

BOARD OF DIRECTORS' REPORT

Dear Share Holders,

It is my great pleasure to welcome you all on behalf of the Board of Directors of Salalah Mills Co. (SAOG) and present to you the Twelfth Annual Report and Audited Financial Statements for the year ended on 31st December, 2007, along with the report on corporate governance. This report includes for the first time the consolidated financial statements of Salalah Mills Company and its subsidiary – Salalah Macaroni and Confectionary Company- in which your company own 64% of shares.

Dear shareholder, compared to the year before your company's performance during 2007 was distinguished. The revenues had increased at a growth rate of 20%, while the gross profit margin increased by 91%. The successful planning of wheat purchasing and the increase in local flour sales by 26% had contributed to this effect.

The group net profit for the year 2007 reached RO 1.4 million compared to R.O. 541 thousand in 2006, showing increase of 158%. And the earning per share increased to R.O. 0.559 from R.O. 0.216 in the year before. However, due to the dramatic changes in the international wheat and freight markets, we do not expect to achieve the same level of profit in the year 2008.

Cash Dividend

Dear shareholders, based on the dividends policy approved by the Board of Directors, I am pleased to announce that the Board of Directors is proposing a cash dividend of 20% on the nominal value of the Paid up Capital, amounting to R.O. 500,000 i.e. R.O. 0.200 per share.

Internal regulations

The Board of Directors had appointed a new Internal Auditor and reviewed the effectiveness of the internal control systems. The internal audit plan for the year 2008 was approved by the Audit Committee. The Board of Directors confirms its compliance with the new disclosure regulations issued by the Capital Market Authority's decision 5/2007 with effect from 1st of October 2007.

The increase of capital

Based on the shareholders' approval in the EGM, which was held on 3rd of January 2008, to increase both Authorized and Paid up Capital, we are in the process of completing the necessary procedures required by CMA, with regard to the Rights Issue. The Board of Directors has decided that 30th March, 2008 to be the date on which all registered shareholders are eligible for the Rights Issue.

International Wheat Prices

Dear shareholders, the international wheat prices have been increasing substantially during 2007 due to the decrease in the wheat production and increase in the demand from consuming countries, which forced the company to increase its selling prices. We do not expect the wheat prices to fall before the next harvest season. However, the management has made successful decisions to procure wheat at reasonable prices, that will enable the company to achieve a good profit level in 2008.

Finally, I would like to thank the Board of Directors, the Executive Management and Employees of the Company for their efforts and contribution to this success. I pray to Allah the Almighty to help us achieve more progress and success in the coming years. And on behalf of the shareholders and myself I would like to express my heartfelt gratitude and appreciation to His Majesty Sultan Qaboos Bin Said for his great support to Omani Products.

Saeed bin Ahmed Saeed Al Shanfari
Chairman

SALALAH MILLS COMPANY SAOG
Salalah – Sultanate of Oman

CONSOLIDATED AND PARENT COMPANY
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2007

Registered Office:
P.O.Box: 67, Postal Code: 217
Al Awqadain
Salalah, Sultanate of Oman

Principal place of business:
Raysut Industrial Estate
Salalah
Sultanate of Oman

SALALAH MILLS COMPANY SAOG

Salalah – Sultanate of Oman

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**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
SALALAH MILLS COMPANY SAOG**

We have audited the accompanying financial statements of **Salalah Mills Company SAOG** (“the Parent Company”) and the consolidated financial statements of **Salalah Mills Company SAOG** and its subsidiary (“the Group”), which comprise the consolidated and Parent Company balance sheets as of 31 December 2007, and their statements of income, changes in shareholders’ equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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

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

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

In our opinion, the consolidated and the Parent Company financial statements present fairly, in all material respects, the financial position of **the Parent Company and the Group** as of December 31, 2007, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards and comply in all material respects with the relevant disclosure requirements of the Capital Market Authority and the Commercial Companies Law of 1974, as amended.

TALAL ABU-GHAZALEH & CO.

**Mu’awveh Khaleefeh
Authorized Manager**

January 29, 2008

SALALAH MILLS COMPANY SAOG

Salalah – Sultanate of Oman

BALANCE SHEET AS OF DECEMBER 31, 2007

EXHIBIT - A

	Note	Parent Company		Consolidated	
		2007	2006	2007	2006
		RO.	RO	RO.	RO.
ASSETS					
Current Assets:					
Cash at bank and in hand	5			1,258,148	
		550,331	897,865		897,865
Margin deposit	6	--	--	344,530	--
Receivables and prepayments	7			2,302,519	
		2,293,433	1,993,240		1,993,240
Investments	8			170,000	
		170,000	120,000		120,000
Inventories	9			<u>3,887,956</u>	
		<u>3,887,956</u>	<u>8,773,098</u>		<u>8,773,098</u>
Total Current Assets			<u>11,784.20</u>	<u>7,963,153</u>	<u>11,784.20</u>
		<u>6,901,720</u>	<u>3</u>		<u>3</u>
Non-current Assets:					
Advance for machinery	10			482,212	-
		115,909	--		-
Property, plant and equipment	11			5,372,622	
		4,911,684	5,188,319		5,188,319
Investment in subsidiary	12			--	-
		<u>1,200,000</u>	--		-
Total Non-current Assets				<u>5,854,834</u>	
		<u>6,227,593</u>	<u>5,188,319</u>		<u>5,188,319</u>
TOTAL ASSETS		<u>13,129,31</u>	<u>16,972,52</u>	<u>13,817,987</u>	<u>16,972,52</u>
		<u>3</u>	<u>2</u>		<u>2</u>
LIABILITIES AND EQUITY					
Current Liabilities:					
Bank borrowings	13		-	5,068,144	-
		5,068,144	-		-
Payables and accruals	14		10,099,02	439,053	10,099,02
		372,643	2		2
Term loans, current maturities	15			300,000	
		300,000	300,000		300,000
Provision for taxation	16		--	4,190	--
		<u>4,190</u>			
Total Current Liabilities			<u>10,399.02</u>	<u>5,811,387</u>	<u>10,399.02</u>
		<u>5,744,977</u>	<u>2</u>		<u>2</u>
Non-current Liabilities:					
Term loans, excluding current	15			954,269	

maturities		954,269	1,144,425		1,144,425
Deferred Government grant	15			245,731	
		245,731	355,575		355,575
Deferred tax liability	16			242,806	
		242,806	<u>206,231</u>		<u>206,231</u>
Total Non-current Liabilities				1,442,806	
		1,442,806	<u>1,706,231</u>		<u>1,706,231</u>
Total Liabilities			<u>12,105,253</u>	7,254,193	<u>12,105,253</u>
		7,187,783	<u>3</u>		<u>3</u>
Shareholders' Equity:					
Share capital	17(a)			2,500,000	
		2,500,000	2,500,000		2,500,000
Legal reserve	17(b)			604,755	
		604,755	459,829		459,829
General reserve	17(c)			602,885	
		602,885	457,959		457,959
Proposed dividend	17(d)			500,000	
			375,000		375,000
Retained earnings		1,733,890		1,700,139	
			<u>1,074,481</u>		<u>1,074,481</u>
Total Shareholders' equity				5,907,779	
		5,941,530	4,867,269		4,867,269
Minority interest in subsidiary		<u>--</u>	<u>-</u>	656,015	<u>-</u>
			=		=
Total Equity – Exhibit – C				6,563,794	
		5,941,530	<u>4,867,269</u>		<u>4,867,269</u>
TOTAL LIABILITIES AND EQUITY		13,129,313	<u>16,972,522</u>	13,817,987	<u>16,972,522</u>
		3	<u>2</u>		<u>2</u>
Net Assets Per Share	18	2,377	<u>1.947</u>	2,363	<u>1.947</u>

