

Dear Shareholders,

On behalf of the Board of Directors, the report on the performance of Galfar Engineering & Contracting SAOG ('the Parent Company') and its subsidiaries (collectively 'the Consolidated Group') for the first half ended 30<sup>th</sup> June 2017 is presented below:

<u>Financial Performance</u>	Parent Company (OMR '000s)		Consolidated Group (OMR '000s)	
	H1, 2017	H1, 2016	H1, 2017	H1, 2016
Revenue	145,062	166,751	152,891	174,984
EBITDA	14,359	15,554	16,082	17,176
<b>Operating profit</b>	<b>4,968</b>	5,348	<b>5,493</b>	5,882
Financing costs, net	<b>(4,498)</b>	(3,867)	<b>(5,183)</b>	(4,255)
Share in profit / (loss) of associates	-	-	<b>97</b>	(677)
<b>Net profit before tax</b>	<b>470</b>	1,481	<b>407</b>	950
Net profit after tax	<b>399</b>	1,306	<b>8</b>	540

The Parent Company reported a positive operating result despite revenue falling by 13.0% due to continued reduced activity across our markets and the construction sector in Oman more generally being influenced by lower global oil prices. EBITDA margins improved slightly to 9.9% (FY16: 9.3%), as did Operating Profit margin (FY17 3.4% v FY16: 3.2%). However, these improvements in operating profitability were offset by higher financing costs due to the level of debt carried pending payment of outstanding receivables from a number of our contracts and generally higher costs of funds across the Sultanate. As a result of reduced revenue from activities and higher financing costs, Net profit before tax was down was OMR 0.4 million against OMR 1.5 million in the comparative period for FY16.

The Consolidated Group reported an increase in EBITDA margin from 9.8% in FY16 to 10.5% for the current reporting period despite considerably reduced revenue levels. In this challenging environment, operating margins increased slightly to 3.6% (FY16 3.4%), however higher financing costs impacted the Net Profit.

### Operations

The revenue for Parent Company of OMR 145.1 million (FY16 166.8 million) was significantly impacted by reduced levels of activity in public infrastructure. As result, this shifted the revenue contribution toward Oil & Gas (FY17 49% v FY16 38%) and away from Roads & Bridges (FY17 20% v FY16 30%), Civil & Marine (FY17 21% v FY16 14%), and Utilities & Services (FY17 11% v FY16 18%).

Importantly within this rebalancing, the project portfolio contains long-term recurring revenue with improved margins as Gross Profit margin for the period increased to 7.4% (FY16 7.2%). The remaining operations in the

Consolidated Group delivered a breakeven result before tax, despite higher financing costs as the completed toll roads in India improved toll collections for the current period.

### **Outlook**

The Directors have the pleasure to inform you that the Parent Company has roughly maintained its order book at OMR 576.4 million at the end of the current reporting period; down slightly from our previous quarter of OMR 585.6 million at 31 March 2017. The value of new contracts, extensions and variations included for the first six months was OMR 69.1 million, comprising a new award on the Batinah Expressway for the Ministry of Transport & Communications, Grid Stations at Birkat Al Mouz and Sumail for Oman Electricity Transmission Company SAOG and additional packages under our Petroleum Development Oman (PDO) ODC contract.

Despite challenging conditions, we maintain a solid work pipeline with a significant number of tenders under evaluation across a diverse array of sectors and clients, particularly upstream oil & gas and downstream refining and petrochemical industries. We reasonably expect to be successful in a number of those which will ensure stability and sustainability of our strong market position.

The Board and management continue to explore opportunities to reduce operating expenses to reduce cash outlay, maintain our competitiveness, improve the financial results, and strengthen the Company's financial position.

Galfar has been significantly affected by the delays in receiving its dues of the projects and the pressure on its payments to suppliers and subcontractors. Due to this situation, the ability of the company to meet its commitments is dependent on the ability of our clients to make project payments without delay as and when they are due going forward. The Directors are of the opinion that matters will be resolved in a timely manner.

### **On Record**

We are grateful to His Majesty Sultan Qaboos bin Said, for his visionary leadership and the Government and various Ministries for providing opportunities for the private sector to participate in the development of Oman's economy.

The Board would also like to thank our esteemed clients, Banks and Financial Institutions Consultants, Suppliers, Service Providers and Shareholders for their generous cooperation and continued support and the employees and management of the company for their commitment and dedication.

**Majid Salim Said Al Fannah Al Araimi**  
Chairman

Consolidated Statement of Financial Position

As at 30th June, 2017

Amount in RO '000s

	Notes	Parent Company		Consolidated	
		Jun, 2017	Jun, 2016	Jun, 2017	Jun, 2016
<b>ASSETS</b>					
<b><u>Non-current Assets</u></b>					
Property, plant and equipment	3	70,127	80,633	82,069	93,314
Intangible assets	4	217	585	48,739	32,855
Investment in subsidiaries	5	11,937	10,727	-	-
Investment in associates	6	8,330	8,706	5,665	3,173
Investment available for sale		125	125	145	145
Retentions receivables	9	29,178	26,104	29,240	26,140
		<u>119,914</u>	<u>126,880</u>	<u>165,858</u>	<u>155,627</u>
<b><u>Current Assets</u></b>					
Inventories	7	11,065	12,285	12,718	13,204
Contract work in progress	8	51,353	55,224	52,156	55,592
Contract and trade receivables	9	208,629	200,098	215,603	214,273
Advances, prepayments and other receivables	10	13,179	21,745	24,656	27,904
Deposits with bank	11	4,480	3,709	4,484	3,712
Cash and bank balances	12	1,267	6,015	3,049	8,771
		<u>289,973</u>	<u>299,076</u>	<u>312,666</u>	<u>323,456</u>
<b>Total Assets</b>		<u><u>409,887</u></u>	<u><u>425,956</u></u>	<u><u>478,524</u></u>	<u><u>479,083</u></u>
<b>EQUITY AND LIABILITIES</b>					
<b><u>Equity</u></b>					
Share capital	13	41,522	41,522	41,522	41,522
Share premium	14	18,337	18,337	18,337	18,337
Statutory reserve	15	13,840	13,840	14,278	14,203
Foreign currency translation reserve	16	-	-	(1,959)	(2,784)
(Accumulated losses) / Retained earnings		(10,261)	2,311	(10,418)	975
		<u>63,438</u>	<u>76,010</u>	<u>61,760</u>	<u>72,253</u>
Non controlling interest		-	-	932	876
<b>Total Equity</b>		<u>63,438</u>	<u>76,010</u>	<u>62,692</u>	<u>73,129</u>
<b><u>Non-current Liabilities</u></b>					
Term loans	18	34,657	48,630	72,872	67,699
Employees' end of service benefits	22	13,577	12,573	13,783	12,808
Advance from customers payables	23	25,787	24,440	25,787	24,440
Deferred tax liability	24	-	849	715	1,528
		<u>74,021</u>	<u>86,492</u>	<u>113,157</u>	<u>106,475</u>
<b><u>Current Liabilities</u></b>					
Term loans -current portion	18	25,414	38,880	25,904	39,489
Short term loans	19	39,050	31,400	39,050	36,000
Bank borrowings	20	64,368	32,405	72,637	33,508
Trade payables	21	94,209	90,835	104,085	103,154
Other payables and provisions	23	49,117	69,102	57,948	83,252
Provision for taxation	24	270	832	3,051	4,076
		<u>272,428</u>	<u>263,454</u>	<u>302,675</u>	<u>299,479</u>
<b>Total Liabilities</b>		<u>346,449</u>	<u>349,946</u>	<u>415,832</u>	<u>405,954</u>
<b>Total Equity and Liabilities</b>		<u><u>409,887</u></u>	<u><u>425,956</u></u>	<u><u>478,524</u></u>	<u><u>479,083</u></u>
<b>Net Assets per share (RO)</b>	32	<u>0.153</u>	<u>0.183</u>	<u>0.149</u>	<u>0.174</u>

