

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 2005.

Financial Results

We are pleased to append below the financial information on operations for the year ended on 30, November 2005 in comparison to previous year. The financial performance of the company is pleasing considering the business environment prevailed during the year.

Key Financial Indicators	Year ended 30 th Nov. 2005	Year ended 30 th Nov. 2004
	R.O. 000s	R.O. 000s
Turnover	2,917	2,908
Gross Profit	963	978
Net profit after Tax	683	646
Basic earning per share in R.O.	0.117	0.111

The net profit after tax for 2005 is recorded RO 682,818 compared to RO 646,383 for 2004 registering a growth of 5.6%. The net profit ratio now stands to 23% against 22% in the last year and this has been achieved through enhanced operational and cost control measures pursued by the company effectively.

The company's financial performance largely depends on PDO's activities at the sites as well as presence of employees of sub-contractors. The achieved occupancy level in 2005 was 82% and 81% against 74% and 91% in the last year, in Fahud and Nimr facilities respectively. Company's performance on the basis of such occupancy levels has been very encouraging. Occupancy level has significantly improved towards the end the financial year under review and this will be reflected positively on the financial performance of the ensuing financial year.

Overall, the fundamentals of your company's financial condition remain positive with healthy cash flows and a low debt equity ratio. The debt equity ratio as at the end of the financial year was 0.27:1 (previous year 0.37:1). This position will enable the company to expand its horizon of operations capitalising on its leveraging potential.

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 30th November 2005, the issued and paid-up share capital consisted of 5,833,333 shares of RO 1 each.

Dividend

The Board of Directors is pleased to recommend a dividend of 6% (RO 0.060 per equity share) for the year 2005, subject to approval of shareholders. This is consistent with company's policy of rewarding shareholders by distributing 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.

Operations

Your company continues to pursue efforts to consistently improve the business both in terms of its volume and quality. There is high emphasis on acquiring new customers to our facilities on which the company has been successful, showing significant improvement in level of occupancy towards the end of this financial year. This will result in improved performance in the future thus enhancing shareholders' value further. Meantime, the company has also initiated a process to develop business in to other related areas with a view to achieve faster growth in the near future.

Internal Control system

The Company has continued the proper implementation and up gradation 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 by the audit committee in their 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 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 after such repayments, the liability at end of the financial year under review stands at RO 2,020,474. The loan being denominated in Omani Rial does not carry an exchange risk.

Directors' Responsibility Statement

The Board of Directors of the company hereby confirms that:

- In the preparation of the Annual Accounts, the applicable accounting standards have been followed.

- 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.

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. Our core business being hospitality services, which by its nature attracts high risks of Hygiene and HSE, are being provided by the service provider as per terms of an agreement dated 20th July, 1999 who have a substantial insurance policy in force covering the risk for public liability including product liability. Additionally, the company holds appropriate 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. KPMG International, Chartered Accountants, Muscat branch, retire at the ensuing Annual General Meeting after four years continuous services and are not eligible for immediate re-appointment. On behalf of the Board, I thank KPMG for the high level of professional service and support provided to the Company during their tenure as auditors.

It is proposed to appoint Moore Stephens, Chartered Accountants, Muscat branch a statutory auditors of the Company in place of retiring auditors M/s KPMG International, Chartered Accountants.

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

Commitment

Once again, the Board of Directors and Management Team would re-affirm 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 honour 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 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

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 30th November 2005 and Management's views on future outlook.

Industry Structure and Development

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 1st 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's facilities at Fahud and Nimr respectively. It is a specialised trade that is subject to high professional and quality standards, and involves a considerable amount of effort and expertise to make 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 as suitable opportunities arise.

Opportunities and Threats

The Board of Directors and the Management continue to monitor growing Omani market sectors: commercial, industrial and financial, and would avail any opportunity that is attractive and would yield additional benefits to the company. Our prime area of activity now is hospitality services to the oil and gas field sectors but this would not prejudice the company against entering or considering other diverse business activities.

The PACs would now gradually replace all the temporary camps at the two interior locations, Fahud and Nimr. Hence, the competition to SHC would come from the adjacent PACs at Fahud and Nimr, which are being operated by another Omani group company, having undertakings similar to ours with PDO.

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 regards to segment information.

