Zamilindustrial

Reaching new horizons

2007 Annual Report

annual report 07

Contents

Board of Directors

Front row (Left to right):
HE Dr. Soliman A. Al Solaim, Dr. Abdulrahman A. Al Zamil, Khaled S. Olayan.

Back row (Left to right):
Abdulla M. Al Zamil, Adib A. Al Zamil, Ahmed A. Al Zamil, Khalid A. Al Zamil, Sami K. Al Gosaibi, Sultan K. Bin Mahfouz.

Not shown:
Hisham A. Razzuqi

Financial Highlights

Revenues	2005	2006	2007
SAR 000s	2,369,493	2,867,594	**3,681,260**
% Increase	20.5%	21%	**28.4%**

Net Profit	2005	2006	2007
SAR 000s	106,362	191,647	**206,500**
% Increase	51.6%	80.2%	**7.8%**

Earnings Per Share	2005	2006	2007
SAR	2.36	4.26	**4.59**
% Increase	51.6%	80.2%	**7.8%**

Shareholders Equity	2005	2006	2007
SAR 000s	587,515	741,496	**892,282**
% Increase	18.7%	26.2%	**20.3%**

Export Sales	2005	2006	2007
SAR	933,887	1,105,628	**1,337,109**
% Increase	39.4%	38.6%	**36.3%**

Chairman's Message

Dr. Abdulrahman A. Al Zamil
Chairman of the Board

Dear Shareholders,

This year, on behalf of the Board of Directors, I am in the enviable position of reporting to our shareholders that we stand on solid ground, having achieved an unprecedented turnover of SAR 3.68 billion/USD 982 million for the year ended 31 December 2007.

This represents growth of 28.4% over 2006, with net profit, after Zakat contribution of SAR 206.5 million/ USD 55.1 million. Post Zakat earnings per share during 2007 grew to SAR 4.59/USD 1.22 from SAR 4.26/USD 1.14, representing 7.8% growth on 2006. Shareholders' equity grew by 20.3% to SAR 892.3 million/USD 238 million. Export sales accounted for SAR 1.34 billion/ USD 356.5 million, representing 36% of total revenue and 20.4% growth over 2006.

"Another strength, which has again reaped highly visible benefits, is the autonomy of each business sector"

AFICO, a joint venture between Zamil Industrial (51%) and Owens-Corning Corp of USA (49%) acquired in 2006, has completed a major expansion in 2007 at its manufacturing facility located in Dammam, Saudi Arabia. Completion of the Dammam facility expansion project will allow the company to increase production capacity by 50% to streamline manufacturing processes and to take on more business in the future.

Zamil Industrial's commitment to environmental excellence was never more apparent than when AFICO was awarded the CE (European Conformity) certification for its entire line of fiberglass insulation products – produced entirely from natural, safe, recycled raw materials. This certification allows us to export to the EU, a significant market for Zamil Industrial.

Longer established sector businesses have also been extremely active, breaking into new markets or extending production capacity. Zamil Air Conditioners, our longest existing business, went all out in 2007, producing staggering figures with a year-on-year 22% increase in total revenue.

Quality wins the day every time at Zamil Air Conditioners, who became the first Middle-eastern company to receive the prestigious Eurovent Certificate for two of its products.

During the year, Zamil Steel officially inaugurated its new factory in Ras Al Khaimah, UAE. The enormous potential of the UAE market makes the establishment of the new facility one of the most important steps that Zamil Steel has taken in its global expansion initiative.

In our Asian markets, Zamil Steel's progress has been rapid. In India, we commenced shipments from our Pune factory, and in Vietnam, we kept up the momentum with our Ho Chi Minh factory due to come on-stream this year.

Our philosophy is to find solutions for problems, and our products are our customers' solutions. We are not afraid to embrace new ideas – a highly meritorious quality in such a rapidly changing world. Zamil Industrial sector businesses have long been active in product development. They use cutting-edge technology to deliver the most innovative products in response to their customers' requirements.

“We are forging a path towards a better future for everyone at Zamil Industrial, for our shareholders, for our customers and for our communities.”

As a Saudi company, it is particularly pleasing to see the confidence that our fellow Saudi companies place in us. This last year, we counted several of the giants of Saudi industry among the ranks of our clients, including Saudi Aramco and SABIC.

Our Loss Prevention Department (LPD), established in 2006 under Corporate Admin & HR, has already made significant inroads into shaping our culture and ways of working. We are acutely aware that our employees are our main asset, and so it is crucial to inculcate a strong health, safety and environmental mindset to keep our employees safe and to ensure that they hold these values paramount.

All our sector businesses regularly surpass expectations allowing us to achieve balanced, sustainable company-wide growth and to maintain our reputation as a trusted global leader. But growth means more to us than just numbers and size; it also means striving for and achieving excellence in everything we do – including our comprehensive Corporate Social Responsibility (CSR) program.

Founded on our core principles, Zamil Industrial has developed a suite of strategic CSR initiatives aimed at giving back to society in a variety of ways.

We strive to recruit as many local employees as possible in each of our international markets.

The environment is another area of CSR that we take extremely seriously, and we support all feasible measures to minimize and eliminate any negative environmental impact caused by our operations. Many of our business units have already initiated highly effective programs.

One of our newest businesses – Zamil Energy Services Co (ZESCO) – offers energy efficient solutions and technologies aimed at minimizing energy losses and contributing to improved process and power quality, both within the group as well as externally.

Never known to be a complacent company, Zamil Industrial turned inwards in 2007, when we looked at the core concepts of our business with a fresh eye. While continuing to deliver high-quality products, solutions and services, we felt it was time to articulate our brand more accurately to our clients, shareholders, employees, vendors and the community at large.

Our new name serves a dual purpose – it preserves the positive values and leadership of our previous identity, while reflecting our contemporary approach to doing business. The logo supports the name, adding strength to the corporate identity. Our new branding is streamlined and forward-looking; concepts that translate into our everyday operations, as well as reflecting our high-level business strategy.

I can confidently say that we are forging a path towards a better future for everyone at Zamil Industrial, for our shareholders, for our customers and for our communities. We look forward to 2008 as a year of consolidation and continued growth in existing and new markets, and we stand ready to meet the demands of the thriving construction industry in the Kingdom of Saudi Arabia, the GCC and the rest of the world.

Dr. Abdulrahman A. Al Zamil
Chairman of the Board

Khalid A. Al Zamil
Managing Director

Managing Director's Report

As Managing Director of Zamil Industrial, I applaud all of our business units and employees for their invaluable contribution in 2007. It was a year of quantum progress across our core businesses – Zamil Air Conditioners, Zamil Steel Industries, Zamil Glass Industries and Arabian Fiberglass Insulation Co Ltd (AFICO), as well as in other newer business units. Our aggregate year-end results speak volumes, with a record turnover of SAR 3.68 billion / USD 982 million, an increase of 28.4% over 2006.

"Our aggregate year-end results speak volumes, with a record turnover of SAR 3.68 billion / USD 982 million, an increase of 28.4% over 2006"

One of the most inspiring performance of 2007 came from Zamil Air Conditioners, the first air conditioning business to be founded in Saudi Arabia, which has gone from strength to strength since its birth in 1974. This year, Zamil Air Conditioners' management implemented a coordinated strategy across their business units, resulting in an extraordinary year-on-year increase in revenue of 22%, with individual units producing amazing annual growth figures of up to 48%.

Zamil Air Conditioners has demonstrated excellence in innovation with a focus on developing and utilizing the most advanced air-conditioning technology. This has helped us move into new markets – both geographical and industrial— taking advantage of areas of rapid growth such as the Asian markets and, closer to home, the GCC's booming petrochemical and construction markets.

Testament to the superiority of Zamil Air Conditioners' products – which lead the field in the GCC and the Middle East – two of our products satisfied the stringent qualifying criteria to achieve accreditation under the highly regarded Eurovent Certificate.

Lastly, Zamil Air Conditioners' sustained commitment to localization of employment was recognized at the regional level during the sixth annual GCC ceremony which rewards distinguished private sector companies for their efforts in this respect – a feather in our cap of which we are extremely proud.

Another division deserving particular praise for its performance in 2007 is AFICO, whose management team led the sector business to new heights, firmly positioning AFICO as a global insulation supplier. An additional competitive advantage is AFICO's strategic partnership with Owens Corning Corp, whose leading research and development facility gives us access to the latest worldwide developments in industrial technology.

"It was a year of quantum progress across our core businesses"

"Major deals secured include the landmark Sabic Kayan project"

"Zamil Steel celebrated its 30th anniversary in 2007 with record highs in annual operational and financial performance"

The fiberglass insulation industry is experiencing significant growth. Expansion and upgrading of our existing plant will give a further boost to production.

AFICO's entire range of fiberglass insulation was awarded the prestigious CE (European Conformity) certification, as it satisfied stringent health, safety and environmental criteria being entirely fabricated from natural, recycled raw materials.

Moving on, Zamil Steel celebrated its 30th anniversary in 2007 with record highs in annual operational and financial performance achieved by a strategic mix of higher production targets, prudent financial management and increasingly efficient resource utilization.

