AL JAZEERA STEEL PRODUCTS CO. SAOG

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AL JAZEERA STEEL PRODUCTS CO. SAOG

BOARD OF DIRECTORS

Mr. Sulaiman Mohammed Shaheen Al-Rubaie	Chairman
Mr. Rajeev Kulkarni	Vice-Chairman
Mr. Joseph Joseph	Director
Mr. Subrata Mithra	Director
Mr. Ghanem Sulaiman Al-Ghanaiman	Director
Mr. Rajiv Nakani	Director

REGISTERED OFFICE

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Website: www.jazeerasteel.com

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Fax : 9716 5735313

AUDITORS

Company Auditor

Deloitte & Touche (M.E.)

Internal Auditor

Moore Stephens

BANKERS

National Bank of Oman, Bank Dhofar, HSBC Middle East, Ahli Bank, Oman Arab Bank, Bank Sohar, Barclays Bank

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 13th Annual General Meeting of the Company to present the Annual Report, Audited Financial Statements and Auditors Report for the year ended 31 December 2010.

Steel industry overview

During the first half of 2010, steel product prices were slightly volatile, but continued on an increasing trend in the second half of the year. The continuous price increase was due to a persistent increase in the raw material prices for steel making (HRC and billets). In addition, local markets witnessed an overall increase in demand with restocking taking place. The market was not able to sustain such growing demand for a long period, and as a result prices dropped approximately to the level of early 2010. At the close of the first half of the year, both HRC and billet prices came down by more than 20% from their peak in April 2010. However, starting from the second half of 2010, prices have been on upward trajectory.

Towards the end of 2010, we observed the return of consumer confidence and improved market sentiment in the US and Europe, and therefore the region, which in turn reflected in our order book position. Presently, we have built a steady order book for tube mill products and are receiving new enquiries for exports to North America and Europe. The significant planned increase in public spending in the GCC countries, mainly targeting infrastructural projects accompanied by the expected recovery of local capital markets in 2011, is likely to boost demand for steel pipes, especially in sectors such as water supply, drainage and construction. According to MEED, there are over USD 2.2 trillion of construction projects currently planned and underway in the MENA region. KSA, Qatar and Abu Dhabi are expected to drive the growth for the projects' pipeline.

Construction activity is expected to accelerate after the slowdown in 2009-2010. Currently, new contracts are being awarded for various infrastructure projects in the GCC. KSA's real estate sector has huge potential especially in light of its young population and its ability to absorb new supply of real estate units. In addition, demand for steel products in Qatar is expected to significantly increase, with the large construction projects lined up for the 2020 World Cup. All these projects present opportunities we hope to capitalize on at Al Jazeera.

Due to the wider application of pipe products and the reputation Al Jazeera Steel enjoys, we have improved sales despite adverse market circumstances. I am glad to inform you that our Merchant Bar Mill started commercial production in the last quarter of 2009 after significant delays. Management is giving full attention for the development of a diverse product spectrum that can cater to a wider sector and increase sales volumes by over 50% from 2010 levels. Furthermore, the management is exploring the possibilities to export the Merchant Bar Mill products to European and US markets.

Operational Performance

The overall demand in 2010 was quite impressive compared to that of 2009, mainly due to the improvement in the global economy coupled with an overall increase in gross margins. Your company made a turnaround from a loss of OMR 774 k declared in year 2009 to a profit of OMR 1.9 million in 2010. 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.

As can be seen in the table below, we were able to record significant growth in 2010 compared to 2009. It is indeed a great achievement that the management succeeded in getting the Merchant Bar Mill functioning and achieved the rated production capacity for several sections.

Financial Highlights

Particulars	31 December 2010	31 December 2009	Percentage of Increase / (Decrease)
Production – MT	211,647	138,493	53%
Sales – MT	207,261	139,133	49%
Sales – RO	64,912,159	39,966,718	62%
Profit / (Loss)(in RO)	1,903,461	(774,040)	NA

Outlook for the future

GCC equity markets recorded positive growth in 2010, except the UAE and Bahrain markets; with market capitalization reaching USD 750.2 billion representing an increase of 11.5% over the previous year. Trading activity across the GCC in 2010 was the lowest in seven years, but recovering oil prices are expected to drive budget surpluses and GDP growth higher.[1]

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. I believe your company has many strong factors that should be considered:

[1] "GCC Markets Performance – 2010." *Global Investment House*. 12 January 2011

1. The company has been able to control receivables and to collect cash in advance, resulting in better cash flow management. In addition, management was successful in partnering with local suppliers for the purchase of raw materials (steel billets). This will reduce the inventory cycle as well as the exposure to large volume imports. The effective turnaround cycle time will help reduce borrowings.

2. With the present financial scenario, demand for our pipe products continues to improve. We are in the process of increasing the size range of our MBM products to be in line with the market feedback and we expect to increase our sales volume compared to 2010 figures. The current production and supply levels of Merchant Bar Mill products within the GCC is low and a substantial quantity is met by imports mainly from Turkey and China. Therefore, we are working towards penetrating new markets and reinforcing our position in existing ones.

Furthermore, I would like to emphasize that with a better forecasted economic scenario for 2011, your company has the infrastructure to take full advantage of the opportunities presented by the market. This is supplemented by:

- Proximity of the factories to Sohar port, compared to other mills in the region.

- Continuous implementation of various cost reduction measures with successful negotiations with service providers.

- With the addition of the Merchant Bar Mill, the Company's production capacity has increased and with the introduction of new various product ranges, the company is well positioned to increase its sales in 2011.

- New certifications of ISO-9001:2008 for MBM and new UL and CE certifications for Tubes have been awarded.

<u>Internal Control Systems and their adequacy</u>

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 2010, 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
21 February 2011

MANAGEMENT DISCUSSION AND ANALYSIS

The Management of Al Jazeera Steel Products Co. SAOG is pleased to present the Management Discussion Analysis Report for the year ended 31st December, 2010.

Industry Structure and Development

The year 2010 started with a high demand and saw a rise in steel prices in the first quarter. The market changed significantly in the GCC and MENA region during the second quarter and lasted till the end of third quarter, where both demand and prices were significantly lower. The slowdown affected us more for the Merchant Bar Mill products than the Tube Mill. After Ramadan, and towards the end of the summer, markets improved and so did prices. The effect has been carried over to the beginning of 2011.

The North American Market remained buoyant throughout 2010 and the losses that we suffered from GCC market were well compensated by additional exports. This trend was prevalent from the beginning of this year and thus we have set a higher target for exports in 2011 and would also like to explore the possibility of selling some of our Merchant Bar Mill products.

Key Opportunities and Threats

Price volatility remains the greatest risk, as reported in the past. Management will try to tackle the problem by maintaining economical inventory levels, improving its supply chain & customer service and trying to move up in its product segments.

In the pursuit of these goals, your company's management has concentrated on building and increasing its certification compliance. In this process, the company had obtained API, UL and CE marking certifications and in 2010 added the FM certification for Tube Mill and the ISO:9001:2008 certification for the Merchant Bar Mill. In addition, the company is exploring more avenues to increase business in the Kingdom of Saudi Arabia (KSA) and in Africa.

The commercial production of the MBM started in the last quarter of 2009 and this mill has progressively increased its size range. The mill has three more size specifications left to complete the total product range, which is expected to be completed by the first quarter of 2011. The mill has been able to reach the hourly rated production capacity during the year for several sections.

