Dear Shareholder,

With the grace and mercy of Allah, and on behalf of the Board of Directors of Al Jazeera Steel Co. SAOG, I would like to welcome you to the 14th Annual General Meeting of the Company to present the Annual Report, Audited Financial Statements and Auditors Report for the year ended 31 December 2011.

After showing early signs of recovery in 2010, the political and social changes that overcame the MENA region in 2011, coupled with rising inflation, exposed the region to further challenges. Although the situation in many countries has relatively stabilized, with the exception of Qatar, all of the MENA stock markets ended the year in the negative and registered lower levels of growth.

Key points of 2012 Operational Performance

Overall demand in 2011 was quite impressive compared to that of 2010, and your Company recorded excellent performance in 2011 by achieving 59% increase in the profit compared to last year. This was supported by management's cost optimization initiatives and effective overhead management. Diversification of raw material suppliers has helped the company reduce concentration risk and control inventory holdings. As a result, this positively impacted borrowings and significant savings were achieved on interest and financing cost.

Al Jazeera's tube mill marked another strong year, with sales volumes increasing 10% over 2010 sales. One of the main factors fuelling Jazeera Steel's optimism is the performance of its merchant bar mill (MBM) unit, which managed to break even in 2011 within two years of starting commercial production. Annual production at the MBM unit was ramped up by 66% to over 100,000 metric tonnes in 2011 and Al Jazeera Steel is now targeting a production of more than 125,000 metric tonnes for 2012 at the unit.

As can be seen in the table below, we were able to record significant growth in 2011 compared to 2010.

Particulars	31 December 2011	31 December 2010	Growth %
Production – MT	266,991	211,647	26%
Sales – MT	263,435	207,261	27%
Sales – RO	91,196,884	64,912,159	40%
Profit / (Loss)(in RO)	3,030,793	1,903,461	59%

Future plans

Even though the fourth quarter has been challenging as the commodity markets worldwide took a beating, there is much reason for optimism. There is overcapacity everywhere, but there remains room for growth for steel manufacturers in the GCC due to the number of infrastructure projects coming up across the region. We expect the construction activities to accelerate further due to the increased government budget surpluses and spending in infrastructure activities. In addition, demand for steel products in Qatar is expected to significantly increase, with the large construction projects lined up for the 2022 World Cup.

The US economy is recovering at a faster pace than what was initially expected; on the other hand, Europe is yet to recover from its recessionary trend. These conditions continue to present challenges, but I am confident we will be able to successfully overcome them.

In the pipeline are projects like steel making for billet manufacturing and an additional slitting line to manufacture smaller angles and channels from hot roll material along with cut-to-length sheets and plates.

The firm is also looking to enhance its presence in markets like Saudi Arabia, North Africa, Asia, Australia and Eastern Europe for its tubular as well as MBM products, for which a start has been made in 2011. Externally, we are working on expanding the distribution of the MBM products and gaining new territories for our tube mill. We are looking at Africa and Iraq as new areas for growth.

Dividends:

The Board of Directors is pleased to recommend a cash dividend of 15% amounting to Bz 15 for the year 2011 for every share held. The following table shows the dividend distributed during the past 5 years.

Year	Cash Dividend	Stock Dividend (Bonus Share)
2010	9%	-
2009	-	-
2008	7%	-
2007	-	-
2006	-	-

Internal Control Systems and their adequacy

The Company has proper and adequate systems of internal controls required to ensure that all assets are safeguarded and protected against unauthorized use or disposition and that all transactions are authorized and reported correctly. The internal control system is supplemented by an extensive program of internal audits, review by management, documented policies, guidance and procedures. The internal control system is designed to ensure that all data is reliable for preparing and maintaining financial statements.

The Company has an audit committee comprising of non-executive directors to review the audit work which in turn is reviewed by the Board.

The greatest strength of your Company is the quality and spirit of its people. In addition, it enjoys a good reputation in the market for its quality and dependability, and all these will contribute positively to its future prosperity.

M/S. Delloitte Touche, the Company's Auditors have audited the accounts up to 31 December 2011, and their report is enclosed.

Finally, on behalf of the Company and the Board of Directors, I would like to express my heartfelt gratitude to His Majesty Sultan Qaboos Bin Said for the encouragement and support given by his Government for the industrial development in the Sultanate of Oman.

At this juncture, on behalf of the Board, I would like to thank MSM, DFM, Bankers, Customers and all the shareholders for their support and cooperation, which in turn reflects the confidence placed in us. I would also like to express our sincere appreciation to management and employees for their efforts towards achieving the results.

On Behalf of the Board



Sulaiman Mohammed Shaheen Al-Rubaie
Chairman
22 February 2012

MANAGEMENT DISCUSSION AND ANALYSIS

The Management of Al Jazeera Steel Products Co. SAOG is pleased to present the Management Discussion and Analysis Report for the year ended 31st December, 2011.

