

## **DIRECTORS' REPORT**

On behalf of the Board of Directors, I have pleasure in presenting Annual Report on the business and operations of Sahara Hospitality Company (S.A.O.G) (hereafter referred to as "SHC") for the year ended 30 November 2007.

### **Financial Results**

We are pleased to append below the financial results for the year ended 30 November 2007 in comparison to the previous year. It is pleasing to report that your company has recorded attractive growth in performance during the year under review.

Key Financial Indicators	Year ended 30 <sup>th</sup> Nov. 2006	Year ended 30 <sup>th</sup> Nov. 2007
	R.O. 000s	R.O. 000s
Turnover	3878	4322
Net profit after Tax	987	1045
Basic earnings per share in R.O.	0.169	0.179

The company's performance for the financial year 2007 that has resulted in a net profit of RO 1,045,441 is the best net profit recorded since its inception and commencement of commercial operations. This represents a further growth of 6% from last year's net profit of RO 986,678. It is to be noted that company business mainly depend on PDO activities in the area and presence of contractors staff executing related works. In this regard, we are pleased to report that occupancy levels, continued to be excellent in 2007 achieving an average rates of 99.97% and 98.67% at Fahud and Nimr PAC facilities respectively.

The net assets per share improved from RO 1.373 2006 to RO1.462 in financial year 2007. The basic earnings per share increased from RO 0.169 in 2006 to 0.179 in 2007.

### **Shares of the company**

The Company's authorised share capital remains unchanged at RO 10,000,000, each share having a nominal value of Rial Omani one. At 30<sup>th</sup> November 2007, the issued and paid-up share capital consisted of 5,833,333 shares of RO 1 each.

### **Dividend**

Subject to shareholders approval, the Board of Directors is pleased to recommend a dividend of 10% (RO 0.100 per equity share) for the financial year 2007. This is in compliance with CMA guidelines and is consistent with company's policy of rewarding shareholders a reasonable amount of profits earned during the year. The dividend, if approved, will be paid to those members whose names appear in the Register of Members as on the date of the ensuing Annual General Meeting. The following table shows dividend paid by the company during the last five years:

Financial Year	Percentage	(RO) Per share
2002	5%	0.050
2003	6%	0.060
2004	6%	0.060
2005	6%	0.060
2006	9%	0.090

### **Competitive Positions**

The Permanent Accommodation for Contractors ("PACs") has gradually replaced almost all the temporary camps at the two interior locations Fahud and Nimr. Hence, the only competition to SHC is from the adjacent PACs having similar facilities that are being operated by another company. However, in view of great demand for

accommodation in both areas, competition is considered to be at low ebb having shared available business by both operators.

#### **Degree of reliance on Service Provider/ clients**

SHC has entered into a service agreement with Catering and Supplies Company LLC ("CSC") wherein CSC provides all the services required for the operations of the PACs. CSC has the privilege to be a PDO contractor providing catering and accommodation cleaning services continuously for more than three decades since 1969 and continues to provide similar services to PDO and other companies in the interior oilfields of Oman.

With regard to degree of reliance on our clients, all our clients are PDO contactors and their presence is inevitable in view of PDO oil related activities in the region and therefore, barring unforeseen circumstances, our current business is expected to continue in many more years without any interruption.

#### **Future Plans**

As reported earlier, the extension of the current PAC facilities consisting of 240 rooms, swimming pool, squash court and improvement of other recreation and support facilities is being completed. This will lead to accommodate additional clients and result in an incremental turnover and positive impact on financial results.

Furthermore, the company is always in the look out for improvement initiatives. In this pursuit, we are currently involved in the preparation of a bid to PDO project for new PACs at Marmul, Lekhwair and Bahja.

The company is in the process of evaluating requirements, determining the best approach to be followed for securing necessary fund for the above stated project and may approach local banks or consider any other arrangements that is suitable in this regard. There are no other major changes expected in the next year on the financing structure of the company such as capital increase by issue of new shares or issue of bonds.

#### **Internal Control system**

The Company has continued proper implementation and upgradation of appropriate systems and procedures with adequate controls. An audit committee comprised of the Company's Directors oversees the internal control systems. These systems and procedures are reviewed at regular intervals through audit committee meetings. The Board of Directors reviewed the company's system of internal controls and opined that they operated satisfactorily during the year.

#### **Secured Loans**

As you are aware, the company at its initial stage had availed a long-term loan of RO 5 Million from a local commercial bank, repayable in 32 equal quarterly installments commencing 1 April 2001. We are pleased to report that the installments are being paid as planned and the liability at the end of current financial year stands at RO 770,474. Another loan was availed during the year to carry out facilities extension works and the sanctioned loan amount is RO 5.6 million against which RO 1,161,000 has been disbursed as at the balance sheet date.

#### **Directors' Responsibility Statement**

The Board of Directors of the company hereby confirms that:

- They are aware of their responsibility in preparing the financial statements in accordance with the International Financial Reporting Standards on Auditing and the relevant rules of the Sultanate of Oman.
- The Directors have selected such accounting policies and applied them consistently and made judgment and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company at the end of the financial year and of the profit of the company for the financial year.
- There are no material effects on company's business or its products or its competitive abilities during the financial year consequent to any decision made by the government or international organization.
- There has not been any other financial impact on our financial results on account of unusual transactions during the financial year.

- The company does not enjoy any sort of government protection or concession during this period, under review.
- The company has not made any donations or grants to any party during the financial year.

### **Going concern**

The Board believes that the Company's financial position and expected future performance will enable it to continue in operational existence.

### **Insurance**

The properties of the company are adequately insured in line with business requirements. However, our core business being hospitality services that attracts high risks of Hygiene and HSE, related insurance coverage are being provided by the service provider in accordance with an agreement dated 24<sup>th</sup> July, 1999. The Company is also insured for Directors/officers and public/product liability insurance providing coverage for any incidents or contingencies.

### **Corporate Governance**

Your Company has been adhering to the principles of good Corporate Governance over the years. The Board of Directors supports the broad principles of Corporate Governance, as issued by CMA. In addition to the basic governance issues, the Board lays great emphasis on transparency, accountability and integrity. A report on Code of Corporate Governance including the relevant auditor's certificate regarding compliance with conditions of Corporate Governance as stipulated by CMA is provided in **Annexure I**

### **Management Discussion and Analysis (MD&A)**

The requirement shall continue to be an important function of the Board of Directors, who has carried out this exercise in detail in relation to this financial year.

The Management Discussion and Analysis Report as mandated under the code of Corporate Governance, is attached to the Directors' Report as **Annexure II**.

