

Independent auditor's report to the shareholders' of Raysut Cement Company SAOG

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Report on the financial statements

We have audited the accompanying financial statements of **Raysut Cement Company SAOG**, which comprise of the balance sheet as at 31 December 2007, the income statement, statement of changes in equity and cash flows statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 3 to 35.

Board of director's responsibility for the financial statements

Board of director's are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the relevant disclosure requirements of the Commercial Companies Law of 1974, as amended and the Rules and Guidelines on disclosure issued by the Capital Market Authority, effective 1 October 2007. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Independent auditor's report
to the shareholders' of
Raywat Cement Company SAOG (continued)**

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Opinion

In our opinion, the financial statements, present fairly in all material respects, the financial position of Raywat Cement Company SAOG as of 31 December 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

In our opinion the financial statements comply, in all material respects, with the relevant disclosure requirements of the Commercial Companies Law of 1974, as amended and the Rules and Guidelines on disclosure issued by the Capital Market Authority, effective 1 October 2007.

**Deloitte & Touche (M.E.)
Muscat, Sultanate of Oman
26 February 2008**



BALANCE SHEET

at 31 December 2007

	Notes	2007 RO	2006 RO
ASSETS			
Non-current assets			
Property, plant and equipment	3	71,500,066	58,681,096
Investment in an associate	4	3,310,343	2,787,177
Investments available-for-sale	5	125,000	125,000
Total non current assets		74,935,409	61,593,273
Current assets			
Inventories	6	5,759,238	3,554,749
Trade receivables	7	6,063,232	3,309,637
Investments held for trading	8	8,870,039	2,091,342
Prepayments and other receivables	9	1,361,474	1,004,859
Bank deposits	10	12,117,000	10,405,000
Cash and cash equivalents	10	3,923,110	14,637,518
Total current assets		38,094,093	35,003,105
Total assets		113,029,502	96,596,378
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	11	20,000,000	20,000,000
Share premium	13	13,456,873	13,456,873
Legal reserve	14	6,666,667	6,666,667
Asset replacement reserve	15	3,647,566	2,141,565
Voluntary reserve	16	6,352,434	4,283,130
Retained earnings	17	40,822,882	24,278,181
Total equity		90,946,422	70,826,416
Non current liabilities			
Term loans – non-current portion	18	5,032,790	7,253,846
Deferred government grant	18	356,612	525,803
Deferred tax liability	19	2,604,546	2,425,546
Total non-current liabilities		7,993,948	10,205,195
Current liabilities			
Term loans – current portion	18	2,407,143	7,799,963
Payables and accruals	20	11,681,989	7,764,804
Total current liabilities		14,089,132	15,564,767
Total equity and liabilities		113,029,502	96,596,378
Net assets per share	21	0.455	0.354

Chairman

Chief Executive Officer

The accompanying notes form an integral part of these financial statements.



INCOME STATEMENT

for the year ended 31 December 2007

	Notes	2007 RO	2006 RO
Revenue	22	63,013,288	47,974,950
Cost of sales	23	<u>(35,060,313)</u>	<u>(26,901,448)</u>
Gross profit		27,952,975	21,073,502
General and administrative expenses	24	(470,634)	(741,051)
Other income	25	<u>240,135</u>	<u>139,394</u>
Profit from operations		27,722,476	20,471,845
Net financing (costs) / income	26	(77,889)	43,053
Contribution to "Gonu-Cyclone Relief Fund"		(1,000,000)	-
Share of profit in an associate		3,154,032	2,763,776
Fair value gain / (loss) on investments held for trading		<u>3,506,387</u>	<u>(170,461)</u>
Profit before tax		33,305,006	23,108,213
Income tax	27	<u>(3,185,000)</u>	<u>(2,450,121)</u>
Profit after tax		<u>30,120,006</u>	<u>20,658,092</u>
Earnings per share basic and diluted	28	<u>0.151</u>	<u>0.103</u>

The accompanying notes form an integral part of these financial statements

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2007

	Share capital		Share premium		Legal reserve		Asset replacement reserve		Voluntary reserve		Retained earnings		Total	
	RO	RO	RO	RO	RO	RO	RO	RO	RO	RO	RO	RO	RO	RO
Balance at 1 January 2006	19,913,159	12,826,618	5,246,130	1,108,660	2,217,320	13,117,631	54,429,518							
Net profit for the year	-	-	-	-	-	20,658,092	20,658,092							
Proceeds from rights issue	86,841	630,255	-	-	-	-	717,096							
Dividends paid	-	-	-	-	-	(4,978,290)	(4,978,290)							
Transfers	-	-	1,420,537	1,032,905	2,065,810	(4,519,252)	-							
Balance at 1 January 2007	20,000,000	13,456,873	6,666,667	2,141,565	4,283,130	24,278,181	70,826,416							
Net profit for the year	-	-	-	-	-	30,120,006	30,120,006							
Dividends paid	-	-	-	-	-	(10,000,000)	(10,000,000)							
Transfers	-	-	-	1,506,001	2,069,304	(3,575,305)	-							
Balance at 31 December 2007	20,000,000	13,456,873	6,666,667	3,647,566	6,352,434	40,822,882	90,946,422							

The accompanying notes form an integral part of these financial statements.





