

## DIRECTORS' REPORT

On behalf of the Board of Directors, it is my pleasure to present the Annual Report on the business and operations of Sahara Hospitality Company S.A.O.G. (hereinafter referred to as "SHC") for the financial year ended November 30, 2012.

### A. FINANCIAL RESULTS

The financial results achieved during the financial year ended November 30, 2012, are as follows:

Key Financial Indicators	Year ended November 30, 2012 R.O. 000's	Year ended November 30, 2011 R.O. 000's
Turnover	10,821	7,608
Net Profit after Tax	2,001	1,731
Basic earnings per share in R.O.	0.343	0.297

The company has achieved a Net Profit after Tax of RO 2,000,733 in the current financial year ending 30th November 2012. This is the highest profit recorded since inception and represents a growth of 15.55% as compared to the net profit of RO 1,731,540 in the previous year.

As advised earlier, the company's business performance depends primarily on PDO activities and presence of contractors' staff where our PACs are located. During the year under review, we are pleased to report that:

- Occupancy levels continued to be excellent at Fahud PAC achieving an average rate of 97.08% whilst Nimr PAC average rate for the year was at 70.57%.
- The net asset per share has improved from RO 2.046 in 2011 to RO 2.249 in 2012 financial year.
- The basic earnings per share increased from RO 0.297 in 2011 to RO 0.343 in 2012.

### B. SHARES OF THE COMPANY

The Company's authorised share capital remains unchanged at RO 10,000,000; each share having a nominal value of RO 1. The issued and paid-up share capital on November 30, 2012 consisted of 5,833,333 shares of RO 1 each.

### C. DIVIDEND

The Board of Directors are pleased to recommend distribution of cash dividend of 15% on the paid up capital subject to shareholders approval at the Annual General Meeting (AGM). This recommendation is based on good financial results and in accordance with the prudent payout policy adopted by the Board of Directors that aim to serve shareholders' long-term interest, strengthen company's financial position, expand its activities and avail appropriate investment opportunities. Such dividend, if approved, shall be paid to those members whose names appear in the Register of Members on the date of the ensuing AGM. The following table shows cash dividend paid during the last five years:

Financial Year	Percentage	(RO) Per share
2007	10%	0.100
2008	11%	0.110
2009	13%	0.130
2010	14%	0.140
2011	14%	0.140

#### **D. COMPETITIVE POSITIONS**

The Permanent Accommodations for Contractors ("PAC") are gradually replacing the temporary camps at the oil & gas fields where your company has active operations. The past trend and the healthy occupancy levels achieved during the current year as reported earlier indicates a reasonably comfortable position the company is enjoying.

#### **E. DEGREE OF RELIANCE ON SERVICE PROVIDER / CLIENTS**

SHC has entered into a service agreement with Catering and Supplies Company LLC ("CSC") for the provision of all required services at the PACs. CSC has good track record and the privilege of being a PDO contractor since 1969 providing catering, accommodation and cleaning services continuously for more than four decades and continues to provide successfully similar services to PDO and other companies at the interior oilfields of Oman. Accordingly and based on the satisfactory performance for the last 12 years of operations, SHC considers the services being provided by CSC to be outstanding in terms of both quality and reliability.

With regard to clients reliability, all PAC residents are PDO contactors' staff and their presence is inevitable in view of PDO's oilfield activities in the region, therefore and barring unforeseen circumstances, SHC is confident of its business continuity with current clients and such business is expected to continue in the near future without any interruption.

#### **F. FUTURE PLANS**

The outlook for the company is positive in view of management commitment to pursue strategic initiative that balances risk and reward.

Your Company and the Board, as in the past, would like to expand its capacity at Fahud if the opportunity arise to construct additional rooms to meet current and future requirements. The renovation and construction works at the recently awarded PAC Rima contract are in progress and the additional facilities will strengthen company's performance and enhance its market share.

There are no other major changes expected in the current year on the financing structure of the company such as capital increase by issue of new shares or issue of bonds.

#### **G. INTERNAL CONTROL SYSTEM**

The Company has continued the proper implementation and up gradation of appropriate policies and procedures with adequate controls. The Audit Committee comprising of Company's Directors oversee the internal control systems whereby policies and procedures are reviewed at regular intervals through audit committee meetings. The Board of Directors has reviewed internal control systems and is of the opinion that such systems are adequate for company's business and were satisfactorily implemented during the year.

#### **H. SECURED LOANS**

The company has obtained long-term loans from a local commercial bank to finance part of the capital cost of Fahud and Nimr PACs extensions. As at the end of the current financial year, total balance in loan account stands at RO 11,078,372 with a healthy debt-equity ratio of 0.85:1.

## **I. DIRECTORS' RESPONSIBILITY STATEMENT**

The Board of Directors hereby confirms that:

- The Directors 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 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 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 except that disclosed under the MD&A in page 2, paragraph 1&2.
- There has not been any other financial impact on company's financial results on account of unusual transactions during the financial year.
- The company has not enjoyed any sort of government protection or concession during the period under review.
- The company has not made or grants any donation to any party during the financial year.

## **J. GOING CONCERN**

The Board believes that the financial position and expected future performance will enable the company to continue its operational existence.

## **K. INSURANCE**

The company's properties are adequately insured in line with business requirements. However, in view of the business being hospitality services that involves Hygiene and HSE high risks, appropriate insurance coverage is being provided by the service provider in accordance with signed agreement between both parties dated 24th July, 1999. Furthermore the Company has insured Directors/Officers liabilities covering incidents and contingencies.

## **L. THE MANAGEMENT DISCUSSION AND ANALYSIS (MD&A)**

The Management Discussion and Analysis ("MD&A") 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 are attached to the Directors' Report as Annexure I.

## **M. CORPORATE GOVERNANCE**

Your Company has been adhering to the principles of good Corporate Governance over the years and 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 and are pleased to state that 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 II

## **N. AUDITOR'S REPORT**

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

**O. AUDITORS**

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

Further to various quotations obtained, members are requested to consider the re-appointment of KPMG for the current financial year based on their knowledge, experience of company's business and remuneration to be approved by the Board of Directors.

**P. 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.

**Q. 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 Majesty's government for their co-operation and assistance with special mention of Ministry of Commerce & Industry, Muscat Securities Market and Capital Market Authority.

I would like to conclude the report by thanking your company Management Team, 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.

