Chairman's Report

Dear Fellow Shareholders,

On behalf of the Board of Directors of National Hospitality Institute SAOG, I am pleased to present to you the tenth annual report and audited financial statements for the year ended 31st December 2005.

Financial Highlights

Your company has achieved a net profit of RO 56,408 for the year on a turnover of RO 663,011which is behind the year's business plan but ahead of the results for the same period last year. Government training budgetary constraints had resulted in a slower start in the early 2005, which had severely affected both the topline as well as bottomline. However, with the receipt of necessary training approvals from the Government, trainee numbers gradually picked up and resulted in better capacity utilization subsequently.

Operational Environment

Tourism is fast catching up as a sector with promising growth in the region in general and Oman in particular. This actually saw the local hospitality sector operating at a good level of occupancy for longer periods. The resultant growth in job and Omanisation requirements have provided regular demand for your Company's quality products. Your company continued to strengthen its industry partnerships even during the period of Government training budget constraints.

Although the underlying demand for training in the hospitality sector was continuous and regular, your company's performance came under pressure from the increasing training costs in terms of higher number of instructors required to turn out higher number of students at the low yield fee rates introduced by the Government last year.

Internal Control Systems

The Company has a system of internal control comprising well laid out authority levels and powers, supervision, checks and balances, policies and procedures. The board of directors during its annual review of these internal regulations & control systems found that the company is in compliance with them.

Other Developments

Your company has been working on new products and strengthening the base of the "Gulf Chef School" as part of its revenue diversification plans.

While the main source of revenue will continue to be driven by Government implementation of the Omanisation policy as a national imperative, the company has been working to improve its marketing strategy to generate more revenue sources and add more income streams from both the private sector and other government agencies such as military, airlines and others.

Future Outlook

We are encouraged by the recent announcements on several new prestigious tourism project developments in the Sultanate. Many of these new projects are in discussions with your company to provide able assistance in their human resources planning. We are confident that with the growth of tourism, and the renewed commitment from the Government, converted into action by the relevant bodies, we are well placed as a leading quality training provider to make a valuable contribution to the national imperative of getting young Omanis into meaningful employment within the Tourism and Hospitality sector.

On behalf of the Board of Directors, I take this opportunity to extend our sincere appreciation to His Majesty Sultan Qaboos bin Said for his vision, and support for private enterprise in the Sultanate of Oman, in particular his personal interest and support to "training Omanis to find meaningful employment" and I pray to the Almighty Allah to shower His everlasting blessing on His Majesty.

Tarik bin Shabib bin Taimur
Chairman

National Hospitality Institute SAOG

Management's Discussion and Analysis Report – 2005

Overall Review

The company has completed a decade of its operations during the year under review. The company has managed to turn around to post positive results and keep afloat amongst host of challenging elements in its operational environment such as the last year's adverse revision in the training fees and the Government's training budgetary constraints for the year.

NHI has been once again finalist for the famous "Oman Excellence Awards" from OCIPED, in the category of "People Development" for 2004. It was awarded the coveted IiP (Investor in People) award in early 2004 and also maintained its quality (ISO 9001:2000) & Hygiene (CIEH) certifications during the year. Further, with the recent changes in the awarding bodies structures, the Company's training programs are now being accredited by City & Guilds, UK.

The company has achieved a net profit of RO 56,408 on a turnover of RO 663,011 during the year 2005, against a net loss of RO 38,519 on a turnover of RO 507,237 in 2004.

Forward-looking Statements

This report contains opinions and forward looking statements, which may be identified by their use of words like "plans", "expects", "will", "anticipates", "believes", "intends", "projects", "estimates" or other words of similar meaning. All statements that address expectations or projections about the future, including but not limited to statements about the company's strategy for growth, product development, market position, expenditures, and financial results, are forward-looking statements.

Shareholders and readers are cautioned on the data and information external to the Company, that though they are based on sources believed to be reliable; no representation is made on their accuracy or comprehensiveness. Further, though utmost care has been taken to ensure that the opinions expressed by the management herein contain their perceptions on most of the important trends having a material impact on the Company's operations, no representation is made that the following presents an exhaustive coverage on and of all issues related to the same.

Further, the following discussion reflects the perceptions on major issues as on date and the opinions expressed here are subject to change. The Company undertakes no obligation to publicly update or revise any of the opinions or forward-looking statements expressed in this report, consequent to new information, future events, or otherwise.

Operating Environment

Despite all the ongoing negative events in the Middle East, tourism is establishing itself as a major growth sector in this region. Oman with its outstanding resource base with many natural heritage sites, an impressive unspoiled coastline, good seasonable climate and unique culture is gaining prominence on the World tourism map. The year 2005 especially saw the local hospitality sector operating at good level of occupancy for longer periods, strengthening the whisper that "Oman tourism has never had it so good". The Sultanate is no doubt attracting a growing demand for exclusive holidays.

Some of the recent developments such as the setting up of a separate Ministry for Tourism and the announcement or commissioning of certain large scale tourism projects in the country only indicate the growing confidence on the potential of Oman tourism as a growth generator for wide scale employment and the overall economy.

