2008 Annual Report

Engineering Solutions Through People Power

الحسن
al Hassan

AL HASSAN ENGINEERING CO. SAOG
www.al-hassan.com

His Majesty Sultan Qaboos bin Said

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BOARD OF DIRECTORS

Hassan bin Ali Salman
Chairman

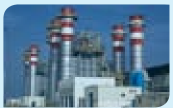
Maqbool Ali Salman
Dy. Chairman and
Managing Director

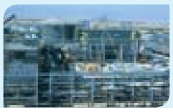
Dr. Fawad Jaffer Al Sajwani
Director

**Saud bin Ahmed
bin Al Nahari**
Director

**Ali Abdul Khaliq
Al Haj Ibrahim**
Director

Civil, Structural, Mechanical and Piping Works for Sohar Aromatics Project





Chairman's Report for the Year 2008
(Including Management Discussion and Analysis)

Dear Shareholders,

On behalf of the Board of Directors, it gives me great pleasure to welcome you all to the Annual General Meeting and present the Annual Report and the Audited Consolidated Financial Statement for the year 2008.

I am happy to report that the strategy planned in 2007 for 2008 has produced the desired market penetration results and has given us an improved market share in our targeted market sectors.

Performance Highlights

(Amounts in RO '000)

Particulars	2008	2007
Contract Income	45,031	35,211
Other Income	217	341
Costs (other than Finance Charges)	(41,981)	(31,936)
Profit before Finance Charges	3,267	3,616
Finance Charges	(919)	(1,360)
Net Profit before tax	2,348	2,256
Income Tax	(328)	(139)
Net Profit after tax	2,020	2,117

Contract Income has increased in 2008 by RO 9.8 million (28%) when compared with 2007. This increase was mainly due to early successes in securing significant contracts in the opening months of the year.

Gross margin continued to improve throughout the year despite a general increase in costs which were effectively contained and managed.

Profit before tax was higher due to savings in financing costs.

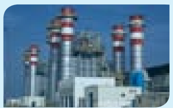
There is an increase in tax provision on account of deferred tax liability consequent to higher capitalization during the year.

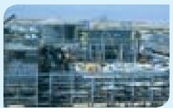
For 2009, we will continue and progress the growth strategy implemented during 2008 including:

- The utilization of our considerable experience and expertise with further concerted efforts in securing contracts for complete Engineering, Procurement and Construction (EPC) solutions.
- Focussed Business Development activities in higher margin contracts.
- Further development of international business into related areas within the UAE.
- Improvement of competitive position through cost reduction initiatives and improved procurement strategies.


Mechanical, Structural and Piping Works for 1000 MW Power Project for Sohar Aluminium


FWKO Tanks Foundation Preparation for PDO Nimr-C Project





Economic Review and Outlook

The second half of year 2008 has seen major turmoil in economic activity world over and may well be a watershed year in how experts as well as lay persons will view the future. The Gulf States have not been immune to this downturn and the effects of the world-wide economic distress will slowly but surely be felt here as well.

In the short run, as oil prices continue to be depressed, only those projects that are absolutely essential are likely to be given the go-ahead by the clients. A number of projects that were feasible on account of high oil prices are expected to be put on the back burner. Over the past few years, contractors in the Gulf have built up capacities in terms of resources and assets in response to the major boom in the region. However, as a result of the downturn, a number of projects in neighboring Gulf States have been put on hold resulting in idle or under utilized capacity.

It is, therefore, understood that the Company will face competition from new players in the coming year for the projects that will go ahead. However, with considerable market knowledge, long experience and the implementation of commercial protection & cost control strategies, your Company is well geared to face the challenges ahead.

Opportunities & Industry Structure / Development

Government of Oman has continued with its privatization policy and continues to award concessions in Oil & Gas areas to international oil firms. The Ministry of Oil and Gas is planning to offer further five blocks for exploration and development through a competitive licensing round in 2009. In recent years, the Government has signed Exploration and Production Sharing Agreements with energy majors such as Oxy, BP, BG, Epsilon, Tethys Oil, etc., some of which have started making initial investments and commenced operational activities. This will generate further business in this sector as well as associated sectors in the coming years. Your Company is following the developments closely and expects to get some share of the resulting business.

Due to finite and limited reserves of Oil & Gas, the Government is also seriously looking at alternative sources of energy including Coal, Wind and Solar. In addition, new investments are planned in the infrastructure projects, though at a reduced pace. Your Company is carefully evaluating various opportunities and will maximize its presence in these new emerging markets to gainfully utilize its significant competency base.

Future Business Scenario and Outlook

Since, there is no interconnecting electricity transmission grid in existence in Oman, private operators in remote areas are facing a continuous shortage of power. In order to overcome this, various new power plants are being planned. Examples include, PDO (Amal, Qarn Alam, Kawther), Occidental (Mukhaizna) and Daleel Petroleum (Ibri). Your Company has decided to participate in some of these projects, the awards for which are expected to be made in the year 2009.

Apart from these, due to depletion of producing oil and gas well pressures, many compression projects are expected to emerge in order to sustain the present production levels. One such project is Saih Nihayda Depletion Compression Project, the enquiry for which is already announced and your Company is participating with a major international EPC contractor for this project.

In the neighbouring UAE market, your Company has been bidding on a selective basis for projects in Oil & Gas sector as well as in the Electrical Transmission & Distribution Substation areas. These efforts have started to produce the desired results. It is strongly believed that the investments will continue to be made in Oil & Gas sector in UAE to maintain the production levels as well as to support already announced downstream projects. Similarly, in Dubai though new investment in the infrastructure sector is not envisaged, many projects in the Electrical Transmission & Distribution areas will not be significantly affected since these are required to supply electrical energy to the existing and recently developed areas.

Overview of Sohar Aromatics Plant

Completed Projects

In the current year 2008, your Company has successfully completed / closed some key projects :-

(i) Mukhaizna Power Plant Project for PDO was completed and commissioned successfully with zero LTI.

(ii) Alstom Power Plant Project for Sohar Aluminium at Sohar is almost completed except for a few additional activities requested by the client. This project achieved LTI free 6 million manhours and was well appreciated by the EPC contractor Alstom.

(iii) Successful energization of Al Wasit Power Transmission Project was achieved for OETC.

(iv) Sohar Aromatics Project which has so far achieved LTI free 9 million manhours is likely to be completed in early 2009.

2 x 120 MW Open Cycle Power Plant for PDO at Mukhaizna

Al Wasit Power Transmission Project - 1st Powerline Interconnection Project between Oman and UAE

Projects under Construction

Your Company is presently executing a mix of EPC and construction projects at various sites in Oman. These projects are at different levels of execution. Some of these projects are :

(i) Nimr-C Full Field Water Injection Project for PDO being executed on EPC basis aimed to be completed in 2010.

(ii) Civil, Electro-mechanical construction work for Salalah Methanol Company at Salalah, targetted for completion by end of the year 2009.

6'' Gas Pipeline Installation for PDO Nimr-C Project

(iii) Erection of 2 nos. Once-through Heat Recovery Steam Generators (HRSG) for Gulf Steam Generators (a subsidiary of NEM, Netherlands) being installed for Occidental Oman at their Mukhaizna field.

(iv) Mechanical, Electrical & Instrumentation works for 60 MW capacity Cogeneration Power Plant for Hirbodan, Iran. This facility is being set up for Oman Refineries and Petrochemicals Company at their Mina Al Fahal Complex.

(v) Major Civil work for the Seeb Wastewater Project of Oman Wastewater Services Company (Haya Water) and executed by JV of Hyundai-Rotem, Korea.

Auxiliary Boiler Erection for Salalah Methanol Project

Award of New Projects and other Notable Events

Apart from the above projects which were awarded during the year 2008, I am pleased to announce that your Company has received its first order in Dubai for Civil Works for a 400/132 kV Substation project from Siemens LLC, UAE. This order will give a strong foothold to your Company in the UAE market and will enable further developement of the necessary organisational structure and capabilities for future business growth.

The eagerly awaited Burhan West–Harmal Pipeline project on EPC basis by PDO involving DSS pipeline and OHL work was also awarded to your Company.

In addition to the above projects, one of the major achievements for your Company was the award of ASME “S” and “U” Stamps for the Ghala facility in Sept. 2008. This will open up a new business opportunity for the manufacture of Pressure Vessels, Heat Exchangers, Reactors, etc. Your Company is working out a detailed plan for converting this accreditation into fruitful business.

