,479.8 million (USD 394.6 million) from SAR 1,624.1 million (USD 433.1 million) in 2018.

Given the financial results of 2019, the Board of Directors has recommended to the General Assembly that no dividend be distributed to shareholders for the fiscal year ending 31 December 2019. The Board made this decision to support and strengthen the financial position of the company.





Our financial results will continue to be affected by the turbulent economic climate prevailing in the region, the challenges of macroeconomic positioning, fluctuating commodity and materials prices and exchange rates, declining support, and intensifying competition. Also, it is expected that the negative repercussions related to containing the outbreak of the novel coronavirus (COVID-19) will affect economic growth at the local, regional and global levels; at this time, it is impossible to accurately estimate the potential negative effects and financial impact on the company's business.

There is no doubt that the government's prudent policy and the solidity of the Saudi economy are important positive elements that lead us to look forward with confidence and optimism to the coming years.

We will continue our focus on operational and business excellence, as the executive management of the company and all of its employees strive to achieve the strategic goals of the Kingdom's Vision 2030. The management systems, policies and procedures are regularly updated, and new and global digital transformation technologies are adopted to gain more flexibility and competitiveness and enhance efficiency across the company's sectors.

On the organizational level, the company's general assembly in 2019 approved the formation of the new Board of Directors in its eighth term. Consequently, the Board reformed its specialized committees to support it in performing its duties effectively, represented by the Audit Committee and the Nomination and Remuneration Committee.



Our continued success reflects the excellent reputation that Zamil Industrial's portfolio of products and services has garnered in all markets in which the company operates. Zamil Industrial is firmly established in all of its fields and industrial activities. In 2019 the company continued to take initiatives to provide state-of-the-art technologies and innovative services of ultimate benefit to our customers. Zamil Industrial's commitment to this effective strategy will continue, with our attention focused on meeting our customers' current and future needs.

Furthermore, the Board of Directors has elected to seek social achievements and prioritize social responsibility. The company has taken on several social initiatives to enhance its role in the service of our community, and we will make progress in this field in our dedication to social responsibility.

Corporate governance has also been an integral part of our core values, as throughout 2019 Zamil Industrial's Board of Directors was keen to fulfill its duties and ensure that the company's operations were conducted according to the best corporate governance methods. We are determined to adhere

to governance and transparency principles by means of guiding the company's Internal Audit Department, which works continuously to ensure that the best available practices and the highest transparency and governance standards are observed across all sectors and fields of our business. In this regard, we pay detailed attention to the recommendations of the Saudi Stock Exchange (Tadawul) in the pursuit of a sound investment environment for shareholders.

In conclusion, on behalf of the Board of Directors, I would like to express my sincere thanks and appreciation to all employees of Zamil Industrial for their dedicated efforts and contributions

to the company's success, and to our customers for their trust in our abilities and our products. My grateful thanks and appreciation are also extended to our shareholders for their precious trust and steadfast belief in us, even during very difficult times. This motivates us to put forth our utmost efforts to achieve the company's goals, aspirations, and strategies.

Khalid Abdullah Al Zamil
Chairman of the Board



Board of **Directors'** **Report** for 2019



Dear **Respected Zamil Industrial Shareholders,**

The Board of Directors of Zamil Industrial Investment Company (Zamil Industrial) is pleased to present to shareholders its annual report, including a review of Zamil Industrial's performance, activities and investments inside and outside the Kingdom of Saudi Arabia and an overview of the company's overall status for the year 2019 by looking at its sectors: Air Conditioning, Steel, Insulation and other industries.

The report also comprises the audited consolidated financial statements and notes for the fiscal year that ended on 31 December 2019, including the report prepared by Ernst & Young auditors, the balance sheet, revenue, changes in shareholders' rights, cash flow statements and remarks on such statements for the aforementioned year.

1

Overall Status

Zamil Industrial sectors experienced a setback in 2019 due to lower domestic revenues, an increase in input costs and severe competition, which led to pressure on the selling prices, decreasing them significantly and adversely affecting the gross margins.

2

Organization and Activities

Founded in 1998 and headquartered in Dammam, Saudi Arabia, Zamil Industrial Investment Company (Zamil Industrial) is a publicly listed company and a leading manufacturing and fabrication group that provides engineered products, systems and support services for the construction industry.

Today, we serve clients in more than 90 countries worldwide and operate businesses in four major industrial sectors – Steel, HVAC, Insulation Materials and Concrete. We are majority shareholders in joint venture companies and own several subsidiaries. Our companies employ more than 11,000 people in 55 countries.

In keeping pace with the industrialization initiative of Saudi Arabia, Zamil Industrial has chosen to concentrate operations in the building, construction and industrial structures and equipment industries. All operations are ISO 9001 certified, and Zamil Industrial businesses are the regular recipients of prestigious industry rewards in recognition of attention to quality, customer service and leadership in the research and development of new technologies and industrial processes.

Manufacturing facilities operated by Zamil Industrial businesses are currently located in Saudi Arabia, the United Arab Emirates, Egypt, India and Vietnam. Our companies manufacture and fabricate materials and provide innovative engineering systems, customized solutions and services to clients for use in construction and industrial operations.

Products and services include:

- Pre-engineered steel buildings and structural steel products
- Air conditioning systems, including maintenance, installation and operation services
- Process equipment
- Transmission and telecom towers, open-web joists and steel decks
- Precast concrete products
- Fiberglass and rock wool insulation
- Pre-insulated pipes
- Mineral, rock wool and sprayed polyurethane foam sandwich panels
- Building automation, security and protection systems
- Maintenance and inspection of industrial projects
- Turnkey project solutions



19⁹⁸
Damman

11,000+
people

99
countries

At Zamil Industrial, we provide customers with total building solutions. Our strength and diversity have enabled us to build the capacity to operate as a single-source provider capable of meeting complete project needs, from engineering and materials to climate control.

Zamil Industrial shares are available for trading for all Saudis, GCC nationals, and foreign investors (both resident and qualified). They are actively traded on the Saudi Stock Exchange (Tadawul) under the name "Zamil Industrial" (Saudi Stock Exchange: 2240, International Code: SA0007879410). More information can be found at www.tadawul.com.sa.



STEEL



HVAC



INSULATION



CONCRETE

Steel Sector

Zamil Industrial's Steel Sector is represented by Zamil Steel Holding Company Ltd. Founded in 1977, Zamil Steel is a global leader in the manufacture of pre-engineered steel buildings and the Middle East's premier supplier of structural steel products and process equipment, transmission and telecommunications towers, open web steel joists and roof and floor steel decks.







Zamil Steel's annual production capacity is more than 555,000 tons of fabricated steel of low-rise and high-rise steel buildings and structures for diverse industrial, commercial, agriculture, aviation, entertainment and military applications and in support of infrastructure and development projects. Zamil Steel products are sold in more than 90 countries through an international network of dedicated sales and representative offices, certified builders, agents and distributors.

Zamil Steel demonstrates its commitment to service at the local level by maintaining a network of nearly 55 area offices located in 34 countries,

as well as a large number of certified builders, agents and distributors. These facilities are fully staffed and equipped to provide quick, comprehensive responses to customer inquiries, as well as extensive after-sales service.

Zamil Steel's main factories are based in Dammam, Saudi Arabia. Additional facilities are located in Egypt, Vietnam, India and Ras Al Khaimah (UAE). The company employs hundreds of engineers in its engineering departments in Saudi Arabia and around the world.

The company is also the largest supplier of sandwich panels in Saudi Arabia. It produces more than 1.5 million square meters of sprayed polyisocyanurate (PIR) foam and mineral wool sandwich panels annually, in compliance with international standards.

The company also offers engineering services and turnkey solutions for the supply and installation of roof coverings and wall cladding, including the secondary members and all related accessories for new buildings as well as retrofitted buildings.

Additionally, the company operates in the field of maintenance and plant turnaround, providing professional services and technical expertise through its highly skilled workforce and wide range of resources.

Moreover, Zamil Steel offers the engineering, procurement and construction services needed to complete new projects in different market sectors, for a variety of purposes. The company provides the design, fabrication and supply of steel buildings, as well as related civil and concrete works; the erection of steel buildings; and the installation of firefighting and fire alarm systems, architectural materials, mechanical systems, electrical systems and plumbing works through turnkey contracts using full-site management teams.







HVAC

Sector

Zamil Industrial's HVAC Sector is represented by Zamil Air Conditioners Holding Co. Ltd. Founded in 1974 as a pioneer in the Saudi Arabian air conditioning industry, the company has expanded over the past four decades to become a leading international manufacturer of air conditioning systems and is currently the number one producer of such systems in the Middle East. Zamil Air Conditioners designs, manufactures, tests, markets and services a comprehensive range of air conditioning products, from compact room air conditioners and mini splits to large-scale central air conditioners, chillers and air-handling units for highly specialized commercial and industrial applications.



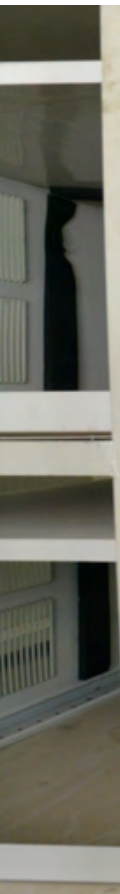
Currently ranked as the region's leading air conditioning equipment service and maintenance provider, the company employs more than 2,500 qualified technicians spread across 18 branches in Saudi Arabia and GCC countries. The company owns and maintains nearly 500 service vehicles, equipped with the necessary tools, equipment and emergency spare parts to repair and service any HVAC unit regardless of brand, capacity or make.

The company offers professional air conditioning services as well as complete preventive maintenance programs and other related HVAC services, aimed at providing regular, scheduled checkups to keep air conditioning systems in optimum operating condition. It operates a Service & Parts department and offers annual service and maintenance contracts for banks, industrial

establishments, oil and gas companies, retail outlets and homes, in addition to handling regular customer service calls.

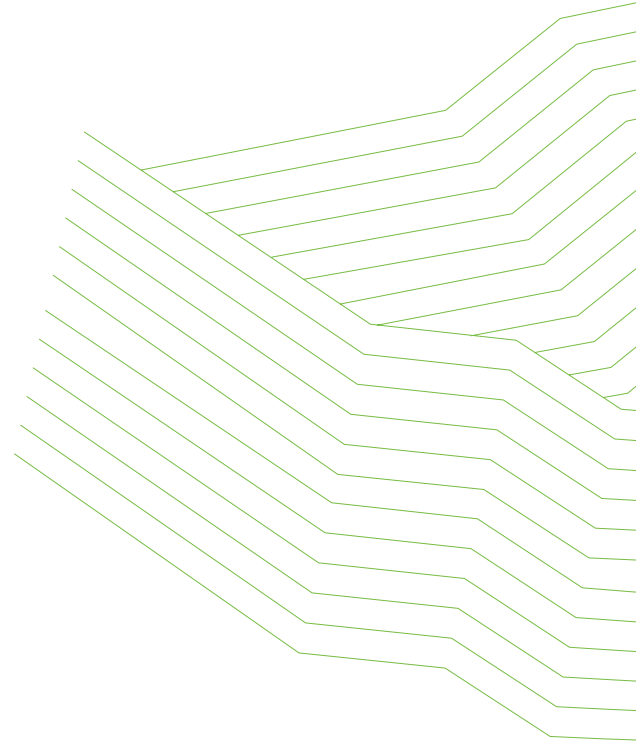
Zamil Air Conditioners has also developed a state-of-the-art Training Center, offering a complete range of training courses for the company's own technicians and engineers as well as for those employed by dealers and large corporate clients.

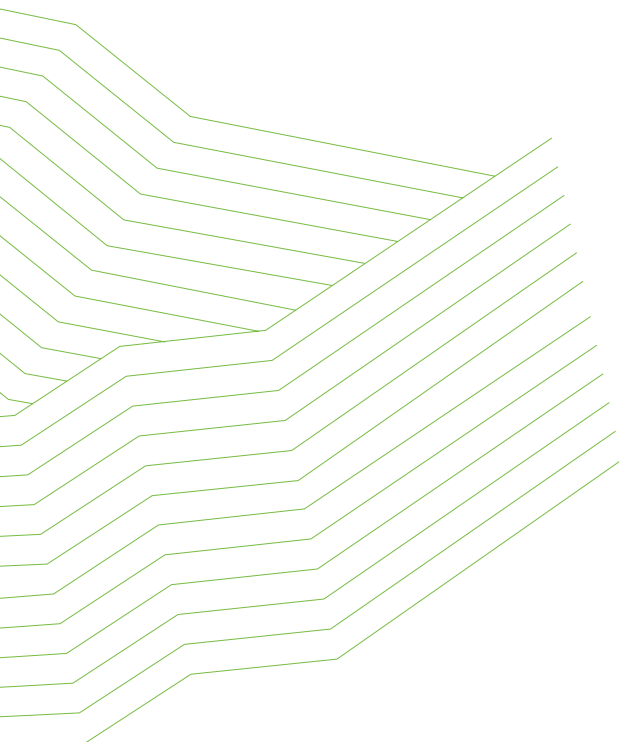
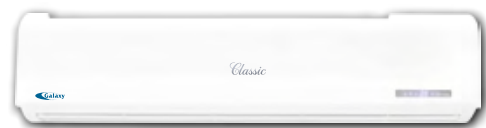
Moreover, Zamil Air Conditioners owns and operates Ikhtebar, the first independent laboratory created specifically for testing climate control solutions in the Middle East. Ikhtebar, which was constructed in 1984 by Intertek Testing Services and certified by Electrical Testing Laboratories (ETL), offers air conditioning manufacturers and importers a comprehensive range of performance tests for consumer and commercial air conditioners and chillers.



The lab also plays a key role in supporting research and development initiatives in the Heating, Ventilation and Air Conditioning (HVAC) industry in the Middle East, allowing Zamil Air Conditioners the distinction of being the only manufacturer in the region capable of guaranteeing compliance with local, regional and international specifications and standards of air conditioning products.

In 2010, Zamil Air Conditioners launched the first Saudi brand for anti-corrosion coating, ResisTec®, for high-quality anti-corrosion coating created specifically for HVAC products and components. The company developed ResisTec protective coating to help lower life-cycle costs, minimize HVAC depreciation and provide customers with the option to choose high-quality products and services that help them to substantially reduce costs and produce a healthier bottom line.





The innovative, environmentally friendly ResisTec technology protects HVAC equipment from corrosion and deterioration with a negligible effect on the performance of the coated coils. ResisTec was developed specifically to lengthen the product life cycle and minimize equipment failure, especially under harsh Middle Eastern climate conditions.

Furthermore, the company has been offering solar and green building solutions since 2012, as green building projects, particularly those using solar technology, are on the rise. Driven by a team of experienced industry professionals, the company is adept in engineering, procurement, construction and retrofit services. Connections with leading companies across the globe provide opportunities to manufacture



and supply Solar Modules, Inverters, Batteries, LED lights and Thermal Heaters in accordance with international safety and quality certificates.

The company offers a complete solution for photovoltaic integration, including power conversion, electrical distribution, monitoring, supervision and technical support, with a complete solution from the solar panel's DC output to the grid connection with different types of systems.

Zamil Air Conditioners designs and manufactures high-quality duct systems and other HVAC industry-related products, utilizing state-of-the-art automated duct lines, Plasma Cutting, CNC Turret punch press and other specific machinery through two duct factories located in Yanbu and Dammam, Saudi Arabia. The company also offers robotic duct cleaning solutions, using the latest European technologies to improve air quality and operational efficiency of air conditioning systems



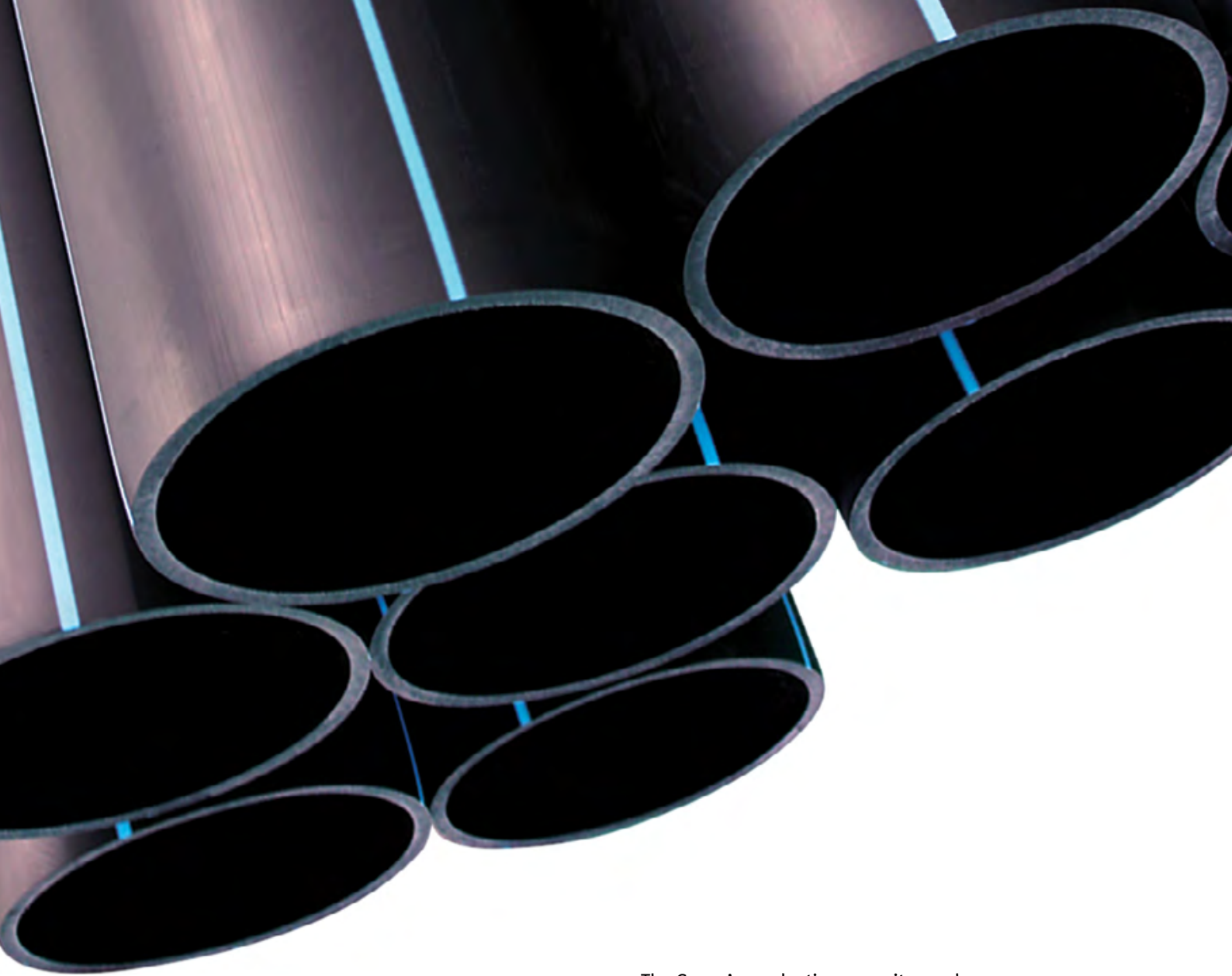
Insulation

Sector

Zamil Industrial maintains a presence in the insulation sector through **Gulf Insulation Group (GIG)**, of which Zamil Industrial is managing partner and major shareholder, with 51% of the equity. GIG comprises three companies: **Arabian Fiberglass Insulation Co. Ltd. (AFICO)**, **Saudi Rock Wool Factory Company (SRWF)** and **Saudi Pre-Insulated Pipes Industries (SPPI)**. These companies enjoy excellent reputations for the high quality of their environmentally efficient insulation products and solutions, all of which conform to the highest international standards.







GIG operates as a joint venture with Owens Corning, USA, the world leader in the technology of manufacturing fiberglass products. The Group manufactures premium quality glass wool insulation products for industrial and commercial applications. It is also the only manufacturer of fiberglass insulation products in Saudi Arabia. The Group's premium quality products and services are comparable to those of its counterparts in the United States and Europe.

Since 1992, the Group has been manufacturing rock wool products for construction and industrial customers, providing materials for the local and international markets ever since. The company focuses on rock wool, one of the most effective and widely used thermal, acoustical and fire insulation materials.

The Group's production capacity reaches 65,000 tons per annum. It currently owns about 80% of the rock wool production capacity in Saudi Arabia and 55% of the existing capacity in the GCC region, using the latest technology in this field. The Group employs qualified technical staff with vast experience in providing the best products and services to customers.

Additionally, the Group has been designing and manufacturing pre-insulated, prefabricated systems for aboveground, underground, cooling/heating and process piping since 1983. It produces high-quality pre-insulated pipes and HDPE products customized to meet the unique requirements of each individual customer as closely as possible. The Group also provides its customers with on-site technical assistance and installation supervision.

In addition, the Group maintains advanced in-house capabilities to perform computerized stress analysis using specialized software. This analysis



determines the stresses in the carrier steel pipe; detects any axial movement, which will provide data for the anchor design; and indicates whether the expansion joints are needed.

The Group's high-density polyethylene (HDPE) pipes can be utilized in various applications, including wastewater systems, irrigation systems, gas pipeline systems, lining and relining and potable water systems.

Concrete

Sector

This sector is represented by **Rabiah & Nassar and Zamil Concrete Industries Co. Ltd. (Ranco Zamil)**, in which Zamil Industrial has a 50% equity interest.

The Rabiah and Nassar Precast Concrete Factory (RANCO Precast) designs, manufactures and erects precast concrete buildings used for various applications, including residential properties, schools, shopping malls and industrial plants.

The factory also produces wall panels and fabricates a variety of other concrete-based products used in the construction industry, including standard and non-standard columns, plinth foundation, pre-stressed beams, pre-stressed double TT-slabs and flat slabs, hollow core slabs, boundary walls and road construction supplies.





The following table details the company's shares in its subsidiaries:

Subsidiary	Capital	Ownership Percentage	Activity	Country of Operation	Country of Incorporation
1 Zamil Steel Holding Co. – and its subsidiaries:	SAR 250 million	100%	Holdings	KSA	KSA
Zamil Steel Pre-Engineered Buildings Co. Ltd.	SAR 50 million	100%	Steel buildings	KSA	KSA
Zamil Structural Steel Co. Ltd.	SAR 75 million	100%	Structural steel	KSA	KSA
Zamil Towers and Galvanizing Co. Ltd.	SAR 70 million	100%	Transmission and telecommunications towers	KSA	KSA
Zamil Process Equipment Co. Ltd.	SAR 55 million	100%	Process equipment	KSA	KSA
Building Component Solutions Co. Ltd.	SAR 25 million	100%	Insulated sandwich panels	KSA	KSA
Zamil Steel Construction Co. Ltd.	SAR 1 million	100%	Steel industry project management	KSA	KSA
Zamil Inspection and Maintenance of Industrial Projects Co. Ltd.	SAR 2 million	100%	Inspection and maintenance	KSA	KSA
Metallic Construction and Contracting Co. Ltd.	EGP 250,000	100%	Steel buildings	Egypt	Egypt
2 Zamil Air Conditioners Holding Co. – and its subsidiaries:	SAR 1 million	100%	Holdings	KSA	KSA
Zamil Air Conditioners and Home Appliances Co. Ltd.	SAR 173 million	100%	Air conditioners	KSA	KSA
Zamil Central Air Conditioners Co. Ltd.	SAR 101 million	100%	Air conditioners	KSA	KSA
Zamil Air Conditioning and Refrigeration Services Co. Ltd.	SAR 35.7 million	100%	Maintenance and services	KSA	KSA
Ikhtebare Co. Ltd.	SAR 500,000	100%	HVAC Testing	KSA	KSA
Eastern District Cooling Co. Ltd.	SAR 1 million	100%	District cooling systems	KSA	KSA
Zamil Energy Services Co. Ltd.	SAR 1 million	100%	Technical engineering services	KSA	KSA
Zamil Air Conditioning and Refrigeration Services Co. W.L.L.	BHD 270,000	100%	Maintenance and services	Bahrain	Bahrain
3 Zamil Steel Buildings Co.	EGP 100 million	100%	Steel buildings	Egypt	Egypt
4 Zamil Steel Buildings (Shanghai) Co. Ltd.	RMB 12,5 million	100%	Steel buildings	China	China
5 Zamil Steel Buildings India Pvt. Ltd.	INR 886.1 million	100%	Steel buildings	India	India
6 Zamil Steel Engineering India Pvt. Ltd.	INR 51.2 million	100%	Engineering office	India	India
7 Arabian Stonewool Insulation Co.	SAR 10 million	100%	Stonewool insulation	KSA	KSA
Second Insulation Co. Ltd.	SAR 50,000	100%	Insulation materials marketing	KSA	KSA
Gulf Insulation Group (CJSC).	SAR 21.1 million	51%	Holdings	KSA	KSA
Saudi Preinsulated Pipes Industries.	SAR 7.2 million	51%	Pre-insulated pipes	KSA	KSA
8 Zamil Industrial Investment Co. (LLC)	AED 5 million	100%	Holdings	UAE	UAE
9 Zamil Steel Industries (LLC)	AED 20 million	100%	Steel buildings	UAE	UAE
10 Zamil Structural Steel Co. Ltd.	USD 10 million	100%	Structural steel	Egypt	Egypt
11 Zamil Construction India Pvt. Ltd.	INR 13.7 million	100%	Steel industry project management	India	India
12 Zamil Information Technology Global Pvt. Ltd.	INR 23.5 million	100%	Information technology	India	India
13 Zamil Higher Institute for Industrial Training	SAR 8.14 million	100%	Industrial training	KSA	KSA
14 Zamil Air Conditioners India Pvt. Ltd	INR 1,372.7 million	100%	Air conditioners	India	India
15 Saudi Central Energy Co. Ltd.	SAR 1 million	100%	District cooling project management	KSA	KSA
16 Zamil Industrial Investment Co. Asia Pvt. Ltd.	SGD 1	100%	Holdings	Singapore	Singapore
17 Zamil Steel Buildings Vietnam Co. Ltd.	SAR 13.2 million	92.27%	Steel buildings	Vietnam	Vietnam

A portion of the parent company's shares in the subsidiaries outside Saudi Arabia listed above is in the names of members of the Board of Directors or senior executives in their capacities as shareholders nominated to act on behalf of the parent company in accordance with legal requirements in the countries where such subsidiaries operate

3 The Company's Investments

Investments in associates are as follows:

1. A 50% share in Rabiah & Nassar and Zamil Concrete Industries Co. Ltd., whose main headquarters is located in Riyadh and is engaged in the production of precast concrete products.
2. A 20.83% share in IIB Paper Company Limited, which is registered in the Cayman Islands. Its principal activity is the production of tissue paper.