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

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



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

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

We have audited the financial statements of Sahara Hospitality Company SAOG ("the Company") set out on pages 2 to 20 which comprise the statement of financial position as at 30 November 2012, and the statements of comprehensive income, changes in equity and cash flows for the year then ended and notes, comprising a summary of significant accounting policies and other explanatory information.

### **Management's responsibility for the financial statements**

The Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, the disclosure requirements of the Capital Market Authority and the Commercial Companies Law of 1974, as amended, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **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 relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of 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 our 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, we consider 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the entity's 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 opinion.

### **Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of Sahara Hospitality Company SAOG as at 30 November 2012 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

### **Report on other legal and regulatory requirements**

In our opinion, the financial statements of Sahara Hospitality Company SAOG as at and for the year ended 30 November 2012, in all material respects, comply with:

- the relevant disclosure requirements of the Capital Market Authority; and
- the Commercial Companies Law of 1974, as amended.

16 January 2013

Paul Callaghan

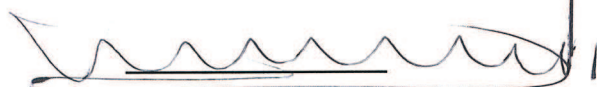


## SAHARA HOSPITALITY COMPANY SAOG

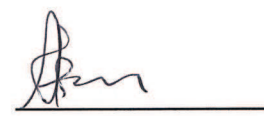
Statement of financial position  
as at 30 November

	Note	2012 RO	2011 RO
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	7	22,067,061	20,999,680
<b>Current assets</b>			
Inventories		8,232	12,149
Trade and other receivables	8	5,665,719	2,730,639
Cash and cash equivalents	9	1,111,584	376,113
<b>Total current assets</b>		6,785,535	3,118,901
<b>Total assets</b>		28,852,596	24,118,581
<b>Equity and liabilities</b>			
<b>Shareholders' equity</b>			
Share capital	13	5,833,333	5,833,333
Legal reserve	14	1,288,504	1,088,431
Retained earnings		5,994,900	5,010,906
<b>Total shareholders' equity</b>		13,116,737	11,932,670
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Non-current portion of term loans	11	9,195,620	8,080,872
Deferred taxation	12	140,323	135,722
<b>Total non-current liabilities</b>		9,335,943	8,216,594
<b>Current liabilities</b>			
Current portion of term loans	11	1,882,752	1,722,752
Trade and other payables	10	166,819	213,251
Taxation	12	264,250	212,458
Amounts due to related parties	15	4,086,095	1,820,856
<b>Total current liabilities</b>		6,399,916	3,969,317
<b>Total liabilities</b>		15,735,859	12,185,911
<b>Total shareholders' equity and liabilities</b>		28,852,596	24,118,581
<b>Net assets per share</b>	16	2.249	2.046

These financial statements were authorized for issue and approved by the Board of Directors on JAN 16, 2013 and were signed on their behalf by:



Chairman



Director

The notes on pages 6 to 20 form an integral part of these financial statements.  
The report of Auditors is set forth on page 1.

**SAHARA HOSPITALITY COMPANY SAOG****Statement of comprehensive income**  
*for the year ended 30 November*

	<i>Note</i>	<b>2012 RO</b>	<b>2011 RO</b>
Revenue		<b>10,821,000</b>	7,607,917
Cost of sales	6	<b>(7,583,819)</b>	(4,930,168)
<b>Gross profit</b>		<b>3,237,181</b>	2,677,749
Administrative and general expenses	6	<b>(369,238)</b>	(323,244)
<b>Profit from operations</b>		<b>2,867,943</b>	2,354,505
Net financing cost	6	<b>(598,359)</b>	(390,921)
<b>Profit for the year before tax</b>		<b>2,269,584</b>	1,963,584
Taxation	12	<b>(268,851)</b>	(232,044)
<b>Profit for the year and total comprehensive income</b>		<b>2,000,733</b>	1,731,540
<b>Basic earnings per share</b>	17	<b>0.343</b>	0.297

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**SAHARA HOSPITALITY COMPANY SAOG****Statement of cash flows**  
*for the year ended 30 November*

	<b>2012</b>	2011
	<b>RO</b>	RO
<b>Operating activities</b>		
Cash receipts from customers	<b>7,813,466</b>	7,116,392
Cash paid to suppliers	<b>(4,654,662)</b>	(4,227,420)
<b>Cash generated from operations</b>	<b>3,158,804</b>	2,888,972
Net financing charges	<b>(679,794)</b>	(390,921)
Taxation paid	<b>(212,458)</b>	(217,298)
<b>Cash flow from operating activities</b>	<b>2,266,552</b>	2,280,753
<b>Investing activities</b>		
Purchase of property, plant and equipment	<b>(1,989,163)</b>	(6,447,138)
<b>Cash flow used in investing activities</b>	<b>(1,989,163)</b>	(6,447,138)
<b>Financing activities</b>		
Net movements in term loans	<b>1,274,748</b>	3,883,624
Dividend paid	<b>(816,666)</b>	(816,667)
<b>Cash flow from financing activities</b>	<b>458,082</b>	3,066,957
<b>Net change in cash and cash equivalents during the year</b>	<b>735,471</b>	(1,099,428)
Cash and cash equivalents at the beginning of the year	<b>376,113</b>	1,475,541
<b>Cash and cash equivalents at the end of the year</b>	<b>1,111,584</b>	376,113

The notes on pages 6 to 20 form an integral part of these financial statements.

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**SAHARA HOSPITALITY COMPANY SAOG****Statement of changes in equity**  
*for the year ended 30 November*

	Share capital RO	Legal reserve RO	Retained earnings RO	Total RO
At 30 November 2010	5,833,333	915,277	4,269,187	11,017,797
Total comprehensive income:				
Profit for the year	-	-	1,731,540	1,731,540
	-	-	1,731,540	1,731,540
Transactions with owners of Company:				
Dividend paid	-	-	(816,667)	(816,667)
Transfer to legal reserve	-	173,154	(173,154)	-
At 30 November 2011	5,833,333	1,088,431	5,010,906	11,932,670
<b>At 30 November 2011</b>	<b>5,833,333</b>	<b>1,088,431</b>	<b>5,010,906</b>	<b>11,932,670</b>
Total comprehensive income:				
Profit for the year	-	-	2,000,733	2,000,733
	-	-	2,000,733	2,000,733
Transactions with owners of Company:				
Dividend paid	-	-	(816,666)	(816,666)
Transfer to legal reserve	-	200,073	(200,073)	-
<b>At 30 November 2012</b>	<b>5,833,333</b>	<b>1,288,504</b>	<b>5,994,900</b>	<b>13,116,737</b>

The notes on pages 6 to 20 form an integral part of these financial statements.

