NATIONAL MINERAL WATER COMPANY (SAOG)

BOARD OF DIRECTORS

H.E. Sheikh Aflah bin Hamad bin Salim Al Rawahy	Chairman
Sayyid Aymen bin Hamad bin Hamoud Al Busaidi	Vice Chairman
H.E. Sayyid Khalid bin Hamad bin Hamoud Al Busaidi	Director
Sayyid Nasr bin Badr bin Hamad Al Busaidi	Director
Sayyid Faisal bin Sami bin Hamad Al Busaidi	Director
Mr. Raffy Kozajian	Director
Mr. Glenn F. De Silva	Director
Mr. David Crickmore	Director
Mr. Saibal Sen	Director

Registered Office:

P O Box 2740,
PC 112, Ruwi,
Sultanate of Oman

Principal place of business:

Bldg no. 4496 and 4498
Way no. 5257, Ghala Indstrial Estate
Sultanate Of Oman

NATIONAL MINERAL WATER CO. SAOG

Director's Report

26 February 2012

Dear Shareholders,

On behalf of the Board of Directors, I extend to all of you a warm welcome to the 32nd Annual General Meeting of the Company. We present the Annual Report on the activities and performance of your company for the financial year ended 31 December 2011.

Review of Operations:

The consolidated financial statements for the year ended 31 December 2011 includes financials of Parent Company and its subsidiaries:

Horizon Technologies SAOC: A Company registered as closed joint stock company in Sultanate of Oman. The Parent Company holds 53.5% of share capital of Horizon Technologies SAOC (HTS). HTS in turn holds 100% of share capital of Horizon Technologies FZE (HTF), a Company registered in Fujairah Free Zone, Fujairah, UAE

Valuedeal Trading LLC (VDT): A Company registered in Sultanate of Oman. The Parent Company holds 95% of its share capital. VDT is in the business of trading in food and other related products.

Sales and Operational Performance:

The Parent Company's sales in the current year are RO 7,695,934 compared to RO 7,471,219 in the previous year. The net loss for the year is RO 726,455 compared to net loss of RO 1,289,529 in the previous year. The operations have resulted into loss owing to increase in cost of basic raw material i.e. PET resin, increase in overheads in particularly staff cost, lower production volumes due to ageing of equipments. The parent company has not been able to negate the increase in costs owing to regulatory ruling against increase in selling price. The net loss of the Group for the year is RO 1,882,460 compared to net loss of RO 1,762,729 in the previous year.

In view of net loss, Board of Directors have not recommended dividend for the year.

Owing to write-off of investment in subsidiary in the amount of RO 2,619,400 in the previous years, and current year's losses, there is erosion of equity capital of the Company. Due to this condition the Company is now trading under Article 129 of the Commercial Companies Law which has necessitated the development of a recovery plan which will be placed before the shareholders at the Extra-ordinary General Meeting for their approval. On the approval of this plan the same will be implemented.

Subsidiary Companies.

Horizon Technologies FZE (HTF): After considering all scenarios in the light of unresolved regulatory constraints imposed by local agencies, the shareholders of HTF have concluded that under the current conditions, it is not viable to run the operations and a decision to wind down the operations has been taken. Consequently, there is stoppage in production activity effective 19 April 2011. Due to winding down the operations, the Company has recorded sales turnover of AED 5,179,013 in the current year. The net loss of the Company for the year is AED 11,383,723 compared to AED 16,198,862 in the previous year.

Valuedeal Trading LLC (VDT): The current year's operation has resulted in sales turnover of RO 76,486 compared to RO 106,198 in the previous year. The main reason for the lower turnover is due to the discontinuation of lower margin, unprofitable products. The net loss of the Company for the year is RO 23,853 compared to RO 12,319 in the previous year. The way forward would be to represent brands and not commodities. The company has already entered into discussions with Brand owners and envisages taking up distribution of new FMCG products for the Oman market.

NATIONAL MINERAL WATER CO. SAOG
Director's Report (continued)

Future Outlook

We view the future outlook as positive mainly due to current replacement of manufacturing equipment which will allow us to deliver the market demands. Major equipments have been installed and commissioned during December 2011, with further investments in downstream packaging equipment to be made within the first half of 2012. This will enable the Company to optimize the production capability resulting in increased production output and efficiencies. Management is reviewing primary and secondary logistics to increase operational efficiencies.

Due to the prevailing situation in the Middle East, oil prices are expected to remain high in 2012 resulting in high PET resin prices. The profit margins will continue to remain under pressure owing to high PET resin prices and overheads and inability to increase selling prices to negate increase in costs. R&D continues to seek out areas of opportunity to reduce costs and improve productivity.

Human resources

Your Company is currently employing 50% Omani staff and will continue to support this initiative of employing more Omanis. Your Company recognizes human asset as the most important asset in order to achieve its short term and long term objectives. High employee turnover across all functions remains an area of challenge. Your Company regularly sponsors employees for function-related training programs with a view to improve productivity and increase motivational levels.

Approval of Related Party transactions

The Group entered into transactions in ordinary course of business with entities in which Directors are interested. Shareholders are requested to approve these transactions.

Internal Control System

The Board has reviewed the effectiveness of existing internal control systems and has found them to be adequate for size and nature of business operations.

Corporate Governance Code

The Company has complied with CMA directives on Corporate Governance Code. A detailed report on compliance with Corporate Governance Code together with auditor's report is included in the Annual Report.

Acknowledgement

The Board of Directors wishes to thank our patrons, customers, bankers and shareholders for the unstinting support they have extended to us. We seek your continued support while we institute the changes that are now required to return the Company to profitability and growth in the coming years. We wish to record our sincere appreciation of the dedication, loyalty and hard work of all our employees.

On behalf of the Directors, it is our honour to thank His Majesty Sultan Qaboos Bin Said for his wise leadership. The opportunities that his wisdom and vision have created are evident and have provided ample scope for our Company, like others, to thrive. We are sure that we will continue to be guided by his wisdom and we pray for his good health and long life, so that the people of Oman may flourish in an environment of peace and prosperity under his leadership.

Aflah bin Hamad bin Salim Al Rawahy
CHAIRMAN

NATIONAL MINERAL WATER CO. SAOG

Management Discussion and Analysis Report

Industry Structure and Development

FMCG manufacturers' margins are under increased pressure owing to high material cost and overheads. PET resin prices have remained high during the year 2011. Bottled water being an essential component of life style was able to retain its demand with a marginal growth mainly due to the growth in population. The trading environment is also becoming extremely competitive with a few new entrants into the local market

Opportunities and threats

Government's initiative of investments in infrastructure and promoting Oman as an attractive tourist destination holds in itself a huge opportunity. Dependence on natural rainfall continues to remain a concern as the company sources its water from the wells. Natural rainfall in the catchment area feed the wells, and availability of natural mineral water is therefore, susceptible to vagaries of nature. Developments in the Middle East are likely to boost oil prices. Consequently, PET resin prices which are expected to be high during the coming year and thus are likely to have an adverse impact on the profitability. Certain neighbouring Countries are reviewing their policy of exporting water for commercial gain and may ban this practice to ensure that water from a certain Country is consumed in that particular Country.

Analysis of segment and product-wise performance

The company has two product segments, namely; bottled water and traded/co-manufactured products. During the year, the company was able to secure nationwide contracts from Ministry of Education for supply of juice drinks and water into schools.

A more detailed analysis of performance in different segments is considered detrimental to the company's long term interest.

Subsidiaries

Valuedeal Trading LLC, a 95% subsidiary commenced its operations in last quarter of year 2009. It has taken up distribution of FMCG products in Oman. Sales for the current year were at RO 76,486 compared to RO 106,198 in the previous year. The company envisages taking up distribution of other FMCG related products in future. The strategy would be to obtain the rights to represent FMCG products and to benefit from a financial commitment from the Brand owners to assist us in building equity for these Brands, rather than trading commodities.

After considering all scenarios in the light of unresolved regulatory constraints imposed by local agencies, the shareholders of ultimate subsidiary Horizon Technologies FZE have concluded that under the current conditions, it is not viable to run the operations and consequently, a decision to wind down the operations has been taken.

Outlook

The Board has approved an investment for replacing old equipment in the downstream of the production process. This will enable the Company to optimize the production capability resulting in increased production efficiencies and minimizing production down time due to unplanned equipment failure. Primary and secondary logistics are being reviewed to increase operational efficiencies. Performance management standards will be determined for Key staff members and will be used as a quarterly review mechanism. The profit margins will continue to remain under pressure owing to high PET resin prices and overheads and inability to increase selling prices to negate increase in costs.

Risks and concerns

The availability of natural mineral water at the company's bottling site continuous to be a risk facing the company. We are consulting with a respected Hydrogeological company and will implement their recommendations to ensure that any unnecessary wastage of water is eliminated. The company has made commercial arrangements for sourcing natural mineral water from neighboring area.

NATIONAL MINERAL WATER CO. SAOG

Management Discussion and Analysis Report (continued)

Internal control systems and their adequacy

Internal control systems necessary for smooth running of operations are adequate in the Company. The control environment within the Company at all levels is being periodically reviewed by internal audit conducted by a professional accounting firm as per directives of Audit Committee. Procedures and policies are continuously reviewed to effect improvements. Observations and recommendations made by Internal Auditor for improving controls are reviewed by Audit Committee and, wherever feasible in the context of company's business and product lines, are implemented.

Discussion on financial and operational performance

The Parent Company's sales in the current year were RO 7,695,934 compared to RO 7,471,219 in the previous year. The Parent Company's net loss for the year is RO 726,455 compared to net loss of RO 1,289,529 in the previous year. The operations have resulted into loss owing to increase in basic raw material i.e. PET resin cost, increase in overheads in particularly, staff cost, lower production volumes due to ageing of equipments. The parent company has not been able to negate the increase in costs owing to regulatory ruling against increase in selling price. The parent company's share of winding down expenses of its ultimate subsidiary, Horizon Technologies FZE in the amount of RO 229,515 has been considered during the year.

The net loss of the Group for the year is RO 1,882,460 compared to net loss of RO 1,762,729 in the previous year.

Net profit, dividend & net equity for the previous 5 years of the Parent Company:

	2006	2007	2008	2009	2010
Net profit (loss)-RO	57,265	396,600	75,313	(1,279,056)	(1,289,529)
Dividends (%)	8%	8%	5%	-	-
Net equity (shareholder's funds)-RO	2,892,292	4,023,736	4,099,049	2,719,352	1,429,823

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REPORT OF FACTUAL FINDINGS

TO THE SHAREHOLDERS OF NATIONAL MINERAL WATER CO. SAOG

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

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

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

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

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

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

PricewaterhouseCoopers LLP

3 March 2012
Muscat, Sultanate of Oman

NATIONAL MINERAL WATER CO. SAOG
Report on Corporate Governance

1. **Company's philosophy on Code of Governance**

The Company's philosophy on Code of Governance is to strictly adhere to each and every directive from CMA and other competent authorities. The Company has a policy of full transparency and believes in the right of information access by all shareholders. The Board of Directors has briefed itself in detail on the principles of Corporate Governance and is wholeheartedly committed to implement the same, using the resources of professional managers with relevant competence in various aspects of Corporate Governance.

The Board performs this vital function through regular Board meetings where various aspects of Corporate Governance are discussed and actions on previous decisions are reviewed. In order to further strengthen its commitment to the Code of Corporate Governance, the Board has constituted Executive Committee, Audit Committee and Purchase Committee. These committees are headed by individual Directors with expertise in relevant field and they report to the Board with reviews of current status on implementation of earlier decisions and make suggestions for the future. The Board has decided to institute sub-committees for several functions not specifically covered under the Corporate Governance Code, but which are considered important by the Board.