Outlook

The business is progressing well, having to witness ups and downs in the occupancy levels, which influence the profitability. Recently, we have been awarded a major business contract from an international company for the next five years period. This has led to a high level of occupancies at our PAC Fahud resulting in an incremental turnover and enhanced profitability.

Although, SHC's business future seems promising within the current scope of our contract and as long as oil & gas related activities continue at PAC locations, the Board of Directors would remain alert to opportunities to enhance its market share and establish additional similar or new attractive business ventures as and when circumstances allow, wherever applicable.

Through commitment and professionalized services, SHC have won the heart of its business community and today the management can proudly state that the company has established its mission of 'Building an Oasis in the Desert'.

The ability to respond comprehensively to customer needs will be the winning criterion. Low operating costs, efficiencies, distinctive quality will determine the winners! The company is always in the look out for improvement initiatives.

Risks and Concerns

The market conditions continue to be tough and debt recovery process has become a daunting task. A poor liquidity arising out of long receivables could affect the company's reputation. There are few customers who often delay for settlements despite our dedicated efforts. Such problems are being dealt cautiously without affecting our business adversely. In addition, the company's focus on selective customers has produced better recovery although debt days yet to be further down to compare with last year's level.

The success of SHC's business depends on providing excellent services and achievement of maximum level of occupancy. Therefore, the major factor is occupancy, which is dependant on the initiative of PDO to move more contractors who are residing and operating in its vicinity to PACs. As of now, both PACs are well occupied with contractor's staffs and are expected to continue the same level or better for the coming year as well.

Another risk element is that the commercial life is dependant on the period for which oil and related activities would continue at the locations of the PACs. In this instance, the Board of Directors believes that, based on the available data, the oil and gas related activities, being the major national income sector, would continue at the important PAC locations, thus enabling continued operation of both of our PACs operations.

The PACs have been constructed on plots of land made available by PDO free of cost as governed by our contract terms and we have not obtained any long term lease for the land from the 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.

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 internal controls in place are appropriate and have operated effectively during the year.

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	Margin %
Net profit for FY 2004	646,383	22.2
(Loss)/gain in net profit amount and margin on account of:		
Sales	8,767	
Direct costs	(25,973)	(0.8)
Administrative and general expenses	2,151	0.1
Depreciation	1,544	0.1
Financing costs	62,415	2.2
Income Tax	(12,469)	(0.4)
Net profit FY 2005	682,818	23.4

The year witnessed a better level of occupancy at PAC Fahud. Average occupancy recorded for the financial year 2005 was 82% (2004 - 74%) and 81% (2004 - 91%) for Fahud and Nimr respectively.

The company continues to enjoy adequate liquidity. At the end of 2005, cash and bank balances accounted for 2.8 per cent of the Company's total assets and this is considered as adequate to meet with our needs.

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. The performance of SHC is and has been, we believe, to the full satisfaction of our clients and customers. We consider this as a great achievement of your 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 five years of operations successfully without lost time incidents. This includes over 3.8 million man hours worked and 1,584,433 kilometres driven safely. In appreciation to this remarkable achievement, PDO presented a shield to the company recently.

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.

Report to the Shareholders of Sahara Hospitality Co SAOG (“the Company”) of Factual Findings in connection with the Corporate Governance Report of the Company and application of the Corporate Governance practices in accordance with Capital Market Authority Code of Corporate Governance

We have performed the procedures prescribed in the Capital Market Authority (“CMA”) Circular No. 16/2003 dated 29 December 2003 with respect to the Corporate Governance Report of the Company (“the Report”) and its application of the Corporate Governance practices in accordance with the CMA Code of Corporate Governance (“the Code”) issued under Circular No. 11/2002 dated 3 June 2002, as amended. The Report is set out on pages 1 to 8.

Our engagement was undertaken in accordance with the International Standards on Auditing applicable to agreed-upon procedures engagements. The procedures were performed solely to assist you in evaluating the Report.

We found the Report reflects, in all material respects, the Company’s application of the provisions of the Code and is free from any material misrepresentation.

Because the above procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing, we do not express any assurance on the Company’s Corporate Governance Report. Had we performed additional procedures or had we performed an audit or review of this Report in accordance with International Standards on Auditing other matters might have come to our attention that would have been reported to you.

