

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

### 1 CORPORATE INFORMATION

The consolidated financial statements were authorised for issue in accordance with a resolution of the directors on 10 March 2011. 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. The registered address of the Company is P O Box 533, Muscat, Postal Code 100, Sultanate of Oman.

The principal activities of Galfar Engineering and Contracting SAOG and its subsidiary ("the group") are civil and mechanical construction, public health engineering, road construction, electrical, plumbing and maintenance contracts.

### 2 SIGNIFICANT ACCOUNTING POLICIES

#### Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards, and applicable requirements of the Commercial Companies Law and the Capital Market Authority 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.

#### Accounting Convention

These consolidated financial statements have been prepared under the historical cost convention modified to include the fair value adjustment for investment in associates in the parent company financial statements and available for sale investments.

#### Changes in accounting policy and disclosures

The accounting policies are consistent with those used in the previous financial year except as follows:

The group has adopted the following new and amended IFRS and IFRIC interpretations as of 1 January 2010:

- IFRS 2 Share-based Payment: Group Cash-settled Share-based Payment Transactions effective 1 January 2010
- IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended) effective 1 July 2009, including consequential amendments to IFRS 2, IFRS 5, IFRS 7, IAS 7, IAS 21, IAS 28, IAS 31 and IAS 39
- IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items effective 1 July 2009
- IFRIC 17 Distributions of Non-cash Assets to Owners effective 1 July 2009
- Improvements to IFRSs (May 2008)
- Improvements to IFRSs (April 2009)

The adoption of the above did not have any impact on the accounting policies, financial position or performance of the group.

Details regarding standards issued but not yet effective are set out in note 3.

#### Accounting Policies

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

#### Basis of consolidation

The consolidated financial statements comprise those of Galfar Engineering and Contracting SAOG and its subsidiary as at 31 December each year. A subsidiary is a company in which the parent company owns, directly or indirectly more than half of the voting power.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

### 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Basis of consolidation (continued)**

The subsidiary is consolidated from the date on which control is transferred to the group and ceases to be consolidated from the date on which control is transferred out of the group.

The financial statements of the subsidiary are prepared for the same reporting period as the parent company using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies which may exist.

All intercompany balances, income and expenses, unrealised gains and losses and dividends resulting from intra-group transactions are eliminated.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction.

Losses are attributed to the non-controlling interest even if that results in a deficit balance.

If the group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences, recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss.

In the parent company's separate financial statements, the investment in the subsidiary is carried at cost less impairment.

#### **Business combinations and goodwill**

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at the acquisition date fair value, and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest, over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

### 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Business combinations and goodwill (continued)**

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed off, the goodwill associated with the operation disposed off is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

#### **Investments in associates**

The group's investments in its associates are accounted for under the equity method of accounting. 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.

The associates' accounting policies conform to those used by the group for like transactions and events in similar circumstances.

Investment in associates are recorded at fair value in accordance with the provisions of IAS 39 in the parent company's financial statements, with fair value changes recognised in profit or loss in the parent company's separate financial statements.

#### **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. 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:

Site accommodation	Over 4 years
Building and camp	Over 5 years
Tools	Over 4 years
Plant and machinery	Over 5-10 years
Lab equipment	Over 5 years
Furniture and equipment	Over 6 years
Computer and software	Over 4-5 years
Motor vehicles and heavy equipment	Over 7-10 years

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Property, plant and equipment (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.

**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.

**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. 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 in accounts payable and accruals.

**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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Impairment of non-financial assets (continued)**

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.

**Trade and other receivables**

Trade and other receivables are stated at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

**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**

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

**Interest-bearing loans and borrowings**

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.

**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. 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.

**Leases**

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date: whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

For arrangements entered into prior to 1 January 2005, the date of inception is deemed to be 1 January 2005 in accordance with the transitional requirements of IFRIC 4.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

### 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Leases (continued)

##### *Group as a lessee*

Finance leases, which transfer to the group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in the statement of comprehensive income.

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

#### **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:

- (a) For assets carried at fair value, impairment is the difference between cost and fair value;
- (b) 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 of return for a similar financial asset.
- (c) 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 simultaneously.

#### **Provisions**

Provisions are recognised 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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.

**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 for in accordance with the fiscal regulations of the Sultanate of Oman. 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**

Contract revenue comprises the value of work executed during the period. Where the outcome of a construction contract can be estimated reliably, revenue is recognised by reference to the stage of completion of the construction activity at the reporting 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. In the case of unprofitable contracts provision is made for foreseeable losses in full.

**Contract costs**

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 recognised as an expense immediately.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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 year to which they relate.

**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.

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.

**Translation of foreign operations**

Exchange differences arising on equity accounting of foreign associates are taken directly to the foreign currency translation reserve. Foreign currency translation reserve is recognised in equity under cumulative changes in fair value. On disposal of the foreign associate, such exchange differences are recognised in the statement of comprehensive income as part of the profit or loss on sale. A write down of the carrying amount of a foreign operation does not constitute a disposal.

**Segment reporting**

A segment is a distinguishable component of the group that is engaged in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The segment information is set out in note 34.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Significant accounting judgments, estimates and assumptions**

The preparation of the consolidated financial statements requires management to make judgements, 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. The assumptions concerning the key sources of estimation uncertainty at the reporting date are set out in note 37.

**3 STANDARDS ISSUED BUT NOT YET EFFECTIVE**

The following IASB standards, amendments and interpretations are not yet effective:

**IAS 24 Related Party Disclosures (Amendment)**

The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government related entities. The group does not expect any impact on its financial position or performance. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.

**IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (Amendment)**

The amendment to IAS 32 is effective for annual periods beginning on or after 1 February 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. This amendment will have no impact on the group after initial application.

**IFRS 9 Financial Instruments: Classification and Measurement**

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. The completion of this project is expected in early 2011. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets.

**IFRIC 14 Prepayments of a minimum funding requirement (Amendment)**

The amendment to IFRIC 14 is effective for annual periods beginning on or after 1 January 2011 with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The amendment is expected to have no impact on the financial statements of the Group.

**IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments**

IFRIC 19 is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognised immediately in profit or loss. The adoption of this interpretation will have no effect on the financial statements of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

**3 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)**

***Improvements to IFRSs (issued in May 2010)***

The IASB issued *Improvements to IFRSs*, an omnibus of amendments to its IFRS standards. The amendments have not been adopted as they become effective for annual periods on or after either 1 July 2010 or 1 January 2011. The amendments listed below, are considered to be relevant for the group:

- IFRS 3 *Business Combinations*
- IFRS 7 *Financial Instruments: Disclosures*
- IAS 1 *Presentation of Financial Statements*
- IAS 27 *Consolidated and Separate Financial Statements*
- IFRIC 13 *Customer Loyalty Programmes*

The group, however, expects no impact from the adoption of the amendments on its financial position or performance.