Investments in joint ventures are as follows:

1. A 51% share in Middle East Air Conditioners Company Limited, whose main headquarters is located in Dammam. It engages in the sale and promotion of air conditioners.

Available for sale investments are as follows:

1. A 2.11% share in Kinan International for Real Estate Development Company (Closed Joint Stock Company). Its principal activity is investment in real estate.

4 Future Plans and Important Decisions

The company's principal future plans and important decisions include:

- | | |
|---|---|
| <p>A) Continued efforts to expand and increase the yields of adjacencies of the company's sectors in its operating geographic regions to enhance the company's ability to control the value chain, thus maximizing the company's chances of earning higher returns for owners.</p> | <p>will enable the company to improve its financial position and earn higher returns for owners.</p> |
| <p>B) Continue to rationalize expenditures and increase production efficiency and cash management, which</p> | <p>C) Right-size a selection of activities in an effort to maximize yields and mitigate costs.</p> |

Performance Highlights

Revenues amounted to SAR 4,278.2 million as of 31 December 2019, a decrease of SAR 35.4 million (0.8%) from SAR 4,313.7 million in 2018. Net loss for the year, after deducting Zakat and tax, was SAR 138.8 million, compared with a

net loss of SAR 139.8 million in 2018, a decrease of 0.7%. Loss per share, after deducting Zakat and tax, was SAR 2.31, compared with SAR 2.33 during the same period in 2018.

The following table details the contribution of each principal activity to the total annual revenues:

Item	2019	2018	Change
Air Conditioning Industry	41.0%	43.7%	-6.9%
Steel Industry	52.9%	49.6%	+5.8%
Insulation Industry	6.7%	7.0%	-4.5%
Head Office and Others	-0.7%	-0.3%	+119.5%
	100%	100%	

A) Statement of Income:

Item (SAR '000)	2019	2018	2017	2016	2015
Sales	4,278,226	4,313,649	4,403,850	4,929,230	5,488,595
Cost of sales	3,680,279	3,598,279	3,495,651	3,858,159	4,183,312
Gross profit	597,947	715,370	908,199	1,071,071	1,305,283
Total expenses	737,163	843,864	785,070	932,755	1,049,447
Other income, net	30,735	2,292	(2,298)	30,677	29,321
Zakat	30,328	13,631	15,813	22,612	22,150
Net income	(138,809)	(139,833)	105,018	146,381	263,007

B) Balance Sheet:

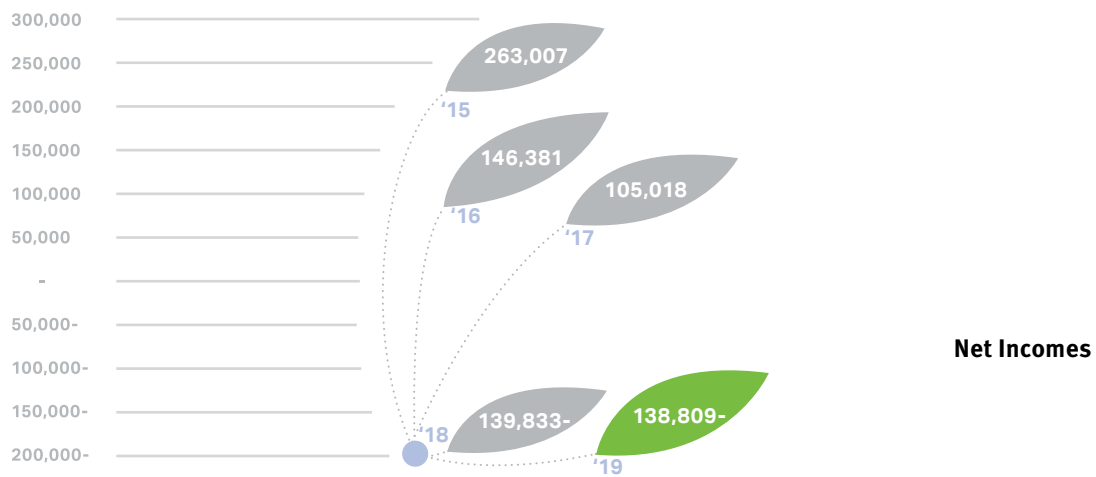
Item (SAR '000)	2019	2018	2017	2016	2015
Current assets	4,100,238	4,241,708	4,036,713	4,093,137	4,344,531
Current liabilities	3,696,223	3,848,401	3,434,758	3,392,681	3,622,540
Working capital	404,015	393,307	601,955	700,456	721,991
Other long-term assets	582,452	502,992	555,122	584,704	708,919
Fixed assets	960,708	1,018,511	1,089,888	1,132,783	1,390,010
Total assets	5,643,398	5,763,211	5,681,723	5,810,624	6,443,460
Current liabilities	3,696,223	3,848,401	3,434,758	3,392,681	3,622,540
Long-term loans	144,986	38,734	67,255	195,246	313,338
Other liabilities	322,354	251,961	303,330	334,514	356,558
Total liabilities	4,163,563	4,139,096	3,805,343	3,922,441	4,292,436
Paid capital	600,000	600,000	600,000	600,000	600,000
Reserves and retained earnings	678,767	815,946	1,064,703	1,078,199	1,285,146
Minority interest	201,068	208,169	211,677	209,984	265,878
Shareholders' equity	1,479,835	1,624,115	1,876,380	1,888,183	2,151,024
Total liabilities and shareholders' equity	5,643,398	5,763,211	5,681,723	5,810,624	6,443,460

C) Outcome of Operation Activities:

Item (SAR '000)	2019	2018	Change	%
Sales	4,278,226	4,313,649	(35,423)	(0.8)
Cost of sales	3,680,279	3,598,279	82,000	2.3
Total operating profits	(29,325)	(13,075)	(16,250)	124.3
Expenses of main operations	627,272	728,445	(101,173)	(13.9)
Losses of main operations	-	-	-	-
Other revenue/expenses	79,156	113,127	(33,971)	(30.0)
Deductions: Zakat or tax	30,328	13,631	16,697	122.5
Net profits (loss)	(138,809)	(139,833)	1,024	0.7

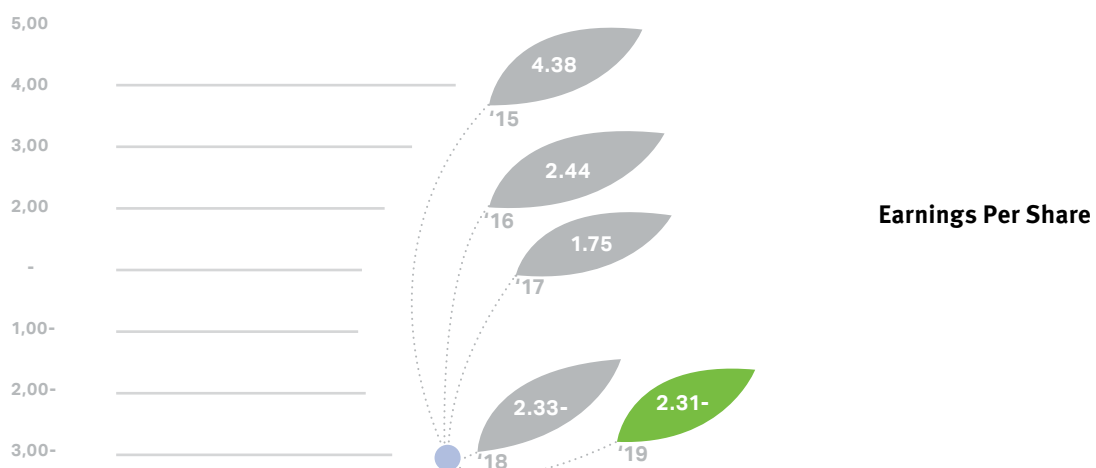
The following chart shows net incomes between 2015 and 2019:

(SAR '000)

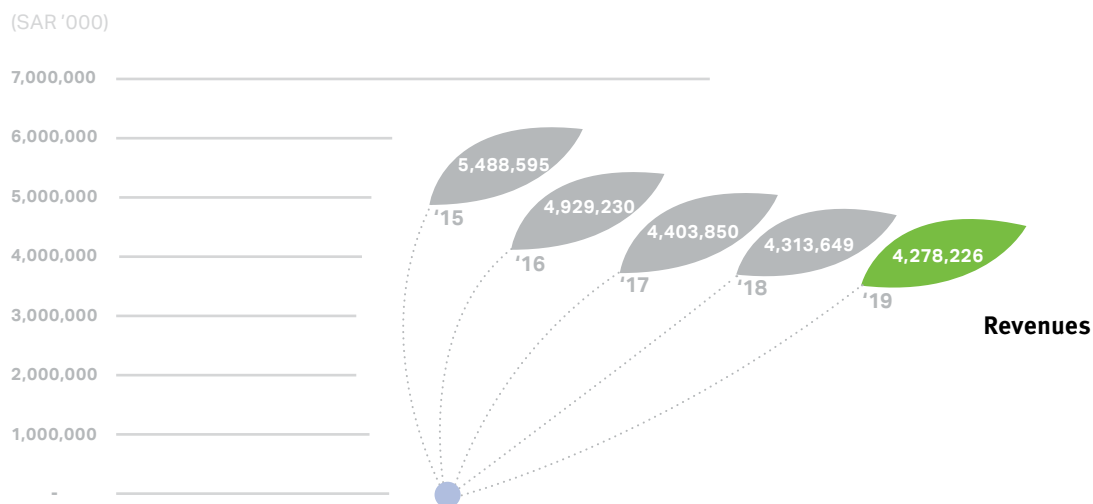


The following chart shows earnings per share between 2015 and 2019:

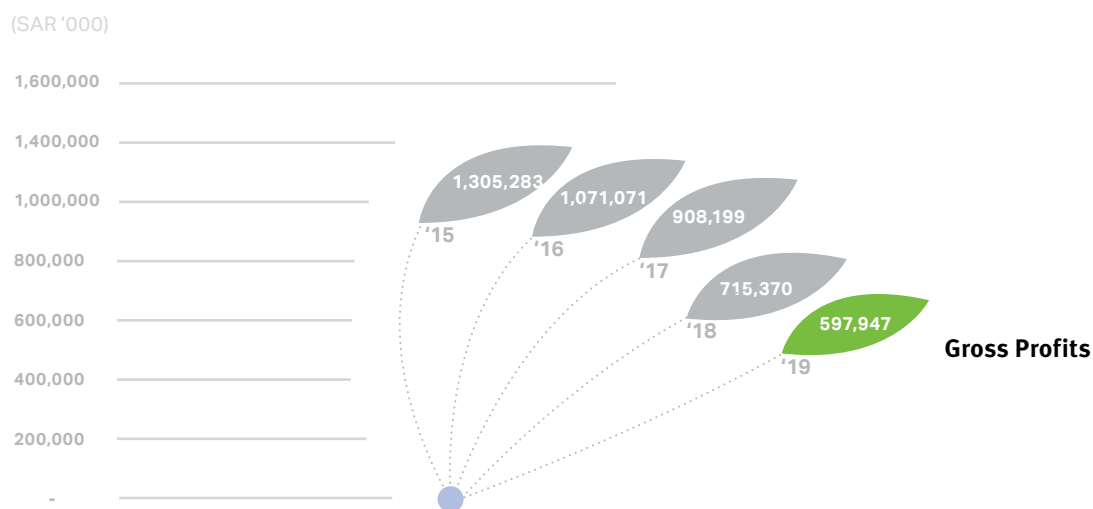
(SAR '000)



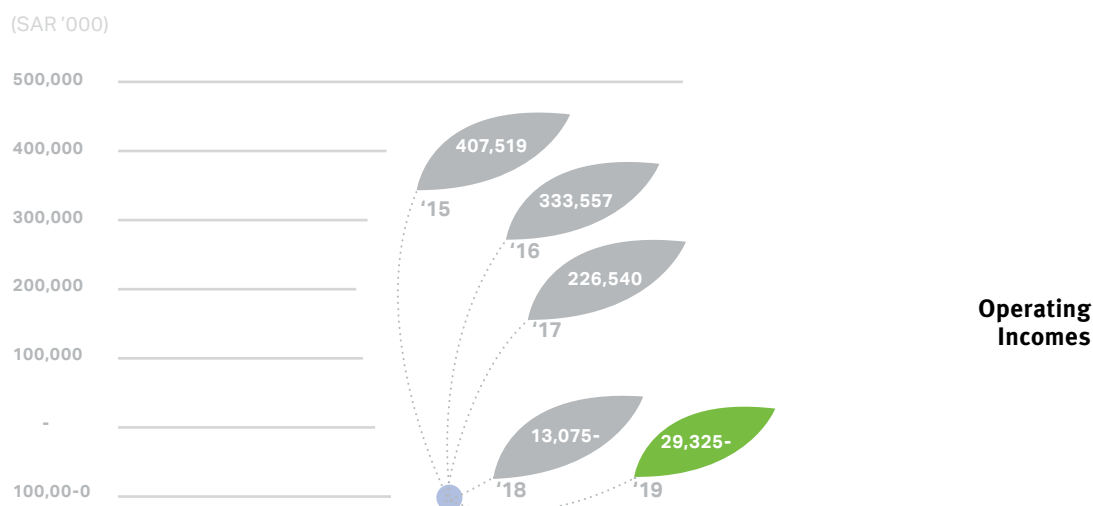
The following chart shows consolidated revenues over the past five years:



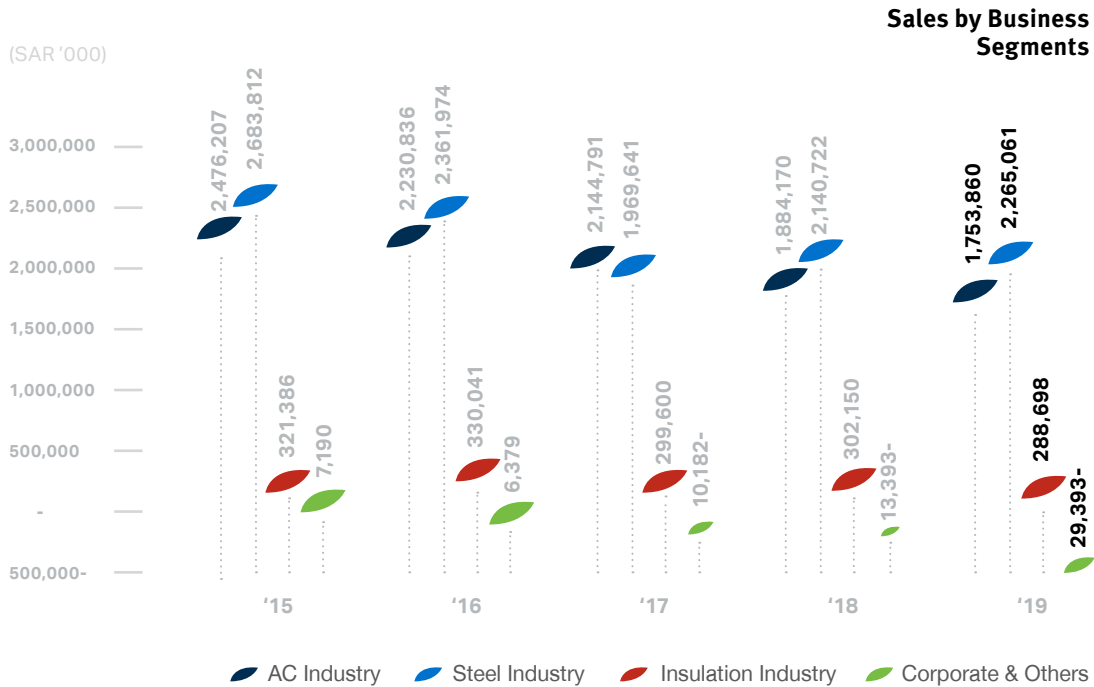
The following chart shows gross profits over the past five years:



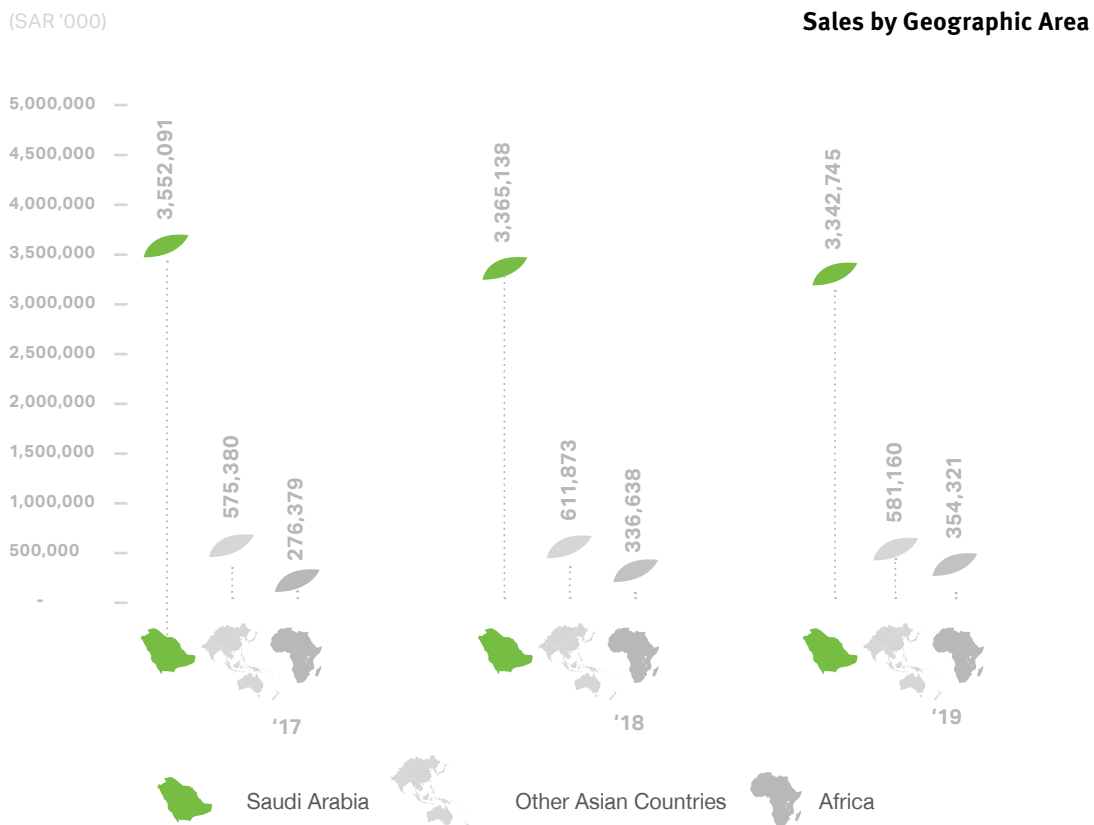
The following chart shows operating incomes over the past five years:



The Steel sector's revenue in 2019 was SAR 2,265.1 million, an increase of 5.8%. The AC sector's revenue decreased 6.9% to SAR 1,753.9 million. The Insulation sector's revenue also saw a 4.5% decrease to SAR 288.7 million.



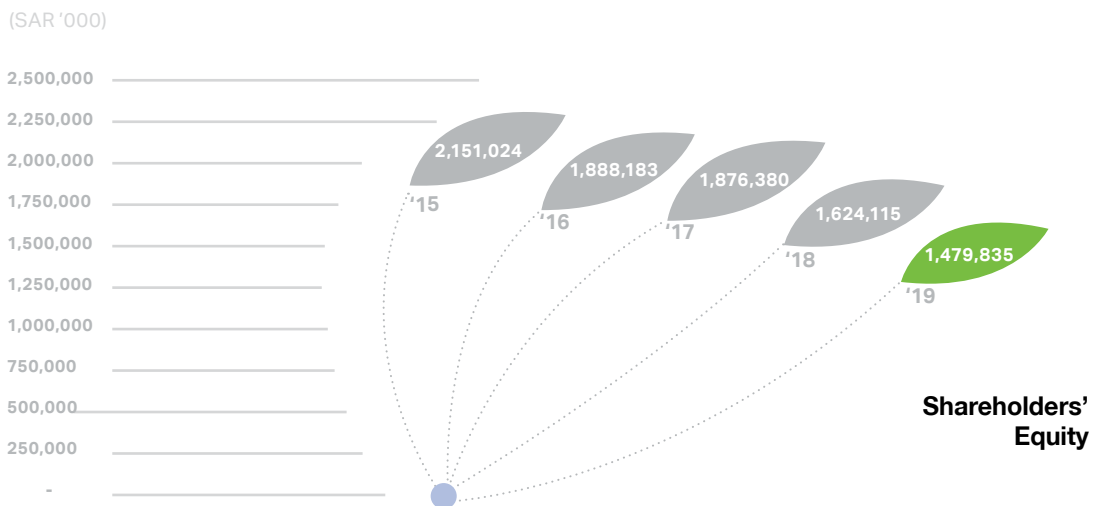
Geographically, the company's revenues based on operations in the Kingdom of Saudi Arabia totaled SAR 3,342.7 million. Revenues of the company's subsidiary factories outside the Kingdom of Saudi Arabia totaled SAR 935.5 million. This analysis, however, does not include exports, which are detailed in the exports section of the report.



The following chart shows the company's assets and liabilities over the past five years.



Shareholders' equity saw a drop of 9% to SAR 1,479.8 million, compared with SAR 1,624.1 million in 2018, as shown in the following chart:



The company's exports amounted to about SAR 567 million in 2019, compared with SAR 730.3 million in 2018. Exports constituted about 13.3% of total sales in 2019. The company's products are exported to more than 90 countries by means of a network of sales and representative offices in more than 55 countries around the world.



6 On inconsistencies with the Saudi Organization for Certified Public Accountants' Accounting Standards

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) endorsed in the Kingdom of Saudi Arabia, as well as other standards and versions endorsed by the Saudi Organization

for Certified Public Accountants. The Board of Directors declares that no inconsistencies exist with the approved accounting standards. All comparative figures have been reclassified in accordance with the new International Financial Reporting Standards.

7 Loans

This comparison table details loans contracted by the company's management:

Item	2019	2018	Date Obtained	Due Date	Base Loan Amount	
	(SAR '000)				(SAR '000)	Lender
Loan No. 1	195,422	85,642	29/08/2012	10/11/2022	257,317	Saudi Industrial Development Fund
Less: Current instalment	195,422 (47,400)	85,642 (43,703)				
Less: Fund administrative fees	(3,036)	(3,205)				
	144,986	38,734				

8 Financial Risk Management Objectives and Policies

The Group's principal financial liabilities comprise loans and borrowings and accounts payable. The main purpose of these financial liabilities is to finance the Group's operations. The Group's principal financial assets include accounts receivable, net investment in finance lease, short-term deposits, cash and bank balances that derive directly from its operations. The Group also holds an investment in unquoted shares that is classified as an equity investment at fair value through other comprehensive income.

The Group is exposed to market risk, credit risk and liquidity risk. The Group's senior management oversees the management of these risks. The Group's senior management regularly reviews the policies and procedures to ensure that all the financial risks are identified, measured and managed in accordance with the Group's policies and risk objectives. The Group does not engage in any hedging activities. The Board of Directors reviews and agrees on policies for managing each of these risks, which are summarized below.

