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***DIRECTORS' REPORT
FOR THE SECOND QUARTER ENDED ON 31ST MAY 2007.***

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

On behalf of the Board of Directors I am pleased to submit the unaudited Financial Statements of the company for the second quarter ended on 31 May 2007 along with related reports.

The company has performed well ahead of last year results deriving from high occupancy levels at its accommodation facilities in PAC Fahud and Nimr.

We are pleased to report that year-on-year basis there had been steady improvements in the business. The revenue for the period rose by 13% to RO 2,124,588 as against RO 1,881,123 in the corresponding period in the previous year. Barring unforeseen circumstances, management expects to sustain such growth during the remainder part of 2007. Net Profit after taxes was OR 526,726 compared to RO 481,300 during the same period in the previous year, recording a further growth of 9.5%.

Furthermore, the extension of the current facilities is underway and expects to complete by end of November 2007 providing another 240 room facilities at both PACs. Therefore considering all such factors, future business outlook of the company seems to be very promising and financial performance will improve further in the years to come.

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

I conclude this report by expressing our appreciation to our share holders, Petroleum Development Oman, our bankers and customers for their valued support and cooperation.

For and on behalf of Board of Directors,

TALAL BIN QAIS AL ZAWAWI
CHAIRMAN

Date: 27th June 2007

UNAUDITED SUMMARY OF PERFORMANCE.

	31 May. 2007 R.O' 000	31 May. 2006 R.O' 000	Change %
Total assets @	10,434	10,028	4
Total liabilities @	2,424	2,525	(4)
Net assets @	8,010	7,503	7
* Net assets per share	1.373	1.286	7
** Current ratio @	1.635	1.157	41

	6 months ended 31 May., 2007 R.O' 000	6 months ended 31 May., 2006 R.O 000	Change %
Gross Profit	942	853	10
*** Gross Profit margin @	44%	45%	(2)
Net Profit	526	481	9
**** Earnings per share	0.090	0.083	9

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

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

*** Gross profit margin is calculated as follows:

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

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

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

**Unaudited consolidated balance sheet
 at 31 May., 2007.**

	Notes	31 May. 2007 R.O' 000	31 May. 2006 R.O' 000	Change %
Fixed assets *		8,169	8,451	(3)
		8,169	8,451	(3)
Current assets				
Inventories	1	7	4	75
Trade receivables	2&9	1,971	1,440	37
Receivable from related parties	8&9	-	-	-
Investments **	5,6,7&9	-	-	-
Bank and cash		287	133	116
Other assets		-	-	-
		2,265	1,577	44
Total assets		10,434	10,028	4
Current liabilities				
Trade and other creditors		97	62	56
Payable to related parties	8	596	615	(3)
Bank loans and overdrafts	4	625	625	-
Tax liability		67	62	8
		1,385	1,364	2
Long term liabilities				
Bank loans and overdrafts	4	958	1,083	(12)
Deferred Tax liability		81	78	4
Others		-	-	-
		1,039	1,161	(11)
Total liabilities		2,424	2,525	(4)
Net Assets		8,010	7,503	7
Shareholders' funds				
Share capital		5,833	5,833	-
Legal reserve		416	313	33
Retained earnings / (loss)		1,287	924	39
Profit and loss account		474	433	9
Total shareholders' equity		8,010	7,503	7

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

** Investments include fixed term deposits.

**Unaudited consolidated profit and loss account
 For the 6 months ended 31 May., 2007.**

	Notes	6 months ended 31 May., 2007 R.O.' 000	6 months ended 31 May., 2006 R.O. '000	Change %
Turnover/Revenue	3	2,125	1,881	13
Gross Profit	3	942	853	10
Depreciation		(222)	(218)	2
Administration & general expenses		(94)	(49)	92
Operating profit		626	586	7
Finance charges	4	(32)	(43)	(26)
Investment income	6	-	-	-
Profit before taxation and minority Interests		594	543	9
Taxation		(68)	(62)	10
Net profit attributable to ordinary Shareholders		526	481	9
Dividend per share			-	
* Net profit margin @		25%	26%	3

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

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

Disclosure of ratios market @ is optional but is recommended.