2. **Board of Directors:**

Name of Director	Category	Other Directorship	No. of Board Meetings / AGM & Dates. Attendance of Directors
H.E. Shaikh Aflah bin Hamad bin Salim Al Rawahy - Chairman	Non-Executive, Independent	-	5Nos - 28.02.11, 08.08.11, 01.10.11, 29.10.11, 29.11.11
Sayyid Aymen bin Hamad bin Hamoud Al Busaidi – Vice Chairman	Non-Executive, Independent	Voltamp Energy SAOG - Director	6Nos - 28.02.11, 31.03.11, 10.05.11, 01.10.11, 29.10.11, 29.11.11 AGM : 31.03.2011
H.E. Sayyid Khalid bin Hamad bin Hamoud Al Busaidi	Non-Executive, Independent	Ahli Bank SAOG – Director	4Nos - 31.03.11, 10.05.11, 01.10.11, 29.11.11 AGM : 31.03.2011
Sayyid Nasr bin Badr bin Hamad Al Busaidi	Non-Executive, Independent	-	4Nos - 10.05.11, 08.08.11, 01.10.11, 29.10.11
Sayyid Faisal bin Sami bin Hamad Al Busaidi	Non-Executive, Independent	-	-
Mr. Glen F. De Silva	Non-Executive, Independent *(Nominee of Muscat Overseas Industrial & Marine Equipment Trading Co. L.LC.)*	Computer Stationary Industry SAOG – Director	1Nos - 01.10.11,
Mr. Raffy Kozajian	Non-Executive, Independent	Oman Medical Projects Co. SAOG	7Nos - 28.02.11, 31.03.11, 10.05.11, 08.08.11, 01.10.11, 29.10.11, 29.11.11 AGM : 31.03.2011
Mr. David Crickmore	Non-Executive, Independent	-	3Nos - 31.03.11, 10.05.11, 29.11.11 AGM : 31.03.2011
Mr. Saibal Sen	Non-Executive Independent	Voltamp Energy SAOG - Director	7Nos - 28.02.11, 31.03.11, 10.05.11, 08.08.11, 01.10.11, 29.10.11, 29.11.11 AGM : 31.03.2011

NATIONAL MINERAL WATER CO. SAOG
Report on Corporate Governance (continued)

3. Board Committees:

Executive Committee:

1. H.E. Sayyid Khalid bin Hamad bin Hamoud Al Busaidi – Chairman
2. Sayyid Aymen bin Hamad bin Hamoud Al Busaidi
3. Mr. David Crickmore
4. Mr. Saibal Sen

Terms of Reference:

To discuss future strategy of the company, evaluate plans, new projects etc and report to Board on the progress of the same. To implement Board decisions. To monitor and review the present level of Omanisation in the company, review the policy of attracting fresh local talent at various levels of the organization and to advise Board on changes required for improving Omanisation in the company from time to time.

Meetings and attendance:
No meetings were held during the year.

Audit Committee:
Members of the Committee

1. Mr. Raffy Kozajian – Chairman
2. Sayyid Nasr bin Badr bin Hamad Al Busaidi
3. Mr. Glen F. De Silva

Meetings and attendance:

Name of the members	Date of meeting & attendance
1. Mr. Raffy Kozajian – Chairman	13.02.11, 28.02.11, 07.05.11, 07.08.11, 27.09.11, 29.10.11
2. Sayyid Nasr bin Badr bin Hamad Al Busaidi	07.08.11, 27.09.11, 29.10.11
3. Mr. Glen F. De Silva	13.02.11, 07.05.11
4. Mr Saibal Sen (Nominated by Board)	28.02.11

Terms of Reference:

The Audit Committee is charged with the task of monitoring the compliance of management and staff with the policies of the Board and with laws and regulations relating to public joint stock companies. The Committee's primary focus is on the integrity of the Company's financial reporting process and internal financial controls. However its scope is unlimited and extends to testing compliance with all the Company's policies, the effectiveness of internal controls and adequacy of segregation of key duties commensurate with risks. The Audit Committee shall co-ordinate the activities of the internal audit function and the external auditors in order to test compliance comprehensively and acts as a communication forum between the Board and internal audit and external audit.

Purchase Committee:
Members of the Committee

1. Sayyid Aymen bin Hamad bin Hamoud Al Busaidi - Chairman
2. Sayyid Faisal bin Sami bin Hamad Al Busaidi
3. Mr. Saibal Sen

Terms of Reference:

To study various proposals and evaluate comparative quotes obtained by the management, negotiate with prospective supplier and finalise purchase transactions for major capital expenditure.

Meetings and attendance:
No meetings were held during the year.

NATIONAL MINERAL WATER CO. SAOG
Report on Corporate Governance (continued)

4. Profile of top 4 executives:

- **Mr. Raymond Semple** – General Manager, (From 01.10.2011) Overall incharge of operations of the Company.
- **Mr. Sunil Shah** – Dy. General Manager (F&A), Head of Finance & Administration functions
- **Mr. Vijay Chopra** – Dy. General Manager (S&P), Head of Sales & Marketing functions
- **Mr**. **Khawar Nadeem** – Factory Manager, Head of Manufacturing operations at Tanuf (Nizwa)

5. Details of remuneration paid to Directors and top 4 executives:

Name of the Director	Sitting fees RO
H.E. Shaikh Aflah bin Hamad bin Salim Al Rawahy – Chairman	500
Sayyid Aymen bin Hamad bin Hamoud Al Busaidi – Vice Chairman	600
H.E. Sayyid Khalid bin Hamad bin Hamoud Al Busaidi	400
Sayyid Nasr bin Badr bin Hamad Al Busaidi	550
Sayyid Faisal bin Sami bin Hamad Al Busaidi	-
Mr. Glen F. De Silva	200
Mr. Raffy Kozajian	1000
Mr. David Crickmore	300
Mr. Saibal Sen	750

The remuneration of top 4 executives including Executive Director is based on fixed monthly salary and performance linked annual incentives based on achievement of profits and sales targets. The Service contracts of top 4 expat executives are for 2 years to be renewed thereafter, with a notice period of 3 months on either side. There is no severance fees payable on termination. The total gross remuneration, inclusive of provision in respect of terminal benefits, of top 4 executives for the year 2011 – RO 116,599

6. Means of communication with the shareholders and investors:

Quarterly financial results are made known to all shareholders and the public, through publication in Arabic and English newspapers. These results are also displayed on the company's website www.tanufwater.com. Management discussions and analysis forms part of annual report.

7. Professional profile and audit fee of statutory auditor.

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

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

PwC has been established in Oman for over 40 years and the Firm comprises four partners, including one Omani national, and over 140 professionals and support staff. Expert assurance, tax and advisory professionals are able to combine specialist internationally acquired consulting and technical skills with relevant local experience.

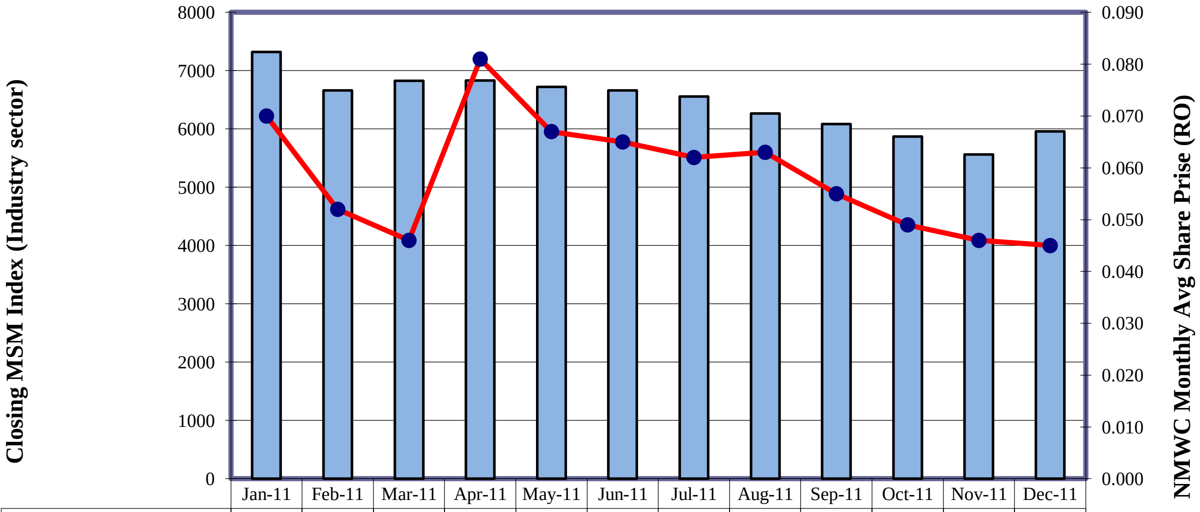
You can find more information about PwC at: www.pwc.com/middle-east.

NATIONAL MINERAL WATER CO. SAOG
Report on Corporate Governance (continued)

8. Market price data:
High / Low price during the year 2011

MONTH	P.CLOSE RO	OPEN RO	HIGH RO	LOW RO	CLOSE RO	VOLUME	TURNOVER RO
Jan-11	0.061	0.060	0.079	0.060	0.070	1,521,798	109,216
Feb-11	0.070	0.070	0.071	0.050	0.052	781,698	49,096
Mar-11	0.052	0.056	0.058	0.045	0.046	375,095	19,440
Apr-11	0.046	0.050	0.083	0.050	0.081	865,311	65,160
May-11	0.081	0.074	0.083	0.065	0.067	214,778	15,959
Jun-11	0.067	0.063	0.069	0.061	0.065	72,194	4,587
Jul-11	0.065	0.066	0.068	0.061	0.062	157,136	10,075
Aug-11	0.062	0.064	0.065	0.060	0.063	46,140	2,879
Sep-11	0.063	0.063	0.064	0.051	0.055	288,189	16,590
Oct-11	0.055	0.056	0.056	0.049	0.049	310,577	16,120
Nov-11	0.049	0.046	0.046	0.046	0.046	10,000	460
Dec-11	0.046	0.046	0.049	0.043	0.045	416,392	19,056

9. Performance in comparison to broad based index of MSM (Industry sector):



	Jan-11	Feb-11	Mar-11	Apr-11	May-11	Jun-11	Jul-11	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11
MSM Index Industry	7323	6659	6828	6830	6723	6664	6559	6269	6083	5871	5563	5959
NMWC Share Price	0.070	0.052	0.046	0.081	0.067	0.065	0.062	0.063	0.055	0.049	0.046	0.045

10. Distribution of shareholding:

The shareholding pattern as on 31.12.2011 between shareholders holding 5% or more shares:

Number of shares	Number of shareholders	Total shares	% Share capital
=> 1,006,385	5	14,994,980	74%
<1,006,385	211	5,132,712	26%
Total	**216**	**20,127,692**	**100%**

NATIONAL MINERAL WATER CO. SAOG
Report on Corporate Governance (continued)

11. Details of non-compliance & penalties etc.

There have been no instances of non-compliance on any matter relating to the Commercial Company Law No. 4/1974, CMA's code of corporate governance for MSM listed companies, CMA regulations or the MSM listing agreements. Consequently there are no penalties, strictures imposed on the Company by MSM/CMA or any statutory authority, on any matter related to capital markets during the last three years.

12. Acknowledgement by Board of Directors.

The Board of Directors is responsible for the preparation of the financial statements in accordance with the applicable standards and rules.