With the increasing tourist numbers and the increasing Omanisation numbers in this sector, the Company is well positioned to be a key, quality solutions provider to the growing needs of the Catering & Hospitality Industry in Oman. The Company's training facilities aptly mirror the industry needs and offer trainees the opportunity to acquire relevant industry-related career skills as well as realistic working environment for "on the job" learning and assessment.

Suitable learning and on the job working environment is planned in the design of the Company's course curriculum in line with the aspirations of the future employers so that trainees are assessed both by the trainer and the future employer almost simultaneously while under training. The Company's established strong links with the industry are essential contributors to the success of the training programmes.

Opportunities and threats

The operational environment especially the inbound tourism business in Oman in the recent past is very encouraging despite the continuing negative features in the regional markets. The high occupancy rates for longer periods in the local hospitality industry in the recent past augur well for the Company as it enables these hotel chains to commit substantially to their training budgets. Further, the increasing Omanisation percentages for this sector are generating continuous demand for the Company's products.

Whilst the company does not have strong competition to its products, of late, there has been a serious challenge on the Government funding mechanism which appears to be channelling funds from the general training budget which funds our Company's training, into the development of the Oman Tourism College ("OTC"). This is not a competition from market forces or in anything that we can influence. Further, though OTC is a college, it is also allowed to offer short vocational training products similar to ours, which may encroach into our market segment. However despite this policy, we have found no adverse effect on the training numbers required from us by local industry.

We are seeing some other companies developing some of their products in line with our generic ones but no other major player in the market for wholesale vocational training. We understand that there may be a new competitor coming into the market who will in fact set up an operation similar to ourselves but this has yet to be confirmed.

The Company's well-defined market strategy focuses on 'employment' and flexible to employers' demands and will endeavour to re-invent its core products to suit the changing market needs such as upskilling of the current local workforce. Our strategy of developing short courses is one way of ensuring this differential since the current competition will find it difficult to facilitate the short turnaround courses that we develop.

The Company continues to develop its human resources – both Omani and expatriate - by assessing & improving their professional skills in general and specifically to diversify the skills of individuals to ensure they deliver a variety of subjects and by doing so not only develop themselves but also the products. The Company is pro-actively carrying out the development of its Omani workforce to enable them move up higher in the organizational structure. It also maintained its green card status for satisfactory achievement of staff omanisation levels.

Internal control system

The Company has a system of internal control comprising well laid out authority levels and powers, supervision, checks and balances, policies and procedures. The system is reviewed and updated on an on-going basis.

Financial and operational performance

The year 2005 had a slow start due to the Ministry of Manpower's ("MoM") training budgetary constraints. The training numbers built up gradually during the year and helped achieve positive results despite the low effective yield under the current fee rates. Further, the Company had to incur more establishment expenditure and increase its number of instructors to turn out more number of students to improve the financial performance. The company also had to increase its provisioning of revenue from 10% to 15% due to the loss of 30% of its training fee when a student decides to move from one job to another within 1 year after training, despite the fact that this move may be for the student to better his/her career prospects.

Financial highlights

	2005 RO
Revenue	663,011
Gross profit	255,267
Profit before taxation	68,408
Taxation*	(12,000)
Net profit after taxation	56,408

* The above mentioned tax provision was for the first three quarters of 2003 and no provision for taxation was made for the year 2005 as the Company was exempt from taxation with effect from

15th September 2003, being a company realising income from provision of education and training as its main activity.

On the other hand, good turnover of receivables has helped the company achieve positive cash flows and maintain good cash reserves through the year.

Conclusion

The Company continues to reinvent its product portfolio in order to meet the growing expectations of the market, despite the challenging business environment. The Company's growth in the long term will be driven by the success of its efforts in capitalising on the growing demands of the market with quality delivery of its core products while simultaneously focussing on efficiency improvement and cost optimisation. The company believes that it is strategically well positioned in this sector due to its enviable cost structure, strong brand equity and established business relationships.

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National Hospitality Institute SAOG

Report on Corporate Governance - 2005

CORPORATE GOVERNANCE: OUR PHILOSOPHY

Corporate Governance is about directing and controlling the Company with the overriding objective of optimising the return for shareholders, while adhering to the laws and ethical standards of the business environment in which it operates. A good governance process aims to achieve this by providing long term visibility of its businesses, ensuring effective relationship with stakeholders, establishing systems that help the Board in understanding and monitoring risk at every stage of corporate's evolution process. The corporate governance is not a matter of form, but of substance. It is an article of faith and should be integral to the core values of the corporate.

The Board and Management of National Hospitality Institute SAOG ("NHI" or "Company" hereafter) are committed to the highest standards of corporate governance for the Company. The Company has long been practicing best business practices, which are subject to continuous review to ensure that they continue to reflect the recent developments in order to conform to the best corporate governance practices. It takes feedback into account in its periodic reviews of the guidelines to ensure their continuing relevance, effectiveness and responsiveness to the needs of all the stakeholders.