**These financial statements were approved for issue
on February 27, 2008 by the Board of Directors:**

Chairman

Director

THE ACCOMPANYING NOTES 1 TO 32 FORM AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

SALALAH MILLS COMPANY SAOG
Salalah – Sultanate of Oman
STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2007

EXHIBIT – B

	Note	Parent Company	Consolidated	
		2007	2006	2007
		RO.	RO.	RO.
				2006
				RO.
Revenue		14,800,839	12,346,718	14,800,839
Cost of revenue	19	<u>(12,592,575)</u>	<u>(11,247,144)</u>	<u>(12,592,575)</u>
Gross profit		2,208,264	1,099,574	2,208,264
Administrative and general expenses	20	(630,739)	(432,519)	(630,739)
Selling and promotion expenses	22	(43,442)	(24,973)	(43,442)
Other income	23	73,197	46,742	64,797
Net financing costs	24	(167,254)	(108,620)	(167,254)
Pre-operative expenses		--	--	--
Gain/(loss) on re-measurement of investments to fair value		50,000	<u>(15,000)</u>	50,000
Profit for the year before taxation		1,490,026	565,204	1,437,290
Provision for taxation	16	(40,765)	<u>(24,274)</u>	(40,765)
Profit for the year		1,449,261	<u>540,930</u>	1,396,525
Basic earnings per share	25	<u>0.580</u>	<u>0.216</u>	<u>0.559</u>
Proposed dividend per share		==	<u>0.150</u>	==
Profit for the year attributable to:				
Equity holders of parent company				1,415,510
Minority interest				<u>(18,985)</u>
				<u>1,396,525</u>
				<u>540,930</u>

THE ACCOMPANYING NOTES 1 TO 32 FORM AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

SALALAH MILLS COMPANY SAOG
Salalah – Sultanate of Oman

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2007

EXHIBIT – C

	Share capital	Legal reserve	General reserve	Proposed dividend	Retained earnings	Minority interest	Total
	RO.	RO.	RO.	RO.	RO.	RO.	RO.
Parent Company:							
Shareholders' equity as of January 1, 2006	2,500,000	405,736	403,866	250,000	1,016,737	--	4,576,339
Movement during 2006:							
Profit for the year – Exhibit – B	--	--	--	--	540,930	--	540,930
Dividend paid	--	--	--	(250,000)	--	--	(250,000)
Proposed dividend	--	--	--	375,000	(375,000)	--	--
Transfers	--	54,093	54,093	--	(108,186)	--	--
Shareholders' equity as of December 31, 2006 – Exhibit – A	2,500,000	459,829	457,959	375,000	1,074,481	--	4,867,269
Movement during 2007:							
Profit for the year – Exhibit – B	--	--	--	--	1,449,261	--	1,449,261
Dividend paid	--	--	--	(375,000)	--	--	(375,000)
Proposed dividend	--	--	--	500,000	(500,000)	--	--
Transfers	--	144,926	144,926	--	(289,852)	--	--
Shareholders' equity as of December 31, 2007 - Exhibit - A	<u>2,500,000</u>	<u>604,755</u>	<u>602,885</u>	<u>500,000</u>	<u>1,733,890</u>	<u>--</u>	<u>5,941,530</u>
Consolidated:							
Shareholders' equity as of January 1, 2006	2,500,000	405,736	403,866	250,000	1,016,737	--	4,576,339
Movement during 2006:							
Profit for the year - Exhibit -	--	--	--	--	540,930	--	540,930

	B						
Dividend paid	--	--	--	(250,000)	--	--	(250,000)
Proposed dividend	--	--	--	375,000	(375,000)	--	--
Transfers	--	<u>54,093</u>	<u>54,093</u>	--	(108,186)	--	--
Shareholders' equity as of							
December 31, 2006 -	2,500,000	459,829	457,959	375,000	1,074,481	--	4,867,269
Exhibit - A							
Movement during 2007:							
Profit for the year - Exhibit - B	--	--	--	--	1,415,510	(18,985)	1,396,525
Dividend paid	--	--	--	(375,000)	--	--	(375,000)
Proposed dividend				500,000	(500,000)		
Transfers	--	<u>144,926</u>	<u>144,926</u>	--	(289,852)	--	--
Minority - capital investment	--	--	--	--	--	<u>675,000</u>	<u>675,000</u>
Shareholders' equity as of							
December 31, 2007 -	<u>2,500,000</u>	<u>604,755</u>	<u>602,885</u>	<u>500,000</u>	<u>1,700,139</u>	<u>656,015</u>	<u>6,563,794</u>
Exhibit - A							

THE ACCOMPANYING NOTES 1 TO 32 FORM AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

SALALAH MILLS COMPANY SAOG
Salalah – Sultanate of Oman

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2007

EXHIBIT - D

	Parent Company		Consolidated	
	2007	2006	2007	2006
	RO.	RO.	RO.	RO.
OPERATING ACTIVITIES:				
Cash receipts from customers	14,647,454	12,124,200	14,647,454	12,124,200
Cash paid to suppliers and employees	(17,722,731)	(8,931,953)	(17,665,407)	(8,931,953)
	<u>1</u>	<u>(8,931,953)</u>	<u>7</u>	<u>(8,931,953)</u>
Cash from operations	(3,075,277)	3,192,247	(3,017,953)	3,192,247
)	
Net financing costs	(167,254)	(108,620)	(167,254)	(108,620)
Net financing costs	<u>---</u>	<u>---</u>	<u>(52,736)</u>	<u>---</u>
Cash flows from operating activities	(3,242,531)	<u>3,083,627</u>	(3,237,943)	<u>3,083,627</u>
			1	
INVESTING ACTIVITIES:				
Advance for machinery	(115,909)	(149,996)	(482,212)	(149,996)
Purchase of property, plant and equipment	(182,238)	3,061	(643,176)	3,061
Proceeds from sale of property, plant and equipment	--	--	--	--
Investment in subsidiary	(1,200,000)	<u>---</u>	(1,200,000)	<u>---</u>
Net cash (used in) investing activities	(1,498,147)	<u>(146,935)</u>	(1,125,388)	<u>(146,935)</u>
			1	
FINANCING ACTIVITIES:				
Minority interest	--	--	675,000	--
Term loans repaid	(300,000)	(300,000)	(300,000)	(300,000)
Dividend paid	(375,000)	(250,000)	(375,000)	(250,000)
Margin deposit	<u>---</u>	<u>---</u>	<u>(344,530)</u>	<u>---</u>
Net cash (used in) financing activities	(675,000)	<u>(550,000)</u>	(344,530)	<u>(550,000)</u>

Net (decrease)/increase in cash and cash equivalents		2,386,692	2,386,692
	(5,415,678)	(4,707,861))
Cash and cash equivalents at the beginning of the year	<u>897,865</u>	<u>897,865</u>	<u>(1,488,827)</u>
		<u>(1,488,827)</u>	
Cash and cash equivalents at the end of the year		<u>897,865</u>	<u>897,865</u>
- (note 26)	<u>(4,517,813)</u>	<u>(3,809,996)</u>	<u> </u>

THE ACCOMPANYING NOTES 1 TO 32 FORM AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

SALALAH MILLS COMPANY SAOG
Salalah - Sultanate of Oman

NOTES TO THE FINANCIAL STATEMENTS

1. LEGAL STATUS AND PRINCIPAL ACTIVITIES

Salalah Mills Company SAOG ("the Parent Company") is an Omani general joint stock company registered in the Sultanate of Oman on September 25, 1995 under the commercial registration no.2/10366/4. The Parent Company is engaged in the milling of wheat and selling wheat flour, bran and feed.