- A) **Market risk:** Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: commission rate risk, currency risk and other price risk, such as equity price risk and commodity risk. Financial instruments affected by market risk include loans and borrowings, short-term deposits and equity instruments at fair value through other comprehensive income. The sensitivity analyses in the following sections relate to the position as of 31 December 2019 and 2018.

Commission rate risk

Commission rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market commission rates. The Group's exposure to the risk of changes in market commission rates relates primarily to the Group's long-term and short-term loans and its short-term deposits. The Group manages its exposure to commission rate risk by continuously monitoring movements in commission rates. On 31 December 2019 and 2018, the Group's exposure to commission rate risk was not significant, as its major long-term and short-term loans were subject to fixed commission rates.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense is denominated in a foreign currency) and the Group's net investments in foreign subsidiaries and associates. The Group did not undertake significant transactions in

currencies other than Saudi Riyals, US Dollars, Japanese Yen, Egyptian Pounds, Indian Rupees and Euros during the year. As Saudi Riyals are pegged to US Dollars, balances in US Dollars are not considered to represent a significant currency risk. The Group is exposed to currency risk on transactions and balances in Euros, Japanese Yen, Indian Rupees and Egyptian Pounds. The Group manages currency risk exposure to Euros, Japanese Yen and Egyptian Pounds by continuously monitoring the currency fluctuations. On 31 December 2019 and 2018, the Group's exposure to foreign currency changes for its accounts receivable and accounts payable was not material.

The Group is exposed to significant foreign currency changes on its net investment in foreign operations in Egyptian Pounds and Indian Rupees. The following tables demonstrate the sensitivity to a reasonably possible change in Egyptian Pound and Indian Rupee exchange rates, with all other variables held constant. The impact on the Group's pre-tax equity is due to changes in the fair value of monetary assets and liabilities. The Group's exposure to foreign currency changes for all other currencies is not material.

	Change in Egyptian Pound rate	Effect on other components in equity (SAR '000)
31 December 2019	+3%	1,086
	-3%	(1,086)
31 December 2018	+9%	1,438
	-9%	(1,438)

	Change in Indian Rupee rate	Effect on other components in equity (SAR '000)
31 December 2019	+2%	1,953
	-2%	(1,953)
31 December 2018	+2%	53
	-2%	(53)

Commodity risk

The Group is exposed to the impact of market fluctuations in the price of various inputs to production, including steel, electric parts, glass materials and electricity. The Group prepares annual budgets and periodic forecasts, including sensitivity analyses, in respect to various levels of such materials to manage the risk.

Equity price risk

The Group's unlisted equity securities are susceptible to market price risk arising from uncertainties about the investment securities' future values. The Group manages the equity price risk through diversification and by placing limits on individual and total equity instruments. Reports on the equity portfolio are submitted to the Group's senior management on a regular basis. The Group's

Board of Directors reviews and approves all equity investment decisions.

On the reporting date, the exposure to unlisted equity securities at fair value was SR 39,140 thousands (2018: SR 40,538 thousands).

- B) Credit risk:** Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, thus leading to a financial loss. The Group is exposed to credit risk on its bank balances, short-term deposits, accounts receivable, contract assets, net investment in finance lease and some other receivables, as follows:

	31/12/2019	31/12/2018
	(SAR '000)	
Bank balances	167,381	126,892
Short-term deposits	26,016	21,805
Accounts receivable	1,895,662	2,043,156
Contract assets	494,756	413,369
Net investments in finance lease	340,682	363,283
Other receivables	157,665	152,752
	3,082,162	3,121,257

Accounts receivable and contract assets

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. The Group seeks to manage its credit risk with respect to customers by setting credit limits for individual customers, monitoring outstanding receivables and ensuring close follow-ups.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses for each business unit of the Group. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., geographical region, product type, customer type and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

The provision matrix is initially based on the Group's historical observed loss rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year, which can lead to an increased number of defaults in a particular sector, then the historical loss rates are adjusted. At every reporting date, the historical observed loss rates are updated and changes in the forward-looking estimates are analyzed. The assessment of the correlation between historical observed loss rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customers' actual loss in the future.

Generally, accounts receivable are written off if past due for more than three years and are not subject to enforcement activity. It is not the practice of the Group to obtain collateral over receivables, and the vast majority are, therefore, unsecured. On 31 December 2019, the Group obtained a letter of credit as collateral over its receivables amounting to SAR 145.3 million (2018: 245.8 million) from certain customers. The Group determined that such receivables are not exposed to significant credit risk and therefore have not been considered in the ECL assessment. The Group evaluates the concentration of risk with respect to trade accounts receivable as low, as its customers are located in several jurisdictions and industries and operate in largely independent markets.

Presented below is the information about the credit risk exposure on 31 December 2019 for the Group's accounts receivable, net investment in finance lease and contract assets:

Accounts receivable	2019 (SAR '000)	2018 (SAR '000)
Current	563,495	540,223
Less than 30 days	115,783	207,969
31 - 60 DAYS	100,271	146,249
61 - 90 DAYS	96,280	93,284
91 - 180 DAYS	162,108	177,362
181-360 DAYS	172,090	186,398
More than 360 days	555,268	490,617
	1,765,295	1,842,102
Receivables from related parties	102,706	95,051
Retention receivable	207,664	171,852
Net investment in finance lease	340,682	363,283
Contract assets	501,695	415,397
	2,918,042	2,887,685

Based on a provision matrix, the Group's expected credit losses on 31 December 2019 against its accounts receivable and contract assets exposed to credit risk amounted to SR 325.3 million and SR 6.9 million (2018: SR 311.6 million and SR 2.02 million), respectively. Accordingly, the Group recognized an amount of SR 22.3 million (2018: SR 124.08 million) as a provision for expected credit losses in its consolidated statement of income for its continuing operations. Related parties receivable include an amount of SR 54.2 million (2018: 37.9 million) attributable to discontinued operations. The Group recognized an amount of SR 14.5 million (2018: 23.2 million) as a provision for expected credit losses as part of its net loss on discontinued operations in the consolidated statement of income.

Bank balances and short-term deposits

Credit risk from balances with banks and financial institutions is managed by the Group's treasury department in accordance with the Group's policy. The Group seeks to manage its credit risk with respect to banks by only dealing with reputable banks. At the reporting date, no significant concentration of credit risk was identified by the management

- C) Liquidity risk:** Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to realize financial assets quickly at an amount close to their fair value. The Group manages its liquidity risk by monitoring working capital and cash flow requirements on a regular basis and ensuring that bank facilities are available. The Group's terms of sales require amounts to be paid within 30 to 90 days of the date of submitting the invoice. Trade payables are normally settled within 30 to 120 days of the date of purchase.

Excessive concentration risk

Concentrations arise when a number of counterparties are engaged in similar business activities, are engaged in activities in the same geographical region, or have economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry.

In order to avoid excessive concentrations of risk, the Group's management focuses on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

The table below summarizes the maturity profile of the Group's financial liabilities based on contractual undiscounted payments:

Item	on demand	< 6 months	6 - 12 months	1 - 5 years	> 5 years	Total
As at 31 December 2019						
(SAR '000)						
Accounts payable	5,408	386,811	-	-	-	392,219
Lease liabilities	-	10,430	14,289	56,684	55,328	136,731
Other financial liabilities	-	399,699	-	-	-	399,699
Interest bearing loans and borrowings	28,542	2,200,721	302,700	147,180	-	2,679,143
	33,950	2,997,661	316,989	203,864	55,328	3,607,792

Item	on demand	< 6 months	6 - 12 months	1 - 5 years	> 5 years	Total
As at 31 December 2018						
(SAR '000)						
Accounts payable	19,574	436,947	-	-	-	456,521
Other financial liabilities	-	374,431	-	-	-	374,431
Interest bearing loans and borrowings	30,000	2,630,648	8,400	39,442	1,700	2,710,190
	49,574	3,442,026	8,400	39,442	1,700	3,541,142

Due Statutory Payments

The following table shows paid and due statutory payments for 2019:

Item	2019	2018
	(SAR '000)	
Custom charges	31,607	40,102
Visas and passports	42,787	41,434
Zakat and tax	58,715	45,099
General Organization for Social Insurance	40,005	41,779
Other	-	-
Total government charges:	173,114	168,414

Awards, Certifications and Quality

All Zamil Industrial subsidiaries are ISO 9000 certified by recognized competent organizations. Additionally, most of the subsidiaries have obtained OHSAS 18001 Occupational Health and Safety Management Systems certification as well as ISO 14001 Environmental Management System (EMS) certification. The Information Technology Department at Zamil Industrial has also received ISO/IEC 20000 certification for delivering information technology management services.

In early 2019, for the second consecutive year, Zamil Industrial has received the Occupational Safety and Health (OSH) Champions Award 2018 for the company's excellence in OSH practices and its exceptional record in OSH performance levels. The award, which was launched by the Ministry of Human Resources and Social Development in Saudi Arabia, aims to establish and promote the principles of safety and health in private sector organizations, as part of the ministry's efforts to achieve a stable workforce, attract new workers, enhance work performance, ensure worker safety and health, and maintain the workplace property and environment.

In March, the Maintenance, Repair, and Overhaul (MRO) business unit at Zamil Air Conditioning & Refrigeration Services Co. Ltd. (Zamil CoolCare) received the "2018 Best Environment, Health, Safety & Security (EHSS) Contractor" award from the Arabian Petrochemical Company (Petrokemya), a manufacturing affiliate of the Saudi Basic Industries Corp. (SABIC) in Jubail Industrial City. The award was made in recognition of the company's commitment and excellence in EHSS performance among all contractors engaged by Petrokemya.

In April, Zamil Industrial was selected by the United Safety Council (USC) as the winner of the Gold Award for Corporate Safety for 2018. The company was selected from among a group of international organizations collaborating with the council. The award recognizes Zamil Industrial for the outstanding safety initiatives in place at the company, the positive results of its annual HSE Management Audit, and the thoroughness of the Safety Key Performance Index conducted every quarter.

Moreover, Zamil Steel Buildings Vietnam Co., Ltd., a subsidiary of Zamil Industrial Investment Co., has been awarded the prestigious Golden Dragon Award for the 16th consecutive year, marking its 22 years of excellence in Vietnam and Southeast

Asia. Organized by the Vietnam Economic Times Group, the Golden Dragon Award is an annual event initiated in 2001 to recognize outstanding achievements in production and business and making a significant contribution to the Vietnam economy by foreign-invested enterprises.

Also during 2019, Zamil Structural Steel Co. and Zamil Air Conditioning & Refrigeration Services Co., have been awarded the Silver category of “Mowaamah Certification” for 2019, in recognition of their efforts to provide a supportive and motivational work environment for people with disabilities. The “Mowaamah Certification”, launched by the Ministry of Human Resources and Social Development in Saudi Arabia, adopts best

practices and standards while creating a work environment that comprehensively supports the special needs of workers with disabilities.

Lastly, Zamil Air Conditioners Co. was honored by the Emirates Authority for Standardization and Metrology (ESMA) for its commitment in applying the legislation, regulations, and standard specifications issued by the authority. This took place during an event which honored more than 140 governmental and private organizations that deal with ESMA. The event was part of the “First Customers Forum 2019”, held recently in Dubai, UAE, in the presence of hundreds of national and overseas companies and institutions operating in various economic and commercial sectors.





11

Human Resources and Workforce Localization

Zamil Industrial attaches great importance to its human resources as the most important element in managing and operating its business, as it believes that the human element is the basis for achieving outstanding business performance. Since its establishment, the company has concentrated on attracting candidates with top credentials and practical qualifications for key positions. It has also focused on developing human competencies by providing excellent growth and learning opportunities for employees in all sectors of the company.

At the end of 2019, the total Zamil Industrial headcount in Saudi Arabia was 8,060 employees, a decrease of 3.8% from the previous year. The percentage of job localization in 2019 reached about 25.2% of the total employees of the company, a decrease of 1.7 from 2018, as a result of the decrease in the number of employees in the various sectors of the company.

During 2019, the Talent Acquisition program continued to focus on attracting and recruiting new Saudi employees. As a result, 803 new recruits joined Zamil Industrial's business units, 231 (or 29%) of whom were Saudis.

The number of Saudi females working in the various sections and departments dropped to 57, a decrease of 14.9% from 2018, due to the employment reductions and the restructuring of some business units and sections in the company. In employing new recruits, close attention was paid to maintaining full compliance with the Nitaqat nationalization program, which ensures a growing number of Saudi employees in company workforces.

In October, Zamil Industrial presented employment opportunities at the Wadaef Job Fair 2019, organized by the Asharqia Chamber of Commerce and Industry, with the aim of seeking employable Saudis.

As an integral part of Zamil Industrial's commitment to diversity in the workplace, the company intensified its pledge to the Qaderoon Business Disability Network advocacy organization to create a sustainable program to employ persons with disabilities. It now employs more than 60 people with disabilities across various business units and functional areas, with interrelated awareness sessions conducted on an in-house basis. Also, the company regularly organizes awareness seminars for officials and managers in key Zamil Industrial sectors and departments on the best practices for dealing with people with disabilities in the workplace.

In recognition of their efforts to provide a supportive and motivational work environment for people with disabilities, Zamil Structural Steel Co. and Zamil Air Conditioning & Refrigeration Services Co. have been awarded the Silver category of "Mowaamah Certification" for the year 2019. The "Mowaamah Certification", launched by the Ministry of Human Resources and Social Development in Saudi Arabia, recognizes companies that adopt best practices and standards to create a work environment that comprehensively supports the special needs of workers with disabilities.

The Human Resources Department again organized a series of social events for Zamil Industrial employees during the past year, including entertainment and educational programs, Health & Wellness campaigns, blood donation campaigns and sports events, among others

12

Training and Development

Zamil Industrial strives to provide training programs with outstanding content and high value to ensure the success and continuous development of employees and all business units in the company. In order to facilitate the continuous delivery of these specialized training and development programs and to increase job localization, the company has established the Zamil Higher Institute for Industrial Training. The institute specializes in preparing and graduating qualified Saudi technicians with diploma certificates accredited by the Technical and Vocational Training Corporation (TVTC); Grimsby Institute of Further & Higher Education, a leading UK-based provider of vocational air conditioning and refrigeration training; and Edexcel, a multinational education and examination body based in London, UK.

In 2019, Zamil Higher Institute for Industrial Training delivered Saudi Aramco certification test preparation courses and tested more than 1,100 technicians from various Aramco contracting companies in several specializations, including Instrumentation, Electrical Technology, HVAC, Machining, Metal Pipefitting, and Metal Fabrication.

During 2019, the institute was approved and authorized by SADARA Chemical Company to deliver various training courses and related certification tests to its contractors' employees and about 3,600 employees from various contracting companies. The courses were related to various technical and vocational fields, including occupational health and safety, operation of devices and equipment, operation and maintenance tasks, preventive leadership, defensive driving and others.

Moreover, the institute signed a one-year training agreement with CAT International Company for the delivery of three different one-year training programs for 60 of its newly recruited Saudi employees. The three specializations are electrical technology, instrument fitting and maintenance technology, and occupational health and safety.



The institute also signed a one-year training agreement with Snamprogetti Saudi Arabia Company Ltd., a subsidiary of Saudi Arabian Saipem Company, to provide a wide range of training services, including specialized occupational health and safety courses as well as engineering and management training courses and programs.

The institute has been selected by the Ministry of Human Resources and Social Development and signed an agreement with the Human Resources Development Fund (HRDF) to train Saudis as part of the nationalization program on occupational health and safety jobs at various companies and organizations. Two training courses that are fully financed by the HRDF will be delivered by the institute for various companies and will significantly contribute towards the localization of the workforce in occupational health and safety.

Furthermore, the institute became a CompTIA (The Computing Technology Industry Association – USA) Authorized Partner to offer its courses on information technology. The institute has also become a Microsoft – USA training partner to offer a number of Microsoft courses. Additionally, the institute

signed an MoU with Électricité de France (EDF) to jointly offer its advance-level courses on nuclear power generation, transmission and distribution, and a selected number of the institute's teaching staff that will be involved in teaching those courses have attended the first workshop on nuclear power stations delivered by EDF.

In related developments, Zamil Air Conditioning & Refrigeration Services Company (Zamil CoolCare) held specialized workshops on HVAC systems and a number of modern maintenance methods for a group of Ministry of Health employees from different regions of the Kingdom. The workshops were held at the company's facilities in the First and Second Industrial cities in Dammam.

Corporate Social Responsibility

Zamil Industrial takes pride in its commitment to social responsibility in the communities in which it operates and contributes widely to a network of community service and development programs in partnership with charities and like-minded institutions to help those in need. The company continues its support of ambitious initiatives and social projects aimed at improving living conditions and contributing to the prosperity of communities in which the Zamil Industrial businesses operate. Corporate social responsibility is not limited to the workplace. Zamil Industrial encourages all employees to volunteer and participate in various community-based activities and initiatives.

In recent years, Zamil Industrial has worked closely with the Ministry of Human Resources and Social Development in supporting the Qaderoon Business Disability Network, which seeks to motivate employers to include those with disabilities in their recruitment plans and empower persons with disabilities to be active members of the national workforce. Zamil Industrial currently employs more than 60 individuals with disabilities in various business units and functional areas.

Zamil Industrial provided Gold-level sponsorship for HVACR Expo Saudi 2019, the region's largest dedicated event for commercial heating, air conditioning, ventilation and refrigeration. The event was held in January 2019, at the Riyadh International Convention and Exhibition Center. HVACR Expo Saudi is a gathering of trusted quality vendors and influential experts who come together to discuss trending issues, regulations, policies and standards – working together to create a greater impact on the economy as a whole.

As part of the social responsibility programs and initiatives implemented by Zamil Industrial in cooperation with various governmental institutions and civil society organizations, the Corporate Loss Prevention Department at Zamil Industrial conducted a lecture titled “Methods of Investigation of Occupational Accidents and Injuries” for students and lecturers of Dammam Community College. The college is part of King

Fahd University of Petroleum and Minerals. The awareness lecture comprised various topics related to HSE, including the definition and types of occupational injuries; the proper classification of work injuries; the objectives of investigating occupational injuries and accidents; and the appropriate and correct ways to identify the main causes of occupational injuries and work accidents.

In April, the Human Resources Department at Zamil Industrial, in collaboration with Al-Kahhal Medical Centers and Sabeel Al-Shifaa for Hearing, held the annual Health Lounge for Zamil Industrial employees at the premises of Zamil Industrial companies in the First and Second Industrial Cities in Dammam.

Also during the year, Zamil Industrial companies welcomed student delegations from a number of schools, colleges and national institutes. The visitors aimed to explore the industrial operations and manufacturing facilities as well as observe the specific processes, products, and capabilities of Zamil Industrial sector businesses. The visitors found the exchange of information beneficial to their studies, especially from a practical standpoint.



14 Capital and Shares' Details

The following table details the company's capital. No debt instruments are convertible to stock.

Item	2019	2018	(%) change
Authorized and fully paid share capital	SAR 600 million	SAR 600 million	0
Issued shares	60 MILLION SHARES	60 MILLION SHARES	0
Nominal value	SAR 10	SAR 10	0
Number of free-float shares	44,999,375 SHARES (74.9%)	44,999,375 SHARES (74.9%)	0
Closing share price	SAR 18.16	SAR 17.40	SAR 0.76
Market value	SAR 1,089,600,000	SAR 1,044,000,000	4.4%

15 Corporate Governance Controls

The company has adhered to all mandatory provisions of corporate governance controls.

16 Board of Directors' Composition

The Board of Directors comprises eight members who are elected by the General Assembly before their memberships expire, and their term shall be three years, in accordance with the Companies' Law and the company's bylaws. The following table shows the names, positions and classifications of members of the Board of Directors, in accordance with corporate governance controls.

Name	Position	Classification
Khalid Abdullah Hamad Al Zamil	Chairman of the Board of Directors	Independent
Abdallah Saleh Jum'ah Al Dossari	Vice Chairman	Independent
Ahmed Abdullah Hamad Al Zamil	Member	Independent
Adib Abdullah Hamad Al Zamil As a representative of Zamil Group Holding Company	Member	Non-executive
Mohammed Ahmed Mahmoud Al-Ghaith As a representative of the Public Pension Agency	Member	Non-executive
Mohammad Sulaiman Mohammad Al Harbi	Member	Independent
Khalid Mohammed Saleh Al Fuhaid	Member	Independent
Abdulla Mohammed Abdullah Al Zamil	Member/CEO	Executive

We would like to note that the members of the Board of Directors listed in the table above formed the Board in its seventh term, which ended on 30/04/2019. The same members were elected for the new term during the company's general assembly meeting on 28/04/2019, at which a vote was taken on the election of a new Board of Directors from among the candidates for Board membership for the eighth term, which runs from 01/05/2019 through 30/04/2022.

17 A description of any interest in a class of voting shares held by persons who have notified the company of their holdings, together with any change to such interests during the last fiscal year

There are no interests in a class of voting shares held by persons who have notified the company of their holdings or any change to such interests during the last fiscal year.

18 A description of any interests, contractual securities or rights issues of Board members and their relatives on shares or debt instruments of the company

Name	At year's beginning		At year's end		Net change	Change percentage
	Number of shares	Debt instruments	Number of shares	Debt instruments		
Khalid Abdullah Hamad Al Zamil	1,747,233	0	1,747,233	0	0	0%
Abdallah Saleh Jum'ah Al Dossari	2,666	0	2,666	0	0	0%
Ahmed Abdullah Hamad Al Zamil	1,000	0	1,000	0	0	0%
Adib Abdullah Hamad Al Zamil As a representative of Zamil Group Holding Company	*11,999,989	0	*11,999,989	0	0	0%
Mohammed Ahmed Mahmoud Al-Ghaith As a representative of the Public Pension Agency	*3,000,636	0	*60,636	0		(98%)
Mohammad Sulaiman Mohammad Al Harbi	1,000	0	1,000	0	0	0%
Khalid Mohammed Saleh Al Fuhaid	1,000	0	1,000	0	0	0%
Abdulla Mohammed Abdullah Al Zamil	21,000	0	21,000	0	0	0%

*The number of shares owned by a corporate entity represented by the member.

