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 eleventh annual report and audited financial statements for the year ended 31st December 2006.

Financial Highlights

Your company has achieved a net profit of RO 3,850 for the year on a turnover of RO 533,333 which is behind the year's business plan as well as the results for the same period last year. Continued delays and lower Government funded training allocations during the first three quarters of 2006 have severely affected both the topline as well as bottomline. However, with the receipt of necessary training approvals during the fourth quarter, your company achieved better capacity. This together with a remarkable growth of 240% in privately funded training revenues helped to post a net profit of RO 70K in the final quarter, therefore providing positive results for the whole year, by turning around the negative performance of the first three quarters. No dividends were proposed for 2006 keeping in view the near break even performance of the Company for the year and also the revenue diversification plans of the company for near future.

Operational Environment

Tourism and hospitality sectors in Oman had one of their best years in 2006 with most of the hospitality sector players operating at high occupancy for better part of the year. On the other hand, an increasing staff movement for better opportunities around the region has also been seen, which resulted in employers scouting for training their staff as one of the avenues to retain the workforce. All of this provided regular demand for your Company's quality products.

Although the underlying demand for training in the hospitality sector was continuous and regular, your company's performance came under pressure from the irregular and delayed Government funded training allocations. Your company's continued efforts to strengthen its industry partnerships helped it source and build on the corporate & privately funded training revenues to record level this 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 re-designing its core products and inventing new products tailor made to the current needs of the market in its efforts to strengthen the revenue diversification plans under the established umbrellas of “Gulf Chef School” and “Gulf Travel School”.

As mentioned above the convergence of selling efforts through the setting up of separate marketing department to sell the new products to private and corporate customers is delivering good results. This year also saw the start of first group of Cabin Crew students under an internationally certified program. On the other hand, the Food Safety division developed itself as a resourceful team not only delivering training but also delivering consultancy and audit services to the ever growing segment of customers dealing in various “Food Products”.

Future Outlook

Despite the near break even results of 2006, your company continues to have full order book of Government funded entry level vocational training requirements from the local hospitality industry. We are encouraged by the significant progress in receiving training allocations in the last quarter of 2006 which enabled us to attain optimum capacity utilization and a good start for the new year. Further, your company shall intensify its revenue diversification drive and endeavor to target revenue mix of 50:50 by 2008 between the Government funded and privately funded revenue lines. We are confident that with many large tourism projects underway, Oman tourism on the upward trajectory path, and the renewed commitment from the Government converted into action by the relevant bodies in a timely manner, we are well placed as the preferred ‘quality training provider’ to not only assist young Omanis to get into meaningful employment within the Tourism and Hospitality sector but also help the employers retain their experienced staff by training & upskilling them with our short courses.

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”.

Tarik bin Shabib bin Taimur
Chairman

National Hospitality Institute SAOG

Management's Discussion and Analysis Report – 2006

Overall Review

During the year under review, the company has celebrated completion of a decade of its operations. The company has managed to post positive results amongst host of challenging elements in its operational environment such as the Government's training budgetary constraints during the first half of the year and the company's intensive efforts to diversify its revenue sources.

NHI got the re-approval of the IiP (Investor in People) award that it was awarded 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 3,850 on a turnover of RO 533,333 during the year 2006, against a net profit of RO 56,408 on a turnover of RO 663,011 in 2005.

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

Tourism is establishing itself as a major growth sector in the Arabian Gulf region. With Oman gaining prominence on the World tourism map, the tourist inflow was at record levels in 2006. This reflected in the local hospitality sector operating at high occupancy for longer periods and also at increased prices.

The Company is well positioned to be a key, quality "training & employment solutions" provider to the growing needs of the Catering & Hospitality Industry in Oman in the light of the buoyant tourism sector. The Company's training facilities are well equipped to meet the industry needs and offer trainees "real time" working experience while in training.

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 is very much upbeat further aided by the increased business tourists on account of the buoyant economy. With the continually increasing demand for room space, the hospitality industry has not only been experiencing high occupancy rates for better part of the year, but also improved revenues at increased prices. This favoured the Company very well as it enables the hotel chains to commit substantially to their training budgets. Further, the increasing Omanisation percentages and also the higher staff turnover in this sector are fuelling demand for the Company's well recognised and accepted products.