One of the year's highlights was the inauguration of our new factory in Ras Al Khaimah, UAE, in April under the patronage of HH Sheikh Saud bin Saqr Al Qassimi, Crown Prince and Deputy Ruler of Ras Al Khaimah.

Also during the year under review, we completed capacity additions in three of our factories – Zamil Steel (Egypt), Structural Steel, Dammam (KSA) and Towers & Galvanizing, Dammam (KSA) - as well as completing PEB's new production facility in Ras Al Khaimah (UAE).

Other major deals secured include the landmark Sabic Kayan project located in Jubail (KSA), which upon completion will become the biggest petrochemical complex in the world to be constructed in its entirety at the same time.

To help our shareholders achieve their goal of superior returns, Zamil Steel continued an aggressive business strategy aimed at increasing its share in several markets. In the GCC region, we began trial production in our new Towers & Galvanizing factory in Ras Al Khaimah, as well as commencing production of sandwich panels in our Dammam factory.

Further afield, the Asian markets hold much promise for Zamil Steel. We delivered our first shipment from our new factory in Pune (India) and, looking to the future, Vietnam is gearing up to provide our latest contribution to production when the Ho Chi Minh City factory comes online in 2008.

During the year under review, Zamil Steel placed great emphasis on nurturing employee relations, in the firm belief that employee empowerment is the key to motivating employees to work smarter and harder for our mutual benefit.

A series of human resource initiatives were implemented throughout the business units to achieve this goal, including engaging employees in consultation and participation processes; launching an employee suggestion scheme to promote a continuous improvement process; implementing a program of in-house training covering operational and motivational topics that reached over 1,000 employees; and providing executive training in value engineering and time management techniques.

"Providing executive training in value engineering and time management techniques"

A total orientation towards customer care led Zamil Steel to implement a Customer Relationship Management (CRM) system – based on our successful pilot program in 2006 – to further strengthen customer relations and improve our service quality. All Saudi Arabian-based sales staff are now included in the system. We also launched 'The Zamil Steel Difference', a technical guide that will assist potential customers in selecting the right building products for their projects.

"Energy Central – one of our newest busineses – secured a 22-year energy performance contact with Saudi industrial conglomerate SABIC"

In a different industry sector, Zamil Glass successfully restructured this past year with encouraging results. Following a streamlining of both its customer base and internal organization, and a gearing up of production and technological preparedness, Zamil Glass is on the brink of stellar progress. We look forward to 2008 with an extremely positive sales forecast focusing on large-scale new business opportunities.

Energy Central – one of our newest businesses – secured a 22-year energy performance contract with Saudi industrial conglomerate SABIC, in a deal that is estimated at SAR 42 million – USD 11.2 million year to deliver a district cooling plant and maintain its current HVAC systems.

Zamil Steel

Zamil Steel showed substantial performance improvements in its regional and international operations over 2006. With its winning combination of a skilled and committed workforce; manufacturing units strategically located throughout the Middle East, Asia, and Africa; and plans to set up new manufacturing units in Europe; Zamil Steel is poised to play a pivotal role in global steel construction. Some of our key highlights for the year 2007 are described in the following business unit reports.

“A highlight of the year included PEB’s participation in the BIG 5 Show 2007”

Pre-Engineered Buildings Division (PEB)

This largest division within the Zamil Steel family, who specializes in the fabrication of low-rise pre-engineered steel buildings for a variety of end users, introduced a series of new facilities and product developments and enhancements in 2007, as well as undertaking a series of projects.

PEB’s new production facility in Ras Al Khaimah (UAE) was completed in April, and the division is currently setting up a new production facility in India, a market experiencing exponential growth. Major projects included the Al Hanoo Holding Co. Warehouses in Sharjah (UAE).

“The Boruge Ethylene Plant and PE3 Project in Ruwais (UAE) awarded us two out of three tendered packages ”

2007 saw the launch of an extensive list of new products as well as product and software enhancements, proving that PEB is both innovative and reactive to customer feedback and market demands. The former included curved roof buildings with integrated rafters, and the latter included the modification of ridge vent connections by using self-drilling screws to make for simpler structure erection.

A highlight of the year included PEB’s participation in the BIG 5 Show 2007, held in Dubai (UAE), featuring almost 3,000 companies from building, construction and related industries and hailing from 52 countries. The sheer scale of the event reinforced the Middle East’s enviable position as one of the most active and important world construction markets – a fact that PEB is acutely aware of and uses as grist to develop its operations.

Structural Steel Division (SSD)

2007 was a year of phenomenal project wins for our Structural Steel Division, the regional leader in the supply of structural steel building components and other structures and process equipment. The highlight of the year, however, must be our success in securing a significant structural steelwork contract for the Sabic Kayan project located in Jubail (KSA).

The Boruge Ethylene Plant and PE3 Project in Ruwais (UAE) awarded us two out of three tendered packages to provide structural steel for this large-scale project. Another key win was the first package of the Ma’aden Project to be awarded: its Sulphuric Acid Plant in Ras Az Zawr (KSA). The remaining packages combined – an aluminium smelter, alumina refinery, fertilizer complex, and power plant – will make this project the leading investment in the Kingdom’s mining and aluminium sector.

A number of expansions took place at our existing production facilities including the installation of sawing and drilling lines, plate processing machines and building bays – all with the aim of increasing efficiency and quality, which will in turn help to boost our performance and profitability.

Health and safety are a top priority for Zamil Industrial as a whole, and the Structural Steel Division has had well-established management systems in place since 2004 to minimize the impact of our operations on the environment and to ensure the welfare of our employees, both in the plant and at construction sites.

Since the inception of the program, we have made a significant contribution on several health, safety and environmental fronts. We have managed to reduce waste to landfill by a massive 75% through recycling initiatives. Our energy consumption has fallen by 34% overall and paper consumption is down by 50%, both simply due to heightened employee awareness. We are proud to say that we fully comply with air quality, sewage and noise level standards. Our accident frequency rate dropped by 17% and the severity rate by 27%, and we have instituted a compulsory occupational health check up for all employees.

"We managed to reduce waste to landfill by a massive 75%"

Process Equipment Group (PEG)

The group secured its biggest ever contract in 2007, with Saudi Kayan Petrochemical Co to supply 12 reactors and 33 vessels for their Phenolics complex project in Jubail (KSA). Notably, this will be our first fabrication of a quench tower with a diameter of 9.6 meters, and of a HAD-Reactor with allow material, Inconel internals and internal refractory lining.

Other major projects included the AZ Zour Power Plant in Kuwait to whom we supplied eight steel drums of 90 mm shell thickness, the first ever rolling of that thickness by Zamil Steel.

PEG also completed the Danieli Corporation's Emirates Iron Steel Factory in the Mussaffah Industrial Area in Abu Dhabi (UAE). We excelled by supplying a reaction furnace for the project ahead of the contractual date, during what has been an extremely busy and fulfilling year for the division.

The installation of three new numerically controlled machines in Dammam plant (KSA) increased production capacity to 57,000 MT per year for the manufacture of steel towers. All in all, Towers & Galvanizing is well set on the road to sustainable growth.

"The production and shipments volumes are expected to increase in 2008"

Towers & Galvanizing Division (T&G)

Towers & Galvanizing ended the year in a robust position with sufficient confirmed orders to see it through until the end of 2008.

The division, who provides premium galvanized steel for electrical transmission lines, telecommunications and other specialized lattice steel structures, has built this year's success on its geographically wide customer base across the GCC, Asia, Africa and the US.

The production and shipments volumes are expected to increase in 2008 as December saw production begin at our new manufacturing facility at Ras Al-Khaimah (UAE) with an annual production capacity of 15,000 MT.

The engineering capabilities of the division were demonstrated by the successful design and load testing of one of the heaviest 115 KV D/C (Quad Conductor) towers, weighing in at approximately 60 tonnes, constructed for the Royal Commission, Yanbu (KSA).

Canam Asia Ltd. (CAL)

2007 saw Canam Asia consolidate its operations with the inauguration of a new production facility in Ras Al-Khaimah (UAE), in addition to its existing fabrication facility in Dammam (KSA). This expansion has increased production capacity by 15,000 MT per year and allowed it to augment its production capabilities in order to produce new and attractive products, including the Hambro joists system and metal decking.

A supplier of products suited to low, medium and high-rise building and commercial centers, it successfully completed a number of major projects during the year, including three projects in Saudi Arabia – Onaiza Mall, Flamingo Center in Riyadh, Sumitomo project in Petro-Rabigh, Jarir Center in Dhahran, metal decking for Doha International Airport in Qatar and Ain Azari Park in Bahrain.

"Zamil Steel Vietnam reached many prominent milestones in 2007"

Zamil Steel Vietnam

Zamil Steel Vietnam reached many prominent milestones in 2007, closing the year with the highest ever tonnage of production and shipping in our Vietnamese operation's history.

We secured several major contracts in Vietnam, and also in the export markets of Malaysia, Indonesia, the Philippines and Singapore over the course of last year. This includes the landmark Sentosa Development Corporation Office project in Singapore, which allowed us to penetrate the multi-storey steel buildings sector, an area where we predict long-term potential.