### **Auditors' Report**

There are no qualifications contained in the Auditors' Report, and therefore, no further explanations are to be provided by the Directors.

### **Auditors**

The company's auditors, M/s. Moore Stephens, Chartered Accountants, Muscat branch, retire at the ensuing Annual General Meeting and offer themselves for re-appointment.

Members are requested to consider the appointment of M/s. Moore Stephens for the ensuing financial year, on a remuneration to be decided by the Board of Directors.

### **Commitment**

Once again, the Board of Directors and Management Team would reaffirm their commitment and enthusiasm with proper planning in carrying out the business with an objective to yield attractive returns to the shareholders.

### **Felicitations**

On behalf of the Shareholders and Board of Directors, it gives me great sense of honor to express our sincere gratitude to His Majesty Sultan Qaboos Bin Said for His continued support to the private sector and I pray to the Almighty Allah to shower His everlasting blessings on His Majesty. Furthermore, I would extend our gratitude to His government for their co-operation and assistance with special mention of Ministry of Commerce & Industry, Muscat Security Market and Capital Market Authority.

I would like to conclude the report by thanking the Management of your company, my fellow Directors, the Service Provider, Petroleum Development of Oman, our clients and all those who participated in the successful conduct of your Company's business, for their relentless efforts and valuable contribution.

Thanking you,

For and on behalf of the Board of Directors of  
**SAHARA HOSPITALITY CO. (S.A.O.G)**

**TALAL BIN QAIS AL ZAWAWI**  
**CHAIRMAN**

**SAHARA HOSPITALITY COMPANY SAOG**

**FINANCIAL STATEMENTS**

**30 NOVEMBER 2007**

**Registered office and principal place of business:**

P O Box No 311, Postal Code 113  
Muscat  
Sultanate of Oman

## **INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF SAHARA HOSPITALITY COMPANY SAOG**

### **Report on the financial statements**

We have audited the accompanying financial statements of Sahara Hospitality Company SAOG which comprise the balance sheet as at 30 November 2007, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes set out on pages 2 to 19.

### **Board of Directors' responsibility**

The Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### **Auditors' responsibility**

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

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

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

### **Opinion**

In our opinion the financial statements present fairly, in all material respects, the financial position of the Company as at 30 November 2007 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

The Company's financial statements also comply in all material respects with the relevant requirements of the Commercial Companies Law of the Sultanate of Oman 1974 (as amended) and the relevant disclosure requirement for public joint stock companies issued by the Capital Market Authority.

\_\_\_ January 2008

**BALANCE SHEET**  
**at 30 November 2007**

	Note	2007 RO	2006 RO
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment and total non current assets	4	9,689,598	8,242,893
<b>Current assets</b>			
Inventories	2 d)	6,615	6,538
Accounts and other receivables	5	1,541,368	1,431,444
Bank balances and cash		249,384	543,976
<b>Total current assets</b>		1,797,367	1,981,958
<b>Total assets</b>		11,486,965	10,224,851
<b>SHAREHOLDERS' FUNDS AND LIABILITIES</b>			
<b>Shareholders' funds</b>			
Share capital	9	5,833,333	5,833,333
Legal reserve	10	468,107	363,563
Retained earnings		2,227,994	1,812,097
<b>Shareholders' funds</b>		8,529,434	8,008,993
<b>LIABILITIES</b>			
<b>Non current liabilities</b>			
Non current portion of term loans	7 & 11	1,026,474	770,474
Deferred taxation	8	82,042	80,211
<b>Total non current liabilities</b>		1,108,516	850,685
<b>Current liabilities</b>			
Current portion of term loans	7 & 11	905,000	625,000
Accounts and other payables	6	116,284	84,253
Taxation	8	136,688	127,371
Amounts due to related parties	11	691,043	528,549
<b>Total current liabilities</b>		1,849,015	1,365,173
<b>Total Shareholders' funds and liabilities</b>		11,486,965	10,224,851
<b>Net assets per share</b>	12	1.462	1.373

These financial statements on pages 2 to 19 were authorized for issue and approved by the Board of Directors on 27 January 2008 and were signed on their behalf by:

\_\_\_\_\_  
Chairman

\_\_\_\_\_  
Director

The attached notes 1 to 18 form part of these financial statements.

**STATEMENT OF INCOME**  
for the year ended 30 November 2007

	Note	2007 RO	2006 RO
Revenue	2 j)	4,322,146	3,878,371
Cost of sales	3 a) & 11	(2,891,296)	(2,584,129)
Gross profit		<u>1,430,850</u>	<u>1,294,242</u>
Administrative and general expenses	3 b)	(188,079)	(106,913)
Profit from operations		<u>1,242,771</u>	<u>1,187,329</u>
Other income		25	2,293
Finance charges	3 c), 7 & 11	(58,990)	(74,690)
Profit for the year before tax		<u>1,183,806</u>	<u>1,114,932</u>
Taxation	8	(138,365)	(128,254)
<b>PROFIT FOR THE YEAR</b>		<u>1,045,441</u>	<u>986,678</u>
<b>Basic earnings per share</b>	13	<u>0.179</u>	<u>0.169</u>
<b>Dividend per share</b>	14 b)	<u></u>	<u>0.090</u>

The attached notes 1 to 18 form part of these financial statements.

**STATEMENT OF CHANGES IN EQUITY**  
**for the year ended 30 November 2007**

	Share capital (Note 9) RO	Legal reserve (Note 10) RO	Retained earnings RO	Total RO
At 30 November 2005	5,833,333	264,895	1,274,087	7,372,315
Profit for the year	--	--	986,678	986,678
Transfer to legal reserve	--	98,668	(98,668)	--
Dividend paid	--	--	(350,000)	(350,000)
	-----	-----	-----	-----
At 30 November 2006	5,833,333	363,563	1,812,097	8,008,993
	=====	=====	=====	=====
At 30 November 2006	5,833,333	363,563	1,812,097	8,008,993
Dividend paid	--	--	(525,000)	(525,000)
Profit for the year	--	--	1,045,441	1,045,441
Transfer to legal reserve	--	104,544	(104,544)	--
	-----	-----	-----	-----
At 30 November 2007	5,833,333	468,107	2,227,994	8,529,434
	=====	=====	=====	=====

The attached notes 1 to 18 form part of these financial statements.