Whilst the company does not have strong competition to its products from the private sector, the Government operated Oman Tourism College ("OTC") is now allowed to offer short vocational training products similar to ours is receiving training requisitions from the employers who are directed to OTC to avail the Government funded training schemes. This is not a competition from market forces or in anything that we can influence.

On the short private courses front, the Company has several competitors in the local market. The national airline opened its own IATA training programmes during the year and another training institute is delivering IATA training to a small number of trainees.

On the other hand, a decade of rich experience in its core products and with the proven operational strengths, the company is attracting considerable interest from overseas markets both for its training programmes as well as sharing its successful business model. The company saw first overseas business during the year and is actively seeking new business opportunities overseas.

The Company has well-defined market strategy aimed at diversifying its revenues bases by re-inventing its core products and tailoring them into short private courses to suit the changing market needs such as upskilling of the current local workforce funded by the private individuals and employers.

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 2006 had a very 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 minimal positive results. The company's concerted efforts to diversify its revenue bases saw triple digit growth in its privately funded revenue.

Financial highlights

	2006 RO
Revenue	533,333
Gross profit	171,375
Profit before taxation	3,850
Taxation*	-
Net profit after taxation	3,850

* No provision for taxation was made for the year 2006 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 & diversify its product portfolio to appeal to the private corporate and individual customer segments. The Company's growth plans will be driven by the success of its efforts in capitalising on the growing demands of the market with quality delivery of its diversified product portfolio while simultaneously focussing on efficiency improvement and cost optimisation. The company believes that it is well positioned in its business sector due to its ongoing drive to develop and introduce new products, strong brand equity and established business relationships.

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National Hospitality Institute SAOG

Report on Corporate Governance - 2006

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 corporation.

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 2006, the Board of Directors ("Board" hereafter) composed of 7 directors. The Board consisted of one Executive Director and 6 Non-executive and Independent Directors. In accordance with the Articles of Association of the Company, the complete Board would be re-elected at the ensuing Annual General Meeting ("AGM") on 20th March 2007, as the current Board would be completing its term of office.

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 directorships on Boards of other SAOG companies
1	HH Sayyid Tarik bin Shabib	Chairman	Independent	5	4	Yes	1
2	Riyadh Ali Sultan*	Vice Chairman	Independent	3	-	Yes	-
3	Sharif Al Bakry	Non Executive Director	Independent	5	2	Yes	-
4	Stephen R Thomas	Non Executive Director	Independent	5	4	Yes	-
5	Iqbal bin Abdul Redha Sultan	Non Executive Director	Independent	5	2	No	-
6	Khalid bin Said Al Ojaili	Non Executive Director	Independent	5	3	Yes	3
7	Vijay Sood#	Non Executive Director	Independent	1	1	Yes	-
8	Adil M Bahwan	Non Executive Director	Independent	5	2	Yes	-
9	Robert M Maclean	Executive Director	Non-Independent	5	5	Yes	-

* Mr. Riyadh Ali Sultan, representing a juristic shareholder, had resigned from the Board in August 2006 and his replacement would be appointed by the juristic shareholder.
#Mr. Vijay Sood had resigned from the Board in April 2006 and his replacement has been appointed by the Board on 27th January 2007.

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 2006, the Board of Directors met 5 times on the following dates:

26th February
25th April
25th June
16th 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 (who resigned in August 2006) and Khalid bin Said Al Ojaili (who has been appointed in September 2006 to replace Vijay Sood after his resignation in April 2006).

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, 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 on the following dates:

19th February
30th September
15th October
12th December

The attendance of each member at Audit Committee meetings held during the year is as follows:

SI 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	1	-
3*	Khalid bin Said Al Ojaili	Non Executive Director	Independent	3	3
4*	Vijay Sood	Non Executive Director	Independent	1	1

* Mr. Riyadh Ali Sultan had resigned from the Board in August 2006.

* Mr. Khalid bin Said Al Ojaili was appointed as committee member in place of Mr. Vijay Sood in September 2006. Mr. Vijay Sood had resigned from the Board in April 2006.