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

Unaudited consolidated statement of cash
For the 6 months ended 31 May., 2007.

	6 months ended 31 May., 2007 R.O'. 000	6 months ended 31 May., 2006 R.O'. 000	Change %
Cash from operations	387	662	(42)
Tax paid	(127)	(94)	35
Interest paid	(32)	(43)	(26)
Net cash from operating activities	228	525	(57)
Net cash used in investing activities	(147)	(13)	1,031
Net cash used in financing activities	(338)	(663)	(49)
Net increase (decrease) in cash and cash equivalents	(257)	(151)	70
Cash and cash equivalents brought forward	544	284	92
Cash and cash equivalents carried forward	287	133	116

Statement of changes in equity

	Share Capital RO. '000	Legal Reserve RO. '000	Proposed Dividend RO. '000	Accumulated Profits RO. '000	Total RO. '000
As on 1 December 2005	5,833	265	350	924	7,372
Profit for the year	-	-	-	987	987
Transfer to Legal Reserve	-	99	-	(99)	-
Proposed dividend	-	-	525	(525)	-
Dividend paid	-	-	(350)	-	(350)
As on 30 November , 2006	5,833	364	525	1,287	8,009
Profit for current year (6 months)	-	-	-	526	526
Dividend paid	-	-	(525)	-	(525)
Transfer to legal reserve	-	52	-	(52)	-
As on 31 May, 2007	5,833	416	-	1,761	8,010

Notes.

1. Inventories.

Inventories can be analysed as follows:

	31 May. 2007 R.O' 000	31 May. 2006 R.O' 000	Change %
Raw materials		-	-
Work in progress		-	-
Finished goods	7	4	75
Spares and consumables		-	-
Less: Provisions		-	-
	7	4	75

Finished goods at 31 May., 2007 represent days of sales (2006 days)

2. Trade receivables.

At 31 May., 2007 trade receivables can be analysed as follows:

	31 May. 2007 R.O' 000	31 May. 2006 R.O' 000	Change %
Trade receivables	1,987	1,455	37
Less: Provisions	(16)	(15)	7
	1,971	1,440	37

3. Segment Reporting

Reporting of Segment Revenue, and Segment Result is required for all business and geographical segments, where the segment is responsible for more than 10% of the company's revenue or profit, and where the segment is subject to risks or returns that are different from those of other segments, or where the segment is defined as a reportable segment by International Accounting Standard 14. The Revenue and Result for the company's reportable segments for the period ending 31 May., 2007 are as follows:

Identity of Segments	Fahud	Nimr		Totals
Segment Revenue	1,319	805		2,124
Segment Expenses	754	428		1,182
Segment Results	565	377		942

Notes.

4. **Bank loans and overdrafts.**

These can be analysed as follows:

	31 May. 2007 R.O' 000	31 May. 2006 R.O' 000	Change %
Bank loans	1,583	1,708	(7)
Overdrafts	-	-	-
	1,583	1,708	(7)
Less: Current maturities of bank loans and Bank overdrafts.	(625)	(625)	-
Long term element and bank loans	958	1,083	(12)

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

The Bank loans bear interest at rates ranging between 4.45% and 10% per annum.

The Bank overdraft facilities bear interest at rates ranging between 4.45% per annum and are renewable on 31st Dec., 2007

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

The maturity of the bank loans.

	31 May. 2007 R.O' 000	31 May. 2006 R.O' 000	Change %
Due within 1 year	625	625	-
Due after more than 1 year	958	1,083	(12)
	1,583	1,708	(7)

Notes.

5. **Investment in associates and subsidiaries**

Associates (See also Note 7)

Investments in Associates are accounted for using the equity method.

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

31 May., 2007		31 May., 2006	
Company	Holding %	Company	Holding %
N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A

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

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

Subsidiaries (See also Note 7)

Investments in subsidiaries are accounted for using the equity method.