Outlook for the future

The world economy had the worst effect in 2009. In 2010, we could see a better GDP growth for most economies, translating into both better demand and higher prices for our steel products in general. We have witnessed phases of mismatch in both prices and demand; however, with a cautious approach, the Company recorded profits in 2010.

In 2011, we see a further improvement in the world economies and also an improved scenario in the GCC, especially in KSA, Qatar, Kuwait, Oman and Abu Dhabi. There is, of course, the negative impact of Dubai real estate/construction activity, which could take a few more years to recover. In 2011, we expect sales growth for tubes to be above 10% and over 50% for the Merchant Bar Mill products compared to those of 2010. We also have to be very cautious on the exposure to raw materials and inventory control, so as to avoid the effects of volatility of steel prices, which have been a significant factor in the last six to seven years.

Risks and concerns

The steel industry is facing a major change. The demand has improved due to overall economic growth and especially due to the developments that are taking place inside the GCC, Europe and North America. Raw material prices have been constantly on the rise. In the last one year, steel prices have gone up by more than 20%. The trend is expected to continue in the near future as iron ore, scrap and coke prices are on a continuous rise. GCC governments continue to hold sufficient surpluses and major government backed players in the regional steel industry are well insulated from the effects of the global slowdown. In addition, the higher oil prices in 2010 from levels of $70 to $90 have fuelled regional economic growth and capital investment, especially in KSA, Qatar, Abu Dhabi and Oman.

Jazeera Steel has been constantly widening its market reach. In the last two years, the company has supplied products to the US and Canada employing innovative marketing approaches. 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 will also assess the possibility of exporting our Merchant Bar Mill products to Europe and North America.

The company maintains a premium pricing policy in the local market and a competitive pricing policy in the exports outside GCC countries. The marketing team closely monitors the prices of competitors such that our products are not over or under priced.

The company’s wide product range and continuous innovations for value-added products have given the company an edge over competitors. Furthermore, the company has obtained various quality certifications to approach high end customers. The quality image, which we have established in the past, will be effectively leveraged to sell the expanded capacity and new products. We expect to strengthen our distribution network in 2011 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.

Internal Controls and their adequacy

The Company’s internal controls are well established. The Company has appointed an internal audit firm that assesses the internal control systems. The Audit Committee reviews the reports regularly. In addition, during the year, the Board also reviews the internal control systems in the Company. Any change in the internal control systems that is recommended is reviewed and implemented. The Company has also an information technology system that supports the organization and ensures adequate information flow within the Company.

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	**2010**	**2009**	**% of increase/ (Decrease)**
Black pipes	59,250	40,887	45%
Galvanized pipes	70,256	67,186	5%
Hollow Sections	18,693	16,732	12%
Merchant Bar Mill Products	59,062	14,328	312%
Total	**207,261**	**139,133**	**49%**

Financial Review:

The financial performance of the company in 2010 as compared to that of 2009 is given below:

(Amount in OMR)

Particulars	**2010**	**2009**	**% of increase / (Decrease)**
Sales	**64,912,159**	**39,966,718**	62%
Gross Profit	**8,585,406**	**4,116,269**	109%
Finance Cost – Net	(2,019,308)	(1,585,063)	27%
Administration Cost	(4,662,637)	(3,305,246)	41%
Net Profit	**1,903,461**	**(774,040)**	NA
Earnings Per Share	**0.015**	**(0.006)**	-

Operational Review

During the year under review, the company moved up from average monthly sales of 12,000 MT in 2009 to over 17,000 MT in 2010. The sales value has increased from OMR 39.967 million in 2009 to OMR 64.912 million in the year 2010.

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 pipe mill to be operated at 49% of its capacity and thereby resulting in 148,198 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 59,062 MT of products. The mill has overcome the entire initial teething problem faced during the trial run period. I take this opportunity to thank the MBM team for the efforts put to overcome the issues left unsolved by the equipment manufacturers.

We at Jazeera believe that our greatest asset is our strong and wide customer base, and we are always striving to add on to this and also to enter into new markets. This will offer the company the ability to spread its risks over a wider base and pave our way for future expansions in our product range.

We also have a trained and skilled workforce and we acknowledge their hard work and contribution towards the enhancement of productivity and sales and making Jazeera one of the most successful companies in Oman for over 11 years.

Omanisation

We are proud of the Omanisation level in our company, which currently stands at 36%, with employees/workers being productive and contributing positively to the success of our organization.

DIRECTOR

Deloitte.

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TO THE SHAREHOLDERS OF
AL JAZEERA STEEL PRODUCTS COMPANY SAOG

We have performed the procedures prescribed in Capital Market Authority (CMA) Circular No. 16/2003 dated 29 December 2003 with respect to the accompanying corporate governance report of **Al Jazeera Steel Products Company SAOG** and its application of corporate governance practices in accordance with CMA Code of Corporate Governance issued under circular No. 11/2002 dated 3 June 2002 as supplemented by the Rules and Guidelines on Disclosure by Issuers of Securities and Insider Trading approved by Administrative Decisions no. 5/2007 dated 27 June 2007 and the Executive Regulation of the Capital Market Law issued under the Decision No. 1/2009 dated 18 March 2009 (collectively the Code and additional regulations and disclosures). Our engagement was undertaken in accordance with the International Standards on Related Services applicable to agreed-upon procedures engagements. The procedures were performed solely to assist you in evaluating the Company's compliance with the code as issued by the CMA.

We report our findings as below:

We found that the Company's corporate governance report fairly reflects the Company's application of the provisions of the Code and is free from any material misrepresentation.

Because the above procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements, we do not express any assurance on the corporate governance report.

Had we performed additional procedures or had we performed an audit or review of the corporate governance report in accordance with International Standards on Auditing or International Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose. This report relates only to the accompanying corporate governance report of **Al Jazeera Steel Products Company SAOG** to be included in its annual report for the year ended 31 December 2010 and does not extend to any financial statements of **Al Jazeera Steel Products Company SAOG**, taken as a whole.

Deloitte & Touche (M.E.) & Co. LLC
Muscat, Sultanate of Oman
21 February 2011

Pursuant to Capital Market Authority (CMA) circular dated 3 June 2002 and subsequent amendments, the Board has adopted a set of Governance policies that cover its relationship with the shareholders and the conduct by the Board of its own affairs.

A. Company's philosophy on Code of Corporate Governance

Al Jazeera Steel Products Co SAOG (Jazeera) believes that for a company to succeed on a sustainable basis, it must maintain high standards of corporate governance towards its employees, consumers and society. Al Jazeera has always focused on good corporate governance, which is a key driver of sustainable growth and profitability in the long-term and value addition for our shareholders.

In this report, Al Jazeera Steel Products Co SAOG confirms its compliance with the Code as required by Article 26.

The Company is listed on Dubai Financial Market (DFM), and has complied with various disclosure requirements of the DFM during 2010.

B. BOARD OF DIRECTORS

a) Composition of the Board

As of 31st December 2010, the Company had 6 members as its Board of Directors. During the year, the composition of the Board was as given below:

Period	No of Directors
January 1– December 31	6

All the directors were elected in their individual capacities except Mr. Rajeev Kulkarni (Representing M/s Moosa Abdul Rahman Hassan & Co. LLC) and Mr. Joseph Joseph (Representing M/s Global Buyout LP)

Brief Profile of the Board of Directors

- **Mr. Sulaiman M. Al-Rubaie - Chairman**
  Sulaiman is a partner with Global Capital Management, the fully-owned alternative investments arm of Global Investment House. Sulaiman is a graduate of Cornell University, USA and a holder of an MBA from London Business School, UK. He started his career in Investment Banking and M&A with Brask and Company – UK (acquired by Kaupting Bank), and later joined Global Investment House. In the latter, he has led and co-led the formation, placement, and strategic monitoring of companies in the following sectors: real estate development, construction, healthcare and fitness, Takaful, and consumer finance companies. He was also a member of National Commercial Bank of Saudi Arabia private equity arm, Eastgate Capital Group, based out of Dubai, UAE.