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 remuneration of RO 7,000 and a total sitting fee of RO 5,600 during the year as follows for attending board/audit committee meetings.

Sl No	Name	Position	Category	Total Sitting Fees paid	Remun-eration	Total
1	HH Sayyid Tarik bin Shabib	Chairman	Independent	2,000	1,000	3,000
2	Riyadh Ali Sultan	Vice Chairman	Independent	-	1,000	1,000
3	Sharif Al Bakry	Non Executive Director	Independent	400	1,000	1,400
4	Stephen R Thomas	Non Executive Director	Independent	800	1,000	1,800
5	Iqbal bin Abdul Redha Sultan	Non Executive Director	Independent	400	1,000	1,400
6	Khalid bin Said Al Ojaili	Non Executive Director	Independent	1,200	1,000	2,200
7	Vijay Sood	Non Executive Director	Independent	400	-	400
8	Adil M Bahwan	Non Executive Director	Independent	400	1,000	1,400
9	Robert M Maclean	Executive Director	Non-Independent	-	-	-

* Mr. Vijay Sood had resigned from the Board in April 2006 and Mr. Riyadh Ali Sultan, representing a juristic shareholder, had resigned from the Board in August 2006.

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 83,512. This includes RO 29,712 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.

Early 2006 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.

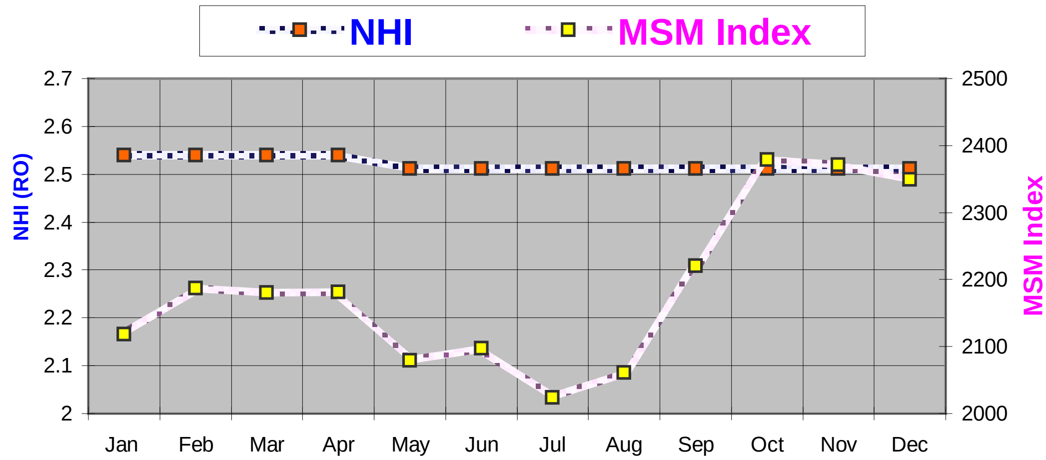
Stock Market Data

Monthly closing share price of high and low quotations, traded in Muscat Securities Market (MSM) for the year 2006:

Month	Share price movement (in RO)	
	High	**Low**
January	2.540	2.540
February	2.540	2.540
March	2.540	2.540
April	2.540	2.540
May	2.511	2.511
June	2.511	2.511
July	2.511	2.511
August	2.511	2.511
September	2.511	2.511
October	2.511	2.511
November	2.511	2.511
December	2.511	2.511

(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.

The company does not have any outstanding GDR's/ ADR's/ Warrants or any convertible instruments.

Distribution of Shareholding as on 31st December 2006

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

SR No.	Category	Number of Shareholders	No of shares	% Shareholding
1	Less than 5%	53	137,671	13.77%
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	455,474	45.55%
	Total	**59**	**1,000,000**	**100%**

Transfer of unclaimed dividend amounts to Capital Market Authority's Investors Trust Fund ("ITF")

During the year, the Company has transferred a sum of RO 388.700 lying in the unclaimed dividend accounts of the Company, to ITF pursuant to the Administrative Decision No.5/2003, issued by the HE Minister of Commerce & Industry. The shareholders are advised to claim the unencashed dividends from the captioned Fund administered by the Capital Market Authority.