# Galfar Engineering and Contracting SAOG and its Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

### 4 PROPERTY, PLANT AND EQUIPMENT – PARENT COMPANY

	<i>Land RO</i>	<i>Site accommodation RO</i>	<i>Tools RO</i>	<i>Building and camp RO</i>	<i>Plant and machinery RO</i>	<i>Lab equipment RO</i>	<i>Furniture and equipment RO</i>	<i>Computer and software RO</i>	<i>Motor vehicles &amp; equipment RO</i>	<i>Capital work in progress RO</i>	<i>Total RO</i>
<b>Cost</b>											
1 January 2009	332,139	19,689,185	-	4,204,296	92,873,244	76,143	10,908,245	693,978	65,695,380	3,387,695	197,860,305
Additions	-	2,647,488	129,386	2,899,653	13,690,009	47,911	2,294,889	24,664	5,487,560	570,292	27,791,852
Disposals	-	(725)	(6,189)	-	(1,976,997)	-	(4,631)	-	(1,531,294)	(250)	(3,520,086)
Transfers	190,000	(1,856,590)	1,874,229	1,874,284	62,080	-	1,892	-	-	(2,145,895)	-
At 1 January 2010	522,139	20,479,358	1,997,426	8,978,233	104,648,336	124,054	13,200,395	718,642	69,651,646	1,811,842	222,132,071
Additions	-	652,916	11,164	-	5,138,330	45,899	997,989	217,136	1,640,152	1,399,862	10,103,448
Disposals	-	(41,812)	(560)	(383,730)	(1,472,091)	-	(47,904)	(10,560)	(1,054,084)	-	(3,010,741)
Transfers	-	22,500	-	791,300	92,145	-	-	-	-	(905,945)	-
<b>31 December 2010</b>	<b>522,139</b>	<b>21,112,962</b>	<b>2,008,030</b>	<b>9,385,803</b>	<b>108,406,720</b>	<b>169,953</b>	<b>14,150,480</b>	<b>925,218</b>	<b>70,237,714</b>	<b>2,305,759</b>	<b>229,224,778</b>
<b>Depreciation</b>											
1 January 2009	-	12,307,812	-	2,417,025	30,791,969	56,109	5,146,664	305,290	19,902,156	-	70,927,025
Charge for the year	-	3,183,157	227,541	606,001	9,584,226	19,381	1,539,871	103,518	6,873,198	-	22,136,893
Disposals	-	(489)	(6,167)	-	(927,564)	-	(2,657)	-	(998,224)	-	(1,935,101)
Transfers	-	(1,373,664)	1,373,664	-	-	-	-	-	-	-	-
1 January 2010	-	14,116,816	1,595,038	3,023,026	39,448,631	75,490	6,683,878	408,808	25,777,130	-	91,128,817
Charge for the year	-	3,038,270	203,775	889,613	10,176,924	26,969	1,862,893	126,763	6,955,403	-	23,280,610
Disposals	-	(9,589)	(558)	(383,728)	(1,101,887)	-	(34,029)	(801)	(680,160)	-	(2,210,752)
Transfers	-	-	-	-	-	-	-	-	-	-	-
<b>31 December 2010</b>	<b>-</b>	<b>17,145,497</b>	<b>1,798,255</b>	<b>3,528,911</b>	<b>48,523,668</b>	<b>102,459</b>	<b>8,512,742</b>	<b>534,770</b>	<b>32,052,373</b>	<b>-</b>	<b>112,198,675</b>
<b>Net book value</b>											
At 31 December 2010	<b>522,139</b>	<b>3,967,465</b>	<b>209,775</b>	<b>5,856,892</b>	<b>59,883,052</b>	<b>67,494</b>	<b>5,637,738</b>	<b>390,448</b>	<b>38,185,341</b>	<b>2,305,759</b>	<b>117,026,103</b>
Net book value											
At 31 December 2009	522,139	6,362,542	402,382	5,955,207	65,199,705	48,564	6,516,517	390,834	43,847,516	1,811,842	131,003,254

# Galfar Engineering and Contracting SAOG and its Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

### 4 PROPERTY, PLANT AND EQUIPMENT – CONSOLIDATED

	Land RO	Site accommoda- tion RO	Tools RO	Building and camp RO	Plant and machinery RO	Lab equipme- nt RO	Furniture and equipment RO	Computer and software RO	Motor vehicles & equipment RO	Capital work in progress RO	Total RO
<b>Cost</b>											
1 January 2009	332,139	19,689,185	-	4,204,296	96,586,923	79,153	10,993,791	693,978	69,977,645	3,387,695	205,944,805
Additions	-	2,647,488	129,386	2,899,653	14,473,396	47,911	2,297,413	24,664	5,685,060	573,292	28,778,263
Disposals	-	(725)	(6,189)	-	(1,976,997)	(3,010)	(4,631)	-	(1,746,294)	(250)	(3,738,096)
Transfers	190,000	(1,856,590)	1,874,229	1,874,284	62,080	-	1,892	-	-	(2,145,895)	-
At 1 January 2010	522,139	20,479,358	1,997,426	8,978,233	109,145,402	124,054	13,288,465	718,642	73,916,411	1,811,842	230,984,972
Additions	-	670,961	11,164	148,495	6,427,546	45,899	1,108,023	228,867	2,552,927	1,399,862	12,593,744
Disposals	-	(41,812)	(560)	(383,730)	(1,575,449)	-	(47,904)	(10,560)	(1,674,563)	-	(3,734,578)
Transfers	-	22,500	-	791,300	92,145	-	-	-	-	(905,945)	-
<b>31 December 2010</b>	<b>522,139</b>	<b>21,131,007</b>	<b>2,008,030</b>	<b>9,534,298</b>	<b>114,089,644</b>	<b>169,953</b>	<b>14,348,584</b>	<b>936,949</b>	<b>74,794,775</b>	<b>2,305,759</b>	<b>239,841,138</b>
<b>Depreciation</b>											
1 January 2009	-	12,307,812	-	2,417,026	32,661,336	56,264	5,226,144	305,290	22,909,537	-	75,883,409
Charge for the year	-	3,183,156	227,546	606,000	10,176,553	19,380	1,545,847	103,518	6,975,017	-	22,837,017
Disposals	-	(489)	(6,167)	-	(927,564)	-	(2,657)	-	(1,200,350)	-	(2,137,227)
Transfers	-	(1,373,664)	1,373,664	-	-	(156)	156	-	-	-	-
1 January 2010	-	14,116,815	1,595,043	3,023,026	41,910,325	75,488	6,769,490	408,808	28,684,204	-	96,583,199
Charge for the year	-	3,039,812	203,769	892,108	10,769,163	26,969	1,878,913	127,793	7,253,899	-	24,192,426
Disposals	-	(9,589)	(558)	(383,728)	(1,205,239)	-	(34,029)	(801)	(1,297,080)	-	(2,931,024)
Transfers	-	-	-	-	-	-	-	-	-	-	-
<b>31 December 2010</b>	<b>-</b>	<b>17,147,038</b>	<b>1,798,254</b>	<b>3,531,406</b>	<b>51,474,249</b>	<b>102,457</b>	<b>8,614,374</b>	<b>535,800</b>	<b>34,641,023</b>	<b>-</b>	<b>117,844,601</b>
<b>Net book value</b>											
At 31 December 2010	<b>522,139</b>	<b>3,983,969</b>	<b>209,776</b>	<b>6,002,892</b>	<b>62,615,395</b>	<b>67,496</b>	<b>5,734,210</b>	<b>401,149</b>	<b>40,153,752</b>	<b>2,305,759</b>	<b>121,999,537</b>
Net book value											
At 31 December 2009	522,139	6,362,542	402,382	5,955,207	67,235,077	48,566	6,521,985	390,834	45,232,207	1,811,842	134,401,799

# Galfar Engineering and Contracting SAOG and its Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

### 4 PROPERTY, PLANT AND EQUIPMENT (continued)

- (a) Capital work-in-progress represents expenses incurred on improvements in the corporate office and other assets.
- (b) The insured value of plant and equipment held under finance leases at 31 December 2010 was RO 17,999,147 (2009: R.O. 13,803,403). Additions during the year include RO 4,195,744 (2009: RO 198,000) of plant and equipment under finance leases. Leased assets are jointly registered as security for the related finance lease liabilities.

