DIRECTORS' REPORT

Dear Shareholders,

I am delighted to welcome you all on behalf of the Board of Directors to the Annual General Meeting of Galfar Engineering & Contracting SAOG and to present the Annual Report for the year ended 31st December 2008.

BUSINESS ENVIRONMENT

During the year 2008, the Oman economy witnessed a strong growth on the back of high oil prices, accompanied by an increase in the prices of raw material. However, the last quarter faced unprecedented volatility with significant reduction in demand and prices of oil, due to the current international financial crisis.

The government budget for 2009 is prudently based on oil prices at US$:45/- per barrel and continue to focus on the economic developmental activities in the country. The major government expenditure is directed towards energy, education, infrastructure, health and tourism sectors. The government has allocated RO.665 million for new development projects, out of the total other development expenditure of RO.800 million.

OPERATIONS:

Details on the operating results of the Company for the year 2008 and outlook for the Industry for 2009 are reflected in the 'Management Discussion & Analysis' report included in the Annual Report for the year 2008.

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

In RO Million

Particulars	2008	2007
Gross revenue	364.367	268.71
Profit from Operation	27.82	26.93
Net Profit After Tax	23.11	22.33

The Earnings Per Share for the year 2008 is RO.0.091 on the face value of RO.0.100.

<u>SUBSIDIARY</u>:

Messrs Al Khalij Heavy Equipment & Engineering LLC, a subsidiary of the Company, engaged in transportation and logistics business has achieved turnover of R.O.2.534 Mn. during the year 2008 as compared to R.O.2.50 Mn. in 2007 . More than half of this revenue is from services provided to customers other than Galfar. Profit for the period was R.O.409,849/- in 2008 compared to R.O.366,309/- in 2007. Financials of this subsidiary are consolidated with Galfar.

<u>OMANISATION</u>:

Galfar is committed to have a productive and reliable national workforce. Currently Galfar employs 5500 Omani nationals in various categories including specialised jobs such as Project Managers, Project Engineers and HSE Advisors.

The Company is considered as one of the largest in the private sector, employing Omani Nationals with an Omanisation percentage of 22.50% and is the leading employer in the Construction Industry.

The two training centres of Galfar at Sohar and AL Hail is involved in qualifying young Omanis to meet its requirement and that of other Companies mainly in the areas of Heavy Duty Drivers, Operators & Technicians.

<u>CORPORATE GOVERNANCE</u>:

Your Company follows high standards of Corporate Governance. A detailed Corporate Governance Report is included in the Annual Report for the year ended 2008.

<u>HEALTH, SAFETY & ENVIRONMENT</u>:

The Company continues to maintain its programs for quality, health, safety,, environmental and social responsibilities. Over the years Galfar has to its credit several achievements related to these programs.

Your company is currently certified to ISO 9001:2001 Standards for Quality Management System, ISO 14001:2004 and OHSAS 18001:1999 Standards for environmental protection and occupational health and safety respectively, which helps in its pursuit to ensure quality of its product and to provide a healthy and environment friendly work atmosphere.

The systems are now being revised to meet the new requirements of ISO 9001:2008 & OHSAS 18001:2007 standards to facilitate continual improvement. We expect to complete this process by the third quarter of this year.

Health, Safety & Environment protection are the top priorities for the management of Galfar. During the course of the year your company has driven 115 million km and has worked 92 million manhours across all units. Lost Time Injury Frequency (LTIF) for the year stands at 0.76.

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 2008 on the face value of the share was indicated. The Board has pleasure in recommending a cash dividend of **20% and a stock dividend of 20%** for the year ended 31.12.2008.

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. The company foresees a stable performance in the coming year despite current global financial crisis, through its measures of cost control and prudent spending,

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 would like to thank all Ministries, Capital Market Authority, Muscat Securities Market, Muscat Depository & Security Registration Company, 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 the effort extended for achievement of the Company's goals.

Salim Said Hamad Al Fannah Al Araimi
Chairman

Deloitte.

Deloitte & Touche (M.E.) & Co. LLC
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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, except for the matter referred to in the below mentioned paragraph.

We draw attention to the paragraph 11 in the Board of Directors' corporate governance report, which states that the Audit Committee has decided to engage the services of a professional firm in the year 2009 to carry out procedures for further enhancement of the system of internal control.

