NATIONAL FINANCE COMPANY SAOG

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007

Registered office:
P.O. Box 1706,
PC 112, Ruwi
Sultanate of Oman

Principal place of business:
Head Office
Al Khuwair
Sultanate of Oman

NATIONAL FINANCE COMPANY SAOG

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

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Independent auditor's report to the shareholders of National Finance Company SAOG

We have audited the accompanying financial statements of National Finance Company SAOG (the company) which comprise the balance sheet as at 31 December 2007 and the income statement, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the disclosure requirements of the Capital Market Authority and the Commercial Companies Law of 1974, as amended. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the company as at 31 December 2007, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other legal and regulatory requirements

Further, as required by the Rules and Guidelines on Disclosure by Issuers of Securities and Insider Trading ('R&G') issued by the Capital Market Authority ('CMA') of the Sultanate of Oman, we report that the financial statements have been properly prepared in accordance with the R&G, with the Rules for Disclosure and Proformas issued by the CMA and with the Commercial Companies Law of 1974 as amended.

PricewaterhouseCoopers LLP

12 February 2008
Muscat, Sultanate of Oman

NATIONAL FINANCE COMPANY SAOG

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2007

2006 USD'000	2007 USD'000		Note	2007 RO'000	2006 RO'000
		Revenue			
8,624	**11,851**	Income from financing activities		**4,558**	3,317
1,274	**1,238**	Other income	6	**476**	490
9,898	**13,089**			**5,034**	3,807
		Expenses			
2,473	**4,144**	Interest expense		**1,594**	951
3,824	**4,607**	General and administrative expenses	7	**1,772**	1,471
450	**(322)**	Provision for impairment of lease receivables - net	12	**(124)**	173
8	**10**	Bad debts written off		**4**	3
177	**187**	Depreciation on property and equipment	15	**72**	68
6,932	**8,626**			**3,318**	2,666
2,966	**4,463**	**Profit before taxation**		**1,716**	1,141
(361)	**(543)**	Taxation	8	**(209)**	(139)
2,605	**3,920**	**Profit for the year**		**1,507**	1,002
USD 0.29	**USD 0.43**	**Earnings per share**	9	**RO 0.166**	RO 0.111

The notes on pages 6 to 31 form an integral part of these financial statements.

Report of the Auditors - page 1.

NATIONAL FINANCE COMPANY SAOG

BALANCE SHEET AS AT 31 DECEMBER 2007

2006 USD'000	2007 USD'000		Note	2007 RO'000	2006 RO'000
		Assets			
1,105	**907**	Cash and bank balances	10	**349**	425
130	**130**	Statutory deposit	11	**50**	50
84,939	**129,582**	Net investment in finance leases	12	**49,839**	32,669
49	**-**	Working capital finance		**-**	19
2,122	**3,328**	Advances and prepayments		**1,281**	816
434	**434**	Property pending sale	13	**167**	167
1,672	**1,623**	Deferred tax asset	14	**624**	643
975	**3,274**	Property and equipment	15	**1,259**	375
91,426	**139,278**			**53,569**	35,164
		Equity			
18,837	**23,546**	Share capital	16	**9,056**	7,245
-	**2,114**	Revaluation reserve	17	**813**	-
2,535	**2,927**	Legal reserve	18	**1,126**	975
398	**398**	Foreign currency reserve	19	**153**	153
6,924	**4,799**	Retained earnings		**1,846**	2,663
28,694	**33,784**	**Total equity**		**12,994**	11,036
		Liabilities			
5,350	**6,939**	Creditors and accruals	20	**2,669**	2,058
255	**333**	Staff terminal benefits	21	**128**	98
1,643	**1,422**	Provision for income tax		**547**	632
55,344	**81,289**	Bank borrowings	22	**31,265**	21,286
-	**15,084**	Fixed deposits	23	**5,802**	-
140	**427**	Deferred tax liability	14	**164**	54
62,732	**105,494**	**Total liabilities**		**40,575**	24,128
91,426	**139,278**	**Total equity and liabilities**		**53,569**	35,164

The financial statements on pages 2 to 31 were approved and authorised for issue by the Board of Directors on 29 January 2008 and signed by:

TAYA BIN JANDAL BIN ALI
CHAIRMAN

ROBERT PANCRAS
GENERAL MANAGER

The notes on pages 6 to 31 form an integral part of these financial statements.