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

31 May., 2007		31 May., 2006	
Company	Holding - %	Company	Holding - %
N/A	N/A	N/A	N/A

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

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

Notes.

6. Investments.

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

Investment can be analysed as follows:

	Market value 31 May. 2007 R.O' 000	Market value 31 May. 200 R.O' 000	Book value 31 May. 2007 R.O' 000	Book value 31 May. 200 R.O' 000	Cost ** R.O' 000
Marketable securities MSM					
Banking	N/A	N/A	N/A	N/A	N/A
Investment	N/A	N/A	N/A	N/A	N/A
Insurance	N/A	N/A	N/A	N/A	N/A
Services	N/A	N/A	N/A	N/A	N/A
Industrial	N/A	N/A	N/A	N/A	N/A
Government bonds	N/A	N/A	N/A	N/A	N/A

Marketable securities – Foreign by sector.

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

Unquoted and other investments.

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

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

** Cost of investment held on 31 May., 2007

Notes.

6. **Investments (continued)**

Investment income

Realised

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

Unrealised.

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

Interest

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

Investment income can be analysed as follows:

Realised
 Unrealised
 Dividends
 Interest on Term Deposits and Bonds

	31 May. 2007 R.O' 000	31 May. 2006 R.O' 000
Realised	N/A	N/A
Unrealised	N/A	N/A
Dividends	N/A	N/A
Interest on Term Deposits and Bonds	N/A	N/A

Notes.

7. **Details of Significant Investments.**

Details of all the reporting company's investments, including associates and subsidiaries, for which either, the reporting company's holding represents 10% or more of the issuer's share capital, or, the reporting company's holding exceeds 10% of the market value of the reporting company's investment portfolio, are provided as follows as of 31 May., 20066.

	Holding %	Number of Securities	Market value RO. 000	Book value RO. 000	Cost RO. 000
MSM quoted securities		N/A	N/A	N/A	N/A
Foreign listed securities*		N/A	N/A	N/A	N/A
Market value as at 31 May., 2007					
MSM Unquoted securities		N/A		N/A	N/A
Foreign unquoted securities *		N/A		N/A	N/A
Totals as of 31 May. 2007		0		0	0

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

Notes.

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

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

	31 May. 2007 R.O' 000	31 May. 2006 R.O' 000	Change %
Service Provider – Cost of sales	1,117	951	17
Other Services & insurance	133	146	(9)
	1,250	1,097	14

Expense Items.

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

	31 May. 2007 R.O' 000	31 May. 2006 R.O' 000	Change %
Cost of Sales –Catering and Supplies Co.LLC& - Marketing and Services Co. LLC.	1,117	951	17
Other services – Catering and Supplies Co.LLC & Risk Management Services. LLC	133	146	(9)
	1,250	1,097	14

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

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

	31 May. 2007 R.O' 000	31 May. 2006 R.O' 000	Change %
Cost of utilities – Catering and Supplies Co.	-	-	-
Catering services – Tarmac Alawi LLC	-	-	-
Provisions	-	-	-
Write-offs	-	-	-
Receivable from related parties	-	-	-

Notes.

9. Provisions.

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

Provisions for:	Advances & Receivables	Value of Investments	Other	Total
Beginning balance of provisions	13	-	-	13
Provided during the period	3	-	-	3
(Released) during the period	-	-	-	-
(Written off) during the period	-	-	-	-
Provisions Balance as of 31 May., 2007	16	-	-	16

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

Book value of Assets:	Advances & Receivables	Investments	Other	Total
Value of Assets before provisions	1,987	-	-	1,987
Provisions Balance as of 31 May., 2007	(16)	-	-	(16)
Book value of Assets as of 31 May., 2007	1,971	-	-	1,971

Notes.

10. **Shareholders.**

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

	31 May., 2007 (Nos.)	31 May., 2006 (Nos.)
Common Share Holders		
Alawi Enterprises	1,166,667	1,166,667
Catering and Supplies Co. LLC	1,166,667	1,166,667
Charton Commercial Corporation	719,466	719,466
Preferred Share Holders:	-	-