




Annual Report 2008



# Evolving, as a matter of course



**Zamil**industrial

# Annual Report 08

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## Board of Directors

**Front row** (Left to right):

Khalid A. Al Zamil, HE Dr. Soliman A. Al Solaim, Dr. Abdulrahman A. Al Zamil, Khaled S. Olayan, Ahmed A. Al Zamil.

**Back row** (Left to right):

Sultan K. Bin Mahfouz, Hisham A. Razzuqi, Adib A. Al Zamil, Abdulla M. Al Zamil, Sami K. Al Gosaibi.



Dr. Abdulrahman A. Al Zamil  
Chairman of the Board

## Chairman's Message

Dear Shareholder,

On behalf of the Board of Directors I have the pleasure of presenting to shareholders the Annual Report and Consolidated Financial Statements of Zamil Industrial for the financial year ending 31st December 2008.

2008 has been a difficult year for businesses across the world. World oil prices rose, at one time to a record high, and then fell back again; the price of raw materials such as steel, cement, copper and aluminum all rose to unprecedented highs and also then declined; and the banking and finance sectors suffered a series of setbacks resulting from the sub-prime mortgage crisis.

Together, these events caused a global economic crisis that in turn impacted adversely on companies in all business sectors, and none more so than those in the construction sector.


This has expressed itself through a marked downturn in construction activity that has had an impact on Zamil Industrial's activities, especially in the latter quarter of the year.

Nevertheless I am very happy to report that 2008 was another record year for your company in terms of turnover, which amounted to SAR4,549.6 million (USD1,213 million), a 24% increase over that recorded in 2007. This is a considerable achievement in what has been a far from easy year.

Net profit for the year, after deduction of our contribution to Zakat, was SAR225.1 million (USD60.02 million) as compared to SAR206.5 million (USD55.1 million) in 2007. This translates into after-Zakat earnings per share of SAR5.00 (USD1.33), an increase of 9% over the figure of SAR4.59 (USD1.22) a year earlier.

At 31 December 2008 Shareholders' Equity stood at SAR1,028.3 million (USD274.2 million), 15.2% higher than the figure of SAR892.3 million (USD238 million) at the end of the previous year.

In the light of these results the Board of Directors is proposing a cash dividend of SAR1.50 (USD0.33) be paid for the year. This amounts to SAR675 million or 15% of the share capital. Shareholders' approval for the dividend will be sought at the Annual General Meeting.



Our ability to attain such good results stems at least in part from our diversification across five business sectors, namely steel, HVAC, insulation, glass and concrete.

Of these the first three were major contributors to our bottom line in 2008 and are well-placed to continue their business growth both in those countries where we have factories and in export markets.

In November, Zamil Steel underwent a restructuring into two product groups – Building Products, that will address specifically pre-engineered buildings, open web joists and building component systems, and Industrial Steel Products, covering the company's structural steel, process equipment and towers and galvanizing businesses. The change will enable management to focus more effectively on business generation in each business group.

the fifth new factory was for Armacell Zamil Middle East Company (AZMEC) to produce world class technical rubber insulation products for the Middle Eastern and North African (MENA) markets.

AFICO, our insulation manufacturing company, is following up on the upgrading of its existing manufacturing facilities by constructing a new insulation material factory that is expected to come on stream in 2010. Zamil Steel T&G is also expanding its capabilities by constructing a new galvanizing plant to strict international environmental standards in Dammam Second Industrial City that is expected on stream during 2009.

RANCO Zamil, one of our new joint ventures will soon expand its activities by constructing a new factory for hollow core slabs, columns and beams.

# Record turnover in 2008 up 24% year-on-year

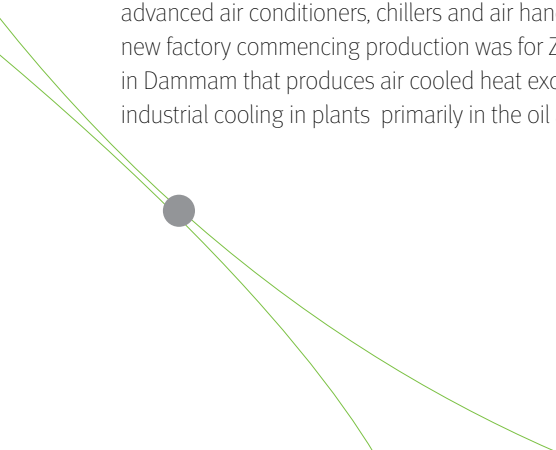
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As part of your company's long-term strategy five new joint ventures were formed during 2008 and five new factories came on stream. Two of the new ventures are in the HVAC sector with one each in the insulation, steel and concrete sectors.

Of the new factories Zamil Steel officially opened plants in India and another in Vietnam, thereby expanding its global reach in pre-engineered buildings; a third new facility was for Zamil Air Conditioners in Saudi Arabia to produce a range of technologically advanced air conditioners, chillers and air handling units; the fourth new factory commencing production was for Zamil Hudson Company in Dammam that produces air cooled heat exchangers used for industrial cooling in plants primarily in the oil and gas sectors; and

Our related Bahrain-based business, Energy Central Company, continues to build on its reputation as an infrastructure developer and operator. It too has been looking to the future and today not only has a number of memoranda of understanding for major projects in hand but has also become a partner in a new utility company in the United Arab Emirates. As the privatization of utilities across the region increases Energy Central Company is well-placed to derive maximum benefit.

A further element of our future strategy is the development of a new industrial park adjacent to Dammam Second Industrial City. Land for the project has already been purchased and will be developed to provide a comprehensively serviced industrial area for use by our own businesses and for leasing to industrial clients.





A major facet of our success over the years has been our research and development activities that have led on to the introduction of new and innovative products. Such activity continues apace as we seek to maintain a leading role in the fields in which we operate.

Zamil Industrial is a responsible corporate citizen of the countries in which we work. We always seek, therefore, to localize our workforce wherever this is possible and provide training in all aspects of each employee's activity. We seek also to provide for people most in need in the countries of our operations.

Close attention is given also to the protection of the environment through the introduction of technologically advanced products and by ensuring the recycling of waste materials and the maximum conservation of energy.

Health and safety in the workplace is comprehensively addressed throughout all business sectors with the company seeking always to attain and maintain relevant international standards through accreditation and certification. Most importantly, by increasing the culture amongst employees of the need to be constantly aware of health and safety matters, the incidence and severity of workplace injuries has been considerably reduced.

Furthermore, and as indicated by our introduction of an Internal Audit Department during the year, we are fully committed to the highest standards of corporate governance and to operating our business in a transparent, sustainable and responsible manner in the best interests of our shareholders, employees and customers.

### Recognition of our role in society was received on two occasions in 2008:

- Firstly, we attained second place in the Saudi Responsible Competitiveness Index Award at the 2009 Global Competitiveness Forum in Riyadh, an award that confirms our commitment to ethical practices throughout our many businesses.
- Secondly, we were honored to receive a Certificate of Royal Appreciation and Approval from the Custodian of the Two Holy Mosques King Abdullah bin Abdulaziz for our membership of the Strategic Partnership Project, a joint venture between the private sector and the Technical and Vocational Training Corporation.

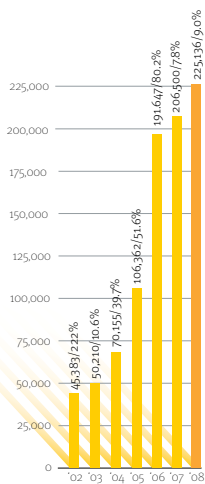
Over the years Zamil Industrial has always been very active in pursuing new business and remains so today. As we continue to maintain the high standards and quality to which we aspire we believe that by building on our solid foundations we have undoubted potential for future success.

However, the reduced economic circumstances prevailing in many countries in which we operate and in those from which we derive much of our business will make 2009 a year of great challenge. Nevertheless, we have every confidence that we are well-placed to derive maximum benefit from the business available and to take our business forward well into the future.

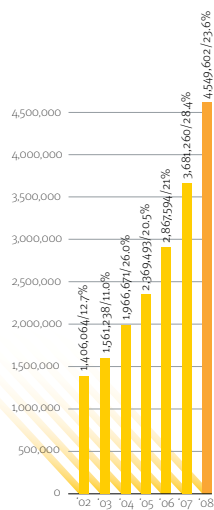
In conclusion, we wish to extend our praise and gratitude to all the employees of our sector businesses for their sincere efforts and perseverance, which lead Zamil Industrial on its march toward success. We would also like to thank our shareholders for their enduring confidence and support as we strive to achieve the best possible financial results, sustain our success, and participate effectively in the development of our economy.