The attached notes 1 to 33 form part of these consolidated financial statements.

## Consolidated Statement of Comprehensive Income

For the 1st half year ended 30th June, 2017

Amount in RO '000s

	Notes	Parent Company		Consolidated	
		H1, 2017	H1, 2016	H1, 2017	H1, 2016
Contract revenue		142,812	164,990	143,479	166,153
Sales and services income	25	2,250	1,761	9,412	8,831
<b>Total revenue</b>		<b>145,062</b>	<b>166,751</b>	<b>152,891</b>	<b>174,984</b>
Other income	26	1,592	1,744	1,612	1,743
Cost of contracts and sales	27	(135,928)	(156,494)	(142,401)	(162,890)
<b>Gross profit</b>		<b>10,726</b>	<b>12,001</b>	<b>12,102</b>	<b>13,837</b>
General and administrative expenses	28	(5,758)	(6,653)	(6,609)	(7,955)
<b>Profit from operations</b>		<b>4,968</b>	<b>5,348</b>	<b>5,493</b>	<b>5,882</b>
Financing costs, net	30	(4,498)	(3,867)	(5,183)	(4,255)
Share in profit / (loss) of associates	6	-	-	97	(677)
<b>Profit before tax</b>		<b>470</b>	<b>1,481</b>	<b>407</b>	<b>950</b>
Income tax expense	24	(71)	(175)	(399)	(410)
<b>Profit after tax</b>		<b>399</b>	<b>1,306</b>	<b>8</b>	<b>540</b>
<b>Income attributable to:</b>					
Equity shareholders of parent company		399	1,306	41	546
Non-controlling interests				(33)	(6)
		<b>399</b>	<b>1,306</b>	<b>8</b>	<b>540</b>
<b>Basic earnings per share</b>	31	<b>0.001</b>	<b>0.003</b>	<b>0.000</b>	<b>0.001</b>

The attached notes 1 to 33 form part of these consolidated financial statements.

## Consolidated Statement of Cash Flows

For the 1st half year ended 30th June, 2017

Amount in RO '000s

	Parent Company		Consolidated	
	H1, 2017	H1, 2016	H1, 2017	H1, 2016
<b>Operating Activities</b>				
Profit before taxation	470	1,481	407	950
Non-cash adjustments:				
Depreciation on property, plant and equipments	9,207	10,015	10,299	11,096
Amortisation of intangible assets	184	191	290	198
Finance cost, net	4,498	3,867	5,183	4,255
Share of (profit) / loss of associates	-	-	(97)	677
Gain on disposal of plant and equipments	(945)	(1,052)	(958)	(1,062)
Working capital movements:				
Inventories	(956)	1,068	(363)	1,851
Trade and other receivables	(1,303)	3,501	(4,027)	24
Trade and other payables	(2,754)	(413)	(6,009)	(374)
Non-current operating assets/liabilities changes:				
Retention receivables	4,290	4,403	4,285	4,399
Advance payables	3,293	(2,784)	3,293	(2,784)
Employees' end of service benefits	345	392	305	412
Income tax paid	(977)	(751)	(1,097)	(835)
Net cash flows from operating activities	15,352	19,918	11,511	18,807
<b>Investing Activities</b>				
Purchases of property, plant and equipments	(3,627)	(2,780)	(4,596)	(3,394)
Purchases of intangible assets	(5)	(16)	(7,719)	(3,749)
Disposal of property, plant and equipments	1,377	1,466	1,486	1,457
Investment in associates and subsidiaries	(28)	(524)	483	(167)
Bank deposits	4,412	(2,451)	4,412	(2,449)
Interest income	20	42	20	42
Net cash flows for investing activities	2,149	(4,263)	(5,914)	(8,260)
<b>Financing Activities</b>				
Term loans repaid, net	(15,462)	(12,060)	(7,981)	(7,282)
Short term loans repaid, net	(16,550)	(1,350)	(20,268)	(1,547)
Bank borrowings received / (repaid), net	16,609	(7,116)	24,268	(6,685)
Interest expenses	(4,518)	(3,909)	(5,203)	(4,297)
Net cash flows for financing activities	(19,921)	(24,435)	(9,184)	(19,811)
<b>Net increase/(decrease) in cash and bank balances</b>	<b>(2,420)</b>	<b>(8,780)</b>	<b>(3,587)</b>	<b>(9,264)</b>
Cash and bank balances at beginning of the year	3,687	14,795	6,636	18,035
Cash and bank balances at end of the period	1,267	6,015	3,049	8,771

The attached notes 1 to 33 form part of these consolidated financial statements.