Professional Profile of the Statutory Auditors

KPMG is an international accounting firm operating in more than 150 countries from over 800 offices and having more than 100,000 staff. KPMG in Oman has over 70 employees including 3 partners and 12 managers and trains the largest number of Omanis in the auditing and accounting profession.

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

For and on behalf of the Board

Chairman **Director**

NATIONAL HOSPITALITY INSTITUTE SAOG

Balance sheet
as at 31 December

	Note	2006 RO	2005 RO
Asssets			
Property and equipment	*3*	**40,215**	34,172
Total non-current assets		**40,215**	34,172
Trade and other receivables	*4*	**279,941**	446,561
Cash and cash equivalents	*5*	**391,181**	270,622
Total current assets		**671,122**	717,183
Total assets		**711,337**	**751,355**
Equity			
Share capital	*9*	**500,000**	500,000
Legal reserve	*9*	**84,918**	84,533
Proposed distribution	*18*	**-**	50,000
Retained earnings		**33,778**	30,313
Total equity		**618,696**	664,846
Liabilities			
Employees' end of service benefits	*8*	**34,651**	35,532
Total non-current liabilities		**34,651**	35,532
Current liabilities			
Trade and other payables	*6*	**57,990**	50,977
Total current liabilities		**57,990**	50,977
Total liabilities		**92,641**	**86,509**
Total equity and liabilities		**711,337**	**751,355**
Net assets per share (50% paid up)	*10*	**0.619**	0.665

The notes on pages 6 to 16 form an integral part of these financial statements.

These financial statements were approved and authorised for issue by the Board of Directors on 20th February 2007 and signed on their behalf by:

Chairman **Director**

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

Income statement
for the year ended 31 December

	Note	2006 RO	2005 RO
Revenue		**533,333**	663,011
Operating expenses	*11*	**(361,958)**	(413,889)
Gross profit		**171,375**	249,122
Administrative expenses	*12*	**(191,203)**	(192,041)
Other income	*14*	**14,883**	8,373
(Loss) profit from operations		**(4,945)**	65,454
Net financing income	*15*	**8,795**	2,954
Profit before income tax		**3,850**	68,408
Income tax expense	*16*	**-**	(12,000)
Profit for the year		**3,850**	56,408
Basic earnings per share	*17*	**0.004**	0.056
Proposed dividend per share	*18*	**-**	0.050

The notes on pages 6 to 16 form an integral part of these financial statements.

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

NATIONAL HOSPITALITY INSTITUTE SAOG

Cash flow statement

for the year ended 31 December

	2006 RO	2005 RO
Cash flows from operating activities		
Cash receipts from customers	**713,927**	650,888
Cash paid to suppliers and employees	**(526,361)**	(576,203)
Cash generated from operations	**187,566**	74,685
Net financing income	**8,795**	2,954
Cash flows from operating activities	**196,361**	77,639
Investing activities		
Acquisition of property and equipment	**(26,502)**	(15,893)
Proceeds from sale of property and equipment	**700**	-
Cashflows used in investing activities	**(25,802)**	(15,893)
Financing activities		
Dividends paid	**(50,000)**	-
Cash flows from financing activities	**(50,000)**	-
Net increase in cash and cash equivalents	**120,559**	61,746
Cash and cash equivalents at the beginning of the year	**270,622**	208,876
Cash and cash equivalents at the end of the year	**391,181**	270,622

The notes on pages 6 to 16 form an integral part of these financial statements.
The report of the Auditors is set forth on page 1.

NATIONAL HOSPITALITY INSTITUTE SAOG

Statement of changes in equity
for the year ended 31 December

	Share capital RO	*Special reserve* RO	*Legal reserve* RO	*Proposed distribution* RO	*Retained earnings* RO	*Total* RO
1 January 2005	500,000	4,639	74,253	-	29,546	608,438
Net profit for the year	-	-	-	-	56,408	56,408
Proposed distribution	-	-	-	50,000	(50,000)	-
Transferred to legal reserve	-	(4,639)	10,280	-	(5,641)	
31 December 2005	500,000	-	84,533	50,000	30,313	664,846
Dividend paid during the year				(50,000)		(50,000)
Net profit for the year	-	-	-	-	3,850	3,850
Transfer to legal reserve	-	-	385	-	(385)	-
31 December 2006	**500,000**	**-**	**84,918**	**-**	**33,778**	**618,696**

The notes on pages 6 to 16 form an integral part of these financial statements.

