global expansion social commitment

annual **report** 2006

Zamil Industrial Investment Co.

annual report 2006

Contents

global
expansion
social
commitment

Board of Directors

Front row | *Left to right*:
Ahmed A. Al Zamil, Dr. Abdulrahman A. Al Zamil, HE Dr. Soliman A. Al Solaim, Hamad A. Al Zamil, Khalid A. Al Zamil

Back row | *Left to right*:
Sultan K. Bin Mahfouz, Adib A. Al Zamil, Hisham A. Razzuqi, Abdulla M. Al Zamil

Not shown:
Khaled S. Olayan

"The ambitious strategies implemented in 2003 to steadily and firmly expand our production facilities and improve our manufacturing capabilities continue to demonstrate success."

Chairman's Message

Dr. Abdulrahman Abdullah Al Zamil
Chairman of the Board

Dear Shareholders,
On behalf of the Board of Directors, I am pleased to report that Zamil Industrial Investment Company (ZIIC) in 2006 enjoyed a record year of outstanding performance, particularly in our steel and air conditioning sector businesses.

In the year ended 31 December 2006, ZIIC achieved turnover of SAR 2.87 billion / USD 764.7 million, a growth of 21 percent over the previous year (2005 – SAR 2.4 billion / USD 631.9 million), while net profits after Zakat contributions grew to SAR 191.7 million / USD 51.1 million, an increase of 80.2 percent (2005 - SAR 106.4 million / USD 28.4 million). Post Zakat Earnings per Share rose to SAR 4.26 / USD 1.14 (2005 – SAR 2.36 / USD 0.63), while shareholders' equity grew by 26.2 percent to SAR 741.5 million / USD 197.7 million (2005 – SAR 587.5 million / USD 156.7 million). ZIIC's central role in setting forth the vision and strategy for the ongoing development of our sector businesses has yielded outstanding results. The ambitious strategies implemented in 2003 to steadily and firmly expand our production facilities and improve our manufacturing capabilities continue to demonstrate success. It enables us to capitalize on new business opportunities, while at the same time meet increasing demand in our industries. In addition to expanding our business we have also implemented further measures to sustain our growth, including acquisition activity in complementary industries. During 2006, all sector businesses, as well as our international operations, performed exceptionally well and exports to more than 80 international markets represented 39 percent of total revenue.

Zamil Steel achieved new heights in performance, surpassing all previous records and setting new milestones. A quantum leap in revenues and profits was the result of prudent financial planning, timely decision making, judicious resource allocation and enhanced capacity utilization.

The foundations for a new era of growth were firmly put in place during the year with new factories established in Ras Al Khaimah in the UAE, Pune in India, and Ho Chi Minh City in Vietnam, in addition to new manufacturing facilities in Dammam's Second Industrial City.

The strength and quality of our operations in Vietnam were again recognized by a number of prestigious awards in 2006. These include the Gold Medal for the Best Product at the Vietnam

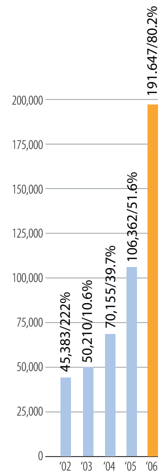
Expo International Trade Fair, awarded by the Ministry of Trade in Hanoi; the Vietnamese Famous Trademark Award for Zamil Steel pre-engineered steel buildings, and the Competitive Trademark Award for the MaxSEAM roofing system. Granted by the Vietnam Intellectual Proprietary Association, these awards honor the enterprises which have built the most successful trademarks for high quality products and services. Adding to the list of accolades demonstrating our strong reputation in Vietnam was a Certificate of Merit from Vietnam's Ministry of Industry, in recognition of our significant contribution to the country's pre-engineered steel building industry over the past decade.

Turning to the air conditioning sector, Zamil Air Conditioners' continues to build upon a rich history which now spans 32 years. Our powerful brand and our growing range of cost competitive and high quality products and services continue to contribute to our increasing market share in 55 countries around the world.

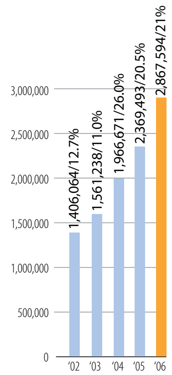
"Ever mindful of the need to ensure that technology facilitates the improvement of our business activities by improving efficiency, productivity and customer service levels, I am pleased to report on the successful implementation of our new ZIIC IT Global Service Model."

Among the many awards won by Zamil Air Conditioners was our recognition for the second time by Saudi Basic Industries Corporation (SABIC) as an outstanding supplier. As one of 45 principal equipment and services suppliers to SABIC, this award – nominated by several SABIC affiliates including Hadeed, Petrokemya, Ibn Zahr and Ibn Sina - recognizes performance efficiency, consistently high levels of customer service and responsiveness to SABIC's varied needs.

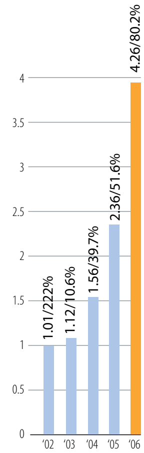
As part of ongoing diversification efforts into complementary businesses and in response to the needs of the industrial sector, ZIIC in 2006 formed Zamil Energy Services Company (ZESCO), operationally reporting to Zamil Air Conditioners, as a means to enter the high-end energy conservation consulting industry. This field is poised for considerable growth due



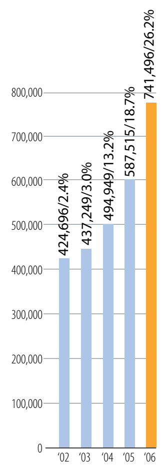
Net Profits
SAR 000
% Increase



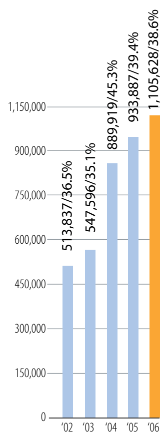
Revenues
SAR 000
% Increase



Earnings Per Share
SAR
% Increase



Shareholders Equity
SAR 000
% Increase



Export Sales
SAR 000
% of Revenues

"As we look to the future, we will continue to implement new expansion and development plans through organic growth and through acquisition and partnership activity."

to the fact that demand for electricity supply exceeds current capacity. In creating ZESCO, ZIIC combined value added synergies between our sector businesses, including that of our Zamil CoolCare services business.

Another major acquisition during this year was our 51 percent stake in Arabian Fiberglass Insulation Co. Ltd. (AFICO). This joint venture between ZIIC and Owens Corning, USA, places us in a prime position to capitalize on the market for premium quality glass wool insulation products for industrial and commercial applications. Since the acquisition, AFICO has already surpassed all records in its history, recording in 2006 its highest ever levels of production, sales, profit and net profit margin.

Steady progress was also made by Energy Central Co. (ECCO), in which ZIIC is a founding shareholder. Following its incorporation as a closed joint stock company in Bahrain during the last quarter of 2005, ECCO has made gains in its role as an independent private multiple-utility specialist focusing on harnessing the synergies of its various stakeholders, their technologies and applications to deliver efficient and integrated utility services to the region's fast-growing real estate industry.

With active support from its key shareholders, ECCO's integrated approach is based on new and innovative concepts, a policy of partnership and a clear and consistent growth strategy. Its first project - a Build, Own, Operate and Transfer (BOOT) concession for a water desalination plant to serve the Durrat Al Bahrain mixed-use development in Bahrain – is, I believe, the first of many more significant projects we can expect to see, not only in Bahrain but also across the region.

Ever mindful of the need to ensure that technology facilitates the improvement of our business activities by improving efficiency, productivity and customer service levels, I am pleased to report on the successful implementation of our new ZIIC IT Global Service Model. Created in-house and now in use by ZIIC business units worldwide, the model aligns services and functionality with future anticipated business needs. In so doing, it supports ZIIC geographically in the growth of both our vertical and horizontal business units.

We pride ourselves on our commitment to our human resources. At the end of 2006, more than one in four of our employees, organization-wide, was a Saudi national. We remain steadfast in our pledge to be an employer of choice, and realize that this involves the nurturing and development of our most important assets. During the year, one in five employees underwent various training programs and courses. This activity will continue as part of our dedication to ensuring that our employees fully realize their professional aspirations.

As we look to the future, we will continue to implement new expansion and development plans through organic growth and through acquisition and partnership activity. This will be funded in part by the success of our bonus share issue in 2006, which resulted in a capital increase of SAR 450 million / USD 120 million.