"Expansion plans into Thailand were confirmed with the purchase of land at Hemaraj Chonburi Industrial Estate."

The Aircraft Hangar project at Sepang Airport, Malaysia, covering a total area of 16,000 square meters and weighing more than 1,000 tons, boasts the largest clear span that Zamil Steel Vietnam has designed to date, measuring an astounding 90 meters.

Another key achievement was the confirmation of the Factory Mutual (FM) Classification of Wind Uplift for our MaxSeam roofing project, an accreditation reflecting the quality and high performance of our roof systems, which have stood up to typhoon force winds in earlier years – unlike those of many other manufacturers. These super strong roofs are now also being exported to Malaysia, Thailand and Indonesia.

Expansion plans into Thailand were confirmed with the purchase of land at Hemaraj Chonburi Industrial Estate, where we intend to build a commercial operation.

The business unit collected many prestigious awards in 2007, including the Gold Medal for Best Product at the Vietnam Expo International Trade Fair. But our selection as the winner of the Golden Dragon Award for excellence in pre-engineered steel buildings for the fifth consecutive year was particularly rewarding, as it affirms our operational strength in the region.

Zamil Steel India

2007 was a progressive year for our recently operational Indian business unit, with regional offices opening in the major centers of Mumbai, Bangalore and Hyderabad. This greatly increased our marketing reach, allowing sales staff to make great inroads into this promising market. As a backup for sales, we produced customized marketing literature to take into account Indian cultural needs as well as potential differences in the interpretation of information.

Zamil Steel India supplied office buildings to new clients in East India and South India, as well as the architectural views of JOST India Auto Components Building in East India and Prajay Corporate Headquarters in Hyderabad.

Zamil Steel India opened an engineering office in Cochin with a total manpower of 92 engineers who are serving both Zamil Steel Singapore and Zamil Steel Vietnam as well as its local market.

On the operational side, construction of our Pune Factory was completed, with 80% of the installation finished and trial production beginning in November. The factory bore fruit when it delivered its first shipment in December 2007. This moves our Indian operation into the active phase and we have high hopes for its future stream of production and revenue.

“We led efforts to step up in-house training in process improvement techniques, and we called for more tools to better equip BSC teams and other process improvement teams.”

Zamil Steel Egypt

Zamil Steel Egypt had an exceptional year – in both domestic and export markets – with year-on-year figures showing substantial increases.

Zamil Steel Egypt secured several prestigous projects during 2007 - even more remarkable as it was achieved in the face of increasingly tough competition at home and abroad.

Following our strategy of increasing and developing market share, we secured three new export markets; Liberia, Democratic Republic of Congo and Gambia, and are increasing our presence in the promising market of Zambia, where we sold nine projects in 2007.

We subsequently obtained approval from the Egyptian Investment Authority to establish our new company as a free zone, with the concomitant commercial benefits.

Our General Manager, Atef Ibrahim, was appointed to the Board of Directors of the Chamber of Metallurgical Industries, confirming the esteem in which both he and Zamil Steel Egypt are held in its namesake country.

Zamil Steel Strategic Planning

Leading the way in the field at the Middle East Balanced Scorecard (BSC) Forum 2007, Zamil Steel Strategic Planning Department (SPD) presented their view of the strategic management process. They discussed the use of BSC as an effective tool for strategic management, aligning the organization through strategy mapping communicating strategy and managing strategy execution. Many Saudi delegates expressed an interest in maintaining contact with SPD.

We led efforts to step up in-house training in process improvement techniques, and we called for more tools to better equip BSC teams and other process improvement teams. The training also included sessions on teamwork and team building, ownership and accountability, and group dynamics.

SPD spearheaded the communication of Zamil Steel’s new Vision and Mission statements. It also inaugurated the SPD Video Library, where employees can access the visions of world-leading strategists to discover the future strategies that can create and grow successful businesses.

“This last year saw our Chiller Product Unit design two extraordinary products”

Zamil Air Conditioners

Zamil Air Conditioners brought the year to a close with an increase in revenue over the previous year. This performance is due to the efforts of all employees and a solid management team. Their strategy for 2008 and beyond is to align the business model throughout the air conditioning business units, in order to create synergy with a view to capitalizing on investment opportunities, maximizing profit and creating a quality customer experience.

“Each business unit enjoyed healthy year-on-year growth”

Approved projects are on track with the construction of a new plant and warehouse facility for Unitary & Applied Products in the Second Industrial City, due for completion by June 2008. A joint venture with the fast-growing Advantech Coils Pvt Ltd was finalized, with Zamil Air Conditioners taking a 30% equity share in one of the few companies in India boasting an integrated manufacturing facility, all the way through from plastic injections to assembly. Zamil Air Conditioners will therefore gain an edge in long-term competitiveness, due to its ability to offer the best products and solutions.

Significantly, each business unit enjoyed healthy year-on-year growth with Middle East Air Conditioners (MEAC), a joint venture with General Electric, posting the most impressive figures with a 48% growth over 2006. This was possible due to an expanded product offering and consolidation of regional distribution. 2008 looks equally positive and we intend to build on this momentum.

The Unitary & Applied BU returned an impressive 43% year-on-year growth due to orders received over the year, and it has a healthy order sheet pending for 2008. Of the major projects secured in 2007, several stand out: the Yanbu Petrochemical Project at Yanbu, the Shuqaiq Power Plant at Shuqaiq and the Girls' College at Imam Mohammad bin Saud Islamic University in Riyadh - all in the Kingdom of Saudi Arabia.

CoolCare BU showed equally healthy growth with a 25% increase over 2006. In the corresponding period, CoolCare received orders to the value of SAR 52 million/USD 14 million, the most prestigious being Saudi Electricity Company (SEC) - Transmission Substations in the Eastern Region (KSA). February saw them lauded by SEC West as their number one service contractor out of a total of 90 companies.

The Consumer BU grew by 24% in 2007, the largest order being for APS-Iran.

In the product development sphere, we continued to innovate. Our focus has been firmly on utilizing the most advanced technology to increase operational efficiency and to ensure that our products are cost competitive, easy to service and maintain, and satisfy the needs of our customers. This last year saw our Chiller Product Unit design two extraordinary products. It custom built the longest ever chiller in our company's history - at 17.5 meters in length and boasting a 540 - ton capacity - for Saudi Aramco. Then, in a move permitting us to branch out into another sphere of the petrochemical industry, we developed an eye wash and safety shower chiller to provide emergency treatment to flush hazardous substances from the eyes.

“Expansion is underway in the anticipation of higher sales in 2008”

Unitary Products launched fan coil units suitable for the increasingly popular district cooling systems being widely implemented in new urban developments across the GCC. The coils will serve applications ranging from 200 to 1400 CFM for both 50 and 60Hz, and are specifically designed to meet high delta temperature requirements.

We were the first company in the Middle East to receive the Eurovent certificate for double skin air handling units, due to our adherence to the revised and stringent performance criteria, and we were re-accredited for the same certificate for our chiller water fan coil units.

As part of our corporate drive for Saudization, we are proud to record that Zamil Air Conditioners was honored with the Award of Distinction by HE Dr. Ghazi Al-Ghosaibi, Minister of Labor, in recognition of our successful phasing in of Saudi employees.

Zamil Glass

Zamil Glass Industries

2007 was considered the year to re-launch Zamil Glass, as management made a concerted effort to re-strategize and re-structure accordingly. The state of play at close of business on 31 December demonstrated a significant improvement in the business unit’s position, with healthy sales forecast for 2008.

The company successfully bagged a diverse group of major projects in Kuwait, Bahrain, Qatar and Saudi Arabia.

Zamil Glass has employed several strategies to increase overall performance. It has streamlined its customer base to focus on larger orders and more rapid revenue streams. The production team has been restructured and employment conditions improved, both of which have attracted a skilled mix of engineers who have been trained to work as a cohesive unit.

Several recent purchases and partnership agreements will result in an expanded production capacity and leverage the company’s ability to offer our customers the most innovative products..

Marketing was brought to the fore with a series of campaigns to raise the profile of the business unit. We rationalized our sales operation by basing the sales team in the Riyadh office (KSA). This was met by a simultaneous increase in sales figures, which has kept current production at full capacity.

Expansion is underway in the anticipation of higher sales in 2008, with plans to double the capacity of the Zamil Glass factory, located in Dammam (KSA) by installing new machinery. This will bring the company to the brink of unprecedented success, where it will be poised to lead the regional industry and have the ability to implement new glass technology as it becomes available.

New business will focus on landmark projects which reflect Zamil Glass’ intention to dominate the market, with sales running in parallel with increased production capacity. Due to a commitment from Zamil Industrial to support Zamil Glass in improving quality control, quality assurance and safety, the business unit is moving from strength to strength, with a solid portfolio of product lines and adequate production facilities in place to cope with ever increasing market demand.

"The outlook for 2008 looks equally promising, as AFICO forges ahead with many new projects, either underway or in the pipeline"

Arabian Fiberglass Insulation Company Ltd. (AFICO)

The AFICO management team had set their sights on 2007 as the year to take full advantage of global economic growth and to position the company as a market leader and global insulation supplier.