**CASH FLOW STATEMENT**  
for the year ended 30 November 2007

	2007 RO	2006 RO
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash receipts from revenue	4,211,882	3,657,828
Cash paid for cost of sales and general and administration	(2,621,750)	(2,229,747)
	-----	-----
Cash generated from operations	1,590,132	1,428,081
Finance charges	(58,990)	(74,690)
Taxation	(127,217)	(94,271)
	-----	-----
<b>Net cash generated from operating activities</b>	<b>1,403,925</b>	<b>1,259,120</b>
	-----	-----
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(1,709,517)	(23,657)
	-----	-----
<b>Net cash used in investing activities</b>	<b>(1,709,517)</b>	<b>(23,657)</b>
	-----	-----
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net movements in term loans	536,000	(625,000)
Dividend paid	(525,000)	(350,000)
	-----	-----
<b>Net cash generated from / (used in) financing activities</b>	<b>11,000</b>	<b>(975,000)</b>
	-----	-----
Net (decrease) / increase in cash and cash equivalents during the year	(294,592)	260,463
Cash and cash equivalents at the beginning of the year	543,976	283,513
	-----	-----
<b>Cash and cash equivalents [note 2 f] at the end of the year</b>	<b>249,384</b>	<b>543,976</b>
	=====	=====

The attached notes 1 to 18 form part of these financial statements.

**NOTES TO THE FINANCIAL STATEMENTS  
at 30 November 2007****1 LEGAL STATUS AND PRINCIPAL ACTIVITIES**

Sahara Hospitality Company SAOG ("The Company") is a public joint stock company and its principal activity is to build, own and operate permanent accommodations ("the PACs") for contractors of Petroleum Development Oman LLC ("PDO") in Fahud and Nimr. PDO is committed under an agreement with the Company dated 30 May 1998 to provide land free of cost on which the PACs are situated.

The PACs are operated, in accordance with the terms and conditions of a service agreement dated 24 July 1999 ("the Contract"), by a related party, Catering and Supplies Company LLC ("CSC"). Under the terms of the Contract, CSC operates the PACs in return for agreed rates (see notes 3 and 11). The Contract provides that CSC will indemnify the Company in respect of any penalties payable by the Company arising due to CSC's failure to provide the services prescribed therein.

**2 SIGNIFICANT ACCOUNTING POLICIES****Basis of preparation**

These financial statements have been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (IASB), interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and the requirements of the Commercial Companies Law of the Sultanate of Oman 1974 (as amended) and the rules for disclosure requirements prescribed by the Capital Market Authority. The financial statements have been prepared in Rials Omani.

In the current year, the Company has adopted all applicable new and revised Standards and Interpretations issued by IASB and the IFRIC that are effective for accounting periods beginning on or after 1 January 2006. Certain new standards and amendments to existing standards have been published that are effective and mandatory for accounting periods commencing 1 January 2007, which the Board of Directors have decided against early adoption. Those standards and amendments relevant to the Company's operations are as follows:

- IFRS 7 'Financial Instruments: Disclosures', requires the disclosure of the significance of financial instruments for an entity's financial position and performance. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk;
- Revision to IAS 1 'Presentation of Financial Statements', requires an entity to disclose information that enables users of its financial statements to evaluate the entity's objectives, policies and processes for managing its capital.

The above disclosure requirements however do not have an impact on the recognition and measurement of items in the financial statements.

Certain new standards and revisions to existing standards have been published that are effective and mandatory for accounting periods commencing 1 January 2009, which the Board of Directors have decided to adopt from the period when they become effective. Those standards and revisions likely to be relevant to the Company's operations are as follows:

- Revisions to IAS 23 'Borrowing Costs', primarily eliminates the option of immediate recognition as an expense for accounting for borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**at 30 November 2007**

**2 SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Basis of preparation (Continued)**

- Revisions to IAS 1 'Presentation of Financial Statements', primarily requires the following disclosures:
  - 'Balance sheet' and 'Cash flow statement' to be described as 'Statement of Financial Position' and 'Statement of Cash Flows' respectively;
  - All owner changes in equity should be presented in the statement of changes in equity separately from non-owner changes in equity;
  - A statement of financial position as at the beginning of the earliest comparative period must be prepared whenever the entity retrospectively applies an accounting policy or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.

The following accounting policies have been consistently applied in dealing with items considered material to the Company's financial statements.

**a) Accounting convention**

The financial statements are prepared under the historical cost convention.

**b) Property, plant and equipment**

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses, if any. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of overheads. Other subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognized in the income statement as an expense as incurred.

**c) Depreciation**

Capital work in progress is not depreciated. Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of items of property, plant and equipment. The estimated useful lives are as follows:

	<i>Years</i>
Buildings	30
Equipment	15
Furniture and fixtures	7
Vehicles	5
Pre-fabricated buildings	7

Depreciation methods and useful lives as well as residual values are reassessed annually.

**d) Inventories**

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost of inventories is based on the first in first out basis.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**at 30 November 2007****2 SIGNIFICANT ACCOUNTING POLICIES (Continued)****e) Accounts receivable**

Accounts receivable originated by the Company are measured at cost. Provision for doubtful debts against accounts receivable is established when there is objective evidence that the Company will not be able to collect the amounts.

When an accounts receivable is uncollectible, it is written off against the provision for doubtful debts. The carrying value of accounts receivable approximate their fair values due to the short-term nature of those receivables.

**f) Cash and cash equivalents**

For the purpose of cash flow statements, cash and cash equivalents consist of bank balances and cash with maturity of three months or less from the date of acquisition, net of short term bank borrowings, if any.

**g) Impairment of assets***Financial assets*

At each balance sheet date, the management assesses if there is any objective evidence indicating impairment of financial assets carried at cost or non collectability of receivables.

An impairment loss, if any, arrived at as a difference between the carrying amount and the recoverable amount, is recognised in the statement of income. The recoverable amount represents the present value of expected future cash flows discounted at the original effective interest rate. Cash flows relating to short term receivables are not discounted.

*Non-financial assets*

At each balance sheet date, the management assesses if there is any indication of impairment of non financial assets. If an indication exists, the management estimates the recoverable amount of the asset and recognises an impairment loss in the statement of income. The management also assesses if there is any indication that an impairment loss recognized in prior years no longer exists or has reduced. The resultant impairment loss or reversals are recognised immediately in the statement of income.

**h) Provisions**

A provision is recognised in the balance sheet when the Company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

**i) Accounts and other payables**

Liabilities are recognised for amounts to be paid for goods and service received, whether or not billed to the Company.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**at 30 November 2007****2 SIGNIFICANT ACCOUNTING POLICIES (Continued)****j) Revenue**

Revenue comprises amounts derived from the provision of services falling within the Company's ordinary activities. Revenue from services rendered is recognized in the income statement in proportion to the stage of completion of the transaction at the balance sheet date. Revenue is not recognized if there are significant uncertainties regarding the recovery of consideration due or associated costs.