As market leaders in their respective industries, ZIIC businesses provide the construction industry with highly specialized and unique solutions. The developments and achievements of this year are testimony of this and demonstrate our ability to ensure long-term growth in shareowner value. We remain confident and entirely committed to achieving continued growth and expansion and to communicating our successes as a key responsibility to all of our stakeholders.

Dr Abdulrahman A. Al Zamil
Chairman of the Board

It gives me great pleasure to report on the stellar performance of Zamil Industrial Investment Company (ZIIC). In 2006, the company experienced record achievements and milestones, including major global expansion activity.

Khalid Abdullah Al Zamil
Managing Director

Outstanding growth in sales and profit reached the highest levels ever, with Zamil Steel and Zamil Air Conditioners producing double-digit turnover and profit. These achievements are due to the various management initiatives that were undertaken, implemented and brought to fruition during the year, and by leveraging new opportunities presented by the GCC's surging construction sector.

The new Zamil Steel factories established in Ras Al Khaimah in the UAE, Pune in India, Ho Chi Minh City in Vietnam and Dammam's Second Industrial City will all become operational during

Managing Director's Report

2007. As a result of our investment in Ras Al Khaimah, Zamil Steel has been categorized by Dubai Municipality as a UAE steel building supplier. This bodes well for future growth in this key market. The completion of factory expansion at Zamil Steel Egypt has also increased our production capacity to serve accelerating local demand, and has positioned us more strongly to serve our growing export business across Africa.

At home, our Saudi Pre Engineered Buildings (PEB) division achieved record order intake. We also reduced factory noise levels by 25 decibels through implementing improved welding and cleaning techniques. These have eradicated the need for the noisy cleaning scalars that were used to remove slag. Our Special Projects Design Group began using a new software that will greatly enhance their ability to design and detail complex, three-dimensional structures. We also established and staffed a new engineering office in Jordan.

In Europe, a new Business Development Manager was appointed, operating from Luxembourg, to promote Zamil Steel products in Luxembourg, France, Germany, and the UK.

Our Structural Steel Division also secured its largest project, in terms of tonnage, outside Saudi Arabia with its USD 27.5 million contract to supply Habshan Gas Complex in Abu Dhabi, UAE. The scope of work includes the fabrication of fire proofed and non-fire proofed pipe racks.

In Asia, Zamil Steel Vietnam's list of achievements included the opening of a new liaison office in Pyinmana, the new administrative capital of the Union of Myanmar. We also created an independent Zamil Steel presence in Thailand as well as in Kota Kinabalu for our current and planned operations in Sabah, Malaysia. Significant progress was also made in our plans to establish an office in the very promising Australian market, where the PEB concept is still relatively new.

Senior professionals have been recruited and two projects have already been secured and will be shipped from Zamil Steel Vietnam.

The ongoing quest to reach out to all key Asian markets included the creation of a Vietnamese website which has been posted on two online newspapers in Vietnam (www.vnexpress.net and www.vietnamnet.com.vn).

Zamil Steel's commitment to excellence in providing customers with the best products and services and reaffirming its market leadership in the industry was proven following the unfortunate and devastating effects of Typhoon Xangsane, which hit Vietnam's central coast city of Danang in October. With winds of 180 kilometers per hour (112 miles per hour), the typhoon blew away some 15,000 houses and destroyed 244,000 others in affected central provinces. The damage was estimated at USD 625 million. Many factories and warehouses were also destroyed in nearby industrial zones, and a large number of conventional and pre-engineered steel buildings collapsed or were severely damaged. However, not a single Zamil Steel pre-engineered steel building, including those with the MaxSEAM roofing system, was affected.

The Vietnam Chamber of Commerce and Industry presented George E. Kobrossy, General Director of Zamil Steel Vietnam, with Vietnam's Prominent Entrepreneur 2006 Award. This accolade is given to the top 100 entrepreneurs in Vietnam and signifies the high regard for our operation in this South East Asian nation.

Zamil Steel China also witnessed impressive gains and achievements. Our most significant achievement was the implementation of full manufacturing capabilities at our new 10,000 square meter plant in the Nanhui area of Shanghai. This development has vastly reduced

Our commitment to all key Asian markets included the creation of a Vietnamese website our previous dependence on subcontracted work. The plant comprises three factory buildings with a total area of 5,000 square meters, including office floors. Production of various steel members - mainly relating to purlins and girts, various panels, trims and flashings – commenced in February. This move has taken Zamil Steel China from being a trading organization to a steel manufacturer, able to produce various parts of steel buildings, excluding primary steel. A strengthened sales network has created a more widespread presence across eight major metropolitan areas: Shanghai, Qingdao, Dalian, Guangzhou, Wuhan, Lanzhou, Urumqi and Chengdu. These measures have positioned us to serve this colossal market, which continues to enjoy renown as one of the fastest growing economies in the world.

"Enhanced sales and marketing efforts contributed to the growth of our Chinese operation. These included cost containment initiatives, improved customer service strategies, increased market segmentation combined with a more systematic sales approach."

Zamil Steel China also joined the ranks of only a few steel companies in the country to be awarded the 'Gold Steel Award' certificate for the successful and professional completion of the W-Happi project which features an area of 20,000 square meters.

In tandem with these developments and achievements, Zamil Steel China has been awarded a 'Construction License' (Grade 3). This landmark achievement permits the company to bid for any governmental steel project, anywhere in the country. We also achieved ISO 9001:2000 certification and a 'Safety License', essential for fabrication and installation of major Chinese projects.

Enhanced sales and marketing efforts contributed to the growth of our Chinese operation. These included cost containment initiatives, improved customer service strategies, increased market segmentation combined with a more systematic sales approach, the promotion of component sales, and a recruitment drive complemented with improved training programs. More advertising activity was undertaken to increase exposure, and the development of the Zamil Steel China website has progressed, along with the production of new product brochures and the implementation of new direct marketing campaigns.

The planned implementation of a Customer Relationship Management (CRM) system got underway in 2006. The objective of this system is to enhance the ways in which Zamil Steel shares key business and customer knowledge, and the management of customer relationships that increase repeat business and extend business relationship longevity. Additional functions include improving marketing activity, generating new business leads, tracking marketing effectiveness, capturing web contacts, and in the near future, automatically assigning tasks to various offices.

A pilot project was introduced with 18 users from the Saudi region who were trained by external consultants from SalesForce.com. The progress of this project is currently being mapped and if it is as successful as anticipated, it will be rolled out on a global scale.

Members from all three factories of the PEB Engineering Standards Committee (ESC) held their second bi-annual meeting in Cairo in July. The main objective of ESC is to maintain consistency among all PEB factories on engineering standards, policies and procedures. This enables all engineering offices to design and detail jobs consistently so that fabrication work can be undertaken at any PEB factory, allowing us to utilize our resources with maximum efficiency and capitalize on the advantages of our global presence.

Improved customer service and technical support levels for all IT users were achieved, and the results of our 2006 ZIIC IT satisfaction survey demonstrate that satisfaction levels have increased by more than 30 percent over the previous year.

Zamil Steel's annual International Sales Conference was held in Beirut. The event provided an ideal environment for participants to network, share experiences and build new relationships that will further enhance business development opportunities and leverage powerful synergies.

Zamil Steel

Zamil Steel achieved a record turnover of SAR 1,727.2 million / USD 460.6 million. Consolidated sales rose 19 percent with total shipments of 308,000 metric tons, compared with 259,000 metric tons in 2005.

The performance highlights of each division are as follows:

Pre-Engineered Buildings (PEB) Division

This division achieved a record order intake of 117,000 metric tons (14 percent higher than in 2005) and realized increased revenue. Total production and shipments reached 91,000 metric tons and 99,000 metric tons respectively.

Other major achievements by this division included the finalization of a supply & erect contract with KRAFT Foods for its first cheese processing plant in the Middle East. The premises will also be the first steel building in the new Hidd Industrial area in the Kingdom of Bahrain. We have also commissioned an upgraded shot blasting facility in our Dammam factory. This allows all frames to run through the machine, providing excellent surface preparations for all of our steel products. Installations of flange coils cut-to-length and shear and punch lines are also ready to be commissioned.

Zamil Steel Egypt

Zamil Steel Egypt achieved an increase of 29 percent in order intake, 10 percent in production, and 15 percent in shipments over 2005. Current expanded production capacity is now 48,000 metric tons per annum following the completion of factory expansion work initiated during the year.

Zamil Steel Vietnam

Zamil Steel Vietnam increased production by 10 percent and shipments by 15 percent. It produced 33,000 metric tons and shipped 35,000 metric tons.

