Director's Report

Dear Shareholders,

I welcome you all on behalf of the Board of Directors to this Annual General Meeting of Galfar Engineering & Contracting SAOG and to present the Annual Report for the Year ended 31st December 2010.

Business Environment

In 2010, Oman celebrated 40 years of growth and progress. The country also managed to stay clear of the economic downturn. The stable economy and the increased spending on infrastructure during the 8th Five Year Plan (2011-15) have attracted many competitors to already developed contracting community.

Infrastructure Projects in India are continuing at a rapid pace, the major thrust presently is in Roads and Ports. Many utility projects are being tendered out and these are being funded through external agencies/countries. After completing one road project six months ahead of schedule allowing us to collect toll earlier than planned and providing a good start, we have already signed another EPC contract with our own SPV company. In the third DBFOT Project in India (Bhubaneshwar-Chandikhole Road), we have taken on the role of Operation & Maintenance considering that this activity together with toll collection starts immediately without waiting for the construction to be over with.

Your Company Galfar has during the period acquired significant interest in a Kuwaiti construction company named Shaheen Alghanim Roads and Bridges contracting KSCC and its name has been changed into Galfar Engineering & Contracting-Kuwait KSCC. Presently the Company is executing the construction of a 25 km road in Boubyan Island.

Operations

Galfar has continued to be a preferred contractor in the Sultanate of Oman for many clients as we are considered as a reliable and safety conscious contractor.

Details on the operating results of the Company for the year 2010 and outlook for the industry for 2011 are reflected in the 'Management Discussion & Analysis' report included in the Annual Report for the year 2009.

Associates & Subsidiaries

Galfar Kuwait and the subsidiary, Galfar-Wazen General Contracting -Libya are new additions to the Galfar SAOG network along with Galfar India, a subsidiary with 99.9% shareholding.

Galfar Training Institute LLC, a wholly owned subsidiary of your company, plays a vital role in training young Omanis for the construction industry.

Al Khalij Heavy Equipment & Engineering LLC, the Company's subsidiary in Oman, engaged in transportation and logistics business has achieved turnover of RO 1.805 million during the year 2010 as compared to RO 2.089 million in 2009. More than 75% of this revenue is from services provided to Customers other than Galfar.

Corporate Governance

The Company follows high standards of Corporate Governance. A detailed Corporate Governance Report is included in the Annual Report for the year ended 2010.

Quality, Health, Safety and Environment

The Company's Quality, Health, Safety & Environmental Management System certifications have now been upgraded to the current versions which are ISO 9001:2008 for Quality Management, ISO 14001:2004 for Environmental Management and OHSAS 18001:2007 for Occupational Health & Safety Management. The Nizwa Industrial Facility is certified for 'U' Stamp by the American Society for Mechanical Engineers (ASME) for the Construction of Pressure Vessels & parts thereof.

During the course of the year 2010, the Company's Vehicles have driven 137 million kms and the Company has worked 105 million man-hours across all units. Our Lost Time Injury Frequency (LTIF) for the year 2010 stands at 0.30 as against 0.49 in the year 2009. We have worked 15 Million man-hours without Lost Time Injury during the year 2010.

Outlook

During 2010 the Company bagged Riyal Omani 380m Million worth of Projects to maintain the order book back log at RO 614 Million at the starting of this year; this includes the strategic Project of Redevelopment of the Salalah Airport. Our endeavour will be to continue to maintain this level of order book while improving it in a sustainable manner. With numerous projects both in the Oil & Gas and the other infrastructure development sectors already in the tender stage and likely to be tendered, we expect to consolidate and register a growth for Galfar in 2011 and the future.

The Government has planned major Road development projects including the dualization of many strategic corridors and construction of the New Batinah Expressway linking with the Muscat Expressway. These Projects and the upcoming development in the Ports and Harbour sector will form a very important part of Galfar's strategies in the near future in Oman. The Sultanate has also preparing itself for a major rail network. There are major activities planned in the Real-estate Market with Oman taking the lead in developments.

It is expected overall that the next five years should also see a marked expenditure increase in utilities with more and more water & power transmission and distribution systems being tendered out.

The Oil & Gas project scenario in Oman looks very promising even apart from the service contracts. With our EPC capabilities now being delivered in-house, Galfar has begun to seek every opportunity in the EPC projects being tendered out. In the Oil and Gas sector, PDO too has an ambitious plan to develop some of the low production fields using Enhanced Oil Recovery Techniques.

We continue to focus on the infrastructure sector in the Indian market with having submitted several prequalifications for Roads and Ports Projects in the Design Build Finance Operate and Transfer (DBFOT) model. This is expected to enhance the group revenue and margins in the near future. We are also actively looking for projects in the Ports, pipelines in both Oil & Gas and Water Transmission sectors. We also expect opportunities in the dedicated rail freight corridor project and subsequent SEZs that have been on the anvil for some time. There are several opportunities in the privatized port projects especially in the western states where these terminals are being used for gas transfers to the industries.

While the Libyan market promises to be highly rewarding especially in the Oil and Gas sector, we will have to wait till abating of the present situation in the North African Countries as a whole.

On Record

We are grateful to His Majesty Sultan Qaboos Bin Said for his visionary leadership and providing opportunities for the private and public sector in participating in the development of the Oman's economy.

The Board would like to thank all Ministries, Capital Market Authority, Muscat Securities Market, Muscat Depository and Security Registration Company, Muscat Municipality, Royal

Oman Police, Petroleum Development of Oman and other Companies working in the Oil & Gas sector in Oman, Commercial Banks and Financial Institutions in Oman and abroad where we have relationships, 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 employees, staff and management of the Company for the efforts extended to improve & enhance the performance of the Company.

Salim Said Hamad Al Fannah Al Araimi
Chairman

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P. R. No. MH/4

Report of Factual Findings on the corporate governance reporting of Galfar Engineering & Contracting SAOG and its application of the corporate governance practices in accordance with the CMA code of corporate governance

TO THE SHAREHOLDERS OF GALFAR ENGINEERING & 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 & Contracting SAOG ('the company') 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 reflects, in all material respects, the company's application of the provisions of the code and is free from any material misrepresentation.