The report of Auditors is set forth on page 1.

## SAHARA HOSPITALITY COMPANY SAOG

### Notes to the financial statements for the year ended 30 November 2012

#### 1. Legal status and principle 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.

During the year, the Company has been awarded a contract for the renovation, operation and maintenance of PDO Rima Camp that consists of 142 rooms and other required facilities by variation to an existing contract on the same terms and conditions and for a period of 20 years.

The PACs are operated, in accordance with the terms and conditions of a service agreement dated 24 July 1999 as amended on 20 June 2012 ("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 (notes 6 and 16). 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. Adoption of new and revised International Financial Reporting Standards ("IFRS")

A number of new standards, amendments to standards and interpretations are not yet applicable to the Company. None of these is expected to have a significant effect on the financial statements of the Company, except for IFRS 9 Financial Instruments, which becomes mandatory for the Company's 2015 financial statements and could change the classification and measurement of financial assets. The Company does not plan to adopt this standard early and the extent of its impact is still being determined by Management.

#### 3. Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), the requirements of the Commercial Companies Law of 1974, as amended, and the disclosure requirements of the Capital Market Authority.

These policies have been consistently applied in dealing with items that are considered material in relation to the Company's financial statements to all the years presented.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements include useful lives of property, plant and equipment, fair values of term loans and provisions for impairment of receivables.

#### 4. Basis of accounting

The financial statements are prepared on the historical cost basis, except for certain financial assets and financial liabilities that are measured at fair value and amortised cost.

#### 5. Summary of significant accounting policies

##### 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 statement of comprehensive income as an expense as incurred.

**SAHARA HOSPITALITY COMPANY SAOG****Notes to the financial statements**  
*for the year ended 30 November 2012***5. Summary of significant accounting policies (continued)****Depreciation**

Capital work in progress is not depreciated. Depreciation is charged to the statement of comprehensive income 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.

**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.

**Trade and other receivables**

Trade and other receivables originated by the Company are measured at cost. An allowance for credit losses of accounts and other receivables is established when there is objective evidence that the Company will not be able to collect the amounts due.

When an account or other receivable is uncollectible, it is written off against the allowance account for credit losses. The carrying value of accounts and other receivables approximate their fair values due to the short-term nature of those receivables.

**Cash and cash equivalents**

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash in hand and balance with banks with a maturity of less than three months from the date of placement.

**Impairment of assets***Financial assets*

At each financial position date, the management assesses if there is any objective evidence indicating impairment of the carrying value of financial assets or non-collectability of receivables.

Impairment losses are determined as differences between the carrying amounts and the recoverable amounts and are recognised in the statement of comprehensive income. Any reversal of impairment losses are recognised as income in the statement of comprehensive income. The recoverable amounts represent 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.

## SAHARA HOSPITALITY COMPANY SAOG

### Notes to the financial statements for the year ended 30 November 2012

#### 5. Summary of significant accounting policies (*continued*)

##### Impairment of assets (*continued*)

###### *Non financial assets*

At each financial position 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 comprehensive income to the extent the carrying value of the asset exceeds its recoverable amount. The management also assesses if there is any indication that an impairment loss recognised in prior years no longer exists or has reduced. The resultant impairment loss or reversals are recognised immediately in the statement of comprehensive income.

The recoverable amount adopted is the higher of net realisable value or market value and its value in use.

##### Provisions

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

##### Trade and other payables

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

##### Financial liabilities

All financial liabilities are initially measured at fair value and are subsequently measured at amortized cost.

##### Revenue

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

##### Taxation

Income tax is calculated as per the fiscal regulations of the Sultanate of Oman. Current tax is the expected tax payable on the taxable income for the year, using the tax rates ruling at the end of the reporting period.

##### Deferred tax

Deferred tax is recognized by providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax is calculated on the basis of the tax rates that are expected to apply to the period when the asset is realized or the liability is settled. The tax effects on the temporary differences are disclosed under non-current liabilities as deferred tax.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

**SAHARA HOSPITALITY COMPANY SAOG****Notes to the financial statements**  
*for the year ended 30 November 2012***5 Summary of significant accounting policies (continued)****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.

**Dividends**

The Board of Directors recommends 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 of the Sultanate of Oman, 1974 (as amended) while recommending the dividend.

**Directors' remuneration**

Director's remuneration has been computed in accordance with the Article 101 of the Commercial Companies Law of 1974 and as per the requirements of Capital Market Authority, and will be recognized as an expense in the statement of comprehensive income.

**Earnings and net assets per share**

The company presents earnings per share ("EPS") and net assets per share data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

Net assets per share is calculated by dividing the net assets attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

**Interest on bank borrowings**

Interest on borrowings directly relating to the financing of qualifying capital projects under construction is added to the capitalised cost of those projects during the construction phase, until such time as the assets are substantially ready for their intended use. Where funds have been borrowed specifically to finance a project, the amount capitalised represents the actual borrowing costs incurred. Where the funds used to finance a project form part of general borrowings, the amount capitalised is calculated using a weighted average of rates applicable to relevant general borrowings of the Company during the period.

All other borrowing costs are recognised in the income statement in the period in which they are incurred.

**SAHARA HOSPITALITY COMPANY SAOG****Notes to the financial statements**  
*for the year ended 30 November 2012***5 Summary of significant accounting policies (continued)****Estimates and judgments**

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 judgment 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 involve uncertainties and judgments which have significant effect on the financial statements include useful lives of property and equipment, fair values of term loans and allowance for credit losses.