AFICO's, a joint venture between Zamil Industrial (51%) and Owens-Corning Corp of USA (49%), end of year results and outlook for 2008 vindicate this vision of market potential, evidence of which can be seen in the success that this dynamic business unit has enjoyed in terms of increased facilities, higher production capacity and wider international accreditation. The outlook for 2008 looks equally promising, as AFICO forges ahead with many new projects, either underway or in the pipeline.

Completion of the Dammam (KSA) facility expansion project, which began in 2007, will allow the company to increase production capacity by around 50%. AFICO management selected the new machinery with our priorities of safety, quality and the environment firmly in mind.

The AFICO Melter Rebuild and Upgrade program, which began in the last quarter of 2007, will deliver a significant increase in annual capacity to around 15,000 MT. The complete automation of our production equipment will lay the ground for AFICO's operating efficiency to scale new heights.

In 2007, the company added to its existing accreditations when it was awarded CE (European Conformity) certification for its entire line of fiberglass insulation products. This was achieved by ensuring conformity with all applicable European directives and requirements, including essential health, safety and environmental requirements for export and sale in European Union markets.

This accreditation recognizes one of AFICO's major strengths and marketing advantages; the fact that its fiberglass (glass wool) insulation products – in roll and board types – are environmentally friendly and present no hazard to health, being fabricated from mineral, inorganic and naturally safe recycled raw materials.

Related Businesses

Energy Central Company (ECCO)

The year just past was a tumultuous one for Bahrain-based Energy Central Company, as the fledging organization found its niche in the market. It entered 2008 with its feet firmly on the ground, being the veteran of several successful contract bids and with several projects underway.

Focusing on the district cooling, seawater desalination and waste water treatment markets, the business unit was instrumental in securing a long-term contract (22 years) for Zamil Industrial with Saudi Basic Industries Corporation, better known as SABIC, for process and comfort cooling at its wholly-owned subsidiary, Saudi Iron & Steel Company (Hadeed) in Jubail (KSA).

The scope includes the upkeep of HVAC systems, with no less than 2,500 components, and the building of a 20,000 - ton district cooling plant, as well as performing all future expansions and modifications for this arm of the giant of Saudi industry.

It also won the lucrative 25-year concession to design, build and operate the seawater desalination project serving the complete irrigation needs of Durrat Al Bahrain, a major new city of up to 50,000 inhabitants being developed in the south east of Bahrain. The scope includes the procurement and operation of a reverse osmosis plant to supply 34,000 cubic meters of World Health Organization (WHO) standard water. The effluent of the plant will serve to irrigate the extensive landscaped areas of the development, including 15 islands and a championship golf course. Future use of the waste water could be as condenser water for the district cooling system.

"Energy Central was successful in qualifying and progressing to the advanced negotiation stages for a number of large - scale development projects, stretching from KSA through Bahrain and the UAE. "

Energy Central was successful in qualifying and progressing to the advanced negotiation stages for a number of large - scale development projects, stretching from KSA through Bahrain and the UAE. One particular challenge it faced was the highly involved business development cycle for BOOT – build, own, operate and transfer in energy-related infrastructure, which can easily extend beyond two years.

Hence, the company has developed a detailed project viability assessment procedure in order to ensure it only bids for projects which meet its criteria for return on investment over two decades or more.

Saudi Aerated Concrete Industries Co. Ltd (Saudi-ACICO)

2007 saw work progressing on the Saudi-ACICO factory in Jubail (KSA), with production expected to commence in the first quarter of 2008. On completion, it will have the potential to produce 170,000 cubic meters of ordinary autoclaved aerated concrete (ACC), a lightweight and highly thermo – insulating concrete, which offers the potential for long - term energy and cost savings. It will also produce 30,000 cubic meters of reinforced ACC panels. Both products are widely used throughout the GCC with excellent results.

The advantages of ACC include: thermal insulation, achieving a 35-40% reduction in electricity usage, sound insulation reducing noise to 65-80% of its original magnitude, and construction time savings by reducing average build time from 18 months – using traditional materials – to eight months using ACC.

2008 will no doubt prove to be packed full of developments and contract wins as our newest sector business finds its feet.

All in all, 2007 more than lived up to expectations, and while I am sure that 2008 will present its unique challenges, I am confident that we have both the right people and the right products to deliver yet another year of total building solutions.

Khalid A. Al Zamil
Managing Director

COO's Report

Abdulla M. Al Zamil
Chief Operating Officer

2007 was an extremely satisfying year for Zamil Industrial. As COO and head of Corporate & Shared Services, I am pleased to report that it was a period where change was instrumental in motivating each and every area of our organization – both operational and administrative – to excel.

Corporate and Shared Services - Zamil Industrial Re-branding

Over the last six months of 2007, senior management were passionately engaged in a major re-branding exercise, as part of an evolution towards our goal of continued growth and expansion.

During this process, it was decided to change both the company name and logo, to reflect a more business-oriented focus and to clarify our future direction. We look forward to communicating our new brand message to our customers, our partners and the wider community.

"Change was instrumental in motivating each and every area of our organization"

Salary and Benefits Administration

Zamil Industrial has implemented updated salary scales across three of its business units – Zamil Air Conditioners, Zamil CoolCare and Zamil Steel – for offices under its KSA payroll. This is part of the company's response to the increasing competitiveness of the GCC labor market, and will afford employees more buying power in the face of price inflation. The next step will be to implement the updated salary structures for all segments of the company.

The Admin & HR Customer Service Board finalized a review of several policy initiatives designed to offer our employees an excellent package of employment benefits, including expanded and improved medical coverage.

Career Development

The continuing refinement of the company's job families and job competency matrices remains an important activity. Critical jobs have been identified as part of a continuing job classification, in order to provide appropriate structures for enhancing recruitment and internal talent development.

To this end, the Management Career Development Program was launched to establish a succession planning framework. The use of psychometric profiling and competency-based development initiatives will guarantee the availability of a sufficient number of suitable employees to fill current and future management and supervisory positions, thus ensuring leadership continuity.

“The launch of the Zamil Industrial SportsFest.”

“Business Functional Groups were set up to handle the change management process at the operational level and align it with the strategic level”

Employee Welfare

In addition to online access to guidelines and policies, employee engagement has been enhanced by “town-hall” consultation sessions called HR Open-Line. These sessions inform employees about corporate intent and about the implementation of guidelines and policies, particularly in regard to terms of employment and employee welfare.

Processing of documents – often a tedious task – was enhanced by the introduction of an electronic exit/re-entry visa by the Government Relations section.

Thirdly, the launch of the Zamil Industrial SportsFest, involving all major business units in competitive events such as basketball, football, volleyball, and cricket, aims to strengthen the sense of community among employees across the business units.

Information Technology

In 2007, IT Shared Services completed an ambitious project list!

Business Functional Groups were set up to handle the change management process at the operational level and align it with the strategic level.

Zamil Industrial IT Global Service Model (ZI ITG), a global service framework encompassing all Zamil Industrial businesses in and outside of Saudi Arabia, was formed with the main objective of aligning IT services with future business needs and supporting Zamil Industrial geographically in keeping with its rapid vertical and horizontal growth. Its accomplishments include:

- Establishing an offshore office in Pune, India as a Resource Base Center and Extended Support Center to help ZI ITG manage and support all Zamil Industrial business units globally.
- Establishing engineering systems for the newly formed Zamil Steel PEB Engineering offices in Jordan and Cochin, India.
- Completing a major technology upgrade, our first such highly architecturally specialized operation, involving the upgrade of the entire applications-related technology stack. This was completed using internal resources with minimum dependence on external agencies.
- Working to interconnect Zamil Industrial facilities worldwide with a secure connectivity mechanism using the Internet and private networks to benefit from existing multi-layer security defenses and resulting in bandwidth savings, reduced investment in email security and improved user productivity.

Oracle ERP implementation / upgrade of various modules was completed at a number of Zamil Industrial businesses to permit more effective management of finance, manufacturing, logistics and other integral functions.

Plant Preventive Maintenance system (PPM) was completed for Zamil Air Conditioners Consumer and Applied business units to manage the maintenance activities of their factories' assets.

“We are seeing a robust health and safety culture develop”

Cash Operating Cycle and Return of Man Power Cost, a major reporting system, has been developed for ZAC and CoolCare to generate Cash Flow Performance Analysis Reports.

SUCHI (The Global PEB Supply Chain Internal System), a fully web-enabled service that allows Zamil Steel PEB sites to integrate seamlessly, was implemented at Zamil Steel PEB Saudi and Zamil Steel PEB Ras-Al Khaimah after two years of hard work. It is currently being implemented in Zamil Steel PEB India.

Training

During the year, Zamil Industrial Training Institute (ZITI) developed and conducted several technical training programs (such as welding technology, fabrication, machine operation, air-conditioning) for 175 newly recruited Saudi employees.