There are no material things that effect the continuation of the Company and its ability to continue its production operations during the next financial year.

The Board of Directors, through the Audit Committee's consideration of the results of the internal audit work and discussions with the external auditors, together with their examination of periodic management information and discussions with the management, have reviewed the operation of internal controls during the year ended 31 December 2011. The Board of Directors has concluded based on this that internal controls operated effectively throughout the year.

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Independent auditor's report to the shareholders of National Mineral Water Company (SAOG)

Report on the financial statements

We have audited the accompanying financial statements of **National Mineral Water Company (SAOG)** (the Parent company) and its subsidiaries (together, the Group), which comprise the Parent company's and consolidated statement of financial position as at 31 December 2011 and the Parent company's and consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

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

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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.

Basis for qualified opinion - Consolidated financial statements

The ultimate subsidiary's property, plant and equipment are stated at cost less accumulated depreciation in these consolidated financial statements. However, as explained in Note 2.1(d) and 17(c), although the ultimate subsidiary's financial statements are prepared on a liquidation basis, management of the ultimate subsidiary has not carried out an independent evaluation to assess the recoverable amounts of property, plant and equipment stated at a carrying value of RO 5,994,144 at 31 December 2011. Accordingly, the maximum impact as a reduction of the value as impairment charge could be to the extent of the carrying value of property, plant and equipment at 31 December 2011. In the absence of information to assess the recoverability of these assets, we were unable to satisfy ourselves as to the carrying amounts of property, plant and equipment included in the consolidated financial statements by other audit procedures.

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Independent auditor's report to the shareholders of
National Mineral Water Company (SAOG) (continued)

Qualified opinion - Consolidated financial statements

In our opinion, except for the possible effects of the matter described in the basis for qualified opinion paragraph, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2011, and of its financial performance and its cash flows for the period then ended in accordance with International Financial Reporting Standards.

Emphasis of matter - Parent company

Without further qualifying our opinion, we draw attention to Note 2.1(c) in the financial statements which indicates that the parent company's current liabilities exceed its current assets by RO 870,980 and its accumulated losses as at 31 December 2011 were RO 2,004,382 (2010 - RO 1,277,927) which have substantially eroded its share capital as of that date and the basis on which the Board of Directors consider that the parent will continue as a going concern.

Other legal and regulatory requirements

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

PricewaterhouseCoopers LLP

3 March 2012
Muscat, Sultanate of Oman

NATIONAL MINERAL WATER COMPANY (SAOG)

CONSOLIDATED AND PARENT STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	Parent Company		Group	
		2011	2010	**2011**	2010
		RO	RO	**RO**	RO
Revenue		**7,695,934**	7,471,219	**8,256,866**	10,801,946
Cost of sales	6	**(5,847,200)**	(5,482,399)	**(6,960,410)**	(9,471,076)
Gross profit		**1,848,734**	1,988,820	**1,296,456**	1,330,870
Selling and distribution expenses	7	**(1,680,927)**	(1,540,649)	**(1,803,867)**	(1,911,950)
Administrative expenses	8	**(718,156)**	(439,878)	**(857,300)**	(678,962)
Other operating income	10	**36,727**	165,682	**46,557**	168,711
Profit/(loss) from operations		**(513,622)**	173,975	**(1,318,154)**	(1,091,331)
Finance (costs) - net	11	**(183,072)**	(204,280)	**(534,545)**	(643,574)
Provision for loss in subsidiary	17	**-**	(1,231,400)	**-**	-
Decrease in fair value of investment property	16	**-**	(40,000)	**-**	(40,000)
Fair value loss on reclassification of investment to property, plant and equipment	16	**(60,000)**	-	**(60,000)**	-
Loss before tax		**(756,694)**	(1,301,705)	**(1,912,699)**	(1,774,905)
Taxation	12	**30,239**	12,176	**30,239**	12,176
Loss for the year		**(726,455)**	(1,289,529)	**(1,882,460)**	(1,762,729)
Attributable to:					
Equity holders of the parent company		**(726,455)**	(1,289,529)	**(1,325,094)**	(970,960)
Non controlling interest		**-**	-	**(557,366)**	(791,769)
		(726,455)	(1,289,529)	**(1,882,460)**	(1,762,729)
Basic loss per share attributable to equity shareholders of parent company	13	**(0.036)**	(0.064)	**(0.066)**	(0.048)

The notes on pages 19 to 43 form an integral part of these financial statements.

Report of the Auditors - pages 12 and 13.

NATIONAL MINERAL WATER COMPANY (SAOG)

CONSOLIDATED AND PARENT COMPANY STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2011

		Parent Company		Group	
	Note	2011	2010	2011	2010
Assets		**RO**	RO	**RO**	RO
Non-current assets					
Property, plant and equipment	14	**2,023,210**	1,471,594	**2,024,966**	1,473,886
Intangible asset	15	**1,000**	2,000	**1,832**	4,266
Investment property	16	**-**	410,000	**-**	410,000
Investment in subsidiaries	17	**95,000**	95,000	**-**	-
		2,119,210	1,978,594	**2,026,798**	1,888,152
Current assets					
Property, plant and equipment	14	**-**	-	**5,994,144**	6,434,887
Intangible asset	15	**-**	-	**1,182**	5,358
Inventories	18	**1,033,782**	1,167,788	**1,045,939**	1,464,807
Trade and other receivables	20	**1,788,966**	1,833,004	**1,831,043**	2,202,576
Due from related parties	31(c)	**6,656**	93,541	**6,656**	10,216
Cash and bank balances	21	**46,527**	106,411	**117,247**	144,720
		2,875,931	3,200,744	**8,996,211**	10,262,564
Total assets		**4,995,141**	5,179,338	**11,023,009**	12,150,716
Equity					
Share capital	22	**2,012,769**	2,012,769	**2,012,769**	2,012,769
Legal reserve	23	**313,858**	313,858	**313,858**	313,858
Revaluation reserve	24	**105,000**	105,000	**105,000**	105,000
Share Premium	26	**135,169**	135,169	**135,169**	135,169
General reserve	27	**140,954**	140,954	**140,954**	140,954
Accumulated losses		**(2,004,382)**	(1,277,927)	**(2,304,555)**	(979,461)
Equity attributable to equity shareholders of parent company		**703,368**	1,429,823	**403,195**	1,728,289
Non controlling interest		**-**	-	**(284,785)**	272,581
		703,368	1,429,823	**118,410**	2,000,870
Liabilities					
Non-current liabilities					
Long term loan	28	**275,679**	249,000	**275,679**	249,000
End of service benefits	29	**214,652**	199,034	**215,081**	199,136
Deferred tax liability	12	**54,531**	84,770	**54,531**	84,770
		544,862	532,804	**545,291**	532,906
Current liabilities					
Subordinated loan from investors	31(b)	**-**	-	**1,508,952**	1,221,927
End of service benefits	29	**-**	-	**1,824**	24,400
Current maturities of term loan and other borrowings	28	**2,173,356**	2,102,816	**6,988,154**	6,312,817
Trade and other payables	30	**1,513,114**	1,088,864	**1,802,796**	2,032,705
Due to related party	31(c)	**65,214**	2,634	**62,355**	2,694
Taxation		**(4,773)**	22,397	**(4,773)**	22,397
		3,746,911	3,216,711	**10,359,308**	9,616,940
Total liabilities		**4,291,773**	3,749,515	**10,904,599**	10,149,846
Total equity and liabilities		**4,995,141**	5,179,338	**11,023,009**	12,150,716
Net assets per share attributable to equity shareholders of the parent company	33	**0.035**	0.071	**0.006**	0.099

The financial statements set out on pages 14 to 43 were approved and authorised for issue by the Board of Directors on 26 February 2012 and signed on their behalf by:

Aflah bin Hamad bin Salim Al Rawahy
CHAIRMAN

Sayyid Aymen bin Hamad bin Hamoud Al Busaidi
VICE CHAIRMAN

Report of the Auditors - pages 12 and 13.

NATIONAL MINERAL WATER COMPANY (SAOG)

CONSOLIDATED AND PARENT COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2011

Parent Company	Share capital RO	Legal reserve RO	Revaluation reserve RO	Share premium RO	General reserve RO	Retained earnings/ (Accumulated losses) RO	Total RO
Balance at 1 January 2010	2,012,769	313,858	105,000	135,169	140,954	11,602	2,719,352
Total comprehensive loss for the year	-	-	-	-	-	(1,289,529)	(1,289,529)
At 31 December 2010	2,012,769	313,858	105,000	135,169	140,954	(1,277,927)	1,429,823
Balance at 1 January 2011	**2,012,769**	**313,858**	**105,000**	**135,169**	**140,954**	**(1,277,927)**	**1,429,823**
Total comprehensive loss for the year	-	-	-	-	-	**(726,455)**	**(726,455)**
At 31 December 2011	**2,012,769**	**313,858**	**105,000**	**135,169**	**140,954**	**(2,004,382)**	**703,368**

The notes on pages 19 to 43 form an integral part of these financial statements.

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NATIONAL MINERAL WATER COMPANY (SAOG)

CONSOLIDATED AND PARENT COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2011 (continued)

Group

	Share capital RO	Legal reserve RO	Revaluation reserve RO	Share premium RO	General reserve RO	(Accumulated losses) RO	Total RO	Non controlling interest RO	Total equity RO
At 1 January 2010	2,012,769	313,858	105,000	135,169	140,954	(8,501)	2,699,249	1,064,350	3,763,599
Total comprehensive loss for the year	-	-	-	-	-	(970,960)	(970,960)	(791,769)	(1,762,729)
At 31 December 2010	2,012,769	313,858	105,000	135,169	140,954	(979,461)	1,728,289	272,581	2,000,870
At 1 January 2011	**2,012,769**	**313,858**	**105,000**	**135,169**	**140,954**	**(979,461)**	**1,728,289**	**272,581**	**2,000,870**
Total comprehensive loss for the year	**-**	**-**	**-**	**-**	**-**	**(1,325,094)**	**(1,325,094)**	**(557,366)**	**(1,882,460)**
At 31 December 2011	**2,012,769**	**313,858**	**105,000**	**135,169**	**140,954**	**(2,304,555)**	**403,195**	**(284,785)**	**118,410**

The notes on pages 19 to 43 form an integral part of these financial statements.

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NATIONAL MINERAL WATER COMPANY (SAOG)

CONSOLIDATED AND PARENT STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2011

		Parent Company		Group	
	Note	**2011**	2010	**2011**	2010
		RO	RO	**RO**	RO
Operating activities					
Cash generated from operations	32	**678,830**	493,111	**70,262**	(116,753)
Interest paid		**(183,072)**	(204,280)	**(410,152)**	(645,962)
End of service benefits paid		**(40,723)**	(27,929)	**(68,097)**	(31,382)
Income tax paid		**(27,170)**	(42,224)	**(27,170)**	(42,224)
Net cash from/(used in) operating activities		**427,865**	218,678	**(435,157)**	(836,321)
Investment activities					
Purchase of property, plant and equipment		**(588,080)**	(215,243)	**(589,286)**	(327,736)
Intangible asset acquired during the year		**-**	(3,000)	**(990)**	(3,478)
Proceeds from disposal of plant and equipment		**3,112**	15,222	**8,919**	18,684
Net cash used in investing activities		**(584,968)**	(203,021)	**(581,357)**	(312,530)
Financing activities					
Subordinated loan from investors received		**-**	-	**287,025**	884,149
Long term borrowings received		**93,727**	(212,500)	**93,727**	(934,625)
Short term borrowings (paid)/received		**-**	(150,000)	**-**	449,218
Net cash generated from financing activities		**93,727**	(362,500)	**380,752**	398,742
Net decrease in cash and cash equivalents		**(63,376)**	(346,843)	**(635,762)**	(750,109)
Cash and cash equivalents at beginning of the year		**(1,283,905)**	(937,062)	**(2,564,186)**	(1,814,077)
Cash and cash equivalents at end of the year		**(1,347,281)**	(1,283,905)	**(3,199,948)**	(2,564,186)
Cash and cash equivalents comprise of the following:					
Cash at bank and in hand		**46,527**	106,411	**117,247**	144,720
Bank overdraft		**(1,393,808)**	(1,390,316)	**(3,317,195)**	(2,708,906)
		(1,347,281)	(1,283,905)	**(3,199,948)**	(2,564,186)

The notes on pages 19 to 43 form an integral part of these financial statements.

