



His Majesty Sultan Qaboos bin Said

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Board of Directors



Hassan Bin Ali Salman
Chairman



Maqbool Ali Salman
*Dy. Chairman and
Managing Director*



Syed Muhammad Rizvi
Executive Director



Saud bin Ahmed bin Al Nahari
Director



**Ali Abdul Khaliq
Al Haj Ibrahim**
Director



Jamil Ali Sultan
Director



Oman's largest power plant under construction - 1000 MW combined cycle captive power plant for Sohar Aluminium

Chairman's Report (Including Management Discussion & Analysis)

Dear Shareholders,

On behalf of the Board of Directors it gives me great pleasure to welcome you to the Annual General Meeting and to present the Annual Report and the Audited Consolidated Financial Statement for the year 2007. In comparison to continued turnover growth seen in last 4 years, this has been a year of consolidation for AHEC and to focus on execution of large sized projects awarded during the year.

Performance Highlights

Figures OMR in 000's

	2007	2006
Income	35,552	45,426
Costs (other than Depreciation & Interest)	(29,717)	(40,283)
Profit before Interest & Depreciation	5,835	5,143
	16%	11%
Finance Charges	(1,360)	(522)
Depreciation	(2,218)	(1,420)
Net Profit before tax	2,256	3,201
	6%	7%
Income tax	(139)	(334)
Net Profit after tax	2,117	2,867

In the year 2007, the Company's executive management chalked out a two pronged business plan strategy:

1. To focus only on securing projects with higher margins. This was primarily done with the objective to conserve & carefully deploy scarce resources like skilled & trained manpower, critical plant & equipment and diminish the impact of growing prices as well as shortage of construction materials. The choice to selectively bid and win projects with better margin was also possible due to continued buoyant economic conditions and numerous projects under implementation in the core area of our operations.
2. Higher investment in Plant & Equipment enabling the organization to create strategic assets, which will help the company to rely more on in-house resources in executing ongoing & forthcoming projects.

This strategy has worked as is evident from the results. Even though the turnover is lower in 2007 by RO 9.7 Million; 21.7% less as compared to 2006 turnover figures, Profit before Interest & Depreciation is higher by RO 691K; which is 13.45% higher than the profitability achieved in 2006.

Thus the profit percentage before Interest and Depreciation is 16% of the total income in 2007, as against only 11% in 2006; which corroborate that the company's strategy has been positive.

However, Net profit after tax in 2007 of RO 2117 K, is lower by RO 750K or 26% as compared to RO 2867K last year due to:



Single pour of 2500 m³ concrete in progress for 20,000 m³ RCC OWS pond in Aromatics Oman, Sohar, completed in 10 hours



Gas treatment plant for the largest power plant in PDO's network



Cable racks for HRSG and Steam - Water System for 1000 MW power plant

(a) higher depreciation on account of bigger strategic investments in Plant and equipments during the year, keeping the future business scenario in the region. (b) higher finance cost due to the delayed receipt of Milestone payments on only one power project, for reasons not attributable & fully controllable by the company.

Total amount of finance costs and depreciation in 2007 is RO 3.6 million as against only 1.9 million in 2006 i.e. increase by RO 1.7 million or 89% over the last year.

Economic Review and Outlook

Economic activities continue to show an upswing in Oman as well as in the Gulf Region due to continued high oil prices. This has boosted investments in Oil Gas, Petrochemicals, Power, Water and Infrastructure Sectors. As per latest estimates, oil prices are expected to remain high in coming months. This has provided major thrust to the main oil producer in Oman – PDO – to invest significantly in large-scale Enhanced Oil Recovery (EOR) projects, some of which are announced and some are in the planning stage.

Government of Oman has continued with its privatization policy and has been awarding various explorations and production concessions in Oil & Gas sector to International Oil Companies. Many of such companies have made initial investments and started preliminary exploration activities. This will generate further development in Oil & Gas industry as well as the other sectors such as Power, Water, and Infrastructure etc., thus opening up further business prospects for your company.

Opportunities & Industry Structure / Development

The steady increase in EOR projects of PDO as well as downstream petrochemicals units like the ambitious Duqm Refinery & Petrochemicals Project is making steady progress. The technical feasibility has been cleared and further activities are expected to take place in the near future.

These projects will open up new vistas of opportunities for contracting company like ours who have acquired requisite skills, expertise, experience and resources to execute the same.

Future Business Scenario and Outlook

Apart from major investments coming up at Sohar and other regions, there is a spurt in associated small / medium sized ancillary downstream units coming up in the area. Your company is also evaluating such opportunities.

Knowing that considerable potential exists in Tourism sector, the Sultanate of Oman is witnessing an increased investment in infrastructure and real estate development. AHEC is carefully evaluating entry into this new market.

Your company has further established its operations in Abu Dhabi by successfully pre-qualifying and registering with key clients in Oil & Gas Industry such as Borouge, Takreer, GASCO, ADCO, ADWEA, etc. This has given us opportunity to work as Construction Partners / Sub-Contractor with multinational EPC companies in various projects, bids for which are under active consideration. Your company expects to make initial break through in UAE in 2008.

Considering various opportunities coming up in future, your company will have to be selective in choosing the right projects with better margins, at the same time keeping in mind the challenges involved in mobilization of resources both for Manpower and Plant & Equipment during execution.

The Company is technically pre-qualified to bid for a number of projects both in Oman and UAE (Abu Dhabi). The Company's Management is carefully scrutinizing and selecting targeted projects to bid in 2008. It is quite hopeful of securing some of these projects; which will further improve the order book of the company.



Gas turbine auxiliary block for 1000 MW power plant



Panoramic view of PDO's Mukmaizna power plant

Completed Projects:

In year 2007 your company successfully completed /closed some of the key projects.

- The Qarn Alam Power Plant Project and Additional Flow Lines project – Both these projects for PDO were completed and commissioned during this year successfully with zero LTI. For both these projects your company received appreciation from PDO.
- Successful closure of several projects such as Shams Gas Condensate Project for PTTEP, Thailand through Hanover, USA; RO Plant at Qarn Alam for PDO, 220kV Power Line connection between Oman & UAE for OETC. (AHEC received The Best Project award for 2007 from Construction Week magazine, Dubai, for its performance in PTTEP project)
- During the current year, the earlier major JV (joint venture) projects saw successful negotiation and settlement of various issues i.e. SNGP project with SNC Lavalin and 48" Pipeline project with Punj Lloyd. This shall ensure continuation of strong relations your company enjoys with these organizations for future business.

Projects under Execution

Several large value projects are under execution by AHEC in various parts in Oman, with activities for some of these projects at peak level. Some of the major projects under execution are:

- Mukhaizna Power Plant Projects for PDO along with BHEL. This has been targeted to be commissioned by the 2nd quarter of 2008.
- Mechanical, Electrical and Instrumentation work for Oman's largest Power Plant – the 1000 MW Power Plant for Sohar Aluminum Smelter being executed for Alstom. This project has achieved substantial progress and is expected to be completed in 2nd quarter of 2008, as per schedule.
- The Civil, Structural / Mechanical and Piping work for various packages of Sohar Aromatics through GSE&C, Korea. This project is currently at its peak and has so far achieved more than 3 million LTI hours with zero LTI. Recently the



Switchyard and Power Control Centre at PDO's Mukhaizna facility



Gas Treatment Plant for 1000 MW Power Plant

largest single pour of concrete of 2600m³ was achieved in this project, which is a record for AHEC and has been appreciated by GSE&C.

- Civil, Structural, Mechanical and Piping work for certain packages of Salalah Methanol plant through GSE&C, Korea. The project has just started and will see major activities in the next year.

Award of New projects

I am pleased to inform you that the company has been awarded in January 2008 the following two prestigious projects:

- Nimr-C Full Field Water Injection Project on EPC (Engineering Procurement and Construction) basis by PDO valued at approx. RO 25 Million.
- Installation (MEI) of Once Through HRSG Boilers at Occidental Mukhaizna Facilities by M/s. Gulf Steam Generators LLC (part of NEM Holland) valued at approx. RO 2.3 Million.

Quality

Your company has been an ISO certified company for many years. Recently a Surveillance Audit was successfully carried out by the auditors AIB Vincote International. The auditors gave an excellent rating to your company for its commitment to Quality Systems. Your company has initiated steps to acquire ISO: 14001 certification as well.

Dividend

The Board of Directors is pleased to recommend 12% dividend per share. The Company declares dividend keeping in consideration the operating results, future earning capacity, cash resources and expectations of the shareholders within the legal framework.

Corporate Governance

The Company has been complying with all the requirements of the code of Corporate Governance, as specified by Capital Market Authority (CMA). A detailed report on Corporate Governance is set out with the certificate of the Statutory Auditors.