NATIONAL FINANCE COMPANY SAOG

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2007

	Share capital	Revaluation reserve	Legal reserve	Foreign currency reserve	Special reserve	Retained earnings	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
1 January 2006	7,245	-	875	153	1,000	761	10,034
Profit for the year and total recognised income	-	-	-	-	-	1,002	1,002
Transfer to legal reserve	-	-	100	-	-	(100)	-
Transfer to retained earnings	-	-	-	-	(1,000)	1,000	-
31 December 2006 (RO'000)	7,245	-	975	153	-	2,663	11,036
31 December 2006 (USD'000)	18,837	-	2,535	398	-	6,924	28,694
1 January 2007	7,245	-	975	153	-	2,663	**11,036**
Issue of bonus shares	1,811	-	-	-	-	(1,811)	**-**
Dividend paid	-	-	-	-	-	(362)	**(362)**
Profit for the year and total recognised income	-	-	-	-	-	1,507	**1,507**
Transfer to legal reserve	-	-	151	-	-	(151)	**-**
Revaluation reserve	-	813	-	-	-	-	**813**
31 December 2007 (RO'000)	**9,056**	**813**	**1,126**	**153**	**-**	**1,846**	**12,994**
31 December 2007 (USD'000)	**23,546**	**2,114**	**2,927**	**398**	**-**	**4,799**	**33,784**

The notes on pages 6 to 31 form an integral part of these financial statements.

Report of the Auditors - page 1.

NATIONAL FINANCE COMPANY SAOG

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2007

2006 USD'000	2007 USD'000		Note	2007 RO'000	2006 RO'000
(12,171)	**(35,343)**	**Cash used in operations**	24(a)	**(13,593)**	(4,681)
(2,473)	**(4,008)**	Interest paid		**(1,541)**	(951)
(83)	**(718)**	Income tax paid		**(276)**	(32)
(14,726)	**(40,069)**	**Net cash used in operating activities**		**(15,410)**	(5,664)
		Cash flows from investing activities			
(434)	**-**	Property pending sale		**-**	(167)
(52)	**-**	Statutory deposit		**-**	(20)
(218)	**(83)**	Purchase of property and equipment		**(32)**	(84)
(705)	**(83)**	**Net cash used in investing activities**		**(32)**	(271)
		Cash flows from financing activities			
20,519	**22,732**	Bank borrowings		**8,742**	7,892
(4,160)	**14,950**	Fixed deposits		**5,750**	(1,600)
-	**(941)**	Dividend paid		**(362)**	-
16,359	**36,741**	**Net cash from financing activities**		**14,130**	6,292
928	**(3,411)**	**Net change in cash and cash equivalents**		**(1,312)**	357
(268)	**660**	Cash and cash equivalents at the beginning of the year		**254**	(103)
660	**(2,751)**	**Cash and cash equivalents at the end of the year**	24(b)	**(1,058)**	254

The notes on pages 6 to 31 form an integral part of these financial statements.

Report of the Auditors - page 1.

1 Legal status and principal activities

National Finance Company SAOG (the Company) is an Omani joint stock company registered under the Commercial Companies Law of the Sultanate of Oman and has a primary listing on the Muscat Security Market. The principal activity of the company is leasing business. The company derives all of its income from leasing operations within the Sultanate of Oman.

2 Summary of significant accounting policies

The principal accounting policies are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated.

2.1 Basis of preparation

These financial statements are prepared on the historical cost basis, as modified by the revaluation of land and buildings and in accordance with International Financial Reporting Standards (IFRS) and comply with the disclosure requirements set out in the “Rules and Guidelines on Disclosure by issuer of Securities and Insider Trading” issued by the Capital Market Authority (CMA) of the Sultanate of Oman.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

(a) Standards and interpretations effective in 2007 and applied by the Company

IFRS 7 - Financial instruments: Disclosures, and the complementary amendment to IAS 1 – Presentation of financial statements - Capital disclosures introduce new disclosures relating to financial instruments and do not have any impact on the classification and valuation of the Company’s financial statements.

