

# **GALFAR ENGINEERING AND CONTRACTING SAOG AND SUBSIDIARY**

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## **Notes to the financial statements for the year ended 31 December 2008**

### **1. General**

Galfar Engineering and Contracting SAOG, (formerly Galfar Engineering and Contracting LLC), (the “parent company” or the “Company”) is an Omani joint stock company registered under the Commercial Companies Law of the Sultanate of Oman. The registered address of the Company is at P O Box 533, Muscat, Postal Code 113, Sultanate of Oman.

The principal activities of the Company are civil and mechanical construction, public health engineering, road construction, electrical, plumbing and maintenance contracts.

On 31 May 2007, the promoting shareholders of the Company approved the transformation of the Company from a limited liability company to a General Omani Joint Stock Company (SAOG). It was further resolved that the transformation would be part of the process of selling a portion of the shares held by the promoting shareholders and issuing new shares of the Company to the public through an Initial Public Offering “IPO”, thereby increasing the Company’s share capital (note 12).

In accordance with the Commercial Companies Law of the Sultanate of Oman the constitutive meeting was held in October 2007 to elect the first Board of Directors. Subsequently, the Company’s shares were listed for trading on the Muscat Securities Market.

On 1 January 2006, the Company acquired 52.17% of the equity of Al-Khalij Heavy Equipment and Engineering LLC, for a total consideration of RO 600,000. Principal activities of the subsidiary are hiring out of cranes, equipment and other vehicles (note 5).

The consolidated financial statements include the financial statements of Galfar Engineering and Contracting SAOG and its subsidiary, Al-Khalij Heavy Equipment and Engineering LLC (together “the Group”).

### **2. Summary of significant accounting policies**

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

#### **2.1 Basis of preparation**

- (a) These financial statements are presented in Rials Omani (“RO”) which is the currency in which the majority of the Group’s transactions are denominated.
- (b) The financial statements have been prepared on the historical cost basis except as disclosed in the accounting policies below and in accordance with International Financial Reporting Standards (IFRS) and comply with the disclosure requirements set out in the Rules for Disclosure and Proformas issued by the Capital Market Authority of the Sultanate of Oman.

# **GALFAR ENGINEERING AND CONTRACTING SAOG AND SUBSIDIARY**

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## **Notes to the financial statements for the year ended 31 December 2008 (continued)**

### **2. Summary of significant accounting policies (continued)**

#### **2.1 Basis of preparation (continued)**

(c) Adoption of new and revised International Financial Reporting Standards (IFRS)

For the year ended 31 December 2008, the Group has adopted all of the new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for periods beginning on 1 January 2008. The adoption of these standards and interpretations has not resulted in changes to the Group's accounting policies and has not affected the amounts reported for the current or prior periods.

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

	<b>Effective for annual period beginning on or after</b>
IFRIC 13 : Customer Loyalty Programmes	1 July 2008
IFRIC 16 : Hedges of a Net Investment in a Foreign Operation	1 October 2008
IFRIC 15 : Agreements for the Construction of Real Estate	1 January 2009
IFRS 1 : (Revised) First-time adoption of International Financial Reporting Standards	1 January 2009
IFRS 2 : (Revised) Share-based Payment	1 January 2009
IFRS 8 : Operating Segments	1 January 2009
IAS 1 : (Revised) Presentation of Financial Statements	1 January 2009
IAS 16 : (Revised) Property, Plant and Equipment	1 January 2009
IAS 19 : (Revised) Employee Benefits	1 January 2009
IAS 20 : (Revised) Government Grants and Disclosure of Government Assistance	1 January 2009
IAS 23 : (Revised) Borrowing Costs	1 January 2009
IAS 29 : (Revised) Financial Reporting in Hyperinflationary Economies	1 January 2009
IAS 32 : (Revised) Financial Instruments : Presentation	1 January 2009
IAS 36 : (Revised) Impairment of Assets	1 January 2009
IAS 38 : (Revised) Intangible Assets	1 January 2009
IAS 40 : (Revised) Investment Property	1 January 2009
IAS 41 : (Revised) Agriculture	1 January 2009
IFRS 3 : (Revised) Business Combinations	1 July 2009
IFRS 5 : (Revised) Non-Current Assets held for Sale and Discontinued Operations	1 July 2009
IFRS 7 : Reclassification of Financial Assets	1 July 2009
IFRS 17 : Distribution of Non-cash Assets to Owners	1 July 2009
IAS 27 : (Revised) Consolidated and Separate Financial Statements	1 July 2009
IAS 28 : (Revised) Investment in Associates	1 July 2009
IAS 31 : (Revised) Interests in Joint Ventures	1 July 2009
IAS 39 : (Revised) Financial Instruments: Recognition and Measurement	1 July 2009

### **2. Summary of significant accounting policies (continued)**

**Notes to the financial statements  
for the year ended 31 December 2008 (continued)**

The management anticipate that the adoption of the above standards and interpretations in future periods will have no material impact on the financial statements of the Group.

**Consolidation**

Subsidiary is a company 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.

Subsidiary is 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 subsidiary 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 but considered an impairment indicator of the asset transferred. Accounting policies of subsidiary are changed, where necessary, to ensure consistency with the policies adopted by the group.

In parent company's financial statements, the investments in subsidiaries are stated at cost less impairment losses.

The consolidated financial statements comprise those of the parent company and its subsidiary drawn up to 31 December each year.

**Minority interests**

Minority interest represents the interests in the subsidiary, not held by the parent company.

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

**Notes to the financial statements  
for the year ended 31 December 2008 (continued)**

**2. Summary of significant accounting policies (continued)**

**Goodwill**

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill is allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

The attributable amount of goodwill is included in the determination of the profit or loss on disposal of subsidiary.

**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 loss.

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:

	<b>Years</b>
Site accommodation	4
Ghala camp	15
Plant and machinery	3 - 10
Lab equipment	5
Furniture and equipment	3 - 6
Software development	7
Motor vehicles and heavy equipment	3 - 10

Sundry assets costing less than RO 100 are written off in the year of purchase.

The gain or loss on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the income statement.

**Notes to the financial statements  
for the year ended 31 December 2008 (continued)**

**2. Summary of significant accounting policies (continued)**

**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.

**Impairment**

At each balance 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.

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 income statement.

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.

**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.

**Inventories**

Inventories are stated at the lower of cost and net realizable 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 realizable value represents the estimated selling price less all estimated costs to be incurred in marketing, selling and distribution.

**Financial instruments**

Financial assets and financial liabilities are recognized on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

The principal financial assets are cash and bank balances and trade and other receivables.

**Notes to the financial statements  
for the year ended 31 December 2008 (continued)**

**2. Summary of significant accounting policies (continued)**

**Financial instruments (continued)**

Trade and other receivables are stated at their nominal values as reduced by appropriate allowances for estimated impaired debts.

The principal financial liabilities are trade payables, term loans and bank borrowings.

Trade and payables are stated at their nominal value.