215 MVA, 11/220 kV Gas Turbine Transformer for 1000 MW power plant

Human Resources

The Company has adopted the policy of recruiting and training national manpower. It has always adhered to the Omanization Laws as well as fulfilling the Omani content and local community contracting. In recognition of this policy, your company has been awarded the Compliance Verifications Certificates (CVC) from the Oman Society for Petroleum Services (OPAL) as also the Green Card of the Ministry of Manpower.

Threats including Risks and Concerns



220 kV Gas Insulated Switchgear for 1000 MW power plant

Major threats which continues to affect the contracting companies including yours, are non-availability of skilled and trained manpower; scarcity of plant & equipment with long lead time, weakening dollar to which Omani Rial is pegged and escalating cost and shortage of essential items like cement, steel and related construction materials; thus putting pressure on bottom line and delaying the projects. Company has taken appropriate steps to mitigate such risks to the extent possible by forward booking of bulk construction materials like steel, cement, etc. Company has also initiated steps to broaden its manpower sourcing base to Far-East countries like Thailand, Nepal, Indonesia, Philippines, etc., as well as introducing Productivity Linked Incentives and revision of salary packages in order to retain the existing talent as well as attract required manpower.

Community obligation

Muscat faced a grim situation in the first week of June 2007 due to cyclone GONU. AHEC management had taken necessary precautions during the cyclone and hence the company's operations were not affected.

In this time of crisis, Al Hassan also stood side by side along with the citizens and played an important role in rebuilding the infrastructure on a war footing at various parts of the city including Amerat and Quriyat areas. We have successfully completed the jobs of repairing several overhead lines, dewatering substation, etc, and restored power supply in respective areas to meet public expectations.

The company also donated an amount of RO 101,340 to "GONU RELIEF FUND" set up by the Oman Government.

Apart from such social contributions, your company also contributed to various other societal causes by donating RO 11,654 during the year.

Changes in Top Management

Mr. S. Dasgupta, Indian National, who is occupying the position of Senior General Manager – Contracting has tendered his resignation due to family reasons. Necessary steps have been taken to find a suitable and competent professional for the position.

Internal Control Systems and its Adequacy

The Audit Committee reviews the effectiveness of the internal controls by meeting the Internal Auditor; review the internal audit reports and recommendations. The Audit Committee also met the External Auditor; and reviewed the audit findings report and the Management letter.

Gratitude and appreciation

The Board expresses its gratitude and appreciation to His Majesty Sultan Qaboos Bin Said for His visionary leadership and His Government for continuous support to the private sector in the development of the country.

The position the Company enjoys today and the future optimism is due to the encouragement and support of all its stakeholders like the Government Authorities, Shareholders, Customers, Employees, Banks and Financial Institutions, International Associates and Suppliers. The Board expresses its sincere thanks to all of them.

Hassan Bin Ali Salman

Chairman

3 March 2008



Heat Recovery Steam Generator (HRSG) for 1000 MW power plant



Gas turbine air intake system for 1000 MW power plant

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 HASSAN ENGINEERING COMPANY SAOG

We have performed the procedures prescribed in Capital Market Authority (CMA) circular no 16/2003, dated 29 December 2003 with respect to the accompanying Corporate Governance report of 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 as detailed under Rules and Guidelines on Disclosure by Issuer of Securities and Insider Trading approved by Administrative Decision No. 5/2007 dated 27 June 2007. Our engagement was undertaken in accordance with the International Standards 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 report our findings below:

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

Because the above procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing, 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 December 2007 and does not extend to any financial statements of Al Hassan Engineering Company SAOG, taken as a whole.

3 March 2008



Moore Stephens
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Corporate Governance Report

Company Philosophy

The Company is firmly committed to high standards of Corporate Governance and promotes the culture of compliance. The Company ensures good Corporate Governance through a combination of factors like:

- Regular management reviews and structured written reports by Management to the Board.
- Periodical communication with shareholders.
- Establishment of Internal Regulations, Operating procedures, Human Resource & Administration Manual, Accounts Manual to ensure effective Internal Control.
- Monitoring adherence to these by the Operating Management, through frequent checks including checks by ISO Audits, Internal Auditors reporting to Audit Committee comprising of Board Members.

The Company is committed to the business integrity, high levels of transparency, accountability, and business propriety. The Board supports the highest standards of Corporate Governance and promotes the culture of compliance. The Corporate Governance of the Company envisages the ultimate objective of increasing long-term shareholders' value and maximizes interest of other stakeholders, which in turn will lead to corporate growth.

Board of Directors

The present strength of the Board is six Directors comprising two Executive Directors and four Non-Executive Directors.

Sr. No	Name	Designation	Category	Directorship and Designation in other Joint Stock Companies
1	Hassan Ali Salman	Chairman	Non - Executive	-
2	Maqbool Ali Salman	Dy. Chairman & Mg. Director	Executive	- Oman Cables Industries SAOG
3	Syed Muhammad Rizvi	Executive Director	Executive	-
4	Jamil Ali Sultan	Independent Director	Independent	- Musandum Mineral Industries Co. SAOC
5.	Saud Ahmed Al Nahari	Independent Director	Independent	- Chief Executive Officer - Port Services Corporation SAOG - Oman United Insurance Co. SAOG - Oman Telecommunications Co. SAOC - Oman Dry-dock Company SAOC
6.	Ali Abdul Khaliq Al Haj Ibrahim	Independent Director	Independent	-

The Board has clearly demarcated its functions vis-à-vis the management, and has adequately empowered the executive management on all day-to-day matters, subject to overall authority vested with the Board. The Company lays strong emphasis on audits and internal controls and has introduced suitable checks and balances to ensure sound integrity of operations. The Company also emphasizes on total compliance with various laws and regulations of the country and transparency in its accounts as required by the International Accounting Standards.

In order to facilitate governance, the Board of Directors reviews the periodical reports of Company's operating plans of business, capital budgets and updates, Quarterly results of the Company, Minutes/recommendations of the Audit Committee, Related party transactions etc.

Board Meetings

During the year 2007, the Company held four Board meetings. The following are the details of the meetings held and attendance by the Directors.

Name of Director	03.03.07	14-05-07	15.07.07	10.11.07
Hassan Ali Salman (Chairman)	√	√	√	√
Maqbool Ali Salman	√	√	√	√
Jamil Ali Sultan	√	√	√	√
Saud Ahmed Al Nahari	√	√	√	√
Ali Abdul Khaliq Al Haj Ibrahim	√	√	√	√
Syed Muhammad Rizvi	√	√	√	√

√ Indicates attendance in the meetings

The meetings were coordinated by the Board Secretary. The meetings were conducted with exhaustive agenda and proceedings were minuted.

Process of Nomination of the Directors

The Board of Directors was elected at the Annual General Meeting held on April 25th, 2005. An additional director was elected in the Annual General Meeting held on March 23rd, 2006.

Director's Remuneration

Each Director is awarded RO.500/- (2006 – RO.500/-) as a meeting attendance fee for every Board meeting attended. The Audit Committee members are awarded RO.250/- (2006 – RO.250/-) as a meeting attendance fee for each Audit Committee meeting. The meeting attendance fees paid during the year amounts RO.15,000/- (2006 – RO.19,250/-).

Company Secretary

The Board has appointed Mr. Mohamed Khamis Al Khabouri as the Secretary to the Board of Directors in the Board meeting held on 27-04-2005 for a period of 3 years. The Board Secretary facilitates the smooth conduct of the Board meetings, keeps record of minutes and performs other relevant duties.

Company Management

The name, designation, description of responsibilities of the company management personnel is as follows

- **S M Rizvi – Executive Director**
Experience of 32 years. Responsible for strategy and day-to-day management of the Company.
- **Mohammed Khamis Al Khabouri – General Manager-HR & A**
Experience of 26 years. Responsible for Human Resource and Administrative issues
- **S A Naqvi – General Manager-Plant**
Experience of 35 years. Responsible for all fixed and mobile plant assets and capital equipment.
- **Abbas Muljiani – General Manager-Finance & IT**
Experience of 24 years. Responsible for both the Finance and IT functions of the Company.
- **Jasbir Singh – Sr. Deputy General Manager-Operations**
Experience of 25 years. Responsible for projects operations and execution.

Operating Management Remuneration

Salary, allowances including traveling expenses of the five top senior officers paid during the year 2007 is RO.177,809/- (previous year RO 140,208/-).

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

Over and above periodic salary reviews, the company also operates incentives schemes to management based on the overall performance of the company as approved by the Board of Directors.