## Galfar Engineering & Contracting SAOG & Subsidiaries



### Statement of Changes in Equity -Parent Company

For the 1st half year ended 30th June, 2017

Amount in RO '000s

	Attributable to equity holders of the parent company					Total	Non controlling interest	Grand Total
	Share Capital	Share Premium	Statutory Reserve	Foreign Currency Translation	Retained Earnings			
<b>Balance as at 1st January, 2016</b>	41,522	18,337	13,840		1,005	74,704		
Total loss for the year	-	-	-		(11,665)	(11,665)		
Transfer to statutory reserve	-	-	-		-	-		
<b>Balance as at 1st January, 2017</b>	41,522	18,337	13,840		(10,660)	63,039		
Total profit for the year to date	-	-	-		399	399		
Transfer to statutory reserve	-	-	-		-	-		
<b>Balance as at 30th June, 2017</b>	41,522	18,337	13,840		(10,261)	63,438		

### Statement of Changes in Equity -Consolidated

For the 1st half year ended 30th June, 2017

<b>Balance as at 1st January, 2016</b>	41,522	18,337	14,093	(2,660)	539	71,831	975	72,806
Total loss for the year	-	-	-	-	(10,813)	(10,813)	(10)	(10,823)
Transfer to statutory reserve	-	-	185	-	(185)	-	-	-
Foreign currency translation reserve	-	-	-	(106)	-	(106)	-	(106)
<b>Balance as at 1st January, 2017</b>	41,522	18,337	14,278	(2,766)	(10,459)	60,912	965	61,877
Total profit for the year to date	-	-	-	-	41	41	(33)	8
Transfer to statutory reserve	-	-	-	-	-	-	-	-
Foreign currency translation reserve	-	-	-	807	-	807	-	807
<b>Balance as at 30th June, 2017</b>	41,522	18,337	14,278	(1,959)	(10,418)	61,760	932	62,692

## Notes to Consolidated Financial Statements

As at 30th June, 2017

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### 1. Activities

Galfar Engineering and Contracting SAOG ("The Parent Company") is an Omani joint stock company registered under the Commercial Companies Law of the Sultanate of Oman and listed in Muscat Security Exchange.

The principal activities of Galfar Engineering and Contracting SAOG and its subsidiaries ("The Group") are road, bridge and airport construction, oil and gas including EPC works, civil and mechanical construction, public health engineering, electrical, plumbing and maintenance contracts and Design, Build, Finance, Operate and Transfer (DBFOT) projects.

### 2. Significant Accounting Policies

#### Basis of preparation

These financial statements for the period ended 31 March 2017 comprise the Parent Company and its subsidiary (together "the Group"). The separate financial statements represent the financial statements of the Parent Company on a standalone basis. The consolidated and separate financial statements are collectively referred to as "the financial statements"

These consolidated financial statements are prepared on the historical cost basis, as modified by the revaluation of derivative financial instruments at fair value through statement of comprehensive income, available-for-sale financial assets that have been measured at fair value and in accordance with International Financial Reporting Standards (IFRS), the relevant requirements of the Commercial Companies Law of the Sultanate of Oman, 1974 (as amended) and Capital Market Authority (CMA) of the Sultanate of Oman.

These consolidated financial statements have been presented in Rial Omani which is the functional and reporting currency for these consolidated financial statements and all values are rounded to nearest thousand (RO '000) except when otherwise indicated.

#### Change in accounting policy and disclosures

The accounting policies are consistent with those used in the previous financial year

#### Accounting Policies

The significant accounting policies adopted by the Group are as follows:

#### Basis of consolidation

The consolidated financial statements comprise the financial statements of the parent company and its subsidiaries as at 31 March 2017. Control is achieved when the group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the group controls an investee if and only if the group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

When the group has less than a majority of the voting or similar rights of an investee, the group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee.
- Rights arising from other contractual arrangements.
- The group's voting rights and potential voting rights.

The group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the group obtains control over the subsidiary and ceases when the group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the group gains control until the date the group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the parent of the group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the group are eliminated in full on consolidation.

## Notes to Consolidated Financial Statements

As at 30th June, 2017

### 2. Significant Accounting Policies (continued)

#### Transactions with non-controlling interests

The group treats transactions with non-controlling interests as transactions with equity owners of the group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

#### Disposal of subsidiaries

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

#### Investments in associates

The Group's investments in its associates are accounted for under the equity method of accounting. In the Parent company's separate financial statements, the investment in an associate is carried at cost less impairment. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, the investment in the associate is carried in the statement of financial position at cost plus post-acquisition changes in the group's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment. After application of the equity method, the group determines whether it is necessary to recognise any additional impairment loss with respect to the group's net investment in the associate. The statement of comprehensive income reflects the share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the group recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity. Profits and losses resulting from transactions between the group and the associate are eliminated to the extent of the interest in the associate.

#### Property, plant and equipment

All items of property, plant and equipment held for the use of Group's activities are recorded at cost less accumulated depreciation and any identified impairment. Land is not depreciated. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the statement of comprehensive income as incurred.

Depreciation is charged so as to write off the cost of property, plant and equipment over their estimated useful lives, using the straight line method, on the following bases:

Buildings	15 years
Camps	4 years
Plant and machinery	7 & 10 years
Motor vehicles and heavy equipment	7 & 10 years
Furniture and office equipment	6 years
Project equipment and tools	6 years

Items costing less than RO 100 are expensed out in the year of purchase.



## Notes to Consolidated Financial Statements

As at 30th June, 2017

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### 2. Significant Accounting Policies (continued)

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end. Where the carrying value of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset, calculated as the difference between the net disposal proceeds and the carrying amount of the asset is recognised in the statement of comprehensive income when the asset is derecognised.

#### Capital work in progress

Properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

#### Intangible assets

##### Computer software:

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

##### Concessionaire rights:

Concessionaire rights arising from Design, Build, Finance, Operate and Transfer (DBFOT) road projects are shown at historical cost. These have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of intangible assets over their estimated lease period and is recognised in the statement of comprehensive income.

#### Available-for-sale investments

Available-for-sale investments are initially recognised at cost, which includes transaction costs, and are, in general, subsequently carried at fair value. Available-for-sale equity investments that do not have a quoted market price in an active market, and for which other methods of reasonably estimating fair value are inappropriate, are measured at cost, as reduced by allowances for estimated impairment. Changes in fair value are reported as other comprehensive income.

An assessment is made at each reporting date to determine whether there is objective evidence that an investment may be impaired. If such evidence exists, any impairment loss (being the difference between cost and fair value, less any impairment loss previously recognised) is removed from other comprehensive income and recognised in the income statement.

#### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises purchase price and all direct costs incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs to be incurred in marketing, selling and distribution. Provision is made where necessary for obsolete, slow moving and defective items.

#### Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or Groups of assets.

The loss arising on an impairment of an asset is determined as the difference between the recoverable amount and carrying amount of the asset and is recognised immediately in the statement of comprehensive income.

## Notes to Consolidated Financial Statements

As at 30th June, 2017

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### 2. Significant Accounting Policies (continued)

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount and the increase is recognised as income immediately, provided that the increased carrying amount does not exceed the carrying amount that would have been determined, had no impairment loss been recognised earlier.