This report is solely for the purpose set forth in the first paragraph above, and for inclusion, with the Report, in the Company’s annual report, and is not to be used for any other purpose. This report relates only to the Report included in the Company’s annual report for the year ended 30 November 2005 and does not extend to the financial statements or any other reports of Sahara Hospitality Co. SAOG, taken as a whole.

1 February 2006

KPMG

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 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 representing a suitable mix of professionalism knowledge and experience. Of these, two are executive Directors and others non-executive/independent Directors.

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

<i>Sr. No.</i>	<i>Name</i>	<i>Position/ Category</i>	<i>Last AGM held on 20.03.05</i>	<i>Board meetings proxy/attended</i>	<i>Other Director -ship</i>
1.	Talal Bin Qais Al Zawawi	Chairman/ Independent Director	Absent	4	-
2.	Abdulmunim Bin Qais Al Zawawi	Non-Executive/ Independent Director	Absent	4	-
3.	Ramesh Kumar	Non-Executive/ Independent Director	Present	4	-

4.	Sasi Madathil	Non-Executive/ Independent Director	Present	4	-
5.	Raymond Bejjani	Executive Director	Present	4	-
6.	K.S. Visruthan	Executive Director	Present	4	-
7.	Yaseen Hassan Abdullatif	Non-Executive/ Independent Director	Present	4	-
8.	K.T. Rajagopalan	Non-Executive/ Independent Director	Present	4	-

2.3 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

2.4 The Board meets generally once in a quarter 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. Four Meetings of the Board of Directors were held during the financial year ended 30th November 2005 as under:

Dates of the Meetings:

- 14 February, 2005
- 29 March, 2005
- 28 June, 2005
- 26 September, 2005

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 accurate, timely and proper disclosures and transparency, integrity and quality of financial 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 22nd 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 17th October 2004, 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:

<i>Name of the Member</i>	<i>Position</i>	<i>Category</i>	<i>Attendance during the year</i>
Yaseen Hassan Abdullatif	Chairman	Non-Executive/ Independent Director	4
Ramesh Kumar	Member	Non-executive/ Independent Director	3
K.T.Rajgopalan	Member	Non-Executive Independent Director	2
Sasi Madathil	Member	Non-Executive Independent Director	4

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

During the financial year 2004-2005 under review, four Audit Committee Meetings were held on 6th February 2005, 23rd March 2005, 15th June 2005, and 26th September 2005.

The Internal Auditor acted as the Secretary of the Audit Committee in all four 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 Meeting are placed before the Board of Directors and discussed in the Board Meeting.

4. Process of Nomination of Directors

The term of office of the first Board of Directors were completed after three years period on 30th September 2004 and a new Board of Directors were elected by the shareholders general meeting which was held on 28 September 2004. The same members are being continued in 2005. 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, 3% of the net annual profits after deduction of legal reserve (RO 18,436), as remuneration to the Directors for the financial year ended 2005.

With regard to officers, all management functions are provided by the service provider (founder shareholder) by virtue of an agreement dated 24th July, 1999 forming basis of the award of the contract by Petroleum Development Oman. Salaries and related costs charged for the year, under review, are as follows:

	R.O
Board Secretarial service	3,000
Internal audit service	1,200
Lump sum for various services	25,272
Total:	29,472

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, we do not have direct employees and hence disclosures under this requirement on service contracts, notice period and severance fees are not applicable.

