AL JAZEERA STEEL PRODUCTS COMPANY SAOG

Independent auditor's review report and financial statements for the period from 1 January 2009 to 30 June 2009

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Independent auditor's review report to the Directors of Al Jazeera Steel Products Company SAOG

Report on the financial statements

We have reviewed the accompanying interim statement of financial position of **Al Jazeera Steel Products Company SAOG** as of 30 June 2009 and the related interim statements of comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes as set out on pages 2 to 31.

Management's and Auditor's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of this interim financial information in accordance with International Financial Reporting Standards. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

We conducted our review in accordance with the International Standard on Review Engagements. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not present fairly, in all material respects, the financial position of **Al Jazeera Steel Products Company SAOG** as of 30 June 2009, and of its financial performance and its cash flows for the six-month period then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our conclusion and as explained in note 2.1 (a) to the financial statements, we draw attention to the fact that loss for the period ended 30 June 2009 amounted to RO 2,084,088. The company will be able to continue as a going concern only with the continuing support of its shareholders and lenders, and successful implementation of its business plan to support its operations.

Deloitte & Touche

Deloitte & Touche (M.E.) & Co. LLC
Muscat, Sultanate of Oman
26 July 2009

Signed by
Robert O'Hanlon
Partner

Statement of financial position as at 30 June 2009

	Notes	Unaudited 30 June 2009 RO	Audited 31 December 2008 RO
ASSETS			
Non-current assets			
Property, plant and equipment	6	**32,439,352**	31,972,035
Current assets			
Inventories	7	**7,657,811**	18,582,527
Trade and other receivables	8	**11,731,688**	21,029,322
Cash and cash equivalents	9	**1,300,578**	8,498,506
		20,690,077	48,110,355
Total assets		**53,129,429**	80,082,390
EQUITY			
Capital and reserves			
Share capital	10	**12,489,796**	12,489,796
Share premium	10	**13,856,484**	13,856,484
Legal reserve	11	**1,360,636**	1,360,636
Retained earnings		**403,998**	3,362,372
Net equity		**28,110,914**	31,069,288
LIABILITIES			
Non-current liabilities			
Borrowings	12	**5,505,000**	6,375,000
Government soft loans	13	**581,949**	890,439
Deferred government grant	13	**114,125**	175,636
End of service benefits	14	**36,378**	65,912
Deferred tax liability	21	**470,926**	470,926
		6,708,378	7,977,913
Current liabilities			
Borrowings - current portion	12	**15,359,785**	38,221,560
Government soft loans - current portion	13	**505,098**	505,098
Trade and other payables	15	**2,445,254**	2,308,531
		18,310,137	41,035,189
Total liabilities		**25,018,515**	49,013,102
Total equity and liabilities		**53,129,429**	80,082,390
Net assets per share	23	**0.225**	0.249

Chairman **Director**

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

Statement of comprehensive income for the period ended 30 June 2009

	Notes	Unaudited 30 June 2009 RO	Audited 30 June 2008 RO
Revenue		**17,161,029**	38,462,813
Cost of sales	**16**	**(17,019,077)**	(29,823,620)
Gross profit		**141,952**	8,639,193
Selling and distribution costs	**17**	**(944,497)**	(1,373,778)
General and administrative expenses	**18**	**(379,241)**	(503,673)
Other operating (expense) / income		**(52,617)**	9,562
Operating (loss) / profit		**(1,234,403)**	6,771,304
Net finance costs	**20**	**(849,685)**	(394,869)
(Loss) / profit before taxation		**(2,084,088)**	6,376,435
Taxation	**21**	**-**	(84,728)
(Loss) / profit for the period		**(2,084,088)**	6,291,707
(Loss) / earnings per share - basic and diluted	**22**	**(0.017)**	0.050

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

Statement of changes in equity for the period ended 30 June 2009

	Share capital RO	Share premium RO	Legal reserve RO	Retained earnings RO	Total RO
At 1 January 2008	12,489,796	13,856,484	1,188,730	1,815,216	29,350,226
Profit for the period	-	-	-	6,291,707	6,291,707
Transfer to legal reserve	-	-	629,171	(629,171)	-
At 30 June 2008 (audited)	12,489,796	13,856,484	1,817,901	7,477,752	35,641,933
At 1 January 2009	12,489,796	13,856,484	1,360,636	3,362,372	31,069,288
Dividends paid (Note 10)	-	-	-	(874,286)	(874,286)
Loss for the period	-	-	-	(2,084,088)	(2,084,088)
At 30 June 2009 (unaudited)	12,489,796	13,856,484	1,360,636	403,998	28,110,914