Quality

Your Company has been an ISO Certified company for many years and has been successfully meeting the ISO requirements. With the new business potential in the UAE market, your Company is preparing for similar certification both for Dubai and Abu Dhabi facilities. Further, your Company has initiated steps to acquire ISO :14001 Certification which though not mandatory, is preferred by many international companies.

The American Society of Mechanical Engineers

S

CERTIFICATE OF AUTHORIZATION

This certificate accredits the named company as authorized to use the indicated symbol of the American Society of Mechanical Engineers (ASME) for the scope of activity shown below in accordance with the applicable rules of the ASME Boiler and Pressure Vessel Code. The use of the Code symbol and the authority granted by this Certificate of Authorization are subject to the provisions of the agreement set forth in the application. Any construction stamped with this symbol shall have been built strictly in accordance with the provisions of the ASME Boiler and Pressure Vessel Code.

COMPANY: Al Hassan Engineering Company SAOG
Plot No. 1, Building No. 21
Block No. 64, Street No. 77
Ghala, Muscat
Sultanate of Oman

SCOPE:
Manufacture and assembly of power boilers at the above location and field sites controlled by the above location

AUTHORIZED: September 18, 2008
EXPIRES: September 18, 2011
CERTIFICATE NUMBER: 37,892

Chairman of The Boiler
And Pressure Vessel Committee

Director, Accreditation and Certification

The American Society of Mechanical Engineers

U

CERTIFICATE OF AUTHORIZATION

This certificate accredits the named company as authorized to use the indicated symbol of the American Society of Mechanical Engineers (ASME) for the scope of activity shown below in accordance with the applicable rules of the ASME Boiler and Pressure Vessel Code. The use of the Code symbol and the authority granted by this Certificate of Authorization are subject to the provisions of the agreement set forth in the application. Any construction stamped with this symbol shall have been built strictly in accordance with the provisions of the ASME Boiler and Pressure Vessel Code.

COMPANY: Al Hassan Engineering Company SAOG
Plot No. 1, Building No. 21
Block No. 64, Street No. 77
Ghala, Muscat
Sultanate of Oman

SCOPE:
Manufacture of pressure vessels at the above location and field sites controlled by the above location

AUTHORIZED: September 18, 2008
EXPIRES: September 18, 2011
CERTIFICATE NUMBER: 37,893

Chairman of The Boiler
And Pressure Vessel Committee

Director, Accreditation and Certification

Health, Safety and Environment

Health, Safety & Environment is a top priority for the management of your Company. Over the years, several significant milestone achievements have been made. Your Company has been very successfully working with Petroleum Development of Oman (PDO) and other clients in the Sultanate of Oman for ensuring 'zero' accident levels as well as better quality of life. During the course of the year, your Company have driven 12.8 million km and have worked 13.4 million manhours for all projects without any Loss Time Injury (LTI).

LTI free 4 million manhours celebration at Salalah Methanol Project

Al Hassan Camp for Nimr-C Project - Well appreciated by the client PDO

Human Resource Development

We recognize that our employees are the key to your Company's future. We are committed to their personal development and increasing their skills and technical know-how. Our innovative and diverse workforce is handpicked to ensure that it is capable of taking on the set business challenges, accomplishing the set tasks and achieving the objectives of the Company.

Human Resource Development remained one of the main focus areas of the Company during the year to motivate its employees through employee recognition, proper placement and conducting employees skill development programmes.

Omanisation is one of the key priorities for your Company and it has won many accolades including the coveted Green Card from the Ministry of Manpower and Compliance Verification Certificate of OPAL.

Your Company strives to develop not only the basic skills of locals but also to cultivate leadership in Omanis. During the year, several new engineering graduates were recruited. In addition, training workshops were conducted to enhance the skills of Omani staff members. We are planning to increase our investment in structured training and development programs in the future. Your Company will, therefore, expand its current training facilities during the forthcoming year.

Strategic Omanisation Workshop

Batch of Omani Engineers after induction with CEO Mr Peter Hall and Senior Personnel from HR Department

Changes in Top Management

Following your Company's increasing focus on growth and diversification, a new position of Chief Executive Officer was created and Mr. Peter Hall joined as the CEO in April, 2008.

Internal Control Systems and their Adequacy

The Internal Audit function seeks to independently verify and ensure the compliance of the internal control systems instituted by the management of your Company. The Audit Committee periodically meets the Internal Auditor of the Company and assesses the effectiveness of the Internal Control systems.

Dividend

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

Last 5 years Data

The Financial performance of your Company for the last 5 years is as under :-

Particulars	2008	2007	2006	2005	2004
Profit after Tax (RO '000)	2,020	2,117	2,867	809	334
Net Equity (RO '000)	11,788	10,761	8,596	5,597	5,014
Dividend (%)	12	12	12	-	-

Corporate Governance

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

Threats including Risks and Concerns

Though there is substantial financial meltdown in the international market including UAE, the major threats which continue to affect the contracting companies such as yours are:

(i) **Recruitment and retention of skilled and trained manpower at reasonable costs.** In order to mitigate the risk, your Company has introduced a productivity-linked incentive scheme at various on-going sites. This has started showing positive results.

(ii) **Maintaining price validity of material costs due to volatile market conditions.** This is being managed through properly established procurement processes.

(iii) **Reduced availability and increased cost of credit facilities.** To overcome this and to reduce the exposure to the extent possible, your Company is taking measures such as timely cash collection, optimum working capital management and better inventory control.

Gratitude and Appreciation

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

Also, the Board would like to thank all Ministries and Government Agencies, Muscat Municipality, Royal Oman Police, Petroleum Development Oman, Commercial Banks and Financial Institutions in Oman and abroad where we have relationship, International Principals, Consultants, Sub-contractors, all the Clients of the Company and Media for their generous cooperation and continued support.

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
1 March 2009

Batching Plant for A'Seeb Wastewater Project

Civil, Structural, Mechanical and Piping Works - Utility & Offsite Area for Sohar Aromatics Project

MOORE STEPHENS
CHARTERED ACCOUNTANTS

P.O. Box 933, Ruwi
Postal Code 112
Sultanate of Oman
Tel : 24812041
Fax : 24812043
E-mail : stephens@omantel.net.om

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

TO THE SHAREHOLDERS OF AL HASSAN ENGINEERING COMPANY SAOG

We have performed the procedures prescribed in Capital Market Authority (CMA) circular no 16/2003, dated 29 December 2003 with respect to the accompanying Corporate Governance report of the Company and its application of the Corporate Governance practices in accordance with the CMA's code of corporate governance issued under circular no. 11/2002 dated 3 June 2002 and its amendments as detailed under Rules and Guidelines on Disclosure by Issuer of Securities and Insider Trading approved by Administrative Decision No. 5/2007 dated 27 June 2007. Our engagement was undertaken in accordance with the International Standards on Auditing applicable to agreed-upon procedures engagements. These procedures were performed solely to assist you in evaluating the Company's compliance with the Code as issued by the CMA.

We report our findings below:

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

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

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

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose. This report relates only to the Board of Directors' Corporate Governance report included in its annual report for the year ended 31 December 2008 and does not extend to any financial statements of Al Hassan Engineering Company SAOG, taken as a whole.

1 March 2009

مور ستيفنز وشركاه
ص.ب: ٩٣٣، الرمز ١١٢
روي، سلطنة عمان
P.O. Box : 933, P.Code 112
Ruwi,Sultanate of Oman
MOORE STEPHENS

Moore Stephens

Corporate Governance Report - 2008

Company Philosophy

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

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

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

Board of Directors

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

S. No.	Name	Designation	Category	Directorship and Designation in other Joint Stock Companies
1	Hassan Ali Salman	Chairman	Non - Executive	-
2	Maqbool Ali Salman	Dy. Chairman & Mg. Director	Executive	- Oman Cables Industries SAOG
3	Saud Ahmed Al Nahari	Independent Director	Independent	- Port Services Corporation SAOG - Oman United Insurance Co. SAOG - Oman Telecommunications Co. SAOC - Oman Drydock Company SAOC
4	Ali Abdul Khaliq Al Haj Ibrahim	Independent Director	Independent	-
5	Dr. Fawad Jaffer Mohamed Sajwani	Independent Director	Independent	-
6	Syed Muhammad Rizvi	Executive Director	Executive	-

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 2008, the Company held six Board meetings. The following are the details of the meetings held and attendance by the Directors.