- **Mr. Rajeev Kulkarni – Vice Chairman**
  A finance professional with 22 years of experience in the field of finance and has occupied management positions in companies. He is a nominee of Moosa Abdul Rahman Hassan & Co LLC.

- **Mr. Joseph Joseph - Director**
  An engineer cum finance professional has an experience of 16 years in the field of Finance and other industries. He has occupied Management positions in various companies. He is a Nominee of Global Buyout Fund LP.

- **Mr. Subrata Mitra - Director**
  A seasoned finance professional with experience of around 13 years in the field of private equity, corporate finance, investment banking and financial planning. He is a non executive and non independent director.

- **Mr. Ghanem S. Al-Ghenaiman – Director**
  A post graduate in International business with an experience of 25 years in the field of securities portfolio, Alternative investment, Management of equity funds, strategic planning, asset management and allocation and occupies various senior positions in companies. He is a non-executive and non independent director.

- **Mr. Rajiv Nakani - Director**
  Mr. Nakani is Managing Partner at Global Capital Management Ltd. He has more than 17 years of experience in investing and I.B. and brings along in-depth sector experience in financial services, telecom, media, retail, logistics, healthcare, education and real estate. He has served as Investment Director at Eastgate Capital managing $500mn in private equity funds, head of I.B. at Global Investment House, Kuwait where he led transactions aggregating to more than $8.5bn , Director, M&A at The Sultan Center Company for Food Products, Kuwait, where he built the private equity platform for retail and food and beverages sectors, and led the acquisition and integration of Safeway Jordan and earlier in his career, he held research and credit roles in India and Kuwait. He received his MBA, with Econometrics and Mathematical Economics and BSc in Mathematics from India and also is a CFA charter holder since 2001.

b) Directors' attendance record at the Board meeting and Last Annual General Meeting

During the year 2010, four board meetings were held on the following dates:

1. 22 February 2010	2. 26 April 2010
3. 27 July 2010	4. 26 October 2010

The maximum interval between any two meetings in 2010 was 92 days. The interval between the last meeting in 2009 and the first meeting in 2010 was 117 days.

The attendance record of each director at the above board meetings and last AGM is given below:

Name of the Director	Category	Board Meeting				AGM
		22/02/10	26/04/10	27/07/10	26/10/10	25/03/10
Mr. Sulaiman M. Al-Rubaie	NE & ID	ND	√	√	√	ND
Mr. Rajeev Kulkarni	NE & ID	√	√	√	√	√
Mr. Joseph Joseph	NE & ID	√	√	√	√	√
Mr. Ghanem S. Al–Ghenaiman	NE & ID	√	Ab	√	√	Ab
Mr. Subrata Mitra	NE & ID	Ab	√	Ab	√	Ab
Mr. Rajiv Nakani	NE & ID	ND	ND	ND	Ab	ND
Mr. Mohamed A. Moosa	NE & ID	√	Ab	ND	ND	Ab
Mr. Saleh Nasser Al Habsi	NE & ID	Ab	Ab	ND	ND	√
Mr. Mukesh Sawhney	NE & ID	√	√	Ab	Ab	√

NE: Non Executive Director ID: Independent Director √ : Present Ab: Absent ND: Not a Director

Note: *Mr. Mohamed A Moosa and Mr. Saleh Nasser Al Habsi resigned on 26th April 2010 and Mr. Sulaiman M. Al-Rubaie was appointed on the same day. Mr. Mukesh Sawhney resigned on 26th October 2010 and Mr. Rajiv Nakani was appointed on the same day.*

The Board Secretary, under the guidance of the Board members, coordinated the meetings. The meetings were conducted with exhaustive agendas and proceedings were minuted. The Chief Executive Officer reports to the Board the operations of the Company and all related issues were discussed, ensuring the growth and progress of the Company.

c) Other Companies or Committees the Directors is a Director / Member / Chairman

No director is a member of the board for more than four public joint stock companies whose principal place of business is the Sultanate of Oman, or is a chairman of more than two such companies. No director is a member of the board of directors of a public and another joint stock company which carry out similar objectives and whose principal place of business is in the Sultanate of Oman. Hereby, Al Jazeera Steel Products Co. SAOG confirms compliance to the article 95 (as amended) of The Commercial Companies Law No. 4/1974.

Company Management

The names, designations, description of the responsibilities of the Key Management staff in Al Jazeera Steel Products Co SAOG and a brief profile of them are as follows:

- **Dr. Bhaskar Dutta – Chief Executive Officer**
  B.Tech (Hons) from IIT, India, and has completed his master's and doctorate from UK; Has over 40 years of experience in steel industries in the field of operations and Project Management ranging in products of commercial quality to low and high alloy steels and stainless steel in both integrated steel plant. Have served in Tata Steel and Arcelor-Mittal and held positions of Vice-President, President and Managing Director in previous organizations and he reports to the Board of Directors.

- **Mr. John Seshgiri Rao – Chief Operating Officer Merchant Bar Mill**
  Is a graduate engineer in Production Engineering and has an experience of over 30 years in the various steel plants at various levels, responsible for all the production, dispatch and plant related activities of Merchant Bar Mill for the Company and reports to Chief Executive Officer of the Company.

- **Mr. Arun Kumar Sinha – DGM Marketing**
  Is a post graduate in Marketing Management and has an experience of 21 years in steel pipe industry at various management levels; responsible for all the marketing activities of the company in the GCC region and reports to the Chief Executive Officer of the company.

- **Mr. Bejoy John – AGM Finance**
  Chartered Accountant by profession with an experience of 13 years in the field of finance and accounts functions in various industries at the management level, responsible for all the finance related functions of the company and reports to Chief Executive officer and the Board of Directors.

- **Mr. Ravi Kulkarni – AGM Operations Pipe Mill**
  Is a graduate engineer in Mechanical Engineering and has an experience of 25 years in the various steel plants at various levels, responsible for all the production, dispatch and plant related activities of Tube Mill for the Company and reports to Chief Executive Officer of the Company.

- **Mr. Indranil Chowdhry – Chief International Marketing**
  Post graduate in Economics and 27 years of experience in the steel industry in the field of marketing steel products globally, responsible for all the development and marketing activities in the non GCC countries and reports to Chief Executive Officer.

d) Information supplied to the board

Among others, this includes:

- Capital and operating budgets and quarterly updates
- Quarterly results of the Company before submission to MSM / CMA /DFM/ESCA
- Monthly Management Reports
- Minutes of the Audit and Other Committees
- Information of recruitment, resignation and removal of senior executives along with the updated organization chart
- Legal cases which are material
- Serious accidents, dangerous occurrences and pollution problems, if any
- Material default in financial obligations to or by the Company
- Issues involving public or product liability claims of significance
- Joint Venture proposals and agreements
- Transactions involving payment towards intellectual property/goodwill/brand equity
- Any significant industrial relations problem including new wage agreements
- Sale of investments, assets and divisions which are not in the normal course of business
- Non-compliance with any regulatory requirement
- Details of any foreign exchange exposure and steps taken to hedge the risk

The Board of Al Jazeera Steel Products Co. SAOG is routinely presented with all the above information and whenever applicable and are materially significant. These are submitted either as part of the agenda well in advance of the board meetings or are being tabled during the course of the board meetings.

e) Directors with materially significant related party transactions, pecuniary or business relationship with the company

During the year, there were no materially significant related party transactions of pecuniary nature between Al Jazeera Steel Products Co SAOG and its directors who may have potential conflict with the interests of the Company at large. The normal contracts and transactions in ordinary course of business are decided at arms length basis based on competitive quotes and on transparent mode of tendering.

f) Remuneration of Directors:

An amount of RO 200 to Chairman and Vice Chairman and RO 175 to all other directors is payable for sitting fees for every board meeting attended during the year. The Company will also pay RO 125 to the directors towards sitting fees for every audit committee and the steering committee meeting attended during the year.