Engineering capabilities for diversification of PEB applications were demonstrated by the design and detail of our first mobile shed. We also built, installed and successfully commissioned an auto-weld machine. Trials to ensure increased production capacity have been successful and the machine will be relocated to our new factory in Dong Nai province.

A number of major projects were secured during the year for customers in Vietnam as well as in Singapore and Malaysia. These included the Brother Factory Project, which comprises an area of more than 40,000 square meters and 1,200 metric tons of steel. This project is important because it demonstrates our ability to influence contractors in improving their quality requirements, and reflects acknowledgement of the value and quality of Zamil Steel when compared with the products and services of low cost suppliers.

We also secured our largest ever export to Singapore with our Singapore Air-show Exhibition Hall Project. This will be the largest Aviation Exhibition Center in Asia with a total covered area of 40,000 square meters. The project will include Zamil Steel's ultimate MaxSEAM roofing system with 74-meter long single high rib panels without end laps to provide a complete weather-tight system. The new building will serve as a major project reference in the future, and is also the first major MaxSEAM project located outside Vietnam.

"One landmark project during the year included the supply of the largest ever quantity of structural steel for a single customer, for the Khursaniyah Gas Plant Project in Saudi Arabia."

The project to manufacture and supply all steel structures for buildings in a prestigious industrial park in Malaysia for Crescendo Corporation Berhad is also an important milestone, as it entailed meeting particularly stringent customer requirements. The project covers an area of around 81,000 square meters and comprises 41 standard factory units. It includes a total of almost 1,600 metric tons of steel buildings, including sheeting.

Two other projects of note are the design, fabrication and erection of a factory for Texhong Textile Vietnam, a member of Texhong Textile Group Limited – Hong Kong, in Southern Vietnam. Our role in the first phase of this project is to supply a covered area of 44,000 square meters. An additional 106,000 square meters of covered area will be completed in phases. We also supplied the Canon Project in Northern Vietnam. This project covers a total area of 43,000 square meters and comprises approximately 2,300 metric tons of pre-engineered steel buildings.

Structural Steel Division

This division achieved total production of 58,000 metric tons, an increase of 49 percent over 2005, and shipment of 61,000 metric tons, up 47 percent over the previous year.

One landmark project during the year included the supply of the largest ever quantity of structural steel for a single customer, for the Khursaniyah Gas Plant Project in Saudi Arabia. When completed this will be the largest gas plant complex in the world. The scope of work for this USD 40 million contract included the fabrication of the pipe racks, process structure, lighter pipe racks and cable racks. The owner is Saudi Aramco and the EPC is the Bechtel Technip joint venture.

The division is also supplying structural steelwork for Saudi Kayan's Petrochemical Complex Project in Jubail Industrial City, Saudi Arabia. With a project value of USD 29 million, the scope of work involves the fabrication of the pipe racks, equipment structure, major pipe supports, access platforms, stairways, ladders, handrails, and flooring associated with the utilities and offsite section of the project. This is the first contract for Zamil Steel in what will eventually become the largest petrochemical complex in the world.

Process Equipment Group (PEG)

Major contracts included the Al-Fasel PDH Project in Yanbu, Saudi Arabia, to supply 3 Columns and 29 Vessels. Three milestones were achieved on this USD 6.8 million project: one column had a diameter of 7.8 meters and a length of 95 meters and another column had a thickness of 75 mm. The Group also supplied 87 Pressure Vessels, two columns and 24 heat exchangers for the USD 9.5 million Yansab project in Yanbu. This is the highest contract value to date for the PEG and the largest number of units (113) to be manufactured.

We secured a project to supply Hambro products for the five 22 storey Safwa Towers in Makkah

Towers & Galvanizing Division

This division achieved record production and shipment levels, primarily due to earlier expansion work. Production stood at 56,000 metric tons and shipments reached 67,000 metric tons, an increase of 32 and 67 percent respectively over 2005. The year end was marked with sufficient orders to last until the middle of 2007.

Canam Asia

Canam Asia achieved record breaking sales and order intake of SAR 110 million / USD 29.3 million, a 280 percent increase over 2005. We also made great advances in increasing our quoted projects

"In 2007, the acceleration of business development momentum will continue with new license applications, further client development activity, and a strengthening of the sales team."

versus awarded projects ratio to 18.8 percent (over 9 percent in 2005). In terms of production a backlog of 13,000 metric tons of orders has resulted in continuous production slated for both our Dammam and Ras Al Khaimah facilities up until November 2007. The development of a comprehensive data base also now enables sales and marketing performance to be reviewed and assessed more efficiently.

We also added a low cost jig line to our Dammam facility, which enabled the fabrication of large trusses up to 5.0 meters in depth. Designed and fabricated in-house, the jig has eliminated the need to sub-contract any work.

We also designed, supplied and erected a blast resistant building for LNG Indonesia, and engineered and erected a MaxSEAM roofing system featuring a single panel length of 79 meters. Other engineering feats included the in-house development of a MaxSEAM roof, monitors, skylights, special roof curbs, and lightning arrestors.

During 2006, Canam Asia participated in various GCC exhibitions and held major seminars in the UAE and Qatar to introduce our product line. We also produced new, technically-enriched brochures for various products. Visits to major consultants across the region were key to converting numerous shopping mall projects from using conventional steel roofs to our standard open web joists.

Major breakthroughs in terms of size, complexity and strategic importance of projects during the year included the Rabigh/Sumitomo Project. This 7,000 metric tons project is a combination of built-up steel members and joists. It was designed and detailed completely off-line using AutoCAD and Xsteel software, and managed by our new team. We also secured a project to supply Hambro products for the Safwa Towers in Makkah, which will feature five 22-storey towers. For Doha International Airport in Qatar, our Ras Al Khaimah factory is fabricating metal decking.

Zamil Steel China

Major projects included W-happi 20,000 square meters in Wuhan and a 12,000 square meters project for Flour Daniel in Mongolia.

In 2007, the acceleration of business development momentum will continue with new license applications, further client development activity, a strengthening of the sales team, and greater participation in international exhibitions as well as investments in new machinery to develop additional product offerings.

Zamil Air Conditioners

Zamil Air Conditioners' revenue grew an impressive 19 percent compared with the previous year reaching SAR 1,021.8 million / USD 272.5 million. Market share in the major markets of Saudi Arabia, GCC and Middle East, Europe and North Africa continues to grow, due to the continual offering of cost competitive and quality products and services. In 2007, Zamil Air Conditioners plans to enter the Indian market, which is currently considered one of the fastest growing markets with an average annual growth estimated at 20 percent.

Highlights of the year are as follows:

Unitary & Applied Products Business Unit

This business grew an impressive 25 percent over 2005, double the market growth rate. To sustain this level, we will continue to capitalize on synergies between Zamil CoolCare, BAS (Building Automation Systems) and ZESCO (Zamil Energy Services Company).

Major projects across Saudi Arabia, Bahrain, UAE and Sudan yielded a combined project value of SAR 134 million / USD 35.7 million.

The ZAC production capacity was expanded to meet regional and international demand

Applied production capacity was expanded in 2006 to meet demand, and this resulted in an 89 percent production increase in the number of double skin air handling units; a 94 percent increase in the number of chillers and a 62 percent increase in the number of modular units produced over the totals of 2005.

In terms of new products, 2006 saw the launch of a newly designed chilled water fan coil unit. Sixteen models have been developed, ranging from 200 CFM to 1400 CFM and 50 & 60 Hz. The new models are compact and more cost competitive than our existing units.

Thirty and 75 tons-of-refrigeration condensers were also designed with alternative refrigerant (R407C), and a new 'Mobile AC System' was created. In addition to use in temporary construction sites, such as at exhibitions and seminars, these units are also targeted for underground and off-shore applications, as well as for aircraft and airport cooling. The functionality of the system includes use as an air conditioning system with external power; as a power generator; as a power generated air conditioning system; or as a system that feeds power to other equipment during air conditioning operations.

The Unitary Product Group received Eurovent certification for our WAP series of chilled water fan coil units (200 CFM to 2000 CFM). The parameters of this performance certificate consider capacity, noise level and air flow. Our products were approved following testing according to Eurovent program # FC/2/C/D/2. Expansion initiatives included the construction of a new plant and warehouse facility in Dammam's Second Industrial City. This is on schedule with production expected to begin by the second quarter of 2007.