Audit Committee

During 2007 four meetings were held and the following are the details of the meetings held and attendance by the Directors:

Name of Director	Category	03.03.07	14-05-07	15.07.07	10.11.07
Jamil Ali Sultan	Independent	√	√	√	√
Ali Abdul Khaliq Al Haj Ibrahim	Independent	√	√	√	√
Hassan Ali Salman	Non- Executive	√	√	√	√

√ Indicates attendance in the meetings

The Audit Committee charter is reviewed by the Board of Directors every year.

The Audit Committee reviews the Internal Auditor's and External Auditor's reports. The Committee meets to discuss budgets, quarterly operating results, the Executive committee reports and any other significant matters.

Audit and Internal Control

In consultation with the Audit Committee, the Board of Directors recommends the appointment of external auditors to the Annual General Meeting. In the Annual General Meeting held on 27th March 2007, M/S. Moore Stephens have been appointed as external auditors for the financial year 2007.

In accordance with the Corporate Governance Code, the services of Moore Stephens are not used where a conflict of interest might occur.

The Audit Committee has, as per their charter, reviewed the internal control environment of the Company. They have met the internal auditors to review the internal audit reports, recommendations and management comments thereupon. They have also met the external auditors to review audit findings and management letter. The Audit Committee and the Board are pleased to inform the shareholders that an adequate and effective internal control system is in place and that there are no significant concerns.

Executive Committee

The Board of Directors formed the Executive Committee, which is consisting of 3 members and the Secretary. The Committee's main responsibilities are summarized as follows:

- Recommend to the Board of Directors the Company's strategy, budgets and its implementation..
- Periodical review of Company financial & operational performance.
- Approve renewal of bank facilities and capital expenditure.
- Review and recommend to the Board the employee compensation structure, Omanization plan and performance of key employees.
- Recommend to the Board Investment opportunities. & Diversification, growth areas & plans

Executive Committee Meetings

During the year 2007, the Company held four Executive Committee meetings. The following are the details of the meetings held and attendance by the members.

Name of Director	Designation	26.02.07	08.05.07	06.07.07	04.11.07
Maqbool Ali Salman	Chairman	√	√	√	√
Syed Muhammad Rizvi	Member	√	√	√	√
Abbas Muljani	Member	√	√	√	√
Mohammed khamis Al Khabori	Secretary	√	√	√	√

√ Indicates attendance in the meetings

Means of Communications with the Shareholders and Investors

The Annual Report is mailed to all shareholders. The Annual General Meeting is a regular forum where there is a face-to-face interaction between the Directors and the shareholders. The quarterly results of the Company are sent to the CMA as per the requirement and made available to the shareholders either through CMA or from the Company's head office on demand. These are also published in local newspapers in English and Arabic. The Company has its web site www.al-hassan.com.

The executives have regular interaction with institutional investors, financial analysts and news reporters on the operations, opportunities and performance of the Company.

Dividend Policy

The Company will aim to have a consistent sustainable dividend policy that meets the long-term expectations of all shareholders & has a balance between strengthening the Reserves vs. the need for a yield on investments.

Details of Non-compliance

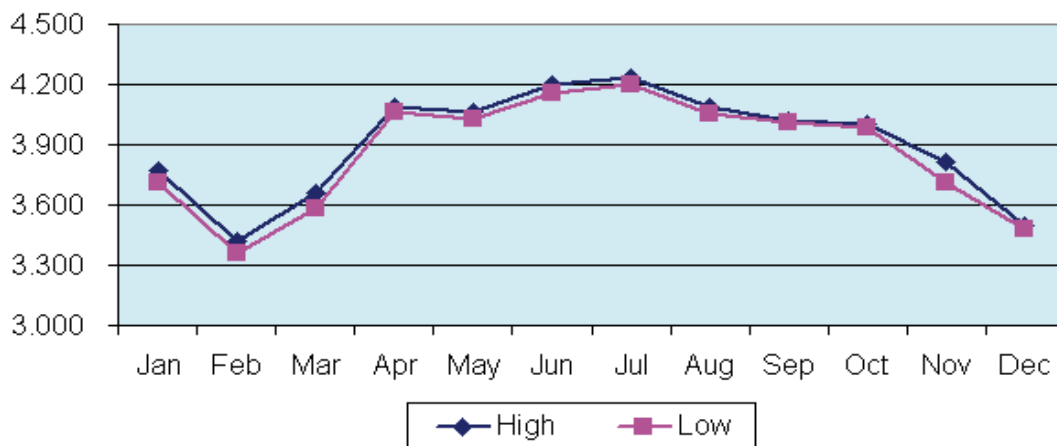
There are no penalties or strictures imposed on the Company by CMA/MSM or any statutory authority on any matter related to capital markets for the last three years.

Market Price Data

Monthly High / Low share price data for financial year 2007:-

Month	High	Low	Close (RO)
Jan	3.774	3.715	92,797
Feb	3.417	3.364	124,036
Mar	3.657	3.583	67,235
Apr	4.089	4.064	104,728
May	4.065	4.027	150,186
Jun	4.200	4.158	231,196
Jul	4.230	4.202	110,230
Aug	4.086	4.056	136,895
Sep	4.019	4.011	90,249
Oct	3.999	3.985	67,555
Nov	3.812	3.713	80,250
Dec	3.500	3.483	71,389

MARKET PRICE DATA



Major Shareholders [as on 31/12/2007]

Shareholder Name	No. of Shares Held	Shareholding %
Hassan Ali Salman	1,509,200	20.067%
Maqbool Ali Salman	1,509,200	20.067%
Al Hassan Electricals Co. LLC	1,500,800	19.955%

Professional Profile of the Statutory Auditor

The Oman branch of Moore Stephens commenced practice in 1988. Over the years, the practice has developed considerably and now services a number of clients, including major listed companies, Groups, government organizations and Ministries providing either audit, tax or management consultancy services. The local staff strength is around 30, most of whom are qualified Chartered Accountants, internal auditors and information systems auditors.

Since Moore Stephens London was founded 100 years ago, the Moore Stephens International Limited network has grown to be one of the 12 largest international accounting and consulting groups worldwide. Moore Stephens International is regarded as one of the world's major accounting and consulting networks consisting of 335 independent firms with 621 offices and over 19,200 people across 95 countries.

Internal Auditor

In order to ensure compliance with statutory regulations and internal controls, the company has a full time internal audit department, to carry on an independent assessment and report to the audit committee. Mr. Viswanathan is the head of the internal audit dept. He is a Chartered accountant with 20 years of experience.

Board of Directors acknowledge that

The company has its system and procedures formally documented and also hosted in the intranet. These procedures have been reviewed by the Executive Committee.

The financial statements have been prepared in accordance with International Financial Reporting standards issued by the International Accounting standards Board (IASB), interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and the requirements of the Commercial Companies Law of the Sultanate of Oman 1974 (as amended) and the rules for disclosure requirements prescribed by the Capital market authority.

There are no material events affecting the continuation of AHEC and its ability to continue its business during the next financial year.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF AL HASSAN ENGINEERING COMPANY SAOG AND ITS SUBSIDIARIES

We have audited the accompanying financial statements of Al Hassan Engineering Company SAOG ("the Parent") and the consolidated financial statements of Al Hassan Engineering Company SAOG and its subsidiaries ("the Group"), which comprise of the balance sheets as at 31 December 2007, income statements, statements of changes in equity and cash flow statements for the year then ended, and a summary of significant accounting policies and other explanatory notes set out on pages 2 to 27.

The financial statements of the Group and Parent Company for the year ended 31 December 2006 were audited by another auditor whose report dated 3 March 2007 expressed an unqualified opinion on the financial statements.

Board of Directors' responsibility for the financial statements

The Board of Directors of the Parent Company is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

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

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

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

Opinion

In our opinion, the Parent Company's and the Group's financial statements present fairly, in all material respects, the financial position of the Parent Company and the Group as at 31 December 2007 and the results of the operations of the Parent Company and the Group and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Regulatory Requirements

The Parent Company's and the Group's financial statements also comply, in all material respects, with the relevant requirements of the Commercial Companies Law of the Sultanate of Oman, 1974 (as amended) and the relevant disclosure requirements for public joint stock companies issued by the Capital Market Authority.