**k) Taxation**

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

Deferred taxation is provided using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine the deferred tax. The principal temporary differences arise from depreciation on property, plant and equipment and provision for doubtful debts.

**l) Leases**

Operating lease payments are charged to the statement of income.

**m) Borrowing costs**

Borrowing costs that are directly attributable to the acquisition and installation of tangible fixed assets are capitalised as part of the cost of these assets. Other borrowing costs are recognized as expense in the period which they are incurred.

**n) Estimates and judgements**

In preparing the financial statements, the Board of Directors is required to make estimates and assumptions which affect reported income and expenses, assets, liabilities and related disclosures. The use of available information and application of judgement based on historical experience and other factors are inherent in the formation of estimates. Actual results in the future could differ from such estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods effected. In particular estimates that involves uncertainties and judgements which have significant effect on the financial statements include provision for doubtful debts.

**o) Segment reporting**

A segment is a distinguishable component of the Company 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.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**at 30 November 2007**

**2 SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**p) Dividends**

The Board of Directors recommend to the shareholders the dividend to be paid out of Company's profits. The Directors take into account appropriate parameters including the requirements of the Commercial Companies Law while recommending the Dividend.

**q) Directors' remuneration**

The 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 income in the year to which they relate.

<b>3 EXPENSES</b>	2007	2006
	RO	RO
a) Cost of sales		
Cost of provision of services by CSC (see notes 1 and 11)	2,225,170	1,998,465
Depreciation	426,442	436,875
Others	239,684	148,789
	-----	-----
	2,891,296	2,584,129
	=====	=====
b) Administrative and general expenses		
Salaries and related expenses	29,430	29,258
Directors' remuneration (note 11)	33,794	30,953
Insurance	12,451	11,984
Others	112,404	34,718
	-----	-----
	188,079	106,913
	=====	=====
c) Finance charges		
Interest and bank charges	63,318	76,154
Less : interest income	(4,328)	(1,464)
	-----	-----
	58,990	74,690
	=====	=====

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
at 30 November 2007

**4 PROPERTY, PLANT AND EQUIPMENT**

**Year ended 30 November 2007**

	Buildings RO	Equipment RO	Furniture and fixtures RO	Vehicles RO	Pre-fabricated buildings RO	Capital work in progress RO	Total RO
<b>Cost</b>							
At 30 November 2006	10,011,324	415,283	531,024	34,840	--	4,750	10,997,221
Additions during the year	16,750	17,644	14,597	--	41,561	1,782,595	1,873,147
At 30 November 2007	10,028,074	432,927	545,621	34,840	41,561	1,787,345	12,870,368
<b>Depreciation</b>							
At 30 November 2006	2,084,826	165,020	469,642	34,840	--	--	2,754,328
Charge for the year	333,804	28,505	59,392	--	4,741	--	426,442
At 30 November 2007	2,418,630	193,525	529,034	34,840	4,741	--	3,180,770
<b>Net book value</b>							
At 30 November 2007	7,609,444	239,402	16,587	--	36,820	1,787,345	9,689,598
At 30 November 2006	7,926,498	250,263	61,382	--	--	4,750	8,242,893

The following note applies:

Capital work in progress at the balance sheet date relates to expenses incurred towards on-going expansion of the existing PACs (also refer note 18).

NOTES TO THE FINANCIAL STATEMENTS (Continued)  
at 30 November 2007

4 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Year ended 30 November 2006	Buildings RO	Equipment RO	Furniture and fixtures RO	Vehicles RO	Capital work in progress RO	Total RO
<b>Cost</b>						
At 30 November 2005	10,006,734	405,052	526,938	34,840	--	10,973,564
Additions during the year	4,590	10,231	4,086	--	4,750	23,657
At 30 November 2006	10,011,324	415,283	531,024	34,840	4,750	10,997,221
<b>Depreciation</b>						
At 30 November 2005	1,751,143	137,655	393,815	34,840	--	2,317,453
Charge for the year	333,683	27,365	75,827	--	--	436,875
At 30 November 2006	2,084,826	165,020	469,642	34,840	--	2,754,328
<b>Net book values</b>						
At 30 November 2006	7,926,498	250,263	61,382	--	4,750	8,242,893
At 30 November 2005	8,255,591	267,397	133,123	--	--	8,656,111

The following note applies:

Capital work in progress at the balance sheet date relates to expenses incurred towards a proposed expansion plan (also refer note 18).

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**at 30 November 2007**

<b>5 ACCOUNTS AND OTHER RECEIVABLES</b>	2007 RO	2006 RO
Accounts receivable	1,540,415	1,430,126
Less: provision for doubtful debts [see note a) below]	(12,500)	(12,500)
	-----	-----
	1,527,915	1,417,626
Prepayments	13,453	13,818
	-----	-----
	1,541,368	1,431,444
	=====	=====

The following further notes apply:

a) The movement in provision for doubtful debts is given below:

	2007 RO	2006 RO
At the beginning of the year	12,500	11,022
Provided during the year	--	1,478
	-----	-----
At the end of the year	12,500	12,500
	=====	=====

b) Accounts receivable are assigned as security for the Company's borrowings (see note 7).

c) At the balance sheet date, 74% of Company's accounts receivable are due from 5 customers (2006 – 74 % from 6 customers).

<b>6 ACCOUNTS AND OTHER PAYABLES</b>	2007 RO	2006 RO
Accounts payable	70,240	42,950
Proposed Directors' remuneration (see note below)	33,794	30,953
Accruals	12,250	10,350
	-----	-----
	116,284	84,253
	=====	=====

The following further note applies:

The proposed directors' remuneration is subject to the approval at the Annual General Meeting.

<b>7 TERM LOANS</b>	2007 RO	2006 RO
Loan 1	770,474	1,395,474
Loan 2	1,161,000	--
	-----	-----
	1,931,474	1,395,474
Amounts due within one year of the balance sheet date disclosed as current liability	(905,000)	(625,000)
	-----	-----
Non current liability	1,026,474	770,474
	=====	=====

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**at 30 November 2007**

**7 TERM LOANS (Continued)**

The following further notes apply:

a) The maturity profile of the term loans is as follows:

	2007 RO	2006 RO
Less than 1 year	905,000	625,000
Between 1 - 2 years	705,474	625,000
Between 3 – 5 years	321,000	145,474
	-----	-----
	1,931,474	1,395,474
	=====	=====

b) Loan 1 is from a local commercial bank (a related party) repayable in 32 equal quarterly installments of RO 156,250 which commenced on 1 April 2001. The interest on the loan is 6 months LIBOR plus 0.5% (2006 - 6 months LIBOR plus 0.5%).

c) Loan 2 availed during the year is also from a local commercial bank (a related party) repayable in 40 equal quarterly installments of RO 140,000 which will commence from June 2008. The annual effective rate of interest on the loan is 5.8%. The sanctioned loan amount is RO 5,600,000 against which RO 1,161,000 has been disbursed by the bank as at the balance sheet date.

d) The above term loans are secured by assignment of accounts receivable and insurance policies relating to the Company's buildings. The bank providing the term loan has confirmed that it has an undertaking from the Company that the Company's properties will not be mortgaged other than to the lending bank.