- (c) Depreciation of property, plant and equipment is allocated as follows:

	<b>Parent Company</b>		<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>RO</b>	<b>RO</b>	<b>RO</b>	<b>RO</b>
Contract costs (note 25)	<b>22,778,305</b>	21,692,249	<b>23,677,561</b>	22,392,360
General and administrative expenses (note 27)	<b>502,305</b>	444,644	<b>514,865</b>	444,636
	<b>23,280,610</b>	22,136,893	<b>24,192,426</b>	22,836,996

### 5 INVESTMENT IN SUBSIDIARIES

<i>Name of the subsidiaries</i>	<i>Principal activity</i>	<i>Date of acquisition</i>	<i>Proportion of shares acquired</i>	<i>Cost of acquisition RO</i>	<i>Net assets acquired RO</i>	<i>Goodwill RO</i>	<i>Place of incorporation</i>
Al-Khalij Heavy Equipment and Engineering LLC	Hiring out of cranes	1 Jan 2006	52.17%	600,000	324,994	275,006	Sultanate of Oman
Galfar Training Institute LLC	Training	24 Nov 2009	100%	148,500	148,500	-	Sultanate of Oman
Galfar Engineering and Contracting India Pvt Ltd	Construction	1 Apr 2009	100%	8,042	8,042	-	India
				<b>756,542</b>			

# Galfar Engineering and Contracting SAOG and its Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

### 6 INVESTMENT IN ASSOCIATES

	<i>Parent company</i>		<i>Consolidated</i>	
	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
	<i>RO</i>	<i>RO</i>	<i>RO</i>	<i>RO</i>
Mahakaleshwar Tollways Pvt. Ltd. (i)	2,211,389	1,066,573	2,211,389	1,066,573
Ghaziabad Aligarh Expressway Pvt Ltd, India (i)	303,617	-	303,617	-
Shree Jagannath Expressways Pvt Ltd, India (i)	447,148	-	447,148	-
Galfar Engineering & Contracting Kuwait KSC (ii)	5,322,702	-	5,322,702	-
Galfar Wasen Contracting Company, Libya (iii)	57,750	-	57,750	-
	<u>8,342,606</u>	<u>1,066,573</u>	<u>8,342,606</u>	<u>1,066,573</u>

- (i) The group holds 26% shareholding in these associates. All the companies are incorporated in India.
- (ii) The group acquired 26% shareholding in Galfar Engineering & Contracting Kuwait KSC. The company is engaged in construction activities and is incorporated in Kuwait.
- (iii) The group acquired 26% shares in Galfar Wasen Contracting Company, Libya. The company is yet to commence its commercial operations.

### 7 AVAILABLE FOR SALE INVESTMENTS

	<i>Parent company</i>		<i>Consolidated</i>	
	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
	<i>RO</i>	<i>RO</i>	<i>RO</i>	<i>RO</i>
Unquoted local investments	<u>125,000</u>	<u>125,000</u>	<u>145,000</u>	<u>145,000</u>

### 8 INVENTORIES

	<i>Parent company</i>		<i>Consolidated</i>	
	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
	<i>RO</i>	<i>RO</i>	<i>RO</i>	<i>RO</i>
Materials and consumables	24,094,862	23,252,855	24,190,076	23,325,183
Less: allowance for slow-moving inventories	-	(67,633)	-	(80,442)
	<u>24,094,862</u>	<u>23,185,222</u>	<u>24,190,076</u>	<u>23,244,741</u>

The provision has been written off during the year

### 9 TRADE RECEIVABLES

	<i>Parent company</i>		<i>Consolidated</i>	
	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
	<i>RO</i>	<i>RO</i>	<i>RO</i>	<i>RO</i>
Contract receivables	160,960,471	113,554,680	162,696,808	113,554,680
Trade receivables	731,266	741,749	1,466,641	1,087,234
Less: allowance for impaired debts	-	(212,580)	-	(212,580)
	<u>161,691,737</u>	<u>114,083,849</u>	<u>164,163,449</u>	<u>114,429,334</u>
Retentions receivable	19,887,370	8,434,570	20,467,022	8,434,570
	<u>181,579,107</u>	<u>122,518,419</u>	<u>184,630,471</u>	<u>122,863,904</u>

The provision has been written off during the year.

# Galfar Engineering and Contracting SAOG and its Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

### 10 CONTRACTS IN PROGRESS AT THE REPORTING DATE

#### a) Recognized and included in the financial statements as amount due:

	<i>Parent company</i>		<i>Consolidated</i>	
	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
	<i>RO</i>	<i>RO</i>	<i>RO</i>	<i>RO</i>
Work in progress on long term contracts at cost plus attributable profit	<u>45,382,126</u>	<u>45,449,611</u>	<u>45,576,484</u>	<u>45,449,611</u>
To customers under construction contracts recorded as billings in excess of work done (note 23)	<u>(27,474,293)</u>	<u>(15,903,223)</u>	<u>(28,945,968)</u>	<u>(15,903,223)</u>

### 11 PREPAYMENTS, ADVANCES AND OTHER RECEIVABLES

	<i>Parent company</i>		<i>Consolidated</i>	
	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
	<i>RO</i>	<i>RO</i>	<i>RO</i>	<i>RO</i>
Deposits	537,029	460,395	625,134	460,395
Prepaid expenses	3,920,076	3,576,863	3,956,414	3,591,930
Insurance claims	3,365,928	1,924,333	3,365,928	1,924,333
Advance on sub contracts	1,967,944	1,051,949	1,967,944	1,051,949
Due from employees	480,470	327,572	503,764	327,999
Due from related parties (note 32)	3,334,295	897,512	2,365,273	1,179,706
Advance tax paid	128,280	128,280	432,374	150,410
Other receivables	2,120,520	4,057,716	2,122,060	4,061,103
	<u>15,854,542</u>	<u>12,424,620</u>	<u>15,338,891</u>	<u>12,747,825</u>

### 12 DEPOSITS WITH BANKS

	<i>Parent company</i>		<i>Consolidated</i>	
	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
	<i>RO</i>	<i>RO</i>	<i>RO</i>	<i>RO</i>
Term deposits	1,573,728	1,506,985	1,585,008	1,506,985
Margin deposits	671,218	1,249,382	807,916	1,252,022
	<u>2,244,946</u>	<u>2,756,367</u>	<u>2,392,924</u>	<u>2,759,007</u>

The term deposits carry interest rates of 1.00% to 2.75% per annum (2009 - 1.75 % to 4% per annum) and are kept for a period of more than three months from the date of placement.