Dr. Abdulrahman A. Al Zamil  
Chairman of the Board

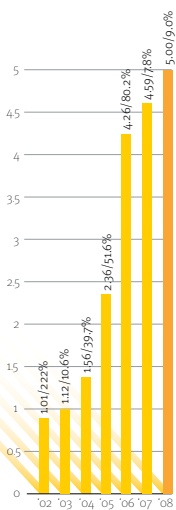
## Financial Highlights



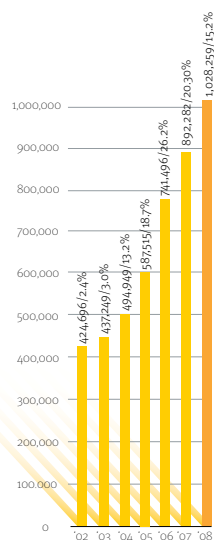
**Net Profits**  
SAR 000  
% Increase



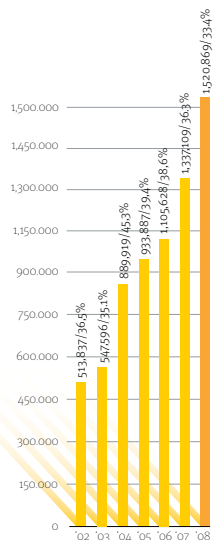
**Revenues**  
SAR 000  
% Increase



**Earnings Per Share**  
SAR  
% Increase



**Shareholders' Equity**  
SAR 000  
% Increase



**Export Sales**  
SAR 000  
% of Revenues





Khalid A. Al Zamil  
Managing Director

## Managing Director's Report

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Zamil Industrial has proved highly resilient to the turbulent times experienced globally in 2008, yet again producing excellent results despite the substantial fluctuations experienced globally in the price of oil and raw materials, specifically steel, cement, copper and aluminum, and the prevailing recessionary environment in many countries.

All our core businesses – Zamil Air Conditioners, Zamil Steel, Zamil Glass and Arabian Fiberglass Insulation Company (AFICO) – as well as our increasing number of new business units, of which five are new joint ventures, showed major progress during the year combining to produce a record turnover of SAR4.6 billion (USD1.23 billion), an increase of 24% over 2007, which itself saw revenue growth of 28.4%.

In the light of such attainments I, as Managing Director, congratulate every member of our team from the most senior manager to the newest recruit for their dedication and commitment, without which such success could not have been achieved.

As part of Zamil Industrial's long-term strategic plan five new joint ventures were formed and two new factories opened during 2008, all of which are expected to add to the company's bottom line in the coming year. The new joint ventures, which are in the insulation, HVAC, concrete and telecom infrastructure solutions comprise:

Armaceil Zamil Middle East Company Ltd (AZMEC) was formed in May with Armaceil International Holding of Germany to produce flexible technical insulation materials for use in various industries in the region. Planned production capacity of the factory, which will be in Dammam First Industrial City, is 100,000 cubic meters of rubber insulation under the world-renowned Armaflex brand.

The Zamil-Hudson JV, an association with Hudson Products Corporation of Houston, Texas, a global leader in its field, opened its manufacturing facility in Dammam Second Industrial City in October and will produce air cooled heat exchangers. These are complex engineered products with applications in the oil, gas and petrochemical sectors.

Rabiah & Nassar and Al Zamil Concrete Industries Company Limited (RANCO-ZAMIL), is a 50/50 joint venture with RANCO Precast. Formed in Riyadh in April 2008 and expanding Zamil Industrial's concrete-related activities, the company designs, manufactures and erects precast buildings and fabricates pre-cast concrete products such as hollow-core slabs, columns and beams.

Advantec Coils Pvt. Ltd. -Zamil Industrial acquired a strategic 30% equity stake in this Indian-based manufacturer of air conditioners early in 2008. Although the company is primarily consumer-oriented, Advantec has been a key supplier of air conditioner components to Zamil Air Conditioners (ZAC) in Saudi Arabia over many years. It is anticipated that this investment will serve to strengthen Zamil Air Conditioners' sourcing of essential components but also will provide a platform for the company to develop knowledge of the growing Indian HVAC market.





New Delhi Telecom (NDT): A strategic investment was made during 2008 in a joint venture with NDT to supply infrastructure materials to the burgeoning telecommunications sector in India. The new venture, Zamil New Delhi Infrastructure Pvt. Ltd. (ZND) will offer passive telecom infrastructure such as galvanized telecom towers, shelters with sandwich panels, air conditioning equipment and power interface units.

The two new factories opened during the year were in Pune in India and Ho Chi Minh City in Vietnam to produce pre-engineered buildings and other steel products.

The NDT joint venture is expected to source its steel product requirements from the Pune facility whilst the Vietnamese factory will seek to develop business both domestically in Vietnam and in export markets in the Pacific region.

A further strategic move by Zamil Industrial during the year was the acquisition of 900,000 square meters of land west of Dammam Second Industrial City for the purpose of developing a full service industrial park with a comprehensive infrastructure incorporating all utilities. The new park, in which plots will be leased out to industrial clients, including to Zamil Industrial for future projects, is expected to be in operation by the end of 2010.

Zamil Steel, the largest group of businesses in Zamil Industrial, has again produced excellent results despite the marked slowdown in the construction sector in Saudi Arabia in the latter half of the year.

Strategic expansion has been an important factor during the year, with new factories being opened in India and Vietnam and progress being made towards the setting-up of a new galvanizing plant for Zamil Steel T&G.

As the year ended, and following a comprehensive reappraisal of corporate structure, Zamil Steel underwent a restructuring into two product groups in line with the company's long-term business strategy.

International accreditation has also been a feature with Canam Asia Ras AlKhaimah receiving UL certification for its composite decking, which makes the company the only UL certified company in the region for composite and plain decking; Zamil Steel Vietnam receiving FM Approvals certification for its MaxSEAM roof systems; And Zamil Steel PEB obtaining GOST certification in the Ukraine and Zulassung accreditation in Germany, the latter of which opens doors to the wider European market.

As in years past Zamil Air Conditioners, which commenced business 34 years ago as the Kingdom's first air conditioner manufacturer, has again led the way by producing unsurpassed results. In pursuit of a clearly defined and coordinated strategy across all business units the company attained increased revenues 25% higher than a year earlier.

A major facet of Zamil Air Conditioners success has been its close attention to research, development and especially innovation to produce technologically advanced air conditioning units.



## Steel Sector

Our steel sector showed substantial performance improvements in its regional and international operations over 2007 with the accomplishment of record revenues of SAR2.83 billion, an impressive 24% higher than in the previous year.

## Building Products Group

### Zamil Steel – Pre-Engineered Buildings Division (PEB)

Pre-Engineered Buildings Division (PEB) Dammam, Saudi Arabia is the largest division within Zamil Steel, specializing in low-rise pre-engineered buildings for multiple applications. In excess of 135,000 metric tons of PEBs were shipped in 2008.

PEB Dammam marked 2008 with revenues for the year growing at an impressive 32% over the previous year.

PEB is very much an export-driven division as is evidenced by the sustained level of exports of 50% to 60% of total production annually since 1995, including during the just concluded year; an achievement attained despite the commissioning of six factories in Africa, India and the Pacific region over the past ten years.

An examination of all PEB sales indicates that in 2008, 50% of total production were delivered within Saudi Arabia, 28% went elsewhere in the Gulf region, 10% went to Europe and the remaining 12% went to the wider Middle East, Bangladesh, Sri Lanka and Pakistan.

Of the total projects awarded to PEB Dammam during the year fifteen were substantial, the largest being the Yarmook Shopping Mall in Riyadh; the Mall of Africa Shopping Complex in Cairo, Egypt; the EPS Electronic Factory at Moiwarqer in Jordan; a Pre-Cast Concrete Factory in Massafah, Abu Dhabi; and a Fiberglass Plant in Yanbu, Saudi Arabia. The remaining large projects were of global origin being from Qatar, Bahrain, Venezuela and Pakistan in addition to those in Saudi Arabia.


This has ensured the company a leading role not only in Saudi Arabia and the wider Middle East but also elsewhere across the globe.

During the year the company's second factory started operations in Dammam to produce air conditioning units, chillers and air handling units.

AFICO, our insulation manufacturing company, also deserves special recognition having succeeded in generating sales 20% ahead of those achieved a year earlier and that in a difficult construction environment, especially in the latter half of the year. Integral to AFICO's success as a competitive global supplier has been the close cooperation with Owens Corning Corporation, whose strategic partnership has benefited AFICO substantially through the provision of advanced technology.