"Sales offices in Qatar, Kuwait, the U.A. E. and across Saudi Arabia along with strenghtened domestic and international distribution networks support Zamil Glass Industriess' growth aspirations."

Consumer Products Business Unit

This business unit grew 14 percent over 2005. The future is promising as Chinese products continue to lose their price advantage as a result of currency appreciation and reduced export subsidies. Major government projects in Saudi Arabia yielded a combined project value of SAR 73 million / USD 19.5 million.

The year 2006 saw remarkable consumer production / productivity growth. Room air conditioners' (RAC) units hourly production increased by 17.9 percent, while mini-split production increased by a phenomenal 42.1 percent due to the introduction of a new production line.

Zamil CoolCare Business Unit

Zamil CoolCare revenue grew an impressive 34 percent. This increase reflects the high demand for professional services within the air conditioning sector. This is demonstrated by SAR 116 million / USD 30.9 million worth of projects in Saudi Arabia alone. During the year service centers were also established in Bahrain and Kuwait as well as across Saudi Arabia.

Geoclima srl Business Unit

Geoclima received an order from Russia to supply 30 air cooled free cooling chillers with a capacity of 400 Kw for gymnastic & athletic stadiums across the country. This is a major achievement, as Geoclima was recognized as the only company capable of meeting extreme running conditions of -35 degrees Celsius ambient and cooler temperatures between -7 and -10 degrees Celsius.

Geoclima–Italy received GOST-R certification for its chillers, including the ARX & ASX Series produced by Zamil Air Conditioners for sale to the Russian market. GOST-R is the valid quality certification system in the Russian Federation and is of utmost importance to Russian companies and their suppliers. It carries the same significance as ISO 9000 series certificates do to western companies. GOST-R is mandatory for customs clearance into the Russian market, constituting a standing guarantee of the physical and chemical properties of each unit.

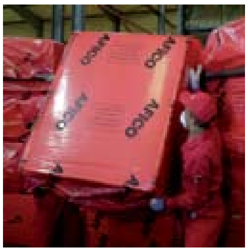
At the Mostra Convegno Expocomfort 2006, Geoclima won the 'Next Energy Award', for the new range of turbocor chillers. The award recognizes new ideas and technological advancements that improve efficiency, durability, ease of maintenance, customer comfort and the environmental impact of HVAC systems. Also significant is the fact that no other competing chiller entered under the entire refrigeration and air conditioning category of the event was selected to receive this honor.

Middle East Air Conditionners Company Ltd. (MEAC)

Middle East Air Conditioners (MEAC), the joint venture between ZIIC and General Electric, grew its business by 8.5 percent in 2006 and is now well positioned for double-digit growth in 2007 with plans to enter new markets in Africa, the Middle East and India. Consolidated distribution in the region in 2006 included the addition of ducted splits to the General Electric product range. The strength of the Hotpoint brand also grew due to the establishment of a structured dealers network.

Arabian Fiberglass Insulation Co. Ltd. (AFICO)

Arabian Fiberglass Insulation Company (AFICO) is ZIIC's fourth sector business, following our 51 percent stake in the company which we acquired from Saudi Arabia's Amiantit Group in January 2006. Our involvement in AFICO is a partnership with global fiberglass manufacturing technology leader Owens Corning Corporation of the USA. The provision of fiberglass insulation solutions complements the role of our other sector businesses in addressing the requirements of the global construction industry.



In 2006, AFICO achieved major milestones in its 25-year operating history and is gaining a leading reputation for meeting local and regional demand for first class quality fiberglass insulation products. It is also maintaining its competitiveness with increased operating efficiencies made possible by the commitment of management and investment resources dedicated to further development of the business.

These include an extensive project to rebuild the smelter, automate a pipe line and upgrade the wool line. When this project is completed in 2007, capacity will be increased by approximately 35 percent.

ZIIC IT also converted AFICO's ERP system from a SAP to Oracle environment, bringing it in line with other sector businesses.

AFICO has also been certified for ASTM standards by Dubai Municipality Laboratory Authority. Management Systems accreditations (ISO 9001 for Quality and ISO 14001 for Environment) were both renewed following a stringent audit by TUW of Germany. The pursuit of OHSAS 18001 certification (Occupational Health and Safety Assessment Series) is in progress, and awareness training and a system audit have been conducted. The achievement of this certification will eventually lead to integration of the three systems: Quality, Environment and Safety into one certificate – the IMS or Integrated Management System. This major feat will be accomplished in 2007.

AFICO continues to strenghten its reputation for meeting demand

Zamil Glass Industries

Zamil Glass Industries maintained levels of production comparable to those of 2005. Total production achieved in 2006 was 174,000 square meters of mixed processed glass.

With its range of industry accreditations for quality including ISO certification from BVQI, certification of select products to British Standards and those of the US National Institute of Justice, Zamil Glass is identifying opportunities in high-end architectural glass, single high performance glass products and laminated safety and security products. This is part of an ongoing market segmentation program to focus on high value products and drive growth.

Supporting growth aspirations are sales offices in Qatar, Kuwait, the UAE and across Saudi Arabia along with strengthened domestic and international distribution networks.

A new corporate identity, initiated upon transfer of ownership to ZIIC, is nearly complete.

Energy Central Company (ECCO)

The surging real estate sector in the region, particularly in the Gulf, presented a timely opportunity for our investment in Energy Central Company (ECCO) at the end of 2005. As an independent and private multiple-utility specialist, ECCO provides the most reliable and efficiently integrated power and water utilities for private-sector real estate developments in mixed-use and industrial segments.

ECCO's integrated value chain delivery model offers the most efficiently integrated utility services, which also contribute sustainable environmental benefits. Its approach is based on ownership, development and management activities using the collective value-adding synergies of its stakeholders, including their technologies and applications. In addition to ZIIC, other stakeholders include the Gulf's leading industrial, financial and property development companies. Organizationally, the company is structured as three main businesses: utilities development, investment and operation.

ECCO's integrated value chain delivery model offers efficiently integrated utility services, contributing sustainable environmental benefits

ECCO is committed to creating new approaches and innovative concepts, utilizing a consistent policy of partnerships, and maintaining a clear and consistent growth strategy based on regional expansion.

2006 witnessed the first of ECCO's energy and environmental projects: a Build, Own, Operate and Transfer (BOOT) concession for a water desalination plant to serve the Kingdom of Bahrain's Durrat Al Bahrain mixed-use development.

The reverse osmosis plant will process more than 30,000 cubic meters per day of sea water for irrigation and commercial / industrial process use upon completion over the next three years. The initial phase of the sectional plant will be completed by February 2008, at a capital cost of nearly BD 10 million / USD 26 million with annual expected revenues of BD 2.8 million / USD 7.4 million over the lifetime of the 25 year concession period.

Looking forward, ECCO's strategy is to expand its core activities and create environmentally friendly communities by maintaining an integrated view of the utilities sector where added value is achieved through development and ownership of advanced integrated utilities and by active management of such facilities; and by creating and introducing new concepts through partnerships that are based on a long-term view of investments.

We have focused on maximum efficiency

"The overall achievements of ZIIC were the result of a strategy to achieve organic growth and inorganic expansion through acquisitions and by our entry into complementary businesses."

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

The Royal Commission for Jubail and Yanbu allocated this subsidiary a 60,000 square meter site in Jubail Industrial City for the production of aerated concrete products. Steady progress has been made with commercial production of aerated concrete blocks and concrete reinforced panels expected to begin in the second quarter of 2007. Production capacity will be 170,000 cubic meters and 30,000 cubic meters respectively.

These products are used by most contractors in the GCC and are highly regarded due to the benefits they offer. These benefits include excellent thermal and sound insulation with thermal insulation contributing to a noticeable reduction in electric power consumption. The sound insulation feature provides a 65 to 80 percent reduction. Aerated concrete blocks and panels can also reduce the cost of building by almost 30 percent compared with traditional materials. The use of such products instead of traditional building materials also reduces building time by up to 50 percent. From an aesthetic standpoint, a variety of villa designs can be generated by combining the blocks and panels.

The overall achievements of ZIIC were the result of a strategy to achieve organic growth and inorganic expansion through acquisitions and by our entry into complementary businesses. Throughout our operations, we have focused on achieving maximum operating efficiency. This will continue aligned with ongoing initiatives to continue developing and expanding our business into 2007 and beyond.