(b) Standards and interpretations effective in 2007 but not relevant

IFRIC 7, Applying the restatement approach under IAS 29, Financial reporting in hyperinflationary economies;
IFRIC 8, Scope of IFRS 2;
IFRIC 9, Reassessment of embedded derivative;
IFRIC 10, Interim financial reporting and impairment;
IFRIC 11, IFRS 2 - Treasury share transactions; and
IFRS 4, Insurance contracts.

(c) Standards, amendments and interpretations issued that are not yet effective and not relevant for the Company's operations

IFRS 8, Operating segments (effective 1 January 2009);
IAS 23 (Amendment), Borrowing costs (effective from 1 January 2009);
IFRIC 14, IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction (effective from 1 January 2008);
IFRIC 12, Service Concession Arrangements (effective 1 January 2008); and
IFRIC 13, Customer loyalty programmes (effective from 1 July 2008).

2 Summary of significant accounting policies (continued)

2.2 Leases and lease income

Assets owned by the Company but subject to a finance lease, are included in the financial statements as net investment in finance leases. The present value of the lease payments plus initial direct costs is recognised as a receivable and the difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Initial direct costs include amounts such as commissions, legal fees and internal costs that are directly attributable to negotiating and arranging a lease. Income from finance leases represents gross earnings on finance leases allocated to the period of the lease using the net investment method, which reflects a constant periodic rate of return, unless collectability is in doubt.

2.3 Impairment of financial assets

Assets carried at amortised cost

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the company about the following loss events:

(i) significant financial difficulty of the borrower;

(ii) a breach of contract, such as a default or delinquency in interest or principal payments;

(iii) the company granting to the borrower, for economic or legal reasons relating to the borrower’s financial difficulty, a concession that the Company would not otherwise consider;

(iv) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

(v) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including adverse changes in the payment status of borrowers in the group; or national or local economic conditions that correlate with defaults on the assets in the group.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the assets’carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

2 Summary of significant accounting policies (continued)

2.3 Impairment of financial assets (continued)

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the company's grading process that considers asset type, industry, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Company and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data, including peer statistics, to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, payment status or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Company to reduce any differences between loss estimates and actual loss experience.

When a receivable is known to be uncollectible, all the necessary legal procedures have been completed, and the final loss has been determined, the receivable is written off against the related provision for loan impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

2.4 Property and equipment

Land and buildings are shown at fair value, based on valuations by external independent valuers, less subsequent depreciation for buildings. Any accumulated depreciation at the date of valuation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset. All other property and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as separate assets, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance expenses are charged to the income statement during the financial period in which they are incurred

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

	Years
Buildings	10
Furniture, fixtures and equipment	4
Motor vehicles	3

Freehold land and capital work-in-progress are not depreciated.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Where the carrying amount of an asset is greater than its estimated recoverable amount it is written down immediately to its recoverable amount.

Gains and losses on disposals of property and equipment are determined by reference to their carrying amounts and are taken into account in determining operating profit.

2 Summary of significant accounting policies (continued)

2.5 Cash and cash equivalents

Cash and cash equivalents comprise cash and bank balances. Bank overdrafts 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 cash flow statement.

2.6 Borrowings

Borrowings are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

2.7 Assets held for sale

Assets held for sale represent repossessed collateral and are initially recognised at cost, being the fair value of the consideration given, and subsequently measured at the lower of cost and net realisable value. Write-downs to adjust the cost to net realisable value are recognised in the income statement in the year they arise.

2.8 Creditors and accruals

Liabilities are recognised for amounts to be paid in future for goods or services received, whether billed by the supplier or not.