**6 Expenses**

	<b>2012</b>	2011
	<b>RO</b>	RO
<b>Cost of sales</b>		
Cost of provision of services by:		
Catering and Supplies Co. (note 15)	<b>6,194,134</b>	3,889,925
Depreciation	<b>1,003,217</b>	720,066
Others	<b>386,468</b>	320,177
	<b>7,583,819</b>	4,930,168
<b>Administrative and general expenses</b>		
Salaries and related expenses	<b>89,580</b>	89,580
Directors' remuneration	<b>78,560</b>	65,944
Insurance	<b>26,849</b>	23,890
Provision for credit losses	<b>76,600</b>	3,500
Office services	<b>24,000</b>	24,000
Repairs & maintenance	<b>38,569</b>	85,365
Others	<b>35,080</b>	30,965
	<b>369,238</b>	323,244
<b>Net financing cost</b>		
Interest and bank charges (refer note 11)	<b>679,794</b>	546,062
Less: interest income	<b>-</b>	-
interest capitalized under capital work in progress	<b>(81,435)</b>	(155,141)
	<b>598,359</b>	390,921



## SAHARA HOSPITALITY COMPANY SAOG

**Notes to the financial statements**  
*for the year ended 30 November 2012*

**7 Property, plant and equipment**

<b>Year 2012</b>	<b>Buildings RO</b>	<b>Equipment RO</b>	<b>Furniture and fixtures RO</b>	<b>Vehicles RO</b>	<b>Pre-fabricated buildings RO</b>	<b>Capital work in progress RO</b>	<b>Total RO</b>
<b>Cost</b>							
At 30 November 2011	24,051,890	708,714	821,540	80,000	314,265	472,603	26,449,012
Additions during the year	-	55,921	62,692	-	-	1,951,985	2,070,598
Transfer during the year	1,908,265	-	18,539	-	-	(1,926,804)	-
<b>At 30 November 2012</b>	<b>25,960,155</b>	<b>764,635</b>	<b>902,771</b>	<b>80,000</b>	<b>314,265</b>	<b>497,784</b>	<b>28,519,610</b>
<b>Depreciation</b>							
At 30 November 2011	4,470,090	323,692	513,267	38,000	104,283	-	5,449,332
Charge for the year	825,002	50,517	66,802	16,000	44,896	-	1,003,217
<b>At 30 November 2012</b>	<b>5,295,092</b>	<b>374,209</b>	<b>580,069</b>	<b>54,000</b>	<b>149,179</b>	<b>-</b>	<b>6,452,549</b>
<b>Net book values</b>							
<b>At 30 November 2012</b>	<b>20,665,063</b>	<b>390,426</b>	<b>322,702</b>	<b>26,000</b>	<b>165,086</b>	<b>497,784</b>	<b>22,067,061</b>
At 30 November 2011	19,581,800	385,022	308,273	42,000	209,982	472,603	20,999,680

The following notes apply:

- a) Capital work in progress at the financial position date relates to cost incurred towards expansion of PAC at Rima.

## SAHARA HOSPITALITY COMPANY SAOG

**Notes to the financial statements**  
*for the year ended 30 November 2011*

**7 Property, plant and equipment (Continued)**

<b>Year 2011</b>	<b>Buildings RO</b>	<b>Equipment RO</b>	<b>Furniture and fixtures RO</b>	<b>Vehicles RO</b>	<b>Pre-fabricated buildings RO</b>	<b>Capital work in progress RO</b>	<b>Total RO</b>
<b>Cost</b>							
At 30 November 2010	15,197,862	562,963	591,023	80,000	249,265	3,320,761	20,001,874
Additions during the year	-	32,379	48,085	-	-	6,366,674	6,447,138
Transfer during the year	8,854,028	113,372	182,432	-	65,000	(9,214,832)	-
<b>At 30 November 2011</b>	<b>24,051,890</b>	<b>708,714</b>	<b>821,540</b>	<b>80,000</b>	<b>314,265</b>	<b>472,603</b>	<b>26,449,012</b>
<b>Depreciation</b>							
At 30 November 2010	3,886,832	282,806	476,693	22,000	60,935	-	4,729,266
Charge for the year	583,258	40,886	36,574	16,000	43,348	-	720,066
<b>At 30 November 2011</b>	<b>4,470,090</b>	<b>323,692</b>	<b>513,267</b>	<b>38,000</b>	<b>104,283</b>	<b>-</b>	<b>5,449,332</b>
<b>Net book values</b>							
<b>At 30 November 2011</b>	<b>19,581,800</b>	<b>385,022</b>	<b>308,273</b>	<b>42,000</b>	<b>209,982</b>	<b>472,603</b>	<b>20,999,680</b>
At 30 November 2010	11,311,030	280,157	114,330	58,000	188,330	3,320,761	15,272,608

**SAHARA HOSPITALITY COMPANY SAOG****Notes to the financial statements**  
*for the year ended 30 November 2012***8 Trade and other receivables**

	<b>2012 RO</b>	2011 RO
Accounts receivable	<b>5,705,010</b>	2,620,876
Less: allowance for credit losses	<b>(96,600)</b>	(20,000)
	<b>5,608,410</b>	2,600,876
Prepayments	<b>57,309</b>	129,763
	<b>5,665,719</b>	2,730,639

The movement in allowance for credit losses is given below:

At the beginning of the year	<b>20,000</b>	16,500
Provided during the year	<b>76,600</b>	3,500
At the end of the year	<b>96,600</b>	20,000

**9 Cash and cash equivalents**

Cash in hand	<b>125</b>	125
Bank balances	<b>1,111,459</b>	375,988
	<b>1,111,584</b>	376,113

**10 Trade and other payables**

Trade payables	<b>71,374</b>	96,291
Proposed directors' remuneration	<b>78,560</b>	65,944
Accruals	<b>16,885</b>	51,016
	<b>166,819</b>	213,251

The proposed Directors' remuneration is subject to the approval of the shareholders at the Annual General Meeting.

**SAHARA HOSPITALITY COMPANY SAOG****Notes to the financial statements**  
*for the year ended 30 November 2012***11 Loans**

	<b>2012 RO</b>	2011 RO
Loan 1	<b>2,700,000</b>	3,260,000
Loan 2	<b>1,880,872</b>	2,293,624
Loan 3	<b>4,937,500</b>	4,250,000
Loan 4	<b>1,560,000</b>	-
	<b>11,078,372</b>	9,803,624
Less: current portion	<b>(1,882,752)</b>	(1,722,752)
Non-current portion	<b>9,195,620</b>	8,080,872

The following further notes apply:

- a) Loan 1 is from a local commercial bank (a related party) subject to interest rate at 5.9% per annum (2011 – 7.0% per annum) and repayable in quarterly installments of RO 140,000 which commenced from June 2008.
- b) Loan 2 is from a local commercial bank (a related party) subject to interest rate at 5.9% per annum (2011 – 6.75%) and repayable in quarterly installments of RO 103,188 which commenced from August, 2011.
- c) Loan 3 is from a local commercial bank (a related party) subject to interest rate at 5.9% per annum (2011 – 5.9%) and repayable in quarterly installments of RO 187,500 which commenced from February, 2012.
- d) Loan 4 is from a local commercial bank (a related party) subject to interest rate at 5.9% per annum and repayable in quarterly installments of RO 40,000 which commenced from September, 2012
- e) 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.
- f) The maturity profile of the term loans is as follows:

	<b>2012 RO</b>	2011 RO
Less than 1 year	<b>1,882,752</b>	1,722,752
Between 1 - 2 years	<b>1,882,752</b>	1,722,752
Between 3 - 5 years	<b>3,765,504</b>	3,445,504
Between 6 - 8 years	<b>3,547,364</b>	2,912,616
	<b>11,078,372</b>	9,803,624

At the financial position date, the fair value of the Company's non-current portion of term loans is RO 9,195,620 (2011 – RO 8,080,872). The fair value was determined by discounting the future cash flows for repayments of principal and interest with the market rate of interest for such loans of 5.90% per annum.