Khalid A. Al Zamil
Managing Director

Corporate and Shared Services

ZIIC operations follow the Shared Services model, the core of which is the 'Customer Board' concept. These governing bodies are made up of customers and service providers who jointly set policies, procedures, and priorities to ensure high quality services at an agreed-upon low cost. These services are then provided through Service Level Agreements (SLA). The Customer Board concept has been well received at ZIIC; and as a result, three Customer Boards now govern the Shared Services functions: Finance, Administration and HR, and IT.

On a similar note, certain functions have also been aligned at the corporate level to achieve greater focus and overall high quality corporate performance: Corporate Communications, Business Development, and Legal & Board Affairs. This alignment of responsibility has created a clear distinction between corporate and shared services functions.

Our Shared Services model allows sector businesses to concentrate more fully on business growth, by relieving them of responsibility for the administrative tasks involved in the support functions mentioned above. This structure enhances operational efficiency and also helps to promote a uniform corporate culture across the organization.

"Our Shared Services model allows sector businesses to concentrate more fully on business growth, by relieving them of responsibility for the administrative tasks involved in the support functions."

During this year, the Administration and HR Customer Board completed a review of several policies, including Salaries and Benefits Administration, Employment Family Status, Transport Allowance and Leave Benefits. In the area of Salary and Benefits Administration, the creation of a job families and job competency matrix has been completed. This allows the re-classification of employees based on their competency levels. The matrix enables us to address retention and external salary-equity

Abdullah Mohammed Al Zamil
Chief Operating Officer

issues brought about by aggressive salary movements in the GCC job markets and by the evolving landscape of our traditional sources of skilled and professional manpower.

The Administration and HR Customer Board also took the initiative in communicating the policies directly to employees through "Open-Line" town-hall type sessions. These are conducted with the goal of educating employees about corporate intentions and guidelines for policy implementation, particularly those relating to terms of employment, and the mechanisms through which the company supports employee welfare. Employees also have on-line access to policy information through the ZIIC intranet portal.

Our Performance Management Program continues with KRA/KPI-based goal setting and performance evaluation. This has engaged ZIIC employees across various sectors and has facilitated the introduction of performance-based variable pay schemes.

Providing continuity of leadership at all levels through career development initiatives

Another notable initiative is our Management Career Development Program, which has been established upon a succession-planning framework. The initiative enables ZIIC companies to nominate candidates for entry into a career development pool, thus ensuring the consistent availability of qualified managers and supervisors poised for promotion. This provides for continuity of leadership at all levels. Candidates are profiled using psychometric tools, a needs assessment survey and their individual career histories. Subsequent competency-based development initiatives – in the form of internal and external training – are then made available to nominated candidates.

2006 was another busy year for ZIIC IT, with the formation of the ZIIC IT Global Services Model – (ZIIC ITG). Effective from 1st January 2007, this new model, an upgrade of the previous and successful 'ZIIC IT Shared Services Model', handles additional responsibilities and even greater challenges. The main objective of the new model is to align IT services with future business needs and to support ZIIC geographically – both domestically and internationally.

The Zamil Steel ERP was successfully upgraded from 11.0.3 to 11i web based; and both Zamil Steel and Zamil Air Conditioners' Oracle ERP databases were migrated to HP-UNIX running on Itanium technology. These upgrades have resulted in major performance improvements.

ZIIC IT also established a common consolidated platform to launch all in-house applications, portals, and other related services. With this mature architecture and technology, we are well on the way to becoming a role model in the region. Zaki Sabbagh, our Chief Information Officer, was selected by Arabian Computer News (ACN) magazine as one of the Top Ten IT Managers of the Year in the Middle East. This recognition adds to a growing number of accolades received by the ZIIC IT Department.

One of the major tasks of ZIIC IT during the year was the inclusion of Arabian Fiberglass Insulation Co. Ltd. (AFICO) into the ZIIC IT fold, providing all IT services to AFICO following full conversion from its earlier SAP environment to the Zamil Oracle ERP database.

IT projects for our Ras Al-Khaimah, UAE facilities are currently in progress and temporary environments have already been set up to link the facilities with the ZIIC ITG Saudi data center.

ZIIC IT is also transitioning to an SOA architectural approach to enable business applications to be built through a collection of loosely coupled services. 'SUCHI' (Supply Chain Internal Management System), the new Zamil Steel PEB in-house application currently under development, will be a business case for the SOA. All ZSI-PEB factories worldwide will run, and be integrated with, SUCHI.

ZIIC Corporate Communications remains a vital force in enhancing the company's overall image. We strive to ensure that each stakeholder's first impression of ZIIC and its sector businesses is a positive and truthful one.

The launch of the ZIIC corporate website (www.ziic.com) in Arabic and English was a major milestone in 2006, providing stakeholders, investors and visitors around the world with easy access to a wealth of information and data about the company and our sector businesses. Investors and users are now receiving the latest financial news, press releases, newsletters and annual reports in their e-mail boxes as soon as they are published. A major achievement for ZIIC web site this year was winning the silver trophy in the 'industrial' category at this year's UAE Web Awards 2006. The awards recognize excellence in web design and development skills.

"Companies do business – but live in a society' ZIIC engages in sustainable development in addition to everyday business, requiring a continual engagement in CSR activities."

ZIIC Corporate Communications held several workshops in the presence of ZIIC executive management on the re-branding of ZIIC as part of an effort to improve corporate awareness and positioning. Planning has also begun to enhance our corporate identity, which will include a new logo and branding that will better reflect the image and future direction of the company.

Corporate Social Responsibility

The statement, 'companies do business, but live in a society' summarizes the reasons for a company to act responsibly. ZIIC is a company that engages in sustainable development in addition to our everyday business, requiring our continual engagement in CSR activities. Long-term commitment to such activities helps us to fairly, honestly and completely fulfill our obligations to all of our stakeholders – our people, customers, suppliers, shareholders and the community at large.

Our activities in this area include:

Employment and Locolization

Employment creation and localization of the workforce is a top agenda at ZIIC. In 2006, the total employee count at ZIIC worldwide has gone up by 25% as shown in the table below:

Region	2004	2005	2006	% increase over 2005
KSA/GCC	3772	3982	5084	29%
Egypt	421	500	606	25%
Vietnam	621	740	842	16%
International	264	303	279	-9%
ZIIC Total	5078	5525	6811	25%

ZIIC's Steel Sector has been the main contributor to above increase in total manpower.

"ZIIC companies have shown steadfast committment to the Saudization drive, making it their corporate objective."

Localizing our workforce is perhaps the most important dimension to employment creation, as this is how we can make a meaningful social contribution to the region where we operate. We strive to adhere to this principle at all our major manufacturing centers as can be seen in the above table.

In Saudi Arabia, ZIIC companies have shown steadfast commitment to the Saudization drive of the government, making it their corporate objective wherein set targets are tracked regularly.

The present requirement of Saudization in the manufacturing sector is a level of at least 30%. In the contracting/service segment, the required level is a minimum of 10%. Current Saudization levels at all ZIIC sector businesses are very close to these levels, with Zamil Air Conditioners and Zamil CoolCare (service company) exceeding the requirement with respective achievements of 38% and 11%. Increased Saudization over the years has not come at the expense of losing expatriate employees, but by increased business operations. ZIIC companies in recent times have received awards in recognition and appreciation for our Saudization efforts, notably the HRH Prince Naif bin Abdulaziz Saudization Award.

Training and Youth Development

ZIIC received approval from the General Organization for Technical Education and Vocational Training (GOTEVOT) in late 2005 to establish the Zamil Industrial Training Institute (ZITI). The Institute aims to provide high quality,

vocationally-oriented training programs that develop the skills and competency levels of our employees as well as individual candidates, and to significantly contribute towards increasing the number of Saudi employees at various levels of responsibility within ZIIC.

The Institute also provides customized training programs to third party organizations. Its vision is to obtain international recognition and accreditation of diploma programs so that its graduates can pursue further studies and training.

Approved programs, currently being offered, include several one-year diploma and short-term courses in HVACR, Welding & Fabrication, Production, and Measurement Technologies.

During the year, several short term courses and familiarization programs were developed, conducted and facilitated. These included: English language, presentation skills, fundamentals of welding technology, fundamentals of brazing technology, fundamentals of refrigeration and air conditioning technology, advanced air conditioning theory and practice, and instrumentation & process measurement. Some 875 candidates attended these programs in order to enhance their skills, increase their knowledge and improve their productivity.

ZITI has also assisted in the preparation of a six-month training proposal with detailed requirements to establish Air Conditioning Maintenance Workshops for a project initiated by Abdullah Hamad Al-Zamil Community Service Center, a humanitarian unit of Zamil Group Holding Company. The training program and the skills checklist will be used to train Saudi jobseekers to become repair and maintenance technicians for room air conditioners and the workshop proposal will be used to encourage young Saudis to establish their own workshops and become self employed.

