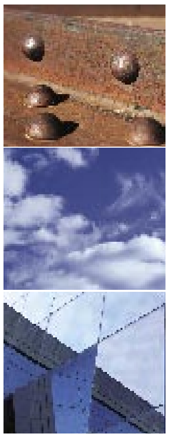


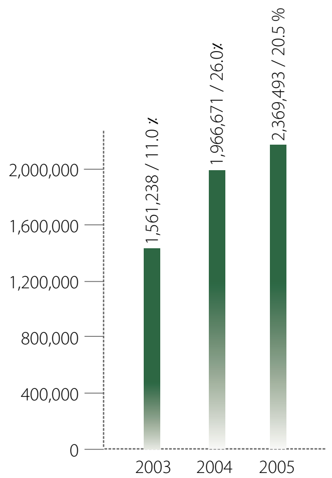
Standing - Left to right: Khalid A. Al Zamil, Adib A. Al Zamil, Ahmed A. Al Zamil, Abdulla M. Al Zamil
Sitting - Left to right: Khaled S. Olayan, Dr. Soliman A. Al Solaim, Dr. Abdulrahman A. Al Zamil, Hamad A. Al Zamil
Not shown: Hisham A. Razzuqi, Sultan K. Bin Mahfouz

"A Winning Industrial Leader Creating Superior Values for Business & Community"

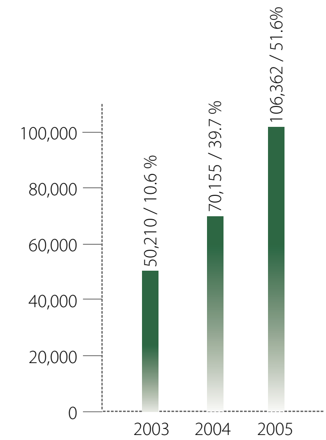
Contents

Dear Shareholders,

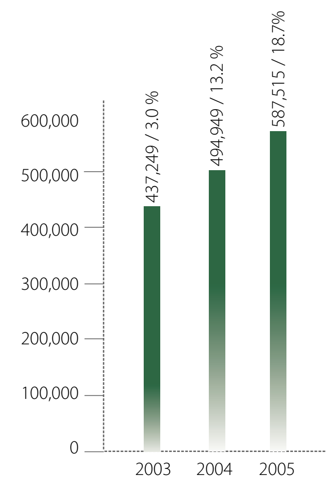
I am delighted to report that in 2005 Zamil Industrial Investment Company (ZIIC) enjoyed a highly successful year with remarkable performance in particular from our steel and air conditioning sector businesses.



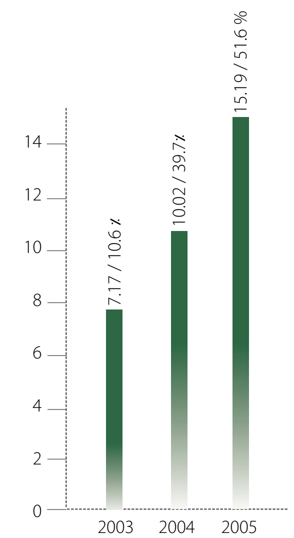
Revenues
% Increase in Revenues
SAR 000



Net Profit
% Increase in Net Profit
SAR 000



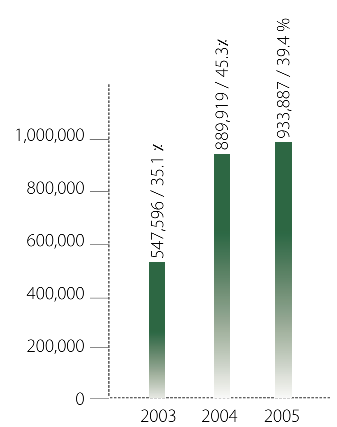
Shareholders Equity
% Increase in Shareholders Equity
SAR 000



Earnings Per Share
% Increase in EPS
SAR

In the year ended 31 December 2005, ZIIC achieved turnover of SAR 2.4 billion/ USD 631.9 million, an increase of 20.5% over the previous year (2004 – SAR 1.97 billion/USD 525 million), while net profits after Zakat contributions were SAR 106.4 million/USD 28.4 million, an increase of 51.6% (2004 - SAR 70.2 million/USD 18.7 million). Post Zakat Earnings per Share rose to SAR 15.19 /USD 4.05 (2004 - SAR 10.02/USD 2.67), while shareholders' equity grew by 18.7% to SAR 587.5 million/USD 156.7 million (2004 - SAR 494.9 million/USD 131.9 million).

The Kingdom's vibrant economy and favorable economic conditions throughout the GCC during the year also positively contributed to the successes of group-wide strategic initiatives, which were implemented in 2005. Exports greatly supported our business growth and expansion strategies and - fuelled by increased demand for our building solutions – contributed 39% of the group's total sales (SAR 934 million / USD 249 million).



Export Sales
% of Revenues
SAR 000

Several resolutions were passed in 2005 to meet high demand for steel, air-conditioning and glass products produced by sector businesses.

These resolutions included doubling the production capacity of Zamil Air Conditioners' Unitary & Applied products (Packaged Units, Air Handling Units and Chillers) through the establishment of a new factory; construction of a full scale Pre-Engineered Buildings fabrication plant in the United Arab Emirates with an overall production capacity reaching 25,000 metric tons annually; and expanding the manufacturing facility of Zamil Steel's Structural Steel Business Unit to a combined annual capacity of 72,000 metric tons by adding two new production lines with a total production capacity of 30,000 metric tons annually.

Dr Abdulrahman Abdullah Al Zamil

Chairman of the Board

We expanded our manufacturing plants and capabilities in the Kingdom and new production facilities are currently under construction in the GCC, Vietnam and India. This will further sustain our growth and has created a strategic position from which we are primed to take advantage of increased business opportunities WTO membership presents, including new opportunities in the services sector and the opening of more export markets.

We have reorganized our European operations based on current economic conditions in the continent. This has effectively brought five European operations under one roof - namely, Geoclima, Clima Tech, Kessler Clima Tech, Cooline Europe and Cooline Holdings. We have also united Clima Tech production within the facilities of Geoclima in Italy. This consolidation is expected to return better results and greater cost reductions in production, sales and marketing management.

Our vision is based on providing exceptional standards of work and giving back to the community.

ZIIC's central role in setting the vision, strategic direction and its support for ongoing development of sector businesses continues gaining momentum, fueled by our group-wide strategic initiatives and the functions of our shared services disciplines.

As part of this a new Strategy, Transformation and Growth Committee for corporate planning has been formed and is tasked with setting organizational direction and providing support and advice to ZAC, Zamil Steel and Zamil Glass on strategy formulation and deployment, to analyze various routes to growth and to plan resources for growth options.

We continue to become ever more global and currently employ more than 6,500 people in 55 countries with exports now reaching more than 80 international markets. Strategic, systematic and deliberate programs have been introduced to further develop our human resource capabilities as a key source of our competitive advantage.

2005 marked the 30th anniversary of Zamil Air Conditioners, with the strength of the business clearly reflected in industry leadership in the Middle East and its increasingly powerful force globally. I am proud of the company's commitment to the Saudi community by its provision of job opportunities for nationals at all levels of the company and for its diligent support and organization of training and management programs for the Saudi public.

Our vision is based on providing exceptional standards of work and giving back to the community. The "HRH Prince Naif bin Abdulaziz Saudization Award" for ZAC's Saudization efforts is a proud achievement where his Excellency the Minister of Labor cited ZAC as a shining example. The Prince of Jizan also recognized ZAC for providing work and on-the-job training opportunities for Saudi students, and Saudi Aramco commended CoolCare's Saudization efforts as part of its Saudization program for all of its contractors.

