

## CHAIRMAN'S REPORT

Dear Shareholders,

On behalf of the Board of Directors, it gives me great pleasure to place before you the unaudited consolidated financial statements of A'Sharqiya Investment Holding Company (SAOG) and its subsidiary, Qalhat Real Estate Investments & Services, LLC (QREIS) for the six months ended 30 June 2011.

Your company, A'Sharqiya Investment Holding Co (SAOG) has made a profit of RO387,871 for the six months ended 30 June 2011, compared to RO 206,620 made in the same period last year. The Company's operating income registered RO 712,313 - 13.8% increase, from RO 625,771 in the corresponding period last year. The earnings per share has increased to RO 0.00485 on share capital base of RO 8 million and is up by 87.7 % against RO 0.00258 in the corresponding period of previous year. The total shareholders' funds have increased by 9.7 % during the period to RO 14.303 million from RO 13.038 million in the corresponding period of 2010.

The second quarter 2011 was challenging for global markets, such as mixed corporate earnings, growing inflation, higher unemployment in developed nations and growing inflation concerns in the emerging markets. The economic instability in Europe and the impending US debt issues continued to haunt the market performance during the last quarter. Post regional unrest during Q1, the GCC markets saw volatility continuing during the second quarter too. However, we have managed a healthier increase in our earnings during this period. We will continue to maintain a cautious view on all assets for achieving risk adjusted returns for the full year.

On behalf of the Board of Directors, I would like to express our sincere gratitude to His Majesty Sultan Qaboos bin Said for his wise leadership of the country. I thank the shareholders for their continued support to us. My appreciation also goes to the management and staffs of the company for their contributions to the Company's success.

Dr. Hamed Hashim Al Dhahab  
Chairman

**A'SHARQIYA INVESTMENT HOLDING CO. SAOG AND ITS SUBSIDIARY**

**UN-AUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE PERIOD ENDED 30 JUNE 2011**

	Note	30 June 2011		30 June 2010	
		Parent RO	Group RO	Parent RO	Group RO
<b>INCOME</b>					
Net gain on sale of available-for-sale financial assets	13	(8,033)	(8,033)	212,889	212,889
Lease income		-	333,423	-	334,597
Net gains/(loss) on financial assets at fair value through profit or loss					
- realised		(26,036)	(26,036)	31,850	31,850
- unrealised	9	(99,197)	(99,197)	(150,008)	(150,008)
Interest income		102,310	4,539	357	480
Dividend income		423,288	423,288	135,950	135,950
Other income		46,148	84,329	1,212	60,013
<b>Operating income</b>		<b>438,480</b>	<b>712,313</b>	<b>232,250</b>	<b>625,771</b>
<b>EXPENSES</b>					
Interest & finance expenses		(68,956)	(68,962)	(14,602)	(14,669)
Staff cost	17	(113,044)	(149,210)	(126,547)	(163,663)
Depreciation	5	(2,685)	(2,788)	(2,837)	(2,953)
General administrative expenses	18	(55,275)	(81,752)	(63,789)	(89,278)
Impairment on available-for-sale financial assets	13	-	-	(112,500)	(112,500)
<b>Operating expenses</b>		<b>(239,960)</b>	<b>(302,712)</b>	<b>(320,275)</b>	<b>(383,063)</b>
<b>Profit before taxation</b>		<b>198,520</b>	<b>409,601</b>	<b>(88,025)</b>	<b>242,708</b>
Taxation	19	-	(21,730)	-	(36,088)
<b>Profit for the period</b>		<b>198,520</b>	<b>387,871</b>	<b>(88,025)</b>	<b>206,620</b>
<b>Other comprehensive income:</b>					
Net change in fair value of available- for-sale financial assets	13	153,066	153,066	(211,516)	(211,516)
<b>Total comprehensive income for the period</b>		<b>351,586</b>	<b>540,937</b>	<b>(299,541)</b>	<b>(4,896)</b>
<b>Earnings per share</b>	20	<b>0.002</b>	<b>0.005</b>	<b>(0.001)</b>	<b>0.003</b>