Report of the Auditors - pages 12 and 13..

1 Legal status and principal activities

National Mineral Water Company (SAOG) ("the Company or Parent company") is registered in the Sultanate of Oman as a Joint Stock Company. The business activities of National Mineral Water Company (SAOG) include bottling and distribution of natural mineral water, trading in other beverages and participating in industrial projects in UAE.

The principal activities of the subsidiaries is described in note 17.

The Board of Directors of its subsidiary Horizon Technologies SAOC ('the subsidiary') agreed to change the year end of the subsidiary and its subsidiary Horizon Technologies FZE (the ultimate subsidiary) from 30 September to 31 December to coincide with the year end of the ultimate Parent Company National Mineral Water Co SAOG. Accordingly, the comparative consolidated financial statements include results of the subsidiary and its ultimate subsidiary for the 15 months period from 1 October 2009 to 31 December 2010.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

(a) These financial statements are prepared on the historical cost basis, and in accordance with International Financial Reporting Standards (IFRS) and comply with the disclosure requirements set out in the "Rules and Guidelines on Disclosure by issuer of Securities and Insider Trading" issued by the Capital Market Authority (CMA) of the Sultanate of Oman.

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

(c) Going concern basis of the parent company

The parent company has incurred a loss of RO 726,455 during the year (2010 - RO 1,289,529) and as at 31 December 2011 had accumulated losses of RO 2,004,382 (2010 - RO 1,277,927). This has resulted in share capital of the parent company being eroded substantially due to continued losses incurred by the ultimate subsidiary because of operational difficulties faced. Further, the parent company has net current liabilities of RO 870,980 at 31 December 2011. In accordance with Article 14 of the Commercial Companies Law of Oman of 1974, subsequent to the reporting date, the shareholders have convened a meeting and decided to continue to support the existence of the parent company for the foreseeable future and to discharge its liabilities to other parties as they fall due. Accordingly, in view of the aforesaid, the management considers it appropriate for the financial statements of the parent company to be prepared under going concern basis.

(d) Liquidation basis of the subsidiary

For the reasons explained in note 17(c), the financial statements of the ultimate subsidiary have been prepared on a liquidation basis. This required restatement of the statement of financial position values of assets to their recoverable amount, if less than historical cost, to provide for further liabilities that are foreseen and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. While management of the ultimate subsidiary believes that the carrying values of current assets and current liabilities approximates the recoverable amounts, there was no independent evaluation carried out to assess the recoverable amounts of the property, plant and equipment of the ultimate subsidiary prior to the finalisation of these financial statements. Accordingly, property, plant and equipment included in the consolidated statement of financial position at 31 December 2011 are continued to be carried at cost less accumulated depreciation of RO 5,994,144 by the Group.

(e) Standards and amendments effective in 2011 and relevant for the company's operations:

There are no IFRS or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2011 that would be expected to have a material impact on the company.

2 Summary of significant accounting policies (continued)

2.2 Consolidation

(a) Subsidiaries

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

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

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Transactions and non controlling interests

The Group applies a policy of treating transactions with non controlling interests as transactions with parties external to the Group. Disposals to non controlling interests result in gains and losses for the Group that are recorded in the statement of comprehensive income. Purchases from non controlling interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

2.3 Revenue recognition

Revenue from the sale of goods is stated at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods.

2.4 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are included in selling and distribution expenses in the statement of comprehensive income on a straight-line basis over the period of the lease.

2.5 Finance cost and income

Financing costs comprise interest payable on borrowings calculated on effective yield method. Finance income comprises dividend income, interest income and Government interest subsidy. Interest income and expense are recognized as they accrue using the effective interest rate method. Dividend income is recognised in the statement of comprehensive income on the date that the right to receive payment is established.

2.6 Foreign currency

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in 'Rial Omani', which is the Parent company's functional and the Group's presentation currency.

2 Summary of significant accounting policies (continued)

2.6 Foreign currency (continued)

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

(c) Group companies

Accounting records of an ultimate subsidiary, Horizon Technologies FZE, the 100% subsidiary of Horizon Technologies SAOC, are maintained in UAE Dirhams (AED). The Rial Omani amounts included in the consolidated financial statements have been translated at an exchange rate of 0.1049 Omani Rial to each AED for the statement of comprehensive income and the statement of financial position items, as the AED to RO exchange rate has effectively remained fixed during the year, both being currencies pegged to the US Dollar.

2.7 Taxation

Taxation on the results for the year comprises of current tax calculated as per the fiscal regulations of the Sultanate of Oman and deferred tax.

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

Deferred income tax is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred tax. Deferred income tax assets and liabilities are offset as there is a legally enforceable right to offset these in Oman.

The principal temporary differences arise from depreciation on property, plant and equipment, provision for doubtful debts, provision for slow moving stocks, fair value of investment property and fair value of derivatives.

2.8 Property, plant and equipment

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

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

	Years
Buildings	20
Plant and machinery	4 - 20
Furniture, fixtures and other equipment	3 - 5
Motor vehicles	3 - 4

Capital work-in-progress is not depreciated until it is transferred into one of the above categories at the time when it is ready for use.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date.

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

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

2 Summary of significant accounting policies (continued)

2.9 Intangible assets

Goodwill

(a) Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Computer software costs

(b) Computer software costs that are directly associated with identifiable and unique software products controlled by the Group and have probable economic benefit exceeding the costs beyond one year are recognised as an intangible asset. Direct costs include staff costs of the software development team and an appropriate portion of relevant overheads. Computer software costs recognised as an intangible asset are amortised using the straight-line method over the estimated useful life of 3 years.

2.10 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.11 Financial Assets

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the reporting date. These are classified as non-current assets. The company's loans and receivables comprise trade and other receivables and cash and cash equivalents in the statement of financial position (notes 2.16 and 2.17).

2.12 Derivative financial instruments

Derivatives are initially recognised at fair values on the date a derivative contract is entered into and are subsequently re-measured at their fair value at each reporting date. These contracts are not designated as hedges under IAS 39. Subsequent changes in the fair value of these derivative instruments are recognised in the statement of comprehensive income within 'finance costs'.

2.13 Investment property

Investment property, principally comprising freehold office buildings, is held for long-term capital appreciation and is not occupied by the Group. Investment property is carried at fair value, representing open market value determined annually by external valuers. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. These valuations are revised annually by the independent valuer. Changes in fair values are recorded in the statement of comprehensive income.

2 Summary of significant accounting policies (continued)

2.14 Investment in subsidiary

Classification

A company is a subsidiary company, if National Mineral Water Company (SAOG) has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights so as to obtain benefits from the investee company’s activities.

Valuation

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

2.15 Inventories

Inventories are valued at the lower of cost and net realisable value. Cost is determined on the weighted average basis and consists of the direct cost of goods and related direct expenses. The cost of finished goods includes an appropriate portion of direct labour and related production overheads. Net realisable value is the price at which stock can be sold in the normal course of business after allowing for the costs of realisation.

2.16 Trade and other receivables

Trade debtors and other receivables are initially recognized at their fair value and subsequently stated at amortised cost using effective interest rate method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of any provision is recognised in the statement of comprehensive income within “selling and distribution expenses”. Subsequent recoveries of amounts previously written off are credited against “selling and distribution expenses” in the statement of comprehensive income.

2.17 Cash and cash equivalents

For the purpose of the cash flow statement the Group considers all bank balances, including short term deposits with a maturity of three months or less from the date of placement, to be cash equivalents.

2.18 Borrowings

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

Term loans are carried on the statement of financial position at their principal amount. Instalments due within one year are shown as a current liability. Interest is charged as an expense as it accrues, with unpaid amounts included in accounts payable and accruals.

Short-term loans are carried on the statement of financial position at their principal amount. Interest is charged as an expense as it accrues, with unpaid amounts included in “trade and other payables”.

2.19 Deferred Government grant

Interest subsidy is recognised in the statement of financial position initially as a deferred Government grant when there is reasonable assurance that it will be received and that the Group will comply with the conditions attached to it. This deferred Government grant is amortised over the life of the loans to which it relates on a systematic basis in the same periods in which the interest expense is incurred. Amortisation of the deferred Government grant is recognised in the statement of comprehensive income.

2 Summary of significant accounting policies (continued)

2.20 End of service benefits and leave entitlements

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

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

2.21 Trade and other payables

Trade creditors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

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

2.22 Earnings per share

The Group presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Parent company/Group by the weighted average number of ordinary shares outstanding during the period.

2.23 Directors' remuneration

The Directors' remuneration is governed as set out by the Commercial Companies Law and the rules prescribed by the Capital Market Authority.

The Annual General Meeting shall approve the remuneration and the sitting fees for the Board of Directors and its sub-committees provided that such fees shall not exceed a minimum of 5% of the annual net profit after deduction of the legal reserve and the optional reserve as distribution of dividends to the shareholders. Such fees shall not exceed RO 200,000 in one year. The sitting fees for each Director shall not exceed RO 10,000 in one year.

2.24 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Executive Committee ('the committee') that makes strategic decisions.

2.25 Dividends

Dividends are recognised as a liability in the period in which they are declared.

3 Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks including market risk (comprising foreign currency exchange risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance of the company. Risk management is carried out by the management under policies approved by the Board of Directors.

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(a) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

(i) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency. The Group is exposed to foreign currency risk arising from currency exposures with respect to US Dollar, UAE Dirhams, Saudi Riyals, Euro and Japanese Yen. In respect of the Group's transactions denominated in US Dollars, UAE Dirhams and Saudi Riyals the Group is not exposed to currency risk as the Rial Omani, UAE Dirhams and Saudi Riyals are pegged to the US Dollar. However if Rial Omani were to have strengthened or weakened by 5% against Euro and Japanese Yen, with all other variables held constant, pre-tax profits for the year would have been higher or lower by RO 44,878 (2010 - RO 8,642).

(ii) Interest rate risk

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

The Group's income and operating cash flows are affected by changes in market rates as it has significant interest-bearing financial liabilities comprising of term loans and overdraft facilities availed. The Group borrows at interest rates on commercial terms.

Term loan availed by the subsidiary at variable rates exposes the Group to cash flow interest rate risk. The Group's policy is to maintain borrowings in fixed rate instruments. The Group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals, the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional principal amounts.

Overdraft facilities availed by the Group carry fixed interest rates which are subject to change upon re-negotiation of the facilities which takes place on an annual basis in the case of overdrafts and at more frequent intervals in the case of short term loans and accordingly in line with the market interest rates.

If the interest rate were to shift by 1% on borrowings, there would be a maximum increase or decrease in the interest expense of Parent company by RO 22,868 (2010 - RO 24,381) and of the Group by RO 69,160 (2010 - RO 74,850).