The consolidated financial statements of the Company comprise the Parent Company and its subsidiary (together referred to as 'the Group'). The details of the subsidiary set up during the year is as follows:

Name of the Company	Share- holding	Country of incorporation	Proposed principal activities
Salalah Macaroni and Confectionary Company SAOC	64%	Oman	Production of Macaroni Pasta and related food products

**2. ADOPTION OF NEW REVISED INTERNATIONAL
FINANCIAL REPORTING STANDARDS**

For the year ended December 31, 2007 the Company has adopted all of the new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for periods beginning of January 1, 2007.

The adoption of these standards and interpretations has not resulted in changes to the Company's accounting policies and has not affected the amounts reported for the current or prior years.

At the date of authorization of these financial statements, the following standards and interpretations were in issue but not yet effective:

		Effective for annual period beginning or after
IAS 23	(Amendment) Borrowing costs	1 January 2009
IFRS 8	Operating segments	1 January 2009
IFRIC 11 & IFRS 2	Company and treasury share transactions	1 March 2007
IFRIC 12	Service concession agreements	1 January 2008
IFRIC 13	Customer loyalty programmes	1 July 2008
IFRIC 14	The Limit on a defined benefit asset, minimum funding requirements and their interaction	1 January 2008

The directors anticipates that the adoption of the above standards and interpretations in future periods will have no material impact on the financial statements of the Company.

3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements have been prepared in accordance with International Financial Reporting Standards including International Accounting Standards and Interpretations, promulgated by the International Accounting Standards Board and applicable requirements of the Commercial Companies Law and the disclosure requirements of the Capital Market Authority.

The significant accounting policies consistently applied in the preparation of accompanying financial statements are as follows:

a) **Basis of consolidation**

The consolidated financial statements of the Parent Company include financial statements of the Company and its subsidiary. A subsidiary is an entity, which is controlled by the Parent Company. Control exists when the Parent Company has the power directly or indirectly to govern the financial and operating policies of the company so as to obtain benefits from its activities. The financial statements of subsidiary is included in the consolidated financial statements from the date that control commences until the date that control ceases.

Accounting convention:

The Parent Company and consolidated financial statements have been prepared under the historical cost convention as modified for financial assets and liabilities and investments at fair value through profit or loss.

Transaction eliminated on consolidation:

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

Minority interest:

Minority interest represent the portion of profit or loss and net assets not held by the Parent Company and are presented separately in the income statement and within equity in the consolidated balance sheet, separately from Parent shareholders equity.

b) **Financial assets**

Financial assets comprising of, among other things, investments in debt and equity instruments, are recognized and derecognized on the trade date when the Group becomes party to the contractual provisions of the instruments. The financial assets are initially recognized at fair value plus transaction costs, directly attributable to the acquisition or issue of those assets, except for the financial assets classified as at fair value through profit or loss, which are initially measured at its cost.

The Group classifies its financial assets in the following categories: at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. The classification is determined at initial recognition of the financial assets.

Investments:

Financial assets are classified as ‘at fair value through profit or loss’ when they are held for trading, which means they have been acquired principally for the purpose of selling in the near future; or they are derivatives that are not designated and effective as a hedging instrument. Financial assets ‘at fair value through profit or loss’ are stated at fair value. Gains or losses resulting from changes in the fair value are recognized in the income statement. The net gain or loss recognized in the income statement incorporates any dividend or interest earned on the financial asset. Fair value is the amount for which the financial asset could be exchanged between knowledgeable, willing parties in arm’s length transaction.

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 balance sheet date. These are classified as non-current assets. The Group’s loans and receivables comprise ‘trade and other receivables, and cash and cash equivalents and bank deposits’.

c) **Receivables and prepayments**

Receivables and prepayments are carried at anticipated realizable value. An estimate is made for doubtful receivables based on a review of all outstanding amounts at the year end. Bad debts are written off during the year in which they are identified.

d) **Inventories**

Inventories are stated at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is based on the weighted average principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of finished goods and work in progress, cost includes direct material cost, direct labour and production overheads.

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

Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives. Depreciation is provided over the estimated useful lives of the related assets using the straight line method and assuming no salvage value. The estimated useful lives of various categories of property, plant and equipment are as follows:

	<u>Useful lives</u>
Buildings	10 - 40 years
Plant & machinery	15 years
Motor vehicles	4 years
Furniture, office equipment & other assets	5 years

Expenditures for major additions and improvements are capitalized, while maintenance and repairs which do not enhance the economic lives of the assets, its capacity or reducing substantially operating costs are charged to expense when incurred. When items of property, plant and equipment are retired or otherwise disposed off the related cost and accumulated depreciation thereto are removed from the accounts and any resulting gain or loss is included in the statement of income.

f) **Impairment of assets**

The carrying amounts of the Group's assets, other than inventories (see note (d) above) and deferred tax amount (see note (i) below), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amount is estimated. An impairment loss is recognized in the statement of income whenever the carrying amount of an asset exceeds its recoverable amount.

The recoverable amount of the Group's receivables is calculated at the present value of the future cash flows, discounted at the original effective interest rate inherent in the amount. Receivables with a short duration are not discounted. The recoverable amount of other assets is the greater of their net selling price and value in use. In arriving value in use, the estimated cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market amounts of the unit value of money and rates specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

g) **Payables and accruals**

Payables with no stated interest rate are measured at the original invoice amount, in cases where the imputed interest is immaterial. However, in cases where the imputed interest rate factor is material, accounts payables are stated at amortised cost, through application of the discounted cash flows method at market interest rate available on short-term borrowings with comparable average periods of maturity.

h) **Term loans and deferred Government grant**

Carrying value

The carrying value of the low interest Government related term loan (refer note 15 to the financial statements) are determined at the present value of the loan adopting an interest rate that reflects the current cost of similar borrowing on a similar loan terms from a commercial bank. The reported balance of Government term loan comprise their carrying value plus a component of unamortized deferred income that represents the remaining interest benefits arising from difference between the carrying value and the present value of the loan adopting interest rates that the loans attract.

Instalments due within one year are shown as a current liability.

Deferred income

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

Finance cost

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

i) Taxation

Income tax charge for the year comprises current tax and deferred tax. Income tax is recognized in the income statement except to the extent it relates to items recognized directly to equity, in which case it is recognized in equity.

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

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

A deferred tax asset is recognized only to the extent that it is probable that future taxable income will be available against which the unused tax losses and credits can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

j) Employees terminal benefits

The terminal benefits for eligible Omani employees are provided in accordance with Social Insurance Law of 1991. For others, provision for employees terminal benefits is based on the liability which would arise in accordance with the terms of the employment and the Labour Laws of the Sultanate of Oman, if the employment of all employees were terminated at the balance sheet date.

k) Leases

Operating lease payments are recognized as an expense in the statement of income on a straight line basis over the lease term.

l) Revenue recognition

Revenue from the sale of goods is recognized when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

m) **Net financing costs**

Net financing costs comprising interest payable on borrowing calculated on effective yield method, net of interest subsidy and interest received on bank deposits are recognized in the period in which they are incurred. Interest income is recognized in the income statement as it accrues and interest costs incurred in connection with borrowings are expensed as part of net financing costs.

n) **Cash and cash equivalents**

For the purpose of preparing the statement of cash flows, cash equivalents comprises of highly liquid assets which are readily convertible into known amount of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents represent cash on hand and unrestricted balances with banks. Overdrawn balances that fluctuates from debit to credit during the year are included in cash and cash equivalents.

o) **Dividends**

Dividends to the shareholders is based on profit for the year net of transfers to legal, reserve, and general reserve. Such amount is reduced for any unrealized gains.

