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Annual Report 2011

Engineering Solutions
Through People Power

الحسن
al Hassan

Al Hassan Engineering Co. S.A.O.G.

HIS MAJESTY SULTAN QABOOS BIN SAID

An Overview of PDO Kauther Plant – Kauther Depletion Compression Project in Foreground

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Board of Directors

Hassan bin Ali Salman
Chairman

Maqbool Ali Salman
Dy. Chairman and
Managing Director

Saud bin Ahmed bin Al Nahari
Director

Ali bin Abdul Khaliq Ibrahim
Director

Eng. Salem S.E. Al-Ghatami
Director

Ali Mohammed Juma
Director

DIRECTORS' REPORT

(Including Management Discussion and Analysis)

Dear Shareholders,

On behalf of the Board of Directors, it gives me pleasure to present to you the Annual Report and Audited Consolidated Financial Statement for Al Hassan Engineering Company SAOG for the twelve month period ending 31 December 2011.

I am pleased to report that we are once again producing positive results even with the continued business challenges faced throughout 2011. These results demonstrate the Company's ability to manage the challenges satisfactorily.

Performance Highlights

(Amounts in RO '000)

Particulars	2011	2010
Contract Income	60,676	60,100
Other Income	423	308
Total Income	61,099	60,408
Costs (other than Finance Charges)	(57,615)	(56,089)
Profit before Finance Charges	3,484	4,319
Finance Charges	(724)	(892)
Net Profit before tax	2,760	3,427
Income Tax (including deferred tax)	(300)	(447)
Tax related to previous years	-	(310)
Net Profit after tax	2,460	2,670

Price pressure was brought about by increased levels of competition in all markets in addition to cost increases incurred through materials price increase and through changes in Omani Labour Law. These were greatly off-set through ongoing efficiency improvements throughout the organization. Profit before tax was lower than for 2010 although the full impact of the price and cost pressure was mitigated by the management actions taken.

The results, therefore, reflect the robust business strategy and operational model which has been implemented and the company's ability to perform well under extremely challenging economic conditions. We are proud of our reputation, which continues to grow, for the delivery of high quality project solutions on time and safely with no harm to people and the environment. In addition, our ongoing business improvement initiatives are resulting in our ability to continue to develop our business in a sustainable way, increase shareholder value and contributing to the economic development and well being of all of our stakeholders.

The Turnover achieved by the company in the last five years is given below:

(Amounts in RO '000)

Year	2007	2008	2009	2010	2011
Total Revenue	35,552	45,248	54,290	60,408	61,099

Mr. Hassan bin Ali Salman, Chairman receiving OER Top 20 Award

Completed Projects

In 2011, your company has successfully commissioned the Nimr-C Full Field Water Injection Project which was well appreciated by PDO.

It's noteworthy to record here the above project was within the top five projects adjudged by leading industry publication, UAE based Construction Week.

Successful Commissioning of Nimr-C Facility with Introduction of Hydrocarbon

Construction WEEK
AWARDS 2011

Projects under Construction

Your company is currently engaged in the ongoing execution of a number of prestigious projects which are at various stages of completion, they include:

1. Major civil construction works for the A'Seeb Waste Water – STP project for Haya Water from the main EPC contractor, Hyundai-Rotem, Korea.
2. PDO 260 MW Amal Power Station Project on an EPC basis.
3. CMEI Construction Package for PDO Kawther Gas Depletion Compression facility from main international EPC contractor, Petrofac.

Overview of Gas Turbine Generator Unit-1 - PDO Amal Power Station Project

Overview of A'Seeb Waste Water Treatment Project for Haya Water / Hyundai Rotem

Projects under Construction *(continued)*

4. A Construction package for PDO Saih Nihayda Depletion Compression Project from main international EPC contractor GS E&C including Civil & Building works, Electrical & Instrumentation erection work as well as the execution of a 132 kV Overhead line on an EPC basis.
5. Civil & Building Works for Barka-3 Independent Power Project from main international EPC contractor GS E&C.
6. Long Term Power Supply (LTPS) Project from Occidental Mukhaizna LLC on an EPC basis
7. Civil and Building works for the de-bottlenecking of the GASCO Gas Processing facility at Asab from main international EPC contractor Technip.

Civil and Building Works for Barka - 3 IPP (in progress)

New Project Award

Four major project contract awards were received in the year:

1. Zauliyah Gas Compression Phase-3 Project on an EPC basis from PDO
2. Emergency Water Reservoirs Project from Public Authority for Electricity and Water (PAEW)
3. Civil & Building Works from Siemens for Shuweihat 3 400 kV Grid Sub-station
4. Buhasa Sewage Network on an EPC basis from Abu Dhabi Gas Industries Limited (GASCO)

Human Resources

Human Resources is the main pillar supporting and enhancing the performance of the company. The company remains fully committed therefore to training and sustained development of this vital asset. Many and various initiatives including Balance Score Card and European Foundation for Quality Management (EFQM) have been taken to ensure that its highly qualified, experienced and motivated workforce of over 4,500 people is ready and able to cater not only to current requirements but also for the growing and future prospects.

The company's commitment towards Omanization across all levels of the business is unparalleled and is reflected in its commitment to work closely with the Ministry of Manpower and OPAL from whom it holds both the necessary Green Card and Compliance Verification Certificate respectively.

Corporate Social Responsibility

Your company has taken throughout 2011 a number of activities with the objective of providing a sustainable contribution to the growth and wellbeing of local society. They include :

- The employment and training of local community people in and around our work sites in both work skills and those more generally related to health and the environment.
- The provision/establishment of local community infrastructure

AHEC continues with the development of its activities in these important areas for the benefit of society at large.

Locals from nearby Amal Project site hired by AHEC

Construction of Bus Stop at PDO Nimr-C Project

Quality, Health, Safety and Environment

The Company's Quality, Health, Safety and Environmental Management Systems are all certified to the latest/current edition of international standards ISO 9001:2008, etc. In addition, we expect early in 2012 to receive ISO 14001 certification for Environmental Management and OHSAS 18001 for Occupational Health & Safety Management.

During 2011, we are proud to have accrued 12.22 million LTI Free man hours and have driven 11.02 million LTI Free Kilometers.

In addition, we expect early in 2012 our facilities to be re-certified by the American Society of Mechanical Engineers (ASME) for the coveted "S" and "U" Stamps for the production of Pressure Vessels and associated components. We also expect to receive from the National Board Inspection Code (NBIC) authorization to use the "R" Stamp for Repairs and Rectification of Pressure Vessels and associated parts/components.

Risks

The construction & contracting business has some inherent risks of Scope/Resource Estimation, Cost Increases and competition.

The company has in place, processes for mitigating these business risks to the extent possible.

Our markets are extremely attractive to new entrants partly due to the economic situation in other markets. The company is, however, taking measures to manage & improve our business into the future with different strategies.

Our ability to flexibly respond to specific market and customer requirement through the depth of our resources and skills puts us in a unique position to be ready, willing and able to take on the challenges that we may face.

Internal Control Systems

Our Internal Audit function is able to independently assess, verify and ensure compliance with the established company business procedures and established company management rules. In addition, the Audit Committee regularly meets with Internal Audit to assess the effectiveness of the Internal Control System.

Dividend
The Board of Directors is pleased to recommend 15% cash dividend (15 baiza) per share. Your Company declares dividend keeping in consideration the operating results, future earning capacity, cash resources and expectations of the shareholders.

Last 5 years data
The Net Equity and Dividend percentage of your Company for the last 5 years is as under:

Particulars	2007	2008	2009	2010	2011
Profit after Tax (RO'000)	2,117	2,020	2,641	2,670	2,460
Net Equity (RO'000)	10,761	11,788	13,564	15,060	16,410
Dividend (%)	12	12	14	15	15

Corporate Governance
Your Company is fully compliant with the requirements of the Code of Corporate Governance as specified by Capital Market Authority (CMA). A detailed report on Corporate Governance is provided with the certificate of the Statutory Auditors.

Outlook
The opening order book for 2012 is strong, in excess of RO 70 million with opportunities for securing additional business in the year ahead.

In Oman, investment plans continue to be healthy in all of the Company's targeted markets including Oil, Gas & Petrochemicals, Water & Waste Water, Power Generation, Transmission & Distribution and Infrastructure including Ports, Airports, Hospitals and Hospitality facilities.

In addition, the adjacent markets of the UAE and the rest of the region are all planning significant investments in same market sectors.

Though the competition is expected to be intense, the company is well placed, has some unique advantages to be able to bid & obtain contracts in line with its strategy.

Gratitude and Appreciation
The Board would like to thank all Regulatory Authorities, Petroleum Development Oman, Commercial Banks and Financial Institutions in Oman and abroad where we have relationship, Business Partners and all the Clients of the Company and Media for their generous cooperation and continued support.

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

We would also like to thank all the staff and management of the company for their outstanding performance and delivering what your Company had promised.

Hassan bin Ali Salman
Chairman
3 March 2012

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REPORT OF FACTUAL FINDINGS

TO THE SHAREHOLDERS OF AL HASSAN ENGINEERING COMPANY SAOG

We have performed the procedures prescribed in Capital Market Authority (CMA) circular number 16/2003, dated 29 December 2003, with respect to the Board of Directors' Corporate Governance Report of Al Hassan Engineering Company SAOG (the company) as at and for the year ended 31 December 2011 and application of the corporate governance practices in accordance with CMA Code of Corporate Governance issued under Circular number 11/2002 dated 3 June 2002 and as supplemented by the Rules and Guidelines on Disclosure by Issuers of Securities and Insider Trading approved by Administrative Decision number 5/2007 dated 27 June 2007 and the Executive Regulation of the Capital Market Law issued under the Decision number 1/2009 dated 18 March 2009 (collectively the Code and additional regulations and disclosures). Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon procedures engagements. The procedures, as stated in circular number 16/2003, were performed solely to assist you in evaluating the company's compliance with the code as issued by the CMA.

We report our findings on the procedures performed in the following paragraph.

We found the Board of Directors' Corporate Governance Report reflects the company's application of the provisions of the code and additional regulations and disclosures and is free from any material misrepresentation.