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

AL JAZEERA STEEL PRODUCTS COMPANY SAOG

Statement of cash flows
for the period ended 30 June 2009

	Unaudited 30 June 2009 RO	Audited 30 June 2008 RO
Operating activities		
(Loss) / profit before taxation	**(2,084,088)**	6,376,435
Adjustments for:		
Interest income	**(27,559)**	(99,148)
Interest on borrowings	**877,244**	494,017
Depreciation	**305,991**	286,507
Allowance for doubtful debts	**(1,507)**	24,285
Net transfer to end of service benefits	**(29,534)**	999
Loss / (profit) on sale of property, plant and equipment	**52,618**	(9,330)
Operating cash flow before movement in working capital	**(906,835)**	7,073,765
Decrease / (increase) in working capital :		
Inventories	**10,924,716**	(12,686,060)
Trade and other receivables	**9,299,141**	(10,179,275)
Trade and other payables	**136,723**	(344,183)
Cash from / (used in) operations	**19,453,745**	(16,135,753)
Interest paid	**(877,244)**	(480,517)
Net cash from / (used in) operating activities	**18,576,501**	(16,616,270)
Investing activities		
Purchase of property, plant and equipment	**(843,640)**	(1,775,504)
Proceeds from sale of property, plant and equipment	**17,714**	9,330
Interest received	**27,559**	99,148
Net cash used in investing activities	**(798,367)**	(1,667,026)
Financing activities		
Dividend paid	**(874,286)**	-
Net change in borrowings	**(24,101,776)**	16,295,679
Net cash (used in) / from financing activities	**(24,976,062)**	16,295,679
Net change in cash and cash equivalents	**(7,197,928)**	(1,987,817)
Cash and cash equivalents at beginning of the period	**8,498,506**	9,997,990
Cash and cash equivalents at end of the period	**1,300,578**	8,010,373

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

Notes to the financial statements for the period ended 30 June 2009

1. Legal status

Al Jazeera Steel Products Company SAOG ("the Company") is an Omani joint stock Company registered under the Commercial Companies Law of the Sultanate of Oman. The registered address and the manufacturing facility is located at P O Box 40, Sohar Industrial Estate, Postal Code 327, Sultanate of Oman. The principal office and the manufacturing facility is located at Sohar Industrial Estate. The principal activities of Company are the manufacture and sale of steel pipes and tubes, including associated works.

2 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to the periods presented unless otherwise stated.

2.1 Basis of preparation

(a) Loss for the period ended 30 June 2009 amounted to RO 2,084,088. The financial statements have been prepared under the going concern basis on the assumption that the company's shareholders and lenders will continue to support the operation and the management will successfully implement its business plan to generate sufficient funds to support its operations and meet its liabilities.

(b) The financial statements are prepared on the historical cost basis except as disclosed in the accounting policies below and in accordance with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board ("IASB").

(c) The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the Management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

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

For the period ended 30 June 2009, 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 years beginning on 1 January 2009. The adoption of these revised 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 periods.

Notes to the financial statements for the period ended 30 June 2009 (continued)

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

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

At the date of authorisation of these financial statements, the following standards, amendments and interpretations were in issue but not yet effective:

	Effective for annual period beginning on or after
IFRIC 17 : Distributions of Non-cash Assets to Owners	1 July 2009
IFRIC 18 : Transfers of Assets from Customers	1 July 2009
IFRS 2 : (Revised) Share-based Payments, amendments resulting from April 2009, *annual improvements to IFRS;*	1 July 2009
IFRS 3 : (Revised) Business Combinations, *comprehensive revision on applying the acquisition method;*	1 July 2009
IFRS 5 : (Revised) Non-current Assets Held for Sale and Discontinued Operations, *amendments resulting from May 2008 annual improvements to FRSs*;	1 July 2009
IAS 27 : (Revised) Consolidated and separate Financial Statements, consequential *amendments arising from amendments to IFRS 3*;	1 July 2009
IAS 28 : (Revised) Investments in Associates, *consequential amendments arising from amendments to IFRS 3;*	1 July 2009
IAS 31 : (Revised) Interest in Joint Ventures, *consequential amendments arising from amendments to IFRS 3;*	1 July 2009
IAS 39 : (Revised) Financial Instruments: Recognition and Measurement, *amendments for eligible hedge*;	1 July 2009
IAS 38 : Intangible Assets, *amendments resulting from April 2009 annual improvements to IFRSs;*	1 July 2009
IAS 17 : Leases, *amendments resulting from April 2009 annual improvements to IFRSs;*	1 January 2010
IFRS 5 : (Revised) Non-Current Assets held for Sale and Discontinued Operations, *amendments resulting from April 2009 annual improvements to IFRSs;*	1 January 2010
IAS 1 : Presentation of Financial Statements, *amendments resulting from April 2009 annual improvements to IFRSs;*	1 January 2010
IAS 7 : Statements of Cash Flows, *amendments resulting from April 2009 annual improvements to IFRSs;*	1 January 2010
IAS 36 : Impairment of Assets, *amendments resulting from April 2009 annual improvements to IFRSs;*	1 January 2010
IAS 39 : (Revised) Financial Instruments: Recognition and Measurement, *amendments resulting from April 2009annual improvements to IFRSs*;	1 January 2010

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

Notes to the financial statements for the period ended 30 June 2009 (continued)

2 Summary of significant accounting policies (continued)

2.2 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul expenditure, is capitalised. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment and can be measured reliably. All other expenditures are recognised in the statement of comprehensive income as an expense when incurred.