Director remuneration payable as per CMA regulation and subject to the approval of Shareholders in the Annual General Meeting amounting to RO 49,000 for 6 directors.

Sitting fees payable to individual directors for the year (in RO) are as set below

Name of the Director	Board Meetings	Audit Committee	Total – RO
Mr. Sulaiman M. Al-Rubaie	575	-	**575**
Mr. Rajeev Kulkarni	775	625	**1,400**
Mr. Joseph Joseph	700	625	**1,325**
Mr. Ghanem S. Al– Ghenaiman	525	-	**525**
Mr. Subrata Mitra	350	125	**475**
Mr. Mohamed A. Moosa	200	-	**200**
Mr. Saleh Nasser Al Habsi	-	125	**125**
Mr. Mukesh Sawhney	350	-	**350**
Total	**3,475**	**1,500**	**4,975**

During the year, Mr. Suleiman M. Al-Rubaie, Mr. Joseph Joseph, Mr. Subrata Mitra and Mr. Ghanem S. Al– Ghenaiman have not claimed Board sitting fees; Mr. Joseph Joseph & Mr. Subrata Mitra have not claimed Audit Committee Sitting Fees.

g) Process of nomination of the Directors

The Company adheres to the process as has been laid down in the Commercial Companies Law and by the Capital Market Authority in conjunction with the Articles of Association of the Company, which stipulate that the nomination of the Directors is usually done through AGM.

h) Audit Committees

The Board has established an Audit Committee comprising of three independent members. In compliance with the requirements of Article 7 of the Code, two members of the Audit Committee are knowledgeable in finance, industry and laws / regulations governing SAOG companies.

i. Terms of Reference of the audit committee are as set below

- To recommend to the Board, name of the independent auditors to audit the financial statements of the Company.
- To evaluate the performance of the independent auditors and where appropriate, replace such auditors.
- To review the audited financial statements and discuss them with management and the independent auditors. Based on such review, the Committee shall make its recommendation to the Board as to the inclusion of the Company's audited financial statements in the Company's Annual Report.
- To monitor all reporting, accounting, control and the financial aspects of the executive management's activities.
- To investigate any activity within the Company.
- To seek information from any employee.

- To discuss with a representative of management the interim financial information contained in the Company's Quarterly Report prior to its filing (These discussions may be held with the Committee as a whole, with the Committee chair in person, or by telephone.)
- To oversee internal audit activities, including discussing with management and the internal auditors the internal audit function's organization, objectivity, responsibilities, plans, results, budget, and staffing.
- Discussing with management, the internal auditors, and the independent auditors the quality and adequacy of and compliance with the Company's internal controls and provide assurance to the Board of Directors regarding the adequacy of the of the internal control environment within the Company.
- Discussing with management and/or the Company's lawyer any legal matters (including the status of pending litigation) that may have a material impact on the Company's financial statements and any material reports or inquiries from regulatory or governmental agencies.

It may be clarified that the role of the Audit Committee includes matters specified under Annexure 3 of the Code of Corporate Governance for MSM listed companies issued by Circular no. 11 / 2002 dated 3 June 2002. Further the Company complies with the listing requirements of DFM and ESCA.

ii. Five Audit Committee meetings were held during the financial year ended 31 December 2010, the dates of the meeting and the member's attendance are as follows.

Name of the Director	**Position**	**Audit Committee Meeting**				
		22/02/10	**25/03/10**	**26/04/10**	**27/07/10**	**26/10/10**
Mr. Rajeev Kulkarni	Member	√	√	√	√	√
Mr. Joseph Joseph	Member	√	√	√	√	√
Mr. Subrata Mitra	Member	NM	NM	NM	Ab	√
Mr. Saleh Nasser Al Habsi	Member	Ab	√	Ab	NM	NM

√ : Present, Ab: Absent, NM: Not a Member

Total sitting fees payable to the audit committee members is RO 1,500 for 2010.

i) Internal Control

The Audit Committee, on behalf of the Board regularly reviewed the internal control prevailing in the Company. The Company has an internal audit firm for reviewing and reporting on the various issues of the Company along with recommendations and Management comments thereupon. The audit committee reviews the internal auditor's reports on a regular basis. The Internal Controls prevailing in the Company are adequate. During the course of the year, the internal auditor left the Company. However, the internal audit activities for the whole year were carried out by an Audit firm Moore Stephens, Chartered Accountants, Muscat and the fees paid to them were RO 13,800.

C. MANAGEMENT REMUNERATION

The remuneration package of the executives is made up of a fixed and a variable component. The fixed component includes a salary, valued perquisites and retirement benefits. The variable component is a performance-linked incentive, which is calculated based on pre determined parameters of performance.

During the year 2010, the total cost of the top 6 executives of the Company was RO 172,306 (Salary RO 165,349, Gratuity RO 6,957).

The severance notice period of these executives is one month with end of service benefits payable as per the Omani Labour Law.

Employment Contract

Jazeera enters into a formal Contract of Employment with each employee and such contracts are in line with the regulation of Ministry of Manpower and Omani Labour Law.

Details of non-compliance by the Company

Over the last three years, no penalties or strictures have been imposed by MSM/CMA or any other authority on the company for any matters related to capital market.

D. MEANS OF COMMUNICATION WITH THE SHAREHOLDERS AND INVESTORS

Al Jazeera Steel Products Co SAOG., has its own web site at the URL www.jazeerasteel.com, which was built for our worldwide customers and partners. The website contains detailed specifications on the various product ranges manufactured, along with timely updates on all the vital information relating to the Company, yearly financial results, official press releases and presentation to analysts.

The quarterly/annual results were published in the local newspapers both in Arabic and English. Also, results were uploaded in the Muscat Security Market (MSM) website. The results were not sent individually to the shareholders in view of the above. Shareholders wishing to acquire a set of results can download from the MSM website or were advised to contact our offices directly.