Interest-bearing loans and borrowings are recorded at the proceeds received, net of direct issue costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

**Offsetting**

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet 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 simultaneously.

**Provision for employees' benefits**

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

Provision for non-Omani employees has been made for termination gratuities, leave pay and passage in accordance with the terms of the Labour Law of the Sultanate of Oman.

**Taxation**

Taxation is provided for in accordance with the fiscal regulations of the Sultanate of Oman.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit. In principle, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction which affects neither the tax profit nor the accounting profit.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled. Deferred tax is charged or credited in the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

**Notes to the financial statements  
for the year ended 31 December 2008 (continued)**

**2. Summary of significant accounting policies (continued)**

**Provisions**

Provisions are recognized when the Group has a present obligation as a result of a past event which it is probable will result in an outflow of economic benefits that can be reasonably estimated.

**Foreign currencies**

Transactions denominated in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are translated at the rates prevailing on the balance sheet date. Gains and losses arising from foreign currency transactions are included in the profit or loss for the year.

**Revenue recognition**

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

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

**Net financing costs**

All interest costs incurred in connection with borrowings, net of interest received are recognised in the period in which they are incurred as net financing costs.

**Directors' remuneration**

In accordance with the Capital Market Authority circular E/2/2007, directors' remuneration is computed in accordance with the Article 101 of the Commercial Companies Law of 1974, as per the requirements of Capital Market Authority and is charged as an expense in the income statement.

**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.

**Notes to the financial statements  
for the year ended 31 December 2008 (continued)**

**2. Summary of significant accounting policies (continued)**

**Use of estimates**

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amount of financial assets and liabilities at the date of the financial statements and the resultant provisions and changes in fair value for the year. Such estimates are necessarily based on assumptions about several factors involving varying, and possibly significant, degrees of judgment and uncertainty and actual results may differ from management's estimates resulting in future changes in estimated assets and liabilities.

**3. Financial risk management**

Financial instruments carried on the balance sheet comprise cash and cash equivalents, trade and other receivables, trade and other payables and borrowings.

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been impacted.

The classification of financial assets depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

**Financial risk factors**

**Overview**

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

The Group's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out under policies approved by the management which identify, evaluate and hedge financial risk. The management provides written principles for overall risk management covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, and investment of excess liquidity.

**3. Financial risk management (continued)**



**Notes to the financial statements  
for the year ended 31 December 2008 (continued)**

**(i) Credit risk**

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables from customers.

**Trade and other receivables**

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. All major customers are based in the Sultanate of Oman.

The Group has established credit policies and procedures that are considered appropriate and commensurate with the nature and size of receivables.

In monitoring customer credit risk, customers are segmented according to their credit characteristics in the following categories:

- Private individual customers
- Corporate customers
- Government customers
- Other customers

The potential risk in respect of amounts receivable is limited to their carrying values as management regularly reviews these balances whose recoverability is in doubt. There is no credit risk in respect of receivable from Government customers.

The Group establishes a provision for impairment that represents its estimate of potential losses in respect of trade and other receivables. The main components of this loss are a specific loss component that relates to individual exposures and a collective loss component established for similar assets in respect of any potential losses that may have been incurred but not yet identified. The collective loss provision is determined based on historical data of payment statistics for similar financial assets.

**Investments**

The Group limits its exposure to credit risk on its investments by only invest in liquid securities and only with counterparties which have a good credit rating. Given good credit ratings and liquidity, management does not expect any counterparty to fail to meet its obligations.

**Notes to the financial statements  
for the year ended 31 December 2008 (continued)**

**3. Financial risk management (continued)**

**(ii) Liquidity risk**

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

Typically, the Group ensures that it has sufficient cash on demand to meet expected operational expenses including the servicing of financial obligations. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. In addition, the Group has access to credit facilities.

**(iii) Market risk**

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

**Foreign currency risk**

The Group's functional and presentation currency is Rial Omani and the Group's performance is substantially independent of changes in foreign currency rates. There are no significant financial instruments denominated in foreign currency and consequently, foreign currency risk is not significant.

**Interest rate risk**

The Group has short term bank deposits and borrowings, which are interest bearing and exposed to changes in market interest rates. The Group adopts a policy of appropriate mix of fixed and floating rate instruments to minimize interest rate risk.

**Capital management**

The Group's objective when managing capital is to safeguard its ability to continue as a going concern and benefit other stakeholders. The management's policy is to maintain a strong capital base so as to maintain creditor and market confidence and to sustain future development of the business.

Management is confident of maintaining the current level of profitability by enhancing top line growth and prudent cost management. The Group is not subject to externally imposed capital requirements.

# **GALFAR ENGINEERING AND CONTRACTING SAOG AND SUBSIDIARY**

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## **Notes to the financial statements for the year ended 31 December 2008 (continued)**

### **4. Property, plant and equipment Parent Company**

	Land	Site accommodation	Ghala camp	Plant and machinery	Lab equipment	Furniture and equipment	Software development	Motor vehicles and heavy equipment	Capital work-in- progress	Total
	RO	RO	RO	RO	RO	RO	RO	RO	RO	RO
<b>Cost</b>										
1 January 2007	332,139	11,808,791	2,868,878	53,760,001	57,376	6,487,808	254,419	38,959,011	475,286	115,003,709
Additions	-	4,258,964	-	15,345,501	1,426	2,810,465	317,806	16,291,191	2,361,016	41,386,369
Disposals	-	(8,178)	-	(527,139)	-	(25,737)	(9,478)	(2,141,278)	-	(2,711,810)
Transfers	-	236,597	1,335,418	-	-	-	-	-	(1,572,015)	-
1 January 2008	332,139	16,296,174	4,204,296	68,578,363	58,802	9,272,536	562,747	53,108,924	1,264,287	153,678,268
Additions	-	3,584,808	-	25,664,525	17,341	1,666,743	131,231	14,564,715	2,123,408	47,752,771
Disposals	-	(191,797)	-	(1,390,764)	-	(31,034)	-	(1,957,139)	-	(3,570,734)
Transfers	-	-	-	21,120	-	-	-	(21,120)	-	-
<b>31 December 2008</b>	<b>332,139</b>	<b>19,689,185</b>	<b>4,204,296</b>	<b>92,873,244</b>	<b>76,143</b>	<b>10,908,245</b>	<b>693,978</b>	<b>65,695,380</b>	<b>3,387,695</b>	<b>197,860,305</b>
<b>Depreciation</b>										
1 January 2007	-	7,727,550	2,105,341	19,419,607	23,722	2,798,565	173,625	12,672,296	-	44,920,706
Charge for the year	-	1,964,505	166,200	5,267,842	14,440	1,018,817	43,637	4,380,171	-	12,855,612
Disposals	-	(7,988)	-	(328,023)	-	(24,766)	(9,478)	(1,348,497)	-	(1,718,752)
1 January 2008	-	9,684,067	2,271,541	24,359,426	38,162	3,792,616	207,784	15,703,970	-	56,057,566
Charge for the year	-	2,649,782	145,484	7,535,402	17,947	1,359,225	97,506	5,766,052	-	17,571,398
Disposals	-	(26,037)	-	(1,118,358)	-	(5,177)	-	(1,552,367)	-	(2,701,939)
Transfers	-	-	-	15,499	-	-	-	(15,499)	-	-
<b>31 December 2008</b>	<b>-</b>	<b>12,307,812</b>	<b>2,417,025</b>	<b>30,791,969</b>	<b>56,109</b>	<b>5,146,664</b>	<b>305,290</b>	<b>19,902,156</b>	<b>-</b>	<b>70,927,025</b>
<b>Net book value</b>										
<b>At 31 December 2008</b>	<b>332,139</b>	<b>7,381,373</b>	<b>1,787,271</b>	<b>62,081,275</b>	<b>20,034</b>	<b>5,761,581</b>	<b>388,688</b>	<b>45,793,224</b>	<b>3,387,695</b>	<b>126,933,280</b>
At 31 December 2007	332,139	6,612,107	1,932,755	44,218,937	20,640	5,479,920	354,963	37,404,954	1,264,287	97,620,702