“Needless to say, LPD activities have a profound impact on the efficiency, morale and health of the company”

In addition to the above programs, the Institute developed, conducted and facilitated many short and specialized courses for Zamil Industrial employees, with a total of 640 employees participating. The programs ranged from Advanced Selling and Negotiation Skills, to Value Engineering, to Strategic Thinking and Business Planning; and even to Labor Conflict Settlement.

Loss Prevention and Safety

The Loss Prevention Department (LPD) was established in 2006 under the Corporate Admin & HR. The early results of this new division, which integrates safety activities across all sector businesses, are particularly pleasing, and we are seeing a robust health and safety culture develop. This is due to the promotion of a better understanding of these matters, as well as crucial environmental issues. LPD has since expanded to include security aspects.

LPD operates with the attitude that people are a company’s best and most valued assets. Preventing workplace injuries, occupational illnesses and asset/ property damage through an effective safety, health and environmental program is therefore the key element in improving and maintaining the corporate safety culture.

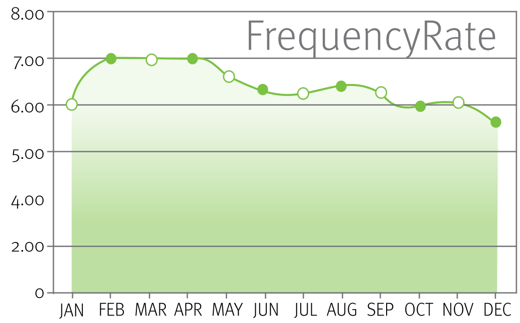
This involves bringing forward health, safety and environmental concepts, inculcating best practice, and intergrating all three into the corporate culture, thus making them visible at all business levels.

“Incidence Severity Rate reduced by 30.3%”

During 2007, LPD accomplished significant achievements. Some of the major highlights follow:

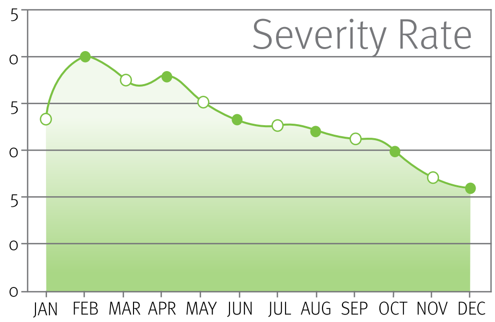
- Developed and issued ‘General Instructions’ templates such as incident reporting, emergency action plans, environmental protection, risk assessment and good housekeeping in the workplace.
- Implemented ‘Weekly Safety Summary’ reporting.
- Conducted Basic Fire Fighting Training (Arabic & English) for Zamil Industrial businesses.
- Coordinated the AFICO Production Upgrade Project to meet safety requirements.
- Conducted training on safety, emergency action planning and incident reporting for Zamil Industrial businesses.

Zamil Industrial Incidence Frequency Rate



Our Incidence Frequency Rate – an important measure of how successful we are at increasing safety awareness and compliance, and implementing rigorous policies and procedures – reduced by 25.3% during the year 2007. This reflects the frequency of work-related injuries or illnesses over a defined period (monthly).

Zamil Industrial Incidence Severity Rate



Incidence Severity Rate reduced by 30.3% during the year 2007. This shows the severity of work-related injuries or illnesses in terms of the number of workdays lost in a certain period (monthly).

Corporate Legal Affairs

During 2007, the Legal Department prepared and legally finalized the Articles of Association for four new companies under Zamil Industrial as follows:

- Zamil Steel Industries – Abu Dhabi (LLC)
- Saudi Central Energy Company (LLC)
- Al-Zamil for Steel Installations Company (LLC)
- Al-Zamil for Inspection & Maintenance of Industrial Projects Company Ltd.

"Our messages cut through the media clutter and are positively received by our target audience."

The Legal Department liaised with the Saudi Industrial Development Fund (SIDF) and the operating units within Zamil Industrial, submitting three loan applications for new projects.

In addition to the above, the SIDF approved five more loan applications for a total amount of SAR 151.2 million / USD 40.3 million. Of this, SIDF has already disbursed SAR 95.4 million / USD 25.4 million.

Media & PR Activities

Our Corporate Communications department key ensured, and will continue to ensure, that our messages cut through the media clutter and are positively received by our target audience.

In addition to the published press releases and articles, several major events of our sector businesses in 2007 were covered exceptionally by the regional and international media, especially the inauguration of Zamil Steel plant in Ras Al Khaimah, (UAE) Zamil Air Conditioners new advanced products and technologies; Zamil Glass projects (Kuwait) expanded automation plans and new strategic partnerships; Zamil Steel's sponsorships and participation in major local and regional events, and Energy Central's recent 22-year energy performance contract with SABIC.

Corporate Communications has thus established stronger and better relations with media representatives – especially business and economic reporters – in all key media houses regionally and internationally.

The Zamil Industrial corporate website (www.zamilindustrial.com) won the Gold Award in the Industrial category, winning out over a total of 19 entries, at the Pan Arab Web Awards 2007.

This is the second major honor for the site, which won Silver in the same category at the UAE Web Awards 2006.

"Corporate Communications has thus established stronger and better relations with media representatives"

Current Saudization levels at Zamil Industrial's Saudi locations are shown in the following table:

Sector	Saudization
Zamil Steel	21%
Zamil Air Conditioners	24%
CoolCare	12%
Zamil Glass	25%
AFICO	37%
Corp & Shared Services	29%

Corporate Social Responsibility - Employment Generation and Localization

Employment generation and localization of workforce are top of Zamil Industrial's agenda. In 2007, the employee count at Zamil Industrial went up by 23% as shown below:

Region	2005	2006	2007	% Increase over 2006
KSA	3985	5084	5673	12%
UAE - Ras Al Khaimah	-	-	485	-
Egypt	500	606	862	42%
Vietnam	740	842	947	12%
International	303	279	412	48%
Z I Total	**5525**	**6811**	**8379**	**23%**

"Zamil Industrial companies have shown a steadfast commitment to the ambitious Saudization drive of the government."

Localization of workforce is perhaps the most important dimension in employment generation, for that is how we can claim to deliver a meaningful social contribution to the countries in which we operate. We strive to adhere to this principle in all of our major manufacturing centers.

For example, in Saudi Arabia, Zamil Industrial companies have shown a steadfast commitment to the ambitious Saudization drive of the government. The present requirement in the manufacturing sector is set at a minimum of 30%. In the contracting / service segment (CoolCare for example), the required level is set at a minimum of 10%.

A point worth noting is that increased Saudization over the years has not come at the expense of losing expatriate employees, but rather it has been achieved due to increased levels of recruitment necessary to satisfy the steady increase in business operations.

In recent times, Zamil Industrial companies have received appreciation for their Saudization efforts, notable among them being the HRH Prince Naif bin Abdulaziz Saudization Award. In 2007, Zamil Air Conditioners was honored with 'Award of Distinction' presented on the occasion of the 24th session of the Labor and Social Affairs Ministers of the Gulf Cooperation Council (GCC).

Environment

Zamil Industrial is fully committed to minimizing the impact of our sector businesses on the environment, and to the development and implementation of new production methods and materials that respect the fragility of our ecosystems.

Zamil Air Conditioners

The United Nations Environment Program (UNEP) held the "First Regional Roundtable Meeting for Air-Conditioning Experts" on the Future of HCFCs (hydro-chloro-fluoro-carbons) in the GCC.

"Waste disposal is another area of concern where we consider the environmental impact of our operations."

The meeting was triggered by the latest adjustments to the Montreal Protocol and recent climate change discussions, in addition to new decisions adopted by the Montreal parties in regard to the substances that deplete the Ozone layer. These decisions are related to the new HCFC phase-out acceleration program that is directly impacting our region, where the HCFC R22 is the main refrigerant in use. According to the program, a 10% reduction in regional consumption will commence from 2015.

The delegates agreed that the region was not prepared for such an accelerated phase out, especially in the absence of a viable replacement, as the new refrigerants used in Europe and the USA are unsuitable for use in extremely high temperatures. UNEP has agreed to organize a subsequent meeting to which more industry representatives will be invited.

In the meantime, UNEP has proposed a fund to support local industries in switching to refrigerants other than R22, and/or support industries, (whose present set-ups make wide use of R22) in reducing leaks or recovering refrigerant.

Zamil Air Conditioners is already producing chillers and condensing units using the new refrigerants – either R134a or R407 – whenever this is requested or specified by a particular market.

Zamil Steel

At Zamil Steel PEB operations, sandwich panels are one of our major products offered for use as wall and roof claddings for pre-engineered buildings. We currently use polyurethane foam as insulation, injected between the corrugated metal sheets. This foam uses small quantities of HCFCs substances, compared to the previously used CFCs such as Freon.

In view of Montreal phase-out program, we are preparing the ground to switch within the next five years to a blowing agent known as Pentane, which exhibits no harmful effects on the environment, thus making it an ideal substitute for HCFCs.

Waste disposal is another area of concern where we consider the environmental impact of our operations. Zamil Steel PEB follows elaborate waste disposal procedures to ensure environmentally sound disposal of active chemicals. The key step is to neutralize the active chemical before disposal by simulating a benign chemical reaction.