Notes

(forming part of the financial statements)

1 Legal status and principal activities

National Hospitality Institute SAOG ("the Company") is registered as an Omani Joint Stock Company. The principal activity of the Company is the provision of training services in the hospitality & tourism industries.

2 Basis of preparation and significant accounting policies

Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement and functional currency

The financial statements are presented in Rials Omani, which is the Company's functional currency. They are prepared on the historical cost basis.

(c) Use of estimates and judgments

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected. In particular, estimates that involve uncertainties and judgments which have a significant effect on the financial statements include: provisions for impairment of receivables.

Significant accounting policies

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

(a) Property and equipment

(i) *Recognition and measurement*

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses.

Costs include expenditures that are directly attributable to the acquisition of the asset. The cost includes any other cost that is directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

(ii) *Subsequent costs*

The cost of replacing part of an item of property and equipment is recognized in the carrying amount of an item if it is probable that future economic benefits embodied within the part will flow to the company and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognized in the income statement as incurred.

Notes

(forming part of the financial statements)

2 Basis of preparation and significant accounting policies *(continued)*

(a) Property and equipment (continued)

Depreciation

Depreciation is recognised in the income statement on a straight-line basis over the estimated useful lives of each part of the property and equipment. The estimated useful lives for the current and comparative periods are as follows:

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

(b) Trade and other receivables

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

(c) 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.

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 cashflows.

(d) Trade and other payables

Trade and other payables are stated at their cost.

(e) 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 recognized, if there are significant uncertainities regarding recovery of the consideration due or associated costs.

(f) Employee benefits

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

(g) 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 recognized in the income statement as it accrues, taking into account the effective yield on the asset.

(h) Dividends

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

Notes

(forming part of the financial statements)

2 Basis of preparation and significant accounting policies *(continued)*

(i) Income tax

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

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

Deferred tax is calculated using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary difference when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized

(j) Foreign currency transactions

Transactions in foreign currencies are translated to the Company's functional currency at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting dates are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the period. Foreign currency differences arising on retranslation are recognized in the profit or loss

(k) Impairment

(i) Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount, and the present value of estimated future cash flows discounted at the original effective interest rate

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics

All impairment losses are recognized in income statement

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost, the reversal is recognized in the income statement

Notes

(forming part of the financial statements)

2 Basis of preparation and significant accounting policies *(continued)*

(k) Impairment (continued)

(ii) Non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indications exist then the asset's recoverable amount is estimated

An impairment loss is recognized if the carrying amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs to sell. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specified to the asset

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized

(l) 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.

(m) New standards and interpretation not yet effective

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2006, and have not been applied in preparing these financial statements

IFRS 7 Financial Instruments: Disclosures and the Amendments to IAS 1 Presentation of Financial Statements: *Capital Disclosures* require extensive disclosures about the significance of financial instruments for an entity's financial position and performance, and qualitative and quantitative disclosures on the nature and extent of risks. IFRS 7 and amended IAS 1, which become mandatory for the Company's 2007 financial statements, will require extensive additional disclosures with respect to the Company's financial instruments and share capital

IFRIC 7 Applying the Restoration Approach under IAS 29 Financial Reporting in Hyperinflationary Economies addresses the application of IAS 29 when an economy first becomes hyperinflationary and in particular the accounting for deferred tax. IFRIC 7 is not expected to have any impact on the financial statements

IFRIC 8 Scope of IFRS 2 Share-based Payment addresses the accounting for share-based payment transactions in which some or all goods or services received cannot be specifically identified. IFRIC 8 is not expected to have any impact on the financial statements

IFRIC 9 reassessment of Embedded Derivatives requires that a reassessment of whether embedded derivatives should be separated from the underlying host contract should be made only when there are changes to the contract. IFRIC 9 is not expected to have any impact on the financial statements