Dividends on share capital are recognised as a liability in the period in which they are declared. Proposed dividend is shown as part of the equity.

p) **Directors' remuneration**

Directors sitting fees is based on a pre-approved fixed amount based on number of meetings. Directors' remuneration is limited to 5% of the profit net of tax, transfers to legal and general reserve and minimum 5% dividend on the capital. Such determined amount is reduced for sitting fees already paid. Directors remuneration is also included under administration and general expenses.

q) **Foreign currencies**

Transactions in foreign currencies are translated to Omani Rials at the rates prevailing on the date of transaction. Balances at year end denominated in foreign currencies are translated to Omani Rials at year end rates. Any gain or loss arising from changes in exchange rates subsequent to the date of the transaction is recognized in the statement of income.

r) **Segment reporting**

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

4. **CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

Estimates and judgments are continually 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 Group makes estimates and assumptions concerning the future of its subsidiary which is in a development stage. The resulting accounting estimates will, by definition, seldom equal the related actual results. 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 discussed in the following paragraph:

5. CASH AT BANK AND IN HAND

	Parent Company		Consolidated	
	2007	2006	2007	2006
	RO.	RO.	RO.	RO.
Cash in hand	1,400	5,467	3,057	5,467
Cash at bank - call deposits – local	519,382	684,024	519,382	684,024
- call deposits – foreign currencies	3,954	207,881	3,954	207,881
- current accounts	25,595	493	381,755	493
Fixed deposit	--	--	350,000	--
Exhibit – A	<u>550,331</u>	<u>897,865</u>	<u>1,258,148</u>	<u>897,865</u>

Call deposits earn interest at the rate ranging between 0.35% to 1.25% (2006 : 0.35% to 1.25%) per annum.

Fixed deposit is kept for three months which expires on March 25, 2008 @ 2.75% profit per annum.

6. MARGIN DEPOSIT

Margin deposit is held by the bank against letter of credit issued for machinery purchases. No interest earned for this deposit.

7. RECEIVABLES AND PREPAYMENTS

	Parent Company		Consolidated	
	2007	2006	2007	2006
	RO.	RO.	RO.	RO.
Trade receivables	2,176,748	1,938,285	2,176,748	1,938,285
Less: provision for bad and doubtful debts	(67,150)	(67,150)	(67,150)	(67,150)
	<u>2,109,598</u>	<u>1,871,135</u>	<u>2,109,598</u>	<u>1,871,135</u>
Amounts due from related parties	67,103	78,984	67,103	78,984
Sundry receivables and prepayments	58,623	35,983	67,709	35,983
Advances and deposits	58,109	7,138	58,109	7,138
Exhibit – A	<u>2,293,433</u>	<u>1,993,240</u>	<u>2,302,519</u>	<u>1,993,240</u>

8. INVESTMENTS

Investment represent investment in marketable securities as follows:

	Parent Company & Consolidated			
	2007		2006	
	Market value	Cost	Marke t value	Cost
	<u>RO.</u>	<u>RO.</u>	<u>RO.</u>	<u>RO.</u>
Dhofar University SAOG – Exhibit – A	<u>170,000</u>	<u>100,000</u>	<u>120,000</u>	<u>100,000</u>
				<u>0</u>

9. INVENTORIES

	Parent Company & Consolidated	
	2007	2006
	<u>RO.</u>	<u>RO.</u>
Raw materials	3,340,876	3,529,693
Goods in transit	--	4,696,175
Packing materials	104,423	155,767
Finished goods	244,875	168,474
Engineering spares and consumables	<u>261,734</u>	<u>258,529</u>
	<u>3,951,908</u>	<u>8,808,638</u>
Provision for stock:		
Raw material shortage	(58,675)	(35,540)
Packing materials	<u>(5,277)</u>	<u>--</u>
Total provision (note below)	<u>(63,952)</u>	<u>(35,540)</u>
Net – Exhibit - A	<u>3,887,956</u>	<u>8,773,098</u>
Opening balance	35,540	21,099
Charge for the year	28,412	14,441
Inventories written off	--	--
Closing balance (as above)	<u>63,952</u>	<u>35,540</u>

10. ADVANCE FOR MACHINERY

Advance for machinery represents down payment made for import of machinery and equipment.

11. PROPERTY, PLANT AND EQUIPMENT

	Building s RO.	Plant & machine ry RO.	Motor vehicles RO.	Furniture, office equipmen t & other assets RO.	Capital work in progress RO.	Total RO.
Parent Company:						
<u>COST</u>						
At January 1, 2007	3,632,466	4,410,767	122,643	145,478	17,623	8,328,977
Additions	21,427	9,461	57,500	13,447	80,403	182,238
Transfers	77,509	11,920	--	--	(89,429)	--
Disposals	--	--	(19,950)	(91,103)	--	(111,053)
At December 31, 2007	<u>3,731,402</u>	<u>4,432,148</u>	<u>160,193</u>	<u>67,822</u>	<u>8,597</u>	<u>8,400,162</u>
<u>DEPRECIATION</u>						
At January 1, 2007	832,018	2,147,501	61,163	99,976	--	3,140,658
Charge for the year	116,126	295,336	36,989	10,422	--	458,873
Disposals	--	--	(19,950)	(91,103)	--	(111,053)
At December 31, 2007	<u>948,144</u>	<u>2,442,837</u>	<u>78,202</u>	<u>19,295</u>	<u>--</u>	<u>3,488,478</u>
<u>NET BOOK VALUE – Exhibit – A</u>						
At December 31, 2007	<u>2,783,258</u>	<u>1,989,311</u>	<u>81,991</u>	<u>48,527</u>	<u>8,597</u>	<u>4,911,684</u>
At December 31, 2006	<u>2,800,448</u>	<u>2,263,266</u>	<u>61,480</u>	<u>45,502</u>	<u>17,623</u>	<u>5,188,319</u>

Consolidated:

<u>COST</u>						
At January 1, 2007	3,632,466	4,410,767	122,643	145,478	17,623	8,328,977
Additions	21,427	9,461	75,550	16,368	522,540	645,346
Transfers	77,509	11,920	--	--	(89,429)	--
Disposals	--	--	(19,950)	(91,103)	--	(111,053)
At December 31, 2007	<u>3,731,402</u>	<u>4,432,148</u>	<u>178,243</u>	<u>70,743</u>	<u>450,734</u>	<u>8,863,270</u>
<u>DEPRECIATION</u>						
At January 1, 2007	832,018	2,147,501	61,163	99,976	--	3,140,658
Charge for the year	116,126	295,336	38,863	10,718	--	461,043
Disposals	--	--	(19,950)	(91,103)	--	(111,053)
At December 31, 2007	<u>948,144</u>	<u>2,442,837</u>	<u>80,076</u>	<u>19,591</u>	<u>--</u>	<u>3,490,648</u>
<u>NET BOOK VALUE – Exhibit – A</u>						
At December 31, 2007	<u>2,783,258</u>	<u>1,989,311</u>	<u>98,167</u>	<u>51,152</u>	<u>450,734</u>	<u>5,372,622</u>
At December 31, 2006	<u>2,800,448</u>	<u>2,263,266</u>	<u>61,480</u>	<u>45,502</u>	<u>17,623</u>	<u>5,188,319</u>

- Mortgage details of property, plant and equipment owned by Parent Company refer note 15.
- The leasehold details of the factory premises refer note 29.
- Capital work in progress mainly represent factory building under construction.
- Depreciation for the year is allocated as follows:

	Parent Company		Consolidated	
	2007	2006	2007	2006
	RO.	RO.	RO.	RO.
Cost of revenue (note – 19)	411,462	401,889	411,462	401,889
Administrative and general expenses (note – 20)	47,411	30,642	47,411	30,642
Preoperative expenses	<u>–</u>	<u>–</u>	<u>2,170</u>	<u>–</u>
	<u>458,873</u>	<u>432,531</u>	<u>461,043</u>	<u>432,531</u>

12. **INVESTMENT IN SUBSIDIARY**

The Parent Company's subsidiary Salalah Macaroni and Confectionery SAOC is a closely held joint stock company incorporated in Sultanate of Oman. The Parent Company holds 64% equity interest in the subsidiary. The carrying value of the investment in subsidiary is accounted for at cost less any impairment losses assessed on each balance sheet date in the Parent Company books.