Board of Directors

As on 31st December 2005, the Board of Directors ("the Board" hereafter) is composed of 9 directors. The Board consisted of one Executive Director and 8 Non-executive and Independent Directors.

The composition & category of Directors during the year under review is as follows:

Sl No	Name	Position	Category	No. of Board meetings held in Director's tenure	No. of Board meetings attended	Whether attended last AGM	No. of directorsh-ips on Boards of other SAOG companies
1	HH Sayyid Tarik bin Shabib	Chairman	Independent	5	5	Yes	1
2	Riyadh Ali Sultan	Vice Chairman	Independent	5	3	Yes	-
3	Sharif Al Bakry	Non Executive Director	Independent	5	3	Yes	-
4	Stephen R Thomas	Non Executive Director	Independent	5	4	Yes	-
5	Iqbal bin Abdul Redha Sultan	Non Executive Director	Independent	5	3	Yes	-
6	Khalid bin Said Al Ojaili	Non Executive Director	Independent	5	5	Yes	3
7	Vijay Sood	Non Executive Director	Independent	5	5	Yes	-
8	Adil M Bahwan	Non Executive Director	Independent	5	3	Yes	-
9*	Robert M Maclean	Executive Director	Non-Independent	3	3	Yes	-
10*	Hafidh Al Busaidi	Non Executive Director	Independent	-	-	No	-

* Mr. Hafidh Al Busaidy had resigned from the Board in February 2005 and Mr. Robert M Maclean was elected in his place to the Board at the Ordinary General Meeting held on 30th May 2005.

Meetings of the Board of Directors

Normally, the Board of Directors meets once in a Quarter to consider the Audited/Unaudited Financial results and any other matters arising from the business operations of the Company.

During 2005, the Board of Directors met 5 times on the following dates:

15th February
6th April
19th June
18th October
19th December

Audit Committee

Audit Committee is a sub-committee of the Board comprising three Directors, all of whom are independent directors viz., HH Sayyid Tarik bin Shabib - Chairman, Riyadh Ali Sultan and Vijay Sood.

The terms of reference stipulated by the Board of Directors to the Audit Committee are as follows:

- Review the adequacy of internal control systems and Internal Audit Reports, and their compliance,
- 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.
- Recommend the appointment and removal of external auditors and fixing of audit fees and also approval for payment for any other services.
- Review with the management the quarterly, half yearly and annual financial statements before submitting to the Board.
- Review with the management, external and internal auditors, and the adequacy of internal control systems.
- Review the Company's financial and risk management policies.

Attendance and other details

The Audit Committee has met 4 times during the year. Attendance of each member at Audit Committee meetings held during the year is as follows:

Sl No	Name	Position	Category	No. of Audit committee meetings held during Member's tenure	No. of Audit committee meetings attended
1	HH Sayyid Tarik bin Shabib	Chairman	Independent	4	4
2	Riyadh Ali Sultan	Vice Chairman	Independent	4	1
3*	Vijay Sood	Non Executive Director	Independent	3	2
4*	Khalid bin Said Al Ojaili*	Non Executive Director	Independent	1	1

*Mr. Vijay Sood was appointed as committee member in place of Mr. Khalid bin Said Al Ojaili on 6th April 2005.

Audit and Internal Control

The Audit Committee, on behalf of the Board has regularly reviewed the internal control environment of the Company. They have met the internal auditors on a regular basis to review the internal audit reports, recommendations and management comments thereupon and the external auditors to review audit findings and management letter. The Audit Committee has also met the internal and external auditors, without the presence of the management as required under the Code of Corporate Governance ("Code"). The Audit Committee has further briefed the Board at the board meetings about the effectiveness of internal controls in the Company. The Audit Committee and the Board are pleased to inform the shareholders that adequate and effective internal controls are in place and that there are no significant concerns.

Process of nomination of Directors

In nominating and screening candidates, the Board looks for professionalism, integrity, accountability, performance standards, leadership skills and professional business judgment. Financial literacy, proven track record, industry knowledge and strategic vision are key characteristics. While nominating competent candidates, the Board ensures that the shareholders retain the power of electing any candidate, irrespective of his candidature being recommended by the Board or otherwise and that any shareholder or non-shareholder candidate has the full right of nominating himself.

Details of Remuneration and fees paid to the Directors during the Year

The Chairman and Non-executive directors were paid sitting fees at the rate of RO 250/- and RO 200/- respectively, for attending each board/audit committee meeting. The Chairman and Non-executive directors were paid a total sitting fee of RO 8,950 during the year as follows for attending board/audit committee meetings. There was no other remuneration paid to the Directors during the year 2005.