Construction of a newly dedicated building for ZITI, with a total investment of SAR 15 million, will soon commence in Dammam's First Industrial City. We anticipate the fully equipped building will accept trainees during early 2008.

"Zamil Industrial Training Institute's vision is to obtain international recognition and accreditation of diploma programs so that its graduates can pursue further studies and training."

Education

ZIIC companies have long supported educational institutions in their development programs. The activity to be henceforth managed by ZITI will become even more structured. ZITI has already developed several cooperative training programs with a number of universities and colleges in Saudi Arabia to receive students on a regular basis for summer on-the-job training programs.

In 2006, on-the-job training programs were prepared and conducted for 30 students from several Saudi universities and colleges. These included King Fahd University of Petroleum and Minerals in Dhahran, King Faisal University in Dammam, King Saud University in Riyadh, Dammam College of Technology, and Jubail Industrial College. The students were given practical projects to enhance their skills and reinforce theoretical knowledge gained from the academic institutions.

The possible environmental impact of an HVAC business on the environment innevitably comes to mind

Environment

Zamil Air Conditioners leads the HVAC sector business at ZIIC. Perhaps the first thing to come to mind with regard to CSR of an HVAC company is the possible environmental impact of its business activities.

Stratospheric ozone depletion as well as the atmospheric greenhouse effect of refrigerant emissions has led to drastic changes in refrigeration and air conditioning technology during the last decade. This is especially true in the area of commercial refrigeration and air conditioning plants with their wide range of applications. Until a few years ago, the main refrigerants used for these systems were ozone-depleting types, namely R12, R22 and R502. With the exception of R22, the use of these chemicals has been forbidden in industrialized countries. In the European Union there is a current early phase-out of R22. Although chlorine-free refrigerants (HFCs) have become established (namely R134a, R404A/R507A, R407C, R410A as well as NH3 and various other hydrocarbons), there is still a need for further research and development. ZAC has been working in close cooperation with component manufacturers as well as the refrigeration and oil industries to source new refrigerants as suitable replacements for R-22. We already produce units using R-407C and R-134A as the refrigerants.

ZAC is also engaged in development projects that seek a range of compressors and equipment suitable for use with alternative refrigerants. The selection of an alternative refrigerant and the system design receives special attention, with an emphasis on substances that have zero ozone depletion potential. Furthermore, the energy demand of a system is an essential criterion due to its indirect contribution to the greenhouse effect.

"ZAC has been working in close cooperation with component manufacturers as well as the refrigeration and oil industries to source new refrigerants as suitable replacements for R-22."

Sponsorships

As part of our CSR commitment, ZIIC sponsors events and forums every year that address community issues at large.

In 2006, we supported and participated in the Al Ain Dialogue, which took place in the United Arab Emirates. Organized by the Gulf Society for Organizational Learning (Gulf SoL) and driven by Saudi ARAMCO, the event discussed and explored ways to create and implement measures that achieve meaningful sustainable development in the region.
ZIIC also co-sponsored the 'Young Businessmen Forum' and associated exhibition, held in the Saudi capital, Riyadh. The forum, organized by the Riyadh Chamber of Commerce & Industry, addressed several issues facing young businessmen.

Committed to better serve the community

We also sponsored the first Girls' Interior Design Exhibition, which was organized by the Faculty of Architecture and Planning at King Faisal University, and held at Al-Rashed Mall in Al Khobar.

ZIIC continues to build an effective, efficient and vibrant social services sector to better serve the community. We achieve this by developing new services, setting standards and directions, promoting integration and collaboration, and allocating support funds. These activities are the basis upon which we are able to deliver upon our commitment to seek and promote sustainable development for the benefit of wider society.

Abdulla M. Al Zamil
Chief Operating Officer

Deloitte & Touche
Bakr Abulkhair & Co.
Public Accountants - License No. 96
P.O. Box 182, Dammam 31411
Kingdom of Saudi Arabia

Tel: +966 (3) 8347685
Fax: +966 (3) 8330513
www.deloitte.com
Head Office: Riyadh

Deloitte.

ERNST & YOUNG

P.O. Box 3795
4th Floor
Fluor Building
Al-Khobar 31952
Saudi Arabia

Phone: 8825414
Fax: 8827224
www.ey.com/eyme

Registration No. 45

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

We have audited the accompanying consolidated balance sheet of Zamil Industrial Investment Company (the parent company - Joint Stock Company) and its subsidiaries as at 31 December 2006 and the related consolidated statements of income, cash flows and changes in equity for the year then ended. These consolidated financial statements are the responsibility of the board of directors of the parent company and have been prepared by them in accordance with the provision of Article 123 of the Regulations for Companies and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

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

i) present fairly, in all material respects, the consolidated financial position of the parent company and its subsidiaries as at 31 December 2006 and the consolidated results of its operations and its consolidated cash flows for the year then ended in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.

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

for Ernst & Young

Abdulaziz S Alshubaibi
Certified Public Accountant
Registration No. 339

26 Muharram 1428
14 February 2007

for Deloitte & Touche
Bakr Abulkhair & Co

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

CONSOLIDATED BALANCE SHEET

As At 31 December 2006

	Note	2006 SR 000	2005 SR 000
ASSETS EMPLOYED			
PROPERTY, PLANT AND EQUIPMENT	3	**444,321**	342,958
INVESTMENTS	4	**153,785**	68,025
GOODWILL	5	**27,730**	4,754
DEFERRED CHARGES	6	**10,260**	10,830
CURRENT ASSETS			
Inventories	7	**1,157,287**	972,769
Accounts receivable and prepayments	8	**961,042**	678,270
Amounts due from related parties	9	**20,855**	10,120
Cash and cash equivalents		**161,572**	131,387
		2,300,756	1,792,546
CURRENT LIABILITIES			
Notes and accounts payable and accruals	10	**1,704,412**	1,288,504
Amounts due to related parties	9	**10,611**	5,830
Advances from customers		**188,396**	71,418
Bank overdrafts		**-**	3,850
Short term loans	11	**51,275**	94,902
Current portion of term loans	15	**28,707**	19,883
		1,983,401	1,484,387
NET CURRENT ASSETS		**317,355**	308,159
		953,451	734,726
FUNDS EMPLOYED			
EQUITY			
Share capital	13	**450,000**	350,000
Statutory reserve	14	**81,744**	62,579
Retained earnings		**151,796**	148,814
Proposed cash dividends	16	**67,500**	-
Unrealised gains on investments		**-**	34,525
Translation loss on consolidation		**(9,544)**	(8,403)
		741,496	587,515
Minority Interests	17	**63,788**	24,235
TOTAL EQUITY		**805,284**	611,750
NON CURRENT LIABILITIES			
Term loans	15	**58,225**	48,940
Long term payables		**1,751**	1,716
Employees' terminal benefits		**88,191**	72,320
		148,167	122,976
		953,451	734,726

The attached notes 1 to 25 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

Year ended 31 December 2006

	Note	2006 SR 000	2005 SR 000
Net sales		**2,867,594**	2,369,493
Cost of sales		**2,237,046**	1,866,710
GROSS PROFIT		**630,548**	502,783
EXPENSES			
Selling and distribution	18	**197,533**	186,432
General and administration	19	**202,980**	159,285
Amortisation of goodwill	5	**-**	300
Amortisation of deferred charges	6	**2,796**	2,899
		403,309	348,916
INCOME FROM MAIN OPERATIONS		**227,239**	153,867
Other income	20	**47,032**	21,658
Gain on sale of available for sale investments		**19,899**	-
Financial charges	10,11&15	**(70,235)**	(50,586)
INCOME BEFORE ZAKAT, TAXES AND MINORITY INTERESTS		**223,935**	124,939
Foreign taxes		**(1,146)**	(505)
Net minority interests in results of subsidiaries		**(17,067)**	(6,038)
INCOME BEFORE ZAKAT		**205,722**	118,396
Zakat	12	**14,075**	12,034
NET INCOME FOR THE YEAR		**191,647**	106,362
Earning per share (Saudi Riyals)		**4.26**	2.36

The attached notes 1 to 25 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2006