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**A'SHARQIYA INVESTMENT HOLDING CO. SAOG AND ITS SUBSIDIARY**

**UN-AUDITED CONSOLIDATED CASH FLOW STATEMENT  
FOR THE PERIOD ENDED 30 JUNE 2011**

	Note	30 June 2011		30 June 2010	
		Parent RO	Group RO	Parent RO	Group RO
<b>Operating activities :</b>					
Profit before taxation		198,520	409,601	(88,025)	242,708
<b>Adjustments for:</b>					
Depreciation		2,685	2,788	2,837	2,953
Net unrealised (gain) / loss on financial assets at fair value through profit or loss		99,197	99,197	150,008	150,008
Impairment on available-for-sale financial assets		-	-	112,500	112,500
End of service benefits		8,223	9,723	5,909	7,062
Profit on disposal of property and equipment		-	-	-	-
Interest expense		68,956	68,962	14,602	14,669
<b>Operating profit before changes in working capital</b>		<b>377,581</b>	<b>590,271</b>	<b>197,831</b>	<b>529,900</b>
<b>Changes in working capital :</b>					
Prepayments and other receivable		(25,409)	(78,735)	(74,937)	(68,448)
Accruals and other payables		(513,176)	(518,076)	(39,336)	(88,939)
Lease receivables		-	15,360	-	7,347
Financial assets at fair value through profit or loss		224,794	224,794	(966,954)	(966,954)
Due from subsidiary		129,946	-	172,607	-
Available-for-sale financial assets		(1,064,724)	(1,064,724)	1,573,704	1,573,704
<b>Cash generated from operations</b>		<b>(870,988)</b>	<b>(831,110)</b>	<b>862,915</b>	<b>986,610</b>
Income tax paid		-	(43,215)	-	(94,487)
End of service benefits paid		(1,534)	(1,534)	-	-
Interest paid		(68,956)	(68,962)	(14,602)	(14,669)
<b>Net cash from operating activities</b>		<b>(941,478)</b>	<b>(944,821)</b>	<b>848,313</b>	<b>877,454</b>
<b>Investment activities :</b>					
Proceeds from disposal of property and equipment		-	-	-	-
Additions to fixed assets		(295)	(295)	(175)	(175)
<b>Net cash used in investment activities</b>		<b>(295)</b>	<b>(295)</b>	<b>(175)</b>	<b>(175)</b>
<b>Financing activities :</b>					
Borrowings		942,253	942,253	(1,153,268)	(1,153,268)
Dividends payment		(560,000)	(560,000)	-	-
<b>Net cash (used in) financing activities</b>		<b>382,253</b>	<b>382,253</b>	<b>(1,153,268)</b>	<b>(1,153,268)</b>
<b>Net increase/ (decrease) in cash and cash equivalents</b>		<b>(559,520)</b>	<b>(562,863)</b>	<b>(305,130)</b>	<b>(275,989)</b>
Cash and cash equivalents at beginning of the year		888,618	916,817	717,468	725,133
<b>Cash and cash equivalents at end of the period</b>	10	<b>329,098</b>	<b>353,954</b>	<b>412,338</b>	<b>449,144</b>

A'SHARQIYA INVESTMENT HOLDING CO. SAOG AND ITS SUBSIDIARY

UN-AUDITED CONSOLIDATED FINANCIAL OF CHANGES IN EQUITY  
FOR THE PERIOD ENDED 30 JUNE 2011

A- Parent company

	Note	Share capital RO	Legal Reserve RO	Fair value reserve RO	Retained earnings RO	Total RO
At 1 January 2010		8,000,000	1,067,761	1,759,205	1,409,577	12,236,543
Comprehensive income						
Profit for the period		-	-	-	(88,025)	(88,025)
Other comprehensive income						
Net release to statement of comprehensive income on sale of available-for-sale financial assets	13	-	-	(294,089)	-	(294,089)
Change in fair value of available-for-sale financial assets	13	-	-	(29,927)	-	(29,927)
Impairment through statement of comprehensive income on available-for-sale financial assets	13	-	-	112,500	-	112,500
Deferred tax on available-for-sale financial assets	13	-	-	-	-	-
Share of profits from subsidiary	13	-	-	-	-	-
Total other comprehensive income		-	-	(211,516)	-	(211,516)
Total comprehensive income		-	-	(211,516)	(88,025)	(299,541)
Transfer to legal reserve	12	-	-	-	-	-
Dividend paid		-	-	-	-	-
At 30 June 2010		8,000,000	1,067,761	1,547,689	1,321,552	11,937,002
At 1 January 2011		8,000,000	1,094,509	2,424,000	1,650,306	13,168,815
Comprehensive income						
Profit for the period		-	-	-	198,520	198,520
Other comprehensive income						
Net release to statement of comprehensive income on sale of available-for-sale financial assets		-	-	(18,232)	-	(18,232)
Change in fair value of available-for-sale financial assets	13	-	-	171,298	-	171,298
Impairment through statement of comprehensive income on available-for-sale financial assets	13	-	-	-	-	-
Deferred tax on available-for-sale financial assets	13	-	-	-	-	-
Share of profits from subsidiary	13	-	-	-	-	-
Total other comprehensive income		-	-	153,066	-	153,066
Total comprehensive income		-	-	153,066	198,520	351,586
Cash dividends		-	-	-	(560,000)	(560,000)
Transfer to legal reserve	12	-	19,852	-	(19,852)	-
At 30 June 2011		8,000,000	1,114,361	2,577,066	1,268,974	12,960,401

# A'SHARQIYA INVESTMENT HOLDING CO. SAOG AND ITS SUBSIDIARY

## UN-AUDITED CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2011

### 1 Legal status and principal activities

A' Sharqiya Investment Holding Co. SAOG (the Parent Company) is incorporated in the Sultanate of Oman as a public joint stock company and is principally engaged in investment related activities. The shares of the Parent Company are listed on the Muscat Securities Market.