STATEMENT OF CASH FLOWS

for the year ended 31 December 2007

	2007 RO	2006 RO
Operating activities		
Cash receipts from customers	60,675,382	46,658,744
Cash paid to suppliers and employees	(31,457,309)	(22,954,421)
Contribution made towards Gonu Cyclone Relief Fund	(1,000,000)	-
Income taxes paid	(2,283,335)	-
Net cash from operating activities	25,934,738	23,704,323
Investing activities		
Proceeds from sale of property, plant and equipment	158,905	46,108
Dividend income	78,810	84,194
Dividends from associate	2,885,866	2,054,365
Purchase of investments held for trading	(3,272,310)	-
Purchase of investments in an associate	(255,000)	-
Increase in term deposit	(1,712,000)	(405,000)
Payments made for capital work-in-progress	(314,009)	(6,368,450)
Purchase of property, plant and equipment	(16,158,452)	(4,594,219)
Net cash used in investing activities	(18,588,190)	(9,183,002)
Financing activities		
Increase in share capital – Rights issue	-	86,841
Increase in share premium	-	630,255
Term loans paid	(7,783,067)	(4,860,083)
Net financing costs	(77,889)	43,053
Dividends and directors remuneration paid	(10,200,000)	(5,123,689)
Net cash (used in) financing activities	(18,060,956)	(9,223,623)
Net (decrease) / increase in cash and cash equivalents	(10,714,408)	5,297,698
Cash and cash equivalents at beginning of the year	14,637,518	9,339,820
Cash and cash equivalents at end of the year (Note 10)	3,923,110	14,637,518

The accompanying notes form an integral part of these financial statements



NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

1. General

Raysut Cement Company (SAOG) ("the Company") was formed in 1981 by Ministerial Decision No. 7/81 and is registered in the Sultanate of Oman as a joint stock company. The Company is engaged in the production and sale of Portland cement, sulphur resistant cement, oil well class 'G' cement and pozzolana well cement. The registered office of the Company is at P.O. Box 1020, Salalah, Postal Code 112, Sultanate of Oman.

These financial statements are presented in Rial Omani (RO) since that is the currency of the country in which the majority of the Company's transactions are denominated.

2. Summary of significant accounting policies

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

Adoption of new and revised International Financial Reporting Standards (IFRS)

In the current year, the Company has adopted all of the new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for periods beginning on 1 January 2007.

The adoption of these standards and interpretations has not resulted in changes to the Company's accounting policies and has not affected the amounts reported for the current or prior years.

At the date of authorization of these financial statements, the following interpretations were in issue but not yet effective:

	Effective for annual period beginning or after
IFRIC 11 : IFRS 2: Group and Treasury Share Transactions	1 March 2007
IFRIC 12 : Service Concession Arrangements	1 January 2008
IFRIC 13 : Customer Loyalty Programmes	1 July 2008
IFRIC 14: IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	1 January 2008
IFRS 2 : (Revised) Share-based Payment	1 January 2009
IFRS 8 : Operating Segments	1 January 2009
IAS 1 : (Revised) Presentation of Financial Statements	1 January 2009
IAS 23 : (Revised) Borrowing Costs	1 January 2009
IAS 32 : (Revised) Financial Instruments : Presentation	1 January 2009
IFRS 3 : (Revised) Business Combinations	1 July 2009
IAS 27 : (Revised) Consolidated and Separate Financial Statements	1 July 2009
IAS 28 : (Revised) Investment in Associates	1 July 2009
IAS 31 : (Revised) Interests in Joint Ventures	1 July 2009



NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007 (continued)

2. Summary of significant accounting policies (continued)

The directors anticipate that the adoption of the above standards and interpretations in future periods will have no material impact on the financial statements of the Company.

A summary of significant accounting policies which have been adopted consistently is set out below:

Basis of accounting

The financial statements are prepared on the historical cost basis, except for certain financial assets and financial liabilities that are measured at fair value and amortised cost.

Property, plant and equipment

Property, plant and equipment are initially recorded at cost and carried at cost less accumulated depreciation and any identified impairment loss.

The cost of property, plant and equipment is their purchase cost, together with any incidental expenses of acquisition.

Depreciation is charged so as to write off the cost of assets other than properties under construction over their estimated useful lives, using the straight line method. The principal annual rates for this purpose are:

	Years
Buildings and civil works	5, 20 and 30
Plant and machinery	25
Motor vehicles	5
Furniture and fixtures	5
Office equipment	5
Plant vehicles, equipment and tools	3 and 5

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the income statement.

Capital work-in-progress

Capital work in progress is stated at cost less any impairment losses. When commissioned, capital work in progress is transferred to the appropriate property, plant and equipment category and depreciated in accordance with depreciation policies.

Impairment

At each balance date, the Company reviews the carrying amounts of its assets (or cash generating units) to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).



NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007 (continued)

2. Summary of significant accounting policies (continued)

Impairment (continued)

The loss arising on an impairment of an asset is determined as the difference between the recoverable amount and carrying amount of the asset and is recognised immediately in the income statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount and the increase is recognised as income immediately in the income statement, provided that the increased carrying amount does not exceed the carrying amount that would have been determined, had no impairment loss been recognised earlier.

Investments in an associate

An associate is an entity over which the Company has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for under IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Under the equity method, investments in an associates are carried in the balance sheet at cost as adjusted for post-acquisition changes in the Company's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Company's interest in that associate (which includes any long-term interests that, in substance, form part of the Company's net investment in the associate) are not recognised.

Investments held for trading

Investments acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as held for trading investments.

All purchases and sale of investments are recognised on the trade date, which is the date that the Company commits to purchase or sell the asset. Held for trading investments are initially recognised at cost, which includes transaction costs, and are subsequently carried at fair value. Realised and unrealised gains and losses arising from changes in the fair value of held for trading investments are included in the income statement in the year in which they arise.



NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007 (continued)

2. Summary of significant accounting policies (continued)

Investments available-for-sale

Investments intended to be held for an indefinite period of time but which may be sold in response to needs for liquidity or changes in interest rates or equity prices, are classified as available-for-sale.