	Parent Company		Consolidated	
	2007	2006	2007	2006
	RO.	RO.	RO.	RO.
Authorized capital of subsidiary	<u>2,500,000</u>	–	<u>–</u>	–
Paid up (Issued capital 2.5 million shares and RO. 0.750 (per share paid up)	<u>1,875,000</u>	–	<u>–</u>	–
Parent Company share in subsidiary – Exhibit – A	<u>1,200,000</u>	–	<u>–</u>	–

Business plans and sources of funds

The Company plans to increase the share capital to RO.2.5 million and arrange RO. 2 million bank facility to finance the cost of the project including start up and working capital costs which approximates RO.4.5 million.

The commercial production is expected to commence in the last quarter of 2008

13. **BANK BORROWINGS**

The Company has obtained unsecured borrowing facilities in the aggregate amount of approximately RO.14 million from commercial banks. The borrowings bears interest between 5.50% and 8% per annum (2006 : 4.50% and 8%). Total facilities include overdraft, LTR, letter of credit and guarantees.

14. PAYABLES AND ACCRUALS

	Parent Company		Consolidated	
	2007	2006	2007	2006
	RO.	RO.	RO.	RO.
Accounts payable – local	112,238	--	174,765	--
Accounts payable – overseas	5,228	9,960,464	7,500	9,960,464
Amounts due to related parties	15,861	17,208	15,001	17,208
Accrued expenses and other payables	239,316	<u>121,350</u>	<u>241,787</u>	<u>121,350</u>
Exhibit – A	<u>372,643</u>	<u>10,099,022</u>	<u>439,053</u>	<u>10,099,022</u>

- The major trade payables – overseas are through letters of credit.
- Unclaimed dividend has been transferred to investors trust fund maintained by the Capital Market Authority during the year.

15. TERM LOANS

	Parent Company & Consolidated	
	2007	2006
	RO.	RO.
Non-current liabilities:		
Secured Government loan	1,200,000	1,500,000
Deferred Government grant – Exhibit – A	<u>(245,731)</u>	<u>(355,575)</u>
Net – Exhibit – A	<u>954,269</u>	<u>1,144,425</u>
Current liability:		
Secured Government loan - Exhibit – A	<u>300,000</u>	<u>300,000</u>
Total term loans	<u>1,254,269</u>	<u>1,444,425</u>

Terms and repayment schedule:

	Interest		Under	1-2	2-4
	rate	Total	1 year	years	years
	%	RO.	RO.	RO.	RO.
Secured Government loan	0	<u>1,254,269</u>	<u>300,000</u>	<u>300,000</u>	<u>654,269</u>

The Government loan is secured by a registered first mortgage of the Company's property plant and equipment. The repayment of loan is in ten equal installments of RO.300,000 each commencing from 1 January 2003. The loan agreement contains restrictive covenants, which if violated, permits the lender to demand earlier repayment of the loan. Such covenants relate amongst other things, requiring Omani nationals to hold 75% of the Company's share capital and at least 25% of the employees should be Omani nationals.

At 31 December 2007, the soft loans from Government have been stated at amortized cost in accordance with International Accounting Standards ("IAS") 39. The amortized cost has been determined by using the effective interest rate method. The effective interest rate was 9% per annum. The Government subsidy on loans is recognized in the balance sheet as 'deferred Government grant' and amortized over the life of the loans to which the subsidy relates on a systematic basis in the same periods in which the loan is repaid. The

amortization of the deferred Government grant for the year 2007 amounts to RO.109,844 (2006 : RO.126,152) and is recognized within net financing costs.

16. TAXATION

The Parent Company is subject to income tax at the rate of 12% of taxable profits in excess of RO.30,000 in accordance with the income tax laws of the Sultanate of Oman. However, the Parent Company is taxable only from 1 December 2007 since as per Ministerial Decision No.5/99 and 87/2003, the Company was exempted from tax upto 30 November 2007.

The subsidiary is a development stage industrial enterprise commenced in 2007. The Company is expected to be exempt for a period of 5 years, renewable.

The movement in deferred tax during the year is as follows:

	Parent Company and Consolidated	
	2007	2006
	RO.	RO.
At January 1	206,231	181,957
Temporary difference in respect of current year	<u>36,575</u>	<u>24,274</u>
At December 31 – Exhibit – A	<u>242,806</u>	<u>206,231</u>

Deferred tax is attributable for the following items:

Property, plant and equipment	258,538	218,554
Receivables and inventories	<u>(15,732)</u>	<u>(12,323)</u>
	<u>242,806</u>	<u>206,231</u>

Taxation charge for the year comprises of:

Provision for taxation Exhibit – A	4,190	--
Deferred tax	<u>36,575</u>	<u>24,274</u>
Total – Exhibit – B	<u>40,765</u>	<u>24,274</u>

17. EQUITY

(a) *Share capital:*

The Company's authorized and issued share capital consists of 2,500,000 shares of RO.1 each. At 31 December 2007 Dhofar Cattle Feed Company (SAOG) held 10% (2006 : 10%) of the Company's share capital.

Subsequent to year end, the Company held Extra Ordinary General Meeting on January 03, 2008 to increase the authorized capital to RO.7 million and issued capital to RO.3.75 million.

(b) *Legal reserve:*

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

(c) *General reserve:*

In accordance with Article 106 of the Commercial Companies Law of 1974, 10% of the Company's net profit is transferred to a distributable general reserve until the amount of such reserve becomes equal to one-half of the Company's share capital.

(d) *Proposed dividend:*

The Board of Directors proposed a cash dividend of RO. 0.200 per share for 2,500,000 shares, for the year ended 31 December 2007 (2006 : RO.0.150 per share).

18. NET ASSETS PER SHARE

Net assets per share is calculated by dividing the net assets at the year end by the number of shares outstanding at 31 December as follows:

	Parent Company		Consolidated	
	2007	2006	2007	2006
Net assets (RO.)	<u>5,941,530</u>	<u>4,867,269</u>	<u>5,907,779</u>	<u>4,867,269</u>
Number of shares outstanding at 31 December (Nos.)	<u>2,500,000</u>	<u>2,500,000</u>	<u>2,500,000</u>	<u>2,500,000</u>
Net assets per share (RO.) - Exhibit – A	<u>2.377</u>	<u>1.947</u>	<u>2.363</u>	<u>1.947</u>

19. COST OF REVENUE

	Parent Company and Consolidated	
	2007	2006
	RO.	RO.
Production expenses:		
Direct materials and packaging materials consumed	11,405,197	10,097,044
Employees costs (note – 21)	224,114	190,283
Utilities	125,867	135,449
Depreciation (note -11)	411,462	401,889
Other factory overheads	<u>71,402</u>	<u>96,836</u>
	<u>12,238,042</u>	<u>10,921,501</u>
Distribution expenses:		
Loading, unloading and other distribution costs	96,754	73,129
Freight expenses	187,926	157,779
Export charges	<u>69,853</u>	<u>94,735</u>
	<u>354,533</u>	<u>325,643</u>
Total – Exhibit – B	<u>12,592,575</u>	<u>11,247,144</u>