# Galfar Engineering and Contracting SAOG and its Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

### 13 CASH AND BANK BALANCES

	<i>Parent company</i>		<i>Consolidated</i>	
	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
	<i>RO</i>	<i>RO</i>	<i>RO</i>	<i>RO</i>
Cash on hand	<b>147,056</b>	341,402	<b>158,946</b>	342,296
Bank balances:				
Current accounts	<b>1,242,135</b>	1,303,071	<b>1,549,884</b>	1,455,165
	<b><u>1,389,191</u></b>	<u>1,644,473</u>	<b><u>1,708,830</u></b>	<u>1,797,461</u>

### 14 SHARE CAPITAL

	<i>Consolidated</i>	
	<i>2010</i>	<i>2009</i>
	<i>RO</i>	<i>RO</i>
<b>Authorised:</b>		
500,000,000 (2009 - 500,000,000) ordinary shares		
of par value RO 0.100 (2009 - RO 0.100) each	<b>50,000,000</b>	50,000,000
<b>Issued and fully paid:</b>		
At 1 January	<b>30,000,000</b>	25,000,000
Increased during the year – bonus shares	<b>3,000,000</b>	5,000,000
At 31 December	<b><u>33,000,000</u></b>	<u>30,000,000</u>

At the reporting date the issued and fully paid share capital comprises of 330,000,000 (2009-300,000,000) shares having a par value of RO 0.100 (2009 - RO 0.100) each. Pursuant to the terms of its IPO, as detailed below, the share capital of the parent company has been divided into two classes comprising of 231,000,000 ordinary shares and 99,000,000 preferential voting rights shares (2009:210,000,000 ordinary shares and 90,000,000 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.

In 2007 pursuant to the parent company's 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.

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 then existing 21,000,000 to 210,000,000.

### 15 Share premium

Under the terms of the IPO, 100 million shares were offered for subscription to the general public at 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.

During the year, RO 1,000,000 (2009 – RO 1,666,667) was transferred to statutory reserve account.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

### 16 DIVIDEND

A stock dividend of 10% totalling to 30,000,000 shares of RO 0.100 each and cash dividend of RO 0.010 per ordinary share totalling to RO 3,000,000 proposed for the financial year 2009 was approved at the Annual General Meeting held in March 2010 and subsequently credited to shareholders account during the year.

For the year 2010, a cash dividend of RO 0.010 per ordinary shares totalling to RO 3,300,000 has been proposed by the Board of Directors and will be submitted for the formal approval at the Annual General Meeting of the company to be held in March 2011.

### 17 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. At 31 December 2010 the statutory reserve has reached one third of the issued share capital after the transfer of RO 1,000,000 (2009: RO 1,666,667) to the reserve from the share premium account.

### 18 RETAINED EARNINGS

Retained earnings includes statutory reserve of the subsidiary of RO 154,666 (2009- RO 145,579), which is not available for distribution.

### 19 TERM LOANS

	<i>Parent company</i>		<i>Consolidated</i>	
	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
	<i>RO</i>	<i>RO</i>	<i>RO</i>	<i>RO</i>
Term loans:				
- from banks	<b>41,921,512</b>	45,581,050	<b>41,921,512</b>	45,581,050
- finance companies (Note 33)	-	-	<b>1,148,514</b>	1,944,381
	<b>41,921,512</b>	45,581,050	<b>43,070,026</b>	47,525,431
Less: Current portion				
- from banks	<b>20,872,901</b>	20,000,616	<b>20,872,901</b>	20,000,616
- finance companies (Note 33)	-	-	<b>533,949</b>	795,863
	<b>20,872,901</b>	20,000,616	<b>21,406,850</b>	20,796,479
Long term portion				
- from banks	<b>21,048,611</b>	25,580,434	<b>21,048,611</b>	25,580,435
- finance companies (Note 33)	-	-	<b>614,565</b>	1,148,517
	<b>21,048,611</b>	25,580,434	<b>21,663,176</b>	26,728,952

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 assignments. 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:

	<i>2010</i>	<i>2009</i>
Floating rate loans	LIBOR + 1.25% to 2.4%	LIBOR + 1.2% to 2%
Fixed interest rate loans	5.65% to 8.25%	6.25% to 8.5%

# Galfar Engineering and Contracting SAOG and its Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

### 19 TERM LOANS (continued)

The term loans are repayable as follows:

	<i>Parent company</i>		<i>Consolidated</i>	
	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
	<i>RO</i>	<i>RO</i>	<i>RO</i>	<i>RO</i>
Within one year	<b>20,872,901</b>	20,000,616	<b>21,406,850</b>	20,796,479
In the second year	<b>15,473,037</b>	12,352,657	<b>15,771,651</b>	12,886,609
In the third to fifth year inclusive	<b>5,575,574</b>	13,227,777	<b>5,891,525</b>	13,842,343
	<b><u>41,921,512</u></b>	<u>45,581,050</u>	<b><u>43,070,026</u></b>	<u>47,525,431</u>

### 20 EMPLOYEES' END OF SERVICE INDEMNITY

	<i>Parent company</i>		<i>Consolidated</i>	
	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
	<i>RO</i>	<i>RO</i>	<i>RO</i>	<i>RO</i>
At 1 January	<b>6,050,869</b>	5,084,380	<b>6,147,266</b>	5,181,698
Charge for the year	<b>2,414,327</b>	2,177,118	<b>2,424,294</b>	2,186,606
Amounts paid	<b>(1,256,607)</b>	(1,210,629)	<b>(1,263,604)</b>	(1,221,038)
At 31 December	<b><u>7,208,589</u></b>	<u>6,050,869</u>	<b><u>7,307,956</u></b>	<u>6,147,266</u>

### 21 BANK BORROWINGS

	<i>Parent company</i>		<i>Consolidated</i>	
	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
	<i>RO</i>	<i>RO</i>	<i>RO</i>	<i>RO</i>
Bank overdrafts	<b>2,429,235</b>	2,611,033	<b>2,601,322</b>	2,694,588
Loan against trust receipts	<b>41,198,205</b>	20,267,545	<b>41,198,205</b>	20,267,545
Bills discounted	<b>3,850,000</b>	300	<b>3,850,000</b>	300
	<b><u>47,477,440</u></b>	<u>22,878,878</u>	<b><u>47,649,527</u></b>	<u>22,962,433</u>

Bank borrowings are repayable on demand or within one year. The interest rates on bank borrowings vary between 6% to 9% per annum (2009 - 6% to 9% per annum). Bank borrowings are secured against the contract assignments.

### 22 SHORT TERM LOANS

	<i>Parent company</i>		<i>Consolidated</i>	
	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
	<i>RO</i>	<i>RO</i>	<i>RO</i>	<i>RO</i>
Short term loans:				
From banks	<b><u>18,000,000</u></b>	<u>22,499,920</u>	<b><u>18,000,000</u></b>	<u>22,499,920</u>

The interest rates on bank loans vary between 2.8% to 9% per annum (2009 - 4.5% to 9% per annum). Bank loans are repayable within one year and are secured against the contract assignments.

# Galfar Engineering and Contracting SAOG and its Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

### 23 TRADE AND OTHER PAYABLES

	<i>Parent company</i>		<i>Consolidated</i>	
	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
	<i>RO</i>	<i>RO</i>	<i>RO</i>	<i>RO</i>
Trade payables	<b>95,723,372</b>	94,081,351	<b>96,078,910</b>	94,372,658
Due to related parties (note 32)	<b>2,418,292</b>	5,014,496	<b>3,016,372</b>	4,897,237
Creditors for purchase of property, plant and equipment	<b>2,323,543</b>	4,785,671	<b>2,382,550</b>	4,864,901
Billings in excess of work done (note 10)	<b>27,474,293</b>	15,903,223	<b>28,945,968</b>	15,903,223
Advances on contracts	<b>34,723,868</b>	25,272,123	<b>34,747,987</b>	25,291,046
Accrued expenses	<b>12,799,081</b>	7,825,242	<b>13,154,885</b>	7,885,984
Retention on Sub Contracts	<b>2,563,473</b>	2,086,476	<b>2,563,473</b>	2,086,476
Provision for employees' leave pay and passage	<b>5,323,885</b>	4,942,805	<b>5,341,340</b>	4,962,975
Other payables	<b>440,150</b>	1,097,463	<b>467,085</b>	1,097,462
	<b><u>183,789,957</u></b>	<b><u>161,008,850</u></b>	<b><u>186,698,570</u></b>	<b><u>161,361,962</u></b>

### 24 TAXATION

Income tax is provided for parent company and Omani subsidiaries as per the provisions of the "Law of Income Tax on Companies" at the rate of 12% of taxable profit after adjusting non-assessable and disallowable items and statutory exemption of RO 30,000. It is provided for the Indian subsidiary as per 'Income Tax Act' in India at the rate of 34% of taxable profit after adjusting non-admissible expenses and depreciation difference.