19 A description of any interests, contractual securities or rights issues of senior executives and their relatives on shares or debt instruments of the company

Name	At year's beginning		At year's end		Net change	Change percentage
	Number of shares	Debt instruments	Number of shares	Debt instruments		
Osama Fahad Al Bunyan	200,000	0	200,000	0	0	0%
Said Fahad Al Daajani	10,000	0	10,000	0	0	0%

20 Controlling interests of substantial shareholders who own 5% or more and percentage changes

Name	At year's beginning		At year's end		Net change	Change percentage
	Number of shares	%	Number of shares	%		
Zamil Group Holding Company	11,999,989	19.99	11,999,989	19.99	0	0%
Public Pension Agency	3,000,636	5.0	60,636	0.10	(2,940,000)	(0%)
Waleed Abdullah Hamad Al Zamil	3,168,066	5.28	3,168,066	5.28	0	0%
Zamil Group Investment Company Ltd.	3,091,528	5.15	3,091,528	5.15	0	0%
Al Ra'idah Investment Company	0	0	3,114,013	5.19	3,114,013	-

Names, former and current positions, qualifications and expertise of Board members, committee members and executives

Members of the Board of Directors:

Name	Current positions	Previous positions	Qualifications	Experience
Khalid Abdullah Hamad Al Zamil	<ul style="list-style-type: none"> Chairman, Zamil Group Holding Company 	<ul style="list-style-type: none"> Chairman, Zamil Group Holding Company Managing Director, Zamil Industrial Investment Co. Managing Director, Strategic Affairs, Zamil Group Holding Co 	<ul style="list-style-type: none"> Bachelor's in Civil Engineering Executive education programs (Harvard and IMD) 	Professional experience since 1972
Abdallah Saleh Jum'ah Al Dossari	<ul style="list-style-type: none"> Retired 	<ul style="list-style-type: none"> CEO, Saudi Arabian Oil Company (Saudi Aramco) 	<ul style="list-style-type: none"> B.A. in Political Science Executive Management program 	Professional experience since 1968
Ahmed Abdullah Hamad Al Zamil	<ul style="list-style-type: none"> Businessman 	<ul style="list-style-type: none"> President, Zamil Air Conditioners 	<ul style="list-style-type: none"> Bachelor's in Business Administration 	Professional experience since 1972
Adib Abdullah Hamad Al Zamil	<ul style="list-style-type: none"> Chief Executive Officer, Zamil Group Holding Company 	<ul style="list-style-type: none"> Managing Director, Finance and Investment, Zamil Group Holding Company Managing Director, Zamil Industrial Investment Co. Managing Director, Zamil Air Conditioners Financial Auditor, Zamil Group 	<ul style="list-style-type: none"> Bachelor's in Business Administration 	Professional experience since 1975
Mohammed Ahmed Mahmoud Al-Ghaith	<ul style="list-style-type: none"> Senior Management Auditor, Public Pension Agency 	<ul style="list-style-type: none"> Financial Auditor, Public Pension Agency Statistics Researcher, Public Pension Agency 	<ul style="list-style-type: none"> Master's in Financial Management Bachelor's in Operations Research 	Professional experience since 2001
Mohammad Sulaiman Mohammad Al Harbi	<ul style="list-style-type: none"> Freelance 	<ul style="list-style-type: none"> Chairman, Mohamed Al-Harbi Consulting Co. CEO, Takween Advanced Industries Chairman, Saudi German Company for Nonwoven Products Project Manager, Saudi Industrial Development Fund 	<ul style="list-style-type: none"> Bachelor's in Industrial Engineering 	Professional experience since 1992
Khalid Mohammed Saleh Al Fuhaid	<ul style="list-style-type: none"> Chairman of the Board of Directors, Manafea Arabia Holding Co. 	<ul style="list-style-type: none"> CEO, Midad Holding Co. General Manager, Aluminium Products Company (ALUPCO) 	<ul style="list-style-type: none"> Bachelor's in Mechanical Engineering 	Professional experience since 1989
Abdulla Mohammed Abdullah Al Zamil	<ul style="list-style-type: none"> CEO, Zamil Industrial Investment Co. 	<ul style="list-style-type: none"> COO, Zamil Industrial Investment Co. VP, Zamil Air Conditioners Senior VP of Shared Services, Zamil Industrial Investment Co. VP, Sales & Marketing and Purchasing & Materials Management, Zamil Air Conditioners 	<ul style="list-style-type: none"> Master's in Finance and Business Administration Bachelor's in Industrial Engineering 	Professional experience since 1987

 Executives:

Name	Current positions	Previous positions	Qualifications	Experience
Abdulla Mohammed Abdullah Al Zamil	<ul style="list-style-type: none"> • CEO, Zamil Industrial Investment Co. 	<ul style="list-style-type: none"> • COO, Zamil Industrial Investment Co. • VP, Zamil Air Conditioners • Senior VP of Shared Services, Zamil Industrial Investment Co. • VP, Sales & Marketing and Purchasing & Materials Management, Zamil Air Conditioners 	<ul style="list-style-type: none"> • Master's in Finance and Business Administration • Bachelor's in Industrial Engineering 	Professional experience since 1987
Osama Fahad Al Bunyan	<ul style="list-style-type: none"> • COO, Zamil Industrial Investment Co. 	<ul style="list-style-type: none"> • VP, Zamil Air Conditioners • Director, Material Management, Zamil Air Conditioners • Accountant, Saudi Electricity Company 	<ul style="list-style-type: none"> • Bachelor's in Industrial Management 	Professional experience since 1993
Awadh Sharif Al- Ameen	<ul style="list-style-type: none"> • CFO, Zamil Industrial Investment Co. 	<ul style="list-style-type: none"> • CFO, Zamil Air Conditioners 	<ul style="list-style-type: none"> • Bachelor's in Accounting 	Professional experience since 1981
Said Fahad Al Daajani	<ul style="list-style-type: none"> • Director, Corporate Affairs; Corporate Secretary 	<ul style="list-style-type: none"> • Public and Investor Relations Manager • Administrative Assistant 	<ul style="list-style-type: none"> • BA in Administrative Sciences and Political Science • Certification in Governance • Certification in Investor Relations 	Professional experience since 1998

Names of companies inside and outside the Kingdom of Saudi Arabia whose current or former Boards of Directors or management teams include members of the company's Board of Directors

Name	Current companies	Location	Legal entity	Former companies	Location	Legal entity
Khalid Abdullah Hamad Al Zamil	• SAHARA international Petrochemical Company.	• In KSA	• Listed	• Gulf Insulation Group	• In KSA	• Unlisted
	• Middle East Battery Co.	• In KSA	• Limited Liability			
	• Saudi Aramco Base Oil Company (Luberef)	• In KSA	• Limited Liability			
	• Rabiah & Nassar and Zamil Concrete Industries Co.	• In KSA	• Limited Liability			
	• Zamil Group Holding Co.	• In KSA	• Unlisted			
	• Prince Mohammad Bin Fahd University	• In KSA	• Limited Liability			
Abdallah Saleh Jum'ah Al Dossari	• Hassana Investment Co.	• In KSA	• Unlisted	• Halliburton	• Abroad	• Listed
	• Saudi Arabian Airlines	• In KSA	• Unlisted	• Saudi Arabian Oil Company (Saudi Aramco)	• In KSA	• Listed
	• Saudi Investment Bank	• In KSA	• Listed	• Motiva		
				• Motor Oil Hellas	• Abroad	• Limited Liability
				• Petron	• Abroad	• Listed
				• S-Oil Corporation	• Abroad	• Listed
Ahmed Abdullah Hamad Al Zamil	—	—	—	• Saudi Petroleum International, Inc.	• Abroad	• Listed
				• Zamil Group Holding Co.	• In KSA	• Unlisted
				• United Plastic Cards Co.	• In KSA	• Limited Liability
				• Sigma Paints	• In KSA	• Limited Liability
				• Saudi German Company for Nonwoven Products	• In KSA	• Limited Liability
				• Gulf Packaging Industries	• In KSA	• Limited Liability
Adib Abdullah Hamad Al Zamil	• United Carton Industries Co.	• In KSA	• Limited Liability	• Saudi Industrial Export Co.	• In KSA	• Limited Liability
	• Jadwa Investment	• In KSA	• Unlisted			
	• Fajr Capital	• Abroad	• Unlisted	• Al-Bilad Bank	• In KSA	• Listed
	• Saudi Arabian Investment Co. (Sanabil)	• In KSA	• Unlisted	• Methanol Chemicals Co. (Chemanol)	• In KSA	• Listed
	• Zamil Group Holding Co.	• In KSA	• Unlisted	• Gulf Union Co-Operative Insurance Co.	• In KSA	• Listed
				• Dana Gas	• Abroad	• Listed
Mohammed Ahmed Mahmoud Al-Ghaith	—	—	—	• Saudi Guardian International Float Glass (GulfGuard)	• In KSA	• Limited Liability
Mohammad Sulaiman Mohammad Al Harbi	• Musharaka Capital Co.	• In KSA	• CJSC	• Hail Agricultural Development Co.	• In KSA	• Listed (formerly)
	• Arabian Amines Company	• In KSA	• Limited Liability	• Takween Advanced Industries	• In KSA	• Listed
	• National Talents Co.	• In KSA	• Limited Liability			
Khalid Mohammed Saleh Al Fuhaid	• Midad Holdings	• In KSA	• Limited Liability	• Manafea Gulf Co.	• Abroad	• Limited Liability
	• Manafea Arabia Holding Co.	• In KSA	• Limited Liability			
	• Manafea Holding (Health care)	• In KSA	• Limited Liability			
	• Manafea Al-Bahr Co.	• In KSA	• Limited Liability			
	• Manafea Al-Jazeera Co.	• In KSA	• Limited Liability			
	• Manafea Industrial Co.	• In KSA	• Limited Liability			
	• Manafea Al Sharq Co.	• In KSA	• Limited Liability			
	• Aluminum Rolling Shutter Co.	• In KSA	• Limited Liability			
	• Life Lines Medical Co.	• In KSA	• Limited Liability			
	• First United Medical Co.	• In KSA	• Limited Liability			
	• Designs and IT Co.					
	• Al-Narjes Real Estate Development Co.	• In KSA	• Limited Liability			
	• Cherish Cosmetics					

Name	Current companies	Location	Legal entity	Former companies	Location	Legal entity
Abdulla Mohammed Abdullah Al Zamil	• Gulf International Bank	• Abroad	• Unlisted	• Saudi Food Bank	• In KSA	• Limited Liability
	• Gulf International Bank Capital	• In KSA	• Unlisted	• Endeavor Saudi Arabia	• In KSA	• Limited Liability
	• Gulf International Bank (UK)	• Abroad	• Unlisted			
	• Saudi Global Ports Co.	• In KSA	• Limited Liability			
	• VIVA Bahrain	• Abroad	• Unlisted			
	• Dammam Airport Co.	• In KSA	• Limited Liability			
	• Rabiah & Nassar and Zamil Concrete Industries Co.	• In KSA	• Limited Liability			
	• Gulf Insulation Group	• In KSA	• Unlisted			
	• Dhahran Ahliyya Schools	• In KSA	• Limited Liability			

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Board Meeting Attendance Record

In 2019, the Board of Directors convened once during its seventh term and 3 times during its eighth term. Members of the Board of Directors are paid attendance allowances for each meeting attended. Any member who did not attend a Board of Directors meeting has appointed another member as a proxy to attend in their stead and vote on their behalf. The following is an attendance sheet.

Name	7 th Term		8 th Term		Total
	No. (13/7) on 21/03	No.(1/8) on 12/05	No.(2/8) on 24/09	No. (3/8) on 23/12	
Khalid Abdullah Hamad Al Zamil	✓	✓	✓	✓	4
Abdallah Saleh Jum'ah Al Dossari	✓	✓	✓	✓	4
Ahmed Abdullah Hamad Al Zamil	✓	✓	✓	✓	4
Adib Abdullah Hamad Al Zamil	✓	✓	✓	✓	4
Mohammed Ahmed Mahmoud Al-Ghaith	✓	✓	✓	✓	4
Mohammad Sulaiman Mohammad Al Harbi	✓	✓	✓	✓	4
Khalid Mohammed Saleh Al Fuhaid	✓	✓	✓	✓	4
Abdulla Mohammed Abdullah Al Zamil	✓	✓	✓	✓	4

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Procedure taken by the Board of Directors to inform its members of the shareholders' suggestions and remarks on the company and its performance

The company's bylaws grant shareholders the right to attend General Assembly meetings to learn about the company's overall situation, activities and performance during the ended fiscal year. They also have the right to engage in deliberation and discussions conducted during meetings, and the Board of Directors shall answer questions raised by shareholders to the extent that doing so does not jeopardize the Company's interest. The regulations protect the right to inquire and request information.

The Secretary of the Board and the Investor Relations Department, in turn, shall serve as a communication channel between shareholders, the Chairman of the Board of Directors and the company's Chief Executive Officer. It shall also

present the Board of Directors with material views, suggestions and comments, if any, at the Board's first meeting following the General Assembly.

Committees of the Board of Directors

The Board of Directors has two substantive committees: the **Audit Committee** and the **Nomination and Remuneration Committee**. The committees comprise members of the Board of Directors and external members, in accordance with the directives and regulations in place in connection with this matter. The following is a brief description of each committee:

1) Audit Committee

The Audit Committee comprises 3 members. It was formed by a resolution of the General Assembly on 28 April 2019.

It works in compliance with the duties and procedures provided in the Companies' Law, the Corporate Governance Regulations and the Audit Committee Regulations approved by the General Assembly. The Audit Committee is competent in monitoring the company's activities and ensuring the integrity and effectiveness of the reports, financial statements and internal control systems. The duties of the Audit Committee specifically include the following:

A) Financial Reports:

1. Analyzing and monitoring the company's interim and annual financial statements before they are presented to the Board of Directors, and expressing its opinion and recommendations thereon to ensure their integrity, fairness and transparency.
2. Expressing its technical opinion, at the request of the Board of Directors, regarding whether the Board Report and the company's financial statements are fair, balanced and understandable and contain information that allows shareholders and investors to assess the company's financial position, performance, business model and strategy.
3. Examining any important or unusual issues contained in the financial reports.
4. Accurately investigating any issues raised by the company's Chief Financial Officer or any person assuming their duties or the company's compliance officer or external auditor.
5. Examining the accounting estimates with respect to significant matters that are contained in the financial reports.
6. Examining the accounting policies followed by the company and expressing its opinion and recommendations thereon to the Board of Directors.

B) Internal Audit:

1. Examining and reviewing the company's internal and financial control systems and risk management system.
2. Analyzing internal audit reports and observing the implementation of corrective measures with respect to the remarks made in such reports.
3. Monitoring and overseeing the performance and activities of the internal auditor and internal audit department of the company, if any, to ensure the availability of the necessary resources and their effectiveness in performing the assigned activities and duties. If the company has no internal auditor, the committee shall provide a recommendation to the Board of Directors on whether there is a need to appoint an internal auditor.
4. Providing recommendations to the Board of Directors for appointing a manager of the internal audit unit or department or an internal auditor and suggesting their remunerations, or approving the appointment of a professional accounting firm to undertake internal audit duties.

C) External Auditor:

1. Providing recommendations to the Board of Directors to appoint external auditors, dismiss them, determine their remunerations and assess their performance after verifying their independence and reviewing the scope of their work and the terms of their contracts.
2. Verifying the external auditors' independence, their objectivity and the fairness and effectiveness of the audit activities, taking into account the relevant rules and standards.
3. Reviewing the plan for the company's external auditors and their activities and ensuring that they do not provide any technical or administrative services that are beyond their scope of work, and providing its opinion thereon.
4. Responding to the company's external auditor's queries.
5. Reviewing the external auditor's reports and comments on the financial statements and following up on the procedures taken in connection therewith.

D) Ensuring Compliance:

1. Reviewing the findings of supervisory authorities and ensuring that the company has taken the necessary actions in connection therewith.
2. Ensuring the company's compliance with the relevant laws, regulations, policies and instructions.
3. Reviewing the contracts and proposed related party transactions and providing its recommendations to the Board of Directors in connection therewith.

4. Reporting to the Board of Directors any issues in connection with which it deems it necessary to take action, and providing recommendations as to the steps that should be taken.

In 2019, the committee convened twice during the Board's seventh term and 3 times during the Board's eighth term. An attendance sheet is shown below:

Meeting No.	Mohammad Sulaiman Mohammad Al Harbi	Mohammed Ahmed Mahmoud Al-Ghaith	Khalid Mohammed Saleh Al Fuhaid	Dr. Jassim Shaheen Hamad Al-Rumaihi
7 th Term				
No. (14/7) on 18/04	✓	✓		✓
No. (15/7) on 25/04	✓	✓		✓
8 th Term				
No. (1/8) on 25/07	✓	✓	✓	
No. (2/8) on 31/10	✓	✓	✓	
No.(3/8) on 23/12	✓	✓	✓	
Total	4	4	3	1

2) Nomination and Remuneration Committee

The Nomination and Remuneration Committee comprises 3 members nominated by the Board of Directors.

It works in compliance with the duties and procedures provided in the Corporate Governance Regulations and the Nomination and Remuneration Regulations approved by the General Assembly, including:

1. Preparing a clear policy for the remuneration of members of the Board of Directors and its committees and senior executives and presenting such policy to the Board of Directors in preparation for approval by the General Assembly, provided that such policy follows standards that are connected to performance, and disclosing and ensuring the implementation of such policy.
2. Clarifying the relation between the remunerations paid and the adopted remuneration policy and highlighting any material deviation from that policy.
3. Periodically reviewing the remuneration policy and assessing its effectiveness in achieving its objectives.
4. Providing recommendations to the Board of Directors with respect to the remunerations of its members, committee members and senior executives, in accordance with the approved policy.
5. Suggesting clear policies and standards for Board of Directors and Executive Management membership.
6. Providing recommendations to the Board of Directors for the nomination or re-nomination of members in accordance with the approved policies and standards, taking into account that nominations shall not include any person convicted of a crime involving dishonesty.
7. Preparing a description of the capabilities and qualifications required for membership on the Board of Directors and Executive Management positions.
8. Determining the amount of time that the member shall allocate to Board of Directors activities
9. Annually reviewing the skills and expertise required of members of the Board of Directors and Executive Management positions.
10. Reviewing the structure of the Board of Directors, Committees and the Executive Management and providing recommendations regarding changes that may be made to such structure.
11. Annually ensuring the independence of independent directors and the absence of any conflicts of interest if a member of the Board of Directors also acts as a member of the Board of Directors of another company.
12. Setting forth job descriptions for executive, non-executive and independent directors and senior executives.
13. Setting special procedures to be followed in the event that the position of a member of the Board of Directors or a senior executive becomes vacant.
14. Determining the strengths and weaknesses of the Board of Directors and recommending remedy solutions that serve the company's interests.
15. Assessing the matters that fall within its authority or those referred to it by the Board of Directors and communicating its recommendations to the Board of Directors to issue decisions in connection therewith or make decisions with regard to these matters if delegated by the Board of Directors.
16. Seeking assistance from any experts or specialists, whether internal or external, within the scope of its powers. This shall be included in the committee meeting minutes; the minutes shall state the name of the expert and his or her relation to the company or its Executive Management.

The committee convened twice in 2019; once during the Board's seventh term and once during the Board's eighth term. An attendance sheet is shown below:

Meeting No.	Abdallah Saleh Jum'ah Al Dossari	Khalid Abdullah Hamad Al Zamil	Mohammad Sulaiman Mohammad Al Harbi
7 th Term			
No. (5/7) on 10/01	✓	✓	✓
8 th Term			
No. (1/8) on 23/12	✓	✓	✓
Total	2	2	2

26 The means used by the Board of Directors to assess its performance and the performance of its committees and members, the external body which conducted the assessment and its relation to the company, if any

The Nomination and Remuneration Committee shall determine the strengths and weaknesses of the Board of Directors and recommend remedy solutions that serve the company's interests. The Chairman of the Board of Directors shall evaluate the Nomination and Remuneration Committee. The Board of Directors has not appointed an external body to conduct the performance assessment during the fiscal year 2019, and the Nomination and Remuneration Committee will investigate this issue.

27 Remunerations and compensations for members of the Board of Directors, committee members and senior executives

The following tables detail all remunerations and compensations paid to members of the Board of Directors, committee members and senior executives during the fiscal year 2019. Remunerations and compensations are subject to the remuneration policy approved by the General Assembly. The Board recognizes that there is no significant deviation from this policy:

Members of the Board of Directors:

Member	Fixed remuneration						Variable remuneration					(SAR '000)				
	Specific amount	Allowance for attending Board Meetings	Allowance for attending Committee meetings	In-kind Benefits	Remunerations for technical and consultative work	Remunerations of the chairman, Managing Director or Secretary, if a member	Total	Percentage of the profits	Periodic Remuneration	Short-term incentive plans	Long-term incentive plans	Granted shares	Total	End of Service Benefit	Grand total	Expenses allowance
First: Independent Directors																
Khalid Abdullah Al Zamil	200	12	6	0	0	0	218	0	0	0	0	0	0	0	218	0
Abdallah Saleh Jum'ah	200	12	6	0	0	0	218	0	0	0	0	0	0	0	218	0
Ahmed Abdullah Al Zamil	200	12	0	0	0	0	212	0	0	0	0	0	0	0	212	0
Mohammad Sulaiman Al Harbi	200	12	21	0	0	0	233	0	0	0	0	0	0	0	233	0
Khalid Mohammed Al Fuhaid	200	12	9	0	0	0	221	0	0	0	0	0	0	0	221	0
Second: Non-Executive Directors																
Adib Abdullah Al Zamil	200	12	0	0	0	0	212	0	0	0	0	0	0	0	212	0
Mohammed Ahmed Al-Ghaith	200	12	15	0	0	0	227	0	0	0	0	0	0	0	227	0
Third: Executive Directors																
Abdulla Mohammed Al Zamil	200	12	0	0	0	0	212	0	0	0	0	0	0	0	212	0

Committee members

Member	Fixed remuneration	Allowance for attending meetings	Total
Audit Committee members:			(SAR '000)
Mohammad Sulaiman Mohammad Al Harbi	0	15	15
Mohammed Ahmed Mahmoud Al-Ghaith	0	15	15
Khalid Mohammed Saleh Al Fuhaid *	0	9	9
Dr. Jassim Shaheen Al-Rumaihi ** (Non-Board member)	50	6	56
Nomination and Remuneration Committee members:			
Abdallah Saleh Jum'ah Al Dosari	0	6	6
Khalid Abdullah Hamad Al Zamil	0	6	6
Mohammad Sulaiman Mohammad Al Harbi	0	6	6

* His membership started with the beginning of the eighth term of the Board on 01/05/2019.

** His membership ended at the end of the seventh term of the Board on 30/04/2019.

Senior Executives

Fixed remuneration			Variable remuneration						(SAR '000)		
Salaries	Allowances	In-kind benefits	Periodic remuneration	Profits	Short-term incentive plans	Long-term incentive plans	Granted shares	End of Service Benefit	Total remuneration for Board executives, if any	Grand total	
4,409	2,350	0	0	0	0	0	0	0	200	6,960	

Four senior executives who collected the highest remunerations, including the CEO and the CFO

It is worth mentioning that members of the Board of Directors will only receive their annual remunerations for the fiscal year that ended 31 December 2019 in their capacities as members of the Board of Directors after the approval of the company's General Assembly, which will convene at a later date. Members' remunerations are in accordance with the laws issued by the relevant authorities in this regard

Remuneration policy

In compliance with Article 93 of the Corporate Governance Regulations, the General Assembly, in its meeting on 31 December 2017, approved the "Remuneration and Compensation Policy for members of the Board, Committees and the Executive Management." The major standards and mechanisms that apply for remunerations of members of the Board of Directors, its committees and the Executive Management are as follows:

General remuneration standards:

Under this policy, the company's Nomination and Remuneration Committee provides recommendations to the Board of Directors on the remunerations and compensations of members of the Board of Directors, its committees and the Executive Management in accordance with the following standards:

1. Remunerations and compensations shall be consistent with the company's strategy and objectives.
2. Remunerations shall be proportionate to the company's activity and the skills required for its management.
3. The policy shall be designed in coordination with the Nomination and Remuneration Committee when new members are appointed
4. The industry in which the company operates, its size and the expertise of members of the Board of Directors and Executive Management shall be taken into account.
5. Practices adopted by other companies with respect to determining remunerations and practices common to the market shall be taken into account, provided that any unjustifiable increases in remunerations and compensations that may result therefrom be avoided.
6. Remunerations shall be determined based on the job level, as well as its holder's duties and responsibilities, educational qualifications, practical experience, skills and level of performance.
7. Remunerations shall be provided with the aim of encouraging members of the Board of Directors and Executive Management to contribute to the success of the company and its long-term development by, for example, linking the variable part of the remuneration to long-term performance.
8. To prevent abuse of power to obtain unmerited remunerations, remunerations shall be suspended or reclaimed if it is determined that such remunerations were set based on inaccurate information provided by a member of the Board of Directors, its committees or the Executive Management.
9. The granting of company shares to members of the Board of Directors and Executive Management, whether newly issued or purchased by the company, shall be regulated.
10. Members of the Board of Directors may not vote on the Board of Directors members' remuneration at the shareholders' General Assembly meeting.
11. Members of the Board of Directors may receive remuneration for their membership in the Audit Committee composed by the General Assembly or for any additional executive, technical, administrative or consultation – under a professional license – duties or positions that may be commissioned to them within the company, in addition to the remuneration that they may receive in their capacity as members of the Board of Directors and committees composed by the Board of Directors in accordance with the Companies' Law and the company's bylaws.
12. Remunerations of members of the Board of Directors shall vary in their magnitudes in a manner that reflects each member's experience, competencies, duties, independence, number of sessions attended and other relevant considerations.
13. Remunerations for independent members of the Board of Directors must not be a percentage of the company's profits or be directly or indirectly based on the company's profitability.
14. In the event that the General Assembly decides to terminate the membership of a member of the Board of Directors following their absence from three consecutive board meetings without legitimate excuse, such member shall not be entitled to any remunerations for the period following the last meeting that they attended, and they shall refund any remunerations that were issued for that period.

Remunerations for members of the Board of Directors:

1. Remunerations for members of the Board of Directors may be fixed sums, attendance allowances, benefits in kind, a percentage of net profits or a combination of such benefits.
2. In the event that remunerations are a percentage of the company's profits, such percentage may not amount to more than 10% of the net profits after setting aside the reserves determined by the General Assembly in accordance with the provisions of the law and the company's bylaws and after distributing profits to the shareholders equal to no less than 5% of the company's paid capital, provided that such remunerations be proportionate to the number of sessions attended by the member. Any assessment inconsistent with that shall be void.
3. In all cases, the sum of remunerations, in-kind benefits or financial benefits received by each member of the Board of Directors shall not exceed SAR 500,000 per annum, in accordance with the regulations set forth by the competent organization.
4. The Board Report submitted to the General Assembly must detail all remunerations, allowances for expenses and other benefits collected by members of the Board of Directors throughout the fiscal year.

It must also detail all fees collected by members of the Board of Directors in their capacities as employees or administrative employees and the compensations received by them for technical or administrative work or consultations. It must also detail the number of board meetings and the number of sessions attended by each member of the Board of Directors since the last General Assembly meeting.

Remunerations for committee members:

1. Based on the recommendation of the Nomination and Remuneration Committee, the Board of Directors shall determine and approve remunerations, attendance fees and other entitlements for the membership of its committees, with the exception of the Audit Committee.
2. Remunerations for committee membership shall be in the form of a lump sum in addition to meeting attendance fees.
3. Remunerations for membership of the Audit Committee shall be approved by the shareholders' General Assembly based on the recommendation of the Board of Directors.
4. The number of memberships held by a member of the Board of Directors shall be taken into account upon the composition of committees, such that the total remuneration amount disbursed to a member for their membership on the Board of Directors and its committees shall not exceed the maximum provided in the Companies' Law and in accordance with clause 11 of Article 3 of this policy.