20. ADMINISTRATIVE AND GENERAL EXPENSES

	Parent Company and Consolidated	
	2007	2006
	RO.	RO.
Employees costs (Note – 21)	408,712	269,440
Utilities	6,384	6,094
Printing and stationery	3,432	3,874
Repairs and maintenance	34,747	30,507
Telephone, fax and postage	7,513	6,721
Professional and legal charges	20,729	17,484
Insurance	9,945	9,111
Rent	2,888	1,470
Directors' expenses	57,577	47,202
Depreciation (note – 11)	47,411	30,642
Miscellaneous	10,989	9,974
Bad debts	6,187	--
Donation	2,000	--
Gonu contribution	12,225	--
Exhibit – B	<u>630,739</u>	<u>432,519</u>

21. EMPLOYEES COSTS

Employees costs included in cost of sales and administrative and general expenses comprises the following:

	2007	2006
	RO.	RO.
Wages, salaries and related expenses	555,993	407,956
Staff training, labour card and other welfare expenses	27,337	16,790
Contribution to defined contribution plan	13,871	11,324
Increase in liability for unfunded benefit retirement plan	35,625	23,653
	<u>632,826</u>	<u>459,723</u>

These are grouped as follows:

	2007	2006
	RO.	RO.
Cost of revenue (note – 19)	224,114	190,283
Administrative and general expenses (note – 20)	408,712	269,440
	<u>632,826</u>	<u>459,723</u>

22. SELLING AND PROMOTION EXPENSES

	Parent Company and Consolidated	
	2007	2006
	RO.	RO.
Advertisement, sales promotion and feasibility studies	30,361	21,772
Traveling expenses	13,081	3,201
Exhibit – B	<u>43,442</u>	<u>24,973</u>

23. **OTHER INCOME**

	Parent Company		Consolidated	
	2007	2006	2007	2006
	RO.	RO.	RO.	RO.
Profit on sale of property, plant and equipment	--	3,061	--	3,061
Miscellaneous receipts	64,797	43,681	64,797	43,681
Management fee from related party	8,400	--	--	--
Exhibit – B	<u>73,197</u>	<u>46,742</u>	<u>64,797</u>	<u>46,742</u>

24. **NET FINANCING COSTS**

	Parent Company and Consolidated	
	2007	2006
	RO.	RO.
Interest expense	148,372	89,014
Amortization of deferred Government grant	109,844	126,152
Other finance charges	18,882	19,606
	277,098	234,772
Interest subsidy	(109,844)	(126,152)
Exhibit – B	<u>167,254</u>	<u>108,620</u>

25. **BASIC EARNINGS PER SHARE**

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

	Parent Company		Consolidated	
	2007	2006	2007	2006
Profit for the year (RO.)	<u>1,449,261</u>	540,930	1,396,525	540,930
Number of shares outstanding at 31 December (Nos.)	<u>2,500,000</u>	<u>2,500,000</u>	<u>2,500,000</u>	<u>2,500,000</u>
Basic earnings per share (Bzs.) – Exhibit - B	<u>0.580</u>	<u>0.216</u>	<u>0.559</u>	<u>0.216</u>

26. **CASH AND CASH EQUIVALENTS**

	Parent company		Consolidated	
	2007	2006	2007	2006
	RO.	RO.	RO.	RO.
Cash at bank and in hand	550,331	897,865	1,258,148	897,865
Bank borrowings	(5,068,144)	--	(5,068,144)	--
Net – Exhibit – D	<u>(4,517,813)</u>	<u>897,865</u>	<u>3,809,996</u>	<u>897,865</u>

27. RELATED PARTY TRANSACTIONS

Related parties comprise the parent company, key business persons and business entities in which they have the ability to control or exercise significant influence in financial and operating decisions.

The following is a summary of significant transactions with related parties which are included in the financial statements:

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

	2007	2006
	RO.	RO.
Sales to entities:		
Having 10% or more interest in the Company	223,288	323,882
Related to a Director	2,610	2,108
Management fees	8,400	---
Equipment rentals from entity having 10% or more interest in the Company	22,380	15,973
	<u>256,678</u>	<u>341,963</u>
Purchases of goods and services from entities:		
Related to a Director	162,948	137,135
Having 10% or more interest on the Company	--	3,560

- b) Compensation of key management personnel:
Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any Director (whether executive or otherwise).

The remuneration of directors and other members of key management during the year was as follows:

	2007	2006
	RO.	RO.
Directors sitting fees and remuneration	54,220	40,200
Other services	468	--
Salaries and benefits to key personnel	<u>114,795</u>	<u>96,116</u>

Above transactions are as per agreement and of routine in nature.

- c) Amounts due from / to relate parties at year end are as follows:

Due from entities having 10% or more interest in the Company	<u>67,103</u>	<u>78,984</u>
Due to entities related to Directors	<u>15,861</u>	<u>17,208</u>

28. SEGMENTAL REPORTING

The Parent Company has only one business segment. Segment information is, accordingly, presented in respect of Company's geographical segments, which are based on the Parent Company's management reporting structure. Segment revenue and assets include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

The Parent Company sells its products primarily in three geographical areas, namely Oman, Africa and other Asian countries. Information comprising segment revenue and the related receivables are based on geographical location of customers.

	Parent Company		Consolidated	
	2007	2006	2007	2006
	RO.	RO.	RO.	RO.
Revenue:				
Oman	8,327,596	6,119,296	8,327,596	6,119,296
Africa	4,559,716	4,420,532	4,559,716	4,420,532
Other Asian countries	1,913,527	1,806,890	1,913,527	1,806,890
	<u>14,800,839</u>	<u>12,346,718</u>	<u>14,800,839</u>	<u>12,346,718</u>
Gross profit	2,208,264	1,099,574	2,208,264	1,099,574
Common costs	(832,200)	(605,386)	(884,936)	(605,386)
Other income	73,197	46,742	73,197	46,742
Profit for the year	<u>1,449,261</u>	<u>540,930</u>	<u>1,396,525</u>	<u>540,930</u>

Trade receivables and amounts due from related parties:

Segment assets	1,360,444	1,131,894	1,360,444	1,131,894
Oman	359,801	325,518	359,801	325,518
Africa	456,456	492,707	456,456	492,707
Other Asian countries	<u>2,176,701</u>	<u>1,950,119</u>	<u>2,176,701</u>	<u>1,950,119</u>

29. LEASES

The Parent Company has leased land for factory premises at Raysut from the Public Establishment for Industrial Estate (PEIE) under agreement that expires between the years 2020 and 2030. The subsidiary also availed the leasehold land from PEIE for a period of 5 years (renewable) at an annual rent of RO.6,019. At 31 December 2007, future commitments under non-cancellable operating lease were as follows:

	Parent Company		Consolidated	
	2007	2006	2007	2006
	RO.	RO.	RO.	RO.
Year ending 31 December				
2007	--	22,876	--	22,876
2008	25,919	24,137	31,938	24,137
2009	25,919	24,866	31,938	24,866
2010	25,919	24,866	31,938	24,866
Thereafter	<u>519,926</u>	<u>510,530</u>	<u>529,205</u>	<u>510,530</u>
	<u>597,683</u>	<u>607,275</u>	<u>625,019</u>	<u>607,275</u>

30. COMMITMENTS AND CONTINGENCIES

	Parent Company		Consolidated	
	2007	2006	2007	2006
	RO.	RO.	RO.	RO.
Capital commitments	657,076	7,885	3,585,799	7,885
Letter of credit	10,074,250	---	10,074,250	--
Bank guarantees	<u>30,192</u>	<u>30,192</u>	<u>30,192</u>	<u>30,192</u>

31. RISK MANAGEMENT

The Group monitors and manages the financial risks relating to its business and operations. These risks include: capital risk, market risk (including currency risk and price risk), credit risk, liquidity risk and interest rate risk.