**8 TAXATION**

	2007 RO	2006 RO
Income statement		
Current year	136,534	125,434
Deferred tax expense	1,831	2,820
	-----	-----
	138,365	128,254
	=====	=====
Balance sheet		
Current liability		
Taxation	136,688	127,371
	=====	=====
Non-current liability		
Deferred taxation [see note d) below]	82,042	80,211
	=====	=====

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**at 30 November 2007**

**8 TAXATION (Continued)**

The following further notes apply:

- a) The Company is subject to income tax at the rate of 12% (2006 - 12%) of taxable income in excess of RO 30,000.
- b) The following is a reconciliation of income calculated based on accounting profit before tax at the applicable tax rate with the income tax expense:

	2007 RO	2006 RO
Profit before tax	1,183,806 =====	1,114,932 =====
Income tax as per rates mentioned above	138,457	130,192
Expenses disallowed	62	--
Excess provided in prior year	(154)	(1,938)
	-----	-----
Income tax expense	138,365 =====	128,254 =====

- c) Following the rejection of the Company's objection by the Secretary General for Taxation, the income tax assessments of the Company for the years 2000 to 2003 have been completed by the Secretariat General for Taxation with an additional demand for tax amounting to RO 8,243 which was provided and paid in an earlier year. The Company has filed an appeal with the Tax Committee against the demand, which has not yet been heard.

The Board of Directors are of the opinion that additional taxes, which may be assessed in respect of the unassessed years 2004, 2005 and 2006, if any, would not be material to the Company's financial position as at the balance sheet date.

- d) Recognised deferred tax liabilities are attributable to the following items:

	30 November 2006 RO	Recognised in income statement RO	30 November 2007 RO
Property, plant and equipment	(81,881)	(1,831)	(83,712)
Provision for doubtful debts	1,670	--	1,670
	-----	-----	-----
Net deferred tax liability	(80,211) =====	(1,831) =====	(82,042) =====

**9 SHARE CAPITAL**

The Company's authorised share capital consists of 10,000,000 shares of RO 1 each (2006 – 10,000,000 of RO 1 each). At 30 November 2007 and 30 November 2006, the Company's issued and fully paid-up share capital consisted of 5,833,333 shares of RO 1 each. Shareholders who own 10% or more of the Company's share capital are as follows:

	2007 and 2006 %
Alawi Enterprises LLC	20
Catering and Supplies LLC	20
Chatron Commercial Corporation	12.33

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**at 30 November 2007**

**10 LEGAL RESERVE**

Article 106 of the Commercial Companies Law of 1974 requires that 10% of the Company's profit for the year be transferred to a non-distributable legal reserve until the amount of the legal reserve becomes equal to at least one-third of the Company's paid-up share capital.

**11 RELATED PARTY TRANSACTIONS**

- a) A substantial number of transactions entered into by the Company during the year are with certain shareholders or with companies over which certain directors, officers and shareholders are able to exercise significant influence. Costs for provision of services for the operation of the PACs, which are payable to a related party, are determined based on contractually agreed terms (see note 1). Additionally, the Company and CSC share the profits from beverages sales at the PACs equally. The Company's share of beverages sales profits during the year amounted to approximately RO 53,172 (2006 – RO 42,951). In respect of other related party transactions, the terms are believed by the Board of Directors to be comparable with commercial terms that could be obtained from third parties on an arms length basis.

During the year the related party transactions, which are subject to Shareholders' approval at the forthcoming annual general meeting, were as follows:

	2007 RO	2006 RO
Transactions with shareholders holding 10% or more interest in the Company		
Services rendered and recharged (see notes 1 and 3)	2,225,170	1,998,465
Services others	170,257	147,069
Purchases	63,239	52,416
Capital work in progress	1,569,956	--
Transactions with Shareholders holding less than 10% interest in the Company		
Finance charges	91,016	82,575
Administrative and general expenses	15,000	--

The key management personnel compensation for the year comprises:

	2007 RO	2006 RO
Directors' remuneration [see note 6]	33,794 =====	30,953 =====

- b) The amount due to related parties are on normal terms of credit and consideration to be settled in cash.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**at 30 November 2007**

**11 RELATED PARTY TRANSACTIONS (Continued)**

c) Amount due to shareholders holding 10% or more interest in the Company	2007 RO	2006 RO
- Catering and Supplies Co LLC	533,407	515,658
- Marketing and Services Co LLC	18,856	12,891
- Carillion Alawi LLC	138,780	--
	-----	-----
	691,043	528,549
	=====	=====

**12 NET ASSETS PER SHARE**

Net assets per share is calculated by dividing the net assets at the balance sheet date by the number of shares outstanding at the end of the year as follows:

	2007	2006
Net assets (RO)	8,529,434	8,008,993
	=====	=====
Number of shares outstanding	5,833,333	5,833,333
	=====	=====
Net assets per share (RO)	1.462	1.373
	=====	=====

**13 BASIC EARNINGS PER SHARE**

Basic earnings per share is calculated by dividing the net result for the year by the weighted average number of shares outstanding during the year as follows:

	2007	2006
Net profit for the year (RO)	1,045,441	986,678
	=====	=====
Weighted average number of ordinary shares at the balance sheet date	5,833,333	5,833,333
	=====	=====
Basic earnings per share (RO)	0.179	0.169
	=====	=====

**14 PROPOSED DIVIDEND**

- a) A dividend in respect of year 2007 of RO \_\_\_\_\_ per share (2006 – RO 0.090 per share) amounting to a total of RO \_\_\_\_\_ (2006 – RO 525,000) is proposed by the Board of Directors. The dividend is subject to the approval at the Annual General meeting.
- b) Dividend per share is determined by dividing the dividend proposed for the year of RO \_\_\_\_\_ (2006 – RO 525,000) by the number of ordinary shares at the balance sheet date of 5,833,333 shares (2006 – 5,833,333 shares).

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**at 30 November 2007**

**14 PROPOSED DIVIDEND (Continued)**

- c) During the year an amount of RO 576 pertaining to the year 2006 (2006 - RO 1,080 pertaining to the year 2005), representing unclaimed dividends, has been transferred to the Investors Trust Fund of the Capital Market Authority.