2.9 Employee terminal benefits

End of service benefits are accrued in accordance with the terms of employment of the Company's employees at the balance sheet date, having regard to the requirements of the Oman Labour Law 2003 as amended. Employee entitlements to annual leave are recognised when they accrue to employees and an accrual is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Contributions to a defined contribution retirement plan and occupational hazard insurance for Omani employees in accordance with the Omani Social Insurances Law of 1991, are recognized as an expense in the income statement as incurred.

2.10 Foreign currency transactions

(a) Functional and presentation currency

Items included in the Company's financial statements are measured using Rial Omani which is the currency of the Sultanate of Oman, being the economic environment in which the Company operates (the financial currency). The financial statements are prepared in Rial Omani, rounded to the nearest thousand. Amounts in United States Dollar (USD) are shown in these financial statements for illustrative purposes only and are calculated using an exchange rate of USD 2.60 to 1 Rial Omani.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

2 Summary of significant accounting policies (continued)

2.11 Taxation

Income tax on the result for the year comprises current and deferred tax. 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 provided in full using the liability method, providing for temporary differences between the carrying amounts for financial reporting purposes and the tax bases. 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.

2.12 Dividend distribution

The Company's dividend distribution policy encompasses the following factors:

(a) provide shareholders a reasonable return commensurate with the size of their investment in the Company; and
(b) build reserves to achieve a strong capital base.

After due consideration of the above factors the Company's management proposes the amount of dividend to the Executive Committee of the Board for their further recommendation to the Board and shareholders at the Annual General Meeting subject to the approval of the Central Bank of Oman.

2.13 Directors' remuneration

The Directors' remuneration is governed as set out by the Commercial Companies Law and the rules prescribed by the Capital Market Authority.

The Annual General Meeting shall approve the remuneration and the sitting fees for the Board of Directors and its sub-committees provided that such fees shall not exceed 5% of the annual net profit after deduction of the legal reserve and the optional reserve and the distribution of dividends to the shareholders. Such fees shall not exceed RO 200,000 in one year. The sitting fees for each Director shall not exceed RO 10,000 in one year.

3 Financial risk management

The Company believes that sound risk management practices are imperative in ensuring that strong results can be delivered to stakeholders. The Company aims to ensure that its risk management structure provides the infrastructure for it to be able to implement best practices according to the size of its operations.

The Company aims to follow a strategy of incurring low levels of risk in order to reduce its vulnerability to adverse market conditions and this is reflected in the risk appetite set by the Board of Directors and implemented by Management. The low assumption of risk is mainly achieved through diversification of the asset portfolio.

Risk management functions are carried by the Management Committee. The Company has independent policies and procedures which address the various risks arising out of credit risks, liquidity risks and interest rate risks which are the significant risks faced in the Company's business.

3 Financial risk management (continued)

3.1 Credit risk

As the Company's core business is lease financing, credit risk forms the major risk to which the Company is exposed. Credit risk is the risk that a counterparty will cause financial loss to the Company by failing to discharge an obligation. The Company does not consider credit risk with respect to balances placed with banks to be significant in view of (a) the materiality of such amounts; and (b) these counterparties are reputable financial institutions in the Sultanate of Oman with good credit standing.

The Company employs a range of policies and practices to manage, limit and control concentration of credit risk to individual counter parties, groups and industries with respect to its lease receivables.

The level of credit risk in relation to each individual counterparty and its associates is structured by placing a maximum ceiling on exposure levels for each grade. Such risks are monitored on a regular basis and review reports are placed before the Board of Directors.

3.1.1 Credit risk measurement

The Company's credit policy aims to ensure that the target portfolio credit loss will be less than 1% of the portfolio for the current size and structure of the portfolio and the macro economic situation. The Board of Directors reviews this loss norm annually along with the management.

In case of the portfolio of exposure to small and medium size enterprises (SMEs), the credit risk for individual counterparties are assessed at inception of the lease through a grading methodology tailored to various categories of counterparties. These have been developed internally and the customers are rated on certain predefined financial and non financial parameters. The grading takes into account the customers experience in similar business, management quality, net worth, availability of audited financials, key performance indicators and vital ratios, trade references, industry in which the customer operates and its vulnerability to economic downturn and customer's past track record with the Company (in case of existing clients), etc. The grading parameters are reviewed annually and amended as considered appropriate in line with the Company's assessment of market risk trends.