The Group seeks to minimize the effects of these risks by diversifying the sources of its capital. It maintains timely reports about its risk management function and monitors risks and policies implemented to mitigate risk exposures.

Capital risk

Regularly, the Group reviews its capital structure which, includes debt and equity and considers the cost of capital and the risks associated therewith. It manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance.

Market risk

Market risk is the risk that will affect future potential growth in business of the entity. It is related to external environment impact on the Group operations. It is managed by continuous review and adjustments in sales strategy.

Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is exposed to foreign currency risk in respect of capital commitments (refer 30). The directors of the Company are following up the rates and believe the effect if any may not be substantial.

Price risk

The Group is exposed to equity price risks arising from equity investments. However, those risks are insignificant to the Company as the Group does not actively trade these investments.

Moreover, the Group has booked fully for its non-performing investments.

Credit risk

The credit risk of the Group is primarily attributable to current and deposit accounts in the bank and trade and other receivables.

The Group bank accounts are placed with reputed financial institutions.

Trade and other receivables are stated at net of allowance for impairment estimated by the management based on prior experience and current economic environment. There is no significant concentration of credit risk with exposure spread over a number of customers. The Group customer base comprises of the following:

	<u>Dec. 31, 2007</u>		<u>Dec. 31, 2006</u>	
	<u>RO.</u>	<u>%</u>	<u>RO.</u>	<u>%</u>
Trading Companies	1,586,952	73	1,608,059	83
Contracting companies	574,304	26	304,741	16
Other entities	15,492	1	<u>25,412</u>	<u>1</u>
	2,176,748	100	1,938,285	100

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulties in raising funds to meet commitments associated with financial instruments. In accordance with prudent liquidity risk management, management aims to maintain sufficient cash and an adequate amount of committed credited facilities.

Interest rate risk

The Group is exposed to interest rate risk resultant from its borrowings. The risk is managed by maintaining an approximate mix between fixed and floating interest rates balances at the start of the financial year.

Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

- The fair value of financial assets and financial liabilities with standard terms and conditions and which are traded on active markets are determined with reference to quoted market prices;
- The fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis; and
- The fair value of derivatives instruments, are calculated using quoted prices. Where such prices are not available discounted cash flow analysis is used.

32. GENERAL

The figures in financial statements are rounded off to the nearest Omani Rials.

SALALAH MILLS CO. SAOG

SALALAH – SULTANATE OF OMAN

**CORPORATE GOVERNANCE REPORT AND
APPLICATION OF THE CORPORATE GOVERNANCE
PRACTICE IN ACCORDANCE WITH CMA CODE
OF CORPORATE GOVERNANCE**

**YEAR ENDED
31 DECEMBER 2007**

109180876
SLM.BS.2007

Report on factual findings in connection with corporate governance in accordance with CMA code of Corporate Governance to the shareholders of Salalah Mills Company SAOG

We have performed the procedures prescribed in Capital Market Authority (CMA) circular no.16/2003, dated 29 December 2003 with respect to the corporate governance report of **Salalah Mills Company SAOG** ("the Company") and application of the corporate governance practices in accordance with CMA code of corporate governance issued under circular no.11/2002 dated 3 June 2002 and its amendments for the year ended 31 December 2007. Our engagement was undertaken in accordance with the International Standards on Auditing applicable to agreed-upon procedures engagements. The procedures were performed solely to assist you in evaluating the Company's compliance with the code as issued by the CMA.

We report our findings below:

We found the Company's code of corporate governance report reflects the Company's application of the provisions of the code and is free from any material misrepresentation.

Because the above procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing, we do not express any assurance on the corporate governance report. Had we performed additional procedures or had we performed an audit of the report in accordance with International Standards on Auditing, other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose. This report relates only to the Board of Directors corporate governance report included in its annual report for the year ended 31 December 2007 and does not extend to any financial statements of the Company taken as whole.

for TALAL ABU-GHAZALEH & CO

Mu'awiyeh Khaleefeh
Authorized Manager

January 29, 2008

Report on Corporate Governance

1. Company Management

The Directors of Salalah Mills Company SAOG possess long experience in establishing and managing many Public Companies. They also have been government executives for long time. The Board is implementing proper planning and had established commercial and financial strategies and internal written policies. The Board of Directors is committed to fair and timely release of material information about the company.

2. Board of Directors

S. No.	Name	Designation	Attendance	category	AGM Attendance
1	Sheikh Saeed Ahmed Al Shanfari	Chairman	6/6	Independent Non-Executive	Yes
2	Sheikh Ahmed Abdullah Al Rawas	Vice Chairman	6/6	Independent Non-Executive	Yes
3	H.E. Salim Abdullah Burham Ba Omar	Director	5/6	Independent Non-Executive	Yes
4	Sheikh Bakhit Said Salim Al Shanfari	Director	6/6	Independent Non-Executive	Yes
5	H.E. Ahmed Abdullah Muqaibil	Director	6/6	Independent Non-Executive	Yes
6	Sheikh Abdullah Hamad Hamoud Al Ghafri	Director	1/6	Independent Non-Executive	Yes
7	Sheikh Hamoud Mustahail Ahmed Al Mashani *	Director	2/6	Independent Non-Executive	Yes
8	Sheikh Ahmed Alawi Abdullah AL-Ibrahaim	Director	5/6	Independent Non-Executive	Yes
9	Eng. Abdulrahman Awad Abdullah Barham	Director	4/6	Independent Non-Executive	Yes

* Replaced Sheikh Qais Mustahail Ahmed Al Mashani, who resigned on 14/3/2006.

- Board Meetings during 2006:
 - First meeting held on 23/02/2006
 - Second meeting held on 26/04/2006
 - Third meeting held on 25/07/2006
 - Fourth meeting held on 18/10/2006
 - Fifth meeting held on 2/11/2006
 - Sixth meeting held on 27/12/2006

3. Audit Committee

An Audit Committee was reformed via Board resolution no. 16/2005 dated 28/07/2005. The committee assigned the responsibilities mentioned in the annexure no. 3 of Code of Corporate Governance for MSM Listed Companies issued by the Capital Market Authority.

The Audit Committee formed from the following Board Members:

Name	Designation	Attendance
1. Sheikh / Ahmed Abdullah Al Rawas	Committee Head	5/5
2. H.E / Salem Abdullah Barham	Committee Member	4/5
3. H.E / Bakhait Saeed Al Shanfari	Committee member	5/5
4. H.E / Ahmed Abdullah Muqaibil	Committee member	5/5
5. Sheikh/ Ahmed Alawi Bait Ibrahim	Committee member	4/5

- Audit Committee Meetings during 2006:

	Meeting Date
First meeting	22/02/2006
Second meeting	26/04/2006
Third meeting	25/07/2006
Fourth meeting	18/10/2006
Fifth meeting	27/12/2006

4. Process of nomination of the directors

The current Board of Directors was elected for a period of three years in the AGM held on 21/4/2005. The company's Articles of Association had been amended to incorporate the new rules governing the nomination and election of the board members which will be applied in the future.

5. Remuneration

Board of Directors	Setting Fees	40,200
	Remuneration	0
	Total	<u>40,200</u>
Top 5 employees	Fixed component	82,279
	Performance bonus	<u>13,837</u>
	Total remuneration	<u>96,116</u>

6. Details of non-compliance by the company

The company is in compliance with rules issued by MSM/CMA and no penalties have been imposed on the company during the last three years.