Available-for-sale investments are initially recognised at cost, which includes transaction costs, and are, in general, subsequently carried at fair value. Available-for-sale equity investments that do not have a quoted market price in an active market, and for which other methods of reasonably estimating fair value are inappropriate, are measured at cost, as reduced by allowances for estimated impairment.

For available-for-sale investments, gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the income statement for the year. Impairment losses recognised in income statement for equity investments classified as available-for-sale are not subsequently reversed through income statement. Impairment losses recognised in income statement for debt instruments classified as available-for-sale are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss.

Inventories

Inventories are stated at the lower of cost and net realizable value. Costs comprise purchase cost and where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price less all estimated costs to be incurred in marketing, selling and distribution.

Raw materials cost represents price cost of the goods, and related direct expenses. Finished goods cost represent cost of raw materials, direct labour and other attributable overheads. Work-in-progress cost represents proportionate cost of raw materials, direct labour and other attributable overheads.

Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument.

The principal financial assets are cash and cash equivalents, bank deposits and trade and other receivables.

Trade and other receivables are initially measured at their fair value and subsequently measured at amortised cost, using the effective interest method. Appropriate provisions for estimated irrecoverable amounts are recognised in the income statement when there is objective evidence that the asset is impaired.

2. Summary of significant accounting policies (continued)



NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007 (continued)

Financial instruments (continued)

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been impacted.

The classification of financial assets depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

The principal financial liabilities are trade and other payables and bank term loans.

Trade payables are initially measured at their fair value which is the cost at the time of transaction and subsequently measured at amortised cost, using the effective interest method.

Interest bearing bank loans and borrowings are initially measured at fair value which is the cost at the time of transaction, and are subsequently measured at amortised cost using the effective interest method. Any difference between the proceeds (net of transaction costs) and the settlement of borrowings is recognised over the term of the borrowings.

Equity instruments are recorded at the proceeds received, less direct costs.

Deferred government grant

Interest subsidy is recognised in the balance sheet initially as a deferred Government grant and is amortised over the life of the loan based on the effective interest method in the same years in which the interest expense is incurred.

Leases

Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

2. Summary of significant accounting policies (continued)



NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007 (continued)

Provisions

Provisions are recognized when the Company has a present obligation as a result of a past event which it is probable will result in an outflow of economic benefits that can be reasonably estimated.

Provision for end of service benefits

End of service benefits for Omani employees are contributed in accordance with the terms of the Social Securities Law of 1991.

Provision for end of service benefits for non-Omani employees has been made in accordance with the terms of the Labour Law of the Sultanate of Oman and the policy of the Company and is based on current remuneration and cumulative years of service at the balance sheet date.

Taxation

Income tax is calculated as per the fiscal regulations of the Sultanate of Oman. Current tax is the expected tax payable on the taxable income for the year, using the tax rates ruling at the balance sheet date

Deferred tax

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax is calculated on the basis of the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. The tax effects on the temporary differences are disclosed under non-current liabilities as deferred tax.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

However for the purposes of deferred tax, it is assumed that carrying amount of assets and liabilities is equal to the carrying amounts used for income tax purposes on the transfer date.

Revenue recognition

Sales of manufactured goods are recognized when goods are delivered and title has passed, net of discounts and returns.

Other income is accounted upon rendering services on accrual basis.

2. Summary of significant accounting policies (continued)



NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007 (continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the cost of those assets. All other borrowing costs are recognized as expenses in the period in which they are incurred.

Foreign currencies

Transactions denominated in foreign currencies are initially translated into Rials Omani at the rate of exchange prevailing on the date of transactions. Assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the exchange rates prevailing on that date. The exchange gains and losses are dealt with in the income statement.

Cash and cash equivalents

For the purpose of the cash flows statement, cash and cash equivalents consist of cash in hand and balance with banks with a maturity of less than three months from the date of placement.

Use of estimates

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amount of financial assets and liabilities at the date of the financial statements and the resultant provisions and changes in fair value for the year. Such estimates are necessarily based on assumptions about several factors involving varying, and possibly significant, degrees of judgment and uncertainty and actual results may differ from management's estimates resulting in future changes in estimated assets and liabilities. The matters involving significant estimates used in the preparation of the financial statements are disclosed in Note 37.

Directors' remuneration

Director's remuneration has been computed in accordance with the Article 101 of the Commercial Companies Law of 1974, as per the requirements of Capital Market Authority and will be charged as an expense in the income statement.



NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007 (continued)

3. Property, plant and equipment

Cost	Land buildings and civil works		Property, plant and machinery		Motor Vehicles		Furniture and fixtures		Office equipment		Plant, Vehicles, equipment and tools		Capital Work-in-progress		Total		
	RO	RO	RO	RO	RO	RO	RO	RO	RO	RO	RO	RO	RO	RO	RO	RO	
At 1 January 2006	16,437,582	37,419,511	183,826	164,675	386,247	2,394,542	19,719,056	76,705,439									
Additions	12,950	34,919	50,125	11,318	17,872	1,206,209	9,629,274	10,962,667									
Transfers	5,568,426	17,021,801	-	-	389,653	-	(22,979,880)	-									
Disposals	-	-	(23,835)	-	-	(40,540)	-	(64,375)									
At 1 January 2007	22,018,958	54,476,231	210,116	175,993	793,772	3,560,211	6,368,450	87,603,731									
Additions	4,444,350	11,343,420	45,200	11,162	46,296	349,614	232,419	16,472,461									
Transfers	1,755,752	4,531,108	-	-	-	-	(6,286,860)	-									
Disposals	-	(529,243)	(55,460)	(1,452)	-	(353,793)	-	(939,948)									
At 31 December 2007	28,219,060	69,821,516	199,856	185,703	840,068	3,556,032	314,009	103,136,244									

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007 (continued)

