

Taageer Finance Co. SAOC

Financial Statements

31 December 2004

Registered office and principal place of business:

Qurum House
P O Box No. 3509
Postal Code 112, Ruwi
Sultanate of Oman

Taageer Finance Co. SAOC

Financial statements

31 December 2004

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**REPORT OF THE AUDITORS TO THE SHAREHOLDERS OF
TAAGEER FINANCE CO. SAOC**

We have audited the balance sheet of Taageer Finance Co. SAOC (“the Company”), as at 31 December 2004 and the related statements of income, changes in equity and cash flows for the year ended 31 December 2004, set out on pages 2 to 16.

Respective responsibilities of the Board of Directors and Auditors

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.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing as promulgated by the International Federation of Accountants. 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 the Board of Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Taageer Finance Co. SAOC as at 31 December 2004, and the results of its operations, and its cash flows for the year ended 31 December 2004 in accordance with International Financial Reporting Standards adopted by the International Accounting Standards Board and comply, in all material respects, with the Commercial Companies Law of 1974, as amended.

9 February 2005

KPMG

Taageer Finance Co. SAOC

Balance sheet

as at 31 December 2004

	<i>Note</i>	2004 RO'000	2003 RO'000
Assets			
Vehicles and equipment	3	60	53
Net investment in finance leases	4&14	16,638	11,669
Working capital finance receivables		617	729
Receivables and prepayments	5	45	68
Statutory deposit	6	30	30
Bank and cash	7	230	40
Total assets		17,620	12,589
Shareholders' funds and liabilities			
Shareholders' funds			
Share capital	8	5,000	5,000
Legal reserve	9	131	75
Voluntary reserve	10	140	42
Retained earnings		549	414
Total shareholders' funds		5,820	5,531
Liabilities			
Bank borrowings	11	8,927	4,540
Creditors, accruals and other liabilities	12	2,738	2,440
Income tax payable	13	135	78
Total liabilities		11,800	7,058
Total shareholders' funds and liabilities		17,620	12,589
Net asset value per share (RO)	20	1.164	1.106

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

The financial statements were approved by the Board of Directors and authorised for issue on _____ 2005 and signed on their behalf by:

_____ Chairman

_____ Director

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

Taageer Finance Co. SAOC

Income statement

for the year ended 31 December 2004

	<i>Note</i>	2004 RO'000	2003 RO'000
Revenue			
Lease income		1,890	1,135
Interest income		3	2
		<u>1,893</u>	<u>1,137</u>
Expenses			
General and administrative expenses	<i>15</i>	526	386
Depreciation	<i>3</i>	37	27
Interest expense		415	123
		<u>978</u>	<u>536</u>
Operating profit before provisions		915	601
Impairment for doubtful lease contract receivables	<i>4</i>	(250)	(125)
Operating profit after impairment but before income tax		665	476
Income tax	<i>13</i>	(110)	(69)
Net profit for the year		<u>555</u>	<u>407</u>
Basic earnings per share (baiza)	<i>19</i>	<u>111</u>	<u>81</u>

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Statement of changes in equity

for the year ended 31 December 2004

	<i>Note</i>	<u>Share capital</u> RO'000	<u>Legal reserve</u> RO'000	<u>Voluntary reserve</u> RO'000	<u>Retained earnings</u> RO'000	<u>Total</u> RO'000
1 January 2003		5,000	34	42	310	5,386
Net profit for the year		-	-	-	407	407
Transfer to legal reserve	9		41		(41)	-
Dividend paid	8				(250)	(250)
Directors' remuneration	9	-	-	-	(12)	(12)
		<u>5,000</u>	<u>75</u>	<u>42</u>	<u>414</u>	<u>5,531</u>
31 December 2003		<u>5,000</u>	<u>75</u>	<u>42</u>	<u>414</u>	<u>5,531</u>
1 January 2004		5,000	75	42	414	5,531
Net profit for the year		-	-	-	555	555
Transfer to legal reserve	9	-	56	-	(56)	-
Transfer to voluntary reserve		-	-	98	(98)	-
Dividend paid	8	-	-	-	(250)	(250)
Directors' remuneration	8	-	-	-	(16)	(16)
		<u>5,000</u>	<u>131</u>	<u>140</u>	<u>549</u>	<u>5,820</u>
31 December 2004		<u>5,000</u>	<u>131</u>	<u>140</u>	<u>549</u>	<u>5,820</u>