# GALFAR ENGINEERING AND CONTRACTING SAOG AND SUBSIDIARY

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## Notes to the financial statements for the year ended 31 December 2008 (continued)

### 4. Property, plant and equipment (continued) Consolidated

	Land	Site accommodation	Ghala camp	Plant and machinery	Lab equipment	Furniture and equipment	Software development	Motor vehicles and heavy equipments	Capital work-in-progress	Total
	RO	RO	RO	RO	RO	RO	RO	RO	RO	RO
<b>Cost</b>										
1 January 2007	332,139	11,808,791	2,868,878	56,740,947	57,486	6,564,242	254,419	42,915,581	475,286	122,017,769
Additions	-	4,258,964	-	16,301,425	1,426	2,813,613	317,806	16,467,636	2,361,016	42,521,886
Disposals	-	(8,178)	-	(660,878)	-	(25,737)	(9,478)	(2,148,578)	-	(2,852,849)
Transfers	-	236,597	1,335,418	-	-	-	-	-	(1,572,015)	-
1 January 2008	332,139	16,296,174	4,204,296	72,381,494	58,912	9,352,118	562,747	57,234,639	1,264,287	161,686,806
Additions	-	3,584,808	-	26,609,673	20,241	1,672,707	131,231	14,721,265	2,123,408	48,863,333
Disposals	-	(191,797)	-	(2,425,364)	-	(31,034)	-	(1,957,139)	-	(4,605,334)
Transfers	-	-	-	21,120	-	-	-	(21,120)	-	-
<b>31 December 2008</b>	<b>332,139</b>	<b>19,689,185</b>	<b>4,204,296</b>	<b>96,586,923</b>	<b>79,153</b>	<b>10,993,791</b>	<b>693,978</b>	<b>69,977,645</b>	<b>3,387,695</b>	<b>205,944,805</b>
<b>Depreciation</b>										
1 January 2007	-	7,727,550	2,105,341	21,626,197	23,722	2,870,065	173,625	14,849,722	-	49,376,222
Charge for the year	-	1,964,505	166,200	5,447,732	14,596	1,021,416	43,637	4,901,477	-	13,559,563
Disposals	-	(7,988)	-	(461,760)	-	(24,766)	(9,478)	(1,352,069)	-	(1,856,061)
1 January 2008	-	9,684,067	2,271,541	26,612,169	38,318	3,866,715	207,784	18,399,130	-	61,079,724
Charge for the year	-	2,649,782	145,484	7,833,182	17,947	1,364,606	97,506	6,062,774	-	18,171,281
Disposals	-	(26,037)	-	(1,799,515)	-	(5,177)	-	(1,536,868)	-	(3,367,597)
Transfers	-	-	-	15,499	-	-	-	(15,499)	-	-
<b>31 December 2008</b>	<b>-</b>	<b>12,307,812</b>	<b>2,417,025</b>	<b>32,661,335</b>	<b>56,265</b>	<b>5,226,144</b>	<b>305,290</b>	<b>22,909,535</b>	<b>-</b>	<b>75,883,408</b>
<b>Net book value</b>										
<b>At 31 December 2008</b>	<b>332,139</b>	<b>7,381,373</b>	<b>1,787,271</b>	<b>63,925,588</b>	<b>22,888</b>	<b>5,767,647</b>	<b>388,688</b>	<b>47,068,110</b>	<b>3,387,695</b>	<b>130,061,397</b>
At 31 December 2007	332,139	6,612,107	1,932,755	45,769,325	20,594	5,485,403	354,963	38,835,509	1,264,287	100,607,082

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## **Notes to the financial statements for the year ended 31 December 2008 (continued)**

### **4. Property, plant and equipment (continued)**

- (a) Capital work-in-progress represents expenses incurred on improvements in corporate office and other assets.
- (b) Land consists of 5,184 sq. mt. located at Salalah and is registered in the name of one of the shareholders Mr. Majid bin Salim Al-Fannah Al-Araimi.
- (c) The Group has pledged certain assets having a carrying value of RO 17,832,248 (2007 - RO 10,845,963) to secure credit facilities granted by finance companies.
- (d) Depreciation of property, plant and equipment is allocated as follows:

	<b>Parent Company</b>		<b>Consolidated</b>	
	<b>2008</b>	2007	<b>2008</b>	2007
	<b>RO</b>	RO	<b>RO</b>	RO
Contract costs (note 22)		12,596,90		
	<b>17,285,264</b>	2	<b>17,285,264</b>	12,596,902
Hire operating costs (note 23)	-	-	<b>599,883</b>	703,951
General and administrative expenses (note 24)	<b>279,080</b>	252,355	<b>279,080</b>	252,355
Income from training center (note 26)	<b>7,054</b>	6,355	<b>7,054</b>	6,355
	<b>17,571,398</b>	12,855,612	<b>18,171,281</b>	13,559,563

### **5. Investment in subsidiary**

<b>Name of the subsidiary</b>	<b>Principal activity</b>	<b>Date of acquisition</b>	<b>Proportion of shares acquired %</b>	<b>Cost of acquisition RO</b>	<b>Net assets acquired RO</b>	<b>Goodwill RO</b>	<b>Place of incorporation</b>
Al-Khalij Heavy Equipment and Engineering LLC	Hiring out of cranes	1 January 2006	52.17	600,000	324,994	275,006	Sultanate of Oman

### **6. Available-for-sale investments**

	<b>Parent Company</b>		<b>Consolidated</b>	
	<b>2008</b>	2007	<b>2008</b>	2007
	<b>RO</b>	RO	<b>RO</b>	RO
Unquoted local investments	<b>125,000</b>	125,000	<b>145,000</b>	145,000

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**Notes to the financial statements  
for the year ended 31 December 2008 (continued)**