Credit risk in the case of the retail portfolio at the inception of the lease is assessed on the basis of the net disposable income of the counterparty, stability of employment in case of salaried clients and income levels from business /other sources for other categories of customers.

3.1.2 Credit risk control and mitigation policies

The Company's portfolio comprises lease of vehicles and equipment wherein the lending is collaterised by the assets financed. The Company holds collaterals in respect of lease receivable exposures in the form of joint title to the vehicles and equipment financed. The values against these collaterals are written down on a yearly basis based on the estimated useful life of these assets and considering guidelines issued by the Central Bank of Oman. In addition to these collaterals, the Company also holds additional security in the form of property collaterals for certain leases in order to strengthen its risk position.

In order to minimise credit loss, wherever deemed necessary, additional credit enhancements in the form of charge on immoveable and moveable assets, personal guarantees of the major shareholders, corporate guarantee of the parent company in case of group exposures, key man life insurance, assignment of contract proceeds, etc are obtained.

The Company's credit policy identifies certain category of customers as "negative customers" and they are not considered for financial assistance. These include known defaulters, customers with poor market standing, statistics published by the Central Bank of Oman, etc.

The repayments are primarily through post dated cheques. Dishonored cheques are monitored closely and follow up is ensured.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007 (continued)

3 Financial risk management (continued)

3.1.2 Credit risk control and mitigation policies (continued)

The Company has clear policies in place to identify early warning signals and to initiate appropriate and timely remedial actions. Some of the early warning indicators are listed below:

- frequent dishonor of cheques
- inability to reach the customer over phone or in person
- lack of response to written communications
- utilised limits in excess of authorised limits as disclosed by BCSB data
- inability to obtain current financials
- adverse market feedback

3.1.3 Impairment and provisioning policies

The Company has its lease receivable impairment policy as set out in note 2.3 in evaluating its portfolio at each reporting date for impairment. Under this policy the portfolio exposures are individually and/or collectively grouped under 4 grades, i.e. A, B, C and D; with A being the portion of the portfolio that has the highest asset quality and D being the category of the portfolio that has the lowest asset quality.

The table below sets out the Company's exposure and provision held against these grades where it may be noted that the majority of the impairment provision in both years arises on the D category:

	2007		2006	
Grade	**RO'000**	**RO'000**	RO'000	RO'000
	Exposure	**Provision**	Exposure	Provision
A	**49,625**	**1,104**	31,638	712
B	**760**	**138**	1,072	167
C	**159**	**35**	279	95
D	**5,227**	**4,540**	5,903	5,165
Total	**55,771**	**5,817**	38,892	6,139

	2007		2006	
Grade	**USD'000**	**USD'000**	USD' 000	USD' 000
	Exposure	**Provision**	Exposure	Provision
A	**129,025**	**2,870**	82,259	1,851
B	**1,976**	**359**	2,787	434
C	**413**	**91**	725	247
D	**13,590**	**11,804**	15,348	13,429
Total	**145,004**	**15,124**	101,119	15,961

The Company's policy requires the review of individual finance lease exposures that are above RO 10,000 at least quarterly. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at balance sheet date on a case by case basis and are applied to all individually significant accounts.

Collectively assessed impairment allowances are provided for (i) portfolios of homogonous leases which individually are below RO 10,000; and (ii) losses that have been incurred but have not yet been identified, by using the available historical experience, experienced judgment of the management and peer statistics.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007 (continued)

3.1.4 Maximum exposure to credit risk before collateral held or other credit enhancements

2006 USD'000	2007 USD'000		2007 RO'000	2006 RO'000
		Exposure		
1,069	**887**	Bank balances	**341**	411
130	**130**	Statutory deposit	**50**	50
84,939	**129,582**	Net investment in finance leases	**49,839**	32,669
49	**-**	Working capital finance	**-**	19
2,122	**3,328**	Advances	**1,281**	816
		Credit risk exposure relating to off balance sheet items		
65	**86**	Bank guarantee	**33**	25
-	**18**	Letter of credit	**7**	-
6,344	**9,802**	Approved lease commitments at 31 December	**3,770**	2,440
94,718	**143,833**	**Total exposure**	**55,321**	36,430

The above table represents a worse case scenario of credit risk exposure of the Company at 31 December 2007 and 2006 without taking into account of any collateral held.