SI No	Name	Position	Category	Total Sitting Fees paid
1	HH Sayyid Tarik bin Shabib	Chairman	Independent	2,550
2	Riyadh Ali Sultan	Vice Chairman	Independent	1,000
3	Sharif Al Bakry	Non Executive Director	Independent	600
4	Stephen R Thomas	Non Executive Director	Independent	800
5	Iqbal bin Abdul Redha Sultan	Non Executive Director	Independent	600
6	Khalid bin Said Al Ojaili	Non Executive Director	Independent	1,400
7	Vijay Sood	Non Executive Director	Independent	1,400
8	Adil M Bahwan	Non Executive Director	Independent	600
9*	Robert M Maclean	Executive Director	Non-Independent	-
10*	Hafidh Al Busaidi	Non Executive Director	Independent	-

* Mr. Hafidh Al Busaidi had resigned from the Board in February 2005 and Mr. Robert M Maclean was elected in his place to the Board at the Ordinary General Meeting held on 30th May 2005.

Details of Remuneration and allowances paid to top 5 officers during the Year

Remuneration & Allowances paid to top 5 officers of the company during the year amounted to RO 85,884. This includes RO 31,389 (including RO 13,015 prior of becoming executive director, i.e. 30th May) paid to an Executive Director.

Means of Communication

The Company has been dispatching Annual Reports to all the members of the Company.

The annual audited and quarterly unaudited financial results were published in two newspapers, as required by law, and are also made available on the company's website www.nhioman.com.

The Management's Discussion and Analysis Report, which forms part of the Annual Report, is provided elsewhere in this Annual Report.

Details of non-Compliance by the Company

There were no penalties or strictures imposed on the company by MSM/ CMA or any statutory authority in the last three years.

Other Disclosures

The issued share capital of the Company is 50% paid up. On 18th October 2005, the Company held an Extraordinary General Meeting ("EGM") of the shareholders in accordance with the approval of CMA, to consider and approve reduction of the issued capital of the Company to the extent of the unpaid capital, i.e. from RO 1,000,000 to RO 500,000 and amend Article (5) of the Articles of Association ("AOA") of the Company accordingly.

Post 31st December 2005 when the company approached the Company Registrar at Ministry of Commerce and Industry ("MOCI") to register the amendments to the AOA, the MOCI rejected the resolution approved by the EGM and CMA, stating that as per Article 58 of the Commercial Companies Law, the minimum capital requirement for SAOG companies, incorporated prior to 1998 is RO 1 Million. After the decision of MOCI, there is no change in the original status quo on the paid up capital of the Company.

Compliance with Code of Corporate Governance

The Company has implemented the best practices of Corporate Governance and is in compliance with the Code of Corporate Governance.

Dividend Policy

The Company's dividend policy is to reward the shareholders by distributing an optimal amount of profits earned during the year. While considering the payout for the year, the Board of Directors considers the need for retention due to new project possibilities and additional working capital to be financed. The Company strives to maintain a balance between current payout and a sustainable, growing dividend rate.

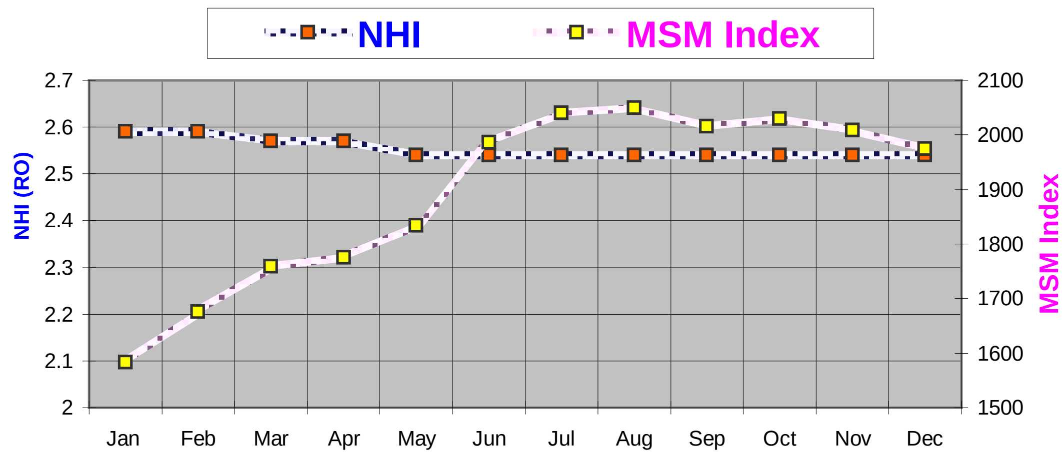
Stock Market Data

Monthly closing share price of high and low quotations, traded in Muscat Securities Market (MSM) for the year 2005:

Month	Share price movement (in RO)	
	High	Low
January	2.590	2.590
February	2.590	2.590
March	2.590	2.570
April	2.570	2.570
May	2.540	2.540
June	2.540	2.540
July	2.540	2.440
August	2.600	2.540
September	2.540	2.540
October	2.540	2.540
November	2.540	2.540
December	2.540	2.540

(Source of statistics: MSM)

Stock Performance in comparison to MSM broad based index of services sector: -



Note: -

1. Share price and MSM Index (for Services & Insurance sectors) average for the month is based on the High and Low during the month.
2. The company does not have any outstanding GDR's/ ADR's/ Warrants or any convertible instruments.