For the second consecutive year ZIIC IT was acknowledged for its strategic role as an enabler of business needs during the 25th GITEX exhibition in Dubai, United Arab Emirates, during which it was recognized by the Arabian Technology Awards for "Outstanding Achievement in the use of IT in Manufacturing".
Zamil Steel Vietnam also won numerous awards in 2005. For the fourth consecutive year it won the "Hanoi People's Committee Award for Export Achievement for the year 2004", and for the third consecutive year it won the prestigious "Golden Dragon Award" for 2005 for the best product in the construction and construction material category. The award - instituted by Vietnam Economic Times in collaboration with Vietnam's Ministry of Planning and Investment – honors the best foreign-invested companies and recognizes best quality products, customer trust, financial success and high growth.

The factory also won the "Golden Vietnam Medal Trademark Award" presented by Viet Trademark network, Vietnam Industrial Propriety Association. This is presented to the most reputable enterprises which have successfully built their trademarks for the best quality and prestige.
ZSV has also received the "Export Award 2004" on 31 August 2005 by Vietnam's Ministry of Trade for achievement in export revenue for the year 2004 and effective export growth rate. This is despite the prevailing tough competition in the marketplace.

The Laos National Chamber of Commerce & Industry also awarded the "Golden Award 2005" for outstanding achievement in business in Laos during 2005.

ZIIC's participation in the 'First Middle East Branding Roundtable', an event organized by the respected The Economist Conferences, in Dubai, UAE, underscores and further highlights the worldwide success and recognition of the ZAC and ZS brands.

Reaffirming ZIIC's status as a regional leader was our participation in the second 'Leaders in Dubai 2005' conference where Abdulla Al Zamil served as a Corporate Ambassador alongside attending leaders of global renown.

Chairman's Message

Communicating our performance, commitments, targets and results is not only an ethical responsibility, but also an opportunity to engage with our stakeholders and create sustained business success and long-term growth in shareowner value

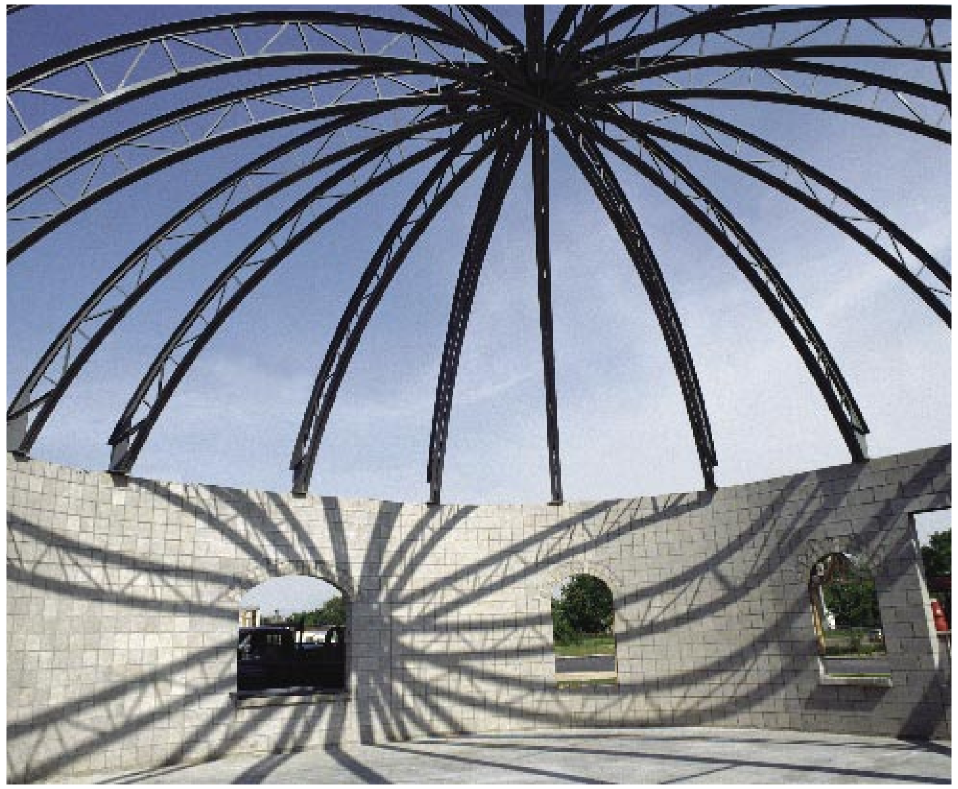
Also during the year, ZIIC announced a 25% interest in the newly formed Energy Central Company (ECCO). Our investment in this Bahrain based district energy company, which will provide metered energy, central refrigeration and other support and environmental services for large-scale infrastructure developments in the Gulf region, is a strategic initiative where our entry into the field of energy services strongly complements our existing solutions in the air-conditioning and steel sectors and creates greater balance between our service and manufacturing offerings.

In April the General Assembly approved the distribution of dividends of SR 6 per share, representing 12% of capital valued at SR 350 million. We adhere to best practice in corporate governance to sustain stakeholders' trust and confidence in our management decisions and actions, and in the company's products and services. We pursue a policy of tight business processes, public accounting practice and financial controls. The same is readily disclosed and reported on a timely basis to financial and investment authorities and is communicated to shareowners and investors.

Communicating our performance, commitments, targets and results is not only an ethical responsibility, but also an opportunity to engage with our stakeholders and create sustained business success and long-term growth in shareowner value. With this in mind we look forward to the future and to achieving ever more ambitious targets.

Dr Abdulrahman Abdullah Al Zamil
Chairman of the Board

I am pleased to report on the strong performance of Zamil Industrial Investment Company in 2005. The year was marked with exceptional business activity as we have embarked on many expansion projects in our home market and globally



We accomplished outstanding growth in sales and profit, following the implementation of strategic management planning and balanced scorecard initiatives started in 2003. These aim to ensure that we fulfill our vision and the strategic goals that we have set, focusing on stakeholder expectations and financial results, and which examine our external relationships, processes, capabilities, our organization and culture. A five-year strategic plan to ensure continued growth and expansion in home and global markets was prepared and a Strategic Planning Department was established to oversee its implementation.

Other measures to further improve performance included the deployment of '5 S Strategy for Performance Excellence', a method to create and maintain a clean, organized and efficient workplace. Its immediate goal is to eliminate waste in processes and work areas to improve efficiency, productivity and reduce operational costs. The '5 S' initiative (Sort, Simplify, Sweep, Standardize, and Sustain) engages shop floor and management into optimizing the use of existing resources..

Zamil Steel

Zamil Steel achieved record results in 2005 with a turnover of SAR 1.47 billion / USD 390.6 million.

Growth and expansion during 2005 were characteristic of our five business units. In order to enhance Structural Steel's existing production capacity to 6,000 MT per month by 2006, additional machineries for drilling, punching, cutting, welding, blasting & painting, and materials handling equipment such as overhead cranes, and forklifts were received and commissioned. A new bay for fabrication; a yard for raw material storage; and a mega size blasting room with automatic floor recovery system are also being built. This ongoing expansion work, which is expected to be completed by mid 2006, will enable this division to enhance its production and shipment to 6,000 MT per month. A new Process Equipment Group facility was recently assessed and approved for new highly technical 'U2' code stamping by the American Society of Mechanical Engineers (ASME), and 'S', 'U' and 'PP' code stamps were successfully renewed. On completion of this critical certification stage the group moves into more complex equipment fabrication.

Khalid Abdullah Al Zamil
Managing Director

The Pre Engineered Buildings Unit (PEB) completed the expansion of manufacturing facilities in Dammam. Larger manufacturing areas were added; new machinery and state-of-the-art robotic equipment was commissioned to boost production capacity to over 100,000 metric tons per year, an increase in capacity of more than 30% over 2004. New production facilities for PEB and Canam Asia are being set up in Ras Al Khaima in the United Arab Emirates. The PEB factory, which will serve as a satellite operation for the Dammam PEB factory, will produce main frames and sundry parts and will have an initial capacity of 1,500 MT per month. The factory for Canam Asia is a full manufacturing line dedicated to the production of open web steel joists and decks and will have an initial production capacity of 1,250 MT per month. Work is progressing and these two factories are expected to go on stream in the last quarter of 2006.