Following the strategic decision to upgrade and expand the company's plant, which was completed in January 2008, AFICO sought and attained CE-EN accreditation that enables products to be sold into Europe as they meet all the health and safety requirements of that market.

AFICO is also to build a new plant for glass wool that is due on-stream in 2010.



To maintain the Division's status as a leader in its field certification was obtained from GOST in Ukraine and from Zulassung in Germany, the latter of which opens the door to the wider European Community market. Furthermore curved roof structures and cladding were added to the Division's product range whilst the Ez-Build design software was continuously updated to include the latest developments.

### Zamil Steel India

Zamil Steel India spent considerable time in 2008 raising the company's profile and capabilities across India through increased media exposure, attendance at one exhibition, and high level public relations activity on the inauguration of the Pune plant on 14th November. On a practical level a regional sales manager was appointed in Delhi and sales managers were introduced in the Punjab, Gujarat and Kerala. A direct result this high level of activity was that project leads increased markedly.

Having commenced trial production in December 2007, the number of projects quoted by Zamil Steel India increased from 32 in January 2008 to 122 projects per month by the end of the year.

Whilst Zamil Steel India's products were widely well-received the problems faced by the Indian economy during the year served to dampen construction activity across the country with the result there was a clear reduction in the translation of enquiries into orders. Nevertheless, there was a marked increase in orders late in the year inspiring considerable anticipation of success in the coming year.

Health and safety has been a priority at the Pune factory as has been thorough training of all staff to ensure attainment of the high standards and quality aspired to by Zamil Industrial.

Pune Engineering initiated the provision of engineering services to Zamil Steel Vietnam and Zamil Steel India during the year following on from similar services provided to Zamil Steel Saudi Arabia earlier in the year, when the company's newly installed application software was introduced.

As the Indian economy stabilizes and confidence returns to the business community in the country, Zamil Steel India is exceptionally well-placed to derive full benefit from the concomitant rise in construction activity that is anticipated.

### Zamil Steel Egypt

Zamil Steel Egypt was able to build successfully on its activities in 2007 by increasing its order book this year by a further 20% to 70,000 metric tons. An important element of this growth was export to a number of African markets including to three new customers in Guinea, Malawi and Uganda.

Major projects executed during the year included those for Saipem in both Nigeria and Angola; for Group Socomowib in Algeria; and for Ianwa Engineering's Float Glass Factory, Mobis Auto Parts for Hyundai factory and Agility's facility in Egypt. A smaller, but nevertheless important, export project was for Conakry Airport in Guinea.

Looking to the future Zamil Steel Egypt had a number of export orders ready for dispatch at the year end as well as a further 20,000 metric tons of firm contracts in hand for implementation in the coming year. However, indications at the end of December 2008 are that the global economic crisis has had a severely adverse impact on Zamil Steel Egypt's markets in Africa and that this is thought likely to have at least some detrimental impact on the company's activities in 2009.

A year of consolidation  
and diversification



## Zamil Steel Vietnam

Zamil Steel Vietnam maintained the progress made in previous years attaining a production level of 49,000 metric tons over the twelve months, of which a major proportion was shipped.

The company secured major contracts in eleven countries across the Pacific region and into Australia, Mauritius and Réunion with the largest being in Vietnam. The projects in Vietnam included Intel's largest global assembly and testing plant; Canon's assembly plant; the Thép Việt steel mill; the Hakana Group factory; and the Vinahalla Heavy plant. Overseas prestigious projects comprised the Ready Built factories in Malaysia; the Exxon Mobile Parallel Train in Singapore; and two projects in Mauritius for the F.U.E.L. Sugar Mill and the Savannah Refinery.

As part of the Zamil Steel Vietnam's strategic expansion a new structural steel fabrication line was commissioned in April at the company's second factory in Amata Industrial Park, Ho Chi Minh City in the Dong Nai Province of southern Vietnam, and a technology sub-license agreement was signed for Vietnam with Canam Corporation of Canada to enable the manufacture of open web steel joists, joist girders and patented Hambro composite joists.



Recognition of the high quality of Zamil Steel Vietnam's production was acknowledged in 2008 when the company received FM Approvals Certification for the premium quality of its MaxSEAM standing beam metal roof systems as Class 1 panel roofs and Malaysia granted the company IBS supplier certification.

Zamil Steel Vietnam was also awarded a number accolades during the year, the most prestigious being the Golden Dragon 2008 Award for the top foreign-invested firm in Vietnam. Such an award affirms the company's corporate profile in the country. Additionally, the company received Vietnam's coveted Trademark Award for its pre-engineered steel building products.

As an environmentally aware manufacturer Zamil Steel Vietnam was honored to be recognized during the year for its contribution in support of Vietnam's move towards energy efficient and sustainable building design..





### Canam Asia Ltd.

Canam Asia consolidated its operations yet further in 2008 at its facilities in Dammam and Ras AlKhaimah (UAE). As in previous years the company proved innovative adding curved roof truss girders and joists to its product range alongside the patented Hambro composite steel joists introduced a year earlier.

Of special note was the certification received by the Ras AlKhaimah factory from the Underwriters Laboratories (UL) for its composite decking line which makes Canam Asia Ras AlKhaimah the only UL certified factory in the region for composite and plain decking.

The net result of these activities has been implementation of a series of landmark projects across the GCC. These have included the roofing structure for the Opera House in Muscat, Oman; the provision of 56 and 90 meter span truss girders for aircraft hangars at both Jeddah and Riyadh civil airports, the larger of which were the largest

spans ever made by the company; decking for both Doha and Dubai International Airports; and joists and decking for the Faysal and Arwa Towers in Doha.

Three other major projects that had been started in 2007 were satisfactorily finalized during the year, these being the Sumitomo project in Rabigh; the Dareen Mall in Dammam, the largest project to date for roof trusses, which totaled 35,000 square meters; and the Al-Safwa Towers project in Makkah, where patented Hambro composite steel joists were installed in five 34-storey buildings.

## Industrial Steel Products Group

### Zamil Steel – Structural Steel Division (SSD)

Structural Steel Division (SSD) captured a number of major projects during 2008, four of which were related to the Ma'aden Fertilizer Complex at Ras Azzawr, north of Jubail, where a series of major mineral-related industrial complexes being built. Three other substantial projects were in countries new to the Division, one being in Pakistan and two in Syria.

Of particular note was the special order received by the Process Equipment Division from Saudi Aramco for fabrication of 100 millimeter thick vessels and columns. Looking to the future Process Equipment Division was giving detailed attention at the year end to the setting-up of a plant shutdown and maintenance business as a supplement to its existing activities.


Considerable attention has been paid this year to health, safety and environmental matters with the very positive result of attaining ISO 14001:2004 and OHSAS 18001:1999 certification, the international standards for environmental, health and safety management.

In pursuing these activities the company has seen a yet further reduction in waste to landfill of 90% through detailed attention to the recycling of an array of materials. Energy consumption has also been reduced, by 35%, and accident frequency and severity rates also diminished.

### Zamil Steel – Towers & Galvanizing Division (T&G)

Towers & Galvanizing Division (T&G) ended 2008 in a strong position with confirmed orders in hand to see the Division through at least the first half of 2009.





# Zamil Steel restructured to enhance business generation capability

There is evidence, however, that some projects are being delayed and yet others are being renegotiated at lower prices, either of which is expected to have an impact on T&G's business generation in the year to come, as its marketplace is highly competitive with price having an inordinate impact.

T&G marked 2008 with revenues for the year growing at 5.1% percent, production growing by 2.2% percent and profits growing by an impressive 236% over the previous year.

To counter the competition T&G has been pursuing business in a number of new markets over the course of the year. This has proved a rewarding exercise as considerable potential is foreseen in the coming and later years for business generation.

Of special note is the new galvanizing plant for which permission has been sought in Dammam Second Industrial City. At the year end the plant layout had been approved by the authorities and the necessary equipment had been ordered for delivery in June 2009, enabling operational start-up before the end of that year.



## HVAC Sector

2008 has been highly successful for Zamil Air Conditioners with the accomplishment of record revenues of SAR1.55 billion, an impressive 24% higher than in the previous year, and an equally marked attainment in profitability.

Each of the company's business units saw considerable growth in terms of sales and attainment of new orders.

The Unitary and Applied Products Business Unit grew a most impressive 53% over 2007 and has a very healthy order book in hand for the coming year.

Amongst the major orders received were two from the King Abdullah University for Science and Technology at Rabigh and Thuwal and one each from the Science and Community Colleges in Al-Kharj, the Science Colleges in Jizan and Zulfi and the Royal Commission for Jubail and Yanbu in Jubail.