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 2008 and does not extend to any financial statements of **Galfar Engineering and Contracting SAOG**, taken as a whole.

Deloitte & Touche

ديلويت آند توش (الشرق الأوسط)
P.O.Box 258, P.C. 112
Sultanate of Oman
Deloitte & Touche (M.E.)

Deloitte & Touche (M.E.)
Muscat, Sultanate of Oman
26 February 2009

Corporate Governance Report:

1. Company's Philosophy

Galfar Engineering and Contracting SOAG, is convinced with the importance of the need for good governance and healthy corporate practices for a company to succeed in the long run, fulfill its plans and realize its objectives. 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 competitive position of the Company. The Company continues applying a well defined Management Systems Procedures (MSPs) in accordance with ISO 9001, the adherence to such principles would be attainable.

The company is fully abiding by the corporate governance code issued by the Capital Market Authority (CMA). The company has taken all necessary steps to fulfill the objective of good corporate governance.

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. The Board is responsible for achieving the company's objectives. For this purpose, the Board is assisted by various committees and the higher executive management of the company. The Board has formed the executive Committee, the Audit Committee and other ad hoc committees when the need arises such as the procurement committee. In addition, there is a well-structured organization for the management executives whose duties and authorizations are defined in the manual of authority approved by the Board.

In general the board exercises its primary functions and duties in line with the powers stipulated in article 35 of the Articles of Association of the company.

2. Board of Directors & Committees

The First Board of Directors which was 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. No director is a member of more than 4 public companies whose shares are listed on the Muscat Securities Market (MSM) and no director is chairman of more than 2 such companies. None of the directors is a member of the Board of Directors of a public company which carries out similar business and whose principal office is located in the Sultanate of Oman.

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	A'Sharqiya Investment Holding Co. S.A.O.G
2.	Dr. P. Mohamed Ali	Vice Chairman	Non-Executive	Nil
3.	Dr.Hamed Hashim Mohamed Al Dhahab Al Ghailani	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	Nil
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	Omani Packaging Co. S.A.O.G 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

2.1 Board Meetings:

During the year 2008, the Board has held 5 meetings. The following table shows details of the meetings and attendance of the Members:

Sr. No.	Name of Director	1st meeting 12.1.2008	2nd meeting 28.2.2008	3rd meeting 13.5.2008	4th meeting 26.7.2008	5th meeting 28.10.2008
1	Sheikh Dr. Salim Said Hamed Al Fannah Al Araimi	√	√	√	√	√
2	Dr. P. Mohamed Ali	×	√	√	√	√
3	Dr. Hamed Hashim Mohamed Al Dhahab Al Ghailani	√	×	×	√	√
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	√	√	√	√	√

2.2 Remuneration to the Board of Directors:

The total amount of remuneration proposed to be paid to the Directors including the sitting fees for the year 2008 is RO.200,000/-

2.3 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.

3. Other Committees:

3.1 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. The Executive Committee exercises its functions in accordance with the Executive Committee Charter. The committee held six meetings during the year 2008

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

3.2 Meetings & Attendance

Sr. No.	Name of Member	**1st Meeting 23-Feb-08**	**2nd Meeting 24-Apr-08**	**3rd Meeting 12-Jun-08**	**4th Meeting 21/8,31/8 & 8/9**	**5th Meeting 24-Nov-08**	**6th Meeting 28-Dec-08**
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	√	√	×	×	×	×

4. **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. The Committee held seven meetings during the year.

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

4.1. Meetings & Attendance

Sr. No.	Name of Member	1st Meeting 20th Jan, 2008	2nd Meeting 12th Feb, 2008	3rd Meeting 27th Feb, 2008	4th Meeting 13th May 2008	5th Meeting 26th July 2008	6th Meeting 27th Oct 2008	7th Meeting 23rd Dec 2008
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/-

5. **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 open 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.

6. Remuneration:

Total remuneration during the financial year 2008 to top Management (top 5) was RO 1.855 Million.

7. 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. No fines or penalties have been imposed on the Company during the period. The Company was explained by Directorate of Corporate Governance of CMA on a donation granted to Oman national soccer team. The Company answered the explanation in writing.

8. Communication with Shareholders and Investors:

The company maintains good communication relations with the shareholders and Investors and responds - in line with the disclosures rules - to their queries, request and furnish them with the required information. The company, during the period, underwent several conference calls and interviews with financial analysts and investors. On background of the global financial crises, The Company also responded to a request by MSM to hold a discussion forum on the Company's position, its financial results and futuristic plans. The Company held successfully the discussion forum on 6th November 2008.