IFRIC 10 Interim Financial Reporting and Impairment prohibits the reversal of an impairment loss recognized in a previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost. IFRIC 10 will become mandatory for the Company's 2007 financial statements, and will apply to goodwill, investments in equity instruments, and financial assets carried at cost prospectively from the date that the Company first applied the measurement criteria of IAS 36 and IAS 39 respectively (i.e., 1 January 2004)

Notes
(forming part of the financial statements)

2 Basis of preparation and significant accounting policies *(continued)*

(n) Directors' remuneration

The total remuneration paid to non-executive directors comprising sitting fees and remuneration is in accordance with the provisions and is within the limits of the Commercial Companies Law; the CMA guidance; and the Articles of Association of the Company. Directors' remuneration is recongised in the income statement

3 Property and equipment

	Leasehold improvements	Training equipment	Furniture fixtures and office equipment	Motor Vehicles	Total
	RO	RO	RO	RO	RO
Cost					
1 January 2006	109,287	77,280	147,394	14,418	348,379
Additions during the year	220	12,995	13,287	-	26,502
Written off	-	-	(3,000)	-	(3,000)
31 December 2006	109,507	90,275	157,681	14,418	371,881
Depreciation					
1 January 2006	106,050	65,434	132,657	10,066	314,207
Charge for the year	1,986	7,515	8,074	2,884	20,459
Written off	-	-	(3,000)	-	(3,000)
31 December 2006	108,036	72,949	137,731	12,950	331,666
Net carrying amount					
31 December 2006	**1,471**	**17,326**	**19,950**	**1,468**	**40,215**
31 December 2005	3,237	11,846	14,737	4,352	34,172

Leasehold improvements represent expenditure incurred in carrying out improvements to the Company's premises taken on lease. The lease agreement was renewed in 2006 and expires in November 2008.

Notes
(forming part of the financial statements)

4 Trade and other receivables

	2006 RO	2005 RO
Trade receivables	**104,067**	192,730
Less:- Trade receivables written off	**-**	(2,135)
	104,067	190,595
Accrued income	**136,085**	217,319
Prepayments and other receivables	**36,560**	37,469
Amounts due from related parties	**3,229**	1,178
	279,941	446,561

5 Cash and cash equivalents

	2006 RO	2005 RO
Cash balances	**893**	242
Bank balances	**16,132**	31,233
Deposit accounts	**374,156**	239,147
	391,181	270,622

Deposit accounts are maintained with a commercial bank in Oman and earn interest at commercial rates.

6 Trade and other payables

	2006 RO	2005 RO
Trade payables	**6,521**	8,776
Accrued expenses and other payables	**33,580**	27,905
Amounts due to related parties	**5,889**	2,296
Income tax payable	**12,000**	12,000
	57,990	50,977

7 Bank borrowings

The Company has overdraft facilities with commercial banks and interest is charged at commercial rates.

8 Employees' end of service benefits

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

	2006 RO	2005 RO
Accruals as at 1 January	**35,532**	31,298
Accruals during the year	**8,851**	8,823
Payments during the year	**(9,732)**	(4,589)
Accruals as at 31 December	**34,651**	35,532

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 (2003: 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 foundation of the Company. The Company has yet to comply with article 58 of the Commercial Companies Law.

Notes

(forming part of the financial statements)

9 Capital and reserves *(continued)*

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

	2006		2005	
	No. of Shares	**%**	No. of Shares	%
Renaissance Services SAOG	**455,474**	**45.55%**	455,474	45.55%
W J Towell & Co. LLC	**175,000**	**17.50%**	175,000	17.50%
	630,474	**63.05%**	630,474	63.05%

Special reserve

Special reserve represents the excess of share issue expenses collected and interest income over the expenditure incurred during the period from 1 November 1994 to 20 February 1995. The reserve is not available for distribution. During 2005, the balance in special reserve has been transferred to the legal reserve.

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.