The Company has an investment in a wholly owned subsidiary Qalhat Real Estate Investments & Services LLC (the Subsidiary), a limited liability company incorporated in the Sultanate of Oman. The principal activities of the Subsidiary are real estate investment and development and the leasing and maintenance of real estate properties.

The Parent company and its subsidiary are together referred to as the "group".

### 2 Summary of significant accounting policies

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), the requirements of the Commercial Companies Law of 1974, as amended and the disclosure requirements of the Capital Market Authority of the Sultanate of Oman.

#### 2.1 Basis of preparation

The consolidated financial statements are prepared on the historical cost basis, as modified by the revaluation of available-for-sale financial assets and financial assets at fair value through profit or loss.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The areas where accounting assumptions and estimates are significant to the financial statements are disclosed in notes 3.3 and 4.

#### Standards and amendments effective in 2011 and relevant for the group's operations:

IFRS 9, Financial instruments part 1: Classification and measurement, (effective on or after 1 January 2013), however, we have effected from 1 January 2011.

#### 2.2 Consolidation

##### Subsidiaries

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

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

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.

#### 2.3 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 Investment Committee that makes strategic decisions.

#### 2.4 Financial assets

The group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, available-for-sale financial assets and loans and advances. Management determines the classification of its investments at initial recognition.

##### 2.4.1 Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held-for-trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

Financial assets at fair value through profit or loss are initially recognised at fair value. Transaction costs relating to financial assets carried at fair value through profit or loss are expensed in the statement of comprehensive income. Financial assets at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value of financial assets at fair value through profit or loss category are presented in the statement of comprehensive income in the period in which they arise.

# A'SHARQIYA INVESTMENT HOLDING CO. SAOG AND ITS SUBSIDIARY

## UN-AUDITED CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2011

### 2.4.2 Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period. Available-for-sale financial assets are initially recognised at fair value including transaction costs. Available-for-sale financial assets are subsequently carried at fair value. Changes in the fair value of available-for-sale financial assets are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value changes recognised in equity are included in the statement of comprehensive income as 'gains and losses on available-for-sale financial assets'.

Fair value of unquoted investments cannot be determined without extensive, subjective, judgmental and possibly speculative estimates by the group. Such investments are measured at cost less estimated impairment losses.

### 2.4.3 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 end of the reporting period. These are classified as non-current assets. The group's loans and receivables comprise lease receivables, other receivables and cash and cash equivalents. Receivables are recognised initially at fair value plus transaction costs that are directly attributable to their acquisition origination. They are subsequently measured at amortised cost using the effective interest method, less provision for impairment.

### 2.4.4 Derecognition

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership.

### 2.5 Impairment and uncollectability of financial assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset or group of assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the net present value of future anticipated cash flows, is recognised in the statement of comprehensive income.

A financial asset or a group of financial assets is impaired and an impairment loss is incurred if, and only if, there is evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the group about the following loss events:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; and,
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a Company financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets, including adverse changes in the payment status of borrowers, or national or local economic conditions that correlate with defaults on the assets.

The group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

### 2.6 Impairment of non-financial assets

Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. 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 that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

## **A'SHARQIYA INVESTMENT HOLDING CO. SAOG AND ITS SUBSIDIARY**

### **UN-AUDITED CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2011**

#### **2.7 Leases**

Leases in which a significant portion of the risks and rewards of ownership are transferred by the lessor are classified as finance lease. The group has leased certain property where the group has transferred substantially all the risks and rewards of ownership. Such property is recorded as a disposal of property at the inception of lease.

Initially, lease receivables are recorded at the amount of net investment in finance leases, which comprises the present value of minimum lease payments and any unguaranteed residual accruing to the lessor. The present value is calculated by discounting the minimum lease payments using interest rate implicit in the lease, after taking initial direct cost incurred into consideration.

Each lease payment is allocated between the lease receivables and finance charges so as to achieve a constant rate on the outstanding lease receivables. The receipts under finance lease are allocated between reducing lease receivables and the interest which is included in the statement of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the lease receivables for each period.

#### **2.8 Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation. The cost of property, plant and equipment is their purchase price together with any incidental expenses. The cost of property, plant and equipment is written down to residual value in equal installments over the estimated useful lives of the assets. The estimated useful lives are:

Office equipment	2 to 5 years
Furniture and fixtures	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet 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, plant and equipment are determined by reference to their carrying amounts and are taken into account in determining operating profit.

#### **2.9 Cash and cash equivalents**

For the purpose of cash flow statement, cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities up to three months or less, and bank overdrafts..

#### **2.10 Borrowings**

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised as interest expense in the statement of comprehensive income over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

#### **2.11 Other liabilities**

Other liabilities are initially measured at fair value and subsequently carried at amortised cost using the effective interest method.

#### **2.12 Taxation**

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

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the group's financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred income tax assets and liabilities are offset as there is a legally enforceable right to offset these in Oman.