The Consumer Products Business Unit also maintained growth in 2008 winning a number of major orders including two from Lotus Negar Pars in Iran and one each from Girls Education and Schools Projects in Riyadh.

CoolCare Business Unit's business also saw excellent growth of 42% compared to 2007. The most prestigious orders received were from the Shuqaiq Phase Two water Transmission System, King Abdullah University for Science and Technology at Rabigh and Saudi Kayan Petrochemical Company in Jubail.

In 2008, Geoclima adopted the new technology in coils, Aluminum/Aluminum, for which there are distinct advantages over Copper/Aluminum coils, including improved heat transfer and thermal performance, high corrosion resistance and a reduction in the overall weight of each coil.

Middle East Air Conditioners Co. Ltd. (MEAC), the joint venture with General Electric, grew its business by 4% in 2008. It also increased its market share in Saudi Arabia in 2008 and consolidated the strength of its Hotpoint brand.

Throughout the year research, development and innovation have been key elements of the company's activities with the net result that a comprehensive range of new products has been launched, greatly extending the range of units available.

These include packaged and condenser units, a telecommunications shelter, free standing split air conditioning units and double skin air handling units.

The company's new, second plant in Dammam Second Industrial City came on stream in June since when smooth operation of the facility has seen high level production of central air conditioning units, chillers and air handling units.

Aspiring always to the highest standards Zamil Air Conditioners successfully renewed its ISO 9000: 2001 accreditation during the year, whilst Ikhtabar, the company's testing laboratory became the first private laboratory in the Kingdom to attain ISO 17025 accreditation from SASO.

In March 2008, the HVAC Sector acquired 30% equity ownership of the Indian AC manufacturing company Advantec Coils Private Ltd. Additionally, a 50% share was taken in a new joint venture with Hudson Products Corp. Zamil Hudson Company manufactures air cooled heat exchanger (ACHE) units used for industrial cooling in plants primarily in the oil and gas sectors.





## Glass Sector

Despite facing a number of impediments to implementation of their scheduled plans Zamil Glass traded successfully and profitably during the year. Nevertheless Zamil Glass was successful in completing numerous landmark projects not only in Saudi Arabia but also in Bahrain and Kuwait. Amongst these were the Hugayet Tower in Dammam, the 360 Mall in Kuwait, the Mall of Arabia in Jeddah, Kuwait International Airport, Sihamiyya Tower in Dammam, Park Tower in Bahrain and the Madhakil, Ghunaim, Panasonic and Muzeini Towers in Kuwait.

In preparation for a return to full production in the coming year Zamil Glass underwent a comprehensive internal restructuring whilst providing intensive training to upgrade the knowledge and skills of all employees.

## Insulation Sector

### Arabian Fiberglass Insulation Company Ltd (AFICO)

2008 has been another highly successful year for AFICO, Zamil Industrial's dynamic joint venture with Owens Corning Corporation of the USA, with increased sales of 20% and profitability of 10% over the previous year.

Such achievements have been due largely to maximum utilization of the rebuilt and upgraded melter unit, which came into full production early in the year with an increased capacity of 14,000 tons annually, and the introduction of a new, automated pipe section line. This upgrading of the company's facilities considerably enhances operating efficiency and productivity without compromising safety and environmental standards.

AFICO's many accreditations ensure leadership in the manufacture and supply of glass wool insulation as they are fully recognized as environmentally friendly and of no hazard to health.

Looking to the future, decisions have been taken to build a new plant for glass wool with a capacity of 20,000 tons a year. It will be constructed in Dammam Second Industrial City and is expected to commence production in late 2010.

### Armacell Zamil Middle East Company Ltd (AZMEC)

The Insulation Sector also saw successful expansion with Armacell Zamil Middle East Company (AZMEC), the newly formed joint venture between Zamil Industrial and Armacell International Holding GmbH of Germany. The company will produce world class technical rubber insulation products for the Middle East. The inauguration of AZMEC's factory was held in December 2008. Located in Dammam First Industrial City, the factory will serve the region with a planned annual production capacity of 100,000 cubic meters of technical rubber insulation products.

Armacell of Germany is a global leader and the maker of the world renowned ARMAFLEX brand of rubber insulation products. AZMEC is expected to become the leading manufacturer and supplier of flexible technical insulation products in the region.



## Concrete Sector

### Rabiah & Nassar and Al Zamil Concrete Industries Co. Ltd.

By adding precast concrete manufacturing to its portfolio with the acquisition of a 50% stake in Rabiah and Nassar Precast Concrete factory (RANCO Precast), Zamil Industrial's Concrete Sector saw successful expansion in 2008. The Riyadh-based production facility manufactures a complete range of pre-cast concrete products including hollow-core slabs, columns and beams, catering mainly to the growing Saudi market.

A new identity was created for the company, which is now called Rabiah & Nassar and Al Zamil Concrete Industries Co. Ltd.

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

The year also witnessed commencement of production at Saudi Aerated Concrete Industries Co. Ltd's (Saudi-ACICO) factory in Jubail (KSA). The new factory has 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.

Looking ahead the company sees considerable potential for its products in the years to come as energy conservation and cost savings become increasingly critical for project owners and developers.



# Environmental Protection and Energy Conservation are priorities

## Related Business

### Energy Central Company (ECC)

Bahrain-based Energy Central Company (ECC) enhanced its growing reputation during 2008 by signing Memoranda of Understanding for three prestigious projects to add to the two major on-going contracts won by the company in 2007 from SABIC and Durrat AlBahrain, on both of which excellent progress has been made.

The largest of the new projects, for which ECC is consortium leader, is for the provision of multiple utilities to the largest real estate development in Oman, the Blue City. The other two projects are in Bahrain; one for the design, build, own, operate and transfer (BOOT) of a 2,000 cubic meter a day sewage treatment plant for the unique gated community known as Marina West, and the other for the provision of utility services to Uptown, an environmentally sustainable development of three 75-storey towers.

Keeping the ball rolling into the future ECC is also well-placed to provide district cooling facilities for Saudi Aramco, the Saudi Industrial Property Authority (Modon) and for a number of developments across the GCC.

Following an increase in the company's capital during the year, ECC has taken a majority stake in Emirates Utility Co. LLC, alongside Platinum Investments of the UAE. Emirates Utility was awarded a license to operate late in 2008.

2008 has seen the deterioration of the global economy. Despite this economic meltdown Zamil Industrial's commitment to maintaining its leadership role and its competitive edge has never been stronger. By adhering strongly to a sound, ever-evolving strategy and by striving for continuous diversification and on-going expansion into new markets, the company's success and continued growth is ensured. Zamil Industrial's accomplishments and achievements across all business sectors are a testament to its adaptability and strength as an organization and to its ability to face the many new and daunting challenges that lie ahead. Together, these attributes provide a solid basis for taking the company forward well into the future.

Khalid A. Al Zamil  
Managing Director



Abdulla M. Al Zamil  
Chief Operating Officer

## Chief Operating Officer's Report

2008 has been another very busy year for Zamil Industrial, especially with new joint ventures being formed and new factories being opened. As COO and Head of Corporate and Shared Services, I am very pleased to report the effective implementation by our dedicated staff of all those administrative, operational and support services so vital to the smooth running of the complex of companies that make up Zamil Industrial.

2008 has been  
another successful  
year for Zamil  
Industrial



## Internal Audit

Having promoted good corporate governance and business practice over many years, Zamil Industrial introduced an Internal Audit Department to the business in 2008 with the aim of promoting the company's operational efficiency and ensuring better achievement of business objectives. In fulfilling its role Internal Audit adds value by:

- Providing reasonable and objective assurance about the adequacy and effectiveness of risk management and the control framework;
- Assisting the Board of Directors and senior management with their responsibilities to improve the processes by which risks are identified and managed;
- Reporting and advising on the proper and effective use of resources.

Despite the short time elapsed since introduction of Internal Audit considerable progress has been made in enhancing internal control and in improving the work process.

Over just six months reviews of the critical activities of all Zamil Industrial business units, namely Zamil Steel, Zamil Industrial Finance, Zamil Glass, AFICO, Ranco Zamil and Zamil Air Conditioners.

Internal Audit also provides support to Zamil Industrial in ensuring proper corporate governance in order to protect shareholders interests and to ensure companies are managed in a transparent manner.

To these ends Internal Audit conducts at least once a year a comprehensive review of the effectiveness of all internal financial, operational and compliance controls.

## Corporate Human Resources

Zamil Industrial HR department successfully fulfilled initial implementation of the new salary scales as well as the on-going studies and benchmarking that ensure the competitiveness of the existing sector-businesses.