The company publishes its un-audited financial results in the newspapers on a quarterly basis and the audited financial statements annually. Detailed financial statements are sent to shareholders on request. The company publishes its quarterly and annual results in MSM website. Detailed financial statements are sent to shareholders on request. The company posts its quarterly and annual results in MSM website, and also on the Company's website: www.galfar.com. All the Company's announcements are posted on MSM's website.

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

/-

9. Statement on Market Price and distribution of Holdings:

9.1 High / Low price during each month

Month	High	Low	Close
Jan' 08	1.750	1.499	1.506
Feb'08	1.625	1.500	1.605
Mar'08	1.768	1.500	1.768
Apr'08	2.250	1.775	2.184
May'08	2.310	2.150	2.160
Jun'08	2.349	1.880	2.094
Jul'08	2.422	1.849	1.948
Aug'08	1.952	1.537	1.649
Sep'08	1.625	1.240	1.441
Oct'08	1.449	0.757	0.757
Nov' 08	0.833	0.620	0.671
Dec' 08	0.685	0.414	0.463

9.2 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%	6578	106,583,000	42.63
2	5% to 10%	1	12,500,000	5.00
3	Above 10%	4	130,917,000	52.37
	Total	6583	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.

10. Profile of the Statutory Auditors

Deloitte Touche Tohmatsu is an organization of member firms around the world devoted to excellence in providing professional services and advice. Deloitte is focused on client service through a global strategy executed locally in over 140 countries. With access to the deep intellectual capital of approximately 165,000 people worldwide, Deloitte delivers services in four professional areas: audit, tax, consulting, and financial advisory services.

Deloitte & Touche in the Middle East is among the region's leading professional services firms, providing audit, tax, consulting, and financial advisory services through 25 offices in 14 countries with over 1,700 partners, directors and staff. The Oman Practice currently has three Partners and over 60 professionals.

10.1 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)	17,000
2	Fees for Corporate Governance Report (Parent)	1,000
3	Statutory Audit Fees (Subsidiary)	5,000

11. <u>The Board of Directors acknowledges as at December 31, 2008:</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. The internal control systems of the Company are being assessed regularly for effectiveness and it has been decided by the Audit Committee to engage the services of a professional firm to carry out this assessment in the year 2009, for further enhancement of the system of internal control and recommend same to the Board in the forthcoming meeting.
- 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

Management discussion and analysis

Overview

Galfar Engineering and Contracting SAOG, is one of the Largest multi disciplined engineering & contracting company in the Sultanate of Oman having a turnover of over RO 365 Million. Galfar transformed into Public Joint Stock Company in the year 2007

The year 2008 witnessed major changes in the World economy. The economic upswing, with increased spending from the Government on Infrastructure & Energy Sector, during the first half of 2008, benefitted the Company with a marked increase in the revenues.

Main objectives and Operational Results

Galfar in its endeavor to keep pace with the growth of business has restructured its organization during the second half 2008. This was done with the intention to facilitate the projected growth and to improve the functional and operational efficiency of the organization. This change is expected to result in better rewards to the Company and stakeholders.

Galfar, has the experience and expertise in project management, engineering, procurement and construction in