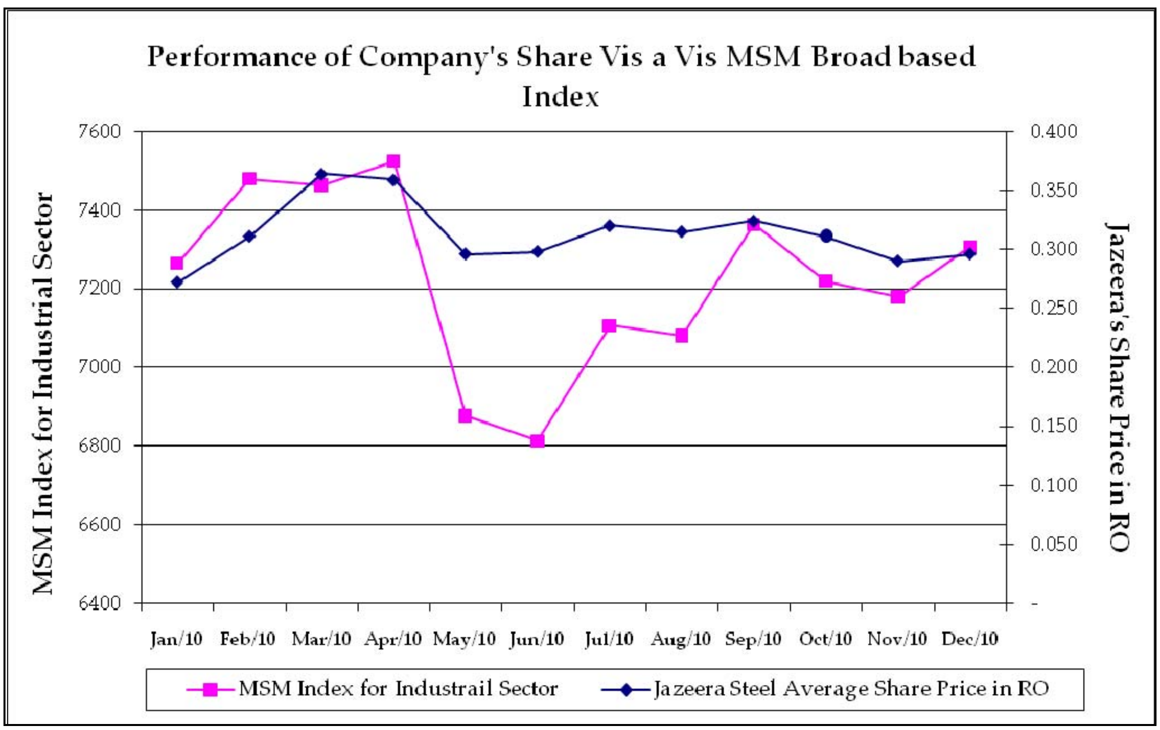
A copy of the Management Discussion and Analysis is circulated along with the financial statements.

E. MARKET PRICE DATA

Market Price Data – High / Low during each month in the Year 2010

Month	Highest	Lowest
		Values in OMR
January-2010	0.348	0.270
February-2010	0.328	0.263
March-2010	0.350	0.297
April-2010	0.393	0.350
May-2010	0.393	0.350
June-2010	0.325	0.276
July-2010	0.330	0.295
August-2010	0.335	0.317
September-2010	0.339	0.311
October-2010	0.339	0.310
November-2010	0.318	0.291
December-2010	0.312	0.291

Performance of the Company's share price in comparison to the broad based MSM Index of the Industrial sector in Oman during the year 2010 is illustrated in the below chart:



Distribution of shareholding

Distribution schedule of each class of equity security with number of holders and percentage in the following categories

Categories	No. of Shares	No. of Shareholders	% of Total Outstanding Shares
Less than 1%	25,258,665	1335	20.22%
1% to less than 5%	28,956,135	12	23.18%
5% to less than 10%	6,985,200	1	5.59%
More than 50%	63,697,960	1	51.00%
Total	**124,897,960**	**1349**	**100.00%**

The shareholding pattern more than 5% as on 31st December 2010 was:

Name of the Shareholders	Total Shares	% of Share Capital
Global Buyout Fund LP	63,697,960	51.00%
Moosa Abdul Rahman Hassan & Company LLC	6,985,200	5.59%
Total	**70,683,160**	**56.59%**

The Company does not have any GDRs, ADRs, warrants or any convertible instruments as of 31 December 2010 and hence the likely impact on equity is NIL.

F. PROFESSIONAL PROFILE OF THE STATUTORY AUDITOR

Deloitte Touche Tohmatsu Limited, a UK private company limited, a network of member firms around the world devoted to excellence in providing professional services and advice. Deloitte is focused on client service through a global strategy executed locally in over 150 countries. With access to the deep intellectual capital of approximately 170,000 people worldwide, Deloitte delivers services in four professional areas: audit, tax, consulting, and financial advisory services.

Deloitte & Touche in the Middle East is among the region's leading professional services firms, providing audit, tax, consulting, and financial advisory services through 26 offices in 15 countries with over 2,400 partners, directors and staff. The Oman Practice currently has three Partners and over 65 professionals. Total Audit Fees paid / payable for the whole year 2010 was amounting to RO 16,075.

G. DETAILS OF NON COMPLIANCE

There were delays in complying with regard to corporate governance rules with reference to point no. B(i). Apart from this, no other major instances of non-compliance on any matter relating to the Commercial Companies Law No. 4/1974, CMA's code of corporate governance for MSM listed companies, CMA regulations or the MSM listing agreements.

Further, no penalties or strictures have been imposed on the Company by MSM / CMA / DFM / ESCA or any statutory authority, on any matter related to capital markets, during the last three years.

H. BOARD OF DIRECTORS ACKNOWLEDGES THAT:

The company has all its systems and procedures formally documented and in place. The company has "Internal Regulations" separately compiled as per regulatory requirements. The Board of Directors have reviewed this manual and approved it. The "Internal Regulations" has all the necessary and prescribed procedures. The Board has reviewed these regulations.

The Board of Directors are responsible to ensure that the financial statements have been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (IASB), interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and the requirements of the Commercial Companies Law of the Sultanate of Oman 1974 (as amended) and the rules for disclosure requirements prescribed by the Capital Market Authority.

There are no material events affecting the continuation of Al Jazeera Steel Products Co and its ability to continue its production operations during the next financial year.

CHAIRMAN **DIRECTOR**

Deloitte.

Deloitte & Touche (M.E.) & Co. LLC
Muscat International Centre
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P.O. Box 258, Ruwi
Postal Code 112
Sultanate of Oman

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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 of the statement of financial position as at 31 December 2010, and the statement of comprehensive income, statement of changes in equity and statement of 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 32.

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 2010, 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
21 February 2011

Signed by
Robert O'Hanlon
Partner

AL JAZEERA STEEL PRODUCTS COMPANY SAOG

Statement of financial position
for the year ended 31 December 2010

	Notes	2010 RO	2009 RO
ASSETS			
Non-current assets			
Property, plant and equipment	7	28,675,262	29,871,464
Current assets			
Inventories	8	15,823,114	11,559,200
Trade and other receivables	9	20,073,722	14,562,637
Cash and cash equivalents	10	1,718,534	1,578,450
Total current assets		37,615,370	27,700,287
Total assets		66,290,632	57,571,751
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	1,550,982	1,360,636
Retained earnings		3,427,161	1,714,046
Total equity		31,324,423	29,420,962
LIABILITIES			
Non-current liabilities			
Borrowings	13	2,895,000	4,635,000
Government soft loans	14	-	440,992
Deferred government grant	14	-	29,285
End of service benefits	15	65,414	52,943
Deferred tax liability	22	834,205	614,261
Total non-current liabilities		3,794,619	5,772,481
Current liabilities			
Borrowings - current portion	13	26,487,461	17,566,812
Government soft loans - current portion	14	468,554	505,098
Deferred government grant	14	29,285	59,130
Trade and other payables	16	4,186,290	4,247,268
Total current liabilities		31,171,590	22,378,308
Total liabilities		34,966,209	28,150,789
Total equity and liabilities		66,290,632	57,571,751
Net assets per share	24	0.251	0.236