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

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Cash flow statement

for the year ended 31 December 2004

	2004 RO'000	2003 RO'000
Operating activities		
Interest and rental receipts	1,893	1,137
Interest paid	(415)	(123)
Cash paid to suppliers and employees	(457)	(401)
	<u>1,021</u>	<u>613</u>
Changes in operating assets and liabilities		
Lease receivable	(5,107)	(5,806)
Bank borrowings	4,275	3,983
Creditors	252	939
	<u>(580)</u>	<u>(884)</u>
Net cash from operating activities before tax	(580)	(884)
Income tax paid	(53)	(19)
Directors remuneration	(16)	(12)
	<u>372</u>	<u>(302)</u>
Cash flows from operating activities	372	(302)
Investing activities		
Purchase of vehicles and equipment	(44)	(43)
	<u>(44)</u>	<u>(43)</u>
Cash flows from investing activities	(44)	(43)
Financing activities		
Dividend paid	(250)	(250)
	<u>(250)</u>	<u>(250)</u>
Net change in cash and cash equivalents	78	(595)
Cash and cash equivalents at beginning of the year	(217)	378
	<u>(139)</u>	<u>(217)</u>
Cash and cash equivalents at end of the year	(139)	(217)
Cash and cash equivalents at the end of the year comprise:		
Bank and cash	230	40
Bank overdrafts	(369)	(257)
	<u>(139)</u>	<u>(217)</u>
	<u><u>(139)</u></u>	<u><u>(217)</u></u>

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

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Taageer Finance Co. SAOC

Notes

forming part of the financial statements

1 **Legal status and principal activities**

Taageer Finance Co. SAOC (“the Company”) is a closed joint stock company. The Company is engaged in the business of providing leasing, debt factoring, bridge loan and construction loans in the Sultanate of Oman.

2 **Principal accounting policies**

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) adopted by the International Accounting Standards Board (“IASB”), and the requirement of the Commercial Companies Law of 1974, as amended.

Basis of preparation

The financial statements are presented in Omani Rials, rounded to the nearest thousand. They are prepared on the historical cost basis.

The accounting policies have been consistently applied during the year in dealing with items which are considered material in relation to the Company’s financial statements.

Leases and lease income

Assets owned by the Company but subject to finance leases are included in the financial statements as “investment in finance leases” at an amount equivalent to the net investment in the leases.

The Company follows the “sum of the digits method” in accounting for recognition of lease income. At the commencement of a lease, the total unearned lease income consists of the excess of aggregate lease contract receivables over the cost of the leased assets. The unearned lease income is taken into income over the term of the lease, starting with the month in which the lease is executed, so as to produce a systematic return on the net investment in the lease.

Impairment for doubtful lease contract receivables

Impairment is made in these financial statements for potential doubtful lease contract receivables which are identified on a detailed review of leases.

Working capital finance receivables and interest income

Receivables arising from working capital finance, debt factoring, bridge finance and construction loan activities are stated at cost less impairment losses.

Interest income earned is accrued based on the application of the contracted rate to the actual daily outstanding. Service charges are recognised as income at the time of the transaction.

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2 Principal accounting policies *(continued)*

Vehicles and equipment

Vehicles and equipment are stated at cost less accumulated depreciation and impairment losses.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of plant and equipment. All other expenditure is recognised in the income statement as an expense as incurred.

The cost of vehicles and equipment is written off in equal instalments over their estimated useful economic lives as follows:

	<i>Years</i>
Motor vehicles	3
Office equipment	3-4
Furniture and fittings	4

Other receivables

Other receivables are stated at their cost less impairment losses.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and bank deposits. 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.

Impairment

The carrying amounts of the Company's assets, other than net investment in finance leases [refer policy above] are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised in the income statement whenever the carrying amount of an asset exceeds its recoverable amount.

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 cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market 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.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the assets' carrying amount does not exceed the carrying amount that would have been determined net of depreciation or amortisation, if no impairment loss has been recognised.

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2 **Principal accounting policies** *(continued)*

Dividends

Dividends are recognised as a liability in the year in which they are declared.