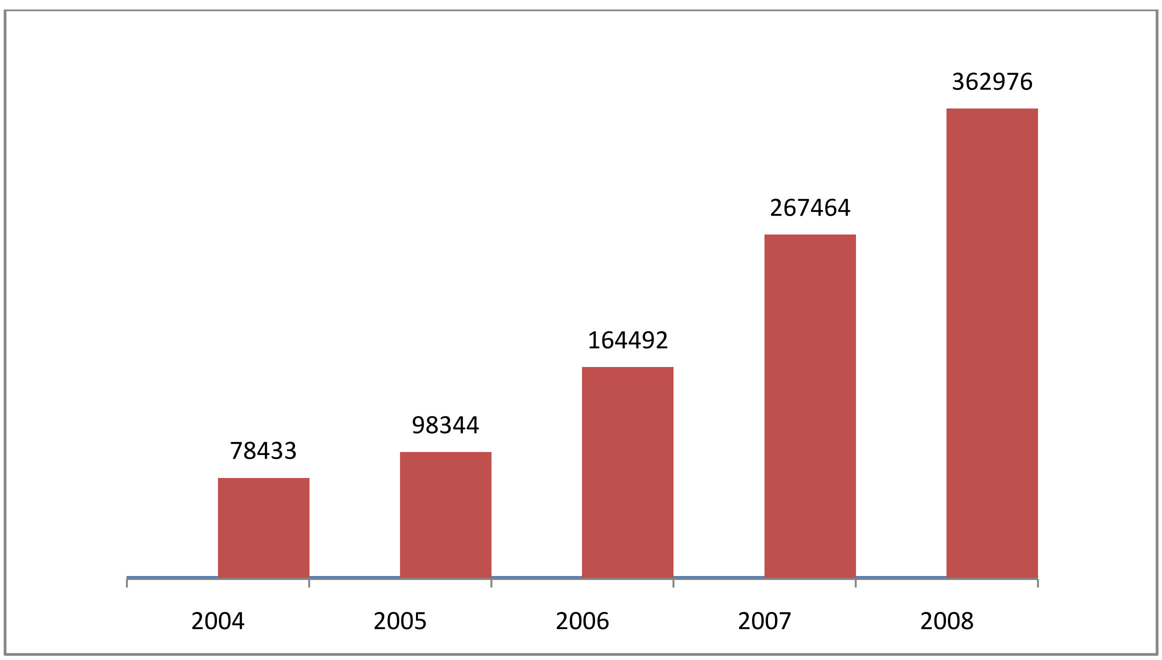
1. Oil and Gas
2. Civil & Electromechanical
3. Roads & Bridges
4. Environmental Projects

The company works as main contractor, in partnerships with other companies and as a subcontractor. Galfar executes projects with its own workforce and equipment whilst subcontracting 19% of the work. Most of the subcontracts are in specialized areas, including engineering. The turnover of the company increased to RO.363 million in 2008 from RO 267 million in 2007. All segments of business increased their turnover with Oil & Gas and Roads & Bridges units in particular being the main contributors of the growth.

During the year 2008, cost pressures build up significantly due to unprecedented increases in price of Cement, Bitumen, Steel and Copper, rise in recruitment and manpower costs and increase in equipment hiring cost. These factors had an impact on the profitability during the second half of the year. Actual profit achieved is RO 22.699 million, compared to RO 21.965 million for 2007.

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

Contract Income in RO' 000



The subsidiary company which specializes in hiring out of equipments achieved a turnover of RO.2.534 million (2007-RO.2.503 million) and a profit of RO.0.41 million (2007-RO. 0.37 million).

Human Resources

With the increase in the volume of business for the Company, the employee strength has also increased from 22951 in 2007 to 24500 in 2008. The shortage of quality manpower from the conventional sources, has forced the Galfar to pursue manpower markets other than Indian subcontinent. The Company is committed to the Omanisation and employs one of the largest Omani work force in the private sector.

Quality, Health, Safety and Environment

The Company through its Business, Support & System Units continues to demonstrate its commitment to consistently meet the contract requirements for the range of products & services offered in the Oil & Gas & other infrastructure sectors. This is achieved through effective application of the requirements of the ISO 9001:2000, ISO 14001:2004 & OHSAS 18001:1999 standards for quality management, environmental protection and occupational health & safety respectively.

To meet the revised requirements of ISO 9001:2008 and OHSAS 18001:2007, the systems are now being updated, the exercise we expect to complete by the 3^{rd} quarter of 2009

HSE protection is an integral part of our day to day business to enable improvement in the overall work performance and for ensuring greater degree of customer satisfaction both internal & external. During the year 2008 we had driven 115 Million Kms and have worked 92 million manhours. Our Lost Time Injury Frequency (LTIF) for the year was 0.76.

Risks

Comparable to any other business risks do exist in company's business activities but they are managed through careful planning and suitable mitigation measures.

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

The escalation of activity in the engineering and construction market in the Middle East and India has put strain on availability of quality resources for Company's operations. As far as the construction equipment segment is concerned, Galfar owns the majority of its equipment being operational in its projects and makes significant investments periodically, to match the foreseeable requirements. Recruitment and training of employees, both from inside and outside of Oman provides for the requirements of manpower resources. In pursuit of quality manpower, new manpower markets are being explored.