Distribution of Shareholding as on 31st December 2005

(Source of Statistics:- Muscat Depository & Securities Registration Co SAOC)

SR No.	Category	Number of Shareholders	No of shares	% Shareholding
1	Less than 5%	54	177,671	17.77%
2	5% to 9.99%	4	231,855	23.18%
3	10% to 19.99%	1	175,000	17.50%
4	20% to 50%	1	415,474	41.55%
	Total	**60**	**1,000,000**	**100%**

Professional Profile of the Statutory Auditors

Ernst & Young is one of Oman's oldest established accounting firms, having had a permanent office in the country since 1974. The practice comprises some eighty professionals, and is under the direction of four partners. The Oman office forms part of Ernst & Young's Middle East practice, with over 80 partners and nearly 1,700 other professionals in 16 offices throughout the region. The Middle East practice is a member of Ernst & Young Global, operating in more than 130 countries with approximately 100,000 personnel worldwide.

As per article 9 (para b) of the code, Ernst & Young are eligible for reappointment as the company's statutory auditors.

For and on behalf of the Board

Chairman	**Director**

National Hospitality Institute SAOG

FINANCIAL STATEMENTS

31 DECEMBER 2005

AUDITORS' REPORT TO THE SHAREHOLDERS OF NATIONAL HOSPITALITY INSTITUTE SAOG

We have audited the accompanying balance sheet of National Hospitality Institute SAOG as of 31 December 2005, and the related statements of income, cash flows and changes in equity for the year then ended. These financial statements are the responsibility of the company's board of directors. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements:-

i) Present fairly, in all material respects, the financial position of the company as of 31 December 2005 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ii) Comply, in all material respects, with the relevant disclosure requirements of the Commercial Companies Law of 1974, as amended, and the minimum disclosure requirements for Public Joint Stock Companies issued by the Capital Markets Authority.

Without qualifying our opinion, we draw attention to Note 9 of the financial statements. As discussed therein, the company's issued share capital is RO 1 million and at the balance sheet date 50% of the issued capital was paid up. The company has yet to fully comply with article 58 of the Commercial Companies Law.

Date
Muscat

Philip D Stanton
Partner

STATEMENT OF INCOME
Year ended 31 December 2005

	Notes	***2005 RO***	*2004 RO*
Revenue		**663,011**	507,237
Operating expenses	11	**(407,744)**	(370,333)
Gross profit		**255,267**	136,904
Administrative expenses	12	**(198,186)**	(180,589)
Other income	14	**8,373**	5,380
Net financing income	15	**2,954**	1,643
Profit (loss) before income tax		**68,408**	(36,662)
Income tax expense	16	**(12,000)**	(1,857)
Net Profit (loss) for the year		**56,408**	(38,519)
Basic earnings (loss) per share	17	**0.056**	(0.039)
Dividend per share	18	**0.050**	-

The attached notes 1 to 23 form part of these financial statements.

BALANCE SHEET

At 31 December 2005

	Notes	***2005*** ***RO***	*2004* *RO*
Non-current assets			
Property and equipment	3	**34,172**	37,918
Current assets			
Trade and other receivables	4	**446,561**	433,191
Cash and bank balances	5	**270,622**	208,876
Total current assets		**717,183**	642,067
Current liabilities			
Trade and other payables	6	**50,977**	40,249
Total current liabilities		**50,977**	40,249
Net current assets		**666,206**	601,818
Non-current liabilities			
Employees' end of service benefits	8	**35,532**	31,298
Total non-current liabilities		**35,532**	31,298
Net assets		**664,846**	608,438
Capital and reserves			
Issued capital	9	**500,000**	500,000
Special reserve	9	**-**	4,639
Legal reserve	9	**84,533**	74,253
Proposed distribution	18	**50,000**	-
Retained earnings		**30,313**	29,546
Total capital and reserves		**664,846**	608,438
Net assets per share (50% paid up)	10	**0.665**	0.608

The financial statements were authorised for issue in accordance with a resolution of the board of directors on 26th February 2006.

Chairman

Director

The attached notes 1 to 23 form part of these financial statements.

STATEMENT OF CASH FLOWS
Year ended 31 December 2005

	Note	***2005 RO***	*2004 RO*
Operating activities			
Cash receipts from customers		**650,888**	479,012
Cash paid to suppliers and employees		**(576,203)**	(540,914)
Cash generated from (used in) operations		**74,685**	(61,902)
Net financing income		**2,954**	1,643
Income tax paid		**-**	(4,586)
Cash flows from (used in) operating activities		**77,639**	(64,845)
Investing activities			
Acquisition of property and equipment		**(15,893)**	(14,462)
Proceeds from sale of property and equipment		**-**	300
Cash flows used in investing activities		**(15,893)**	(14,162)
Financing activities			
Dividends paid		**-**	(125,000)
Cash flows used in financing activities		**-**	(125,000)
Net increase (decrease) in cash and cash equivalents		**61,746**	(204,007)
Cash and cash equivalents at the beginning of the year		**208,876**	412,883
Cash and cash equivalents at the end of the year	5	**270,622**	208,876

The attached notes 1 to 23 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2005