3. Property, plant and equipment (continued)

Depreciation	Land	Property,	Motor	Furniture	Office	Plant,	Capital	Total
	buildings and civil works RO	plant and machinery RO	vehicles RO	and fixtures RO	equipment RO	vehicles, equipment and tools RO	work-in progress RO	
At 1 January 2006	6,986,775	16,363,511	138,653	136,313	235,701	1,786,842	-	25,647,795
Charge for the year	728,380	2,177,017	20,417	8,062	94,375	273,805	-	3,302,056
Disposals	-	-	(23,635)	-	-	(3,381)	-	(27,216)
At 1 January 2007	7,715,155	18,540,528	135,235	144,375	330,076	2,057,266	-	28,922,635
Charge for the year	771,359	2,271,835	27,683	10,571	117,728	405,777	-	3,604,953
Disposals	-	(480,705)	(55,460)	(1,452)	-	(353,793)	-	(891,410)
At 31 December 2007	8,486,514	20,331,658	107,458	153,494	447,804	2,109,250	-	31,636,178
Carrying amount								
31 December 2007	19,732,546	49,489,858	92,398	32,209	392,264	1,446,782	314,009	71,500,066
31 December 2006	14,303,803	35,935,703	74,881	31,618	463,696	1,502,945	6,368,450	58,681,096





NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007 (continued)

4. Investment in an associate

	2007 RO	2006 RO
Mukalla Raysut Trading and Industrial Company		
Cost	113,343	113,343
Add : Share of profits at the beginning of year	2,673,834	1,964,423
Share of profit for the year	3,154,032	2,763,776
Less : Dividends received during the year	<u>(2,885,866)</u>	<u>(2,054,365)</u>
	3,055,343	2,787,177
Raysut Cement and Partners	<u>255,000</u>	<u>-</u>
	<u>3,310,343</u>	<u>2,787,177</u>

Investments in an associated company represents 49% equity interest in Mukalla Raysut Trading and Industrial Company Limited ("MRTIC"), a limited liability company, incorporated in Yemen.

Investment in Raysut Cement and Partners represents 51% equity interest. This company is still in formation stage.

Summarised unaudited financial information in respect of the associated company is set out below:

	2007 RO	2006 RO
Total assets	11,036,797	8,681,500
Total liabilities	<u>4,801,403</u>	<u>2,993,384</u>
Net assets	<u>6,235,394</u>	<u>5,688,116</u>
Company's share of associate's net assets	<u>3,055,343</u>	<u>2,787,177</u>
Revenue	<u>28,596,092</u>	<u>27,611,033</u>
Profit for the year	<u>6,436,800</u>	<u>5,640,359</u>
Company's share of associate's profit for the year	<u>3,154,032</u>	<u>2,763,776</u>



NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007 (continued)

5. Investments available-for-sale

	2007	2006
	RO	RO
Unquoted -local unquoted (at cost)	<u>125,000</u>	<u>125,000</u>

The Board of directors believe that the fair value of investments available-for-sale at 31 December 2007 is not materially different than their cost.

6. Inventories

	2007	2006
	RO	RO
Raw materials	1,361,730	719,464
Work in progress	1,354,321	187,198
Finished goods	422,797	489,598
Spares and consumables	3,473,632	2,981,731
Provision for slow-moving items	<u>(853,242)</u>	<u>(823,242)</u>
	<u>5,759,238</u>	<u>3,554,749</u>

At 31 December 2007, finished goods represent 6 day's revenue (2006: 9 days).

7. Trade receivables

	2007	2006
	RO	RO
Trade receivables	7,316,039	4,567,592
Less: Provision for impaired debts	(697,800)	(697,800)
Provision for interest reserve	<u>(893,678)</u>	<u>(893,678)</u>
	<u>(1,591,478)</u>	<u>(1,591,478)</u>
	5,724,561	2,976,114
Amount due from related parties (note 32)	<u>338,671</u>	<u>333,523</u>
	<u>6,063,232</u>	<u>3,309,637</u>



NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007 (continued)

8. Investments held for trading

	2007		2006	
	RO Market Value	RO Cost	RO Market Value	RO Cost
Marketable Securities -				
Banking - Bank Dhofar SAOG	3,483,272	938,044	1,646,842	938,044
- Al Khaleej Bank- Qatar	4,577,100	3,272,310	-	-
Insurance - Dhofar Insurance SAOG	554,667	29,600	264,500	29,600
Others - Dhofar University SAOG	255,000	150,000	180,000	150,000
	<u>8,870,039</u>	<u>4,389,954</u>	<u>2,091,342</u>	<u>1,117,644</u>

Investment in banking sector represents 91% (2006: 79%) of the Company's total investment portfolio.

9. Prepayments and other receivables

	2007 RO	2006 RO
Advances and deposits	722,172	651,622
Less: Provision for impaired advances	<u>(58,328)</u>	<u>(58,328)</u>
	663,844	593,294
Advance to staff	5,607	11,442
Prepayments and accrued income	<u>692,023</u>	<u>400,123</u>
	<u>1,361,474</u>	<u>1,004,859</u>

10. Cash and cash equivalents

Cash in hand	5,070	4,569
Cash at bank		
Current account	2,792,929	1,037,410
Call deposits	1,125,111	202,243
Short term deposit with maturity of less than three months of the value date	-	<u>13,393,296</u>
Cash and cash equivalents	<u>3,923,110</u>	<u>14,637,518</u>
Short term deposit with maturity more than three months of the value date	<u>12,117,000</u>	<u>10,405,000</u>



NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007 (continued)

Interest is earned on call deposits at the rates ranging between 0.75% and 1.25% per annum. Short-term deposits earned interest at rates ranging from 4.0 to 4.5 % per annum.