The cost of the property plant and equipment is written down to residual value in equal installments over the estimated useful lives of the assets. The estimated useful lives are:

	Years
Buildings	20
Plant and equipment	15 - 20
Motor vehicles	5
Furniture and fixtures	5
Other equipment	3

Capital work-in-progress is not depreciated until it is transferred into one of the above categories at the time when it is brought into use.

Gains or losses on disposals of items of property, plant and equipment are determined by reference to their carrying amounts and are taken into account in determining the operating result for the period.

2.3 Impairment

At each statement of financial position date, the Company reviews the carrying amounts of its assets 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.

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 recognized immediately in the statement of comprehensive income.

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 recognized as income immediately, provided that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized earlier.

Notes to the financial statements for the period ended 30 June 2009 (continued)

2 Summary of significant accounting policies (continued)

2.4 Inventories

Inventories, which include goods-in-transit, are valued at the lower of cost and net realisable value. Cost is determined on the weighted average cost basis and consists of the direct cost of materials and, in the case of finished goods and work-in-progress, an appropriate share of labour and direct overheads. Net realisable value is the price at which inventories can be sold in the normal course of business after allowing for the costs of completion and realisation. Provision is made where necessary for obsolete, slow moving and defective items.

2.5 Trade and other receivables

Trade receivables are stated at their cost less impairment losses. An allowance for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired.

2.6 Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held with banks, other short-term highly liquid investments with original maturities of three months or less from the date of placement.

2.7 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

2.8 End of service benefits and leave entitlements

End of service benefits are accrued in accordance with the terms of employment of the Company's employees at the statement of financial position date, having regard to the requirements of the Oman Labour Law 2003, as amended. Employee entitlements to annual leave are recognised when they accrue to employees and an accrual is made for the estimated liability arising as a result of services rendered by employees up to the statement of financial position date. These accruals are included in current liabilities, while that relating to end of service benefits are disclosed as a non-current liability.

Contributions to a defined contribution retirement plan and occupational hazard insurance for Omani employees in accordance with the Omani Social Insurances Law of 1991 are recognised as an expense in the statement of comprehensive income as incurred.

Notes to the financial statements for the period ended 30 June 2009 (continued)

2 Summary of significant accounting policies (continued)

2.9 Trade and other payables

Liabilities are recognised for amounts to be paid for goods and services received, whether or not billed to the Company.

2.10 Taxation

Taxation is provided for in accordance with the tax laws and regulations of the Sultanate of Oman.

Current tax
The current income tax is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Deferred tax
Deferred tax liability is calculated using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the statement of financial position date.

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 utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred income tax assets and liabilities are offset only when there is a legally enforceable right to setoff.

2.11 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Notes to the financial statements for the period ended 30 June 2009 (continued)

2 Summary of significant accounting policies (continued)

2.12 Revenue

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Company's activities. Revenue is shown net of returns, rebates and discounts.

The Company recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Company and when specific criteria have been met for each of the Company's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue from sale of goods is recognised in the statement of comprehensive income when the significant risks and rewards of ownership have been transferred to the buyer. Sales represent the invoiced value of goods sold during the period, net of discounts and returns.

2.13 Interest income and expense

Interest income and expense are accounted on accrual basis.

All interest and other costs incurred in connection with borrowings are expensed as incurred, as part of financing costs and are accounted on an accrual basis, except that the interest expense on borrowings specifically undertaken to finance the construction of qualifying assets are capitalised along with the cost of the asset.

2.14 Foreign currency transactions

Functional and presentation currency

Items included in the Company's financial statements are measured using Rials Omani (RO) which is the currency of the Sultanate of Oman, being the economic environment in which the Company operates (the functional currency). The financial statements are prepared in Rials Omani, rounded to the nearest Rials Omani.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

Notes to the financial statements for the period ended 30 June 2009 (continued)

3.1 Financial risk management

Financial instruments carried on the statement of financial position comprise cash and cash equivalents, trade and other receivables, trade and other payables and borrowings.

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 overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance of the Company. Risk management is carried out by the Management under policies approved by the Board of Directors.

(i) Credit risk

Exposure to credit risk

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

	Unaudited 30 June 2009 RO	Audited 31 December 2008 RO
Trade receivables	**10,231,012**	19,663,454
Other receivables	**1,534,291**	1,400,990
Cash at bank and deposits	**1,290,677**	8,486,893
	13,055,980	29,551,337

Credit risk on trade receivables is limited to their carrying values as Management regularly reviews these balances to assess recoverability and makes provision for balances whose recoverability is in doubt. Credit risk is managed mainly through credit terms to customers either backed by confirmed letters of credit or through insurance from the Export Credit Guarantee Agency SAOC (ECGA) in the Sultanate of Oman. There is no concentration of credit risk with respect to trade receivables as the Company has a large number of customers, internationally dispersed.

Notes to the financial statements for the period ended 30 June 2009 (continued)

3.1 Financial risk management (continued)

Financial risk factors (continued)

(i) Credit risk (continued)

Exposure to credit risk (continued)

As for each potential customer there is no independent rating; the Company's credit committee assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board of Directors. The utilisation of credit limits is regularly monitored.