**7. Inventories**

	<b>Parent Company</b>		<b>Consolidated</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>RO</b>	<b>RO</b>	<b>RO</b>	<b>RO</b>
Materials and consumables	<b>46,283,491</b>	21,765,533	<b>46,362,770</b>	21,829,233
Less: allowance for slow-moving inventories	<b>(67,633)</b>	(67,633)	<b>(67,633)</b>	(67,633)
	<b>46,215,858</b>	21,697,900	<b>46,295,137</b>	21,761,600

**8. Trade receivables**

Contract receivables	<b>113,833,189</b>	64,806,455	<b>113,833,189</b>	64,806,455
Trade receivables	-	-	<b>792,228</b>	417,198
Less: allowance for impaired debts	<b>(212,580)</b>	(212,580)	<b>(212,580)</b>	(215,013)
	<b>113,620,609</b>	64,593,875	<b>114,412,837</b>	65,008,640
Amounts due from customers under construction contracts [note 8(b)]	<b>29,242,744</b>	26,481,639	<b>29,242,744</b>	26,481,639
Retentions receivable	<b>6,831,011</b>	4,895,389	<b>6,831,011</b>	4,895,389
	<b>149,694,364</b>	95,970,903	<b>150,486,592</b>	96,385,668

**(a) Contracts in progress at the balance sheet date**

	<b>Parent Company and Consolidated</b>	
	<b>2008</b>	<b>2007</b>
	<b>RO</b>	<b>RO</b>
Costs incurred plus recognized profits less recognized losses to date	<b>362,976,252</b>	267,464,211
Less : progress billings	<b>(339,560,727)</b>	(250,219,731)
	<b>23,415,525</b>	17,244,480

**(b) Recognised and included in the financial statements as amounts due:**

	<b>Parent Company and Consolidated</b>	
	<b>2008</b>	<b>2007</b>
	<b>RO</b>	<b>RO</b>
From customers under construction contracts (note 8)	<b>29,242,744</b>	26,481,639
To customers under construction contracts (note 20)	<b>(5,827,219)</b>	(9,237,159)
	<b>23,415,525</b>	17,244,480

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## **Notes to the financial statements for the year ended 31 December 2008 (continued)**

### **9. Prepayments, advances and other receivables**

	<b>Parent Company</b>		<b>Consolidated</b>	
	<b>2008</b>	2007	<b>2008</b>	2007
	<b>RO</b>	RO	<b>RO</b>	RO
Deposits and prepaid expenses	<b>4,134,187</b>	2,791,841	<b>4,144,659</b>	2,800,163
Insurance claims	<b>1,674,850</b>	282,357	<b>1,674,850</b>	282,357
Due from employees	<b>161,923</b>	160,666	<b>162,885</b>	161,701
Due from related parties (note 29)	<b>2,184,312</b>	1,594,737	<b>2,184,312</b>	1,954,980
Advance tax paid	<b>1,453,483</b>	-	<b>1,459,883</b>	6,400
Other receivables	<b>3,931,672</b>	3,812,217	<b>3,961,879</b>	3,824,393
	<b>13,540,427</b>	8,641,818	<b>13,588,468</b>	9,029,994

### **10. Deposits with banks**

Term deposits	<b>9,845,476</b>	11,139,463	<b>9,845,476</b>	11,139,463
Margin deposits	<b>2,569,067</b>	2,663,833	<b>2,571,707</b>	2,671,473
	<b>12,414,543</b>	13,803,296	<b>12,417,183</b>	13,810,936

The term deposits carry interest rates of 1.75 % to 4% per annum (2007 - 3.25 % to 4 % per annum) and are kept for a period of more than three months from the date of placement.

### **11. Cash and bank balances**

	<b>Parent Company</b>		<b>Consolidated</b>	
	<b>2008</b>	2007	<b>2008</b>	2007
	<b>RO</b>	RO	<b>RO</b>	RO
Cash on hand	<b>593,145</b>	453,448	<b>594,528</b>	455,935
Bank balances:				
Current accounts	<b>1,283,205</b>	3,367,215	<b>1,285,795</b>	3,368,166
Call deposits	<b>4,110</b>	8,844	<b>4,110</b>	8,844
	<b>1,880,460</b>	3,829,507	<b>1,884,433</b>	3,832,945

# **GALFAR ENGINEERING AND CONTRACTING SAOG AND SUBSIDIARY**

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## **Notes to the financial statements for the year ended 31 December 2008 (continued)**

### **12. Share capital**

	<b>Parent and Consolidated</b>	
	<b>2008</b>	<b>2007</b>
	<b>RO</b>	<b>RO</b>
<b>Authorised:</b>		
500,000,000 (2007 – 500,000,000) ordinary shares of par value RO 0.100 (2007 – RO 0.100) each	<b>50,000,000</b>	50,000,000
<b>Issued and fully paid:</b>		
At 1 January	<b>25,000,000</b>	20,000,000
Cash brought in by promoting shareholders	-	1,000,000
Proceeds from IPO	-	4,000,000
At 31 December	<b>25,000,000</b>	25,000,000

At the balance sheet date the issued and fully paid share capital comprises of 250,000,000 (2007 - 250,000,000) shares having a par value of RO 0.100 (2007 – RO 0.100) each. Pursuant to the terms of the IPO, as detailed below, the share capital of the Company has been divided into two classes comprising of 175,000,000 ordinary shares and 75,000,000 preferential voting rights shares. The preferential voting rights shares will be held by the promoting shareholders and shall carry two votes at all general meetings while otherwise ranking pari-passu with ordinary shares in all rights including the dividend receipt.

As explained in note 1, during the year 2007 in pursuant to the IPO, the promoting shareholders of the Company offered a portion of their shares to the public for subscription and proposed to increase the Company's share capital through a fresh issue of share capital.

Prior to the IPO, the parent company increased its share capital through an issue of additional shares of 1,000,000 of RO 1 each to the promoting shareholders.

Further, as part of the IPO process, the par value of the shares was split from RO 1 per share to RO 0.100 per share thereby increasing the number of shares from the existing 21,000,000 to 210,000,000.

#### **Share premium**

Under the terms of the IPO, 100 million shares were offered for subscription to the general public @ RO 0.600 per share representing RO 0.100 nominal value and RO 0.500 share premium. This resulted in a cash inflow of RO 60 million. Of the amount collected, RO 36 million (comprising premium of RO 30 million and nominal value of RO 6 million for 60 million shares of RO 0.100 per share) was repaid to the promoting shareholders as consideration for their shares offered for sale, while the remaining RO 24,000,000 accrued to the Company resulting in a share premium of RO 20,000,000 and an increase in share capital of RO 4,000,000 for 40 million shares of RO 0.100 per share. Share premium is stated net of share issue expenses of RO 830,491.



# **GALFAR ENGINEERING AND CONTRACTING SAOG AND SUBSIDIARY**

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## **Notes to the financial statements for the year ended 31 December 2008 (continued)**

### **13. Dividend**

The Board of Directors have proposed a cash dividend of RO 0.020 per share amounting to RO 5,000,000 (2007 – RO 0.040 per share amounting to RO 10,000,000) and stock dividend of 20% (2007 – nil) for the year ended 31 December 2008. This is subject to the shareholders approval at the Annual General Meeting.