## **A'SHARQIYA INVESTMENT HOLDING CO. SAOG AND ITS SUBSIDIARY**

### **UN-AUDITED CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2011**

#### **2.13 Employees' end of service benefits**

End of service benefits are accrued in accordance with the terms of employment of the group's employees at the balance sheet date, having regard to the requirements of the Oman Labour Law 2003, as amended. Employee entitlements to annual leave and leave passage are recognised when they accrue to employees and an accrual is made for the estimated liability arising as a result of services rendered by employees up to the balance sheet date.

Contributions to Omani Government Social Security Scheme under Royal Decree No. 72/91 for Omani employees in accordance with the Omani Social Insurance Law 1991, are recognised as an expense in the statement of comprehensive income as incurred.

#### **2.14 Provisions**

Provisions are recognised when the group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

#### **2.15 Revenue recognition**

Interest income is recognised on a time-proportion basis using the effective interest method.

Dividend income is recognised in the period in which the entitlement is established.

Maintenance and service income represents the invoiced value of services provided by the group during the year.

Other income is credited to income at the time of effecting the transaction.

#### **2.16 Foreign currencies**

##### **(a) Functional and presentation currency**

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

For information purposes, Rial Omani amounts in these financial statements have been translated to US Dollar amounts at an exchange rate of 0.385 Rial Omani to each US Dollar.

##### **(b) Transactions and balances**

Transactions in foreign currencies are translated into Rial Omani and recorded at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated into Rial Omani at the foreign exchange rate ruling at the balance sheet date. Foreign exchange differences arising on translation are recognised in the statement of comprehensive income. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated into Rial Omani at the foreign exchange rate ruling at the date of the transaction.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in equity.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in the statement of comprehensive income as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the fair value reserve.

#### **2.17 Dividend distribution**

Dividend distribution to the group's shareholders is recognised as a liability in the group's consolidated financial statements in the year in which the dividend is approved by the group's shareholders. Dividend for the year is calculated by the group based on the profit available for distribution after all statutory appropriations.

#### **2.18 Directors remuneration**

The Directors' remuneration is governed as set out in the Memorandum of Association of the group, the Commercial Companies Law and regulations issued by the Capital Market Authority.

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

#### **2.19 Trade and settlement date accounting**

All “regular way” purchases and sales of financial assets are recognised on the trade date, i.e., the date that the group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

## **2.20 Offsetting**

Financial assets and financial liabilities are only offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and the group intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

# **A'SHARQIYA INVESTMENT HOLDING CO. SAOG AND ITS SUBSIDIARY**

## **UN-AUDITED CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2011**

### **3 Financial risk management**

#### **3.1 Financial risk factors**

The group's activities expose it to a variety of financial risks: Market risk (price risk, foreign exchange risk and interest rate risk ), liquidity risk and credit risk. As taking risk is core to the financial business and operational risks are an inevitable consequence of any business, the group's aim is to achieve an appropriate balance between risk and return while minimising the potential adverse effects on the financial performance.

The Board of Directors defines risk limits and sets suitable policies in this regard for management of credit risk, liquidity risk as well as market risk relating to the investment and liability management activities of the group. Risk Management is carried out by the Management in accordance with documented policies approved by the Board of Directors.

##### **(a) Price risk**

The group trades in financial instruments to take advantage of short-term and long-term capital market movements. All investment securities present a risk of loss of capital. The group controls this risk through a careful selection of securities and other financial instruments within specified limits. The maximum risk resulting from financial instruments is determined by the carrying amount of the financial instruments. The group's overall market positions are monitored on a daily basis by the Investment Manager and are reviewed periodically by the Investment Committee.

##### **(b) Foreign exchange risk**

Foreign exchange risk is the risk that any foreign currency positions taken by the group may be adversely affected due to volatility in exchange rates. The group's exposure to foreign exchange risk arises from recognised assets and liabilities.

The group manages the risks through regular monitoring of the currency markets and maintaining appropriate mix of net assets denominated in foreign currencies to minimise the foreign exchange risk exposure. Where it is considered appropriate

The group is not exposed to foreign exchange risk from net assets denominated in US Dollar or in currencies linked to the US Dollar as the rate of exchange between the Rial Omani and the US Dollar has not changed since January 1986. However, the group is exposed to foreign exchange risk for net assets denominated in other currencies and mainly from Euro and Indian Rupee.

##### **(c) Interest rate risk**

The group's interest rate risk arises from short-term bank borrowings and bank deposits. Assets and liabilities carrying variable rates expose the group to cash flow interest rate risk.

The deposits with banks and bank borrowings are made on commercial terms. The group carries out periodic analysis and monitors the market interest rates fluctuations taking into consideration the group's needs. In case material market rate fluctuations, the terms of the borrowings and deposits are renegotiated with the banks and whenever necessary reborrowed or reinvested.

##### **(d) 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 and arises principally from cash and cash equivalents, deposits with banks, as well as credit exposures to customers, including outstanding amounts from related parties.

The group attempts to control credit risk with regards to customers by monitoring credit exposures, limiting transactions with specific counter parties and assessing continually the creditworthiness of counter parties.