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

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

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose. This report relates only to the accompanying corporate governance report of the company to be included in its annual report for the year ended 31 December 2010 and does not extend to any financial statements of Galfar Engineering & Contracting SAOG, taken as a whole.

Ernst & Young

10 March 2011
Muscat

Philip D Stanton
Partner

Corporate Governance Report

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, They 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.

Board of Directors

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. The board comprises of nine Directors, eight non executive and one executive. Six of the non executive directors are independent.

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 joint stock public companies whose shares are listed on the Muscat Securities Market (MSM) and no director is chairman of more than 2 public companies whose principal office is in the Sultanate of Oman. None of the directors is a member of a Board of Directors of a joint stock public or closed company which carries out similar business and whose principal office is 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	Bank Sohar S.A.O.G Oman Medical College S.A.O.C
2	Dr.P. Mohamed Ali	Vice Chairman & Managing Director	Executive	Tabreed Oman S.A.O.C Oman Medical College S.A.O.C
3	Dr.Hamed Hashim Mohamed Al Dhahab	Director	Non - Executive Indepenent	Majan Electricity Company S.A.O.C
4	Dr.Adil Abdulaziz Yahya Al Kindy	Director	Non - Executive Indepenent	NIL
5	Dr.Hatem Bakheit Saeed Al Shanfari	Director	Non - Executive Indepenent	Gulf Investment Services Co. S.A.O.G Gulf Baader Capital Markets Co. S.A.O.C
6	Sheikh Salim Abdullah Saeed Badr Al Rawas	Director	Non - Executive Indepenent	Oman Oil Marketing Company S.A.O.G Oman Oil Company S.A.O.C
7	Sheikh Yahya Abdullah Al Fannah Al Araimi	Director	Non - Executive Indepenent	NIL
8	Engr.Ali Mohamed Ali Al Mahrouqi	Director	Non - Executive Indepenent	A'sharqiya Investment Holding Co. S.A.O.G
9	Ms.Budoor Mohamed Rashid Al Fannah Al Araimi	Director	Non - Executive	Gulf Plastic Industries Co. S.A.O.G A'sharqiya Investment Holding Co. S.A.O.G Oman Medical College S.A.O.C

Board Meetings:

During the year 2010, the Board held 5 meetings. The following table shows details of the same.

Sr. No.	Name of Directors & Representatives	Meeting 17	Meeting 18	Meeting 19	Meeting 20	Meeting 21
		25-Feb-10	10-Mar-10	13-May-10	10-Aug-10	11-Nov-10
1	Sheikh Dr.Salim Said Hamed Al Fannah Al Araimi	√	X	√	X	√
2	Dr.P. Mohamed Ali	√	√	√	√	√
3	Dr.Hamed Hashim Mohamed Al Dhahab	√	√	√	√	√
4	Dr.Adil Abdulaziz Yahya Al Kindy	√	X	X	√	√
5	Dr.Hatem Bakheit Saeed Al Shanfari	√	√	√	√	√
6	Sheikh Salim Abdullah Saeed Badr Al Rawas	√	√	√	√	√
7	Sheikh Yahya Abdullah Al Fannah Al Araimi	√	X	√	√	X
8	Engr.Ali Mohamed Ali Al Mahrouqi	X	√	√	√	X
9	Ms.Budoor Mohamed Rashid Al Fannah Al Araimi	√	X	√	√	√

Remuneration to the Board of Directors:

The total amount of remuneration proposed to be paid to the Directors excluding sitting fees for the year 2010 is *RO.158,400/-.* The sitting fees payable for the period is RO 41,600/-.

Board Secretary

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

Other Committees:

Executive Committee:

The Board has formed, an Executive Committee which consists of 4 members, to oversee in general, setting of business and strategic plans, policies of the Company, review decisions taken 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 five meetings during the year 2010

Name of members of the committee	Designation
Dr.Adil Abdulaziz Yahya Al Kindy	Chairman
Dr.P. Mohamed Ali	Member
Eng Ali Al Mahrouqi	Member
Sheikh Salim Abdullah Saeed Badr Al Rawas	Member

Excom-Attendance Sheet

Name of members of the committee	1st Meeting	2nd Meeting	3rd Meeting	4th Meeting	5th Meeting
	17	18	19	20	21
	28-Jan-10	**03-Jun-10**	**05-Aug-10**	**14-Oct-10**	**02-Dec-10**
Dr.Adil Abdulaziz Yahya Al Kindy	√	√	√	√	√
Dr.P. Mohamed Ali	√	√	√	√	√
Eng Ali Al Mahrouqi	√	√	√	√	**X**
Sheikh Salim Abdullah Saeed Badr Al Rawas	√	√	**X**	√	√

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 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 2010.

Audit Committee Members	Designation
Dr Hamed Al Dhahab	Chairman
HE Yahya Al Fannah Al Araimi	Member
Dr Hatem Al Shanfari	Member
Ms. Budoor Al Fannah Al Araimi	Member

Audit Committee Meeting & Attendance Details - Year 2010

Audit Committee Members	Meeting Dates / Attendance						
	1st Meeting	2nd Meeting	3rd Meeting	4th Meeting	5th Meeting	6th Meeting	7th Meeting
	09-Mar-10	12-May-10	16-Jun-10	11-Aug-10	23-Sep-10	10-Nov-10	22-Dec-10
Dr Hamed Al Dhahab	√	√	√	√	√	√	√
HE Yahya Al Fannah Al Araimi	X	X	X	√	√	√	X
Dr Hatem Al Shanfari	√	√	√	√	√	√	√
Ms. Budoor Al Fannah Al Araimi	√	√	√	√	√	√	X

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.

Remuneration:

Total remuneration during the financial year 2010 to top Management (top 5) was *RO 847,254*.