<b>15 CONTINGENCIES</b>	2007 RO	2006 RO
Performance guarantee	100,000	100,000
Tender guarantee	10,000	--
	-----	-----
	110,000	100,000
	=====	=====

**16 SEGMENTAL REPORTING**

The Company has only one business segment: hospitality. Additionally, all services are provided within the Sultanate of Oman. Accordingly, no disclosures in respect of segment information are made in these financial statements.

**17 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

- a) The Company's financial assets include accounts and other receivables, bank balances and cash. Financial liabilities include term loans, accounts and other payables, amount due to related parties and current taxation. The Company's financial assets and financial liabilities approximate to their carrying values.

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

*Currency risk*

The Company operates in the local market and the entire financial assets and liabilities are denominated in Rials Omani. Accordingly, the management believe that the Company is not exposed to any material currency risk.

*Interest rates*

The Company is exposed to interest rate risk on its interest bearing assets and liabilities (bank balances and term loans). The management manages the interest rate risk by constantly monitoring the changes in interest rates.

**b) Credit risk**

Credit risk primarily arises from credit exposures to customers, including outstanding receivables and committed transactions. The Company 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.

**c) Liquidity risk**

The management maintains sufficient amount cash and an adequate amount of committed credit facilities to meet it's obligations as they fall due for payment and is therefore not subject to significant liquidity risk.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**at 30 November 2007**

**18 CAPITAL COMMITMENTS**

At the balance sheet date, the outstanding capital commitments amounted to RO 3.49 million (2006 – nil) mainly in relation to the Company's expansion of existing PACs.

## **ANNEXURE-I TO THE DIRECTORS' REPORT**

### **REPORT ON CORPORATE GOVERNANCE IN ACCORDANCE WITH CODE OF CORPORATE GOVERNANCE FOR MSM LISTED COMPANIES, ISSUED BY CIRCULAR No. 11/2002 AS AMENDED BY CIRCULAR No. 1/2003.**

The Board and management are committed to the highest standards of corporate governance for Sahara Hospitality Co. (S.A.O.G) (hereafter referred to as ("SHC") or the ("Company"). This statement describes how the principles of Good Governance and provisions of the Code of Corporate Governance for MSM listed companies, issued by Circular No.11/2002 on 3 June 2002 as amended by circular No.1/2003 and Administrative Decision No. 5/2007 dated June 27, 2007 are applied by SHC.

#### **1. Philosophy on the Code of Governance**

The Company believes that sound corporate practices based on transparency, accountability and high level of integrity, in the functioning of the Company, is essential for the short and long term enhancement of the shareholders/ stakeholders value. SHC as a Company have always focused on good corporate practices which is a key driver of sustainable corporate growth and long term value creation for shareholders. The objective can be summarised as:

- To enhance shareholder value.
- To protect the interest of shareholders and other stakeholders including customers and society at large.

The Company is committed to:

- Ensure that the SHC Board of Directors meet regularly, provides effective leadership, exercises control over management and monitor executive performance.
- Provide free access to the Board to all relevant information, advice, resources as are necessary to enable it to carry out its role effectively.

#### **2. Board of Directors**

2.1 The Board consists of eight Directors having a suitable mix of professionalism knowledge and experience. Of these, two are executive Directors and others non-executive/independent Directors.

2.2/3 The current composition of the Board of Directors is given below:

Sr. No.	Name	Position/ Category	Last AGM held on 25/2/2007	Board meetings proxy/attended	Other Director-ship
1	Talal Bin Qais Al Zawawi	Chairman/ Independent Director	Absent	7	-
2	Abdulmunim Bin Qais Al Zawawi	Non-Executive/ Independent Director	Absent	6	-
3	Ramesh Kumar	Non-Executive/ Independent Director	Present	7	-
4	Sasi Madathil	Non-Executive/ Independent Director	Present	7	-
5	Raymond Bejjani *	Executive Director	Present	7	-
6	K.S. Visruthan *	Executive Director	Present	7	-
7	Yaseen Hassan Abdullatif	Non-Executive/ Independent Director	Present	7	-
8	K.T. Rajagopalan	Non-Executive/ Independent Director	Present	6	-

\* *Mr. Raymond Bejjani (Chief Executive Officer) and Mr. K.S.Visruthan (Finance and Administration Manager) are the only Directors with Top management position in the company and their powers are defined in the Internal Regulations of the company.*

- 2.4 As per disclosures made by our Directors, it is learned that none of them are in the Board of Directors or Chairperson of other public companies
- 2.5 The Board meets at least once in three months to review the quarterly performance and financial results. All the necessary papers along with annexure, explanatory notes etc., if any, are circulated along with agenda to all directors about 7 to 10 days in advance or are tabled in the course of the Board meeting. The Directors shall, at least annually, conduct a review of the effectiveness of the company's systems of internal control through the Management Audit being conducted by the Company. Seven Meetings of the Board of Directors were held during the financial year ended 30th November 2007 as under:

Dates of the Meetings:

December 23, 2006  
January 22, 2007  
March 8, 2007  
March 26, 2007  
May 22, 2007  
June 27, 2007  
September 25, 2007

**3. Audit committee**

The primary objective of the Audit Committee is to monitor and provide effective supervision of the management's financial reporting progress with a view to ensuring timely and proper disclosures and transparency, integrity and quality of its reporting.

**3.1 Broad term of Reference:**

The Committee reviews and ensures that financial statements are correct, sufficient and credible with reference to the following points before submission to the Board.

- Reviewing risk management policies and reasons for defaulting payment obligations, if any.
- Changes in the Accounting Policies and Practices
- Qualifications in Draft Audit Report.
- Compliance with Accounting Standards.
- Going concern assumptions.
- Material transactions with promoters or management, their subordinates or relatives with potential conflicts with the interest of the Company at large.
- Discuss with Statutory Auditors on areas of concern and adequacy internal control systems.
- Recommendation for Auditor's appointment / removal.
- Review the Audit fees and other payments for professional services rendered by the auditors.
- Supervision of Internal Audit including the scope and consideration of significant audit findings / area of concern.
- Review the Company's management reports.
- Supervision of the adequacy of the internal control system.
- Monitoring financial fraud.

In order to effectively discharge their responsibility, the committee members have been empowered:

- To investigate any activity referred.
- To seek information from any employee of the Company.
- To invite Statutory / Internal Auditor.

### 3.2 Composition, Name of Members and Chairperson

The Board of Directors at their meeting held on 22<sup>nd</sup> February 2003 had constituted the Audit Committee comprising of three Non-Executive Directors. Following the election of the new Board of Directors, the Board at its first meeting held on March 8, 2007, re-constituted the audit committee comprising of four Non-Executive Directors.