The compensation and benefits system used has the added benefit of serving as the template for other sector-businesses and joint ventures in rapidly initiating their HR practices in concurrence with corporate requirements.

The Management Career Development Program was launched in 2007 to maintain, nurture and develop the quality of leadership needed in each sector business so as to ensure Zamil Industrial's status and competitiveness across all its activities whilst also ensuring leadership continuity.

In 2008 Zamil Industrial HR mapped out individual development plans for selected candidates incorporating training to enhance both their professional and their personal capabilities, whilst for those destined for critical positions Developmental Rotational Assignments were introduced.

In Saudi Arabia, the Saudi Employee Development Program was launched during the year with the specific aim of equipping local professionals with the necessary technical skills through the provision of customized training.

The year has also seen all job descriptions developed or restructured to enable critical evaluation of their strategic contribution to corporate success. An online application scheme has also been introduced.

Social activities also continued to be encouraged amongst all staff with the fundamental aim of engendering a competitive edge whilst strengthening a sense of corporate community throughout all business units.

## Training

During the year, Zamil Industrial Training Institute (ZITI) developed and conducted a number of technical training programs for new Saudi recruits at Zamil Industrial companies, including those for welding, fabrication, machine operation and air-conditioning technologies.

These programs, which are usually of four to six months duration, were developed in order to enhance participants' job-related skills and knowledge whilst also addressing common skills such as communication in the English language, planning and problem solving and applying technology and numeracy skills. More than 190 Saudi employees benefited from these programs during the year.

In addition, the Institute also developed, conducted and facilitated many short and specialized courses for Zamil Industrial employees, in which about 800 individuals participated. Moreover, the Institute also developed and conducted a number of customized training courses for Zamil Industrial's clients such as those on Air Conditioning and Heat Pump Simulators for Saudi Electricity Company as well as programs for other clients such as Saudi Aramco and SABIC.

To enhance the environment in which training is provided construction of a new four storey Zamil Industrial Training Institute commenced in October and is expected to be in operation in April 2010.

Zamil Industrial Training Institute (ZITI) arranged structured, on-the-job training programs for Saudi students from several universities and colleges during the year, from which 45 students benefited.

The students came from King Fahad University of Petroleum and Minerals, King Faisal University, King Saud University, Dammam College of Technology, Al-Ahsa College of Technology and Jubail Industrial College.

## Information Technology

Zamil ITG, the IT operations division of Zamil Industrial, provides integrated IT services to enterprise systems of internal and external customers of Zamil Industrial.

In pursuing these activities Zamil ITG was awarded ISO/IEC 20000-1 certification during the year, one of only four organizations so certified across the entire Middle East. ISO 20000 is the first worldwide standard for IT services management and indicates a consistently high level of commitment to business integrity and security and a culture of on-going quality improvement.





# Over 1000 benefited from customized training in 2008

2008 has seen Zamil ITG focus on three prime areas; connectivity, new implementations and major systems enhancements and developments.

In pursuit of connectivity a primary aim was cost reduction. Thus VPN connectivity and IP telephony were secured between Saudi Arabia and India, Vietnam, Egypt and Ras Al Khaimah; video conferencing was installed between Saudi Arabia and India; the latest Microsoft technology was installed for e-mails, domain networks and remote management tools; a pushed e-mail service was enabled such that users could e-mail anywhere at any time including via their mobile phones; and the Zamil ITG India Data Center was completed incorporating network connectivity.

Furthermore, at the year end a call center was under construction that will connect all Zamil Industrial sites on one number by mid 2009.

New implementations during the year included the introduction of Oracle ERP Financial, Distribution and Manufacturing modules on a selective basis to Zamil Steel India (Pune), RANCO Zamil, Zamil Steel Ras Al-Khaimah and Canam Asia in Saudi Arabia and Ras Al- Khaimah. Additionally the Human Resource Management and «iSweet» Workflow Systems were implemented in all Zamil Industrial businesses, as well as a plant preventative maintenance system at AFICO.

## Loss Prevention and Safety

The Loss Prevention Department was formed two years ago since when its activities have been expanded to include safety, health, environment, fire protection and prevention and, in the more recent past, security.

Most importantly, the activities of the department have ensured a markedly increased awareness of health and safety matters across all business sectors and, over time, have led to a marked reduction in industrial injury frequency and severity rates.

The Department fully appreciates that people are a company's most valuable asset and that their absence through accident, injury or occupational ill health due to adverse circumstances in the workplace is a considerable loss to the company.

Therefore the development and introduction of programs such as those for dust, noise and emissions control introduced in 2008 are absolutely essential and the key to enhancing a corporate health and safety culture.



## Corporate Social Responsibility

Zamil Industrial is a responsible corporate citizen and as such has taken up the challenge to serve the communities in which it works, not only by employing local people but also by providing donations to those in need.

Amongst these activities, Zamil Steel Egypt donated several steel structures to the engineering laboratories of Cairo and Ain Shams Universities as well as funds towards extension of the mosque at Cairo University. Periodically charity are provided to a care house for the blind and other donations are made through Zakat to provide, for example, for the digging of wells in poor villages and the purchase of such items as dialysis machines.

Furthermore, Zamil Steel Vietnam participated in a number of charitable activities including the annual Terry Fox Run for Hope and the donation of cash and supplies to Soc Son School for Disabled Children and of cash, books, computers, bicycles, clothing and supplies to the Bo De Orphanage.

Zamil Steel Vietnam staff have also organized the Zamil Steel Charity Commune to provide on-going charitable support to local communities.

The sourcing of new employees and the localization of Zamil Industrial's workforce globally is a vital element of the company's agenda.

During 2008 Zamil Industrial HR facilitated the recruitment of about 1,700 new employees of 20 different nationalities. Localization of a workforce is encouraged in Zamil Industrial as it ensures a meaningful social contribution is provided in every country where the company's business units operate. As an example, more than 400 Saudis joined the company across all business sectors during 2008 as the company moved ever closer to full compliance with the requirements laid down by the government.

Concern for the environment is wholly integral to Zamil Industrial's corporate philosophy. As a result all sector businesses commit fully to minimizing their environmental impact.

Zamil Air Conditioners has introduced a new generation of refrigerants (R407C and R134A) and more technologically-advanced air conditioning units that together reduce their impact on global warming whilst also being more energy efficient.

AFICO has minimal environmental impact as it utilizes mainly inorganic or mineral raw materials, the latter of which are frequently recycled products such as scrap glass, papers, cartons and plastic packaging. Despite the company's low environmental profile an environmental consultancy was brought-in during 2008 to ascertain what improvements could be made to enable application for certification by the local Environmental Protection Agency. Zamil Steel in Saudi Arabia has initiated a number of measures to reduce its environmental impact.

This has included the level of recycling undertaken, in which Structural Steel Division further reduced wastage to landfill by 90% year-on-year; reducing electricity consumption; and ensuring environmentally friendly disposal of active chemicals. Zamil Steel Egypt has taken similar steps as has Zamil Steel T&G, whose new galvanizing plant in Dammam has been purpose-designed with close attention to ensuring full compliance with international environmental criteria.





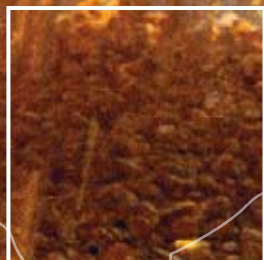
Zamil Steel Vietnam has become a founding member of the Vietnam Green Building Council and has also received a Certificate of Compliance to Environmental Regulations from the Department of Environmental and Natural Resources of Hanoi People's Committee.

Such recognition is in response to the company's use of recycled steel, which comprises 50% of its total steel consumption; to the energy efficiency of the company's buildings; a manufacturing process that conserves, recycles and reuses; and an environmental policy that respects regulations, workers and the community.

Sponsorship stresses Zamil Industrial's goal of social engagement, whether at sporting, educational or social events in Saudi Arabia or elsewhere where the company has business units.

In February Zamil Industrial was a sponsor of the «Corporate Governance Conference» organized by the Saudi Organization for Certified Public Accountants at the Eastern Province Chamber of Commerce and Industry. Later in the year, in May, Zamil Industrial supported and sponsored the «Kingdom Open Tennis Championships» that were held at Olympic Village in Riyadh, in which Saudis and resident expatriates of all ages participated.

## maintaining leadership in corporate citizenry



## Recognition

Dr. Abdulrahman A. Al Zamil, Chairman of the Board, was recently presented with a certificate of Royal Appreciation and Approval from the Custodian of the Two Holy Mosques King Abdullah bin Abdul Aziz Al Saud. The certificate honors Zamil Industrial's membership in the Strategic Partnership Project, a joint venture between the private sector and the Technical and Vocational Training Corporation.