Compliance with Rules and Regulations:

The Company has been compliant with all the applicable rules and regulations issued by MSM, CMA and that stipulated in the Commercial Companies Law 1974 as amended. *An Audit Team from Capital Market Authority (CMA) conducted a general audit over the Year 2009, to ensure the company's commitment to the Corporate Governance Code of SAOG companies and other regulations and laws issued by the CMA. Their respective report, commended the Company's commitment towards Corporate Governance and other regulations and laws.*

Communication with Shareholders and Investors:

The company maintains good communication relations with the shareholders and Investors and responds as much as possible to their queries and requests in line with the disclosures rules. The company, during the period, conducted several phone interviews with financial analysts and investors.

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 on 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 discussions and analysis report forms an integral part of the Annual Report.

Statement on Market Price and distribution of Holdings:
High / Low price during each month

Month	High	Low	Closing
January-10	0.595	0.491	0.507
February-10	0.570	0.441	0.518
March-10	0.526	0.455	0.466
April-10	0.514	0.454	0.498
May-10	0.506	0.400	0.417
June-10	0.440	0.360	0.424
July-10	0.455	0.417	0.446
August-10	0.465	0.430	0.461
September-10	0.547	0.458	0.533
October-10	0.599	0.511	0.577
November-10	0.603	0.539	0.540
December-10	0.575	0.542	0.560

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

Sr. No.	Catergory	No. of Shareholders	No. of Shares	% of Shareholding
1	Less than 5%	5,847	124,875,206	37.84
2	5% to 10%	2	33,000,004	10.00
3	Above 10%	4	172,124,790	52.16
	Total	**5,853**	**330,000,000**	**100.00**

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

Profile of the Statutory Auditors

Ernst & Young are the statutory auditors of the Company. Ernst & Young is one of Oman's oldest established accounting firms, having had a permanent office in the country since 1974. The practice comprises one hundred and eighty professionals, and is working under the direction of four partners. The Oman office forms part of Ernst & Young's MENA practice, with 120 partners and over 4100 other professionals in 20 offices in 15 countries throughout the region. The MENA practice is member firm of Ernst & Young Global, operating in more than 140 countries with approximately 141,000 personnel world-wide. The Audit fee for the year 2010 is RO 20,750.

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)	20,000
2	Statutory Audit Fees Al Khalij Heavy Equipments & Engineering LLC (Subsidiary)	2,000
3	Statutory Audit Fees Galfar Training Institute LLC (Subsidiary)	2,000
4	Statutory Audit Fees Galfar Engineering & Contracting India Pvt. Ltd. (Subsidiary)	1,431

The Board of Directors acknowledges as at December 31, 2010:

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. In order to enhance and strengthen the efficiency of the internal control systems, the Company has appointed a chief internal auditor and also recruited technical auditors in the Internal Audit Department.
- 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 Report

Overview

Galfar Engineering and Contracting SAOG, continues to be one of the largest multi-disciplined engineering & contracting companies in the Sultanate of Oman.

A majority of our projects performed within the established industry standard margins. The complicated project which caused erosion of the margins has been substantially completed and put to use. The year 2010 also saw the entry of various new players in the market.

Main Objectives and Operational Results

During the end of 2010 Galfar had begun its initiative to optimise the organizational Effectiveness.

The Company has now the capacity and capability to execute the most challenging jobs in the various streams of infrastructure development. The company has engaged the services of an external consultants M/s Celerant, to assist the company in further improving its operational efficiency through various techniques of process improvements and cost control.

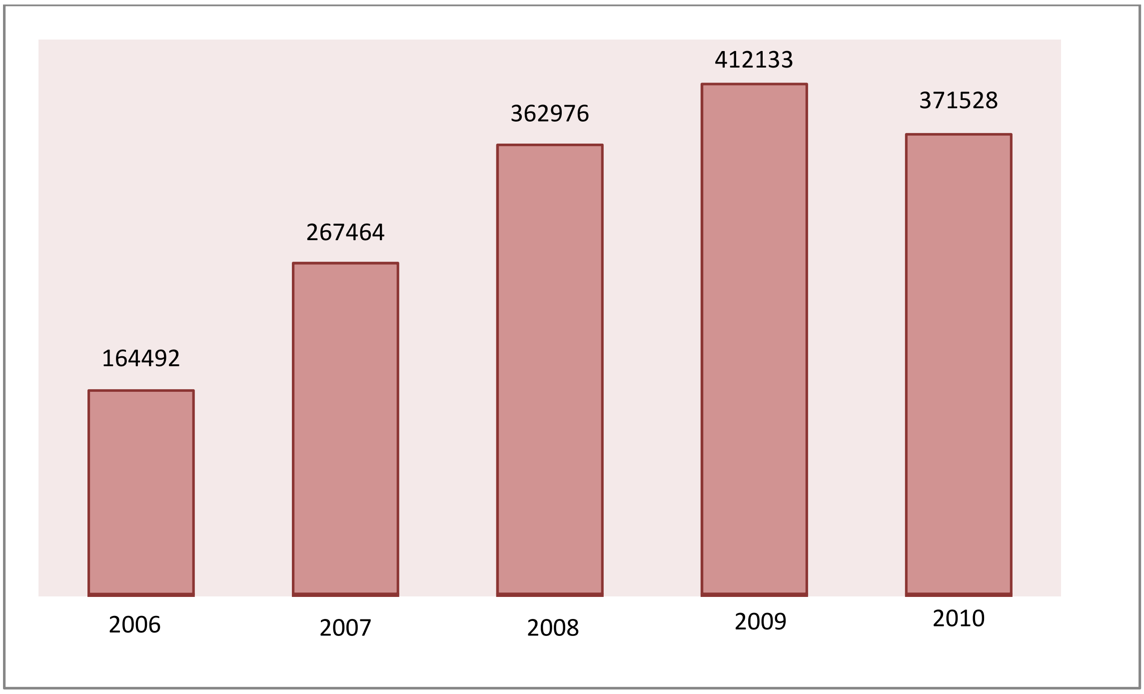
The Company's experience in the three major construction & infrastructure sectors of, Oil & Gas, Roads & Bridges and Civil & Utilities remains unparalleled by any other competitor. The turnover of the Company including subsidiaries was RO 371.527 in 2010 as compared to RO 412.133 Million in 2009. The Company recorded a profit after tax of RO 6.00 Million in 2010 as compared to RO 3.754 Million in 2009, showing a growth of 59.80%.

