DIRECTORS' REPORT

Dear Shareholders,

I am delighted to welcome you all on behalf of the Board of Directors to the first Annual General Meeting of Galfar as a SAOG Company and to present the Annual Report for the year ended 31st December 2007.

As you are aware during the year Galfar made a very successful Initial Public Offering and the shares were listed at Muscat Securities Market on 24th October 2007. I thank you all for your support to the Public Issue and for affirming your confidence in the Company.

ECONOMY:

Year 2007 witnessed record oil price, a robust economy and increased infrastructure and developmental spending by the government. As you may know, the budget for 2008 emphasises on development. The oil production is projected to be higher by 8%, gas revenue up by 13% and the expenditure for oil & gas production is budgeted to increase by 12%. The government has also increased allocation to various development projects identified in the seventh 5 year plan by 45%. There is also higher allocation for education, health etc.

The GCC Common Market which came into effect from 01.01.2008 will help integrate the GCC economics and allow member states with the free flow of capital and labour. All these, measures are very good for the overall development of the economy. So, I am please to say that your company is in a good position to play an active role in this process of development.

OPERATIONS:

Details on the operating results of the Company for the year 2007 and outlook for the Industry for 2008 are reflected in the 'Management Discussion & Analysis' report included in the Annual Report for the year 2007.

The summary of the performance of the Company (including Subsidiary) is as follows:

In RO Million

Particulars	2007	2006	% Increase
Gross revenue	268.71	165.52	62
EBIDTA	39.53	27.27	45
Profit from Operation	26.93	19.43	39
Net Profit After Tax	22.33	16.63	34

The Earnings Per Share for the year 2007 is RO.0.103 on the face value of RO.0.100.

SUBSIDIARY:

Messrs Al Khalij Heavy Equipment & Engineering LLC, a subsidiary of the Company, engaged in transportation and logistics business has achieved turnover of R.O.2.50 Mn. during the year 2007 as compared to R.O.1.82 Mn. in 2006 an increase of 37% over the previous year. More than half of this revenue is from services provided to customers other than Galfar. Profit for the period has registered a remarkable growth, from R.O.121,466/- in 2006 to R.O.366,309/- in 2007. Financials of this subsidiary are consolidated with Galfar.

OMANISATION:

Galfar employs 5400 Omani Nationals in various categories, which is about 22.5% of its work force. According to Ministry of Manpower this is the highest in the contracting sector.

Galfar considers inducting, training and employing Omani's as national priority and has two training centres, one in Muscat and the other in Sohar. Galfar also periodically send Omani's to other countries to get them trained on various skills.

CORPORATE GOVERNANCE:

Your Company would like to achieve the highest standards of Corporate Governance. A detailed Corporate Governance Report is included in the Annual Report for the year ended 2007.

HEALTH, SAFETY & ENVIRONMENT:

The company has a very active programme for quality, health, safety, environmental and social responsibilities. Over the years Galfar has achieved several milestones in this regard.

As you are aware, your Company is already certified for ISO 9001 : 2001 Standards of Quality Management System since 1995 and during the course of the year 2007 the Company has also been certified for ISO 14001 and OHSAS 18001 Standards which are landmark achievements in our pursuit to achieve a healthy and environment friendly work atmosphere.

Health, Safety & Environment is a top priority for the management of Galfar and we have been very successfully working with Petroleum Development of Oman (PDO) and other petroleum concessionaries in the Sultanate of Oman for ensuring 'zero' accident levels as well as better quality of life. During the course of the year your Company have driven 97 million kms and have worked 77 million man-hours across all our Units. Our Lost Time Injury Frequency (LTIF) for the year is 0.56 against a set limit of 0.7, which is a significant achievement.

Apart from the above programme Galfar also undertakes and contribute its resources in emergency and special situations like adverse weather condition in June.

DIVIDEND POLICY:

The Company proposes to follow a stable dividend policy based on Company's need for retained earnings to support growth, dividend pay out and overall value creation to the shareholders. In the prospectus to the IPO dividend @ 35% for 2007 on the face value of the share was indicated. The Board has pleasure in recommending a dividend of 40 baisa for each 100 baisa share for the year ended 31.12.2007.

OUTLOOK:

As stated already, Galfar is very much part of Oman's developmental plans and are extensively involved in construction of Infrastructure Projects. The Company's Order Book ensures continued growth in revenue. However the prevailing higher oil prices are often accompanied with price increases in raw materials like Cement, Steel, Bitumen etc. The pressure on profit margin owing to this increase in raw material prices could be offset by increased contract income and economies of scale.

ON RECORD:

We are indeed grateful to His Majesty Sultan Qaboos Bin Said for providing an economic base and environment for sustainable long-term growth as well as opportunities for private and public sector in the development of the Omani economy.

The Board records its sincere appreciation to Capital Market Authority, Muscat Securities Market, Muscat Depository & Security Registration Company, Issue Advisor and Managers, Collecting Banks and all others involved in the IPO for their guidance and support for the successful public listing of the company.

Also, the Board would like to thank all Ministries and Government Agencies, Muscat Municipality, Royal Oman Police, Petroleum Development Oman and other Companies working in the Oil & Gas sector in Oman, Commercial Banks and Financial Institutions in Oman and abroad where we have relationship, Consultants, Sub-contractors, Dealers and all Clients of the Company, for their generous cooperation and continued support.

We would also like to thank all the staff and management of the company for their outstanding performance and delivering what the company had promised.

Salim Said Hamad Al Fannah Al Araimi
Chairman

Deloitte.

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TO THE SHAREHOLDERS OF
GALFAR ENGINEERING AND CONTRACTING SAOG

We have performed the procedures prescribed in Capital Market Authority (CMA) circular no 16/2003, dated 29 December 2003 with respect to the accompanying corporate governance report of **Galfar Engineering and Contracting SAOG** and its application of corporate governance practices in accordance with the CMA Code of Corporate Governance issued under circular no. 11/2002 dated 3 June 2002 and the CMA Rules and Guidelines on disclosure, issued under CMA administrative decision 5, dated 27 June 2007. Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon procedures engagements. The procedures were performed solely to assist you in evaluating the extent of the company's compliance with the code as issued by the CMA.

We report our findings below:

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

Because the above procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing or International standards on Review Engagements, we do not express any assurance on the corporate governance report.

Had we performed additional procedures or had we performed an audit or review of the corporate governance report in accordance with International Standards on Auditing or International Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.

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

Deloitte & Touche (M.E.)
Muscat, Sultanate of Oman
28 February 2008

Corporate Governance Report:

The year 2007 has been an eventful one for Galfar, wherein the Company entered the capital markets through an Initial Public offering (IPO) and thereby enhancing it's paid up capital to RO 25 Million. The Constitutive General Meeting of the Shareholders which approved the transformation of Galfar Engineering & Contracting from a Limited Liability Company (LLC) to a Stock Associate Omani General (SAOG) was held on 9th October 2007. The commercial registration certificate of the Company as SAOG issued by Ministry of Commerce & Industry was received on 23rd October 2007 and the shares of the Company was listed and traded on Muscat Securities Market on 24th October 2007.

The concept of governance at Galfar envisages care of the Company to enhance the value of all its stakeholders, that by adhering to proper methods of: management, internal controls, accountability, corporate governance rules and high level of transparency to the extent of not affecting the competing position of the Company. As the Company - before transformation - was and continue applying a well defined Management Systems Procedures (MSPs) in accordance with ISO 9001, the adherence to such principles would be attainable.

The Company, during the short period between the date of transformation to a Joint Stock Company and end of fiscal year 2007 (83 days), has managed to exercise proper implementation of the rules and guidelines issued by Capital Market Authority particularly the rules of code of corporate governance as amended by Circular No.1/2003, Administrative Decisions No.4, 5 and 6/2002 and the rules on disclosure by Issuer of securities and insider trading effective 1st October, 2007. In the same mentioned period, the Company has prepared internal regulations viz. the revised Manual of Financial Authority, Audit Committee Charter and Internal Audit Charter. The revised Manual of Authority was approved by the Board on 29-12-2007 and the two Audit Charters were approved on 28-02-2008. The Company has set plan to complete preparation and approval of other internal regulations including Corporate Information and Disclosure Policy within the time limit specified in Article 68 of the Commercial Companies Law.