Production facilities at the Towers & Galvanizing Business Unit (T&G) were expanded by the addition of two CNC angle machines and one C.N.N. plate drilling / thermal cutting machine. This business unit also launched new telecommunication tower products and subsequently designed and produced high complexity specification towers up to 60 meters in height for Saudi mobile telephone operator, 'Mobily'.

At Zamil Steel Egypt production was increased to 30,000 metric tons per year.

Zamil Steel Vietnam (ZSV) received an investment licence for a new 25,000 square meter main frames manufacturing factory in Ho Chi Minh City. This factory will house a Structural Steel Beam Line and an Open Web Joist line in addition to its PEB manufacturing setup. Annual production capacity is expected to increase by almost 25,000 metric tons when this factory begins production in 2006. The ground breaking ceremony in September was attended by government ministers and dignitaries, local authorities, clients and journalists. A new sales office in Danang in Central Vietnam was also opened. In addition ZSV was certified as an accredited S1 Fabricator – 1st Class by the Singapore

Structural Steel Society, following re-auditing by the Building Construction Authority.

At Zamil Steel Egypt, production was increased to 30,000 metric tons per year and is expected to reach 50,000 metric tons per year upon completion of the ongoing expansion. A new manufacturing facility in India is under construction which will be completed towards the end of 2006.

The overall result of expansion activities in Saudi Arabia, Egypt and Vietnam has boosted annual production capacity of pre engineered steel buildings, structural steel products, process equipment, transmission and telecommunication towers and open web steel joists and floor decks to 270,000 metric tons.

Zamil Steel's 'total solutions' approach as facilitated by synergies between sector businesses is also a contributing factor to advancing steel construction into new commercial sectors which were once strongholds of concrete construction. These include shopping malls and recreation centers which are ideally suited to the pre engineered building concept given its myriad advantages, its varied applications and benefits such as lower costs, the ability to create massive unobstructed interiors as well as expansion possibilities. Thus new forays into non-traditional sectors are encouraging.

Technology and other innovations included the development and implementation of a new tandem wire welding procedure in the manufacturing department at the Structural Steel Division. This has enabled a 100% increase in output on the Sci 2000 built up beam machine, and has resulted in record production and preparation for an anticipated increase in production loads. The division also commissioned a new CNC plate-drilling machine to more efficiently produce plate components and increase production capacity. Productivity has also been made more efficient by the ability of production bays to handle heavy structural members more safely and effectively through the introduction of Stierli beam rotators.

A newly introduced Faccin Profile bending machine, which can bend beams, pipes, angles and channels is also being used extensively for process equipment and structural steel fabrication.

Curved structures have also been added to our Saudi PEB division's standard scope of supply which has seen the introduction of insulated exterior wall and liner panels, a feature which improves building security while enhancing overall appearance with a rich and smooth exterior exposed face.

Ensuring the supply of high quality products in the T&G business unit has been achieved through the installation of U.T.S. testing machinery. This has enabled in-house laboratory testing of the mechanical properties of raw materials. Zamil Steel designs and manufactures buildings using the latest American design codes and according to the latest international standards. As such the latest US load application codes were recently incorporated into our proprietary design software "ASFAD" and hence we now have the capability to design buildings as per the latest US load application codes IBC-2003 and ASCE7-2002.

A Customer Relationship Management program has been launched at Zamil Steel to reinforce its culture of customer care and excellent service.

The Zamil Steel website is now available in six languages – Arabic, English, French, Vietnamese, Spanish, and German – in a reflection of the true globalization of our business. Other customer enhancing developments included the launch through our Structural Steel Division of an online Piece Mark Tracking Report, where customers can monitor the progress of projects through various stages of engineering, fabrication and shipping. A Customer Relationship Management program has been launched at Zamil Steel to reinforce its culture of customer care and excellent service.

During the year we held meetings in Europe with major multinational companies - Procter & Gamble, Rolls Royce, Kajima Europe, DKSF, Prologis, Snamprogetti, and Technimont - with a view to developing strategic alliances. The encouraging responses we have received are already adding impetus to our sales efforts in the European region: two major contracts were signed with Technimont (Italy) to supply pre-engineered buildings to the NATPET Polypropylene plant in Yanbu, Saudi Arabia, and another with Rolls Royce (UK) for the supply of steel building solutions for a diesel power plant workshop in Fula, Sudan.

During the year we participated in a number of regional and international exhibitions. These included Romania's largest construction exhibition, ROMEXPO, in Bucharest, and Dubai's Airport Build & Supply Exhibition.

Our Saudi PEB division Annual Sales Conference was held in Bahrain, under the apt theme "Meeting your Future Needs". This is significant as it fully justifies the current profile of Zamil Steel and the quest to go beyond traditional pre-engineered buildings towards a "total solutions" approach for customers.

Pre Engineered Buildings Unit (PEB)

This division succeeded in utilizing its available resources to its maximum capacity and achieved record order intake, production, and shipments during 2005. Production and shipments increased 17% and 18% respectively over 2004.

The Pre Engineered Buildings Unit (PEB) engineering department reported record output in 2005 in both approval and production engineering. Approval engineering registered an increase of 65% over 2004

Structural Steel Business Unit (SSD)

SSD achieved phenomenal growth in order intake in 2005 with a 76% increase over 2004. In 2005 the thrust was to increase existing production capacity to 6,000 MT by 2006. In 2005 the division met both production and shipment targets and achieved a modest increase of 8% in production and 3% in shipments over 2004.

Major SSD projects were won in Saudi Arabia including various Aramco projects

such as the Khursaniyah gas plant project, Hawiyah NGL project, Rabigh gas plant, Yanbu ethylene project, as well as Jubail Petrochemical Quay and the Hadeed expansion project. In Qatar notable projects included the Ras Laffan Power Plant and Dolphin project as well as the OL2K Ethylene project in Kuwait. An important achievement for the division was gaining Saudi Aramco's approval for tanks and heat exchangers.

Towers & Galvanizing Business Unit (T&G)
This division performed exceptionally well in 2005 achieving record order intake, production and shipments. Production in 2005 was up 44% and shipments registered an increase of 41%. The T&G Business Unit recorded its single largest order with a major contract with Saudi Services for Electro Mechanical Works Company (SSEM) to supply 17,000 metric tons of transmission line towers (380 KV D/C) for Saudi Electricity Company. Other major contracts included the supply of telecom towers to Etihad Etisalat, and with the UAE's ADCO to design, test, fabricate and supply transmission lines. An agreement was also concluded with Motorola to supply all Greenfield Towers' requirements for the Mobily GSM project, and a towers project was also commissioned to supply towers to Ghana. For the first time Zamil Steel also received a direct purchase order from the UAE's Etisalat in Abu Dhabi for the supply of telecom towers.

Canam Asia Limited (CAL)

Annual production increased from 2,836 to 5,060 MT (+78%), whereas sales volume rose from 7,009 to 7,250 MT (+3.4%). Shipment volume also registered a sharp increase from 3,442 to 5,784 MT (+68%).
Recent shop modifications and work flow procedures enhanced Canam Asia's capability to produce up to 1,000 MT per month in comparison to 600 MT in 2004. Canam Asia succeeded in steadily increasing its monthly production and shipments. The joint venture shipped its first job to Aramco, which is a positive

reference for potential future projects. Other wins included a project with J&P, Al-Hodaithy Mall in Riyadh, and Panda. A new jig was installed to accommodate the flow of large and special projects and all indications are that Canam Asia is poised to continue an upward trend in profitability.

Zamil Steel Vietnam (ZSV)

In 2005 ZSV made its first successful entry into the sophisticated Japanese market and shipped its first job. In order to improve export competitiveness and penetrate more deeply into Central (Da Nang) and Southern Vietnam (HCMC), a decision was made to set up a satellite factory in Ho Chi Minh City. Work is progressing well and the factory is expected to go on stream in the last quarter of 2006. Shipments in 2005 were up 4% over 2004.