We have substantially completed the most challenging project, Muscat Expressway. The Company is in the process of resolving the pending issues with the Clients and the Clients' Engineers.

During the year 2010 the cost for quality manpower and the corresponding recruitment costs were on an unprecedented increasing trend which is due to the shortage of quality manpower in our main source area that is the Indian Subcontinent. This along with the increase in material costs and sub contract have built up significant cost pressures on the Company on the major cost heads.

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

Contract Income in RO'000



Galfar Engineering & Contracting SAOG has three subsidiaries the performance of which is as follows. Al Khalij Heavy Equipment & Engineering LLC which specializes in hiring out of equipments recorded a turnover of RO 1.805 Million in 2010, as compared RO 1.498 million in 2009. Galfar Engineering & Contracting India Pvt. Ltd., which is engaged in construction activities in India, recorded a turnover of RO 10.121 million during the 21 months period ended 31st December 2010. Galfar Training Institute LLC which specialize in the field of training Omanis is various trades recorded a turnover of RO 0.971 Million in the year 2010**.**

Human Resources

Human Resource has been the one of the main pillars in enhancing the performance of the company. The company has a highly qualified, experienced and motivated work force to cater the current requirement and the growing future prospects. The company employs over 27,000 employees across various functions and level. The company's commitment towards Omanisation is without a parallel and is reflected by the increase in the number of Omani employees to more than 4800 in the year 2010, making Galfar one of the largest employers of Omani workforce in the private sector.

Quality, Health, Safety and Environment

The Company's Quality, Health, Safety & Environmental Management System certifications have now been upgraded to the current versions which are ISO 9001:2008 for Quality Management, ISO 14001:2004 for Environmental Management and OHSAS 18001:2007 for Occupational Health & Safety Management. The Nizwa Industrial

Facility is certified for ‘U’ Stamp by the American Society for Mechanical Engineers (ASME) for the Construction of Pressure Vessels & parts thereof.

During the course of the year 2010, the Company’s Vehicles have driven 137 million kms and the Company has worked 105 million man-hours across all units. Our Lost Time Injury Frequency (LTIF) for the year 2010 stands at 0.30 as against 0.49 in the year 2009. We have worked 15 Million man-hours without Lost Time Injury during the year 2010.

Risks

Management of Risks through suitable mitigation processes and careful planning continues to be of great importance in our existence in the construction industry.

The volume of work available in the market makes it attractive for new players to enter the market. Also the decline of developmental activities in the neighboring countries due to the global economic slowdown has positioned Oman as an attractive place for business.

Notwithstanding this we expect our 2011 results to be better than 2010.

Our resource mobilization capabilities continue to be our major strength. The equipment spread available within Galfar remains unparalleled in the local market. Augmenting this periodically has been an ongoing exercise and Galfar continues to invest a significant sum in adding equipment to the fleet.

The Company has a policy of reviewing its Fixed Assets needs either to add new capacity or to replace Plant and Equipment. During the current year the addition to fixed assets was RO 10 Million.

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 process of implementation of the new ERP system is well underway with the phase 1 already rolled out.

The company has engaged the services of M/s Ernst & Young to develop the Accounting Manual, which will further strengthen our internal control systems by clearly defining the policies and the procedures to be adopted and followed. This manual will be ready for implementation by mid of the year 2011.

Outlook

The Oman market continues to remain upbeat with the announcement of several projects in the Roads, Airports, Water & Wastewater and the Power generation and transmission sectors. Galfar has the capability to meet this demand and the challenges posed by the competition.

The Company remains confident of growing. Galfar's Order Book stood at RO 614 Million at the beginning of the year 2011.

The appreciably healthy order book during the beginning of the year is indicative of further significant order booking prospects for the year and we are confident of acquiring many more contracts during the year.

We have active presence in all the sectors namely Oil& Gas, Roads & Bridges, Civil, Utilities and Services including Operation and Maintenance, and have the preparedness to take up any challenge whether in Roads, Ports, Airports, Power, Water and Wastewater Sectors. We have establishments in every part of Oman, be it Jabal Akhdar, Musandam, Hasik, Sohar, Sur, Duqm or Salalah to start up projects swiftly.

Having capabilities in all sections of construction industry and Galfar's execution experience in prestigious large scale jobs with high end technological challenges like Kauther Gas plant, Harweel Cluster Project and contracts & EPC in Lekhwair and Qarn Alam etc., we are placed in a unique position amongst our competitors.

With the delivery of high quality buildings, hotels, museums, large show rooms etc. we have added to our credentials evidences of high level workmanship coupled with quality execution and management capabilities. The Bank Muscat Head Quarters has been handed over to the clients to the fullest satisfaction and the MEED has recognized Bank Muscat as a 'Quality Project' in the entire GCC.

This kind of versatility in operations and the wide logistic base are difficult for others to establish thus making Galfar a trusted one stop solution provider for our esteemed customers.

The Indian operations of Galfar which had taken off with one project awarded, has been awarded two more projects. The first project was completed five months ahead of schedule and with excellent returns. We expect these operations to grow significantly in the Public Private Participation (PPP) models as well as cash contracts in Roads, Ports, Airports and the Oil and Gas sectors.

We are now exploring the North African region with a view to acquire projects in the Oil and Gas sectors. We also expect to be involved with the infrastructure projects in this region, however all such projects are likely to materialize towards the last quarter of this year.

Under the visionary leadership of His Majesty Sultan Qaboos, who in 40 years of his rule has turned this country into a powerful modern country well known in the region, we endeavour to reach even higher standards of project delivery through continuous introspection of our procedures and systems and will lead by action in Omanisation as a true Omani enterprise.

Galfar’s broad image as a premier Omani company with international presence, is without comparison and we can deliver projects in all the sections of construction industry – be it EPC or construction – with high quality standards in a safe and timely manner to the entire satisfaction of all stake holders.