	Share capital RO	*Special reserve RO*	*Legal reserve RO*	*Proposed distribution RO*	*Retained earnings RO*	*Total RO*
Balance at 1 January 2004	500,000	4,639	74,253	125,000	68,065	771,957
Dividends paid during the year (note 18)	-	-	-	(125,000)	-	(125,000)
Net loss for the year	-	-	-	-	(38,519)	(38,519)
Balance at 31 December 2004	500,000	4,639	74,253	-	29,546	608,438
Net profit for the year	-	-	-	-	56,408	56,408
Proposed distribution (Note 18)	-	-	-	50,000	(50,000)	-
Transfer to legal reserve	-	(4,639)	10,280	-	(5,641)	-
Balance at 31 December 2005	**500,000**	**-**	**84,533**	**50,000**	**30,313**	**664,846**

The attached notes 1 to 22 form part of these financial statements.

1 ACTIVITIES

National Hospitality Institute SAOG ("the Company") is registered as an Omani Joint Stock Company. The Company commenced operations on 21 February 1995.

The principal activity of the Company is the provision of training services in the hospitality and tourism industry.

2 SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance
The financial statements have been prepared in accordance with the International Financial Reporting Standards, the requirements of the Commercial Companies Law of 1974 and minimum disclosure requirements of the Capital Market Authority.

Basis of preparation
The financial statements are presented in Rials Omani. They are prepared on the historical cost basis.

The accounting policies have been consistently applied by the company and are consistent with those used in the previous year.

Property and equipment
Items of property and equipment are stated at cost less accumulated depreciation and impairment losses, if any. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property and equipment. All other expenditures are recognised in the income statement as an expense as incurred.

Depreciation
Depreciation is charged to income statement on a straight line basis over the estimated useful lives of items of property and equipment. The estimated useful lives of the assets are as follows:-

	Years
Leasehold improvements	5
Training equipment	5
Furniture, fixtures and office equipment	5
Motor vehicles	5

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

Cash and cash equivalents
Cash and cash equivalents comprise of cash at hand, bank balances and short term deposits with an original maturity of three months or less.

Bank borrowings that are repayable on demand and form an integral part of the company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Trade and other payables
Trade and other payables are stated at their cost.

Revenue
Revenue represents the fee value of courses conducted during the year, net of provision for drop outs. Fees are billed at different stages of the course, however, income is accrued evenly over the duration of each course. No revenue is recognised, if there are significant uncertainties regarding recovery of the consideration due or associated costs.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits
Contributions to a defined contribution retirement plan for Omani employees in accordance with Oman Social Insurance Scheme, are recognised as expense in the income statement as incurred.

Provision from non-Omani employee terminal contributions, which is an unfunded defined benefit retirement plan is made in accordance with Oman Labour Law and calculated on the basis that the liability that would arise if the employment of all employees were terminated at the balance sheet date.

Net financing costs
Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method and interest received on funds invested. Financing costs are recognised as an expense in the income statement in the period in which they are incurred.

Interest income is recognised in the income statement as it accrues, taking into account the effective yield on the asset.

Dividends
Dividends are recognised as a liability in the period in which they are approved by the shareholders.

Income tax
Income tax on profit for the period and years commencing subsequent to 14 September 2003 is not recognised in the financial statements, as the company is exempt from taxation in accordance with Royal Decree No 54/2003. Income tax relating to years prior to the exemption is recognised in the income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

Current tax is the expected tax paid or payable resulting from any adjustment to tax payable in respect of years, prior to the tax exemption.

Foreign currency transactions
Transactions denominated in foreign currencies are translated to Rial Omani at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to Rial Omani at foreign exchange rates prevailing on the balance sheet date. Foreign exchange differences arising on conversion are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies, that are stated at fair value, are translated into Rial Omani at the foreign exchange rates ruling at the dates the values were determined.

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

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

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

Fair values
The fair value of interest-bearing items is estimated based on discounted cash flows using interest rates for items with similar terms and risk characteristics.

3 PROPERTY AND EQUIPMENT

	Leasehold improvements RO	*Training equipment RO*	*Furniture, fixtures and office equipment RO*	*Motor Vehicles RO*	*Total RO*
Cost					
At 1 January 2005	108,596	70,817	167,254	14,418	361,085
Additions during the year	691	6,463	8,739	-	15,893
Written off	-	-	(28,599)	-	(28,599)
At 31 December 2005	**109,287**	**77,280**	**147,394**	**14,418**	**348,379**
Depreciation					
At 1 January 2005	102,873	59,166	153,946	7,182	323,167
Charge for the year	3,177	6,268	7,310	2,884	19,639
Written off	-	-	(28,599)	-	(28,599)
At 31 December 2005	**106,050**	**65,434**	**132,657**	**10,066**	**314,207**
Net carrying amount					
At 31 December 2005	**3,237**	**11,846**	**14,737**	**4,352**	**34,172**
At 31 December 2004	5,723	11,651	13,308	7,236	37,918

Leasehold improvements represent expenditure incurred in carrying out improvements to the Company's premises taken on lease. The lease agreement was renewed in 2005 and expires in November 2006.