Trade receivables including due from related parties

	30 June 2009		31 December 2008	
Group	**Credit limit RO**	**Balance RO**	Credit limit RO	Balance RO
A - Fully covered by letter of credit / Cash Against Documents (CAD)	**827,319**	**827,319**	6,118,673	6,118,673
B - Covered by ECGA	**12,827,000**	**5,293,583**	9,341,000	4,231,049
C - Partly covered by ECGA	**1,627,500**	**4,186,652**	5,092,500	9,324,252
	15,818,819	**10,307,554**	20,552,173	19,673,974

All the credit sales were sanctioned and were backed either by Letters of Credit or ECGA. Furthermore Management does not expect any losses from default by these customers.

(ii) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding from an adequate amount of committed credit facilities. The management maintains flexibility in funding by maintaining availability under committed credit lines.

The table below analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date.

	Total RO	**Less than 1 year RO**	**1 to 2 years RO**	**3 to 5 years RO**	**More than 5 years RO**
At 30 June 2009					
Borrowings	**20,864,785**	**15,359,785**	**1,740,000**	**3,765,000**	**-**
Government soft loans	**1,201,172**	**536,667**	**536,667**	**127,838**	**-**
Trade and other payables	**2,445,254**	**2,445,254**	**-**	**-**	**-**
	24,511,211	**18,341,706**	**2,276,667**	**3,892,838**	**-**

Notes to the financial statements for the period ended 30 June 2009 (continued)

3.1 Financial risk management (continued)

Financial risk factors (continued)

(ii) Liquidity risk (continued)

	Total RO	Less than 1 year RO	1 to 2 years RO	3 to 5 years RO	More than 5 years RO
At 31 December 2008					
Borrowings	44,596,560	38,221,560	1,740,000	4,635,000	-
Government soft loans	1,571,173	536,667	536,667	497,839	-
Trade and other payables	2,308,531	2,308,531	-	-	-
	48,476,264	41,066,758	2,276,667	5,132,839	-

(iii) Market risk

Foreign exchange risk

The Company operates internationally, however the Company is substantially independent of changes in foreign currency rates as its foreign currency dealings are principally in US Dollars (USD) and UAE Dirhams (AED) which are pegged to the Rials Omani.

Cash flow and fair value interest rate risk

The Company has call deposits, term deposits and long term borrowings. The deposits with banks and interest on borrowings carry interest on commercial terms. The short term borrowings are obtained at fixed annual rates which are subject to change upon re-negotiation of the facilities which takes place on an annual basis. However, if LIBOR rates were to shift by 0.5% there would be a maximum change in the net finance cost by RO 103,827 (30 June 2008 : RO 146,244).

Notes to the financial statements for the period ended 30 June 2009 (continued)

3.2 Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the statement of financial position) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the statement of financial position plus net debt.

	30 June 2009 RO	31 December 2008 RO
Borrowings (note 12)	**20,864,785**	44,596,560
Government soft loans (note 13)	**1,201,172**	1,571,173
Total borrowings	**22,065,957**	46,167,733
Less: Cash and cash equivalents (note 9)	**(1,300,578)**	(8,498,506)
Net debt	**20,765,379**	37,669,227
Total equity	**28,110,914**	31,069,288
Total capital	**48,876,293**	68,738,515
Gearing ratio	**42%**	55%

3.3 Fair value estimation

The carrying values of financial assets and liabilities with a maturity of less than one year are assumed to approximate to their fair values. The fair values of non-current financial liabilities other than Government soft loans are considered to approximate to their carrying amounts. The fair value of the Government soft loans has been derived by discounting the repayment cash flows using a discount rate based upon the borrowing rate which the management expect would be available to the Company at the statement of financial position date.

4. Critical accounting estimates and judgements

The preparation of the financial statements requires Management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the resultant provisions and changes in fair value. 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 liabilities and assets.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Key sources of estimation uncertainty

a. Allowance for doubtful debts

Allowance for doubtful debts is based on Management's best estimates of recoverability of the amounts due and the number of days for which such debts are due.

b. Allowance for slow moving and obsolete inventories

Allowance for slow moving and obsolete inventory is based on Management's assessment of various factors such as the usability, the maintenance programs, and normal wear and tear using its best estimates.

c. Useful lives of property, plant and equipment

Depreciation is charged so as to allocate the cost of assets over their estimated useful lives. The calculation of useful lives is based on Management's assessment of various factors such as the operating cycles, the maintenance programs, and normal wear and tear using its best estimates.

d. Deferred taxation

The Company was exempt from income tax till 15 May 2009. The Company has estimated the deferred tax liability expected at the end of the exemption period. Accordingly, the change in the estimates that result in temporary tax differences that are reversed during the exemption period are accounted in the period that the change in estimate is anticipated.

5. Segment information

An operating segment is a component of an entity: that engages in business activities from which it may earn revenues and incur expenses including revenues and expenses relating to transactions with other components of the same entity; whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and for which discrete financial information is available. The accounting policies of the reportable segments are the same as the Company's accounting policies described under Note 2.