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Company resulting from both its net investment in finance leases and advances based on the following:

- 89% of the lease portfolio is categorised in the A category (2006 - 81%); and
- 42% of the advances represents amount paid to various car dealers against approved lease commitments (2006 – 4%)

3.1.5 Finance lease receivables

As at the year end the details of gross exposure (net of unearned lease income) are set out below:

2006 USD'000	2007 USD'000		2007 RO'000	2006 RO'000
67,665	**112,715**	Neither past due nor impaired	**43,352**	26,025
13,676	**15,709**	Past due not impaired	**6,042**	5,260
19,778	**16,580**	Impaired	**6,377**	7,607

(a) Finance lease receivables neither past due nor impaired

78% of the portfolio at 31 December 2007 represent this category as per the Company's grading set out above (2006 – 67%).

(b) Finance lease receivable past due but not impaired

2006 USD'000	2007 USD'000		2007 RO'000	2006 RO'000
2,974	**5,031**	Past due up to 30 days	**1,935**	1,144
8,042	**8,224**	Past due 30 to 60 days	**3,163**	3,093
2,660	**2,454**	Past due 60 to 90 days	**944**	1,023
13,676	**15,709**	Total	**6,042**	5,260
14,407	**16,515**	Fair value of Collaterals	**6,352**	5,541

The Company evaluates its collateral value by applying a fixed annual reduction in the value of equipment and vehicles held as collateral. Value of property held as collateral is obtained from external valuations held.

(c) Finance lease receivables individually impaired

2006 US$'000	2007 US$'000		2007 RO'000	2006 RO'000
10,309	**9,976**	Past due individually impaired	**3,837**	3,965
1,490	**1,500**	Fair value of Collaterals	**577**	573

3.1.6 Repossessed collaterals

The Company does not hold any repossessed collateral at 31 December 2007 and 31 December 2006 other than land and buildings shown as property pending sale as set out in note 13.

3.1.7 Concentration of risks

(a) Customer concentration of net investment in finance leases and working capital finance by type of customer

2006 USD'000	**2007 USD'000**		**2007 RO'000**	2006 RO'000
62,342	**85,089**	Individuals	**32,726**	23,978
22,646	**44,493**	Corporate	**17,113**	8,710
84,988	**129,582**		**49,839**	32,688

(b) Geographical concentration

All the Company's financial assets and liabilities are concentrated within the Sultanate of Oman, except for loans from a foreign bank from a GCC state, to the extent of RO 2.02 million (2006 – RO 2.7 million) denominated in US Dollar.

(c) Economic sector concentration of net investment in finance leases and working capital finance

2006 USD'000	**2007 USD'000**		**2007 RO'000**	2006 RO'000
21,034	**43,240**	Trading, contracting and services	**16,631**	8,090
1,612	**1,253**	Manufacture	**482**	620
62,342	**85,089**	Individuals	**32,726**	23,978
84,988	**129,582**		**49,839**	32,688

3.2 Market risk

3.2.1 Cash flow and fair value interest rate risk

Interest rate risk arises from the possibility of changes in interest rates and mismatches or gaps in the amount of assets and liabilities that mature or re-price in a given period.

As the Company has significant interest-bearing financial assets and liabilities the Company's income and operating cash flows are substantially dependent on changes in market interest rates. The Company's finance lease receivables carry fixed interest rates. The Company's bank borrowings carry variable interest rates which expose the Company to cash flow interest rate risk. Additionally, the Company accepts fixed deposits from corporate entities at fixed interest rates.

The Company analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and alternative financing. Based on these scenarios the Company calculates the impact on its profit or loss of a 1% interest rate increase. The simulation is presented to the Asset and Liability Committee (ALCO) on a monthly basis.

