

# *Annual Report 2005-2006*



الأنوار القابضة ش.م.ع.ع.  
AL ANWAR HOLDINGS SAOG





**His Majesty Sultan Qaboos Bin Said**

**Registered office and principal place of business:**

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**Board of Directors as on 31st March 2006**

**Mr. Masoud Humaid Malik Al Harthy**

Chairman

**Mr. Qais Mohamed Al Yousef**

Deputy Chairman

**Mr. Shabir Musa Abdullah Al Yousef**

Director

**Mr. Abdulredha Mustafa Sultan**

Director

**Mr. Nawwaf Ghubash Ahmed Al Merri**

Director

**Mr. Mohamed Abdullah Mohamed Al Khonji**

Director

**Mr. Hamed Rashid Al Dhaheri**

Director

## DIRECTORS' REPORT

### for the year ended 31st March 2006

**Dear Shareholders,**

It gives me great pleasure to welcome you on behalf of the Board of Directors to the Twelfth Annual General Meeting of Al Anwar Holdings SAOG. On behalf of the Board of Directors, I am pleased to present the Annual report on the activities and performance of your company for the financial year ending 31<sup>st</sup> March 2006.

#### **General Economic Environment:**

Year 2005 has been a good year in general for the economies in the GCC region. The healthy trend in Oil prices has provided the necessary economic impetus within GCC, with increased outlays for infrastructure, real-estate development and manufacturing. In addition to the GCC, other regions too have experienced strong growth in 2005 – notably China & India. This has led to an increased global demand for commodities like aluminum-copper-steel-film. The prices of many commodities are now at all-time highs. This rise in commodity prices, accompanied with high volatility and increasing competition threw up several challenges. The industrial sector in Oman has withstood this intensification of competitive pressures from GCC as well as other countries. The Al Anwar Group companies have tried to overcome the difficulties by maximising capacity utilization, evolving strategies for vigorous cost control and targeting markets beyond Oman/ developing niche markets where returns are better.

#### **Financial Performance of Al Anwar Group**

The consolidated financial statements presented are an outcome of the following:

1. The revenues generated and the costs incurred by its subsidiaries, which are Voltamp Manufacturing Co. LLC (VMC -Switchgear & Transformer Divisions), Sun Packaging Co. LLC (SPC), Al Anwar Computer Services LLC (AACS) and Al Anwar Blank Co. SAOC (AABCO).
2. The Share of Profit / (Loss) achieved by Associate Companies in which Al Anwar owns between 20% and 50% of share capital.
3. Dividends and realized gains(losses) from other investments.

Al Anwar group achieved its highest ever total revenue of RO 12.2m as against RO 8.6m generated last year. The increase in turnover, was largely due to the commissioning of the 2<sup>nd</sup> Printing Line at SPC in Q1 of 2005, which led to revenues of SPC increasing 87% over the previous year. The revenue growth in the Transformer & Switchgear business at VMC grew at a healthy rate of 20% over previous year. The Operating Expenses are RO 11.3 m compared to RO 7.9m last year. This increase was mainly due to costs related to improved turnover/ higher input prices. The Gross operating income has improved to RO 927K for the current year compared to RO 735K last year.

The Company continued with the process of reallocation of its investment portfolio and divested its holdings completely in one of its long-term holdings - Computer Stationery Industry SAOG(CSI). This helped the Company realize RO 296K as Investment gains in the current year (RO 354K in the Previous Year).

The Share-of-profits from Associates was lower at loss of RO 19K (RO 230K Previous Year). This swing has happened due to the complete divestment of its investment in Computer Stationery Industries in this year. The other major contributing factor has been the unprecedented rise in aluminum prices, which impacted the operating profits of National Aluminum Products Company SAOG (NAPCO) significantly. The performance of NAPCO in the current year has been good thus far, as the Company has learnt to cope better with the volatile and rising metal situation, and it has reported profits for the last 3 quarters

The net profit is RO 394K for the current year compared to RO 675K last year, resulting in an EPS of 79 baizas ( EPS 135 baizas Previous Year). The Net Assets of the Company have improved to RO 1.378/ share (RO 1.375/ share Previous Year).



## DIRECTORS' REPORT (contd.)

### for the year ended 31st March 2006

The Board of Director's is pleased to recommend a cash dividend of 5% for the current year (7.5% Previous Year). The Board has not recommended Directors Remuneration (RO 34 K in the previous year).

#### Performance of Al Anwar Investments:

##### Subsidiaries:

1. **Voltamp Manufacturing Company LLC (and its subsidiary):** The Company's sales turnover increased by 20% in the current year. Voltamp has reached a level of 1200 MVA of transformer shipments from its current facilities. In 2005 Voltamp has also achieved its highest ever unit shipments and highest exports too. Voltamp is poised to further improve on this achievement in the succeeding years, as there is a buoyant demand in the power sector in Oman and in the GCC market, for the Company's Transformers as well as Switchgear offerings. The net profit has improved too, as it coped better with the rising commodity input prices. Voltamp also improved its production and plant utilization to meet the increased demand.

Voltamp has been successful in getting its largest ever order of RO 10 mn for transformers, from the Qatar market. This would significantly boost the scale of operations and exports of the Company. Voltamp has achieved a notable milestone in designing, type-testing and selling a 10 MVA transformer, entirely with in-house efforts. It has thus extended its product range. Voltamp has taken another initiative of setting up an operational base, outside Oman, in the GCC region. This would not only increase its capacity but also better service its customer in that market. We believe the Company is thus progressing impressively in all directions and would achieve significantly better results in the years to come.

2. **Sun Packaging Company LLC:** SPC has achieved an important milestone by commissioning its 2<sup>nd</sup> Printing line in Q1 of 2005, and enhancing its production capacity to 5,000 tons per annum. The entire plant has been operating to capacity in the recent quarters. This has helped SPC enhance its profits for the current year in spite of difficult times of increasing raw material prices. The additional capacity has allowed SPC to focus on developing customers in export markets, and those with complex needs and ultimately better margins as well.

SPC has achieved another milestone in declaring its maiden dividend for 2005. The outlook for the current year is expected to be equally good, and SPC is on its path to declare higher and consistent dividends.

SPC after having successfully doubled its plant-capacity in Oman, it is implementing its 3<sup>rd</sup> printing line at Oman, and is also evaluating options to further broaden its capability.

3. **Al Anwar Blank Company SAOC:** This began as a Joint-Venture company with 40% direct foreign investment, by the German Collaborator M/s. Feinguss Blank GmbH. Al Anwar holds 57% of the equity capital of the company. The Company successfully began producing and exporting parts, made by the investment casting method, back to its collaborator in 2001. However the Collaborator has been unable to provide the Company with adequate load, and has decided to exit his shareholding in the Company. This will be entirely bought over by Al Anwar Holdings in Financial Year 2006-07.

The Company has taken many steps to widen the customer base, enhance its capabilities to cast parts in ferrous as well as non-ferrous alloys, and also increase the extent of finish to the parts it manufactures. AABCO has received very good supplier ratings from its new customers in UK and is now in serious engagement with customers from India as well. We believe this efforts to broaden the customer base would allow AABCO to operate as independent and premier Investment Casting unit in GCC.

## DIRECTORS' REPORT (contd.) for the year ended 31st March 2006

### Associates:

1. **National Aluminium Products Company SAOG (NAPCO):** The Company posted a loss of RO 202K compared to a profit of RO 238K last year. A significant factor in the reduction of the profits has been the high input metal prices, and the volatility associated with the same. This impacted operating yields significantly. NAPCO continued to service its shareholders by declaring dividends of 5% for the year 2005 despite a loss. The outlook for the Company is mixed as the aluminum prices are still trended upwards and are volatile. The difference however has been that the Company has been able to operate better in this situation, and has in-fact posted profits in the last 3 quarters. The Company has a strong management and good operating practices are being put in-place, hence they would be better able to ride the commodity prices in the future.
2. **Falcon Insurance Company SAOC (Falcon):** Falcon is the newest entrant into the General Insurance sector of Oman, and is an investment of Al Anwar Holdings of 2005. Falcon was created by the purchasing the Insurance portfolio, and developing the existing foreign Insurance Company – Al Ittihad Al Wattani's Muscat operations evolve into Falcon's Branch & Head Office. This has resulted in Falcon being able to report over 100% increase in its Insurance Business, even while the business was in transition and the infrastructure for the growth of the Company was being put in place. Falcon has also been able to report a profit in the first year itself, due to the strong operating policies and experience of the Management Team which has been inducted.

This momentum is being maintained in 2006 too, as an enhanced team – IT infrastructure – marketing efforts come into place. All the inputs are being made available to make Falcon a Insurance Company of choice in the Omani market in the medium term.

3. **Oman Drilling Mud Products Company LLC:** The Company posted better profits in the current year as compared to last year because of improved thruput. For the current year the company succeeded in securing major part of supply contract with a major customer. The company is expected to generate consistent returns for the investors.

### Other Investments:

1. **Oman Abrasives LLC:** The Company has posted consistent profits in the current year, in line with its long-term trends, and has maintained its dividend payout ratio. We expect the company to consistently maintain its performance in the coming years.

### Rights Issue:

The Company embarked on a mobilisation program from its shareholders for the first time since its inception. It had obtained the shareholder approval at an Extraordinary General Meeting in May 2005, for issuing an additional 2.7 million shares on a Rights Basis, @ 1.020/ share. We are pleased with the confidence that the shareholders have reposed in the Company by fully subscribing to the Rights Issue which opened in March 2006. The allotment process has been completed and the additional shares have been listed on the Muscat Securities Market in May 2006.

### Achievements:

Al Anwar and its investee companies remain dedicated and determined to improve Omanisation levels in line with His Majesty's directives. Currently, Omanisation level in Al Anwar Group companies combined is 44%. We are proud to also mention that National Aluminium Products Company SAOG, one of the Associates of the Company, has received His Majesty's Certificate of Industrial Excellence in 2005.



## DIRECTORS' REPORT (contd.)

for the year ended 31st March 2006

### Future Investments and Projects :

1) In May 2005 AAH announced its intention to allocate RO 1.0 million to setting up a green-field project for the manufacture of Ceramic tiles in Oman. We are pleased to state that significant project development work has been undertaken for the Ceramics project:

- Al Maha Ceramics Company SAOC has been formed in December 2005, and it has an independent Board which is overseeing the project development
- The financial close has been achieved for this project in both equity & debt. We are pleased to state that we have been able to induct Institutional and Trade Investors into the equity of the Company, so that the Company can plan and execute the project in multiple phases. We are also happy to note that the local Banks have been happy to extend their full-support for the debt and banking facilities required for this project
- Significant progress has been made in tying up the raw-material sources close to the plant location in Sohar. It thus reduces one of the most important risks for this project.
- The Technology selection process is complete and the final orders are to be placed with Turnkey vendors in the forthcoming quarter
- Land has been obtained for this project, covering both the current requirements and future expansion, at PEIE's Sohar Industrial Estate. This would enable Al Maha to access the regions industrial infrastructure and markets effectively

We are thus ready on all fronts to get into the construction and market-development phase of the Project, and are planning for June 2007 schedule for commencement of production

2) Al Anwar Holdings began the process of reviewing and restructuring its portfolio a few years ago. Non-core investments have been divested and fresh investments made which would improve the overall returns from the portfolio. The operating performance of the subsidiaries has been increased, and the diversification of investments into the service sector has commenced. All the Subsidiaries are planning capacities and products looking at regional markets, and thus improving their competitiveness. The finances of the Holding Company have been improved, with the completion of the Rights Issue. I believe with all these initiatives the first phase of this process is over.