Industry Structure and Company Development

The year 2011 started with a high demand and saw a rise in steel prices; a trend which lasted till the beginning of the third quarter; after which a downward trend was witnessed primarily due to the uncertainty from the US and European markets. Construction activities in the UAE market did not pick up the way we expected post Ramadan, but as the price of oil continues to be high coupled with further announcements of new GCC based mega projects, we expect more to take concrete shape and boost demand in 2012, which means more business to Al Jazeera.

Management of Al Jazeera has been successful in cautiously managing Al Jazeera's inventory levels due to the sensitivity and vulnerability of raw material pricing in light of the current global market scenario. This was effectively achieved through maintaining well-calculated economical inventory levels as means of avoiding speculative piling of HRC and Billets that could, if markets turn down, affect the business and hence profitability. Management was also able to improve its supply chain, implement more sourcing diversification and strengthen its customer relationships.

Al Jazeera was able to increase its production of Tube Mill products and has achieved record production figures in 2011. This was due to the hard work of all employees and plant workers as well as the significant support from the marketing team. The Company is extremely efficient in its collections and can be fairly and relatively considered default-free.

On the Merchant Bar Mill (MBM) front, management is in the process of adding more sizes through mill modifications. The mill has already reached the hourly rated production capacity for several sections. Total capacity utilization reached 33% in 2011, which is expected to increase to 42% during 2012, supported by an expected improvement in demand and thus we believe that the MBM will be run on a double shift. The MBM performance in 2011 outperformed that of the budgeted one for the same year, exhibiting strong potential and additional contribution to revenues and profitability. Management expects revenues in the MBM division to grow by over 25% in 2012.

Over the past 2 years, Al Jazeera has been triumphant in infiltrating new markets such as the US and Canada and has done considerable business in them, through its innovative marketing approach and strong connections. Having established itself as a quality manufacturer, the company is planning to leverage its performance in these markets to its advantage, by adding more value added products, attaining more international certificates and standards and working closely to have warehousing facilities in North America.

We expect to strengthen our distribution network in 2012 so that marketing of the new range of products would take off smoothly. The expansion would also help us in improving our purchasing power in the international market.

Al Jazeera is exploring more avenues to increase business in KSA and Iraq and penetrate new markets such as Africa.

Analysis of segments and product-wise performance

The Company sells four different types of steel products. The product wise performance is given below:

Sales Quantity in MT			
Particulars	**2011**	**2010**	***Growth %***
Black pipes	62,859	59,250	*6%*
Galvanized pipes	76,367	70,256	*9%*
Hollow Sections	24,133	18,693	*29%*
Merchant Bar Mill Products	100,076	59,062	*69%*
Total	**263,435**	**207,261**	*27%*

Financial Review

The financial performance of the company in 2011 as compared to that of 2010 is given below:

(Amount in OMR)

Particulars	**2011**	**2010**	***Growth %***
Sales	**91,196,884**	**64,912,159**	*40%*
Gross Profit	**10,042,337**	**8,585,406**	*17%*
Finance Cost – Net	(1,828,389)	(2,019,308)	*(9)%*
Administration Cost	(5,183,155)	(4,662,637)	*11%*
Net Profit	**3,030,793**	**1,903,461**	*59%*
Earnings Per Share	**0.024**	**0.015**	*60%*

Operational Review

During the year under review, the **Company moved up from average monthly sales of 17,000 MT in 2010 to over 22,000 MT in 2011. Sales value has increased from OMR 64.9 million in 2010 to OMR 91.2 million in the year 2011.**

The Tube Mill division currently has an operating and production capacity of 300,000 MT of pipes which includes 80,000 MT of galvanized products per annum. However, the severe market conditions restricted our tube mill to be operated at 55% of its capacity and thereby resulting in 163,960 MT of production. Through continuous modernization and expansion of

its production facilities and innovative work in the market place, the Company has focused its product mix to meet the high standards of customers in our segment.

On the other hand, in our MBM division, we were able to sell 100,076 MT of products. This was possible mainly due to the development of full range of product spectrum. As you all know, there is no end to innovation, and ongoing research is in progress to add newer sizes so that we can further grow. During the year 2012, plans are on to go for round the clock operations to sell more and further strengthen the company's overall profitability.

A trained and skilled workforce and their hard work has contributed towards the enhancement of productivity and sales and making Al Jazeera one of the successful companies in Oman for over 12 years.

Omanisation

At Al Jazeera, we are proud to have a 36% Omanisation level, for which our employees/workers contribute productively and positively to the success of the organization.



DIRECTOR

Deloitte.

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

Report on the financial statements

We have audited the accompanying financial statements of **Al Jazeera Steel Products Company SAOG** (the "Company"), which comprise the statement of financial position as at 31 December 2011, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 2 to 33.

Board of Director's responsibility for the financial statements

Board of Directors is 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 and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 in 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.

Deloitte.

Independent auditor's report to the shareholders of Al Jazeera Steel Products Company SAOG (continued)

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of **Al Jazeera Steel Products Company SAOG,** as of 31 December 2011, 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.

Deloitte & Touche.

