

Chairman's Statement

Dear Share holders,

On behalf of the board of Directors of National Hospitality Institute SAOG (NHI), I present to you the first quarter report of unaudited financials for the 3-month period ended 31st March 2010.

A continuing and worsening crisis

In spite of historical success, the progress of new Omanisation in the Tourism and Hospitality sector is in deep crisis due to ineffective and counter-productive processes that do not support either the demand for quality training, or the scale of employment opportunities for Omanis, in a growing industry.

The company has posted a consolidated net loss of Rials 59 thousand for the first quarter period from revenue of Rials 143 thousand. The revenues are 44% below the same period last year where results recorded were revenues of Rials 256 thousand and net profit Rials 29 thousand. There is some impact on losses from start-up costs in the new Indian subsidiary. However, the principle impact that caused last year's poor result and the further deterioration into this year's losses is the continuing and worsening crisis of process in the allocation of trainees for government-sponsored courses and the chronic delay in payment of government debt for work successfully completed.

In my 2009 annual statement to shareholders I detailed the challenges being faced by NHI and highlighted several areas of concern on our facility to submit invoices for business already carried out, delayed payments and the ability to secure new business. This chronic, unworkable system is preventing young Omanis taking up training opportunities in an industry they want to join; in spite of the availability of jobs from identified employers for identified jobs; and in spite of availability of training capacity at NHI. That crisis is now deepening and presents a real threat to the progress of Omanisation in the Tourism and Hospitality sector as well as an immediate threat to the continuing commercial viability of NHI.

In this first quarter of the year only 37 new trainees have been allocated to NHI, in spite of employers requisitioning training from NHI for 339 identified jobs. As a result, many young Omanis, keen to learn and gain employment, with the requisite interest and aptitude to shine and prosper in the industry, have had to be turned away, disillusioned and frustrated, with fading hope of getting the training they so eagerly desire. In the whole of 2009 only 213 trainees were allocated to NHI, down from 413 in 2008, in spite of available trainee applicants and willing employers with identified jobs to fill NHI capacity for 500 trainees many times over.

In such a crisis my fellow Directors on the NHI Board support me in presenting to you an overview of both the potential and the problem; with an assessment of what we are doing to stop or reverse the threat to NHI and the threat to Omanisation in the industry.

His Majesty's Directives

His Majesty Sultan Qaboos bin Said has directed us all to focus on developing Omani human resources. In his inspiring speeches and directives he urges us to release the Omani citizen's creative energies, bring out his latent potentials, develop his talents and skills and enable him to make a greater contribution. His Majesty has emphasized that work and

employment have high value in human terms and should always be accorded due respect and status.

20/20 Vision

These clear directives are reflected in the Government of Oman 20/20 Vision, where the development of human resource and potential is a central policy and a primary objective. This recognizes a universal truth for any modern economy: That Oman's economic prosperity ultimately depends on how many people are at work and how productive they are when they are working. A strong skills base is essential – from craft and technician levels through to the highest levels of leadership and management.

Successful Government initiatives provide impetus

To support the vision the government has put in place many successful initiatives that continue to provide impetus and momentum to the process of Omanisation. Every five-year plan contains important initiatives to drive forward Omanisation in all sectors of the economy. There is ongoing investment in the state education sector. The development of quality private sector schools, institutes, colleges and universities is actively supported and encouraged. The government provides funds for government-sponsored training in private sector training establishments. The government sets targets for Omanisation in each business sector. The government encourages government/private sector partnership initiatives that promote employment of Omanis. As a result, Omanis are to be found at work, at every level, in every sector of the economy. The Omani model for development of a national workforce is a world class role model that is recognized and applauded regionally and globally.

Tourism and Hospitality Sector: A shining example of Omanisation

While progress in Omanisation is being made across all sectors some industries stand out for the scale and effectiveness of their success: The Oil & Gas and the Banking sectors are two excellent examples. There are others and high amongst them is the Tourism and Hospitality sector. Hospitality lies deep in Omani heritage and culture, so it is no surprise that young Omani men and women excel when provided the opportunity to learn the crafts and skills to work in that industry. In Hotels, Restaurants, Cafés, Coffee Shops, Desert Tourist Camps, Guest Houses, Fast Food Chains, Airline Cabin Crews and Contract Catering companies, Omanis are to be found working productively in jobs as diverse as kitchen porter, housekeeper, receptionist, chef, patissier, food & beverage manager, general manager and many other jobs. Many Omanis who trained in the hospitality sector have moved on to meaningful employment in other sectors. Worldwide, the Hospitality sector is recognized as the ideal breeding ground for learning work ethic and employment skills that are applicable to any job inside or outside of the industry. Omanis who work in the Tourism and Hospitality sector are front-line ambassadors for visitors to the country. There is also an increasing number of Omanis working in the industry abroad both regionally and internationally. Many leading hotels have already achieved close to or above 60% Omanisation. By every measure, Omanisation in the Tourism and Hospitality Sector is an outstanding success and a credit to government policy, the Industry and the Nation.

NHI Contribution to this success

NHI is recognized as a first class training provider for the hospitality industry, applying world-class international standards of training, accreditation and qualification. Over 5,000 people have been trained at NHI in government-sponsored training programmes alone, of

whom some 4,700 have gone directly into jobs, while many others have taken shorter craft and skills programmes relevant to their progress before and after employment. The Ministry of Manpower, which oversees the allocation of government-sponsored trainees, industry employers and NHI alumni all bear independent testament to the quality, relevance and effectiveness of NHI training. Without question, the government/private sector partnership and collaboration of Ministry of Manpower, Employers and NHI is at the heart of the success story of Omanisation in the Tourism and Hospitality sector. It is an achievement of which all involved, including NHI, may be justly proud.