#### a) Income tax expense

	<i>Parent company</i>		<i>Consolidated</i>	
	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
	<i>RO</i>	<i>RO</i>	<i>RO</i>	<i>RO</i>
Tax charge- current year	-	-	<b>744,944</b>	-
Tax charge-earlier year		119,655	-	119,655
Deferred tax charge [note 24 (b)]	<b>617,142</b>	576,528	<b>602,258</b>	689,643
	<b><u>617,142</u></b>	<b><u>696,183</u></b>	<b><u>1,347,202</u></b>	<b><u>809,298</u></b>

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

	<i>Parent company</i>		<i>Consolidated</i>	
	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
	<i>RO</i>	<i>RO</i>	<i>RO</i>	<i>RO</i>
Profit before tax	<b>5,163,285</b>	4,741,040	<b>7,347,287</b>	4,563,562
Tax as per law of respective Country	<b>615,995</b>	670,621	<b>1,320,730</b>	645,724
Tax effect of expenses that are not deductible and temporary differences	<b>1,147</b>	25,562	<b>26,472</b>	163,574
	<b><u>617,142</u></b>	<b><u>696,183</u></b>	<b><u>1,347,202</u></b>	<b><u>809,298</u></b>

# Galfar Engineering and Contracting SAOG and its Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

### 24 TAXATION (continued)

The parent company's income tax assessment up to the year 2007 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 reporting 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 as per tax law of the respective Country.

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

#### Parent Company

	<b>1 Jan 2010 RO</b>	<b>Charged to Income statement RO</b>	<b>31 Dec 2010 RO</b>	<b>1 Jan 2009 RO</b>	<b>Charged to Income statement RO</b>	<b>31 Dec 2009 RO</b>
Property, plant and equipment	8,196,540	(370,329)	7,826,211	6,444,584	1,751,956	8,196,540
Unabsorbed losses (per tax laws)	(1,175,428)	953,845	(221,583)	-	(1,175,428)	(1,175,428)
Trade receivables and inventories	(33,626)	33,626	-	(33,626)	-	(33,626)
	<u>6,987,486</u>	<u>617,142</u>	<u>7,604,628</u>	<u>6,410,958</u>	<u>576,528</u>	<u>6,987,486</u>

#### Consolidated

	<b>1 Jan 2010 RO</b>	<b>Charged to income statement RO</b>	<b>31 Dec 2010 RO</b>	<b>1 Jan 2009 RO</b>	<b>Charged to income statement RO</b>	<b>31 Dec 2009 RO</b>
Property, plant and equipment	8,485,056	(441,563)	8,043,493	6,619,985	1,865,071	8,485,056
Unabsorbed losses (per tax laws)	(1,175,428)	953,845	(221,583)	-	(1,175,428)	(1,175,428)
Trade receivables and inventory	(37,235)	37,235	-	(37,235)	-	(37,235)
Effect of unutilised tax losses	(52,741)	52,741	-	(52,741)	-	(52,741)
	<u>7,219,652</u>	<u>602,258</u>	<u>7,821,910</u>	<u>6,530,009</u>	<u>689,643</u>	<u>7,219,652</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

**25 CONTRACT COSTS**

	<i>Parent company</i>		<i>Consolidated</i>	
	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
	<i>RO</i>	<i>RO</i>	<i>RO</i>	<i>RO</i>
Materials	<b>123,601,445</b>	175,011,095	<b>127,218,398</b>	175,304,685
Manpower costs	<b>86,947,363</b>	82,498,252	<b>88,320,506</b>	83,076,284
Sub-contracting	<b>68,968,326</b>	76,953,140	<b>70,613,596</b>	76,953,140
Depreciation of property, plant and equipment [note 4 (c)]	<b>22,778,305</b>	21,692,249	<b>23,677,561</b>	22,392,360
Hire of equipment and vehicles	<b>7,478,066</b>	6,469,148	<b>7,980,425</b>	6,085,454
Fuel	<b>15,824,341</b>	14,674,053	<b>16,674,444</b>	14,674,053
General and administration expenses (note 27)	<b>12,821,214</b>	13,953,201	<b>13,615,985</b>	14,085,244
Repair and maintenance -plant & equipment	<b>1,571,538</b>	1,994,811	<b>1,747,309</b>	2,087,688
Training expenses	-	189,163	<b>187,026</b>	189,163
	<b>339,990,598</b>	393,435,112	<b>350,035,250</b>	394,848,071

**26 SALES AND SERVICES INCOME**

	<i>Parent company</i>		<i>Consolidated</i>	
	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
	<i>RO</i>	<i>RO</i>	<i>RO</i>	<i>RO</i>
Sales	<b>1,332,850</b>	1,824,706	<b>1,332,850</b>	1,824,706
Hiring services	-	-	<b>1,805,560</b>	1,498,428
Training services	-	359,260	<b>970,543</b>	359,260
	<b>1,332,850</b>	2,183,966	<b>4,108,953</b>	3,682,394

# Galfar Engineering and Contracting SAOG and its Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

### 27 GENERAL AND ADMINISTRATIVE EXPENSES

	<i>Parent company</i>		<i>Consolidated</i>	
	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
	<i>RO</i>	<i>RO</i>	<i>RO</i>	<i>RO</i>
Manpower costs	5,348,145	5,127,172	5,720,250	5,127,172
Rent	2,704,050	2,495,226	2,770,431	2,522,996
Electricity and water charges	3,626,940	3,902,063	3,658,075	3,908,822
Insurance charges	3,114,650	2,872,479	3,187,893	2,932,569
Bank guarantee and other charges	1,699,608	1,735,061	1,713,697	1,735,061
Legal and professional charges	1,088,612	1,187,641	1,255,597	1,187,641
Communication	969,751	1,017,257	994,172	1,026,334
Business promotion	808,616	1,254,729	811,086	1,256,822
Traveling expenses	616,895	898,486	680,712	898,486
Depreciation [note 4 (c)]	502,305	444,644	514,865	444,644
Printing and stationery	290,748	352,490	303,135	354,714
Repairs and maintenance	283,940	271,319	298,333	271,319
Tender fees	155,034	175,495	155,034	175,495
Directors expenses	145,143	194,111	145,143	200,111
Miscellaneous expenses	667,634	776,240	736,253	794,270
Pre-incorporation expenses	-	-	18,865	-
Indirect taxes	-	-	348,393	-
	<u>22,022,071</u>	<u>22,704,413</u>	<u>23,311,934</u>	<u>22,836,456</u>
Pertaining to contract costs (note 25)	<u>(12,821,214)</u>	<u>(13,953,201)</u>	<u>(13,615,985)</u>	<u>(14,085,244)</u>
	<u>9,200,857</u>	<u>8,751,212</u>	<u>9,695,949</u>	<u>8,751,212</u>