3) The economies of Oman and GCC continue to be buoyant. This buoyancy is due to the overall increase in the economic activity, which has been supported by high oil-prices. The increase is in part due to the efforts of the GCC governments to direct the investments to diversifying their economies and the value-addition that is happening locally. Therefore we are hopeful of Al Anwar Holdings investing in new projects in various fields given that Al Anwar is transitioning from being an investor and manager of manufacturing units, to a more diversified holding reflecting the emerging opportunities in services as well.

### Corporate Governance:

Your company's Board and Management have always believed in maintaining a high level of professionalism and integrity in all its operations. The company stands committed to fully adhere to the Code of Corporate Governance issued by the Capital Market Authority as well all related provisions to the amended Commercial Companies Law. A report on Corporate Governance and also a Management Discussion and Analysis Report have been included in the Annual Report.

The Board has reviewed the existing system of Rules, Regulations and internal controls so as to ensure that they properly identify authorities at various levels and that there is a good system of checks and balances in place. Furthermore all systems and procedures will be constantly upgraded and strengthened which will ensure efficiency and transparency.

## DIRECTORS' REPORT (contd.) for the year ended 31st March 2006

### Thanks and Appreciation:

I would like to convey our extreme thanks and appreciation to His Majesty Sultan Qaboos Bin Said and His Government for incentives and support to the industrial sector in the Sultanate, which in turn assisted the Group to achieve its results. I would also like to thank the Capital Market Authority and the Muscat Securities Market for their guidance and support, in our fund-raising efforts and corporate governance.

I would like to welcome Mr Qais Mohammed Al Yousef who has rejoined the Al Anwar Holdings Board in August 2005. He has since also been appointed as the Deputy Chairman of the Company and the Chairman of the Executive Committee. We would also like to welcome Mr Hamad Rashid Al Dhaheri and Mr Mohamed Al Khonji, who have been elected on to the Board in the AGM of 2005. Mr Hamed Al Dhaheri has also been nominated to the Audit Committee of the Al Anwar Holdings Board. The Company records its sincere appreciation of the contribution, to the Company and its Investments, of Mr Faisal Mohammed Al Yousef, Director, during his tenure of their Directorship.

I would like to place on record the appreciation of the board members and associates for the valuable service rendered by Mr. E.N. Venkat, CEO during his tenure of his service with the company.

I would also like to express my sincere appreciation to the Board of Directors of all Al Anwar Group investee companies for direction given to the managements of these companies. I place on record the appreciation for the dedicated efforts of all the employees of Al Anwar Group. I also thank the Bankers of our companies for their continued support to the Company, its units and its new projects. Lastly I convey my sincere thanks to the shareholders of the company for the confidence they have placed in the Board.

**For & on behalf of the Board of Directors of  
Al Anwar Holdings SAOG**

**Masoud Humaid Al Harthy**  
Chairman

Report of Factual Findings in connection with Corporate Governance report of the Company and application of the Corporate Governance practices in accordance with CMA Code of Corporate Governance (Code).

**TO THE SHAREHOLDERS OF AL ANWAR HOLDINGS 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 the Company and its application of the Corporate Governance practices in accordance with the CMA's code of corporate governance issued under circular no. 11/2002 dated 3 June 2002 and its amendments. Our engagement was undertaken in accordance with the International Standard on Auditing applicable to agreed-upon procedures engagements. These procedures were performed solely to assist you in evaluating the Company's compliance with the Code as issued by the CMA.

We draw your attention to the paragraph of non-compliance of the Company's report on Corporate Governance that states the non-compliance with respect to the Code of Corporate Governance

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

Had we performed additional procedures or had we performed an audit or review in accordance with International Standards on Auditing, 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 Board of Directors' Corporate Governance report included in its annual report for the year ended 31 March 2006 and does not extend to any financial statements of Al Anwar Holdings SAOG, taken as a whole.

27 May 2006



*Moore Stephens*  
*JAL*

## REPORT ON CORPORATE GOVERNANCE

for the financial year ending March 31, 2006

### 1. Company philosophy

The Board of Directors of Al Anwar Holdings SAOG welcomes and supports the initiatives undertaken by the Capital Markets Authority (CMA) in establishing the Code of Corporate Governance for companies listed in the Muscat Securities Market and is committed towards fully adopting the Code. The adoption of the code will enable the company to foster a culture of compliance, transparency and accountability, which in turn will lead to efficient functioning of the Company.

### 2. Composition of the Board of Directors

All the members of the Board are Non-Executive Directors, since none of them are whole time directors drawing any fixed monthly or annual salary from the Company.

### 3. Meetings of the Board.

The Present Board consists of 7 below mentioned Directors:

Name of Director	Independent / Non independent	Date of Election	Period of Directorship	Position	Mode of Representation
Mr. Masoud Humaid Malik Al Harthy	Independent	23/7/2003	3 Years	Chairman	Himself - Non Shareholder
Mr. Qais Mohamed Al Yousef	Non Independent	31/8/2005	To be elected in the next AGM	Deputy Chairman	Fincorp Investment Company LLC
Mr. Shabir Musa Abdullah Al Yousef	Non Independent	23/7/2003	3 Years	Director	Himself - Shareholder
Mr Abdulredha Mustafa Sultan	Independent	23/7/2003	3 Years	Director	Himself - Shareholder
Mr. Nawwaf Ghubash Ahmed Al Merri	Independent	23/7/2003	3 Years	Director	Himself - Shareholder
Mr. Mohamed Abdullah Al Khonji	Independent	16/7/2005	3 Years	Director	Himself - Shareholder
Mr. Hamed Rashid Al Dhaheri	Independent	16/7/2005	3 Years	Director	Himself - Shareholder

## REPORT ON CORPORATE GOVERNANCE (contd.)

for the financial year ending March 31, 2006

### Resigned during the year

Mr. Hussain Jasim Naser Al Nowais	Resigned on 17/4/2005	Himself - Non Shareholder
Mr. Darius Framroze	Resigned on 3/5/2005	ONIC Holding SAOG
Mr. Faisal Mohamed Al Yousef	Resigned on 29/8/2005	Himself - Shareholder

The details of the Present Directors' directorship in other public companies in Oman are as follows.

Name of Director	Details of Directorship in Other SAOG/SAOC Companies in Oman
Mr. Masoud Humaid Malik Al Harthy	1. Chairman, Al Anwar Blank Co. SAOC 2. Chairman, Al Maha Ceramics Co. SAOC 3. Chairman, Falcon Insurance Co. SAOC
Mr. Qais Mohamed Al Yousef	Director, Taager Finance Co. SAOG
Mr. Shabir Musa Abdullah Al Yousef	Chairman, National Aluminium Products Co. SAOG
Mr Abdulredha Mustafa Sultan	None
Mr. Nawwaf Ghubash Ahmed Al Merri	None
Mr. Mohamed Abdullah Al Khonji	None
Mr. Hamed Rashid Al Dhaheri	None

The Meeting attendance fees paid to the members for each meeting attended is

(i) Chairman - RO 400/- (ii) Deputy Chairman - RO 300/- (iii) Other Members - RO 250/-

**REPORT ON CORPORATE GOVERNANCE (contd.)**  
**for the financial year ending March 31, 2006**

(a) The Board met 5 times during the year. The Full particulars of the dates of the meetings and attendance of directors are mentioned below.

Name of Director	AGM 16.7.05	Board Meetings Dated			
		31.05.05	16.07.05	16.01.06	28.03.06
Mr. Masoud Humaid Malik Al Harthy	Present	Present	Present	Present	Present
Mr. Qais Mohamed Al Yousef (joined on 31 August 05)	N.A.	N.A.	N.A.	Present	Present
Mr. Shabir Musa Abdullah Al Yousef	Present	Present	Present	Present	Present
Mr Abdulredha Mustafa Sultan	Present	Present	Present	Present	Present
Mr. Nawwaf Ghubash Ahmed Al Merri	Present	Present	Present	Present	Present
Mr. Mohamed Abdullah Al Khonji	N.A	N.A	N.A	Present	Present
Mr. Hamed Rashid Al Dhaheri	Present	N.A	N.A	Present	Leave of Absence
<b>Members for part of the year</b>					
Mr Hussein Jasim Naser Al Nowais (resigned on 17 April 05)	N.A	N.A	N.A	N.A	N.A
Mr. Darius Framroze (resigned on 3rd May 05)	N.A	N.A	N.A	N.A	N.A
Mr. Faisal Mohamed Al Yousef (resigned on 29 August 05)	Present	Present	Present	N.A	N.A

(b) **The Executive Committee (EC)** is a sub-committee of the Board consisting of 3 directors.

Mr. Qais Mohamed Al Yousef	EC Chairman
Mr. Shabir Musa Abdullah Al Yousef	EC Member
Mr. Nawwaf Ghubash Ahmed Al Merri	EC Member

The Meeting attendance fees paid to the members for each meeting attended was RO 200/- for EC Chairman and RO 150/- for EC Member.



## REPORT ON CORPORATE GOVERNANCE (contd.)

for the financial year ending March 31, 2006

The EC met 5 times during the year. The particulars of the dates of the meetings and attendance of members are mentioned below.

Name of Director	Executive Committee Meetings Dated				
	5.4.05	4.5.05	16.7.05	19.9.05	26.11.05
Mr. Qais Mohamed Al Yousef	N.A.	N.A.	N.A.	Present	Present
Mr. Shabir Musa Abdullah Al Yousef	Present	Present	Present	Present	Present
Mr. Nawwaf Ghubash Ahmed Al Merri	Leave of Absence	Present	Present	Present	Present
<b>EC Member for part of the year</b>					
Mr. Faisal Mohamed Al Yousef	Present	Present	Present	N.A.	N.A.
Mr. Darius Framroze	Present	N.A.	N.A.	N.A.	N.A.

### (c) Audit Committee

The Audit Committee (AC) is a sub-committee of the Board, comprising of 3 Directors:

Mr. Abdulredha Mustafa Sultan	AC Chairman
Mr. Qais Mohamed Al Yousef	AC Member
Mr. Hamed Rashid Al Dhaheri	AC Member

The Meeting attendance fees paid to the members for each meeting attended was RO 200/- for AC Chairman and RO 150/- for AC Member.