## SAHARA HOSPITALITY COMPANY SAOG

**Notes to the financial statements**  
for the year ended 30 November 2012

**12 Taxation**

	2012 RO	2011 RO
Statement of comprehensive income:		
Current year	264,250	217,086
Deferred taxation	4,601	14,958
	<u>268,851</u>	<u>232,044</u>
Financial position:		
Current liability		
Taxation	<u>264,250</u>	<u>212,458</u>
Non-current liability		
Deferred taxation [see note d) below]	<u>140,323</u>	<u>135,722</u>

The following further notes apply:

- a) The Company is subject to income tax at the rate of 12% (2011 - 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:

	2012 RO	2011 RO
Income tax on accounting profits	264,250	232,030
Expenses disallowed	-	101
Prior year charge	-	4,628
Deferred tax liability over provided in prior years	-	(4,715)
	<u>264,250</u>	<u>232,044</u>
Income tax expense		

- c) The taxation assessment of the Company for the year 2011 has not yet been finalized by the Secretariat General of Taxation. The Members believe that additional liability, if any, will not be material to the Company's financial position at the financial position date.
- d) Recognised net deferred tax liability is attributable to the following items:

	2012 RO	Recognized in statement of comprehensive income RO	2011 RO
Property, plant and equipment	(151,915)	(13,793)	(138,122)
Allowance for credit losses	11,592	9,192	2,400
	<u>(140,323)</u>	<u>(4,601)</u>	<u>(135,722)</u>
Net deferred tax liability			

**SAHARA HOSPITALITY COMPANY SAOG****Notes to the financial statements**  
*for the year ended 30 November 2012***13 Share capital**

The Company's authorised share capital consists of 10,000,000 shares of RO 1 each (2011 – 10,000,000 of RO 1 each). At the financial position date, the Company's issued and fully paid-up share capital consisted of 5,833,333 shares of RO 1 each (2011 – 5,833,333 shares of RO 1 each).

Shareholders who own 10% or more of the Company's share capital are as follows:

	2012	2011
	%	%
Alawi Enterprises LLC	20	20
Catering and Supplies LLC	20	20
Chatron Commercial Corporation	16.84	12.33
Azan Qais Abdulmunim Al Zawawi	10.22	8.74

**14 Legal reserve**

As required by the Commercial Companies Law of the Sultanate of Oman of 1974 (as amended), 10% of the profit for the year has been transferred to the legal reserve. The Company may resolve to discontinue such annual transfers when the reserve equals one third of the Company's paid up capital. The reserve is not available for distribution.

**15 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 terms and conditions of related party bank loans are mutually agreed. 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:

	2012 RO	2011 RO
<b>Transactions with shareholders holding 10% or more interest in the Company</b>		
Services rendered and recharged	6,940,490	3,901,798
Cost of sales – others	131,385	124,675
Administrative and general expenses	106,680	106,680
Other sales and services	64,815	58,834
<b>Transactions with other related parties</b>		
Capital work in progress & buildings	1,714,141	5,150,853
Cost of sales – others	56,867	62,781
Administrative and general expenses	26,984	24,415
Other sales	2,219	96,711
<b>Transactions with shareholders holding less than 10% interest in the Company</b>		
Finance charges	679,792	545,038
Loan disbursed	2,850,000	4,650,000
Loan repayments	1,575,252	766,376



**SAHARA HOSPITALITY COMPANY SAOG****Notes to the financial statements**  
*for the year ended 30 November 2012***15 Related party transactions (Continued)**

The key management personnel compensation for the year comprises:

	<b>2012 RO</b>	2011 RO
Directors' remuneration	<b>78,560</b>	65,944

The amount due to related parties is on normal terms of credit, interest free and consideration to be settled in cash.

Amounts due to related parties, excluding bank loans, are as follows:

Shareholders holding 10% or more interest in the Company		
Catering and Supplies Co LLC	<b>3,843,963</b>	1,094,773
Other related parties		
Carillion Alawi LLC	<b>222,983</b>	709,378
Marketing and Services Co LLC	<b>19,149</b>	16,705
	<b>242,132</b>	726,083
	<b>4,086,095</b>	1,820,856

Pursuant to the implementation of new minimum standard guidelines for Omani staff in the Sultanate of Oman's oil and gas sector effective March 2011, including harmonization of meals ("the Standards"), Petroleum Development Oman LLC ('PDO') has agreed for reimbursement of the significant additional costs incurred by the Company's related party service provider (CSC) on implementation of the Standards.

Accordingly PDO has approved the Company's claim and issued variation to contract revising PAC rates effecting March 2011. The Company has made adjustment in these financial statements.

**16 Net assets per share**

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

Net assets (RO)	<b>13,116,737</b>	11,932,670
Number of shares outstanding	<b>5,833,333</b>	5,833,333
Net assets per share (RO)	<b>2.249</b>	2.046

**SAHARA HOSPITALITY COMPANY SAOG****Notes to the financial statements**  
*for the year ended 30 November 2012***17 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:

	<b>2012</b>	2011
Net profit for the year (RO)	<b>2,000,733</b>	1,731,540
Weighted average number of ordinary shares at the financial position date	<b>5,833,333</b>	5,833,333
Basic earnings per share (RO)	<b>0.343</b>	0.297

**18 Proposed dividends**

A dividend in respect of year 2012 of RO 0.150 per share (2011 – RO 0.140 per share) amounting to a total of RO 875,000 (2011 – RO 816,667) is proposed by the Board of Directors. The dividend is subject to approval by the shareholders at the Annual General meeting.

