

Interim report for 6 months ending 31st May, 2004

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**DIRECTOR'S REPORT
 FOR THE HALF YEAR ENDED ON 31ST MAY 2004.**

SAHARA HOSPITALITY COMPANY (S.A.O.G) ("SHC")

On behalf of Board of Directors I am pleased to submit the unaudited Financial Statements of the company for the second quarter (being half year) ended on 31st May 2004 and its related reports for the same period.

SHC continue to carry out its activities of provision of hospitality services at the Permanent Accommodation for Contractors of PDO (PACs) at both interior locations, Fahud and Nimr. The major success factor of our business is room occupancy, which is mainly rely on PDO activities in the vicinity and was not appreciable during this period. The Board is giving this matter its utmost considerations and the company senior management members are following up the issue with PDO officials who have reconfirmed exact observance of PAC's policy. Therefore, those contractors' staff currently residing temporary accommodations are expected to move shortly to the PACs, at both Fahud and Nimr; this will improve the occupancy level for the remaining two quarter of this year.

We are pleased to append below the financial information for six months of current year operations in comparison to corresponding period of last year.

	31/05/2004 <u>RO 000s</u>	31/05/2003 <u>RO 000s</u>
Revenue	1492	1,671
Gross Profit	726	806
Profit after tax	337	366
Basic earnings per share	0.058	0.063
Gross profit margin	49%	48%
Net profit margin	23%	22%

As stated above, the major factor that governs our business success is occupancy level and low activities at Fahud area has been affected the net results for the period, under review.

However, actual percentage of net profit remain 1% high, attributable to savings in the bank interest which was negotiated down with effect from 1st December 2003.

As resolved at AGM on 16th March 2004, dividend for the financial year ended on 30th November 2003 has been paid out to all our shareholders within 15 days from

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AGM. The minutes of the Annual General Meeting was also deposited with Capital Market authority in a timely manner.

As indicated in the last report, management continue to look various ways to expand business opportunities in the disciplines of hospitality servicing or/and diversifying the activities which is beneficial to the company's growth prospects. In view of the same and following on resolution from the last AGM, initial discussion was taken place in the last Board meeting held on 23rd May 2004.

Finally, on behalf of the Board of directors, I would like to express our most sincere gratitude to His Majesty Sultan Qaboos Bin Said for his wise leadership and generous support to the private sector. Also I would extend my thanks to the Muscat Security Market, Capital Market Authority, and other government organization involved in private sector business developments.

I conclude this report by expressing our gratitude to the share holders, Petroleum Development Oman and clients for their valued support and cooperation.

For and on behalf of Board of Directors,

TALAL BIN QAIS AL ZAWAWI
CHAIRAMAN

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UNAUDITED SUMMARY OF PERFORMANCE.

	31 May. 2004 R.O' 000	31 May. 2003 R.O' 000	Change %
Total assets @	10,481	11,162	(6)
Total liabilities @	3,715	4,439	(16)
Net assets @	6,766	6,723	1
* Net assets per share	1.160	1.153	1
** Current ratio @	0.897	1.001	(10)

	6 months ended 31 May., 2004 R.O' 000	6 months ended 31 May., 2003 R.O' 000	Change %
Gross Profit	726	806	(10)
*** Gross Profit margin @	49%	48%	2
Net Profit	337	366	(8)
**** Earnings per share	0.058	0.063	(8)

* Net assets (book value) per share is calculated by dividing the net assets (book value) at 31 May. by the number of ordinary shares in issue at 31 May..

** Current ratio represents the ratio of current assets to current liabilities at 31 May..

*** Gross profit margin is calculated as follows:

$$\text{Gross Profit margin} = \frac{\text{Gross Profit}}{\text{Turnover}}$$

**** Earnings per share is calculated by dividing net profit after tax for the period ended 31 May. by the average number of ordinary shares in issue for the period.

The ratios marked @ above are optional, but companies are encouraged to disclose such information.

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Unaudited consolidated balance sheet
 at 31 May., 2004.