Deloitte & Touche (M.E.) & Co. LLC
Muscat, Sultanate of Oman
22 February 2012



Signed by
Robert O'Hanlon
Partner

AL JAZEERA STEEL PRODUCTS COMPANY SAOG

Statement of financial position as at 31 December 2011

	Notes	2011 RO	2010 RO
ASSETS			
Non-current assets			
Property, plant and equipment	7	**27,241,682**	28,675,262
Current assets			
Inventories	8	**20,502,400**	15,823,114
Trade and other receivables	9	**25,428,899**	20,073,722
Cash and cash equivalents	10	**1,648,419**	1,718,534
Total current assets		**47,579,718**	37,615,370
Total assets		**74,821,400**	66,290,632
EQUITY			
Capital and reserves			
Share capital	11	**12,489,796**	12,489,796
Share premium	11	**13,856,484**	13,856,484
Legal reserve	12	**1,854,061**	1,550,982
Retained earnings		**5,030,793**	3,427,161
Total equity		**33,231,134**	31,324,423
LIABILITIES			
Non-current liabilities			
Borrowings	14	**1,155,000**	2,895,000
End of service benefits	16	**82,991**	65,414
Deferred tax liability	23	**857,530**	834,205
Total non-current liabilities		**2,095,521**	3,794,619
Current liabilities			
Borrowings - current portion	14	**25,603,444**	26,487,461
Government soft loans - current portion	15	**-**	468,554
Deferred government grant	15	**-**	29,285
Trade and other payables	17	**13,891,301**	4,186,290
Total current liabilities		**39,494,745**	31,171,590
Total liabilities		**41,590,266**	34,966,209
Total equity and liabilities		**74,821,400**	66,290,632
Net assets per share	25	**0.266**	0.251

Chairman **Director**

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

Statement of comprehensive income for the year ended 31 December 2011

	Notes	2011 RO	2010 RO
Revenue		**91,196,884**	64,912,159
Cost of sales	**18**	**(81,154,547)**	(56,326,753)
Gross profit		**10,042,337**	8,585,406
Selling and distribution expenses	**19**	**(3,511,442)**	(3,205,861)
General and administrative expenses	**20**	**(1,604,323)**	(1,231,191)
Other operating expenses		**(44,065)**	(5,641)
Operating profit		**4,882,507**	4,142,713
Net finance costs	**22**	**(1,828,389)**	(2,019,308)
Profit before taxation		**3,054,118**	2,123,405
Income tax expense	**23**	**(23,325)**	(219,944)
Profit for the year		**3,030,793**	1,903,461
Earnings per share - basic and diluted	**24**	**0.024**	0.015

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

Statement of changes in equity
for the year ended 31 December 2011

	Share capital RO	Share premium RO	Legal reserve RO	Retained earnings RO	Total RO
At 1 January 2010	12,489,796	13,856,484	1,360,636	1,714,046	29,420,962
Profit for the year	-	-	-	1,903,461	1,903,461
Transfer to legal reserve	-	-	190,346	(190,346)	-
At 1 January 2011	**12,489,796**	**13,856,484**	**1,550,982**	**3,427,161**	**31,324,423**
Dividends paid (note 13)	**-**	**-**	**-**	**(1,124,082)**	**(1,124,082)**
Profit for the year	**-**	**-**	**-**	**3,030,793**	**3,030,793**
Transfer to legal reserve	**-**	**-**	**303,079**	**(303,079)**	**-**
At 31 December 2011	**12,489,796**	**13,856,484**	**1,854,061**	**5,030,793**	**33,231,134**

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

Statement of cash flows
for the year ended 31 December 2011

	2011 RO	2010 RO
Operating activities		
Profit before taxation	**3,054,118**	2,123,405
Adjustments for:		
Interest income	**(5,076)**	(6,202)
Interest on borrowings	**1,833,465**	2,025,510
Depreciation	**2,169,149**	2,080,000
Allowance for inventories	**308,827**	256,258
Allowance for doubtful debts	**93,081**	32,193
Loss on sale of property, plant and equipment	**44,131**	5,641
Net transfer to end of service benefits	**17,577**	12,471
Operating cash flow before movement in working capital	**7,515,272**	6,529,276
Decrease / (increase) in working capital :		
Inventories	**(4,988,113)**	(4,520,172)
Trade and other receivables	**(5,448,258)**	(5,543,278)
Trade and other payables	**9,648,343**	(105,032)
Cash from / (used in) operations	**6,727,244**	(3,639,206)
Interest paid	**(1,776,797)**	(1,981,456)
Net cash from / (used in) operating activities	**4,950,447**	(5,620,662)
Investing activities		
Purchase of property, plant and equipment	**(787,612)**	(896,357)
Proceeds from sale of property, plant and equipment	**7,912**	6,918
Interest received	**5,076**	6,202
Net cash used in investing activities	**(774,624)**	(883,237)
Financing activities		
Dividend paid	**(1,124,082)**	-
Net change in borrowings	**(3,121,856)**	6,643,983
Net cash (used in) / from financing activities	**(4,245,938)**	6,643,983
Net change in cash and cash equivalents	**(70,115)**	140,084
Cash and cash equivalents at the beginning of the year	**1,718,534**	1,578,450
Cash and cash equivalents at the end of the year	**1,648,419**	1,718,534

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

Notes to the financial statements for the year ended 31 December 2011

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, principal office and the manufacturing facility is located at P O Box 40, Sohar Industrial Estate, Postal Code 327, and Sultanate of Oman. The principal activities of Company are the manufacture and sale of steel products including associated works.