### 28 NET FINANCING COSTS

	<i>Parent company</i>		<i>Consolidated</i>	
	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
	<i>RO</i>	<i>RO</i>	<i>RO</i>	<i>RO</i>
Interest costs	4,964,179	4,719,288	5,265,681	4,888,948
Interest income	(49,244)	(585,396)	(59,123)	(585,396)
	<u>4,914,935</u>	<u>4,133,892</u>	<u>5,206,558</u>	<u>4,303,552</u>

### 29 OTHER INCOME

	<i>Parent company</i>		<i>Consolidated</i>	
	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
	<i>RO</i>	<i>RO</i>	<i>RO</i>	<i>RO</i>
Gain on sale of equipment	89,254	62,997	167,688	128,206
Miscellaneous income	550,084	363,991	589,553	370,273
	<u>639,338</u>	<u>426,988</u>	<u>757,241</u>	<u>498,479</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

**30 EARNINGS PER SHARE**

	<i>Parent company</i>		<i>Consolidated</i>	
	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
	<i>RO</i>	<i>RO</i>	<i>RO</i>	<i>RO</i>
Profit for the year (RO)	<b>4,546,144</b>	4,044,857	<b>5,993,680</b>	3,830,520
Weighted average number of shares	<b>330,000,000</b>	330,000,000	<b>330,000,000</b>	330,000,000
Basic earnings per share (RO)	<b>0.014</b>	0.012	<b>0.018</b>	0.012

The par value of each share is 100 baizas. During the year ended 31 December 2010, the company issued 30,000,000 shares of RO 0.1 for each share which was transferred from retained earnings to share capital to the existing shareholders. As the bonus issue was without consideration, the number of ordinary shares outstanding before the event is adjusted for the proportionate change in the number of ordinary shares outstanding as if the event had occurred at the beginning of the earliest period presented.

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

**31 NET ASSETS PER SHARE**

Net assets per share is calculated by dividing the equity attributable to equity holders of the parent at the year end by the number of shares issued and paid up, as follows:

	<i>Parent company</i>		<i>Consolidated</i>	
	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
	<i>RO</i>	<i>RO</i>	<i>RO</i>	<i>RO</i>
Net assets (RO)	<b>83,451,847</b>	81,905,704	<b>85,009,605</b>	82,015,925
Number of shares outstanding at the year end	<b>330,000,000</b>	300,000,000	<b>330,000,000</b>	300,000,000
Net assets per share (RO)	<b>0.253</b>	0.273	<b>0.257</b>	0.273

**32 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.

# Galfar Engineering and Contracting SAOG and its Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

### 32 RELATED PARTY TRANSACTIONS (continued)

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

	<i>Parent company</i> <b>2010</b> <b>RO</b>	<i>2009</i> <i>RO</i>	<i>Consolidated</i> <b>2010</b> <b>RO</b>	<i>2009</i> <i>RO</i>
Hire charges	<b>304,995</b>	590,729	<b>1,163,592</b>	1,687,074
Contract income	<b>1,397,800</b>	53,833	<b>1,397,800</b>	53,833
Purchase of property, plant and equipment	<b>245,242</b>	372,508	<b>245,242</b>	372,508
Purchase of goods / services	<b>3,675,693</b>	5,157,682	<b>3,739,010</b>	5,207,182

Amounts due from and due to related parties are disclosed in notes 11 and 23 respectively.

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 to members of key management during the year was as follows:

	<i>Parent company</i> <b>2010</b> <b>RO</b>	<i>2009</i> <i>RO</i>	<i>Consolidated</i> <b>2010</b> <b>RO</b>	<i>2009</i> <i>RO</i>
Short term benefits	<b>837,219</b>	1,062,243	<b>928,429</b>	1,091,513
Post employment benefits	<b>10,035</b>	7,060	<b>10,610</b>	7,060
	<b>847,254</b>	1,069,303	<b>939,039</b>	1,098,573

### 33 COMMITMENTS AND CONTINGENCIES

	<i>Parent company</i> <b>2010</b> <b>RO</b>	<i>2009</i> <i>RO</i>	<i>Consolidated</i> <b>2010</b> <b>RO</b>	<i>2009</i> <i>RO</i>
Bonds and guarantees	<b>174,456,124</b>	140,069,030	<b>174,692,694</b>	140,071,670
Letters of credit	<b>24,434,218</b>	23,845,210	<b>24,434,218</b>	23,845,210
Capital commitments	<b>297,750</b>	9,622,840	<b>297,750</b>	9,622,840
	<b>199,188,092</b>	173,537,080	<b>199,424,662</b>	173,539,720



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

**33 COMMITMENTS AND CONTINGENCIES (continued)**

**Finance lease commitments**

The Group has finance leases for various items of plant and machinery. These leases have terms of renewal but no purchase options and escalation clauses. Renewals are at the option of the specific entity that holds the lease. Future minimum lease payments under finance leases and hire purchase contracts together with the present value of the net minimum lease payments are as follows:

	<b>31/12/2010</b>		<b>31/12/2009</b>	
	<i>Minimum payments</i>	<i>Present value of payments</i>	<i>Minimum payments</i>	<i>Present value of payments</i>
	<i>RO</i>	<i>RO</i>	<i>RO</i>	<i>RO</i>
Within one year	<b>3,576,348</b>	<b>3,139,692</b>	2,930,502	2,648,431
After one year but not more than five years	<b>5,232,590</b>	<b>4,809,696</b>	3,054,503	2,897,155
Total minimum lease payments	<b>8,808,938</b>	<b>7,949,388</b>	439,419	-
Less amounts representing finance charges	<b>859,550</b>	-	439,419	-
Present value of minimum lease payments	<b>7,949,388</b>	<b>7,949,388</b>	5,545,586	5,545,586

**34 BUSINESS SEGMENTS**

The Group operates in two geographical segments, Sultanate of Oman and India, where construction operation started from the current period.

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.

The group business is divided in three segments – Construction, Hiring of Equipment and Training of Personnel. The principal activities of Parent Company and India subsidiary are civil & mechanical construction, public health engineering, road construction, electrical, plumbing and maintenance contracts. The other activities are hiring out of cranes, equipment & other vehicles and training of drivers, operators & others.

# Galfar Engineering and Contracting SAOG and its Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

### 34 BUSINESS SEGMENTS (continued)

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

	<i>Construction</i>			<i>Hiring</i>		<i>Training</i>			<i>Eliminations</i>			<i>Consolidated</i>	
	<b>2010</b>	2009	<b>2010</b>	2009		<b>2010</b>	2009		<b>2010</b>	2009		<b>2010</b>	2009
	RO	RO	RO	RO		RO	RO		RO	RO		RO	RO
Segment revenue	<b>369,419,638</b>	410,701,996	<b>1,805,560</b>	1,569,919		<b>970,543</b>	-	-	(590,729)		<b>372,285,044</b>	412,631,175	
Segment expenses	<b>(363,510,420)</b>	(406,259,746)	<b>(1,792,950)</b>	(1,860,512)		<b>(892,286)</b>	-		(590,729)		<b>(366,284,959)</b>	(408,876,911)	
Segment results	<b>5,909,218</b>	4,442,250	<b>12,610</b>	(290,593)		<b>78,257</b>	-	-			<b>6,000,085</b>	3,754,264	
<b>Segmental assets and liabilities</b>													
Segment assets	<b>388,215,367</b>	364,699,827	<b>4,067,102</b>	3,553,885		<b>259,717</b>	-	-	(1,571,564)		<b>420,730,112</b>	354,132,254	
Segment liabilities	<b>304,763,520</b>	268,471,421	<b>2,693,234</b>	2,792,627		<b>31,460</b>	-	-	(971,564)		<b>335,063,065</b>	271,465,293	

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

### 35 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT

The Group's principal financial liabilities, comprise loans and borrowings, trade and other payables. The main purpose of these financial liabilities is to raise finances for the group's operations. The group has loan and other receivables, trade and other receivables, and cash and short-term deposits that arrive directly from its operations. The Group also holds available-for-sale investments.