"Fully committed to minimizing the impact of our sector businesses on the environment."

Our Structural Steel operation has maintained established management systems since 2004, certified to International Environmental, Health & Safety Management Standards, ISO 14001:2004 and OHSAS 18001:1999. It has reduced waste to landfill by a staggering 75% through the recycling of plastic spools and used paper, oil, blast dust and paint cans. Paper consumption during the same period has been reduced by 50%, mainly through increased employee awareness.

In 2008, we will be launching an environmental project for our galvanizing operations at Zamil Steel Towers & Galvanizing to study the environmental impact of its operations, the related norms in Saudi Arabia and our compliance with the same, and also to assist in our understanding of future developments.

University and College Co-operative Training Programs

Zamil Industrial Training Institute (ZITI) prepared and conducted on-the-job training programs for a total of 38 Saudi students studying at King Fahd University of Petroleum and Minerals, King Faisal University, King Saud University, Dammam College of Technology and Al-Ahsa College of Technology.

Sponsorships

Zamil Industrial is proud to have been the Golden sponsor in support of the 2nd Reform and Rehabilitation Seminar organized for prisoners by the Directorate General of Prisons in Saudi Arabia in Riyadh in April 2007.

These rehabilitation and vocational training programs are designed to help prisoners who are willing and capable of being craftsmen, by preparing them to rejoin society as productive members after their release.

Also in 2007, Zamil Industrial was one of the sponsors of "Kafelat Al-Khair" - a group of caravans roaming around various towns and cities in the Eastern region of Saudi Arabia. The major activities include a series of daily lectures, the distribution of educational and religious books and tapes in various languages, and educational and entertainment activities with valuable prizes.

Energy Conservation

"You do not save or conserve what you do not measure" is the policy adopted by Zamil Industrial.

Zamil Energy Services Co (ZESCO), one of the new businesses at Zamil Industrial, is implementing energy efficient solutions/technologies aimed at minimizing energy losses and contributing to improved process and power quality, both within the group and beyond its boundaries.

Zamil Air Conditioners has commissioned ZESCO to perform a detailed energy audit of its chiller production facility, targeting a 10% reduction in energy consumption during 2008.

Zamil Steel and AFICO have initiated site surveys for power quality management and compressed air-systems to identify opportunities for energy/cost savings. They also plan expansions by the optimal utilization of existing set-ups from the Saudi Electricity Company. The substantial potential benefits will go some way to addressing national concerns with regard to reducing the environmental impact and investment costs involved in the building of new power plants.

Abdulla M. 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 2007 and the related consolidated statements of income, cash flows and changes in 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 Regulations 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 2007 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

At 31 December 2007

	Note	2007 SR 000	2006 SR 000
ASSETS EMPLOYED			
PROPERTY, PLANT AND EQUIPMENT	3	715,166	444,321
INVESTMENTS	4	242,876	153,785
GOODWILL	5	27,730	27,730
DEFERRED CHARGES	6	16,388	10,260
CURRENT ASSETS			
Inventories	7	1,627,439	1,157,287
Accounts receivable and prepayments	8	1,125,422	966,709
Amounts due from related parties	9	22,922	20,855
Cash and cash equivalents	10	186,726	161,572
		2,962,509	2,306,423
CURRENT LIABILITIES			
Notes and accounts payable and accruals	11	706,503	696,936
Amounts due to related parties	9	9,287	10,611
Advances from customers		208,561	188,396
Morabaha and Tawarruq finances	12	1,872,990	1,013,143
Short term loans	13	46,317	51,275
Current portion of term loans	17	18,997	28,707
		2,862,655	1,989,068
NET CURRENT ASSETS		99,854	317,355
		1,102,014	953,451
FUNDS EMPLOYED			
EQUITY			
Share capital	15	450,000	450,000
Statutory reserve	16	102,394	81,744
Retained earnings		268,146	151,796
Proposed cash dividends	18	67,500	67,500
Unrealised gains on investments		4,242	-
Translation loss on consolidation		-	(9,544)
		892,282	741,496
Minority interests	19	63,171	63,788
TOTAL EQUITY		955,453	805,284
NON CURRENT LIABILITIES			
Term loans	17	37,190	58,225
Long term payables		1,958	1,751
Employees' terminal benefits		107,413	88,191
		146,561	148,167
		1,102,014	953,451

The Attached Notes 1 To 28 Form Part Of These Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF INCOME

Year Ended 31 December 2007

	Note	2007 SR 000	2006 SR 000
Net sales		3,681,260	2,867,594
Cost of sales		2,946,368	2,234,435
GROSS PROFIT		734,892	633,159
EXPENSES			
Selling and distribution	20	233,841	197,533
General and administration	21	209,477	202,980
Amortisation of deferred charges	6	1,381	2,796
		444,699	403,309
INCOME FROM MAIN OPERATIONS		290,193	229,850
Other income	22	44,930	44,421
Gain on sale of available for sale investments		-	19,899
Financial charges	11,12,13&17	(104,102)	(70,235)
INCOME BEFORE ZAKAT, TAXES AND MINORITY INTERESTS		231,021	223,935
Foreign taxes		(1,731)	(1,146)
Net minority interests in results of subsidiaries		(8,532)	(17,067)
INCOME BEFORE ZAKAT		220,758	205,722
Zakat	14	14,258	14,075
NET INCOME FOR THE YEAR		206,500	191,647
Earning per share (Saudi Riyals)		4.59	4.26

The Attached Notes 1 To 28 Form Part Of These Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended 31 December 2007

	Note	2007 SR 000	2006 SR 000
OPERATING ACTIVITIES			
Income before zakat, taxes and minority interests		231,021	223,935
Adjustments for:			
Depreciation	3	69,144	59,933
Gain on sale of property, plant and equipment		(333)	(204)
Gain on sale of investments		-	(19,899)
Amortisation of deferred charges	6	1,381	2,796
Financial charges		104,102	70,235
		405,315	336,796
Changes in operating assets and liabilities:			
Inventories		(470,152)	(184,518)
Receivables		(160,780)	(299,174)
Payables		22,594	298,631
Cash from operations		(203,023)	151,735
Employees' terminal benefits, net		19,222	15,871
Financial charges paid		(104,102)	(70,235)
Zakat and foreign taxes paid		(11,968)	(11,317)
Net cash (used in)/ from operating activities		(299,871)	86,054
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	3	(335,874)	(120,545)
Acquisition of assets related to subsidiary	3	-	(39,711)
Proceeds from sale of property, plant and equipment		533	513
Proceeds from sale of investments		-	32,205
Deferred charges incurred	6	(7,459)	(2,226)
Investments acquired		(84,849)	(132,591)
Goodwill incurred		-	(22,976)
Net cash used in investing activities		(427,649)	(285,331)
FINANCING ACTIVITIES			
Bank overdrafts		-	(3,850)
Dividends paid		(67,500)	-
Term loans obtained		3,270	37,997
Repayment of term loans		(34,015)	(19,888)
Change in short term loans, Murabaha and Tawarruq finances		854,889	195,207
Minority interests, net		(9,149)	22,486
Net cash from financing activities		747,495	231,952
INCREASE IN CASH AND CASH EQUIVALENTS		19,975	32,675
Cash and cash equivalents at the beginning of the year		161,572	131,387
Movement in translation difference – net		5,179	(2,490)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		186,726	161,572

The Attached Notes 1 To 28 Form Part Of These Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year Ended 31 December 2007

	Share Capital SR 000	Statutory reserve SR 000	Retained earnings SR 000	Proposed Cash dividends SR 000	Unrealised gains on investments SR 000	Translation loss on consolidation SR 000	Total SR 000
Balance at 31 Dec.. 2005	350,000	62,579	148,814	-	34,525	(8,403)	587,515
Net income for the year	-	-	191,647	-	-	-	191,647
Transfer to statutory reserve	-	19,165	(19,165)	-	-	-	-
Transfer to share capital (note 1)	100,000	-	(100,000)	-	-	-	-
Directors' remuneration	-	-	(2,000)	-	-	-	(2,000)
Proposed cash dividends (note 18)	-	-	(67,500)	67,500	-	-	-
Movement during the year	-	-	-	-	(34,525)	(1,141)	(35,666)
Balance at 31 Dec. 2006	450,000	81,744	151,796	67,500	-	(9,544)	741,496
Net income for the year	-	-	206,500	-	-	-	206,500
Transfer to statutory reserve	-	20,650	(20,650)	-	-	-	-
Directors' remuneration	-	-	(2,000)	-	-	-	(2,000)
Dividends paid (note 18)	-	-	-	(67,500)	-	-	(67,500)
Proposed cash dividends (note 18)			(67,500)	67,500			
Unrealized gains on investments	-	-	-	-	4,242	-	4,242
Movement during the year	-	-	-	-	-	9,544	9,544
Balance at 31 Dec. 2007	450,000	102,394	268,146	67,500	4,242	-	892,282

The attached notes 1 to 28 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 Buildings (Shanghai) Company Limited	100
Cooline Europe Holdings GmbH- Austria	100
Clima Tech Airconditioners GmbH - Austria	100
Zamil Steel, Polska – Poland	100
Zamil Steel Engineering India Private Limited	100
Zamil Steel Buildings India Private Limited	100
Zamil Energy Services Company (ZESCO) – Saudi Arabia	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
Arabian Fibreglass Insulation Company Limited	51

Effective 17/03/1427H corresponding 15 April 2006, and based on the Capital Market Authority Resolution number 4-154-2006 dated 27/2/1427H corresponding 27 March 2006, the company shares have been splitted off in the ratio of 5 shares to 1, which resulted in increase of the company shares from 7 million shares with a nominal amount of SR 50 to 35 million shares of SR 10 per share.