4 TRADE AND OTHER RECEIVABLES

	2005 RO	*2004 RO*
Trade receivables	**192,730**	212,283
Less: Trade receivables written off	**(2,135)**	(1,911)
	190,595	210,372
Accrued income	**217,319**	177,333
Prepayments and other receivables	**37,469**	44,595
Amounts due from related parties (note 19)	**1,178**	891
	446,561	433,191

5 CASH AND CASH EQUIVALENTS

	2005	*2004*
	RO	*RO*
Cash balances	**242**	135
Bank balances	**31,233**	71,883
Deposit accounts	**239,147**	136,858
	270,622	208,876

Deposit accounts are maintained with a commercial bank in Oman and earn interest at commercial rates (2004 – same terms and conditions).

6 TRADE AND OTHER PAYABLES

	2005	*2004*
	RO	*RO*
Accrued expenses and other payables	**19,742**	31,749
Trade payables	**8,776**	6,707
Amounts due to related parties (note 19)	**2,296**	1,793
Income tax payable	**12,000**	-
	42,814	40,249

7 BANK BORROWINGS

The Company has overdraft facilities available with commercial banks and interest is charged at commercial rates. (2004 – Commercial rates).

8 EMPLOYEES’ END OF SERVICE BENEFITS

Movements in the liability recognised in the balance sheet are as follows:

	2005	*2004*
	RO	*RO*
Accruals as at 1 January	**31,298**	24,232
Accruals during the year	**8,823**	9,205
End of service benefits paid	**(4,589)**	(2,139)
Accruals as at 31 December	**35,532**	31,298

9 CAPITAL AND RESERVES

Issued capital

The Company's authorised and issued share capital is 1,000,000 shares of RO 1 each. At the balance sheet date 50% of the issued capital was paid up (2004 - 50%). As required under article 58 of the Commercial Companies Law, the capital of the Company shall not be less than RO 1 million and the full value of the shares are to be paid up in full within a three year period from the date of the formation of the Company. The Company has yet to fully comply with article 58 of the Commercial Companies Law.

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

	2005		*2004*	
	No. of shares	*%*	*No. of shares*	*%*
Renaissance Services SAOG	**455,474**	45.55	455,474	45.55
WJ Towell & Co LLC	**175,000**	17.50	175,000	17.50
	630,474	63.05	630,474	63.05

Legal reserve

The commercial Companies Law of 1974 requires that 10% of an entity's net profit be transferred to a non-distributable legal reserve until the amount of legal reserve becomes equal to one-third of the company's issued share capital. The legal reserve is not available for distribution.

Special reserve

During the current year, the balance in special reserve has been transferred to the legal reserve.

10 NET ASSETS PER SHARE

Net assets per share is calculated by dividing the net assets attributable to the shareholders of the Company by the number of shares outstanding at the year end, as follows:

	2005	*2004*
	RO	*RO*
Net assets attributable to the shareholders of the Company (RO)	**664,846**	608,438
Number of shares outstanding at 31 December	**1,000,000**	1,000,000
Net assets per share (RO)	**0.665**	0.608

11 OPERATING EXPENSES

	2005	*2004*
	RO	*RO*
Employee related expenses	**172,797**	153,793
Trainees' stipend and training supplies	**171,820**	152,289
Rent	**40,710**	42,163
Utilities	**10,888**	11,397
Depreciation	**9,820**	10,525
Miscellaneous	**1,709**	166
	407,744	370,333

12 ADMINISTRATIVE EXPENSES

	2005	*2004*
	RO	*RO*
Employee related expenses	**76,821**	73,792
Management fee	**24,000**	24,000
Advertisement and promotion	**18,778**	12,815
Repairs and maintenance	**11,072**	12,053
Trainee accommodation expenses	**10,250**	6,840
Printing and stationery	**10,001**	5,988
Depreciation	**9,819**	7,705
Directors' sitting fees and remuneration	**8,950**	8,650
Legal and professional charges	**6,265**	7,273
Insurance	**6,015**	5,849
Communication charges	**5,204**	5,879
Registration expenses	**2,642**	4,103
Travelling and related expenses	**2,319**	88
Bad debts written off	**2,135**	1,911
Motor vehicle and conveyance	**1,870**	2,215
Other indirect expenses	**2,045**	1,428
	198,186	180,589

13 EMPLOYEE RELATED EXPENSES

Details of employee related expenses included in operating and administrative expenses are as follows:

	2005	*2004*
	RO	*RO*
Wages and salaries	**168,179**	162,760
Other benefits	**68,123**	52,237
Contribution to defined retirement plan	**4,493**	3,383
Increase in liability for unfunded defined benefit retirement plan	**8,823**	9,205
	249,618	227,585

The number of employees as at 31 December 2005 was 26 (2004 – 23).