The group limits its credit risk with regard to bank deposits by dealing with reputable banks.

##### **(e) Liquidity risk**

Liquidity risk is the risk that the group will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value. It includes the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame.

In accordance with prudent liquidity risk management, the group aims to maintain sufficient cash and an adequate amount of committed credit facilities. Management monitors rolling forecasts of the group's liquidity reserve (comprises undrawn borrowing facility) and cash and cash equivalents on the basis of expected cash outflows.

The table below analyses the group's financial liabilities into relevant maturity grouping based on the remaining period at the balance sheet date to the contractual maturities date. The amounts disclosed in the table are the contractual undiscounted cash flows.

### 3.2 Capital risk management

The group's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

## A'SHARQIYA INVESTMENT HOLDING CO. SAOG AND ITS SUBSIDIARY

### UN-AUDITED CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2011

#### 4 Accounting estimates and assumptions

##### Impairment of available-for-sale equity investments

The group follows the guidance of IAS 39 to determine when an available-for-sale financial asset is impaired. This determination requires significant judgement. In making this judgement, the group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and short-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

#### 5 Property and equipment

	Office equipment		Furniture and fixtures		Total	
	Parent RO	Group RO	Parent RO	Group RO	Parent RO	Group RO
<b>Cost</b>						
01 January 2011	55,615	60,591	63,991	70,474	119,606	131,065
Additions	295	295	-	-	295	295
Disposals	-	-	-	-	-	-
30 June 2011	55,910	60,886	63,991	70,474	119,901	131,360
<b>Depreciation</b>						
01 January 2011	50,109	54,973	63,067	69,516	113,176	124,489
Charge for the year	2,412	2,515	273	273	2,685	2,788
Disposals	-	-	-	-	-	-
30 June 2011	52,521	57,488	63,340	69,789	115,861	127,277
Net book value -30 June 2011	3,389	3,398	651	685	4,040	4,083

	Office equipment		Furniture and fixtures		Total	
	Parent RO	Group RO	Parent RO	Group RO	Parent RO	Group RO
<b>Cost</b>						
01 January 2010	50,354	55,330	63,991	70,474	114,345	125,804
Additions	175	175	-	-	175	175
Disposals	-	-	-	-	-	-
30 June 2010	50,529	55,505	63,991	70,474	114,520	125,979
<b>Depreciation</b>						
01 January 2010	45,401	50,030	62,516	68,965	107,917	118,995
Charge for the year	2,564	2,680	273	273	2,837	2,953
Disposals	-	-	-	-	-	-
30 June 2010	47,965	52,710	62,789	69,238	110,754	121,948
Net book value -30 June 2010	2,564	2,795	1,202	1,236	3,766	4,031

#### 6 Lease receivables

	30 June 2011		30 June 2010	
	Parent RO	Group RO	Parent RO	Group RO
Gross investment in finance lease	-	10,863,575	-	11,554,301
Less: unearned lease income	-	(6,709,304)	-	(7,377,324)
Present value of minimum lease receivables	-	4,154,271	-	4,176,977

Minimum lease receivables comprise amounts due:

30 June 2011  
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30 June 2010

	Parent RO	Group RO	Parent RO	Group RO
Within 1 year	-	704,541	-	690,726
Later than 1 year but not later than 5 years	-	2,961,917	-	2,903,840
Later than 5 years	-	7,197,117	-	7,959,735
	-	<u>10,863,575</u>	-	<u>11,554,301</u>
	-	-	-	-

Present value of minimum lease receivables comprise amounts due:

	30 June 2011		30 June 2010	
	Parent RO	Group RO	Parent RO	Group RO
Within 1 year	-	40,152	-	22,706
Later than 1 year but not later than 5 years	-	404,326	-	298,509
Later than 5 years	-	3,709,793	-	3,855,762
	-	<u>4,154,271</u>	-	<u>4,176,977</u>
Un-guaranteed residual value of the project	-	<u>69,500</u>	-	<u>69,500</u>

## A'SHARQIYA INVESTMENT HOLDING CO. SAOG AND ITS SUBSIDIARY

### UN-AUDITED CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2011

The Subsidiary has constructed a housing complex (the project) for the use of Oman LNG LLC (OLNG). The project was completed and handed over to OLNG during March 2002 under a finance lease arrangement

The housing complex has been constructed on land given by the Public Establishment for Industrial Estates (PEIE) to the Subsidiary for a lease period of fifty years.

The un-guaranteed residual value of the project is based on a valuation study performed by an independent valuer.

#### 7 Deferred tax

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 12%. However, in view of the uncertainty regarding the availability of future taxable profits and brought forward losses of prior years, no additional deferred tax asset is recognised on the tax losses of the Parent Company in these consolidated financial statements. The amount of carried forward tax losses is RO 678,537 (30 Jun 2010 – RO 494,136) in the books of the Parent company.