11. Share capital

	2007 RO	2006 RO
Authorised, issued and paid up share capital	<u>20,000,000</u>	20,000,000

At an extra ordinary meeting held on 22 March 2006, the shareholders have resolved to split the par value of the share from RO 1.000 per share to RO 0.100 per share. As a result the authorised share capital of the Company increased to 200,000,000 shares of RO 0.100 each.

At 31 December, the shareholders who own 10% or more of the Company's share capital are:

	2007 %	2006 Shares held	%	Shares held
	Shareholding		Shareholding	
Islamic Development Bank	11.71	23,415,000	11.71	23,415,000
Abu Dhabi Fund for Development	10.00	20,000,000	10.00	20,000,000
Abdullah Bin Abdul Aziz Bin Saleh Al Rajhi	10.00	20,000,000	9.21	18,416,510
	31.71	63,415,000	30.92	61,831,510
Others	68.29	136,585,000	69.08	138,168,490
	<u>100.00</u>	<u>200,000,000</u>	<u>100.00</u>	<u>200,000,000</u>

12. Proposed dividend

The Board of Directors at the meeting held on 26.02.2008 proposed a cash dividend of 100 Baizas per share, for the year 2007 (2006 : 50 Baizas per share). A resolution to approve the dividend will be presented to the shareholders at the Annual General Meeting.

13. Share premium

Share premium account is not available for distribution.

14. Legal reserve

Article 106 of the Commercial Companies Law of 1974 requires that 10% of a company's net profit be transferred to a non-distributable legal reserve until the amount of the legal reserve becomes equal to one-third of the company's issued share capital. During the year the Company has not added to this reserve as the stipulated limit is already reached.



NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007 (continued)

15. Asset replacement reserve

The Board of Directors have resolved that 5% of the Company's net profit be transferred to a reserve for the purpose of replacement of capital assets until the amount together with any other voluntary reserves reach one half of the Company's issued capital.

16. Voluntary reserve

The Board of Directors have resolved that 10% of the Company's net profit to be transferred to voluntary reserve. During the year the Company has added only difference amount in order to not to cross the stipulated limit as mentioned in note 15 assets replacement reserve.

17. Retained earnings

Retained earnings represent the undistributed profits generated by the Company since incorporation. The Company had used its retained earnings to finance expansion of the new production facility.

18. Term loans and deferred government grant

Term loans : non-current portion	2007	2006
	RO	RO
Government loan for expansion project	1,200,000	1,500,000
Government soft loan	1,071,428	1,428,571
Bank Dhofar term loan 1	1,359,832	2,436,136
Bank Dhofar line 3 loan	1,758,142	2,414,942
Deferred government grant	(356,612)	(525,803)
	<u>5,032,790</u>	<u>7,253,846</u>
Term loans : current portion		
Government loan for expansion project	300,000	300,000
Government soft loan	357,143	357,143
Bank Dhofar term loan 1	1,083,332	1,083,332
Bank Dhofar line 3 loan	666,668	666,668
Bank Dhofar line 3 loan (NBO)	-	5,392,820
	<u>2,407,143</u>	<u>7,799,963</u>
Total term loan	<u>7,439,933</u>	<u>15,053,809</u>



NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007 (continued)

18. Term loans and deferred government grant (continued)

Term loans : current portion (continued)

The interest rates on the above loans and the repayment schedule is as follows:

	Interest rate RO	Total RO	One Year RO	2 - 5 years RO
Government loan (expansion project)	-	1,143,388	300,000	843,388
Government soft loan	5%	1,428,571	357,143	1,071,428
Bank Dhofar- Term Loan 1	4.50%	2,443,164	1,083,332	1,359,832
Bank Dhofar - Term Loan II	5.25%	2,424,810	666,668	1,758,142
		7,439,933	2,407,143	5,032,790
			2007	2006
			RO	RO
In local currency			7,796,545	15,579,612
Gross loans inclusive of grant			7,796,545	15,579,612

The loan from Government for the expansion project in the amount of RO 3 million was sanctioned during 1997. The loan is interest free and secured by a second mortgage of the expansion project's property, plant and equipment. The loan is repayable in ten equal annual instalments of RO 300,000 each commencing on 14 December 2003.

The Government has sanctioned an additional soft loan of RO 2.5 million during 2002 to enable the Company to settle its liabilities and to fund its operations. Interest is charged at 5% per annum and the loan is repayable in seven equal annual instalments of RO 357,143 each commencing on 3 July 2005. The loan is unsecured. In accordance with the terms of the loan agreement, the Company should not distribute dividends and should not pay remuneration to Board of Directors unless; it has been approved by the Ministry of Finance.

During 2003 the Company obtained a loan for second line of RO 6.5 million from Bank Dhofar SAOG (BDOF) at 5.25% (2006: 4.5 %) per annum. The loan is secured by a second pari-pasu charge over its assets. The loan is repayable in 24 equal quarterly instalments commencing from 1 April 2004. The delay in settlement would attract penalty at the maximum interest rate prevailing at that time.



NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007 (continued)

18. Term loans and deferred government grant (continued)

Term loans : current portion (continued)

During 2005, a loan facility of RO 11 million was obtained for third line from BDOF as arranger at 4.25% per annum, split between BDOF and National Bank of Oman (NBO) at 4:7 ratio. The loan is secured by a first pari-pasu charge over new assets and assignment of insurance proceeds of new assets both during the construction and operational periods. The loan is repayable in 24 equal quarterly instalments commencing from 1 July 2006. The interest rate came up for revision in November 2006 as per agreement and as NBO was unable to restrict its rate to 5.0 %, the rate offered on its deposits, the Company served notice of repayment of entire loan and accordingly, repaid it in March 2007. There were no early termination charges except three months notice period which Company complied with.