6. Details of Non-compliance by the Company

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

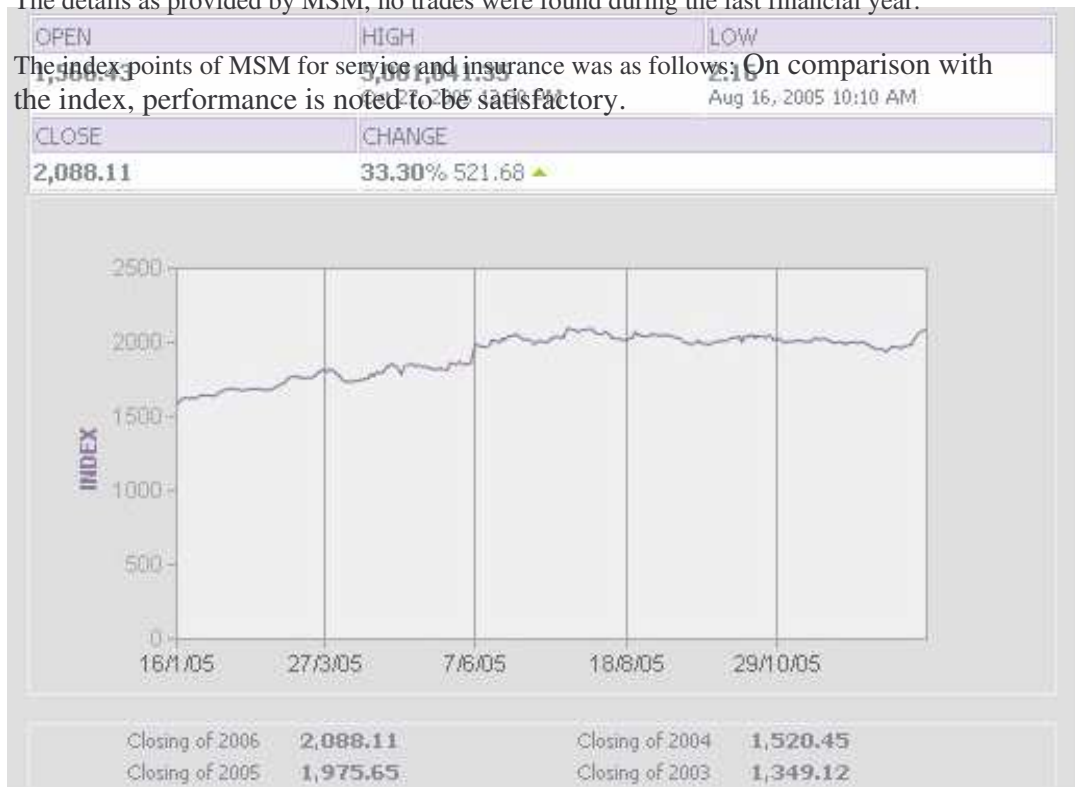
7. Means of communication with the shareholders & investors

- 7.1 As required by law, the Company has been publishing annual audited and quarterly un-audited 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.
- 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 details as provided by MSM, no trades were found during the last financial year.

- 8.2 The index points of MSM for service and insurance was as follows: On comparison with the index, performance is noted to be satisfactory.



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 28 shareholders.

8.4 There were no outstanding GDRs or ADRs or Warrants.

9. Specific areas of non-compliance with the provisions of corporate governance and reasons

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.

10. Professional profile of the statutory auditor

KPMG has been associated with the company since its formation and were the appointed auditors from August, 1999 till our financial year ended on 30th November, 2005. They were also the appointed Accountants for the Projected Financial Information (“PFI”) issued prior to offering shares of the company to the public.

The following have been abstracted from their professional profile:

“KPMG International

KPMG is the global network of professional services firms whose aim is to turn understanding of information, industries and business trends into value for our clients. With more than 100,000 people worldwide, KPMG member firms provide audit, assurance, tax and financial advisory services from more than 750 cities in 152 countries.

Middle East and South Asia

KPMG operates through a regional structure and dedicated regional management teams which enable our network of professional talent, our technologies and our products and solutions to come together to meet client needs.

Our core, national resources for multination service teams can be complemented by specialists from our regional Centres of Excellence. Our cross border teams utilise diverse skills developed from educational backgrounds in business administration, economics, accountancy, law, engineering, computer sciences and other disciplines.

The business unit numbers more than 3,000 professionals based in the many principal cities including Oman and other GCC, Arab and Asian countries.

Industry Focus

Fundamental to KPMG’s approach is our focus on industry sectors. We believe that we can add value for our clients if we truly understand their industry and this is why we invest in continuously improving our knowledge of the industries we serve.

Core services

KPMG is a leading provider of audit, assurance, tax and financial advisory services. With a global approach to service delivery, KPMG responds to client’s complex business challenges with consistent methodologies and common tools across industry sectors and national boundaries.

Clients

KPMG is committed to being the business advisor of choice to the world's most admired organisations. Our experience in dealing with global clients provides the knowledge which adds value to all our client services.”

11. Any other important aspect

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 2006 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.

Sahara Hospitality Co. (S.A.O.G.)