Remunerations for the Executive Management:

1. Based on the recommendation of the Nomination and Remuneration Committee, the Board of Directors shall determine the types of remunerations disbursed to senior executives in the company – such as fixed remunerations, performance-based remuneration and bonuses – without prejudice to directives and regulations issued to joint-stock companies.
2. Senior executives' remunerations shall be consistent with the company's strategic objectives and proportionate to the company's activity and the skills for its management, while taking into account the industry in which the company operates and the company's size.
3. The Nomination and Remuneration Committee shall continually review incentive plans for senior executives and submit its recommendations to the Board of Directors for approval.
4. The objective of remunerations is to foster the necessary competitive atmosphere to attract and retain qualified, skilled employees and maintain the skillfulness that the company requires.

General terms:

1. Remunerations for members of the Board of Directors and its committees and secretary shall be disbursed annually following the approval of the consolidated annual financial statements (after audit) by the company shareholders' General Assembly.
2. Attendance allowances may be disbursed following each session, quarterly or with annual remunerations.
3. In the event that more than one meeting is convened on one day, allowances and other expenses shall be disbursed only once.
4. Remunerations for members of the Executive Management shall be disbursed annually as soon as they are approved by the Board of Directors based on the recommendation of the Nomination and Remuneration Committee.

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The company's policy on profit distribution

The decision to distribute any cash profits shall be made based on the assessment and recommendation of the Board of Directors, and all existing factors shall be taken into consideration, including but not limited to the company's financial position, cash inflow, future investments, and the performance of the company sectors. The company has been distributing annual profits to shareholders since it was established, but past distributions do not necessarily guarantee future distributions.

The profit distribution policy provided in Article 41 of the company's bylaws stipulates as follows:

Net profits of the company shall be distributed as deemed reasonable by the Board, provided that the General Assembly delegates distribution of periodic payouts, and are renewed on an annual basis, according to the following method:

- 10% of the net profits shall be kept as a statutory reserve, and the ordinary General Assembly may discontinue this deduction when such reserve reaches 30% of the paid-up capital.
- The ordinary General Assembly may, upon a Board proposal, set aside 10% of the net profits to build up a conventional reserve, which shall be used for specific purpose(s)..

- The ordinary General Assembly may decide to build up other reserves, to the extent that doing so fulfills the company interest or guarantees continuous cash dividend distribution. The General Assembly can also decide to provide for establishing social and welfare programs for its employees or support existing ones.
- The remaining amount shall be distributed to shareholders at no less than 5% of the paid-up capital.
- Observing the provisions stipulated in Article 16 and Article 76 of the Companies' Act, the Nomination and Remuneration Committee recommends the remuneration of the Board, provided it does not exceed the maximum amount as per the prevailing regulations. Moreover, the remuneration should be pro-rata with the number of actual meetings the member attends.

It is worth noting that the Board recommended that no dividend be distributed to shareholders for the fiscal year ending 31 December 2019, so as to support and strengthen the financial position of the company

30

Transactions with relevant bodies

As part of Zamil Industrial Investment Company (Zamil Industrial) subsidiaries' continuous activities, there exist business and contracts between them and affiliates/subsidiaries of Zamil Group Holding Company in 2019, which is represented by Mr. Adib A. Al Zamil.

Such business and contracts are either annual or time-limited; they are renewed automatically, and agreements on them have been reached in previous years, as they are a continuation of long-standing relationships.

Agreements in that regard are reached in light of common commercial terms and in accordance with the company's relevant internal procedures and bylaws.

All prices and terms of payment for these agreements and transactions are approved by the Board of Directors. The vote of the related party is excluded from voting during the meeting. They are also approved and authorized annually for each upcoming year by the shareholders' General Assembly.

Such transactions include:

1. The purchase of SAR 3,008,419 worth of products or services from Zamil Architectural Holding Company, which is a subsidiary of Zamil Group Holding Company, represented by Mr. Adib Abdullah Al Zamil, who is a member of the Board of Directors of Zamil Industrial Investment Company.
2. The purchase of SAR 3,530,053 worth of products or services from Zamil Chemical and Plastic Industries Holding Company, which is a subsidiary of Zamil Group Holding Company, represented by Mr. Adib Abdullah Al Zamil, who is a member of the Board of Directors of Zamil Industrial Investment Company.
3. The purchase of SAR 14,825,479 worth of products or services from Zamil Trade & Services Holding Company, which is a subsidiary of Zamil Group Holding Company, represented by Mr. Adib Abdullah Al Zamil, who is a member of the Board of Directors of Zamil Industrial Investment Company.
4. The purchase of SAR 3,933,165 worth of products or services from Zamil Real Estate Holding Company, which is a subsidiary of Zamil Group Holding Company, represented by Mr. Adib Abdullah Al Zamil, who is a member of the Board of Directors of Zamil Industrial Investment Company.

31

Results of the annual review of the effectiveness of the company's internal control procedures and the opinion of the Audit Committee with respect to the adequacy of the company's internal control system

The Corporate Internal Audit Department independently implements the audit plan approved by the Audit Committee and regularly assesses the internal control systems applied within the Group and its subsidiaries inside and outside Saudi Arabia. It also follows up with executive departments on the implementation of recommendations and remedy procedures for remarks provided in its reports.

Judging by internal review reports, the Audit Committee verified the effectiveness of financial, operational and administrative policies and procedures, and it did not reveal any substantial risks that may affect the company's activities. Based on the information obtained by the Audit Committee, there were no major remarks for the year 2019 that may have an impact on the company's financial position. Minor remarks are issued in the framework of the daily activities and business of the company and the industries in which it operates; they are taken into account, and appropriate solutions and procedures are immediately devised for the remedy thereof. It is noteworthy that the Executive Management continues to take the necessary remedy procedures to mitigate risks mentioned in internal review reports and to adhere to the applicable policies, laws and instructions.

The committee also verified the external auditor's independence, and a discussion was conducted regarding the company's performance, including annual and quarterly financial statements and the appended clarifications, all prior to submission to the Board of Directors.

Generally, the Audit Committee is confident in the effectiveness of the company's internal control system. Thus, the Board of Directors acknowledges the functionality and effectiveness of the company's internal control system in the realization of the company's purposes and shareholders' benefit.

32 The Audit Committee's recommendation regarding the need to appoint an internal auditor for the company in the absence of an internal auditor

The company has a department concerned with internal auditing that is headed by the general auditor. The general auditor continually keeps the Audit Committee informed by means of regular reports. Therefore, the Audit Committee has not made any recommendations regarding the need to appoint an internal auditor.

The Corporate Internal Audit Department also prepares and develops the company's policies and provides consultation, assistance and clarification on policies, procedures, internal regulations and other relevant fields, contributing to the enhancement and improvement of internal auditing.

33 The Audit Committee's recommendations that conflict with resolutions of the Board of Directors or those which the Board of Directors has disregarded relating to the appointment, dismissal, assessment or determination of the remuneration of the internal auditor, as well as justifications for those recommendations and reasons for disregarding them

No recommendations by the Audit Committee were disregarded by the Board of Directors.

34 Any punishment, penalty, precautionary procedure or preventive measure imposed on the company by the Capital Market Authority or any other supervisory, regulatory or judicial authority, and the reasons for non-compliance, the imposing authority and the measures undertaken to remedy and avoid such non-compliance in the future

The Board of Directors declares that no punishment, penalty, precautionary procedure or preventive measure has been imposed on the company by the Capital Market Authority or any other supervisory, regulatory or judicial authority.

Numbers of the company's requests of shareholder records and the dates and reasons thereof

In 2019, the company's Investor Relations Department requested shareholder records 13 times using the Tadawulaty service, in the following manner and for the following reasons:

Req.	Date of request	Date of ownership	Reason
1	06/01/2019	04/01/2019	Preparation of annual analysis report for register of shareholders
2	06/02/2019	04/02/2019	Preparation of monthly analysis report for register of shareholders
3	06/03/2019	04/03/2019	Preparation of monthly analysis report for register of shareholders
4	02/04/2019	02/04/2019	Preparation of monthly analysis report for register of shareholders
5	28/04/2019	28/04/2019	Preparation of monthly analysis report for register of shareholders
6	05/05/2019	02/05/2019	Preparation of monthly analysis report for register of shareholders
7	10/06/2019	10/06/2019	Preparation of monthly analysis report for register of shareholders
8	03/07/2017	02/07/2019	Preparation of monthly analysis report for register of shareholders
9	25/08/2019	04/08/2019	Preparation of monthly analysis report for register of shareholders
10	03/09/2019	02/09/2019	Preparation of monthly analysis report for register of shareholders
11	03/10/2019	02/10/2019	Preparation of monthly analysis report for register of shareholders
12	04/11/2019	04/10/2019	Preparation of monthly analysis report for register of shareholders
13	03/12/2019	02/12/2019	Preparation of monthly analysis report for register of shareholders

A list of the dates of the General Assembly meetings held during the last fiscal year and the names of members of the Board of Directors who attended them:

During the fiscal year 2019, the company convened only one General Assembly meeting. The following is a list of the members of the Board of Directors present at the meeting:

Board member	Ordinary General Assembly (28/04/2019)
Khalid Abdullah Hamad Al Zamil	✓
Abdallah Saleh Jum'ah Al Dossari	x
Ahmed Abdullah Hamad Al Zamil	x
Adib Abdullah Hamad Al Zamil	x
Mohammed Ahmed Mahmoud Al-Ghaith	✓
Mohammad Sulaiman Mohammad Al Harbi	✓
Abdulla Mohammed Abdullah Al Zamil	✓
Khalid Mohammed Saleh Al Fuhaid	x

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Statement regarding the value of any investments made or any reserves set up for the benefit of the employees of the company

No investments have been made or reserves set up for the benefit of the company's employees.

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Board of Directors' Declarations

The Board of Directors affirms the following:

1. The accounting records have been prepared correctly.
2. The internal control system has been properly prepared and implemented effectively.
3. There is no doubt with regard to the company's ability to continue its activity
4. No shares or debt instruments have been issued for affiliate companies.
5. There are no interest, contractual securities or rights issues of the members of the Board of Directors, senior executives or their relatives on shares or debt instruments of the company or its affiliates.
6. There are no classes or numbers of any convertible debt instruments, contract-based securities, warrants or similar rights issued or granted by the company during the fiscal year or any compensation obtained by the company in this regard.
7. There are no conversion or subscription rights under any convertible debt instruments, contract-based securities, warrants or similar rights issued or granted by the company.
8. There have been no redemptions, purchases or cancellations by the company or any of its subsidiaries of any redeemable debt instruments during 2019.
9. There have been no transactions between the company and related parties.
10. Aside from what has been listed in the body of this report, there are no contracts to which the company is party and which involve or previously involved a substantial interest, whether directly or indirectly, for a member of the Board of Directors, a senior executive or a person related to any of the above.
11. There are no arrangements or agreements under which a shareholder of the company, a member of the Board of Directors, a senior executive or an employee of the company has waived any rights to dividends.
12. There are no undisclosed conflicts of interest.
13. The company has not received a request/call from the certified public accountant for the convention of the General Assembly in 2019.
14. The company has not received a request/call from shareholders holding shares equal to at least 5% of the share capital of the company for the convention of the General Assembly in 2019
15. There have been no procedures that may lead to the impediment of shareholders' voting rights.
16. There have been no substantial events that may have an impact on the integrity of the company's financial position following the end of the fiscal year which require the disclosure thereof.
17. The company has not provided any member of its Board of Directors or its senior executives with loans or credit facilities.

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Conclusion

The Board of Directors of Zamil Industrial Investment Company (Zamil Industrial) tenders grateful thanks to the esteemed Custodian of the Two Holy Mosques, the Crown Prince and our good government for the continuous support that the company has received to stimulate the economic development process and promote national industries, which enable the company to compete with international companies and achieve Vision 2030. The Board of Directors would also like to thank employees of the Ministry of Commerce and Investment, Capital Market Authority, Saudi Stock Exchange (Tadawul) and Securities Depository Center Company (Edaa) and all relevant entities for their cooperation and efforts to serve companies.

The Board of Directors also tenders grateful thanks to the management and employees of Zamil Industrial Investment Company and its affiliates in all industries, branches, factories and internal and external offices for their efforts and dedication, and the Board invites them to continue their devoted efforts in the face of adversity. Thanks are also extended to the company's clients inside and outside the Kingdom of Saudi Arabia for the trust they have placed in the company and its products and for their continued support.

Board of Directors

Consolidated Financial Statements and Independent Auditors' Report

31 December 2019

Independent Auditor's Report on the Consolidated Financial Statement

to the Shareholders of

Zamil Industrial Investment Company

(A Saudi Joint Stock Company)

Opinion

We have audited the consolidated financial statements of Zamil Industrial Investment Company ("the Company") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with professional code of conduct and ethics endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each key audit matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter**How our audit addressed the key audit matter**

Impairment of trade receivables

The Group has gross accounts receivable of SR 2,221 million as at 31 December 2019 including certain overdue balances amounting to SR 1,202 million against which the Group has recorded a provision for expected credit losses amounting to SR 325 million.

Assessment of provision for expected credit losses is highly subjective due to the significant judgement, estimates and assumptions applied by the management in determining the expected losses. The management is required to determine an expected loss rate against its outstanding accounts receivables based on the Group's historical credit loss experience adjusted with forward-looking information.

The assessment of the correlation between historical observed loss rates, forecast economic conditions and expected future cash flows is a significant estimate.

Given the complexity and judgements related particularly to the calculation of expected credit losses we considered this area as a key audit matter.

Refer to note 24 for further details.

In order to assess the appropriateness of the management's judgment and estimates, following procedures were performed:

- We evaluated the Group's processes and controls relating to the monitoring of accounts receivable and review of credit risks of customers.
- We evaluated the appropriateness of significant judgements, estimates and assumptions made by the management.
- We analysed the accounting policies and assessed the methodology developed to calculate the expected loss rate.
- We checked the mathematical accuracy of the model and recalculated expected losses on a sample basis.
- We analysed the results of expected credit loss model performed by the Group. Tested the accounts receivable aging and other source data used in assessment on a sample basis.
- Assessed the adequacy of the Group's disclosure regarding expected credit losses of accounts receivable and the management's assessment of the credit risk and their responses to such risks

Key audit matter
Revenue recognition of long-term contracts

One of the Group's significant revenue streams is derived from long-term contracts. The Group recognises revenue from long-term contracts using percentage of completion method. The determination of the percentage of completion requires significant management judgement and estimates such as assessment of costs incurred over total cost of the project, survey of work done and the process for identification of loss making contracts. The revenues and costs related to a project include estimates, as the project scope may change and the total costs of a project depend on various factors including material and labour costs.

Accounting policies for revenue recognition related to long-term contracts are given in note 2 to the consolidated financial statements.

Considering the above, revenue recognition from construction contracts has been determined as a key audit matter.

The recoverability of contract assets related to long-term contracts is therefore based on management's evaluation and best estimate of the ultimate realisation of these balances.

How our audit addressed the key audit matter

Our audit procedures in relation to revenue recognition of long term contracts included:

- Reviewed the Group's estimation process (including the approval of project budget, monitoring of project costs and activities, and management's review and customer's approval of project's stage of completion and milestones achieved) used in determining the amounts of revenue and costs recognised in the consolidated financial statements.
- On a sample basis, reviewed the contractual terms and work status of the customer contracts, along with discussions with management and checked that contract revenue was recognised according to the percentage of completion of each project measured by the stage of completion of physical activities.
- Performed analytical procedures to compare revenue and gross margin with those reported in prior periods for identifying significant fluctuations, and obtaining explanations from management about such fluctuations.
- Reviewed the re-forecast of contract costs, on a sample basis, arising from contract modifications and analysed current on-going negotiations and settlements that may impair the profitability of such contracts as well as the collectability of significant contracts by reference to the recent credit review assessment of each customer prepared by management.
- Assessed the recoverability of contract assets by considering if work is physically certified and progress billings have been raised since the year-end.
- Assessed the adequacy of disclosures in describing the areas of judgement and estimation uncertainties involving revenue recognition and work executed in excess of billings.

Other information included in The Group's 2019 Annual Report

Other information consists of the information included in the Group's 2019 annual report, other than the consolidated financial statements and our auditors' report thereon. Management is responsible for the other information in its annual report. The Group's 2019 annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Group's 2019 annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Certified Public Accountants and the provisions of Companies' Law and Company's By-laws, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than

for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

for Ernst & Young

Waleed G. Tawfiq
Certified Public Accountants
Registration No. 437

27 Rajab 1441H
22 March 2020

Al Khobar



Consolidated Statement Of Income

For the year ended 31 December 2019

Continuing Operations	Notes	SR'000	SR'000
REVENUES		2019	2018
Revenue from contracts with customers	6	4,263,249	4,297,734
Finance lease income		14,977	15,915
		4,278,226	4,313,649
DIRECT COSTS			
Cost of sales	7	(2,711,091)	(2,770,845)
Contracts cost	8	(969,188)	(827,434)
		(3,680,279)	(3,598,279)
GROSS PROFIT		597,947	715,370
EXPENSES			
Selling and distribution	9	(223,596)	(222,835)
General and administration	10	(403,676)	(505,610)
OPERATING LOSS		(29,325)	(13,075)
Share in results of associates and a joint venture	19	9,195	(3,964)
Other income, net	11	21,540	6,256
Finance costs	12	(121,379)	(103,211)
Impairment loss reversal on non-current assets, net	13	34,584	47,967
LOSS BEFORE ZAKAT AND INCOME TAX FROM CONTINUING OPERATIONS		(85,385)	(66,027)
Zakat and income tax	37	(23,323)	(20,468)
Deferred tax	37	(7,005)	6,837
LOSS FOR THE YEAR FROM CONTINUING OPERATIONS		(115,713)	(79,658)
Discontinued Operations			
Loss after zakat and income tax for the period from discontinued operations	14	(13,997)	(54,328)
NET (LOSS) INCOME FOR THE YEAR		(129,710)	(133,986)
NET LOSS FOR THE YEAR ATTRIBUTABLE TO:			
Shareholders of the parent company		(138,809)	(139,833)
Non-controlling interests		9,099	5,847
		(129,710)	(133,986)
EARNINGS PER SHARE FROM NET LOSS			
Basic and diluted earnings per share attributable to the shareholders of the parent company	15	(2.31)	(2.33)
EARNINGS PER SHARE FOR CONTINUING OPERATIONS			
Basic and diluted, earnings per share attributable to the shareholders of the parent company	15	(2.08)	(1.43)

Consolidated Statement Of Comprehensive Income

For the year ended 31 December 2019

	Notes	SR'000	SR'000
		2019	2018
NET LOSS FOR THE YEAR		(129,710)	(133,986)
Other comprehensive income			
Other comprehensive income to be reclassified to income in subsequent periods:			
Foreign currency differences on translation of foreign operations		154	1,070
Net other comprehensive income to be reclassified to income in subsequent periods		154	1,070
Other comprehensive income not to be reclassified to income in subsequent periods:			
Net loss on equity instruments at fair value through other comprehensive income	20	(1,398)	(20,441)
Actuarial gains (losses) on employees' defined benefit liabilities	32	3,067	(9,498)
Share in other comprehensive income (loss) of an associate	19	193	(480)
Net other comprehensive income not to be reclassified to income in subsequent periods		1,862	(30,419)
Other comprehensive income for the year		2,016	(29,349)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		(127,694)	(163,335)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO:			
Shareholders of the parent company		(136,619)	(169,006)
Non-controlling interests		8,925	5,671
		(127,694)	(163,335)

Consolidated Statement of Financial Position

AS AT 31 DECEMBER 2019

	Notes	SR'000	SR'000
		2019	2018
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	16	960,708	1,018,511
Right-of-use assets	17	119,186	-
Other intangible assets	18	-	5,030
Investments in associates and a joint venture	19	79,872	85,384
Equity instruments at fair value through other comprehensive income	20	39,140	40,538
Net investments in finance lease	21	317,104	340,683
Goodwill	22	21,126	21,126
Deferred tax assets	37	6,024	10,231
TOTAL NON-CURRENT ASSETS		1,543,160	1,521,503
CURRENT ASSETS			
Inventories	23	1,239,391	1,344,767
Accounts receivable	24	1,895,662	2,043,156
Contract assets	25	494,756	413,369
Advances, other receivables and prepayments	26	249,599	265,359
Current portion of net investment in finance lease	21	23,578	22,600
Cash and cash equivalents	27	197,252	152,457
TOTAL CURRENT ASSETS		4,100,238	4,241,708
TOTAL ASSETS		5,643,398	5,763,211

The attached notes 1 to 45 form part of these consolidated financial statements.

Consolidated Statement of Financial Position (continued)

As at 31 December 2019

	Notes	SR'000	SR'000
EQUITY AND LIABILITIES		2019	2018
EQUITY			
Share capital	28	600,000	600,000
Statutory reserve		180,000	180,000
Retained earnings		533,202	668,577
Foreign currency translation reserve		(26,989)	(26,583)
Fair value reserve		(7,446)	(6,048)
EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT COMPANY		1,278,767	1,415,946
NON-CONTROLLING INTERESTS	30	201,068	208,169
TOTAL EQUITY		1,479,835	1,624,115
NON-CURRENT LIABILITIES			
Term loans	31	144,986	38,734
Employees' defined benefit liability	32	234,332	246,979
Lease liabilities	17	80,634	-
Deferred tax liabilities	37	7,388	4,982
TOTAL NON-CURRENT LIABILITIES		467,340	290,695
CURRENT LIABILITIES			
Accounts payable	33	392,219	456,521
Accruals and provisions	34	413,053	383,911
Short term loans	35	2,481,828	2,624,548
Current portion of term loans	31	47,400	43,703
Current portion of lease liabilities	17	22,886	-
Contract liabilities	36	294,028	292,350
Zakat and income tax provision	37	44,809	47,368
TOTAL CURRENT LIABILITIES		3,696,223	3,848,401
TOTAL LIABILITIES		4,163,563	4,139,096
TOTAL EQUITY AND LIABILITIES		5,643,398	5,763,211

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

Attributed to shareholders of the parent company

SR'000

	Share capital	Statutory reserve	Retained earnings	Foreign currency translation reserve	Fair value reserve	Total	Non-controlling interests	Total equity
Balance at 1 January 2018	600,000	180,000	903,485	(25,433)	(10,880)	1,647,172	208,120	1,855,292
Net (loss) income for the year	-	-	(139,833)	-	-	(139,833)	5,847	(133,986)
Other comprehensive income	-	-	(35,075)	1,070	4,832	(29,173)	(176)	(29,349)
Total comprehensive income	-	-	(174,908)	1,070	4,832	(169,006)	5,671	(163,335)
Dividends (note 29)	-	-	(60,000)	-	-	(60,000)	-	(60,000)
Reclassification to income on disposal of discontinued operations (note 14)	-	-	-	(2,220)	-	(2,220)	-	(2,220)
Movement in non-controlling interests	-	-	-	-	-	-	(5,622)	(5,622)
Balance at 31 December 2018	600,000	180,000	668,577	(26,583)	(6,048)	1,415,946	208,169	1,624,115
Net (loss) income for the year	-	-	(138,809)	-	-	(138,809)	9,099	(129,710)
Other comprehensive income	-	-	3,434	154	(1,398)	2,190	(174)	2,016
Total comprehensive income	-	-	(135,375)	-	(1,398)	(136,619)	8,925	(127,694)
Reclassification to income on disposal of discontinued operations (note 14)	-	-	-	(560)	-	(560)	-	(560)
Movement in non-controlling interests	-	-	-	-	-	-	(16,026)	(16,026)
Balance at 31 December 2019	600,000	180,000	533,202	(26,989)	(7,446)	1,278,767	201,068	1,479,835