7. Means of communication with the shareholders and investors

1. Publishing the quarterly, half-yearly and yearly results in the local newspapers.
2. Posting of annual results on the company web-site (www.salalah-mills.com) and sending copy to all shareholders.
3. Press releases.
4. The chairman report includes the Administration discussion and analysis.

8. Market price data

Month 2006	Highest closing price during the month	Lowest closing price during the month	Share Closing Price
January	1.700	1.610	1.680
February	1.670	1.500	1.520
March	1.600	1.510	1.600
April	1.570	1.500	1.550
May	1.560	1.510	1.550
June	1.560	1.500	1.510
July	1.514	1.510	1.514
August	1.600	1.510	1.586
September	1.600	1.570	1.590
October	1.790	1.600	1.762
November	1.800	1.710	1.762
December	1.790	1.713	1.750

Highest closing price during 2006 R.O. 1.800
Lowest closing price during 2006 R.O. 1.500
Closing price for the year 2006 R.O. 1.750

- Distribution of shareholding

Nationality	Percentage
Oman	92.440
GCC	07.505
India	00.055

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

The Board of Directors is committed to apply the Code of Corporate Governance for MSM Listed Companies issued by the Capital Market Authority. An audit committee was formed to be responsible for internal controls system. The Board appointed a legal consultant and an internal auditor. The Board approved the Company Manual as a mandatory guide for all policies, procedures, and systems with regard to management, financial, control and supervision.

10. Professional profile of the statutory auditor

TALAL ABU GHAZALAH & CO is the external auditor of the company who hold appointment for the second year. They comprise of over 750 multi-disciplinary professional staff operating out of 42 offices in Middle East and around the globe and is one of the leading group of professional firm in the Arab World.

11. Other important aspect

Salalah Mills co. is working with sustained effort to establish modern management system in order to achieve higher efficiency.

Chairman - Audit Committee

Management Discussion and Analysis Report

The Management of Salalah Mills Company (SAOG) is pleased to present to the shareholders this report covering the discussion and analysis of the company's management regarding achieving the company objectives.

Company Objectives and Ways of achieving them

The Articles of Association defined the objective of the company as follows:

- 1. To establish, own and operate flour mills in the Sultanate of Oman and/or abroad, and produce flour and any by-products and also any products that contain wheat flour such as Biscuits, Bread, Macaroni etc.**
- 2. To sort, classify, clean and packaging of all types of grain including feeds.**
- 3. To rent the required land, to achieve its objectives, and to construct buildings and warehouses on it as per the legal authorization.**
- 4. To buy, own, rent and operate equipment, machineries and tools required for company operation.**
- 5. To establish and rent silos and grain warehouses and to be equipped with tools and machineries and conveyers either in the free zones or Salalah Port or in any other place in the Sultanate or abroad.**
- 6. To import and export. To purchase wheat and other grain and their products for milling and sales of final products.**
- 7. To enter into any contractual agreements with the Government of the Sultanate of Oman, companies, public and private establishments and individuals inside the Sultanate or outside to establish or contribute in establishing on par or full management of the company's operations and projects and the contracting experts and consultant and hiring of employees and labourers.**
- 8. Dealership and commercial representation.**
- 9. Business intermediaries and dealership commissioning.**
- 10. To invest the extra funds as per the Board of Directors' instructions for the benefit of the company.**

To achieve the object of establishing new industries that use wheat flour as an input material, several studies were conducted to explore the investment opportunities. The study on the production of pasta was encouraging. A new entity – Salalah Macaroni and Confectionary Company (SAOC), was established with Paid up Capital of RO 2.5 Million. Salalah Mills Co. own 64% of the new company's shares. The trial production of the pasta factory is expected to commence in the last quarter of 2008. This new company will be an added value venture, which will provide another source of revenue for Salalah Mills Co.

The company decided to increase the production capacity of the flour milling by 20% to cover the requirement of the pasta factory. The commissioning of the new expansion is expected in the last quarter of 2008. The expansion of the

milling capacity will result in the reduction of production cost and the increasing of value of local sales. In addition, the company decided to double the off loading capacity of wheat at Salalah Port which is expected to be accomplished by 2008 end. This project will enable the company to reduce the waiting time of vessel by half and save on the freight cost. These two projects are essentials for the company to reduce the cost to improve the competitive position.

Financial Position

The Management of company discussed the financial position in the light of the new investment in Salalah Macaroni and Confectionary Company, the expansion of the milling capacity and big increase in the international prices of wheat and its affect on the working capital, and proposed to increase the Authorized Capital from RO 2.5 Million to RO 7 Million and the Paid up Capital from RO 2.5 Million to RO 3.75 Million, through Rights Issue. The AGM, which met on the 3rd of January 2008, had approved the Board's proposal. This increase in Paid up Capital will enhance the company's financial position and will contribute to the achievement of company's objectives.

The Following schedule discloses the main financial indicators for the last five years:

	2006	2007	2004	2005	2003
Total Revenue	12,346,718	14,800,839	11,137,866	11,319,011	8,916,712
Total Assets	16,972,522	13,129,313	11,616,831	11,551,887	10,132,144
Total Liabilities	12,105,253	7,187,783	7,230,307	9,975,548	5,837,566
'Net Shareholders Equity	4,867,269	5,941,530	4,386,524	4,576,339	4,294,578
Net Assets Per Share	1.947	2.377	1.755	1.830	1.718
Gross Profit Margin	%8.9	%14.9	%6.3	%7.6	%14.2
Net Profit Margin	%4.3	%9.7	%3.3	%3.8	%9.9
Net earning Per share	0.216	0.580	0.149	0.176	0.353

Human Resource

The Company places great emphasis in improving the productivity and efficiency of employees. The training plan includes different training courses aimed at increasing the skills and abilities of employees. The Board of Directors approved a study of new salary structure to meet the current changes in the employment environment. The new salary structure will target offering equal pay for comparable jobs and encouraging higher performance. The Omani employees reached 40% by the end of 2007, and the company hopes to increase this percentage in the future.

Quality Assurance

As a result of continuous process to increase the quality of its products, the company started applying the Food Safety System known as ISO 22000. The company expects to receive the ISO 22000 Certificate in the year 2008. This will improve the efficiency for better monitoring of food safety.

The company has received the ISO 14001:2004 certificate for the environment protection system in 2007. This step stresses the company determination for better consumption of energy and natural resources and reducing the environment pollutions.

The Complications and Risks

Complications

The location of the company near Yemen and African Horn Countries, gives the company advantage to export flour to these markets. The high port charges, the unavailability of Dhows during Khareef, and the ban of importing live animals from Somalia are complications that the company faces in order to offer competitive prices in the export markets. The company is working on solving the shortage of Dhows during Manson period.

Risks

- **Raw Material**
The international wheat prices have seen unprecedented high levels during 2007. The cost of wheat represents about 80% of the production cost. Therefore, the procurement of wheat is of great importance to the company. The Management has adopted close monitoring of wheat markets and proper procurement planning as tools to overcome the risk of high wheat prices.
- **Competition**
The company is planning to increase its share of flour sales in the local market. By implementing high quality standard, reducing production cost and offering competitive prices, the company is confident about achieving its goal. The company has three distribution centers and work closely with its distribution dealers to increase local sales.

- **Customers' Credit**

The company has a credit policy in place and exposure to risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit facilities.

Future Strategy

Salalah Mills Company has strategic plans to add another flour mill and a new semolina mill. These projects are aimed at providing flour and semolina for the local as well as the export markets. In addition, they will provide flour and semolina for the future requirements of Macaroni Factory.