Financial statements

30 November 2005

Registered office:

P.O. Box 311
Muscat
Postal Code 113
Sultanate of Oman

Principal place of business:

Permanent Accommodations
for Contractors of PDO (PACs)
Fahud and Nimr
Sultanate of Oman

Sahara Hospitality Co. (S.A.O.G.)

Financial statements

30 November 2005

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REPORT OF THE AUDITORS TO THE SHAREHOLDERS OF SAHARA HOSPITALITY COMPANY SAOG

We have audited the balance sheet of Sahara Hospitality Company SAOG (“the Company”) as of 30 November 2005 and the related statements of income, changes in equity and cash flows for the year then ended, set out on pages 2 to 14.

Respective responsibilities of the Board of Directors and Auditors

These financial statements are the responsibility of the Company’s Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing promulgated by the International Federation of Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Sahara Hospitality Company SAOG at 30 November 2005 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the disclosure requirements of the Capital Market Authority and comply, in all material respects, with the Commercial Companies Law of 1974, as amended.

1 February 2006

KPMG

Sahara Hospitality Co. (S.A.O.G.)

Income statement

For the year ended 30 November

	Note	2005 RO	2004 RO
Revenue		2,917,206	2,908,439
Cost of sales	3 & 11	(1,954,467)	(1,930,038)
Gross profit		962,739	978,401
Administrative and general expenses	3	(71,325)	(73,476)
Profit from operations		891,414	904,925
Financing costs	7 & 11	(112,074)	(174,489)
Profit for the year before tax		779,340	730,436
Income tax expense	8	(96,522)	(84,053)
Profit for the year after tax		682,818	646,383
Basic earnings per share	14	0.117	0.111
Gross profit margin		33%	34%
Net profit margin		23%	22%

The notes on pages 6 to 14 form an integral part of these financial statements.

The report of the Auditors is set forth on page 1.

Sahara Hospitality Co. (S.A.O.G.)

Balance sheet

As at 30 November

	Note	2005 RO	2004 RO
Assets:			
Property, plant and equipment	4	8,656,111	9,086,712
Total non-current assets		8,656,111	9,086,712
Inventories		4,967	5,265
Trade and other receivables	5	1,201,658	1,015,789
Cash at bank		283,513	259,726
Total current assets		1,490,138	1,280,780
Total assets		10,146,249	10,367,492
Equity and Liabilities:			
Share capital	9	5,833,333	5,833,333
Legal reserve	10	264,895	196,613
Proposed dividend	9	350,000	350,000
Accumulated profits		924,087	677,987
Total equity		7,372,315	7,057,933
Liabilities			
Long term loan	7 & 11	1,395,474	2,020,474
Deferred tax liability	8	77,391	74,982
Total non current liabilities		1,472,865	2,095,456
Current maturity of long-term loan	7 & 11	625,000	625,000
Trade and other payables	6	59,165	65,940
Income tax liability	8	96,208	82,196
Amounts due to related parties	11	520,696	440,967
Total current liabilities		1,301,069	1,214,103
Total equity and liabilities		10,146,249	10,367,492
Net assets		7,372,315	7,057,933
Total liabilities		2,773,934	3,309,559
Net assets per share		1.264	1.210
Current ratio		1.145	1.055

The notes on pages 6 to 14 form an integral part of these financial statements.

These financial statements were authorized for issue and approved by the Board of Directors on 1st Feb 2006 and were signed on their behalf by:

Chairman

Director

The report of the Auditors is set forth on page 1.

Sahara Hospitality Co. (S.A.O.G.)

Statement of changes in equity

For the year ended 30 November

	<u>Share capital</u> RO	<u>Legal reserve</u> RO	<u>Proposed dividend</u> RO	<u>Accumulated profits</u> RO	<u>Total</u> RO
1 December 2003	5,833,333	131,975	350,000	463,694	6,779,002
Profit for the year	-	-	-	646,383	646,383
Transfers	-	64,638	350,000	(414,638)	-
Dividend paid	-	-	(350,000)	-	(350,000)
Directors' remuneration	-	-	-	(17,452)	(17,452)
30 November 2004	5,833,333	196,613	350,000	677,987	7,057,933
Profit for the year	-	-	-	682,818	682,818
Transfer	-	68,282	350,000	(418,282)	-
Dividend paid	-	-	(350,000)	-	(350,000)
Directors' remuneration	-	-	-	(18,436)	(18,436)
30 November 2005	5,833,333	264,895	350,000	924,087	7,372,315

The notes on pages 6 to 14 form an integral part of these financial statements.