At 31 December 2006, the soft loans from Government have been stated at amortised cost following adoption of International Financial Reporting Standards ("IFRS") 39. The amortised cost has been determined by the Management using the effective interest rate method. The effective interest rate was 9% per annum. The Government subsidy on loans is recognised in the balance sheet as 'deferred Government grant' and amortised over the life of the loans to which the subsidy relates on a systematic basis in the same periods in which the loan is repaid.

19. Deferred tax liability

Deferred tax assets and liabilities are attributable to the following items:

	31 December 2006 RO	Charge for the year RO	31 December 2007 RO
Liability			
Accelerated tax depreciation	(2,694,784)	(102,886)	(2,797,670)
Assets			
Provision for inventories	98,789	3,600	102,389
Provision for doubtful debts	90,735	-	90,735
Provision for interest on claim on overdue debtors	79,714	(79,714)	-
Net deferred tax liability	(2,425,546)	(179,000)	(2,604,546)



NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007 (continued)

20. Payables and accruals

	2007 RO	2006 RO
Trade payables	2,947,483	1,170,581
Income tax payable	3,006,000	2,283,121
Expansion project payables (retentions)	3,782,082	2,090,445
Accrued expenses	1,633,970	1,758,002
Director's remuneration	185,600	184,400
Accrued interest	44,326	139,716
Other payables	19,498	15,601
Amount due to related parties (note 32)	24,663	31,739
Unpaid dividend	38,367	91,199
	<u>11,681,989</u>	<u>7,764,804</u>

As per the directives of CMA an amount of RO nil (2006: 25,714) towards unpaid dividend has been transferred to "Investors' Trust Fund" established by CMA.

21. Net assets per share

Net assets per share is calculated by dividing the net assets at the year end by the number of shares outstanding at 31 December as follows :

	2007	2006
Net assets (RO)	<u>90,946,422</u>	<u>70,826,416</u>
Number of shares outstanding at 31 December (Nos.)	<u>200,000,000</u>	<u>200,000,000</u>
Net assets per share (RO)	<u>0.455</u>	<u>0.354</u>

22. Revenue

	2007 RO	2006 RO
Sales – local	36,525,699	20,117,510
Sales – export	26,487,589	27,857,440
	<u>63,013,288</u>	<u>47,974,950</u>



NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007 (continued)

23. Cost of sales

	2007 RO	2006 RO
Production expenses:		
Raw materials consumed	1,746,426	1,783,308
Imported cement	5,809,954	2,571,274
Employee related expenses	3,237,708	2,156,805
Fuel, gas and electricity	6,586,821	5,670,930
Depreciation	3,604,952	3,302,056
Other factory overheads	4,445,573	3,328,509
Provision for slow moving inventory	30,000	113,398
Inventory adjustment	(867,813)	(159,223)
	<u>24,593,621</u>	<u>18,767,057</u>
Distribution expenses:		
Transportation charges	286,348	211,064
Export expenses	5,380,251	5,690,301
Muscat/Sohar terminal- Shipping/Terminal Expenses	4,800,093	2,233,026
	<u>10,466,692</u>	<u>8,134,391</u>
	<u>35,060,313</u>	<u>26,901,448</u>

The Company has acquired mining rights from the Government for a period of twenty-five years from 1 October 1984. The royalty on clinker and gypsum along with the rent for the quarries are exempt by the Government. Total royalty and rent waived amounts to approximately RO nil (2006 : RO 25,200). Effective March 2006, the Ministry of Commerce & Industry is levying Royalty on the Raw Materials.

Total employee related expenses comprise:

	2007 RO	2006 RO
Wages and salaries	2,029,828	1,155,648
Other benefits	986,337	953,262
Contributions to defined contribution retirement plan	47,917	42,576
Increase in liability for unfunded benefit retirement plan	173,626	5,319
	<u>3,237,708</u>	<u>2,156,805</u>



NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007 (continued)

24. Administrative and general expenses

	2007	2006
	RO	RO
Directors' fees and remuneration	200,000	200,000
Legal expenses	3,237	245,047
Training and seminars expenses	30,007	75,210
Others	237,390	220,794

	470,634	741,051
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25. Other income

Dividend income	78,810	84,194
Profit on sale of property, plant and equipment	110,367	8,947
Miscellaneous income	50,958	46,253

	240,135	139,394
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26. Net financing costs / (income)

Interest expense on borrowings	421,907	731,162
Others	58,005	20,921

	479,912	752,083
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Interest on call deposits and overdue debts	(402,023)	(795,136)
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	77,889	(43,053)
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27. Income tax

Current tax	3,006,000	2,283,121
Deferred tax - Current year	179,000	167,000

Total income tax charge	3,185,000	2,450,121
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The Company is subject to income tax at the rate of 12% of taxable profits in excess of RO 30,000 in accordance with the income tax laws of the Sultanate of Oman. The following is reconciliation between income taxes calculated on accounting profits at the applicable tax rates with the income tax expense for the year:



NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007 (continued)

27. Income tax (continued)

	2007 RO	2006 RO
Profit before tax	<u>33,305,006</u>	<u>23,108,213</u>
Income tax at the rates mentioned above	3,993,001	2,769,386
Effect of tax-exempt revenues	<u>(808,001)</u>	<u>(319,265)</u>
Income tax	<u>3,185,000</u>	<u>2,450,121</u>

Status of income tax assessments

The Company's income tax assessments for the tax years upto 2002 have been finalised by the Secretariat General for Taxation at the Ministry of Finance ("tax department"). In the assessments for the years 1998 to 2000, the tax department has included interest claim on overdue debtors in the taxable income of the Company. Further, the tax department has revised the assessments already completed for the years 1994 to 1997 and included the interest claim on overdue debtors relating to these years in the taxable income.