On the other hand, Zamil Industrial has achieved second place in the Saudi Responsible Competitiveness Index Award at the 2009 Global Competitiveness Forum in Riyadh.

The award highlights the initiatives of companies like Zamil Industrial that champion the need for the creation and implementation of responsible and competitive business practices in Saudi Arabia, and represents our ongoing commitment to ethical business practices across our regional and international operations.

The SARCI Award indicates that Zamil Industrial is making significant contributions to responsible

competitiveness in the Kingdom by engaging in smart philanthropical activities, instituting fair and ethical human resource practices, venturing beyond legal compliance, managing supply chains efficiently, seeking new innovations in products and services and practicing responsible communications and branding.

In pursuing our many activities, including reorganizing and restructuring areas of our business and expanding and growing others, we have sought always to maintain our leadership status whilst affirming our role as a conscientious corporate member of the global community.

In an ever-changing and increasingly challenging market place constant vigilance and self-examination clearly evidence our dedication to excellence.

The application of such principles, allied to sustained commitment to our stakeholders, be they shareholders, management and employees or highly valued customers, as well as to all those communities with whom we inter-relate around the world, is wholly integral to assuring our future success, growth and leadership.

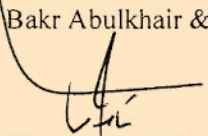
Abdulla M. Al Zamil  
Chief Operating Officer

We have audited the consolidated balance sheet of Zamil Industrial Investment Company (Saudi Joint Stock Company) and Subsidiaries (note 1) as of 31 December 2008 and the related consolidated statements of income, changes in equity and cash flows for the year then ended, and notes 1 to 29 which form an integral part of these consolidated financial statements as prepared by the Company in accordance with Article 123 of the Regulations for Companies and presented to us with all the necessary information and explanations. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company and Subsidiaries as of 31 December 2008 and the results of their operations and their cash flows for the year then ended in conformity with generally accepted accounting standards appropriate to the nature of the Company and Subsidiaries, and comply with the relevant provisions of the Regulations for Companies and the articles of the Company and Subsidiaries as these relate to the preparation and presentation of these consolidated financial statements.

Deloitte & Touche  
Bakr Abulkhair & Co.

  
Nasser M. Al-Sagga  
License No. 322  
15 Safar, 1430  
10 February 2009





CONSOLIDATED BALANCE SHEET  
As at 31 December 2008

	Note	2008 SR 000	2007 SR 000
<b>ASSETS EMPLOYED</b>			
<b>PROPERTY, PLANT AND EQUIPMENT</b>	3	<b>988,535</b>	715,166
<b>INVESTMENTS</b>	4	<b>231,052</b>	242,876
GOODWILL	5	<b>62,278</b>	27,730
<b>DEFERRED CHARGES</b>	6	<b>19,282</b>	16,388
<b>CURRENT ASSETS</b>			
Inventories	7	<b>2,341,187</b>	1,627,439
Accounts receivable and prepayments	8	<b>1,470,726</b>	1,125,422
Amounts due from related parties	9	<b>55,767</b>	22,922
Cash and cash equivalents	10	<b>201,393</b>	186,726
		<b>4,069,073</b>	2,962,509
<b>CURRENT LIABILITIES</b>			
Notes and accounts payable, accruals and provisions	11	<b>906,502</b>	706,503
Amounts due to related parties	9	<b>10,471</b>	9,287
Advances from customers		<b>346,149</b>	208,561
Morabaha and Tawarruq finances	12	<b>1,726,170</b>	1,872,990
Short term loans	13	<b>55,319</b>	46,317
Current portion of term loans	17	<b>115,451</b>	18,997
		<b>3,160,062</b>	2,862,655
<b>NET CURRENT ASSETS</b>		<b>909,011</b>	99,854
		<b>2,210,158</b>	1,102,014
<b>FUNDS EMPLOYED</b>			
<b>EQUITY</b>			
Share capital	15	<b>450,000</b>	450,000
Statutory reserve	16	<b>124,908</b>	102,394
Retained earnings		<b>401,268</b>	268,146
Proposed cash dividends	18	<b>67,500</b>	67,500
Unrealised (losses) gains on investments		<b>(5,020)</b>	4,242
Translation loss on consolidation		<b>(10,397)</b>	-
		<b>1,028,259</b>	892,282
Minority interests	19	<b>73,236</b>	63,171
<b>TOTAL EQUITY</b>		<b>1,101,495</b>	955,453
<b>NON CURRENT LIABILITIES</b>			
Term loans	17	<b>963,216</b>	37,190
Long term payables		<b>2,171</b>	1,958
Employees terminal benefits		<b>143,276</b>	107,413
		<b>1,108,663</b>	146,561
		<b>2,210,158</b>	1,102,014

The attached notes 1 to 29 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME  
Year Ended 31 December 2008

	Note	2008 SR 000	2007 SR 000
Net sales		<b>4,549,602</b>	3,681,260
Cost of sales		<b>(3,584,021)</b>	(2,946,368)
<b>GROSS PROFIT</b>		<b>965,581</b>	734,892
<b>EXPENSES</b>			
Selling and distribution	20	<b>298,728</b>	233,841
General and administration	21	<b>317,685</b>	209,477
Amortisation of deferred charges	6	<b>5,958</b>	1,381
		<b>622,371</b>	444,699
<b>INCOME FROM MAIN OPERATIONS</b>		<b>343,210</b>	290,193
Other income	22	<b>41,568</b>	44,930
Financial charges	11,12,13,17	<b>(116,793)</b>	(104,102)
<b>INCOME BEFORE ZAKAT, TAXES AND MINORITY INTERESTS</b>		<b>267,985</b>	231,021
Foreign taxes		<b>(3,991)</b>	(1,731)
Net minority interests in results of subsidiaries		<b>(23,008)</b>	(8,532)
<b>INCOME BEFORE ZAKAT</b>		<b>240,986</b>	220,758
Zakat	14	<b>15,850</b>	14,258
<b>NET INCOME FOR THE YEAR</b>		<b>225,136</b>	206,500
Earning per share	24	<b>SR 5.00</b>	SR 4.59
Earning per share for continuing main operations	24	<b>SR 5.00</b>	SR 4.59

The attached notes 1 to 29 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS  
Year Ended 31 December 2008

	Note	2008 SR 000	2007 SR 000
<b>OPERATING ACTIVITIES</b>			
Income before zakat, taxes and minority interests		<b>267,985</b>	231,021
Adjustments for:			
Depreciation	3	<b>104,835</b>	69,144
Loss (gain) on sale of property, plant and equipment		<b>701</b>	(333)
Amortisation of deferred charges	6	<b>5,958</b>	1,381
Financial charges		<b>116,793</b>	104,102
		<b>496,272</b>	405,315
Changes in operating assets and liabilities:			
Inventories		<b>(707,889)</b>	(470,152)
Receivables		<b>(370,808)</b>	(160,780)
Payables		<b>332,148</b>	22,594
Cash used in operations		<b>(250,277)</b>	(203,023)
Employees' terminal benefits, net		<b>35,863</b>	19,222
Financial charges paid		<b>(116,793)</b>	(104,102)
Zakat and foreign taxes paid		<b>(10,780)</b>	(11,968)
Net cash used in operating activities		<b>(341,987)</b>	(299,871)
<b>INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment	3	<b>(298,960)</b>	(335,874)
Proceeds from sale of property, plant and equipment		<b>2,010</b>	533
Deferred charges incurred	6	<b>(4,293)</b>	(7,459)
Investments acquired		<b>(121,663)</b>	(84,849)
Goodwill incurred		<b>(34,548)</b>	-
Net cash used in investing activities		<b>(457,454)</b>	(427,649)
<b>FINANCING ACTIVITIES</b>			
Dividends paid		<b>(67,500)</b>	(67,500)
Term loans obtained		<b>1,041,477</b>	3,270
Repayment of term loans		<b>(18,997)</b>	(34,015)
Change in short term loans, Murabaha and Tawarruq finances		<b>(137,818)</b>	854,889
Minority interests, net		<b>(12,943)</b>	(9,149)
Net cash from financing activities		<b>804,219</b>	747,495
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>			
Cash and cash equivalents at the beginning of the year		<b>186,726</b>	161,572
Movement in translation difference – net		<b>9,889</b>	5,179
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>			
		<b>201,393</b>	186,726

The attached notes 1 to 29 form part of these consolidated financial statements.



