

Interim report for 9 months ended 31st August, 2005

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***DIRECTOR'S REPORT
 FOR THE THIRD QUARTER ENDED ON 31ST AUGUST 2005.***

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 third quarter ended on 31st August 2005 and its related reports for the same period.

As you are aware, the company established its business at Permanent Accommodation for Contractors PAC's (Fahud and Nimr) to provide life support services to Petroleum Development Oman ("PDO") contractors' personnel. It is noted that PDO activities in the area have increased recently resulting in enhanced room occupancy level which are crucial for satisfactory financial performance. This increase has been witnessed during the last two months and the management, based on its ongoing follow up with contractors working in the area, feel that this trend will continue during the remaining period of current financial year. Also few additional companies are intending to use PAC facilities and this could set off the gap that has taken place earlier due to reduction in occupancy level.

In view of foregoing, we feel appropriate to state that the occupancy level at PAC Fahud had improved from 78% in January 2005 to 90% in August 2005. As stated earlier, the management is confident that the overall position would be improved further and would reach an acceptable level shortly.

The financial results of the company for the period under review are appreciative and its salient information for the first nine months of operation in comparison to corresponding period of last year is as follows.

	31/08/2005 RO 000s	31/08/2004 RO 000s
Revenue	2,151	2,224
Gross Profit	1,037	1,084
Profit after tax	496	503
Basic earnings per share	0.085	0.086
Gross profit margin	48%	49%
Net profit margin	23%	23%

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The major factor that affected our 3rd quarter business and earnings was low level of occupancy mainly at PAC Nimr. However, net results have been improved since August 2005 and are expected to grow further in the coming quarter of the current financial year.

The Board of directors continues its effort to diversify business activities, increase sales and enhance profitability. In this context, few projects are being evaluated and hope to be able to take appropriate decision shortly. Furthermore, the company is in the process of preparing its bid submission for new business in Sohar area which is very similar to our core business activity.

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
CHAIRMAN

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UNAUDITED SUMMARY OF PERFORMANCE.

	31 Aug. 2005 R.O' 000	31 Aug. 2004 R.O' 000	Change %
Total assets @	10,088	10,411	(3)
Total liabilities @	2,884	3,479	(17)
Net assets @	7,204	6,932	4
* Net assets per share	1.235	1.188	4
** Current ratio @	1.055	0.989	6

	9 months ended 31 Aug., 2005 R.O' 000	9 months ended 31 Aug., 2004 R.O 000	Change %
Gross Profit	1,037	1,084	(4)
*** Gross Profit margin @	48%	49%	(2)
Net Profit	496	503	(1)
**** Earnings per share	0.085	0.086	(1)

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

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

*** 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 Aug. 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 Aug., 2005.

	Notes	31 Aug. 2005 R.O' 000	31 Aug. 2004 R.O' 000	Change %
Fixed assets *		8,763	9,197	(5)
		8,763	9,197	(5)
Current assets				
Inventories	1	5	6	(17)
Trade receivables	2&9	1,080	1,055	2
Receivable from related parties	8&9	-	6	(100)
Investments **	5,6,7&9	-	-	-
Bank and cash		240	147	63
Other assets		-	-	-
		1,325	1,214	9
Total assets		10,088	10,411	(3)
Current liabilities				
Trade and other creditors		87	61	43
Payable to related parties	8	480	478	-
Bank loans and overdrafts	4	625	625	-
Tax liability		64	63	2
		1,256	1,227	2
Long term liabilities				
Bank loans and overdrafts	4	1,552	2,177	(29)
Deferred Tax liability		76	75	1
Others		-	-	-
		1,628	2,252	(28)
Total liabilities		2,884	3,479	(17)
Net Assets		7,204	6,932	4
Shareholders' funds				
Share capital		5,833	5,833	-
Legal reserve		246	182	35
Retained earnings / (loss)		678	464	46
Profit and loss account		447	453	(1)
Total shareholders' equity		7,204	6,932	4

* 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 9 months ended 31 Aug., 2005.

	Notes	9 months ended 31 Aug., 2005 R.O'. 000	9 months ended 31 Aug., 2004 R.O. '000	Change %
Turnover/Revenue	3	2,151	2,224	(3)
Gross Profit	3	1,037	1,084	(4)
Depreciation		(332)	(332)	-
Administration & general expenses		(61)	(50)	22
Operating profit		644	702	(8)
Finance charges	4	(84)	(135)	(38)
Investment income	6	-	-	-
Profit before taxation and minority Interests		560	567	(1)
Taxation		(64)	(64)	-
Net profit attributable to ordinary Shareholders		496	503	(1)
Dividend per share				
* Net profit margin @		23%	23%	-

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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Uuaudited consolidated statement of cash
 For the 9 months ended 31 Aug., 2005.

	9 months ended 31 Aug., 2005 R.O'. 000	9 months ended 31 Aug., 2004 R.O'. 000	Change %
Cash from operations	974	1,133	(14)
Tax paid	(80)	(78)	3
Interest paid	(87)	(135)	(36)
Net cash from operating activities	807	920	(12)
Net cash used in investing activities	(8)	-	100
Net cash used in financing activities	(819)	(819)	-
Net increase (decrease) in cash and cash equivalents	(20)	101	(120)
Cash and cash equivalents brought forward	260	46	465
Cash and cash equivalents carried forward	240	147	63

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Statement of changes in equity for the 9 months ended 31 August 2005.