Scale of future Opportunity and Potential

As Oman's tourism and hospitality industry develops there are a number of new hotels, and integrated tourism complexes (ITC) in various stages of development. Based on Ministry of Tourism development figures, in order to achieve 60% Omanisation across the industry, there will be 10,580 new jobs for Omanis in the coming 4 years. This means at least 2,645 Omanis need to be trained in each of the next 4 years. This is more than double the combined training capacity of NHI and the government-owned Oman Tourism College (OTC); currently the only two hospitality training providers in the country. If the industry achieves the Ministry of Manpower target of 85% Omanisation then the training requirement shall be higher again. This does not account for replacement training for attrition in the industry, where employees retire or move on to other opportunities in other sectors. Nor does it account for growing demand for skilled Omani employees in the hospitality industry abroad, particularly in the UAE. This is an industry at which Omanis excel. Job opportunities for Omanis are increasing and will continue to increase.

Current process is a barrier to Omanisation

Although the scale of future job opportunities for Omanis in the hospitality industry is significantly above the current training capacity in Oman, the existing processes are working against the potential. From the time the Omani trainee is selected for an identified employer it takes an average of 7 to 8 months to process the paperwork to obtain the signed Ministerial Decree required for the trainee to commence training. That is 7 to 8 months while the NHI training facility lies empty. All the teaching faculty, course material and infrastructure cost is incurred, but must lie idle and wasted while the bureaucracy and red tape lumbers on. Often by the time the Ministerial Decree is finally signed, the candidate is no longer interested or available, so the process must start again for a new candidate. As a result, the employer is a further 7 to 8 months behind achieving Omanisation targets he wants to achieve. It takes a further 7 months to train the candidate and an average further 10 months for the training provider to get paid. This means it is a full 24 months from the time NHI commences work for the training before being paid; whilst all the time incurring the cost of sustaining an international standard faculty and maintaining a world class training facility. In 2009, NHI's largest shareholder, Renaissance Services, had to provide a Rials 300 thousand loan to effectively bankroll government-sponsored training and prevent NHI going bankrupt. The process simply does not support the scale of opportunity.

Consequences of a chronic process

Because of the current process many Omanis who want to join the hospitality and tourism industry cannot do so even though there are jobs available. Employers who want to achieve their Omanisation targets cannot give jobs to Omanis. Government ambitions for its 20/20 vision and Omanisation targets are being frustrated. Quality training providers like NHI will go out of business due to under-utilization of training capacity and non-payment of training fees.

Conflict of interest

To compound the difficulty of NHI's position, the company is subject to a conflict of interest beyond its own control: Ministry of Manpower is responsible for administering the government-owned Oman Tourism College (OTC); Ministry of Manpower is responsible for the allocation of candidates to the National Hospitality Institute.

Action to be taken by your Board

In 2009 we addressed these matters at the highest level with the concerned Ministry and were given assurances that long-outstanding debt would be paid and new allocations of trainees would be made. There has been some modest movement on both issues. NHI has a current allocation of 37 trainees against demand of 339 current identified jobs. As at March 2010, unpaid and unbilled income, due to the chronic processes, is Rials 845 thousand. At the current Q1 level of revenue, this constitutes nearly one and a half years of income. The position is untenable. The Board has concluded that NHI can no longer exercise the patience previously shown while waiting for assurances of change to be fulfilled.

A sub-committee comprising of the Chairman and the Board's Executive Committee members is assigned the task of reviewing NHI's options for the future. The sub-committee shall report its findings by end of Q2.

In the meantime we are taking the matter of the company's current predicament to other concerned Ministries and authorities in government requesting the following solutions: Pay NHI all outstanding debt immediately, for all work successfully completed; Remove the conflict of interest; Change the chronic processes for trainee allocation and payment; quantify and confirm the scale of opportunity.

As the nation celebrates the 40th year of the glorious reign of His Majesty Sultan Qaboos, we can justly look back at the achievements of NHI and the contribution it has made to getting Omanis into meaningful jobs in the hospitality sector. Looking ahead, NHI must work closely with the authorities empowered to implement the nation's Omanisation objectives to ensure that together we rise to the challenge so clearly laid out before us through His Majesty's leadership.

Tarik Al Said
Chairman

BALANCE SHEET AS AT 31st MARCH 2010

	<u>2010</u> <u>Rials'000</u>	<u>2009</u> <u>Rials'000</u>
Non-current assets		
Tangible fixed assets	101	67
	<hr/> 101 <hr/>	<hr/> 67 <hr/>
Current assets	977	1239
Current liabilities	(301)	(403)
Net-current assets	<hr/> 676 <hr/>	<hr/> 836 <hr/>
	777	903
Non Current liabilities	(73)	(62)
Net assets	<hr/> 704 <hr/>	<hr/> 841 <hr/>
<u>Shareholders' fund</u>		
Share capital	500	500
Reserves	125	119
Retained earnings	79	222
Total	<hr/> 704 <hr/>	<hr/> 841 <hr/>

**INCOME STATEMENT
FOR THE THREE MONTHS ENDED 31st MARCH 2010**

	<u>2010</u> <u>Rials'000</u>	<u>2009</u> <u>Rials'000</u>
Revenue	146	264
Operating expenses	(138)	(157)
Administrative expenses	(66)	(73)
Operating (loss) profit before finance income	(58)	34
Net finance charge	(1)	(5)
Net (loss) profit before income tax	(59)	29
Income tax	-	-
Net (loss) profit	(59)	29

- 1) The complete accounts will be sent by mail to any shareholder, who requests them either in Arabic or English, within 7 days of receipt of such request.
- 2) The address to which the shareholder should send his request is as follows: -