At the time of assessing the impairment on its investments in associates, the Group determines, after application of the equity method, whether it is necessary to recognise an additional impairment loss of the Group's investment in its associates. The Group determines at each reporting date whether there is any objective evidence that the investment in associate is impaired. If this is the case the Group calculates the amount of impairment as being the difference between the fair value of the associate and the acquisition cost and recognises the amount in the statement of comprehensive income.

#### Financial instruments

Financial assets and financial liabilities are recognised on the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

The principal financial assets are trade and other receivables, term deposits, available for sale investments and cash and bank balances.

The principal financial liabilities are trade payables, liabilities against finance leases, term loans, bank borrowings and overdrafts.

#### Derivative financial instruments

Derivatives are initially recognised at cost on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Changes in the fair value of derivative instruments are recognised immediately in the statement of comprehensive income.

#### Trade and other receivables

Trade receivables are amounts due from customers for billing in the ordinary course of business for construction contracts. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

#### Term deposits

Term deposits are carried on the statement of financial position at their principal amount.

#### Cash and cash equivalents

For the purpose of the cash flows statement, the Group considers cash on hand and bank balances with a maturity of less than three months from the date of placement as cash and cash equivalents.

#### Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

#### Interest-bearing loans and borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are classified as current liabilities unless the company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

#### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets until such time as the assets are substantially ready for their intended use. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

## Notes to Consolidated Financial Statements

As at 30th June, 2017

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### 2. Significant Accounting Policies (continued)

#### Derecognition of financial assets and liabilities

A financial asset (or, where applicable a part of a financial asset or part of a Group of similar financial assets) is derecognised when:

The rights to receive cash flows from the asset have expired; or

The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:

The Group has transferred substantially all the risks and rewards of the asset, or

The Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of comprehensive income.

#### Impairment of financial assets

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a Group of financial assets is impaired and an impairment loss is incurred if, and only if, there is objective 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.

Impairment is determined as follows:

For assets carried at fair value, impairment is the difference between cost and fair value;

For assets carried at cost, impairment is the difference between cost and the present value of future cash flows discounted at the current market rate

For assets carried at amortised cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective interest rate.

#### Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only 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

#### Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

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.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation and the risks specific to the

#### Provision for employees' benefits

Termination benefits for Omani employees are contributed in accordance with the terms of the Social Securities Law of 1991.

End of service benefits are accrued in accordance with the terms of employment of the Group's employees at the reporting date, having regard to the requirements of the applicable labour laws of the countries in which the Group operates and in accordance with IAS 19. Employee entitlements to annual leave and leave passage are recognised when they accrue to employees and an accrual is made for the estimated liability arising as a result of services rendered by employees up to the reporting date. These accruals are included in current liabilities, while that relating to end of service benefits is disclosed as a non-current liability.

## Notes to Consolidated Financial Statements

As at 30th June, 2017

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### 2. Significant Accounting Policies (continued)

#### Dividend on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the company's shareholders.

#### Taxation

##### *Current income tax*

Taxation is provided based on relevant laws of the respective countries in which the Group operates. Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

##### *Deferred taxation*

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on laws that have been enacted at the reporting date.

Deferred income tax assets are recognised for all deductible temporary differences and carry-forward of unused tax assets and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax assets and unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

#### Contract revenue and profit recognition

A construction contract is defined by IAS 11 as a contract specifically negotiated for the construction of an asset.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. Contract revenue corresponds to the initial amount of revenue agreed in the contract and any variations in contract work, claims and incentive payments to the extent that it is probable that they will result in revenue, and they can be reliably measured.

A variation is included in contract revenue when:

- (a) it is probable that the customer will approve the variation and the amount of revenue arising from the variation; and
- (b) the amounts of revenue can be reliably measured.

Claims are included in contract revenue only when:

- (a) negotiations have reached an advanced stage such that it is probable that the customer will accept the claim; and
- (b) the amount that it is probable will be accepted by the customer can be measured reliably.

Incentive payments are included in contract revenue when:

- (a) the contract is sufficiently advanced that it is probable that the specified performance standards will be met or exceeded; and
- (b) the amount of the incentive payment can be measured reliably.

The company uses the 'percentage of completion method' to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to the contract costs incurred up to the reporting date as a percentage of total estimated costs for each contract. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion. They are presented as inventories, prepayments or other assets, depending on their nature.

## Notes to Consolidated Financial Statements

As at 30th June, 2017

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### 2. Significant Accounting Policies (continued)

#### Contract work in progress

Work in progress on long term contracts is calculated at cost plus attributable profit, to the extent that this is reasonably certain after making provision for contingencies, less any losses foreseen in bringing contracts to completion and less amounts received and receivable as progress payments. These are disclosed as 'Due from customers on contracts'. Cost for this purpose includes direct labour, direct expenses and an appropriate allocation of overheads. For any contracts where receipts plus receivables exceed the book value of work done, the excess is included as 'Due to customers on contracts' in accounts payable and accruals.

#### Sales and service income

Revenue from sales of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably.

Revenue from rendering of services is recognised when the outcome of the transaction can be estimated reliably, by reference to the stage of completion of the transaction at the reporting date.

#### Contract costs

Contract costs include costs that relate directly to the specific contract and costs that are attributable to contract activity in general and can be allocated to the contract. Costs that relate directly to a specific contract comprise: site labour costs (including site supervision); costs of materials used in construction; depreciation of equipment used on the contract; costs of design, and technical assistance that is directly related to the contract.

The Group's contracts are typically negotiated for the construction of a single asset or a group of assets which are closely interrelated or interdependent in terms of their design, technology and function. In certain circumstances, the percentage of completion method is applied to the separately identifiable components of a single contract or to a group of contracts together in order to reflect the substance of a contract or a group of contracts.

Contract costs are recognised as expenses by reference to the stage of completion of the contract activity at the end of the reporting period. When it is probable that total contract cost exceed total contract revenue the expected loss is recognised as expense immediately.

#### Interest income

Interest revenue is recognised as the interest accrues.

#### Dividend income

Dividend income is recognised when the right to receive the dividend is established.

#### Directors' remuneration

The Parent Company follows the Commercial Companies Law 1974 (as amended), and other latest relevant directives issued by CMA, in regard to determination of the amount to be paid as Directors' remuneration. Directors' remuneration is charged to the statement of comprehensive income in the succeeding year to which they relate after its approval in AGM.

#### Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares are shown in equity as a deduction, net of tax, from the proceeds.

Where any Group company purchases the company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the company's equity holders until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the company's equity holders.

## Notes to Consolidated Financial Statements

As at 30th June, 2017

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### 2. Significant Accounting Policies (continued)

#### Foreign currency translation

Each entity in the group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Items included in the financial statements of the company are measured and presented in Rials Omani being the currency of the primary economic environment in which the parent company operates.

Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. All differences are taken to the statement of comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

#### Group Companies

The results and financial position of foreign operations that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet
- income and expenses for each statement of profit or loss and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- all resulting exchange differences are recognised in other comprehensive income.

#### Comparative amounts

Certain of the corresponding figures of previous year have been reclassified in order to conform with the presentation for the current year. Such reclassifications do not affect previously reported profit or shareholder's equity.

- (i) provision for the future losses on contracts amounting to RO 1294 thousand has been reclassified from contract work in progress to other payables and provisions.
- (ii) provision amounting to RO 5057 thousands relating to the provision for work in progress has been reclassified from provision for receivables and retention.

## Notes to Consolidated Financial Statements

As at 30th June, 2017



### 3. Property, plant and equipment - Parent Company

Amount in RO '000s

Particulars	Land	Building & Camps	Plant & Machinery	Motor Vehicles & Equipment	Furniture & Equipments	Project Equipment & Tools	Capital Work-in-Progress	Total
<b>Costs</b>								
As at 1st January 2017	1,278	33,892	121,711	67,794	9,283	13,173	294	247,425
Additions		1,556	366	100	334	1,241	30	3,627
Disposals	-	(174)	(4,733)	(2,780)	(83)	(1,186)	-	(8,956)
Transfers	-	166	100	-	28		(294)	-
As at 30th June, 2017	<b>1,278</b>	<b>35,440</b>	<b>117,444</b>	<b>65,114</b>	<b>9,562</b>	<b>13,228</b>	<b>30</b>	<b>242,096</b>
<b>Depreciation</b>								
As at 1st January 2017	-	21,847	86,751	46,612	7,495	8,581	-	171,286
Charge for the period	-	1,109	4,515	2,673	270	640	-	9,207
Disposals	-	(172)	(4,490)	(2,592)	(83)	(1,187)	-	(8,524)
Transfers	-		-		-			-
As at 30th June, 2017	-	<b>22,784</b>	<b>86,776</b>	<b>46,693</b>	<b>7,682</b>	<b>8,034</b>	-	<b>171,969</b>
<b>Net book value</b>								
As at 30th June, 2017	<b>1,278</b>	<b>12,656</b>	<b>30,668</b>	<b>18,421</b>	<b>1,880</b>	<b>5,194</b>	<b>30</b>	<b>70,127</b>
As at 30th June, 2016	1,278	11,255	38,714	24,106	1,619	3,563	98	80,633

## Notes to Consolidated Financial Statements

As at 30th June, 2017



### 3. Property, plant and equipment - Consolidated

Amount in RO '000s

Description	Land	Building & Camps	Plant & Machinery	Motor Vehicles & Equipment	Furniture & Equipments	Project Equipment & Tools	Capital Work-in-Progress	Total
<b>Costs</b>								
As at 1st January 2017	1,278	34,371	137,036	76,313	9,894	13,444	305	272,641
Additions	-	1,571	900	462	369	1,264	30	4,596
Disposals	-	(174)	(4,733)	(3,220)	(83)	(1,186)	-	(9,396)
Transfers	-	166	111	-	28	-	(305)	-
As at 30th June, 2017	<b>1,278</b>	<b>35,934</b>	<b>133,314</b>	<b>73,555</b>	<b>10,208</b>	<b>13,522</b>	<b>30</b>	<b>267,841</b>
<b>Depreciation</b>								
As at 1st January 2017	-	21,948	95,479	50,480	7,778	8,656	-	184,341
Charge for the period	-	1,146	5,167	3,040	293	653	-	10,299
Disposals	-	(170)	(4,469)	(2,970)	(77)	(1,182)	-	(8,868)
Transfers	-	-	-	-	-	-	-	-
As at 30th June, 2017	-	<b>22,924</b>	<b>96,177</b>	<b>50,550</b>	<b>7,994</b>	<b>8,127</b>	-	<b>185,772</b>
<b>Net book value</b>								
As at 30th June, 2017	<b>1,278</b>	<b>13,010</b>	<b>37,137</b>	<b>23,005</b>	<b>2,214</b>	<b>5,395</b>	<b>30</b>	<b>82,069</b>
As at 30th June, 2016	1,278	11,351	45,714	28,894	1,923	3,749	405	93,314



## Notes to Consolidated Financial Statements

As at 30th June, 2017

Amount in RO '000s

	Parent Company		Consolidated	
	Jun, 2017	Jun, 2016	Jun, 2017	Jun, 2016

**3. Property, plant and equipment (continued)**

Capital work-in-progress RO 30 (2016: RO 405) thousands represents building and camps under construction.

Depreciation of property, plant and equipment is allocated as follows:

Contract costs (note 27)	8,746	9,369	9,762	10,432
General and administrative expenses (note 28)	461	646	537	664
	<u>9,207</u>	<u>10,015</u>	<u>10,299</u>	<u>11,096</u>

**4. Intangible assets****Costs**

Balance at beginning of the year	2,735	2,716	43,703	31,284
Addition for the year to date	5	16	7,719	3,749
Balance at end of the period	<u>2,740</u>	<u>2,732</u>	<u>51,422</u>	<u>35,033</u>

**Amortisation**

Balance at beginning of the year	2,339	1,956	2,393	1,980
Charge for the year to date	184	191	290	198
Balance at end of the period	<u>2,523</u>	<u>2,147</u>	<u>2,683</u>	<u>2,178</u>

**Net book value** at end of the period

	<u>217</u>	<u>585</u>	<u>48,739</u>	<u>32,855</u>
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Intangible assets comprise of computer software RO 217 (2016: RO 585) thousands in parent company and computer software RO 253 (2016: RO 643) thousands and concessionaire rights under development RO 48486 (2016: RO 32212) thousands in consolidation.