	Share Capital RO. '000	Legal Reserve RO. '000	Proposed Dividend RO. '000	Accumulated Profits RO. '000	Total RO. '000
As on 1 December 2003	5,833	132	350	464	6,779
Profit for the year	-	-	-	646	646
Transfer	-	65	350	(415)	-
Dividend paid	-	-	(350)	-	(350)
Directors' remuneration	-	-	-	(17)	(17)
As on 30 November , 2004	5,833	197	350	678	7,058
Profit for the period	-	-	-	496	496
Dividend paid	-	-	(350)	-	(350)
Transfer	-	49	-	(49)	-
As on 31 August, 2005	5,833	246	-	1,125	7,204

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Notes.

1. **Inventories.**

Inventories can be analysed as follows:

	31 Aug. 2005 R.O' 000	31 Aug. 2004 R.O' 000	Change %
Raw materials	-	-	-
Work in progress	-	-	-
Finished goods	5	6	(17)
Spares and consumables	-	-	-
Less: Provisions	-	-	-
	5	6	(17)

Finished goods at 31 Aug., 2005 represent days of sales (2004 days)

2. **Trade receivables.**

At 31 Aug., 2005 trade receivables can be analysed as follows:

	31 Aug. 2005 R.O' 000	31 Aug. 2004 R.O' 000	Change %
Trade receivables	1,097	1,062	3
Less: Provisions	(17)	(7)	143
	1,080	1,055	2

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 Aug., 2005 are as follows:

Identity of Segments	Fahud	Nimr	Totals
Segment Revenue	1,233	918	2,151
Segment Expenses	(643)	(471)	(1,114)
Segment Results	590	447	1,037

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Notes.

4. **Bank loans and overdrafts.**

These can be analysed as follows:

	31 Aug. 2005 R.O' 000	31 Aug. 2004 R.O' 000	Change %
Bank loans	2,177	2,802	(22)
Overdrafts	-	-	-
	2,177	2,802	(22)
Less: Current maturities of bank loans and Bank overdrafts.	(625)	(625)	-
Long term element and bank loans	1,552	2,177	(29)

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 rate ranging between 4.45% and 10% per annum.

The Bank overdraft facilities bear interest at 4.45% per annum and are renewable on 1st Dec. 2005

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

The maturity of the bank loans.

	31 Aug. 2005 R.O' 000	31 Aug. 2004 R.O' 000	Change %
Due within 1 year	625	625	-
Due after more than 1 year	1,552	2,177	(29)
	2,177	2,802	(22)

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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 Aug., 2005		31 Aug., 2004	
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 Aug., 2005		31 Aug., 2004	
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 Aug. 2005 R.O' 000	Market value 31 Aug. 2004 R.O' 000	Book value 31 Aug. 2005 R.O' 000	Book value 31 Aug. 2004 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	N/A
Term deposits	N/A	N/A	N/A	N/A	N/A
Unquoted foreign shares	N/A	N/A	N/A	N/A	N/A
Other	N/A	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 Aug., 2005

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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 Aug. 2005 R.O' 000	31 Aug. 2004 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 Aug., 2005.

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 Aug., 2005				
MSM Unquoted securities	N/A		N/A	N/A
Foreign unquoted securities *	N/A		N/A	N/A
Totals as of 31 Aug. 2005	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 Aug. 2005 R.O' 000	31 Aug. 2004 R.O' 000	Change %
Cost of sales – Catering	1,035	1,072	(4)
Other Services & insurance	133	124	7
	1,168	1,196	(2)

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 Aug. 2005 R.O' 000	31 Aug. 2004 R.O' 000	Change %
Cost of Sales –			
Catering and Supplies Co. LLC. & Marketing and Services Co. LLC	1,058	1,092	(3)
Other services –			
Catering and Supplies Co. LLC. & Risk Management Services LLC	110	104	6
	1,168	1,196	(2)

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 Aug. 2005 R.O' 000	31 Aug. 2004 R.O' 000	Change %
Cost of utilities - Catering and Supplies Co. LLC.	-	6	(100)
Provisions	-	-	-
Write-offs	-	-	-
Receivable from related parties	-	6	(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	11	-	-	11
Provided during the period	6	-	-	6
(Released) during the period	-	-	-	-
(Written off) during the period	-	-	-	-
Provisions Balance as of 31 Aug., 2005	17	-	-	17

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	1,097	-	-	1,097
Provisions Balance as of 31 Aug., 2005	(17)	-	-	(17)
Book value of Assets as of 31 Aug., 2005	1,080	-	-	1,080

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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 Aug., 2005 (Nos.)	31 Aug., 2004 (Nos.)
Common Share Holders		
Alawi Enterprises	1,166,667	1,166,667
Catering and Supplies Co. LLC	1,166,667	1,166,667
Chatron Commercial Corporation	719,466	719,466
Preferred Share Holders:	-	-