The Global financial crisis and consequent economic slowdown may reflect on the Company depending on the position taken by the Government of Sultanate of Oman.

Internal Controls Systems

The Board assures that there is a detailed delegation of authority to the various levels of management and adequate corporate control of the organization. The Management is also fully aware of its responsibility towards all the stakeholders. The company addresses these issues by maintaining clearly defined operating procedures which are updated as and when necessary. The Company is in the process of implementing a new ERP system to strengthen the associated internal control systems.

Outlook

As far as the Oman market is concerned, infrastructure development & energy industry is expected to remain on the upbeat. The outlook of the company is promising, considering the fact there are many projects available in the market, and Galfar has the capability to meet this demand. The Company remains confident of growing and consistently meeting the expectations of all the stake holders. Galfar's order book stood at RO.720 million at the beginning of the year 2009 and this will enable optimum utilization of the company's resources for the next two years. During the initial period of the year 2009 we have been awarded orders worth 31 million.

EPC segment of the company's portfolio is made as one of the focus area for growth in the coming years. As part of the strategy of expanding the business in to potential markets, Galfar has already made foray in to the Indian market and has been exploring opportunities in the MENA region.

Dr. Hans Erlings

Chief Executive Officer

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 2008, 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 2008, 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 (M.E.)
Muscat, Sultanate of Oman
26 February 2009

GALFAR ENGINEERING AND CONTRACTING SAOG AND SUBSIDIARY

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

Balance Sheet at 31 December 2008

	Notes	Parent Company 2008 RO	Parent Company 2007 RO	Consolidated 2008 RO	Consolidated 2007 RO
ASSETS					
Non-current assets					
Property, plant and equipment	4	**126,933,280**	97,620,702	**130,061,397**	100,607,082
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		**15,992,660**	11,668,153	**15,992,660**	11,668,153
Total non-current assets		**143,650,940**	110,013,855	**146,474,063**	112,695,241
Current assets					
Inventories	7	**46,215,858**	21,697,900	**46,295,137**	21,761,600
Trade receivables	8	**149,694,364**	95,970,903	**150,486,592**	96,385,668
Prepayments, advances and other receivables	9	**13,540,427**	8,641,818	**13,588,468**	9,029,994
Deposits with banks	10	**12,414,543**	13,803,296	**12,417,183**	13,810,936
Cash and bank balances	11	**1,880,460**	3,829,507	**1,884,433**	3,832,945
Total current assets		**223,745,652**	143,943,424	**224,671,813**	144,821,143
Total assets		**367,396,592**	253,957,279	**371,145,876**	257,516,384
EQUITY AND LIABILITIES					
Capital and reserves					
Share capital	12	**25,000,000**	25,000,000	**25,000,000**	25,000,000
Share premium	12	**19,169,509**	19,169,509	**19,169,509**	19,169,509
Statutory reserve	14	**8,333,333**	6,223,577	**8,333,333**	6,223,577
Retained earnings	15	**30,358,004**	19,768,620	**30,826,294**	20,023,091
Equity attributable to equity holders of the parent company		**82,860,846**	70,161,706	**83,329,136**	70,416,177
Minority interest		**-**	-	**727,292**	531,261
Total equity		**82,860,846**	70,161,706	**84,056,428**	70,947,438
Non-current liabilities					
Term loans	16	**32,411,293**	19,172,794	**32,411,293**	19,955,756
Provision for employees' end of service indemnity	17	**5,084,380**	3,825,795	**5,181,698**	3,905,198
Deferred tax liability	21	**6,410,958**	4,198,667	**6,526,584**	4,314,293
Creditors for purchase of property, plant and equipment		**5,834,341**	10,419,223	**5,834,341**	10,419,223
Advances on contracts		**24,184,407**	5,408,983	**24,184,407**	5,408,983
Total non-current liabilities		**73,925,379**	43,025,462	**74,138,323**	44,003,453
Current liabilities					
Bank borrowings	18	**38,821,410**	14,203,879	**38,874,491**	14,288,312
Short term loans	19	**17,671,692**	4,200,000	**17,671,692**	4,200,000
Term loans – current portion	16	**18,596,977**	16,181,439	**18,596,977**	16,682,796
Trade and other payables	20	**134,642,145**	104,663,356	**136,929,822**	105,872,948
Provision for taxation		**878,143**	1,521,437	**878,143**	1,521,437
Total current liabilities		**210,610,367**	140,770,111	**212,951,125**	142,565,493
Total liabilities		**284,535,746**	183,795,573	**287,089,448**	186,568,946
Total equity and liabilities		**367,396,592**	253,957,279	**371,145,876**	257,516,384
Net assets per share	28	**0.331**	0.281	**0.333**	0.282