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

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

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose. This report relates only to the Board of Directors' Corporate Governance Report included in its annual report for the year ended 31 December 2011 and does not extend to any financial statements of Al Hassan Engineering Company SAOG taken as a whole.

PricewaterhouseCoopers, LLP

5 March 2012
Muscat, Sultanate of Oman

CORPORATE GOVERNANCE REPORT - 2011

Company Philosophy

In line with the requirements of Capital Market Authority (CMA), company's management is pleased to present Company's Eighth Corporate Governance Report for the year ended December 31st, 2011.

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 Audit, HSE Audit, 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 one Executive Director and five Non-Executive Directors.

SR	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	Saud Ahmed Al Nahari	Independent Director	Independent	- Oman Investment & Finance SAOG - Oman United Insurance Co. SAOG - Oman Telecommunications Co. SAOC - Oman Dry-dock Company SAOC
4	Ali Abdul Khaliq Al Haj Ibrahim	Independent Director	Independent	-
5	Dr. Fawad Jaffer Mohamed Sajwani (Resigned during the year)	Independent Director	Independent	-
6	Ali Bin Mohammed Bin Juma (Appointed during the year)	Independent Director	Independent	- Vision Insurance SAOC (Chairman) - Vision Emerging GCC Fund (Chairman) - Vision Emerging Oman Fund (Member) - Vision Investment Services SAOC (Member)
7	Eng. Salim Bin Said Bin Issa Al Ghatami (Appointed during the year)	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 2011, the Company held six Board meetings. The following are the details of the meetings held and attendance by the Directors.

SR	Name of Director	02.03.11	28.03.11 & AGM *	10.05.11	08.08.11	29.10.11	17.12.11
1	Hassan Ali Salman	√	√	√	√	√	√
2	Maqbool Ali Salman	√	√	√	√	√	√
3	Saud Ahmed Al Nahari	√	√	√	√	√	√
4	Ali Abdul Khaliq Al-Haj Ibrahim	√	√	√	√	√	√
5	Dr. Fawad Jaffer Mohamed Sajwani (Resigned during the year)	√	-	-	-	-	-
6	Ali Bin Mohammed Bin Juma (Appointed during the year)	-	√	√	√	√	√
7	Salim Bin Said Bin Issa Al Ghatami (Appointed during the year)	-	√	√	√	√	√

√ Indicates attendance in the meetings
- indicates not a member of the board
AGM – Attendance of Annual General Meeting held on 28.03.2011

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

Process of Nomination of the Directors

The Board of Directors was elected at the Annual General Meeting held on March 28th March 2011.

Director's Remuneration

Each Director is awarded RO.500/- (2010 – RO. 500/-) as a meeting attendance fee for every Board meeting attended. The Audit Committee members are awarded RO. 250/- (2010 – RO. 250/-) as a meeting attendance fee for each Audit Committee meeting. The meeting attendance fees paid during the year amounts RO. 21,000/- (2010 – RO.16,500/-). Management proposes director's remuneration of RO. 72,000/- (2010 – RO. 60,000/-) subject to shareholder's approval.

Company Secretary

The Board has re-appointed Mr. Murtadha Mohsin Ali as the Secretary to the Board of Directors in the Board meeting held on 28th March 2011 up to the end of the term office of the new Board of Directors. 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

- **Peter Hall – Chief Executive Officer**
  Experience of 33 years. Responsible for strategy and day-to-day management of the Company.
- **Shahzad Sadan – General Manager- Organizational Development**
  Experience of 28 years. Responsible for HR & Administration issues.
- **Jasbir Singh – General Manager- Contracting**
  Experience of 29 years. Responsible for projects operations and execution.
- **S A Naqvi – General Manager-Plant**
  Experience of 39 years. Responsible for all fixed and mobile plant assets and capital equipment.
- **Abbas Muljiani – General Manager-Finance & IT**
  Experience of 28 years. Responsible for both the Finance and IT functions of the Company.
- **Taketsugu Kimura– General Manager-Business Development.**
  Experience of 39 years. Responsible for Business Development.

Operating Management Remuneration

Salary, allowances, incentives including traveling expenses of the top six senior officers paid during the year 2011 is RO 580,097/- (2010 - RO 504,397/- for top five senior officers).

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

Audit Committee

During 2011 five meetings were held and the following are the details of the meetings held and attendance by the Directors:

SR	Name of Director	Category	01.03.11	10.05.11	08.08.11	29.10.11	17.12.11
1	Dr. Fawad Jaffer Mohamed Sajwani (Resigned during the year)	Chairman (for 1st Meeting)	√	-	-	-	-
2	Hassan Ali Salman	Member (for 1st Meeting)	√	-	-	-	-
3	Ali Abdul Khaliq Al Haj Ibrahim	Vice-Chairman	√	√	√	√	√
4	Ali Bin Mohammed Bin Juma (Appointed during the year)	Chairman	-	√	√	√	√
5	Saud Ahmed Al Nahari (Appointed during the year)	Member	-	√	X	√	√

√ Indicates attendance in the meetings
X indicates absence in the meeting
- indicates not a member of the Audit Committee

The audit committee is appointed by the board of directors to assist the board in discharging its oversight responsibilities. The Audit committee charter is reviewed by the Board of Directors every year.

The audit committee reviews: the effectiveness of the company's internal financial control and risk management system; the effectiveness of the internal audit function; the independent audit process including recommending the appointment and assessing the performance of the external auditor; the company's process for monitoring compliance with laws and regulations affecting financial reporting, including requirements of CMA and code of conduct. The audit committee checks for financial frauds protection and appropriate systems to ensure adoption of appropriate accounting policies and principles leading to fairness in financial statements. The audit committee also oversees the financial reporting process to ensure the balance, transparency and integrity of published financial information and appropriate accounting policies leading to fairness therein are in place. In performing its duties, the committee will maintain effective working relationships with the board of directors, management, and the external and internal auditors.

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 28th, March 2011, PricewaterhouseCoopers have been appointed as external auditors for the financial year 2011.

In accordance with the Corporate Governance Code, the services of PricewaterhouseCoopers 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 re-composed the Executive Committee, which is consisting of 3 members. The Committee's main responsibilities are summarized as follows:

Executive Committee *(continued)*

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

Executive Committee Meetings

During the year 2011, the Company held four Executive Committee meetings. The following are the details of the meetings held and attendance by the members.

SR	NAME OF DIRECTOR	CATEGORY	26.02.11	01.05.11	07.08.11	26.10.11
1	Maqbool Ali Salman	Chairman	√	√	√	√
2	Peter Hall	Member	√	√	√	√
3	Abbas Muljiani	Member	√	√	√	√

√ 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 have been no specific areas of non compliance with the provisions of corporate governance during the year. There is no penalty imposed on the Company by CMA during the year.
2010 – There was a penalty for delay in disclosure of tax payment relating to previous years.
2009 – There was a penalty for delay in publication of audited financial statements in the newspaper.

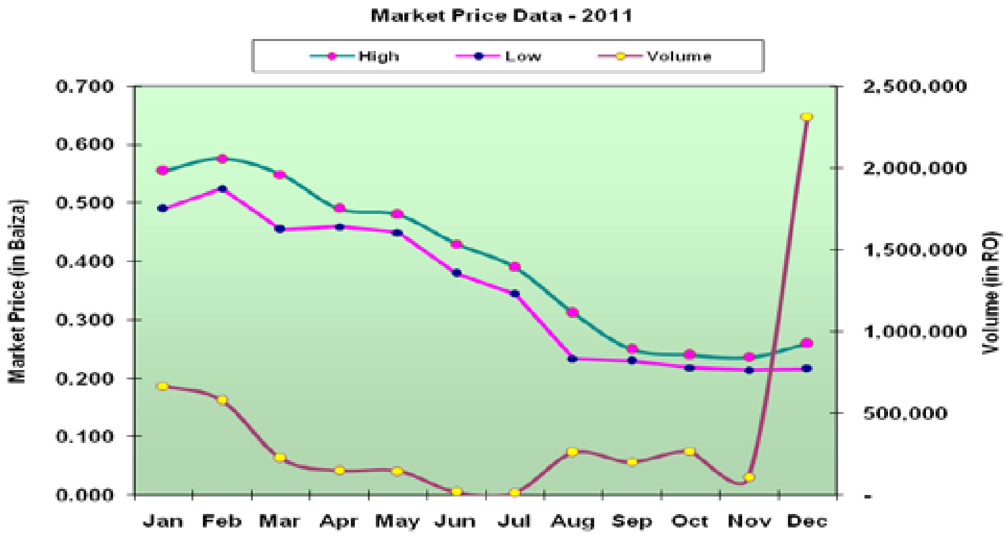
Related Party Transaction

The Company 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.

Market Price Data

Monthly High / Low share price data for financial year 2011:-

Month 2011	High	Low	Volume (RO)	MSM Index (Average)
January	0.555	0.490	666,953	6934
February	0.576	0.525	580,457	6807
March	0.549	0.455	226,081	6335
April	0.490	0.460	151,926	6335
May	0.480	0.450	148,523	6149
June	0.430	0.380	19,696	6017
July	0.390	0.345	17,116	5946
August	0.312	0.234	261,675	5585
September	0.250	0.230	203,322	5700
October	0.240	0.218	268,191	5551
November	0.236	0.214	113,958	5499
December	0.260	0.216	2,314,419	5628



Shareholders holding more than 5% of Total Shares as on December 31, 2011

SR	Shareholder Name	No of Shares Held	Shareholding %
1	Hassan Ali Salman	15,092,000	20.07
2	Maqbool Ali Salman	15,092,000	20.07
3	Al Hassan Electricals Co. LLC	15,008,000	19.96

Professional Profile of the Statutory Auditor

PwC is a global network of firms operating in 158 countries with 169,000 people committed to providing quality in assurance, tax and advisory services.

PwC is the fastest growing professional services firm in the Middle East region and has offices in Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Oman, the Palestinian territories, Qatar, Saudi Arabia and the United Arab Emirates, employing around 2,500 people.

PwC has been established in Oman for over 40 years and the Firm comprises four partners, including one Omani national, and over 140 professionals and support staff. Expert assurance, tax and advisory professionals are able to combine specialist internationally acquired consulting and technical skills with relevant local experience. More information about PwC is available at www.pwc.com/middle-east.