The report of the Auditors is set forth on page 1.

Sahara Hospitality Co. (S.A.O.G.)

Cash flow statement

For the year ended 30 November

	Note	2005 RO	2004 RO
Operating activities			
Cash receipts from customers and cash sales		2,734,108	3,349,637
Cash paid to suppliers and employees		(1,533,151)	(1,908,343)
Cash generated from operations		1,200,957	1,441,294
Interest and bank charges paid	7	(112,074)	(174,489)
Income tax paid	8	(80,101)	(77,725)
Cash flows from operating activities		1,008,782	1,189,080
Investing activities			
Purchase of property, plant and equipment	4	(9,995)	-
Cash flows from investing activities		(9,995)	-
Financing Activities			
Loan repayment		(625,000)	(625,000)
Payment of dividends		(350,000)	(350,000)
Cash flow from financing activities		(975,000)	(975,000)
Net increase in cash and cash equivalents		23,787	214,080
Cash and cash equivalents at the beginning of the year		259,726	45,646
Cash and cash equivalents at the end of the year		283,513	259,726

The notes on pages 6 to 14 form an integral part of these financial statements

The report of the Auditors is set forth on page 1.

Sahara Hospitality Co. (S.A.O.G.)

Notes

(forming part of the financial statements)

1 Legal status and principal activities

Sahara Hospitality Company SAOC (“The Company”) was formed as a closed joint stock company on 1 September 1999. The Company was subsequently registered as a public joint stock company (“SAOG”) on 24 December 2001. The principal activity of the Company is to build, own and operate permanent accommodation for contractors of Petroleum Development Oman LLC (“PDO”) in Fahud and Nimr (“the PACs”). PDO is committed under an agreement with the Company dated 30 May 1998 to provide land on which the PACs are situated free of cost. The Company commenced commercial operations from 1 September 2000.

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 Principal accounting policies

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as promulgated by the International Accounting Standards Board (“IASB”) and the disclosure requirements of the Capital Market Authority and comply with the requirements of the Commercial Companies Law of 1974, as amended.

(b) Basis of preparation

These financial statements have been prepared on the historical cost basis. The accounting policies applied are consistent with those used in the previous year.

The IASB have revised IAS 32 and IAS 39; and issued IFRS 7 ‘financial instruments: disclosures’. IFRS 7, which is effective for accounting periods beginning on or after 1 January 2007, together with the revisions to IAS 32 and IAS 39 which are effective for accounting periods beginning on or after 1 January 2005, are not expected by the Board of Directors to impact significantly on the Company’s financial position and results of operations presented in future financial statements.

The preparation of financial statements in conformity with IFRSs requires the Directors to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future period if the revision affects both current and future periods.

Sahara Hospitality Co. (S.A.O.G.)

Notes

(forming part of the financial statements)

2 Principal accounting policies (continued)

(c) *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.

(d) *Depreciation*

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>
Building	30
Equipment	15
Furniture and fixtures	7
Motor vehicles	5

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

(e) *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.

(f) *Trade and other receivables*

Trade and other receivables are stated at amortised cost less impairment losses if any.

(g) *Cash and cash equivalents*

Cash and cash equivalents comprise cash at bank.

(h) *Impairment*

The carrying amounts of the Company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, that asset's recoverable amount is estimated. An impairment loss is recognised in the income statement whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

The recoverable amount of the Company's receivables is calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in the asset. Receivables with a short duration are not discounted.

Sahara Hospitality Co. (S.A.O.G.)

Notes

(forming part of the financial statements)

2 Principal accounting policies (continued)

(h) *Impairment (continued)*

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(i) *Share capital - dividends*

Dividends are recognized as a liability in the year in which they are declared.

(j) *Interest-bearing borrowings.*

Interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognized in the income statement over the period of the borrowings on an effective interest basis.

(k) *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.

(l) *Trade and other payables*

Trade and other payables are stated at amortised cost.

(m) *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. No revenue is recognized if there are significant uncertainties regarding the recovery of consideration due or associated costs.

(n) *Financing costs*

Financing costs comprise interest payable on borrowings calculated using the effective interest rate method.