The Audit Committee met 4 times during the year. The Full particulars of the dates of the meetings and attendance of members are mentioned below.

Name of Director	Audit Committee Meetings Dated			
	25.5.05	12.11.05	25.1.06	29.03.06
Mr. Abdulredha Mustafa Sultan	Present	Present	Present	Present
Mr. Qais Mohamed Al Yousef	N.A.	Present	Present	Present
Mr. Hamed Rashid Al Dhaheri	N.A.	Present	Present	Leave of Absence
<b>AC Member for part of the year</b>				
Mr. Faisal Mohamed Al Yousef	Present	N.A.	N.A.	N.A.
Mr. Masoud Humaid Al Harthy	Present	N.A.	N.A.	N.A.

## REPORT ON CORPORATE GOVERNANCE (contd.) for the financial year ending March 31, 2006

All the members are experienced and have fundamental knowledge of accounts and finance

The terms of reference of the AC are in accordance with the guidelines given by CMA. The major areas covered by the Audit Committee are matters concerning Accounts, Finance, and Compliance with Statutory Laws, Auditors Report.

4. **Process of nomination of directors:** In nomination of candidates, the Board looks for professionalism, integrity and leadership skills. Proven track record, industry knowledge and strategic vision are the key characteristics. The company follows the provisions of the Commercial Companies Law in respect of nomination of the members of Board of Directors.
5. The Management members of the company are appointed by proper contracts, clearly defining the terms of reference. The Chief Executive Officer, under the supervision, direction and control of the Board manages the company.
6. No transactions where the management has personal interest are carried out in the company. The company has a system in vogue, for prior approval by the Board for such type of transactions if any arises in the normal course of business. All the related party transactions, if any, are carried out at arms length prices in the normal course of business. No special method of evaluation is followed for these transactions. There are no material related party transactions where directors have an interest.

### Means of communication with the Shareholders and Investors:

7. The notice to the Shareholders for the Annual General Meeting containing the details of the related party transactions is filed with CMA and mailed to shareholders along with Directors' report and audited accounts.
8. The Quarterly results of the company as per CMA format, are prepared by the management for every quarter, reviewed by the Audit Committee, approved by the Board, are forwarded to CMA and also published in the Newspapers as per the directives of CMA. Copies are made available to shareholders on request.

### Remuneration matters:

9. Remuneration of RO 34,000/- was paid to directors for the financial year ending 31st March 2005. Shareholders had approved the amount of remuneration to directors in the AGM of 16th July 2005, after which the payment was made. The Meeting attendance fees is paid to the attending members as per the remuneration fixed by the Board. A total of RO 5,750/- (FY 2004-05: RO 11,900/-) was paid to Directors for meetings attended during the period 1st April 05 to 30th October 05. In view of the Administration Decision 11-2005, meeting attendance fees for meetings held from November 05 of RO 5,900/- would be paid after it is approved in the Annual General Meeting of the company. Meeting attendance fees paid and payable during the year ended 31st March 2006 are given below:

**REPORT ON CORPORATE GOVERNANCE (contd.)**

for the financial year ending March 31, 2006

<b>Name of Director</b>	<b>Paid</b>	<b>Payable</b>	<b>Total</b>
Mr. Masoud Humaid Malik Al Harthy	950	800	1,750
Mr. Qais Mohamed Al Yousef	150	1,250	1,400
Mr. Shabir Musa Abdullah Al Yousef	1,350	650	2,000
Mr. Abdulredha Mustafa Sultan	700	1,100	1,800
Mr. Nawwaf Ghobash Ahmed Al Merri	1,350	950	2,300
Mr. Hamed Rashid Ahmed Al Dhaheri	-	650	650
Mr. Mohamed Abdullah Al Khonji	-	500	500
<b>Members for part of the year</b>			
Mr. Hussain Jasim Naser Al Nowais	-	-	-
Mr. Faisal Mohamed Al Yousef	1,100	-	1,100
Mr. Darius Framroze	150	-	150
<b>Total Meeting Attendance fees during 2005-06</b>	<b>5,750</b>	<b>5,900</b>	<b>11,650</b>

10. The remuneration for the employees are, after critical evaluation, fixed by the Board, based on qualification, expertise and efficiency of the executives. The total remuneration of the Top 5 employees for Financial Year 2005-06 was RO 58,595 (FY 2004-05 : RO 48,491).
11. **Details of non-compliance by the company:** No penalties have been imposed by CMA or MSM or any other statutory bodies on the company. The gap between Board meeting no. 2 and Board meeting no. 3 is six months, which is in non-compliance with the requirements of Article 4 of corporate governance regulations to conduct board meetings at intervals not exceeding four months.
12. **Market price data:** Monthly high and low share price of the company during the financial year ended 31st March 2006 was

<b>Month</b>	<b>High - RO</b>	<b>Low - RO</b>
April 2005	2.320	1.920
May 2005	2.240	2.000
June 2005	2.130	1.930
July 2005	2.410	2.000
August 2005	2.030	1.900
September 2005	2.050	1.920
October 2005	1.890	1.720
November 2005	1.750	1.750
December 2005	1.800	1.750
January 2006	2.050	1.900
February 2006	1.950	1.750
March 2006	1.750	1.500

## **REPORT ON CORPORATE GOVERNANCE (contd.)** **for the financial year ending March 31, 2006**

13. Distribution of Shareholders and their share holding pattern as on 31st March 2006 is below

Distribution	No. of shares	No. of Share holders	% on total shares
1 to 5,000	345,581	317	6.91%
5,001 to 10,000	111,052	17	2.22%
10,001 to 20,000	156,558	11	3.13%
20,001 to 50,000	291,900	9	5.84%
Above 50,000	4,094,909	14	81.90%
<b>Total</b>	<b>5,000,000</b>	<b>368</b>	<b>100.00%</b>

The Company does not have any foreign GDRs / ADRs / Warrants or any other instrument of any type issued to public or institutional investors or any other class of investors.

14. **Professional profile of the statutory auditor**

Moore Stephens are the company's auditors. They are one of the international accounting firms operating locally and are a member firm within the Moore Stephens International Limited, which is regarded as one of the world's major accounting and consulting networks consisting of 316 independent firms with 539 representative offices and over 15,400 staff in 93 countries.

15. **Specific areas of non-compliance with the provisions of corporate governance and reasons**

This report is prepared in compliance with the Code of Corporate Governance and covers all the items specified in Annexure 1 & 4 of the Code.

**Masoud Humaid Al Harthy**  
 Chairman

## MANAGEMENT DISCUSSION AND ANALYSIS REPORT

### Industry's Structure and Development:

Al Anwar Holdings SAOG is an publicly traded joint stock company registered in the Sultanate of Oman. The Company was incorporated on 20th December 1994. The primary business activity of the company is investments and it includes equity participation in new and existing industrial and services companies in various sectors of the economy. Until recently Al Anwar Holdings substantial portion of its portfolio is invested in industrial sectors.

Oman's industrial base is diverse, and Al Anwar's Charter is to invest in the setting-up of new units, managing existing units or even undertake to create value by reviving sick-units. Its investments are diverse in nature, ranging from aluminium extrusions to investment-casting. Its investee companies service customers needs in Oman, and are increasingly looking at GCC, and even beyond, to attain economies of scale and service profitable niches.

Al Anwar invests in green-field projects as well as on-going concerns. It typically invests in closed companies, SAOC & LLC entities, with a view to nurturing them and realizing value by either floating them on the capital markets or selling them to trade investors. Al Anwar typically takes significant stakes in the units in which it invests. It monitors and guides the investments by participating in the deliberations of the Board and Committees of the Board, of the investee Companies

### Investment Portfolio:

The Investments made by Al Anwar in various companies are elaborately explained in Directors' Report as well as disclosed in Note No. 5 of the Financial Statements.

### Opportunities:

#### *Existing Investments:*

Many of our existing industrial investments have been operating for many years, and hence are mature in their current operations/ markets. These companies are trying to grow by ramping-up capacity and expanding their product-range/ capabilities, which are needed for servicing customers in Oman & GCC markets. Some of the units already derive a considerable portion of their revenue from European markets. Hence the efforts to impart diversity in the customer base have had results. Opportunities exist for increasing the investments in the industrial units which are actively repositioning themselves for improved growth and long-term viability, and whose valuations are attractive.

#### *New Projects:*

**Falcon Insurance Co. SAOC:** Al Anwar's current portfolio is dominated by investments into manufacturing enterprises. With a view to diversify its portfolio into Services, Al Anwar has made a beginning by making a significant capital allocation to a new company in the Omani Insurance Sector, with an initial focus on General Insurance. The General Insurance business is expected to expand rapidly with the stepping-up of the industrial and economic activity and it would also service the growing needs of the youth in the country. The Company is now actively looking at increasing its financial services portfolio - in Oman and in the region

**Al Maha Ceramics Co. SAOC:** There has been a significant increase in the Construction activity in all the GCC markets in the recent past. Policy initiatives to allow foreign investment into Real Estate and the promotion of the Tourism sector is further adding fillip to the construction activity in the region. Oman has a variety of minerals which can be commercialized for meeting the expanding needs of this sector. Al Anwar is promoting a green-field project to manufacture ceramic tiles in Oman.



## MANAGEMENT DISCUSSION AND ANALYSIS REPORT (contd.)

### Fund Mobilisation

The Financial Markets and Banks have been buoyant based on the improved economic performance in the GCC region and the continued good outlook for many of the Companies. Your Company has been able to leverage this momentum - for its investee Companies and itself, by promoting new projects and seeking shareholder/ banker participation in the same. Your Company has mobilized RO 2.75 million from Shareholders in April 2006, via a Rights Issue. This would strengthen the liquidity and enhance the strength of Al Anwar Holdings portfolio. Al Anwar is continuously scouting for sound projects, which will improve the overall yield on investment.

### Risks :

By and large, the risks and threats to which the investee companies are exposed form a threat to Al Anwar. Broadly, the risks take the form of increasing costs/ decreasing margins, competition from other sources of supply and shifts in customer preference for other solutions.

1. Increasing raw material prices: and the difficulty in passing the increases to the customer, pose a threat to the revenues of the investee companies, which affect the revenues of Al Anwar.
2. Competition from GCC as well as international region: results in the drastic fall in revenues/ profits of investee companies, which in turn affects the revenues/ profits of Al Anwar.
3. Product Shifts: Investment in Industrial units consists of investing in capital assets like Plant & Machinery, technology - the benefits of which can be recovered over a long-term. Shifts in product preference due to various reasons such as technological changes, new product substitutes, etc results in the viability of the project/ unit being affected.