### **14. Statutory reserve**

The statutory reserve, which is not available for distribution is calculated in accordance with Article 154 of the Commercial Companies Law. The annual appropriation shall be 10% of the profit after taxes for each year until such time as the reserve equals to at least one third of the share capital.

### **15. Retained earnings**

Retained earnings includes statutory reserve of the subsidiary of RO 107,944 (2007 - RO 107,944), which is not available for distribution.

### **16. Term loans**

	<b>Parent Company</b>		<b>Consolidated</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>RO</b>	<b>RO</b>	<b>RO</b>	<b>RO</b>
Term loans:				
- from banks	<b>41,717,719</b>	27,855,690	<b>41,717,719</b>	27,855,690
- finance companies	<b>9,290,551</b>	7,498,543	<b>9,290,551</b>	8,782,862
	<b>51,008,270</b>	35,354,233	<b>51,008,270</b>	36,638,552
Less: Current portion				
- from banks	<b>14,639,713</b>	13,082,596	<b>14,639,713</b>	13,082,596
- finance companies	<b>3,957,264</b>	3,098,843	<b>3,957,264</b>	3,600,200
	<b>18,596,977</b>	16,181,439	<b>18,596,977</b>	16,682,796
Long term portion				
- from banks	<b>27,078,006</b>	14,773,094	<b>27,078,006</b>	14,773,094
- finance companies	<b>5,333,287</b>	4,399,700	<b>5,333,287</b>	5,182,662
	<b>32,411,293</b>	19,172,794	<b>32,411,293</b>	19,955,756

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## **Notes to the financial statements for the year ended 31 December 2008 (continued)**

### **16. Term loans (continued)**

The term loans are stated at the proceeds received net of repayments and amounts repayable within next twelve months have been shown as a current liability. The term loans from banks are secured against the contract receivables. The term loans from finance companies are secured against the jointly registered assets [note 4 (c)].

The interest rates on term loans were as follows:

	<b>2008</b>	<b>2007</b>
Floating rate loans	<b>LIBOR + 1.2% to 1.75%</b>	LIBOR + 1.50% to 1.85%
Fixed interest rate loans	<b>6.5% to 8.5%</b>	6.25% to 8.5%

The term loans are repayable as follows:

	<b>Parent Company</b>		<b>Consolidated</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>RO</b>	<b>RO</b>	<b>RO</b>	<b>RO</b>
Within one year	<b>18,596,977</b>	16,181,439	<b>18,596,977</b>	16,682,796
In the second year	<b>11,452,852</b>	9,866,815	<b>11,452,852</b>	10,216,539
In the third to fifth year inclusive	<b>20,958,441</b>	9,305,979	<b>20,958,441</b>	9,739,217
	<b>51,008,270</b>	35,354,233	<b>51,008,270</b>	36,638,552

### **17. Provision for employees' end of service indemnity**

Movements in the net liability were as follows:

	<b>Parent Company</b>		<b>Consolidated</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>RO</b>	<b>RO</b>	<b>RO</b>	<b>RO</b>
At 1 January	<b>3,825,795</b>	3,014,934	<b>3,905,198</b>	3,092,121
Charge for the year	<b>2,115,831</b>	1,400,237	<b>2,137,304</b>	1,411,415
Amounts paid	<b>(857,246)</b>	(589,376)	<b>(860,804)</b>	(598,338)
At 31 December	<b>5,084,380</b>	3,825,795	<b>5,181,698</b>	3,905,198

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**Notes to the financial statements  
for the year ended 31 December 2008 (continued)**

**18. Bank borrowings**

	<b>Parent Company</b>		<b>Consolidated</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>RO</b>	<b>RO</b>	<b>RO</b>	<b>RO</b>
Bank overdrafts	<b>5,906,141</b>	3,688,067	<b>5,959,222</b>	3,772,500
Loan against trust receipts	<b>30,082,969</b>	10,515,754	<b>30,082,969</b>	10,515,754
Bills discounted	<b>2,832,300</b>	58	<b>2,832,300</b>	58
	<b>38,821,410</b>	14,203,879	<b>38,874,491</b>	14,288,312

Bank borrowings are repayable on demand or within one year. The interest rates on bank borrowings vary between 6% to 9% per annum (2007 - 7% to 8% per annum). Bank borrowings are secured against the contract receivables.

**19. Short term loans**

	<b>Parent Company</b>		<b>Consolidated</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>RO</b>	<b>RO</b>	<b>RO</b>	<b>RO</b>
Short term loans:				
From banks	<b>17,671,692</b>	3,500,000	<b>17,671,692</b>	3,500,000
From a related party (note 29)	-	700,000	-	700,000
	<b>17,671,692</b>	4,200,000	<b>17,671,692</b>	4,200,000

The interest rates on bank loans vary between 4.2% to 8% per annum (2007 - 6% to 7.5% per annum). Bank loans are repayable within one year and are secured against the contract receivables.

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**Notes to the financial statements  
for the year ended 31 December 2008 (continued)**

**20. Trade and other payables**

	<b>Parent Company</b>		<b>Consolidated</b>	
	<b>2008</b>	2007	<b>2008</b>	2007
	<b>RO</b>	RO	<b>RO</b>	RO
Trade payables	<b>85,953,246</b>	65,749,070	<b>88,332,654</b>	66,308,038
Due to related parties (note 29)	<b>2,829,595</b>	3,210,648	<b>3,445,440</b>	3,386,955
Due to subsidiary	<b>819,105</b>	251,340	-	-
Creditors for purchase of property, plant and equipment	<b>6,500,497</b>	6,200,141	<b>6,500,497</b>	6,200,141
Amounts due to customers under construction contracts (note 8)	<b>5,827,219</b>	9,237,159	<b>5,827,219</b>	9,237,159
Advances on contracts	<b>22,145,104</b>	10,984,217	<b>22,161,527</b>	11,000,293
Accrued expenses	<b>6,737,475</b>	6,541,781	<b>6,809,010</b>	7,228,379
Provision for employees' leave pay and passage	<b>3,829,904</b>	2,489,000	<b>3,853,475</b>	2,511,983
	<b>134,642,145</b>	104,663,356	<b>136,929,822</b>	105,872,948

**21. Taxation**

Income tax is provided as per the provisions of the "Law of Income Tax on Companies" in Oman after adjusting the items which are non-assessable or disallowed. Income tax is calculated @ 12% on the adjusted taxable income after deducting the statutory exemption of RO 30,000.