(b) Credit risk

Credit risk is the risk of financial loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises from cash and cash equivalents, trade debtors and credit exposures to customers through outstanding debtors including outstanding amounts due from related parties.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's large customer base, including the default risk of the industry in the country of operation, which customers operate, has an influence on credit risk. Exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit. All export customers risks are either covered by insurance or by way of a bank guarantee. The maximum exposure to credit risk for trade receivables at the reporting date for the Group and the Parent company by geographical region was:

	Parent Company		Group	
	2011	2010	**2011**	2010
	RO	RO	**RO**	RO
Local customers	**1,564,903**	1,598,860	**1,603,476**	1,866,081
Foreign customers	**11,121**	41,295	**11,121**	73,264
	1,576,024	1,640,155	**1,614,597**	1,939,345

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damages to the Group's reputation.

The following are the Group's and the Parent company's contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

			Contractual gross cash flows		
2011	**Carrying amount**	**Total**	**Less than one year**	**1-2 years**	**Above 2 years**
Parent company	**RO**	**RO**	**RO**	**RO**	**RO**
Non-derivative financial liabilities					
Term loans from commercial banks	**605,227**	**657,073**	**363,710**	**216,371**	**76,992**
Short term loans from commercial banks	**450,000**	**479,250**	**479,250**	**-**	**-**
Bank overdrafts	**1,393,808**	**1,519,251**	**1,519,251**	**-**	**-**
Trade and other payables	**1,454,659**	**1,454,659**	**1,454,659**	**-**	**-**
Creditors for capital expenditure	**58,455**	**58,455**	**58,455**	**-**	**-**
	3,962,149	**4,168,688**	**3,875,325**	**216,371**	**76,992**

			Contractual gross cash flows		
2011	**Carrying amount**	**Total**	**Less than one year**	**1-2 years**	**Above 2 years**
Group	**RO**	**RO**	**RO**	**RO**	**RO**
Non-derivative financial liabilities					
Term loans from commercial banks	**3,496,638**	**3,548,484**	**3,255,121**	**216,371**	**76,992**
Short term loans from commercial banks	**450,000**	**479,250**	**479,250**	**-**	**-**
Bank overdrafts	**3,317,195**	**3,442,638**	**3,442,638**	**-**	**-**
Trade and other payables	**1,684,237**	**1,684,237**	**1,684,237**	**-**	**-**
Subordinated loan from investors	**1,508,952**	**1,508,952**	**1,508,952**	**-**	**-**
Creditors for capital expenditure	**76,433**	**76,433**	**76,433**	**-**	**-**
	10,533,455	**10,739,994**	**10,446,631**	**216,371**	**76,992**

			Contractual gross cash flows		
2010	Carrying amount	Total	Less than one year	1-2 years	Above 2 years
Parent company	RO	RO	RO	RO	RO
Non-derivative financial liabilities					
Term loans from commercial banks	511,500	549,103	291,722	257,381	-
Short term loans from commercial banks	450,000	478,500	478,500	-	-
Bank overdrafts	1,390,316	1,515,444	1,515,444	-	-
Trade and other payables	1,075,406	1,075,406	1,075,406	-	-
Creditors for capital expenditure	13,458	13,458	13,458	-	-
	3,440,680	3,631,911	3,374,530	257,381	-

			Contractual gross cash flows		
2010	Carrying amount	Total	Less than one year	1-2 years	Above 2 years
Group	RO	RO	RO	RO	RO
Non-derivative financial liabilities					
Term loans from commercial banks	3,402,911	3,440,514	3,183,133	257,381	-
Short term loans from commercial banks	450,000	478,500	478,500	-	-
Bank overdrafts	2,708,906	2,834,034	2,834,034	-	-
Trade and other payables	1,847,971	1,847,971	1,847,971	-	-
Subordinated loan from investors	1,221,927	1,221,927	-	-	1,221,927
Creditors for capital expenditure	184,734	184,734	184,734	-	-
	9,816,449	10,007,680	8,528,372	257,381	1,221,927

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011 (continued)

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(c) Liquidity risk

The parent company has net current liabilities of RO 870,980 at 31 December 2011 (2010 - RO 15,967). The members have confirmed their intention to continue to arrange funding for the parent company to enable it meet its liabilities as they fall due and to carry on its business without significant curtailment of operations.

3.2 Capital management

The capital of the Group comprises of paid-up share capital, retained earnings, legal reserves and special reserves. Summary of quantitative data as to what it manages as the capital and any changes therein from the previous year are given in statement of changes in equity. The primary objective of the Group's capital management is to ensure that it maintains appropriate capital ratios in order to support future development of the business and maximize shareholder value.

The Group also uses gearing ratio to monitor its capital, which is calculated as net debt divided by total capital plus net debt. The Parent company and Group include within debt, long-term interest bearing loans and other borrowings. Capital includes equity attributable to the equity holders including retained earnings, revaluation and other reserves.

	Parent Company		**Group**	
	2011	2010	**2011**	2010
	RO	RO	**RO**	RO
Total borrowings (excluding subordinated loans from investors	**2,449,035**	2,351,816	**7,263,833**	6,561,817
Less: cash and cash equivalents	**(46,527)**	(106,411)	**(117,247)**	(144,720)
Net debt	**2,402,508**	2,245,405	**7,146,586**	6,417,097
Total equity	**703,368**	1,429,823	**403,195**	1,728,289
Total capital employed	**3,105,876**	3,675,228	**7,549,781**	8,145,386
Gearing ratio	**77%**	61%	**95%**	79%

3.3 Fair value estimation

(a) Fair value of derivatives

The fair value of derivative financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at each statement of financial position date. The fair value of interest rate swap is calculated by the Group based on discounted cash flow analysis. Fair value of interest rate swap is disclosed in note 31.

(b) Fair value of long term loan is disclosed in note 28. Further, the face values less any estimated credit adjustments for other financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values.

(c) The fair values of non-current financial liabilities are considered to approximate to their carrying amounts as these carry variable interest rates.

(d) Fair value of subordinated loan from shareholders cannot be determined as the loan is interest free and does not have fixed repayment schedule.

4 Critical accounting estimates

The Group makes estimates and assumptions concerning the future. Estimates are regularly evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are set out below:

(a) Intangible assets - Goodwill

The Groups tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 2.9(a). The recoverable amounts of the cash generating unit have been determined based on expected future cash flows of the ultimate subsidiary. These calculations require the use of estimates. Based on the significant losses incurred by the ultimate subsidiary the goodwill of RO 81,909 has been fully impaired in the year 2009.

(b) Intangible assets – Software

The amortisation of the intangible asset in respect of computer software has been determined by the management on the basis of the finite useful life of 3 years using straight line method. The management reviews the amortisation period and amortisation method on an annual basis and adjustment, required, if any is made to the carrying amount on the basis of any expected change in the consumption of future economic benefits embodied in the asset.

5 Segment information

Management has determined the operating segments in the parent company based on the reports reviewed the Executive Committee (‘the committee’) that are used to make strategic decisions.

The committee considers the business from a divisional perspective. Divisionally, management considers the performance of manufacturing and trading division. The committee reviews monthly analysis of these divisions for sales volume and sales value only. No cost allocation is carried out for the divisions. The remaining key performance indicators a such as trade debtors balances, cost of sales and factory cost by value, variance with budgets, financial position, and working capital facilities with utilisation status; raw materials are monitored at parent company level.

	2011	2010
	RO	RO
Manufacturing	**4,188,283**	4,053,734
Trading	**3,507,651**	3,417,485
Total	**7,695,934**	7,471,219

Group

The committee also reviews the whole group monthly performance considering the following divisions:

2011	**Manufacturing of mineral water and trading of food products and beverages**	**Recycling and others**	**Total**
	RO	**RO**	**RO**
Revenue	**7,772,420**	**484,446**	**8,256,866**
Cost of sales	**(5,898,876)**	**(1,061,534)**	**(6,960,410)**
Total overheads	**(2,443,416)**	**(213,451)**	**(2,656,867)**
Other income	**36,727**	**9,830**	**46,557**
Finance costs - net	**(183,102)**	**(351,443)**	**(534,545)**
Directors' remuneration	**(4,300)**	**-**	**(4,300)**
Fair value loss on reclassification of investment property to property, plant and equipment	**(60,000)**	**-**	**(60,000)**
Loss before tax	**(780,547**	**(1,132,152)**	**(1,912,699)**
Taxation	**30,239**	**-**	**30,239**
Loss for the year	**(750,308)**	**(1,132,152)**	**(1,882,460)**
Other financial information			
Trade receivables	**1,584,794**	**-**	**1,584,794**
Property, plant and equipment additions	**588,080**	**1,206**	**589,286**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011 (continued)

5 Segment information (continued)

2010	Manufacturing of mineral water and trading of food products and beverages	Recycling and others	Total
	RO	RO	RO
Revenue	7,577,417	3,224,529	10,801,946
Cost of sales	(5,545,545)	(3,925,531)	(9,471,076)
Total overheads	(2,033,224)	(554,888)	(2,588,112)
Other income	165,821	2,890	168,711
Finance costs - net	(204,292)	(439,282)	(643,574)
Directors' remuneration	(2,800)	-	(2,800)
Decrease in fair value of investment property	(40,000)	-	(40,000)
Profit/(loss) before tax	(82,623)	(1,692,282)	(1,774,905)
Taxation	12,176	-	12,176
Profit/(loss) for the year	(70,447)	(1,692,282)	(1,762,729)
Other financial information			
Trade receivables	1,561,963	258,278	1,820,241
Property, plant and equipment additions	217,708	63,074	280,782

6 Cost of sales

	Parent Company		Group	
	2011	2010	**2011**	2010
	RO	RO	**RO**	RO
Opening stock of manufactured finished goods	**43,845**	121,013	**172,539**	308,691
Raw material consumption	**1,595,742**	1,281,443	**1,829,676**	3,415,461
Cost of trading items	**2,830,082**	2,716,262	**2,881,758**	2,779,408
Depreciation	**338,340**	411,388	**763,030**	943,522
Salaries and other costs (note 9)	**439,188**	309,473	**536,276**	675,616
Primary transportation	**273,398**	279,612	**273,398**	279,612
Repairs and maintenance, tools and spares	**231,350**	171,221	**231,350**	231,049
Other direct costs	**223,226**	235,832	**337,738**	1,010,256
Provision for inventory write off	**-**	-	**69,492**	-
Less: Closing stock of manufactured finished goods	**(127,971)**	(43,845)	**(134,847)**	(172,539)
	5,847,200	5,482,399	**6,960,410**	9,471,076

7 Selling and distribution expenses

	Parent Company		Group	
	2011	2010	**2011**	2010
	RO	RO	**RO**	RO
Salaries and other costs (note 9)	**847,357**	685,277	**875,862**	744,313
Commission and discounts on sales	**334,767**	255,315	**364,426**	273,205
Vehicle hire charges	**197,388**	188,567	**200,196**	190,364
Transportation	**147,557**	171,226	**163,263**	308,506
Advertising, publicity and business promotion	**33,709**	97,387	**37,702**	113,944
Depreciation	**25,053**	32,112	**28,668**	36,601
Bad debts	**13,521**	-	**13,521**	-
Amortisation of coolers	**8,400**	8,209	**8,400**	8,209
Provision for doubtful debts	**-**	21,144	**12,709**	21,144
Customs duty	**-**	-	**24,714**	131,310
Other expenses	**73,175**	81,412	**74,406**	84,354
	1,680,927	1,540,649	**1,803,867**	1,911,950

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011 (continued)