Dr. P Mohamed Ali

Managing Director

Ernst & Young

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P. R. No. MH/4

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF GALFAR ENGINEERING AND CONTRACTING SAOG AND ITS SUBSIDIARIES

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Galfar Engineering and Contracting SAOG ("the parent company") and its subsidiaries ("the group") which comprise the consolidated statement of financial position as at 31 December 2010 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Director's Responsibility for the Consolidated Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of these consolidated 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, and for such internal control as board of directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

Basis for Qualified Opinion

During the year, the parent company acquired a 26% share holding in Galfar Engineering & Contracting Kuwait, KSC, a foreign associate at a purchase consideration amounting to RO 5,322,702. In the absence of reliable management accounts or audited financial statements of foreign associate, the investment in foreign associate is carried at cost in the group's consolidated and parent company's separate financial statements. We were unable to obtain sufficient appropriate audit evidence about the carrying amount of the group's and parent company's investment in the Galfar Engineering & Contracting Kuwait KSC as at 31 December 2010. Consequently, we were unable to determine whether any adjustments to this amount was necessary.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF GALFAR ENGINEERING AND CONTRACTING SAOG AND ITS SUBSIDIARIES (continued)

Qualified Opinion
In our opinion, except for the possible effects on the consolidated financial statements of the matter described in the Basis for Qualified Opinion paragraph, the consolidated financial statements present fairly, in all material respects, the financial position of the group as at 31 December 2010 and 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 consolidated 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.

Ernst & Young

10 March 2011
Muscat

Philip D Stanton
Partner

STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME
Year ended 31 December 2010

		Parent company		Consolidated	
		2010	*2009*	***2010***	*2009*
	Notes	***RO***	*RO*	***RO***	*RO*
Contract income		**357,297,487**	408,450,302	**367,418,850**	408,450,302
Contract costs	25	**(339,990,598)**	(393,435,112)	**(350,035,250)**	(394,848,071)
Profit on contracts		**17,306,889**	15,015,190	**17,383,600**	13,602,231
Sales and services income	26	**1,332,850**	2,183,966	**4,108,953**	3,682,394
General and administrative expenses	27	**(9,200,857)**	(8,751,212)	**(9,695,949)**	(8,751,212)
Profit from operations		**9,438,882**	8,447,944	**11,796,604**	8,533,413
Net financing costs	28	**(4,914,935)**	(4,133,892)	**(5,206,558)**	(4,303,552)
Other income	29	**639,338**	426,988	**757,241**	498,479
		5,163,285	4,741,040	**7,347,287**	4,728,340
Impairment of goodwill of a subsidiary		-	-	-	(164,778)
Profit before tax		**5,163,285**	4,741,040	**7,347,287**	4,563,562
Income tax expense	24	**(617,142)**	(696,183)	**(1,347,202)**	(809,298)
PROFIT AND COMPREHENSIVE INCOME FOR THE YEAR		**4,546,143**	4,044,857	**6,000,085**	3,754,264
Profit and comprehensive income attributable to :					
Equity holders of the parent		**4,546,143**	4,044,857	**5,993,680**	3,830,520
Non-controlling interests		-	-	**6,405**	(76,256)
		4,546,143	4,044,857	**6,000,085**	3,754,264
Basic earnings per share attributable to the equity holders of the parent	30	**0.014**	0.012	**0.018**	0.012

The attached notes 1 to 38 form part of these consolidated financial statements.

STATEMENT OF CONSOLIDATED FINANCIAL POSITION

At 31 December 2010

		Parent company		Consolidated	
		2010	2009	**2010**	2009
	Notes	**RO**	RO	**RO**	RO
ASSETS					
Non-current assets					
Property, plant and equipment	4	**117,026,103**	131,003,254	**121,999,537**	134,401,799
Investment in subsidiaries	5	**756,542**	748,500	-	-
Investment in associates	6	**8,342,606**	1,066,573	**8,342,606**	1,066,573
Available for sale investments	7	**125,000**	125,000	**145,000**	145,000
Retentions receivable		**16,405,068**	25,299,837	**16,405,293**	25,299,840
Total non-current assets		**142,655,319**	158,243,164	**146,892,436**	160,913,212
Current assets					
Inventories	8	**24,094,862**	23,185,222	**24,190,076**	23,244,741
Trade receivables	9	**181,579,107**	122,518,419	**184,630,471**	122,863,904
Work in progress	10	**45,382,126**	45,449,611	**45,576,484**	45,449,611
Prepayments, advances and other receivables	11	**15,854,542**	12,424,620	**15,338,891**	12,747,825
Deposits with banks	12	**2,244,946**	2,756,367	**2,392,924**	2,759,007
Cash and bank balances	13	**1,389,191**	1,644,473	**1,708,830**	1,797,461
Total current assets		**270,544,774**	207,978,712	**273,837,676**	208,862,549
TOTAL ASSETS		**413,200,093**	366,221,876	**420,730,112**	369,775,761
EQUITY AND LIABILITIES					
Equity					
Share capital	14	**33,000,000**	30,000,000	**33,000,000**	30,000,000
Share premium	15	**16,502,842**	17,502,842	**16,502,842**	17,502,842
Statutory reserve	17	**11,000,000**	10,000,000	**11,084,401**	10,000,000
Retained earnings	18	**22,949,005**	24,402,861	**24,422,362**	24,513,083
Equity attributable to equity holders of the parent company		**83,451,847**	81,905,703	**85,009,605**	82,015,925
Non controlling interests		-	-	**657,441**	651,036
Total equity		**83,451,847**	81,905,703	**85,667,046**	82,666,961
Non-current liabilities					
Term loans	19	**21,048,611**	25,580,434	**21,663,176**	26,728,952
Employees' end of service indemnity	20	**7,208,589**	6,050,869	**7,307,956**	6,147,266
Deferred tax liability	24	**7,604,628**	6,987,486	**7,821,910**	7,219,652
Creditors for purchase of property, plant and equipment		**1,732,646**	3,909,088	**1,756,659**	3,992,105
Finance lease liability	33	**4,809,697**	2,897,155	**4,809,697**	2,897,155
Advances on contracts		**14,064,085**	9,854,446	**14,064,085**	9,854,445
Total non-current liabilities		**56,468,256**	55,279,478	**57,423,483**	56,839,575
Current liabilities					
Bank borrowings	21	**47,477,440**	22,878,878	**47,649,527**	22,962,433
Short term loans	22	**18,000,000**	22,499,920	**18,000,000**	22,499,920
Term loans - current portion	19	**20,872,901**	20,000,616	**21,406,850**	20,796,479
Current portion of finance lease liability	33	**3,139,692**	2,648,431	**3,139,692**	2,648,431
Trade and other payables	23	**183,789,957**	161,008,850	**186,698,570**	161,361,962
Provision for taxation		-	-	**744,944**	-
Total current liabilities		**273,279,990**	229,036,695	**277,639,583**	230,269,225
Total liabilities		**329,748,246**	284,316,173	**335,063,066**	287,108,800
TOTAL EQUITY AND LIABILITIES		**413,200,093**	366,221,876	**420,730,112**	369,775,761
Net assets per share		**0.253**	0.273	**0.257**	0.273