3 March 2008



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Moore Stephens

Consolidated and Parent Company Balance Sheet

As at 31 December 2007

ASSETS	Note	2007		2006	
		Group RO	Parent Company RO	Group RO	Parent Company RO
Non-current assets					
Property and equipment	4	10,794,886	10,794,886	7,700,512	7,700,512
Goodwill	5	878,478	878,478	878,478	878,478
Investments in subsidiaries	6	--	102,900	--	102,900
Total non-current assets		11,673,364	11,776,264	8,578,990	8,681,890
Current assets					
Inventories and work in progress	7	17,220,588	17,220,588	18,762,703	18,762,703
Contract and other receivables	8	8,425,107	8,576,898	7,921,577	8,028,677
Bank balances and cash	9	699,934	668,618	1,655,682	1,615,517
Total current assets		26,345,629	26,466,104	28,339,962	28,406,897
Total assets		38,018,993	38,242,368	36,918,952	37,088,787
EQUITY AND LIABILITIES					
Shareholders' equity					
Share capital	10	7,520,800	7,520,800	6,715,000	6,715,000
Legal reserve	11	819,098	819,098	596,045	596,045
Retained earnings		2,274,285	2,503,078	1,225,785	1,340,837
Hedging reserve	2 q)	147,094	147,094	59,669	59,669
Total shareholders' equity		10,761,277	10,990,070	8,596,499	8,711,551
Liabilities					
Non-current liabilities					
Non-current portion of term loans	13	5,342,248	5,342,248	1,244,867	1,244,867
Employees' end of service benefits	21 b)	986,236	986,236	649,993	649,993
Deferred taxation	16	69,865	69,865	56,876	56,876
Total non-current liabilities		6,398,349	6,398,349	1,951,736	1,951,736
Current liabilities					
Current portion of term loans	13	1,974,034	1,974,034	1,289,528	1,289,528
Bank borrowings	14	6,160,822	6,160,822	11,708,264	11,708,264
Accounts and other payables	15	12,616,025	12,610,607	13,082,501	13,137,284
Taxation	16	108,486	108,486	290,424	290,424
Total current liabilities		20,859,367	20,853,949	26,370,717	26,425,500
Total liabilities		27,257,716	27,252,298	28,322,453	28,377,236
Total Shareholders' equity and liabilities		38,018,993	38,242,368	36,918,952	37,088,787
Net assets per share	22	1.431	1.461	1.280	1.297

These financial statements were approved by the Board of Directors and authorised for issue on 3 March 2008 and were signed on their behalf by:



Chairman



Director



Director

The attached notes 1 to 30 form part of these financial statements.

Consolidated and Parent Company Statement of Income

for the year ended 31 December 2007

	Note	2007		2006	
		Group RO	Parent Company RO	Group RO	Parent Company RO
INCOME					
Turnover	2 e)	35,210,730	35,210,730	44,973,293	44,973,293
Direct costs	18	(27,602,415)	(27,602,415)	(38,641,059)	(38,641,059)
Gross profit		7,608,315	7,608,315	6,332,234	6,332,234
Other income	19	340,847	340,847	453,440	453,440
		7,949,162	7,949,162	6,785,674	6,785,674
EXPENSES					
General and administration expenses	20	(2,114,888)	(2,001,179)	(1,642,468)	(1,604,393)
Finance charges		(1,360,465)	(1,360,433)	(521,605)	(521,605)
Profit before depreciation		4,473,809	4,587,550	4,621,601	4,659,676
Depreciation	4	(2,217,887)	(2,217,887)	(1,420,491)	(1,420,491)
Profit for the year before taxation		2,255,922	2,369,663	3,201,110	3,239,185
Taxation	16	(139,133)	(139,133)	(334,235)	(334,235)
PROFIT FOR THE YEAR		2,116,789	2,230,530	2,866,875	2,904,950
Basic earnings per share	23	0.281	0.296	0.381	0.386
Dividend per share	12 b)	0.120	0.120	0.120	0.120

The attached notes 1 to 30 form part of these financial statements.

Consolidated and Parent Company Statement of Changes In Equity

for the year ended 31 December 2007

Group	Share capital (note 10) RO	Legal reserve (note 11) RO	(Accumulated losses) / retained earnings RO	Hedging reserve [note 2 q)] RO	Total RO
At 31 December 2005	6,715,000	305,513	(1,350,558)	(73,322)	5,596,633
Net profit for the year	--	--	2,866,875	--	2,866,875
Transfer to legal reserve	--	290,532	(290,532)	--	--
Net changes in fair value of forward currency contracts	--	--	--	132,991	132,991
At 31 December 2006	6,715,000	596,045	1,225,785	59,669	8,596,499
At 31 December 2006	6,715,000	596,045	1,225,785	59,669	8,596,499
Stock dividend	805,800	--	(805,800)	--	--
Prior period adjustment (see note 29)	--	--	(39,436)	--	(39,436)
Net profit for the year	--	--	2,116,789	--	2,116,789
Transfer to legal reserve	--	223,053	(223,053)	--	--
Net changes in fair value of forward currency contracts	--	--	--	87,425	87,425
At 31 December 2007	7,520,800	819,098	2,274,285	147,094	10,761,277

Parent	Share capital (note 10) RO	Legal reserve (note 11) RO	(Accumulated losses) / retained earnings RO	Hedging reserve [note 2 q)] RO	Total RO
At 31 December 2005	6,715,000	304,952	(1,273,020)	(73,322)	5,673,610
Net profit for the year	--	--	2,904,950	--	2,904,950
Transfer to legal reserve	--	291,093	(291,093)	--	--
Net changes in fair value of forward currency contracts	--	--	--	132,991	132,991
At 31 December 2006	6,715,000	596,045	1,340,837	59,669	8,711,551
At 31 December 2006	6,715,000	596,045	1,340,837	59,669	8,711,551
Stock dividend	805,800	--	(805,800)	--	--
Prior period adjustment (see note 29)	--	--	(39,436)	--	(39,436)
Net profit for the year	--	--	2,230,530	--	2,230,530
Transfer to legal reserve	--	223,053	(223,053)	--	--
Net changes in fair value of forward currency contracts	--	--	--	87,425	87,425
At 31 December 2007	7,520,800	819,098	2,503,078	147,094	10,990,070

The attached notes 1 to 30 form part of these financial statements.

Consolidated and Parent Company Cash Flow Statement

for the year ended 31 December 2007

	2007		2006	
	Group	Parent Company	Group	Parent Company
	RO	RO	RO	RO
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash receipts from turnover	33,301,184	33,301,184	47,874,402	47,874,402
Cash paid towards direct costs and expenses	(26,813,155)	(26,804,338)	(58,678,044)	(58,700,425)
Cash generated from / (used in) operations	6,488,029	6,496,846	(10,803,642)	(10,826,023)
Finance charges	(1,353,793)	(1,353,761)	(521,605)	(521,605)
Taxation paid	(316,613)	(316,613)	(40,911)	(40,911)
Net cash flows from / (used in) operating activities	4,817,623	4,826,472	(11,366,158)	(11,388,539)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of property and equipment	(5,459,646)	(5,459,646)	(4,093,626)	(4,093,626)
Proceeds from disposal of property and equipment	451,830	451,830	433,621	433,621
Net cash used in investing activities	(5,007,816)	(5,007,816)	(3,660,005)	(3,660,005)
CASH FLOWS FROM FINANCING ACTIVITIES				
Net movement in term loans and cash flow from financing activities	4,781,887	4,781,887	1,501,953	1,501,953
Increase / (decrease) in cash and cash equivalents during the year	4,591,694	4,600,543	(13,524,210)	(13,546,591)
Cash and cash equivalents at the beginning of the year	(10,052,582)	(10,092,747)	3,471,628	3,453,844
Cash and cash equivalents [note 2 (m)] at the end of the year	(5,460,888)	(5,492,204)	(10,052,582)	(10,092,747)
Cash and cash equivalents at the end of the year comprise:				
Bank balances and cash	699,934	668,618	1,655,682	1,615,517
Bank borrowings	(6,160,822)	(6,160,822)	(11,708,264)	(11,708,264)
	(5,460,888)	(5,492,204)	(10,052,582)	(10,092,747)

The attached notes 1 to 30 form part of these financial statements.

Notes to the Consolidated and Parent Company Financial Statements

for the year ended 31 December 2007

I ACTIVITIES

Al Hassan Engineering Company SAOG ("the Parent") is registered as a joint stock Company in the Sultanate of Oman. The Parent is engaged in electrical, mechanical, instrumentation and civil contracting primarily in the oil and gas sectors. The principal place of business is located in Muscat.

The Parent holds a 49% shareholding and a 100% beneficial ownership in Al Hassan Engineering Company Dubai LLC (the subsidiary) which was incorporated during the year 2001 and Al Hassan Engineering Company Abu Dhabi LLC (the subsidiary) which was incorporated during the year 2003. The subsidiaries (treated as subsidiaries due to the controlling interest) are registered in United Arab Emirates and are yet to commence commercial operations.

The Parent Company has also entered into a joint venture as explained in note 24 to the financial statements.

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) 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 requirements prescribed by the Capital Market Authority. The financial statements have been prepared in Rials Omani.