A major risk in the investments in industrial ventures is the relatively long gestation periods, which affects the performance of the parent company. Al Anwar has chosen to deal with this issue by investing in a portfolio, where the diversity reduces the impact. It is also into making a conscious effort in expanding capacities in product markets where the Investee Company has expertise, which also goes to reducing the risks. Al Anwar has also used innovative strategies - like purchasing a business portfolio from an incumbent Company, thus giving a base to ramp-up the business of the Company. Al Anwar thus continuously assesses and manages the medium term strategies and monitors the performance of the investee companies and projects, against the medium-term plans.

### Analysis of segment-wise performance:

The company has analysed its performance as Industrial segment and Investment Segment. Industrial segment reflects the performance of the investee companies and Investment segment accounts for the transactions concerning the parent company. A detailed analysis is provided in Schedule - I under notes to accounts.

### Outlook:

With the global upheavals gradually settling down and the economic activity picking up pace, it is expected that the existing healthy oil price trend should continue in the near future which would lead to better overall economic growth in the GCC Region. Apart from oil and petroleum sector, the next biggest economic drivers in the GCC region are the infrastructure related projects. GCC markets will continue to be fiercely competitive, as there are limited barriers to trade. Consequently the margins of investee companies will normally be under pressure.

However, the Company's endeavour is (a) to maximize profits by ensuring stability of operations and continuous dialogue with customers, current and prospective, to ensure sustenance of earnings by its investee companies,



**MANAGEMENT DISCUSSION AND ANALYSIS REPORT (contd.)**

(b) to bring about financial stability and comfort by reducing its current external borrowings, thereby reducing costs and financial pressure and (c) to create an ability for distributing dividends to shareholders on a consistent basis

**Internal control systems and their adequacy:**

The Company has adequate internal controls commensurate with the size and nature of operations. A financial manual of authorities approved by the Board is in place, which specifies authority levels for various day to day operations.

**Discussions on financial and operational performance:**

The Company has posted profit of RO 394K in the current year as against the profit of RO 675K last year. During this year there has been a pressure on the margins of some of the Associate Companies. Hence despite a rise in Subsidiaries income to RO 11.2 mn from RO 8.6mn in the previous year, there has been an overall drop in profits. There have been efforts to realize some of the gains in the portfolio, and the Company has disposed all of its holdings in Computer Statinery Industries SAOG. These disposals have resulted in a profit of RO 296K, which have made-up for a part of the reduction in Gross Operating Profit.

The parent company's outstanding loans total to RO 2070K. Most of this is due to the new investments which have been made. It is proposed to repay all of this from the proceeds of the Rights Issue of RO 2.75 million, which has been completed in April 2006. Subsequently a new financing strategy would be developed, keeping in mind the strategy which would be adopted or the overall development of Al Anwar Holdings. The Company has received significant support from the Banker's, for itself and its Investee Companies. Al Anwar continues to enjoy a good credit-worthy relationship with them

During the year there has been a significant investment in new projects - in Insurance and the Ceramic Sector, as well as into Subsidiaries. The implementation effort for many of these has begun. These being medium-term to long-term investments, the Company expects to get good returns from them in the coming few years and for many years

Al Anwar's endeavor is to enhance the returns from investee companies, make investments in projects with low gestation period and evolve strategies to improve the existing yield on investments.

**E.N. Venkat**  
Chief Executive Officer

## AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the accompanying consolidated balance sheet of Al Anwar Holdings SAOG ("the Parent") and its subsidiaries together called "the Group" as at 31 March 2006 and the related consolidated statements of income and cash flows for the year then ended. These financial statements, which are set out on pages 23 to 49, are the responsibility of the Company's Board of Directors. 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 plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Board of Directors, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 March 2006 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards. The consolidated financial statements also comply, in all material respects, with the relevant requirements of the Commercial Companies Law of Oman, 1974 (as amended) and the relevant disclosure requirements for public joint stock companies issued by the Capital Market Authority.

27 May 2006



*Moore Stephens*  
*JAL*

## CONSOLIDATED BALANCE SHEET

at 31 March 2006

	Note	2006 RO'000	2005 RO'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	3	3,077	2,976
Intangible assets	4	179	146
Investments	5 f)	6,738	4,994
Total non - current assets		9,994	8,116
<b>Current assets</b>			
Investments	5 f)	265	367
Inventories	6	2,722	2,065
Accounts and other receivables	7	4,346	3,678
Bank balances and cash	8	263	595
Total current assets		7,596	6,705
<b>Total assets</b>		<b>17,590</b>	<b>14,821</b>
<b>SHAREHOLDERS' FUNDS AND LIABILITIES</b>			
<b>Shareholders' equity</b>			
Share capital	9 a)	5,000	5,000
Legal reserve	9 b)	735	705
Retained earnings		775	796
Fair value reserve		(5)	—
Proposed dividend	16	385	375
<b>Shareholders' interest attributable to Shareholders of Parent Company</b>		<b>6,890</b>	<b>6,876</b>
Minority Interest	10	1,212	1,113
Total shareholders' equity and minority interest		8,102	7,989
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Term loans	11	1,252	1,457
Deferred government grant	11	69	87
Deferred tax liability	20	27	17
Employees' end of service benefits	22 b)	100	89
Total non - current liabilities		1,448	1,650
<b>Current liabilities</b>			
Bank borrowings	13	3,223	2,322
Term loans	11	1,905	107
Accounts and other payables	12	2,842	2,706
Taxation	20	70	47
Total current liabilities		8,040	5,182
Total liabilities		9,488	6,832
<b>Total Shareholders' funds and liabilities</b>		<b>17,590</b>	<b>14,821</b>
<b>Net assets per share</b>	14	<b>RO 1.378</b>	<b>RO 1.375</b>

These financial statements were authorised for issue and approved by the Board of Directors on 24 May 2006 and were signed on their behalf by:

Chairman

Director

The attached notes 1 to 27 form part of these financial statements.

## CONSOLIDATED STATEMENT OF INCOME

for the year ended 31 March 2006

	Note	2006 RO'000	2005 RO'000
<b>INCOME</b>			
Operating income	2 p)	11,928	8,187
Dividend income	2 c)	133	128
Other income	17	158	328
		<u>12,219</u>	<u>8,643</u>
Operating expenses		(11,292)	(7,908)
Gross operating profit		<u>927</u>	<u>735</u>
Other expenses	18	(180)	(272)
Profit from operations		<u>747</u>	<u>463</u>
Finance charges		(381)	(226)
Share of profits in the results of associates	5 n)	(19)	230
Profit on disposal of investments	19	296	354
		<u>643</u>	<u>821</u>
Taxation	20	(65)	(65)
		<u>578</u>	<u>756</u>
Minority interest	10	(184)	(81)
<b>Net profit attributable to Shareholders of the Parent Company</b>		<u><b>394</b></u>	<u><b>675</b></u>
<b>Basic earnings per share</b>	15	<u><b>RO 0.079</b></u>	<u><b>RO 0.135</b></u>
<b>Dividend per share</b>	16	<u><b>RO 0.050</b></u>	<u><b>RO 0.075</b></u>

The attached notes 1 to 27 form part of these financial statements.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
 for the year ended 31 March 2006

	Share capital RO'000 [note 9 a)]	Legal Reserve RO'000 [note 9 b)]	Retained earnings RO'000	Fair value reserve RO'000 [note 9 c)]	Proposed Dividend RO'000 [note 16]	Total RO'000
At 31 March 2004	5,000	632	569	—	375	6,576
Net profit for the year	—	—	675	—	—	675
Transfer to legal reserve	—	73	(73)	—	—	—
Dividend paid during the year	—	—	—	—	(375)	(375)
Proposed dividend	—	—	(375)	—	375	—
At 31 March 2005	<u>5,000</u>	<u>705</u>	<u>796</u>	<u>—</u>	<u>375</u>	<u>6,876</u>
At 31 March 2005	5,000	705	796	—	375	6,876
Net profit for the year	—	—	394	—	—	394
Transfer to legal reserve	—	30	(30)	—	—	—
Dividend paid during the year	—	—	—	—	(375)	(375)
Proposed dividend	—	—	(385)	—	385	—
Share of fair value reserve in an associate recognised during the year	—	—	—	(5)	—	(5)
At 31 March 2006	<u>5,000</u>	<u>735</u>	<u>775</u>	<u>(5)</u>	<u>385</u>	<u>6,890</u>

The attached notes 1 to 27 form part of these financial statements.

## CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 March 2006

	2006 RO'000	2005 RO'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Dividend income and cash receipts from customers	11,497	8,237
Cash paid to suppliers and employees	(11,093)	(7,914)
Cash generated from operations	404	323
Finance charges	(376)	(231)
Taxation	(43)	(23)
Net cash (used in) / generated from operating activities	(15)	69
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of plant and equipment	(577)	(1,061)
Disposal of plant and equipment	6	—
Additions to intangible asset	(14)	(16)
Proceeds from disposal of investments	810	811
Purchase of investments by Parent Company	(2,643)	(30)
Purchase of investments by subsidiary companies	—	(175)
Net cash used in investing activities	(2,418)	(471)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Additional capital introduced by minority shareholders in a subsidiary	75	75
Dividend payments to minority shareholders of a subsidiary	(75)	(61)
Dividend payments of Parent Company	(375)	(375)
Net movement in term loans	1,575	275
Net cash from / (used in) financing activities	1,200	(86)
Decrease in cash and cash equivalents during the year	(1,233)	(488)
Cash and cash equivalents at the beginning of the year	(1,727)	(1,239)
<b>Cash and cash equivalents at the end of the year</b>	<b>(2,960)</b>	<b>(1,727)</b>
Net cash and cash equivalents [note 2 i)] at the end of the year comprise:		
Bank balances and cash	263	595
Bank borrowings	(3,223)	(2,322)
	<b>(2,960)</b>	<b>(1,727)</b>

The attached notes 1 to 27 form part of these financial statements.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### at 31 March 2006

#### 1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

Al Anwar Holdings SAOG (the "Parent Company") is an Omani joint stock company incorporated on 20 December 1994 and registered in the Sultanate of Oman. The business activities of Al Anwar Holdings SAOG and its subsidiary companies (together referred to as the "Group" and defined in note 5) include promotion of and participation in a variety of ventures in financial services and industrial sector in the Sultanate of Oman.

#### 2 SIGNIFICANT ACCOUNTING POLICIES

##### Basis of Preparation

The consolidated 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), the requirements of the Commercial Companies Law of the Sultanate of Oman 1974 (as amended) and the rules for disclosure and requirements prescribed by the Capital Market Authority.

In the current year, the Group has adopted all applicable new and revised Standards and Interpretations issued by IASB and the IFRIC that are effective for accounting periods beginning on 1 January 2005.

The amendment to IAS 39 (Fair Value option) which is applicable for annual periods beginning 1 January 2006 changes the definition of "financial instruments classified at fair value through profit or loss" and restricts the ability to designate financial instruments as part of this category. The Board of Directors believe that the Group will comply with the amended criteria for the designation of "financial instruments at fair value through profit and loss" and accordingly no significant impact will arise on the adoption of the above amendment. The Group will apply this amendment from annual periods beginning 1 January 2006.