**5. Investment in subsidiaries**

Galfar Engineering & Contracting India Pvt. Ltd.	6,286	5,076	-	-
Galfar Aspire Readymix LLC	2,898	2,898	-	-
Salasar Highways Pvt. Ltd.	1,276	1,276	-	-
Kashipur Sitarganj Highways Pvt. Ltd.	307	307	-	-
Al Khalij Heavy Equipment & Engineering LLC	600	600	-	-
Aspire Projects & Services LLC	200	200	-	-
Galfar Mott MacDonald LLC	163	163	-	-
Galfar Training Institute LLC	149	149	-	-
Galfar Wasen Contracting Company	58	58	-	-
	<u>11,937</u>	<u>10,727</u>	<u>-</u>	<u>-</u>

## Notes to Consolidated Financial Statements

As at 30th June, 2017

Amount in RO '000s

	Parent Company		Consolidated	
	Jun, 2017	Jun, 2016	Jun, 2017	Jun, 2016

## 5. Investment in subsidiaries (continued)

Information on shareholding of subsidiary companies is summarised below:

	Shares acquired by parent company		Shares acquired by the group	
Galfar Engineering & Contracting India Pvt. Ltd.	100%	100%	100%	100%
Galfar Aspire Readymix LLC	100%	100%	100%	100%
Aspire Projects & Services LLC	100%	100%	100%	100%
Galfar Training Intitute LLC	99%	99%	100%	100%
Al Khalij Heavy Equipment & Engineering LLC	52%	52%	52%	52%
Salasar Highways Pvt. Ltd.	20%	20%	100%	100%
Kashipur Sitarganj Highways Pvt. Ltd.	4%	4%	100%	100%
Galfar Mott MacDonald LLC	65%	65%	65%	65%
Galfar Wasen Contracting Company	65%	65%	65%	65%

## 6. Investment in associates

Galfar Engineering & Contracting Kuwait KSC (GEC)	6,966	5,323	4,737	2,641
Mahakaleswar Tollways Pvt. Ltd. (MTPL)	2,255	2,255	(1,171)	(938)
Shree Jagannath Expressway Pvt. Ltd. (SJEPL)	739	739	1,253	1,225
Ghaziabad Aligarh Expressway Pvt. Ltd. (GAEPL)	344	344	743	1,131
International Water Treatment LLC (IWT)	4,144	45	28	(961)
Binani Aspire LLC	-	-	75	75
	<b>14,448</b>	<b>8,706</b>	<b>5,665</b>	<b>3,173</b>
Provision for impaired investment	(6,118)	-	-	-
	<b>8,330</b>	<b>8,706</b>	<b>5,665</b>	<b>3,173</b>

Provision for impairment in associates comprises:

(i) RO 4,116 thousand for investment in IWT, being parent companies share in cumulative loss of IWT till 2016, as IWT is unable to recover the loss from their future business.

(ii) RO 2,002 thousand for investment in MTPL, based on capitalization of earning method with discounted cash flow as per requirement of IAS 39.

	Shares acquired by parent company		Shares acquired by the group	
Galfar Engineering & Contracting Kuwait KSC (i)	26%	26%	26%	26%
Mahakaleswar Tollways Pvt. Ltd. (MTPL) (ii)	26%	26%	26%	26%
Shree Jagannath Expressway Pvt. Ltd. (SJEPL) (ii)	6%	6%	26%	26%
Ghaziabad Aligarh Expressway Pvt. Ltd. (GAEPL) (ii)	2%	2%	26%	26%
International Water Treatment LLC (IWT) (iii)	30%	30%	30%	30%
Binani Aspire LLC (iv)	0%	0%	50%	50%

Notes to Consolidated Financial Statements

As at 30th June, 2017

Amount in RO '000s

	Parent Company		Consolidated	
	Jun, 2017	Jun, 2016	Jun, 2017	Jun, 2016

**6. Investment in associates (continued)**

The following table illustrates summarised information of the group's investment in its associates:

**Share of associate's statement of financial position:**

Current assets			5,912	6,176
Non-current assets			54,334	50,804
Current liabilities			(9,875)	(8,730)
Non-current liabilities			(44,706)	(45,077)
Net assets and carrying amount of the investment			<u>5,665</u>	<u>3,173</u>

**Share of associate's statement of income:**

Revenue			3,834	3,460
Costs of revenue			3,737	4,137
Net profit /(loss) for the period			<u>97</u>	<u>(677)</u>

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**7. Inventories**

Materials and consumables	14,064	15,128	15,746	16,076
Allowance for non-moving inventories	(2,999)	(2,843)	(3,028)	(2,872)
	<u>11,065</u>	<u>12,285</u>	<u>12,718</u>	<u>13,204</u>

**8. Contract work in progress**

Work-in-progress on long term contracts at cost plus attributable profit considered as receivables	61,270	60,281	62,073	60,649
Provision for impaired contract work in progress	(9,917)	(5,057)	(9,917)	(5,057)
	<u>51,353</u>	<u>55,224</u>	<u>52,156</u>	<u>55,592</u>
To customers under construction contracts recorded as billings in excess of work done (note 23)	4,466	13,496	11,051	23,431

**9. Contract and trade receivables**

Contract billed receivables	209,211	193,467	210,663	202,279
Trade receivables	4,647	3,569	10,187	8,906
Due from related parties -contract and trade (note 33)	994	4,852	1,046	4,852
Retention receivables - current	20,969	24,575	21,096	24,640
	<u>235,821</u>	<u>226,463</u>	<u>242,992</u>	<u>240,677</u>
Provision for due from related party -contracts	(74)	-	(74)	-
Provision for impaired receivables	(27,118)	(26,365)	(27,315)	(26,404)
	<u>208,629</u>	<u>200,098</u>	<u>215,603</u>	<u>214,273</u>
Retentions receivables				
Non-current portion	29,178	26,104	29,240	26,140

## Notes to Consolidated Financial Statements

As at 30th June, 2017

Amount in RO '000s

	Parent Company		Consolidated	
	Jun, 2017	Jun, 2016	Jun, 2017	Jun, 2016
<b>10. Advances, prepayment and other receivables</b>				
Advance on sub-contracts and supplies	4,893	8,408	6,227	11,067
Advances to employees	411	525	432	538
Advance Tax	-	-	3,842	2,958
Prepaid expenses	5,148	5,401	5,371	5,639
Due from related parties - others (note 33)	2,913	6,884	6,534	6,423
Insurance claims receivable	34	34	35	34
Deposits	427	449	468	483
Other receivables	48	44	2,867	1,187
	<u>13,874</u>	<u>21,745</u>	<u>25,776</u>	<u>28,329</u>
Provision for due from related party -others	(695)	-	(695)	-
Provision for impaired debts	-	-	(425)	(425)
	<u>13,179</u>	<u>21,745</u>	<u>24,656</u>	<u>27,904</u>
<b>11. Deposits with bank</b>				
Term deposits	4,480	3,709	4,480	3,709
Margin deposits	-	-	4	3
	<u>4,480</u>	<u>3,709</u>	<u>4,484</u>	<u>3,712</u>
<b>12. Cash and bank balances</b>				
Cash in hand	269	124	308	169
Bank balances with current accounts	998	5,891	2,741	8,602
	<u>1,267</u>	<u>6,015</u>	<u>3,049</u>	<u>8,771</u>
<b>13. Share capital</b>				
<b>Authorised:</b>				
500,000,000 (2015: 500,000,000) ordinary shares of par value RO 0.100 (2015: RO 0.100) each	50,000	50,000	50,000	50,000
<b>Issued and fully paid:</b>				
Balance at beginning of the year	41,522	41,522	41,522	41,522
Increase during the period	-	-	-	-
Balance at end of the period	<u>41,522</u>	<u>41,522</u>	<u>41,522</u>	<u>41,522</u>

The issued and fully paid share capital comprises of 415,215,637 (2016: 415,215,637) shares having a par value of RO 0.100 (2016: RO 0.100) each. Pursuant to the terms of its IPO, as detailed below, the share capital of the Company has been divided into two classes comprising of 289,980,637 (2016: 289,980,637) ordinary shares and 125,235,000 (2016: 125,235,000) preferential voting rights shares. The preferential voting rights shares are held by the promoting shareholders and carry two votes at all general meetings while otherwise ranking pari-passu with ordinary shares in all rights including the dividend receipt.