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 or after 1 January 2007. The following Standards, in particular, have resulted in additional disclosure requirements for the current year:

- Amendment to IAS 1 'Presentation of Financial Statements – Capital Disclosure' requires an entity to disclose information that enables users of its financial statements to evaluate the entity's objectives, policies and processes for managing capital.
- IFRS 7 'Financial Instruments: Disclosures' requires the disclosure of the significance of financial instruments for an entity's financial position and performance. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk.

The above disclosure requirements however do not have any impact on the recognition and measurement of items in the financial statements.

Certain new standards and amendments to existing standards have been published that are effective and mandatory for accounting periods commencing 1 January 2009, which the Board of Directors have decided to adopt from the applicable period. Those standards and amendments likely to be relevant to the Group's operations are as follows:

- IFRS 8 'Operating Segments' primarily sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates and its major customers.
- Amendments to IAS 1 'Presentation of Financial Statements' primarily require the following disclosures:
 - 'Balance sheet' and 'Cash flow statement' to be described as 'Statement of Financial Position' and 'Statement of Cash Flows' respectively;

Notes to the Consolidated and Parent Company Financial Statements (Continued)

for the year ended 31 December 2007

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

- All owner changes in equity should be presented in the statement of changes in equity separately from non-owner changes in equity;
- A statement of financial position as at the beginning of the earliest comparative period must be prepared whenever the entity retrospectively applies an accounting policy or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.
- Revisions to IAS 23 'Borrowing Costs', primarily eliminates the option of immediate recognition as an expense for accounting for borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset.

The following accounting policies have been consistently applied in dealing with items considered material to the Group's and Parent Company's financial statements.

a) Accounting convention

These financial statements have been prepared under the historical cost convention modified to include the measurement at fair value of derivative financial instruments.

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.

Assets and liabilities of the foreign subsidiaries are translated using the exchange rate prevailing as at the balance sheet date. Similarly, the items in the statement of income of the wholly owned subsidiaries is converted using the average exchange rate prevailing during the year.

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. In the Parent Company's separate financial statements, the investments in subsidiaries are carried at fair value, if such a value can be determined, and otherwise at cost.

Joint venture

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity which is subject to joint control. The Group's investment in joint venture is reported using the proportionate consolidation method. The Group's share of the joint venture's assets and liabilities are classified according to the nature of the assets. The Group accounts for its share of the joint venture's income and expenses and are reported in the statement of income.

Notes to the Consolidated and Parent Company Financial Statements (Continued)

for the year ended 31 December 2007

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

d) Goodwill

Goodwill arising on acquisition of the business represents the excess of purchase consideration over the fair value ascribed to the net assets at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

e) Turnover

Turnover represents the value of work carried out on contracts during the year and is recognized on percentage completion method.

f) Employees' end of service benefits

Payment is made to Omani Government's Social Security Scheme under Royal Decree 72/91 (as amended) for Omani employees. Provision is made for amounts payable under the Sultanate of Oman's labour law under Royal Decree 35/2003 (as amended) applicable to expatriate employees' accumulated periods of service at the balance sheet date.

g) Property and equipment

Property and equipment is stated at historical cost less accumulated depreciation, which is calculated to expense the cost of property, plant and equipment on a straight line basis over their estimated useful lives as follows:-

	Years
Buildings	20
Machinery and equipment	5 – 10
Furniture, fixtures and office equipment	3 – 8
Instrumentation and testing equipment	4 – 8
Vehicles	5 – 10

Leasehold land is not depreciated as there is no defined lease period and the market value of the rights to the lease is considered to exceed the carrying value.

Freehold land is also not depreciated.

h) Inventories and work in progress

Inventories of materials are stated at the lower of cost or net realizable value. Cost is determined on a weighted average basis.

Work in progress on long term contracts is stated at the costs incurred and applicable on contracts to the balance sheet date plus attributable profits estimated to be earned to the balance sheet date based on the stage of contract completion, less provision for foreseeable losses and progress payments received and receivable. Cost comprises materials, labour, procurement and other expenses which are identifiable to contracts.

i) Contract and other receivables

Contract and other receivables originated by the Group are measured at cost. An allowance for credit losses of contract and other receivables are established when there is objective evidence that the Group will not be able to collect the amounts due.

Notes to the Consolidated and Parent Company Financial Statements (Continued)**for the year ended 31 December 2007****2 SIGNIFICANT ACCOUNTING POLICIES (Continued)**

When a contract or other receivables is uncollectible, it is written off against the allowance account for credit losses. The carrying value of contract and other receivables approximate their fair values due to the short-term nature of those receivables.

j) Taxation

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

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

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

k) Foreign currency transactions

Transactions denominated in foreign currencies are translated to Rials Omani at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Rials Omani at the foreign exchange rates ruling at that date. Foreign exchange differences arising on translation are recognised in the statement of income.

l) 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 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

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 statement of income. 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 statement of income.

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

Notes to the Consolidated and Parent Company Financial Statements (Continued)

for the year ended 31 December 2007

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

m) Cash and cash equivalents

Cash and cash equivalents comprise bank balances and cash net of bank borrowings. Bank borrowings that are repayable on demand and form an integral part of the Group's and Parent company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

n) 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.

o) Accounts payable and accruals

Liabilities are recognised for amounts to be paid in future for goods or services received, whether billed by the supplier or not.

p) Leases

Operating lease payments are charged to the statement of income.

q) Derivative financial instruments

The Group uses derivative financial instruments (forward foreign exchange contracts) to hedge its exposure to foreign currency fluctuations arising from commitments to purchase contract materials (asset hedges).

If the derivative financial instruments qualify for special hedge accounting, they are accounted under hedge accounting principles. Otherwise they are accounted as trading instruments. All derivative financial instruments are recognized initially at cost. Subsequent to initial recognition, they are measured at fair value.

Gains or losses arising on subsequent measurement of derivative financial instruments that are asset hedges are recognized directly to equity and classified as a 'hedging reserve' to the extent they are considered effective. Gains or losses arising on subsequent measurement of other derivative financial instruments are recognized in the income statement.

r) Directors' remuneration

The Group follows the Sultanate of Oman's Commercial Companies Law, 1974 (as amended), and other latest relevant directives issued by CMA, in regard to determination of the amount to be paid as Directors remuneration. Directors' remuneration is charged to the statement of income in the year to which they relate.

s) Dividend

The Board of Directors recommend to the shareholders the dividend to be paid out of Parent Company's profits. The directors take into account appropriate parameters including the requirements of the Sultanate of Oman's Commercial Companies Law, 1974 (as amended) while recommending the dividend.

Dividend distribution to the Parent Company's shareholders is recognized as a liability in the Group's and Parent Company's financial statements only in the period in which the dividends are approved by the Parent Company's shareholders.

Notes to the Consolidated and Parent Company Financial Statements (Continued)

for the year ended 31 December 2007

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

t) Estimates and judgements

In preparing these 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 goodwill has suffered any impairment in accordance with IAS 36, 'Impairment of Assets' which require the use of estimates. The estimation of costs to complete the contract also has significant effect on the financial statements.

Other estimates that involves uncertainties and judgements which have significant effect on the financial statements include:

- allowances for credit losses;
- provision for slow moving inventories; and
- the margins of profit ultimately expected on long term contracts that is used to determine the level of contract profit recognition.

4 PROPERTY AND EQUIPMENT

Year 2007 Group and Parent Company	Leasehold land	Freehold land	Buildings	Machinery and equipment	Furniture, fixtures and office equipment	Instrumentation and testing equipment	Vehicles	Total
	RO	RO	RO	RO	RO	RO	RO	RO
Cost								
At 31 December 2006	132,800	--	51,445	9,558,054	760,127	805,505	4,651,679	15,959,610
Additions during the year	--	424,012		3,587,906	225,515	45,901	1,261,966	5,545,300
Disposals during the year	--	--	--	(541,950)	(812)	--	(492,223)	(1,034,985)
At 31 December 2007	132,800	424,012	51,445	12,604,010	984,830	851,406	5,421,422	20,469,925
Depreciation								
At 31 December 2006	--	--	17,398	4,834,174	601,506	681,359	2,124,661	8,259,098
Charge for the year	--	--	2,528	1,369,390	117,133	53,761	675,075	2,217,887
Relating to disposals	--	--	--	(335,002)	(596)	--	(466,348)	(801,946)
At 31 December 2007	--	--	19,926	5,868,562	718,043	735,120	2,333,388	9,675,039
Net book values								
At 31 December 2007	132,800	424,012	31,519	6,735,448	266,787	116,286	3,088,034	10,794,886
At 31 December 2006	132,800	--	34,047	4,723,880	158,621	124,146	2,527,018	7,700,512