Audit Fees of the Company and subsidiaries and fees for other services paid to the Auditor:

Sr. No.	Particulars	Amount (In RO)
1	Statutory Audit Fees and Report on Corporate Governance (Parent)	9,250
2	Statutory Audit Fees (Subsidiaries)	4,250

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. Nizar Nooralla Punjani, a Chartered Accountant with 15 years of experience in heading Finance & Internal Audit functions, was appointed as the Head of the Internal Audit Department during the year.

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 Commercials Companies Law of the Sultanate of Oman 1974 (as amended) and the rules for disclosure requirements prescribed by the Capital market authority.

There are no material events affecting the continuation of Al Hassan Engineering Co SAOG and its ability to continue its business during the next financial year.

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

Report on the consolidated financial statements

We have audited the accompanying financial statements of **Al Hassan Engineering Company SAOG** (the Parent Company) and its subsidiaries (together, the Group), which comprise the Parent Company and consolidated statement of financial position as at 31 December 2011 and the Parent Company and consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information. The previous year's financial statements as at 31 December 2010 were audited by another auditor, whose report dated 2 March 2011 expressed an unqualified opinion on those statements.

Directors' responsibility for the financial statements

The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the disclosure requirements of the Capital Market Authority and the Commercial Companies Law of 1974, as amended and for such internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 judgement, 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 accompanying Parent Company and consolidated financial statements present fairly, in all material respects the financial position of the Parent Company and of the Group as at 31 December 2011, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other legal and regulatory requirements

Further, as required by the Rules and Guidelines on Disclosure by Issuers of Securities and Insider Trading ('R&G') issued by the Capital Market Authority ('CMA') of the Sultanate of Oman, we report that the financial statements of the Parent Company and the Group have been properly prepared, in all material respects, in accordance with the R&G, with the Rules for Disclosure and Proformas issued by the CMA and with the Commercial Companies Law of 1974 as amended.

PricewaterhouseCoopers LLP

برايس وترهاوس كوبرز أل أل بي
عمان
PricewaterhouseCoopers LLP
Oman

5 March 2012
Muscat, Sultanate of Oman

Consolidated and Parent Company Statement of Comprehensive Income

For the year ended 31 December 2011

	Note	2011 Group RO	2011 Parent Company RO	2010 Group RO	2010 Parent Company RO
Contract income		60,676,339	51,161,636	60,100,041	52,826,346
Contract costs	5	(54,282,675)	(46,006,951)	(52,684,049)	(46,821,651)
		----------	----------	----------	----------
Gross profit		**6,393,664**	**5,154,685**	**7,415,992**	**6,004,695**
Other income	6	423,041	441,830	308,491	335,357
General and administration expenses	7	(3,332,334)	(2,640,059)	(3,405,402)	(2,692,317)
		----------	----------	----------	----------
Operating profit		**3,484,371**	**2,956,456**	**4,319,081**	**3,647,735**
Finance charges	9	(724,153)	(455,788)	(892,907)	(667,302)
		----------	----------	----------	----------
Profit before taxation		**2,760,218**	**2,500,668**	**3,426,174**	**2,980,433**
Taxation	10	(299,622)	(299,622)	(756,099)	(756,099)
		----------	----------	----------	----------
Profit for the year		**2,460,596**	**2,201,046**	**2,670,075**	**2,224,334**
Other comprehensive income					
Net change in fair value of forward currency contracts		17,308	17,308	(121,643)	(121,643)
		----------	----------	----------	----------
Total comprehensive income for the year		**2,477,904**	**2,218,354**	**2,548,432**	**2,102,691**
		=======	=======	=======	=======
Basic earnings per share	28	**0.033**	**0.029**	**0.036**	**0.030**
		=======	=======	=======	=======

The notes on pages 22 to 47 form an integral part of these financial statements.

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Consolidated and Parent Company Statement of Financial Position

For The Year Ended 31 December 2011

	Note	2011 Group RO	2011 Parent Company RO	2010 Group RO	2010 Parent Company RO
ASSETS					
Non-current assets					
Property and equipment	11(a)	11,997,836	9,764,348	12,649,325	11,352,904
Leasehold land	11(b)	840,000	-	-	-
Goodwill	12	878,478	878,478	878,478	878,478
Investments in subsidiaries	13	-	102,900	-	102,900
Retentions receivable	16	938,475	116,299	1,948,902	1,513,973
		14,654,789	10,862,025	15,476,705	13,848,255
Current assets					
Inventories	14	4,303,211	3,612,072	4,127,767	3,783,558
Contract and other receivables	16	36,172,453	37,949,865	38,233,073	37,477,485
Bank balances and cash	17	1,322,279	1,074,118	1,588,502	1,221,861
		41,797,943	42,636,055	43,949,342	42,482,904
Total assets		**56,452,732**	**53,498,080**	**59,426,047**	**56,331,159**
EQUITY					
Capital and reserves					
Share capital	18	7,520,800	7,520,800	7,520,800	7,520,800
Legal reserve	19	1,818,292	1,738,450	1,572,232	1,518,345
Retained earnings		7,080,760	6,791,219	5,994,344	5,938,398
Hedging reserve		(9,994)	(9,994)	(27,302)	(27,302)
Total equity		**16,409,858**	**16,040,475**	**15,060,074**	**14,950,241**
LIABILITIES					
Non-current liabilities					
Non-current portion of term loans	21	1,924,750	1,924,750	-	-
End of service benefits	22	2,510,031	2,354,496	2,114,900	2,046,752
Deferred taxation	23	294,250	294,250	391,507	391,507
		4,729,031	4,573,496	2,506,407	2,438,259
Current liabilities					
Current portion of term loans	21	-	-	687,852	687,852
Bank borrowings	24	15,402,520	15,402,520	18,997,584	18,997,584
Accounts and other payables	25	19,458,807	17,029,073	21,921,452	19,004,545
Provision for taxation	10(b)	452,516	452,516	252,678	252,678
		35,313,843	32,884,109	41,859,566	38,942,659
Total liabilities		**40,042,874**	**37,457,605**	**44,365,973**	**41,380,918**
Total equity and liabilities		**56,452,732**	**53,498,080**	**59,426,047**	**56,331,159**
Net assets per share	27	0.218	0.213	0.200	0.199

The financial statements on pages 18 to 47 were approved by the Board of Directors and authorised for issue on 3rd March 2012 and were signed on their behalf by:

Chairman Director Chief Executive Officer

The notes on pages 22 to 47 form an integral part of these financial statements.

Report of the Auditors - page 17

Consolidated and Parent Company Statement of Changes in Equity

For The Year Ended 31 December 2011

Group	Note	Share capital RO	Legal reserve RO	Retained earnings RO	Hedging reserve RO	Total RO
At 1 January 2010		7,520,800	1,305,225	4,644,188	94,341	13,564,554
Comprehensive income:						
Profit for the year		-	-	2,670,075	-	2,670,075
Other comprehensive income:						
Net change in fair value of forward currency contracts		-	-	-	(121,643)	(121,643)
Total comprehensive income		-	-	2,670,075	(121,643)	2,548,432
Transactions with owners:						
Cash dividend		-	-	(1,052,912)	-	(1,052,912)
Transfer to legal reserve	19	-	267,007	(267,007)	-	-
Total transactions with owners		-	267,007	(1,319,919)	-	(1,052,912)
At 31 December 2010		7,520,800	1,572,232	5,994,344	(27,302)	15,060,074
At 1 January 2011		7,520,800	1,572,232	5,994,344	(27,302)	15,060,074
Comprehensive income:						
Profit for the year		-	-	2,460,596	-	2,460,596
Other comprehensive income:						
Net change in fair value of forward currency contracts		-	-	-	17,308	17,308
Total comprehensive income		-	-	2,460,596	17,308	2,477,904
Transactions with owners:						
Cash dividend for 2010	20	-	-	(1,128,120)	-	(1,128,120)
Transfer to legal reserve	19	-	246,060	(246,060)	-	-
Total transactions with owners		-	246,060	(1,374,180)	-	(1,128,120)
At 31 December 2011		7,520,800	1,818,292	7,080,760	(9,994)	16,409,858

Parent Company	Note	Share capital RO	Legal reserve RO	Retained earnings RO	Hedging reserve RO	Total RO
At 1 January 2010		7,520,800	1,295,912	4,989,409	94,341	13,900,462
Comprehensive income:						
Profit for the year		-	-	2,224,334	-	2,224,334
Other comprehensive income:						
Net change in fair value of forward currency contracts		-	-	-	(121,643)	(121,643)
Total comprehensive income		-	-	2,224,334	(121,643)	2,102,691
Transactions with owners:						
Cash dividend		-	-	(1,052,912)	-	(1,052,912)
Transfer to legal reserve	19	-	222,433	(222,433)	-	-
Total transactions with owners		-	222,433	(1,275,345)	-	(1,052,912)
At 31 December 2010		7,520,800	1,518,345	5,938,398	(27,302)	14,950,241
At 1 January 2011		7,520,800	1,518,345	5,938,398	(27,302)	14,950,241
Comprehensive income:						
Profit for the year		-	-	2,201,046	-	2,201,046
Other comprehensive income:						
Net change in fair value of forward currency contracts		-	-	-	17,308	17,308
Total comprehensive income		-	-	2,201,046	17,308	2,218,354
Transactions with owners:						
Cash dividend for 2010	20	-	-	(1,128,120)	-	(1,128,120)
Transfer to legal reserve	19	-	220,105	(220,105)	-	-
Total transactions with owners		-	220,105	(1,348,225)	-	(1,128,120)
At 31 December 2011		7,520,800	1,738,450	6,791,219	(9,994)	16,040,475

The notes on pages 22 to 47 form an integral part of these financial statements.