Information regarding the Company's operating segments is set out below in accordance with IFRS 8 - Operating segments. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Company that are regularly reviewed by the Chief Operating decision maker in order to allocate resources to the segment and to assess its performance. There has not been a change in segment reporting compared to the previous period as the Company's internal reporting is based on risks and rewards approach.

Products and services from which reportable segments derive their revenues

The Company operates in one business segment that of manufacture of steel pipes and tubes. All relevant information relating to this primary segment is disclosed in the statement of financial position, statement of comprehensive income and notes to the financial statements.

The following geographical analysis has been compiled based on the location of the customers of the Company:

	30 June 2009		31 December 2008	
	Revenue RO	**Trade receivables RO**	Revenue RO	Trade receivables RO
GCC countries including Oman	**14,537,481**	**9,466,156**	63,068,068	14,458,968
North America	**1,386,745**	**168,550**	12,692,382	4,771,797
Others	**1,236,803**	**672,848**	2,675,283	443,209
	17,161,029	**10,307,554**	78,435,733	19,673,974

Revenue and trade receivables are allocated based on the country in which the customer is located.

6. Property, plant and equipment

	Buildings RO	Plant and equipment RO	Motor vehicles RO	Furniture and fixtures RO	Other equipment RO	Capital work-in-progress RO	Total RO
Cost							
At 1 January 2009	2,997,235	8,355,538	124,947	161,149	70,879	24,492,025	36,201,773
Transfers	25,000	-	-	-	-	(25,000)	-
Additions	-	325,711	-	4,119	17,541	496,269	843,640
Disposals	-	(130,873)	-	-	-	-	(130,873)
At 30 June 2009	3,022,235	8,550,376	124,947	165,268	88,420	24,963,294	36,914,540
Depreciation							
At 1 January 2009	1,078,634	2,918,564	44,086	127,924	60,530	-	4,229,738
Charge for the period:							
Cost of sales	74,630	214,317	-	-	-	-	288,947
General and administrative	-	-	9,423	4,289	3,332	-	17,044
Disposals	-	(60,541)	-	-	-	-	(60,541)
At 30 June 2009	1,153,264	3,072,340	53,509	132,213	63,862	-	4,475,188
Carrying value							
At 30 June 2009	1,868,971	5,478,036	71,438	33,055	24,558	24,963,294	32,439,352

6. Property, plant and equipment (continued)

	Buildings RO	Plant and equipment RO	Motor vehicles RO	Furniture and fixtures RO	Other equipment RO	Capital work-in-progress RO	Total RO
Cost							
At 1 January 2008	2,997,235	8,176,486	69,059	141,597	58,156	13,572,660	25,015,193
Additions	-	179,052	89,310	19,552	12,723	10,919,365	11,220,002
Disposals	-	-	(33,422)	-	-	-	(33,422)
At 31 December 2008	2,997,235	8,355,538	124,947	161,149	70,879	24,492,025	36,201,773
Depreciation							
At 1 January 2008	928,773	2,509,517	62,628	121,283	58,155	-	3,680,356
Charge for the year:							
Cost of sales	149,861	409,047	-	-	-	-	558,908
General and administrative	-	-	14,880	6,641	2,375	-	23,896
Disposals	-	-	(33,422)	-	-	-	(33,422)
At 31 December 2008	1,078,634	2,918,564	44,086	127,924	60,530	-	4,229,738
Carrying value							
At 31 December 2008	1,918,601	5,436,974	80,861	33,225	10,349	24,492,025	31,972,035

Notes to the financial statements for the period ended 30 June 2009 (continued)

6. Property, plant and equipment (continued)

(a) Buildings included in property, plant and equipment are built on land leased from the Public Establishment for Industrial Estates - Sohar Industrial Estate. The initial lease expires on 13 April 2022, with an option to renew the lease at the end of the lease term.

(b) Certain property, plant and equipment of the Company are subject to a first charge favouring the Ministry of Commerce and Industry of the Government of Sultanate of Oman and a second charge for borrowings from commercial banks (notes 12 and 13).

7. Inventories

	30 June 2009	31 December 2008
	RO	RO
Raw materials	**4,311,751**	18,097,242
Finished goods	**2,387,626**	4,730,648
Work-in-progress	**1,617,424**	2,668,320
Stores and spares	**899,788**	977,546
Less : allowance for inventories	**(1,984,732)**	(8,075,202)
	7,231,857	18,398,554
Goods-in-transit	**425,954**	183,973
	7,657,811	18,582,527

Inventories of the Company are subject to charge favouring the lenders of borrowings, as disclosed in notes 12 and 13.

Notes to the financial statements for the period ended 30 June 2009 (continued)

8. Trade and other receivables

	30 June 2009 RO	31 December 2008 RO
Trade receivables	**10,231,012**	19,663,454
Allowance for doubtful debts	**(33,615)**	(35,122)
	10,197,397	19,628,332
Due from related parties (note 24)	**76,542**	10,520
Advances to suppliers	**463,629**	469,147
Prepaid expenses	**297,572**	219,516
Other receivables	**696,548**	701,807
	11,731,688	21,029,322

The movement in allowance for doubtful debts is given below:

Balance brought forward	**35,122**	14,390
(Release) / charge during the period / year	**(1,507)**	20,732
Balance carried forward	**33,615**	35,122

(a) Trade receivables of the Company are subject to a charge favouring the lenders of borrowings, as disclosed in notes 12 and 13.