The deferred tax assets comprise the following temporary differences:

	30 June 2011		30 June 2010	
	Parent RO	Group RO	Parent RO	Group RO
Taxable timing difference on depreciation	-	-	1,656	1,656

Deferred tax liability arises on account of temporary differences between the tax base of available-for-sale financial assets and their carrying values in the financial position.

	30 June 2011		30 June 2010	
	Parent RO	Group RO	Parent RO	Group RO
At 01 January	24,218	24,218	-	-
Recognized in equity during the year	-	-	-	-
Removed from equity during the year	-	-	-	-
At 30 June	<u>24,218</u>	<u>24,218</u>	-	-

#### 8 Available-for-sale financial assets

Available-for-sale financial assets can be analysed as follows:

	30 June 2011				30 June 2010			
	Fair value and carrying value		Cost		Fair value and carrying value		Cost	
	Parent RO	Group RO	Parent RO	Group RO	Parent RO	Group RO	Parent RO	Group RO
<b>Local quoted - investment sector</b>								
Banking and Investment	344,059	344,059	410,659	410,659	-	-	-	-
Services	3,612,500	3,612,500	3,684,774	3,684,774	2,080,051	2,080,051	2,208,061	2,208,061
Industrial	2,263,553	2,263,553	1,967,398	1,967,398	968,000	968,000	913,880	913,880
	<u>6,220,112</u>	<u>6,220,112</u>	<u>6,062,831</u>	<u>6,062,831</u>	<u>3,048,051</u>	<u>3,048,051</u>	<u>3,121,941</u>	<u>3,121,941</u>
<b>Local unquoted - investment sector</b>								
Insurance	179,250	179,250	190,000	190,000	162,500	162,500	174,750	174,750
Education	630,000	630,000	630,000	630,000	630,000	630,000	630,000	630,000
Industrial	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000
	<u>834,250</u>	<u>834,250</u>	<u>845,000</u>	<u>845,000</u>	<u>817,500</u>	<u>817,500</u>	<u>829,750</u>	<u>829,750</u>

<i>Foreign quoted - investment sector</i>	<u>2,269,771</u>	<u>2,269,771</u>	<u>2,245,004</u>	<u>2,245,004</u>	2,511,531	2,511,531	2,455,318	2,455,318
<i>Foreign unquoted - investment sector (a)</i>	<u>267,984</u>	<u>267,984</u>	<u>267,984</u>	<u>267,984</u>	-	-	-	-
<b>Fair value /cost of inv.</b>	<u><b>9,592,117</b></u>	<u><b>9,592,117</b></u>	<u><b>9,420,819</b></u>	<u><b>9,420,819</b></u>	<u>6,377,082</u>	<u>6,377,082</u>	<u>6,407,009</u>	<u>6,407,009</u>

(a) Foreign unquoted investments are carried at cost as fair value cannot be reliably determined due to the unpredictable nature of future cash flows.

## A'SHARQIYA INVESTMENT HOLDING CO. SAOG AND ITS SUBSIDIARY

### UN-AUDITED CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2011

(b) Details of the group's investment securities where market value of its holding exceeds 10% of their share capital as at 30 June 2011 are set out below:

	Holding	Number of securities	Fair value and carrying value	Cost
	%		RO	RO
<b>30-Jun-11</b>				
<b>Available-for-sale - quoted:</b>				
National Gas SAOG	13.50%	3,375,000	1,653,750	1,162,660
Oman National Engineering & Investment Co. SAOG	12.04%	7,225,000	3,684,774	1,625,302
<b>Available-for-sale - unquoted</b>				
A'sharqiya University	10	600,000	630,000	630,000

	Holding	Number of securities	Fair value and carrying value	Cost
	%		RO	RO
<b>30-Jun-10</b>				
<b>Available-for-sale - quoted:</b>				
National Gas	10	220,000	852,500	798,850
Oman National Engineering & Investment Company SAOG	10	3,000,000	1,500,000	772,182
<b>Available-for-sale - unquoted</b>				
A'sharqiya University	10	600,000	630,000	630,000

## 9 Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss can be analysed as follows:

	30 June 2011				30 June 2010			
	Fair value and carrying value		Cost		Fair value and carrying value		Cost	
	RO Parent	RO Group	RO Parent	RO Group	RO Parent	RO Group	RO Parent	RO Group
<b>Local quoted:</b>								
Banking and Investment	187,764	187,764	205,460	205,460	297,464	297,464	332,408	332,408
Services	505,522	505,522	577,371	577,371	328,677	328,677	379,569	379,569
Industrial	47,630	47,630	54,435	54,435	182,317	182,317	191,121	191,121
	<u>740,916</u>	<u>740,916</u>	<u>837,266</u>	<u>837,266</u>	<u>808,458</u>	<u>808,458</u>	<u>903,098</u>	<u>903,098</u>
<b>Foreign quoted:</b>								
Banking and Investment	765,092	765,092	755,129	755,129	411,182	411,182	437,548	437,548
Services	155,941	155,941	162,270	162,270	87,325	87,325	99,504	99,504
Industrial	193,752	193,752	200,233	200,233	431,686	431,686	448,509	448,509
	<u>1,114,785</u>	<u>1,114,785</u>	<u>1,117,632</u>	<u>1,117,632</u>	<u>930,193</u>	<u>930,193</u>	<u>985,561</u>	<u>985,561</u>
<b>Fair value /cost of inv.</b>	<u><b>1,855,701</b></u>	<u><b>1,855,701</b></u>	<u><b>1,954,898</b></u>	<u><b>1,954,898</b></u>	<u>1,738,651</u>	<u>1,738,651</u>	<u>1,888,659</u>	<u>1,888,659</u>