S. No.	Name of Director	10.02.08	03.03.08	26.03.08	12.05.08	29.07.08	04.11.08
1	Hassan Ali Salman	√	√	√	√	√	√
2	Maqbool Ali Salman	√	√	√	√	√	√
3	Jamil Ali Sultan	√	X	-	-	-	-
4	Saud Ahmed Al Nahari	√	√	√	√	√	√
5	Ali Abdul Khaliq Al-Haj Ibrahim	√	√	√	√	X	√
6	Dr. Fawad Jaffer Mohamed Sajwani	-	-	√	√	√	√
7	Syed Muhammad Rizvi	√	√	√	√	-	-

√ indicates attendance in the meeting
X indicates absence in the meeting
- indicates that he is no longer a director

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 26th March, 2008. Mr. Syed Muhammad Rizvi, the representative of Al Hassan Electricals LLC, resigned on 14th May, 2008.

Directors' Remuneration

Each Director is awarded RO 500/- (2007 – RO 500/-) as a meeting attendance fee for every Board meeting attended. The Audit Committee members are awarded RO 250/- (2007 – RO 250/-) as a meeting attendance fee for each Audit Committee meeting. The meeting attendance fees paid during the year amounts to RO 18, 500/- (2007 – RO 15, 000/-). Management proposes directors' remuneration of RO 50,000/- (2007 – RO 60,000/-) subject to shareholders' approval.

Company Secretary

The Board has appointed Mr. Mohammed Khamis Al Khabori as the Secretary to the Board of Directors in the Board meeting held on 26th March, 2008 for a period of 3 years. The Board Secretary facilitates the smooth conduct of the Board meetings, keeps record of minutes and performs other relevant duties.

Company Management

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

- **Peter Hall – Chief Executive Officer**
  Experience of 30 years. Responsible for strategy and day-to-day management of the Company.
- **Mohammed Khamis Al Khabori – Senior General Manager (Admin. Affairs)**
  Experience of 27 years. Responsible for Administrative issues.
- **S. A. Naqvi – General Manager (Plant)**
  Experience of 36 years. Responsible for all fixed and mobile plant assets and capital equipment.
- **Abbas Muljiani – General Manager (Finance & IT)**
  Experience of 25 years. Responsible for both the Finance and IT functions of the Company.
- **Jasbir Singh – General Manager (Contracting)**
  Experience of 26 years. Responsible for projects operations and execution.

Operating Management Remuneration

Salary, allowances including travelling expenses of the five top senior officers paid during the year 2008 is RO 272,038/- (2007 - RO 189,809/-).

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

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

Audit Committee

During 2008, four meetings were held and the following are the details of the meetings held and attendance by the Directors:

S. No.	Name of Director	Category	03.03.08	12.05.08	29.07.08	04.11.08
1	Jamil Ali Sultan	Independent	X	-	-	-
2	Dr. Fawad Jaffer Mohamed Sajwani	Independent	-	√	√	√
3	Ali Abdul Khaliq Al Haj Ibrahim	Independent	√	√	X	√
4	Hassan Ali Salman	Non- Executive	√	√	√	√

√ indicates attendance in the meeting
X indicates absence in the meeting
\- indicates that he is no longer a member

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

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

Audit and Internal Control

In consultation with the Audit Committee, the Board of Directors recommends the appointment of external auditors to the Annual General Meeting. In the Annual General Meeting held on 26th March, 2008. Moore Stephens have been appointed as external auditors for the financial year 2008.

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

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

Executive Committee

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

- Recommend to the Board of Directors the Company's strategy, budgets and its implementation.
- Periodical review of Company'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 2008, the Company held four Executive Committee meetings. The following are the details of the meetings held and attendance by the members.

S. No.	Name of Member	Category	24.02.08	05.05.08	26.07.08	02.11.08
1	Maqbool Ali Salman	Chairman	√	√	√	√
2	Syed Muhammed Rivzi	Member	√	√	-	-
3	Abbas Muljiani	Member	√	√	√	√

√ indicates attendance in the meeting

- indicates that he is no longer a member

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 website : www.al-hassan.com

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

Dividend Policy

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

Details of Non-compliance

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

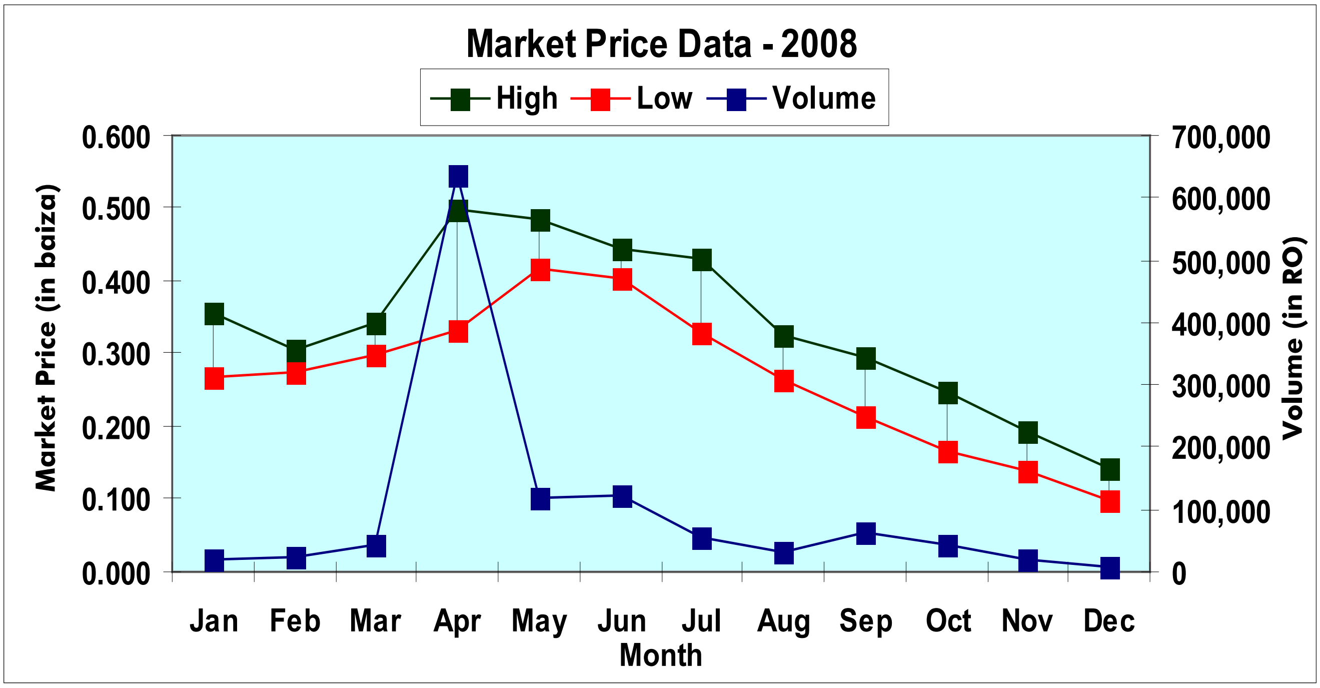
Related Party Transaction

The Company entered into transactions with entities related to the 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 2008 :-

Month 2008	High	Low	Volume (RO)
January	0.355	0.268	21,587.39
February	0.304	0.275	23,724.59
March	0.342	0.300	41,633.72
April	0.497	0.332	635,488.05
May	0.486	0.418	118,591.00
June	0.445	0.402	120,750.73
July	0.431	0.329	56,590.58
August	0.327	0.266	33,277.05
September	0.296	0.212	64,620.10
October	0.247	0.166	41,741.80
November	0.193	0.139	18,570.76
December	0.141	0.099	6,153.28



Major Shareholders [as on 31/12/2008]

S. No.	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

The Oman branch of Moore Stephens commenced practice in 1988. Over the years, the practice has developed considerably and now services a number of clients, including major listed companies, Groups, government organizations and Ministries providing either audit, tax or management consultancy services. The local staff strength is around 33, most of whom are qualified Chartered Accountants, internal auditors and information systems auditors.
Since Moore Stephens London was founded 100 years ago, the Moore Stephens International Limited network has grown to be one of the 11 largest international accounting and consulting groups worldwide. Moore Stephens International is regarded as one of the world's major accounting and consulting networks consisting of 366 independent firms with 647 offices and over 21,444 people across 98 countries.