The company has two plants namely tube mill and merchant bar mill. The commercial operations of the tube mill commenced in May 1999 and the merchant bar mill commenced in October 2009.

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

For the year ended 31 December 2011, the Company has adopted all 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 the year beginning on 1 January 2011.

Notes to the financial statements for the year ended 31 December 2011 (continued)

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

2.1 Standards and Interpretations adopted with no effect on the financial statements

The following new and revised Standards and Interpretations have been adopted in these financial statements. Their adoption has not had any significant impact on the amounts reported in these financial statements but may affect the accounting for future transactions or arrangements.

Amendment to IAS 1 – Annual Improvement to IFRSs	The amendment clarifies that an entity may present the analysis of other comprehensive income by item either in the statement of changes in equity or in the notes to the financial statements.
Amendments to IAS 24 – Related Party Disclosure	The amendments simplify the disclosure requirements for entities that are controlled, jointly controlled or significantly influenced by a government (referred to as government related entities) and clarify the definition of related party.
Amendments to IAS 32 – Classification of Rights Issues	The amendments address the classification of certain rights issues denominated in a foreign currency as either equity instruments or as financial liabilities.
Amendments to IFRIC 14 – Prepayments of a Minimum Funding Requirements	The amendments addresses when refund or reductions in future contributions should be regarded as available in accordance with IAS 19; how minimum funding requirements might affect the availability of reductions in future contributions; and when minimum funding requirements might give rise to a liability. The amendments now allow recognition of an asset in the form of prepaid minimum funding contributions.
IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments	The Interpretation provides guidance on the accounting for extinguishment of financial liability by the issue of equity instruments.

Notes to the financial statements for the year ended 31 December 2011 (continued)

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

2.2 New and revised IFRS in issue but not yet effective

At the date of authorisation of these financial statements, the following new and revised Standards and Interpretations were in issue but not yet effective:

New Standards and amendments to Standards:

	Effective for annual periods beginning on or after
IFRS 7: Financial Instruments: Disclosures, *amendments enhancing disclosures about transfers of financial assets*	July 2011
IAS 12: Income Taxes, *limited scope amendment (recovery of underlying assets)*	January 2012
IAS 1: Presentation of Financial Statements, a*mendments to revise the way other comprehensive income is presented*	July 2012
IAS 19: Employee Benefits, *amended Standard resulting from the Post-Employment Benefits and Termination Benefits project*s	January 2013
IAS 27: Consolidated and Separate Financial Statements, *reissued as IAS 27 Separate Financial Statements (as amended in 2011)*	January 2013
IAS 28: Investments in Associates, *reissued as IAS 28 Investments in Associates and Joint Ventures (as amended in 2011)*	January 2013
IFRS 7: Financial Instruments: Disclosures, *amendments enhancing disclosures about offsetting of financial assets and financial liabilities*	January 2013 and interim periods within those periods
IFRS 10: Consolidated Financial Statements	January 2013
IFRS 11: Joint Arrangements	January 2013
IFRS 12: Disclosure of Interests in Other Entities	January 2013
IFRS 13: Fair Value Measurement	January 2013
IFRS 7: Financial Instruments: Disclosures, *amendments requiring disclosures about the initial application of IFRS 9*	January 2015 (or otherwise when IFRS 9 is first applied)
IFRS 9: Financial Instruments: Classification and Measurement of financial assets *(intended as complete replacement for IAS 39)*	January 2015 (mandatory application date amended December 2011)

New Interpretations and amendments to Interpretations:

IFRIC 20 – *Stripping Costs in the Production Phase of a Surface Mine*	1 January 2013

Management anticipates that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Company in the period of initial application.

3. Summary of significant accounting policies

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as promulgated by the International Accounting Standards Board, and comply with the disclosure requirements set out in the Rules and Guidelines on disclosure issued by the Capital Market Authority and the requirements of the Commercial Companies Law of 1974, as amended.

Basis of preparation

These financial statements are prepared on the historical cost basis except for certain financial instruments, which are stated at fair value.

These financial statements are presented in Rials Omani (RO) since that is the currency in which the majority of the transactions are denominated.

A summary of significant accounting policies, which have been consistently applied by the Company and are consistent with those used in the previous period, is set out below:

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 profit or loss 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
Tools and spares	4
Motor vehicles	5
Furniture and fixtures	5
Computer and other equipment	3 - 5

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 as the difference between the sales proceeds and their carrying amounts and are taken into account in determining the operating result for the period.

Notes to the financial statements for the year ended 31 December 2011 (continued)

3. Summary of significant accounting policies (continued)

Impairment of non- financial assets

At each reporting 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.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment is recognised immediately in profit or loss.