**a) Income tax expense**

	<b>Parent Company</b>		<b>Consolidated</b>	
	<b>2008</b>	2007	<b>2008</b>	2007
	<b>RO</b>	RO	<b>RO</b>	RO
Current tax charge	<b>878,143</b>	1,495,474	<b>878,143</b>	1,495,474
Deferred tax charge [note 21 (b)]	<b>2,212,291</b>	1,763,000	<b>2,212,291</b>	1,843,195
	<b>3,090,434</b>	3,258,474	<b>3,090,434</b>	3,338,669

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## Notes to the financial statements for the year ended 31 December 2008 (continued)

### 21. Taxation (continued)

The reconciliation between tax on accounting profit and tax profit is as follows:

	Parent Company		Consolidated	
	2008	2007	2008	2007
	RO	RO	RO	RO
Profit before tax	<b>25,789,574</b>	25,223,607	<b>26,199,424</b>	25,670,110
Tax @ 12% after deducting RO 30,000 each	<b>3,091,149</b>	3,023,233	<b>3,136,731</b>	3,073,213
Tax effect of expenses that are not deductible and temporary differences	<b>(715)</b>	235,241	<b>(46,297)</b>	265,456
	<b>3,090,434</b>	3,258,474	<b>3,090,434</b>	3,338,669

The Group's income tax assessment up to the year 2003 has been finalized by the Taxation Department. The management believes that any taxation for the unassessed years will not be material to the financial position of the Group as at the balance sheet date.

#### b) Deferred tax liability

Deferred income taxes are calculated on all temporary differences under the balance sheet liability method using a principal tax rate of 12% (2007 - 12%).

The net deferred tax liability and deferred tax charge / (release) in the income statement are attributable to the following items:

#### Parent Company

	1 Jan 2008 RO	Charged to income statement RO	31 Dec 2008 RO	1 Jan 2007 RO	Charged to income statement RO	31 Dec 2007 RO
Property, plant and equipment	<b>4,232,293</b>	<b>2,212,291</b>	<b>6,444,584</b>	2,469,293	1,763,000	4,232,293
Trade receivables	<b>(25,510)</b>	-	<b>(25,510)</b>	(25,510)	-	(25,510)
Inventories	<b>(8,116)</b>	-	<b>(8,116)</b>	(8,116)	-	(8,116)
	<b>4,198,667</b>	<b>2,212,291</b>	<b>6,410,958</b>	2,435,667	1,763,000	4,198,667

# GALFAR ENGINEERING AND CONTRACTING SAOG AND SUBSIDIARY

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## Notes to the financial statements for the year ended 31 December 2008 (continued)

### 21. Taxation (continued)

#### b) Deferred tax liability (continued)

##### Consolidated

	1 Jan 2008 RO	Charged to income statement RO	31 Dec 2008 RO	1 Jan 2007 RO	Charged/ (credited) to income statement RO	31 Dec 2007
Property, plant and equipment	4,418,669	2,212,291	6,630,960	2,560,877	1,857,792	4,418,669
Trade receivables	(24,995)	-	(24,995)	(24,995)	-	(24,995)
Inventories	(8,116)	-	(8,116)	(8,116)	-	(8,116)
Effect of unused tax losses	(71,265)	-	(71,265)	(56,668)	(14,597)	(71,265)
	<b>4,314,293</b>	<b>2,212,291</b>	<b>6,526,584</b>	<b>2,471,098</b>	<b>1,843,195</b>	<b>4,314,293</b>

### 22. Contract costs

	Parent Company		Consolidated	
	2008 RO	2007 RO	2008 RO	2007 RO
Materials	141,184,407	97,283,860	141,184,407	97,283,860
Salaries and wages	70,070,395	52,458,103	70,070,395	52,458,103
Sub-contracting	64,694,198	43,184,926	64,694,198	43,184,926
Depreciation of property, plant and equipment [note 4 (d)]	17,285,264	12,596,902	17,285,264	12,596,902
Hire of equipment and vehicles	7,894,210	7,287,996	6,750,586	6,030,564
Fuel	13,485,380	11,758,388	13,485,380	11,758,388
Camp maintenance	2,295,415	2,688,700	2,295,415	2,688,700
Insurance	2,489,587	1,285,645	2,489,587	1,285,645
Repairs and maintenance	1,526,845	939,822	1,526,845	939,822
Rent of accommodation	1,356,731	906,261	1,356,731	906,261
Communication	700,756	549,214	700,756	549,214
Bank guarantee and other charges	1,934,700	1,113,014	1,934,700	1,113,014
Miscellaneous	2,833,014	1,853,365	2,833,014	1,853,365
	<b>327,750,902</b>	<b>233,906,196</b>	<b>326,607,278</b>	<b>232,648,764</b>

# **GALFAR ENGINEERING AND CONTRACTING SAOG AND SUBSIDIARY**

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## **Notes to the financial statements for the year ended 31 December 2008 (continued)**

### **23. Hire operating costs**

	<b>Consolidated</b>	
	<b>2008</b>	<b>2007</b>
	<b>RO</b>	<b>RO</b>
Depreciation of property, plant and equipment [note 4 (d)]	<b>599,883</b>	703,951
Salaries and wages	<b>519,129</b>	461,773
Equipment hire charges	<b>137,400</b>	60,877
Stores and consumables	<b>455,767</b>	487,032
Salary to Managing Director (note 29)	<b>36,000</b>	36,000
Repairs and maintenance	<b>79,418</b>	65,586
Employees' benefits	<b>55,413</b>	56,399
Insurance	<b>60,235</b>	39,003
Rent	<b>27,445</b>	27,075
Inward shipping charges	<b>18,821</b>	2,414
Communication	<b>11,119</b>	10,217
Office maintenance	<b>4,138</b>	4,231
Other staff expenses	<b>22,187</b>	25,381
Utilities	<b>2,539</b>	3,113
Printing and stationery	<b>2,523</b>	2,221
Business promotion	<b>509</b>	1,433
Visa and recruitment	<b>12,795</b>	12,945
Clearing and forwarding	<b>1,202</b>	1,919
Provision for impaired debt	<b>-</b>	2,433
Miscellaneous expenses	<b>9,705</b>	8,640
	<b>2,056,228</b>	2,012,643

### **24. General and administrative expenses**

	<b>Parent Company</b>		<b>Consolidated</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>RO</b>	<b>RO</b>	<b>RO</b>	<b>RO</b>
Personnel costs	<b>4,467,848</b>	4,321,960	<b>4,467,848</b>	4,321,960
Directors' expenses (note 29)	<b>196,668</b>	22,571	<b>196,668</b>	22,571
Office maintenance	<b>1,399,222</b>	1,043,464	<b>1,399,222</b>	1,043,464
Depreciation of property, plant and equipment [note 4(d)]	<b>204,942</b>	151,932	<b>204,942</b>	151,932
Office expenses	<b>530,403</b>	779,079	<b>530,403</b>	779,079
Business promotion	<b>328,865</b>	234,582	<b>328,865</b>	234,582
Communication	<b>178,554</b>	131,525	<b>178,554</b>	131,525
Tender fees	<b>126,124</b>	99,301	<b>126,124</b>	99,301
Professional fees	<b>133,863</b>	88,454	<b>133,863</b>	88,454
Insurance	<b>77,518</b>	25,981	<b>77,518</b>	25,981
Repairs and maintenance	<b>70,804</b>	70,330	<b>70,804</b>	70,330
Bad debts written off	<b>36,543</b>	-	<b>36,543</b>	-
Printing and stationery	<b>62,932</b>	57,352	<b>62,932</b>	57,352
Travel	<b>67,870</b>	93,565	<b>67,870</b>	93,565
	<b>7,882,156</b>	7,120,096	<b>7,882,156</b>	7,120,096

Office maintenance includes depreciation of RO 74,138 (2007 - RO 100,423).