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Consolidated and Parent Company Statement of Cash Flows

For The Year Ended 31 December 2011

	2011 Group RO	2011 Parent Company RO	2010 Group RO	2010 Parent Company RO
Operating activities				
Cash receipts from contract and other income	64,143,574	56,497,269	53,879,116	48,357,323
Cash paid towards contract costs and expenses	(56,381,136)	(50,919,481)	(50,190,925)	(45,966,917)
Cash generated from operations	7,762,438	5,577,788	3,688,191	2,390,406
Finance charges paid - net	(724,153)	(455,788)	(892,907)	(667,302)
Tax paid	(197,041)	(197,041)	(773,987)	(773,987)
Net cash flow from operating activities	6,841,244	4,924,959	2,021,297	949,117
Investing activities				
Purchase of property and equipment	(3,943,253)	(2,043,816)	(4,049,175)	(3,389,025)
Proceeds from disposal of equipment	322,072	457,400	180,773	363,277
Net cash used in investing activities	(3,621,181)	(1,586,416)	(3,868,402)	(3,025,748)
Financing activities				
Dividend	(1,128,120)	(1,128,120)	(1,052,912)	(1,052,912)
Net movement in term loans	1,236,898	1,236,898	(7,966,436)	(7,966,436)
Net cash from/(used in) financing activities	108,778	108,778	(9,019,348)	(9,019,348)
Increase/(decrease) in cash and cash equivalents during the year	3,328,841	3,447,321	(10,866,453)	(11,095,979)
Cash and cash equivalents at the beginning of the year	(17,409,082)	(17,775,723)	(6,542,629)	(6,679,744)
Cash and cash equivalents at the end of the year	(14,080,241)	(14,328,402)	(17,409,082)	(17,775,723)
Cash and cash equivalents at the end of the year comprise:				
Bank balances and cash	1,322,279	1,074,118	1,588,502	1,221,861
Bank borrowings	(15,402,520)	(15,402,520)	(18,997,584)	(18,997,584)
	(14,080,241)	(14,328,402)	(17,409,082)	(17,775,723)

The notes on pages 22 to 47 form an integral part of these financial statements.
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Notes to the Consolidated and Parent Company Financial Statements

For The Year Ended 31 December 2011

1 Legal status and principal activities

Al Hassan Engineering Company SAOG (the Parent Company) is registered as a joint stock Company under the Commercial Companies Law of the Sultanate of Oman. The registered address of the company is PO Box 1948, Ruwi, Postal Code 112, Sultanate of Oman. The Parent Company 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 Company holds 49% shareholding and 100% beneficial ownership both in Al Hassan Engineering Company Dubai LLC (the subsidiary) which was incorporated during the year 2001 and in 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 have commenced commercial operations.

The Parent Company has also entered into a joint venture as explained in note 29.

2 Summary of significant accounting policies

2.1 Basis of preparation

(a) These financial statements are prepared on the historical cost basis, as modified by the revaluation of derivative financial instruments at fair value through statement of comprehensive income and in accordance with International Financial Reporting Standards (IFRS), the requirements of the Commercial Companies Law of the Sultanate of Oman, 1974 (as amended) and comply with the disclosure requirements set out in the 'Rules and Guidelines on Disclosure by issuer of Securities and Insider Trading' issued by the Capital Market Authority (CMA) of the Sultanate of Oman.

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

(c) Standards and amendments effective in 2011 and adopted by the Group:
There are no IFRS or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2011 that would be expected to have a material impact on the Group.

2.2 Consolidation

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

NOTES TO THE CONSOLIDATED AND PARENT COMPANY FINANCIAL STATEMENTS *(Continued)*

For The Year Ended 31 December 2011

2 Summary of significant accounting policies *(continued)*

2.2 Consolidation (continued)

(a) *Subsidiaries (continued)*

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries are consistent with the policies adopted by the Group.

(b) *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 these are reported in the statement of comprehensive income.

2.3 Revenue

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the construction activity at the end of the reporting period, as measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs. Variation in contract work and incentive payments are included to the extent that they have been agreed with the customer. Variations to contract and claims which are not yet formally certified by the client are also included to the extent that management believes that such amounts are recoverable from the customer based on the past and present experience of dealing with the customer, the advanced stage of negotiations and the probability of the claims being approved.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

2.4 Foreign currency

(a) *Functional and presentation currency*

Items included in the financial statements of the Group are measured and presented in Rial Omani being the currency of the primary economic environment in which the entity operates.

(b) *Transactions and balances*

Foreign currency transactions are translated into Rial Omani at the exchange rate prevailing on the transaction date. Foreign currency assets and liabilities are translated into Rial Omani at the exchange rate prevailing at the reporting date. Differences on exchange are dealt with in the consolidated statement of comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in the consolidated statement of comprehensive income as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the fair value reserve in consolidated statement of comprehensive income. At the reporting date, the Group did not have any investments in such instruments.

NOTES TO THE CONSOLIDATED AND PARENT COMPANY FINANCIAL STATEMENTS *(Continued)*

For The Year Ended 31 December 2011

2 Summary of significant accounting policies *(continued)*

2.4 Foreign currency (continued)

(c) Group companies

The accounting records of the subsidiaries are maintained in UAE Dirhams (AED). The Rial Omani (RO) amounts included in the consolidated financial statements have been translated at an exchange rate of 0.105 Omani Rial to each AED for the statement of comprehensive income and the statement of financial position items, as the AED to RO exchange rate has effectively remained fixed during the year, both currencies being pegged to the US Dollar.

2.5 Income tax

Income tax on the profit or loss for the year comprises current and deferred tax.

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

Deferred tax is calculated using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences relating to the initial recognition of assets or liabilities that affect neither accounting nor taxable profit are not provided for. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the reporting date.
A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised and is subsequently reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The principal temporary differences arise from depreciation on property and equipment, provision for doubtful debts and provision for slow moving inventories.

2.6 Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation. The cost of property and equipment is their purchase price together with any incidental expenses that are directly attributable to the acquisition of the item. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the establishment and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial year in which they are incurred.

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

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

Freehold land is not depreciated as it is deemed to have an indefinite life.
The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at each reporting date.

NOTES TO THE CONSOLIDATED AND PARENT COMPANY FINANCIAL STATEMENTS *(Continued)*

For The Year Ended 31 December 2011

2 Summary of significant accounting policies *(continued)*

2.6 Property and equipment (continued)

Where the carrying amount of an asset is greater than its estimated recoverable amount it is written down immediately to its recoverable amount.

Gains and losses on disposals of property and equipment are determined by reference to their carrying amounts and are taken into account in determining operating profit.

Interest costs on borrowings to finance the construction of property and equipment are capitalised during the period that is required to complete the asset.

2.7 Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating lease. Payments made under operating lease are recognised in the statement of comprehensive income under general and administration expenses on a straight line basis over the term of the lease.

2.8 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.

2.9 Investment in subsidiary (at the Parent Company level)

Classification

A company is a subsidiary company, if Al Hassan Engineering Company SAOG has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights so as to obtain benefits from the investee company's activities.

Valuation

Investment in subsidiary companies is stated at cost less any diminution in the value of the specific investment, which is other than temporary. Investment income is accounted for in the year in which entitlement is established.

2.10 Impairment

Financial assets

At the end of each reporting period, the management 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 comprehensive 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 the end of each reporting period, the management assesses if there is any indication of impairment of non-financial assets. If an indication exists, the management estimates the recoverable amount of the asset and recognises an impairment loss in the statement of comprehensive income. The management 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 (except in case of goodwill) are recognised immediately in the statement of comprehensive 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 2011

2 Summary of significant accounting policies *(continued)*

2.11 Inventories

Inventories of materials are stated at the lower of cost or net realisable value. Cost is determined on a weighted average basis and consists of the direct landed cost of materials. Net realisable value is the price at which inventories can be sold in the normal course of business after allowing for the costs of realisation. Provision is made where necessary for obsolete, slow moving and defective items. The liability for the goods in transit is recorded on the transfer of risks and rewards to the ownership of goods in favour of the Group.

2.12 Financial assets

The Group classifies its financial assets as loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the reporting date. These are classified as non-current assets. The Group's loans and receivables comprise contract and other receivables and cash and cash equivalents in the statement of financial position (notes 2.13 and 2.14).

2.13 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 is established when there is objective evidence that the Group will not be able to collect the amounts due.

Unbilled contract receivables on long term contracts is stated at the costs incurred and applicable on contracts to the end of the reporting period plus attributable profits estimated to be earned to the end of the reporting period 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 and allocation of other overheads.

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

2.14 Cash and cash equivalents

Cash and cash equivalents comprise of 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.

2.15 End of service benefits and leave entitlements

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

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

For The Year Ended 31 December 2011

2 Summary of significant accounting policies *(continued)*

2.15 End of service benefits and leave entitlements (continued)

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

Provision is made for employees' terminal benefits in the subsidiary companies on the basis prescribed under the UAE labour law based on employees' salaries and number of years of service.

2.16 Accounts and other payable

Creditors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method. Liabilities are recognised for amounts to be paid for goods and services received, whether or not billed to the Group.

2.17 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

2.18 Operating segment

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses and whose operating results are regularly reviewed by the Board of Directors to make decisions about resources to be allocated to the segment and assess its performance. The Group has only one reportable segment that of contracting.

2.19 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 recognised 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 recognised in other comprehensive income and classified as a 'hedging reserve' in the statement of changes in equity, to the extent they are considered effective. Gains or losses arising on subsequent measurement of other derivative financial instruments are recognised in the statement of comprehensive income.

2.20 Directors' remuneration

The Parent Company 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 comprehensive income in the year to which it relates.

2.21 Dividend distribution

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 recognised 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 2011

3 Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, price risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program 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.

Market risk

(i) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency.

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 (Rial Omani) or currencies fixed against Rial Omani. Hence the management believes that there would not be a material impact on the profitability if these foreign currencies weaken or strengthen against the Omani Rial with all other variables held constant.

(ii) Interest rate risk

Interest rate risk arises from the possibility of changes in interest rates and mismatches or gaps in the amount of assets and liabilities that mature or are re-priced in a given period.

Borrowings issued at variable rates expose the company to cash flow interest rate risk. Borrowings at a fixed rate expose the company to fair value 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.

At 31 December 2011, based on the level of interest bearing assets and liabilities, for a 0.5% change in the interest rate, the impact on the profit before taxation in the consolidated statement of comprehensive income will approximate to RO 86,636 (2010 - RO 98,427).

(b) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

Credit risk arises from cash and cash equivalents, call deposits with banks as well as credit exposure to contract customers including outstanding debtors and committed transactions.

In case of banks, management deals with local and foreign banks with a minimum rating of P2 and credit risk is considered minimal. The stated rating is as per the global bank ratings by Moody's Investors Service.