The following accounting policies have been consistently applied by the Group in dealing with items considered material to the Group's financial statements and are consistent with those used in previous years:

##### **a) Basis of accounting**

The consolidated financial statements have been prepared under the historical cost convention, except that investments at fair value through profit and loss are stated at their fair values and the held-to-maturity investments and Government soft loans are stated at amortised cost.

##### **b) Basis of consolidation**

The consolidated balance sheet incorporates the assets and liabilities of the Parent and its subsidiaries. All significant inter-company balances, transactions, income and expenses have been eliminated on consolidation.

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains or losses arising from transactions with associates are eliminated to the extent of the Group's interest in the enterprise.

##### **c) Investments**

###### Subsidiary

A subsidiary is a company in which the Group owns more than one half of the voting power or exercises control. The financial statements of the subsidiaries are included in the consolidated financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at 31 March 2006

### 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### c) Investments (continued)

##### Associate

An entity over which the Group exercises significant influence but not control is classified as an associate and is accounted for using the equity method.

The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounted basis.

##### Investments held to maturity

Investments which are held with a positive intent and ability to hold until maturity are classified as held to maturity. They are initially recognised at cost and subsequently remeasured at amortised cost.

##### Investments at fair value through profit and loss

Investments at fair value through profit and loss are held for trading investments which are acquired with the intention of short term profit making. They are remeasured at fair value after initial recognition. Gains and losses on remeasurement are reported in the income statement.

##### Fair value measurement

For investments actively traded in organized financial markets, fair value is generally determined by reference to stock exchange quoted market bid prices at the close of business on the balance sheet date. Unquoted investments are valued at fair value when they can be reliably measured; otherwise they are stated at cost.

##### Dividend income

Dividend income from investments is accounted when the right to receive payment is established. Interest income on investments available for sale is recognised when the entitlement arises.

#### d) Intangible assets

##### Goodwill

Goodwill arising on acquisition of subsidiaries and associates is initially recognised at cost, being the excess of cost of business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Goodwill is subsequently measured at cost less accumulated impairment losses. Negative goodwill is recognised immediately in the consolidated statement of income. Impairment losses, if any, in respect of goodwill arising on consolidation of subsidiaries and investment in associates are assessed on an annual basis.

In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment.

##### Technical know-how fees

Fees paid for technical know how to acquire necessary expertise to manufacture and assemble certain transformers and use of trademarks and name, are stated at cost less amortisation and impairment losses [refer policy j) below].

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### at 31 March 2006

#### 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### Amortisation

Amortisation is charged to the statement of income on a straight-line basis over the estimated useful lives of intangible assets. Technical know-how fees are amortised over an estimated useful life of 5 - 8 years from the date they are available for use.

##### e) **Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Subsequent expenditure is capitalized only when it is probable that it will result in increased future economic benefits. All other expenditure is recognised in the consolidated statement of income as an expense as incurred.

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses [refer policy j) below], if any.

Depreciation is charged to the consolidated statement of income on a straight-line basis over the estimated useful economic lives of items of property, plant and equipment. The estimated useful lives are as follows:

	Years
Buildings on leasehold land	5-20
Plant, machinery and equipment	3-10
Motor vehicles	3-4
Furniture and fixtures	3-4

##### f) **Leases**

Operating lease payments are recognised in the consolidated statement of income on a straight line basis.

##### g) **Inventories**

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. Cost of raw materials is based on the weighted average method and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

Work in progress and finished goods includes material costs and, where applicable, an appropriate share of overheads based on normal operating capacity.

Inventory of spares is expensed in the consolidated statement of income.

##### h) **Accounts and other receivables**

Accounts receivable originated by the Group, are measured at cost. Bad debts are written off or provided for as they arise and provision is made for doubtful receivables.

##### i) **Cash and cash equivalents**

For the purpose of the cash flow statement, cash and cash equivalents consists of cash and bank balances with maturity of three months from the balance sheet date, net of bank borrowings.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at 31 March 2006

### 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### j) Impairment

##### *Financial assets*

At each balance sheet date, the Group assesses if there is any objective evidence indicating impairment of the carrying value of financial assets or non-collectability of receivables.

Impairment losses are determined as differences between the carrying amounts and the recoverable amounts and are recognised in the consolidated statement of income. The recoverable amounts represent the present value of expected future cash flows discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted.

##### *Non financial assets*

Other than the goodwill arising on consolidation of subsidiaries and investment in associates [refer note f) above] at each balance sheet date, the Group assesses if there is any indication of impairment of non-financial assets. If an indication exists, the Group estimates the recoverable amount of the asset and recognises an impairment loss in the consolidated statement of income. Other than for goodwill, the Group also assesses if there is any indication that an impairment loss recognised in prior years no longer exists or has reduced. The resultant impairment loss or reversals are recognised immediately in the consolidated statement of income.

The recoverable amount adopted is the higher of net realisable value or market value and its value in use.

#### k) Employees' end of service benefits

Payment is made to Omani Government's Social Security Scheme under Royal Decree Number 72/91 for Omani employees. Provision is made for amounts payable under the Sultanate of Oman's labour law applicable to expatriates employees' accumulated periods of service at the balance sheet date.

#### l) Provisions

A provision is recognized in the balance sheet when the Group has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

#### m) Warranties

A provision for warranties is recognised when the underlying products or services are sold. The provision is based on historical warranty data and a weighing of all possible outcomes against their associated probabilities.

#### n) Accounts payable and accruals

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### at 31 March 2006

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### o) Government term loans and deferred income

#### Carrying values

The carrying values of the interest free and low interest Government term loans (see note 11 to the financial statements) are determined as the present values of the loans adopting the interest rates that reflect the current cost of similar borrowing on similar loan terms from a commercial bank.

#### Finance charge

The effective interest charge arises as a result of accounting for the fair values of the government related term loans and therefore represents the actual interest incurred for the year plus an amount arising from movements in the carrying values of the loans in the year.

#### Deferred income

The amount of deferred income relating to the government term loans is released to the income statement in such a way as to spread the income over the effective interest charge to which it relates.

### p) Operating income

Operating income represents the invoice value of goods sold during the year, net of discounts and returns, and is recognised in the consolidated statement of income, when the significant risks and rewards of ownership have been transferred to the buyer.

### q) Finance charges

Finance charges comprise interest payable on borrowings, interest subsidy, and are net of interest receivable on bank deposits. Finance charges are recognised as an expense in the consolidated statement of income in the period in which they are incurred.

### r) Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Current tax is provided in accordance with the Sultanate of Oman's fiscal regulations. Deferred taxation is provided using the liability method on all temporary differences at the reporting date. It is calculated at the tax rates that are expected to apply to the period when it is anticipated the liabilities will be settled, and it is based on the rates (and laws) that have been enacted at the balance sheet date.

Deferred tax assets are recognised in relation to carry forward losses and unused tax credits to the extent that it is probable that future taxable profits will be achieved.

### s) Foreign currencies

Foreign currency transactions are translated into Omani Rials at the exchange rate prevailing on the transaction date. Foreign currency monetary assets and liabilities at the balance sheet date are translated at the rates of exchange prevailing at that date. Exchange differences that arise are recognised in the consolidated statement of income.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### at 31 March 2006

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### t) Segment reporting

A segment is a distinguishable component of the Group engaged in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment) which is subject to risks and rewards that are different from those of other segments.

### u) Estimates and judgements

In preparing the consolidated financial statements, the Board of Directors is required to make estimates and assumptions which affect reported income and expenses, assets, liabilities and related disclosures. The use of available information and application of judgement based on historical experience and other factors are inherent in the formation of estimates. Actual results in the future could differ from such estimates. The Board of Directors test annually whether intangible assets, investment in associates and subsidiaries have suffered any impairment in accordance with IAS 36 'Impairment of Assets', which require the use of estimates.

## 3 PROPERTY, PLANT AND EQUIPMENT

	Buildings on leasehold land RO'000	Plant, machinery and equipment RO'000	Motor vehicles RO'000	Furniture and fixtures RO'000	Work in Progress RO'000	Total RO'000
<b>Cost</b>						
At 31 March 2005	1,065	2,966	147	420	440	5,038
Additions during the year	73	405	11	40	18	547
Disposals during the year	—	(4)	(4)	—	—	(8)
Transfers during the year	—	451	—	—	(451)	—
At 31 March 2006	<u>1,138</u>	<u>3,818</u>	<u>154</u>	<u>460</u>	<u>7</u>	<u>5,577</u>
<b>Depreciation</b>						
At 31 March 2005	352	1,295	91	324	—	2,062
Charge for the year	57	327	21	38	—	443
Relating to disposals	—	(1)	(4)	—	—	(5)
At 31 March 2006	<u>409</u>	<u>1,621</u>	<u>108</u>	<u>362</u>	<u>—</u>	<u>2,500</u>
<b>Net book values</b>						
At 31 March 2006	<u>729</u>	<u>2,197</u>	<u>46</u>	<u>98</u>	<u>7</u>	<u>3,077</u>
At 31 March 2005	<u>713</u>	<u>1,671</u>	<u>56</u>	<u>96</u>	<u>440</u>	<u>2,976</u>

The following further notes apply:

- Some of the factory buildings are constructed on the land leased from the Public Establishment for Industrial Estates (Nizwa and Rusayl Industrial Estates).
- Certain of the property, plant and equipment relating the subsidiaries are mortgaged as security for the term loans referred to in note 11 to the financial statements.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at 31 March 2006

### 4 INTANGIBLE ASSETS

	Goodwill on consolidation of subsidiaries RO'000	Technical know-how fees RO'000	Total RO'000
<b>Cost</b>			
At 31 March 2005	374	82	456
Additions during the year [refer note 5 b)]	49	14	63
At 31 March 2006	<u>423</u>	<u>96</u>	<u>519</u>
<b>Accumulated impairment loss / amortisation</b>			
At 31 March 2005	244	66	310
Recognised during the year	—	30	30
At 31 March 2006	<u>244</u>	<u>96</u>	<u>340</u>
<b>Net book values</b>			
At 31 March 2006	<u>179</u>	<u>—</u>	<u>179</u>
At 31 March 2005	<u>130</u>	<u>16</u>	<u>146</u>

### 5 INVESTMENTS

Investments in subsidiaries, associates and others represent companies registered in the Sultanate of Oman and having financial reporting periods that end on 31 December. They are as follows:-

	Ownership interest		Status
	2006 %	2005 %	
<b>Subsidiaries</b>			
Voltamp Manufacturing Company LLC and its Subsidiary ("VMC")	57.42	57.42	Unquoted
Al Ahlia International LLC	70.00	70.00	Unquoted
Al Anwar Blank Company SAOC ("AABCO")	57.00	57.00	Unquoted
Al Anwar Computer Services LLC ("AACS")	100.00	100.00	Unquoted
Sun Packaging Company LLC ("SPC")	62.50	50.00	Unquoted

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### at 31 March 2006

#### 5 INVESTMENTS (CONTINUED)

	Ownership interest		Status
	2006 %	2005 %	
<b>Associates</b>			
National Aluminium Products Company SAOG ("NAPCO")	34.83	34.83	Quoted
Computer Stationery Industry SAOG and its Subsidiary ("CSI")	—	22.97	Quoted
Oman Drilling Mud Products Company LLC ("ODMP")	22.67	22.67	Unquoted
Falcon Insurance Company SAOC ("FIC")	27.78	—	Unquoted
Al Maha Ceramics Company SAOC ("AMCC")	32.00	—	Unquoted
<b>Other investments</b>			
Oman Abrasives LLC	19.00	19.00	Unquoted
CSI	0.11	—	Quoted

The following further notes apply:

- The Parent Company, due to the shareholding of one subsidiary company, effectively holds in NAPCO 38.98% (2005 - 38.98%) and in CSI 0.22% (2005 - 28.72%).
- During the year, the Parent Company increased its shareholding in the subsidiary, SPC from 50.00% to 62.50%. The proportion of assets and liabilities acquired and the resultant goodwill arising is shown below:

	RO'000
Current assets	250
Non-current assets	233
Current liabilities	(284)
Non-current liabilities	(114)
Net assets acquired	85
Purchase consideration	134
Goodwill (note 4)	49

During the year the Parent Company has subscribed and paid an amount of RO 187,500 as it's share of an increase in the share capital of SPC of RO 300,000. The increase is in the process of being registered at the Ministry of Commerce and Industry.