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Salim Said Al Fannah Al Araimi
Chairman

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S. Muthukrishnan
Chief Financial Officer

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

Income Statement for the year ended 31 December 2008

	Notes	Parent Company 2008 RO	Parent Company 2007 RO	Consolidated 2008 RO	Consolidated 2007 RO
Contract income		**362,976,252**	267,464,211	**362,976,252**	267,464,211
Contract costs	**22**	**(327,750,902)**	(233,906,196)	**(326,607,278)**	(232,648,764)
Profit on contracts		**35,225,350**	33,558,015	**36,368,974**	34,815,447
Hire revenue		**-**	-	**1,390,584**	1,245,815
Hire operating costs	**23**	**-**	-	**(2,056,228)**	(2,012,643)
General and administrative expenses	**24**	**(7,882,156)**	(7,120,096)	**(7,882,156)**	(7,120,096)
Profit from operations		**27,343,194**	26,437,919	**27,821,174**	26,928,523
Net financing costs	**25**	**(3,862,088)**	(2,818,036)	**(3,977,720)**	(2,955,583)
Other income	**26**	**2,308,468**	1,603,724	**2,355,970**	1,697,170
Profit for the year before tax		**25,789,574**	25,223,607	**26,199,424**	25,670,110
Income tax expense	**21**	**(3,090,434)**	(3,258,474)	**(3,090,434)**	(3,338,669)
Profit for the year		**22,699,140**	21,965,133	**23,108,990**	22,331,441
Attributable to equity holders of the parent		**22,699,140**	21,965,133	**22,912,959**	22,156,235
Minority interest		**-**	-	**196,031**	175,206
Profit for the year		**22,699,140**	21,965,133	**23,108,990**	22,331,441
Earnings per share	**27**	**0.091**	0.102	**0.092**	0.103

Cash flow statement
for the year ended 31 December 2008

	Parent Company		Consolidated	
	2008	2007	**2008**	2007
	RO	RO	**RO**	RO
Operating activities				
Profit for the year before tax	**25,789,574**	25,223,607	**26,199,424**	25,670,110
Adjustments for:				
Depreciation of property, plant and equipment	**17,571,398**	12,855,612	**18,171,281**	13,559,563
Gain on disposal of property, plant and equipment	**(398,540)**	(62,434)	**(398,540)**	(114,021)
Net transfer to employees' end of service indemnity	**1,258,585**	810,861	**1,276,500**	813,077
Provision for impaired debt	**-**	-	**-**	(1,855)
Finance costs	**3,980,245**	3,174,415	**4,095,877**	3,311,962
Interest income	**(118,157)**	(356,379)	**(118,157)**	(356,379)
Operating profit before changes in working capital	**48,083,105**	41,645,682	**49,226,385**	42,882,457
Changes in working capital:				
Trade receivables	**(52,949,511)**	(37,714,020)	**(54,100,924)**	(37,248,980)
Prepayments, advances and other receivables	**(4,219,077)**	(2,144,013)	**(3,098,590)**	(2,549,217)
Inventories	**(24,517,958)**	(7,700,153)	**(24,533,537)**	(7,710,618)
Trade and other payables	**29,978,789**	17,413,861	**31,056,873**	17,198,680
Net cash generated from operations	**(3,624,652)**	11,501,357	**(1,449,795)**	12,572,322
Change in retentions receivable-long term	**(4,324,507)**	(3,990,748)	**(4,324,507)**	(3,990,748)
Change in advances on contracts-long term	**18,775,424**	1,948,369	**18,775,424**	1,948,369
Changes in creditors for property plant and equipment	**(4,584,882)**	558,649	**(4,584,882)**	558,649
Change in margin deposits	**94,767**	(2,646,507)	**99,766**	(2,646,507)
Income tax paid	**(1,521,437)**	(1,485,776)	**(1,521,437)**	(1,485,776)
Advance tax paid	**(1,453,853)**	-	**(1,459,883)**	-
Net cash from operating activities	**3,361,230**	5,885,344	**5,534,688**	6.956,309
Investing activities				
Payments for purchase of property, plant and equipment	**(47,752,771)**	(38,867,701)	**(48,863,333)**	(40,003,218)
Proceeds from sale of property, plant and equipment	**1,267,335**	1,055,492	**1,636,277**	1,110,809
Change in term deposits	**1,293,987**	(1,729,955)	**1,293,987**	(1,729,955)
Interest received	**118,157**	356,379	**118,157**	356,379
Net cash used in investing activities	**(45,073,292)**	(39,185,785)	**(45,814,912)**	(40,265,985)
Financing activities				
Share capital raised	**-**	24,169,509	**-**	24,169,509
Change in bank borrowings	**24,617,531**	5,216,065	**24,586,179**	5,199,307
Change in term loans	**15,654,037**	11,137,088	**14,369,718**	11,299,869
Change in short term loans	**13,471,692**	2,250,000	**13,471,692**	2,250,000
Interest paid	**(3,980,245)**	(3,174,415)	**(4,095,877)**	(3,311,962)
Dividend paid	**(10,000,000)**	(6,045,549)	**(10,000,000)**	(6,045,549)
Net cash used in financing activities	**39,763,015**	33,552,698	**38,331,712**	33,561,174
Net change in cash and cash equivalents	**(1,949,047)**	252,257	**(1,948,512)**	251,498
Cash and cash equivalents, at the beginning of the year	**3,829,507**	3,577,250	**3,832,945**	3,581,447
Cash and cash equivalents, at the end of the year	**1,880,460**	3,829,507	**1,884,433**	3,832,945