8 Administrative expenses

	Parent Company		Group	
	2011	2010	**2011**	2010
	RO	RO	**RO**	RO
Winding down expenses for the ultimate subsidiary	**229,515**	-	**229,515**	-
Salaries and other costs (note 9)	**175,622**	201,901	**268,847**	323,677
Rent	**120,000**	98,860	**141,708**	129,228
Receivable from ultimate subsidiary written off	**35,132**	-	**-**	-
Insurance	**29,080**	26,231	**56,599**	32,504
Depreciation	**23,071**	25,991	**31,381**	39,633
Legal fee	**18,965**	20,277	**24,950**	26,568
Utilities	**15,143**	15,085	**15,143**	15,085
Repairs and maintenance	**12,543**	4,807	**12,543**	4,807
Telephone	**8,165**	10,445	**14,223**	21,909
Directors' remuneration and sitting fees	**4,300**	2,800	**4,300**	2,800
Printing and stationery	**3,054**	1,531	**3,152**	3,182
Travelling	**1,302**	7,393	**7,148**	17,692
Amortisation of intangible assets	**1,000**	1,000	**7,600**	12,793
Other expenses	**41,264**	23,557	**40,191**	49,084
	718,156	439,878	**857,300**	678,962

9 Salaries and other costs

Salaries wages and related costs included under cost of sales, selling and distribution expenses and administrative expenses comprise:

	Parent Company		Group	
	2011	2010	**2011**	2010
	RO	RO	**RO**	RO
Salaries, wages and other benefits	**1,314,798**	1,056,516	**1,522,384**	1,564,911
Provision for leave encashment	**73,906**	61,036	**80,013**	76,931
Provision for gratuity and passage cost	**39,890**	54,648	**45,015**	77,313
Contribution to defined contributions retirement plan	**33,573**	24,451	**33,573**	24,451
	1,462,167	1,196,651	**1,680,985**	1,743,606

Staff costs are included in the statement of comprehensive income as follows:

	Parent Company		Group	
	2011	2010	**2011**	2010
	RO	RO	**RO**	RO
Cost of sales (note 6)	**439,188**	309,473	**536,276**	675,616
Selling and distribution expenses (note 7)	**847,357**	685,277	**875,862**	744,313
Administrative expenses (note 8)	**175,622**	201,901	**268,847**	323,677
	1,462,167	1,196,651	**1,680,985**	1,743,606

10 Other operating income

	Parent Company		Group	
	2011	2010	**2011**	2010
	RO	RO	**RO**	RO
Rental income	**11,900**	13,800	**9,500**	11,400
Income from scrap sales	**8,086**	6,195	**8,086**	6,195
Write back of old liabilities	**5,203**	125,424	**5,203**	125,424
Profit on sale of plant and equipment	**3,112**	9,167	**3,112**	10,063
Income from insurance claim	**-**	11,096	**-**	11,096
Others	**8,426**	-	**20,656**	4,533
	36,727	165,682	**46,557**	168,711

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011 (continued)

11 Finance costs

	Parent Company		Group	
	2011	2010	**2011**	2010
	RO	RO	**RO**	RO
Finance costs				
Interest expenses on short term borrowings	**146,298**	139,971	**365,558**	363,478
Interest expenses on long term borrowings	**36,774**	49,826	**210,264**	282,484
Fair value loss/(gain) on derivative financial statement	**-**	14,483	**(41,277)**	(2,388)
	183,072	204,280	**534,545**	643,574

12 Taxation

(a) The tax charge/(credit) for the year comprises:

	Parent Company		Group	
	2011	2010	**2011**	2010
	RO	RO	**RO**	RO
Current tax				
- in respect to current year	**-**	22,397	**-**	22,397
- in respect to prior year	-	628	-	628
Deferred tax				
- in respect to current year	**(30,239)**	(35,201)	**(30,239)**	(35,201)
	(30,239)	(12,176)	**(30,239)**	(12,176)

(b) The reconciliation of tax on the accounting profit at the applicable rate of 12% after the basic exemption limit of RO 30,000 and after eliminating Group loss not subject to tax with the taxation credit in the statement of comprehensive income is as follows:

	Parent Company		Group	
	2011	2010	**2011**	2010
	RO	RO	**RO**	RO
Tax on accounting profit	**(90,803)**	(159,804)	**(229,523)**	(122,088)
Add/(less) tax effect of:				
Expenses not allowed	**60,564**	147,768	**199,284**	110,052
Others	**-**	(140)	**-**	(140)
Tax credit for the year in the statement of comprehensive income	**(30,239)**	(12,176)	**(30,239)**	(12,176)

(c) The Parent Company

(i) Taxation has been agreed with the Oman Taxation Authorities for all years up to 2006. Assessments relating to the years 2007 to 2010 are pending with the Oman Taxation Authorities.

(ii) Horizon Technologies SAOC (the subsidiary or HTS).

In view of no taxable income during the year, HTS has not made any provision for tax for the year ended 31 December 2011.

(iii) Horizon Technologies FZE (the ultimate subsidiary or HTF).

HTF is a free zone establishment registered with Fujairah Free Zone Authorities Fujairah, UAE. HTF is not subject to taxation in UAE.

(iv) Valuedeal Trading LLC (the subsidiary or VDT).

In view of no taxable income during the year, VDT has not made any provision for tax for the year ended 31 December 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011 (continued)

12 Taxation (continued)

(d) Deferred tax

Deferred income taxes are calculated on all temporary differences under the liability method using a principal rate of 12%. The net deferred tax liability in the statement of financial position and the deferred tax charge/(credit) in the statement of comprehensive income, are attributable to the following items:

Group and Parent company

	1 January 2011 RO	Charged/(credited) to income statement RO	31 December 2011 RO
Deferred tax liabilities			
Accelerated tax depreciation on property, plant and equipment	**70,262**	**(13,680)**	**56,582**
Fair value gains on investment property	**28,800**	**(28,800)**	**-**
Deferred tax assets			
Provisions	**(14,292)**	**12,241**	**(2,051)**
	84,770	**(30,239)**	**54,531**

	1 January 2010 RO	Charged/(credited) to income statement RO	31 December 2010 RO
Deferred tax liabilities			
Accelerated tax depreciation on property, plant and equipment	101,012	(30,750)	70,262
Fair value gains on investment property	33,600	(4,800)	28,800
Deferred tax assets			
Fair value of interest rate swap	(2,859)	2,859	-
Provisions	(11,782)	(2,510)	(14,292)
	119,971	(35,201)	84,770

13 Basic loss per share

Basic loss per share is calculated by dividing the loss attributable to equity holders of the company by the weighted average number of ordinary shares in issue during the year.

	Parent Company		Group	
	2011	2010	**2011**	2010
Loss attributable to shareholders of the parent company (RO)	**(726,455)**	(1,289,529)	**(1,325,094)**	(970,960)
Weighted average number of shares outstanding	**20,127,692**	20,127,692	**20,127,692**	20,127,692
Loss per share (RO)	**(0.036)**	(0.064)	**(0.066)**	(0.048)

14 Property, plant and equipment

(a) The movement on fixed assets is set out below:

Parent company - 2011	Buildings on leasehold land RO	Plant and machinery RO	Furniture, fixtures and equipment RO	Motor vehicles RO	Capital work in progress RO	Total RO
Cost						
1 January 2011	753,534	5,772,758	964,432	221,275	-	**7,711,999**
Additions	-	504,963	43,617	27,500	12,000	**588,080**
Transfers from investment property	350,000	-	-	-	-	**350,000**
Disposals	-	(697,328)	(1,917)	(3,095)	-	**(702,340)**
31 December 2011	1,103,534	5,580,393	1,006,132	245,680	12,000	**7,947,739**
Depreciation						
1 January 2011	646,700	4,703,386	715,887	174,432	-	**6,240,405**
Charge for the year						
Cost of sales	12,513	248,971	73,331	3,525	-	**338,340**
Selling and distribution expenses	-	5,695	9,378	9,980	-	**25,053**
Administrative expenses	200	-	11,235	11,636	-	**23,071**
Disposals	-	(697,328)	(1,917)	(3,095)	-	**(702,340)**
31 December 2011	659,413	4,260,724	807,914	196,478	-	**5,924,529**
Net book value						
31 December 2011	**444,121**	**1,319,669**	**198,218**	**49,202**	**12,000**	**2,023,210**

Parent company - 2010	Buildings on leasehold land RO	Plant and machinery RO	Furniture, fixtures and equipment RO	Motor vehicles RO	Total RO
Cost					
1 January 2010	753,534	5,669,582	880,964	241,792	7,545,872
Additions	-	103,176	97,452	14,615	215,243
Disposals	-	-	(13,984)	(35,132)	(49,116)
31 December 2010	753,534	5,772,758	964,432	221,275	7,711,999
Depreciation					
1 January 2010	633,444	4,369,231	638,518	172,782	5,813,975
Charge for the year					
Cost of sales	13,056	327,606	67,201	3,525	411,388
Selling and distribution expenses	-	6,549	10,133	15,430	32,112
Administrative expenses	200	-	13,083	12,708	25,991
Disposals	-	-	(13,048)	(30,013)	(43,061)
31 December 2010	646,700	4,703,386	715,887	174,432	6,240,405
Net book value					
31 December 2010	106,834	1,069,372	248,545	46,843	1,471,594

14 Property, plant and equipment (continued)

Group - 2011	**Buildings on leasehold land RO**	**Plant and machinery RO**	**Furniture, fixtures and equipment RO**	**Motor vehicles RO**	**Capital work in progress RO**	**Total RO**
Cost						
1 January 2011	2,335,508	11,526,206	1,026,386	302,720	-	**15,190,820**
Additions	1,206	504,963	43,617	27,500	12,000	**589,286**
Transfer from investment property	350,000	-	-	-	-	**350,000**
Disposals	-	(697,328)	(11,382)	(10,396)	-	**(719,106)**
31 December 2011	2,686,714	11,333,841	1,058,621	319,824	12,000	**15,411,000**
Depreciation						
1 January 2011	848,627	5,459,208	743,921	230,291	-	**7,282,047**
Charge for the year						
Cost of sales	91,657	575,864	77,503	18,006	-	**763,030**
Selling and distribution expenses	-	5,695	10,373	12,600	-	**28,668**
Administrative expenses	200	-	18,261	12,920	-	**31,381**
Disposals	-	(697,328)	(7,875)	(8,033)	-	**(713,236)**
31 December 2011	940,484	5,343,439	842,183	265,784	-	**7,391,890**
Net book value						
31 December 2011	**1,746,230**	**5,990,402**	**216,438**	**54,040**	**12,000**	**8,019,110**

Group - 2010	Buildings on leasehold land RO	Plant and machinery RO	Furniture, fixtures and equipment RO	Motor vehicles RO	Capital work in progress RO	Total RO
Cost						
1 January 2010	2,322,966	11,326,845	926,208	328,288	62,932	14,967,239
Additions	10,495	115,765	115,101	16,189	23,232	280,782
Transfers	2,047	83,596	-	-	(85,643)	-
Disposals	-	-	(14,923)	(41,757)	(521)	(57,201)
31 December 2010	2,335,508	11,526,206	1,026,386	302,720	-	15,190,820
Depreciation						
1 January 2010	736,592	4,716,623	651,148	205,988	-	6,310,351
Charge for the year						
Cost of sales	111,835	736,036	74,268	21,383	-	943,522
Selling and distribution expenses	-	6,549	11,342	18,710	-	36,601
Administrative expenses	200	-	20,838	18,595	-	39,633
Disposals	-	-	(13,675)	(34,385)	-	(48,060)
31 December 2010	848,627	5,459,208	743,921	230,291	-	7,282,047
Net book value						
31 December 2010	1,486,881	6,066,998	282,465	72,429	-	7,908,773

(b) The details of assets mortgaged with banks are set out in note 28.