The consolidated financial statements were approved on

Chairman

Chief Financial Officer

The attached notes 1 to 38 form part of these consolidated financial statements.

STATEMENT OF CHANGES IN EQUITY – PARENT COMPANY

Year ended 31 December 2010

Parent company

	Share capital (note 14) RO	*Share premium (note 15) RO*	*Statutory reserve (note 17) RO*	*Retained earnings RO*	*Total RO*
Balance at 1 January 2009	25,000,000	19,169,509	8,333,333	30,358,005	82,860,847
Profit for the year	-	-	-	4,044,857	4,044,857
Total comprehensive income	-	-	-	4,044,857	4,044,857
Transfer to statutory reserve	-	(1,666,667)	1,666,667	-	-
Dividend paid during the year	-	-	-	(5,000,000)	(5,000,000)
Stock dividend	5,000,000	-	-	(5,000,000)	-
Balance at 31 December 2009	30,000,000	17,502,842	10,000,000	24,402,862	81,905,704
Profit for the year	-	-	-	4,546,143	4,546,143
Total comprehensive income	-	-	-	4,546,143	4,546,143
Transfer to statutory reserve	-	(1,000,000)	1,000,000	-	-
Dividend paid during the year	-	-	-	(3,000,000)	(3,000,000)
Stock dividend	3,000,000	-	-	(3,000,000)	-
Balance at 31 December 2010	**33,000,000**	**16,502,842**	**11,000,000**	**22,949,005**	**83,451,847**

The attached notes 1 to 38 form part of these consolidated financial statements.

STATEMENT OF CHANGES IN EQUITY – PARENT COMPANY
Year ended 31 December 2010

Consolidated	*Share capital (note 14)*	*Share premium (note 15)*	*Statutory reserve (note 17)*	*Retained earnings (note 18)*	*Total*	*Non-controlling interests*	*Total*
	Attributable to the equity holders of the parent						
	RO	*RO*	*RO*	*RO*	*RO*	*RO*	*RO*
Balance at 1 January 2009	25,000,000	19,169,509	8,333,333	30,682,563	83,185,405	727,292	83,912,697
Profit for the year	-	-	-	3,830,520	3,830,520	(76,256)	3,754,264
Total comprehensive income	-	-	-	3,830,520	3,830,520	(76,256)	3,754,264
Transfer to statutory reserve	-	(1,666,667)	1,666,667	-	-	-	-
Stock dividend	5,000,000	-	-	(5,000,000)	-	-	-
Dividend paid	-	-	-	(5,000,000)	(5,000,000)	-	(5,000,000)
Balance at 31 December 2009	30,000,000	17,502,842	10,000,000	24,513,083	82,015,925	651,036	82,666,961
Profit for the year	-	-	-	5,993,680	5,993,680	6,405	6,000,085
Total comprehensive income	-	-	-	5,993,680	5,993,680	6,405	6,000,085
Transfer to statutory reserve	-	(1,000,000)	1,084,401	(84,401)	-	-	-
Stock dividend	3,000,000	-	-	(3,000,000)	-	-	-
Dividend paid	-	-	-	(3,000,000)	(3,000,000)	-	(3,000,000)
Balance at 31 December 2010	**33,000,000**	**16,502,842**	**11,084,401**	**24,422,362**	**85,009,605**	**657,441**	**85,667,046**

The attached notes 1 to 38 form part of these consolidated financial statements.