	Notes	31 May. 2004 R.O' 000	31 May. 2003 R.O' 000	Change %
Fixed assets *		9,308	9,747	(5)
		9,308	9,747	(5)
Current assets				
Inventories	1	6	7	(14)
Trade receivables	2&9	1,119	1,355	(17)
Receivable from related parties	8&9	-	16	(100)
Investments **	5,6,7&9	-	-	-
Bank and cash		48	37	30
Other assets				
		1,173	1,415	(17)
Total assets		10,481	11,162	(6)
Current liabilities				
Trade and other creditors		30	28	7
Payable to related parties	8	612	727	(16)
Bank loans and overdrafts	4	625	625	-
Tax liability		41	34	21
		1,308	1,414	(7)
Long term liabilities				
Bank loans and overdrafts	4	2,333	2,958	(21)
Deferred Tax liability		74	67	10
Others				
		2,407	3,025	(20)
Total liabilities		3,715	4,439	(16)
Net Assets		6,766	6,723	1
Shareholders' funds				
Share capital		5,833	5,833	-
Legal reserve		166	95	75
Retained earnings / (loss)		464	174	167
Proposed dividend for 2003		-	292	(100)
Profit and loss account		303	329	(8)
Total shareholders' equity		6,766	6,723	1

* Includes tangible fixed assets only. Intangible fixed assets must be disclosed separately.

** Investments include fixed term deposits.

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Unaudited consolidated profit and loss account
 For the 6 months ended 31 May., 2004.

	Notes	6 months ended 31 May., 2004 R.O.' 000	6 months ended 31 May., 2003 R.O. '000	Change %
Turnover/Revenue	3	1,492	1,671	(11)
Gross Profit	3	726	806	(10)
Depreciation		(221)	(221)	-
Administration & general expenses		(34)	(35)	(3)
Operating profit		471	550	(14)
Finance charges	4	(92)	(138)	(33)
Investment income	6	-	-	-
Profit before taxation and minority Interests		379	412	(8)
Taxation		(42)	(46)	(9)
Net profit attributable to ordinary Shareholders		337	366	(8)
Dividend per share		-	-	-
* Net profit margin @		23%	22%	3

Dividend per share has been calculated by dividing the total dividends paid and proposed during the period by the average number of shares in issue for the period.

*
$$\text{Net profit margin} = \frac{\text{Net profit for the period}}{\text{Turnover for period}}$$

Disclosure of ratios market @ is optional but is recommended.

Taxation The basis for determining the tax charge accruing for the period should be disclosed. The tax charge should be determined by applying an effective tax rate to the net profit before tax for the period.

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Uu audited consolidated statement of cash
 For the 6 months ended 31 May., 2004.

	6 months ended 31 May., 2004 R.O'. 000	6 months ended 31 May., 2003 R.O'. 000	Change %
Cash from operations	835	459	82
Tax paid	(78)	(12)	550
Interest paid	(92)	(138)	(33)
Net cash from operating activities	665	309	115
Net cash used in investing activities	-	-	-
Net cash used in financing activities	(663)	(313)	112
Net increase (decrease) in cash and cash equivalents	2	(4)	150
Cash and cash equivalents brought forward	46	41	12
Cash and cash equivalents carried forward	48	37	30

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Statement of changes in equity
 for the 6 months ended 31 May 2004.

	Share capital	Legal Reserve	Proposed Dividend	Accumulated Profit / (Loss)	Total
	RO '000	RO '000	RO '000	RO '000	RO '000
30 November 2002	5,833	59	292	174	6,358
Profit for the year	-	-	-	733	733
Transfer	-	73	350	(423)	-
Dividend paid	-	-	(292)	-	(292)
Directors' remuneration	-	-	-	(20)	(20)
30 November 2003	5,833	132	350	464	6,779
Profit for the period	-	-	-	337	337
Transfer	-	34	-	(34)	-
Dividend paid	-	-	(350)	-	(350)
31 May 2004	5,833	166	-	767	6,766

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Notes.