(o) *Income tax*

Income tax on the profit for the year comprises current and deferred tax. Income tax is recognized in the income statement, except to the extent that it relates to items recognized directly to equity in which case it is recognised in equity.

Sahara Hospitality Co. (S.A.O.G.)

Notes

(forming part of the financial statements)

2 Principal accounting policies (continued)

(o) Income tax (continued)

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is calculated using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(p) 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.

3 Expenses	2005 RO	2004 RO
<i>Cost of sales:</i>		
Cost of provision of services by CSC (see notes 1 and 11)	1,411,628	1,403,310
Depreciation	440,596	442,140
Other	102,243	84,588
	<u>1,954,467</u>	<u>1,930,038</u>
<i>Administrative and general expenses:</i>		
Salaries and related expenses	29,472	29,643
Insurance	7,897	7,112
Other	33,956	36,721
	<u>71,325</u>	<u>73,476</u>

Sahara Hospitality Co. (S.A.O.G.)

Notes (forming part of the financial statements)

4 Property, plant and equipment

	<u>Buildings</u> RO	<u>Equipment</u> RO	<u>Furniture and fixtures</u> RO	<u>Motor vehicles</u> RO	<u>Total</u> RO
<i>Cost</i>					
1 December 2004	10,006,734	395,057	526,938	34,840	10,963,569
Additions	-	9,995	-	-	9,995
30 November 2005	10,006,734	405,052	526,938	34,840	10,973,564
<i>Depreciation</i>					
1 December 2004	1,417,585	111,120	318,538	29,614	1,876,857
Charge for the year	333,558	26,535	75,277	5,226	440,596
30 November 2005	1,751,143	137,655	393,815	34,840	2,317,453
<i>Carrying value</i>					
30 November 2005	8,255,591	267,397	133,123	-	8,656,111
30 November 2004	8,589,149	283,937	208,400	5,226	9,086,712

5 Trade and other receivables

	2005 RO	2004 RO
Trade receivables	1,208,105	1,025,007
Less: provision for doubtful debts	(11,022)	(11,022)
	1,197,083	1,013,985
Prepayments	4,575	1,804
	1,201,658	1,015,789

Trade receivables are assigned as security for the Company's borrowings (see note 7).

6 Trade and other payables

	2005 RO	2004 RO
Trade and other payables	21,875	39,179
Accruals	37,290	26,761
	59,165	65,940

Other payables include unclaimed dividend in the amount of RO Nil (2004: Nil). The Company in accordance with Capital Markets Authority (CMA) regulations transfers dividends unclaimed for a period of more than 6 months from the date they became due to the CMA's investor fund. Such unclaimed dividends transferred during the year amounted to RO 252 (2004: Nil). Eligible shareholders who have not received their dividends are entitled to claim them from CMA.

7	Long-term loan	2005	2004
		RO	RO
	Long term maturity of term loan	1,395,474	2,020,474
	Current maturity of term loan	625,000	625,000
		<u>2,020,474</u>	<u>2,645,474</u>

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Sahara Hospitality Co. (S.A.O.G.)

Notes

(forming part of the financial statements)

7 Long-term loan (continued)

Repayment schedule:

	2005	2004
	RO	RO
Less than 1 year	625,000	625,000
1-2 years	625,000	625,000
3-5 years	770,474	1,395,474
	<u>2,020,474</u>	<u>2,645,474</u>

The Company has availed a long-term loan in the amount of RO 5 million from a commercial bank (a related party). This loan is repayable in 32 equal quarterly installments, commencing 1 April 2001. The annual effective rate of interest on the loan is 5.8% (2004: 6.5%).

The borrowings of the Company are secured by:

- Assignment of trade receivables;
- Assignment of insurance policies of the Company; and
- Undertaking from the Company that land will not be mortgaged other than to the lending bank.

8 Income tax expense

	2005	2004
	RO	RO
<i>Recognised in the income statement</i>		
Current tax expense:		
Current year	85,870	82,196
Under provided in respect of prior years	8,243	-
	<u>94,113</u>	<u>82,196</u>
Deferred tax expense:		
Origination and reversal of temporary differences	2,409	1,857
Total income tax expense in income statement	<u>96,522</u>	<u>84,053</u>

The Company is subject to income tax at the rate of 12% of taxable income in excess of RO 30,000.