**14. Share premium**

During the current year, there is no movement in share premium account. This reserve is available for distribution to shareholders.

Notes to Consolidated Financial Statements

As at 30th June, 2017

Amount in RO '000s

	Parent Company		Consolidated	
	Jun, 2017	Jun, 2016	Jun, 2017	Jun, 2016

**15. Statutory reserve**

As required by the Commercial Companies Law of Oman, the statutory reserve is maintained at at least one third of the issued share capital.

**16. Foreign currency translation reserve**

Foreign currency translation reserve represents impact of translation of subsidiaries and associates financial statement figures in foreign currency to functional currency of the parent company as allowed under IAS 21.

**17. Dividend**

For the year 2016, no dividend is proposed and paid.

**18. Term loans**

Term loans:

- from banks	57,231	81,249	94,323	98,338
- finance companies	2,840	6,261	4,453	8,850
	<u>60,071</u>	<u>87,510</u>	<u>98,776</u>	<u>107,188</u>
Current portion				
- from banks	23,540	35,458	23,833	35,494
- finance companies	1,874	3,422	2,071	3,995
	<u>25,414</u>	<u>38,880</u>	<u>25,904</u>	<u>39,489</u>
Non-current portion				
- from banks	33,691	45,791	70,490	62,844
- finance companies	966	2,839	2,382	4,855
	<u>34,657</u>	<u>48,630</u>	<u>72,872</u>	<u>67,699</u>

The term loans are repayable as follows:

Within one year	25,414	38,880	25,904	39,489
In the second year	16,667	21,299	17,482	22,149
In the third year onwards	17,990	27,331	55,390	45,550
	<u>60,071</u>	<u>87,510</u>	<u>98,776</u>	<u>107,188</u>

The long term loans are stated at amortised cost and amounts repayable within next twelve months have been shown as a current liability. The term loans from banks are secured against the contract receivable assignments and/or joint registration of vehicle/equipment/land mortgage. The term loans from finance companies are secured against the jointly registered vehicle/equipment.

The interest rates on term loans were as follows:

	Current year	Previous year
Floating rate loans	LIBOR + 2.0%	LIBOR + 2.0%
Fixed interest rate loans	4.25% to 7.0%	4.25% to 6.0%

## Notes to Consolidated Financial Statements

As at 30th June, 2017

Amount in RO '000s

	Parent Company		Consolidated	
	Jun, 2017	Jun, 2016	Jun, 2017	Jun, 2016
<b>19. Short term loans</b>				
- from banks	<u>39,050</u>	<u>31,400</u>	<u>39,050</u>	<u>36,000</u>
Short term loans from banks are repayable in one year and are secured against the contract assignments and/or joint registration of vehicle/equipment. The interest rates on these loans vary between 4.25% to 7.0% (2016: 4.0% to 5.5%) per annum.				
<b>20. Bank borrowings</b>				
Bank overdrafts	11,797	4,685	20,066	5,788
Loan against trust receipts	20,291	14,770	20,291	14,770
Bills discounted	32,280	12,950	32,280	12,950
	<u>64,368</u>	<u>32,405</u>	<u>72,637</u>	<u>33,508</u>
Bank borrowings are repayable on demand or within one year. The interest rates on bank borrowings vary between 4.0% to 7.0% (2016: 4.0% to 5.0%) per annum. Bank borrowings are secured against the contract receivables assignments.				
<b>21. Trade payables</b>				
Sundry creditors	56,339	47,401	64,299	58,108
Provision for purchases and sub-contracts	37,870	43,434	39,786	45,046
	<u>94,209</u>	<u>90,835</u>	<u>104,085</u>	<u>103,154</u>
<b>22. Employees' end of service benefits</b>				
Balance at beginning of the year	13,232	12,181	13,478	12,396
Charge for the year to date	1,084	1,100	1,168	1,195
Paid during the year to date	(739)	(708)	(863)	(783)
Balance at end of the period	<u>13,577</u>	<u>12,573</u>	<u>13,783</u>	<u>12,808</u>
<b>23. Other payables and provisions</b>				
Provision for employees' leave pay and passage	6,264	6,218	6,386	6,316
Creditors for capital purchases	16	2,807	34	3,035
Advance payables -current	20,886	28,778	21,225	31,045
Due to customers on contracts (note 8)	4,466	13,496	11,051	23,431
Provision for future loss on contracts	1,653	1,294	1,653	1,294
Retention on sub-contracts	1,653	1,552	2,058	1,794
Accrued expenses	11,433	11,480	11,827	11,858
Due to related parties (note 33)	1,411	1,350	1,940	1,877
Statutory dues payable	620	469	799	711
Provision for fair value loss on forex forward contracts	-	995	-	995
Other payables	715	663	975	896
	<u>49,117</u>	<u>69,102</u>	<u>57,948</u>	<u>83,252</u>
Advance payables				
Non-current portion	<u>25,787</u>	<u>24,440</u>	<u>25,787</u>	<u>24,440</u>

## Notes to Consolidated Financial Statements

As at 30th June, 2017

Amount in RO '000s

	Parent Company		Consolidated	
	Jun, 2017	Jun, 2016	Jun, 2017	Jun, 2016

**24. Taxation**

Income tax is provided for parent company and Omani subsidiaries as per the provisions of the 'Law of Income Tax on Companies' in Oman @ 15% of taxable profit after adjusting non-assessable and disallowable items. It is provided for Indian subsidiary as per 'Income tax Act' in India @ 33% of taxable profit after adjusting non-admissible expenses and depreciation difference.