1. **Inventories.**

Inventories can be analysed as follows:

	31 May. 2004 R.O' 000	31 May. 2003 R.O' 000	Change %
Raw materials	6	7	(14)
Work in progress	-	-	
Finished goods	-	-	
Spares and consumables	-	-	
Less: Provisions	-	-	
	6	7-	(14)

Finished goods at 31 May., 2004 represent days of sales (2003 days)

2. **Trade receivables.**

At 31 May., 2004 trade receivables can be analysed as follows:

	31 May. 2004 R.O' 000	31 May. 2003 R.O' 000	Change %
Trade receivables	1,126	1,355	(17)
Less: Provisions	(7)	-	100
	1,119	1,355	(17)

3. **Segment Reporting**

Reporting of Segment Revenue, and Segment Result is required for all business and geographical segments, where the segment is responsible for more than 10% of the company's revenue or profit, and where the segment is subject to risks or returns that are different from those of other segments, or where the segment is defined as a reportable segment by International Accounting Standard 14. The Revenue and Result for the company's reportable segments for the period ending 31 May., 2004 are as follows:

Identity of Segments	Fahud	Nimr	Totals
Segment Revenue	759	733	1,492
Segment Expenses	395	371	766
Segment Results	364	362	726

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4. **Bank loans and overdrafts.**

These can be analysed as follows:

	31 May. 2004 R.O' 000	31 May. 2003 R.O' 000	Change %
Bank loans	2,958	3,583	(17)
Overdrafts			
	2,958	3,583	(17)
Less: Current maturities of bank loans and Bank overdrafts.	(625)	(625)	-
Long term element and bank loans	2,333	2,958	(21)

The bank loans are secured by Nil lien over investments of the Company with a carrying value of RO. Nil and market value RO. Nil . and Nil

The Bank loans bear interest at rates ranging between 5.85% and 10% per annum.

The Bank overdraft facilities bear interest at rates ranging between 5.85% per annum and are renewable on 1st Nov., 2003

The bank loans are repayable within 8 years from 1st April, 2001.

The maturity of the bank loans.

	31 May. 2004 R.O' 000	31 May. 2003 R.O' 000	Change %
Due within 1 year	625	625	-
Due after more than 1 year	2,333	2,958	(21)
	2,958	3,583	(17)

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Notes.

5. **Investment in associates and subsidiaries**

Associates (See also Note 7)

Investments in Associates are accounted for using the equity method.

The Associates of Services/Manufacturing Company SAOG are as follows:

31 May., 2004		31 May., 2003	
Company	Holding %	Company	Holding %
N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A

During the period, shares in company were purchased for RO..... per share.

During the period shares in company were sold for RO..... per share resulting in a profit of RO. on disposal.

Subsidiaries (See also Note 7)

Investments in subsidiaries are accounted for using the equity method.

The subsidiaries of Services/Manufacturing Company SAOG are as follows:

31 May., 2004		31 May., 2003	
Company	Holding - %	Company	Holding - %
N/A	N/A	N/A	N/A

During the period.... shares in Company were sold for RO. per share resulting in a profit of RO. on disposal.

During the period shares in company were purchased for RO. per share.

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6. Investments.

Investments include all long term and short term investments of the company, excluding only those associates and subsidiaries listed in Note 5. All marketable securities are carried at their open market value. Unquoted investments are carried at cost adjusted for any permanent diminutions in value.

Investment can be analysed as follows:

	Market value 31 May. 2004 R.O' 000	Market value 31 May. 2003 R.O' 000	Book value 31 May. 2004 R.O' 000	Book value 31 May. 2003 R.O' 000	Cost ** R.O' 000
Marketable securities MSM					
Banking	N/A	N/A	N/A	N/A	N/A
Investment	N/A	N/A	N/A	N/A	N/A
Insurance	N/A	N/A	N/A	N/A	N/A
Services	N/A	N/A	N/A	N/A	N/A
Industrial	N/A	N/A	N/A	N/A	N/A
Government bonds	N/A	N/A	N/A	N/A	N/A

Marketable securities – Foreign by sector.

Banking	N/A	N/A	N/A	N/A	N/A
Industrial	N/A	N/A	N/A	N/A	N/A
Bonds	N/A	N/A	N/A	N/A	N/A

Unquoted and other investments.

Unquoted Omani shares				
Investment funds units*	N/A	N/A	N/A	N/A
Term deposits	N/A	N/A	N/A	N/A
Unquoted foreign shares	N/A	N/A	N/A	N/A
Other	N/A	N/A	N/A	N/A

* Carried at lower of net asset value, net realisable value or market value.