Internal Auditor

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

Board of Directors acknowledge that

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

The financial statements have been prepared in accordance with International Financial Reporting standards issued by the International Accounting Standards Board (IASB), interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and the requirements of the 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.

MOORE STEPHENS
CHARTERED ACCOUNTANTS

P.O. Box 933, Ruwi
Postal Code 112
Sultanate of Oman
Tel : 24812041
Fax : 24812043
E-mail : stephens@omantel.net.om

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

Report on the financial statements

We have audited the accompanying financial statements of Al Hassan Engineering Company SAOG ("the Parent Company") and the consolidated financial statements of Al Hassan Engineering Company SAOG and its subsidiaries ("the Group"), set out on pages 24 to 49, which comprise of the balance sheets as at 31 December 2008, income statements, statements of changes in equity and cash flow statements for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

The Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, the disclosure requirements of the Capital Market Authority and Commercial Companies Law of Sultanate of Oman, 1974 (as amended). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

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

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

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

Opinion

In our opinion, the Parent Company's and the Group's financial statements present fairly, in all material respects, the financial position as at 31 December 2008 and the results of the operations and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

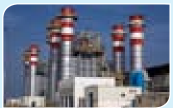
Report on regulatory requirements

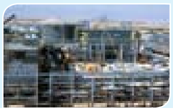
The Parent Company's and the Group's financial statements also comply, in all material respects, with the relevant requirements of the Commercial Companies Law of the Sultanate of Oman, 1974 (as amended) and the relevant disclosure requirements for public joint stock companies issued by the Capital Market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

1 March 2009

P.O. Box : 933, P.Code 112
Ruwi, Sultanate of Oman
MOORE STEPHENS

Moore Stephens





Consolidated and Parent Company Balance Sheets

as at 31 December 2008

Particulars	Note	2008 Group RO	2008 Parent Company RO	2007 Group RO	2007 Parent Company RO
ASSETS					
Non-current assets					
Property and equipment	4	12,227,400	12,227,400	10,794,886	10,794,886
Goodwill	5	878,478	878,478	878,478	878,478
Investments in subsidiaries	6	--	102,900	--	102,900
Retentions receivable	8	967,404	967,404	--	--
Total non-current assets		14,073,282	14,176,182	11,673,364	11,776,264
Current assets					
Inventories	7	3,721,307	3,721,307	3,964,155	3,964,155
Contract and other receivables	8	26,648,818	27,011,895	21,687,528	21,838,956
Bank balances and cash	9	612,484	539,725	699,934	668,618
Total current assets		30,982,609	31,272,927	26,351,617	26,471,729
Total assets		**45,055,891**	**45,449,109**	**38,024,981**	**38,247,993**
EQUITY AND LIABILITIES					
Shareholders' equity					
Share capital	10	7,520,800	7,520,800	7,520,800	7,520,800
Legal reserve	11	1,040,787	1,040,787	819,098	819,098
Retained earnings		3,169,973	3,595,784	2,274,285	2,503,078
Hedging reserve	2 q)	56,347	56,347	147,094	147,094
Total shareholders' equity		**11,787,907**	**12,213,718**	**10,761,277**	**10,990,070**
Liabilities					
Non-current liabilities					
Term loans	13	5,634,510	5,634,510	5,342,248	5,342,248
Employees' end of service benefits	21 b)	1,374,936	1,374,936	986,236	986,236
Deferred taxation	16	188,163	188,163	69,865	69,865
Total non-current liabilities		7,197,609	7,197,609	6,398,349	6,398,349
Current liabilities					
Current portion of term loans	13	3,024,168	3,024,168	1,974,034	1,974,034
Bank borrowings	14	6,491,231	6,491,231	6,160,822	6,160,822
Accounts and other payables	15	16,373,688	16,341,095	12,622,013	12,616,232
Provision for taxation	16	181,288	181,288	108,486	108,486
Total current liabilities		26,070,375	26,037,782	20,865,355	20,859,574
Total liabilities		33,267,984	33,235,391	27,263,704	27,257,923
Total Shareholders' equity & liabilities		**45,055,891**	**45,449,109**	**38,024,981**	**38,247,993**
Net assets per share	22	0.157	0.162	0.143	0.146

These financial statements were approved by the Board of Directors and authorised for issue on 1 March 2009 and were signed on their behalf by:

Chairman | Director | Chief Executive Officer

The attached notes 1 to 29 form part of these financial statements.

Consolidated and Parent Company Statements of Income

for the year ended 31 December 2008

Particulars	Note	2008 Group RO	2008 Parent Company RO	2007 Group RO	2007 Parent Company RO
INCOME					
Contract income	2 e)	45,031,292	45,031,292	35,210,730	35,210,730
Contract costs	18	(39,101,168)	(39,101,168)	(29,734,265)	(29,734,265)
Gross profit		5,930,124	5,930,124	5,476,465	5,476,465
Other income	19	217,119	217,119	340,847	340,847
		6,147,243	6,147,243	5,817,312	5,817,312
EXPENSES					
General and administration expenses	20	(2,880,671)	(2,683,664)	(2,200,925)	(2,087,216)
Finance charges		(918,788)	(918,777)	(1,360,465)	(1,360,433)
Profit for the year before taxation		2,347,784	2,544,802	2,255,922	2,369,663
Income tax expense	16	(327,911)	(327,911)	(139,133)	(139,133)
PROFIT FOR THE YEAR		**2,019,873**	**2,216,891**	**2,116,789**	**2,230,530**
Basic earnings per share	23	0.027	0.029	0.028	0.030
Dividend per share	12 b)	0.012	0.012	0.012	0.012

The attached notes 1 to 29 form part of these financial statements.

Consolidated and Parent Company Statements of Changes in Equity

for the year ended 31 December 2008

Group	Share capital (note 10) RO	Legal reserve (note 11) RO	Retained earnings RO	Hedging reserve [note 2 q)] RO	Total RO
At 31 December 2006	6,715,000	596,045	1,225,785	59,669	8,596,499
Stock dividend	805,800	--	(805,800)	--	--
Prior period adjustment	--	--	(39,436)	--	(39,436)
Net profit for the year	--	--	2,116,789	--	2,116,789
Transfer to legal reserve	--	223,053	(223,053)	--	--
Net change in fair value of forward currency contracts	--	--	--	87,425	87,425
At 31 December 2007	7,520,800	819,098	2,274,285	147,094	10,761,277
At 31 December 2007	7,520,800	819,098	2,274,285	147,094	10,761,277
Cash dividend	--	--	(902,496)	--	(902,496)
Net profit for the year	--	--	2,019,873	--	2,019,873
Transfer to legal reserve	--	221,689	(221,689)	--	--
Net change in fair value of forward currency contracts	--	--	--	(90,747)	(90,747)
At 31 December 2008	**7,520,800**	**1,040,787**	**3,169,973**	**56,347**	**11,787,907**

Parent Company	Share Capital (note 10) RO	Legal reserve (note 11) RO	Retained earnings RO	Hedging reserve [note 2 q)] RO	Total RO
At 31 December 2006	6,715,000	596,045	1,340,837	59,669	8,711,551
Stock dividend	805,800	--	(805,800)	--	--
Prior period adjustment	--	--	(39,436)	--	(39,436)
Net profit for the year	--	--	2,230,530	--	2,230,530
Transfer to legal reserve	--	223,053	(223,053)	--	--
Net change in fair value of forward currency contracts	--	--	--	87,425	87,425
At 31 December 2007	7,520,800	819,098	2,503,078	147,094	10,990,070
At 31 December 2007	7,520,800	819,098	2,503,078	147,094	10,990,070
Cash dividend	--	--	(902,496)	--	(902,496)
Net profit for the year	--	--	2,216,891	--	2,216,891
Transfer to legal reserve	--	221,689	(221,689)	--	--
Net change in fair value of forward currency contracts	--	--	--	(90,747)	(90,747)
At 31 December 2008	**7,520,800**	**1,040,787**	**3,595,784**	**56,347**	**12,213,718**

The attached notes 1 to 29 form part of these financial statements.