Notes to the Consolidated and Parent Company Financial Statements (Continued)

for the year ended 31 December 2007

4 PROPERTY AND EQUIPMENT (Continued)

Year 2006 Group and Parent Company	Leasehold land	Buildings	Machinery and equipment	Furniture, fixtures and office equipment	Instrumentation and testing equipment	Vehicles	Total
	RO	RO	RO	RO	RO	RO	RO
Cost							
At 31 December 2005	132,800	51,445	7,021,209	644,255	729,660	3,065,335	11,644,704
Additions during the year	--	--	2,921,103	128,659	87,775	1,979,495	5,117,032
Disposals during the year	--	---	(384,258)	(12,787)	(11,930)	(393,151)	(802,126)
At 31 December 2006	132,800	51,445	9,558,054	760,127	805,505	4,651,679	15,959,610
Depreciation							
At 31 December 2005	--	14,870	4,291,281	488,578	644,277	2,127,738	7,566,744
Charge for the year	--	2,528	868,487	118,537	46,341	384,598	1,420,491
Relating to disposals	--	--	(325,594)	(5,609)	(9,259)	(387,675)	(728,137)
At 31 December 2006	--	17,398	4,834,174	601,506	681,359	2,124,661	8,259,098
Net book values							
At 31 December 2006	132,800	34,047	4,723,880	158,621	124,146	2,527,018	7,700,512
At 31 December 2005	132,800	36,575	2,729,927	155,677	85,383	937,597	4,077,959

The following further note applies:

- The Parent Company's buildings were constructed on a land leased from the Government of the Sultanate of Oman. The current annual rental of the leasehold land is RO 8,044 (2006 – RO 8,044). Subsequent to the balance sheet date, the Parent Company exercised the offer given by the Government of the Sultanate of Oman to purchase the land at a cost of RO 309,818 and the registration formalities were completed in January 2008
- A portion of the Parent Company's machinery, equipment and vehicles are mortgaged to a bank providing the term loans referred to in note 13.

5 GOODWILL

Cost	
Less: accumulated impairment losses	
Net book value	

2007 and 2006
Group and Parent Company
RO

2,696,835
(1,818,357)
878,478

The following further note applies:

The Board of Directors have tested goodwill for impairment in accordance with IAS 36, 'Impairment of Assets' and consider that no impairment has arisen during the year.

Notes to the Consolidated and Parent Company Financial Statements (Continued)

for the year ended 31 December 2007

6 INVESTMENTS IN SUBSIDIARIES

	Holding	Activity	Year of incorporation	2007 and 2006 Parent Company RO
Al Hassan Engineering Company Dubai LLC	49%	Contracting in oil and gas	2001	51,450
Al Hassan Engineering Company Abu Dhabi LLC	49%	Contracting in oil and gas	2003	51,450
				<u>102,900</u>

The following further notes apply:

- Investments in subsidiaries have been set off against the share capital and reserves of the subsidiaries in the consolidated financial statements.
- The 51% ownership of the above two subsidiaries are held in the personal names of certain individuals as nominees for the beneficial interest of the Group. The Parent holds control in both the subsidiaries. Accordingly these subsidiaries are entirely owned by the Parent Company.

The title to assets and liabilities of these subsidiaries, to the extent legally held by such nominees.

- In the absence of a reliable measure of fair value, the investments in subsidiaries are carried at 'cost'.
- The Board of Directors believe that no impairment has arisen in the investments in subsidiaries although the subsidiaries are yet to commence commercial operations.

7 INVENTORIES AND WORK IN PROGRESS

	2007 Group and Parent Company RO	2006 Group and Parent Company RO
Contract work in progress [see note b) below]	13,256,433	16,747,526
Materials	2,357,582	1,364,374
Spare parts and consumables	307,380	311,350
Tools	1,251,416	727,006
Goods in transit	542,915	33,044
	<u>17,715,726</u>	<u>19,183,300</u>
Less : Provision for slow moving inventories [see note a) below]	<u>(495,138)</u>	<u>(420,597)</u>
	<u>17,220,588</u>	<u>18,762,703</u>

The following further notes apply:

- The changes in the provision for slow moving inventories are as follows:

	2007 Group and Parent Company RO	2006 Group and Parent Company RO
At the beginning of the year	420,597	347,601
Provision created during the year	<u>74,541</u>	<u>72,996</u>
At the end of the year	<u>495,138</u>	<u>420,597</u>

Notes to the Consolidated and Parent Company Financial Statements (Continued)

for the year ended 31 December 2007

7 INVENTORIES AND WORK IN PROGRESS (Continued)

b) The contract work in progress comprises:

	2007 Group and Parent Company RO	2006 Group and Parent Company RO
Contract work in progress at cost plus estimated attributable profits	69,659,382	49,654,720
Less : Progress billings	(57,350,648)	(32,907,194)
	<u>12,308,734</u>	<u>16,747,526</u>
Add : Excess billings (note 15)	947,699	--
	<u>13,256,433</u>	<u>16,747,526</u>

8 CONTRACT AND OTHER RECEIVABLES

	2007 Group RO	2007 Parent Company RO	2006 Group RO	2006 Parent Company RO
Contract receivables	7,425,609	7,425,609	5,399,687	5,399,687
Less: Allowance for credit losses [see note a) below]	(54,796)	(54,796)	(60,476)	(60,476)
	<u>7,370,813</u>	<u>7,370,813</u>	<u>5,339,211</u>	<u>5,339,211</u>
Prepayments and other receivables	630,213	630,213	470,443	470,443
Advances to suppliers	424,081	424,081	2,111,923	2,111,923
Due from subsidiaries [note 17 d)]	--	151,791	--	107,100
	<u>8,425,107</u>	<u>8,576,898</u>	<u>7,921,577</u>	<u>8,028,677</u>

The following further notes apply:

a) The movement in allowance for credit losses is given below:

	2007 Group and Parent Company RO	2006 Group and Parent Company RO
At the beginning of the year	60,476	60,476
Provided during the year	19,948	--
Written off during the year	(25,628)	--
At the end of the year	<u>54,796</u>	<u>60,476</u>

- b) 6 customers (2006 – 6 customers) account for 86% (2006 - 90%) of contract receivables at the balance sheet date.
- c) The Group's and Parent Company's entire contract receivables are unsecured (2006 – same terms)
- d) A significant portion of the contract receivables are assigned to banks providing the term loans referred to in note 13.
- e) The Group's and Parent Company's contract receivables include RO 3,573,056 (2006 – RO 3,649,349) due in US dollars.
- f) The Group's and Parent Company's contract receivables amounting to RO 6,793,343 (2006 – RO 5,117,406) are neither past due nor impaired and are estimated as collectible based on historical experience.
- g) At the balance sheet date, allowance for credit losses has been established as per the Group's provisioning policy.

Notes to the Consolidated and Parent Company Financial Statements (Continued)

for the year ended 31 December 2007

8 CONTRACT AND OTHER RECEIVABLES (Continued)

- h) At the balance sheet date, Group's and Parent Company's contract receivables amounting to RO 632,266 (2006 – RO 282,281) are past due but not impaired. The ageing analysis of these contract receivables are as follows:

	2007 Group and Parent Company RO	2006 Group and Parent Company RO
Debts due between 1.5 months – 6 months	486,139	106,751
Debts due between 6 months – 1 year	63,163	97,341
Debts due more than 1 year	82,964	78,189
	<u>632,266</u>	<u>282,281</u>

- i) Prepayments and other receivables include an amount of RO 147,094 (2006 – RO 59,669) which relates to a revision of forward currency contracts to fair value.

9 BANK BALANCES AND CASH

	Group RO	2007 Parent Company RO	Group RO	2006 Parent Company RO
Cash in hand	101,452	101,452	102,762	102,762
Bank balances and call deposits	598,482	567,166	1,552,920	1,512,755
	<u>699,934</u>	<u>668,618</u>	<u>1,655,682</u>	<u>1,615,517</u>

10 SHARE CAPITAL

- a) The authorized share capital consists of 10,000,000 shares (2006 – 10,000,000 shares) of RO 1 each (2006 – RO 1 each). The issued and fully paid up capital consists of 7,520,800 shares of RO 1 each (2006 – 6,715,000 shares of RO 1 each).
- b) Shareholders of the Parent who own 10% or more of the Parent's shares, whether in their name or through a nominee account and the number of shares they hold are as follows:

Shareholder	Holding % 2007 and 2006	Number of shares held 2007	2006
Hassan Ali Salman	20.07	1,509,200	1,347,500
Maqbool Ali Salman	20.07	1,509,200	1,347,500
Al Hassan Electricals Company LLC	19.96	1,500,800	1,340,000

11 LEGAL RESERVE

In accordance with Article 106 of the Commercial Companies Law of 1974 of Sultanate of Oman, 10% of the net profit of the individual Companies (parent and subsidiaries) has been transferred to a non-distributable legal reserve until the amount of the legal reserve becomes equal to one-third of the Parent Company's issued share capital and one half of the capital of the Subsidiary Companies.