The group's activities expose it to various financial risks, primarily being, market risk (including currency risk, interest rate risk, and price risk), credit risk and liquidity risk. The Group's risk management is carried out internally in accordance with the policies approved by the Board of Directors.

#### **Market risk**

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise three types of risk: interest rate risk, currency risk, commodity price risk and other price risk, such as equity risk. Financial instruments affected by market risk include loans and borrowings, deposits, available-for-sale investments, and derivative financial instruments

#### **Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group is exposed to interest rate risk on its interest bearing assets and liabilities (short term bank deposits, held to maturity investments, bank borrowings and term loans). The management manages the interest rate risk by constantly monitoring the changes in interest rates and availing lower interest bearing facilities.

#### **Foreign currency risk**

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group operates in international markets and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar, Euros, Pound sterling and all GCC currencies.

The majority of the Group's financial assets and financial liabilities are either demoninated in local currency (Rials Omani) or currency fixed against Rials Omani. A portion of term loan is due in US Dollars. As the Omani Rial is pegged to the US Dollar, balances in US Dollars are not considered to represent significant currency risk. Hence the management believes that there would not be a material impact on the profitability if these foreign currencies weakens or strengthens against the Omani Rials with all other variables held constant.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

**35 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (Continued)**

**Equity price risk**

The Group is exposed to price risk related to quoted investments held by the Group and traded in organized financial markets. To manage its price risk arising from investments in equity, the management continuously monitors the market and the key factors that effect stock market movements. The management believes that the impact of price fluctuation on the quoted investments will not be material considering the amount of quoted investments at the reporting date.

**Credit risk**

Credit risk primarily arises from credit exposures to customers, including outstanding receivables and committed transactions. The Group has a credit policy in place and exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. The group seeks to limit its credit risk with respect to banks by only dealing with reputable banks and with respect to customers by setting credit limits for individual customers and monitoring outstanding receivables.

**Capital management**

The group's objectives when managing capital are to safeguard the group's ability to continue as a going concern and benefit other stake holders. 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.

There has been no change in the group's objectives, policies or process during the year ended 31 December 2010 and 31 December 2009.

# Galfar Engineering and Contracting SAOG and its Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

### 35 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (Continued)

#### (A) 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 reporting date was:

	<i>Parent company</i>		<i>Consolidated</i>	
	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
	<i>RO</i>	<i>RO</i>	<i>RO</i>	<i>RO</i>
Retentions receivables	<b>36,292,438</b>	33,734,407	<b>36,872,315</b>	33,734,410
Trade receivables	<b>161,691,737</b>	114,296,429	<b>164,163,449</b>	114,641,914
Prepayments, advances and other receivables	<b>15,854,542</b>	12,424,620	<b>15,338,891</b>	12,747,825
Deposits with banks	<b>2,244,946</b>	2,756,367	<b>2,392,924</b>	2,759,007
Bank balances	<b>1,389,191</b>	1,644,473	<b>1,708,830</b>	1,797,461
	<b>217,472,854</b>	164,856,296	<b>220,476,183</b>	165,680,617

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

	<i>Parent company</i>		<i>Consolidated</i>	
	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
	<i>RO</i>	<i>RO</i>	<i>RO</i>	<i>RO</i>
Petroleum Development Oman	<b>27,469,391</b>	21,719,221	<b>27,469,391</b>	21,719,221
Government customers	<b>113,016,267</b>	64,673,521	<b>113,780,220</b>	64,673,521
Private customers	<b>21,206,079</b>	27,903,687	<b>22,913,838</b>	28,249,172
	<b>161,691,737</b>	114,296,429	<b>164,163,449</b>	114,641,914

The group has established credit policies and procedures that are considered appropriate for the operations of the Company. The group'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.

##### b) The age of trade receivables at the reporting date was:

	<i>Parent company</i>		<i>Consolidated</i>	
	<i>Gross</i>	<i>Impairment</i>	<i>Gross</i>	<i>Impairment</i>
	<i>RO</i>	<i>RO</i>	<i>RO</i>	<i>RO</i>
<b>31 December 2010</b>				
Not past due	<b>35,023,983</b>	-	<b>35,142,571</b>	-
Past due 0 - 180 days	<b>93,730,257</b>	-	<b>96,083,381</b>	-
Past due 181 - 365 days	<b>3,742,918</b>	-	<b>3,742,918</b>	-
More than 365 days	<b>29,194,579</b>	-	<b>29,194,579</b>	-
	<b>161,691,737</b>	-	<b>164,163,449</b>	-

# Galfar Engineering and Contracting SAOG and its Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

### 35 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (Continued)

#### (A) CREDIT RISK (continued)

	<i>Parent company</i>		<i>Consolidated</i>	
	<i>Gross RO</i>	<i>Impairment RO</i>	<i>Gross RO</i>	<i>Impairment RO</i>
31 December 2009				
Not past due	41,129,452	-	41,291,423	-
Past due 0 - 180 days	47,865,506	-	48,049,019	-
Past due 181 - 365 days	5,149,951	-	5,149,951	-
More than 365 days	20,151,520	212,580	20,151,520	212,580
	<u>114,296,429</u>	<u>212,580</u>	<u>114,641,914</u>	<u>212,580</u>

#### (B) LIQUIDITY RISK

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

##### a) Parent company

<i>Year ended 31 December 2010</i>	<i>Carrying amount</i>	<i>0 - 90 days</i>	<i>91 – 180 days</i>	<i>181 - 365 days</i>	<i>&gt;365 Days</i>
	<i>RO</i>	<i>RO</i>	<i>RO</i>	<i>RO</i>	<i>RO</i>
Term loans	41,921,512	6,916,841	6,698,500	7,257,560	21,048,611
Finance lease liability	5,545,586	618,770	626,772	1,245,541	3,054,503
Bank borrowings	47,477,440	32,138,916	15,326,777	11,747	-
Short term loans	18,000,000	18,000,000	-	-	-
Non Current Creditors for purchase of property, plant and equipment	1,732,646	-	-	-	1,732,646
Trade and other payables	183,789,957	147,496,674	27,219,962	9,073,321	-
	<u>298,467,141</u>	<u>205,171,201</u>	<u>49,872,011</u>	<u>17,588,169</u>	<u>25,835,7605</u>