	Note	2006 SR 000	2005 SR 000
OPERATING ACTIVITIES			
Income before zakat, taxes and minority interests		**223,935**	124,939
Adjustments for:			
Depreciation	3	**59,933**	51,192
Gain on sale of property, plant and equipment		**(204)**	(275)
Gain on sale of investments		**(19,899)**	-
Amortisation of deferred charges	6	**2,796**	2,899
Amortisation of goodwill	5	**-**	300
		266,561	179,055
Changes in operating assets and liabilities:			
Inventories		**(184,518)**	(138,849)
Receivables		**(293,507)**	(59,335)
Payables		**531,798**	212,782
Cash from operations		**320,334**	193,653
Employees' terminal benefits, net		**15,871**	9,587
Zakat and foreign taxes paid		**(11,317)**	(9,298)
Net cash from operating activities		**324,888**	193,942
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	3	**(120,545)**	(71,990)
Acquisition of assets related to subsidiary	3	**(39,711)**	-
Proceeds from sale of property, plant and equipment		**513**	520
Proceeds from sale of investment		**32,205**	-
Deferred charges	6	**(2,226)**	(6,462)
Investments acquired		**(132,591)**	(7,931)
Goodwill incurred		**(22,976)**	-
Net cash used in investing activities		**(285,331)**	(85,863)
FINANCING ACTIVITIES			
Bank overdrafts		**(3,850)**	163
Dividends paid		**-**	(42,000)
Term loans obtained		**37,997**	24,404
Repayment of term loans		**(19,888)**	(20,431)
Change in short term loans		**(43,627)**	(21,756)
Minority interests, net		**22,486**	(164)
Net cash used in financing activities		**(6,882)**	(59,784)
INCREASE IN CASH AND CASH EQUIVALENTS		**32,675**	48,295
Cash and cash equivalents, at the beginning of the year		**131,387**	78,938
Movement in translation difference - net		**(2,490)**	4,154
CASH AND CASH EQUIVALENTS, AT THE END OF THE YEAR		**161,572**	131,387

The attached notes 1 to 25 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2006

	Share Capital SR 000	Statutory reserve SR 000	Retained earnings SR 000	Proposed Cash dividends SR 000	Unrealised gains on investments SR 000	Translation loss on consolidation SR 000	Total SR 000
Balance at 31 December 2004	350,000	51,943	55,088	42,000	7,975	(12,057)	494,949
Net income for the year	-	-	106,362	-	-	-	106,362
Transfer to statutory reserve	--	10,636	(10,636)	-	-	-	-
Directors' remuneration	-	-	(2,000)	-	-	-	(2,000)
Dividends paid	-	-	-	(42,000)	-	-	(42,000)
Unrealized gains on investments	-	-	-	-	26,550	-	26,550
Movement during the year	-	-	-	-	-	3,654	3,654
Balance at 31 December 2005	350,000	62,579	148,814	-	34,525	(8,403)	587,515
Net income for the year	**-**	**-**	**191,647**	**-**	**-**	**-**	**191,647**
Transfer to statutory reserve	**-**	**19,165**	**(19,165)**	**-**	**-**	**-**	**-**
Transfer to share capital (note1)	**100,000**	**-**	**(100,000)**	**-**	**-**	**-**	**-**
Directors' remuneration	**-**	**-**	**(2,000)**	**-**	**-**	**-**	**(2,000)**
Proposed cash dividends (note 16)	**-**	**-**	**(67,500)**	**67,500**	**-**	**-**	**-**
Movement during the year	**-**	**-**	**-**	**-**	**(34,525)**	**(1,141)**	**(35,666)**
Balance at 31 December 2006	**450,000**	**81,744**	**151,796**	**67,500**	**-**	**(9,544)**	**741,496**

The attached notes 1 to 25 form part of these consolidated financial statements.

1. STATUS AND ACTIVITIES

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

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

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

Branches:

- Zamil Steel Industries, engaged in the manufacture and erection of steel buildings, transmission line towers and structural steel products.

- Zamil Air Conditioners, engaged in the manufacture and assembly of room and central air conditioners and other related activities.

- Zamil Glass Industries, engaged in the production of glass and mirrors.

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

At the beginning of 2006, the company acquired 51% share of Arabian Fibreglass Insulation Co. Ltd. (AFICO), a Saudi limited liability company, engaged in the manufacture of insulation materials.

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

On 12/4/1427H corresponding 10 May 2006, and in accordance with extraordinary general assembly resolution, the company increased the share capital from SR 350 million to SR 450 million, by transfer of SR 100 million from retained earnings by issue of 10 million shares through distribution of 2 bonus shares for every seven shares held at the end of 10 May 2006. Accordingly, the company's share capital after the increase is SR 450 million divided into 45 million shares of SR 10 per share. Therefore, the earning per share for the year ended 31 December 2005 has been restated as required by the accounting standards.

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 ends on 30 September.

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

Goodwill
Goodwill represents the excess of the cost of the acquisition over the fair value of identifiable net assets of a subsidiary at the date of acquisition. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Property, plant and equipment/depreciation
All property, plant and equipment are recorded at cost. Freehold land is not depreciated. Depreciation is provided on other property, plant and equipment at rates calculated to write off the cost of each asset over its expected useful life.

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

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

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

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

Income from the investments in marketable equity securities is recognized when dividends are declared.

Inventories

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

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

Accounts receivable

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

Warranties

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

Zakat and income tax

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

Employees' terminal benefits

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

Foreign subsidiaries make provision in accordance with the law 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 on a percentage of completion basis. If losses are foreseen, they are provided for in full.

Expenses

Selling and distribution expenses are those that specifically relate to salesmen, warehousing, delivery vehicles and warranty cost as well as provision for doubtful debts. All other expenses other than direct cost, amortization 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.

Cash and cash equivalents

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

Segmental reporting

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

3. PROPERTY, PLANT AND EQUIPMENT

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

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

	Freehold land SR 000	Buildings on leasehold land SR 000	Plant, equipment. furniture, fixtures and vehicles SR 000	Capital work in progress SR 000	**Total 2006 SR 000**	Total 2005 SR 000
Cost:						
At the beginning of the year	10,114	261,107	586,880	23,721	881,822	824,772
Assets related to acquired subsidiary	-	14,216	70,967	-	85,183	-
Additions	**-**	**8,598**	**46,537**	**65,410**	**120,545**	71,990
Disposals	**-**	**(56)**	**(7,260)**	**-**	**(7,316)**	(14,731)
Transfers	**-**	**2,929**	**5,943**	**(8,872)**	**-**	-
Translation gain (loss)	**(96)**	**(50)**	**1,885**	**(21)**	**1,718**	(209)
At the end of the year	**10,018**	**286,744**	**704,952**	**80,238**	**1,081,952**	881,822
Depreciation:						
At the beginning of the year	-	134,457	404,407	-	538,864	501,867
Depreciation related to acquired subsidiary	**-**	**8,373**	**37,099**	**-**	**45,472**	-
Charge for the year	**-**	**10,865**	**49,068**	**-**	**59,933**	51,192
Disposals	**-**	**(56)**	**(6,951)**	**-**	**(7,007)**	(14,486)
Translation gain (loss)	**-**	**(26)**	**395**	**-**	**369**	291
At the end of the year	**-**	**153,613**	**484,018**	**-**	**637,631**	538,864
Net book amounts:						
At 31 December 2006	**10,018**	**133,131**	**220,934**	**80,238**	**444,321**	**-**
At 31 December 2005	10,114	126,650	182,473	23,721		342,958

Capital work in progress represents mainly the cost incurred in respect of new building, expansion, upgrading of production facilities, plant and equipment acquired for general modernisation for Zamil Steel Industries and Zamil Air Conditioners (Saudi Arabia). It also includes costs related to the extension of administrative building, plant and new production lines under construction related to Zamil Steel Building Egypt.

4. INVESTMENTS

	2006 SR 000	2005 SR 000
Investment in listed companies	**22,587**	27,992
Unrealised gain on revaluation	**-**	34,525
Available for sale investments	**22,587**	62,517
Investment in associates	**6,266**	5,008
Investment in Subsidiaries	**68,968**	500
Other investments	**55,964**	-
	153,785	68,025

Investment in associates comprise of the following:

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

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

Investment in subsidiaries comprise of the following:

1. 100% share in Lab Testing Company, a Saudi Limited Liability company established in November 2005. The principal activities of the company are the inspection and testing of electrical and electronic devices/ appliances and mechanical products.

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

3. 100% share in ZESCO (Zamil Energy Services Company) a limited liability company registered in Saudi Arabia. The principal activities of the company are power generation and distribution, electrical installation, inspection and verification services and to build and operate industrial projects and cold storages.