The Board Members having professional and/or practical experiences in their diversified fields of profession as shown as profile in the Annual Report booklet, have given great support to the Board to exercise its widest authorities in managing the Company and supervise the good performance of the Company's business. During the period, the Company made available to the Board Members, a comprehensive information on the affairs of the Company and met all high Executive Managers in a presentation forum made to the Board to discuss and review the Company's business plan and strategic plan for the year 2008.

….. 2/-

Board of Directors:

The first Board of Directors duly elected by the Constitutive General Meeting of the Shareholders on October 9th, 2007 comprises of Nine members. All the Nine members are non-executive and five members are Independent Directors. The Members of the Board are all having professional and practical experience in their respective corporate fields ensuring proper direction and control of company's activities.

Sr. No.	Name of Directors & Representatives	Designation	Category	Directorship in other Joint Stock Companies
1.	Sheikh Dr.Salim Said Hamed Al Fannah Al Araimi	Chairman	Non-Executive	Omani Packaging Co. S.A.O.G
2.	Dr. P. Mohamed Ali	Vice Chairman	Non-Executive	Nil
3.	Dr.Hamed Hashim Mohamed Al Dhahab Al Dhailani	Member	Non-Executive Independent	Oman & Emirates Investment Holding Co. S.A.O.G The Financial Corporation Co. S.A.O.G (FINCORP)
4.	Dr.Adil Abdulaziz Yahya Al Kindy	Member	Non-Executive Independent	Ahli Bank SAOG
5.	Dr.Hatem Bakheit Saeed Al Shanfari	Member	Non-Executive Independent	Gulf Investment Services Co. S.A.O.G Al Omaniya Financial Services S.A.O.G
6.	Sheikh Yahya Abdullah Salim Al Fannah Al Araimi	Member	Non-Executive Independent	Nil
7.	Engr.Ali Mohamed Ali Al Mahrouqi	Member	Non-Executive Independent	A'Sharqiya Investment Holding Co. S.A.O.G
8.	Engr.Majid Salim Said Al Fannah Al Araimi (Representing Aimaar United Investment & Projects LLC)	Member	Non-Executive	Oman International Development & Investment Co. S.A.O.G (OMINVEST)
9.	Ms.Budoor Mohamed Rashid Al Fannah Al Araimi (Representing Al Siraj Investments & Projects LLC)	Member	Non-Executive	Gulf Plastic Industries Co. S.A.O.G A'Sharqiya Investment Holding Co. S.A.O.G

.....3/-

Board Meetings:

During the period from the date of election of the Board of Directors on 9th October, 2007 up to the end of the Fiscal year 2007 (83 Days), the Board has managed to hold 4 meetings being the minimum number of meetings required legally to be held during the year. The following table shows details of the meetings and attendance of the Members:

Sr. No.	Name of Director	1st Meeting 9th Oct, 2007	2nd Meeting 30th Oct, 2007	3rd Meeting 8th Dec, 2007	4th Meeting 29th Dec, 2007

1	Sheikh Dr. Salim Said Hamed Al Fannah Al Araimi	√	√	√	√
2	Dr. P. Mohamed Ali	√	√	√	√
3	Dr. Hamed Hashim Mohamed Al Dhahab Al Dhailani	×	√	√	√
4	Dr. Adil Abdulaziz Yahya Al Kindy	×	√	√	√
5	Dr. Hatem Bakheit Saeed Al Shanfari	√	√	√	√
6	Sheikh Yahya Abdullah Salim Al Fannah Al Araimi	√	√	×	×
7	Engr. Ali Mohamed Ali Al Mahrouqi	√	√	√	√
8	Engr. Majid Salim Said Al Fannah Al Araimi	√	√	×	√
9	Ms. Budoor Mohamed Rashid Al Fannah Al Araimi	√	√	√	√

Remuneration to the Board of Directors:

The total amount of remuneration proposed to be paid to the Directors including the sitting fees during the year 2007 is RO.200,000/-

…..4/-

Board Secretary

Mr.Abdelbagi Daffalla, of a legal profession career, was appointed secretary of the Board. The secretary records minutes of the Board meetings as well as the resolutions passed. He handles liaison works between the Board, Board committees and follow-up actions to be taken and informing concerned parties.

Other Committees:

Executive Committee:

The Board has formed, an Executive Committee consists of 4 members, to oversee in general setting of business and strategic plans, policies of the Company, review decisions on various matters concerning the operation of the company and any other matters assigned by the Board or to be conferred by EXCOM's organizing rules under final approval process. The committee held three meetings during the period.

Composition

Sr. No.	Name of Members of the Committee	Designation
1.	Dr. P. Mohamed Ali	Chairman
2.	Dr. Adil Abdulaziz Yahya Al Kindy	Member
3.	Engr. Ali Mohamed Ali Al Mahrouqi	Member
4.	Engr. Majid Salim Said Al Fannah Al Araimi	Member

Meetings & Attendance

Sr. No.	Name of Member	1st Meeting 3rd Nov, 2007	2nd Meeting 6th Dec, 2007	3rd Meeting 8th Dec, 2007
1	Dr. P. Mohamed Ali	✓	✓	✓
2	Dr. Adil Abdulaziz Yahya Al Kindy	✓	✓	✓
3	Engr. Ali Mohamed Ali Al Mahrouqi	×	✓	✓
4	Engr. Majid Salim Said Al Fannah Al Araimi	✓	✓	×

…..5/-

Audit Committee:

The audit committee is appointed by the board of directors to assist the board in discharging its oversight responsibilities. The audit committee will oversee the financial reporting process to ensure the balance, transparency and integrity of published financial information. The audit committee will also review: the effectiveness of the company's internal financial control and risk management system; the effectiveness of the internal audit function; the independent audit process including recommending the appointment and assessing the performance of the external auditor; the company's process for monitoring compliance with laws and regulations affecting financial reporting and, if applicable, its code of business conduct.

In performing its duties, the committee will maintain effective working relationships with the board of directors, management, and the external and internal auditors. To perform its role effectively, each committee member will need to develop and maintain his skills and knowledge, including an understanding of the committee's responsibilities and of the company's business, operations and risks.

Composition

Sr. No.	Name of Members of the Committee	Designation
1.	Dr. Hamed Hashim Mohamed Al Dhahab Al Dhailani	Chairman
2.	Sheikh Yahya Abdullah Salim Al Fannah Al Araimi	Member
3.	Dr. Hatem Bakheit Saeed Al Shanfari	Member
4.	Ms. Budoor Mohamed Rashid Al Fannah Al Araimi	Member

Meetings & Attendance

Sr. No.	Name of Member	1st Meeting 30th Oct, 2007	2nd Meeting 3rd Dec, 2007	3rd Meeting 15th Dec, 2007
1	Dr. Hamed Hashim Mohamed Al Dhahab Al Dhailani	✓	✓	✓
2	Sheikh Yahya Abdullah Salim Al Fannah Al Araimi	✓	×	×
3	Dr. Hatem Bakheit Saeed Al Shanfari	✓	✓	✓
4	Ms. Budoor Mohamed Rashid Al Fannah Al Araimi	✓	✓	✓

…..6/-

Procedure for Standing as a Candidate for the Board:

The right to stand as a candidate for membership of the Board of Directors of the Company is opened to shareholders and non shareholders.

In case of a shareholder, whether in personal capacity or representing a juristic person, he must have a minimum equity of not less than 10000 shares.

In the nomination procedures, Ten persons had submitted their nomination format within the time limit. Two of them are representing juristic persons. The Ten persons have satisfied the conditions and rules to stand candidates for the Board as provided for in the Commercial Companies Law 1974, the Articles of Association of the Company and Capital Market Authority Rules.

On the date of election of the Nine members of the Board at the Constitutive General Meeting held on 9th October 2007, one of the candidate withdrawn his candidacy. As the seats assigned for the Board are Nine, which was in conformity with the remaining numbers of candidates, the CGM have decided to elect them by unanimity for a term of Three years

Remuneration:

Total remuneration during the Financial year 2007 to top Management (top 5) was RO 2.25 Million.

Compliance with Rules and Regulations:

The Company has been compliant with all the applicable rules and regulations issued by MSM, CMA and that provided for in the Commercial Companies Law 1974 as amended and no fines or penalties have been imposed on the Company during the period.

Communication with Shareholders and Investors:

The soft and hard copies of the un-audited financial results for the 3rd quarter ending 30-09-2007 were posted, sent to MSM and published in two local newspapers in both Arabic and English languages. The results were also posted on the Company's website: www.galfar.com

All the Company's announcements were shown on Galfar GECS page at MSM's website.