Offsetting of financial assets and financial liabilities

A financial asset and a financial liability is offset and the net amount reported in the balance sheet, if the Company has the legal enforceable right to set off the transaction and also intends either to settle on a net basis or realise the asset and settle the liability simultaneously.

Trade and other payables

Trade and other payables are stated at their cost.

Interest bearing borrowings

Interest-bearing borrowings are recognised initially at cost, less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest method.

Interest expense on interest-bearing borrowings is recognised in the income statement as it accrues using the effective interest rate method.

Employee terminal benefits

Contributions to a defined contribution retirement plan, for Omani employees in accordance with the 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 Omani Labour Laws and is based on the liability that would arise if the employment of all employees were terminated at the balance sheet date.

Directors' remuneration

In accordance with the Commercial Companies Law of 1974, Directors' remuneration is shown as an appropriation of profit instead of an expense.

Provision

A provision is recognised in the balance sheet when the Company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

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2 Principal accounting policies (continued)

Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax 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 payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet 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. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet 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 asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Foreign currency

Transactions denominated in foreign currencies are translated to Rials 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 translated to Rials Omani at the foreign exchange rates ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

3 Vehicles and equipment

	<u>Motor vehicles</u> RO'000	<u>Office equipment</u> RO'000	<u>Furniture and fittings</u> RO'000	<u>Total</u> RO'000
<i>Cost</i>				
1 January 2004	7	58	31	96
Additions during the year	15	17	12	44
31 December 2004	<u>22</u>	<u>75</u>	<u>43</u>	<u>140</u>
<i>Depreciation</i>				
1 January 2004	6	28	9	43
Charge for the year	6	20	11	37
31 December 2004	<u>12</u>	<u>48</u>	<u>20</u>	<u>80</u>
<i>Net book value</i>				
31 December 2004	<u>10</u>	<u>27</u>	<u>23</u>	<u>60</u>
31 December 2003	<u>1</u>	<u>30</u>	<u>22</u>	<u>53</u>

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4	Net investment in finance leases	2004	2003
		RO'000	RO'000
	Lease contracts receivable	19,792	14,075
	Unearned lease income	(2,724)	(2,226)
	Impairment for doubtful lease contract receivables	(430)	(180)
		<u>16,638</u>	<u>11,669</u>
		<u><u>16,638</u></u>	<u><u>11,669</u></u>

At 31 December 2004, lease contract receivables which was impaired on which interest has been reserved is included in unearned lease income in the amount of RO 47,000 (2003: RO 26,000).

Unearned lease income:

1 January	2,226	1,260
Addition during the year	2,098	1,983
Recognized during the year	(1,600)	(1,017)
	<u>2,724</u>	<u>2,226</u>
31 December	<u><u>2,724</u></u>	<u><u>2,226</u></u>

Impairment for doubtful lease contract receivables

1 January	180	55
Provided during the year	250	125
	<u>430</u>	<u>180</u>
31 December	<u><u>430</u></u>	<u><u>180</u></u>

5 Receivables and prepayments

Accrued interest	1	1
Prepaid expenses	29	17
Others	15	50
	<u>45</u>	<u>68</u>
	<u><u>45</u></u>	<u><u>68</u></u>

6 Statutory deposit

The Company is required to maintain a deposit of RO 30,000 with the Central Bank of Oman in accordance with the licensing regulations. During the year, the deposit earned interest at the rate of 2% per annum (2003: 2.5%).

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7	Bank and cash	2004 RO'000	2003 RO'000
	Deposits	115	6
	Current accounts	104	32
	Cash on hand	11	2
		230	40
		230	40

Deposit accounts bear interest at rates ranging between 0.5% and 0.75% per annum (2003: 0.50% and 0.75%).

8 Share capital

The Company's authorised share capital consists of 10 million ordinary shares of RO 1 each. The issued, subscribed and fully paid up share capital is RO 5 million comprising 5 million shares of RO 1 each.

Shareholder's who own 10% or more of the Company's share capital at 31 December 2003 are:

	<u>2004</u>		<u>2003</u>	
	<i>Shares held</i>	%	<i>Shares held</i>	%
The Arab Investment Company S.A.A.	1,500,000	30	1,500,000	30
Al Madina Financial & Investment Services Co. SAOC	1,350,000	27	1,350,000	27
Iran Foreign Investment Co.	1,000,000	20	1,000,000	20
	1,000,000	20	1,000,000	20
	1,000,000	20	1,000,000	20

Directors' remuneration

In accordance with the Commercial Companies Law of 1974, Directors remuneration is accounted for an appropriation instead of an expense. For the year 2004, the Board of Directors have recommended Directors' remuneration in the amount of RO 40,000 pending approval of shareholders (2003: RO 16,000).