The attached notes 1 to 45 form part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	SR'000	SR'000
OPERATING ACTIVITIES	2019	2018
Loss before zakat and income tax from continuing operations	(85,385)	(66,027)
Loss before zakat and income tax from discontinued operations	(13,997)	(54,328)
Loss before zakat and income tax	(99,382)	(120,355)
Adjustments to reconcile income before zakat and income tax to net cash flows:		
Depreciation	114,923	119,143
Depreciation of right-of-use assets	22,110	-
Amortisation of other intangible assets	-	695
Provision for employees' defined benefit liabilities	31,639	34,465
Impairment loss reversal on non-current assets	(34,584)	(47,967)
Finance costs	121,379	103,211
Gains on disposal of property, plant and equipment	(5,162)	(132)
Share in results of associates and a joint venture	(9,195)	3,964
Loss on disposal of discontinued operations	13,997	54,328
	155,725	147,352
Working capital adjustments:		
Inventories	105,376	(96,210)
Accounts receivable	145,198	(93,876)
Contract assets	(81,387)	(55,924)
Advances, other receivables and prepayments	4,300	(23,774)
Net investment in finance lease	22,601	21,663
Accounts payable	(62,989)	90,647
Accruals and provisions	29,142	(55,352)
Contract liabilities	1,678	42,827
Cash from (used in) operations	319,644	(22,647)
Financial charges paid	(99,559)	(91,943)
Zakat and income tax paid	(25,867)	(18,598)
Employees' defined benefit liabilities paid	(52,253)	(100,903)
Net cash from (used in) operating activities	141,965	(234,091)
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(28,676)	(35,392)
Proceeds from disposal of property, plant and equipment	9,053	699
Proceeds from disposal of discontinued operations	-	13,280
Proceeds from disposal of equity instruments at fair value through other comprehensive income	-	12,504
Payments against liabilities assumed under disposal of discontinued operations	-	(28,225)
Additions to other intangible assets	-	(150)
Net cash used in investing activities	(19,623)	(37,284)
FINANCING ACTIVITIES		
Net movement in short term loans	(145,074)	293,514
Net movement in term loans	107,608	(21,800)
Payments against lease liabilities	(24,712)	-
Dividends paid	-	(60,000)
Movement in non-controlling interests	(14,700)	(5,622)

Consolidated Statement of Cash Flows (continued)

For the year ended 31 December 2019

	SR'000	SR'000
	2019	2018
Net cash (used in) from financing activities	(76,878)	206,092
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	45,464	(65,283)
Cash and cash equivalents at the beginning of the year	152,457	215,524
Movement in foreign currency translation reserve, net	(669)	2,216
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	197,252	152,457
	SR'000	SR'000
NON-CASH TRANSACTIONS	2019	2018
Net amounts receivable settled against disposal of discontinued operations	454	14,446
Amount of liabilities assumed by the Group for discontinued operations included in accruals and provisions	-	31,254
Amounts receivable against disposal of equity instruments at fair value through other comprehensive income	-	3,983
Increase in impairment loss against accounts receivable on adoption of IFRS 9	-	17,121
Adjustment to contract assets on adoption of IFRS 15	-	3,967
Remeasurement gains (losses) on employees' defined benefit liabilities	3,067	(9,498)
Reclassification of exchange difference on disposal of discontinued operations	560	2,220
Derecognition of accounts receivable on liquidation of subsidiaries	1,423	-
Derecognition of other receivable on liquidation of subsidiaries	1,327	-
Derecognition of non-controlling interests on liquidation of subsidiaries	1,326	-
Adjustment of cash held for liquidated subsidiaries against accounts payable	1,313	-
Recognition of right-of-use assets on first time adoption of IFRS 16	131,027	-
Recognition of lease liabilities on first time adoption of IFRS 16	119,567	-
Derecognition of prepayments on first time adoption of IFRS 16	(11,460)	-
Derecognition of other intangible assets on first time adoption of IFRS 16	5,030	-
Transfer of leasehold land to right-of-use assets on first time adoption of IFRS 16	2,665	-
Exchange differences on property, plant and equipment	(416)	1,176
Exchange differences on deferred tax assets	(392)	121
Exchange differences on zakat and income tax provision	(15)	(151)
Share in other comprehensive income of an associate	(193)	480

Notes to the Consolidated Financial Statements

At 31 December 2019

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 branch in the Kingdom of Saudi Arabia:

Commercial registration number	Date	Location
2050099363	8 Jumada' II 1435H	Dammam

The Company has investment in the following subsidiaries:

	Effective ownership percentage	
	2019	2018
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 - 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%	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%
Ikhtebare 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%
Arabian Stonewool Insulation Company - Saudi Arabia	100%	100%
Second Insulation Company Limited - Saudi Arabia	100%	100%
Gulf Insulation Group - Saudi Arabia	51%	51%
Saudi Preinsulated Pipes Industries - Saudi Arabia	51%	51%
Zamil Steel Building Company - Egypt	100%	100%
Zamil Steel Buildings (Shanghai) Company Limited - China	100%	100%
Cooling Europe Holdings GmbH - Austria (note 14)	-	100%
Zamil Steel Buildings India Private Limited - India	100%	100%
Zamil Steel Engineering India Private Limited - India	100%	100%
Zamil Industrial Investment Company - UAE	100%	100%
Zamil Steel Industries Abu Dhabi (LLC) - UAE	100%	100%

Notes to the Consolidated Financial Statements

At 31 December 2019

The Company has investment in the following subsidiaries:	Effective ownership percentage	
	2019	2018
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%
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%
Zamil Hudson Company Limited - Saudi Arabia (note 14)	-	50%
Petro-Chem Zamil Company Limited - Saudi Arabia (note 14)	-	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 consolidated financial statements of the Group as of 31 December 2019 were authorised for issuance in accordance with the Board of Directors' resolution on 22 March 2020 (corresponding to 27 Rajab 1441H).

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") and other standards and pronouncements that are endorsed in the Kingdom of Saudi Arabia ("KSA") by Saudi Organization for Certified Public Accountants ("SOCPA") (collectively referred to as "IFRS as endorsed in KSA").

Basis of measurement

These 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 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.

Basis of consolidation

These consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2019. 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 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

Notes to the Consolidated Financial Statements (continued)

At 31 December 2019

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 consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

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

Property, plant and equipment /depreciation

Construction in progress, 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 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.

Notes to the Consolidated Financial Statements (continued)

At 31 December 2019

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

Buildings on leasehold lands	Machinery	Furniture, fixtures and equipment	Motor vehicles
20 to 40 years	5 to 20 years	3 to 5 years	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 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 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 consolidated statement of income in the expense category that is consistent with the function of the intangible assets.

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 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

Notes to the Consolidated Financial Statements (continued)

At 31 December 2019

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 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 consolidated 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 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.

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 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 consolidated statement of income.

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 subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, 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. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

Notes to the Consolidated Financial Statements (continued)

At 31 December 2019

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired. The Group's financial assets at amortised cost includes trade and certain other receivables.

Financial assets designated at fair value through OCI (equity instruments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment

The Group elected to classify irrevocably its non-listed equity investments under this category.

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 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 pass-through 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.

Notes to the Consolidated Financial Statements (continued)

At 31 December 2019

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 recognises an allowance for expected credit losses (ECLs) for its trade receivables and contract assets. 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, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

The Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. 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. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

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.

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 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 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.

Notes to the Consolidated Financial Statements (continued)

At 31 December 2019

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 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 consolidated statement of income.

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.

Notes to the Consolidated Financial Statements (continued)

At 31 December 2019

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 30% of the share capital. 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 profit or loss, loans and borrowings or payables, as appropriate. All financial liabilities are recognised 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 the consolidated statement of income 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 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 consolidated statement of income.

Notes to the Consolidated Financial Statements (continued)

At 31 December 2019

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the 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 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 post employment 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 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 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 consolidated statement of financial position under accounts payable and accruals. A contingent asset is not recognized in the 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 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 from contracts with customers

Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group has generally concluded that it is the principal in its revenue arrangements because it typically controls the goods or services before transferring them to the customer.

Notes to the Consolidated Financial Statements (continued)

At 31 December 2019

A) Sale of goods

Revenue from sale of goods is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods. The normal credit term is 30 to 90 days upon delivery. The Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated. In determining the transaction price for the sale of equipment, the Group considers the effects of variable consideration, the existence of significant financing components, non-cash consideration, and consideration payable to the customer (if any).

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 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

Generally, the Group receives short-term advances from its customers. Using the practical expedient in IFRS 15, the Group does not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between the transfer of the promised good or service to the customer and when the customer pays for that good or service will be one year or less.

B) Rendering of services

The Group provides installation, maintenance and engineering services that are either sold separately or bundled together with the sale of equipment to a customer. These services can be obtained from other providers and do not significantly customise or modify the equipment.

Contracts for bundled sales of equipment and related services are comprised of two performance obligations because the promises to transfer equipment and provide maintenance or installation services are capable of being distinct and separately identifiable. Accordingly, the Group allocates the transaction price based on the relative stand-alone selling prices of the equipment and maintenance or installation services.

The Group recognises revenue from above services at a point in time, generally upon completion of the service or delivery of the equipment.

C) Revenue from long-term contracts

The Group has determined that for its long-term contracts for turnkey projects in its steel and air conditioner segments and for made-to-order equipment in its steel segment, the customer controls all of the work in progress as the project progresses and equipment is manufactured. This is because under those contracts the works are performed and equipment are made to a customer's specification and if a contract is terminated by the customer, then the Group is entitled to reimbursement of the costs incurred to date, including a reasonable margin.

At the time of entering into a contract, the Group identifies the performance obligations attached to each contract. For this purpose, the Group evaluates the contractual terms and its customary business practices to identify whether there are distinct performance obligations within each contract. The Group determines the transaction price of each contract in order to identify the transaction price of each aforementioned performance obligations as the amount of consideration to which the Group expects to be entitled in exchange for transferring promised services to a customer. Having determined the transaction price of the contract, the Group allocates the transaction price to each performance obligation.

Notes to the Consolidated Financial Statements (continued)

At 31 December 2019

The Group recognises revenue upon the satisfaction of performance obligations attached to contracts, which occurs when service obligations mentioned in the contract are met and accepted by the customer in form of acceptance of works completed. The Group recognises revenue from such long-term contracts over time, using an input method to measure progress towards complete satisfaction of the performance obligation by reference to the percentage of completion method. 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.

The Group receives advances from customers for its long-term projects. Generally, such advances are not significant to the contract consideration and received in the normal course of business at the start of the project. The Group does not adjust the promised amount of consideration for the effects of a significant financing component as the Group has determined that such advances are received for reasons other than financing the projects. These advances are adjusted against progress billings raised to the customer in accordance with the terms of the contract.

The value of work completed but not billed at the date of consolidated statement of financial position is classified as "contract assets" under current assets in the consolidated statement of financial position. Amounts billed in excess of work completed and advances received at the consolidated statement of financial position date is classified as "contract liabilities" under current liabilities in the consolidated statement of financial position. Invoices are issued according to contractual terms and are usually payable within 30 to 90 days.

Cost to obtain a contract

The Group pays sales commission to its employees and sales agents for certain contracts for sales of goods and services. The Group has elected to apply the optional practical expedient for costs to obtain a contract which allows the Group to immediately expense sales commissions because the amortisation period of the asset that the Group otherwise would have used is one year or less.

Finance income

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

Contract balances

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Accounts receivables

A receivable represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). Refer to accounting policies of financial assets.

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

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 and delivery vehicles. 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.

Notes to the Consolidated Financial Statements (continued)

At 31 December 2019

Foreign currencies

The Group's 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 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 consolidated 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 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 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 consolidated statement of income.

Current versus non-current classification

The Group presents assets and liabilities in the 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.

Notes to the Consolidated Financial Statements (continued)

At 31 December 2019

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 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 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.

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.

Non-current assets held for sale and discontinued operations

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset (disposal group), excluding finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the

Notes to the Consolidated Financial Statements (continued)

At 31 December 2019

plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale. Assets and liabilities classified as held for sale are presented separately as current items in the consolidated statement of financial position.

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- Represents a separate major line of business or geographical area of operations
- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or
- Is a subsidiary acquired exclusively with a view to resale

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the consolidated statement of income.

3 CHANGES TO THE GROUP'S ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the 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 2018, except for the adoption of new standards effective as of 1 January 2019. 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 16 Leases that requires restatement of previous consolidated financial statements. Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the consolidated financial statements of the Group. The nature and effect of these changes are disclosed below:

IFRS 16 Leases

IFRS 16 supersedes 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. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Group is the lessor.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. Since, the Group recognised the right-of-use assets at the amount equal to the lease liabilities, adjusted by the amount of any amounts paid to acquire lease rights to use plots of land and buildings and any prepaid lease payments relating to that lease recognised in the consolidated statement of financial position immediately before the date of initial application. Therefore, no adjustments were required in the retained earnings at the date of initial application.

The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

Notes to the Consolidated Financial Statements (continued)

At 31 December 2019

The effect of adoption of IFRS 16 as at 1 January 2019 (increase/(decrease)) is as follows.

	SR'000
ASSETS	
Right-of-use assets	131,027
Prepayments	(11,460)
Other intangible assets (note 18)	5,030
Leasehold land (note 16)	2,665
Total assets	127,262
Liabilities	
Lease liabilities	119,567
Total liabilities	119,567

Gross lease liabilities at 1 January 2019 have been discounted using a weighted average incremental borrowing rate of 5.43%.

The Group has lease contracts for plots of land and buildings. Before the adoption of IFRS 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Group; otherwise it was classified as an operating lease. Finance leases were capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between interest (recognised as finance costs) and reduction of the lease liability. In an operating lease, the leased property was not capitalised and the lease payments were recognised as rent expense in profit or loss on a straight-line basis over the lease term. Any prepaid rents were recognised under prepayments.

Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which has been applied by the Group.

Leases previously classified as finance leases

The Group did not have any liabilities recognised as finance lease liabilities at the date of initial application of IFRS 16.

Leases previously accounted for as operating leases

The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. In some leases, the right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

Notes to the Consolidated Financial Statements (continued)

At 31 December 2019

The Group also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months at the date of initial application
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease
- The election, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component

Summary of new accounting policies

Set out below are the new accounting policies of the Group upon adoption of IFRS 16, which have been applied from the date of initial application:

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below SR 18,750). Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Notes to the Consolidated Financial Statements (continued)

At 31 December 2019

4

SIGNIFICANT ACCOUNTING ESTIMATES, JUDGEMENTS AND ASSUMPTIONS

The preparation of the Group's 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 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 accounts receivables and contract assets

The Group uses a provision matrix to calculate expected credit losses (ECLs) for accounts receivables and contract assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on the Group's historical observed loss rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions are expected to deteriorate over the next year which can lead to an increased number of defaults in a particular sector, the historical loss rates are adjusted. At every reporting date, the historical observed loss rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed loss rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual loss in the future.

Notes to the Consolidated Financial Statements (continued)

At 31 December 2019

Estimated cost to complete

At each reporting date, the Group is required to estimate costs to complete on fixed-price contracts. Estimating costs to complete on such contracts requires the Group to make estimates of future costs to be incurred, based on work to be performed beyond the reporting date. This estimate will impact contract revenues, contract costs and contract assets. Project costs to complete estimate is based on the management's best estimates at the reporting date after considering all the available and known factors.

Leases - Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

Determining the lease term of contracts with renewal and termination options – Group as lessee

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customisation to the leased asset).

Fair value measurement of financial instruments

When the fair values of financial assets recorded in the consolidated statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow (DCF) model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments.

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.

Notes to the Consolidated Financial Statements (continued)

At 31 December 2019

5 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.

Amendments to IFRS 3: Definition of a Business

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 Business Combinations to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments. Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to IAS 1 and IAS 8: Definition of Material

In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.' The amendments to the definition of material is not expected to have a significant impact on the Group's consolidated financial statements.

6 REVENUE FROM CONTRACTS WITH CUSTOMERS

SR'000

	2019	2018
Set out below is the disaggregation of the Group's revenue from contracts with customers:		
Sale of goods	2,921,434	2,958,485
Rendering of services	243,373	384,997
Revenue from long-term contracts	1,098,442	954,252
Total revenue from contracts with customers	4,263,249	4,297,734

Reconciliation of the Group's disaggregate revenue for its reportable segments and timing of revenue recognition is disclosed in note 40

Contract balances

SR'000

	2019	2018
Group's contract balances comprise of following:		
Accounts receivable (note 24)	1,895,662	2,043,156
Contract assets (note 25)	494,756	413,369
Contract liabilities (note 36)	294,028	292,350

Accounts receivable are non-interest bearing and are generally on terms of 30 to 90 days.

Contract assets are initially recognised for revenue earned from its long-term contracts in its steel and air conditioner segment as receipt of consideration is conditional on successful completion of obligations mentioned in the contract and accepted by the customer in form of acceptance of works completed. Upon completion of contract obligation and acceptance by the customer, the amounts recognised as contract assets are reclassified to accounts receivable.

Contract liabilities include advances received from customer and billings in excess of value of work executed against its long-term contracts

Notes to the Consolidated Financial Statements (continued)

At 31 December 2019

7 COST OF SALES

SR'000

	2019	2018
Cost of inventories recognised as expense	1,677,883	1,697,044
Employees' and labour costs	490,469	504,758
Sub-contracting costs	202,270	145,710
Depreciation	90,140	88,331
Depreciation of right-of-use assets (note 17)	5,091	-
Others direct costs	245,238	335,002
	2,711,091	2,770,845

8 CONTRACTS COST

Sub-contracting costs	413,448	245,476
Materials consumed	371,426	413,208
Employees' and labour costs	144,593	129,710
Depreciation	9,876	8,885
Others direct costs	29,845	30,155
	969,188	827,434

9 SELLING AND DISTRIBUTION EXPENSES

Employees' costs	110,951	95,427
Transportation	45,380	55,205
Warranties	19,964	18,831
Depreciation of right-of-use assets (note 17)	8,580	-
Rent and utilities	7,500	17,117
Advertising and sales promotion	5,626	8,568
Business travel	4,816	4,410
Support services	3,415	3,829
Depreciation	2,783	3,357
Communication and IT services	1,671	1,691
Repairs and maintenance	781	881
Others	12,129	13,519
	223,596	222,835

10 GENERAL AND ADMINISTRATION EXPENSES

Employees' costs	273,517	268,764
Provision for expected credit losses	22,311	124,087
Communication and IT services	20,071	18,785
Depreciation	12,124	18,570
Rent and utilities	9,862	11,953
Depreciation of right-of-use assets (note 17)	8,439	-
Professional fees	8,305	8,029
Support services	8,100	8,681
Business travel	5,930	6,293
Repairs and maintenance	5,722	8,131
Office supplies	3,402	3,242
Amortisation	-	695
Others	25,893	28,380
	403,676	505,610

Notes to the Consolidated Financial Statements (continued)

At 31 December 2019

11 OTHER INCOME, NET

SR'000

	2019	2018
Foreign currency exchange gains (losses)	7,553	(2,801)
Gains on disposal of property, plant and equipment	5,162	132
Others	8,825	8,925
	21,540	6,256

12 FINANCE COSTS

SR'000

	2019	2018
Interest on debts and borrowings	99,559	91,943
Interest cost on employees' defined benefit obligation (note 32)	11,034	8,955
Interest on lease liabilities (note 17)	6,091	-
Amortisation of loan upfront fees (note 31 and 35)	4,695	2,313
	121,379	103,211

13 IMPAIRMENT LOSS REVERSAL ON NON-CURRENT ASSETS, NET

SR'000

	2019	2018
Reversal of impairment loss on property, plant and equipment (note 16)	34,584	14,117
Reversal of impairment loss on investment in an associate (note 19)	-	33,850
	34,584	47,967

14 DISCONTINUED OPERATIONS

14.1 During the year, the Group's investment in Zamil Hudson Company Limited, Petro-Chem Zamil Company Limited registered in Saudi Arabia and Cooling Europe Holdings GmbH - Austria (subsidiaries) were fully liquidated. Legal formalities with regard to liquidation were completed during the year and a net gain of SR 449 thousands has been recognised in the consolidated statement of income on liquidation.

SR'000

	2019	2018
Loss on liquidation of Group's share in the investee companies	111	-
Cumulative exchange gain reclassified from foreign currency translation reserve to consolidated statement of income on disposal	(560)	-
	(449)	-

14.2 During 2018, the Group's investment in Geoclima S.r.l. Company (an associate) registered in Italy within air conditioner segment was fully disposed off following the Group's management plan to sell its share in the investee company. Legal formalities with regard to disposal were completed during 2018 and a net loss of SR 524 thousands has been recognised in the consolidated statement of income on disposal.

SR'000

	2019	2018
Loss on disposal of Group's share in the investee company	-	2,161
Cumulative exchange gain reclassified from foreign currency translation reserve to consolidated statement of income on disposal	-	(1,637)
	-	524

Notes to the Consolidated Financial Statements (continued)

At 31 December 2019

14.3 During 2018, the Group has entered into a share purchase agreement with other shareholders for disposal of its share in ZNA Infra Private Limited, India (an associate) with a book value of SR 9,354 thousands. In accordance with the share transfer arrangement agreed among the shareholders, the Group assumed liabilities of the investee amounting to SR 21,739 thousands to be settled by it without any reimbursement from the investee or other shareholders. Further, the Group agreed to settle the liabilities of investee amounting to SR 37,740 thousands with a repayment of such amounts from the investee to the Group. Such amounts have been booked as receivable from the investee and are included in the amounts due from related parties (note 38). During the year, a provision of SR 14,446 thousands (2018: SR 23,294 thousands) was recognised in the consolidated statement of income against the above receivable amount. Legal formalities with regard to disposal arrangement are in process and expected to be completed during year 2020. In view of the above arrangement, a net loss of SR 14,446 thousands (2018: SR 53,804 thousands) has been recognised in the consolidated statement of income.

	SR'000	
	2019	2018
Loss on disposal of Group's share in the investee company	-	31,093
Provision for impairment of amounts due from investee	-	23,294
Cumulative exchange gain reclassified from foreign currency translation reserve to consolidated statement of income on disposal	-	(583)
	14,446	53,804

15 EARNINGS PER SHARE

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

	2019	2018
Net loss for the period attributable to the shareholders of the parent company (SR '000):		
Continuing operations	(124,812)	(85,505)
Discontinued operations	(13,997)	(54,328)
	(138,809)	(139,833)
Weighted average number of outstanding shares during the year (share '000)	60,000	60,000
Earning per share from net loss		
Basic and diluted earnings per share attributable to the shareholders of the parent company	(2.31)	(2.33)
Earning per share for continuing operations		
Basic and diluted earnings per share attributable to the shareholders of the parent company	(2.08)	(1.43)
Earning per share for discontinued operations		
Basic and diluted earnings per share attributable to the shareholders of the parent company	(0.23)	(0.91)

Notes to the Consolidated Financial Statements (continued)

At 31 December 2019

16

PROPERTY, PLANT AND EQUIPMENT	Freehold land	Buildings on leasehold land	Machinery	Furniture, fixtures and equipment	Motor vehicles	Capital work-in-progress	Total
SR'000							
Cost:							
At 1 January 2018	113,552	929,473	1,626,363	251,793	103,107	54,965	3,079,253
Additions	-	1,703	18,413	6,825	6,633	1,818	35,392
Transfer	-	943	10,655	1,022	-	(12,620)	-
Disposal	(237)	(596)	(12,294)	(4,712)	(3,095)	-	(20,934)
Foreign currency translation	(505)	(4,047)	(7,371)	(3,870)	(71)	(28)	(15,892)
At 31 December 2018	112,810	927,476	1,635,766	251,058	106,574	44,135	3,077,819
Additions	-	3,933	10,922	4,215	3,425	6,181	28,676
Transfer	-	16,182	31,109	735	-	(48,026)	-
Disposal	-	(1,612)	(38,443)	(18,197)	(2,569)	(838)	(61,659)
Transferred to right-of-use assets	-	(3,076)	-	-	-	-	(3,076)
Foreign currency translation	108	(41)	(177)	283	255	3	431
At 31 December 2019	112,918	942,862	1,639,177	238,094	107,685	1,455	3,042,191
Depreciation and impairment:							
At 1 January 2018	15,789	499,381	1,185,511	203,095	85,589	-	1,989,365
Charge for the year	-	38,072	54,864	14,824	11,383	-	119,143
Reversal of impairment losses	-	(7,252)	(6,865)	-	-	-	(14,117)
Disposal	(237)	(465)	(12,111)	(4,492)	(3,062)	-	(20,367)
Foreign currency translation	(419)	(3,974)	(7,171)	(3,083)	(69)	-	(14,716)
At 31 December 2018	15,133	525,762	1,214,228	210,344	93,841	-	2,059,308
Charge for the year	-	37,232	59,075	13,649	4,967	-	114,923
Reversal of impairment losses	-	(22,179)	(9,205)	(3,194)	(6)	-	(34,584)
Disposal	-	(1,612)	(36,485)	(17,132)	(2,539)	-	(57,768)
Transferred to right-of-use assets	-	(411)	-	-	-	-	(411)
Foreign currency translation	(106)	(98)	(231)	221	229	-	15
At 31 December 2019	15,027	538,694	1,227,382	203,888	96,492	-	2,081,483
Net book amounts:							
At 31 December 2019	97,891	404,168	411,795	34,206	11,193	1,455	960,708
At 31 December 2018	97,677	401,714	421,538	40,714	12,733	44,135	1,018,511

At 1 January 2016, the Group determined that the recoverable amount of its property, plant and equipment in a subsidiary, Zamil Steel Buildings India Private Limited, which is considered a CGU, was less than its carrying amount and accordingly an impairment loss of SR 59,590 thousands was recognised.