(b) Trade receivables that are less than three months past due are not considered impaired. As at 30 June 2009, trade receivables of RO 2,334,778 (31 December 2008 : RO 7,047,675) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default.

The age analysis of trade receivables including due from related parties is as follows:

Age	30 June 2009 RO	31 December 2008 RO
Less than 90 days	**7,972,776**	12,626,299
Between 91 – 150 days	**1,301,542**	6,194,899
Between 151 - 180 days	**174,048**	507,693
More than 181 days	**859,188**	345,083
	10,307,554	19,673,974

The Company has an internal credit policy whereas a credit committee reviews the credit recommendations of management and makes recommendations to the Board of Directors for their approval. Management also refers recommended customers to ECGA for credit approvals.

Notes to the financial statements for the period ended 30 June 2009 (continued)

8. Trade and other receivables (continued)

(c) Other receivables include custom duty paid on imports of RO 690,857. The Company was exempted from customs duty until 31 December 2007. With effect from 1 January 2008, the Company is liable to pay customs duty on import of all items other than raw materials. However, based on the Ministry of Commerce and Industry orders, the Company has paid the customs duty amounting to RO 690,857 on all raw materials imported during the period for their timely clearance from the customs. The duty amount shall be refunded by the Ministry upon submission of the proof of receipt of goods. The Management is confident that the customs duty is fully recoverable from the Ministry and accordingly, this is classified under other receivables.

9. Cash and cash equivalents

	30 June 2009	31 December 2008
	RO	RO
Cash on hand	**9,901**	11,613
Cash at bank	**1,290,677**	1,562,331
Short term deposits	**-**	6,924,562
	1,300,578	8,498,506

Included in cash at bank is a balance of RO 255,050 (31 December 2008 : RO 306,240) held in a call account in the United Arab Emirates which customers make deposits into. The account bears an interest rate of 0.5% (31 December 2008 : 0.5%) per annum. The Company's short term deposits with National Bank of Oman SAOG denominated in USD which bear an interest rate of 3.5% per annum.

10. Share capital

	Authorised		**Issued and fully paid**	
	30 June 2009	31 December 2008	**30 June 2009**	31 December 2008
	RO	RO	**RO**	RO
Shares of RO 0.100 each	**15,000,000**	15,000,000	**12,489,796**	12,489,796

(a) The share premium is stated net of share issuance costs.

(b) A cash dividend of RO 0.007 per share totaling RO 874,286 was paid as approved by share holders at the Annual General Meeting held on March 26, 2009.

Notes to the financial statements for the period ended 30 June 2009 (continued)

10. Share capital (continued)

(c) The details of shareholders who own 5% or more of the Company's shares are as follows:

Name of the shareholder	No. of shares	Holding %	30 June 2009 RO	31 December 2008 RO
Global Buyout Fund LP	63,697,960	51	6,369,796	6,369,796
Moosa Abdul Rahman Hassan & Company LLC	11,520,900	9	1,152,090	1,152,090
Abjar Trading LLC	5,655,300	5	565,530	715,530
Abdullah Moosa Abdul Rahman	7,080,152	6	708,015	736,155

11. Legal reserve

In accordance with the Commercial Companies Law of Oman 1974, as amended, annual appropriations of 10% of the profit for the year are made to this reserve until the accumulated balance of the reserve is equal to one third of the value of the Company's paid-up share capital. This reserve is not available for distribution.

12. Borrowings

	30 June 2009 RO	31 December 2008 RO
Non-current		
National Bank of Oman SAOG - term loan	**7,245,000**	8,115,000
Bank Dhofar SAOG - Loan II	**93,949**	172,074
Less: current portion included under current liabilities	**(1,833,949)**	(1,912,074)
	5,505,000	6,375,000
Current		
Loans against trust receipts	**5,783,081**	33,145,963
Bills discounting	**6,115,614**	3,151,509
Bank overdrafts	**1,627,141**	12,014
Current portion of term borrowings	**1,833,949**	1,912,074
	15,359,785	38,221,560
Total borrowings	**20,864,785**	44,596,560

(a) Term loan from National Bank of Oman SAOG drawn towards construction of Merchant Bar Rolling Mill, carries an interest rate of 8.50% per annum (31 December 2008 : 6.25% per annum). This loan is secured by the first priority charge on the Merchant Bar Mill and current assets. The loan is payable in 62 months in equal installments of RO 145,000 each starting from September 2008.

Notes to the financial statements for the period ended 30 June 2009 (continued)

12. Borrowings (continued)

(b) Term loan from Bank Dhofar SAOG is obtained for the fourth mill expansion, which carries an interest rate of three months LIBOR plus 2.25% per annum. This loan is secured by second priority charge over the fixed assets of the Company and a floating charge on inventories and trade receivables. The loan is payable in 45 months in equal monthly installments of RO 15,625 each starting from March 2006.