On 12/4/1427H corresponding 10 May 2006, and in accordance with extraordinary general assembly resolution, the company increased the share capital from SR 350 million to SR 450 million, by transfer of SR 100 million from retained earnings by issue of 10 million shares through distribution of 2 bonus shares for every seven shares held at the end of 10 May 2006. Accordingly, the company's share capital after the increase is SR 450 million divided into 45 million shares of SR 10 per share.

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
Operating 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. Entities under formation are accounted for at cost.

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 was 30 September until 2006. Effective 1 October 2006 the subsidiary changed its fiscal year to 31 December and accordingly, the consolidated financial statements include the results of the subsidiary for 15 months from 1 October 2006 up to 31 December 2007.

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

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. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Property, plant and equipment/depreciation
All property, plant and equipment are recorded at cost. Freehold land is not depreciated. Depreciation is provided on other 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 marketable equity securities are classified according to the company's intent with respect to those securities. Marketable equity securities held to maturity are stated at amortized cost, adjusted for the related premium or discount. Marketable equity securities held for trading are stated at fair value, and unrealized gains and losses thereon are included in the consolidated statement of income. Marketable equity securities available for sale are stated at fair value, and unrealized gains and losses thereon are included in consolidated shareholders' equity. Where the fair value is not readily determinable, such marketable equity securities 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 marketable equity securities is recognized when dividends are declared.

2. SIGNIFICANT ACCOUNTING POLICIES - continued

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 based on normal level of activity.

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 probable future costs under warranty commitments.

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

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

Foreign subsidiaries make provision in accordance with the laws of countries in which subsidiaries operate.

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. If losses are foreseen, they are provided for in full.

Costs in excess of progress billings is disclosed under accounts receivable and prepayments in the balance sheet. Whereas billings in excess of cost are disclosed under accounts payable in the balance sheet.

Expenses
Selling and distribution expenses are those that specifically relate to salesmen, warehousing, delivery vehicles and warranty cost as well as provision for doubtful debts. All other expenses other than direct cost, amortization of deferred charges, and financial charges 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 consolidated 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 consolidated shareholders' equity. Translation loss that is considered permanent is charged to the consolidated income statement.

2. SIGNIFICANT ACCOUNTING POLICIES - continued

Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents consist of bank balances, cash on hand, and investments that are readily convertible into known amounts of cash and have a maturity of three months or less when purchased.

Segmental reporting

A segment is a distinguishable component of the company that is engaged either in providing products or services (a business segment) or in providing products or services within a particular economic environment (a geographic segment), which is subject to risks and rewards that are different from those of other segments.

3. 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 2007 SR 000	Total 2006 SR 000
Cost:						
At the beginning of the year	10,018	286,744	704,952	80,238	1,081,952	881,822
Assets related to acquired Subsidiary	-	-	-	-	-	85,183
Additions	-	7,913	98,883	229,078	335,874	120,545
Disposals	-	-	(23,563)	-	(23,563)	(7,316)
Transfers	-	24,740	23,254	(47,994)	-	-
Translation gain	312	853	5,618	-	6,783	1,718
At the end of the year	10,330	320,250	809,144	261,322	1,401,046	1,081,952
Depreciation:						
At the beginning of the year	-	153,613	484,018	-	637,631	538,864
Depreciation related to acquired subsidiary	-	-	-	-	-	45,472
Charge for the year	-	12,328	56,816	-	69,144	59,933
Disposals	-	-	(23,363)	-	(23,363)	(7,007)
Translation gain	-	132	2,336	-	2,468	369
At the end of the year	-	166,073	519,807	-	685,880	637,631
Net book amounts:						
At 31 December 2007	10,330	154,177	289,337	261,322	715,166	-
At 31 December 2006	10,018	133,131	220,934	80,238		444,321

Capital work in progress represents mainly the cost incurred in respect of new building, expansion, upgrading of production facilities, plant and equipment acquired for general modernisation for Zamil Steel Industries and Zamil Air Conditioners (Saudi Arabia). It also includes costs related to the buildings, plant and new production lines under construction related to Zamil Steel Buildings India, Zamil Steel Buildings Vietnam and Arabian Fibreglass Insulation Company Limited.

4. INVESTMENTS

	2007 SR 000	2006 SR 000
Investment in listed companies	22,587	22,587
Unrealised gain on revaluation	4,242	-
Available for sale investments	26,829	22,587
Investment in associates	18,726	6,266
Investment in subsidiaries	128,320	68,968
Other investments	69,001	55,964
	242,876	153,785

Investment in associates comprise of the following:

1. 27.5% share in Saudi Aerated Concrete Industrial Company (ACICO- a Saudi Limited Liability Company). The principal activities of the company are the production of aerated concrete blocks and partitions.

2. 25% share in Energy Central Company (ECO-a Bahrain based Limited Liability Company). The principal activities of the company are to provide metered energy, central refrigeration and other support and environmental services for large-scale infrastructure development in the Gulf region.

Investment in subsidiaries comprise of the following:

1. 100% share in Lab Testing Company, a Saudi limited liability company. The principal activities of the company are the inspection and testing of electrical and electronic devices/appliances and mechanical products.

2. 100% share in ZIIC Emirates (Limited Liability Company in UAE).The principal activities of the company are the investment, incorporation and management of industrial projects.

3. 100% share in Zamil Steel Industries Abu Dhabi (LLC). The principal activities of the company are investing in commercial and industrial projects, ownership and management of manufacturing facilities for erection, installation, fabrication and selling of pre-engineered steel buildings, towers, steel structures, bridges and pressure vessels in various sizes.

The company has total commitment for the unpaid authorized capital of approximately SR 19.4 million.

4. 100% share in Zamil Steel Thailand. The principal activity is to manufacture, distribute and erection of pre-engineered buildings and accessories.

5. 100% share in Al Zamil for Inspection and Maintenance of Industrial Projects Company Limited. (Limited Liability Company registered in Saudi Arabia). The principal activity is inspection and maintenance of industrial projects.

6. 100% share in Al Zamil Steel Installations Company (Limited Liability Company registered in Saudi Arabia). The principal activity is erection and installation of steel buildings.

7. 51% Share in Saudi Central Energy Company a limited liability company registered in Saudi Arabia. The principal activities of the company are undertaking the execution of contracts for the installation and treatment of energy and water plants, electricity generating stations and their operation and maintenance, and laying networks for its transportation and distribution.

4. INVESTMENTS - continued

Portion of the company's shares in the above subsidiaries is registered in the names of some of the directors or employees on behalf of the company in order to comply with the regulations in which the above subsidiaries are operating.

The above associates and subsidiaries have been accounted for at cost. Subsidiaries were not consolidated in these financial statements as all of these companies, subsidiaries and associates, are still in the development stage and have no commercial operations at year end.

Other investments comprise of the following:

1. 2.11% Share in Kinan International For Real Estate Development Company Limited (Formerly Modern Marafiq Real Estate Development Company) (Limited Liability Company registered in Saudi Arabia). The principal activities of the company are to invest in real estates like buying, construction and leasing of land and buildings.

2. 10% share in IIB Paper Company Limited (Limited Liability Company registered in Cayman Islands). The principal activity of the company is the production of tissue paper.

3. Less than 2% Investment in Drake and Scull International LLC a limited liability company incorporated in UAE- Dubai.

5. GOODWILL

	2007 SR 000	2006 SR 000
At the beginning of the year	27,730	4,754
Incurred during the year	-	22,976
At the end of the year	27,730	27,730

6. DEFERRED CHARGES

	2007 SR 000	2006 SR 000
At the beginning of the year	10,260	10,830
Incurred during the year	7,459	2,226
Amortised during the year	(1,381)	(2,796)
Translation gain	50	-
At the end of the year	16,388	10,260

7. INVENTORIES

	2007 SR 000	2006 SR 000
Materials, supplies and stores	1,146,296	781,012
Work in progress	35,944	41,592
Finished goods	357,323	189,123
Goods in transit	87,876	145,560
	1,627,439	1,157,287

8. ACCOUNTS RECEIVABLE AND PREPAYMENTS

	2007 SR 000	2006 SR 000
Trade accounts and notes receivable	978,462	818,189
Prepaid expenses	27,655	23,061
Retentions receivable	39,392	26,646
Advances, deposits and other receivables	66,580	85,852
Costs in excess of billings	13,333	12,961
	1,125,422	966,709

9. RELATED PARTY TRANSACTIONS AND BALANCES

The following are the details of major related party transactions:

	2007 SR 000	2006 SR 000
Companies affiliated to Al Zamil Group:		
Purchase of goods and services	50,712	37,838
Sale of goods and services	32,455	26,621

The company also paid SR 2.73 million (2006: SR 2.38 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 (2006: SR 2.0 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. CASH AND CASH EQUIVALENTS

	2007 SR 000	2006 SR 000
Time deposit	-	26,598
Cash and bank balances	186,726	134,974
	186,726	161,572

11. NOTES AND ACCOUNTS PAYABLE AND ACCRUALS

	2007 SR 000	2006 SR 000
Trade accounts payable	270,642	266,124
Notes payable under Morabaha finances	35,386	75,748
Other notes payable	17,586	62,941
Accrued contractual costs	111,471	87,313
Accrued expenses and provisions	223,776	183,798
Zakat provision (note 14)	19,366	15,345
Billings in excess of cost	28,276	5,667
	706,503	696,936

Notes payable under Morabaha finances and other notes payable are secured by corporate guarantees and carry margin at commercial rates.