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

Other investments comprise of the following:

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

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

5. GOODWILL ON ACQUISITION

	2006 SR 000	2005 SR 000
At the beginning of the year	**4,754**	5,054
Incurred during the year	**22,976**	-
Amortised during the year	**-**	(300)
At the end of the year	**27,730**	4,754

6. DEFERRED CHARGES

	2006 SR 000	2005 SR 000
At the beginning of the year	**10,830**	7,267
Incurred during the year	**2,226**	6,462
Amortised during the year	**(2,796)**	(2,899)
At the end of the year	**10,260**	10,830

7. INVENTORIES

	2006 SR 000	2005 SR 000
Materials, supplies and stores	**781,012**	612,781
Work in progress	**41,592**	32,599
Finished goods	**189,123**	265,676
Goods in transit	**145,560**	61,713
	1,157,287	972,769

8. ACCOUNTS RECEIVABLE AND PREPAYMENTS

	2006 SR 000	2005 SR 000
Trade accounts and notes receivable	**818,189**	567,944
Prepaid expenses	**23,061**	20,013
Retentions receivable	**26,646**	21,679
Advances, deposits and other receivables	**93,146**	68,634
	961,042	678,270

9. RELATED PARTY TRANSACTIONS AND BALANCES

The following are the details of major related party transactions:

	2006 SR 000	2005 SR 000
Companies affiliated to Al Zamil Group:		
Purchase of goods and services	**37,838**	37,938
Sale of goods and services	**26,621**	12,089

The company also paid SR 2.38 million (2005: SR 2.38 million) to certain directors as salary and other benefits in their capacity as executives of the company.

Directors' fee amounted to SR 2.0 million (2005: 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. NOTES AND ACCOUNTS PAYABLE AND ACCRUALS

	2006 SR 000	2005 SR 000
Trade accounts payable	**266,124**	165,627
Notes payable under Morabaha finances	**1,151,541**	899,799
Other notes payable	**291**	667
Accrued contractual costs	**87,313**	74,594
Accrued expenses	**183,798**	136,376
Zakat provision (note 12)	**15,345**	11,441
	1,704,412	1,288,504

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

11. 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.

12. ZAKAT

Charge for the year

The zakat charge for the year consists of:

	2006 SR 000	2005 SR 000
Current year provision	**14,075**	12,034

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

	2006 SR 000	2005 SR 000
Equity	**561,393**	458,953
Opening provisions and other adjustments	**103,876**	80,842
Book value of long term assets	**(446,022)**	(302,439)
	219,247	237,356
Zakatable profit for the year	**193,421**	141,480
Zakat base	**412,668**	378,836

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:

	2006 SR 000	2005 SR 000
At the beginning of the year	**11,441**	8,200
Provided during the year	**14,075**	12,034
Payments during the year	**(10,171)**	(8,793)
At the end of the year	**15,345**	11,441

Status of assessments

Zakat assessments have been agreed with the Department of Zakat and Income Tax (DZIT) up to 2005.

13. SHARE CAPITAL

Share capital is divided into 45,000,000 shares of SR 10 each (2005: 7,000,000 shares of SR 50 each).

14. 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.

15. TERM LOANS

	2006 SR 000	2005 SR 000
Loan No. 1	**5,490**	10,991
Loan No. 2	**53,737**	48,604
Loan No. 3	**2,346**	3,442
Loan No. 4	**5**	36
Loan No. 5	**1,753**	1,981
Loan No. 6	**3,742**	3,769
Loan No. 7	**6,750**	-
Loan No. 8	**2,779**	-
Loan No. 9	**6,271**	-
Loan No. 10	**3,712**	-
Loan No. 11	**347**	-
Less: current portion	**(28,707)**	(19,883)
	58,225	48,940

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

Loan No. 2 represents the loans obtained by Zamil Steel Industries, Zamil Air Conditioners and Zamil Glass Industries from Saudi Industrial Development Fund (SIDF). The total amount of loans sanctioned by SIDF for these branches as at December 31, 2006 was SR 118.7 million (2005 – SR 106.0 million). These loans carry appraisal fees which are being amortised over the terms of the loans and are repayable in 8 to 14 semi-annual unequal instalments, the last being payable on 15 Shawwal 1433H (corresponding to 2 September 2012). The loans are secured by mortgage over the property, plant and equipment of the branches. The loans agreements also contain certain covenants in respective of maintenance of financial ratios.

Loan No. 3 is repayable by equal quarterly instalments in Euro. The final instalment is due in 2008. The loan carries commission at normal commercial rates and is secured by guarantees provided by the company's bankers.

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

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

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

Loan No: 7 represents a loan obtained by Zamil Steel Vietnam in the amount of US Dollars 1.8 Million from a bank. The loan is repayable in 8 quarterly instalments and carries commission at normal commercial rates. The loan is secured by mortgage on the company's assets, pledge over accounts receivable, stock and insurance policies.

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

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

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

Loan No: 11 represents a loan obtained by Geoclima S.r.l in the amount of 70,000 Euros from a bank. The loan is repayable in 10 equal half yearly instalments and carries commission at normal commercial rates.

Loan instalments due in 2007 are shown as a current liability.

16. PROPOSED CASH DIVIDENDS

The board of directors has proposed cash dividends of SR 1.5 per share totalling SR 67.5 million being 15% of the share capital (2005: Nil) for the approval of the shareholders in their annual general meeting.

17. MINORITY INTERESTS

Minority interests are as follows:

	2006 **%**	2005 %
Middle East Airconditioners Company Limited	**49**	49
Geoclima S.r.l.	**15**	15
Canam Asia Limited	**35**	35
Zamil Steel Buildings - Vietnam Company Limited	**10**	10
Arabian Fiberglass Insulation Company Limited	**49**	-

18. SELLING AND DISTRIBUTION EXPENSES

	2006 SR 000	2005 SR 000
Employee costs	**92,423**	82,466
Advertising and sales promotion	**14,762**	16,677
Services	**18,470**	17,181
Rent and utilities	**3,748**	6,948
Transportation, business travel and entertainment	**21,021**	21,623
Depreciation	**7,072**	6,276
Repairs and maintenance	**1,246**	896
Others	**38,791**	34,365
	197,533	186,432

19. GENERAL AND ADMINISTRATION EXPENSES

	2006 SR 000	2005 SR 000
Employee costs	**98,896**	75,496
Depreciation	**10,609**	8,865
Services	**29,649**	24,048
Supplies	**1,004**	1,011
Others	**62,822**	49,865
	202,980	159,285

20. OTHER INCOME

	2006 SR 000	2005 SR 000
Scrap sales and miscellaneous	**46,828**	21,383
Profit on sale of property, plant and equipment	**204**	275
	47,032	21,658

21. SEGMENTAL ANALYSIS

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

	Sales SR 000		Operating Income/ (losses) SR 000		Net assets SR 000	
	2006	2005	**2006**	2005	**2006**	2005
Air conditioner industry	**1,021,804**	859,116	**59,995**	46,291	**292,766**	326,904
Steel industry	**1,727,173**	1,464,849	**173,748**	135,473	**430,495**	297,068
Glass & fibreglass	**118,617**	45,528	**20,745**	(11,904)	**80,639**	(33,519)
Head Office	**-**	-	**(27,249)**	(15,993)	**(62,404)**	(2,938)
	2,867,594	2,369,493	**227,239**	153,867	**741,496**	587,515

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

	Sales		Operating Income (losses)	
	2006	2005	**2006**	2005
	SR 000		SR 000	
Saudi Arabia:				
Local sales	**1,556,956**	1,206,998	**116,541**	79,159
Export sales	**840,685**	715,188	**85,565**	54,738
Total sales of Saudi Arabia	**2,397,641**	1,922,186	**202,106**	133,897
Other Asian countries	**202,456**	216,720	**(1,820)**	(864)
Africa	**186,690**	171,579	**26,446**	22,931
Europe	**80,807**	59,008	**507**	(2,097)
	2,867,594	2,369,493	**227,239**	153,867

(c) The company's management has allocated provision for doubtful debts amounting to SR 4 million to the head office. In addition provision for warranty commitment in respect of air conditioner industry amounting to SR 28.5 million has been allocated to the head office.

22. CONTINGENT LIABILITIES

The company's bankers have issued, on behalf of the company, performance bonds in respect of certain contracts amounting to SR 351 million (2005: SR 275.0 million).

23. CAPITAL COMMITMENTS

The directors have approved future capital expenditure amounting to SR 102.5 million (2005: SR 52.0 million).

24. RISK MANAGEMENT

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

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

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.

25. 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.