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

Parent company statement of changes in equity for the year ended 31 December 2008

	Notes	Share capital RO	Share premium RO	Statutory reserve RO	Retained earnings RO	Total RO
Balance at 1 January 2007		20,000,000	-	4,027,064	6,045,549	30,072,613
Increase in share capital	**12**	5,000,000	-	-	-	5,000,000
Share premium from issue of capital	**12**	-	20,000,000	-	-	20,000,000
Share issue expenses	**12**	-	(830,491)		-	(830,491)
Profit for the year		-	-	-	21,965,133	21,965,133
Transfer to statutory reserve	**14**	-	-	2,196,513	(2,196,513)	-
Dividend paid		-	-	-	(6,045,549)	(6,045,549)
Balance at 1 January 2008		25,000,000	19,169,509	6,223,577	19,768,620	70,161,706
Profit for the year		-	-	-	22,699,140	22,699,140
Transfer to statutory reserve	**14**	-	-	2,109,756	(2,109,756)	-
Dividend paid		-	-	-	(10,000,000)	(10,000,000)
Balance at 31 December 2008		**25,000,000**	**19,169,509**	**8,333,333**	**30,358,004**	**82,860,846**

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

Consolidated statement of changes in equity
for the year ended 31 December 2008

	Notes	Share capital RO	Share premium RO	Statutory reserve RO	Retained earnings RO	Attributable to equity holders of the parent RO	Minority interest RO	Total RO
Balance at 1 January 2007		20,000,000	-	4,027,064	6,108,918	30,135,982	356,055	30,492,037
Increase in share capital	**12**	5,000,000	-	-	-	5,000,000	-	5,000,000
Share premium from issue of capital	**12**	-	20,000,000	-	-	20,000,000	-	20,000,000
Share issue expenses	**12**	-	(830,491)	-	-	(830,491)	-	(830,491)
Profit for the year		-	-	-	22,156,235	22,156,235	175,206	22,331,441
Transfer to statutory reserve	**14**	-	-	2,196,513	(2,196,513)	-	-	-
Dividend paid		-	-	-	(6,045,549)	(6,045,549)	-	(6,045,549)
Balance at 1 January 2008		25,000,000	19,169,509	6,223,577	20,023,091	70,416,177	531,261	70,947,438
Profit for the year		-	-	-	22,912,959	22,912,959	196,031	23,108,990
Transfer to statutory reserve	**14**	-	-	2,109,756	(2,109,756)	-	-	-
Dividend paid		-	-	-	(10,000,000)	(10,000,000)	-	(10,000,000)
Balance at 31 December 2008		**25,000,000**	**19,169,509**	**8,333,333**	**30,826,294**	**83,329,136**	**727,292**	**84,056,428**

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

1. General

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

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

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

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

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

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

2. Summary of significant accounting policies

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

2.1 Basis of preparation

(a) These financial statements are presented in Rials Omani ("RO") which is the currency in which the majority of the Group's transactions are denominated.