- Al Ahlia International LLC, a subsidiary, ceased operations at 31 December 1999. The carrying value of the investment had been fully written off in the year 2000. In addition, the Parent Company had established provision for all its liabilities. The subsidiary's financial statements have not been consolidated since March 2001.
- On 3 July 2002, the Board of Directors of the Parent Company entered into an agreement (the "agreement") for transferring it's 60% interest in Sun Plastics Company LLC to the minority shareholder. Upto the date of approval of these financial statements, the formal transfer of shares to the minority shareholder has not taken place and the Board of Directors now believe that the transfer will be completed during the year ending 31 March 2007. Pursuant to the agreement, the Parent Company no longer exercises control over Sun Plastics Company LLC and accordingly the subsidiary has been excluded from consolidation from March 2004.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at 31 March 2006

### 5 INVESTMENTS (CONTINUED)

- e) AABCO, a subsidiary had entered into a technology agreement with a related party of the minority member of AABCO for the use of the brand names of a related party of that member. The agreement has not been renewed on its expiry. However under the terms of the original agreement the Company will be allowed to use the technical know-how, name and trademarks and therefore AABCO's operations will not be affected. AABCO currently sells a substantial portion of its production to that minority Member's related party under a business co-operation contract which has also expired and has not been renewed. However the Company has taken major steps to widen the customer base and enhance its production capabilities.

Subsequent to the balance sheet date the Parent Company is in the process of negotiations and signing various legal documents to facilitate the acquisition of an additional 40% shareholding in AABCO, from the minority Member.

The financial statements of AABCO are however prepared on a going concern basis based upon the subsidiary's Board of Directors confidence that:

- AABCO has acquired the technical know-how, name and trademarks under the terms of the technology agreement and therefore its operations will not be affected;
- AABCO will continue to achieve a reasonable level of market share, procure new customers and at a favourable margins for its products; and
- AABCO has adequate funds in the form of investments to meet liabilities as they fall due.

- f) The Company's investments comprise:

	Quoted RO'000	Unquoted RO'000	2006 Total RO'000	Quoted RO'000	Unquoted RO'000	2005 Total RO'000
<b>Non-current</b>						
Associates	3,107	2,649	5,756	3,956	164	4,120
Others	182	800	982	74	800	874
Carrying values	<u>3,289</u>	<u>3,449</u>	<u>6,738</u>	<u>4,030</u>	<u>964</u>	<u>4,994</u>
<b>Current</b>						
Held to maturity	97	123	220	197	122	319
Others	45	—	45	48	—	48
Carrying values	<u>142</u>	<u>123</u>	<u>265</u>	<u>245</u>	<u>122</u>	<u>367</u>
Total carrying values	<u>3,431</u>	<u>3,572</u>	<u>7,003</u>	<u>4,275</u>	<u>1,086</u>	<u>5,361</u>
<b>Market values</b>						
- Associates	1,714			3,186		
- Others	325			319		
	<u>2,039</u>			<u>3,505</u>		

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### at 31 March 2006

#### 5 INVESTMENTS (CONTINUED)

- g) The Group's quoted investments are listed on the Muscat Securities Market and 91% of the investments (2005: 98%) fall within industrial and manufacturing sector classification.
- h) The Parent Company and its subsidiary AACS have sold their 22.86% (2005 - 12%) stake in CSI, an associate, at a net consideration of RO 756,493 (2005 - RO 243,821) resulting in a profit of RO 296,174 (2005 - RO 92,518) on disposal of the investments (note 19). Accordingly, CSI has ceased to be an associate in the current year.
- i) Included in unquoted associates is an investment made by the Parent Company during the year in FIC, a local insurance company which has acquired the Oman branch operations of Al Ittihad Al Watani. The carrying value of the investment at the balance sheet date amounted to RO 1.504 million (2005- not applicable).
- j) Included in unquoted associates is an investment made by the Parent Company during the year in AMCC, a newly formed company, to establish a new ceramic tile manufacturing facility in Oman. The associate is expected to commence its operations by June 2007 and has not yet prepared its first set of financial statements. The carrying value of the investment at the balance sheet date amounted to RO 979,200 (2005- not applicable). In accordance with an agreement to provide management services to AMCC for a fee, the Parent Company is restricted from reducing its shareholding in the associate below 20%.
- k) Included in quoted associates is an investment in NAPCO, the carrying value of which at the balance sheet date is RO 3.107 million (2005 - RO 3.467 million). The market value of this investment at the balance sheet date is RO 1.714 million (2005 - RO 2.380 million). The share of the Parent Company in the net assets of NAPCO as reported in the most recent audited financial statements (31 December 2005) of NAPCO was RO 1.725 million (2004 - RO 1.943 million). The investment in NAPCO is pledged as security for long term loans obtained from various commercial banks [notes 11 a) and 11 c)].

The Company's Board of Directors have reviewed NAPCO's future income stream and based on the projected cash flows is confident of NAPCO achieving estimated future cash flows that support the Group's carrying value at the balance sheet date. Nevertheless, based on prudence and bearing in mind NAPCO's market value, they have established an impairment provision of RO 150,000 (2005 - RO 250,000), in accordance with International Accounting Standard 36, Impairment of assets (see note 18)

- l) Investments in subsidiaries and associates having a total carrying value of RO 1 (2005 - RO 1) are registered in the name of a related party for and on behalf of the Parent Company.
- m) The results of associates for financial reporting periods that end on 31 December are summarised as follows:

	Assets		Liabilities		Revenue	
	2005	2004	2005	2004	2005	2004
	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
NAPCO	11,861	12,109	6,909	6,531	14,996	11,326
ODMP	1,208	1,139	363	299	1,948	1,654
FIC	7,413	—	1,996	—	2,545	—

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at 31 March 2006

### 5 INVESTMENTS (CONTINUED)

n) Share of profits in associates is as follows:

	2006 RO'000	2005 RO'000
NAPCO	(78)	93
ODMP	80	81
FIC	(21)	—
CSI	—	56
	<u>(19)</u>	<u>230</u>

o) Details of the investments in which the market value exceeds 10% of the market value of the Company's overall investment portfolio in marketable investments as at the balance sheet date are as follows:

	Percentage of the overall portfolio	Number of securities	Market value	Carrying value
	%		RO'000	RO'000
NAPCO	68	1,308,637	1,714	3,257

p) Included in other investments is a 10% ownership of Al Anwar Telephone Services LLC which subsequent to the balance sheet date is under voluntary liquidation. As the Company had not undertaken any commercial activities, the Parent Company was not called on to contribute capital.

### 6 INVENTORIES

	2006 RO'000	2005 RO'000
Raw materials	2,573	1,698
Work in progress	132	57
Finished goods	177	80
Goods in transit	—	368
Less : Provision for inventories	<u>(160)</u>	<u>(138)</u>
	<u>2,722</u>	<u>2,065</u>

The following further notes apply:

a) Finished goods at the balance sheet date represent 5 days sales (2005 - 4 days).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at 31 March 2006

### 6 INVENTORIES (CONTINUED)

b) Movement in the provision for inventories is as follows:

	2006 RO'000	2005 RO'000
At the beginning of the year	138	173
Provided during the year	50	33
Released to the statement of income during the year	(28)	(68)
At the end of the year	<u>160</u>	<u>138</u>

### 7 ACCOUNTS AND OTHER RECEIVABLES

	2006 RO'000	2005 RO'000
Accounts receivables	4,079	3,308
Impairment provisions on accounts receivable [see note a) below]	(123)	(128)
	<u>3,956</u>	<u>3,180</u>
Prepayments and other receivables	388	340
Amounts due from related parties [note 21 d)]	2	158
	<u>4,346</u>	<u>3,678</u>

The following further note applies:

a) The changes in the impairment provision are as follows:

	2006 RO'000	2005 RO'000
At the beginning of the year	128	66
Recognised during the year	30	62
Reversed during the year	(35)	—
At the end of the year	<u>123</u>	<u>128</u>

### 8 BANK BALANCES AND CASH

	2006 RO'000	2005 RO'000
Cash at bank:		
- Current accounts	189	31
- Deposit accounts	71	560
Cash in hand	3	4
	<u>263</u>	<u>595</u>

The following further notes apply:

- Deposit accounts earn interest at rates ranging between 2% to 3.5% per annum.
- Deposits include RO 9,942 (2005 – RO 9,941) held in a foreign currency (United Arab Emirates Dirhams) in an overseas bank account.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at 31 March 2006

### 9 SHARE CAPITAL AND RESERVES

#### a) Share capital

The authorised share capital of the Parent Company comprises 20,000,000 (2005 - 20,000,000) shares of RO 1 (2005 - RO 1) each. The issued and fully paid up share capital consists of 5,000,000 (2005 - 5,000,000) shares of RO 1 (2005 - RO 1) each.

At the extraordinary general meeting held on 10 May 2005, it was agreed that the share capital would be increased by 2,750,000 shares by a rights issue of 2,700,000 shares to existing shareholders and 50,000 shares to the employees at RO 1.020 per share. The rights issue of 50,000 shares to employees has not been subscribed and hence void. The Company's paid up capital is being increased to enable the Company to invest in new projects. The rights issue opened on 26 March 2006 for a period of 3 weeks. Subsequent to the balance sheet date the proceeds of the rights issue have been received into a separate bank account. The share allotment and registration of the increased paid up capital will be completed by the end of May 2006.