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 statement of financial position. The Group has a significant concentration of credit risk, details of which are provided in note 16 (d) to the financial statements.

Although 93% (2010 - 63%) of the Group's contract income is from 5 customers (2010 - 3 customers), the Group considers it is well positioned to carry out contracting work for other parties and that the business risk associated with concentration on 5 customers is manageable.

NOTES TO THE CONSOLIDATED AND PARENT COMPANY FINANCIAL STATEMENTS *(Continued)*

For The Year Ended 31 December 2011

3 Financial risk management *(continued)*

3.1 Financial risk factors *(continued)*

(c) Liquidity risk

Liquidity risk is the risk that the company will not be able to meet its financial obligations as they fall due. The Group maintains sufficient facilities and bank balances and cash to meet the Group's obligations as they fall due for payment.

The maturity analysis of the non-current portion of the term loans has been disclosed in note 21 to the financial statements. The table below analyses the company's financial liabilities that will be settled on a net basis into relevant maturity grouping based on the remaining period at the reporting date to the contractual maturities date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant. Balances due above twelve months also approximate to their carrying values as they carry commercial rates of interest.

Group

At 31 December 2011	Less than 3 months RO	3 to 6 months RO	6 months to 1 year RO	More than 1 year RO	Total RO
Term loan	-	-	-	1,924,750	1,924,750
Interest on term loan	16,841	16,841	33,683	16,841	84,206
Bank borrowings	15,402,520	-	-	-	15,402,520
Accounts and other payables	14,388,562	4,981,635	88,610	-	19,458,807
	29,807,923	4,998,476	122,293	1,941,591	36,870,283

Parent Company

At 31 December 2011	Less than 3 months RO	3 to 6 months RO	6 months to 1 year RO	More than 1 year RO	Total RO
Term loan	-	-	-	1,924,750	1,924,750
Interest on term loan	16,841	16,841	33,683	16,841	84,206
Bank borrowings	15,402,520	-	-	-	15,402,520
Accounts and other payables	12,156,011	4,784,452	88,610	-	17,029,073
	27,575,372	4,801,293	122,293	1,941,591	34,440,549

Group

At 31 December 2010	Less than 3 months RO	3 to 6 months RO	6 months to 1 year RO	More than 1 year RO	Total RO
Term loan	229,167	229,167	229,518	-	687,852
Interest on term loan	8,097	4,734	1,220	-	14,051
Bank borrowings	18,997,584	-	-	-	18,997,584
Accounts and other payables	10,545,512	8,291,105	3,084,835	-	21,921,452
	29,780,360	8,525,006	3,315,573	-	41,620,939

Parent Company

At 31 December 2010	Less than 3 months RO	3 to 6 months RO	6 months to 1 year RO	More than 1 year RO	Total RO
Term loan	229,167	229,167	229,518	-	687,852
Interest on term loan	8,097	4,734	1,220	-	14,051
Bank borrowings	18,997,584	-	-	-	18,997,584
Accounts and other payables	9,550,072	7,086,248	2,368,225	-	19,004,545
	28,784,920	7,320,149	2,598,963	-	38,704,032

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

For The Year Ended 31 December 2011

3 Financial risk management *(continued)*

3.2 Capital risk management

The Group's objectives when managing capital are:

- to safeguard the Group'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 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.
The Group also ensures compliance with externally imposed capital requirements.
In the context of managing capital (equity), the Parent Company has covenanted with banks providing external debt to maintain specified debt to equity ratio. At the end of the reporting period, the actual debt to equity ratio was within the covenanted level, and the Parent Company does not therefore anticipate that the covenant will require them to increase the level of capital (equity).

3.3 Fair value estimation

The carrying amounts of financial assets and liabilities with a maturity of less than one year are assumed to approximate to their fair values. The fair value of the long term loan approximate to its carrying values as it carries a commercial rate of interest.

4 Critical accounting estimates

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.

(a) Goodwill and investment in subsidiaries

The Board of Directors test annually whether goodwill and investment in subsidiaries have suffered any impairment in accordance with IAS 36, 'Impairment of Assets' which require the use of estimates.

(b) Impairment of contract and other receivables

An estimate of the collectible amount of contract and other receivables is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and an allowance applied according to the length of time past due, based on historical recovery rates. Any difference between the amounts actually collected in future periods and the amounts expected to be collected will be recognised in the statement of comprehensive income. Unbilled contract receivables include RO 395K receivable from a customer, which is under dispute, against which no provision has been established. Management believes that this amount is recoverable. Also refer to note 30(b).

NOTES TO THE CONSOLIDATED AND PARENT COMPANY FINANCIAL STATEMENTS *(Continued)*

For The Year Ended 31 December 2011

4 Critical accounting estimates *(continued)*

(c) Revenue recognition

As described in note 2.3, where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period. In judging where the outcome of the contracts can be estimated reliably, management has considered the detailed criterion for determination of such outcome as set out in IAS 11 'Construction Contracts'. For the purpose of estimating the stage of completion of contract activity, management has considered the forecasts for revenue and costs related to the construction contracts. Claims totalling to RO 5.6 Million which are not yet formally certified by the customer are included in the total contract value on open contracts at the reporting period and considered for revenue recognition, as management believes that such amounts are in the normal course of the business activity.

(d) Others

- provision for slow moving inventories;
- results of the joint venture not being audited. The Parent Company's share in the net assets of this joint venture is 40%. Based on the past experience, the management believes that the unaudited results will not materially vary from the audited results (note 29);
- the margins of profit ultimately expected on long term contracts that is used to determine the level of contract profit recognition; and
- whether any liquidated damages will apply when there has been a delay in completion of contracts and it is unsure as to which party is at fault.

5 Contract costs

	2011 Group RO	2011 Parent Company RO	2010 Group RO	2010 Parent Company RO
Materials	16,681,168	14,933,181	18,150,804	16,903,495
Salaries and employee related costs (note 8)	17,308,307	14,968,263	13,927,374	12,633,539
Sub-contract costs	5,482,725	2,993,355	6,414,024	4,961,148
Depreciation [note 11(a)(iii)]	3,146,980	2,911,329	3,030,764	2,925,384
Other direct expenses	11,663,495	10,200,823	11,161,083	9,398,085
	54,282,675	46,006,951	52,684,049	46,821,651

6 Other income

	2011 Group RO	2011 Parent Company RO	2010 Group RO	2010 Parent Company RO
Profit on disposal of equipment	258,891	258,891	110,083	110,083
Hire of equipments	117,486	117,486	-	-
Insurance claim	28,350	28,350	-	-
Scrap sales	14,538	14,538	-	-
Allowance for credit losses written back [note 16 (a)]	-	-	162,534	162,534
Miscellaneous	3,776	22,565	35,874	62,740
	423,041	441,830	308,491	335,357

NOTES TO THE CONSOLIDATED AND PARENT COMPANY FINANCIAL STATEMENTS *(Continued)*

For The Year Ended 31 December 2011

7 General and administration expenses

	Group 2011 RO	2011 Parent Company RO	Group 2010 RO	2010 Parent Company RO
Salaries and employee related costs (note 8)	2,403,368	1,863,652	2,416,111	1,857,151
Rent	162,683	154,374	197,028	154,824
Professional fees	130,618	110,302	65,165	59,250
Depreciation [note 11 (a)(iii)]	109,410	87,363	121,573	107,130
Communication	77,857	63,662	96,943	80,836
Directors' remuneration [note 26 (b)]	72,000	72,000	60,000	60,000
Advertisement and business promotion	58,062	55,749	57,386	55,491
Allowance for credit losses [note 16 (a)]	43,287	43,287	-	-
Travelling and conveyance	37,014	30,918	83,845	59,545
Printing and stationery	21,601	13,687	36,668	32,772
Directors' sitting fees [note 26 (b)]	21,000	21,000	16,500	16,500
Insurance	20,871	15,527	23,584	14,811
Vehicle fuel	20,082	8,213	15,954	11,222
Contributions towards social causes	21,040	21,040	23,877	23,877
Utilities	18,780	15,508	37,607	36,716
Miscellaneous	114,661	63,777	153,161	122,192
	3,332,334	2,640,059	3,405,402	2,692,317

8 Salaries and employee related costs

	2011 Group RO	2011 Parent Company RO	2010 Group RO	2010 Parent Company RO
Salaries and wages	12,626,587	10,465,481	9,941,201	8,627,625
Staff allowances	2,418,439	2,101,237	2,916,189	2,725,121
Bonus and incentives	1,500,943	1,448,276	1,029,787	995,290
Air fare and leave salary	1,211,296	1,090,091	931,336	809,543
Accommodation costs	800,745	648,533	589,452	469,164
End of service benefits (note 22)	681,462	623,343	555,672	502,280
Social security	279,515	279,024	196,814	196,081
Others	192,688	175,930	183,034	165,586
	19,711,675	16,831,915	16,343,485	14,490,690
Allocated as follows:				
Contract costs (note 5)	17,308,307	14,968,263	13,927,374	12,633,539
General and administration expenses (note 7)	2,403,368	1,863,652	2,416,111	1,857,151
	19,711,675	16,831,915	16,343,485	14,490,690

9 Finance charges - net

	2011 Group RO	2011 Parent Company RO	2010 Group RO	2010 Parent Company RO
Interest expense on:				
- long term loan	25,464	25,464	71,575	71,575
- short term borrowings	544,643	635,880	624,588	624,588
- bank overdrafts	154,046	135,801	196,744	159,593
	724,153	797,145	892,907	855,756
Less: recovery from subsidiaries	-	(341,357)	-	(188,454)
	724,153	455,788	892,907	667,302

NOTES TO THE CONSOLIDATED AND PARENT COMPANY FINANCIAL STATEMENTS *(Continued)*

For The Year Ended 31 December 2011

10 Taxation

(a) The taxation charge for the year is as follows:

	2011 Group and Parent Company RO	2010 Group and Parent Company RO
Current tax	396,879	383,120
Tax in respect of prior years	-	309,549
Deferred tax	(97,257)	63,430
	-----------	-----------
	299,622	756,099
	======	======

(b) The movement in the provision for taxation during the year comprises:

	2011 Group and Parent Company RO	2010 Group and Parent Company RO
At 1 January	252,678	281,321
Charge for the year	396,879	383,120
Advance tax paid	-	52,675
In respect of prior years	-	309,549
Paid during the year	(197,041)	(773,987)
	-----------	-----------
At 31 December	452,516	252,678
	======	======

(c) The tax rate applicable to the Parent Company is 12% (2010 - 12%). Provision for tax has been made on the accounting profit adjusted for tax purposes. The subsidiary companies operate in a jurisdiction which is not subject to taxation. The reconciliation of taxation on the accounting profit with the taxation charge for the year is as follows:

	2011 Group and Parent Company RO	2010 Group and Parent Company RO
Tax charge on RO 2,500,668 (2010 - RO 2,980,433)	296,480	354,052
Tax effect of:		
Disallowable expenses	2,705	3,221
Prior years	-	309,549
Others	437	89,277
	----------------	----------------
	299,622	756,099
	======	======

d) Assessments for the years 2007 to 2010 are pending with the Oman taxation authorities.