# Galfar Engineering and Contracting SAOG and its Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

### 35 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (Continued)

#### (B) LIQUIDITY RISK (continued)

b) Consolidated

<i>Year ended 31 December 2010</i>	<i>Carrying amount</i>	<i>0 - 90 days</i>	<i>91 - 180 days</i>	<i>181 - 365 days</i>	<i>&gt;365 days</i>
	<i>RO</i>	<i>RO</i>	<i>RO</i>	<i>RO</i>	<i>RO</i>
Term loans	43,070,026	7,139,388	6,921,047	7,602,741	21,406,850
Finance lease liability	7,949,388	675,699	682,700	1,358,399	5,232,590
Bank borrowings	47,649,526	32,311,002	15,326,777	11,747	-
Short term loans	18,000,000	18,000,000	-	-	-
Non current creditors for purchase of property, plant and equipment	1,756,659	-	-	-	1,756,659
Trade and other payables	186,698,570	149,835,366	27,647,403	9,215,801	-
	<u>305,124,169</u>	<u>207,961,455</u>	<u>50,577,927</u>	<u>18,188,688</u>	<u>28,396,099</u>

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

a) Parent company

<i>Year ended 31 December 2009</i>	<i>Carrying amount RO</i>	<i>0 - 90 days RO</i>	<i>91 - 180 days RO</i>	<i>181 - 365 days RO</i>	<i>&gt;365 days RO</i>
Term loans	45,581,047	5,000,153	5,000,153	10,000,307	25,580,434
Creditors for purchase of property, plant and equipment	3,909,088	-	-	-	3,909,088
Bank borrowings	22,878,879	14,015,601	8,863,278	-	-
Short term loans	22,499,920	22,499,920	-	-	-
Trade and other payables	159,556,185	127,644,948	23,933,428	7,977,809	-
	<u>254,425,119</u>	<u>169,160,622</u>	<u>37,796,859</u>	<u>17,978,116</u>	<u>29,489,522</u>

b) Consolidated

<i>Year ended 31 December 2009</i>	<i>Carrying amount RO</i>	<i>0 - 90 days RO</i>	<i>91 - 180 days RO</i>	<i>181 - 365 days RO</i>	<i>&gt;365 days RO</i>
Term loans	53,071,011	5,855,982	5,855,982	11,711,965	29,647,082
Creditors for purchase of property, plant and equipment	3,909,088	-	-	-	3,909,088
Bank borrowings	22,878,879	14,015,601	8,863,278	-	-
Short term loans	22,499,920	22,499,920	-	-	-
Trade and other payables	159,909,297	127,927,437	23,986,394	7,995,466	-
	<u>262,268,195</u>	<u>170,298,940</u>	<u>38,705,654</u>	<u>19,707,431</u>	<u>33,556,170</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

**35 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (Continued)**

**(C) INTEREST RATE RISK**

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

Term loans of RO 19,580,388 (2009 - RO 16,391,764) are recognized at fixed interest rates and expose the Group to the fair value interest rate risk. The remaining term loans of RO 22,341,170 (2009 - RO 29,189,283) are recognized at floating rates thus exposing the Group to cash flow interest rate risk.

The company's short term bank deposits carry fixed rates of interest and therefore are not exposed to interest rate risk.



# Galfar Engineering and Contracting SAOG and its Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

### 36 FAIR VALUES OF FINANCIAL INSTRUMENTS

#### Fair values

Financial instruments comprise financial asset and financial liabilities.

Financial assets consist of bank balances, receivables and available for sale investments. Financial liabilities consist of term loans and payables.

Set out below is a comparison by class of the carrying amounts and fair value of the Group's financial instruments that are carried in the financial statements.

	Carrying amount				Fair value			
	2010		2009		2010		2009	
	Group RO	Parent RO	Group RO	Parent RO	Group RO	Parent RO	Group RO	Parent RO
<b>Financial assets</b>								
Trade and other receivables	184,630,471	181,579,107	122,122,155	121,776,670	184,630,471	181,579,107	122,122,155	121,776,670
Available for sale investments	145,000	125,000	145,000	125,000	145,000	125,000	145,000	125,000
Due from related parties	2,365,273	3,334,295	1,179,706	897,512	2,365,273	3,334,295	1,179,706	897,512
Bank balances and deposits	4,101,754	3,634,137	1,648,961	1,644,473	4,101,754	3,634,137	1,648,961	1,644,473
Investment in associates	8,342,831	8,217,606	1,066,573	1,066,573	8,342,831	8,217,606	1,066,573	1,066,573
Total	<u>199,585,329</u>	<u>196,890,145</u>	<u>126,162,395</u>	<u>125,510,228</u>	<u>199,585,329</u>	<u>196,890,145</u>	<u>126,162,395</u>	<u>125,510,228</u>
<b>Financial liabilities</b>								
Trade and other payables	96,078,910	95,723,372	159,909,297	159,556,185	96,078,910	95,723,372	159,909,297	159,556,185
Due to related parties	3,016,372	2,418,292	4,897,237	5,014,496	3,016,372	2,418,292	4,897,237	5,014,496
Bank borrowings	47,649,526	47,477,440	22,962,434	22,878,879	47,649,526	47,477,440	22,962,434	22,878,879
Term loans	61,070,026	59,921,512	75,570,934	68,679,962	61,070,026	59,921,512	75,570,934	68,679,962
Total	<u>207,814,834</u>	<u>205,540,616</u>	<u>263,339,902</u>	<u>256,129,522</u>	<u>207,814,834</u>	<u>205,540,616</u>	<u>263,339,902</u>	<u>256,129,522</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

**37 KEY SOURCES OF ESTIMATION UNCERTAINTY**

**Estimates and assumptions**

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below :

**Impairment of accounts receivable**

An estimate of the collectible amount of trade accounts receivable is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and a provision applied according to the length of time past due.

At the reporting date, gross trade accounts receivable were RO 184,630,471(2009: RO 122,863,904), and the provision for doubtful debts was RO nil (2009: RO 212,580). Any difference between the amounts actually collected in future periods and the amounts expected will be recognised in the statement of comprehensive income.

**Percentage of completion**

The company uses the survey method when accounting for contract revenue. Use of the survey method requires the company to reliably estimate the costs by reference to the stage of completion of the construction activity at the reporting date. The accuracy of this estimate has a material impact on the amount of revenue and related profits recognised. Any revision to profit arising from changes in estimates is accounted for in the period when the changes become known.

**Impairment of inventories**

Inventories are held at the lower of cost and net realisable value. When inventories become old or obsolete, an estimate is made of their net realisable value. For individually significant amounts this estimation is performed on an individual basis. Amounts which are not individually significant, but which are old or obsolete, are assessed collectively and a provision applied according to the inventory type and the degree of ageing or obsolescence, based on anticipated selling prices.

At the reporting date, gross inventories were RO 24,094,862(2009: RO 23,325,183 ) with provisions for old and obsolete inventories of RO Nil (2009: RO 80,442) respectively. Any difference between the amounts actually realised in future periods and the amounts expected will be recognised in the statement of comprehensive income.

**Useful lives of property, plant and equipment**

The group's management determines the estimated useful lives of its property, plant and equipment for calculating depreciation. This estimate is determined after considering the expected usage of the asset or physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation charge would be adjusted where the management believes the useful lives differ from previous estimates.

**Impairment of equity investments**

The group treats available-for-sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment, which is critically evaluated by the group on a case to case basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

**37 KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)**

**Taxes**

Uncertainties exist with respect to the interpretation of tax regulations and the amount and timing of future taxable income. Given the wide range of business relationships and nature of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The group establishes provisions, based on reasonable estimates, for possible consequences of finalisation of tax assessments of respective group companies. The amount of such provisions is based on various factors, such as experience of previous tax assessments and differing interpretations of tax regulations by the taxable entity and the responsible tax authority.

**38 COMPARATIVE AMOUNTS**

Certain of the corresponding figures for 2009 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.