The company held two meets accompanied with presentation to institutional investors and press during the Initial Public Offering stage.

The Management discussion and analysis form part of the Annual Report.

.....7/-

Statement on Market Price and distribution of Holdings:

High / Low price during each month

Month	High	Low	Close
Oct' 07	1.260	0.905	1.238
Nov' 07	1.300	1.135	1.198
Dec' 07	1.515	1.180	1.492

Distribution of Share ownership between shareholders holding 5% or more. (Including Shares having preferential voting rights)

Sr. No.	Category	No. of Shareholders	No. of Shares	% Shareholding
1	Less than 5%	7977	106,750,000	42.70
2	5% to 10%	2	37,500,000	15.00
3	Above 10%	3	105,750,000	42.30
	Total	7982	250,000,000	100

There are no Securities / Convertible Financial Instruments as on the Balance Sheet date which will have an impact on the Shareholders' equity.

Profile of the Statutory Auditors

Deloitte Touche Tohmatsu is an organization of member firms devoted to excellence in providing professional services and advice. Deloitte is focused on client service through a global strategy executed locally in nearly 140 countries. With access to the deep intellectual capital of 150,000 people worldwide, the member firms, including their affiliates, deliver services in four professional areas: audit, tax, consulting, and financial advisory.

Deloitte & Touche in the Middle East is the oldest and largest indigenous professional services firm with more than 1,000 people serving businesses and governments in 14 countries through 25 offices. The Oman Practice currently has three Partners and over 50 professionals.

Audit Fees of the Company and subsidiaries and fees for other services paid to the Auditor:

Sr. No.	Particulars	Amount (In RO)
1	Statutory Audit Fees (Parent)	14,500
2	Fees for other services (Parent)	12,500
3	Statutory Audit Fees (Subsidiary)	5,000

…..8/-

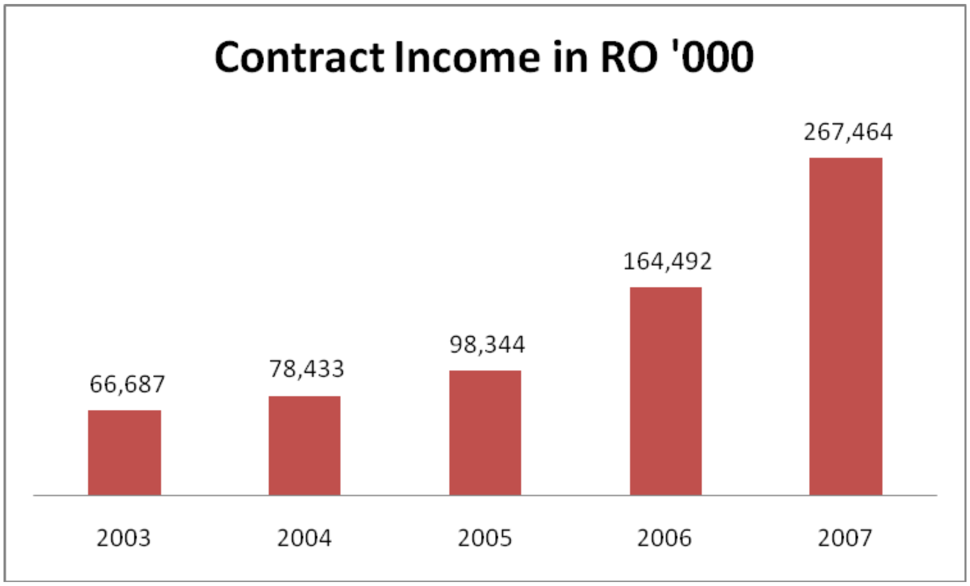
<u>The Board of Directors acknowledges as at December 31, 2007:</u>

The Board of Directors acknowledges:

- With its liability for the preparation of financial statements in accordance with the applicable standards and rules.
- Review of the efficiency and adequacy of internal control systems of the Company and that it complies with internal rules and regulations.
- That there is no material matter that affects the continuation of the Company and its ability to continue its production and operations during the next financial year.

Salim Said Hamed Al Fannah Al Araimi
Chairman

The growth achieved by the company in the last five years is summarized below:



The subsidiary company which specializes in hiring out of equipments achieved a turnover of RO.2.6 million (2006-RO.1.9 million) and a profit of RO.0.37 million (2006-RO. 0.19 million).

Human Resources

With the increase in the business the employees strength has also increased from16,217 in 2006 to 22,951 in 2007. The company used to earlier source majority of its requirement from the sub continent. However, with the shortage of quality manpower available from the sub continent, the company is looking at other countries.

Quality, Health, Safety and Environment

The Company places lot of emphasis and importance on the above factors. As you are aware, our Company is already certified for ISO 9001: 2001 Standards of Quality Management System since 1995 and during the course of the year 2007 we have also been certified for ISO 14001 and OHSAS 18001 Standards which are landmark achievements in our pursuit to achieve a healthy and environment friendly work atmosphere.

HSE has been a topmost concern for the management of Galfar and we have been very successfully working with PDO and other petroleum concessionaries in the Sultanate of Oman for ensuring ‘zero’ accident levels as well as better quality of life. During the course of the year we have driven 97 million kms. and have worked 77 million manhours across all our Units. Our Lost Time Injury Frequency (LTIF) for the year is 0.56 against a set limit of 0.7, which is a significant achievement. The ODC Contract in PDO achieved LTIF of 0.16 in 2007.

Risks

Risks do exist in all our business activities but they are foreseen and are not insurmountable.

The high volume of work available in the industry makes it attractive for new engineering and construction companies to enter the market. Severe competition is expected from larger international companies from India, Far East, Turkey and Egypt. Galfar being the largest local company is well equipped to meet this competition.

The very high level of activity in the engineering and construction market in the Middle East and India puts a strain on available quality resources. Galfar owns the majority of its construction equipment and makes significant investments in equipment to match the foreseeable requirements. Recruitment and training of new staff and labour, both from Oman and expatriates has become a major activity. New manpower markets have been entered and this process will continue. Costs of the above and of main construction commodities have been rising steeply in 2007 and there is no sign that this rise will halt in the near future.

Internal Controls Systems

The Board ensures that there is a detailed delegation of authority to the various levels of management and the need to have adequate corporate control of the organization.

The Management is also fully aware of its responsibility towards the various stakeholders. A key factor towards this responsibility is the strengthening of the associated internal control systems. The company addresses these issues by maintained clearly defined operating procedures which are updated as and when necessary.

Management discussion and analysis

Overview

The year 2007 has been a watershed year in the 35 year old history of the Company. The Company transformed into an SAOG Company from an LLC company during the year. The Public Issue was very successful.

The economic upswing that the Sultanate is going through benefitted the company and there has been a marked improvement in the revenues. The infrastructure development industry has been buoyant and it is expected to remain so.

Main objectives and Operational Results

Galfar is an engineering and construction company active in the following areas in the Sultanate of Oman:

1. Oil and Gas Sector
2. Structures & Buildings
3. Roads & Bridges
4. Sewage Treatment Plants and networks
5. Specialised Electromechanical works
6. Hiring of Equipments (Subsidiary company)

The company works as main contractor, in partnerships with other companies and as subcontractor. The company executes projects with its own workforce and equipment whilst subcontracting 19% of the work. Subcontracts are in specialized areas, including most of the engineering. The turnover of the company increased to RO.267 million from RO 164 million for the year 2006 and the Prospectus projection of RO.241 million. All segments of business increased their turnover with Oil & Gas and Road units in particular being the main contributors of the growth.

During the year cost pressures build up significantly due to major unprecedented increases in price of cement, bitumen, steel and copper,rise in recruitment and manpower costs and equipment hiring cost. Further, there was loss of productivity owing to climate changes experienced by the Sultanate during June ’07. These factors had an impact on the profitability. Actual profit achieved is RO21.965 million when compared to RO16.512 million for 2006 and RO.21.457 million projected in the Prospectus.

Outlook

The outlook of the company is quite good considering the fact there are plenty of projects available in the market and there is a dearth of quality companies. We are confident of growing and delivering consistent profit. Galfar’s order book stood at RO.536 million at the beginning of the year. During the first two months we have been awarded orders worth 166 million. There are pressures on the margins owing to some resource constraint. Overcoming the obstacles in the form of rising prices and non availability of some resources has the highest attention. Further in 2007 and coming years the company strives to increase the EPC content of its portfolio and its road and bridge building capabilities to compete with bigger international firms. The company is also looking at avenues to spread in other markets.