NOTES TO THE CONSOLIDATED AND PARENT COMPANY FINANCIAL STATEMENTS *(Continued)*

For The Year Ended 31 December 2011

11 (a) Property and equipment

(i) Details of the movement in property and equipment are as follows:

Year 2011 Group	Freehold land RO	Buildings RO	Machinery and equipment RO	Furniture, fixtures and office equipment RO	Instrumentation and testing equipment RO	Vehicles RO	Capital work- in-progress RO	Total RO
Cost								
At 1 January 2011	875,905	134,510	18,046,851	1,801,452	1,022,597	6,180,525	-	28,061,840
Additions during the year	-	-	1,154,094	317,524	66,438	370,135	759,891	2,668,082
Disposals during the year	-	-	(575,407)	(26,659)	-	(767,935)	-	(1,370,001)
At 31 December 2011	875,905	134,510	18,625,538	2,092,317	1,089,035	5,782,725	759,891	29,359,921
Depreciation								
At 1 January 2011	-	35,538	9,636,672	1,255,240	869,490	3,615,575	-	15,412,515
Charge for the year	-	8,756	2,114,315	281,077	69,069	783,173	-	3,256,390
Relating to disposals	-	-	(544,867)	(19,482)	-	(742,471)	-	(1,306,820)
At 31 December 2011	-	44,294	11,206,120	1,516,835	938,559	3,656,277	-	17,362,085
Net book values								
At 31 December 2011	875,905	90,216	7,419,418	575,482	150,476	2,126,448	759,891	11,997,836

Year 2011 Parent Company	Freehold land RO	Buildings RO	Machinery and equipment RO	Furniture, fixtures and office equipment RO	Instrumentation and testing equipment RO	Vehicles RO	Capital work- in-progress RO	Total RO
Cost								
At 1 January 2011	875,905	134,510	17,208,615	1,563,081	1,022,597	5,850,983	-	26,655,691
Additions during the year	-	-	995,155	252,662	56,495	273,005	31,328	1,608,645
Disposals during the year	-	-	(666,883)	(26,659)	-	(792,738)	-	(1,486,280)
At 31 December 2011	875,905	134,510	17,536,887	1,789,084	1,079,092	5,331,250	31,328	26,778,056
Depreciation								
At 1 January 2011	-	35,538	9,605,717	1,206,256	869,490	3,585,786	-	15,302,787
Charge for the year	-	8,756	1,979,424	228,606	67,881	714,025	-	2,998,692
Relating to disposals	-	-	(535,953)	(19,482)	-	(732,336)	-	(1,287,771)
At 31 December 2011	-	44,294	11,049,188	1,415,380	937,371	3,567,475	-	17,013,708
Net book values								
At 31 December 2011	875,905	90,216	6,487,699	373,704	141,721	1,763,775	31,328	9,764,348

NOTES TO THE CONSOLIDATED AND PARENT COMPANY FINANCIAL STATEMENTS *(Continued)*

For The Year Ended 31 December 2011

11 (a) Property and equipment *(continued)*

Year 2010 Group	Freehold land RO	Buildings RO	Machinery and equipment RO	Furniture, fixtures and office equipment RO	Instrumentation and testing equipment RO	Vehicles RO	Total RO
Cost							
At 1 January 2010	875,905	134,510	16,124,680	1,513,473	913,005	6,373,447	25,935,020
Reclassified during the year	-	-	207,801	-	-	(207,801)	-
Additions during the year	-	-	2,609,320	428,330	113,288	444,939	3,595,877
Disposals during the year	-	-	(894,950)	(140,351)	(3,696)	(430,060)	(1,469,057)
At 31 December 2010	875,905	134,510	18,046,851	1,801,452	1,022,597	6,180,525	28,061,840
Depreciation							
At 1 January 2010	-	26,774	8,398,149	1,110,674	827,083	3,295,865	13,658,545
Reclassified during the year	-	-	141,807	-	-	(141,807)	-
Charge for the year	-	8,764	1,963,007	249,466	46,082	885,018	3,152,337
Relating to disposals	-	-	(866,291)	(104,900)	(3,675)	(423,501)	(1,398,367)
At 31 December 2010	-	35,538	9,636,672	1,255,240	869,490	3,615,575	15,412,515
Net book values							
At 31 December 2010	875,905	98,972	8,410,179	546,212	153,107	2,564,950	12,649,325

Year 2010 Parent Company	Freehold land RO	Buildings RO	Machinery and equipment RO	Furniture, fixtures and office equipment RO	Instrumentation and testing equipment RO	Vehicles RO	Total RO
Cost							
At 1 January 2010	875,905	134,510	15,742,841	1,393,582	913,005	6,241,978	25,301,821
Reclassified during the year	-	-	207,801	-	-	(207,801)	-
Additions during the year	-	-	2,174,556	307,703	113,288	340,180	2,935,727
Disposals during the year	-	-	(916,583)	(138,204)	(3,696)	(523,374)	(1,581,857)
At 31 December 2010	875,905	134,510	17,208,615	1,563,081	1,022,597	5,850,983	26,655,691
Depreciation							
At 1 January 2010	-	26,774	8,372,781	1,092,012	827,083	3,280,286	13,598,936
Reclassified during the year	-	-	141,807	-	-	(141,807)	-
Charge for the year	-	8,764	1,910,168	216,997	46,082	850,503	3,032,514
Relating to disposals	-	-	(819,039)	(102,753)	(3,675)	(403,196)	(1,328,663)
At 31 December 2010	-	35,538	9,605,717	1,206,256	869,490	3,585,786	15,302,787
Net book values							
At 31 December 2010	875,905	98,972	7,602,898	356,825	153,107	2,265,197	11,352,904

NOTES TO THE CONSOLIDATED AND PARENT COMPANY FINANCIAL STATEMENTS *(Continued)*

For The Year Ended 31 December 2011

11 (a) Property and equipment *(continued)*

(ii) A portion of the Parent Company's machinery, equipment and vehicles are mortgaged to a bank providing the term loan referred to in note 21.

(iii) The depreciation charge for the year has been allocated as follows:

	2011 Group RO	2011 Parent Company RO	2010 Group RO	2010 Parent Company RO
Contract costs (note 5)	3,146,980	2,911,329	3,030,764	2,925,384
General and administration expenses (note 7)	109,410	87,363	121,573	107,130
	----------	----------	----------	----------
	3,256,390	2,998,692	3,152,337	3,032,514
	======	======	======	======

(iv) Borrowing costs of RO 91,237 (2010 - nil) arising on financing certain qualifying assets within the property and equipment under construction are capitalised during the year.

11 (b) Leasehold land

A subsidiary company entered into two operating lease agreements in respect of the land used for construction of an office building. As per the terms of the lease agreements, the company has paid an up-front advance amounting to RO 840,000 (AED 8,000,000). The lease is valid until the year 2037. The up-front fee paid will be amortised on a straight line basis over the period of the lease.

12 Goodwill

	2011 and 2010 Group and Parent Company RO
Cost	2,696,835
Less: amortisation upto the year 2005	(1,818,357)

Net book value	878,478
	======

No impairment was considered necessary by the Board of Directors in 2011 and 2010, as the operations of the Parent Company have been profitable over the years and no specific indicators for impairment were identified.

13 Investments in Subsidiaries

	Holding	Activity	Year of incorporation	2011 and 2010 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

				102,900
				======

NOTES TO THE CONSOLIDATED AND PARENT COMPANY FINANCIAL STATEMENTS *(Continued)*

For The Year Ended 31 December 2011

13 Investments in Subsidiaries *(continued)*

(a) Investments in subsidiaries have been set off against the share capital and reserves of the subsidiaries in the consolidated financial statements.

(b) 51% (2010 - 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 title to assets and liabilities of these subsidiaries, to that extent are legally held by such nominees. The Parent Company holds 100% beneficial ownership and exercises control over both the subsidiaries. Accordingly these subsidiaries are entirely owned by the Parent Company.

(c) The Board of Directors of the Parent Company consider that no impairment has arisen during the years 2011 and 2010 as the subsidiaries have positive net worth or orders on hand at the reporting date that will generate future cash flows and no specific indicators for impairment were identified.