(c) The buildings on lease-hold land in case of ultimate subsidiary HTF are built on land leased from Fujairah Free Zone Authority, Fujairah, UAE. The renewed lease expires on 31 December 2015 and the lease commitments are disclosed in note 36. The annual lease payment in respect of the leasehold land is RO 17,512 (2010 - RO 17,512).

(d) Following the decision of the Board of Directors of one of the subsidiaries, Horizon Technologies SAOC, the financial statements of the ultimate subsidiary Horizon Technologies FZE, have been prepared on a liquidation basis and accordingly property, plant and equipment in respect of this subsidiary is classified as current in the consolidated financial statements [refer note 2.1(d) and 17(c)].

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011 (continued)

15 Intangible assets

	Parent Company		Group	
	2011	2010	**2011**	2010
	RO	RO	**RO**	RO
Computer software	**1,000**	2,000	**3,014**	9,624
	1,000	2,000	**3,014**	9,624

Movement in intangible assets during the year is as follows:

	Parent Company		Group	
	2011	2010	**2011**	2010
	RO	RO	**RO**	RO
	Computer software	Computer software	**Computer software**	Computer software
	RO	RO	**RO**	RO
At 1 January	**2,000**	-	**9,624**	18,939
Additions during the year	**-**	3,000	**990**	3,478
Amortisation charge	**(1,000)**	(1,000)	**(7,600)**	(12,793)
At 31 December	**1,000**	2,000	**3,014**	9,624

16 Investment property

	Parent Company		Group	
	2011	2010	**2011**	2010
	RO	RO	**RO**	RO
1 January	**410,000**	450,000	**410,000**	450,000
Fair value loss on revaluation	**-**	(40,000)	**-**	(40,000)
Fair value loss on reclassification of investment property to property, plant and equipment	**(60,000)**	-	**(60,000)**	-
Transfer to property, plant and equipment	**(350,000)**	-	**(350,000)**	-
31 December	**-**	410,000	**-**	410,000

During the year, the investment property has been occupied by the Group from 1 November 2011; consequently, it has been re-classified as property, plant and equipment at the fair value of RO 350,000 ascertained by an independent professional valuer as on 3 January 2012. The fair value of the investment property upon reclassification to property, plant and equipment is not considered to be materially different from the valuation as of 3 January 2012.

17 Investment in subsidiaries

(a) Details regarding the Parent company's subsidiaries and ultimate subsidiary held by the subsidiary are set out below:

Company name	Country of incorporation	Year end	Percentage held 2011	2010	Principal activities
Subsidiaries					
Horizon Technologies SAOC	Oman	31 December	**53.5%**	53.5 %	Investment, agency business, import, export and general commercial acts.
Valuedeal Trading LLC	Oman	31 December	**95%**	95%	Trading in food and non-food products
Ultimate Subsidiary					
Horizon Technologies FZE (100 % subsidiary of Horizon Technologies SAOC)	UAE	31 December	**100%**	100%	Recycling of Polyethylene Terephthalate (PET) bottles and manufacturing of value-added PET related products.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011 (continued)

17 Investment in subsidiaries (continued)

(b) Movement in investment in subsidiaries - Parent company

	Parent Company	
	2011	2010
	RO	RO
At 1 January	**95,000**	1,326,400
Provision for loss in subsidiary	**-**	(1,231,400)
At 31 December	**95,000**	95,000

(c) One of the company's subsidiaries, Horizon Technologies SAOC's consolidated accumulated losses amounted to RO 5,508,690 (2010 - RO 4,312,620). This has resulted in share capital of the subsidiary company being eroded mainly due to continued losses incurred by the ultimate subsidiary because of operational difficulties. In accordance with Article 14 of the Commercial Companies Law of Oman of 1974, subsequent to the reporting date, the shareholders have convened a meeting and decided to continue to support the existence of the subsidiary company for the foreseeable future and to discharge its liabilities to other parties as they fall due.

However, the financial statements of the ultimate subsidiary have been prepared on a liquidation basis which required restatement of the statement of financial position values of assets to their recoverable amount, if less than historical cost basis, to provide for further liabilities that are foreseen and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. While management of the ultimate subsidiary believes that the carrying values of current assets and current liabilities approximates the recoverable amounts, there has been no independent evaluation carried out to assess the recoverable amounts of the property, plant and equipment prior to the finalisation of the financial statements of the ultimate subsidiary. Accordingly, property, plant and equipment are continued to be carried at cost less accumulated depreciation of RO 5,994,144 at 31 December 2011.

Accordingly, a provision of RO 1,231,400 was charged to the statement of comprehensive income during the year 2010 for loss in subsidiary. A further provision of RO 229,515 has been recognised during the year in respect of 'winding down expenses for the ultimate subsidiary'. No further provision for losses in ultimate subsidiary is required as no financial support will be provided to the ultimate subsidiary in view of the decision to liquidate the ultimate subsidiary by the Board of Directors of the subsidiary company.

18 Inventories

	Parent Company		Group	
	2011	2010	**2011**	2010
	RO	RO	**RO**	RO
Raw materials	**397,581**	592,619	**414,774**	709,371
Finished goods-manufactured	**127,971**	43,845	**127,971**	172,539
Work in progress	**-**	-	**-**	3,384
Finished goods-trading items	**333,541**	346,740	**328,505**	380,733
Tools and spares	**174,689**	184,584	**174,689**	198,780
	1,033,782	1,167,788	**1,045,939**	1,464,807

(a) The Group has made provisions for impairment of inventories in the amount of RO 69,492 (2010 - RO Nil).

(b) The finished goods (including trading items) turnover days at 31 December 2011 for the parent and group were 21 days (2010 - 26 days) and 20 days (2010 - 21 days) respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011 (continued)

19 Financial instruments by category

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

	Parent Company		Group	
	2011	2010	**2011**	2010
Assets as per statement of financial position	**RO**	RO	**RO**	RO
Trade and other receivables (excluding advances for capital expenditure)	**1,788,966**	1,833,004	**1,831,043**	2,202,576
Due from related parties	**6,656**	93,541	**6,656**	10,216
Cash and cash equivalents	**46,527**	106,411	**117,247**	144,720
	1,842,149	2,032,956	**1,954,946**	2,357,512
Liabilities as per statement of financial position				
Bank borrowings	**2,449,035**	2,351,816	**7,263,833**	6,561,817
Creditors for capital expenditure	**58,455**	13,458	**76,433**	184,734
Trade and other payables	**1,454,659**	1,075,406	**1,684,237**	1,764,568
Due to related parties	**65,214**	2,634	**62,355**	2,694
Subordinated loan from investors	**-**	-	**1,508,952**	1,221,927
Derivative financial instrument	**-**	-	**42,126**	83,403
	4,027,363	3,443,314	**10,637,936**	9,819,143

(b) Credit quality of financial assets

	Rating	**2011**	2010	**2011**	2010
		RO	RO	**RO**	RO
Bank Muscat SAOG	P1	**3,882**	6,555	**11,254**	39,485
Oman Arab Bank	P1	**4,636**	3,947	**4,636**	3,947
National Bank of AbuDhabi	P1	**-**	-	**7,299**	-
Bank Dhofar SAOG	P1	**-**	-	**34,813**	2,534
Commercial Bank of Dubai	P2	**-**	-	**19,658**	1,675
		8,518	10,502	**77,660**	47,641

The rest of the statement of financial position item ‘cash and bank balances’ is cash on hand.

(c) Receivables

The credit quality of trade receivables are set out in 3.1(b).

20 Trade and other receivables

	Parent Company		Group	
	2011	2010	**2011**	2010
	RO	RO	**RO**	RO
Trade receivables	**1,576,024**	1,640,155	**1,614,597**	1,939,345
Less: Provision for doubtful debts	**(17,094)**	(119,104)	**(29,803)**	(119,104)
	1,558,930	1,521,051	**1,584,794**	1,820,241
Other receivables and prepayments	**230,036**	311,953	**246,249**	382,335
	1,788,966	1,833,004	**1,831,043**	2,202,576

20 Trade and other receivables (continued)

(a) The fair value of trade and other debtors are assumed to be the same as their carrying amounts. The company does not hold any collateral as security. Details of gross exposure of trade debtors are:

	Parent Company		Group	
	2011	2010	**2011**	2010
	RO	RO	**RO**	RO
Not due	**476,720**	335,689	**482,083**	449,533
Past due not impaired				
Past due 31-60 days	**416,534**	414,428	**420,446**	504,518
Past due 61-150 days	**650,278**	645,859	**659,711**	732,438
Past due 151-365 days	**37,703**	139,295	**43,888**	149,125
More than one year	**18,592**	19,017	**19,563**	20,331
Impaired	**17,094**	119,104	**29,803**	119,104
	1,616,921	1,673,392	**1,655,494**	1,975,049
Less: unadjusted credits	**(40,897)**	(33,237)	**(40,897)**	(35,704)
	1,576,024	1,640,155	**1,614,597**	1,939,345

(b) At 31 December 2011, trade debtors of RO 17,094 (2010 - RO 119,104) and RO 29,803 (2010 – RO 119,104) were impaired and fully provided for in the Parent company and Group respectively.

(c) Movement in the provision for doubtful debts is as follows:

	Parent Company		Group	
	2011	2010	**2011**	2010
	RO	RO	**RO**	RO
At 1 January	**119,104**	98,184	**119,104**	98,184
Add: provision during the year	**-**	21,144	**12,709**	21,144
Less: Bad debts written off	**(102,010)**	(224)	**(102,010)**	(224)
At 31 December	**17,094**	119,104	**29,803**	119,104

(d) The carrying amounts of the Parent company's trade debtors are denominated only in Rial Omani. The Group also has debtors denominated in UAE Dirhams and Saudi Riyals in addition to Rial Omani.

(e) The other classes within trade debtors and other receivables do not contain any impaired assets.

21 Cash and bank balances

	Parent Company		Group	
	2011	2010	**2011**	2010
	RO	RO	**RO**	RO
Bank balances	**8,518**	10,502	**77,660**	47,641
Cash and cheques in hand	**38,009**	95,909	**39,587**	97,079
	46,527	106,411	**117,247**	144,720

22 Share capital

The Parent company's authorised, issued and subscribed share capital comprises 20,127,692 (2010 - 20,127,692) ordinary shares of RO 0.100 each. At 31 December 2011, the following shareholders held 10% or more of the shares of the Parent company:

	2011		2010	
	(%)	**RO**	(%)	RO
The heirs of the Late Sayyid Sami bin Hamad bin Hamoud Al Busaidi	**29**	**585,889**	29	585,889
The heirs of Late Sayyid Hamad bin Hamoud bin Hamad Al Busaidi	**20**	**400,647**	20	400,647

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011 (continued)

23 Legal reserve

Article 106 of the Commercial Companies Law of 1974 requires that 10% of a company's net profit be transferred to a non-distributable legal reserve until the amount of legal reserve equals one-third of the company's issued share capital.

24 Revaluation reserve

The excess of fair value over net book value, arising on revaluation of property carried out by an independent consultant on transfer from property, plant and equipment to investment property, has been credited to a non-distributable revaluation reserve.

25 Proposed dividend

No dividends were proposed for 2011 (2010 - Nil).