Deloitte.

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Independent auditor's report to the Shareholders of Galfar Engineering and Contracting SAOG

Report on the financial statements

We have audited the accompanying financial statements of **Galfar Engineering and Contracting SAOG** (the parent company) and **Galfar Engineering and Contracting SAOG and its subsidiary** (the Group) which comprise of the parent company and consolidated balance sheet as of 31 December 2007, and the parent company and consolidated income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out on pages 3 to 39.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the relevant disclosure requirements of the Commercial Companies Law of 1974, as amended and the Rules and Guidelines on disclosure issued by the Capital Market Authority, effective 1 October 2007. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent auditor's report
to the Shareholders of
Galfar Engineering and Contracting SAOG (continued)

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the parent company and the Group as of 31 December 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

In our opinion, the financial statements comply, in all material respects, with the relevant disclosure requirements of the Commercial Companies Law of 1974, as amended and the Rules and Guidelines on disclosure issued by the Capital Market Authority, effective 1 October 2007.

Deloitte & Touche

Deloitte & Touche (M.E.)
Muscat, Sultanate of Oman
28 February 2008

P.O.Box 258, P.C. 112
Sultanate of Oman
Deloitte & Touche (M.E.)

Balance sheet
at 31 December 2007

	Notes	Parent Company 2007 RO	Parent Company 2006 RO	Consolidated 2007 RO	Consolidated 2006 RO
ASSETS					
Non-current assets					
Property, plant and equipment	**4**	**97,620,702**	70,083,003	**100,607,082**	72,641,547
Goodwill	**5**	**-**	-	**275,006**	275,006
Investment in subsidiary	**5**	**600,000**	600,000	**-**	-
Available-for-sale investments	**6**	**125,000**	125,000	**145,000**	145,000
Retentions receivable		**11,668,153**	7,677,405	**11,668,153**	7,677,405
Total non-current assets		**110,013,855**	78,485,408	**112,695,241**	80,738,958
Current assets					
Inventories	**7**	**21,697,900**	13,997,747	**21,761,600**	14,050,982
Trade receivables	**8**	**95,970,903**	58,256,883	**96,385,668**	59,134,833
Prepayments, advances and other receivables	**9**	**8,641,818**	6,497,805	**9,029,994**	6,480,777
Deposits with banks	**10**	**13,803,296**	9,426,834	**13,810,936**	9,434,474
Cash and bank balances	**11**	**3,829,507**	3,577,250	**3,832,945**	3,581,447
Total current assets		**143,943,424**	91,756,519	**144,821,143**	92,682,513
Total assets		**253,957,279**	170,241,927	**257,516,384**	173,421,471
EQUITY AND LIABILITIES					
Capital and reserves					
Share capital	**12**	**25,000,000**	20,000,000	**25,000,000**	20,000,000
Share premium	**12**	**19,169,509**	-	**19,169,509**	-
Statutory reserve	**13**	**6,223,577**	4,027,064	**6,223,577**	4,027,064
Retained earnings	**14**	**19,768,620**	6,045,549	**20,023,091**	6,108,918
Equity attributable to equity holders of the parent company		**70,161,706**	30,072,613	**70,416,177**	30,135,982
Minority interest		**-**	-	**531,261**	356,055
Total equity		**70,161,706**	30,072,613	**70,947,438**	30,492,037
Non-current liabilities					
Term loans	**16**	**19,172,794**	13,749,577	**19,955,756**	14,303,169
Provision for employees' end of service indemnity	**17**	**3,825,795**	3,014,934	**3,905,198**	3,092,121
Deferred tax liability	**21**	**4,198,667**	2,435,667	**4,314,293**	2,471,098
Creditors for purchase of property, plant and equipment		**10,419,223**	9,860,574	**10,419,223**	9,860,574
Advances on contracts		**5,408,983**	3,460,614	**5,408,983**	3,460,614
Total non-current liabilities		**43,025,462**	32,521,366	**44,003,453**	33,187,576
Current liabilities					
Bank borrowings	**18**	**14,203,879**	8,987,814	**14,288,312**	9,089,005
Short term loans	**19**	**4,200,000**	1,950,000	**4,200,000**	1,950,000
Term loans – current portion	**16**	**16,181,439**	10,467,568	**16,682,796**	11,035,514
Trade and other payables	**20**	**104,663,356**	84,730,827	**105,872,948**	86,155,600
Provision for taxation		**1,521,437**	1,511,739	**1,521,437**	1,511,739
Total current liabilities		**140,770,111**	107,647,948	**142,565,493**	109,741,858
Total liabilities		**183,795,573**	140,169,314	**186,568,946**	142,929,434
Total equity and liabilities		**253,957,279**	170,241,927	**257,516,384**	173,421,471
Net assets per share	**28**	**0.281**	0.150	**0.282**	0.151

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Salim Said Al Fannah Al Araimi	**S. Muthukrishnan**
Chairman	**Corporate Manager – Finance & Treasury**

The accompanying notes form an integral part of these financial statements.

Income statement
for the year ended 31 December 2007

	Notes	Parent Company 2007 RO	Parent Company 2006 RO	Consolidated 2007 RO	Consolidated 2006 RO
Contract income		**267,464,211**	164,492,443	**267,464,211**	164,492,443
Contract costs	**22**	**(233,906,196)**	(140,213,746)	**(232,648,764)**	(139,424,900)
Profit on contracts		**33,558,015**	24,278,697	**34,815,447**	25,067,543
Hire revenue		**-**	-	**1,245,815**	1,027,531
Hire operating costs	**23**	**-**	-	**(2,012,643)**	(1,685,134)
General and administrative expenses	**24**	**(7,120,096)**	(4,974,875)	**(7,120,096)**	(4,974,875)
Profit from operations		**26,437,919**	19,303,822	**26,928,523**	19,435,065
Net financing costs	**25**	**(2,818,036)**	(1,543,667)	**(2,955,583)**	(1,632,621)
Other income	**26**	**1,603,724**	1,465,763	**1,697,170**	1,565,991
Profit for the year before tax		**25,223,607**	19,225,918	**25,670,110**	19,368,435
Income tax expense	**21**	**(3,258,474)**	(2,713,012)	**(3,338,669)**	(2,734,063)
Profit for the year		**21,965,133**	16,512,906	**22,331,441**	16,634,372
Attributable to equity holders of the parent		**21,965,133**	16,512,906	**22,156,235**	16,576,275
Minority interest		**-**	-	**175,206**	58,097
Profit for the year		**21,965,133**	16,512,906	**22,331,441**	16,634,372
Earnings per share	**27**	**0.102**	0.155	**0.103**	0.156

The accompanying notes form an integral part of these financial statements.