14 OTHER INCOME

	2005	*2004*
	RO	*RO*
Trainee accommodation recoveries	**8,278**	5,368
Miscellaneous	**95**	12
	8,373	5,380

15 NET FINANCING INCOME

	2005	*2004*
	RO	*RO*
Bank interest	**4,216**	2,411
Total finance income	**4,216**	2,411
Bank charges	**(1,262)**	(768)
Total finance cost	**(1,262)**	(768)
Net finance income	**2,954**	1,643

16 INCOME TAX

	2005	*2004*
	RO	*RO*
Statement of Income		
Prior years	**12,000**	-
Current liability:		
Prior years	**12,000**	-
	12,000	-

In accordance with the Royal Decree No. 54/2003, income realised by companies carrying out their main activity as training colleges and institutes shall be exempt from tax with effect from 15 September 2003. The Company believes that income earned by it from its training activities would be eligible for tax exemption. Accordingly, the Company has not made any provision for income tax for the year.

Income tax expense charged to the income statement in the current year pertains to the tax provided for the period 1 January 2003 to 14 September 2003. The Company's assessments from the tax year 2002 onwards have not yet been finalised with the Secretariat General for Taxation at the Ministry of Finance. The Board of Directors considers that additional tax liability, if any, in respect of these tax years would not be material to the financial position of the Company at 31 December 2005.

17 BASIC EARNINGS (LOSS) PER SHARE

The calculation of basic earnings (loss) per share was based on the net profit (loss) attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding during the year ended 31 December 2005, calculated as follows:

	2005	*2004*
	RO	*RO*
Net profit (loss) attributable to ordinary shareholders (RO)	**56,408**	(38,519)
Weighted average number of shares outstanding during the year	**1,000,000**	1,000,000
Basic earnings (loss) per share (RO)	**0.056**	(0.039)

18 DIVIDENDS PAID AND DIVIDEND PER SHARE

Dividend per share

Dividend per share is calculated by dividing the proposed dividend for the year by the weighted average number of shares outstanding during the year as follows:

	2005	*2004*
	RO	*RO*
Proposed dividend (RO)	**50,000**	-
Weighted average number of shares outstanding during the year	**1,000,000**	1,000,000
Dividend per share (RO)	**0.050**	-

During 2005, the Board of Directors has proposed a cash dividend of RO 0.050 per share aggregating to RO 50,000, which is subject to the approval of the shareholders at the Annual General Meeting (2004 – dividends of RO 0.125 per share aggregating to RO 125,000 pertaining to 2003 were paid in 2004).

19 RELATED PARTY TRANSACTIONS

The Company has entered into transactions with entities over which Directors are able to exercise significant influence. In the ordinary course of business, such related parties provide goods and services to the Company. The Company also provides services to related parties. The Directors believe that the terms of purchases, sales, and provision of services are comparable with those that could be obtained on an arm's length basis from third parties. The volume of significant related party transactions during the year relating to shareholders holding 10% or more interest in the Company, were as follows:

	2005	*2004*
	RO	*RO*
Services rendered	**2,239**	1,495
Services received	**12,950**	27,975
Management fees	**24,000**	24,000

During the year non executive directors were paid sitting fees of RO 8,950 (2004 –RO 8,650).

Compensation of key management personnel

The remuneration of the executive director and other members of key management during the year was as follows:

	2005	*2004*
	RO	*RO*
Short-term benefits	**80,179**	89,401
Employees' end of service benefits	**5,705**	6,259
	85,884	95,660

Amounts due from and due to related parties are disclosed in notes 4 and 6 respectively.

20 COMMITMENTS AND CONTINGENT LIABILITIES

	2005	*2004*
	RO	*RO*
Letters of guarantees	**74,596**	29,027

Letters of guarantees mainly relate to performance bonds issued by the company.

21 FINANCIAL INSTRUMENTS

Exposure to credit, interest rate and foreign currency risk arise in the normal course of the Company's business.

Credit risk

Credit risk on trade receivables is limited as trade receivables are shown net of provision for future drop outs and provision for doubtful debts. The Company does not require collateral in respect of its financial assets.

At the balance sheet date, approximately 99% (2004 - 98%) of trade receivables and accrued income are due from the Vocational Training Department of the Ministry of Manpower.

Interest rate risk

The Company manages its exposure to interest rate risk by ensuring that borrowings are on a contracted fixed rate basis.

Foreign currency risk

Foreign currency risk is minimal as most foreign currency transactions are either in US Dollars or in currencies linked to US Dollars.

Fair value

The Directors believe that the fair values of all financial assets and liabilities are approximate to their carrying value due to their short-term maturities or demand nature.

22 KEY SOURCES OF ESTIMATION UNCERTAINTY

Impairment of accounts receivable
An estimate of the collectible amount of trade accounts receivable is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and a provision applied according to the length of time past due, based on historical recovery rates.

At the balance sheet date, gross trade accounts receivable were RO 190,595 (2004 – RO 210,372), and the provision for doubtful debts was RO Nil (2004 – RO Nil). Any difference between the amounts actually collected in future periods and the amounts expected will be recognised in the income statement.

23 COMPARATIVE FIGURES

The corresponding figures for 2004 have been reclassified in order to conform with the presentation for the current year. Such reclassifications do not affect previously reported net profit or shareholders’ equity.