**Income tax expense**

Tax charge for the current year	71	651	399	886
Deferred tax charge for the year	-	(476)	-	(476)
	<u>71</u>	<u>175</u>	<u>399</u>	<u>410</u>

**Provision for tax**

The parent company income tax assessment up to the year 2013 has been completed by the taxation department. The income assessments of the subsidiaries are at various stages of completion. The management believes that any taxation for the unassessed years will not be material to the financial position of the Group as at the reporting date. The status of tax provision is as follows:

Balance at beginning of the year	1,176	932	3,749	4,025
Charge during the year	71	651	399	886
Tax paid during the year	(977)	(751)	(1,097)	(835)
Balance at end of the year	<u>270</u>	<u>832</u>	<u>3,051</u>	<u>4,076</u>

**Deferred tax liability**

Deferred income taxes are calculated on all temporary differences under the balance sheet liability method using a principal tax rate as per tax law of the respective country.

Balance at beginning of the year	-	1,325	715	2,004
Charge during the year	-	(476)	-	(476)
Balance at end of the year	<u>-</u>	<u>849</u>	<u>715</u>	<u>1,528</u>

**25. Sales and services income**

Sales and services	1,679	1,523	7,972	7,635
Hiring services	571	238	1,426	1,087
Training services	-	-	14	109
	<u>2,250</u>	<u>1,761</u>	<u>9,412</u>	<u>8,831</u>

**26. Other income**

Gain on sale of assets	945	1,052	958	1,062
Dividend income	-	-	-	-
Miscellaneous income	647	692	654	681
	<u>1,592</u>	<u>1,744</u>	<u>1,612</u>	<u>1,743</u>

Notes to Consolidated Financial Statements

As at 30th June, 2017

Amount in RO '000s

	Parent Company		Consolidated	
	Jun, 2017	Jun, 2016	Jun, 2017	Jun, 2016
<b>27. Cost of contract and sales</b>				
Materials	32,913	49,045	33,544	49,982
Manpower costs (note 29)	46,157	46,473	48,508	48,659
Sub-contracting costs	25,616	27,146	24,868	26,661
Plant and equipments repair and maintenance	5,761	7,342	6,403	8,173
Plant and equipments hiring costs	3,599	3,117	4,190	4,052
Fuel expenses	7,467	7,636	8,481	8,553
Training expenses	-	-	353	61
Duties and taxes	-	-	23	16
Depreciation and amortisation (note 3)	8,746	9,369	9,859	10,432
General and administrative expenses (note 28)	5,669	6,366	6,173	6,301
	<u>135,928</u>	<u>156,494</u>	<u>142,401</u>	<u>162,890</u>
<b>28. General and administrative expenses</b>				
Manpower costs (note 29)	2,605	2,327	3,258	2,983
Rent	1,939	1,874	2,150	2,042
Electricity and water charges	1,385	1,587	1,434	1,624
Professional and legal charges	1,513	2,829	1,572	2,892
Insurance charges	1,134	1,205	1,210	1,279
Bank guarantee and other charges	740	999	773	1,031
Communication expenses	406	444	456	488
Repairs and maintenance - others	399	383	410	392
Traveling expenses	190	169	243	209
Printing and stationery	161	135	179	155
Business promotion expenses	48	43	63	48
Tender fees	53	37	55	39
Directors' expenses	50	50	57	62
Corporate social responsibility expenses	42	-	42	-
Miscellaneous expenses	117	100	149	150
Depreciation and amortisation (note 3 and 4)	645	837	730	862
	<u>11,427</u>	<u>13,019</u>	<u>12,781</u>	<u>14,256</u>
Pertaining to cost of contract and sales	5,669	6,366	6,173	6,301
	<u>5,758</u>	<u>6,653</u>	<u>6,609</u>	<u>7,955</u>
<b>29. Manpower costs</b>				
Salary and wages	35,116	35,955	37,085	37,787
Employees' service benefits	5,773	6,065	6,068	6,340
Camp and catering expenses	4,747	4,529	5,164	4,775
Hired salary and wages	1,125	372	1,198	500
Other expenses	2,001	1,879	2,136	2,056
Staff incentives	-	-	115	184
	<u>48,762</u>	<u>48,800</u>	<u>51,766</u>	<u>51,642</u>
Pertaining to cost of contract and sales	46,157	46,473	48,508	48,659
Pertaining to general and administration expenses	<u>2,605</u>	<u>2,327</u>	<u>3,258</u>	<u>2,983</u>



## Notes to Consolidated Financial Statements

As at 30th June, 2017

Amount in RO '000s

	Parent Company		Consolidated	
	Jun, 2017	Jun, 2016	Jun, 2017	Jun, 2016
<b>30. Financing costs, net</b>				
Interest expense	4,518	3,909	5,203	4,297
Interest income	(20)	(42)	(20)	(42)
	<u>4,498</u>	<u>3,867</u>	<u>5,183</u>	<u>4,255</u>

**31. Profit per share**

The basic earnings per share is calculated by dividing the profit for the period attributable to the shareholders of the parent company by the weighted average number of shares outstanding during the year as follows:

Profit for the year	399	1,306	8	546
Number of shares in '000 (note 13)	415,220	415,220	415,220	415,220
Profit per share for the year to date (RO)	<u>0.001</u>	<u>0.003</u>	<u>0.000</u>	<u>0.001</u>

**32. Net assets per share**

Net assets per share is calculated by dividing the equity attributable to shareholders of the parent company at the reporting date by the number of shares outstanding as follows:

Net assets	63,438	76,010	61,760	72,253
Number of shares in '000 (note 13)	415,220	415,220	415,220	415,220
Net assets per share (RO)	<u>0.153</u>	<u>0.183</u>	<u>0.149</u>	<u>0.174</u>

**33. Related party transactions**

Related parties comprise the directors and business entities in which they have the ability to control or exercise significant influence in financial and operating decisions.

The Group maintains balances with these related parties which arise in the normal course of business from commercial transactions, and are entered into at terms and conditions which the management consider to be comparable with those adopted for arm's length transactions with third parties.

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

Contract income	28	286	17,091	7,528
Sales and services	666	1,042	666	1,042
Purchase of property, plant and equipment	59	117	59	117
Purchase of goods and services	8,495	8,219	8,495	8,219
Director's remuneration	50	50	50	50

Balances of related parties recognised and disclosed in notes 10 and 23 respectively are as follows:

Due from shareholders	9	31	9	31
Due from subsidiary and associate companies	1,575	8,254	5,248	7,793
Due from other related parties	2,323	3,451	2,323	3,451
	<u>3,907</u>	<u>11,736</u>	<u>7,580</u>	<u>11,275</u>
Due to shareholders	137	144	137	144
Due to subsidiary and associate companies	241	63	770	583
Due to other related parties	1,033	1,143	1,033	1,150
	<u>1,411</u>	<u>1,350</u>	<u>1,940</u>	<u>1,877</u>