The composition of the Audit Committee and attendance of the members during the year at its meetings are given hereunder:

Name of the Member	Position	Category	Attendance during the year
Yaseen Hassan Abdullatif	Chairman	Non-Executive/ Independent Director	5
Ramesh Kumar	Member	Non-Executive/ Independent Director	5
K.T Rajagopalan	Member	Non-Executive/ Independent Director	3
Sasi Madathil	Member	Non-Executive/ Independent Director	5

All members of the committee are knowledgeable in finance, industry and laws and regulations governing SAOG companies.

During the financial year 2006-2007 under review, five Audit Committee Meetings were held on:

23 December 2006, 22 January, 2007, 26 March 2007,  
 27 June 2007 and 25 September 2007.

The Internal Auditor acted as the Secretary of the Audit Committee in all five meetings.

It is prerogative of the Audit Committee to invite Senior Executives, whom it considers appropriate to be present at the meeting. Almost in all the Audit Committee meetings, Senior Executives of the Company were invited.

The minutes of each of the Audit Committee Meetings are placed before the Board of Directors and discussed in the Board Meeting.

## 4. Process of Nomination of Directors

The member of the Board of Directors shall be chosen from shareholders or non-shareholders, provided the shareholder candidate holds minimum of 233,333 shares in the Company.

The term of office of the second Board of Directors were completed after third Annual General Meeting held on 25<sup>th</sup> February 2007 and a new Board of Directors was elected by the shareholders at Annual

General meeting held on 25 February, 2007. The elected members are being continued in 2007. The nomination process is governed by company's Articles of Association, Article 27, 28 and 29

## 5. Remuneration matters

5.1 The Board of Directors is pleased to recommend, subject to the approval of the shareholders, RO 33,794 as remuneration to the Directors for the financial year ended 2007. This was

calculated based on 5% of the net annual profits after deducting the legal reserve and calculating the dividend to shareholders 5% of the capital.

With regard to officers, all management functions are provided by the service provider (founder shareholder) by virtue of an agreement dated 24<sup>th</sup> July, 1999 forming basis of the award of the contract by Petroleum Development Oman. Salaries and related costs charged for the financial year 2007 amount to RO 29,430.

Following on from the preceding paragraph disclosing re-charged costs and direct payments, there are no bonus, stock option, and gratuity and pension scheme in effect.

5.2 There exists no fixed component or performance linked incentives.

5.3 Same as above explanations. Since we do not have direct employees, disclosure on service contracts, notice period and severance fees are not applicable.

## 6. Details of Non-compliance by the Company

6.1 The Company has complied with various rules and regulations prescribed by the regulatory authorities during the period of its operations. So far we have not been penalised by way of notices and/or pecuniary penalties by MSM, CMA and any other statutory authority.

6.2 There was no non-compliance by the Company in respect of Code of Corporate Governance and our report on Corporate Governance has been produced, which forms part of the Directors report.

## 7. Means of communication with the shareholders & investors

7.1 As required by law, the Company has been publishing annual audited and quarterly unaudited financial results in two newspapers after being approved by the Board. The annual audited accounts and Chairman's report are despatched to all shareholders by mail.

7.2 The results are simultaneously posted on the website of the Company at [www.sahara.com.om](http://www.sahara.com.om).

7.3 On this website, the investors can also find details of various services being provided by the Company.

7.4 The Company did not make any presentation to the institutional investors or to the analysts.

7.5 Management Discussion and Analysis Report forms part of this Annual Report.

7.6 The Company has a procedure for ensuring material information is identified and communicated to CMA and shareholders.

7.7 The Company has a procedure to ensure implementation of its disclosure policy and to monitor the policy's compliance with laws and regulations.

## 8. Market price data

8.1 The following table, as provided by MSM, shows the share price movements and volume of sales of the company during current financial year. It is noted that no major movements in the trades were taken place during this period. The closing price of 2007 based on the last trade made on 05/11/2007 was RO 2.140 per share in the market.

Performance from 01/12/2006 to 30/11/2007

Date	Open	High	Low	#	Volume	Turn-over	Last Trade	P. Close	Close	Net Change
05/11/2007	2.140	2.140	1.800	2	425,607	199,078	2.140 5/11/2007	2.000	2.140	7.0%

8.2 MSM index details of service sector, representing share price movements for the period 1/12/2006 to 30/11/2007 was as follows:

Performance from 01/12/2006 to 30/11/2007

Open	High	Low	Close	Change
2,359,250	3,392,410 Nov 7, 2007 10:00 AM	0 June 5, 200 01:22 PM	3,308,150	40.22% 948.900

8.3 Shareholding pattern of the company as at the close of financial year was 60% by 6 founder shareholders (3,500,000 shares) and 40% by public (2,333,333 shares), which were owned by 27 shareholders.

The following are the shareholders holding 5% or more interest in the Company:

- Alawi Enterprises LLC, Oman
- Chatron Commercial Corporation, Panama
- Catering and Supplies company LLC, Oman
- Talal Bin Qais Al Zawawi, Oman
- Abdulmunim Bin Qais al Zawawi, Oman
- Ms. Lubna Qais Abdulmunim Al Zawawi, Oman

8.4 There were no outstanding GDRs/ADRs/Warrants.

#### 9. Professional profile of the statutory auditor

The Oman branch of Moore Stephens commenced practise in 1988. Over the years, the practice has developed considerably and now services a number of clients, including major listed companies, Groups, government organisations and Ministries providing either audit, tax or management consultancy services. The local staff strength is around 30, most of whom are qualified Chartered Accountants, internal auditors and information systems auditors.

Since Moore Stephens London was founded 100 years ago, the Moore Stephens International Limited network has grown to be one of the 12 largest international accounting and consulting groups worldwide. Moore Stephens International is regarded as one of the world's major accounting and consulting networks consisting of 335 independent firms with 621 offices and over 19,200 people across 95 countries.

#### 10. Audit fees paid to the auditors.

Audit fees for the financial year ended on 30/11/2007 was RO.4,000/-.

#### 11. Acknowledgement by Board of Directors.

The Board of Directors, based on the review of Audit Committee, believe that the financial statements are prepared in accordance with applicable standards and rules.

The board believes, based on the review of internal controls carried out by the audit committee, that the system of internal control is adequate to ensure compliance with laws and regulations.

Based on an examination of the internal audit work, discussion with management and scrutiny of previous management information, the audit committee have concluded that company's system of internal control have operated effectively during the year.

The Board have approved the budget of the company for the year 2008 and, on the strength of the budget and consideration of the expected cash flow, consider that the company will continue in operational existence for the foreseeable future.