Consolidated and Parent Company Cash Flow Statements

for the year ended 31 December 2008

Particulars	2008 Group RO	2008 Parent Company RO	2007 Group RO	2007 Parent Company RO
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash receipts from contract income	40,854,103	40,854,103	33,301,184	33,301,184
Cash paid towards direct costs and expenses	(37,145,831)	(37,187,274)	(26,813,155)	(26,804,338)
Cash generated from operations	3,708,272	3,666,829	6,488,029	6,496,846
Finance charges	(879,470)	(879,470)	(1,353,793)	(1,353,761)
Tax paid	(162,855)	(162,855)	(316,613)	(316,613)
Net cash flow from operating activities	2,665,947	2,624,504	4,817,623	4,826,472
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of property and equipment	(3,587,606)	(3,587,606)	(5,459,646)	(5,459,646)
Proceeds from disposal of equipment	63,900	63,900	451,830	451,830
Net cash used in investing activities	(3,523,706)	(3,523,706)	(5,007,816)	(5,007,816)
CASH FLOWS FROM FINANCING ACTIVITIES				
Dividend	(902,496)	(902,496)	--	--
Net movement in term loans	1,342,396	1,342,396	4,781,887	4,781,887
Net cash flow from financing activities	439,900	439,900	4,781,887	4,781,887
(Decrease) / increase in cash and cash equivalents during the year	(417,859)	(459,302)	4,591,694	4,600,543
Cash and cash equivalents at the beginning of the year	(5,460,888)	(5,492,204)	(10,052,582)	(10,092,747)
Cash and cash equivalents [note 2 m)] at the end of the year	**(5,878,747)**	**(5,951,506)**	**(5,460,888)**	**(5,492,204)**
Cash and cash equivalents at the end of the year comprise:				
Bank balances and cash	612,484	539,725	699,934	668,618
Bank borrowings (note 14)	(6,491,231)	(6,491,231)	(6,160,822)	(6,160,822)
	(5,878,747)	(5,951,506)	(5,460,888)	(5,492,204)

The attached notes 1 to 29 form part of these financial statements.

for the year ended 31 December 2008

1 ACTIVITIES

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

The Parent Company holds a 49% shareholding and a 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 are yet to commence commercial operations.

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

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

In the current year, the Group has adopted all applicable new and revised Standards and Interpretations issued by IASB and the IFRIC that are effective for accounting periods beginning on or after 1 January 2008.

In particular, amendments to Standards IAS 39 'Financial Instruments: Recognition and Measurement' and IFRS 7 'Financial Instruments: Disclosures', issued in October 2008, permits an entity to reclassify non-derivative financial assets (other than those that were designated at fair value through profit or loss by the entity upon initial recognition) out of the fair value through profit or loss category in particular circumstances. The amendments also require additional disclosures explaining the facts and circumstances relating to such reclassification. The above amendments have not impacted the presentation and disclosure of items in the Group's financial statements in the current year.

Certain amendments to existing standards have been published that are effective and mandatory for accounting periods commencing 1 January 2009 or 1 July 2009, which the Board of Directors of the Parent Company have decided to adopt from the applicable period. The amendments likely to be relevant to the Group are as follows:

- Amendments to IAS 1 'Presentation of Financial Statements' primarily require the following disclosures:
    - 'Balance sheet' and 'Cash flow statement' to be described as 'Statement of Financial Position' and 'Statement of Cash Flows' respectively (optional amendment);
    - All owner changes in equity should be presented in the statement of changes in equity separately from non-owner changes in equity;

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

for the year ended 31 December 2008

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of preparation *(Continued)*

- A statement of financial position as at the beginning of the earliest comparative period must be prepared whenever the entity retrospectively applies an accounting policy or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.

- Amendments to IAS 23 'Borrowing Costs' primarily eliminate the option of immediate recognition as an expense for accounting for borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset.
- IFRS 8 'Operating Segments' primarily sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates and its major customers.
- Amendments to IAS 27 'Consolidated and Separate Financial Statements' primarily relates to accounting for non-controlling interests and loss of control in a subsidiary.
- Amendments to IAS 32 'Financial Instruments: Presentation' addresses the classification of some puttable financial instruments and instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation.
- Amendments to IFRS 3 'Business Combinations' introduces significant changes on acquisition accounting, including the following:
  - Expensing certain acquisition related costs in the year in which they are incurred;
  - An option to recognize the entire goodwill of an acquired entity and not just the acquiring entity's portion of goodwill; and
  - Guidance on the accounting treatment for step by step acquisition and on partial disposal of subsidiary (with or without losing control).

Amendments to IFRS 1 'First time Adoption of International Financial Reporting' and IAS 27 'Consolidated and Separate Financial Statements' provides guidelines for a first time adopter for measurement of a subsidiary in its separate financial statements.

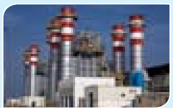
There have been other amendments issued by IASB as part of its annual improvements project in the year 2008 that are applicable for accounting periods commencing 1 January 2009. The amendments have been categorized into two parts by IASB. Part I contains amendments that result in accounting changes for presentation, recognition or measurement purposes. Part II contains amendments that are terminology or editorial changes only, which is expected to have no or minimal effect on accounting.

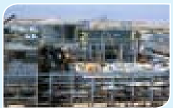
The Board of Directors of the Parent Company believe the adoption of the above amendments is not likely to have any material impact on the presentation and disclosure of items in the financial statements for future periods.

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

a) Accounting convention

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





for the year ended 31 December 2008

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

b) Basis of consolidation

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

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

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

c) Investments

Subsidiary
A subsidiary is a company in which the Group owns more than one half of the voting power or exercises control. The financial statements of the subsidiaries are included in the consolidated financial statements. In the Parent Company's separate financial statements, the investments in subsidiaries are carried at fair value, if such a value can be determined, and otherwise at cost.

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

d) Goodwill

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

e) Contract income

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognized by reference to the stage of completion of the construction activity at the balance sheet date, 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, claims and incentive payments are included to the extent that they have been agreed with the customer.

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 recognized as an expense immediately.

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

for the year ended 31 December 2008

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

f) Employees' end of service benefits

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

g) Property and equipment

Freehold land is not depreciated. Other property and equipment is stated at historical cost less accumulated depreciation, which is calculated to expense the cost of property and equipment on a straight line basis over their estimated useful lives as follows:-

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

h) Inventories

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

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.

i) Contract and other receivables

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

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

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

j) Taxation

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

j) Taxation (Continued)

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

k) Foreign currency transactions

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

l) Impairment

Financial assets

At each balance sheet date, the Group assesses if there is any objective evidence indicating impairment of the carrying value of financial assets or non-collectability of receivables. Impairment losses are determined as differences between the carrying amounts and the recoverable amounts and are recognised in the statement of income. The recoverable amounts represent the present value of expected future cash flows discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted.

Non - financial assets

At each balance sheet date, the Group assesses if there is any indication of impairment of non-financial assets. If an indication exists, the Group estimates the recoverable amount of the asset and recognises an impairment loss in the statement of income. The Group also assesses if there is any indication that an impairment loss recognised in prior years no longer exists or has reduced. The resultant impairment loss or reversals are recognised immediately in the statement of income. The recoverable amount adopted is the higher of net realisable value or market value and its value in use.

m) Cash and cash equivalents

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

n) Provisions

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

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

for the year ended 31 December 2008

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

o) Accounts payable and accruals

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

p) Leases

Operating lease payments are charged to the statement of income.

q) Derivative financial instruments

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

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

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

r) Directors' remuneration

The 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 income in the year to which they relate.

s) Dividend

The Board of Directors recommend to the shareholders the dividend to be paid out of Parent Company's profits. The Directors take into account appropriate parameters including the requirements of the Sultanate of Oman's Commercial Companies Law, 1974 (as amended) while recommending the dividend. Dividend distribution to the Parent Company's shareholders is recognized as a liability in the Group's and Parent Company's financial statements only in the period in which the dividends are approved by the Parent Company's shareholders.

3 ESTIMATES AND JUDGEMENTS

In preparing these financial statements, the Board of Directors is required to make estimates and assumptions which affect reported income and expenses, assets, liabilities and related disclosures. The use of available information and application of judgement based on historical experience and other factors are inherent in the formation of estimates. Actual results in the future could differ from such estimates.

for the year ended 31 December 2008

3 ESTIMATES AND JUDGEMENTS *(Continued)*

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 recognized in the statement of income.

c) Revenue recognition

As described in note 2 e), where the outcome of a construction contract can be estimated reliably, revenue and costs are recognized by reference to the stage of completion of the contract activity at the balance sheet date. 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.