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.

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.

Trade and other receivables

Trade receivables are stated at their amortized cost less impairment losses. An allowance for doubtful debts 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.

Cash and cash equivalents

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

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 profit or loss over the period of the borrowings using the effective interest method.

3. Summary of significant accounting policies (continued)

Deferred government grant

Interest subsidy is recognised in the statement of financial position 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.

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting year, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

End of service benefits and leave entitlements

End of service benefits are accrued in accordance with the terms of employment of the Company's qualifying employees at the reporting 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 reporting 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 profit or loss as incurred.

Trade and other payables

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

3. Summary of significant accounting policies (continued)

Taxation

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

Current tax
Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax
Deferred tax liability is recognised on 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 reporting 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.

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 from the proceeds.

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 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 profit or loss when the significant risks and rewards of ownership have been transferred to the buyer. Sales represent the invoiced value of goods sold during the year, net of discounts and returns.

3. Summary of significant accounting policies (continued)

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.

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 RO, rounded to the nearest RO.

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 period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

4.1 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.

Notes to the financial statements for the year ended 31 December 2011 (continued)

4.1 Financial risk management (continued)

(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 reporting date was on account of:

	2011	2010
	RO	RO
Trade receivables	**24,399,388**	19,369,409
Other receivables	**1,101,183**	661,325
Cash at bank	**1,642,581**	1,714,675
	27,143,152	21,745,409

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 backed by confirmed letters of credit. Service of the Export Credit Guarantee Agency SAOC (ECGA) in the Sultanate of Oman is no longer used. There is no concentration of credit risk with respect to trade receivables as the Company has a large number of customers, internationally dispersed.

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.

4.1 Financial risk management (continued)

(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 year at the reporting date to the contractual maturity date.

	Total RO	Less than 1 year RO	1 to 2 years RO	3 to 5 years RO
2011				
Borrowings	**26,758,444**	**25,603,444**	**1,155,000**	**-**
Trade and other payables	**13,685,778**	**13,685,778**	**-**	**-**
	40,444,222	**39,289,222**	**1,155,000**	**-**
2010				
Borrowings	29,382,461	26,487,461	1,740,000	1,155,000
Government soft loans	497,839	497,839	-	-
Trade and other payables	4,020,908	4,020,908	-	-
	33,901,208	31,006,208	1,740,000	1,155,000

(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 borrowings carry interest on commercial terms. The borrowings are obtained at fixed rates.

Notes to the financial statements for the year ended 31 December 2011 (continued)

4.2 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.

	2011	2010
	RO	RO
Borrowings (Note 14)	**26,758,444**	29,382,461
Government soft loans (Note 15)	**-**	497,839
Total borrowings	**26,758,444**	29,880,300
Less: cash and cash equivalents (Note 10)	**(1,648,419)**	(1,718,534)
Net debt	**25,110,025**	28,161,766
Total equity	**33,231,134**	31,324,423
Total capital	**58,341,159**	59,486,189
Gearing ratio	**43%**	47%

4.3 Fair value estimation

The carrying values of financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values. The fair values of non-current financial liabilities other than Government soft loans are considered to approximate 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 reporting date.

5. Critical accounting estimates and judgments

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 judgments 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

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.

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.

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.

6. 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 3.

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.

Products and services from which reportable segments derive their revenues

The Company operates in one business segment that of manufacture and sale of steel products. 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:

	2011		2010	
	Revenue RO	**Trade receivables RO**	Revenue RO	Trade receivables RO
GCC countries including Oman	**74,946,076**	**20,326,187**	50,574,256	16,199,572
North America	**16,074,557**	**3,929,285**	13,486,866	3,139,488
Others	**176,251**	**143,916**	851,037	30,349
	91,196,884	**24,399,388**	64,912,159	19,369,409

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

7. Property, plant and equipment

	Buildings RO	Plant and equipment RO	Tools and spares RO	Motor vehicles RO	Furniture and fixtures RO	Computer and other equipment RO	Capital work-in-progress RO	Total RO
Cost								
At 1 January 2011	**7,936,559**	**25,264,535**	**1,715,514**	**128,060**	**230,014**	**290,901**	**302,360**	**35,867,943**
Additions	**28,650**	**174,556**	**156,657**	**10,000**	**7,050**	**33,521**	**377,178**	**787,612**
Disposals	**-**	**(11,997)**	**(56,494)**	**(12,165)**	**(1,439)**	**(854)**	**-**	**(82,949)**
At 31 December 2011	**7,965,209**	**25,427,094**	**1,815,677**	**125,895**	**235,625**	**323,568**	**679,538**	**36,572,606**
Depreciation								
At 1 January 2011	**1,687,448**	**4,753,578**	**411,392**	**66,467**	**160,709**	**113,087**	**-**	**7,192,681**
Charge for the year:								
Cost of sales (Note 18)	**397,091**	**1,276,993**	**388,833**	**-**	**-**	**-**	**-**	**2,062,917**
General and administrative (Note 20)	**-**	**-**	**-**	**23,424**	**22,762**	**60,046**	**-**	**106,232**
Disposals	**-**	**(1,772)**	**(15,897)**	**(11,367)**	**(1,219)**	**(651)**	**-**	**(30,906)**
At 31 December 2011	**2,084,539**	**6,028,799**	**784,328**	**78,524**	**182,252**	**172,482**	**-**	**9,330,924**
Carrying value								
At 31 December 2011	**5,880,670**	**19,398,295**	**1,031,349**	**47,371**	**53,373**	**151,086**	**679,538**	**27,241,682**