The balance at the end of the year in the Group's legal reserve represents the amounts relating to the Parent Company.

Notes to the Consolidated and Parent Company Financial Statements (Continued)

for the year ended 31 December 2007

12 PROPOSED DIVIDEND

- a) The Board of Directors have proposed a cash dividend of 12% (2006 – stock dividend of 12%) of the share capital amounting to RO 902,496 (2006 – RO 805,800), subject to shareholders' approval at the Annual General Meeting.
- b) Dividend per share is determined by dividing the dividend proposed for the year by the number of ordinary shares outstanding of 7,520,800 shares (2006 – 6,715,000 shares).

13 TERM LOANS

	2007 Group and Parent Company RO	2006 Group and Parent Company RO
Term loan I	1,161,570	2,117,750
Term loan II	83,297	416,645
Term loan III	2,322,151	--
Term loan IV	2,749,264	--
Term loan V	1,000,000	--
	<hr/> 7,316,282	<hr/> 2,534,395
Current portion	(1,974,034)	(1,289,528)
Non-current portion	<hr/> 5,342,248	<hr/> 1,244,867

The following further notes apply:

- a) Term loan I which is denominated in US dollars, is repayable in 8 equal quarterly instalments of RO 290,392 and secured by commercial mortgage of Parent Company's equipment valued at RO 2,579,500 (2006 – RO 2,579,500) and assignment of contract receivable from a customer amounting to RO 652,979 (2006 – RO 452,863).
- b) Term loan II is repayable in quarterly instalments of RO 83,333 which commenced in the year 2004 and was fully repaid in January 2008.
- c) Term loan III which is denominated in US dollars, is repayable in quarterly instalments of RO 1,155,000 commencing from June 2009. The total sanctioned loan is RO 5,775,000 to be drawn every quarter at RO 1,155,000 per quarter which commenced from August 2007. The loan is secured by assignment of contract receivable from a customer, against which there were no balance due from the customer at the balance sheet date.
- d) Term loan IV which is denominated in US dollars, is repayable in 12 quarterly instalments of RO 229,167 commencing from October 2008 and is secured by commercial mortgage of Parent Company's equipment procured from the loan proceeds amounting to RO 2.75 million.
- e) Term loan V is repayable in 8 quarterly instalments of RO 125,000 commencing from January 2008 and is secured by joint registration / commercial charge on Parent Company's equipment procured from the loan proceeds amounting to RO 1 million.
- f) The above loans are from commercial banks in the Sultanate of Oman and bear interest ranging from LIBOR+1% to 6.25% per annum (2006 – LIBOR+1.5% to 6.25% per annum).
- g) Maturity profile of non-current term loans is as follows:

	2007 Group and Parent Company RO	2006 Group and Parent Company RO
Between 1 and 2 years	3,738,819	1,244,867
Between 3 to 5 years	1,603,429	--
	<hr/> 5,342,248	<hr/> 1,244,867

Notes to the Consolidated and Parent Company Financial Statements (Continued)

for the year ended 31 December 2007

14 BANK BORROWINGS

Bank borrowings comprise bank overdrafts and short term loans from commercial banks in the Sultanate of Oman and carry interest at commercial rates. The interest rate on bank borrowings and short term loans are subject to re-negotiation with the banks upon renewal of the facilities, which generally takes place on an annual basis.

15 ACCOUNTS AND OTHER PAYABLES

	Group	2007 Parent Company	Group	2006 Parent Company
	RO	RO	RO	RO
Trade accounts payable	4,302,491	4,302,491	7,957,963	7,957,963
Due to related parties [see note 17 d)]	587,249	587,249	455,851	455,851
Accruals	1,257,179	1,257,179	768,657	768,657
Provisions for project expenses	1,015,106	1,015,106	2,481,541	2,481,541
Excess billings [note 7 b)]	947,699	947,699	--	--
Advances from customers	3,387,179	3,387,179	415,000	415,000
Other payables	1,119,122	1,086,892	1,003,489	949,918
Due to a subsidiary [note 17 a)]	--	26,812	--	108,354
	<u>12,616,025</u>	<u>12,610,607</u>	<u>13,082,501</u>	<u>13,137,284</u>

The following further note applies:

Trade accounts payable include RO 296,434 (2006 – RO 589,005) payable in foreign currencies.

16 TAXATION

	2007 Group and Parent Company	2006 Group and Parent Company
	RO	RO
Income statement		
Current tax	99,955	290,424
Deferred tax	12,989	43,811
Prior years	26,189	--
	<u>139,133</u>	<u>334,235</u>
Current liability		
Taxation	<u>108,486</u>	<u>290,424</u>
Non-current liability		
Deferred taxation	<u>69,865</u>	<u>56,876</u>

The following further note applies:

- a) The tax rate applicable to the Parent Company is 12% (2006 – 12%). Tax provision has been made on accounting profit adjusted for tax purposes. The Subsidiary Companies are not subject to taxation.

Notes to the Consolidated and Parent Company Financial Statements (Continued)

for the year ended 31 December 2007

16 TAXATION (Continued)

- b) The taxation assessments of the Parent Company for the years 2002 to 2006 have not been finalized by the Secretariat General for Taxation (SGT). The taxation assessment for the year 2001 has been completed by SGT during the year, with no demand for additional tax. The taxation assessment for the year 2000 is pending to be finalized by the SGT for Al Hassan Trading and Contracting Company LLC (which merged with the Company as on 31 December 1999). The Board of Directors consider that the amount of additional taxes, if any, that may become payable on finalization of the above tax years, may not be material to the Group's financial position at the balance sheet date.
- c) The reconciliation of taxation on the accounting profit with the taxation charge for the year is as follows:

	2007 Group and Parent Company RO	2006 Group and Parent Company RO
Tax charge on accounting profit at applicable rates	280,760	385,102
Tax effect of:		
Allowable expenses	(506,515)	(325,214)
Disallowable expenses	325,710	230,536
Taxation charge	<u>99,955</u>	<u>290,424</u>

- d) Deferred tax liability

Recognised deferred tax asset and liabilities are attributable to the following items:

	2007 Group and Parent Company RO	Charged in income statement RO	2006 Group and Parent Company RO
Property, plant and equipment	(93,208)	29,888	(123,096)
Inventories	21,017	(42,180)	63,197
Contract receivables	2,326	(697)	3,023
Net deferred tax liability	<u>(69,865)</u>	<u>(12,989)</u>	<u>(56,876)</u>

17 RELATED PARTIES

The Group and the Parent Company have entered into transactions with entities and shareholders who have significant influence over the Group and also have holding of 10% or more interest in the Parent Company ("significant shareholders"). The Group and the Parent Company also entered into transactions with entities related to these significant shareholders and the Board of Directors at prices approved by the management and the Board of Directors.

- a) The details of transactions during the year, other than those disclosed elsewhere, are as follows:

	Group RO	2007 Parent Company RO	Group RO	2006 Parent Company RO
Direct costs	1,070,550	1,070,550	536,932	536,932
General and administration	63,948	63,948	33,171	33,171
Purchase of equipment	--	--	18,750	18,750

Notes to the Consolidated and Parent Company Financial Statements (Continued)

for the year ended 31 December 2007

17 RELATED PARTIES (Continued)

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

	2007 Group and Parent Company RO	2006 Group and Parent Company RO
Short term employment benefits	177,809	140,208
End of service benefits	12,000	9,000
Directors' meeting attendance fees [see c) below]	15,000	19,250
Directors' remuneration [see note c below]	60,000	60,000
	<u>264,809</u>	<u>228,458</u>

c) The Directors' remuneration and meeting attendance fees is subject to shareholders' approval at the Annual General Meeting and amounts payable in respect of Directors' remuneration is included under amounts due to related parties.

d) The amount due to related parties pertains to the entities related to the Directors. The amounts due to and from subsidiaries and amounts to related parties are repayable on demand and are not subject to interest.