14 Inventories

	2011 Group RO	2011 Parent Company RO	2010 Group RO	2010 Parent Company RO
Materials	3,141,046	2,718,110	2,734,062	2,734,062
Spare parts and consumables	240,803	240,803	304,596	304,596
Tools	1,471,551	1,203,348	1,676,031	1,331,822
Goods in transit	219,333	219,333	111,104	111,104
	----------	----------	----------	----------
	5,072,733	4,381,594	4,825,793	4,481,584
Less: provision for slow moving inventories	(769,522)	(769,522)	(698,026)	(698,026)
	----------	----------	----------	----------
	4,303,211	3,612,072	4,127,767	3,783,558
	======	======	======	======

The movement in the provision for inventories is given below:

	2011 Group and Parent Company RO	2010 Group and Parent Company RO
At the beginning of the year	698,026	642,751
Provision for the year	143,382	55,275
Written off during the year	(71,886)	-
	----------	----------
At the end of the year	769,522	698,026
	======	======

NOTES TO THE CONSOLIDATED AND PARENT COMPANY FINANCIAL STATEMENTS *(Continued)*

For The Year Ended 31 December 2011

15 Financial instruments by category

(a) The accounting policies for financial instruments have been applied to the line items below:

Group

Loans and receivables	2011 RO	2010 RO
Assets as per statement of financial position		
Contract and other receivables (excluding prepayments and unbilled contract receivables)	15,160,317	18,403,135
Bank and cash	1,322,279	1,588,502
	16,482,596	19,991,637

Other financial liabilities	2011 RO	2010 RO
Liabilities as per statement of financial position		
Term loan	1,924,750	687,852
Short term borrowings	15,402,520	18,997,584
Accounts and other payables (excluding accruals, advances and excess billings)	11,613,335	15,631,680
	28,940,605	35,317,116

Parent

Loans and receivables	2011 RO	2010 RO
Assets as per statement of financial position		
Contract and other receivables (excluding prepayments and unbilled contract receivables)	19,849,158	20,134,619
Bank and cash	1,074,118	1,221,861
	20,923,276	21,356,480

Other financial liabilities	2011 RO	2010 RO
Liabilities as per statement of financial position		
Term loan	1,924,750	687,852
Short term borrowings	15,402,520	18,997,584
Accounts and other payables (excluding accruals, advances and excess billings)	9,780,635	14,204,704
	27,107,905	33,890,140

(b) Credit quality of financial assets

As per the credit policy of the company, customers are extended a credit period of up to 45 days in the normal course of business. However, in some cases, due to the market conditions and historical business relationship with the customer the credit period may be extended by a further period of 15 days. The credit quality of financial assets is determined by the customers' history of meeting commitments, market intelligence related information and management's trade experience.

NOTES TO THE CONSOLIDATED AND PARENT COMPANY FINANCIAL STATEMENTS *(Continued)*

For The Year Ended 31 December 2011

15 Financial instruments by category *(continued)*

(b) Credit quality of financial assets (continued)

Trade debtors	2011 Group RO	2011 Parent Company RO	2010 Group RO	2010 Parent Company RO
Counterparties without external credit rating:				
Up to 45 days	7,662,822	6,373,269	8,478,430	7,604,151
Due above 45 days	1,796,700	1,796,700	4,583,355	4,583,355
	9,459,522	8,169,969	13,061,785	12,187,506

Cash at bank	2011 Group RO	2011 Parent Company RO	2010 Group RO	2010 Parent Company RO
Banks with rating of P-1	408,236	166,351	425,165	114,631
Banks with rating of P-2	767,424	767,424	103,669	103,669
Not rated	52,079	52,080	880,366	880,366
	1,227,739	985,855	1,409,200	1,098,666

The rest of the item 'bank balances and cash' in the statement of financial position comprises of cash in hand.

16 Contract and other receivables

	2011 Group RO	2011 Parent Company RO	2010 Group RO	2010 Parent Company RO
Contract receivables	9,459,522	8,169,969	13,061,785	12,187,506
Unbilled contract receivables	20,315,490	17,305,765	20,071,534	17,757,856
Advances to suppliers	1,252,614	905,503	855,874	825,949
Prepayments and other receivables	1,635,121	911,241	1,707,306	1,098,983
Less: allowance for credit losses	(257,915)	(257,915)	(214,628)	(214,628)
	32,404,832	27,034,563	35,481,871	31,655,666
Retentions receivable	4,493,340	2,848,988	4,358,622	3,488,762
Due from subsidiaries [note 26 (d)]	-	7,867,735	-	3,403,207
Due from related parties [note 26 (d)]	212,756	314,878	341,482	443,823
	37,110,928	38,066,164	40,181,975	38,991,458
Less: non-current portion of retentions receivable	(938,475)	(116,299)	(1,948,902)	(1,513,973)
	36,172,453	37,949,865	38,233,073	37,477,485

NOTES TO THE CONSOLIDATED AND PARENT COMPANY FINANCIAL STATEMENTS *(Continued)*

For The Year Ended 31 December 2011

16 Contract and other receivables *(continued)*

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

	2011 Group and Parent Company RO	2010 Group and Parent Company RO
At 1 January	214,628	501,021
Provided/(released) during the year	43,287	(162,534)
Written off during the year	-	(123,859)
	- - - - - - - - -	- - - - - - - - -
At 31 December	257,915	214,628
	= = = = = = =	= = = = = = =

(b) Allowance for credit losses at the end of the reporting date is attributable to the following:

	2011 Group and Parent Company RO	2010 Group and Parent Company RO
Contract receivables	101,645	58,358
Unbilled contract receivables	120,070	120,070
Advances to suppliers	25,200	25,200
Prepayments and other receivables	11,000	11,000
	- - - - - - - - -	- - - - - - - - -
	257,915	214,628
	= = = = = = =	= = = = = = =

(c) The unbilled contract receivables comprise:

	2011 Group RO	2011 Parent Company RO	2010 Group RO	2010 Parent Company RO
Contracts in progress at cost plus estimated attributable profits	146,551,392	126,009,017	93,631,964	82,577,585
Less: progress billings	(126,235,902)	(108,703,252)	(73,560,430)	(64,819,729)
	- - - - - - - - - - -	- - - - - - - - - - -	- - - - - - - - - - -	- - - - - - - - - - -
	20,315,490	17,305,765	20,071,534	17,757,856
	= = = = = = =	= = = = = = =	= = = = = = =	= = = = = = =

(d) At 31 December 2011, 9 customers (2010 - 6 customers) account for 95% (2010 - 94%) of the contract receivables.

(e) The Group's and Parent Company's entire contract receivables are unsecured (2010 - same terms).

(f) A significant portion of the Parent Company's contract receivables are assigned to banks providing the term loans and credit facilities referred to in notes 21 and 24 to the financial statements.

(g) The Group's contract receivables include RO 6,377,486 (2010 - RO 8,334,647) and the Parent Company's contract receivables include RO 5,087,932 (2010 - RO 7,460,368) due in foreign currencies

(h) The Group's contract receivables amounting to RO 7,662,822 (2010 - RO 8,478,430) and Parent Company's contract receivables amounting to RO 6,373,269 (2010 - RO 7,604,151) are neither past due nor impaired and are estimated as collectible based on historical experience.

(i) 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 2011

16 Contract and other receivables *(continued)*

(j) At the reporting date, the Group's and Parent Company's following contract receivables are past due but not impaired and are estimated as collectible based on historical experience:

	2011 Parent and Group Company RO	2010 Parent and Group Company RO
Debts due between 1.5 months - 6 months	1,180,599	2,440,777
Debts due between 6 months - 1 year	347,844	2,075,628
Debts due more than 1 year	166,612	8,592
	1,695,055	4,524,997

(k) At the reporting date, contract receivables of the Group and the Parent Company amounting to RO 101,645 (2010 - 58,358) are impaired and fully provided for.

17 Cash and cash equivalents

	2011 Group RO	2011 Parent Company RO	2010 Group RO	2010 Parent Company RO
Cash in hand	94,540	88,263	179,302	123,195
Bank balances	1,227,739	985,855	1,409,200	1,098,666
	1,322,279	1,074,118	1,588,502	1,221,861

18 Share capital

(a) The authorised share capital consists of 100,000,000 shares (2010 - 100,000,000 shares) of RO 0.100 each (2010 - RO 0.100 each). The issued and fully paid up capital consists of 75,208,000 shares of RO 0.100 each (2010 - 75,208,000 shares of RO 0.100 each).

(b) Shareholders of the Parent Company who own 10% or more of the Parent Company's shares, whether in their name or through a nominee account and the number of shares they hold are as follows:

		2011 and 2010
Shareholder	**% holding**	**Number of shares held**
Mr Hassan Ali Salman	20.07%	15,092,000
Mr Maqbool Ali Salman	20.07%	15,092,000
Al Hassan Electricals Company LLC	19.96%	15,008,000

19 Legal reserve

In accordance with Article 106 of the Commercial Companies Law of the Sultanate of Oman, 1974 (as amended) and Company Law of United Arab Emirates, 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.

NOTES TO THE CONSOLIDATED AND PARENT COMPANY FINANCIAL STATEMENTS *(Continued)*

For The Year Ended 31 December 2011

20 Dividend

a) The Board of Directors have proposed a cash dividend of 15% (2010 - cash dividend of 15%) of the share capital amounting to RO 1,128,120 (2010 - RO 1,128,120), subject to shareholders' approval at the Annual General Meeting.

(b) Dividend per share paid during the year as follows:

	2011 Group and Parent Company RO	2010 Group and Parent Company RO
Dividend (in Rial Omani)	1,128,120	1,052,912
	- - - - - - - - -	- - - - - - - - -
Number of shares outstanding	75,208,000	75,208,000
	- - - - - - - - -	- - - - - - - - -
Dividend per share (in Rial Omani)	0.015	0.014
	= = = = = =	= = = = = =

(c) During the year, an amount of RO 2,000 (2010 - RO 15,900) representing unclaimed dividends for the year has been transferred to the Investor's Trust Fund of the Capital Market Authority.

21 Term loans

	2011 Group and Parent Company RO	2011 Group and Parent Company RO
Term loan I	-	687,852
Term loan II	1,924,750	-
	- - - - - - - - -	- - - - - - - - -
	1,924,750	687,852
Current portion	-	(687,852)
	- - - - - - - - -	- - - - - - - - -
Non-current portion	1,924,750	-
	= = = = = =	= = = = = =

(a) Term loan I was repaid during the year.

(b) Term loan II is a medium term loan obtained from a commercial bank in the Sultanate of Oman. The loan is denominated in US dollars, carries an interest rate of 3.5% per annum and is repayable on 25 April 2013. The loan is secured by commercial mortgage of machinery and equipments.

(c) Maturity profile of non-current portion of term loans is as follows:

	2011 Group and Parent Company RO	2010 Group and Parent Company RO
Between 1 and 2 years	1,924,750	-
	= = = = = =	= = = = = =

(d) The fair values of the term loan approximate to its carrying amount as it carries a commercial rate of interest.