Included in revenue and profit recognized during the year is an amount of RO 2.6 million (2007 – RO 0.7 million) arising from contract earnings that, although verbally agreed to by the customer and despite the passing of some time and discussions relating to contractual delays, has not been formally approved for payment. The management has received a number of informal assurances from the customer that the amounts will be approved and settled, and otherwise have reason to be confident of collection.

d) Others

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

- provision for slow moving inventories;
- the margins of profit ultimately expected on long term contracts that is used to determine the level of contract profit recognition;
- the outcome of the objection filed with the Secretariat General for Taxation, against the taxation assessment to be justified and that no additional tax provision is necessary [note 16 c)]; 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.

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

for the year ended 31 December 2008

4 PROPERTY AND EQUIPMENT

Year 2008 Group and Parent Company	Leasehold land [note 4 a)] RO	Freehold land [note 4 d)] RO	Buildings RO	Machinery and equipment RO	Furniture, fixtures and office equipment RO	Instrumentation and testing equipment RO	Vehicles RO	Total RO
Cost								
At 31 December 2007	132,800	424,012	51,445	12,604,010	984,830	851,406	5,421,422	20,469,925
Transfers during the year	(132,800)	132,800	--	--	--	--	--	--
Additions during the year	--	309,818	--	2,680,965	215,316	--	809,995	4,016,094
Disposals during the year	--	--	--	(56,816)	(2,361)	--	(250,258)	(309,435)
At 31 December 2008	--	866,630	51,445	15,228,159	1,197,785	851,406	5,981,159	24,176,584
Depreciation								
At 31 December 2007	--	--	19,926	5,868,562	718,043	735,120	2,333,388	9,675,039
Charge for the year	--	--	2,533	1,552,639	191,593	45,323	789,500	2,581,588
Relating to disposals	--	--	--	(55,986)	(2,081)	--	(249,376)	(307,443)
At 31 December 2008	--	--	22,459	7,365,215	907,555	780,443	2,873,512	11,949,184
Net book values								
At 31 December 2008	--	866,630	28,986	7,862,944	290,230	70,963	3,107,647	12,227,400
At 31 December 2007	132,800	424,012	31,519	6,735,448	266,787	116,286	3,088,034	10,794,886

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

for the year ended 31 December 2008

4 PROPERTY AND EQUIPMENT *(Continued)*

The following further note applies:

a) The Parent Company's buildings were constructed on a land earlier leased from the Government of the Sultanate of Oman for which RO 132,800 had been paid in an earlier year for the leasehold rights. During the year, the Parent Company exercised the offer given by the Government of the Sultanate of Oman to purchase the land at an additional cost of RO 309,818.

b) A portion of the Parent Company's machinery, equipment and vehicles are mortgaged to a bank providing the term loans referred to in note 13.

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

	2008 Group and Parent Company RO	2007 Group and Parent Company RO
Cost of sales (note 18)	2,483,263	2,131,850
General and administration (note 20)	98,325	86,037
	---------------	---------------
	2,581,588	2,217,887
	========	========

d) The market value of the free hold land at the balance sheet date is RO 4.7 million as determined by a registered independent valuer.

5 GOODWILL

	2008 and 2007 Group and Parent Company RO
Cost	2,696,835
Less: Accumulated impairment losses	(1,818,357)

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

The following further note applies:

The Board of Directors have tested goodwill for impairment in accordance with IAS 36, 'Impairment of Assets' and consider that no impairment has arisen during the year (2007 – no impairment).

6 INVESTMENTS IN SUBSIDIARIES

	Holding	Activity	Year of incorporation	2008 and 2007 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 2008

6 INVESTMENTS IN SUBSIDIARIES *(Continued)*

The following further notes apply:

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

b) The 51% ownership of the above two subsidiaries are held in the personal names of certain individuals as nominees for the beneficial interest of the Group. The Parent holds control in both the subsidiaries. Accordingly these subsidiaries are entirely owned by the Parent Company.

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

c) In the absence of a reliable measure of fair value, the investments in subsidiaries are carried at 'cost'.

d) The Board of Directors have tested the investments in subsidaries in accordance with IAS 36, 'Impairment of Assets' and consider that no impairment has arisen during the year (2007 – no impairment).

7 INVENTORIES

	2008 Group and Parent Company RO	2007 Group and Parent Company RO
Materials	2,283,294	2,357,582
Spare parts and consumables	438,916	307,380
Tools	1,470,359	1,251,416
Goods in transit	191,584	542,915
	4,384,153	4,459,293
Less : Provision for slow moving inventories [see note below]	(662,846)	(495,138)
	3,721,307	3,964,155

The following further note applies:

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

	2008 Group and Parent Company RO	2007 Group and Parent Company RO
At the beginning of the year	495,138	420,597
Provision created during the year	167,708	74,541
At the end of the year	662,846	495,138

for the year ended 31 December 2008

8 CONTRACT AND OTHER RECEIVABLES

	2008 Group RO	2008 Parent Company RO	2007 Group RO	2007 Parent Company RO
Contract receivables	10,634,159	10,634,159	6,173,539	6,173,539
Less: Allowance for credit losses [note a) below]	(183,017)	(183,017)	(54,796)	(54,796)
	10,451,142	10,451,142	6,118,743	6,118,743
Unbilled contract receivables [note b) below]	11,294,940	11,294,940	13,256,433	13,256,433
Retentions receivable	3,956,283	3,956,283	1,252,070	1,252,070
Prepayments and other receivables	770,474	770,111	630,576	630,213
Advances to suppliers	1,092,235	1,092,235	424,081	424,081
Due from subsidiaries [note 17 d)]	--	256,340	--	44,691
Due from related parties [note 17 d)]	51,148	158,248	5,625	112,725
	27,616,222	27,979,299	21,687,528	21,838,956
Less: non-current portion of retentions receivable	(967,404)	(967,404)	--	--
	26,648,818	27,011,895	21,687,528	21,838,956

The following further notes apply:

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

	2008 Group and Parent Company RO	2007 Group and Parent Company RO
At the beginning of the year	54,796	60,476
Established during the year (note 20)	129,903	19,948
Written off during the year	(1,682)	(25,628)
At the end of the year	183,017	54,796

b) The unbilled contract receivables comprises:

	2008 Group and Parent Company RO	2007 Group and Parent Company RO
Contract in progress at cost plus estimated attributable profits	75,466,568	69,659,382
Less : Progress billings	(65,150,354)	(57,350,648)
	10,316,214	12,308,734
Add : Excess billings (note 15)	978,726	947,699
	11,294,940	13,256,433

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

for the year ended 31 December 2008

8 CONTRACT AND OTHER RECEIVABLES *(Continued)*

c) 6 customers (2007 – 6 customers) account for 61% (2007 - 86%) of contract receivables at the balance sheet date.

d) The Group's and Parent Company's entire contract receivables are unsecured (2007 – same terms)

e) A significant portion of the contract receivables are assigned to banks providing the term loans referred to in note 13.

f) The Group's and Parent Company's contract receivables include RO 4,132,906 (2007 – RO 3,573,056) due in US dollars.

g) The Group's and Parent Company's contract receivables amounting to RO 7,431,009 (2007 – RO 5,486,477) are neither past due nor impaired and are estimated as collectible based on historical experience.

h) At the balance sheet date, allowance for credit losses has been established as per the Group's provisioning policy.

i) At the balance sheet date, Group's and Parent Company's contract receivables amounting to RO 3,020,133 (2007 – RO 632,266) are past due but not impaired. The ageing analysis of these contract receivables are as follows:

	2008 Group and Parent Company RO	2007 Group and Parent Company RO
Debts due between 1.5 months – 6 months	821,809	486,139
Debts due between 6 months – 1 year	1,289,633	63,163
Debts due more than 1 year	908,691	82,964
	3,020,133	632,266

j) Prepayments and other receivables include an amount of RO 56,347 (2007 – RO 147,094) which relates to a revision of forward currency contracts to fair value.