## 10 Cash and cash equivalents

	30 June 2011		30 June 2011	
	Parent RO	Group RO	Parent RO	Group RO
Bank balances	329,098	353,954	412,338	449,144
Overdraft	-	-	-	-
	<u>329,098</u>	<u>353,954</u>	<u>412,338</u>	<u>449,144</u>

The bank balances in call accounts, denominated in Rials Omani, US Dollars, UAE Dirham, Indian Rupees, and Euros are held with commercial banks in Oman and other countries .

## 11 Share capital

(a) The authorised share capital of the Parent Company is 120,000,000 (June 2010 - 120,000,000) shares of RO 0.100 (June 2010 - RO 0.100) each. 80,000,000 (June 2010 - 80,000,000) shares of RO 0.100 (June 2010 - RO 0.100) each have been issued and fully paid.

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

## A'SHARQIYA INVESTMENT HOLDING CO. SAOG AND ITS SUBSIDIARY

### UN-AUDITED CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2011

	30 June 2011		30 June 2010	
	Holding %	Number of shares	Holding %	Number of shares
Salim Said Hamad Fanah Al Araimi	22.63	18,102,753	20.60	16,482,710
Al Siraj investment and projects Co.	11.29	9,032,084	11.21	8,965,424

## 12 Legal reserve

In accordance with the Commercial Companies Law of Oman 1974, annual appropriations of 10% of the profit for the year are made to this reserve until the accumulated balance of the reserve is equal to one third of the value of the group's paid-up share capital. This reserve is not available for distribution.

## 13 Fair value reserve

	30 June 2011		30 June 2010	
	Parent RO	Group RO	Parent RO	Group RO
<b>At 1 January</b>	2,424,000	2,424,000	1,759,205	1,759,205
Realised gain removed from equity and reported in the statement of comprehensive income for the year	(22,341)	(22,341)	(300,555)	(300,555)
Realised loss removed from equity and reported in the statement of comprehensive income for the year	4,109	4,109	6,466	6,466
Net unrealised gain / (loss ) on revaluation	171,298	171,298	(29,927)	(29,927)
Impairment on available-for-sale financial assets	-	-	112,500	112,500
Deferred tax liabilities	-	-	-	-
Share of profits from the subsidiary	-	-	-	-
<b>At 30 June</b>	<u>2,577,066</u>	<u>2,577,066</u>	<u>1,547,689</u>	<u>1,547,689</u>

## 14 End of service benefits

	30 June 2011		30 June 2010	
	Parent RO	Group RO	Parent RO	Group RO
At 01 January	48,548	58,115	39,109	46,854
Charged during the period	8,223	9,723	5,909	7,062
Paid during the period	(1,534)	(1,534)	-	-
At 30 June	<u>55,237</u>	<u>66,304</u>	<u>45,018</u>	<u>53,916</u>

## 15 Borrowings

	30 June 2011		30 June 2010	
	Parent RO	Group RO	Parent RO	Group RO
Term loans	2,000,000	2,000,000	-	-

- (i) The Parent Company obtained a Term loan from one of local banks in Oman. The interest rate is of 5.5 % (30 Jun 2010 - NIL ) per annum. The interest is payable monthly and the term loan is repayable in ten equal half yearly installments.

## 16 Accruals and other payables

	30 June 2011		30 June 2010	
	Parent RO	Group RO	Parent RO	Group RO
Amounts due to related parties	-	-	-	-
Directors' remuneration	-	-	-	-
Other payables and accruals	31,071	74,993	34,127	76,953
	<u>31,071</u>	<u>74,993</u>	<u>34,127</u>	<u>76,953</u>

## 17 Staff cost

	30 June 2011		30 June 2010	
	Parent RO	Group RO	Parent RO	Group RO
Salaries and allowances	95,139	123,672	89,026	116,487
Other staff benefits	17,905	25,538	37,521	47,176
	<u>113,044</u>	<u>149,210</u>	<u>126,547</u>	<u>163,663</u>