## **ANNEXURE-II TO THE DIRECTORS' REPORT**

### **MANAGEMENT DISCUSSION & ANALYSIS REPORT**

The management of Sahara Hospitality Company SAOG ("SHC") is pleased to present its analysis report covering the company's performance during the year ended 30<sup>th</sup> November 2007 and Management's views on future outlook.

#### **Main Objects and business of the Company**

SHC hold a contract to build, own and operate Permanent Accommodation for Contractors ("PACs") of Petroleum Development Oman ("PDO"), one each at Fahud and Nimr. The project was completed and started its commercial operations on 1<sup>st</sup> September, 2000 and continues to be fully operational in compliance with contract terms and conditions.

The purpose of the PACs is to provide residential facilities to PDO contractor's staff at two interior locations in Fahud and Nimr. SHC constructed 384 and 264 room facilities at Fahud and Nimr respectively. This is a specialised trade that is subject to high professional and quality standards, and involves a considerable amount of efforts and expertise to provide the required services available to people in the remotest areas of the country. Although, SHC's current core business is provision of hospitality services at the PACs, the Board continue to explore all avenues of similar and/or any other commercial activities in Oman and expand the business when suitable opportunities arise.

#### **Methods through which the company achieves its business**

As per the contract with PDO, SHC is expected to provide accommodation, messing, catering services, linen and laundry services, medical services and maintenance. However, SHC has entered into a service agreement with Catering and Supplies Company LLC (CSC) wherein CSC provides all the services required under the PDO contract for operation of the PACs.

#### **Investment Opportunities and Obstacles**

The Board of Directors and the Management continue to monitor growing Omani commercial, industrial and financial market sectors, and would avail any opportunity that is attractive and would yield additional benefits to the company. Currently there is a high demand for rooms at Fahud and Nimr. In order to meet with the requirements, additional 240 rooms are being built and shall be ready for occupation by end of January 2008. Furthermore and as reported, we are currently involved in the preparation of a bid to PDO project for new PACs at Marmul, Lekhwair and Bahja.

Although, SHC's business future seems promising within the current scope of our contract in view of continuous oil & gas related activities at PAC locations, the Board of Directors would remain alert to enhance its market share and establish attractive business ventures as and when such opportunities arise.

#### **Risks and Concerns**

The success of SHC's business depends on providing excellent services and achievement of maximum level of occupancy. Currently both PACs are well occupied with contractor's staffs and based on current activities and increased room facilities the company expects improved results in the coming years. Obviously, all such factors are highly dependent on PDO activities in the area and should some unforeseen event happen then the Company may be exposed to operational risk.

Another risk factor is the lifespan of oil reserve in the area. Apart from proven oil reserve, PDO has also focused enhanced oil recovery (EOR) initiatives thereby to improve recovery rates at several oil fields. It has also implemented exploration and development (E &D) programme, aimed at increasing recoverable reserve over the long term, through the application of enhanced recovery techniques. Therefore, it is expected that the oil and gas related activities would continue at PAC locations over long term, thus maintaining commercial lifespan of our operations for many more years.

The PACs have been constructed on plots of land made available by PDO free of cost as governed by our contract terms. We have not obtained any long term lease for the land from the relevant authorities as the same was not felt to be a requirement. In the quite unlikely event that the leases become necessary, then we will have to complete the required formalities which will involve additional costs.

The PAC facilities are permanent accommodations for PDO contractor's staff working in the interior area of oil and gas industry. Accordingly, the facilities do not fall within the definition of a hotel or neither tourism nor the contractors who occupy these facilities are "tourists" and therefore we believe that the municipality tax are not applicable to PAC operations and related costs are not provided in our accounts.

### Financial and Operational Performance

#### *Financial performance*

An overview of the financial performance is already given in the Directors report. The audit committee constituted by the Board of Directors periodically reviews the financial performance and reporting systems. The summary of movement in net profit amounts and margin for the year is as under:

	Amount RO
Net profit for FY 2006	986,678
<b>Gain in net profit amount and margin on account of:</b>	
Sales	443,775
Cost of sales	-307,167
Administrative and general expenses	-81,166
Financing costs	15,700
Other income	-2268
Income Tax	-10,111
Net profit FY 2007	1,045,441

SHC has reported good performance during the period under review. Revenue was higher by 11.5% at RO 4,322,146 as against RO 3,878,371 in the corresponding period of previous year. Net profit before tax increased from RO 1,114,934 in 2006 to RO 1,183,806 in the same period of 2007, a further growth of 6%.

The fundamentals of the company's financial health remain to be extremely positive with healthy cash flows and low debt equity ratio. The following table shows time sequence of realised profits, dividends, net equity of the company for the last five years.

Year	Net Profit after Tax (RO)	Dividends	Net Equity(RO)
2002	562,326	5%	6,357,160
2003	733,308	6%	6,779,002
2004	646,383	6%	7,057,933
2005	664,382	6%	7,372,315
2006	986,678	9%	8,008,993

#### *Operational Performance*

The primary role of the SHC is to support PDO's activities within the interior oilfield operations by way of providing high standard of hospitality services. We believe that the performance of SHC is and has been to the full satisfaction of our clients and customers. We consider this to be a great achievement of our management, leading to a positive financial outcome, without compromising on high standards expected.

The HSE and Hygiene policies are being strictly applied and shall remain to be the top priority in our business. For this purpose great ongoing efforts are being exerted, our HSE and Hygiene department have been augmented with functional expertise in compliance with contractual obligations and remain fully committed to it.

We are proud to report that the company has completed seven years of operations successfully that includes over 5.5 million man hours worked and 2,366,960 kilometres driven safely.

### **Segment and Product-wise Reporting**

SHC has only one segment of business, hospitality. In addition to this, all related services are being provided within the oil and gas fields in the interior of the Sultanate of Oman. Hence no additional discussions are warranted with regard to segment information.

### **Internal Control System and Adequacies**

The company's internal control systems are well established. An audit committee comprised of the company's four non- executive directors regularly reviews all operational and financial matters of the company. It also reviews the significant observations of internal audit. The audit committee's observations are acted upon by the management. Based upon the work of internal audit, supervised by the audit committee, and their periodic reviews of management information and reports, the Board consider that the Company's internal control systems in place are appropriate and have operated effectively during the year.

#### *Disclaimer:*

The information and opinion expressed in this section of the Annual Report may contain certain "forward-looking statements", which the management believes are true to the best of its knowledge at the time of its preparation. The Company and the management shall not be held liable for any loss, which may arise as a result of any action taken on the basis of the information contained herein.