Zamil Steel Vietnam successfully completed its first major US investment project in the country with a furniture

factory project in Ho Chi Minh City. The first shipment to Japan – a Machine Manufacturing Plant for IKEGAI in Yokohama – was also effected following approval for Zamil Steel designs from the Building Center of Japan. Japanese design codes and standards have been integrated with Zamil Steel Vietnam's engineering and manufacturing standards to satisfy Japanese quality demands. Additional projects have since been won and major facility expansions are underway.

Technological capabilities with the MaxSEAM roofing system were also enhanced and training for builders and contractors was provided.

Zamil Steel Egypt (ZSE)

Total sales grew 48% over 2004, production increased by 30%, and shipments were up by 25%. Exports have increased and currently stand at 56% of Zamil Steel Egypt's total sales.

Zamil Steel Egypt strengthened its position as the leading supplier of pre engineered buildings to the African continent, while maintaining a clear edge in the local Egyptian market.

Major successes included phase II of the prestigious German University project in Cairo, factory buildings across Egypt; an aircraft hangar for Libya; and a building, which will be used to manufacture passenger aircraft at Casablanca airport in Morocco. Several projects were also undertaken in Sudan during the year. ZS Egypt continues to increase its market reach throughout the African region, and has enhanced its order intake. New markets entered included Liberia, Kenya, Burkina Faso, Angola and Ghana.

Zamil Steel Egypt maintains a large network of dedicated sales offices in Africa offering technical and site support to developers, consultants and contractors. Certified builders continue to play a central strategic role in advancing and promoting pre engineered steel buildings throughout the continent.

Zamil Air Conditioners (ZAC)

Zamil Air Conditioners celebrated its 30th Anniversary in 2005 with record sales and profits.

ZAC's market share is expanding faster than market growth rates due to operational excellence extending beyond efficiency and productivity. The company is evolving into a provider of more cohesive HVAC solutions through highly empowered employees who are far more responsive to customer needs than ever. The market environment governing the growth of the business through our network of dealers, contractors, developers and consumers is positive.

Customers are buying more air conditioners and service contracts in support of single and multi-family dwellings, commercial real estate development and progressing industrialization in both the Kingdom of Saudi Arabia and in other GCC markets. Several landmark projects were won during the year across the GCC and in countries as diverse as Lebanon, Australia, USA, Latvia, Poland, India and Bangladesh. In Saudi Arabia these include the Mall of Dhahran, Skaka Hospital, Sabic-SMO-Affiliates HVAC Global Maintenance Services, Shoiaba Power Plant, Aziz Mall, Ministry of Health - General Directorate of Health Affairs, Azizia - Panda Hypermarket, Mall East, Umm-Al-Qura University, Al Abbia Campus and Saudi Strategic Reserves. In the wider GCC these include the Royal University for Women, Tala Property Development on the Amwaj Islands, and Tameer Villas, Al Khaleej Development Co. in Bahrain; Tafawuk British School (Kuwait Center), Child Evaluation and Teaching Center, and Oasis Towers in Kuwait; Al Wabra Farm and Park School at Abu Hamour in Qatar; and Garden City Villas, Abu Dhabi, Adnoc, and the Marine Sale Project in Dubai U.A.E.

Several milestones were achieved around the world. These include a contract with Lewis Library at Princeton University in New Jersey, USA, to supply three double skin air handling systems. In Lebanon we supplied four Screw Chillers to Dar Al Shifa Hospital and in Latvia we received our first orders to supply AHU's to Reval Hotel in Riga and a chiller to an Ice Rink in Adazi. In Poland we supplied 530 mini-split systems for various installations. Delivery of these systems was made through local distributor, Klima-Studio. We achieved a breakthrough in distribution in Australia through an agreement with Retravision Bulk chain stores. As a result, our products will now be distributed through Retravision's 582 stores located throughout the country

as well as through Good Guys, which features 100 stores nationally.

In India 60 packaged units were supplied in a contract to repeat client, R. M. Bhuther & Co., a provider of HVAC services to large events across the Subcontinent. We also supplied ducted splits and packaged units to one of the businesses of the Akij Group in Bangladesh. This was a second deal with this large private sector company. Air cooled screw chillers were also produced for Dhaka's Orchard Point, marking our second shopping mall project in the country. Another order for KWHC series hygienic compact units was received for Troops Military Hospital in Kunduz, Afghanistan.

Orders were also secured for the supply of OT-Ceiling Systems for Siemens-Brain Lab in Tokyo, Japan and in Houston, Texas, USA. Earlier deliveries were also made to Siemens-Brain Lab in New York and Rome. The Brain SUITE is a fully integrated neurosurgical operating room that combines image-guided surgery, intra-operative MRI and visualization / data management technology.

In Europe, Geoclima successfully tested air cooled chillers for a medical center in Zurich, Switzerland. This was the first order for Geoclima Air Cooled units with

> The market environment governing the growth of the business through our network of dealers, contractors, developers and consumers is positive.

compressors from Turbocor, the world's first totally oil-free compressor designed specifically for the HVAC industry. These compressors achieve significant energy savings by digitally controlled frictionless two-stage centrifugal compression. Each chiller has a capacity of 450kw/127TR.

A major project was also completed for York France for the supply of five air cooled chillers for Tahiti Hospital in the South Pacific. The chillers are equipped with a GSM monitoring system to enable chiller performance to be monitored from Geoclima or the customer's office. This is a most innovative and proprietary technology development utilizing GSM network technology for remote diagnostics. Dedicated distributors and agents are now located in the UK, Ireland, Germany, Holland, the Baltic countries, Belgium, Switzerland, Italy, Austria, Sweden, Denmark, Norway, Poland, Czech Republic, Slovakia and Slovenia.

CoolCare continues to grow in strength and reported several new projects in

2005. These include an extension of a preventive maintenance contract with YANPET at Yanbu; a maintenance contract with the Students Facility at Islamic University, Madina; a replacement project at STC to supply and install several PY units in the Central Region and HWX splits and RAC units in the Western Region. Package Units were also supplied and installed at the Ministry of Health in Arar. A five-year extension of a maintenance contract with Saudi Aramco Refinery in Yanbu was also secured as was a replacement contract with Saudi Aramco's Juaimah Offshore Terminal for retrofitting work along with the supply of three split systems comprising CMX condensing and double-skin air-handling units. CoolCare launched a new Thermo Guard Anti-Corrosive Coating Services for HVAC systems for industrial, marine, and commercial applications.

Middle East Air Conditioners (MEAC), a joint venture between Zamil Industrial Investment Company and General Electric, achieved double digit sales and profits. The Hotpoint brand was re-launched in the region and is achieving considerable success with split units especially those ranging from 2.5 to 3 tons. Looking ahead, MEAC's distribution channel is being strengthened with progressive marketing programs for the Hotpoint brand in the Kingdom. A contract with Zamil Coolcare to service MEAC products sold in Saudi Arabia is in place. This further demonstrates the synergies among the different ZAC business units.

A milestone for our Original Equipment Manufacturer (OEM) business in 2005 was marked by central air conditioner production for Sanyo.

In terms of new products our engineers developed a new range of efficient high-performance chillers. We also re-designed the full range of units in 2005 and are using the latest versions of available technology throughout. Further, we introduced the latest centrifugal compressor into our range of units, which when used with a flooded evaporator considerably improves chiller efficiency. A new range of air handling units is now available for marine applications and for DVD production. Hospitals and hygienic central air handling unit products have also been redesigned. We launched our next generation double skin Air Handling

Units (TW Series) for special and high-end commercial and industrial applications. We also unveiled a new line of single skin air-handlers in the unitary range.
An agreement was signed with Siemens Building Technologies to market, sell and commission Siemens controls in the Kingdom of Saudi Arabia through a new Zamil Air Conditioners Building Automation Systems Division. From its infancy, this division has shown tremendous promise given the volume of quotations and secured business currently under execution with key customers including SAFCO, Petrokemya and Unicoil.