7. Property, plant and equipment (continued)

	Buildings RO	Plant and equipment RO	Tools and spares RO	Motor vehicles RO	Furniture and fixtures RO	Computer and other equipment RO	Capital work-in-progress RO	Total RO
Cost								
At 1 January 2010	7,913,884	25,059,955	1,569,940	129,332	219,547	127,601	-	35,020,259
Additions	22,675	235,381	145,574	16,600	10,467	163,300	302,360	896,357
Disposals	-	(30,801)	-	(17,872)	-	-	-	(48,673)
At 31 December 2010	7,936,559	25,264,535	1,715,514	128,060	230,014	290,901	302,360	35,867,943
Depreciation								
At 1 January 2010	1,291,105	3,501,570	81,405	63,093	139,417	72,205	-	5,148,795
Charge for the year:								
Cost of sales (Note 18)	396,343	1,270,250	329,987	-	-	-	-	1,996,580
General and administrative (Note 20)	-	-	-	21,246	21,292	40,882	-	83,420
Disposals	-	(18,242)	-	(17,872)	-	-	-	(36,114)
At 31 December 2010	1,687,448	4,753,578	411,392	66,467	160,709	113,087	-	7,192,681
Carrying value								
At 31 December 2010	6,249,111	20,510,957	1,304,122	61,593	69,305	177,814	302,360	28,675,262

Notes to the financial statements for the year ended 31 December 2011 (continued)

7. 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 14 and 15).

(c) Capital work-in-progress represents mainly waste water treatment plant under construction and rolls under grooving.

8. Inventories

	2011	2010
	RO	RO
Raw materials	**10,647,192**	8,132,767
Finished goods	**6,998,247**	4,889,377
Work-in-process	**1,625,648**	1,976,914
Stores and spares	**2,221,682**	1,568,251
Less : allowance for inventories	**(1,132,472)**	(823,645)
	20,360,297	15,743,664
Goods-in-transit	**142,103**	79,450
	20,502,400	15,823,114

Inventories of the Company are subject to a charge favouring the lenders of borrowings, as disclosed in notes 14 and 15.

The movement in allowance for inventories is given below:

	2011	2010
	RO	RO
Balance brought forward	**823,645**	567,387
Charge during the year	**308,827**	256,258
Balance carried forward	**1,132,472**	823,645

9. Trade and other receivables

	2011 RO	2010 RO
Trade receivables	**24,399,388**	19,369,409
Allowance for doubtful debts	**(158,855)**	(65,774)
	24,240,533	19,303,635
Advances to suppliers	**610,471**	122,514
Prepaid expenses	**87,183**	108,762
Other receivables	**490,712**	538,811
	25,428,899	20,073,722

The movement in allowance for doubtful debts is given below:

Balance brought forward	**65,774**	33,581
Charge during the year (Note 20)	**93,081**	32,193
Balance carried forward	**158,855**	65,774

(a) Trade receivables of the Company are subject to a charge favouring the lenders of borrowings, as disclosed in notes 14 and 15.

(b) Trade receivables that are less than six months past due are not considered impaired. As at 31 December 2011, trade receivables of RO Nil (31 December 2010: RO 55,732) were over six months 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 is as follows:

Age	2011 RO	2010 RO
Less than 90 days	**18,988,316**	15,159,459
Between 91 - 270 days	**5,261,423**	4,088,444
Between 271 - 365 days	**24,773**	34,441
Between 366 - 730 days	**30,629**	82,020
More than 730 days	**94,247**	5,045
	24,399,388	19,369,409

Notes to the financial statements for the year ended 31 December 2011 (continued)

9. Trade and other receivables (continued)

(c) Other receivables include custom duty paid on imports of RO 459,454. The Company was exempted from customs duty until 31 December 2007. The Company applied for the exemption. However, for the timely clearance of raw material imported during 2008, based on Ministry of Commerce orders, the Company paid custom duty amounting to RO 690,857 which is refundable. The certificate of exemption was received from the Ministry on 14 March 2010. As of 31 December 2011 refund of RO 231,403 has been received from the Ministry. The Management is following up with the Ministry for the balance refund.

10. Cash and cash equivalents

	2011	2010
	RO	RO
Cash on hand	**5,838**	3,859
Cash at bank	**1,642,581**	1,714,675
	1,648,419	1,718,534

Included in cash at bank is a balance of RO 404,454 (31 December 2010 : RO 458,851) held in a call account in the United Arab Emirates which customers make deposits into and RO 688,150 (31 December 2010 : RO 454,249) in US Dollars held in Oman. These accounts bear an interest rate of 0.5% per annum (31 December 2010 : 0.5% per annum).