As a result of increase in sale volumes and resumption of activities of the subsidiary to normal operational level, the Group determined that the recoverable amount of its CGU, has exceeded its carrying amount. Accordingly, an impairment loss of SR 40,184 thousands was reversed during the current period. The recoverable amount as at 31 December 2019 was based on value in use and was determined at the level of the CGU. In determining value in use for the CGU, the cash flows were discounted at a rate of 18.82% on a pre-tax basis.

The Group determined that the recoverable amount of property, plant and equipment of a subsidiary, Building Component Solutions Limited, which is considered a cash generating unit (CGU), was less than its carrying amount. The recoverable amount was based on the CGU's value in use using a pre-tax discount rate of 13.65%. This resulted in an impairment loss of SR 5,600 thousands during the current period. The amount has been recognised in the consolidated statement of income.

Notes to the Consolidated Financial Statements (continued)

At 31 December 2019

During 2018, as a result of increase in sale volumes and resumption of activities of the subsidiary to normal operational level, the Group determined that the recoverable amount of its CGU, has exceeded its carrying amount. Accordingly, an impairment loss of SR 14,117 thousands was reversed. The recoverable amount as at 31 December 2018 was based on value in use and was determined at the level of the CGU. In determining value in use for the CGU, the cash flows were discounted at a rate of 12.46% on a pre-tax basis.

In prior periods, the Group determined that the recoverable amount of its property, plant and equipment in a subsidiary, which is considered a CGU, was less than its carrying amount and accordingly an impairment loss of SR 25,449 thousands was recognised.

The majority of the buildings are constructed on plots of land leased from The Saudi Industrial Property Authority (MODON) in Riyadh and first and second industrial city - Dammam for periods range from 4 to 25 years with various commencing dates range from the years 1993 to 2019. The Group has right to renew these lease agreements. Capital work-in-progress represents mainly the cost incurred in respect of new building, expansion, upgrading of production facilities, new production line and machinery and equipment acquired for general modernisation. Certain property, plant and equipment are mortgaged as a security against the loans obtained from the financial institutions (note 31 and 35).

17 LEASES

The Group has lease contracts for plots of land and buildings used in its operations. Leases of plots of land and buildings generally have lease terms between 5 and 20 years. The Group's obligations under its leases are secured by the lessor's title to the leased assets. Generally, the Group is restricted from assigning and subleasing the leased assets and some contracts require the Group to maintain certain financial ratios.

The Group also has certain leases with lease terms of 12 months or with low value. The Group applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period:

	Plots of land	Buildings	Total
	SR'000	SR'000	SR'000
As at 1 January 2019	93,204	45,518	138,722
Additions	2,574	-	2,574
Depreciation expense	(9,015)	(13,095)	(22,110)
As at 31 December 2019	86,763	32,423	119,186

Set out below are the carrying amounts of lease liabilities (included under interest-bearing loans and borrowings) and the movements during the period:

	2019
	SR'000
As at 1 January 2019	119,567
Additions	2,574
Interest expense	6,091
Payments	(24,712)
As at 31 December 2019	103,520

Notes to the Consolidated Financial Statements (continued)

At 31 December 2019

	2019
	SR'000
Analysed as:	
Current	22,886
Non-current	80,634
	103,520

The maturity analysis of lease liabilities are disclosed in note 41.

The following are the amounts recognised in profit or loss:

	2019
	SR'000
Depreciation expense of right-of-use assets	22,110
Interest expense on lease liabilities	6,091
	28,201

The Group has several lease contracts that include extension and termination options. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio and align with the Group's business needs. Management exercises significant judgement in determining whether these extension and termination options are reasonably certain to be exercised.

18

OTHER INTANGIBLE ASSETS

SR'000

Cost:	
At 1 January 2018	10,873
Additions	150
At 31 December 2018	11,023
Derecognition of other intangible assets on first time adoption of IFRS 16 (note 3)	(11,023)
At 31 December 2019	-
Accumulated amortisation:	
At 1 January 2018	5,298
Charge for the year	695
At 31 December 2018	5,993
Derecognition of other intangible assets on first time adoption of IFRS 16 (note 3)	(5,993)
At 31 December 2019	-
Net carrying value	
At 31 December 2019	-
At 31 December 2018	5,030

Other intangible assets mainly represented amounts paid to acquire lease rights to use plots of land in Vietnam and are amortised over a period of 20 to 30 years. The amount was recognised as part of the right-of-use assets on first time adoption of IFRS 16.

Notes to the Consolidated Financial Statements (continued)

At 31 December 2019

19 INVESTMENTS IN ASSOCIATES AND A JOINT VENTURE

Carrying values of the Group's share for investment in associates and a joint venture were as follows:

	2019	2018	2019	2018
Associates	Percentage of ownership		SR'000	SR'000
Rabiah Nassar and Zamil Concrete Industries Company Limited - Saudi Arabia ("RANCO") (note 19.1)	50%	50%	68,793	56,296
Energy Central Company B.S.C. - Bahrain (note 19.2)	-	25%	-	14,900
IIB Paper Company Limited - Bahrain (note 19.3)	20.83%	20.83%	-	3,052
			68,793	74,248
	2019	2018	2019	2018
Joint venture	Percentage of ownership		SR'000	SR'000
Middle East Air Conditioners Company Limited (note 19.4)	51%	51%	11,079	11,136
	-	11,079	11,079	11,136
			79,872	85,384

The following table illustrates the summarised financial information of the Group's investment in associates:

Summarised statement of financial position				Total
	RANCO	Energy Central Company B.S.C. - Bahrain	IIB Paper Company Limited - Bahrain	
31 DECEMBER 2019	SR'000			
Current assets	209,844	-	-	
Non-current assets	161,833	-	26	
Current liabilities	(200,252)	-	(894)	
Non-current liabilities	(26,188)	-	-	
Net assets	145,237	-	(868)	
Proportion of the Group's ownership	50%	0%	20.83%	
Group's share of net assets	72,619	-	-	
Impairment loss / other adjustments	(3,826)	-	-	
Group's carrying amount of the investment	68,793	-	-	68,793

Notes to the Consolidated Financial Statements (continued)

At 31 December 2019

Summarised statement of financial position (continued)				Total
	RANCO	Energy Central Company B.S.C. - Bahrain	IIB Paper Company Limited - Bahrain	
31 DECEMBER 2018	SR'000			
Current assets	137,197	35,250	4	
Non-current assets	155,919	65,330	15,375	
Current liabilities	(152,652)	(1,570)	(728)	
Non-current liabilities	(87,922)	(340)	-	
Net assets	52,542	98,670	14,651	
Proportion of the Group's ownership	50%	25%	20.83%	
Group's share of net assets	26,271	24,668	3,052	
Impairment loss / other adjustments	30,025	(9,768)	-	
Group's carrying amount of the investment	56,296	14,900	3,052	74,248

Summarised statements of comprehensive income for associates				Total
	RANCO	Energy Central Company B.S.C. - Bahrain	IIB Paper Company Limited - Bahrain	
31 DECEMBER 2019	SR'000			
Revenue	235,875	-	-	
Operating income	27,051	-	-	
Net income (loss) for the year	24,610	-	(15,516)	
Other comprehensive income	385	-	-	
Total comprehensive income for the year	24,995	-	(15,516)	
Group's share of total comprehensive income	12,498	-	(3,052)	9,446
31 December 2018				
Revenues	143,912	-	-	
Operating income	3,218	-	-	
Net income (loss) for the year	768	-	(6,707)	
Other comprehensive income	(959)	-	-	
Total comprehensive income for the year	(191)	-	(6,707)	
Group's share of total comprehensive income	(96)	-	(1,397)	(1,493)

Notes to the Consolidated Financial Statements (continued)

At 31 December 2019

- 19.1** Rabiah Nassar and Zamil Concrete Industries Company Ltd ("RANCO") which is registered in Saudi Arabia and engaged in the production of concrete products, asphalt and polystyrene. In prior periods, 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 rate of 12.4%. Accordingly an impairment loss of SR 61,556 thousands was recognised. During 2018, as the associate's operational activities resumed to normal levels and are expected to continue in the foreseeable future, therefore, the Group determined that the recoverable amount of its CGU, has exceeded its carrying amount. The recoverable amount was based on the CGU's value in use using a pre-tax discount rate of 11.3%. Accordingly, an impairment loss of SR 33,850 thousands was reversed.
- 19.2** Energy Central Company B.S.C is a closed Joint Stock Company incorporated in the Kingdom of Bahrain. The principal activities of the company are distribution of utility services including district cooling, seawater desalination, wastewater treatment, power generation and other related services within the GCC countries. During the year, the Group's investment in Energy Central Company B.S.C was fully disposed off. Legal formalities with regard to disposal were completed during the year.
- 19.3** IIB Paper Company Limited is registered in Cayman Islands and is engaged in the production of tissue paper. The Group recognised its share in loss for the year up to the carrying value of the investment.
- 19.4** Middle East Air Conditioners Company Limited is registered in Kingdom of Saudi Arabia and is engaged in sale of air conditioners. Summarised financial information of the joint venture, based on its IFRS financial statements, and reconciliation with the carrying amount of the investment in the consolidated financial statements is set out below:

Summarised statement of financial position for joint venture	2019	2018
	SR'000	SR'000
Current assets (including bank balances and cash of SR 2.4 million, 2018: SR 6.2 million)	43,011	39,590
Non-current assets	23	6
Current liabilities (including zakat and income tax provision of SR 0.89 million, 2018: SR 0.34 million)	(22,483)	(19,427)
Non-current liabilities	(132)	(71)
Net assets	20,419	20,098
Proportion of the Group's owner	51%	51%
Group's share of net assets	10,414	10,250
Other adjustments	665	886
Group's carrying amount of the investment	11,079	11,136

Notes to the Consolidated Financial Statements (continued)

At 31 December 2019

Summarised statement of comprehensive income for joint venture	2019	2018
	SR'000	SR'000
Revenues	40,344	21,949
Cost of sales	(33,646)	(22,642)
Selling and distribution expenses	(3,270)	(1,215)
General and administrative expenses	(2,006)	(1,143)
Other expenses	-	(1,229)
Income (loss) before zakat and income tax	1,422	(4,280)
Zakat and income tax	(896)	(473)
Total comprehensive income for the year	526	(4,753)
Group's share of total comprehensive income for the year	(58)	(2,951)

20 EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2019	2018
	SR'000	SR'000
Kinan International For Real Estate Development Company Limited (note 20.1)	39,140	40,538

Reconciliation of fair value of unquoted equity shares classified as equity instruments at fair value through other comprehensive income is as follows:

	2019	2018
	SR'000	SR'000
At the beginning of the year	40,538	77,466
Remeasurement recognised in consolidated statement of comprehensive income	(1,398)	(6,048)
Sales (note 20.2)	-	(30,880)
At the end of the year	39,140	40,538

20.1 This investment represents 2.11% share in Kinan International For Real Estate Development Company Limited, an unlisted company which is registered in Saudi Arabia and is engaged in real estate activities.

20.2 During 2018, the Group has disposed off its 61.19% of unquoted share in PLG Photovoltaic Limited with a net book value of SR 30,880 thousands, an unlisted company which is registered in India against a value of SR 16,487 thousands. Accordingly, a loss of SR 14,393 thousands was recognised in retained earnings through the consolidated statement of comprehensive income and the related fair value reserve of SR 10,880 thousands have been transferred to retained earnings.

Notes to the Consolidated Financial Statements (continued)

At 31 December 2019

21 NET INVESTMENT IN FINANCE LEASE

Eastern District Cooling Company ("EDCC"), a subsidiary, entered into an energy performance contract during 2008 with Saudi Iron and Steel Company ("Hadeed") for a period of 20 years. As per the terms stipulated in the agreement it is agreed to design, construct, operate and maintain a District Cooling Plant (DCP) at the premises of Hadeed. At the end of the contract term all the rights, title and interest in the DCP will be transferred to Hadeed for an all-inclusive lump sum payment of SR 53.3 million. During 2013, the construction of DCS was completed and the entire risks and rewards were transferred to Hadeed under finance lease agreement on 1 April 2013.

The net investment in finance lease and the future minimum lease payments are as follows:

a) Net investment in finance lease consists of:	2019	2018
	SR'000	SR'000
Gross investments in lease (see (b) below)	429,057	466,635
Less: Unearned finance income	(88,375)	(103,352)
	340,682	363,283
Analysed as:		
Net investment in finance lease, current	23,578	22,600
Net investment in finance lease, non-current	317,104	340,683
	340,682	363,283
b) The future minimum lease payments to be received consists of:		
Within one year	37,578	37,578
After one year but not more than five years	187,888	187,888
Five years onwards	203,591	241,169
	429,057	466,635

22 GOODWILL

During 2011, the Group acquired 51% of the voting shares of Gulf Insulation Group ("GIG"), a company registered in the Kingdom of Saudi Arabia. During 2012, the Group exercised purchase price allocation which is resulting a goodwill of SR 110 million.

During 2014, GIG transferred 51% ownership of its wholly owned subsidiary Saudi Preinsulated Pipes Industries Company Limited ("SPPI") to one of its partner, Second Insulation Company Limited ("SICL"), a wholly owned subsidiary of the Group. Accordingly, the Group performed its annual impairment test in December 2015 considering the allocation of goodwill to GIG and SPPI and performing impairment view on CGUs based on the available information and comparing carrying values to their estimated recoverable amounts based on appropriate method. The goodwill related to SPPI was fully impaired in the year 2015 and accordingly the balance amount relates to goodwill in GIG.

Notes to the Consolidated Financial Statements (continued)

At 31 December 2019

The Group performed its annual impairment test at each reporting date. The recoverable amount of GIG is determined based on a value in use calculation using cash flow projection from financial budgets approved by senior management covering a five-year period. The projected cash flows projections have been updated to reflect the future demands of the products of GIG. The cash flows beyond the five year period are extrapolated using a 2.3% (2018: 2%) growth rate that is the same as the long term average growth rate for the industry in which the GIG operates. The recoverable amount was based on the CGU's value in use using a pre-tax discount rates of 12.3% to 12.5% (2018: 11.7% to 12.9%).

As a result of the analysis, at 31 December 2019 the estimated recoverable amount of CGU exceeded its carrying amount by approximately SR 4.6 million (2018: SR 18 million) and the management did not identify an impairment for this CGU to which goodwill of SR 21 million is allocated.

The calculation of value in use for the CGU is most sensitive to the following assumptions:

- Gross margin
- Discount rates
- Growth rate used to extrapolate cash flows beyond the budget period

Gross margin

Gross margins are based on average values achieved in the three years preceding the start of the budget period. These are increased over the budget period for anticipated efficiency improvements. Decreased demand can lead to a decline in gross margin. A decrease in the gross margin of 0.6% would result in an impairment of the CGU.

Discount rates

Discount rates represent the current market assessment of the risks specific to the cash generating unit, regarding the time value of money and individual risks of the underlying assets which have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on the interest-bearing borrowings the Group is obliged to service. Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly-available marked data. A rise in the pre-tax discount rate of 0.7% would result in an impairment.

Growth rate estimates

A long-term growth rate into perpetuity has been determined as the lower of the nominal gross domestic product (GDP) rate for Saudi Arabia where the CGU operates. Management recognises that the speed of technological change and the possibility of new entrants can have a significant impact on growth rate assumptions. The effect of new entrants is not expected to have an adverse impact on the forecasts, but could yield a reasonably possible alternative to the estimated long-term growth rate of 2.3%. A reduction of 0.1% in the long-term growth rate would result in impairment of the CGU.

23

INVENTORIES

	2019	2018
	SR'000	SR'000
Raw materials	773,900	774,520
Finished goods	345,921	425,880
Work in progress	96,042	97,921
Goods in transit	23,528	46,446
	1,239,391	1,344,767

Notes to the Consolidated Financial Statements (continued)

At 31 December 2019

24 ACCOUNTS RECEIVABLE	2019	2018
	SR'000	SR'000
Trade accounts receivable	1,910,603	2,087,871
Receivables from related parties (note 38)	102,706	95,051
Retentions receivable	207,664	171,852
	2,220,973	2,354,774
Less: provision for impairment of receivables	(325,311)	(311,618)
	1,895,662	2,043,156

For terms and conditions related to related parties receivables, refer to note 38.

Trade receivables are non-interest bearing and are generally on terms of 30 to 90 days. Movement in the allowance for expected credit losses of trade receivables is as follows:

	2019	2018
	SR'000	SR'000
At the beginning of the year	311,618	167,630
Provision for expected credit losses - continuing operations	17,400	122,044
Provision for expected credit losses - discontinued operations	14,446	23,294
Written-off during the year	(18,267)	(323)
Exchange differences	114	(1,027)
At the end of the year	325,311	311,618

Information about the credit exposures on accounts receivable is disclosed in note 41.

25 CONTRACT ASSETS	2019	2018
	SR'000	SR'000
Value of the work executed to date	2,227,713	1,746,042
Less: Amounts received and receivable as progress billings	(1,726,018)	(1,330,645)
	501,695	415,397
Less: provision for expected credit losses	(6,939)	(2,028)
	494,756	413,369

Information about the credit exposures on contract assets is disclosed in note 41.

Notes to the Consolidated Financial Statements (continued)

At 31 December 2019

26 ADVANCES, OTHER RECEIVABLES AND PREPAYMENTS	2019	2018
	SR'000	SR'000
Advances to suppliers	60,264	61,720
Prepaid expenses	31,670	50,887
Other receivables	157,665	152,752
	249,599	265,359

27 CASH AND CASH EQUIVALENTS	2019	2018
	SR'000	SR'000
Bank balances and cash	171,236	130,652
Short-term deposits	26,016	21,805
	197,252	152,457

The average interest rate on the short-term deposits during the year was 5 to 6.5% per annum (2018: 4 to 5% per annum).

28 SHARE CAPITAL

The authorised, issued and fully paid share capital of the Company is divided into 60 million shares (2018: same) of SR 10 each (2018: same).

29 DIVIDENDS

On 23 May 2018 (corresponding to 8 Ramadan 1439H), the Annual General Assembly approved the payment of a proposed final cash dividends from board of directors for the year 2017 of SR 1 per share (totalling to SR 60 million). Dividends have been fully paid during the prior year. During the year, there was no proposal to distribute any dividends.

Notes to the Consolidated Financial Statements (continued)

At 31 December 2019

30 MATERIAL PARTLY-OWNED SUBSIDIARIES

Financial information of subsidiaries that have material non-controlling interests is provided below:

Proportion of equity interest held by non-controlling interests:		SR'000	
Name	Country of incorporation	2019	2018
Gulf Insulation Group	Kingdom of Saudi Arabia	49%	49%
Accumulated balances of material non-controlling interest:			
Gulf Insulation Group		185,320	188,265
Income allocated to material non-controlling interest:		2019	2018
Gulf Insulation Group		11,772	11,673

The summarised financial information of the above subsidiary is provided below. This information is based on amounts before inter-company eliminations.

Summarised statement of income	2019	2018
Revenues	256,881	262,869
Cost of sales	(167,288)	(177,214)
Other operating expenses	(56,632)	(59,280)
Other income	1,515	901
Finance costs	(6,659)	(6,753)
Profit before zakat	27,817	20,523
Zakat and income tax	(5,439)	(3,484)
Net income for the year	22,378	17,039
Other comprehensive income for the year	362	(622)
Total comprehensive income for the year	22,740	16,417
Attributable to non-controlling interests	11,772	11,673
Dividends paid to non-controlling interests	14,700	5,622
Summarised statement of financial position:	2019	2018
Non-current assets	309,185	331,703
Current assets	148,448	161,031
Non-current liabilities	(38,079)	(51,480)
Current liabilities	(133,675)	(147,853)
Total Equity	285,879	293,401
Attributable to:		
Shareholders of the parent company	100,559	105,136
Non-controlling interests	185,320	188,265
Summarised cash flow information for year ended:	2019	2018
Cash flows from operating activities	49,088	33,077
Cash used in investing activities	1,371	(7,151)
Cash used in financing activities	(51,373)	(29,750)
Net increase in the cash and cash equivalents	(914)	(3,824)

Notes to the Consolidated Financial Statements (continued)

At 31 December 2019

31 TERM LOANS

	SR'000	
	2019	2018
Saudi Industrial Development Fund ("SIDF")	195,422	85,642
	195,422	85,642
Less: SIDF prepaid financial charges	(3,036)	(3,205)
	192,386	82,437
Less: Current portion:		
Saudi Industrial Development Fund ("SIDF")	(47,400)	(43,703)
	(47,400)	(43,703)
Non-current portion	144,986	38,734

During the year, the Group obtained loan facilities of SR 129 million from SIDF to finance a construction of air condition laboratory test facility and to finance the working capital of its subsidiaries. During the prior years, the Group obtained loan facility of SR 140 million from SIDF to finance the construction of a plant.

The loan is secured by a mortgage on the Group's property, plant and equipment (note 16). The loans are repayable in unequal instalments. The loans carry financial charges at prevailing market borrowing rates.

The Group is required to comply with certain covenants which include, among other things, certain financial ratios to be maintained under all the loan facility agreements mentioned above.

During the year, the Group has charged an amortization of SR 2.3 million (2018: SR 2.3 million) in respect of prepaid financing cost.

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

Year	2020	2021	2022	2023	2024 and onwards	
SR'000	48,242	134,800	7,430	3,250	1,700	195,422

32 EMPLOYEES' DEFINED BENEFIT LIABILITIES

In accordance with the provisions of IAS 19, management has carried out an exercise to assess the present value of its defined benefit obligations at 31 December 2019 and 31 December 2018 in respect of employees' end-of-service benefits payable under relevant local regulations and contractual arrangements. The main actuarial assumptions used to calculate the defined unfunded benefit obligation are as follows:

	2019	2018
Discount rate	3.10%	4.45%
Expected rate of salary increase	2.60%	3.95%

Notes to the Consolidated Financial Statements (continued)

At 31 December 2019

The break up of net benefit costs charged to consolidated statement of income is as follows:

	SR'000	
	2019	2018
Current service cost	31,639	34,465
Interest cost on benefit obligation	11,034	8,955
Net benefit expense	42,673	43,420

Changes in the present value of defined unfunded benefit obligation is as follows:

	SR'000	
	2019	2018
At the beginning of the year	246,979	294,964
Net benefit expense	42,673	43,420
Benefits paid	(52,253)	(100,903)
Remeasurement losses (gains) on employees' defined benefit liabilities	(3,067)	9,498
At the end of the year	234,332	246,979

Employees' defined benefit obligations due to a reasonable possible change in the significant actuarial assumptions, as at 31 December 2019 and 2018 is, as show below:

	SR'000	
	2019	2018
Discount rate:		
0.5% increase	223,839	236,197
0.5% decrease	245,681	258,390
Future salary increase:		
0.5% increase	245,187	257,870
0.5% decrease	224,188	236,572

The sensitivity analysis above have been determined based on a method that extrapolates the impact on the defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period. The sensitivity analysis are based on a change in a significant assumption, keeping all other assumptions constant. The sensitivity analysis may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation of one another. The same method has been applied for the sensitivity analysis as when calculating the recognised pension liability.

The following payments are expected against the defined benefit liability in future years:

	SR'000	
	2019	2018
Within the next 12 months (next annual reporting period)	15,061	17,038
Between 2 and 5 years	88,081	95,953
Beyond 5 years	145,744	170,422
Total expected payments	248,886	283,413

The average duration of the defined benefit plan obligation at the end of the reporting period is 9.41 years (2018: 9.09 years).

Notes to the Consolidated Financial Statements (continued)

At 31 December 2019

33 ACCOUNTS PAYABLE

SR'000

	2019	2018
Trade accounts payable	361,168	415,106
Retentions payable	25,643	21,841
Related parties (note 38)	5,408	19,574
	392,219	456,521

Trade payables are non-interesting bearing and are normally settled on 30 to 120 days terms. For terms and conditions with related parties, refer to note 38. For explanations on the Group's liquidity risk management processes, refer to note 41.

34 ACCRUALS AND PROVISIONS

SR'000

	2019	2018
Accrued expenses	255,215	250,728
Accrued contract costs	144,484	123,703
Warranties provision	13,354	9,480
	413,053	383,911

35 SHORT TERM LOANS

SR'000

	2019	2018
Short term loans	45,817	60,703
Murabaha and tawarruq finances	2,154,904	2,563,845
Saudi Industrial Development Fund ("SIDF")	281,107	-
	2,481,828	2,624,548

The short term loans, Murabaha and Tawarruq finances were obtained from various local banks to meet the working capital requirements. These loans are secured by promissory notes and assignment of corporate guarantees and a mortgage on the Group's property, plant and equipment (note 16). These borrowings carry commission charges at prevailing market borrowing rates. The effective commission rate for the year ended 31 December 2019 is 3.52% per annum (2018: 3.25% per annum).