We began work on new 75,000 square-meter plant and warehouse facilities for our central air conditioners business in the 2nd Industrial Area in Dammam. To expand our capacity, fully automated fabrication lines are in place to produce more than 720,000 RAC shells per year. Geoclima's new factory in Italy commenced operations at the beginning of the year with the ability to produce some 1,000 chillers per annum. We also began production of Clima Tech branded Air Handling Units at our Italian operations as part of efforts to improve Group synergies.

Our Performance Testing Lab completed the third phase upgrade of the Calorimetric and Psychrometric facilities at a cost of SR 1.5 million. The two facilities now have automatic control and data logging abilities, which by eliminating exposure to human error has improved testing accuracy. Automatic control also reduces the time to establish testing conditions. In this upgrade a psychrometric testing capability was added inside the Calorimetric-1. This is helpful for testing Mini-Splits as per ARI standards.

To further address more competitive market environments ZAC is adopting a long-term strategy that encompasses two central themes: focusing on adding customer value across the board and improving our structure and operational efficiency. Part of this involves optimizing our supply chain to ensure more effective coordination among supply chain partners and to reduce costs and increase innovation to shorten order cycle times and build quality assurance into all processes governing local and remote locations.

Intensified efforts were put into training and development during 2005. This will be a long-term strategic program formulated to ensure high competence of our staff and increased skills of our customers in both government and commercial markets.

ZAC's market leadership is expanding. Strong brands, expansive product lines, differentiated services and a professional organization are strong foundations on which we are building a brighter future.

Zamil Glass Industries

Zamil Glass Industries (ZGI) maintained levels of production to those of 2004 but focused on double and laminated glass, its more profitable products.
Total production achieved in 2005 was 262,077 square meters of mixed processed glass.
Sales offices in Qatar, Kuwait, the UAE and across Saudi Arabia along with strengthened domestic and international distribution networks have contributed to the winning of a number of prestigious projects in Saudi Arabia, Bahrain and in Egypt.
These include the Mall of Dhahran, Al Shatea Mall in Dammam, Al Fozan Tower in Al Khobar, Millennium Center in Jeddah, Bahrain Financial Harbor and Sharm El Sheikh Airport in Egypt.

Some of these projects showcase the total solutions approach being applied by all sector businesses whenever possible and serve as a model for demonstrating capabilities going forward.

Khalid Abdullah Al Zamil
Managing Director

Through ZIIC Shared Services sector businesses can concentrate on growth by being relieved of their administrative functions of Accounting and Finance, Human Resources, IT, Corporate Communications and Legal Affairs. The Shared Services function is cost effective and enhances operational efficiency while at the same time enables the implementation of best practices, and promotes a uniform corporate culture all across the organization.

Abdulla Mohammed Al Zamil
Chief Operating Officer

Our efforts to achieve business growth enable us to create and provide career opportunities for nationals at every level of the organization and implement corporate training and full-time employment programs. These fall under our Saudization initiative and our activities in this area include employing and training nationals through programs fully accredited by the General Organization for Technical Education and Vocational Training (GOTEVOT); operating a scheme run jointly with the Kingdom's Human Resource Development Fund (HRDF) and National System for Joint Training; and sponsoring students for higher education and post-graduate programs.

Keen to make further strides in this area the Board of Directors in 2005 approved the establishment of an internationally accredited training center at an estimated cost of SAR 15 million. Official licensing has been secured from the Saudi authorities to establish and operate the Zamil Training Center, which will be completed in the third quarter of 2006. The initial training curricula for three one-year diploma programs and five specialized courses are GOTEVOT approved. These programs and courses cover refrigeration and air conditioning technology; production technology; welding and fabrication technology; industrial process measurements and instrumentation; control technology; central air conditioning plant maintenance; machine shop practice; and management and supervisory skills.

In this way one of ZIIC's core values and strategic goals of providing real career employment opportunities for Saudi youth is being fulfilled. The larger aim is to improve living standards and to help in the creation of a productive force within the community. This forms part of our commitment to Corporate Social Responsibility, a deeply held value that is embedded into our policy, actions and strategies. Our efforts particularly encompass the areas of economic growth, social development as well as concern for the improvement of our environment through the provision of product friendly solutions and the efficient management of available natural resources.

Today we employ more than 6,500 people in 55 countries. The fact that our employees come from various ethnic backgrounds is a true strength for the level of cultural diversity present within ZIIC enriches our organization and helps demonstrate more fully the core of our values. We are committed to providing competitive and motivating our employees come from various ethnic backgrounds is a true strength for the level of cultural diversity present within ZIIC enriches our organization and helps demonstrate more fully the core of our values.

working conditions, as the success of our businesses and the value to our shareholders depends greatly on the performance of satisfied employees who in turn take care of our customers.

As well as ensuring our employees have the resources they need to grow and excel in their fields through investments in training, technology and safety, we also encourage the sharing of ideas,

which is conducive to innovation and creativity and essential to improving business with management. This has created an environment where everyone understands and appreciates that they can and do make an important contribution to our success.

Our Human Resources department offers guidance, advice and support and employees are part of an annual Performance Evaluation and Development Program (PEDP). This integrates continuous appraisal, career planning and development. We are also committed to ensuring a healthy and hazard free workplace and to instilling safe work habits that result in higher productivity. Naturally, we are compliant with all local laws and regulations wherever we have a presence and we contribute to the economic growth and improvement of conditions in the local communities in which we operate. Our policy respects and supports the United Nations Universal Declaration of Human Rights and the abolition of forced child labor.

The use of technology is essential to group performance and during 2005 ZIIC IT underwent major technology changes to improve this vial support function. This comprised redesigning the architecture of many services, namely new live architecture with an Oracle Application server and a shift from a client server to web based architecture. As a result scalability, availability and enhanced performance have all been achieved. All in-house based applications at Zamil Steel have been migrated to 10G. Another milestone was achieved by publishing

applications over the Internet with secure VPN connectivity. This allows applications to be accessed from anywhere at anytime, a key consideration for our global presence. ZIIC's complex technology infrastructure now features integrated in-house applications with our Oracle ERP backbone with enormous data flow between businesses. Notwithstanding this, major investment has also been made in security to protect and ensure greater availability of our IT environment, thus making our operations significantly more efficient. Still within the IT domain, we made progress in designing our new corporate website which will become operational by Q2 2006. As part of our adherence to best practices our Corporate Communications function is key to informing our external and internal stakeholders of developments taking place across ZIIC at corporate and operating business levels.

Our "OneZday" management forums continued in 2005, providing a networking opportunity for managers to meet, discuss, and share knowledge between business sectors and units and learn from leading visiting guest speakers. Seminars on Leadership, Strategic Management and Project Management were offered to all ZIIC management and supervisory staff during the course of 2005. These courses were organized and supported jointly by Zamil Holding Company and Zamil Industrial Investment Company.

Over the years we have cultivated strategic partnerships with our suppliers and vendors whose commitment and support are essential to our success. They are intrinsic to our value chain. We take pride in the fact that we have earned the trust of our clients in our brands, products and services, and we continually aspire to improve product quality and performance and to the launching of new and efficient solutions through research and development efforts.

We recognize the legitimate vested interests of our stakeholders in the values, behavior and actions of our organization and we share equally in the expectation for healthy profits and solid returns on investments.

We are grateful for the crucial support we receive for our investments and expansion programs and will be reporting more on corporate social responsibility at ZIIC in future reports and communications.

Abdulla Mohammed Al Zamil
Chief Operating Officer

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Registration No. 45

AUDITORS' REPORT TO THE SHAREHOLDERS OF
ZAMIL INDUSTRIAL INVESTMENT COMPANY (JOINT STOCK COMPANY)

We have audited the accompanying consolidated balance sheet of Zamil Industrial Investment Company (the parent company - Joint Stock Company) and its subsidiaries as at 31 December 2005 and the related consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended. These consolidated financial statements are the responsibility of the board of directors of the parent company and have been prepared by them in accordance with the provision of Article 123 of the Regulation for Companies and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable degree of assurance to enable us to express an opinion on the consolidated financial statements.