18 DIRECT COSTS

	2007 Group and Parent Company RO	2006 Group and Parent Company RO
Materials	7,950,012	20,552,283
Salaries and employee related costs	9,262,069	6,008,762
Sub contract costs	2,360,542	5,248,885
Other direct expenses	8,029,792	6,831,129
	<u>27,602,415</u>	<u>38,641,059</u>

19 OTHER INCOME

	2007 Group and Parent Company RO	2006 Group and Parent Company RO
Interest income	5,298	4,916
Profit on disposal of equipment	218,791	362,533
Miscellaneous	116,758	85,991
	<u>340,847</u>	<u>453,440</u>

Notes to the Consolidated and Parent Company Financial Statements (Continued)

for the year ended 31 December 2007

20 GENERAL AND ADMINISTRATION EXPENSES

	Group	2007 Parent Company	Group	2006 Parent Company
	RO	RO	RO	RO
Salaries and employee related costs	1,325,707	1,241,846	1,090,021	1,068,851
Rent	61,710	54,688	30,869	26,410
Communication	61,053	55,980	46,625	46,140
Travelling and conveyance	84,674	83,639	70,578	70,578
Advertisement and business promotion	44,670	43,396	20,358	20,302
Utilities	32,241	31,836	21,011	19,434
Vehicle fuel	14,077	12,945	9,275	9,211
Professional fees	95,142	95,083	12,723	12,723
Printing and stationery	16,210	15,112	10,914	10,705
Insurance	22,634	20,869	24,459	23,530
Directors' meeting attendance fees [note 17 c)]	15,000	15,000	19,250	19,250
Directors' remuneration [note 17 c)]	60,000	60,000	60,000	60,000
Contributions towards social causes	109,942	109,942	15,835	15,835
Miscellaneous	171,828	160,843	210,550	201,424
	<u>2,114,888</u>	<u>2,001,179</u>	<u>1,642,468</u>	<u>1,604,393</u>

21 SALARIES AND EMPLOYEE RELATED COSTS

a) Salaries and employee related costs include:

	2007 Group and Parent Company	2006 Group and Parent Company
	RO	RO
Cost of expatriate employees' end of service benefits	406,275	214,703
Contributions to defined contributions retirement plan for Omani employees	<u>171,491</u>	<u>121,096</u>
	<u>577,766</u>	<u>335,799</u>

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

	2007 Group and Parent Company	2006 Group and Parent Company
	RO	RO
At the beginning of the year	649,993	483,719
Expense recognised during the year	406,275	214,703
Amounts paid during the year	<u>(70,032)</u>	<u>(48,429)</u>
At the end of the year	<u>986,236</u>	<u>649,993</u>

Notes to the Consolidated and Parent Company Financial Statements (Continued)

for the year ended 31 December 2007

22 NET ASSETS PER SHARE

Net assets per share are calculated by dividing the net assets at the balance sheet date by the number of shares outstanding as follows:

	Group RO	2007 Parent Company RO	Group RO	2006 Parent Company RO
Net assets (in Rials Omani)	10,761,277	10,990,070	8,596,499	8,711,551
Number of shares outstanding	7,520,800	7,520,800	6,715,000	6,715,000
Net assets per share (in Rials Omani)	1.431	1.461	1.280	1.297

23 BASIC EARNINGS PER SHARE

Basic earning per share is calculated by dividing the net profit for the year by the weighted average number of shares outstanding during the year as follows:-

	Group RO	2007 Parent Company RO	Group RO	2006 Parent Company RO
Net profit for the year (in Rials Omani)	2,116,789	2,230,530	2,866,875	2,904,950
Average number of shares outstanding during the year	7,520,800	7,520,800	7,520,800	7,520,800
Basic earnings per share (in Rials Omani)	0.281	0.296	0.381	0.386

As the Company does not have any dilutive potential shares, the diluted earnings per share is the same as the basic earnings per share.

24 JOINT VENTURE

The Parent Company has entered into a joint venture agreement with SNC Lavalin International, Inc., (an entity registered in Calgary, Canada) dated 4 July 2002, for the execution of an Engineering, Procurement and Construction (EPC) contract for Saih Nihayda Gas Plant Project of Petroleum Development Oman (PDO). The interest of the Parent Company in the joint venture is 40%. The joint venture commenced its operations on 6 August 2002. The construction and commissioning of the gas plant was completed and handed over to PDO on 7 March 2005. The warranty period was one year which was completed on 6 March 2006 and the final completion of guarantee period will be completed on 31 March 2008.

The income and expenses recognised during the year relates to work carried out on a variation order received by the joint venture during the year.

The aggregate amounts of income, expenses, current assets, non-current assets, current liabilities and non-current liabilities relating to the Parent Company's 40% interest in the joint venture and included in the Parent Company's financial statements for the year is as follows:

	2007 40% share in joint venture RO	2006 40% share in joint venture RO
Turnover	732,841	32,828
Direct costs	504,480	37,744
Other income	5,229	4,916
Current assets	317,892	190,992
Non-current assets	--	--
Current liabilities	29,472	439,974
Non-current liabilities	--	--

Notes to the Consolidated and Parent Company Financial Statements (Continued)

for the year ended 31 December 2007

25 CONTINGENT LIABILITIES

Outstanding guarantees with banks relating to contractual performance in the ordinary course of business amounted to RO 12,861,883 (2006 – RO 11,254,974).

26 COMMITMENTS

At the balance sheet date:

- a) unutilized letters of credit relating to the commercial and financing operations amounted to RO 1,024,247 (2006 - RO 2,601,937).
- b) the Directors have approved future capital expenditure amounting to RO 5 million (2006 – RO 4 million).
- c) there were forward purchase contracts of foreign currencies (treated as asset hedges) amounting to RO 1,779,409 (2006 – RO 1,239,252) outstanding in order to cover specific liabilities for the purchases of materials.
- d) there were forward sale contracts of foreign currencies (treated as asset hedges) amounting to RO 15,240,000 (2006 – nil) outstanding in order to cover specific assets for the contract receivables.

27 SEGMENTAL REPORTING

The Group and the joint venture are operating only in one business and geographical segment and all the assets, liabilities and results of operations related to these business and geographical segments are included in the financial statements.

28 FINANCIAL RISK AND CAPITAL MANAGEMENT

a) Financial risk factors

The Group's activities expose it to a variety of financial risks including the effects of changes in foreign currency exchange rates, interest rates, credit risk, concentration risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. Risk management is carried out by the management under policies approved by the Board of Directors.

b) Foreign exchange risk

The Group is exposed to foreign exchange risk arising from various currency exposures primarily with respect to US Dollar and Euros. Where it is considered appropriate, the Group uses forward contracts to minimise the impact of foreign currency fluctuations.

The majority of the Group's financial assets and financial liabilities are either denominated in local currency (Rials Omani) or currencies fixed against Rials Omani. Hence the management believes that there would not be a material impact on the profitability if these foreign currencies weakens or strengthens against the Omani Rial with all other variables held constant.

c) Interest rate risk

The Company is exposed to interest rate risk on its interest bearing assets and liabilities (bank balances, bank borrowings and term loans). The management manages the interest rate risk by constantly monitoring the changes in interest rates and availing lower interest bearing facilities.

For every 0.5% change in interest rate, the impact on the income statement will approximate to RO 67,000 (2006 – RO 71,000) based on the level of interest bearing assets and liabilities at the balance sheet date.

Notes to the Consolidated and Parent Company Financial Statements (Continued)

for the year ended 31 December 2007

28 FINANCIAL RISK AND CAPITAL MANAGEMENT (Continued)

d) Credit risk

Credit risk on contract receivables is limited to their carrying values as the management regularly reviews these balances to assess recoverability and makes provision for balances whose recoverability is in doubt. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet. The Group has a significant concentration of credit risk, details of which are provided in note 8 b) to the financial statements.

e) Concentration risk

Although 46 percent (2006 - 40% percent) of the Group's sales are from 2 customers (2006 - 1 customer), the Group considers it is well positioned to carry out contracting work for other parties and that the business risk associated with concentration on a single customer is manageable.

f) Liquidity risk

The Group obtained term loans from a commercial bank and maintains sufficient facilities to meet the Group's obligations as they fall due for payment. The contractual maturity analysis in respect of term loans is provided in note 13 to the financial statements. All other current liabilities are expected to be repaid within a year from the balance sheet date. Accordingly, no detailed contractual maturity analysis has been provided in respect of these financial liabilities.

g) Fair value estimation

The carrying amounts of financial assets and liabilities with a maturity of less than one year approximate to their fair values.

Capital management

The Group's objectives when managing capital are:

- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and
- to provide an adequate return to shareholders by pricing services and goods commensurate with the level of risk.

The Group sets capital in proportion to risk and makes adjustments to it in the light of changes in economic conditions, the risk characteristics of the underlying assets, and covenants entered into with the providers of external debt. In order to maintain or adjust the level of equity, the Company adjusts the level of dividends paid to shareholders, issue new shares, or sell assets to reduce debt.

In the context of managing capital (equity), the Group has covenanted with banks providing external debt to maintain specified debt to equity ratio. At the balance sheet date, the actual debt to equity ratio was within the covenanted level, and the Group does not therefore anticipate that covenant will require them to increase the level of capital (equity).

29 PRIOR PERIOD ADJUSTMENT

The prior period adjustment pertains to a charge relating to the previous year.

30 COMPARATIVES

Comparatives have been adjusted or reclassified to conform to the presentation adopted for the current year.