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Sahara Hospitality Co. (S.A.O.G.)

Notes

(forming part of the financial statements)

8 Income tax expense (continued)

Reconciliation of income tax expense

The following is a reconciliation of income taxes calculated based on accounting profit before tax at the applicable tax rate with the income tax expense:

	2005	2004
	RO	RO
Profit before tax	779,340	730,436
Income tax as per rates mentioned above	89,921	84,053
Other deductible expenses	(2,096)	-
Non-deductible expenses	454	-
Under provided in respect of prior years	8,243	-
Income tax expense	96,522	84,053

Status of tax assessments

The income tax assessments of the Company for the years 2000 to 2003 have been completed by the Secretariat General for Taxation at the Ministry of Finance. The Board of Directors are of the opinion that additional taxes, which may be assessed in respect of 2004 and 2005, if any, would not be material to the Company's financial position as at 30 November 2005.

Deferred tax asset (liability)

Recognised deferred tax assets and liabilities are attributable to the following items:

	1 December 2004 RO	Recognised in income statement RO	30 November 2005 RO
Property, plant and equipment	(76,304)	(2,409)	(78,713)
Provision for doubtful debts	1,322	-	1,322
Net deferred tax liability	(74,982)	(2,409)	(77,391)

9 Share Capital

Share capital

The Company's authorised share capital consists of 10,000,000 shares of RO 1 each. At 30 November 2005 and 2004, 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:

2005	2004
%	%

Alawi Enterprises LLC	20.00	20.00
Catering and Supplies LLC	20.00	20.00
Chatron Commercial Corporation	12.33	12.33

Sahara Hospitality Co. (S.A.O.G.)

Notes

(forming part of the financial statements)

9 Share Capital (continued)

Proposed dividend

The Board of Directors have proposed a dividend of RO 0.06 per share for the year ended 30 November 2005 (2004: RO 0.06) totaling RO RO 350,000 (2004: RO 350,000).

10 Legal reserve

Article 106 of the Commercial Companies Law of 1974 requires that 10% of a company's net profit 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. For the year ended 30 November 2005, the amount transferred was RO 68,282 (2003: RO 64,368).

11 Related party transactions

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 34,000 (2004: RO 29,000). 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, related party transactions were as follows:

	2005 RO'000	2004 RO'000
<i>Purchases and sales and services provided from/to entities related to:</i>		
Shareholders holding 10% or more interest in the Company:		
Services rendered and recharged (see notes 1 and 3)	1,412	1,403
Purchases	30	25
Other	91	77
Shareholders not holding 10% or more interest in the Company:		
Bank interest and other charges	112	175

Amounts due to/from related parties were as follows:

Due to:		
Shareholders holding 10% or more interest in the Company	521	441

Furthermore, at 30 November 2005 the Company has: bank deposits of approximately RO 270,000 (2004 : RO 254,000) with; a performance guarantee of RO 100,000 (2004: RO 100,000) issued by; and bank borrowings of RO 2,020,474 (2004: RO 2,645,474) from, a related party bank.

Sahara Hospitality Co. (S.A.O.G.)

Notes

(forming part of the financial statements)

12 Financial instruments

Exposure to credit and interest rate risk arises in the normal course of the Company's business.

Credit risk

The Company has a credit policy in place and exposure to credit risk is monitored on an on-going basis. Credit evaluations are performed on all customers requiring credit.

Cash is placed with a locally established commercial bank. the Company does not obtain collateral in respect of financial assets. At the balance sheet date, the Board of Directors consider that there was no significant concentration of credit risk.

Interest rate risk

The Company manages its interest rate risk by ensuring that long-term borrowings are on a fixed rate basis. The applicable interest rates and repayment terms of the Company's long-term loan are disclosed in note 7 to the financial statements.

Fair value

The Board of Directors believes that the fair values of financial assets and liabilities are not significantly different from their carrying amounts at the balance sheet date.

13 Contingencies

	2005 RO	2004 RO
Performance guarantee	<u>100,000</u>	<u>100,000</u>

14 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:

	2005 RO	2004 RO
Net profit for the year	<u>682,818</u>	<u>646,383</u>
Weighted average number of ordinary shares at 30 November	<u>5,833,333</u>	<u>5,833,333</u>

Basic earnings per share (RO)

0.117

0.111

15

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.