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
Year Ended 31 December 2008

	Share Capital SR 000	Statutory reserve SR 000	Retained earnings SR 000	Proposed cash dividends SR 000	Unrealised (losses) gains investments SR 000	Translation loss on consolidation SR 000	Total SR 000
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
Net income for the year	-	-	<b>225,136</b>	-	-	-	<b>225,136</b>
Transfer to statutory reserve	-	<b>22,514</b>	<b>(22,514)</b>	-	-	-	-
Directors' remuneration	-	-	<b>(2,000)</b>	-	-	-	<b>(2,000)</b>
Dividends paid (note 18)	-	-	-	<b>(67,500)</b>	-	-	<b>(67,500)</b>
Proposed cash dividends (note 18)	-	-	<b>(67,500)</b>	<b>67,500</b>	-	-	-
Unrealized loss on investments	-	-	-	-	<b>(9,262)</b>	-	<b>(9,262)</b>
Movement during the year	-	-	-	-	-	<b>(10,397)</b>	<b>(10,397)</b>
Balance at 31 Dec. 2008	<b>450,000</b>	<b>124,908</b>	<b>401,268</b>	<b>67,500</b>	<b>(5,020)</b>	<b>(10,397)</b>	<b>1,028,259</b>

The attached notes 1 to 29 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, structural steel products, process equipment and sandwich panels.
- 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.

### Subsidiaries:

	Ownership percentage
Universal Building Systems Limited - Jersey	100
Zamil Steel Buildings Company - Egypt	100
Zamil Steel Buildings (Shanghai) Company Limited - China	100
Cooline Europe Holdings GmbH- Austria	100
Clima Tech Airconditioners GmbH - Austria	100
Zamil Steel, Polska – Poland	100
Zamil Steel Buildings India Private Limited	100
Zamil Steel Engineering India Private Limited	100
Zamil Energy Services Company (ZESCO) – Saudi Arabia	100
Zamil Industrial Investment Company, Emirates	100
Zamil Information Technology Global Private Limited – India	100
Zamil Steel Buildings - Vietnam Company Limited	92.27
Geoclima S.r.l. – Italy	85
Canam Asia Limited – Saudi Arabia	65
Middle East Airconditioners Company Limited - Saudi Arabia	51
Arabian Fiberglass Insulation Company Limited – Saudi Arabia	51

## **2. SIGNIFICANT ACCOUNTING POLICIES**

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

### **Basis of consolidation**

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, 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 received.



### **Inventories**

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

Raw materials	- Purchase cost on weighted average basis.
Work in progress and finished goods	- Cost of direct materials and labour plus attributable overheads 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. The zakat charge and income tax, assessable on the minority shareholders is included in minority interest.

### **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 are disclosed under accounts receivable and prepayments in the consolidated balance sheet. Whereas billings in excess of cost are disclosed under accounts payable in the consolidated 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.

### **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.

**Leasing**

Leases are classified as capital leases wherever the terms of the lease transfer substantially all the rights and rewards of ownership to the lessee. All other leases are classified as operating leases. Rentals payable under operating leases are charged to consolidated statement of income on a straight line basis over the term of the operating lease.

**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	<b>Total 2008 SR 000</b>	Total 2007 SR 000
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Cost:

At the beginning of the year	10,330	320,250	809,144	261,322	1,401,046	1,081,952
Additions	<b>58,829</b>	<b>113,125</b>	<b>165,887</b>	<b>81,119</b>	<b>418,960</b>	335,874
Disposals	-	(63)	(20,776)	-	(20,839)	(23,563)
Transfers	-	<b>117,980</b>	<b>129,485</b>	(265,061)	(17,596)	-
Translation loss	-	(75)	(1,372)	(19,155)	(20,602)	6,783

At the end of the year	<b>69,159</b>	<b>551,217</b>	<b>1,082,368</b>	<b>58,225</b>	<b>1,760,969</b>	1,401,046
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Depreciation:

At the beginning of the year	-	166,073	519,807	-	685,880	637,631
Charge for the year	-	<b>22,994</b>	<b>81,841</b>	-	<b>104,835</b>	69,144
Disposals	-	(52)	(18,076)	-	(18,128)	(23,363)
Translation loss	-	(10)	(143)	-	(153)	2,468

At the end of the year	-	<b>189,005</b>	<b>583,429</b>	-	<b>772,434</b>	685,880
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Net book amounts:

At 31 December 2008	<b>69,159</b>	<b>362,212</b>	<b>498,939</b>	<b>58,225</b>	<b>988,535</b>	
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At 31 December 2007	10,330	154,177	289,337	261,322		715,166
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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, Zamil Glass 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, Zamil Industrial Training Institute and Arabian Fibreglass Insulation Company Limited.

**4. INVESTMENTS**

	<b>2008</b>	2007
	<b>SR 000</b>	SR 000
Investment in listed companies	<b>18,362</b>	22,587
Unrealised gain on revaluation	<b>(5,020)</b>	4,242
Available for sale investments	<b>13,342</b>	26,829
Investment in associates	<b>130,344</b>	19,236
Investment in subsidiaries	<b>21,365</b>	127,810
Other investments	<b>66,001</b>	69,001
	<b>231,052</b>	242,876

Investment in associates comprise of the following:

1. 27.5% share in Saudi Aerated Concrete Industries Company (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 B.S.C. (Bahrain). 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. Energy Central Company owns 49% share in Saudi Central Energy Company.
3. 51% Share in Saudi Central Energy Company (a Saudi Limited Liability Company). The principal activities of the company are to undertake and execute the 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. Saudi Central Energy Company is controlled by Energy Central Company B.S.C. (Bahrain).
4. 30% share in Advantec Coils Private Ltd. (India). The principal activities of the company are to manufacture and assembly of room and central air conditioners.
5. 50% share in Rabiah and Nassar & Zamil Concrete Industrial Co. Ltd. (a Saudi Limited Liability Company). The principal activities of the company are to design, manufacture and erect precast concrete buildings used for various applications including residential, schools, shopping malls, plants, wall panels, and fabricate a variety of other concrete-based products.
6. 50% share in Zamil Hudson Company Limited (a Saudi Limited Liability Company). The principal activities of the company are to manufacture large and medium-size fiberglass fans and air cooled heat exchangers.
7. 49% share in Armacell Zamil Middle East Company Limited (a Saudi Limited Liability Company). The principal activities of the company are to manufacture rubber adhesive, foam rubber insulation and related accessories and sundries.

Investment in subsidiaries comprise of the following:

1. 100% share in Ikhtebar, 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 Zamil Industrial Investment Company - 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 18.3 million (2007 – SR 19.4 million).

4. 100% share in Zamil Steel Buildings (Thailand) Co. Ltd. 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 Zamil New Delhi Infrastructure Pvt. Ltd. The principal activities of the company are supply of telecom towers, accompanying shelters fitted with the appropriate sandwich panels, customized air conditioning equipment and power interface units. It will also supply a range of related support products, along with comprehensive installation and maintenance services.
8. 100% share in Zamil Structural Steel Company - Egypt. The principal activity of the Company is fabrication of steel structures, pre-engineered steel buildings, metal doors and assembling its requirements.

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 they are still in the development stage and have no commercial operations at year end etc.

Other investments comprise of the following:

1. 2.11% Share in Kinan International For Real Estate Development Company Limited (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

	2008 SR 000	2007 SR 000
At the beginning of the year	27,730	27,730
Acquired during the year	34,548	-
At the end of the year	62,278	27,730

**6. DEFERRED CHARGES**

	<b>2008</b> <b>SR 000</b>	2007 SR 000
At the beginning of the year	<b>16,388</b>	10,260
Incurred during the year	<b>4,293</b>	7,459
Transferred from fixed assets, net	<b>4,396</b>	-
Amortised during the year	<b>(5,958)</b>	(1,381)
Translation gain	<b>163</b>	50
At the end of the year	<b>19,282</b>	16,388

**7. INVENTORIES**

	<b>2008</b> <b>SR 000</b>	2007 SR 000
Materials, supplies and stores	<b>1,574,795</b>	1,112,274
Work-in-progress	<b>103,145</b>	69,966
Finished goods	<b>473,024</b>	357,323
Goods-in-transit	<b>190,223</b>	87,876
	<b>2,341,187</b>	1,627,439

**8. ACCOUNTS RECEIVABLE AND PREPAYMENTS**

	<b>2008</b> <b>SR 000</b>	2007 SR 000
Trade accounts and notes receivable	<b>1,231,629</b>	978,462
Prepaid expenses	<b>30,040</b>	27,655
Retentions receivable	<b>53,385</b>	39,392
Advances, deposits and other receivables	<b>150,343</b>	66,580
Costs in excess of billings	<b>5,329</b>	13,333
	<b>1,470,726</b>	1,125,422

**9. RELATED PARTY TRANSACTIONS**

The following are the details of major related party transactions:

	<b>2008</b> <b>SR 000</b>	2007 SR 000
Companies affiliated to Al Zamil Group:		
Purchase of goods and services	<b>65,109</b>	50,712
Sale of goods and services	<b>32,571</b>	32,455

The Company also paid SR 4.35 million (2007: SR 2.73 million) to certain directors as salary and other benefits in their capacity as executives of the company.