11. Share capital

The share capital comprises 124,897,960 (31 December 2010 : 124,897,960) ordinary shares of RO 0.100 (31 December 2010 : RO 0.100) each fully paid.

	Authorised		**Issued and fully paid**	
	2011	2010	**2011**	2010
	RO	RO	**RO**	RO
Share capital	**15,000,000**	15,000,000	**12,489,796**	12,489,796

The share premium is stated net of share issuance costs.

Notes to the financial statements for the year ended 31 December 2011 (continued)

11. Share capital (continued)

The details of shareholders who own 10% or more of the Company's shares are as follows:

Name of the shareholder	2011 No. of shares	2011 Holding %	2010 No. of shares	2010 Holding %
Global Buyout Fund LP	**63,697,960**	**51**	63,697,960	51

12. Legal reserve

In accordance with the Commercial Companies Law of Oman 1974, as amended, annual appropriations of 10% of the profit 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.

13. Dividend proposed and paid

(a) Subsequent to the reporting date, the Board of Directors have proposed a cash dividend of 15% amounting to RO 1,873,469 (RO 0.015 per share).

(b) During the year 2011, a cash dividend of RO 0.009 per share totaling RO 1,124,082 was paid as approved by shareholders in their annual general meeting held on 24 March 2011.

14. Borrowings

	2011 RO	2010 RO
Non-current		
National Bank of Oman SAOG - term loan	**2,895,000**	4,635,000
Less: current portion included under current liabilities	**(1,740,000)**	(1,740,000)
	1,155,000	2,895,000
Current		
Loans against trust receipts	**23,632,521**	22,192,179
Bills discounting	**-**	2,150,096
Bank overdrafts	**230,923**	405,186
Current portion of term loan	**1,740,000**	1,740,000
	25,603,444	26,487,461
Total borrowings	**26,758,444**	29,382,461

Notes to the financial statements for the year ended 31 December 2011 (continued)

14. Borrowings (continued)

(a) Interest rate on term loan from National Bank of Oman SAOG drawn towards construction of Merchant Bar Rolling Mill, has been reduced to 5.75% per annum after negotiation with the Bank due to Company's good performance in 2011 (31 December 2010 : 6.5% per annum). This loan is secured by the first charge on the property, plant and equipment of the Merchant Bar Mill and second charge on the property, plant and equipment of the Tube Mill of the Company. The loan is payable in 62 equal monthly installments of RO 145,000 each, which started from September 2008.

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

	2011	2010
	RO	RO
From 1 to 2 years	**1,155,000**	1,740,000
From 3 to 5 years	**-**	1,155,000
	1,155,000	2,895,000

(c) Bank overdrafts are at interest rates ranging from 6% to 8% per annum (31 December 2010 - 6% to 8% per annum). Loans against trust receipts are at an interest rate of 2.5% to 4% per annum (31 December 2010 - 5.5% to 6.5% per annum). Bills discounted at interest rates of 6% per annum (31 December 2010 - 6.5% per annum) have been obtained from commercial banks. The Company's main bank facilities have been secured by a pari-pasu charge on the current assets of the Company.

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

	2011	2010
	RO	RO
Rials Omani	**15,648,501**	21,077,871
US Dollars	**11,109,943**	8,304,590
	26,758,444	29,382,461

15. Government soft loans

	2011 RO	2010 RO
National Bank of Oman SAOG – GSL – I	-	369,661
National Bank of Oman SAOG – GSL – II	-	128,178
	-	497,839
Less : deferred government grant	-	(29,285)
	-	468,554
Less: current portion	-	(468,554)
Non-current portion	-	-

(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 Tube Mill. This loan interest rate was 3% per annum (31 December 2010: 3% per annum) and was secured by a first charge over the property, plant and equipment of the tube mill. The loan was repaid 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 line of Tube Mill under the soft loan scheme of the Government of Sultanate of Oman. The loan interest rate was 3% per annum (31 December 2010: 3% per annum) and was secured by a first charge over the property, plant and equipment of the tube mill. The loan was repaid in 6 equal annual installments of RO 166,667 which commenced from December 2006.

Government soft loans were repayable as follows:

	2011 RO	2010 RO
Less than one year	-	497,839

(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 year result of the Company.