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:

	2006	2005
	RO	RO
Net assets attributable to the shareholders of the Company (RO)	**618,696**	664,846
Number of shares outstanding at 31 December	**1,000,000**	1,000,000
Net assets per share (RO)	**0.619**	0.665

11 Operating expenses

Employee related expenses	**157,054**	172,797
Trainees' stipend and training supplies	**132,850**	171,820
Rent	**41,641**	40,710
Utilities	**11,086**	10,888
Depreciation	**9,801**	9,820
Repairs & maintenance	**8,489**	6,145
Miscellaneous	**1,037**	1,709
	361,958	413,889

Notes
(forming part of the financial statements)

12	**Administrative expenses**	**2006**	2005
		RO	RO
	Employee related expenses	**75,967**	76,821
	Management fee	**24,000**	24,000
	Advertisement and promotion	**13,676**	18,778
	Trainee accomodation expenses	**13,086**	10,250
	Depreciation	**10,658**	9,819
	Printing and stationery	**8,006**	10,001
	Insurance	**7,006**	6,015
	Communication charges	**5,833**	5,204
	Legal and professional charges	**5,679**	6,265
	Directors' remuneration & sitting fees	**12,600**	8,950
	Repairs and maintenance	**5,595**	4,927
	Registration expenses	**5,080**	2,642
	Motor vehicle and conveyance	**2,128**	1,870
	Other indirect expenses	**1,013**	2,045
	Travelling and related expenses	**876**	2,319
	Write off of Bad debts	**-**	2,135
		191,203	192,041

13 Employee related expenses

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

Wages and salaries	**161,642**	168,179
Other benefits	**55,727**	68,123
Contribution to defined retirement plan	**5,461**	4,493
Increase in liability for unfunded, defined retirement benefit plan	**8,851**	8,823
	231,681	249,618

The number of employees as at 31st December 2006 was 29 (2005: 26).

14 Other income

Trainee accomodation recoveries	**13,362**	8,278
Miscellaneous	**821**	95
Profit on sale of assets	**700**	-
	14,883	8,373

15 Net financing income

Bank Interest	**9,538**	4,216
Bank charges	**(743)**	(1,262)
Net finance income	**8,795**	2,954

NOTES
(forming part of the financial statements)

16 Income tax

In accordance with the Royal Decree No. 54/2003, income realized 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. Provision for income tax represents expected income tax payable on income earned between 1 January 2003 to 15 September 2003.

17 Basic earnings per share

The calculation of basic earnings per share was based on the net profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding during the year ended 31 December 2006, calculated as follows:

	2006	2005
Net profit attributable to ordinary shareholders (RO)	**3,850**	56,408
Number of shares outstanding at 31 December	**1,000,000**	1,000,000
Basic earnings per share (RO)	**0.004**	0.056

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 duing the year as follows:

Proposed dividend (RO)	**-**	50,000
Weighted average no. of shares outstanding during the year	**1,000,000**	1,000,000
Dividend per share (RO)	**-**	0.050

During 2006, dividends of RO 0.050 per share aggregating to RO 50,000 pertaining to 2005 were paid.

Notes
(forming part of the financial statements)

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 the related parties. The Directors believe that the terms of purchases, sales, and provision of services are comparable with those that could be obtained on 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 :

	2006	2005
	RO	RO
Services rendered	**17,919**	2,239
Services received	**8,437**	12,950
Management fees	**24,000**	24,000

During the year, non executive directors were paid remuneration & sitting fees of RO 12,600 (2005 - RO 8,950).

Compensation of key management personnel

Short-term benefits	**78,250**	93,034
Employees end of service benefits	**5,262**	6,259
	83,512	99,293

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

20 Commitments and contingent liabilities

Letters of guarantee	**17,762**	74,596

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 93% (2005 - 99%) 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.

Notes
(forming part of the financial statements)

21 Financial instruments *(continued)*

Foreign currency risk

Foreign currency risk is minimal as most of the 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 Comparative figures

The corresponding figures for 2005 have been reclassified in order to conform with the presentation for the current year. Such reclassifications do not affect previous reported net profit or shareholders' equity. The financial statements of the Company as at and for the year ended 31 December 2005, were audited by another auditor whose report dated 26 February 2006, expressed an unqualified opinion.