The Company has filed appeal against these assessments to the Secretary General for Taxation. The Income tax committee on 28th May 2007 decided to accept the appeal in form and substance and to repeal the additional assessment dated 27 December 2004 for the tax years 1994-1997 and upheld the decision to exclude claim for interest for the years 1998 and 1999 from the taxable income.

For the assessment years 2002 the tax authorities have included the dividend income of RO 113,043 received from MRTIC in the taxable income against which the Company has filed an appeal. No provision has been made in these financial statements as the Board of directors are of the opinion that the appeal will be decided in favour of the Company.

The income tax assessments of the Company for the years 2003 to 2006 have not yet been finalised by the tax department. The Board of Directors are of the opinion that additional taxes, if any, that may be assessed on completion of the assessments for the open tax years would not be significant to the Company's financial position at 31 December 2007.



NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007 (continued)

28. Earnings per share basic and diluted

Earnings per share basic and diluted are calculated by dividing the net profit for the year by the weighted average number of shares outstanding during the year as follows:

	2007	2006
Net profit for the year (RO)	<u>30,120,006</u>	<u>20,658,092</u>
Weighted average number of shares (Nos.)	<u>200,000,000</u>	<u>200,000,000</u>
Basic and diluted earnings per share (RO)	<u>0.151</u>	<u>0.103</u>

29. Lease

The Company has been granted leasehold rights by His Majesty Sultan Qaboos bin Said for the use of land, on which the factory has been constructed for a period of thirty years from 1 January 1984. At 31 December 2007 future minimum lease commitments under non-cancellable operating leases are as follows:

	2007	2006
	RO	RO
Less than one year	1,000	1,000
Between one and five years	4,000	4,000
More than five years	1,000	2,000
	<u>6,000</u>	<u>7,000</u>

30. Commitments

Capital commitments

Plant and machinery	283,418	13,082,353
Civil works	83,788	796,525
Others	37,770	252,249
	<u>404,976</u>	<u>14,131,127</u>

31. Contingent liabilities

Letters of credit, guarantee and performance bond	<u>3,860,844</u>	<u>305,000</u>
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NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007 (continued)

32. Related parties

The Company has entered into transactions with its executive officers, Directors and entities in which certain Directors of the Company have an interest. In the ordinary course of business, the Company sells goods to related parties and purchases goods from, occupies the premises of and receives services from related parties. These transactions are entered into on terms and conditions, which the Directors believe could be obtained on an arm's length basis from independent third parties.

During the year, related party transactions were as follows:

	2007 RO	2006 RO
Sales to entities related to:		
Directors		
- Modern Contracting Company	37,356	23,316
Entity in which the Company hold's 10% or more shares		
- Mukalla Raysut Trading and Industrial Company Limited	17,713,367	17,088,412
	<u>17,750,723</u>	<u>17,111,728</u>
Purchases of goods and services from entities related to:		
Directors		
- Al Rrawas Transport	645,819	437,596
Entity in which the Company hold's 10% or more shares		
- Mukalla Raysut Trading and Industrial Company Limited	355,794	231,740
	<u>1,001,613</u>	<u>669,336</u>
Compensation of key management personnel		
Board of directors sitting fees	14,400	15,600
Director's remuneration	185,600	184,400
	<u>200,000</u>	<u>200,000</u>
Salaries ,allowances and performance bonus paid to Executive Officers	586,808	468,069
	<u>786,808</u>	<u>668,069</u>



NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007 (continued)

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any director (whether executive or otherwise).

32. Related parties (continued)

Amounts due from / to related parties at year end are as follows:

	2007 RO	2006 RO
Due from related parties		
Directors :		
- Modern Contracting Company	6,578	3,200
Entity in which the Company hold's 10% or more shares :		
- Mukalla Raysut Trading and Industrial Company Limited	<u>332,093</u>	<u>330,323</u>
	<u>338,671</u>	<u>333,523</u>
Due to related parties		
Directors :		
- Al Rawas Transport	<u>24,663</u>	<u>31,739</u>
	<u>24,663</u>	<u>31,739</u>

33. Segmental reporting

The Company has only one business segment. Segment information is, accordingly, presented in respect of Company's geographical segments, which are based on the Company's management reporting structure. Segment revenue, results and assets include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. The Company sells its products primarily in two geographical areas, namely Oman and Yemen and other Gulf Co-operation Council ("GCC") countries. Information comprising segment revenue, results and the related receivables are based on geographical location of customers.



NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007 (continued)

33. Segmental reporting (continued)

	Oman		Yemen and other GCC		Total	
	2007	2006	2007	2006	2007	2006
	RO	RO	RO	RO	RO	RO
Revenue	36,525,699	20,117,510	26,487,589	27,857,440	63,013,288	47,974,950
Cost of sales	(21,640,118)	(11,693,699)	(13,420,195)	(15,207,749)	(35,060,313)	(26,901,448)
Gross profit	14,885,581	8,423,811	13,067,394	12,649,691	27,952,975	21,073,502
Common costs					(1,548,523)	(697,998)
Other income					240,135	139,394
Share of profit in an associate					3,154,032	2,763,776
Fair value gain / (loss) on investments held for trading					3,506,387	(170,461)
Profit before tax	14,885,581	8,423,811	13,067,394	12,649,691	33,305,006	23,108,213
Segment assets, comprising trade receivables	5,597,289	2,334,188	465,943	975,449	6,063,232	3,309,637

34. Financial risk management

Financial risk factors

Overview

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

The Company's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk.

(i) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's receivables from customers.



NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007 (continued)

34. Financial risk management (continued)

Trade and other receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

In monitoring customer credit risk, customers are segmented according to their credit characteristics in the following categories:

- Private individual customers
- Corporate customers
- Government customers
- Other customers

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The exposure to credit risk at the balance sheet date was on account of:

	2007 RO	2006 RO
Trade receivables	6,063,232	3,309,637
Prepayment and other receivables	1,361,474	1,004,859
Bank deposits	12,117,000	10,405,000
Cash and cash equivalents	3,923,110	14,637,518
	<u>23,464,816</u>	<u>29,357,014</u>

The exposure to credit risk for trade receivables at the balance sheet date by type of customer was:

	2007 RO	2006 RO
Major parties		
- Al Turki Cement products LLC	1,121,382	-
- Salem Mohiyadin Bin Saif and Bros.	838,325	466,717
- Ready Mix Muscat LLC	410,080	54,549
- Related Parties (refer note 32)	338,671	333,523
Government customers	1,080,583	-
Other customers	3,865,669	4,046,326
	<u>7,654,710</u>	<u>4,901,115</u>

Most of the above mentioned customers have provided a bank guarantees to the Company.



NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007 (continued)

34. Financial risk management (continued)

Exposure to credit risk (continued)

The potential risk in respect of amounts receivable is limited to their carrying values as management regularly reviews these balances whose recoverability is in doubt. There is no credit risk in respect of receivable from Government customers.

The Company establishes a provision for impairment that represents all the balances outstanding more than 180 days based on historical data of payment statistics for similar financial assets.

The age of trade receivables and related impairment loss at the balance sheet date was:

	2007		2006	
	Gross RO	Provision for impairment and interest reserve RO	Gross RO	Provision for impairment and interest reserve RO
Due 0 - 180 days	6,173,090	109,858	3,358,399	48,762
Past due 181 - 365 days	42,895	42,895	79,461	79,461
Past Due 1 - 2 years	55,923	55,923	8,359	8,359
More than 2 years	1,382,802	1,382,802	1,454,896	1,454,896
	<u>7,654,710</u>	<u>1,591,478</u>	<u>4,901,115</u>	<u>1,591,478</u>

(a) The movement in provision for impairment of trade receivables is as follows:

	2007 RO	2006 RO
Balance at 1 January	697,800	700,000
Written off during the year	-	(2,200)
Balance at 31 December	<u>697,800</u>	<u>697,800</u>

The provision account in respect of trade receivables is used to record impairment losses unless the Company is satisfied that no recovery of the amount owing is possible, at which point the amount considered irrecoverable is written off against provision account.

Investments

The Company limits its exposure to credit risk on its investments by only investing in liquid securities and only with counterparties which have a good credit rating. Given the good credit ratings and the liquidity, management does not expect any counterparty to fail to meet its obligations.



NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007 (continued)

34. Financial risk management (continued)

Investments (continued)

(ii) Liquidity risk

Liquidity risk is the risk that the company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

Typically the Company ensures that it has sufficient cash on demand to meet expected operational expenses including the servicing of financial obligations. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. In addition the Company has access to credit facilities.

	2007			2006		
	Carrying amount RO	6 months or less RO	6 months and above	Carrying amount RO	6 months or less RO	6 months and above
Trade payables	2,972,146	2,972,146	-	1,202,320	1,202,320	-
Other payables and accruals	8,709,843	8,709,843	-	6,562,484	6,562,484	-
Term loans	7,439,933	873,360	6,566,573	15,053,809	873,360	14,180,449
	<u>19,121,922</u>	<u>12,555,349</u>	<u>6,566,573</u>	<u>22,818,613</u>	<u>8,638,164</u>	<u>14,180,449</u>

(iii) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates affect the company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Foreign currency risk

The Company is exposed to foreign currency risk on sales, purchases and borrowings that are denominated in foreign currencies other than Rials Omani. Substantially all of the Company's sales, purchases and borrowings are in Rials Omani or currencies linked to U.S. Dollars. The exchange rate between Rials Omani and US Dollar has remained unchanged since 1986. The Company is also exposed to foreign currency risk on investment in an associate in the aggregate amount of approximately RO 3,055,343 (2006: RO 2,787,177) denominated in Yemeni Rials.



NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007 (continued)

34. Financial risk management (continued)

Interest rate risk

The Company has short term bank deposit, and term borrowings which are interest bearing and exposed to changes in market interest rates. The Company adopts a policy of ensuring that all its borrowing are on a fixed rate basis. At the balance sheet date the interest rate profile of the Company's interest bearing financial instruments was:

	2007 RO	2006 RO
Fixed rate instruments		
Financial assets	0.75% to 4.5%	0.75% to 4.5%
Financial liabilities	4.5% to 5.25%	4.5% to 5%

Fair value sensitivity analysis for fixed rate instruments

The Company does not account for any fixed rate financial assets or liabilities at fair value through profit or loss. Therefore, a change in interest rates at the balance sheet date would not affect income statement.

Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern and benefit other stake holders. The management's policy is to maintain a strong capital base so as to maintain creditor and market confidence and to sustain future development of the business.

Management is confident of maintaining the current level of profitability by enhancing top line growth and prudent cost management. The Company is not subject to externally imposed capital requirements.

35. Accounting estimates and judgements

a. Inventories

Provisions for slow moving items are established at the rate of 4% per annum on the basis that the spares have the same useful life of 25 years as that of plant and machinery.

b. Provision for impairment losses of trade receivables

The Company carried an impairment test based on a variety of assumptions and makes provision for doubtful debts outstanding for more than 180 days.

36. Approval of financial statements

These financial statements were approved by the Board of Directors and authorized for issue on 26 February 2008.

37. Comparative figures

Certain comparative information has been reclassified to conform to the presentation adopted in these financial statements.