9 BANK BALANCES AND CASH

	2008 Group RO	2008 Parent Company RO	2007 Group RO	2007 Parent Company RO
Cash in hand	91,838	80,895	101,452	101,452
Bank balances and call deposits	520,646	458,830	598,482	567,166
	612,484	539,725	699,934	668,618

10 SHARE CAPITAL

a) The authorized share capital consists of 100,000,000 shares (2007 – 10,000,000 shares) of RO 0.100 each (2007 – RO 1 each). The issued and fully paid up capital consists of 75,208,000 shares of RO 0.100 each (2007 – 7,520,800 shares of RO 1 each).

b) The nominal value of the shares has been split from RO 1 to RO 0.100 as approved by the shareholders at the Extraordinary General Meeting held on 26 March 2008.

c) 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:

Shareholder	Holding % 2008 and 2007	Number of shares held 2008	2007
Mr Hassan Ali Salman	20.07	15,092,000	1,509,200
Mr Maqbool Ali Salman	20.07	15,092,000	1,509,200
Al Hassan Electricals Company LLC	19.96	15,008,000	1,500,800

11 LEGAL RESERVE

In accordance with Article 106 of the Commercial Companies Law of 1974 of Sultanate of Oman 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. The balance at the end of the year in the Group's legal reserve represents the amounts relating to the Parent Company.

12 PROPOSED DIVIDEND

a) The Board of Directors have proposed a cash dividend of 12% (2007 – cash dividend of 12%) of the share capital amounting to RO 902,496 (2007 – RO 902,496), subject to shareholders' approval at the Annual General Meeting.

b) Dividend per share is determined as follows:

	2008 Group and Parent Company RO	2007 Group and Parent Company RO
Dividend (in Rials Omani)	902,496	902,496
Number of shares outstanding	75,208,000	75,208,000
Dividend per share (in Rials Omani)	0.012	0.012

c) During the year, an amount of RO 45,423 (2007 – nil) representing unclaimed dividends for the year 2007 has been transferred to the Investor's Trust Fund of the Capital Market Authority.

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

for the year ended 31 December 2008

13 TERM LOANS

	2008 Group and Parent Company RO	2007 Group and Parent Company RO
Term loan I	--	1,161,570
Term loan II	--	83,297
Term loan III	5,763,927	2,322,151
Term loan IV	2,519,751	2,749,264
Term loan V	375,000	1,000,000
	----------------	---------------
	8,658,678	7,316,282
Current portion	(3,024,168)	(1,974,034)
	---------------	---------------
Non-current portion	5,634,510	5,342,248
	========	========

The following further notes apply:

a) Term loans I and II were fully repaid during the year.

b) Term loan III which is denominated in US dollars, is for a total amount of USD 15 million, which is drawn quarterly at USD 3 million commencing from August 2007. The balance of USD 9 million has been drawn during the year. The loan is repayable in quarterly instalments of RO 577,500 (USD 1.5 million) commencing from June 2009 for four quarters and the remaining portion of the loan will be payable in the fifth quarter. The loan is secured by assignment of contract receivable from a customer.

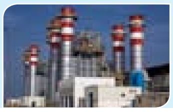
c) Term loan IV which is denominated in US dollars, is repayable in 12 quarterly instalments of RO 229,167 (USD 595,233) which commenced from October 2008 and is secured by commercial mortgage of Parent Company's equipment procured from the loan proceeds amounting to RO 2.75 million.

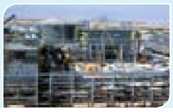
d) Term loan V is repayable in 8 quarterly instalments of RO 125,000 which commenced from January 2008. The loan is secured by first charge and joint registration / commercial charge on Parent Company's equipment procured from the loan proceeds amounting to RO 1 million and irrevocable assignment of certain specific receivables. During the year the Company has pre-paid an instalment due for the year 2009.

e) The above loans are from commercial banks in the Sultanate of Oman and bear interest ranging from LIBOR+1% to 6.25% per annum (2007 – LIBOR+1% to 6.25% per annum).

f) Maturity profile of non-current term loans is as follows:

	2008 Group and Parent Company RO	2007 Group and Parent Company RO
Between 1 and 2 years	4,948,095	3,738,819
Between 3 to 5 years	686,415	1,603,429
	--------------	--------------
	5,634,510	5,342,248
	========	========





for the year ended 31 December 2008

14 BANK BORROWINGS

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

15 ACCOUNTS AND OTHER PAYABLES

	2008 Group	2008 Parent Company	2007 Group	2007 Parent Company
	RO	RO	RO	RO
Accounts payable	3,253,006	3,253,006	3,375,270	3,375,270
Creditors for capital purchases	1,355,708	1,355,708	927,221	927,221
Due to related parties [see note 17 d)]	189,530	189,530	592,874	592,874
Accrued expenses	1,665,467	1,665,467	1,257,179	1,257,179
Provision for project expenses	6,392,375	6,392,375	1,015,106	1,015,106
Excess billings [note 8 b)]	978,726	978,726	947,699	947,699
Advances from customers	1,520,127	1,520,127	3,387,179	3,387,179
Other payables	1,018,749	986,156	1,119,485	1,086,892
Due to a subsidiary	--	--	--	26,812
	16,373,688	16,341,095	12,622,013	12,616,232

The following further notes applies:

Accounts payable includes RO 95,903 (2007 – RO 296,434) payable in foreign currencies.

16 TAXATION

	2008 Group and Parent Company RO	2007 Group and Parent Company RO
Income statement		
Current tax	173,072	99,955
Prior year	36,541	26,189
Deferred tax	118,298	12,989
	327,911	139,133
Current liability		
Provision for taxation	181,288	108,486
Non-current liability		
Deferred taxation	188,163	69,865

The following further notes applies:

a) The tax rate applicable to the Parent Company is 12% (2007 – 12%). Provision for tax has been made on accounting profit adjusted for tax purposes. The Subsidiary Companies operate in a jurisdiction which is not subject to taxation.

b) The taxation assessments of the Parent Company for the years 2002 to 2007 have not been finalized by the Secretariat General for Taxation (SGT). The Board of Directors consider that the amount of additional taxes, if any, that may become payable on finalization of the above tax years, may not be material to the Group's financial position at the balance sheet date.

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

for the year ended 31 December 2008

16 TAXATION *(Continued)*

c) The taxation assessment for the year 2000 has been finalized during the year by the SGT for Al Hassan Trading and Contracting Company LLC (AHTC), a related party [which merged with the Parent Company as on 31 December 1999] with an additional tax demand of RO 556,501. The SGT has considered the profits up to 26 April 2000 for AHTC, the goodwill and the balancing charge upon merger totaling to RO 4,667,509 as taxable income.

Based on a legal opinion the Parent Company has filed 'objection' with His Excellency, The Secretariat General for Taxation against the above assessment, the decision for which is pending. There exists a liability to this extent, which is contingent on the outcome of the objection (note 25).

The management and the Board of Directors consider their objection to be justified on account of the reasons below and have accordingly resolved that no additional tax provision is necessary:

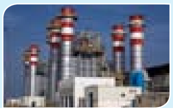
- The effective date of the above merger was 31 December 1999, and accordingly no operational income subsequent to the effective date of merger is taxable in the hands of AHTC;
- AHTC did not realize any income from the merger;
- Assets and liabilities of AHTC which merged with the Parent Company cannot be treated as sale or disposal; and
- The merger did not give rise to taxable goodwill and balancing charge in the hands of AHTC.

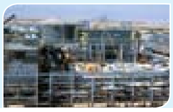
d) The reconciliation of taxation on the accounting profit with the taxation charge for the year is as follows:

	2008 Group and Parent Company RO	2007 Group and Parent Company RO
Tax charge on accounting profit at applicable rates	301,776	280,760
Tax effect of:		
Accelerated tax depreciation	(481,720)	(506,515)
Disallowable expenses	353,016	325,710
	--------------	--------------
Taxation charge	173,072	99,955
	========	========

e) The net deferred tax liability in the balance sheet and deferred tax charge in the income statement account, are attributable to the following items:

	2008 Group and Parent Company RO	Charged / (credited) to income statement RO	2007 Group and Parent Company RO
Accelerated tax depreciation	245,690	152,482	93,208
Provision for inventories	(45,080)	(24,063)	(21,017)
Allowance for credit losses	(12,447)	(10,121)	(2,326)
	--------------	--------------	--------------
Net deferred tax liability	188,163	118,298	69,865
	========	========	========





for the year ended 31 December 2008

17 RELATED PARTIES

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

a) The details of related party transactions carried out during the year are as follows:

	2008 Group	2008 Parent Company	2007 Group	2007 Parent Company
	RO	RO	RO	RO
Entities related to Directors				
Direct costs	519,813	519,813	1,070,550	1,070,550
General and administration	173,780	173,780	63,948	63,948
Contract income	131,015	131,015	--	--
Other income	27,827	27,827	--	--