Dividend per share is determined by dividing the dividend proposed for the year of RO 875,000 (2011 – RO 816,667) by the number of ordinary shares at the financial position date of 5,833,333 shares (2011 – 5,833,333 shares).

During the year no amount pertaining to unclaimed dividends for the year ended 30 November 2011 has been transferred to the Investors Trust Fund of the CMA.

**19 Contingencies and commitments**

	<b>2012 RO</b>	2011 RO
Performance guarantee	<b>100,000</b>	100,000
Construction commitments	<b>616,900</b>	1,462,731

The performance guarantee is secured via Bank Muscat. The guarantee is a requirement for the Company in its contract with Petroleum Development Oman LLC.

Construction commitments represent contractually binding commitments entered into by the Company for specific construction projects.

**20 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.

**21 Financial risk and capital management**

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 carrying amounts of financial assets and liabilities with a maturity of less than one year approximate to their fair values. The fair value of the non-current portion of term loans has been derived by discounting the repayment cash flows using a discount rate based upon the borrowing rate, which the Board of Directors expect would be available to the Company at the financial position date and is disclosed in note 12 to the financial statements.

## SAHARA HOSPITALITY COMPANY SAOG

**Notes to the financial statements**  
for the year ended 30 November 2012

**21 Financial risk and capital management (Continued)**

The Company's activities expose it to various financial risks, primarily being, 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.

**Interest rate risk**

The Company is exposed to interest rate risk on its interest bearing assets (short term deposits) and interest bearing liabilities (term loans). The management manages the interest rate risk by constantly monitoring the changes in interest rates and ensuring that the term loans are as far as possible, on a fixed rate basis.

For every 0.5% change in interest rate, the impact on the statement of comprehensive income will approximate to RO 56,969 (2011 – RO 395,00) based on the level of borrowings at the financial position date.

**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.

**Impairment losses**

The aging of trade receivables at the reporting date was:

	<b>Gross</b>	<b>Allowance</b>	<b>Gross</b>	<b>Allowance</b>
	<b>2012</b>	<b>for impairment</b>	<b>2011</b>	<b>for impairment</b>
	<b>RO</b>	<b>RO</b>	<b>RO</b>	<b>RO</b>
<b>Debtors 1-120 days</b>	<b>2,645,713</b>	<b>-</b>	<b>1,746,107</b>	<b>-</b>
<b>Debtors 121-180 days</b>	<b>1,347,328</b>	<b>-</b>	<b>700,237</b>	<b>-</b>
<b>Debtors 181-270 days</b>	<b>1,196,347</b>	<b>-</b>	<b>125,609</b>	<b>-</b>
<b>Debtors 271-365 days</b>	<b>427,554</b>	<b>-</b>	<b>16,623</b>	<b>-</b>
<b>Debtors above 365 days</b>	<b>88,159</b>	<b>-</b>	<b>32,300</b>	<b>-</b>
<b>Impairment provision</b>	<b>-</b>	<b>(96,600)</b>	<b>-</b>	<b>(20,000)</b>
<b>Total</b>	<b>5,705,010</b>	<b>(96,600)</b>	<b>2,620,876</b>	<b>(20,000)</b>

At 30 November 2012 the Company has a collective impairment provision against its trade receivables in the amount of RO 96,600 (2011: RO 20,000). The allowance accounts in respect of trade receivables are used to record impairment losses unless the Company is satisfied that no recovery of the amount owing is possible; at that point the amount in question is considered irrecoverable and is written off against the financial asset directly.

**Liquidity risk**

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

**SAHARA HOSPITALITY COMPANY SAOG****Notes to the financial statements**  
*for the year ended 30 November 2012***21 Financial risk and capital management (Continued)****Liquidity risk (Continued)**

The table below analyses the Company's financial liabilities (excluding interest) as at the financial position date based on the contractual maturity date.

<b>At 30 November 2012</b>	<b>Less than 3 months RO</b>	<b>3 to 6 months RO</b>	<b>6 months to 1 year RO</b>	<b>More than 1 year RO</b>	<b>Total RO</b>
<b>Term loans</b>	<b>470,688</b>	<b>470,688</b>	<b>941,376</b>	<b>9,195,620</b>	<b>11,078,372</b>
<b>Amount due to related parties</b>	<b>1,396,449</b>	<b>2,664,471</b>	<b>-</b>	<b>25,175</b>	<b>4,086,095</b>
<b>Trade and other payables</b>	<b>68,712</b>	<b>95,931</b>	<b>-</b>	<b>-</b>	<b>164,643</b>
<b>Taxation</b>	<b>-</b>	<b>264,407</b>	<b>-</b>	<b>-</b>	<b>264,407</b>
	<b>1,935,849</b>	<b>3,495,497</b>	<b>941,376</b>	<b>9,220,795</b>	<b>15,593,517</b>
<b>At 30 November 2011</b>	<b>Less than 3 months RO</b>	<b>3 to 6 months RO</b>	<b>6 months to 1 year RO</b>	<b>More than 1 year RO</b>	<b>Total RO</b>
<b>Term loans</b>	<b>430,688</b>	<b>430,688</b>	<b>861,376</b>	<b>8,080,872</b>	<b>9,803,624</b>
<b>Amount due to related parties</b>	<b>1,459,441</b>	<b>228,285</b>	<b>-</b>	<b>133,130</b>	<b>1,820,856</b>
<b>Trade and other payables</b>	<b>206,501</b>	<b>6,750</b>	<b>-</b>	<b>-</b>	<b>213,251</b>
<b>Taxation</b>	<b>-</b>	<b>212,458</b>	<b>-</b>	<b>-</b>	<b>212,458</b>
	<b>2,096,630</b>	<b>878,181</b>	<b>861,376</b>	<b>8,214,002</b>	<b>12,050,189</b>

**Capital management**

The Company's objectives when managing capital is to enable the entity to continue as a going concern and provide adequate returns to the shareholders. The Company also ensures compliance with externally imposed capital requirements.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to the shareholders, return capital to shareholders or raise additional capital. Capital requirements are prescribed by the Commercial Companies Law of 1974, as amended and the Capital Market Authority.

## ANNEXURE-II TO THE DIRECTORS' REPORT

### **REPORT ON CORPORATE GOVERNANCE**

Corporate governance is the set of processes, customs, policies, laws, which serves the needs of shareholders and other stakeholders by directing and controlling management activities with good business knowledge, objectivity, accountability and integrity. Sound corporate governance is not only about structure and clarity in management and areas of responsibility, but it also relates to good transparency so that shareholders can understand and monitor the development of the company.