12. MURABAHA AND TAWARRUQ FINANCES

Murabah and Tawarruq finance were obtained from local commercial banks and are secured by credit agreements and corporate guarantees. The facilities carry financial charges at commercial rates and are repayable within one year from the balance sheet date.

13. SHORT TERM LOANS

Short term loans were obtained from local and foreign commercial banks. The loans are for duration of less than one year with an option to roll over. They carry commission at commercial rates.

14. ZAKAT

Charge for the year

The zakat charge for the year consists of:

	2007 SR 000	2006 SR 000
Current year provision	14,258	14,075

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

	2007 SR 000	2006 SR 000
Equity	683,540	561,393
Opening provisions and other adjustments	115,001	103,876
Book value of long term assets	(598,266)	(446,022)
	200,275	219,247
Zakatable profit for the year	222,610	193,421
Zakat base	422,885	412,668

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.

14. ZAKAT - continued

Movements in provision for zakat during the year

The movement in the zakat provision was as follows:

	2007 SR 000	2006 SR 000
At the beginning of the year	15,345	11,441
Provided during the year	14,258	14,075
Payments during the year	(10,237)	(10,171)
At the end of the year	19,366	15,345

Status of assessments

Zakat assessments have been agreed with the Department of Zakat and Income Tax (DZIT) up to 2006.

15. SHARE CAPITAL

Share capital is divided into 45,000,000 shares of SR 10 each (2006: 45,000,000 shares of SR 10 each).

16. STATUTORY RESERVE

As required by Saudi Arabian Regulations for Companies, 10% of the consolidated 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.

17. TERM LOANS

	2007 SR 000	2006 SR 000
Loan No. 1	-	5,490
Loan No. 2	37,982	53,737
Loan No. 3	872	2,346
Loan No. 4	-	5
Loan No. 5	1,415	1,753
Loan No. 6	3,577	3,742
Loan No. 7	-	6,750
Loan No. 8	2,918	2,779
Loan No. 9	6,280	6,271
Loan No. 10	2,829	3,712
Loan No. 11	258	347
Loan No. 12	56	-
	56,187	86,932
Less: current portion	(18,997)	(28,707)
	37,190	58,225

Loan No. 1 was settled in 2007 in US Dollars. The loan carried commission at normal commercial rates.

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, 2007 was SR 104.7 million (2006 – SR 118.7 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 1433H (corresponding to 2 September 2012). The loans are secured by mortgage over the property, plant and equipment of the branches. The loans 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 secured by guarantees provided by the company's bankers.

Loan No. 4 represented a loan obtained by Zamil Steel Engineering India Private Ltd. The loan was settled in 2007.

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 No: 7 represented a loan obtained by Zamil Steel Vietnam in the amount of US Dollars 1.8 Million from a bank. The loan was settled in 2007.

17. TERM LOANS - continued

Loan No: 8 represents a letter of credit opened by Zamil Steel Egypt with a Bank to import a machine, which is financed through USAID program fund with interest free and a grace period of 18 months. The loan will be due in May 2008.

Loan No: 9 represents a loan obtained by Geoclima S.r.l in the amount of 1.3 Million Euros from a bank. The loan is repayable in 40 equal quarterly instalments and carries commission at normal commercial rates.

Loan No: 10 represents a loan obtained by Geoclima S.r.l in the amount of 750,000 Euros from a bank. The loan is repayable in 12 equal quarterly instalments and carries commission at normal commercial rates.

Loan No: 11 represents a loan obtained by Geoclima S.r.l in the amount of 70,052 Euros from a bank. The loan is repayable in 10 equal half yearly instalments and carries commission at normal commercial rates.

Loan No: 12 represents a loan obtained by Geoclima S.r.l in the amount of 20,412 Euros from a bank. The loan is repayable in 36 equal monthly instalments and carries commission at normal commercial rates.

Loan instalments due in 2008 are shown as a current liability.

18. PROPOSED CASH DIVIDENDS

The board of directors have proposed cash dividends of SR 1.5 per share totalling SR 67.5 million being 15 % of the share capital (2006: SR 1.5 per share totalling SR 67.5 million being 15% of the share capital) for the approval of the shareholders in their annual general meeting.

19. MINORITY INTERESTS

Minority interests are as follows:

	2007 %	2006 %
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
Arabian Fiberglass Insulation Company Limited	49	49

20. SELLING AND DISTRIBUTION EXPENSES

	2007 SR 000	2006 SR 000
Employee costs	113,104	92,423
Advertising and sales promotion	22,137	14,762
Services	19,608	18,470
Rent and utilities	5,902	3,748
Transportation, business travel and entertainment	25,480	21,021
Depreciation	8,400	7,072
Repairs and maintenance	1,657	1,246
Others	37,553	38,791
	233,841	197,533

21. GENERAL AND ADMINISTRATION EXPENSES

	2007 SR 000	2006 SR 000
Employee costs	130,551	98,896
Depreciation	11,929	10,609
Services	32,428	29,649
Supplies	1,166	1,004
Others	33,403	62,822
	209,477	202,980

22. OTHER INCOME

	2007 SR 000	2006 SR 000
Scrap sales and miscellaneous	44,597	44,217
Gain on sale of property, plant and equipment	333	204
	44,930	44,421

23. SEGMENTAL ANALYSIS

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

	Sales SR 000		Operating Income/ (losses) SR 000		Net assets SR 000	
	2007	2006	2007	2006	2007	2006
Air conditioner industry	1,253,513	1,021,804	77,277	62,606	332,136	292,766
Steel industry	2,301,880	1,727,173	191,512	173,748	552,281	430,495
Glass & fibreglass	124,386	118,617	20,862	20,745	91,528	80,639
Head office	1,481	-	542	(27,249)	(83,663)	(62,404)
	3,681,260	2,867,594	290,193	229,850	892,282	741,496

23. SEGMENTAL ANALYSIS - continued

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

	Sales SR 000		Operating Income (losses) SR 000	
	2007	2006	2007	2006
Saudi Arabia:				
Local sales	2,041,075	1,556,956	164,115	119,152
Export sales	990,121	840,685	90,719	85,565
Total sales of Saudi Arabia	3,031,196	2,397,641	254,834	204,717
Other Asian countries	273,366	202,456	3,152	(1,820)
Africa	294,479	186,690	33,371	26,446
Europe	82,219	80,807	(1,164)	507
	3,681,260	2,867,594	290,193	229,850

(c) In 2006, the company's management allocated provision for doubtful debts amounting to SR 4 million to the head office. In addition provision for warranty commitment in respect of air conditioner industry amounting to SR 28.5 million was allocated to the head office in 2006. No such allocation was made in 2007.

24. CONTINGENT LIABILITIES

The company's bankers have issued, on behalf of the company, performance bonds in respect of certain contracts amounting to SR 293 million (2006: SR 351 million).

25. CAPITAL COMMITMENTS

The directors have approved future capital expenditure amounting to SR 222.5 million (2006: SR 102.5 million).

26. RISK MANAGEMENT

Credit risk
The company seeks to limit its credit risk with respect to customers by setting credit limits for individual customers and by monitoring outstanding receivables. At the balance sheet date, no significant concentrations of credit risk were identified by management.

Liquidity risk
The company limits its liquidity risk by ensuring that bank facilities are available. The company's terms of sales require amounts to be paid within 90 to 150 days of the date of sale. Trade payables are normally settled within 60 to 90 days of the date of purchase.

26. RISK MANAGEMENT - continued

Currency risk
As a result of investment in foreign countries, the consolidated balance sheet can be affected by movements in the exchange rate of Saudi Riyals against currencies of these foreign countries.

There are transactional currency exposures also. Such exposures arise mainly from sales or purchases by the foreign subsidiaries in currencies of their respective countries, which are not pegged with the functional currency of the parent company.

27. FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. The company's financial assets consist of cash and bank balances and receivables, its financial liabilities consist of term loans, notes payable, payables, and accrued expenses.

The fair values of financial instruments are not materially different from their carrying values.

28. COMPARATIVE FIGURES

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