(b) The financial statements have been prepared on the historical cost basis except as disclosed in the accounting policies below and in accordance with International Financial Reporting Standards (IFRS) and comply with the disclosure requirements set out in the Rules for Disclosure and Proformas issued by the Capital Market Authority of the Sultanate of Oman.

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

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

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

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

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

2. Summary of significant accounting policies (continued)

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

Consolidation

Subsidiary is a company over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

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

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiary are changed, where necessary, to ensure consistency with the policies adopted by the group.

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

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

Minority interests

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

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

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 equipment	3 - 10

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

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

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 2008 (continued)

4. Property, plant and equipment

Parent Company

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

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

4. Property, plant and equipment (continued)
Consolidated

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

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

4. Property, plant and equipment (continued)

(a) Capital work-in-progress represents expenses incurred on improvements in corporate office and other assets.

(b) Land consists of 5,184 sq. mt. located at Salalah and is registered in the name of one of the shareholders Mr. Majid bin Salim Al-Fannah Al-Araimi.

(c) The Group has pledged certain assets having a carrying value of RO 17,832,248 (2007 - RO 10,845,963) to secure credit facilities granted by finance companies.

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

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

5. Investment in subsidiary

Name of the subsidiary	Principal activity	Date of acquisition	Proportion of shares acquired	Cost of acquisition	Net assets acquired	Goodwill	Place of incorpo-ration
			%	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	
	2008	2007	**2008**	2007
	RO	RO	**RO**	RO
Unquoted local investments	**125,000**	125,000	**145,000**	145,000

7. Inventories

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

8. Trade receivables

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

(a) Contracts in progress at the balance sheet date

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

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

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

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

9. Prepayments, advances and other receivables

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

10. Deposits with banks

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

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

11. Cash and bank balances

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

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

12. Share capital

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

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

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

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

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

Share premium

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

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

13. Dividend

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

14. Statutory reserve

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

15. Retained earnings

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

16. Term loans

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

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:

	2008	2007
Floating rate loans	**LIBOR + 1.2% to 1.75%**	LIBOR + 1.50% to 1.85%
Fixed interest rate loans	**6.5% to 8.5%**	6.25% to 8.5%

The term loans are repayable as follows:

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

17. Provision for employees' end of service indemnity

Movements in the net liability were as follows:

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

18. Bank borrowings

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

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

19. Short term loans

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

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

20. Trade and other payables

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

21. Taxation

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

a) Income tax expense

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

21. Taxation (continued)

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

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

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

b) Deferred tax liability

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

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

Parent Company

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

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

21. Taxation (continued)

b) Deferred tax liability (continued)

Consolidated

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

22. Contract costs

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

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

23. Hire operating costs

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

24. General and administrative expenses

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

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

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

25. Net financing costs

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

26. Other income

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

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

27. Earnings per share

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

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

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

28. Net assets per share

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

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

29. Related party transactions

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

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

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

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

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

30. Commitments and contingencies

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

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

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.

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

31. Business and geographical segments (continued)

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

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

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

32. Credit risk

a) Exposure to credit risk

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

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

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

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

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

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

32. Credit risk (continued)

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

	Parent Company		Consolidated	
	Gross	Impairment	Gross	Impairment
31 December 2008	**RO**	**RO**	**RO**	RO
Not past due	**66,696,939**	**-**	**66,830,593**	**-**
Past due 0 - 60 days	**21,352,670**	**-**	**21,452,777**	**-**
Past due 61 – 180 days	**24,996,605**	**-**	**25,332,266**	**-**
Past due 181 – 270 days	**15,093,670**	**-**	**15,149,260**	**-**
More than 270 days	**14,936,049**	**212,580**	**15,103,265**	**212,580**
	143,075,933	**212,580**	**143,868,161**	**212,580**
31 December 2007				
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

33. Liquidity risk

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

31 December 2008

a) Parent company

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

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

33. Liquidity risk (continued)

31 December 2008

b) Consolidated

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

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

b) Consolidated

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

34. Interest rate risk

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

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

35. Comparative amounts

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

36. Approval of financial statements

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