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

Sr. No.	Name	Position / Category	Last AGM held on 27/2/2012	Board meetings proxy / attended	Other Director -ship
1.	Talal Bin Qais Al Zawawi	Chairman/ Independent Director	Absent	6	-
2.	Abdulmunim Bin Qais Al Zawawi	Non-Executive/ Independent Director	Absent	2	-
3.	Ramesh Kumar	Non-Executive/ Independent Director	Present	6	-
4.	S Kasiraman	Non-Executive/ Independent Director	Present	6	-

Sr. No.	Name	Position / Category	Last AGM held on 27/2/2012	Board meetings proxy / attended	Other Director -ship
5.	Raymond Bejjani *	Executive Director	Present	6	-
6.	K.S. Visruthan*	Executive Director	Present	6	-
7.	Yaseen Hassan Abdullatif	Non-Executive/ Independent Director	Present	6	-
8.	K.T. Rajagopalan	Non-Executive/ Independent Director	Present	5	-

\* Mr. Raymond Bejjani (Chief Executive Officer) and Mr. K.S.Visruthan (Finance & 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.

### 2.3 Company Management

The names, designations, description of responsibilities in SHC and brief profile of the Company Management personnel are as follows:

- Raymond Bejjani – Deputy Chairman & Chief Executive Officer**

Co-founder of the Company with 39 years of experience, of which 37 years in Oman in Catering and Commercial Services. Responsible for all the overall strategic management of the Company

- K.S. Visruthan – Director and Finance & Administration Manager.**

Experience of 37 years, of which 13 years at executive management levels. Responsible for Finance and administrative functions.

- Keith Burns - Contract Manager**

Experience of 37 years, of which 27 years in Oman at senior management levels. Directly responsible for all aspects of the Company's operations.

**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. 6 meetings of the Board of Directors were held during the financial year ended November 30, 2012 as under:

Dates of the Meetings:

December 29, 2011  
 January 14, 2012  
 February 12, 2012  
 March 25, 2012  
 June 26, 2012  
 September 26, 2012

### 3. AUDIT COMMITTEE

The Audit Committee is a sub-committee of the Board comprising of four independent Directors. 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 ensure timely and proper disclosures and transparency, integrity and quality of its reporting.



### 3.1 Broad Functions of Audit Committee:

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

The functions of the Audit Committee are as follows:

- Recommend to the Board the Statutory Auditors in the context of their independence, fee and terms of engagement for approval by the Shareholders.
- Review the audit plan and results of the audit and whether Statutory Auditors have full access to all relevant documents.
- Oversee the Internal Audit function in general and with particular reference to reviewing the scope of internal audit plan for the year, reports of internal auditors pertaining to critical areas, efficacy of internal auditing and whether the internal auditors have full access to relevant documents.
- Oversee the adequacy of internal control systems and Internal Audit Reports.
- Review any non-compliance with disclosure requirements prescribed by CMA.
- Oversee the Company's financial reporting process and the disclosure of its financial information to ensure the accuracy, sufficiency and credibility of the financial statements.
- Ensure that proper system is in place for adoption of appropriate accounting policies and principles leading to fairness in financial statements.
- Review annual and quarterly financial statements and recommend to the Board.
- Serve as a channel of communication between Statutory & Internal Auditors and the Board.
- Review risk management policies.
- Review proposed specific related party transactions for making appropriate recommendations to the Board.
- Make recommendations to the Board for entering into small value transactions with related party without securing prior approval of Audit Committee & the Board.
- Accord prior approval to the Statutory Auditors to provide non-audit services.
- Review the Company's management reports.
- Monitoring financial fraud.

### 3.2 Composition, Name of Members and Chairperson

Following the election of the new Board of Directors, the Board, at its first meeting held on February 28, 2010, 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	4
K.T Rajagopalan	Member	Non-Executive/ Independent Director	4
S Kasiraman	Member	Non-Executive/ Independent Director	3

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

During the financial year 2011-2012 under review, five Audit Committee Meetings were held on:

December 29, 2011  
 January 14, 2012  
 March 25, 2012  
 June 26, 2012  
 September 26, 2012.

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

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

In nominating and screening candidates to fill vacancy, the Board focuses on professionalism, integrity, accountability, performance standards, leadership skills, and industry knowledge as core competencies of the candidates. The nomination process is governed by company's Articles of Association, Article 27, 28 and 29.

#### 5. REMUNERATION MATTERS

5.1 For the financial year 2012, the Board has proposed to pay a Directors' remuneration of RO.78,560 as against RO 65,944 paid for the financial year 2011. All other management and operational functions are provided by the service provider by virtue of an agreement dated 24th July, 1999 and related cost for the financial year 2012 was RO 89,580.

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 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](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 Company'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 the current financial year. The closing price of 2012 based on the last trade made on 16/08/2012 was RO.2.450 per share in the market.

Performance from 01/12/2011 to 30/11/2012

Date	Open	High	Low	#	Volume	Turnover	Last Trade	Previous Close	Close	Net change
16/8/12	2.450	0	0	3	350,043	857,605	16/8/12	2.350	2,450	4.26%

- 8.2 MSM index details of service sector, representing share price movements for the period 1/12/2011 to 30/11/2012 was as follows:

Performance from 01/12/2011 to 30/11/2012

Open	High	Low	Close	Change
2426.050	2880.870 Nov 11, 2012 10.25 AM	2428.310 Dec 01, 2011 09.57 AM	2,793,730	15.16% 367.680 ↑

- 8.3 Shareholding pattern of the company as at the close of financial year was 48.091% by 4 founder shareholders (2,805,300 shares) and 51.909% by public (3,028,033 shares), which were owned by 25 shareholders. (Source of Statistics: Muscat Depository & Securities Registration Co SAOC)

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
- Ms. Lubna Qais Abdulmunim Al Zawawi, Oman
- NBO, Local Trust
- Azan Qais Abdulmunim Al Zawawi

- 8.4 The company does not have any outstanding GDRs / ADRs / Warrants or any convertible instruments.