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

	2008 Group and Parent Company	2007 Group and Parent Company
	RO	RO
Short term employment benefits	257,002	177,809
End of service benefits	15,036	12,000
Directors' meeting attendance fees [see note c) below]	18,500	15,000
Directors' remuneration [see note c below)]	50,000	60,000
	-----------	-----------
	340,538	264,809
	======	======

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

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

18 DIRECT COSTS

	2008 Group and Parent Company	2007 Group and Parent Company
	RO	RO
Materials	12,129,865	7,950,012
Salaries and employee related costs	11,434,088	9,262,069
Sub-contract costs	4,401,506	2,360,542
Depreciation [note 4 c)]	2,483,263	2,131,850
Other direct expenses	8,652,446	8,029,792
	---------------	---------------
	39,101,168	29,734,265
	=========	=========

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

for the year ended 31 December 2008

19 OTHER INCOME

	2008 Group and Parent Company RO	2007 Group and Parent Company RO
Interest income	9,502	5,298
Profit on disposal of plant and equipment	61,909	218,791
Miscellaneous	145,708	116,758
	------------	------------
	217,119	340,847
	=======	=======

20 GENERAL AND ADMINISTRATION EXPENSES

	2008 Group RO	2008 Parent Company RO	2007 Group RO	2007 Parent Company RO
Salaries and employee related costs	1,997,488	1,861,509	1,325,708	1,241,846
Rent	115,469	100,904	61,710	54,688
Depreciation [note 4 c)]	98,325	98,325	86,037	86,037
Communication	87,782	81,231	61,053	55,980
Travelling and conveyance	45,946	36,908	84,675	83,639
Advertisement and business promotion	24,824	24,573	44,670	43,396
Utilities	35,235	34,839	32,241	31,836
Vehicle fuel	12,712	11,170	14,077	12,945
Professional fees	31,133	29,133	95,142	95,083
Printing and stationery	17,772	16,647	16,210	15,112
Insurance	8,565	4,586	22,634	20,869
Directors' meeting attendance fees [note 17 c)]	18,500	18,500	15,000	15,000
Directors' remuneration [note 17 c)]	50,000	50,000	60,000	60,000
Contributions towards social causes	26,356	26,356	109,942	109,942
Allowance for credit losses [note 8 a)]	129,903	129,903	19,948	19,948
Miscellaneous	180,661	159,080	151,878	140,895
	--------------	--------------	--------------	--------------
	2,880,671	2,683,664	2,200,925	2,087,216
	=======	=======	=======	=======

21 SALARIES AND EMPLOYEE RELATED COSTS

a) Salaries and employee related costs include:

	2008 Group and Parent Company RO	2007 Group and Parent Company RO
Cost of expatriate employees' end of service benefits	495,553	406,275
Contributions to defined retirement plan for Omani employees	198,578	171,491
	------------	------------
	694,131	577,766
	=======	=======

for the year ended 31 December 2008

21 SALARIES AND EMPLOYEE RELATED COSTS *(Continued)*

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

	2008 Group and Parent Company RO	2007 Group and Parent Company RO
At the beginning of the year	986,236	649,993
Expense recognised during the year	495,553	406,275
Amounts paid during the year	(106,853)	(70,032)
At the end of the year	1,374,936	986,236

22 NET ASSETS PER SHARE

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

	2008 Group	2008 Parent Company	2007 Group	2007 Parent Company
Net assets (in Rials Omani)	11,787,907	12,213,718	10,761,277	10,990,070
Number of shares outstanding	75,208,000	75,208,000	75,208,000	75,208,000
Net assets per share (in Rials Omani)	0.157	0.162	0.143	0.146

23 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:

	2008 Group	2008 Parent Company	2007 Group	2007 Parent Company
Net profit for the year (in Rials Omani)	2,019,873	2,216,891	2,116,789	2,230,530
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 Rials Omani)	0.027	0.029	0.028	0.030

As the 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 2008

24 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 Oman (PDO). The interest of the Parent Company in the joint venture is 40%. The joint venture commenced its operations on 6 August 2002. The construction and commissioning of the gas plant was completed and handed over to PDO on 7 March 2005. The warranty period was one year which was completed on 6 March 2006 and the final guarantee was completed on 31 March 2008.

There were no transactions in the joint venture during the year as the variation order was completed during the previous year.

The amounts relating to the Parent Company's 40% interest in the joint venture and included in the Parent Company's financial statements for the year, based on management accounts as at 31 December 2008 is as follows:

	2008 40% share in joint venture RO	2007 40% share in joint venture RO
Contract income	--	732,841
Direct costs	--	504,480
Other income	--	5,229
Current assets	641,208	641,208
Current liabilities	875,294	875,294

25 CONTINGENT LIABILITIES

Other than the contingent liability referred to in note 16 c) to the financial statements, outstanding guarantees with banks relating to contractual performance in the ordinary course of business amounted to RO 13,587,590 (2007 – RO 12,861,883).

26 COMMITMENTS

At the balance sheet date:

a) Unutilized letters of credit relating to the commercial and financing operations amounted to RO 2,829,382 (2007 - RO 1,024,247).
b) The Board of Directors have approved future capital expenditure amounting to RO 5 million (2007 – RO 5 million).
c) There were forward purchase contracts of foreign currencies (treated as asset hedges) amounting to RO 3,107,319 (2007 – RO 1,779,409) outstanding in order to cover specific liabilities for the purchases of materials.

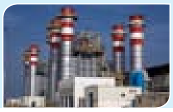
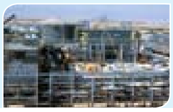
27 SEGMENTAL REPORTING

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

28 FINANCIAL RISK AND CAPITAL MANAGEMENT

The Group's financial assets include contract and other receivables and bank balances and cash. The Group's financial liabilities include accounts and other payables, term loans, bank borrowings, provision for taxation and employees' end of service benefits. The carrying amounts of financial assets and liabilities approximate to their fair values.

The Group's activities expose it to various financial risks, primarily being, market risk (including foreign currency risk and interest rate risk), credit risk, concentration risk and liquidity risk. The Group's risk management is carried out internally in accordance with the policies approved by the Board of Directors.



28 FINANCIAL RISK AND CAPITAL MANAGEMENT *(Continued)*

a) Market risk

Foreign exchange risk

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

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

Interest rate risk

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

For every 0.5% change in interest rate, the impact on the income statement will approximate to RO 76,000 (2007 – RO 67,000) based on the level of interest bearing assets and liabilities at the balance sheet date.

b) Credit risk

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

c) Concentration risk

Although 48% (2007 - 46%) of the Group's contract income is from 3 customers (2007 - 2 customer), the Group considers it is well positioned to carry out contracting work for other parties and that the business risk associated with concentration on a single customer is manageable.

d) Liquidity risk

The Group maintains sufficient facilities and bank balances and cash to meet the Group's obligations as they fall due for payment. The contractual maturity analysis in respect of non-current portion of term loans is provided in note 13 to the financial statements.

The Subsidiaries' financial liabilities as at the balance sheet date have a contractual maturity date of less than 3 months.

The following table below analyses the Parent Company's financial liabilities as at the balance sheet date based on the contractual maturity date.

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

for the year ended 31 December 2008

28 FINANCIAL RISK AND CAPITAL MANAGEMENT *(Continued)*

	Less than 3 months RO	3 to 6 months RO	6 months to 1 year RO	More than 1 year RO	Total RO
At 31 December 2008					
Current portion of term loans	229,167	931,667	1,863,334	--	3,024,168
Bank borrowings	6,491,231	--	--	--	6,491,231
Accounts and other payables	9,929,287	4,310,980	2,100,828	--	16,341,095
Employees' end of service benefits	--	--	--	1,374,936	1,374,936
Provision for taxation	181,288	--	--	--	181,288
	16,830,973	5,242,647	3,964,152	1,374,936	27,412,718
At 31 December 2007					
Current portion of term loans	413,750	413,750	1,146,534	--	1,974,034
Bank borrowings	6,160,822	--	--	--	6,160,822
Accounts and other payables	5,203,096	4,669,919	2,743,217	--	12,616,232
Employees' end of service benefits	--	--	--	986,236	986,236
Provision for taxation	108,486	--	--	--	108,486
	11,886,154	5,083,669	3,889,751	986,236	21,845,810

e) Capital management

The Group's objectives when managing capital are:

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

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

The Group also ensures compliance with externally imposed capital requirements.

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

29 COMPARATIVES

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