Cash flows statement
for the year ended 31 December 2007

	Parent Company		Consolidated	
	2007	2006	**2007**	200
	RO	RO	**RO**	RC
Operating activities				
Profit for the year before tax	**25,223,607**	19,225,918	**25,670,110**	19,368,43
Adjustments for:				
Depreciation of property, plant and equipment	**12,855,612**	8,087,707	**13,559,563**	8,660,59
Gain on disposal of property, plant and equipment	**(62,434)**	(189,653)	**(114,021)**	(194,55
Net transfer to employees' end of service indemnity	**810,861**	567,282	**813,077**	565,67
Provision for impaired debt	**-**	-	**(1,855)**	
Finance costs	**3,174,415**	2,166,647	**3,311,962**	2,255,60
Interest income	**(356,379)**	(622,980)	**(356,379)**	(622,98
Operating profit before changes in working capital	**41,645,682**	29,234,921	**42,882,457**	30,032,77
Changes in working capital:				
Trade receivables	**(37,714,020)**	(20,634,940)	**(37,248,980)**	(20,132,06
Prepayments, advances and other receivables	**(2,144,013)**	2,660,417	**(2,549,217)**	2,031,88
Inventories	**(7,700,153)**	(9,150,053)	**(7,710,618)**	(9,155,55
Trade and other payables	**17,972,510**	41,400,165	**17,757,329**	41,497,60
Net cash generated from operations	**12,060,006**	43,510,510	**13,130,971**	44,274,65
Change in retentions receivable-long term	**(3,990,748)**	(4,500,958)	**(3,990,748)**	(4,500,95
Change in advances on contracts-long term	**1,948,369**	(8,047,762)	**1,948,369**	(8,047,76
Change in margin deposits	**(2,646,507)**	254,869	**(2,646,507)**	254,86
Income tax paid	**(1,485,776)**	(708,606)	**(1,485,776)**	(722,67
Advance tax paid	**-**	-	**-**	(6,40
Net cash from operating activities	**5,885,344**	30,508,053	**6.956,309**	31,251,72
Investing activities				
Payments for purchase of property, plant and equipment	**(38,867,701)**	(33,129,169)	**(40,003,218)**	(34,070,49
Proceeds from sale of property, plant and equipment	**1,055,492**	237,550	**1,110,809**	242,92
Change in term deposits	**(1,729,955)**	1,387,310	**(1,729,955)**	1,387,31
Acquisition of subsidiary (note 5)	**-**	(600,000)	**-**	(477,30
Interest received	**356,379**	622,980	**356,379**	622,98
Net cash used in investing activities	**(39,185,785)**	(31,481,329)	**(40,265,985)**	(32,294,58
Financing activities				
Share capital raised	**24,169,509**	-	**24,169,509**	
Change in bank borrowings	**5,216,065**	6,118,335	**5,199,307**	6,219,52
Change in term loans	**11,137,088**	2,890,975	**11,299,869**	2,952,51
Change in short term loans	**2,250,000**	(659,167)	**2,250,000**	(659,16
Interest paid	**(3,174,415)**	(2,166,647)	**(3,311,962)**	(2,255,60
Dividend paid	**(6,045,549)**	(7,154,407)	**(6,045,549)**	(7,154,40
Net cash used in financing activities	**33,552,698**	(970,911)	**33,561,174**	(897,13
Net change in cash and cash equivalents	**252,257**	(1,944,187)	**251,498**	(1,939,99
Cash and cash equivalents, at the beginning of the year	**3,577,250**	5,521,437	**3,581,447**	5,521,43
Cash and cash equivalents, at the end of the year	**3,829,507**	3,577,250	**3,832,945**	3,581,44

The accompanying notes form an integral part of these financial statements.

Parent company statement of changes in equity
for the year ended 31 December 2007

	Notes	Share capital RO	Share premium RO	Statutory reserve RO	Retained earnings RO	Tota RO
Balance at 1 January 2006		7,500,000	-	2,375,773	6,538,341	16,414,11
Increase in share capital	**12**	12,500,000	-	-	(8,200,000)	4,300,00
Profit for the year		-	-	-	16,512,906	16,512,90
Transfer to statutory reserve	**13**	-	-	1,651,291	(1,651,291)	
Dividend paid		-	-	-	(7,154,407)	(7,154,40
Balance at 1 January 2007		20,000,000	-	4,027,064	6,045,549	30,072,61
Increase in share capital	**12**	5,000,000	-	-	-	5,000,00
Share premium from issue of capital	**12**	-	20,000,000		-	20,000,00
Share issue expenses		-	(830,491)		-	(830,49
Profit for the year		-	-	-	21,965,133	21,965,13
Transfer to statutory reserve	**13**	-	-	2,196,513	(2,196,513)	
Dividend paid		-	-	-	(6,045,549)	(6,045,54
Balance at 31 December 2007		**25,000,000**	**19,169,509**	**6,223,577**	**19,768,620**	**70,161,70**

The accompanying notes form an integral part of these financial statements.

Parent company statement of changes in equity for the year ended 31 December 2007

	Notes	Share capital RO	Share premium RO	Statutory reserve RO	Retained earnings RO	Tota RO
Balance at 1 January 2006		7,500,000	-	2,375,773	6,538,341	16,414,11
Increase in share capital	**12**	12,500,000	-	-	(8,200,000)	4,300,00
Profit for the year		-	-	-	16,512,906	16,512,90
Transfer to statutory reserve	**13**	-	-	1,651,291	(1,651,291)	
Dividend paid		-	-	-	(7,154,407)	(7,154,40
Balance at 1 January 2007		20,000,000	-	4,027,064	6,045,549	30,072,61
Increase in share capital	**12**	5,000,000	-	-	-	5,000,00
Share premium from issue of capital	**12**	-	20,000,000		-	20,000,00
Share issue expenses		-	(830,491)		-	(830,49
Profit for the year		-	-	-	21,965,133	21,965,13
Transfer to statutory reserve	**13**	-	-	2,196,513	(2,196,513)	
Dividend paid		-	-	-	(6,045,549)	(6,045,54
Balance at 31 December 2007		**25,000,000**	**19,169,509**	**6,223,577**	**19,768,620**	**70,161,70**

The accompanying notes form an integral part of these financial statements.

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.

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.

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 2007, 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 2007. 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 :

	Effective for annual periods beginning on or after
IFRIC 11: IFRS 2: Group and Treasury Share Transactions	1 March 2007
IFRIC 12: Service Concession Arrangements	1 January 2008
IFRIC 14: IAS 19-The Limit on a Defined Benefit Asset Minimum Funding Requirements and their Interaction	1 January 2008
IFRIC 13: Customer Loyalty Programs	1 July 2008
IFRS 2: (Revised) Shared-based Payment	1 January 2009
IFRS 8: Operating Segments	1 January 2009
IAS 1: (Revised) Presentation of Financial Statements	1 January 2009
IAS 23: (Revised) Borrowing Costs	1 January 2009
IAS 32: (Revised) Financial Instruments: Presentation	1 January 2009
IFRS 3: (Revised) Business Combinations	1 July 2009
IAS 27: (Revised) Consolidated and Separate Financial Statements	1 July 2009
IAS 28: (Revised) Investments in Associates	1 July 2009
IAS 31: (Revised) Interests in Joint Ventures	1 July 2009

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.

Notes to the financial statements for the year ended 31 December 2007 (continued)

2. Summary of significant accounting policies (continued)

Consolidation (continued)

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.

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:

	Years
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 equipments	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 2007 (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.

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.

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.

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)

(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.

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.

Notes to the financial statements for the year ended 31 December 2007 (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
Cost										
1 January 2006	332,139	8,141,074	2,868,878	32,255,079	14,783	3,488,180	171,778	25,183,918	178,763	72,634,592
Additions	-	3,668,193	-	21,771,439	42,593	3,001,227	82,641	14,698,913	296,523	43,561,529
Disposals	-	(476)	-	(266,517)	-	(1,599)	-	(923,820)	-	(1,192,412)
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)	-
31 December 2007	**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**
Depreciation										
1 January 2006	-	6,725,326	1,918,856	16,152,911	14,562	2,301,005	157,260	10,707,594	-	37,977,514
Charge for the year	-	1,002,619	186,485	3,526,484	9,160	498,990	16,365	2,847,604	-	8,087,707
Disposals	-	(395)	-	(259,788)	-	(1,430)	-	(882,902)	-	(1,144,515)
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)
31 December 2007	**-**	**9,684,067**	**2,271,541**	**24,359,426**	**38,162**	**3,792,616**	**207,784**	**15,703,970**	**-**	**56,057,566**
Net book value										
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**
At 31 December 2006	332,139	4,081,241	763,537	34,340,394	33,654	3,689,243	80,794	26,286,715	475,286	70,083,003

Notes to the financial statements
for the year ended 31 December 2007 (continued)

4. Property, plant and equipment
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
Cost										
1 January 2006	332,139	8,141,074	2,868,878	32,255,079	14,783	3,488,180	171,778	25,183,918	178,763	72,634,592
Acquisitions through business combinations	-	-	-	2,349,070	-	71,091	-	3,680,041	-	6,100,202
Additions	-	3,668,193	-	22,403,315	42,703	3,006,570	82,641	15,002,909	296,523	44,502,854
Disposals	-	(476)	-	(266,517)	-	(1,599)	-	(951,287)	-	(1,219,879)
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)	-
31 December 2007	**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**
Depreciation										
1 January 2006	-	6,725,326	1,918,856	16,152,911	14,562	2,301,005	157,260	10,707,594	-	37,977,514
Acquisitions through business combinations	-	-	-	2,141,358	-	68,690	-	1,699,570	-	3,909,618
Charge for the year	-	1,002,619	186,485	3,591,716	9,160	501,800	16,365	3,352,454	-	8,660,599
Disposals	-	(395)	-	(259,788)	-	(1,430)	-	(909,896)	-	(1,171,509)
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)
31 December 2007	**-**	**9,684,067**	**2,271,541**	**26,612,169**	**38,318**	**3,866,715**	**207,784**	**18,399,130**	**-**	**61,079,724**
Net book value										
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**
At 31 December 2006	332,139	4,081,241	763,537	35,114,750	33,764	3,694,177	80,794	28,065,859	475,286	72,641,547

Notes to the financial statements
for the year ended 31 December 2007 (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 10,845,963 (2006 - RO 8,424,900) to secure credit facilities granted by finance companies.