Chairman **Director**

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

Statement of comprehensive income
for the year ended 31 December 2010

	Notes	2010 RO	2009 RO
Revenue		**64,912,159**	39,966,718
Cost of sales	**17**	**(56,326,753)**	(35,850,449)
Gross profit		**8,585,406**	4,116,269
Selling and distribution costs	**18**	**(3,205,861)**	(2,309,803)
General and administrative expenses	**19**	**(1,231,191)**	(799,491)
Other operating expenses		**(5,641)**	(52,617)
Operating profit		**4,142,713**	954,358
Net finance costs	**21**	**(2,019,308)**	(1,585,063)
Profit / (loss) before taxation		**2,123,405**	(630,705)
Taxation	**22**	**(219,944)**	(143,335)
Net profit / (loss) for the year		**1,903,461**	(774,040)
Earnings / (loss) per share - basic and diluted	**23**	**0.015**	(0.006)

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

Statement of changes in equity
for the year ended 31 December 2010

	Share capital RO	Share premium RO	Legal reserve RO	Retained earnings RO	Total RO
At 1 January 2009	12,489,796	13,856,484	1,360,636	3,362,372	31,069,288
Dividends paid (note 11)	-	-	-	(874,286)	(874,286)
Loss for the year	-	-	-	(774,040)	(774,040)
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 31 December 2010	**12,489,796**	**13,856,484**	**1,550,982**	**3,427,161**	**31,324,423**

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

AL JAZEERA STEEL PRODUCTS COMPANY SAOG

Statement of cash flows
for the year ended 31 December 2010

	2010 RO	2009 RO
Operating activities		
Profit / (loss) before taxation	**2,123,405**	(630,705)
Adjustments for:		
Interest income	**(6,202)**	(27,946)
Interest on borrowings	**2,025,510**	1,613,009
Depreciation	**2,080,000**	979,599
Allowance for inventories	**256,258**	(7,507,815)
Allowance for doubtful debts	**32,193**	(1,541)
Loss on sale of property, plant and equipment	**5,641**	52,617
Net transfer to end of service benefits	**12,471**	(12,969)
Operating cash flow before movement in working capital	**6,529,276**	(5,535,751)
Decrease / (increase) in working capital :		
Inventories	**(4,520,172)**	14,531,142
Trade and other receivables	**(5,543,278)**	6,468,226
Trade and other payables	**(105,032)**	1,936,137
Cash (used in) / from operations	**(3,639,206)**	17,399,754
Interest paid	**(1,981,456)**	(1,610,409)
Net cash (used in) / from operating activities	**(5,620,662)**	15,789,345
Investing activities		
Purchase of property, plant and equipment	**(896,357)**	(2,535,522)
Proceeds from sale of property, plant and equipment	**6,918**	-
Claim received from insurance company	**-**	17,714
Proceeds from disposal (capital work-in-progress)	**-**	3,586,163
Interest received	**6,202**	27,946
Net cash (used in) / from investing activities	**(883,237)**	1,096,301
Financing activities		
Dividend paid	**-**	(874,286)
Net change in borrowings	**6,643,983**	(22,931,416)
Net cash from / (used in) financing activities	**6,643,983**	(23,805,702)
Net change in cash and cash equivalents	**140,084**	(6,920,056)
Cash and cash equivalents at beginning of the year	**1,578,450**	8,498,506
Cash and cash equivalents at end of the year	**1,718,534**	1,578,450

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

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.

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

For the year ended 31 December 2010, 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 2010.

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

The following new and revised Standards and Interpretations have also 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.

• Amendments to IFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions	The amendments clarify the scope of IFRS 2, as well as the accounting for group cash-settled share-based payment transactions in the separate (or individual) financial statements of an entity receiving the goods or services when another group entity or shareholder has the obligation to settle the award.
• Amendments to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations (as part of Improvements to IFRSs issued in 2008)	The amendments clarify that all the assets and liabilities of a subsidiary should be classified as held for sale when the Company is committed to a sale plan involving loss of control of that subsidiary, regardless of whether the Company will retain a non-controlling interest in the subsidiary after the sale.
• Amendments to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items	The amendments provide clarification on two aspects of hedge accounting: identifying inflation as a hedged risk or portion, and hedging with options.
• IFRIC 17 Distributions of Non-cash Assets to Owners	The Interpretation provides guidance on the appropriate accounting treatment when an entity distributes assets other than cash as dividends to its shareholders.
• IFRIC 18 Transfers of Assets from Customers	The Interpretation addresses the accounting by recipients for transfers of property, plant and equipment from 'customers' and concludes that when the item of property, plant and equipment transferred meets the definition of an asset from the perspective of the recipient, the recipient should recognise the asset at its fair value on the date of the transfer, with the credit being recognised as revenue in accordance with IAS 18 Revenue.

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

2.2 Standards and Interpretations in issue 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
• IAS 32: Financial Instruments: Presentation, *amendments relating to classification of rights issues*	February 2010
• IFRS 3: Business Combinations, *amendments resulting from May 2010 annual Improvements to IFRSs*	July 2010
• IAS 27: Consolidated and Separate Financial Statements, *amendments resulting from May 2010 Annual Improvements to IFRSs*	July 2010
• IFRS 7: Financial Instruments: Disclosures, *amendments resulting from May 2010 Annual Improvements to IFRSs*	January 2011
• IAS 1: Presentation of Financial Statements, *amendments resulting from May 2010 Annual Improvements to IFRSs*	January 2011
• IAS 24: Related Party Disclosures, *revised definition of related parties*	January 2011
• IAS 34: Interim Financial Reporting, *amendments resulting from May 2010 Annual Improvements to IFRSs*	January 2011
• 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
• IFRS 9: Financial Instruments: *Classification and Measurement* (intended as complete replacement for IAS 39 and IFRS 7)	January 2013

New Interpretations and amendments to Interpretations:

• IFRIC 19: *Extinguishing Financial Liabilities with Equity Instruments*	July 2010
• IFRIC 13 Customer Loyalty Programmes, *amendments resulting from May 2010 annual Improvements to IFRSs*	January 2011
• IFRIC 14: *IAS 19:* The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction, *November 2009 Amendments with respect to voluntary prepaid contributions*	January 2011

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 by reference to their carrying amounts and are taken into account in determining the operating result for the period.

3. Summary of significant accounting policies (continued)

Impairment

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.

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 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 period, 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 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
The current income tax is recognised in profit or loss 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 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, net of tax, 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 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 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 period, 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.

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:

	2010	2009
	RO	RO
Trade receivables	**19,369,409**	13,224,602
Other receivables	**770,087**	1,371,616
Cash at bank and deposits	**1,714,675**	1,574,499
	21,854,171	16,170,717

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.

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

	2010		2009	
	Limit	**Balance**	Limit	Balance
Group	**RO**	**RO**	RO	RO
A - Fully covered by letter of credit / Cash Against Documents (CAD)	**685,063**	**685,063**	1,205,536	1,205,536
B - Covered by ECGA	**9,687,000**	**4,389,472**	10,557,000	4,705,585
C - Partly covered by ECGA	**5,408,500**	**14,294,874**	3,257,500	7,313,481
	15,780,563	**19,369,409**	15,020,036	13,224,602

The credit sales are generally backed either by Letters of Credit or insurance from the ECGA.