STATEMENTS OF CONSOLIDATED CASH FLOWS
Year ended 31 December 2010

	Parent company		Consolidated	
	2010	2009	**2010**	2009
	RO	RO	**RO**	RO
OPERATING ACTIVITIES				
Profit before tax	**5,163,285**	4,741,040	**7,347,287**	4,563,562
Adjustments for:				
Depreciation of property, plant and equipment	**23,280,610**	22,136,893	**24,192,426**	22,837,017
Gain on disposal of property, plant and equipment	**(89,254)**	(62,997)	**(167,688)**	(124,638)
Net transfer to employees' end of service indemnity	**1,157,720**	966,489	**1,160,690**	965,568
Goodwill impairment	-	-	-	164,778
Finance costs	**4,964,179**	4,719,288	**5,265,681**	4,888,948
Interest income	**(49,244)**	(585,396)	**(59,123)**	(585,396)
Operating profit before changes in working Capital	**34,427,296**	31,915,317	**37,739,273**	32,709,839
Changes in working capital:				
Trade receivables and work in progress	**(58,993,203)**	(17,531,917)	**(61,893,440)**	(17,106,495)
Prepayments, advances and other Receivables	**(3,429,922)**	1,896,108	**(2,591,066)**	1,468,394
Inventories	**(909,640)**	23,030,636	**(945,335)**	23,041,553
Trade and other payables	**22,781,107**	24,914,040	**25,336,608**	23,132,021
Net cash (used in) from operations	**(6,124,362)**	64,224,184	**(2,353,960)**	63,245,312
Change in retentions receivable-long term	**8,894,769**	(9,307,179)	**8,894,547**	(9,307,179)
Change in advances on contract's long term	**4,209,639**	(14,399,347)	**4,209,640**	(14,399,347)
Changes in creditors for property, plant and equipment	**(2,176,442)**	(1,925,253)	**(2,235,446)**	(1,842,236)
Income tax paid	-	(878,143)	-	(878,143)
Net cash from operating activities	**4,803,604**	37,594,607	**8,514,781**	36,698,752
INVESTING ACTIVITIES				
Payments for purchase of property, plant and equipment	**(10,103,449)**	(27,791,851)	**(12,593,736)**	(28,775,188)
Proceeds from sale of property, plant and equipment	**889,247**	1,647,982	**971,260**	1,722,497
Change in term deposits	**511,420**	9,658,177	**366,083**	9,658,177
Interest received	**49,244**	585,396	**59,123**	585,396
Investment in associates	**(7,284,075)**	(1,215,073)	**(7,276,033)**	(1,066,573)
Net cash used in investing activities	**(15,937,613)**	(17,115,369)	**(18,473,303)**	(17,875,691)
FINANCING ACTIVITIES				
Change in bank borrowings	**24,598,561**	(15,942,531)	**24,687,094**	(15,912,057)
Change in term loans and lease finance liability	**(1,255,735)**	118,366	**(2,051,602)**	2,062,744
Change in short term loans	**(4,499,920)**	4,828,228	**(4,499,920)**	4,828,228
Interest paid	**(4,964,179)**	(4,719,288)	**(5,265,681)**	(4,888,948)
Dividend paid	**(3,000,000)**	(5,000,000)	**(3,000,000)**	(5,000,000)
Net cash from (used) in financing activities	**10,878,727**	(20,715,225)	**9,869,891**	(18,910,033)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(255,282)**	(235,987)	**(88,631)**	(86,972)
Cash and cash equivalents, at the beginning of the year	**1,644,473**	1,880,460	**1,797,461**	1,884,433
CASH AND CASH EQUIVALENTS, AT THE END OF THE YEAR	**1,389,191**	1,644,473	**1,708,830**	1,797,461

The attached notes 1 to 38 form part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2010

1 CORPORATE INFORMATION

The consolidated financial statements were authorised for issue in accordance with a resolution of the directors on 10 March 2011.Galfar Engineering and Contracting SAOG ("the parent company") is an Omani joint stock company registered under the Commercial Companies Law of the Sultanate of Oman. The registered address of the Company is P O Box 533, Muscat, Postal Code 100, Sultanate of Oman.

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

2 SIGNIFICANT ACCOUNTING POLICIES

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

These consolidated financial statements have been presented in Rial Omani which is the functional and reporting currency for these consolidated financial statements.

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

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

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

- IFRS 2 Share-based Payment: Group Cash-settled Share-based Payment Transactions effective1 January 2010
- IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended) effective 1 July 2009, including consequential amendments to IFRS 2, IFRS 5, IFRS 7, IAS 7, IAS 21, IAS 28, IAS 31 and IAS 39
- IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items effective 1 July 2009
- IFRIC 17 Distributions of Non-cash Assets to Owners effective 1 July 2009
- Improvements to IFRSs (May 2008)
- Improvements to IFRSs (April 2009)

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)
The subsidiary is consolidated from the date on which control is transferred to the group and ceases to be consolidated from the date on which control is transferred out of the group.

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

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

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

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

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

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Investments in associates
The group's investments in its associates are accounted for under the equity method of accounting. An associate is an entity in which the group has significant influence and which is neither a subsidiary nor a joint venture.

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

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

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

Property, plant and equipment
All items of property, plant and equipment held for the use of group's activities are recorded at cost less accumulated depreciation and any identified impairment loss. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the group recognises such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the statement of comprehensive income as incurred.

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

Inventories
Inventories are stated at the lower of cost and net realizable value. Cost comprises purchase price and all direct costs incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realizable value represents the estimated selling price less all estimated costs to be incurred in marketing, selling and distribution.

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

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

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

Derecognition of financial assets and liabilities
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired; or
- The group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:
  - the group has transferred substantially all the risks and rewards of the asset, or
  - the group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

Impairment of financial assets
The group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and an impairment loss is incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Impairment is determined as follows:

(a) For assets carried at fair value, impairment is the difference between cost and fair value;
(b) For assets carried at cost, impairment is the difference between cost and the present value of future cash flows discounted at the current market rate of return for a similar financial asset.
(c) For assets carried at amortised cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective interest rate.

Offsetting
Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to set off the recognised amounts and the group intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

Taxation

Current income tax
Taxation is provided for in accordance with the fiscal regulations of the Sultanate of Oman. Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

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

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

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

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

Contract revenue and profit recognition
Contract revenue comprises the value of work executed during the period. Where the outcome of a construction contract can be estimated reliably, revenue is recognised by reference to the stage of completion of the construction activity at the reporting date, as measured by surveys of work performed. Variation in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer. In the case of unprofitable contracts provision is made for foreseeable losses in full.

Contract costs
Contract costs are recognised as expenses in the period in which they are incurred.

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Interest income
Interest revenue is recognised as the interest accrues.

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

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

Foreign currency translation
Each entity in the group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting judgments, estimates and assumptions

The preparation of the consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of financial assets and liabilities at the date of the financial statements and the resultant provisions and changes in fair value for the year. Such estimates are necessarily based on assumptions about several factors involving varying, and possibly significant, degrees of judgment and uncertainty and actual results may differ from management's estimates resulting in future changes in estimated assets and liabilities. The assumptions concerning the key sources of estimation uncertainty at the reporting date are set out in note 37.