** Cost of investment held on 31 May., 2004

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6. **Investments (continued)**

Investment income

Realised

Realised investment income represents gains and losses on disposal of investments and other realised investment related gains and losses.

Unrealised.

Marketable securities are recorded at their open market value. Movements in the carrying values of marketable securities are taken to unrealised investment income.

Interest

Interest receivable for term deposits and bonds is included in investment income.

Investment income can be analysed as follows:

	31 May. 2004 R.O' 000	31 May. 2003 R.O' 000
Realised	N/A	N/A
Unrealised	N/A	N/A
Dividends	N/A	N/A
Interest on Term Deposits and Bonds	N/A	N/A

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7. **Details of Significant Investments.**

Details of all the reporting company's investments, including associates and subsidiaries, for which either, the reporting company's holding represents 10% or more of the issuer's share capital, or, the reporting company's holding exceeds 10% of the market value of the reporting company's investment portfolio, are provided as follows as of 31 May., 2004.

Holding %	Number of Securities	Market value RO. 000	Book value RO. 000	Cost RO. 000
MSM quoted securities	N/A	N/A	N/A	N/A
Foreign listed securities*	N/A	N/A	N/A	N/A
Market value as at 31 May., 2004				
MSM Unquoted securities	N/A		N/A	N/A
Foreign unquoted securities *	N/A		N/A	N/A
Totals as of 31 May. 2004	0		0	0

* Provide the name of location of the issuer, the class of security, and the name of the market in which the security is listed.

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8. **Related parties and Holders of 10% of the company's shares.**

The nature of significant transactions involving related parties or holders of 10% or more of the company's shares, or their family members, and the amounts involved during the period were as follows:

	31 May. 2004 R.O' 000	31 May. 2003 R.O' 000	Change %
Service Provider – Cost of sales	721	844	(15)
Other Services & insurance	89	257	(65)
	810	1,101	(26)

Expense Items.

Items of expense which were paid to related parties or holders of 10% or more of the company's shares, or their family members, during the period can be further analysed as follows:

	31 May. 2004 R.O' 000	31 May. 2003 R.O' 000	Change %
Cost of Sales –Catering and Supplies Co.LLC& - Marketing and Services Co. LLC.	734	844	(13)
Other services – Catering and Supplies Co.LLC & Risk Management Services. LLC	76	257	(70)
	810	1,101	(26)

Loans, Advances, Receivable Due, Provisions & Write-offs.

Loans, advances or receivables due from related parties or holders of 10% or more of the company's shares, or their family members, minus all provisions and write-offs which have been made on those accounts at any time, are further analysed as follows:

	31 May. 2004 R.O' 000	31 May. 2003 R.O' 000	Change %
Cost of utilities – Catering and Supplies Co.	-	7	(100)
Catering services – Tarmac Alawi LLC	-	-	-
Provisions	-	-	-
Write-offs	-	-	-
Receivable from related parties	-	7	(100)

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9. Provisions.

Changes to the level of provisions during the period can be analysed as follows:

Provisions for:	Advances & Receivables	Value of Investments	Other	Total
Beginning balance of provisions	7	-	-	7
Provided during the period	-	-	-	-
(Released) during the period	-	-	-	-
(Written off) during the period	-	-	-	-
Provisions Balance as of 31 May., 2004	7	-	-	7

The book value of assets before and after provisions can be shown as follows:

Book value of Assets:	Advances & Receivables	Investments	Other	Total
Value of Assets before provisions	1,126	-	-	1,126
Provisions Balance as of 31 May., 2004	(7)	-	-	(7)
Book value of Assets as of 31 May., 2004	1,119	-	-	1,119

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10. **Shareholders.**

All those shareholders of the company who own 10% or more of the company's shares, whether in their name, or through a nominee account, and the number of shares they hold are as follows:

	31 May., 2004 (Nos.)	31 May., 2003 (Nos.)
Common Share Holders		
Alawi Enterprises	1,166,667	1,166,667
Catering and Supplies Co. LLC	1,166,667	1,166,667
Charton Commercial Corporation	719,466	719,466
Preferred Share Holders:	-	-