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
At 31 December 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	**4,186,290**	**4,186,290**	**-**	**-**
	34,066,590	**31,171,590**	**1,740,000**	**1,155,000**
At 31 December 2009				
Borrowings	22,201,812	17,566,812	1,740,000	2,895,000
Government soft loans	1,034,505	536,667	497,838	-
Trade and other payables	4,247,268	4,247,268	-	-
	27,483,585	22,350,747	2,237,838	2,895,000

(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 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 interest rates were to shift by 0.5% there would be a maximum change in the net finance cost by RO 140,809 (31 December 2009 : RO 108,309).

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.

	2010	2009
	RO	RO
Borrowings (note 13)	**29,382,461**	22,201,812
Government soft loans (note 14)	**497,839**	1,034,505
Total borrowings	**29,880,300**	23,236,317
Less: cash and cash equivalents (note 10)	**(1,718,534)**	(1,578,450)
Net debt	**28,161,766**	21,657,867
Total equity	**31,324,423**	29,420,962
Total capital	**59,486,189**	51,078,829
Gearing ratio	**47%**	42%

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 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.

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 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:

	2010		2009	
	Revenue RO	**Trade receivables RO**	Revenue RO	Trade receivables RO
GCC countries including Oman	**50,574,256**	**16,199,572**	33,018,100	12,014,579
North America	**13,486,866**	**3,139,488**	4,403,589	971,855
Others	**851,037**	**30,349**	2,545,029	238,168
	64,912,159	**19,369,409**	39,966,718	13,224,602

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

Notes to the financial statements
For the year ended 31 December 2010 (continued)

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 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	**396,343**	**1,270,250**	**329,987**	**-**	**-**	**-**	**-**	**1,996,580**
General and administrative	**-**	**-**	**-**	**21,246**	**21,292**	**40,882**	**-**	**83,420**
Disposals	**-**	**(18,241)**	**-**	**(17,873)**	**-**	**-**	**-**	**(36,114)**
At 31 December 2010	**1,687,448**	**4,753,579**	**411,392**	**66,466**	**160,709**	**113,087**	**-**	**7,192,681**
Carrying value								
At 31 December 2010	**6,249,111**	**20,510,956**	**1,304,122**	**61,594**	**69,305**	**177,814**	**302,360**	**28,675,262**

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Notes to the financial statements
for the year ended 31 December 2010 (continued)

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 2009	2,997,235	8,355,538	-	124,947	161,149	70,879	24,492,025	36,201,773
Transfers	4,906,329	16,449,408	1,483,837	-	47,607	37,326	(22,924,507)	-
Additions	10,320	385,882	86,103	4,385	10,791	19,396	2,018,645	2,535,522
Disposals	-	(130,873)	-	-	-	-	(3,586,163)	(3,717,036)
At 31 December 2009	7,913,884	25,059,955	1,569,940	129,332	219,547	127,601	-	35,020,259
Depreciation								
At 1 January 2009	1,078,634	2,918,564	-	44,086	127,924	60,530	-	4,229,738
Charge for the year:								
Cost of sales	212,471	643,548	81,405	-	-	-	-	937,424
General and administrative	-	-	-	19,007	11,493	11,675	-	42,175
Disposals	-	(60,542)	-	-	-	-	-	(60,542)
At 31 December 2009	1,291,105	3,501,570	81,405	63,093	139,417	72,205	-	5,148,795
Carrying value								
At 31 December 2009	6,622,779	21,558,385	1,488,535	66,239	80,130	55,396	-	29,871,464

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 13 and 14).

8. Inventories

	2010	2009
	RO	RO
Raw materials	**8,132,767**	6,719,750
Finished goods	**4,889,377**	2,570,007
Work-in-process	**1,976,914**	1,334,180
Stores and spares	**1,568,251**	1,057,525
Less : allowance for inventories	**(823,645)**	(567,387)
	15,743,664	11,114,075
Goods-in-transit	**79,450**	445,125
	15,823,114	11,559,200

Inventories of the Company are subject to charge favouring the lenders of borrowings, as disclosed in notes 13 and 14.

The movement in allowance for inventories is given below:

	2010	2009
	RO	RO
Balance brought forward	**567,387**	8,075,202
Charge / (release) during the year	**256,258**	(7,507,815)
Balance carried forward	**823,645**	567,387

9. Trade and other receivables

	2010	2009
	RO	RO
Trade receivables	**19,369,409**	13,224,602
Allowance for doubtful debts	**(65,774)**	(33,581)
	19,303,635	13,191,021
Due from related parties (note 25)	**-**	110,652
Advances to suppliers	**122,514**	334,085
Prepaid expenses	**108,762**	228,994
Other receivables	**538,811**	697,885
	20,073,722	14,562,637

The movement in allowance for doubtful debts is given below:

	2010	2009
Balance brought forward	**33,581**	35,122
Charge/(Release) during the year	**32,193**	(1,541)
Balance carried forward	**65,774**	33,581

(a) Trade receivables of the Company are subject to a charge favouring the lenders of borrowings, as disclosed in notes 13 and 14.

(b) Trade receivables that are less than six months past due are not considered impaired. As at 31 December 2010, trade receivables of RO 121,506 (31 December 2009: 20,259) 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 is as follows:

	2010	2009
Age	**RO**	RO
Less than 90 days	**15,159,459**	10,389,517
Between 91 - 270 days	**4,088,444**	2,814,556
Between 271 - 365 days	**34,441**	2,459
Between 366 - 730 days	**82,020**	18,070
More than 730 days	**5,045**	-
	19,369,409	13,224,602

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.

9. Trade and other receivables (continued)

(c) Other receivables include custom duty paid on imports of RO 520,475. 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. The refund of RO 170,382 has also been received from the Ministry as the first instalment. The Management is following up with the Ministry for the balance refund.

10. Cash and cash equivalents

	2010	2009
	RO	RO
Cash on hand	**3,859**	3,951
Cash at bank	**1,714,675**	1,574,499
	1,718,534	1,578,450

Included in cash at bank is a balance of RO 458,851 (31 December 2009 : RO 473,498) held in a call account in the United Arab Emirates which customers make deposits into and RO 454,249 (31 December 2009 : RO 687,762) in US Dollars held in Oman. These accounts bear an interest rate of 0.5% per annum (31 December 2009: 0.5% per annum).

11. Share capital

The share capital comprises 124,897,960 (31 December 2009 - 124,897,960) ordinary shares of RO 0.100 (31 December 2009: RO 0.100) each fully paid.

	Authorised		**Issued and fully paid**	
	2010	2009	**2010**	2009
	RO	RO	**RO**	RO
Share capital	**15,000,000**	15,000,000	**12,489,796**	12,489,796

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

(b) In 2009, a cash dividend of RO 0.007 per share totaling RO 874,286 was paid as approved by shareholders.

11. Share capital (continued)

(c) Subsequent to the reporting date, the Board of Directors, have proposed a cash dividend of 9% (RO 0.009) per share amounting to RO 1,124,082.

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

	2010		2009	
Name of the shareholder	**No. of shares**	**Holding %**	No. of shares	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. Borrowings

	2010 RO	2009 RO
Non-current		
National Bank of Oman SAOG - term loan	**4,635,000**	6,375,000
Less: current portion included under current liabilities	**(1,740,000)**	(1,740,000)
	2,895,000	4,635,000
Current		
Loans against trust receipts	**22,192,179**	12,482,619
Bills discounting	**2,150,096**	3,284,708
Bank overdrafts	**405,186**	59,485
Current portion of term borrowings	**1,740,000**	1,740,000
	26,487,461	17,566,812
Total borrowings	**29,382,461**	22,201,812

(a) Term loan from National Bank of Oman SAOG drawn towards construction of Merchant Bar Rolling Mill, carried an original interest rate of 8.5% per annum (31 December 2009 : 8.5% per annum). Interest rate was revised to 6.5% with effect from 1 October 2010. Interest rate has been further reduced to 6.25% with effect from 1 January 2011. 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 Company. The loan is payable in 62 equal monthly installments of RO 145,000 each starting from September 2008.