26 Share premium

The Parent company had made a rights issue of 8,000,000 equity shares of RO 0.100 per share at a premium of RO 0.025 in 2008 and issue expenses of RO 0.002 each to existing shareholders. Out of 8,000,000 equity shares, 6,636,752 shares were subscribed. Share premium represents RO 0.025 per share received on subscription less expenses relating to the rights issue.

27 General reserve

This is a discretionary reserve and available for distribution.

28 Loans and borrowings

	Parent Company		Group	
	2011	2010	**2011**	2010
	RO	RO	**RO**	RO
Term loans from commercial banks	**605,227**	511,500	**3,496,638**	3,402,911
Short term loan from commercial banks	**450,000**	450,000	**450,000**	450,000
Bank overdrafts	**1,393,808**	1,390,316	**3,317,195**	2,708,906
Total bank liabilities	**2,449,035**	2,351,816	**7,263,833**	6,561,817
Less: due within one year	**(2,173,356)**	(2,102,816)	**(6,988,154)**	(6,312,817)
Non-current liabilities	**275,679**	249,000	**275,679**	249,000
Current				
Current portion of term loans from commercial banks	**329,548**	262,500	**3,220,959**	3,153,911
Short term loan from commercial banks	**450,000**	450,000	**450,000**	450,000
Bank overdrafts	**1,393,808**	1,390,316	**3,317,195**	2,708,906
	2,173,356	2,102,816	**6,988,154**	6,312,817

Terms and repayment schedule

2011		**Parent Company**				**Group**		
		Under	**1-2**	**After 2**		**Under**	**1-2**	**After 2**
	Total	**1 year**	**years**	**years**	**Total**	**1 year**	**years**	**years**
	RO	**RO**	**RO**	**RO**	**RO**	**RO**	**RO**	**RO**
Term loans from commercial banks	**605,227**	**329,548**	**275,679**	**-**	**3,496,638**	**3,220,959**	**275,679**	**-**

2010		Parent Company				Group		
		Under	1-2	After 2		Under	1-2	After 2
	Total	1 year	years	years	Total	1 year	years	years
	RO	RO	RO	RO	RO	RO	RO	RO
Term loans from commercial banks	511,500	262,500	249,000	-	3,402,911	3,153,911	249,000	-

28 Loans and borrowings (continued)

(a) The Parent Company has two term loans of RO 438,648 (loan 1) and RO 166,579 (loan 2) in the aggregate amount of RO 605,227 (2010 - RO 511,500) obtained from a commercial bank. These term loans carry interest at the rate of 7% and 8% respectively (2010 - 7.5%) per annum. The loans are secured by a second charge over all plant and equipment of the Parent company and endorsement of the insurance policy in respect of all plant and machinery in favour of the bank. Loan 1 is repayable in 7 equal half yearly instalments of RO 72,852 each and the balance RO 13,860 as 8th instalment. The repayment of loan 1 has commenced from 30 June 2011. Loan 2 is repayable in 4 equal instalments of RO 55,496 with the first instalment due from 31 December 2011.

(b) In addition to above, the ultimate subsidiary company, Horizon Technologies FZE (HTF) has long term syndicate loan facility from two commercial banks in Oman amounting to US$ 8,800,000, which carry annual interest of LIBOR + 3.5% (2010 – LIBOR + 3.5%). At the year end the company has availed US$ 7,900,000 (2010 – US$ 7,900,000) of the total loan facility. The term loan is repayable in half yearly instalments ranging from 0.5% to 12% of the total loan amount received by the establishment. The repayment started with the first instalment due and paid on 31 October 2009, the next instalment fell due for repayment on 31 March 2011. However, the establishment has not repaid any of the instalments due for repayment during 2011. Accordingly, the bank has charged additional interest at 2% on the unpaid instalments. The term loans are secured by first charge over HTF’s plant and equipment and all other movable assets of the establishment. During the year, due to not meeting of debt covenant the long term loan has been reclassified as current.

(c) The Parent Company has working capital facilities, including short term loans from commercial banks, in the aggregate amount of approximately RO 4.35 million (2010 - RO 3.85 million). These facilities are partly secured by a charge on the non-current and current assets of the Parent Company. Interest is charged at effective rates ranging between 5% and 9% per annum (2010 - 5% and 9% per annum).

(d) Short term borrowings of HTF comprise of overdraft facility from a commercial bank at interest rates ranging from 9.5% to 14% per annum (2010 - 10.5% to 11.5% per annum). The interest rates on short term borrowings are subject to renegotiation with the banks on renewal which generally takes place on an annual basis.

(e) The fair values of non-current financial liabilities stated at amortised cost are considered to approximate their carrying values as these carry variable interest rates.

29 End of service benefits

	Parent Company		**Group**	
	2011	2010	**2011**	2010
	RO	RO	**RO**	RO
Balance at 1 January	**199,034**	186,543	**223,536**	199,758
Charge for the year	**56,341**	40,420	**61,466**	55,160
Paid during the year	**(40,723)**	(27,929)	**(68,097)**	(31,382)
Balance at 31 December	**214,652**	199,034	**216,905**	223,536

30 Trade and other payables

	Parent Company		**Group**	
	2011	2010	**2011**	2010
	RO	RO	**RO**	RO
Trade payables	**938,311**	815,452	**972,811**	1,386,798
Deposits received	**65,326**	65,411	**65,326**	65,411
Staff leave pay accruals	**95,227**	93,639	**95,227**	93,672
Other accruals and provisions	**355,795**	100,904	**550,873**	218,687
Fair value of interest rate swap	**-**	-	**42,126**	83,403
Creditors for capital expenditure	**58,455**	13,458	**76,433**	184,734
	1,513,114	1,088,864	**1,802,796**	2,032,705

31 Related party transactions

The Group and the Parent company enter into transactions with shareholders with significant influence (Refer note 22 for list of shareholders with over 10% shareholding), other shareholders and with entities over which Directors have an interest (other related parties). In the ordinary course of business, the Group and Parent company sell goods to these related parties and procure goods and services from these related parties.

(a) Transactions with related parties during the year were as follows:

(i) Sale of goods and services

	Parent Company		Group	
	2011	2010	**2011**	2010
	RO	RO	**RO**	RO
Sale of goods				
- Shareholders - significant influence	**8,116**	5,379	**8,116**	5,379
- Other shareholders	**1,695**	2,388	**1,695**	2,388
- Other related parties	**3,758**	2,878	**3,758**	2,878
- Subsidiary	**-**	1,393	**-**	-
Sale of fixed assets				
- Other shareholders	**-**	4,000	**-**	4,000
Sale of services				
- Other related parties	**2,495**	5,663	**2,495**	5,663
- Subsidiary	**13,300**	33,719	**-**	-
	29,364	55,420	**16,064**	20,308

(ii) Purchase of goods and services

	Parent Company		Group	
	2011	2010	**2011**	2010
	RO	RO	**RO**	RO
Purchase of goods and services				
- Other related party	**85,877**	24,969	**85,877**	24,969
- Subsidiary	**76,532**	146,709	**-**	-
	162,409	171,678	**85,877**	24,969

(iii) Directors remuneration and sitting fees

	Parent Company		Group	
	2011	2010	**2011**	2010
	RO	RO	**RO**	RO
Sitting fees for directors	**4,300**	2,800	**4,300**	2,800
	4,300	2,800	**4,300**	2,800

(b) Loans and advances

	Parent Company		Group	
	2011	2010	**2011**	2010
	RO	RO	**RO**	RO
At 1 January	**-**	-	**1,221,927**	337,778
Received during the year	**-**	-	**287,025**	884,149
At 31 December	**-**	-	**1,508,952**	1,221,927

The above loan represents subordinated loans obtained from investors which are interest free and do not have a fixed repayment schedule. These loans are not repayable within 12 months of the reporting date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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31 Related party transactions (continued)

(c) Year end balances arising from sales and purchases of goods and services are as follows:

Due from related parties

	Parent Company		Group	
	2011	2010	**2011**	2010
	RO	RO	**RO**	RO
- Shareholders - significant influence	**3,212**	2,572	**3,212**	2,572
- Other shareholders	**1,136**	2,441	**1,136**	2,441
- Other related parties	**2,308**	5,203	**2,308**	5,203
- Subsidiary	**-**	83,325	**-**	-
	6,656	93,541	**6,656**	10,216

Payable to related parties

	Parent Company		Group	
	2011	2010	**2011**	2010
	RO	RO	**RO**	RO
- Subsidiary	**2,977**	-	**-**	-
- Other related parties	**62,237**	2,634	**62,355**	2,694
	65,214	2,634	**62,355**	2,694

No provision has been required in 2011 and 2010 in respect of amounts due from related parties. However, receivable from ultimate subsidiary of RO 35,132 (2010 - Nil) was written off during the year.

32 Cash generated from/(used in) operations

The reconciliation of the (loss)/profit for the year before taxation to cash generated from/(used in) operations is shown below:

	Parent Company		Group	
	2011	2010	**2011**	2010
	RO	RO	**RO**	RO
Operating activities				
Loss before tax	**(756,694)**	(1,301,705)	**(1,912,699)**	(1,774,905)
Adjustments for:				
Depreciation	**386,464**	469,491	**823,079**	1,019,756
Provision for loss in subsidiary	**-**	1,231,400	**-**	-
Amortisation of intangible asset	**1,000**	1,000	**7,600**	12,793
Interest expenses	**183,072**	204,280	**534,545**	643,574
Decrease in fair value of investment property	**-**	40,000	**-**	40,000
Fair value loss on reclassification of investment property to plant, property and equipment	**60,000**	-	**60,000**	-
End of service benefits	**56,341**	40,420	**61,466**	55,160
Gain on disposal of property, plant and equipment	**(3,112)**	(9,167)	**(3,049)**	(10,063)
	(72,929)	675,719	**(429,058)**	(13,685)
Inventories	**134,006**	69,037	**418,868**	289,030
Trade and other receivables	**130,923**	(143,552)	**375,093**	(177,463)
Trade and other payables	**486,830**	(108,093)	**(294,641)**	(214,635)
Cash generated from/(used in) operations	**678,830**	493,111	**70,262**	(116,753)

33 Net assets per share

Net assets per share are calculated by dividing the net assets attributable to shareholders of the Parent company's and the Group at the year end by the number of shares outstanding at the year end as follows:

	Parent Company		Group	
	2011	2010	**2011**	2010
Net assets (RO)	**703,368**	1,429,823	**118,410**	2,000,870
Number of shares at 31 December	**20,127,692**	20,127,692	**20,127,692**	20,127,692
Net assets per share (RO)	**0.035**	0.071	**0.006**	0.099

34 Contingent liabilities

At 31 December 2011, the Parent company and the Group had guarantees given in the normal course of business amounting to RO 563,359 (2010 - 908,968) and RO 563,359 (2010 - 956,173) respectively, from which it is anticipated that no material liabilities will arise.

35 Commitments

Purchase commitments

At 31 December 2011, the Parent company and the Group had purchase commitments amounting to RO 393,960 (2010 - RO 594,877) and RO 393,960 (2010 - RO 733,960) respectively.

Capital commitments

At 31 December 2011, the Parent company and the Group had no capital commitments (2010 - RO 46,170).

36 Operating leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	Parent Company		Group	
	2011	2010	**2011**	2010
	RO	RO	**RO**	RO
Less than one year	**289,781**	142,700	**307,293**	160,212
Between one and five years	**205,796**	166,197	**258,333**	178,674
	495,577	308,897	**565,626**	338,886

During the year ended 31 December 2011, RO 409,727 was recognised as an expense in the statement of comprehensive income in respect of operating leases (2010 - RO 343,549).

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