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

	Parent Company		Consolidated	
	2007	2006	**2007**	2006
	RO	RO	**RO**	RO
Contract costs (note 22)	**12,596,902**	7,842,985	**12,596,902**	7,842,985
Hire operating costs (note 23)	**-**	-	**703,951**	572,892
General and administrative expenses (note 24)	**252,355**	154,055	**252,355**	154,055
Income from training center (note 26)	**6,355**	90,667	**6,355**	90,667
	12,855,612	8,087,707	**13,559,563**	8,660,599

5. Investment in subsidiary

Name of the subsidiary	Principal activity	Date of acquisition	Proportion of shares acquired	Cost of acquisition	Net assets acquired	Goodwill in acquisition	Place of incorporation
			%	RO	RO	RO	
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

	Parent Company		Consolidated	
	2007	2006	**2007**	2006
	RO	RO	**RO**	RO
Unquoted local investments	**125,000**	125,000	**145,000**	145,000

Notes to the financial statements for the year ended 31 December 2007 (continued)

7. Inventories

	Parent Company		Consolidated	
	2007	2006	**2007**	2006
	RO	RO	**RO**	RO
Materials and consumables	**21,765,533**	14,065,380	**21,829,233**	14,118,615
Less: Allowance for slow-moving inventories	**(67,633)**	(67,633)	**(67,633)**	(67,633)
	21,697,900	13,997,747	**21,761,600**	14,050,982

8. Trade receivables

Contract receivables	**64,806,455**	46,370,252	**64,806,455**	46,370,252
Trade receivables	**-**	-	**417,198**	882,238
Less: Allowance for impaired debts	**(212,580)**	(212,580)	**(215,013)**	(216,868)
	64,593,875	46,157,672	**65,008,640**	47,035,622
Amounts due from customers under construction contracts [note 8(b)]	**26,481,639**	9,937,601	**26,481,639**	9,937,601
Retentions receivable	**4,895,389**	2,161,610	**4,895,389**	2,161,610
	95,970,903	58,256,883	**96,385,668**	59,134,833

(a) Contracts in progress at the balance sheet date

	Parent Company and consolidated	
	2007	2006
	RO	RO
Costs incurred plus recognized profits less recognized losses to date	**267,464,211**	187,330,005
Less : Progress billings	**(250,219,731)**	(183,798,117)
	17,244,480	3,531,888

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

	Parent Company and consolidated	
	2007	2006
	RO	RO
From customers under construction contracts (note 8)	**26,481,639**	9,937,601
To customers under construction contracts (note 20)	**(9,237,159)**	(6,405,713)
	17,244,480	3,531,888

Notes to the financial statements
for the year ended 31 December 2007 (continued)

9. Prepayments, advances and other receivables

	Parent Company		Consolidated	
	2007	2006	**2007**	2006
	RO	RO	**RO**	RO
Deposits and prepaid expenses	**2,791,841**	2,634,436	**2,800,163**	2,646,045
Insurance claims	**282,357**	-	**282,357**	-
Due from employees	**160,666**	242,840	**161,701**	243,786
Due from related parties (note 29)	**1,594,737**	590,830	**1,954,980**	1,162,285
Current tax asset	**-**	-	**6,400**	6,400
Other receivables	**3,812,217**	3,029,699	**3,824,393**	2,422,261
	8,641,818	6,497,805	**9,029,994**	6,480,777

10. Deposits with banks

	Parent Company		Consolidated	
	2007	2006	**2007**	2006
	RO	RO	**RO**	RO
Term deposits	**11,139,463**	9,409,508	**11,139,463**	9,409,508
Margin deposits	**2,663,833**	17,326	**2,671,473**	24,966
	13,803,296	9,426,834	**13,810,936**	9,434,474

The term deposits carry interest rates of 3.25 % to 4 % per annum (2006 - 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

	Parent Company		Consolidated	
	2007	2006	**2007**	2006
	RO	RO	**RO**	RO
Cash on hand	**453,448**	146,425	**455,935**	149,986
Bank balances:				
Current accounts	**3,367,215**	2,103,572	**3,368,166**	2,104,208
Call deposits	**8,844**	1,327,253	**8,844**	1,327,253
	3,829,507	3,577,250	**3,832,945**	3,581,447

Notes to the financial statements for the year ended 31 December 2007 (continued)

12. Share capital

	Parent and consolidated	
	2007	2006
	RO	RO
Authorised:		
500,000,000 (2006 – 20,000,000) ordinary shares of par value RO 0.100 (2006 – RO 1) each	**500,000,000**	20,000,000
Issued and fully paid:		
At 1 January	**20,000,000**	7,500,000
Loan from shareholders converted to share capital (note 15)	**-**	4,300,000
Transferred from retained earnings	**-**	8,200,000
Cash brought in by promoting shareholders	**1,000,000**	-
Proceeds from IPO	**4,000,000**	-
At 31 December	**25,000,000**	20,000,000

At the balance sheet date the issued and fully paid share capital comprises of 250,000,000 (2006 - 20,000,000) shares having a par value of RO 0.100 (2006 – RO 1) each. Pursuant to the terms of the IPO, as detailed below, the share capital of the Company is 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 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.

Notes to the financial statements
for the year ended 31 December 2007 (continued)

12.1 Dividend

The Board of Directors have proposed a dividend of RO 0.400 per share amounting to RO 10,000,000 for the year ended 31 December 2007. This is subject to the shareholders approval at the Annual General Meeting.

13. 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.

14. Retained earnings

Retained earnings includes statutory reserve of the subsidiary of RO 107,944 (2006 - RO 71,313), which is not available for distribution.

15. Loan from shareholders

During December 2002, a loan of RO 4,300,000 was received from the shareholders to strengthen the financial position of the Group. The above loan carried interest at 7% per annum without any specific repayment terms. This loan was converted to share capital during 2006.

16. Term loans

	Parent Company		**Consolidated**	
	2007	2006	**2007**	2006
	RO	RO	**RO**	RO
Term loans:				
- from banks	**27,855,690**	17,155,502	**27,855,690**	17,155,502
- finance companies	**7,498,543**	7,061,643	**8,782,862**	8,183,181
	35,354,233	24,217,145	**36,638,552**	25,338,683
Less: Current portion				
- from banks	**(13,082,596)**	(7,711,632)	**(13,082,596)**	(7,711,632)
- finance companies	**(3,098,843)**	(2,755,936)	**(3,600,200)**	(3,323,882)
	(16,181,439)	(10,467,568)	**(16,682,796)**	(11,035,514)
Long term portion				
- from banks	**14,773,094**	9,443,870	**14,773,094**	9,443,870
- finance companies	**4,399,700**	4,305,707	**5,182,662**	4,859,299
	19,172,794	13,749,577	**19,955,756**	14,303,169

Notes to the financial statements
for the year ended 31 December 2007 (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:

	2007	2006
Floating rate loans	**1.50% + Libor to 1.85% + Libor**	1.50% + Libor to 1.85% + Libor
Fixed interest rate loans	**6.25% to 8.5%**	5.85% to 8.5%

The term loans are repayable as follows:

	Parent Company		**Consolidated**	
	2007	2006	**2007**	2006
	RO	RO	**RO**	RO
Within one year	**16,181,439**	10,467,568	**16,682,796**	11,035,514
In the second year	**9,866,815**	6,321,060	**10,216,539**	6,624,652
In the third to fifth year inclusive	**9,305,979**	7,428,517	**9,739,217**	7,678,517
	35,354,233	24,217,145	**36,638,552**	25,338,683

17. Provision for employees' end of service indemnity

Movements in the net liability were as follows:

	Parent Company		**Consolidated**	
	2007	2006	**2007**	2006
	RO	RO	**RO**	RO
At 1 January	**3,014,934**	2,447,652	**3,092,121**	2,447,652
Acquisition through business combination	**-**	-	**-**	78,793
Charge for the year	**1,400,237**	1,009,016	**1,411,415**	1,018,401
Amounts paid	**(589,376)**	(441,734)	**(598,338)**	(452,725)
At 31 December	**3,825,795**	3,014,934	**3,905,198**	3,092,121

Notes to the financial statements
for the year ended 31 December 2007 (continued)

18. Bank borrowings

	Parent Company		Consolidated	
	2007	2006	**2007**	2006
	RO	RO	**RO**	RO
Bank overdrafts	**3,688,067**	2,080,645	**3,772,500**	2,181,836
Loan against trust receipts	**10,515,754**	3,599,665	**10,515,754**	3,599,665
Bills discounted	**58**	3,307,504	**58**	3,307,504
	14,203,879	8,987,814	**14,288,312**	9,089,005

Bank borrowings are repayable on demand or within one year. The interest rates on bank borrowings vary between 7 % to 8% per annum (2006 - 7% to 8% per annum). Bank borrowings are secured against the contract receivables.