NOTES TO THE CONSOLIDATED AND PARENT COMPANY FINANCIAL STATEMENTS *(Continued)*

For The Year Ended 31 December 2011

22 End of service benefits

	2011 Group RO	2011 Parent Company RO	2010 Group RO	2010 Parent Company RO
At 1 January	2,114,900	2,046,752	1,711,664	1,689,015
Charge for the year	681,462	623,343	555,672	502,280
Transfer to subsidiaries	-	(55,983)	-	-
Paid during the year	(286,331)	(259,616)	(152,436)	(144,543)
	---------	---------	---------	---------
At 31 December	2,510,031	2,354,496	2,114,900	2,046,752
	======	======	======	======

In accordance with the provisions of IAS 19, management has carried out an exercise to assess the present value of its obligations as at 31 December 2011 and 31 December 2010, using the projected unit credit method, in respect of employees' end of service benefits payable under the Oman Labour Law 2003 and its amendments. The expected liability at the date of leaving the service has been discounted to net present value using a discount rate of 4%. Under this method, an assessment has been made of an employee's expected service life with the company and the expected basic salary at the date of leaving the service. Management has assumed average increment/promotion costs of 3%.

23 Deferred taxation

The net deferred tax liability in the statement of financial position and deferred tax (credit)/charge in the statement of comprehensive income are attributable to the following items:

	2011 Group and Parent Company RO	(Credited) to statement of comprehensive income RO	2011 Group and Parent Company RO
Deferred tax liability:			
Accelerated tax depreciation	501,025	(83,484)	417,541
Deferred tax asset:			
Provision for inventories	(83,763)	(8,579)	(92,342)
Allowance for credit losses	(25,755)	(5,194)	(30,949)
	--------	--------	--------
Net deferred tax liability	391,507	(97,257)	294,250
	=====	=====	=====

	2010 Group and Parent Company RO	Charged / (credited) to statement of comprehensive income RO	2010 Group and Parent Company RO
Deferred tax liability:			
Accelerated tax depreciation	433,540	67,485	501,025
Deferred tax asset:			
Provision for inventories	(59,266)	(24,497)	(83,763)
Allowance for credit losses	(46,197)	20,442	(25,755)
	--------	--------	--------
Net deferred tax liability	328,077	63,430	391,507
	=====	=====	=====

24 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 rates 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. The borrowings are secured by assignment of certain specific contract receivables.

NOTES TO THE CONSOLIDATED AND PARENT COMPANY FINANCIAL STATEMENTS *(Continued)*

For The Year Ended 31 December 2011

25 Accounts and other payables

	2011 Group RO	2011 Parent Company RO	2010 Group RO	2010 Parent Company RO
Accounts payable	7,256,237	5,569,606	8,438,350	7,328,516
Creditors for capital purchases	71,800	71,800	506,971	506,971
Due to related parties [see note 26 (d)]	722,550	704,621	2,440,438	2,424,773
Accrued expenses	2,472,221	2,141,413	1,877,315	1,763,886
Accrued project expenses	2,868,928	2,741,236	3,346,443	3,044,966
Excess billings [see (c) below]	4,103,040	4,103,040	143,149	143,149
Advances from customers	1,270,211	1,003,985	4,269,308	2,892,806
Other payables	693,820	693,372	899,478	899,478
	19,458,807	17,029,073	21,921,452	19,004,545

(a) The Group's accounts payable include RO 2,638,312 (2010 - RO 1,741,985) and the Parent Company's accounts payable include RO 951,682 (2010 - RO 632,151) payable in foreign currencies.
(b) Other payables include an amount of RO 9,994 (2010 - RO 27,302) which relates to a revision of forward currency contracts to fair value
(c) The excess billings comprise of:

	2011 Group RO	2011 Parent Company RO	2010 Group RO	2010 Parent Company RO
Progress billings	27,729,761	27,729,761	1,852,367	1,852,367
Less: contracts in progress at cost plus estimated attributable profits	(23,626,721)	(23,626,721)	(1,709,218)	(1,709,218)
	4,103,040	4,103,040	143,149	143,149

26 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 related party transactions carried out during the year are as follows:

	2011 Group RO	2011 Parent Company RO	2010 Group RO	2010 Parent Company RO
Entities related to Directors				
Contract costs	(1,466,301)	(1,464,424)	(3,399,352)	(3,389,970)
General and administration expense	(295,552)	(295,552)	(229,752)	(229,752)
Contract income	630,639	630,639	1,111,104	1,111,104
Purchase of equipment	(1,650)	(1,650)	(12,693)	(6,393)
Disposal of equipment	826	826	-	-
Subsidiary company				
Recharge of interest	-	341,357	-	188,454
Other income	-	18,789	-	26,866
Disposal of equipment	-	135,328	-	182,504
Contract costs	-	(50,976)	-	-

NOTES TO THE CONSOLIDATED AND PARENT COMPANY FINANCIAL STATEMENTS *(Continued)*

For The Year Ended 31 December 2011

26 Related parties *(continued)*

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

	2011 Group and Parent Company RO	2010 Group and Parent Company RO
Short term employment benefits	375,440	333,242
End of service benefits	21,157	14,155
Directors' sitting fees	21,000	16,500
Directors' remuneration	72,000	60,000
	489,597	423,897

(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 amounts due from subsidiaries are repayable on demand and carry commercial rates of interest. The amount due to and from other related parties are interest free and pertain to the entities related to the Directors. (note 16 and note 25). During the year, the Parent Company has waived interest for eleven months in respect of amounts due from a subsidiary company, the balance of which at 31 December 2011 is RO 2.097Mn.

(e) The Parent Company has provided bank guarantees to the customers of the subsidiary companies amounting to RO 2,027,773 [note 30(a)].

27 Net assets per share

Net assets per share are calculated by dividing the net assets at the end of the reporting period by the number of shares outstanding as follows:

	2011 Group RO	2011 Parent Company RO	2010 Group RO	2010 Parent Company RO
Net assets (in Rial Omani)	16,409,858	16,040,475	15,060,074	14,950,241
Number of shares outstanding	75,208,000	75,208,000	75,208,000	75,208,000
Net assets per share (in Rial Omani)	0.218	0.213	0.200	0.199

28 Basic earnings per share

Basic earnings 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:

	2011 Group RO	2011 Parent Company RO	2010 Group RO	2010 Parent Company RO
Net profit for the year (in Rial Omani)	2,460,596	2,201,046	2,670,075	2,224,334
Average number of shares outstanding during the year	75,208,000	75,208,000	75,208,000	75,208,000
Basic earnings per share (in Rial Omani)	0.033	0.029	0.036	0.030

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

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

For The Year Ended 31 December 2011

29 Joint venture

The Parent Company had 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 of Oman (PDO) which has been substantially completed. The interest of the Parent Company in the joint venture is 40%.

The amounts relating to the Parent Company's 40% interest in the joint venture which are included in the Parent Company's financial statements for the year, based on management accounts as at 31 December 2011 are as follows:

	2011 40% share in joint venture RO	2010 40% share in joint venture RO
Expenses	1,217	1,009
Current assets	79,587	80,804
Current liabilities	81,813	81,813
Accumulated losses	2,226	1,009

30 Contingent liabilities

(a) Outstanding guarantees with banks relating to contractual performance in the ordinary course of business amounted to RO 23,685,994 (2010 - RO 21,484,315). Included in this amount are the guarantees issued on behalf of the subsidiaries totalling to RO 2,027,773.

(b) During the year, the Parent Company filed a claim against a customer in response to which a counter claim is filed by the customer against the Parent Company. The Parent Company's Board of Directors believes that the counter claim is not tenable and expects that it has strong grounds as per the relevant contract to defend the claim and accordingly no provision is required in the consolidated financial statements. Both the parties have agreed for resolution through arbitration, the process of which has commenced.

31 Commitments

(i) Purchase commitments

Group
At the reporting date, the value of outstanding purchase orders amounted to RO 9,281,364 (2010 - RO 3,881,211).

Parent Company
At the reporting date, the value of outstanding purchase orders amounted to RO 8,977,140 (2010 - RO 3,786,711).

(ii) Capital commitments:

Group
At the reporting date, the value of outstanding purchase orders amounted to RO 143,790 (2010 - RO 19,646).

Parent Company
At the reporting date, the value of outstanding purchase orders amounted to RO 56,890 (2010 - RO 19,646).

NOTES TO THE CONSOLIDATED AND PARENT COMPANY FINANCIAL STATEMENTS *(Continued)*

For The Year Ended 31 December 2011

31 Commitments *(continued)*

(iii) Other commitments:
At the reporting date, the Parent Company had:

(a) unutilised letters of credit relating to the commercial and financing operations amounting to RO 12,508,608 (2010 - RO 2,725,486).

(b) forward purchase contracts of foreign currencies (treated as cash flow hedges) amounting to RO 1,976,203 (2010 - RO 1,008,743) outstanding in order to cover specific liabilities for the purchases of materials [note 31(i)].

(c) leased two plots of land for business activities from the Public Establishment for Industrial Estates (PEIE), Nizwa for a period until 24 April 2034. Under the terms of the lease, the future rental payments are as follows:

	2011 Group and Parent Company RO	2010 Group and Parent Company RO
Amounts committed:		
Not later than one year	14,683	14,683
Later than one year not later than five years	58,732	58,732
Later than five years	254,505	269,188
	327,920	342,603

32 Operating segment

The Group operates in one business segment, that of contracting. All relevant information relating to the business segment is disclosed in the consolidated statement of comprehensive income, consolidated statement of financial position and notes to the consolidated financial statements. The geographical information in respect of the operating segment is as follows:

Group	2011 Group Contract income RO	2011 Group Contract and other receivables RO	2010 Group Contract income RO	2010 Group Contract and other receivables RO
Sultanate of Oman - Parent Company	51,161,636	38,066,164	52,826,346	38,991,458
Other GCC countries - Subsidiaries	9,514,703	6,912,449	7,273,695	4,593,724
Elimination on consolidation	-	(7,867,735)	-	(3,403,207)
	60,676,339	37,110,928	60,100,041	40,181,975

Parent Company
Management has determined the operating segments based on the reports reviewed by the Board of Directors of the Parent Company that are used to make strategic decisions. The Board considers the business from a company level as the company is principally engaged in one segment which is electrical, mechanical, instrumentation and civil contracting. As the directors effectively look at only one company level segment, all relevant details are as set out in the statement of comprehensive income and statement of financial position.

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