During the year, the Group obtained loan facilities of SR 283 million from SIDF to finance the working capital of its subsidiaries. The prepaid financial charges amounted to SR 4.2 million in which SR 2.4 million was amortized during the year

36 CONTRACT LIABILITIES

SR'000

	2019	2018
Advances from customers	257,898	218,930
Billings in excess of value of work executed	36,130	73,420
	294,028	292,350

Billings in excess of value of work executed comprise of following:

SR'000

	2019	2018
Progress billings received or receivable	945,147	891,670
Less: value of work executed	(909,017)	(818,250)
	36,130	73,420

Notes to the Consolidated Financial Statements (continued)

At 31 December 2019

37 ZAKAT AND INCOME TAX

The major components of zakat and income tax expense for the year ended 31 December 2019 and 2018 are:

Consolidated statement of income	SR'000	
Zakat and current income tax:	2019	2018
Zakat charge	17,822	17,311
Current income tax charge	5,501	3,157
Deferred taxes	7,005	(6,837)
	30,328	13,631

Movement in zakat and income tax for the year was as follows:

	2019	2018
At the beginning of the year	47,368	45,649
Current year provision	23,323	20,468
Payments during the year	(25,867)	(18,598)
Exchange differences	(15)	(151)
At the end of the year	44,809	47,368

37.1 Zakat

Charge for the year	SR'000	
The zakat charge consists of:	2019	2018
Current year provision	17,822	17,311

The provision for the year is based on zakat base of the Company and its wholly owned Saudi subsidiaries as a whole and individual zakat base of other Saudi subsidiaries.

Status of assessments

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

(i) **The Company and its wholly owned subsidiaries**

The zakat assessments of the Company and its wholly owned Saudi subsidiaries as a whole have been agreed with the General Authority of Zakat and Tax ("the GAZT") up to 2013. The zakat declarations for the years from 2014 to 2018 have been filed with the GAZT. However, the assessments have not yet been raised by the GAZT.

(ii) **Partially owned subsidiaries**

Saudi Preinsulated Pipes Industries

Zakat assessments have been agreed with the GAZT up to 2016. The zakat declarations for the years 2017 and 2018 have been filed with the GAZT. However, the assessments have not yet been raised by the GAZT.

(iii) **Gulf Insulation Group**

Zakat and income tax assessments have been agreed with the GAZT up to 2007. The zakat declarations for the years from 2008 to 2018 have been filed with the GAZT. However, the assessments have not yet been raised by the GAZT.

Zakat base and the income tax provision have been computed based on the Company's understanding of zakat and income tax regulations prevailing in the Kingdom of Saudi Arabia. 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.

Notes to the Consolidated Financial Statements (continued)

At 31 December 2019

37.2 Income tax

Charge for the year	SR'000	
The income tax charge consists of:	2019	2018
Current year provision	5,501	3,157

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

Status of assessments

The status of assessment of the major foreign subsidiaries are as follows:

Zamil Air Conditioners India Private Limited

Income tax assessments have been agreed with the Department of Income Tax of India ("the DIT") up to the year ended 31 March 2010. The income tax returns for the years ended 31 March 2011 to 31 March 2019 have been filed with the DIT. However, the final assessments have not yet been raised by the DIT.

Zamil Steel Buildings India Private Limited - India

Income tax assessments have been agreed with the DIT up to the year ended 31 March 2017. The income tax returns for the years ended 31 March 2018 and 2019 have been filed with the DIT. However, the final assessments have not yet been raised by the DIT.

Zamil Construction India Private Limited

Income tax assessments have been agreed with the DIT up to the year ended 31 March 2017. The income tax returns for the years ended 31 March 2018 and 31 March 2019 have been filed with the DIT. However, the final assessments have not yet been raised by the DIT.

Zamil Information Technology Global Private Limited - India

Income tax assessments have been agreed with the DIT up to the year ended 31 March 2018. The income tax returns of the company for the year ended 31 March 2019 have been filed with the DIT. However, the final assessments have not yet been raised by the DIT for any of the year.

Zamil Steel Engineering India Private Limited - India

Income tax assessments have been agreed with the DIT up to the year ended 31 March 2017. The income tax returns of the company for the years ended 31 March 2018 and 31 March 2019 have been filed with the DIT. However, the final assessments have not yet been raised by the DIT for any of the year.

Zamil Steel Buildings Vietnam Company Limited

Income tax assessments have been agreed with the tax authorities ("the TA") of Vietnam up to the year 2017. The income tax returns of the company for the year ended 31 December 2018 have been filed with the DIT.

Zamil Structural Steel - S.A.E - Private Free Zone

The company was established under the free zone system according to the provision of Investment Guarantees and Incentive Law number 8 of 1997. Accordingly, the company is exempted from corporate taxes and withholding taxes and these privileges will continue to apply for the lifetime of the company.

Zamil Steel Buildings Company Egypt - S.A.E

Income tax assessments have been agreed with the Egyptian tax authorities ("the tax authorities") up to the year 2017. The income tax return for the year 2018 has been filed with the tax authorities. However, the final assessments have not yet been raised by tax authorities.

Income tax has been computed based on the management's 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.

Notes to the Consolidated Financial Statements (continued)

At 31 December 2019

37.3 Deferred tax

Deferred tax assets

The deferred tax assets relate to foreign subsidiaries in Vietnam, Egypt and India. The subsidiary in Egypt has incurred losses over the last two financial years and such losses are available for next five years for offset against future taxable profits of the subsidiary. The Group has concluded that the deferred assets will be recoverable using the estimated future taxable income based on the approved business plans and budgets for the subsidiaries.

The deferred tax asset comprises of timing differences relating to:

	SR'000	
Deferred tax asset	2019	2018
Accruals and provisions	6,863	6,982
Taxable losses carry forward	-	3,869
Total deferred tax assets	6,863	10,851

	SR'000	
Deferred tax liability	2019	2018
Accelerated depreciation for tax purposes	(839)	(620)
Total deferred tax liability	(839)	(620)
Net deferred tax asset	6,024	10,231

Reconciliation of deferred tax assets, net was as follows:

	SR'000	
	2019	2018
At the beginning of the year	10,231	6,899
Tax (expense) benefit during the year recognised in consolidated statement of income	(4,599)	3,453
Exchange differences	392	(121)
At the end of the year	6,024	10,231

Deferred tax liabilities

The deferred tax liabilities relates to a partially owned Saudi subsidiary with a foreign shareholder. The deferred tax liabilities comprise of timing differences relating to:

	SR'000	
Deferred tax liability	2019	2018
Accelerated depreciation for tax purposes	9,233	6,588
Total deferred tax liability	9,233	6,588

	SR'000	
Deferred tax asset	2019	2018
Employees' defined benefit liabilities	(684)	(671)
Allowance for doubtful debts	(1,098)	(912)
Allowance for slow moving inventories	(63)	(23)
Total deferred tax assets	(1,845)	(1,606)
Net deferred tax liability	7,388	4,982

Notes to the Consolidated Financial Statements (continued)

At 31 December 2019

Reconciliation of deferred tax liabilities, net was as follows:

	SR'000	
	2019	2018
At the beginning of the year	4,982	8,366
Tax (benefit) expense recognised in consolidated statement of income	2,406	(3,384)
At the end of the year	7,388	4,982

The Group offsets tax assets and liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority.

38 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. Amounts due from/to related parties are shown under accounts receivable and account payable respectively. Transactions with related parties included in the consolidated statement of income are as follows:

Relationship and name of related party		Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
Ultimate parent company		SR'000			
Zamil Group Holding Company	2019	1,836	113	3,216	-
	2018	6,330	-	3,513	-
Joint venture					
Middle East Air Conditioners Co. Ltd.	2019	32,078	-	19,853	-
	2018	9,962	-	18,252	-
Associates					
Rabiah Nasser & Zamil Concrete Industries Company Limited	2019	-	-	17,843	-
	2018	-	-	12,804	-
Energy Central Company - Bahrain	2019	-	-	-	-
	2018	-	-	-	14,900
Geoclima - Italy	2019	-	-	-	-
	2018	-	-	2,382	-
ZNA Infra Private Limited - India	2019	-	-	54,160	-
	2018	-	-	37,890	-

Notes to the Consolidated Financial Statements (continued)

At 31 December 2019

Relationship and name of related party		Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
Other related parties		SR'000			
United Carton Industries	2019	804	1,099	-	213
	2018	716	2,328	8,758	-
Zamil Architectural Holding Company	2019	220	1,013	-	1,444
	2018	4,220	468	3,173	-
Others	2019	12,891	23,072	7,634	3,751
	2018	9,917	27,760	8,279	4,674
Total	2019	47,829	25,297	102,706	5,408
	2018	31,145	30,556	95,051	19,574

The compensation to the key management personnel during the year ended 31 December 2019 amounted to SR 6.76 million (2018: SR 7.05 million). The directors' remuneration for the year ended 31 December 2019 amounted to SR 1.6 million (2018: SR 1.6 million).

Pricing policies and terms of payments of transactions with related parties are approved by the Board of Directors. Outstanding balances at the year end are unsecured, interest free and settled in cash. During the year, the Group recognised provision for expected credit losses of SR 14.5 million (2018: SR 23.2 million) relating to amounts owed by related parties and has been recognised as part of net loss from discontinued operations in the consolidated statement of income.

The amounts due from and due to related parties have been classified as account receivables and account payables respectively in the consolidated statement of financial position (refer to note 24 and 33).

39 CONTINGENCIES AND COMMITMENTS

Guarantees

The Group's bankers have issued performance and payments guarantees, on behalf of the Group, amounting to SR 1,080 million (2018: SR 1,079 million).

Capital commitments

The board of directors have approved future capital expenditure amounting to SR 30 million (2018: SR 21 million), relating to certain expansion projects.

Notes to the Consolidated Financial Statements (continued)

At 31 December 2019

40 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.

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 consolidated financial statements.

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.

For the year ended 31 December 2019 (SR '000)

Business segments	Air conditioner industry	Steel industry	Insulation industry	Corporate and others	Total segments	Adjustments and eliminations	Consolidated
Revenue from contracts with customers:							
External customer	1,720,834	2,264,827	271,257	6,331	4,263,249	-	4,263,249
Inter-segment	18,049	234	17,441	1,361	37,085	(37,085)	-
	1,738,883	2,265,061	288,698	7,692	4,300,334	(37,085)	4,263,249
Finance lease income	14,977	-	-	-	14,977	-	14,977
Total revenue	1,753,860	2,265,061	288,698	7,692	4,315,311	(37,085)	4,278,226
Timing of revenue recognition:							
At a point in time	1,214,053	1,673,166	271,257	6,331	3,164,807	-	3,164,807
Over time	506,781	591,661	-	-	1,098,442	-	1,098,442
	1,720,834	2,264,827	271,257	6,331	4,263,249	-	4,263,249
Gross profit (loss)	179,774	322,347	93,096	(11,400)	583,817	14,130	597,947
Operating income (loss)	(63,464)	20,618	29,644	(30,800)	(44,002)	14,677	(29,325)

Notes to the Consolidated Financial Statements (continued)

At 31 December 2019

For the year ended 31 December 2019 (SR '000)

Business segments	Air conditioner industry	Steel industry	Insulation industry	Corporate and others	Total segments	Adjustments and eliminations	Consolidated
Unallocated income (expenses):							
Share in results of associates and a joint venture							9,195
Other income, net							21,540
Financial charges							(121,379)
Reversal of impairment losses on non-current assets							34,584
Loss before zakat and income tax and discontinued operations							(85,385)
Zakat and income tax							(30,328)
Discontinued operations							(13,997)
Net loss for the year							(129,710)

For the year ended 31 December 2018 (SR '000)

Business segments	Air conditioner industry	Steel industry	Insulation industry	Corporate and others	Total segments	Adjustments and eliminations	Consolidated
Revenue from contracts with customers:							
External customer	1,858,123	2,140,722	287,766	11,123	4,297,734	-	4,297,734
Inter-segment	10,132	-	14,384	4,853	29,369	(29,369)	-
	1,868,255	2,140,722	302,150	15,976	4,327,103	(29,369)	4,297,734
Finance lease income	15,915	-	-	-	15,915	-	15,915
Total revenue	1,884,170	2,140,722	302,150	15,976	4,343,018	(29,369)	4,313,649
Timing of revenue recognition:							
At a point in time	1,329,612	1,714,981	287,766	11,123	3,343,482	-	3,343,482
Over time	528,511	425,741	-	-	954,252	-	954,252
	1,858,123	2,140,722	287,766	11,123	4,297,734	-	4,297,734
Gross profit (loss)	285,648	332,008	90,717	(4,654)	703,719	11,651	715,370
Operating income (loss)	(28,582)	(227)	22,501	(8,549)	(14,857)	1,782	(13,075)
Unallocated income (expenses):							
Share in results of associates and a joint venture							(3,964)
Other income, net							6,256
Financial charges							(103,211)
Reversal of impairment losses on non-current assets							47,967
Loss before zakat and income tax and discontinued operations							(66,027)
Zakat and income tax							(13,631)
Discontinued operations							(54,328)
Net loss for the year							(133,986)

Notes to the Consolidated Financial Statements (continued)

At 31 December 2019

At 31 December 2019 (SR '000)

Business segments	Air conditioner industry	Steel industry	Insulation industry	Corporate and others	Total segments	Adjustments and eliminations	Consolidated
Total assets	2,516,615	2,332,759	504,801	563,371	5,917,546	(274,148)	5,643,398
Total liabilities	1,759,422	1,476,866	201,812	1,031,271	4,469,371	(305,808)	4,163,563
Others:							
Investment in associates and a joint venture	11,079	-	-	68,793	79,872	-	79,872
Capital expenditure	7,212	12,362	8,807	295	28,676	-	28,676

At 31 December 2018 (SR '000)

Business segments	Air conditioner industry	Steel industry	Insulation industry	Corporate and others	Total segments	Adjustments and eliminations	Consolidated
Total assets	2,792,442	2,113,405	547,063	700,355	6,153,265	(390,054)	5,763,211
Total liabilities	1,988,533	1,293,060	230,754	998,922	4,511,269	(372,173)	4,139,096
Others:							
Investment in associates and a joint venture	11,136	-	-	74,248	85,384	-	85,384
Capital expenditure	11,690	15,528	7,273	1,051	35,542	-	35,542

Capital expenditure consists of additions of property, plant and equipment and intangible assets.

Geographic information

Revenue from external customers:	2019	2018
Saudi Arabia	3,342,745	3,365,138
Other Asian countries	581,160	611,873
Africa	354,321	336,638
	4,278,226	4,313,649
Non-current operating assets:	2019	2018
Saudi Arabia	802,770	853,188
Other Asian countries	203,518	95,648
Africa	73,606	74,705
	1,079,894	1,023,541

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

Notes to the Consolidated Financial Statements (continued)

At 31 December 2019

41 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities comprise loans and borrowings and accounts payables. The main purpose of these financial liabilities is to finance the Group's operations. The Group's principal financial assets include accounts receivables, net investment in finance lease, short-term deposits, cash and bank balances that derive directly from its operations. The Group also holds investment in unquoted shares that is classified as equity investment at fair value through other comprehensive income.

The Group is exposed to market risk, credit risk and liquidity risk. The Group's senior management oversees the management of these risks. The Group's senior management regularly review the policies and procedures to ensure that all the financial risks are identified, measured and managed in accordance with the Group's policies and risk objectives. The Group does not engage into any hedging activities. The Board of Directors reviews and agrees policies for managing each of these risks, which are summarized below.

A) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: commission rate risk, currency risk and other price risk, such as equity price risk and commodity risk. Financial instruments affected by market risk include loans and borrowings, short-term deposits and equity instruments at fair value through other comprehensive income. The sensitivity analyses in the following sections relate to the position as at 31 December 2019 and 2018.

Commission rate risk

Commission rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market commission rates. The Group's exposure to the risk of changes in market commission rates relates primarily to the Group's long-term and short-term loans and its short-term deposits. The Group manages its exposure to commission rate risk by continuously monitoring movements in commission rates. At 31 December 2019 and 2018, the Group's exposure to commission rate risk was not significant as its major long-term and short-term loans were subject fixed commission rates.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense is denominated in a foreign currency) and the Group's net investments in foreign subsidiaries and associates. The Group did not undertake significant transactions in currencies other than Saudi Riyals, US Dollars, Japanese Yen, Egyptian Pound, Indian Rupees and Euros during the year. As Saudi Riyals are pegged to US Dollars, balances in US Dollars are not considered to represent significant currency risk. The Group is exposed to currency risk on transactions and balances in Euros, Japanese Yen, Indian Rupees and Egyptian Pound. The Group manages currency risk exposure to Euros, Japanese Yen, Indian Rupees and Egyptian Pound by continuously monitoring the currency fluctuations. At 31 December 2019 and 2018, the Group's exposure to foreign currency changes for its accounts receivable and accounts payable was not material.

The Group is exposed to significant foreign currency changes on its net investment in foreign operations in Egyptian Pounds and India Rupees. The following tables demonstrate the sensitivity to a reasonably possible change in Egyptian Pound and Indian Rupee exchange rates, with all other variables held constant. The impact on the Group's pre-tax equity is due to changes in the fair value of monetary assets and liabilities. The Group's exposure to foreign currency changes for all other currencies is not material.

Notes to the Consolidated Financial Statements (continued)

At 31 December 2019

	Change in Egyptian Pound rate	Effect on other components in equity SR '000
31 December 2019	+3%	1,086
	-3%	(1,086)
31 December 2018	+9%	1,438
	-9%	(1,438)

	Change in Indian Rupee rate	Effect on other components in equity SR '000
31 December 2019	+2%	1,953
	-2%	(1,953)
31 December 2018	+2%	53
	-2%	(53)

Commodity risk

The Group is exposed to the impact of market fluctuations of the price of various inputs to production including steel, electric parts, glass materials and electricity. The Group prepares annual budgets and periodic forecasts including sensitivity analyses in respect of various levels of such materials to manage the risk.

Equity price risk

The Group's unlisted equity securities are susceptible to market price risk arising from uncertainties about future values of the investment securities. The Group manages the equity price risk through diversification and by placing limits on individual and total equity instruments. Reports on the equity portfolio are submitted to the Group's senior management on a regular basis. The Group's Board of Directors reviews and approves all equity investment decisions.

At the reporting date, the exposure to unlisted equity securities at fair value was SR 39,140 thousands (2018: SR 40,538 thousands).

B) Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk on its bank balances, short-term deposits, accounts receivables, contract assets, net investment in finance lease and some other receivables as follows:

	2019 SR '000	2018 SR '000
Bank balances	167,381	126,892
Short-term deposits	26,016	21,805
Accounts receivable	1,895,662	2,043,156
Contract assets	494,756	413,369
Net investments in finance lease	340,682	363,283
Other receivables	157,665	152,752
	3,082,162	3,121,257

Notes to the Consolidated Financial Statements (continued)

At 31 December 2019

Accounts receivable and contract assets

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. The Group seeks to manage its credit risk with respect to customers by setting credit limits for individual customers, monitoring outstanding receivables and ensuring close follow ups.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses for each business unit of the Group. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e. geographical region, product type, customer type and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

The provision matrix is initially based on the Group's historical observed loss rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in a particular sector, the historical loss rates are adjusted. At every reporting date, the historical observed loss rates are updated and changes in the forward-looking estimates are analysed. The assessment of the correlation between historical observed loss rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual loss in the future.

Generally, accounts receivables are written-off if past due for more than three years and are not subject to enforcement activity. It is not the practice of the Group to obtain collateral over receivables and the vast majority are, therefore, unsecured. At 31 December 2019, the Group has obtained letter of credits as collateral over its receivables amounting to SR 145.3 million (2018: 245.8 million) from its certain customers. The Group determined that such receivable are not exposed to significant credit risk and therefore have not been considered in ECL assessment. The Group evaluates the concentration of risk with respect to trade accounts receivables as low, as its customers are located in several jurisdictions and industries and operate in largely independent markets.

Set out below is the information about the credit risk exposure at 31 December 2019 on the Group's accounts receivables, net investment in finance lease and contract assets:

Accounts receivable:	2019 SR '000	2018 SR '000
Current	563,495	540,223
Less than 30 days	115,783	207,969
31 - 60 days	100,271	146,249
61 - 90 days	96,280	93,284
91 - 180 days	162,108	177,362
181-360 days	172,090	186,398
More than 360 days	555,268	490,617
	1,765,295	1,842,102
Receivables from related parties	102,706	95,051
Retention receivable	207,664	171,852
Net investment in finance lease	340,682	363,283
Contract assets	501,695	415,397
	2,918,042	2,887,685

Notes to the Consolidated Financial Statements (continued)

At 31 December 2019

Based on a provision matrix, the Group's expected credit losses at 31 December 2019 against its accounts receivable and contract assets exposed to credit risk amounted to SR 325.3 million and SR 6.9 million (2018: SR 311.6 million and SR 2.02 million) respectively. Accordingly, the Group recognised an amount of SR 22.3 million (2018: SR 124.08 million) as provision for expected credit losses in its consolidated statement of income for its continuing operations. Related parties receivable include an amount of SR 54.2 million (2018: 37.9 million) attributable to discontinued operations. The Group recognised an amount of SR 14.5 million (2018: 23.2 million) as provision for expected credit losses as part of its net loss on discontinued operations in the consolidated statement of income.

Bank balances and short term deposits

Credit risk from balances with banks and financial institutions is managed by the Group's treasury department in accordance with the Group's policy. The Group seeks to manage its credit risk with respect to banks by only dealing with reputable banks. At the reporting date, no significant concentration of credit risk were identified by the management.

C) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to realize financial assets quickly at an amount close to its fair value. The Group manages its liquidity risk by monitoring working capital and cash flow requirements on regular basis. The Group manages its liquidity risk by ensuring that bank facilities are available. The Group's terms of sales require amounts to be paid within 30 to 90 days of the date of submitting the invoice. Trade payables are normally settled within 30 to 120 days of the date of purchase.

Excessive concentration risk

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry.

In order to avoid excessive concentrations of risk, the Group's management focus on the maintenance of a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments:

	on demand	< 6 months	6 to 12 months	1 to 5 years	> 5 years	Total
As at 31 December 2019						
SR '000						
Accounts payable	5,408	386,811	-	-	-	392,219
Other financial liabilities	-	10,430	14,289	56,684	55,328	136,731
Other financial liabilities	-	399,699	-	-	-	399,699
Interest bearing loans and borrowings	28,542	2,200,721	302,700	147,180	-	2,679,143
	33,950	2,997,661	316,989	203,864	55,328	3,541,142

Notes to the Consolidated Financial Statements (continued)

At 31 December 2019

	on demand	< 6 months	6 to 12 months	1 to 5 years	> 5 years	Total
As at 31 December 2018						
SR '000						
Accounts payable	19,574	436,947	-	-	-	456,521
Other financial liabilities	-	374,431	-	-	-	374,431
Interest bearing loans and borrowings	30,000	2,630,648	8,400	39,442	1,700	2,710,190
	49,574	3,442,026	8,400	39,442	1,700	3,541,14

42 CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximize shareholder value.

The Group manages its capital structure and makes adjustments to it in light of changes in business conditions. No changes were made in the objectives, policies or processes during the year ended 31 December 2019 and the year ended 31 December 2018. Capital comprises share capital, statutory reserve, retained earnings and other reserves and is measured at SR 1,278,767 thousands as at 31 December 2019 (2018: SR 1,415,946 thousands).

43 FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair values

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.

As of reporting date, there were no Level 1, 2 or 3 assets or liabilities except for equity investments through other comprehensive income in unquoted shares and these have been valued using Level 3 valuation technique.

Financial assets consist of cash and cash equivalents, equity investments 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 to their carrying amounts.

Notes to the Consolidated Financial Statements (continued)

At 31 December 2019

Set out below is a comparison, of the carrying amounts and fair values of the Group's equity investments at fair value through other comprehensive income:

	Carrying value	Fair value	Fair value measurement using		
			Level 1	Level 2	Level 3
			SR '000		
31 December 2019					
Equity instruments at fair value through other comprehensive income					
At fair value	39,140	39,140	-	-	39,140
	39,140	39,140	-	-	39,140

	Carrying value	Fair value	Fair value measurement using		
			Level 1	Level 2	Level 3
			SR '000		
31 December 2018					
Equity instruments at fair value through other comprehensive income					
At fair value	40,538	40,538	-	-	40,538
	40,538	40,538	-	-	40,538

The fair value of the Group's investments in unquoted equity shares at 31 December 2019 and 2018 have been measured using Level 3 (significant unobservable inputs). The Group estimated the fair value of the investment using adjusted net asset method at 31 December 2019 and 2018. The adjusted net asset method involves deriving the fair value of an investee's equity instruments by reference to the fair value of its assets and liabilities

44 COMPARATIVE FIGURES

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

45 SUBSEQUENT EVENTS

Coronavirus disease (COVID-19) has spread across the nationwide causing disruption to businesses and economies. The Group considers this to be a non-adjusting post balance sheet date event due to the impossibility of accurately estimating the potential financial impact on the Group as of now. The Group is currently assessing the financial impact and the results will be reflected in 2020 consolidated financial statements, if any.

In the opinion of management, there have been no further significant subsequent events since the year ended 31 December 2019 that would have a material impact on the financial position of the Group as reflected in these consolidated financial statements.