19. Short term loans

	Parent Company		Consolidated	
	2007	2006	**2007**	2006
	RO	RO	**RO**	RO
Short term loans:				
From banks	**3,500,000**	1,750,000	**3,500,000**	1,750,000
From a related party (note 29)	**700,000**	200,000	**700,000**	200,000
	4,200,000	1,950,000	**4,200,000**	1,950,000

a) The interest rates on bank loans vary between 6 % to 7.5 % per annum (2006 - 4.5% to 7.5% per annum). Bank loans are repayable within one year and are secured against the contract receivables.

b) The loan from the related party carries interest at 7% per annum and is repayable within one year.

Notes to the financial statements for the year ended 31 December 2007 (continued)

20. Trade and other payables

	Parent Company		Consolidated	
	2007	2006	**2007**	2006
	RO	RO	**RO**	RO
Trade payables	**65,749,070**	45,543,364	**66,308,038**	46,063,137
Due to related parties (note 29)	**3,210,648**	3,679,670	**3,386,955**	4,553,109
Due to subsidiary	**251,340**	56,687	**-**	-
Creditors for purchase of property, plant and equipment	**6,200,141**	4,240,122	**6,200,141**	4,240,122
Amounts due to customers under construction contracts (note 8)	**9,237,159**	6,405,713	**9,237,159**	6,405,713
Advances on contracts	**10,984,217**	18,703,365	**11,000,293**	18,705,365
Accrued expenses	**6,541,781**	3,804,096	**7,228,379**	3,876,494
Provision for employees' leave pay and passage	**2,489,000**	2,297,810	**2,511,983**	2,311,660
	104,663,356	84,730,827	**105,872,948**	86,155,600

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

	Parent Company		Consolidated	
	2007	2006	**2007**	2006
	RO	RO	**RO**	RO
Current tax charge	**1,495,474**	1,511,739	**1,495,474**	1,511,739
Deferred tax charge [note 21 (b)]	**1,763,000**	1,092,667	**1,843,195**	1,113,718
Prior year income tax	**-**	108,606	**-**	108,606
	3,258,474	2,713,012	**3,338,669**	2,734,063

Notes to the financial statements
for the year ended 31 December 2007 (continued)

21. Taxation (continued)

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

	Parent Company		**Consolidated**	
	2007	2006	**2007**	2006
	RO	RO	**RO**	RO
Profit before tax	**25,223,607**	19,225,918	**25,670,110**	19,368,435
Tax @12% after deducting RO 30,000 each	**3,023,233**	2,303,510	**3,073,213**	2,317,012
Tax effect of expenses that are not deductible and temporary differences	**235,241**	300,896	**265,456**	308,445
Prior year income tax	**-**	108,606	**-**	108,606
	3,258,474	2,713,012	**3,338,669**	2,734,063

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% (2006 – 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 2007 RO	**Charged / (credited) to income statement RO**	**31 Dec 2007 RO**	1 Jan 2006 **RO**	Charged / (credited) to income statement **RO**	31 Dec 2006 **RO**
Property, plant and equipment	**2,402,041**	**1,763,000**	**4,165,041**	1,309,374	1,092,667	2,402,041
Trade receivables	**25,510**	**-**	**25,510**	25,510	-	25,510
Inventories	**8,116**	**-**	**8,116**	8,116	-	8,116
	2,435,667	**1,763,000**	**4,198,667**	1,343,000	1,092,667	2,435,667

Notes to the financial statements
for the year ended 31 December 2007 (continued)

21. Taxation (continued)

b) Deferred tax liability (continued)

Consolidated

	1 Jan 2007 RO'000	**Charged / (credited) to income statement RO'000**	**31 Dec 2007 RO'000**	1 Jan 2006 RO'000	Charged / (credited) to income statement RO'000	31 Dec 2006 RO'000
Property, plant and equipment	**2,494,655**	**1,857,792**	**4,352,447**	1,346,192	1,148,463	2,494,655
Trade receivables	**24,995**	**-**	**24,995**	24,995	-	24,995
Inventories	**8,116**	**-**	**8,116**	8,116	-	8,116
Effect of unused tax losses	**(56,668)**	**(14,597)**	**(71,265)**	(21,923)	(34,745)	(56,668)
	2,471,098	**1,843,195**	**4,314,293**	1,357,380	1,113,718	2,471,098

22. Contract costs

	Parent Company		**Consolidated**	
	2007 RO	2006 RO	**2007 RO**	2006 RO
Materials	**97,283,860**	53,646,878	**97,283,860**	53,646,878
Salaries and wages	**52,458,103**	35,147,092	**52,458,103**	35,147,092
Sub-contracting	**43,184,926**	23,091,606	**43,184,926**	23,091,606
Depreciation of property, plant and equipment [note 4 (d)]	**12,596,902**	7,842,985	**12,596,902**	7,842,985
Hire of equipment and vehicles	**7,287,996**	5,021,420	**6,030,564**	4,232,574
Fuel	**11,758,388**	8,033,162	**11,758,388**	8,033,162
Camp maintenance	**2,688,700**	1,426,636	**2,688,700**	1,426,636
Insurance	**1,285,645**	1,238,664	**1,285,645**	1,238,664
Repairs and maintenance	**939,822**	760,425	**939,822**	760,425
Rent of accommodation	**906,261**	935,047	**906,261**	935,047
Communication	**549,214**	456,808	**549,214**	456,808
Bank guarantee and other charges	**1,113,014**	834,825	**1,113,014**	834,825
Miscellaneous	**1,853,365**	1,778,198	**1,853,365**	1,778,198
	233,906,196	140,213,746	**232,648,764**	139,424,900

Notes to the financial statements for the year ended 31 December 2007 (continued)

23. Hire operating costs

	Consolidated 2007 RO	Consolidated 2006 RO
Depreciation of property, plant and equipment [note 4 (d)]	**703,951**	572,892
Salaries and wages	**461,773**	375,089
Equipment hire charges	**60,877**	61,818
Stores and consumables	**487,032**	384,251
Salary to Managing Director	**36,000**	36,000
Repairs and maintenance	**65,586**	54,021
Employees' benefits	**56,399**	31,625
Insurance	**39,003**	34,713
Rent	**27,075**	27,000
Inward shipping charges	**2,414**	37,961
Communication	**10,217**	10,054
Office maintenance	**4,231**	3,605
Other staff expenses	**25,381**	24,272
Utilities	**3,113**	2,548
Printing and stationery	**2,221**	2,498
Business promotion	**1,433**	1,075
Visa and recruitment	**12,945**	17,121
Clearing and forwarding	**1,919**	975
Provision for impaired debt	**2,433**	-
Miscellaneous expenses	**8,640**	7,616
	2,012,643	1,685,134

24. General and administrative expenses

	Parent Company 2007 RO	Parent Company 2006 RO	Consolidated 2007 RO	Consolidated 2006 RO
Personnel costs	**4,321,960**	3,298,166	**4,321,960**	3,298,166
Directors' expenses	**22,571**	-	**22,571**	-
Office maintenance	**1,043,464**	744,906	**1,043,464**	744,906
Depreciation of property, plant and equipment [note 4(d)]	**151,932**	95,883	**151,932**	95,883
Office expenses	**779,079**	306,920	**779,079**	306,920
Business promotion	**234,582**	223,976	**234,582**	223,976
Communication	**131,525**	94,679	**131,525**	94,679
Tender fees	**99,301**	51,835	**99,301**	51,835
Professional fees	**88,454**	11,539	**88,454**	11,539
Insurance	**25,981**	21,823	**25,981**	21,823
Repairs and maintenance	**70,330**	25,765	**70,330**	25,765
Printing and stationery	**57,352**	44,540	**57,352**	44,540
Travel	**93,565**	54,843	**93,565**	54,843
	7,120,096	4,974,875	**7,120,096**	4,974,875

Office maintenance includes depreciation of RO 100,423 (2006 - RO 58,172).