Proposed dividend

For the year 2004, the Board of Directors have recommended a proposed dividend of RO 375,000 pending approval of shareholders (2003: RO 250,000).

9 Legal reserve

In accordance with Article 106 of the Commercial Companies Law of Oman 1974, annual appropriations of 10% of the profit for the period, are made to this legal reserve until the accumulated balance of the reserve is equal to one third of the Company's share capital. This reserve is not available for distribution.

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10 Voluntary reserve

The excess of “share issue expenses” received from the Founder Shareholders subscription and bank interest on bank deposits over pre-operating expenses up to 15 November 2000 had been transferred to a voluntary reserve. During the year, the Board of Directors of the Company decided to transfer an additional amount of RO 98,000 to the voluntary reserve. This reserve is earmarked for the purpose of meeting any future contingencies and inherent risk in the lease portfolio. This reserve will not be available for distribution.

11 Bank borrowings	2004 RO'000	2003 RO'000
Overdrafts	369	257
Short-term loans	999	250
Long-term loans	7,559	4,033
	<u>8,927</u>	<u>4,540</u>
Total	<u>8,927</u>	<u>4,540</u>

The Company has borrowing facilities with commercial banks in the aggregate amount of approximately RO 12.22 million (2003: RO 5.320 million). During the year interest was charged, on overdrafts at an average rate of 7.65% per annum on short-term loans at rates ranging between 3% and 5% per annum and on long-term loans at rates ranging between 2.75% and 7.50% per annum.

All borrowings, at the balance sheet date, are secured by pari-passu charge over the receivables of the Company.

12 Creditors, accruals and other liabilities

Leased assets payable	2,616	2,364
Accruals for expenses	111	68
Employees terminal benefits	11	8
	<u>2,738</u>	<u>2,440</u>

13 Income tax

Provision for income tax during the period has been made at 12% of taxable profits in excess of RO 30,000 in accordance with the income tax law of the Sultanate of Oman. The following is a reconciliation of income taxes calculated at the applicable tax rate with the income tax expense:

Profit before income tax	665	476
	<u>665</u>	<u>476</u>
Tax at the rates mentioned above	76	54
Contingencies	34	15
	<u>110</u>	<u>69</u>
Income tax expense	<u>110</u>	<u>69</u>

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13 Income tax (continued)

The Company's assessment for the tax period 2001 and tax year 2002 have not yet been finalised with the Secretariat General of Taxation at the Ministry of Finance. The Board of Directors believe that additional taxes, if any, in respect of the open tax year would not be material to the Company's financial position at 31 December 2004.

14 Related party transactions

The Company has entered into transactions in the ordinary course of business with entities in which certain Directors have a significant influence. Interest charged on long-term loan and other transactions are on terms, which the Directors believe correspond to terms of normal arm's length transactions with third parties. The nature of significant related party transactions during the period were approximately as follows:

	2004	2003
	RO'000	RO'000
Lease income	12	22
Net investment in finance leases	94	232
	<u> </u>	<u> </u>
Sitting fees paid to Directors	10	8
Hotel expenses reimbursed to the Directors	3	4
Air travel expenses reimbursed to the Directors	6	4
	<u> </u>	<u> </u>
	19	16
	<u> </u>	<u> </u>
15 General and administrative expenses		
Personnel costs	334	248
Occupancy costs	28	21
Professional fees and subscriptions	32	24
Directors' sitting fees	10	8
Advertising and sales promotion	31	26
Communication costs	19	13
Other office expenses	72	46
	<u> </u>	<u> </u>
	526	386
	<u> </u>	<u> </u>
Personnel cost		
Wages and salaries	288	203
Other benefits	34	37
Contributions to defined contributions retirement plan	6	4
Liability for unfunded defined benefit retirement plan	6	4
	<u> </u>	<u> </u>
	334	248
	<u> </u>	<u> </u>

The number of employees as at 31 December 2004 was 34 (2003: 31).