## A'SHARQIYA INVESTMENT HOLDING CO. SAOG AND ITS SUBSIDIARY

### UN-AUDITED CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2011

## 18 General and administrative expenses

	30 June 2011		30 June 2010	
	Parent RO	Group RO	Parent RO	Group RO
Repairs and maintenance	780	17,597	1,496	16,494
Rent	17,424	19,524	17,424	19,524
Professional fees	2,336	4,136	5,383	7,213
Directors' sitting fees	14,850	14,850	16,200	16,200
Fees and other charges	9,079	10,283	8,322	10,297
Advertising	1,507	1,507	2,417	2,417
Telephone and postage	2,903	3,241	3,309	3,780
Printing and stationery	576	651	386	446
Water and electricity	674	856	638	756
Travelling expenses	38	71	1,860	1,883
Others	5,108	9,036	6,354	10,268
	<u>55,275</u>	<u>81,752</u>	<u>63,789</u>	<u>89,278</u>

## 19 Taxation

### Parent Company

In accordance with the Royal Decree 54 of 2003 amending certain provisions of the income tax laws, dividends received in respect of investments held in local companies are exempted from tax with effect from 1 January 2000 and profit from sale of securities listed on Muscat Securities Market are exempted from tax with effect from 1 January 2003. The Parent Company is subject to income tax at the rate of 12% of the taxable income in excess of RO 30,000 in accordance with the income tax law of the Sultanate of Oman.

### Subsidiary

The Subsidiary is subject to income tax at the rate of 12% of the taxable income in excess of RO 30,000 in accordance with the income tax law of the Sultanate of Oman.

	30 June 2011		30 June 2010	
	Parent RO	Group RO	Parent RO	Group RO
Statement of comprehensive income:				
Current year	-	21,730	-	36,088
Prior year	-	-	-	-
	<u>-</u>	<u>21,730</u>	<u>-</u>	<u>36,088</u>
Current liability:				
Current year	-	21,730	-	36,088
Prior year	-	(7)	-	155
	<u>-</u>	<u>21,723</u>	<u>-</u>	<u>36,243</u>

## a) Status of previous years returns

The tax returns of the Parent Company for the years 2006 to 2010 are to be agreed with the Secretariat General for Taxation. The tax returns of the Subsidiary for the year 2009 and 2010 are to be agreed with the Secretariat General for Taxation. The management believe that additional taxes, if any, in respect of the open tax years would not be significant to the group's financial position at 30 June 2011.

## 20 Earnings per share

Basic earnings per share have been derived by dividing the net profit for the year attributable to the members by the weighted average number of shares outstanding during the year as follows:

	30 June 2011		30 June 2010	
	Parent RO	Group RO	Parent RO	Group RO
Profit for the year	<u>198,520</u>	<u>387,871</u>	(88,025)	206,620
Number of shares outstanding during the year	<u>80,000,000</u>	<u>80,000,000</u>	80,000,000	80,000,000
Basic earnings per share	<u>0.002</u>	<u>0.005</u>	(0.001)	0.003

As there are no dilutive potential shares, the diluted earnings per share are identical to the basic earnings per share.

## A'SHARQIYA INVESTMENT HOLDING CO. SAOG AND ITS SUBSIDIARY

### UN-AUDITED CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2011

## 21 Segmental information

The Investment Committee makes the strategic resource allocations on behalf of the group. The group has determined the operating segments based on the reports reviewed by the Investment Committee that makes strategic decision.

The Investment Committee considers the business as three sub-portfolios. These sub-portfolios consist of quoted investments, unquoted investments and leasing.

The reportable operating segments derive their income by seeking investments/funds to achieve targeted returns consummate with an acceptable level of risk within each portfolio. These returns consist of interest, dividends and gains on the appreciation in value of investments.

There were no transactions between reportable segments.

## 22 Related party transactions

The group entered into transactions in the ordinary course of business with other parties in which certain members and senior management have an interest.

(a) Transactions were carried out with related parties as follows:

	30 June 2011		30 June 2010	
	Parent RO	Group RO	Parent RO	Group RO
General and admin expenses	810	810	1,620	1,620
Directors' sitting fees	<u>14,850</u>	<u>14,850</u>	16,200	16,200

(b) Key management compensation

	30 June 2011		30 June 2010	
	Parent RO	Group RO	Parent RO	Group RO
Salaries and other short term benefits	32,943	32,943	31,850	31,850
End of service benefits	<u>29,395</u>	<u>29,395</u>	24,385	24,385
Total	<u>62,338</u>	<u>62,338</u>	56,235	56,235

## 23 Net assets value per share

The calculation of the net assets per share is based on net assets (and the number of shares) at the end of the period as follows:

The calculation of the net assets per share is based on net assets (and the number ordinary shares) at the end of the period as follows:

	30 June 2011		30 June 2010	
	Parent RO	Group RO	Parent RO	Group RO
Net assets	<u>12,960,401</u>	<u>14,302,952</u>	11,937,002	13,037,831
Number of ordinary shares at end of the period	<u>80,000,000</u>	<u>80,000,000</u>	80,000,000	80,000,000
Net assets value per share	<u>0.162</u>	<u>0.179</u>	0.149	0.163

#### 24 Commitments

At 30 June 2011 the group had investment commitments amounting to RO 343,938 (30 June 2010 - RO 717,173).

#### 25 Comparative figures

The corresponding figures for 30 June 2010 have been reclassified in order to conform to the presentation for the current period.