Details of shareholders, who own 10% or more of the Parent Company's share capital, are as follows:

	2006		2005	
	Number of shares held	(%)	Number of shares held	(%)
Fincorp Investment Company LLC (formerly Al Yousef International Enterprises LLC)	1,503,409	30.07	1,513,409	30.27
Financial Services Company SAOG - Trust Accounts	1,151,000	23.02	1,407,050	28.14
Oman National Investment Corporation Holding SAOG	—	—	750,200	15.00
	<u>2,654,409</u>	<u>53.09</u>	<u>3,670,659</u>	<u>73.41</u>

#### b) Legal reserve

As required by the Commercial Companies Law of the Sultanate of Oman, 1974 (as amended), 10% of the profit for the year of the individual companies (parent and subsidiaries) has been transferred to the legal reserve until the amount of legal reserve equals one third individual companies' paid up capital. The reserve is not available for distribution.

The balance at the end of the year represents the amounts relating to the Parent Company and its share of legal reserve of the subsidiaries.

#### c) Fair value reserve

The Parent Company has recognised its share of fair value reserve in FIC, during the year.

### 10 MINORITY INTEREST

Minority interest comprises share of results and net assets attributable to minority shareholders in the following subsidiaries:

	2006		2005	
	Results	RO'000 Net assets	Results	RO'000 Net assets
VMC	211	577	85	438
AABCO	(82)	250	(67)	332
SPC	55	385	63	343
	<u>184</u>	<u>1,212</u>	<u>81</u>	<u>1,113</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at 31 March 2006

### 11 TERM LOANS AND DEFERRED GOVERNMENT GRANT

	2006 RO'000	2005 RO'000
<b>Non-current portion</b>		
BankMuscat SAOG term loan - I	—	255
BankMuscat SAOG term loan - II	—	117
BankMuscat SAOG term loan - III	400	—
Bank Dhofar SAOG term loan - V	433	567
Government term loan - I	—	28
Government term loan - II	250	300
Government term loan - III	238	277
Deferred Government grant	(69)	(87)
Non-current term loans and deferred government grant	<u>1,252</u>	<u>1,457</u>
<b>Current portion</b>		
BankMuscat SAOG term loan - I	255	—
BankMuscat SAOG term loan - II	13	—
BankMuscat SAOG term loan - III	400	—
BankMuscat SAOG term loan - IV	1,014	—
Bank Dhofar SAOG term loan - V	133	33
Government term loan - I	—	24
Government term loan - II	50	50
Government term loan - III	40	—
Current term loans	<u>1,905</u>	<u>107</u>
Total term loans and deferred government grant	<u>3,157</u>	<u>1,564</u>

The terms and repayment schedules of term loans and deferred government grant are as follows:

	Interest rate (%)	Total RO'000	Within one year RO'000	1-2 years RO'000	2-7 years RO'000
BankMuscat SAOG term loan - I	Libor + 2%	255	255	—	—
BankMuscat SAOG term loan - II	Libor + 2%	13	13	—	—
BankMuscat SAOG term loan - III	7%	800	400	400	—
BankMuscat SAOG term loan - IV	7%	1,014	1,014	—	—
Bank Dhofar SAOG term loan - V	4.5%	566	133	133	300
Government term loan - II	3%	300	50	50	200
Government term loan - III	3%	278	40	40	198
		<u>3,226</u>	<u>1,905</u>	<u>623</u>	<u>698</u>

The following further notes apply:

- BankMuscat term loan I relates to the Parent Company and is denominated in US Dollars. The loan is secured by a pledge of investments held by the Parent Company and a subsidiary in NAPCO, an associate [see note 5 k]. At the balance sheet date, the balance of RO 255,003 is repayable by a single instalment due in June 2006.
- BankMuscat term loan II relates to a subsidiary and is secured by a second charge on the subsidiary's assets.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### at 31 March 2006

#### 11 TERM LOANS AND DEFERRED GOVERNMENT GRANT (CONTINUED)

- c) BankMuscat term loan III was obtained by the Parent Company during the year and is denominated in Rials Omani. The loan is secured by a pledge of investments held by the Parent Company and a subsidiary in NAPCO, an associate [see note 5 k)]. At the balance sheet date, the loan is repayable in two equal instalments of RO 399,950 due in May 2006 and May 2007.
- d) BankMuscat term loan IV was obtained by the Parent Company during the year and is denominated in Rials Omani. The loan is secured by an undertaking from a party related to a major shareholder and from certain shareholders to subscribe to the rights issue of the Parent Company and by the Parent Company's undertaking to deposit the proceeds of the rights issue [refer note 9 a)] of RO 2.75 million with BankMuscat SAOG. At the balance sheet date, the loan is entirely repayable by 30 June 2006. Subsequent to the balance sheet date the loan amount has been fully repaid.
- e) Bank Dhofar term loan V relates to a subsidiary and is secured by a first commercial mortgage with insurance cover on specific assets acquired from the term loan and a second pari-passu charge over fixed and current assets and insurance cover in joint names of the Bank and Company. At the balance sheet date, the balance is repayable in quarterly instalments of RO 33,335 over varying periods, which commenced on 1 October 2005 and will end substantially by 2010.
- f) Government term loan - II, relates to a subsidiary and is repayable in 10 annual instalments of RO 50,000 each that commenced in December 2002. The loan is secured by joint insurance and a first charge on substantially all the assets of the subsidiary.
- g) Government term loan - III, relates to a subsidiary and is repayable in 7 annual instalments of RO 39,628 commencing in April 2006. The loan is guaranteed by the Government of the Sultanate of Oman and secured by a joint registered first mortgage on a substantial portion of the subsidiary's property plant and equipment and joint assignment of insurance policies.
- h) The Government soft loans are stated at amortised cost. The amortised cost has been determined by the management using the effective interest rate method. Effective interest rate of 8% - 9.5% per annum has been considered by management. The Government subsidy on the loan is recognised in the balance sheet as a 'deferred Government grant' and is amortised over the life of the loan to which the subsidy relates on a systematic basis in the same periods in which the loan is repaid. The amortisation of the deferred Government grant for the year ended 31 December 2005 amounts to approximately RO 32,578 (2004 - RO 38,701) and is recognised within finance charges.

#### 12 ACCOUNTS AND OTHER PAYABLES

	2006 RO'000	2005 RO'000
Trade payables	2,344	2,174
Accruals	325	371
Amounts due to related parties [note 21 d)]	173	161
	<u>2,842</u>	<u>2,706</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### at 31 March 2006

#### 13 BANK BORROWINGS

The Parent Company has overdraft facilities of RO 50,000 from a commercial bank. Interest is charged at commercial rates.

The subsidiaries have overdraft, bill discounting and loan against trust receipt facilities at 31 December 2005 in the aggregate amount of approximately RO 5.83 million (2004 - RO 3.580 million). Interest is charged at rates ranging between 2% to 8% (2004 - Libor + 2% to 8.50%) per annum. Certain of these facilities are secured by:

- a corporate guarantee of the Parent Company;
- a second charge on the related subsidiary's property, plant and equipment;
- a joint assignment of insurance policies in respect of property plant and equipment;
- an assignment of certain receivables in favour of commercial banks; and
- a lien over certain deposits and proportionate guarantees of the Members.

#### 14 NET ASSETS PER SHARE

Net assets per share is calculated by dividing the net assets attributable to the shareholders of the Parent Company by the number of shares outstanding at the year end as follows:

	2006	2005
Net assets attributable to the shareholders of the Parent Company (RO'000)	<u>6,890</u>	<u>6,876</u>
Number of shares outstanding at 31 March ('000)	<u>5,000</u>	<u>5,000</u>
Net assets per share (RO)	<u>1.378</u>	<u>1.375</u>

#### 15 BASIC EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit for the year attributable to the shareholders of the Parent Company by the weighted average number of shares outstanding during the year, as follows:

	2006	2005
Net profit for the year (RO'000)	<u>394</u>	<u>675</u>
Weighted average number of shares outstanding ('000)	<u>5,000</u>	<u>5,000</u>
Basic earnings per share (RO)	<u>0.079</u>	<u>0.135</u>

#### 16 PROPOSED DIVIDEND

- A dividend of RO 0.05 per share (2005 - RO 0.075 per share) amounting to a total of RO 385,000 (2005 - RO 375,000) is proposed by the Board of Directors [see note b) below]. The dividend is subject to the Annual General Meeting's approval.
- Dividend per share is determined by dividing the dividend proposed for the year of RO 385,000 (2005 - RO 375,000) by the number of ordinary shares likely to be listed at the date of the AGM of 7,700,000 (2005 - 5,000,000) including right issue shares.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at 31 March 2006

### 17 OTHER INCOME

	2006 RO'000	2005 RO'000
Excess provision on corporate guarantees released	—	238
Miscellaneous	158	90
	<u>158</u>	<u>328</u>

### 18 OTHER EXPENSES

	2006 RO'000	2005 RO'000
Impairment provision in investment in an associate	150	250
Amortisation of technical know-how fees in a subsidiary company	30	22
	<u>180</u>	<u>272</u>

### 19 PROFIT ON DISPOSAL OF INVESTMENTS

	2006 RO'000	2005 RO'000
Profit on disposal of investments in associates [note 5 h)]	296	277
Profit on disposal of other quoted investments	—	77
	<u>296</u>	<u>354</u>

### 20 TAXATION

	2006 RO'000	2005 RO'000
Income statement:		
Current year's tax [note 20 f)]	54	20
Prior years' tax	—	23
Deferred tax	11	22
	<u>65</u>	<u>65</u>
Current liability		
Current tax	70	47
Non current liability		
Deferred tax liability (net)	27	17



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS at 31 March 2006

### 20 TAXATION (CONTINUED)

The following further notes apply:

- The Group, except for AABCO and SPC (subsidiaries), is subject to income tax at the rate of 12% of taxable profits in excess of RO 30,000 in accordance with the income tax laws of the Sultanate of Oman. AABCO was exempt from income tax for a period of five years up to 21 January 2005. The management intends to apply for an extension of tax exemption as an industrial project with the Secretariat General for Taxation (SGT). SPC was exempt from tax until the year 2003 and has applied for an extension of tax exemption as an industrial project with the SGT. The management and Members of both the above companies are confident of the exemption being granted.
- Temporary differences arising in two subsidiaries in respect of depreciation, provision for doubtful debts, slow moving inventories and accumulated losses have given rise to a net deferred tax liability of approximately RO 27,000 (2005 - RO 17,000).
- Provision for taxation has not been made in respect of the Parent Company as the Company has brought forward losses from previous years. The Parent Company's Board of Directors have not recognised a deferred tax asset arising from carry forward taxation losses and amounting to RO 111,653 (2005 - RO 282,513) until they are confident that taxable profits will be achieved by the Parent Company.
- The Parent Company's assessments for the tax years 2000 to 2002 have been finalised by the SGT during the year, with no additional demand for tax.
- The Parent Company's assessments for the tax years 2003 to 2005 and of subsidiaries for the years ranging from 1998 to 2004 have not yet been finalised. The Board of Directors believe that additional taxes, if any, on the finalisation of assessment for the above tax years would not be material to the Group's financial position at the balance sheet date.
- The reconciliation of taxation on the accounting profit with the taxation charge for the year is as follows:

	2006 RO'000	2005 RO'000
Tax charge on accounting profit at applicable rates	71	29
Add: Tax effect of		
Change in tax rate	6	14
Expenses not deductible	4	22
Incomes exempt	(16)	—
Taxation charge	65	65

### 21 RELATED PARTY TRANSACTIONS

The Group has entered into transactions with entities in which certain members of the Board of Directors have an interest and are able to exercise significant influence. In the ordinary course of business, such related parties provide goods, services and funding to the Group. The Group also provides management services and funding to the related parties. These transactions are entered into on terms and conditions, approved by the Board of Directors.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at 31 March 2006

### 21 RELATED PARTY TRANSACTIONS (CONTINUED)

a) During the year, related party transactions were as follows:

	2006 RO'000	2005 RO'000
Transactions in Parent Company		
Other income -		
Directors' remuneration and meeting attendance fees	24	21
Purchase of goods and services from an Associate	2	3
Transactions in subsidiary companies:		
<i>AABCO</i>		
Sales	175	372
Cost of sales	92	93
Technical know-how fees	14	15
<i>SPC</i>		
Sales	1	1
Purchases	157	299
Other expenses	49	1
<i>VMC</i>		
Sales	1	—
Purchases	—	39
Other expenses	53	—

b) The compensation paid to key management personnel for the year comprises:

	2006 RO'000	2005 RO'000
Short term employment benefits	181	166
End of service benefits	19	15
Directors' remuneration and meeting attendance fees [see note c) below]	31	61

c) Directors' remuneration has not been paid by the Parent Company during the year (2005 - RO 34,000). The meeting attendance fees of RO 5,750 (2005 - RO 17,400) paid by the Parent Company is subject to the approval of the shareholders at the Annual General Meeting.

d) The amounts due to and due from related parties are on normal terms of credit, consideration is to be settled in cash, and the amounts are unsecured.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at 31 March 2006

### 22 EMPLOYEE RELATED EXPENSES

a) Total employee related expenses included in operating expenses comprise:

	2006 RO'000	2005 RO'000
Salaries and wages	813	732
Other benefits	288	178
Contributions to defined contribution retirement plans for Omani employees	21	18
Cost of end of service benefits for expatriate employees	27	26
	<u>1,149</u>	<u>954</u>

b) Movement in expatriate's end of service benefits liability recognised in the balance sheet are as follows:

	2006 RO'000	2005 RO'000
At the beginning of the year	89	76
Expenses recognised in the income statement	27	26
End of service benefits paid	(16)	(13)
At the end of the year	<u>100</u>	<u>89</u>

### 23 CONTINGENT LIABILITIES

	2006 RO'000	2005 RO'000
Guarantees:		
- Subsidiaries	2,667	720
- Associates	3	—
- Others	7	7
	<u>2,677</u>	<u>727</u>
Letters of credit by subsidiary companies	326	326
Guarantees given by subsidiary companies	117	117
	<u>3,120</u>	<u>1,170</u>

The following further note applies:

- a) A guarantee given by the Parent Company to secure a term loan provided by Oman Development Bank SAOG (ODB) to Majan Glass Company SAOG (a company that had been an associate) had been settled during the previous year by a full and final settlement amount of RO 257,142; an amount which was expensed in previous years. On the basis of a legal opinion obtained during the previous year, the Board of Directors are in the process of initiating legal action in recovering this amount from Majan Glass Company SAOG.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### at 31 March 2006

#### 24 COMMITMENTS

a) At 31 December 2005:

- Subsidiaries and associates have capital commitments of approximately RO 145,718 (31 December 2004 - RO 54,170).
- Unutilised letters of credit relating to the subsidiaries' and associates' financing operations amounted to RO 4,009,619 (31 December 2004 - RO 1,466,809).

b) At 31 December 2005:

- Operating lease commitments of the subsidiaries and associates were as follows:

	2006 RO	2005 RO
Less than one year	25,352	56,729
Between one to five years	226,408	263,887
More than 5 years	377,419	380,213
	<u>629,179</u>	<u>700,829</u>

c) As at the balance sheet date, the Parent Company has the following commitments:

- RO 312,500 towards its share of the capital commitment in Sun Packaging Company LLC, a subsidiary (by way of increased share capital);
- RO 139,000 towards participation in Al Ritaj Investment Co, Kuwait as founder shares, which represents less than 1% of the share capital of the investee company.

#### 25 FINANCIAL INSTRUMENTS

Financial assets of the Group include investments, accounts and other receivables, bank balances and cash. Financial liabilities include accounts and other payables, employees' end of service benefits, term loans and bank borrowings.

##### Credit risk

The Group has a credit policy in place and exposure to credit risk is monitored on an ongoing basis. Credit evaluations are generally performed on all customers requiring credit over a certain amount. The Group does not require collateral in respect of financial assets.

##### Interest rate risk

The Group manages its exposure to interest rate risk by ensuring that the borrowings are on a contracted fixed rate basis, except for a term loan from a commercial bank obtained by the Parent Company and a subsidiary. The Group is exposed to interest rate risk due to fluctuations in the market interest rate of this loan.

##### Market risk

By the nature of its activities, the Group is exposed to fluctuations in market prices for some of its investments. The Company manages this risk by diversification of the investments into different companies and by having a portion of its portfolio as unlisted securities.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### at 31 March 2006

#### 25 FINANCIAL INSTRUMENTS

##### Foreign currency risk

A Subsidiary of the parent company enters into transactions in US Dollars, Euros and other GCC currencies. Foreign currency risk is minimised as most of the foreign currency transactions are either in US Dollars, which are effectively at fixed Rial Omani rates, or in currencies using US Dollars exchange rates which are fixed or effectively fixed. The Group enters into forward exchange contracts to hedge its foreign currency transactions.

##### Fair value

The Board of Directors believe that the fair values of all financial assets and liabilities approximate their carrying values.

#### 26 SEGMENTAL INFORMATION

##### Primary reporting format – business segments

The Group is organised in the Sultanate of Oman into two main business segments:-

- Industrial segment, which is engaged in producing and distributing different industrial products such as transformers, precision tools and parts and printed packaging materials and
- Investment segment, which is engaged in investment in projects and their management.

There are sales and other transactions between the business segments. Segment assets consist primarily of property, plant and equipment, inventories, receivables, operating cash, and investments. Segment liabilities comprise operating liabilities. Common costs are allocated between the segments on relevant bases such as time devoted, turnover and space occupied.

Financial information in respect of the segments is presented in the table on pages 48 and 49.

##### Secondary reporting format - Geographical Segments

The Parent Company and the subsidiaries operate primarily from the Sultanate of Oman and there are no distinguishable geographical operating segments. However the geographical profile of sales revenue and trade accounts receivable (net of provisions) based on location of customers is shown below:-

	2006		2005	
	Operating income	Accounts receivable	Operating income	Accounts receivable
	RO'000	RO'000	RO'000	RO'000
Sultanate of Oman	5,949	1,584	5,456	2,394
Other GCC Countries	1,726	837	1,257	257
Others	4,253	1,535	1,474	529
	<u>11,928</u>	<u>3,956</u>	<u>8,187</u>	<u>3,180</u>

#### 27 COMPARATIVE FIGURES

Comparative amounts have been adjusted or reclassified to conform with the presentation adopted in the current year.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at 31 March 2006

### Schedule I – Segmental information

	Industrial segment		Investment segment		Group	
	2006 RO'000	2005 RO'000	2006 RO'000	2005 RO'000	2006 RO'000	2005 RO'000
Operating income	11,928	8,187	—	—	11,928	8,187
Dividend income	—	—	133	128	133	128
Other income	103	65	55	263	158	328
<b>Total revenue</b>	<b>12,031</b>	<b>8,252</b>	<b>188</b>	<b>391</b>	<b>12,219</b>	<b>8,643</b>
<b>Operating expenses</b>	<b>(11,162)</b>	<b>(7,775)</b>	<b>(130)</b>	<b>(133)</b>	<b>(11,292)</b>	<b>(7,908)</b>
<b>Gross operating income</b>	<b>869</b>	<b>477</b>	<b>58</b>	<b>258</b>	<b>927</b>	<b>735</b>
Other expenses	(30)	(22)	(150)	(250)	(180)	(272)
<b>Profit from operations</b>	<b>839</b>	<b>455</b>	<b>(92)</b>	<b>8</b>	<b>747</b>	<b>463</b>
Financing costs	(305)	(213)	(76)	(13)	(381)	(226)
Share of profits of associates	(19)	21	—	209	(19)	230
Profit on sale of an associate	3	—	293	354	296	354
<b>Profit before income tax</b>	<b>518</b>	<b>263</b>	<b>125</b>	<b>558</b>	<b>643</b>	<b>821</b>
Income tax	(65)	(65)	—	—	(65)	(65)
<b>Profit after income tax</b>	<b>453</b>	<b>198</b>	<b>125</b>	<b>558</b>	<b>578</b>	<b>756</b>
<b>Total assets</b>	<b>8,874</b>	<b>7,685</b>	<b>8,716</b>	<b>7,136</b>	<b>17,590</b>	<b>14,821</b>
<b>Total liabilities</b>	<b>7,395</b>	<b>6,475</b>	<b>2,093</b>	<b>357</b>	<b>9,488</b>	<b>6,832</b>

## LIST OF SHAREHOLDERS HOLDING 50,000 SHARES OR MORE

as on 31st March 2006

No.	Name	No. of Shares	% Holding
1	Fincorp Investment Company LLC (Formerly Al Yousef International Enterprises LLC)	1,503,409	30.068%
2	Financial Services Co. SAOG (Trust) Gulf	1,151,000	23.020%
3	Ahmed Ali Khalfan Al Dhaheri	250,000	5.000%
4	Al Khunji Investment LLC	250,000	5.000%
5	Abu Dhabi National Foods Company	250,000	5.000%
6	National Investment and Insurance Center LLC	227,300	4.546%
7	Bin Omeir Investment LLC	100,000	2.000%
8	Oman Construction Material Company LLC	63,200	1.264%
9	Mohamed & Ahmed Al Khunji Company	50,000	1.000%
10	Said Mohamed Khatroush Al Namani	50,000	1.000%
11	Ali Hafeedh Al Dhahab	50,000	1.000%
12	Mohamed Hafeedh Al Dhahab	50,000	1.000%
13	Ali Said Khalfan Al Qamzi	50,000	1.000%
14	Al Madina Financial and Investment Services	50,000	1.000%
<b>Total</b>		<b>4,094,909</b>	<b>81.898%</b>