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**Notes to the financial statements  
for the year ended 31 December 2008 (continued)**

**25. Net financing costs**

	<b>Parent Company</b>		<b>Consolidated</b>	
	<b>2008</b>	2007	<b>2008</b>	2007
	<b>RO</b>	RO	<b>RO</b>	RO
Interest costs	<b>3,980,245</b>	3,174,415	<b>4,095,877</b>	3,311,962
Interest income	<b>(118,157)</b>	(356,379)	<b>(118,157)</b>	(356,379)
	<b>3,862,088</b>	2,818,036	<b>3,977,720</b>	2,955,583

**26. Other income**

Income from training center	<b>558,957</b>	567,257	<b>558,957</b>	567,257
Gain on disposal of property, plant and equipment	<b>398,540</b>	62,434	<b>398,540</b>	114,021
Insurance claims	<b>974,889</b>	791,089	<b>1,009,854</b>	791,185
Miscellaneous	<b>376,082</b>	182,944	<b>388,619</b>	224,707
	<b>2,308,468</b>	1,603,724	<b>2,355,970</b>	1,697,170

Income from training center is net of all expenses, including depreciation of RO 7,054 (2007: RO 6,355) [note 4(d)].

**27. Earnings per share**

	<b>Parent Company</b>		<b>Consolidated</b>	
	<b>2008</b>	2007	<b>2008</b>	2007
Profit for the year (RO)	<b>22,699,140</b>	21,965,133	<b>22,912,959</b>	22,156,235
Weighted average number of shares	<b>250,000,000</b>	214,383,562	<b>250,000,000</b>	214,383,562
Basic earnings per share (RO)	<b>0.091</b>	0.102	<b>0.092</b>	0.103

The par value of each share is 100 baizas. The basic earnings per share is calculated by dividing the profit for the year by the weighted average number of shares outstanding during the year.



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## **Notes to the financial statements for the year ended 31 December 2008 (continued)**

### **28. Net assets per share**

Net assets per share is calculated by dividing the shareholder's equity at the year end by the number of shares issued and paid up, as follows:

	<b>Parent Company</b>		<b>Consolidated</b>	
	<b>2008</b>	2007	<b>2008</b>	2007
Net assets (RO)	<b>82,860,846</b>	70,161,706	<b>83,329,136</b>	70,416,177
Number of shares outstanding at the year end	<b>250,000,000</b>	250,000,000	<b>250,000,000</b>	250,000,000
Net assets per share (RO)	<b>0.331</b>	0.281	<b>0.333</b>	0.282

### **29. Related party transactions**

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

The Group maintains significant 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:

	<b>Parent Company</b>		<b>Consolidated</b>	
	<b>2008</b>	2007	<b>2008</b>	2007
	<b>RO</b>	RO	<b>RO</b>	RO
Hire charges	<b>1,143,624</b>	1,257,432	-	-
Contract income	<b>414,773</b>	768,081	<b>414,773</b>	768,081
Interest paid	<b>23,838</b>	39,610	<b>23,838</b>	39,610
Purchase of property, plant and equipment	<b>559,532</b>	695,607	<b>559,532</b>	695,607
Purchase of goods / services	<b>7,299,903</b>	8,260,551	<b>7,299,903</b>	8,260,551

**Notes to the financial statements  
for the year ended 31 December 2008 (continued)**

**29. Related party transactions (continued)**

The amounts outstanding are unsecured and will be settled in cash. No expense has been recognized in the period for bad or doubtful debts in respect of the amounts owed by related parties.

**Compensation of key management personnel**

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

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

	<b>Parent Company</b>		<b>Consolidated</b>	
	<b>2008</b>	2007	<b>2008</b>	2007
	<b>RO</b>	RO	<b>RO</b>	RO
Short term benefits to members of key management	<b>1,841,766</b>	2,247,800	<b>1,841,766</b>	2,271,184
Post employment benefits to members of key management	<b>12,950</b>	8,175	<b>12,950</b>	9,737
Director's remuneration	-	-	<b>36,000</b>	36,000
	<b>1,854,716</b>	2,255,975	<b>1,890,716</b>	2,316,921

**30. Commitments and contingencies**

	<b>Parent Company</b>		<b>Consolidated</b>	
	<b>2008</b>	2007	<b>2008</b>	2007
	<b>RO</b>	RO	<b>RO</b>	RO
Bonds and guarantees	<b>147,054,798</b>	86,829,091	<b>147,054,798</b>	86,836,731
Letters of credit	<b>55,704,806</b>	32,260,625	<b>55,704,806</b>	32,260,625
Capital commitments	<b>6,902,378</b>	8,494,360	<b>6,902,378</b>	8,494,360

The above bonds and guarantees have been issued in the normal course of business.

**Notes to the financial statements  
for the year ended 31 December 2008 (continued)**

**31. Business and geographical segments**

The Group operates only in one geographical segment in the Sultanate of Oman.

Segmental information is presented in respect of the Group's business segments. Business segment is based on the Group's management and internal reporting structure. Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

**Business segment**

For management purposes, the Group is organized into two operating divisions. These Divisions are the basis on which the Group reports its segmental information. The principal activities of the Divisions are as follows:

**Construction**

The principal activities are civil and mechanical construction, public health engineering, road construction, electrical, plumbing and maintenance contracts.

**Hiring**

The main activities are hiring out of cranes, equipment and other vehicles.

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## **Notes to the financial statements for the year ended 31 December 2008 (continued)**

### **31. Business and geographical segments (continued)**

The financial results, assets and liabilities of business segments are as follows:

	<b>Construction</b>		<b>Hiring</b>		<b>Eliminations</b>		<b>Consolidated</b>	
	<b>2008</b>	2007	<b>2008</b>	2007	<b>2008</b>	2007	<b>2008</b>	2007
	<b>RO</b>	RO	<b>RO</b>	RO	<b>RO</b>	RO	<b>RO</b>	RO
Segment Revenue	<b>365,284,720</b>	269,067,935	<b>2,581,710</b>	2,596,693	<b>(1,143,624)</b>	(1,257,432)	<b>366,722,806</b>	270,407,196
Segment expenses	<b>(342,585,580)</b>	(247,102,802)	<b>(2,171,860)</b>	(2,230,385)	<b>1,143,624</b>	1,257,432	<b>(343,613,816)</b>	(248,075,755)
Segment results	<b>22,699,140</b>	21,965,133	<b>409,850</b>	366,308	<b>-</b>	-	<b>23,108,990</b>	22,331,441
<b>Segmental assets and liabilities</b>								
Segment assets	<b>367,396,593</b>	253,957,279	<b>4,893,382</b>	4,135,440	<b>(1,144,099)</b>	(576,335)	<b>371,145,876</b>	257,516,384
Segment liabilities	<b>291,859,415</b>	183,795,573	<b>3,372,804</b>	2,409,868	<b>(819,104)</b>	363,505	<b>294,413,115</b>	186,568,946