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15 General and administrative expenses (continued)

Public Authority for Social Insurance Scheme ("the Scheme")

The Company contributes to the Scheme for all Omani employees. The Scheme, which is a defined contributions retirement plan, is administered by the Government of Oman. The Company and Omani employees are required to make monthly contributions to the Scheme based on fixed percentages of basic salaries.

Non Omani employee terminal benefits

The provision for end of service benefits for non-Omani employees is made in accordance with the requirements of Oman Labour Law of 1973. This is an unfunded defined benefits retirement plan. Employees are entitled to benefits based on length of service and final remuneration. Accrued staff terminal benefits are payable on termination of employment.

16 Contingent liabilities

The company has provided counter guarantee to a commercial bank to the extent of RO 8,465 in respect of performance bonds issued by the banks on behalf of Company's customers.

17 Analysis of significant assets and liabilities

a) Maturity analysis

	2004				2003			
	Assets		Liabilities		Assets		Liabilities	
	Gross investment	Bank and finance	Creditors, accruals and Bank other lia-		Gross investment	Bank and finance	Creditors, accruals and Bank other lia-	
	<u>cash</u>	<u>leases</u>	<u>borrowings</u>	<u>bilities</u>	<u>cash</u>	<u>leases</u>	<u>borrowings</u>	<u>bilities</u>
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
<i>Maturity</i>								
0-12 months	230	8,727	4,630	2,738	40	5,918	507	2,440
1-2 years	-	5,715	2,483	-	-	4,137	1,763	-
2-3 years	-	3,709	1,347	-	-	2,785	1,300	-
3-4 years	-	1,808	467	-	-	1,405	970	-
Over 4 years	-	450	-	-	-	559	-	-
	230	20,409	8,927	2,738	40	14,804	4,540	2,440

b) Interest rate analysis

Effective interest rate

0% - less than 5%	230	-	1,838	2,738	40	-	763	2,440
5% - less than 15%	-	20,409	7,089	-	-	14,804	3,777	-
	230	20,409	8,927	2,738	40	14,804	4,540	2,440

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17 Analysis of significant assets and liabilities (continued)

c) Customer concentration

Gross investment in Finance Lease

	2004	2003
	RO'000	RO'000
Personal	8,588	6,807
Corporate	11,204	7,268
	<u>19,792</u>	<u>14,075</u>
	<u><u>19,792</u></u>	<u><u>14,075</u></u>
Working capital finance receivables		
Corporate	617	729
	<u>617</u>	<u>729</u>
	<u><u>617</u></u>	<u><u>729</u></u>

d) Economic sector concentration of gross investment in finance leases

Gross investment in finance lease:

Manufacturing	9,098	333
Trading & Constructing	509	2,002
Services	7,544	5,175
Consumer	2,641	6,565
	<u>19,792</u>	<u>14,075</u>
	<u><u>19,792</u></u>	<u><u>14,075</u></u>
Working capital finance receivables:		
Manufacturing	87	485
Trading & Constructing	495	228
Services	35	16
	<u>617</u>	<u>729</u>
	<u><u>617</u></u>	<u><u>729</u></u>

18 Financial instruments

Financial assets of the Company include cash and bank balances, net investments in finance leases and receivables. Financial liabilities include creditors and bank overdrafts.

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

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18 Financial instruments (continued)

Credit risk

Credit risk arises from the possibility of asset impairment occurring because counter parties cannot meet their obligations in transactions involving financial instruments. The Company has established procedures to manage credit exposure including credit approvals, credit limits, collateral and guarantee requirements.

Interest rate risk

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

Foreign currency risk

The foreign currency risk is minimal as all the transactions are incurred in Rials Omani.

Fair value

The Directors consider the fair values of all financial assets and liabilities to approximate their carrying value.

19 Earnings per share

Basic earnings per share is calculated by dividing the net profit for the year by the average number of shares outstanding during the year as follows:

	2004	2003
	RO'000	RO'000
Net profit for the year	555	407
Number of shares outstanding at 31 December	5,000	5,000
Basic earnings per share (baiza)	111	81

20 Net assets per share

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

Net assets	5,820	5,531
Number of shares outstanding at 31 December	5,000	5,000
Net assets per share (RO)	1.164	1.106

21 Comparative figures

Certain comparative figures have been reclassified to conform to the presentation adopted in these financial statements.