(c) The maturity profile of the non-current borrowings is as follows :

	30 June 2009 RO	31 December 2008 RO
Up to 2 years	**1,740,000**	1,740,000
From 3 to 5 years	**3,765,000**	4,635,000
	5,505,000	6,375,000

(d) Bank overdrafts are at interest rates ranging from 7% to 9% (31 December 2008 - 6% to 8%) per annum. Loans against trust receipts in Rials Omani are at an interest rate of 7.50% (31 December 2008 - 5.50%) per annum. Loans against trust receipts in USD at interest rates of LIBOR plus 4% to 5% (31 December 2008 - LIBOR plus 1.5% to 2%) per annum and bills discounted at interest rates of LIBOR plus 5% (31 December 2008 - LIBOR plus 2.5%) per annum are obtained from commercial banks. The interest rates on these facilities may be renegotiated with the banks on renewal of the bank facilities which generally takes place on an annual basis. The Company's main bank facilities have been secured by a second charge on the fixed assets and pari-pasu on inventories and trade receivables.

(e) The carrying amount of the Company's borrowings are denominated in the following currencies:

	30 June 2009 RO	31 December 2008 RO
Rials Omani	**19,224,732**	31,675,414
US Dollars	**1,640,053**	12,921,146
	20,864,785	44,596,560

(f) The company has negotiated repayment terms of certain borrowings with its lenders.

Notes to the financial statements for the period ended 30 June 2009 (continued)

13. Government soft loans

	30 June 2009 RO	31 December 2008 RO
National Bank of Oman SAOG – GSL – I	**739,661**	1,109,661
National Bank of Oman SAOG – GSL – II	**461,511**	461,512
	1,201,172	1,571,173
Less : Deferred government grant	**(114,125)**	(175,636)
	1,087,047	1,395,537
Less: Current portion	**(505,098)**	(505,098)
Non-current portion	**581,949**	890,439

(a) National Bank of Oman SAOG Term Loan - GSL-I: The loan was sanctioned under the soft loan scheme of the Government of Sultanate of Oman towards the plant and machineries of the Pipe Mill. The loan carries an interest rate of 3% (31 December 2008 - 3%) per annum and is secured by a first charge over the fixed assets, inventories and trade receivables of the pipe mill of the Company. The principal of the loan is repayable in 10 equal annual installments of RO 370,000 which commenced from May 2002.

(b) National Bank of Oman SAOG Term Loan - GSL-II: The loan was sanctioned for the construction of the Fourth Pipe Mill under the soft loan scheme of the Government of Sultanate of Oman. The loan carries an interest rate of 3% (31 December 2008 - 3%) per annum and is secured by a first charge over the fixed assets, inventories and trade receivables of the pipe mill of the Company. The principal of the loan is repayable in 6 equal annual installments of RO 166,667 which commenced from December 2006.

Government soft loans are repayable as follows:

	30 June 2009 RO	31 December 2008 RO
Less than one year	**536,667**	536,667
Between 2 and 5 years	**664,505**	1,034,506
	1,201,172	1,571,173

(c) In accordance with Capital Market Authority (CMA) Circular No. 1 of 2002 and IFRS, the difference between the carrying value and fair value of the loan has to be shown as "deferred government grant" and is to be recognized as income over the loan period as necessary to match them with the related costs, which they are intended to compensate on a systematic basis. However, the current portion of recognized deferred government income is equivalent to the related finance cost. Hence, there is no impact on the current period result of the Company.

Notes to the financial statements for the period ended 30 June 2009 (continued)

14. End of service benefits

	30 June 2009 RO	31 December 2008 RO
Balance brought forward	**65,912**	43,817
Charge for the period / year (note 19)	**17,823**	62,243
Payments during the period	**(47,357)**	(40,148)
Balance carried forward	**36,378**	65,912

15. Trade and other payables

Trade payables	**1,783,362**	1,419,528
Accrued expenses	**518,955**	655,678
Advances from customers	**-**	71,015
Due to related parties (note 24)	**-**	19,373
Other payables	**142,937**	142,937
	2,445,254	2,308,531

16. Cost of sales

	30 June 2009 RO	30 June 2008 RO
Cost of materials consumed	**16,026,767**	27,977,470
Direct labour (note 19)	**514,023**	1,242,629
Depreciation (note 6)	**288,947**	277,821
Other direct expenses	**189,340**	325,700
	17,019,077	29,823,620

17. Selling and distribution costs

Packing and despatch charges	**689,217**	1,087,262
Sales promotion expenses	**98,494**	24,493
ECGA premium	**81,179**	171,664
Advertisement and publicity	**31,440**	38,624
Commission on sales	**39,741**	46,997
Other selling and distribution expenses	**4,426**	4,738
	944,497	1,373,778

Notes to the financial statements for the period ended 30 June 2009 (continued)