**Notes to the financial statements  
for the year ended 31 December 2008 (continued)**

**32. Credit risk**

**a) Exposure to credit risk**

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the balance sheet date was:

	<b>Parent Company</b>		<b>Consolidated</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>RO</b>	<b>RO</b>	<b>RO</b>	<b>RO</b>
Retentions receivables	<b>22,823,670</b>	16,563,542	<b>22,823,670</b>	16,563,542
Trade receivables	<b>142,863,353</b>	91,075,514	<b>143,655,581</b>	91,490,279
Prepayments, advances and other receivables	<b>13,540,427</b>	8,641,818	<b>13,588,468</b>	9,029,994
Deposits with banks	<b>12,414,543</b>	13,803,296	<b>12,417,183</b>	13,810,936
Bank balances	<b>1,287,315</b>	3,376,059	<b>1,289,905</b>	3,377,010
	<b>192,929,308</b>	133,460,229	<b>193,774,807</b>	134,271,761

The exposure to credit risk for trade receivables at the balance sheet date by type of customer was:

	<b>Parent Company</b>		<b>Consolidated</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>RO</b>	<b>RO</b>	<b>RO</b>	<b>RO</b>
Petroleum Development Oman	<b>30,081,391</b>	27,198,956	<b>30,081,391</b>	27,198,956
Government customers	<b>81,387,254</b>	48,047,907	<b>82,179,482</b>	48,047,907
Private customers	<b>31,394,708</b>	15,828,651	<b>31,394,708</b>	16,243,416
	<b>142,863,353</b>	91,075,514	<b>143,655,581</b>	91,490,279

The Company has established credit policies and procedures that are considered appropriate for the operations of the Company. The Company's business is conducted mainly by participating in tenders / bids. On acceptance of a tender / bid it enters into a detailed contract with the customer. This contract specifies the payment and performance terms as well as the credit terms.

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## Notes to the financial statements for the year ended 31 December 2008 (continued)

### 32. Credit risk (continued)

b) The age of trade receivables at the balance sheet date was:

	Parent Company		Consolidated	
	Gross RO	Impairment RO	Gross RO	Impairment RO
<b>31 December 2008</b>				
Not past due	66,696,939	-	66,830,593	-
Past due 0 - 60 days	21,352,670	-	21,452,777	-
Past due 61 – 180 days	24,996,605	-	25,332,266	-
Past due 181 – 270 days	15,093,670	-	15,149,260	-
More than 270 days	14,936,049	212,580	15,103,265	212,580
	<u>143,075,933</u>	<u>212,580</u>	<u>143,868,161</u>	<u>212,580</u>
<b>31 December 2007</b>				
Not past due	36,249,257	-	36,622,328	-
Past due 0 - 60 days	38,595,179	-	38,595,179	-
Past due 61 – 180 days	13,995,621	-	13,995,621	-
Past due 181 – 270 days	914,356	-	926,562	-
More than 270 days	1,533,681	212,580	1,565,602	215,013
	<u>91,288,094</u>	<u>212,580</u>	<u>91,705,292</u>	<u>215,013</u>

### 33. Liquidity risk

The following are the contractual maturities of financial liabilities, including interest payments:

#### 31 December 2008

##### a) Parent company

	Carrying amount RO	0 - 90 days RO	91 - 180 days RO	181 - 365 days RO	More than 365 days RO
Term loans	51,008,270	4,649,244	4,649,244	9,298,489	32,411,293
Creditors for purchase of property, plant and equipment	5,834,341	-	-	-	5,834,341
Bank borrowings	38,821,410	23,779,926	15,041,484	-	-
Short term loans	17,671,692	17,671,692	-	-	-
Trade and other payables	134,642,145	107,330,725	7,161,400	20,150,020	-
	<u>247,977,858</u>	<u>153,431,587</u>	<u>26,852,128</u>	<u>29,448,509</u>	<u>38,245,634</u>

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**Notes to the financial statements  
for the year ended 31 December 2008 (continued)**

**33. Liquidity risk (continued)**

**31 December 2008**

**b) Consolidated**

	Carrying amount RO	0 - 90 days RO	91 - 180 days RO	181 - 365 days RO	More than 365 days RO
Term loans	51,008,270	4,649,244	4,649,244	9,298,489	32,411,293
Creditors for purchase of property, plant and equipment	5,834,341	-	-	-	5,834,341
Bank borrowings	38,874,491	23,833,007	15,041,484	-	-
Short term loans	17,671,692	17,671,692	-	-	-
Trade and other payables	136,929,822	109,618,402	7,161,400	20,150,020	-
	<u>250,318,616</u>	<u>155,772,345</u>	<u>26,852,128</u>	<u>29,448,509</u>	<u>38,245,634</u>

**31 December 2007**

**a) Parent company**

	Carrying amount RO	0 - 90 days RO	91 - 180 days RO	181 - 365 days RO	More than 365 days RO
Term loans	35,354,233	4,268,633	3,890,884	8,021,922	19,172,794
Creditors for purchase of property, plant and equipment	10,419,223	-	-	-	10,419,223
Bank borrowings	14,203,879	7,785,609	2,730,203	3,688,067	-
Short term loans	4,200,000	4,200,000	-	-	-
Trade and other payables	104,663,356	79,935,163	7,126,388	17,601,805	-
	<u>168,840,691</u>	<u>96,189,405</u>	<u>13,747,475</u>	<u>29,311,794</u>	<u>29,592,017</u>

**b) Consolidated**

Term loans	36,638,552	4,394,002	4,016,253	8,272,541	19,955,756
Creditors for purchase of property, plant and equipment	10,419,223	-	-	-	10,419,223
Bank borrowings	14,288,312	7,785,609	2,730,203	3,772,500	-
Short term loans	4,200,000	4,200,000	-	-	-
Trade and other payables	105,872,948	81,105,696	7,157,409	17,609,843	-
	<u>171,419,035</u>	<u>97,485,307</u>	<u>13,903,865</u>	<u>29,654,884</u>	<u>30,374,979</u>

**Notes to the financial statements  
for the year ended 31 December 2008 (continued)**

**34. Interest rate risk**

The Group's exposure to interest rate risk relates to its bank deposits, borrowings, and term loans.

Term loans of RO 35,534,435 (2007 - RO 29,231,938) are recognized at fixed interest rates and expose the Group to the fair value interest rate risk. The remaining term loans of RO 15,473,835 (2007 - RO 6,122,295) are recognized at floating rates thus exposing the Group to cash flow interest rate risk.

**35. Comparative amounts**

Certain amounts for the prior year were reclassified to conform to current year presentation.

**36. Approval of financial statements**

These financial statements were approved by the Board of Directors and authorized for issue on 26 February 2009.