Directors' remuneration amounted to SR 2.0 million (2007: 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

	2008 SR 000	2007 SR 000
Cash and bank balances	201,393	186,726

#### 11. NOTES AND ACCOUNTS PAYABLE, ACCRUALS AND PROVISIONS

	2008 SR 000	2007 SR 000
Trade accounts payable	366,767	270,642
Notes payable under Morabaha finances	70,847	35,386
Other notes payable	424	17,586
Accrued contractual costs	117,670	111,471
Accrued expenses and provisions	288,339	223,776
Zakat provision (note 14)	28,427	19,366
Billings in excess of cost	34,028	28,276
	906,502	706,503

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 consolidated 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:

	<b>2008</b> <b>SR 000</b>	2007 SR 000
Current year provision	<b>15,850</b>	14,258

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

	<b>2008</b> <b>SR 000</b>	2007 SR 000
Equity	<b>820,540</b>	683,540
Opening provisions and other adjustments	<b>153,452</b>	115,001
Book value of long term assets	<b>(202,994)</b>	(598,266)
	<b>770,998</b>	200,275
Zakatable profit for the year	<b>289,210</b>	222,610
Zakat base	<b>1,060,208</b>	422,885

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

**Movements in provision for zakat during the year**

The movement in the zakat provision was as follows:

	<b>2008</b> <b>SR 000</b>	2007 SR 000
At the beginning of the year	<b>19,366</b>	15,345
Provided during the year	<b>15,850</b>	14,258
Payments during the year	<b>(6,789)</b>	(10,237)
At the end of the year	<b>28,427</b>	19,366

**Status of assessments**

Zakat assessments have been agreed with the Department of Zakat and Income Tax (DZIT) up to 2007.

**15. SHARE CAPITAL**

The share capital of the Company, amounting to SR 450 million (2007: SR 450 million), is divided into 45 million shares of SR 10 each (2007: 45 million share 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**

	<b>2008</b> <b>SR 000</b>	2007 SR 000
Loan No. 1	<b>68,343</b>	37,982
Loan No. 2	-	872
Loan No. 3	<b>10,192</b>	14,415
Loan No. 4	-	2,918
Loan No. 5	<b>1,000,000</b>	-
Loan No. 6	<b>132</b>	-
	<b>1,078,667</b>	56,187
Less: current portion	<b>(115,451)</b>	(18,997)
	<b>963,216</b>	37,190

Loan No. 1 represents the loans obtained by Zamil Steel Industries and Zamil Air Conditioners from Saudi Industrial Development Fund (SIDF). 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). At 31 December 2008, the SIDF loans outstanding were SR 68.3 million (2007 – SR 37.98 million) including a current portion of SR 11.8 million (2007 – SR 11.8 million). The loans are secured by mortgage over the property, plant and equipment of the branches. The loans agreements also contain certain covenants in respect of maintenance of financial ratios.

Loan No. 2 was repayable in equal quarterly instalments in Euro. The final instalment was due and settled in 2008. The loan carried commission at normal commercial rates and was secured by guarantees provided by the company's bankers.

Loan No. 3 represents various medium and long term loans obtained by Geoclima S.r.l. repayable in monthly, quarterly and half yearly unequal instalments. These loans carry commission at normal commercial rates. At 31 December 2008, the loans outstanding were SR 10.2 million (2007 – SR 14.4 million) including the current portion of SR 3.5 million (2007 – SR 3.4 million).

Loan No: 4 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 was due and settled in May 2008.

Loan No: 5 represents loans obtained by Zamil Industrial Investment Company in the amount of SR 1,000 million from local banks to finance its working capital requirements. The loans carry finance charges at SIBOR plus a margin. These loans are secured by corporate guarantees and order notes. The loans agreements contain certain financial covenants which the Company is required to comply with.

Loan No: 6 represents a loan obtained by Zamil Steel Buildings India Private Limited from a bank. The loan is repayable in 36 equal monthly instalments and carries commissions at normal commercial rates.

Loan instalments due in 2009 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 (2007: 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:

	<b>2008</b> %	2007 %
Middle East Airconditioners Company Limited	<b>49</b>	49
Geoclima S.r.l.	<b>15</b>	15
Canam Asia Limited	<b>35</b>	35
Zamil Steel Buildings - Vietnam Company Limited	<b>7.73</b>	10
Arabian Fiberglass Insulation Company Limited	<b>49</b>	49

**20. SELLING AND DISTRIBUTION EXPENSES**

	<b>2008</b> SR 000	2007 SR 000
Employee costs	<b>154,269</b>	113,104
Advertising and sales promotion	<b>23,651</b>	22,137
Services	<b>17,984</b>	19,608
Rent and utilities	<b>8,759</b>	5,902
Transportation, business travel and entertainment	<b>32,948</b>	25,480
Depreciation	<b>9,855</b>	8,400
Repairs and maintenance	<b>2,254</b>	1,657
Others	<b>49,008</b>	37,553
	<b>298,728</b>	233,841

**21. GENERAL AND ADMINISTRATION EXPENSES**

	<b>2008</b> SR 000	2007 SR 000
Employee costs	<b>155,255</b>	130,551
Depreciation	<b>14,733</b>	11,929
Services	<b>49,305</b>	32,428
Supplies	<b>1,336</b>	1,166
Others	<b>97,056</b>	33,403
	<b>317,685</b>	209,477



**22. OTHER INCOME**

	<b>2008</b> <b>SR 000</b>	2007 SR 000
Scrap sales and miscellaneous	<b>42,269</b>	44,597
Gain on sale of property, plant and equipment	<b>(701)</b>	333
	<b>41,568</b>	44,930

**23. SEGMENTAL ANALYSIS****(a) Analysis of sales, operating income/(loss) and net assets by activities:**

	Sales SR 000		Operating Income / (loss) SR 000		Net assets SR 000	
	<b>2008</b>	2007	<b>2008</b>	2007	<b>2008</b>	2007
Air conditioner industry	<b>1,552,386</b>	1,253,513	<b>96,937</b>	77,277	<b>242,183</b>	332,136
Steel industry	<b>2,838,149</b>	2,301,880	<b>241,990</b>	191,512	<b>654,753</b>	552,281
Glass & fibreglass	<b>156,464</b>	124,386	<b>28,709</b>	20,862	<b>87,231</b>	91,528
Head office	<b>2,603</b>	1,481	<b>(24,426)</b>	542	<b>44,092</b>	(83,663)
	<b>4,549,602</b>	3,681,260	<b>343,210</b>	290,193	<b>1,028,259</b>	892,282

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

	Sales SR 000		Operating income (loss) SR 000	
	<b>2008</b>	2007	<b>2008</b>	2007
Saudi Arabia:				
Local sales	<b>2,532,752</b>	2,041,075	<b>200,821</b>	164,115
Export sales	<b>982,553</b>	990,121	<b>104,022</b>	90,719
Total sales of Saudi Arabia	<b>3,515,305</b>	3,031,196	<b>304,843</b>	254,834
Other Asian countries	<b>536,961</b>	273,366	<b>7,308</b>	3,152
Africa	<b>417,576</b>	294,479	<b>29,342</b>	33,371
Europe	<b>79,760</b>	82,219	<b>1,717</b>	(1,164)
	<b>4,549,602</b>	3,681,260	<b>343,210</b>	290,193

## **24. EARNING PER SHARE**

Earning per share is computed by dividing net income for the year by the weighted average number of shares outstanding at the year end 31 December 2008 and 2007 aggregating to 45 million shares.

## **25. CONTINGENT LIABILITIES**

The company's bankers have issued, on behalf of the company, performance bonds in respect of certain contracts amounting to SR 498 million (2007: SR 293 million).

## **26. CAPITAL COMMITMENTS**

The directors have approved future capital expenditure amounting to SR 70 million (2007: SR 222.5 million).

## **27. 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. However, the trade receivables from foreign customers are secured by letters of credit.

### **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.

### **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.

## **28. 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.

## **29. COMPARATIVE FIGURES**

Certain figures for 2007 have been reclassified to conform with the presentation in the current year.