Notes to the financial statements for the year ended 31 December 2011 (continued)

16. End of service benefits

	2011 RO	2010 RO
Balance brought forward	**65,414**	52,943
Charge for the year (Note 21)	**78,895**	63,679
Payments during the year	**(61,318)**	(51,208)
Balance carried forward	**82,991**	65,414

17. Trade and other payables

Trade payables	**12,730,154**	3,100,090
Accrued expenses	**948,751**	896,142
Advances from customers	**205,523**	165,382
Other payables	**6,873**	24,676
	13,891,301	4,186,290

18. Cost of sales

Cost of materials consumed	**75,073,819**	51,248,549
Direct labour (Note 21)	**2,739,706**	2,138,734
Depreciation (Note 7)	**2,062,917**	1,996,580
Other direct expenses	**1,278,105**	942,890
	81,154,547	56,326,753

Notes to the financial statements for the year ended 31 December 2011 (continued)

19. Selling and distribution expenses

	2011 RO	2010 RO
Packing and despatch charges	**3,305,158**	2,880,904
Sales promotion expenses	**9,161**	5,288
ECGA premium	**21,841**	204,898
Advertisement and publicity	**16,951**	12,932
Commission on sales	**140,082**	86,358
Other selling and distribution expenses	**18,249**	15,481
	3,511,442	3,205,861

20. General and administrative expenses

Employee costs (Note 21)	**930,711**	737,295
Legal and professional charges	**152,290**	58,547
Communication expenses	**84,080**	79,296
Travelling and conveyance	**90,351**	103,075
Depreciation (Note 7)	**106,232**	83,420
Insurance	**9,679**	23,868
Provision for doubtful debts	**93,081**	32,193
Other expenses	**137,899**	113,497
	1,604,323	1,231,191

21. Employee costs

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

	2011 RO	2010 RO
Basic salaries and allowances	**3,146,903**	2,405,423
Staff rent	**217,341**	220,090
Employee welfare expenses	**172,146**	145,288
End of service benefits (Note 16)	**78,895**	63,679
Social security costs	**55,132**	41,549
	3,670,417	2,876,029

Notes to the financial statements for the year ended 31 December 2011 (continued)

21. Employee costs (continued)

	2011 RO	2010 RO
Allocated to :		
Cost of sales (Note 18)	**2,739,706**	2,138,734
General and administrative expenses (note 20)	**930,711**	737,295
	3,670,417	2,876,029

22. Net finance costs

Interest on borrowings	**1,833,465**	2,025,510
Interest income	**(5,076)**	(6,202)
	1,828,389	2,019,308

23. Taxation

(a) In accordance with Ministerial Decision number 87/99 dated 11 August 1999, the Company was exempt from income tax 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 the Company a further tax exemption for five years which ended on 15 May 2009.

(b) As the Company has carry forward tax losses, no current income tax charge has been made. The Company has estimated taxation losses available for offset against future taxable profits as follows:

	2011 RO	2010 RO
Tax loss of 2009	**5,480,620**	8,174,161

23. Taxation (continued)

(c) The current period tax charge relates to deferred taxation in respect of the temporary differences. Deferred income taxes are calculated on all temporary differences using a principal tax rate of 12%. The net deferred tax liability and deferred tax charge in the statement of comprehensive income are attributable to the following items:

Deferred taxation	**1 January 2011 RO**	**Charged to profit or loss RO**	**31 December 2011 RO**
Asset			
Provision	**(7,893)**	**(11,170)**	**(19,063)**
Liability			
Accelerated tax depreciation	**842,098**	**34,495**	**876,593**
	834,205	**23,325**	**857,530**

	1 January 2010 RO	Charged to profit or loss RO	31 December 2010 RO
Asset			
Provision	(4,030)	(3,863)	(7,893)
Liability			
Accelerated tax depreciation	618,291	223,807	842,098
	614,261	219,944	834,205

(d) 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 2010 will not be material to the financial position of the Company as at the reporting date.

24. Earnings per share – basic and diluted

Earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2011	2010
Profit attributable to shareholders (RO)	**3,030,793**	1,903,461
Weighted average number of shares outstanding	**124,897,960**	124,897,960
Earnings per share - basic and diluted (RO)	**0.024**	0.015

25. Net assets per share

Net assets (RO)	**33,231,134**	31,324,423
Number of shares at the reporting date	**124,897,960**	124,897,960
Net assets per share (RO)	**0.266**	0.251

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

26. 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 year, the following transactions were carried out with related parties:

	2011	2010
Sales and purchases of goods / services	**RO**	RO
Sales of goods	**-**	413,621
Purchases of services	**-**	14,147
Compensation of key management personnel		
Basic salaries and allowances	**233,621**	212,396
Remuneration to directors		
Directors' sitting fees	**8,925**	4,975

Notes to the financial statements for the year ended 31 December 2011 (continued)

27. Commitments

(i) Lease commitments

At 31 December, 2011, the future minimum lease commitments under the lease agreement in respect of the land, referred to in note 7(a) amounted to RO 1,375,301 (31 December 2010 : RO 1,466,830) for the total remaining lease period. Under the terms of the operating lease the future aggregate minimum lease payments are as follows:

	2011	2010
	RO	RO
Not later than 1 year	**67,046**	67,046
Between 2 and 5 years	**268,182**	268,182
Later than 5 years	**1,040,073**	1,131,602
	1,375,301	1,466,830

(ii) Purchase commitments

At 31 December 2011, the value of outstanding purchase commitments amounted to RO 14,790,953 (31 December 2010 : RO 13,612,277).

28. Contingent liabilities

	2011	2010
	RO	RO
Bank guarantees	**57,943**	541,486

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

29. Approval of financial statements

The financial statements were approved by the Board of Directors and authorised for issue on 22 February 2012.