13. Borrowings (continued)

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

	2010 RO	2009 RO
From 1 to 2 years	**1,740,000**	1,740,000
From 3 to 5 years	**1,155,000**	2,895,000
	2,895,000	4,635,000

(c) Bank overdrafts are at interest rates ranging from 6% to 8% per annum (31 December 2009 - 6% to 8% per annum). Loans against trust receipts are at an interest rate of 5.5% to 6.5% per annum (31 December 2009 - 7% to 8% per annum). Bills discounted at interest rates of 6.5% per annum (31 December 2009 - 6.5%-7% per annum) have been 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 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:

	2010 RO	2009 RO
Rials Omani	**21,077,871**	20,715,502
US Dollars	**8,304,590**	1,486,310
	29,382,461	22,201,812

14. Government soft loans

	2010 RO	2009 RO
National Bank of Oman SAOG – GSL – I	**369,661**	739,661
National Bank of Oman SAOG – GSL – II	**128,178**	294,844
	497,839	1,034,505
Less : deferred government grant		
Non current portion	**-**	(29,285)
Current portion	**(29,285)**	(59,130)
	468,554	946,090
Less: current portion	**468,554**	(505,098)
Non-current portion	**-**	440,992

(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% per annum (31 December 2009 - 3% per annum) and is secured by a first charge over the property, plant and equipment of the pipe mill. 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% per annum (31 December 2009 - 3% per annum) and is secured by a first charge over the property, plant and equipment of the pipe mill. 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:

	2010 RO	2009 RO
Less than one year	**497,839**	536,667
Between 2 and 5 years	**-**	497,838
	497,839	1,034,505

(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.

15. End of service benefits

	2010 RO	2009 RO
Balance brought forward	**52,943**	65,912
Charge for the year (note 20)	**63,679**	39,494
Transfer to capital work in progress	**-**	16,061
Payments during the year	**(51,208)**	(68,524)
Balance carried forward	**65,414**	52,943

16. Trade and other payables

	2010 RO	2009 RO
Trade payables	**3,100,090**	3,431,426
Accrued expenses	**896,142**	621,789
Advances from customers	**165,382**	160,039
Other payables	**24,676**	34,014
	4,186,290	4,247,268

17. Cost of sales

	2010 RO	2009 RO
Cost of materials consumed	**51,248,549**	33,101,851
Direct labour (note 20)	**2,138,734**	1,187,708
Depreciation (note 7)	**1,996,580**	937,424
Other direct expenses	**942,890**	623,466
	56,326,753	35,850,449

Notes to the financial statements
for the year ended 31 December 2010 (continued)

18. Selling and distribution costs

	2010 RO	2009 RO
Packing and despatch charges	**2,880,904**	1,829,462
Sales promotion expenses	**5,288**	167,065
ECGA premium	**204,898**	170,400
Advertisement and publicity	**12,932**	40,760
Commission on sales	**86,358**	93,065
Other selling and distribution expenses	**15,481**	9,051
	3,205,861	2,309,803

19. General and administrative expenses

Employee costs (note 20)	**737,295**	456,981
Legal and professional charges	**58,547**	57,017
Communication expenses	**79,296**	60,323
Travelling and conveyance	**103,075**	62,560
Depreciation (note 7)	**83,420**	42,175
Insurance	**23,868**	10,297
Provision for impaired debts	**32,193**	5,229
Other expenses	**113,497**	104,909
	1,231,191	799,491

20. Employee costs

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

	2010 RO	2009 RO
Basic salaries and allowances	**2,507,762**	1,361,920
Staff rent	**199,861**	158,708
Employee welfare expenses	**63,178**	46,645
End of service benefits (note 15)	**63,679**	39,494
Social security costs	**41,549**	37,922
	2,876,029	1,644,689

20. Employee costs (continued)

	2010 RO	2009 RO
Allocated to :		
Cost of sales (note 17)	**2,138,734**	1,187,708
General and administrative expenses (note 19)	**737,295**	456,981
	2,876,029	1,644,689

21. Net finance costs

Interest on borrowings	**2,025,510**	1,613,009
Interest income	**(6,202)**	(27,946)
	2,019,308	1,585,063

Interest on bank borrowings are net of RO Nil (31 December 2009: RO 471,392) included in the capital work-in-progress.

22. 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 the Company a further tax exemption for five years which ended on 15 May 2009.

(b) The current period tax charge relates to deferred taxation in respect of the temporary differences. As the Company has carry forward tax losses, no current income tax charge has been made. 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:

22. Taxation (continued)

	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**

	1 January 2009 RO	Charged to profit or loss RO	31 December 2009 RO
Asset			
Provision	(4,215)	185	(4,030)
Liability			
Accelerated tax depreciation	475,141	143,150	618,291
	470,926	143,335	614,261

(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 2009 will not be material to the financial position of the Company as at the reporting date.

23. Earnings / (loss) per share – basic and diluted

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

	2010	2009
Profit / (loss) attributable to shareholders (RO)	**1,903,461**	(774,040)
Weighted average of number of shares outstanding	**124,897,960**	124,897,960
Earnings / (loss) per share (RO) - basic and diluted	**0.015**	(0.006)

24. Net assets per share

	2010	2009
Net assets (RO)	**31,324,423**	29,420,962
Number of shares at the reporting date	**124,897,960**	124,897,960
Net assets per share (RO)	**0.251**	0.236

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

25. 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:

Sales and purchases of goods / services	**2010** **RO**	2009 RO
Sales of goods	**413,621**	544,710
Purchases of services	**14,147**	13,348
Key management compensation		
Basic salaries and allowances	**172,306**	195,067
Remuneration to directors		
Directors' sitting fees	**4,975**	4,950
Directors' remuneration	**49,000**	-

Balances arising from sales / purchases of goods / services

	2010 **RO**	2009 RO
Due from related parties (note 9)		
Bahwan Building Material LLC	**-**	110,652

Bahwan Building Material LLC ceased to be a related party with effect from 26 October 2010. No provision was required in respect of amounts due from related parties.

26. Commitments

(i) Lease commitments

At 31 December, 2010, the future minimum lease commitments under the lease agreement in respect of the land, referred to in note 7(a) amounted to RO 1,466,830 (31 December 2009 - RO 1,227,602) for the total remaining lease period. Under the terms of the operating lease the future aggregate minimum lease payments are as follows:

	2010	2009
	RO	RO
Not later than 1 year	**67,046**	54,658
Between 2 and 5 years	**268,182**	273,079
Later than 5 years	**1,131,602**	899,865
	1,466,830	1,227,602

(ii) Purchase commitments

At 31 December 2010, the value of outstanding purchase commitments amounted to RO 13,612,277 (31 December 2009 - RO 7,992,990).

27. Contingent liabilities

	2010	2009
	RO	RO
Bank guarantees	**541,486**	543,893

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

28. Approval of financial statements

The financial statements were approved by the Board of Directors and authorised for issue on 21 February 2011.