ZAMIL INDUSTRIAL INVESTMENT COMPANY
(JOINT STOCK COMPANY) AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2006

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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
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26 Muharram 1428
14 February 2007

for Deloitte & Touche
Bakr Abulkhair & Co

Nasser M. Al-Sagga
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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 investments		**32,205**	-
Deferred charges incurred	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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2006

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS- continued
31 December 2006

1. STATUS AND ACTIVITIES - continued

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.

2. SIGNIFICANT ACCOUNTING POLICIES - continued

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.

2. SIGNIFICANT ACCOUNTING POLICIES - continued

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS- continued
31 December 2006

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS- continued
31 December 2006

4. INVESTMENTS - continued

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS- continued
31 December 2006

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS- continued
31 December 2006

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS- continued
31 December 2006

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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS- continued
31 December 2006

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	2005
	SR 000	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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS- continued
31 December 2006

15. TERM LOANS - continued

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**	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS- continued
31 December 2006

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS- continued
31 December 2006

21. SEGMENTAL ANALYSIS - continued

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

	Sales SR 000		Operating income (losses) SR 000	
	2006	2005	**2006**	2005
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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS- continued
31 December 2006

24. RISK MANAGEMENT- continued

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

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

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.