18. General and administrative expenses

	30 June 2009 RO	30 June 2008 RO
Employee costs (note 19)	**211,354**	310,808
Legal and professional charges	**33,184**	28,483
Communication expenses	**23,959**	30,485
Travelling and conveyance	**29,385**	48,771
Depreciation (note 6)	**17,044**	8,686
Insurance	**3,977**	3,824
Other expenses	**60,338**	72,616
	379,241	503,673

19. Employee costs

The employee costs, included under cost of sales and general and administrative expenses comprise the following:

	30 June 2009 RO	30 June 2008 RO
Basic salaries and allowances	**565,453**	951,984
Staff rent	**73,260**	97,583
Employee welfare expenses	**50,222**	34,025
End of service benefits (note 14)	**17,823**	21,314
Social security costs	**18,619**	19,731
Staff bonus	**-**	428,800
	725,377	1,553,437
Allocated to :		
Cost of sales (note 16)	**514,023**	1,242,629
General and administrative expenses (note 18)	**211,354**	310,808
	725,377	1,553,437

Notes to the financial statements for the period ended 30 June 2009 (continued)

20. Net finance costs

	30 June 2009 RO	30 June 2008 RO
Interest on bank borrowings	**877,244**	494,017
Interest income	**(27,559)**	(99,148)
	849,685	394,869

Interest on bank borrowings are net of RO 319,219 (30 June 2008 : RO 265,468) included in the capital work-in-progress.

21. Taxation

(a) In accordance with Ministerial Decision number 87/99 dated 11 August 1999, the Company was exempt from taxation for a period of five years from the date of the commencement of commercial operations being 15 May 1999. The Ministry of National Economy, through Ministerial Decision No. 89/2004 dated 22 November 2004, granted a tax exemption for a further period of five years ending 15 May 2009.

(b) The current period tax charge relates to deferred taxation in respect of the timing differences. Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 12%.

(c) Tax assessments for all the years up to 2004 have been completed and agreed with the Oman taxation authorities. The management believes that any taxation for the unassessed years from 2005 to 2008 will not be material to the financial position of the Company as at the statement of financial position date.

Notes to the financial statements for the period ended 30 June 2009 (continued)

22. (Loss) / earnings per share – basic and diluted

(Loss) / earnings per share is calculated by dividing the (loss) / profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

	30 June 2009	30 June 2008
(Loss) / profit attributable to shareholders (RO)	**(2,084,088)**	6,291,707
Weighted average of number of shares outstanding	**124,897,960**	124,897,960
(Loss) / earnings per share (RO) - basic and diluted	**(0.017)**	0.050

23. Net assets per share

	30 June 2009	31 December 2008
Net assets (RO)	**28,110,914**	31,069,288
Number of shares at	**124,897,960**	124,897,960
Net assets per share (RO)	**0.225**	0.249

Net assets per share is calculated by dividing the shareholders' equity at the period end by the number of shares outstanding.

24. Related party transactions

Related parties comprise the shareholders, directors and business entities in which they have the ability to control or exercise significant influence in financial and operating decisions. The Company has entered into transactions with entities related to the significant shareholders or directors. In the ordinary course of business, such related parties provide goods and render services to the Company. The Company also sells goods to such related parties. During the period, the following transactions were carried out with related parties:

	30 June 2009	30 June 2008
Sales and purchases of goods / services	**RO**	RO
Sales of goods	**221,336**	130,459
Purchases of services	**2,440**	-

Notes to the financial statements for the period ended 30 June 2009 (continued)

24. Related party transactions (continued)

	30 June 2009 RO	30 June 2008 RO
Key management compensation		
Basic salaries and allowances	**52,728**	50,290
Directors' sitting fees	**29,925**	1,600

Balances arising from sales / purchases of goods / services

	30 June 2009 RO	31 December 2008 RO
Due from related parties (note 8)	**76,542**	10,520
Due to related parties (note 15)	-	19,373

No provision was required in respect of amounts due from related parties.

25. Commitments

(i) Lease commitments

At 30 June 2009, the future minimum lease commitments under the lease agreement in respect of the land, referred to in note 6(a), amounted to RO 1,295,905 (31 December 2008 - RO 1,282,260) for the total remaining lease period. Under the terms of the operating lease the future aggregate minimum lease payments are as follows:

	30 June 2009 RO	31 December 2008 RO
Not later than 1 year	**54,658**	54,658
Between year 2 and 5	**241,104**	273,079
Later than 5 years	**936,194**	954,523
	1,231,956	1,282,260

Notes to the financial statements for the period ended 30 June 2009 (continued)

25. Commitments (continued)

(ii) Purchase commitments

At 30 June 2009, the value of outstanding purchase commitments amounted to RO 5,982,480 (31 December 2008 – RO 1,382,789).

(iii) Capital commitments

At 30 June 2009, the Company had capital commitments amounting to RO 205,043 (31 December 2008 - RO 365,279).

26. Contingent liabilities

	30 June 2009 RO	31 December 2008 RO
Bank guarantees	**57,943**	75,633

The above guarantees were issued in the normal course of business.

27. Comparative figures

Certain comparative figures have been reclassified to conform with the presentation in the current period.

28. Approval of financial statements

The financial statements were approved by the Management and authorised for issue on 26 July 2009.