3 STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

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

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

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

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

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

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

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

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

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

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

3 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

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

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

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

4 PROPERTY, PLANT AND EQUIPMENT – PARENT COMPANY

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

4 PROPERTY, PLANT AND EQUIPMENT – CONSOLIDATED

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

4 PROPERTY, PLANT AND EQUIPMENT (continued)

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

(b) The insured value of plant and equipment held under finance leases at 31 December 2010 was RO 17,999,147 (2009: R.O. 13,803,403). Additions during the year include RO 4,195,744 (2009: RO 198,000) of plant and equipment under finance leases. Leased assets are jointly registered as security for the related finance lease liabilities.

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

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

5 INVESTMENT IN SUBSIDIARIES

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

6 INVESTMENT IN ASSOCIATES

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

(i) The group holds 26% shareholding in these associates. All the companies are incorporated in India.

(ii) The group acquired 26% shareholding in Galfar Engineering & Contracting Kuwait KSC. The compay is engaged in construction activities and is incorporated in Kuwait.

(iii) The group acquired 26% shares in Galfar Wasen Contracting Company, Libya. The company is yet to commence its commercial operations.

7 AVAILABLE FOR SALE INVESTMENTS

	Parent company		Consolidated	
	2010 RO	2009 RO	2010 RO	2009 RO
Unquoted local investments	**125,000**	125,000	**145,000**	145,000

8 INVENTORIES

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

The provision has been written off during the year

9 TRADE RECEIVABLES

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

The provision has been written off during the year.

10 CONTRACTS IN PROGRESS AT THE REPORTING DATE

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

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

11 PREPAYMENTS, ADVANCES AND OTHER RECEIVABLES

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

12 DEPOSITS WITH BANKS

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

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

13 CASH AND BANK BALANCES

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

14 SHARE CAPITAL

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

At the reporting date the issued and fully paid share capital comprises of 330,000,000 (2009-300,000,000) shares having a par value of RO 0.100 (2009 - RO 0.100) each. Pursuant to the terms of its IPO, as detailed below, the share capital of the parent company has been divided into two classes comprising of 231,000,000 ordinary shares and 99,000,000 preferential voting rights shares (2009:210,000,000 ordinary shares and 90,000,000 preferential voiting rights shares). The preferential voting rights shares will be held by the promoting shareholders and shall carry two votes at all general meetings while otherwise ranking pari-passu with ordinary shares in all rights including the dividend receipt.

In 2007 pursuant to the parent company's IPO, the promoting shareholders of the Company offered a portion of their shares to the public for subscription and proposed to increase the Company's share capital through a fresh issue of share capital.

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

15 Share premium

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

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

16 DIVIDEND

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

For the year 2010, a cash dividend of RO 0.100 per ordinary shares totalling to RO 3,300,000 has been proposed by the Board of Directors and will be submitted for the formal approval at the Annual General Meeting of the company to be held in March 2011.

17 STATUTORY RESERVE

The statutory reserve, which is not available for distribution is calculated in accordance with Article 154 of the Commercial Companies Law. The annual appropriation shall be 10% of the profit after taxes for each year until such time as the reserve equals to at least one third of the share capital. At 31 December 2010 the statutory reserve has reached one third of the issued share capital after the transfer of RO 1,000,000 (2009: RO 1,666,667) to the reserve from the share premium account.

18 RETAINED EARNINGS

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

19 TERM LOANS

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

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

	2010	*2009*
Floating rate loans	LIBOR + 1.25% to 2.4%	LIBOR + 1.2% to 2%
Fixed interest rate loans	5.65% to 8.25%	6.25% to 8.5%

19 TERM LOANS (continued)

The term loans are repayable as follows:

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

20 EMPLOYEES' END OF SERVICE INDEMNITY

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

21 BANK BORROWINGS

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

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

22 SHORT TERM LOANS

	Parent company		Consolidated	
	2010	2009	**2010**	2009
	RO	RO	**RO**	RO
Short term loans:				
From banks	**18,000,000**	22,499,920	**18,000,000**	22,499,920

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

23 TRADE AND OTHER PAYABLES

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

24 TAXATION

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

a) Income tax expense

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

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

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

24 TAXATION (continued)

The parent company's income tax assessment up to the year 2007 has been finalized by the Taxation Department. The management believes that any taxation for the unassessed years will not be material to the financial position of the Group as at the reporting date.

b) Deferred tax liability

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

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

Parent Company

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

Consolidated

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

25 CONTRACT COSTS

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

26 SALES AND SERVICES INCOME

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

27 GENERAL AND ADMINISTRATIVE EXPENSES

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

28 NET FINANCING COSTS

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

29 OTHER INCOME

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

30 EARNINGS PER SHARE

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

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

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

31 NET ASSETS PER SHARE

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

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

32 RELATED PARTY TRANSACTIONS

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

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

32 RELATED PARTY TRANSACTIONS (continued)

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

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

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

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

Compensation of key management personnel

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

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

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

33 COMMITMENTS AND CONTINGENCIES

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

33 COMMITMENTS AND CONTINGENCIES (continued)

Finance lease commitments

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

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

34 BUSINESS SEGMENTS

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

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

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

34 BUSINESS SEGMENTS (continued)

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

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

35 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT

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

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

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

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

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

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

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

35 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (Continued)

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

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

Capital management
The group's objectives when managing capital are to safeguard the group's ability to continue as a going concern and benefit other stake holders. The management's policy is to maintain a strong capital base so as to maintain creditor and market confidence and to sustain future development of the business.

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

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

35 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (Continued)

(A) CREDIT RISK

a) Exposure to credit risk

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

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

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

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

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

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

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

35 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (Continued)

(A) CREDIT RISK (continued)

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

(B) LIQUIDITY RISK

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

a) Parent company

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

35 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (Continued)

(B) LIQUIDITY RISK (continued)

b) Consolidated

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

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

a) Parent company

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

b) Consolidated

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

35 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (Continued)

(C) INTEREST RATE RISK

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

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

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

36 FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair values
Financial instruments comprise financial asset and financial liabilities.

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

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

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

37 KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

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

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

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

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

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

37 KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

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

38 COMPARATIVE AMOUNTS

Certain of the corresponding figures for 2009 have been reclassified in order to conform with the presentation for the current year. Such reclassifications do not affect previously reported profit or shareholder's equity.