In our opinion, the consolidated financial statements taken as a whole:-

i) present fairly, in all material respects, the consolidated financial position of the parent company and its subsidiaries as at 31 December 2005 and the consolidated results of its operations and its consolidated cash flows for the year then ended in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.

ii) comply with the requirements of the Regulations for Companies and the parent company's articles of association in so far as they affect the preparation and presentation of the consolidated financial statements.

for Ernst & Young

Abdulaziz S Alshubaibi
Certified Public Accountant
Registration No. 339

Muharram, 1427 23
February 22, 2006

for Deloitte & Touche
Bakr Abulkhair & Co

Nasser M. Al-Sagga
Certified Public Accountant
Registration No. 322

CONSOLIDATED BALANCE SHEET

As At 31 December 2005

	Note	2005 SR 000	2004 SR 000
ASSETS EMPLOYED			
PROPERTY, PLANT AND EQUIPMENT	3	**342,958**	322,905
INVESTMENTS	4	**68,025**	33,544
GOODWILL ON ACQUISITION	5	**4,754**	5,054
DEFERRED CHARGES	6	**10,830**	7,267
CURRENT ASSETS			
Inventories	7	**972,769**	833,920
Accounts receivable and prepayments	8	**678,270**	618,710
Amounts due from related parties	9	**10,120**	10,345
Cash and cash equivalents		**131,387**	78,938
		1,792,546	1,541,913
CURRENT LIABILITIES			
Notes and accounts payable and accruals	10	**1,288,504**	1,083,251
Amounts due to related parties	9	**5,830**	6,527
Advances from customers		**71,418**	59,564
Bank overdrafts		**3,850**	3,687
Short term loans	11	**94,902**	116,658
Current portion of term loans	15	**19,883**	19,275
		1,484,387	1,288,962
NET CURRENT ASSETS		**308,159**	252,951
		734,726	621,721
FUNDS EMPLOYED			
SHAREHOLDERS' EQUITY			
Share capital	13	**350,000**	350,000
Statutory reserve	14	**62,579**	51,943
Retained earnings	24	**148,814**	55,088
Proposed cash dividends	16	-	42,000
Unrealised gains on investments		**34,525**	7,975
Translation loss on consolidation		**(8,403)**	(12,057)
		587,515	494,949
MINORITY INTERESTS	17	**24,235**	18,361
		611,750	513,310
NON CURRENT LIABILITIES			
Term loans	15	**48,940**	45,575
Long term payables		**1,716**	103
Employees' terminal benefits		**72,320**	62,733
		122,976	108,411
		734,726	621,721

The attached notes 1 to 24 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

Year ended 31 December 2005

	Note	**2005 SR 000**	2004 SR 000
Net sales		**2,369,493**	1,966,671
Cost of sales		**1,866,710**	1,561,751
GROSS PROFIT		**502,783**	404,920
EXPENSES			
Selling and distribution	18	**186,432**	179,982
General and administration	19	**159,285**	120,853
Amortisation of goodwill on acquisition	5	**300**	300
Amortisation of deferred charges	6	**2,899**	14,328
		348,916	315,463
INCOME FROM MAIN OPERATIONS		**153,867**	89,457
Other income	20	**21,658**	21,820
Financial charges	11,15	**(50,586)**	(26,108)
INCOME BEFORE ZAKAT, TAXES AND MINORITY INTERESTS		**124,939**	85,169
Foreign taxes		**(505)**	(428)
Net minority interests in results of subsidiaries		**(6,038)**	(7,883)
INCOME BEFORE ZAKAT		**118,396**	76,858
Zakat	12	**12,034**	6,703
NET INCOME FOR THE YEAR		**106,362**	70,155
Earning per share (Saudi Riyals)		**15.19**	10.02

The attached notes 1 to 24 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2005

	Note	**2005 SR 000**	2004 SR 000
OPERATING ACTIVITIES			
Consolidated income before zakat, taxes and minority interests		**124,939**	85,169
Adjustments for:			
Depreciation	3	**51,192**	46,776
Gain on sale of property, plant and equipment		**(275)**	(255)
Amortisation of deferred charges	6	**2,899**	14,328
Amortisation of goodwill on acquisition	5	**300**	300
		179,055	146,318
Changes in operating assets and liabilities:			
Inventories		**(138,849)**	(314,379)
Receivables		**(59,335)**	(120,455)
Payables		**212,782**	375,283
Cash from operations		**193,653**	86,767
Employees' terminal benefits, net		**9,587**	6,140
Zakat and foreign taxes paid		**(9,298)**	(7,109)
Net cash from operating activities		**193,942**	85,798
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	3	**(71,990)**	(60,606)
Proceeds from sale of property, plant and equipment		**520**	465
Deferred charges	6	**(6,462)**	(237)
Investments acquired		**(7,931)**	(25,569)
Net cash used in investing activities		**(85,863)**	(85,947)
FINANCING ACTIVITIES			
Bank overdrafts		**163**	(542)
Dividends paid		**(42,000)**	(18,000)
Term loans obtained		**24,404**	6,204
Repayment of term loans		**(20,431)**	(22,216)
Change in short term loans		**(21,756)**	51,817
Minority interests, net		**(164)**	356
Net cash (used in) from financing activities		**(59,784)**	17,619
INCREASE IN CASH AND CASH EQUIVALENTS		**48,295**	17,470
Cash and cash equivalents, at the beginning of the year		**78,938**	60,581
Movement in translation difference - net		**4,154**	887
CASH AND CASH EQUIVALENTS, AT THE END OF THE YEAR		**131,387**	78,938

The attached notes 1 to 24 form part of these consolidated financial statements.

	Share Capital SR 000	Statutory reserve SR 000	Retained earnings SR 000	Proposed Cash dividends SR 000	Proposed Stock dividends SR 000	Unrealised gains on investments SR 000	Translation loss on consolidation SR 000	Total SR 000
Balance at 31 December 2003	300,000	44,927	35,049	18,000	50,000	-	(10,727)	437,249
Increase in share capital	50,000	-	-	-	(50,000)	-	-	-
Consolidated net income for the year	-	-	70,155	-	-	-	-	70,155
Transfer to statutory reserve	-	7,016	(7,016)	-	-	-	-	-
Directors' remuneration	-	-	(1,100)	-	-	-	-	(1,100)
Dividends paid	-	-	-	(18,000)	-	-	-	(18,000)
Cash dividends proposed	-	-	(42,000)	42,000	-	-	-	-
Unrealized gains on investments	-	-	-	-	-	7,975	-	7,975
Movement during the year	-	-	-	-	-	-	(1,330)	(1,330)
Balance at 31 December 2004	350,000	51,943	55,088	42,000	-	7,975	(12,057)	494,949
Consolidated net income for the year	**-**	**-**	**106,362**	**-**	**-**	**-**	**-**	**106,362**
Transfer to statutory reserve	**-**	**10,636**	**(10,636)**	**-**	**-**	**-**	**-**	**-**
Directors' remuneration	**-**	**-**	**(2,000)**	**-**	**-**	**-**	**-**	**(2,000)**
Dividends paid (note 16)	**-**	**-**	**-**	**(42,000)**	**-**	**-**	**-**	**(42,000)**
Unrealized gains on investments	**-**	**-**	**-**	**-**	**26,550**	**-**	**26,550**	
Movement during the year	**-**	**-**	**-**	**-**	**-**	**-**	**3,654**	**3,654**
Balance at 31 December 2005	**350,000**	**62,579**	**148,814**	**-**	**-**	**34,525**	**(8,403)**	**587,515**

The attached notes 1 to 24 form part of these consolidated financial statements.