## 9. PROFESSIONAL PROFILE OF THE STATUTORY AUDITOR

The shareholders of the Company have appointed KPMG as the auditors for the financial year 2012. KPMG is a leading accounting firm in Oman and is a part of KPMG Lower Gulf that was established in 1974. KPMG Oman employs more than 130 people, amongst whom are 4 partners, 5 directors and 20 managers including Omani nationals and is a member of the KPMG network of independent firms affiliated with KPMG International Co-operative. KPMG global network of independent firms providing audit, Tax and Advisory services and has more than 152,000 outstanding professionals working together in 156 countries worldwide.

KPMG in Oman is accredited by the Capital Market Authority (CMA) to audit joint stock companies (SAOG's). During the year 2012, KPMG billed an amount of RO 5,740 towards professional services rendered to the Company (RO 4900 for audit and RO 840 for tax services)

As per article 9 (Para b) of the Code of Corporate Governance pertaining to the rotation of external auditors, KPMG have completed three years as Statutory Auditors of the Company by the end of 2012 financial year, and therefore, are eligible for re-appointment as Statutory Auditors of the Company.

## 10. AUDIT FEES OF THE COMPANY AND FEES FOR OTHER SERVICES PAID TO THE AUDITOR.

The Total fee paid or due to KPMG for the Audit services in 2012 is RO 5,740. (RO 4,900 for audit and RO 840 for tax services).

## 11. ACKNOWLEDGEMENT BY BOARD OF DIRECTORS

The Board of Directors confirms its accountability for the preparation of the financial statements in accordance with the applicable standards and rules.

The Board believes that based on the review of internal controls carried out by the audit committee, 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 has approved the budget of the company for the year 2013 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.



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**Report to the Shareholders of Sahara Hospitality Company 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 in Annexure II to the Directors' Report.

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 second 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 2012 and does not extend to the financial statements or any other reports of Sahara Hospitality Company SAOG, taken as a whole.

16 January 2013

Paul Callaghan



ANNEXURE-I 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 November 30, 2012 and Management's views on future outlook.

**A. 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 September 1, 2000 and continues to be fully operational in compliance with contract terms and conditions.

The purpose of the PACs is to provide permanent structure residential facilities to PDO contractors' staff at two interior locations in Fahud and Nimr. Initially SHC constructed 384 and 264 room facilities at Fahud, and Nimr respectively. However, in view of increased demand for accommodation, additional 740 rooms were built and extensions of related facilities were carried out at both PACs in last four years period.

During the year and further to tendering process, SHC has been awarded PDO contract for the Renovation, Operation and Maintenance of PDO Rima Camp that consists of 142 rooms and other required facilities. Such award has been made for a period of 20 years with an option for 5 years extension. On completion of renovation, this shall generate additional income and profit that may strengthen the financial position of the company.

Hospitality is a specialised trade that require good expertise and considerable amount of efforts to provide the required services to the expected standards to people in the remotest areas. Although, SHC's current core business is the provision of hospitality services at the PACs, the Board shall continue to explore other avenues of similar and/or any other commercial activities to expand the business when suitable opportunities arise.

**B. METHODS THROUGH WHICH THE COMPANY ACHIEVES ITS BUSINESS**

In accordance with PAC contract with PDO, SHC is expected to provide accommodation, messing, house keeping, recreational and medical services as well as maintenance of facilities. However, SHC has entered into a service agreement with Catering and Supplies Company LLC (CSC) wherein CSC provides all required services and operates the PACs in line with contract terms and conditions.

**C. INVESTMENT OPPORTUNITIES AND OBSTACLES**

Although, SHC's business future seems promising within the current contract scope of work in view of continuous oil & gas related activities at PAC locations, the Board of Directors and the Management continue to monitor growing Oman's commercial, industrial and financial market sectors, and would avail any opportunity that is attractive and would yield additional benefits to the company.

**D. RISKS AND CONCERNS**

The success of SHC's business depends on providing excellent services and achievement of maximum level of occupancy. Based on current activities and availability of additional 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 any unforeseen events happen then the Company may be exposed to operational risk.

Another risk factor is the lifespan of oil reserves in the area. Apart from proven oil reserves, PDO has taken enhanced oil recovery (EOR) initiatives to improve recovery rates at several oil fields. It has also implemented exploration and development (E&D) programme to enhance recoverable reserves 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.

During the year PDO has approved the payment of additional costs incurred due to the implementation of new minimum standard guidelines for the Omani staff working in Oil and Gas sector as well as harmonization of food. SHC, in turn, has reimbursed its Service Provider (CSC) for the additional cost incurred.

The PACs have been constructed on plots of land made available by PDO free of cost as governed by contract terms, therefore SHC has 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 unlikely event that leases become necessary, then SHC will have to complete related required formalities that may involve additional costs.

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

## E. 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 2011	1,731,540
<b>Gain in net profit amount and margin on account of:</b>	
Sales	3,213,083
Cost of Sales	-2,370,500
Administrative and General Expenses	-45,994
Depreciation	-283,151
Financing Costs	-207,438
Income Tax	-36,807
Net Profit FY 2012	2,000,733

Consolidated revenue was higher by 42.2% at RO.10,821,000 as against RO.7,607,917 in the corresponding period of previous year. Net profit before tax increased from RO.1,963,584 in 2011 to RO.2,269,584 in the same period of 2012, a further growth of 15.58%. EBITDA was recorded at RO 3,871,160 resulting in margin of 35.78%.

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

Year	Net Profit after Tax (RO)	Dividends	Net Equity (RO)
2007	1,045,441	10%	8,529,434
2008	1,253,019	11%	9,199,120
2009	1,528,677	13%	10,086,130
2010	1,690,000	14%	11,017,797
2011	1,731,540	14%	11,932,670

### 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 has been to the full satisfaction of our clients and continued to be a preferred Service provider for many our clients. We are confident that the fundamental strength of our business model will drive profitable growth in 2013 and beyond.

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 in this regard.

In this context, we are proud to state that on September 1, 2012, SHC completed 12 years safe work without Lost Time Incidents (LTI) at PAC Fahud, this include over 10.7 million man hours worked and 4,250,200 kilometres driven safely. SHC celebrated this great achievement and rewarded involved staff for their continual commitment and excellent work done.

Furthermore, the Company provides all hospitality services in compliance with appropriate food management system that include HACCP procedures which have been certified by an International certification body.

### F. 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.

### G. INTERNAL CONTROL SYSTEM AND ADEQUACIES

The company's internal control systems are well established and an audit committee comprised of the company's four non-executive directors regularly reviews all operational and financial matters as well as the significant observations of internal audit unit. 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.