Notes to the financial statements for the year ended 31 December 2007 (continued)

25. Net financing costs

	Parent Company		Consolidated	
	2007	2006	**2007**	2006
	RO	RO	**RO**	RO
Interest costs	**3,174,415**	2,166,647	**3,311,962**	2,255,601
Interest income	**(356,379)**	(622,980)	**(356,379)**	(622,980)
	2,818,036	1,543,667	**2,955,583**	1,632,621

26. Other income

Income from training center	**567,257**	752,295	**567,257**	752,295
Gain on disposal of property, plant and equipment	**62,434**	189,653	**114,021**	194,553
Insurance claims	**791,089**	341,832	**791,185**	344,079
Miscellaneous	**182,944**	181,983	**224,707**	275,064
	1,603,724	1,465,763	**1,697,170**	1,565,991

Income from training center is net of all expenses, including depreciation of RO 6,355 (2006 : RO 90,667) [note 4(d)].

27. Earnings per share

	Parent Company		Consolidated	
	2007	2006	**2007**	2006
Profit for the year (RO)	**21,965,133**	16,512,906	**22,156,235**	16,576,275
Weighted average number of shares	**214,383,562**	106,250,000	**214,383,562**	106,250,000
Basic earnings per share (RO)	**0.102**	0.155	**0.103**	0.156

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.

Notes to the financial statements for the year ended 31 December 2007 (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:

	Parent Company		Consolidated	
	2007	2006	**2007**	2006
Net assets (RO)	**70,161,706**	30,072,613	**70,416,177**	30,135,982
Number of shares outstanding at the year end	**250,000,000**	200,000,000	**250,000,000**	200,000,000
Net assets per share (RO)	**0.281**	0.150	**0.282**	0.151

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 condition 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 :

	Parent Company		Consolidated	
	2007	2006	**2007**	2006
	RO	RO	**RO**	RO
Hire charges	**1,257,432**	788,846	**-**	-
Contract income	**768,081**	106,039	**768,081**	106,039
Interest paid	**39,610**	33,322	**39,610**	33,322
Interest received	**-**	139,982	**-**	139,982
Purchase of goods / services	**8,260,551**	6,092,908	**8,260,551**	6,146,557
Purchase of property, plant and equipment	**695,607**	434,971	**695,607**	434,971

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:

	Parent Company		**Consolidated**	
	2007	2006	**2007**	2006
	RO	RO	**RO**	RO
Short term benefits to members of key management	**2,247,800**	1,193,889	**2,271,184**	1,255,645
Post employment benefits to members of key management	**8,175**	7,130	**9,737**	23,307
Director's remuneration	**-**	1,438,000	**36,000**	1,474,000
	2,255,975	2,639,019	**2,316,921**	2,752,952

30. Commitments and contingencies

	Parent Company		**Consolidated**	
	2007	2006	**2007**	2006
	RO	RO	**RO**	RO
Bonds and Guarantees	**86,829,091**	72,016,639	**86,836,731**	72,024,279
Letters of Credit	**32,260,625**	25,332,597	**32,260,625**	25,332,597
Acceptances	**-**	574,419	**-**	574,419
Capital commitments	**8,494,360**	4,373,704	**8,494,360**	4,373,704

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 2007 (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.

31. Business and geographical segments (continued)

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

	Construction		Hiring		Eliminations		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006
	RO	RO	**RO**	RO	**RO**	RO	**RO**	RO
Segment Revenue	**269,067,935**	165,958,206	**2,596,693**	1,916,605	**(1,257,432)**	(788,846)	**270,407,196**	167,085,965
Segment expenses	**(247,102,802)**	(149,445,300)	**(2,230,385)**	(1,795,139)	**1,257,432**	788,846	**(248,075,755)**	(150,451,593)
Segment results	**21,965,133**	16,512,906	**366,308**	121,466	**-**	-	**22,331,441**	16,634,372
Segmental assets and liabilities								
Segment assets	**253,957,279**	170,241,927	**4,135,440**	3,561,225	**(576,335)**	(381,681)	**257,516,384**	173,421,471
Segment liabilities	**183,795,573**	140,169,314	**2,409,868**	2,816,807	**363,505**	(56,687)	**186,568,946**	142,929,434

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:

	Parent Company		Consolidated	
	2007	2006	**2007**	2006
	RO	RO	**RO**	RO
Retentions receivables	**16,563,542**	9,839,015	**16,563,542**	9,839,015
Trade Receivables	**91,075,514**	56,095,273	**91,490,279**	56,973,223
Prepayments, advances and other receivables	**8,641,818**	6,497,805	**9,029,994**	6,480,777
Deposits with banks	**13,803,296**	9,426,834	**13,810,936**	9,434,474
Cash and bank balances	**3,829,507**	3,577,250	**3,832,945**	3,581,447
	133,913,677	85,436,177	**134,727,696**	86,308,936

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

	Parent Company		Consolidated	
	2007	2006	**2007**	2006
	RO	RO	**RO**	RO
Petroleum Development Oman	**27,198,956**	21,017,778	**27,198,956**	21,017,778
Government customers	**48,047,907**	28,155,499	**48,047,907**	28,155,499
Private customers	**15,828,651**	6,921,996	**16,243,416**	7,799,946
	91,075,514	56,095,273	**91,490,279**	56,973,223

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.

32. Credit risk (continued)

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

	Parent Company 2007		Consolidated 2007	
	Gross RO	**Impairment RO**	**Gross RO**	**Impairment RO**
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**
	91,288,094	**212,580**	**91,705,292**	**215,013**

	Parent Company 2006		Consolidated 2006	
	Gross RO	Impairment RO	Gross RO	Impairment RO
Not past due	22,265,803	-	22,445,402	-
Past due 0 - 60 days	26,098,925	-	26,098,925	-
Past due 61 – 180 days	3,234,710	-	3,234,710	-
Past due 181 – 270 days	420,867	-	689,770	-
More than 270 days	4,287,548	212,580	4,721,284	216,868
	56,307,853	212,580	57,190,091	216,868

33. Liquidity risk

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

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**	**-**
	168,840,691	**96,189,405**	**13,747,475**	**29,311,794**	**29,592,017**

33. Liquidity risk (continued)

31 December 2007

b) Consolidated

	Carrying amount RO	0 - 90 days RO	91 - 180 days RO	181 - 365 days RO	More than 365 days RO
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**	**-**
	171,419,035	**97,485,307**	**13,903,865**	**29,654,884**	**30,374,979**

31 December 2006

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	24,217,145	2,338,278	2,895,506	5,233,784	13,749,577
Creditors for purchase of property, plant and equipment	9,860,574	-	-	-	9,860,574
Bank borrowings	8,987,814	5,107,337	1,799,832	2,080,645	-
Short term loans	1,950,000	1,950,000	-	-	-
Trade and other payables	84,730,827	58,819,689	8,033,682	17,877,456	-
	129,746,360	68,215,304	12,729,020	25,191,885	23,610,151

b) Consolidated

Term loans	25,338,683	2,480,264	3,037,492	5,517,758	14,303,169
Creditors for purchase of property, plant and equipment	9,860,574	-	-	-	9,860,574
Bank borrowings	9,089,005	5,107,337	1,799,832	2,181,836	-
Short term loans	1,950,000	1,950,000	-	-	-
Trade and other payables	86,155,600	60,228,612	8,049,532	17,877,456	-
	132,393,862	69,766,213	12,886,856	25,577,050	24,163,743

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 29,231,938 (2006 - RO 14,522,092) are recognized at fixed interest rates and expose the Group to the fair value interest rate risk. The remaining term loans of RO 6,122,295 (2006 - RO 9,695,053) are recognized at floating rates thus exposing the Group to cash flow interest rate risk.

35. Approval of financial statements

These financial statements were approved by the Board of Directors and authorized for issue on 28 February 2008.

36. Comparative amounts

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