1. STATUS AND ACTIVITIES

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

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

The consolidated financial statements include the financial statements of the company's head office, its branches and its subsidiaries as listed below:

Branches:

- Zamil Steel Industries, engaged in the manufacture and erection of steel buildings, transmission line towers and structural steel products.
- Zamil Air Conditioners, engaged in the manufacture and assembly of room and central air conditioners and other related activities.
- Zamil Glass Industries, engaged in the production of glass and mirrors.

Subsidiaries:	Ownership percentage
Universal Building Systems Limited - Jersey	100
Zamil Steel Buildings Company - Egypt	100
Zamil Steel Building (Shanghai) Company Limited	100
Cooline Europe Holdings GmbH- Austria (Formerly, Universal Airconditioning Technology)	100
Clima Tech Airconditioners GmbH - Austria	100
Zamil Steel, Polska – Poland	100
Zamil Steel Engineering India Private Limited	100
Zamil Steel Buildings - Vietnam Company Limited	90
Geoclima S.r.l. – Italy	85
Canam Asia Limited	65
Middle East Airconditioners Company Limited - Saudi Arabia	51

2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia. The significant accounting policies adopted are as follows:

Basis of consolidation
Entities controlled by the company are classified as subsidiaries and consolidated regardless of the country of their registration. Significant inter-company accounts and transactions are eliminated upon consolidation.

Minority interests principally represent the interest in Zamil Steel Buildings - Vietnam Company Limited, Middle East Air conditioners Company Limited, Canam Asia Limited and Geoclima S.r.l., not held by the company. Subsidiaries have been consolidated based on their financial statements for the year ended 31 December, with the exception of Middle East Air conditioners Company Limited, whose financial year ends on 30 September.

Accounting convention
The consolidated financial statements are prepared under the historical cost convention.

Goodwill
Goodwill represents the excess of the cost of the acquisition over the fair value of identifiable net assets of a subsidiary at the date of acquisition. Goodwill is amortised using the straight-line method over a maximum period of 20 years during which benefits are expected to be received.

Property, plant and equipment/depreciation
All property, plant and equipment are recorded at cost. Depreciation is provided on property, plant and equipment at rates calculated to write off the cost of each asset over its expected useful life.

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

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

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

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

Income from the investments in financial instruments is recognized when dividends are received.

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

Raw materials	- Purchase cost on weighted average basis.
Work in progress and finished goods	- Cost of direct materials and labour plus attributable overheads.

Accounts receivable
Accounts receivable include sales made on trade credit which are outstanding at the balance sheet date, net of provision for amounts estimated to be uncollectible.

Warranties
Amounts are accrued on an estimated basis to meet possible future costs under warranty commitments.

Zakat and income tax
Zakat is provided for in accordance with Saudi Arabian fiscal regulations as well as foreign fiscal authorities in which the company's foreign subsidiaries operate. The liabilities are charged direct to the statement of income.

Income tax relates to foreign subsidiaries in their respective countries.

Employees' terminal benefits
Provision is made for amounts payable under the Saudi Arabian Labour Law applicable to employees' accumulated periods of service at the balance sheet date.

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

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

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

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

3. PROPERTY, PLANT AND EQUIPMENT

The estimated useful lives of the assets for the calculation of depreciation are as follows:

Buildings on leasehold land	20 to 40 years
Plant, equipment, furniture, fixtures and vehicles	2 to 20 years

	Freehold land SR 000	Buildings on leasehold land SR 000	Plant, equipment, furniture, fixtures and vehicles SR 000	Capital work in progress SR 000	**Total 2005 SR 000**	Total 2004 SR 000
Cost:						
At the beginning of the year	6,784	239,715	562,536	15,737	824,772	787,893
Additions	**3,115**	**13,510**	**31,527**	**23,838**	**71,990**	60,606
Disposals	**-**	**(11)**	**(14,720)**	**-**	**(14,731)**	(19,786)
Transfers	**-**	**7,217**	**8,665**	**(15,882)**	**-**	(821)
Translation loss	**215**	**676**	**(1,128)**	**28**	**(209)**	(3,120)
At the end of the year	**10,114**	**261,107**	**586,880**	**23,721**	**881,822**	824,772
Depreciation:						
At the beginning of the year	-	124,379	377,488	-	501,867	475,570
Charge for the year	**-**	**9,986**	**41,206**	**-**	**51,192**	46,776
Disposals	**-**	**(11)**	**(14,475)**	**-**	**(14,486)**	(19,576)
Translation loss	**-**	**103**	**188**	**-**	**291**	(903)
At the end of the year	**-**	**134,457**	**404,407**	**-**	**538,864**	501,867
Net book amounts:						
At 31 December 2005	**10,114**	**126,650**	**182,473**	**23,721**	**342,958**	-
At 31 December 2004	6,784	115,336	185,048	15,737	-	322,905

Capital work in progress represents the cost incurred in respect of plant and machinery acquired for general modernisation in the plant in progress at the year end.

4. INVESTMENTS

	2005 SR 000	2004 SR 000
Investment in listed companies	**27,992**	21,811
Unrealised gain on revaluation	**34,525**	7,975
Available for sale investments	**62,517**	29,786
Investment in associates	**5,008**	3,758
Investment in Subsidiary	**500**	-
	68,025	33,544

The investment in associates represents the Company's 27.5% share in Saudi Aerated Concrete Industrial Company (ACICO-a Saudi Limited Liability Company) and 25% share in Energy Central Company (ECO-a Bahrain based Limited Liability Company). The investee companies are still under the development stage. Principal activity of ACICO is the production of aerated concrete blocks and partitions whereas principal activity of ECO is to provide metered energy, central refrigeration and other support and environmental services for large-scale infrastructure development in the Gulf region. Since the fair value is not readily determinable, the carrying value of these investments is considered to be its fair value.

Investment in subsidiary represents 100% share in Lab Testing Company, a Saudi limited liability company established in November 2005. The Principal activity of the Company is inspection and testing of electrical and electronic devices/appliances and mechanical products.

5. GOODWILL ON ACQUISITION

	2005 SR 000	2004 SR 000
At the beginning of the year	**5,054**	5,354
Amortised during the year	**(300)**	(300)
At the end of the year	**4,754**	5,054

6. DEFERRED CHARGES

	2005 SR 000	2004 SR 000
At the beginning of the year	**7,267**	20,537
Incurred during the year	**6,462**	1,058
Amortised during the year	**(2,899)**	(14,328)
At the end of the year	**10,830**	7,267

7. INVENTORIES

	2005 SR 000	2004 SR 000
Materials, supplies and stores	**612,781**	567,810
Work in progress	**32,599**	29,308
Finished goods	**265,676**	161,684
Goods in transit	**61,713**	75,118
	972,769	833,920

8. ACCOUNTS RECEIVABLE AND PREPAYMENTS

	2005 SR 000	2004 SR 000
Trade accounts and notes receivable	**567,944**	525,618
Prepaid expenses	**20,013**	12,416
Retentions receivable	**21,679**	24,111
Advances, deposits and other receivables	**68,634**	56,565
	678,270	618,710

9. RELATED PARTY TRANSACTIONS AND BALANCES

The following are the details of major related party transactions during the year:

	2005 SR 000	2004 SR 000
Companies affiliated to Al Zamil Group:		
Purchase of goods and services	**37,938**	42,553
Sale of goods and services	**12,089**	21,601

The company also paid SR 2.38 million (2004: SR 1.97 million) to certain directors as salary and other benefits in their capacity as executives of the company.

Directors' fee amounted to SR 2.0 million (2004: SR 1.1 million).

Prices and terms of payment for these transactions are approved by the directors.

Amounts due from and due to related parties are shown in the consolidated balance sheet under current assets and current liabilities respectively and consist of amounts due from/to Al Zamil Group of companies.

10. NOTES AND ACCOUNTS PAYABLE AND ACCRUALS

	2005 SR 000	2004 SR 000
Trade accounts payable	**165,627**	180,074
Notes payable under Morabaha finances	**899,799**	740,556
Other notes payable	**667**	3,279
Accrued contractual costs	**74,594**	36,268
Accrued expenses	**136,376**	114,874
Zakat payable (note 12)	**11,441**	8,200
	1,288,504	1,083,251

11. SHORT TERM LOANS

Short term loans are for a duration of less than one year with an option to roll over. They carry commission at commercial rates.

12. ZAKAT

Charge for the year

The zakat charge for the year consists of:

	2005 SR 000	2004 SR 000
Current year provision	**12,034**	6,703

The current year's provision is based on the following:

	2005 SR 000	2004 SR 000
Equity	**458,953**	432,486
Opening provisions and other adjustments	**80,842**	72,202
Book value of long term assets	**(302,439)**	(358,537)
	237,356	146,151
Zakatable profit for the year	**141,480**	64,499
Zakat base	**378,836**	210,650

The differences between the financial and the zakat results are mainly due to elimination of the Company's share of profit in foreign subsidiaries which are consolidated in the financial statements and adjustments for certain costs/claims based on the relevant fiscal regulations.

Movements in provision for zakat during the year

The movement in the zakat provision was as follows:

	2005 SR 000	2004 SR 000
At the beginning of the year	**8,200**	8,178
Provided during the year	**12,034**	6,703
Payments during the year	**(8,793)**	(6,681)
At the end of the year	**11,441**	8,200

Status of assessments

Zakat assessments have been agreed with the Department of Zakat and Income Tax (DZIT) up to 2004.

13. SHARE CAPITAL

Share capital is divided into 7,000,000 shares of SR 50 each (2004: 7,000,000 shares).

14. STATUTORY RESERVE

As required by Saudi Arabian Regulations for Companies, 10% of the net income for the year has been transferred to the statutory reserve. The company may resolve to discontinue such transfers when the reserve totals 50% of the share capital. The reserve is not available for distribution.

15. TERM LOANS

	2005 SR 000	2004 SR 000
Loan No. 1	**10,991**	16,492
Loan No. 2	**48,604**	40,672
Loan No. 3	**3,442**	7,620
Loan No. 4	**36**	66
Loan No. 5	**1,981**	-
Loan No. 6	**3,769**	-
Less: current portion	**(19,883)**	(19,275)
	48,940	45,575

Loan No. 1 is repayable in US Dollars by six annual instalments commencing on 31 May 2002. The loan carries commission at normal commercial rates and is secured by a mortgage over certain assets of Zamil Steel Buildings - Vietnam Company Limited together with corporate guarantees from the company and the minority interest partner.

Loan No. 2 represents the loans obtained by Zamil Steel Industries, Zamil Air Conditioners and Zamil Glass Industries from Saudi Industrial Development Fund (SIDF). The total amount of loans sanctioned by SIDF for these branches as at December 31, 2005 was SR 106.0 million (2004 – SR 93.9 million). These loans carry appraisal fees which are being amortised over the terms of the loans and are repayable in 8 to 14 semi-annual unequal instalments, the last being payable on 15 Shawwal 1432H (corresponding to 14 September 2011). The loan agreements also contain certain covenants in respective of maintenance of financial ratios. Loan No. 3 is repayable by equal quarterly instalments in Euro. The final instalment is due in 2008. The loan carries commission at normal commercial rates and is covered by guarantees provided by the company's bankers.

Loan No. 4 represents a loan obtained by Zamil Steel Engineering India Private Ltd in the amount of SR 92,000 from a bank and is secured by a mortgage of machineries. The loan is repayable in 36 equal monthly instalments and carries commission at normal commercial rates.

Loan No. 5 represents a loan obtained by Geoclima S.r.l in the amount of Euros 500,000 from a bank. The loan is repayable in 60 equal monthly instalments and carries commission at normal commercial rates.

Loan No. 6 represents a loan obtained by Geoclima S.r.l in the amount of Euros 1,080,000 from the local Government Authorities of Italy. The loan is repayable in 20 equal half yearly instalments and carries commission at normal commercial rates.

Loan instalments due in 2006 are shown as a current liability.

16. DIVIDEND

At the General Assembly Meeting held on April 9, 2005 (30 Safar, 1426H), dividend for the year 2004 proposed by the Board of Directors in the amount of SR 42 million, being 12% of share capital, was approved. This dividend was distributed later during 2005.

17. MINORITY INTERESTS

Minority interests are as follows:

	2005 %	2004 %
Middle East Airconditioners Company Limited	**49**	49
Geoclima S.r.l.	**15**	15
Canam Asia Limited	**35**	35
Zamil Steel Buildings - Vietnam Company Limited	**10**	10

18. SELLING AND DISTRIBUTION EXPENSES

	2005 SR 000	2004 SR 000
Employee costs	**82,466**	82,806
Advertising and sales promotion	**16,677**	20,415
Services	**17,181**	18,004
Rent and utilities	**6,948**	4,692
Transportation, business travel and entertainment	**21,623**	20,816
Depreciation	**6,276**	5,119
Repairs and maintenance	**896**	878
Others	**34,365**	27,252
	186,432	179,982

19. GENERAL AND ADMINISTRATION EXPENSES

	2005 SR 000	2004 SR 000
Employee costs	**75,496**	63,903
Depreciation	**8,865**	9,313
Services	**24,048**	21,331
Supplies	**1,011**	3,730
Others	**49,865**	22,576
	159,285	120,853

20. OTHER INCOME

	2005 SR 000	2004 SR 000
Scrap sales and miscellaneous	**21,383**	21,565
Profit on sale of property, plant and equipment	**275**	255
	21,658	21,820

21. SEGMENTAL ANALYSIS

(a) Analysis of sales, operating income and net assets by activities:

	Sales SR 000		Operating Income/ (losses) SR 000		Net assets SR 000	
	2005	2004	**2005**	2004	**2005**	2004
Air conditioner industry	**859,116**	843,308	**46,291**	35,891	**326,904**	303,592
Steel industry	**1,464,849**	1,074,558	**135,473**	78,347	**297,068**	200,431
Glass industry	**45,528**	48,805	**(11,904)**	(18,683)	**(33,519)**	(18,875)
Head Office	-	-	**(15,993)**	(6,098)	**(2,938)**	9,801
	2,369,493	1,966,671	**153,867**	89,457	**587,515**	494,949

(b) Analysis of sales, and operating income by geographical location:

	Sales SR 000		Operating Income SR 000	
	2005	2004	**2005**	2004
Saudi Arabia:				
Local sales	**1,206,998**	896,354	**79,159**	38,045
Export sales	**715,188**	697,980	**54,738**	29,617
Total sales of Saudi Arabia	**1,922,186**	1,594,334	**133,897**	67,662
Other Asian countries	**216,720**	188,954	**(864)**	10,464
Africa	**171,579**	115,589	**22,931**	12,689
Europe	**59,008**	67,794	**(2,097)**	(1,358)
	2,369,493	1,966,671	**153,867**	89,457

Based on the management decision, the Head Office has created an estimated provision against doubtful receivables of SR 12.0 million and an estimated provision against slow moving inventory of SR 2.0 million on behalf of the Glass Division.

22. CONTINGENT LIABILITIES

The company's bankers have issued, on behalf of the company, performance bonds in respect of certain contracts amounting to SR 275.0 million (2004: SR 206.0 million).

23. CAPITAL COMMITMENTS

The directors have approved future capital expenditure amounting to SR 52.0 million (2004: SR 60.0 million).

24. SUBSEQUENT EVENT

Subsequent to the year end, the Company acquired 51% shares of Arabian Fiberglass Insulation Co Ltd. ("AFICO"), a Saudi limited liability company, engaged in the manufacture of insulation materials.

The Board of Directors decided at their meeting dated February 22, 2006 to recommend to the extraordinary general assembly meeting to increase the share capital by SR 100.0 million through distribution of two bonus shares for every seven shares held as of the date of the extraordinary general meeting, after obtaining the required approval from the Capital Marketing Authorities.