Based on the simulation performed at the year end, the impact on the Company's profit after tax of a 1% increase in interest rates would be a maximum reduction of RO 204,000 (2006 - RO 143,000).

The Company does not hedge against its cash flow interest rate risk.

3 Financial risk management (continued)

3.2.2 Foreign exchange risk

Foreign currency risk is the risk arising from future commercial transactions or recognised financial assets or liabilities being denominated in a currency that is not the Company's functional currency. The majority of the Company's transactions are denominated in the functional currency. The Company's foreign currency transactions are restricted to certain long-term borrowings amounting to RO 2.02 million (2006 – RO 2.7 million) which are denominated in US Dollar. The functional currency is fixed to the US Dollar and accordingly foreign exchange risk is considered minimal. The Company has the option to enter into forward exchange contracts, where necessary, to hedge any significant risks arising from foreign currency transactions

3.3 Liquidity risk

Liquidity risk is defined as the current and prospective risk to earnings or capital arising from the Company's inability to meet its obligations on the due dates and to replace funds when they are withdrawn or facilities expire.

3.3.1 Liquidity risk management process

The Company's liquidity is managed by the Finance Department on day to day basis. The Company has an approved liquidity risk policy and contingency funding plan. The liquidity position is monitored by the ALCO on a monthly basis including (i) day to day funding to ensure that daily requirements are met; (ii) monitoring liquidity gaps and ratios as per the documented liquidity risk policy guidelines; and (iii) monitoring, reviewing and reporting liquidity position in line with the Company's contingency funding plan. Availability of funds is ensured to honour all our credit commitments

3.3.2 Funding approach

Sources of funding are regularly reviewed by the ALCO to maintain diversification through long-term and short-term borrowings, increasing the number of lenders, developing additional products like corporate deposits, seeking fixed interest rates for longer tenure, etc.

3.3.3 Cash flows

The table below exhibits the cash flows payable by the Company under financial liabilities by remaining contractual maturity. The amounts show gross undiscounted cash flows.

At 31 December 2007	**Up to 1 month RO'000**	**> 1 month to 1 year RO'000**	**> 1 year to 5 years RO'000**	**Non-fixed maturity RO'000**	**Total RO'000**
Bank borrowings	**9,556**	**16,534**	**13,014**		**39,104**
Creditors and accruals	**2,797**	**-**	**-**	**-**	**2,797**
Provision for income tax	**-**	**547**	**-**	**-**	**547**
Total liabilities	**12,353**	**17,081**	**13,014**	**-**	**42,448**
Total assets	**7,489**	**18,809**	**28,932**	**1,915**	**57,145**

At 31 December 2006	Up to 1 month RO'000	> 1 month to 1 year RO'000	> 1 year to 5 years RO'000	Non-fixed maturity RO'000	Total RO'000
Bank borrowings	8,798	9,046	11,770	-	29,614
Creditors and accruals	2,156	-	-	-	2,156
Provision for income tax	-	632	-	-	632
Total liabilities	10,954	9,678	11,770	-	32,402

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007 (continued)

3.3.3 Cash flows (continued)

At 31 December 2007

	Up to 1 month USD'000	> 1 month to 1 year USD'000	> 1 year to 5 years USD'000	Non-fixed maturity USD'000	Total USD'000
Bank borrowings	24,846	42,988	33,836	-	101,670
Creditors and accruals	7,272	-	-	-	7,272
Provision for income tax	-	1,422	-	-	1,422
Total liabilities	**32,118**	**44,410**	**33,836**	**-**	**110,364**
Total assets	**19,471**	**48,903**	**75,223**	**4,979**	**148,576**

At 31 December 2006

	Up to 1 month USD'000	> 1 month to 1 year USD'000	> 1 year to 5 years USD'000	Non-fixed maturity USD'000	Total USD'000
Bank borrowings	22,875	23,520	30,602	-	76,997
Creditors and accruals	5,606	-	-	-	5,606
Provision for income tax	-	1,643	-	-	1,643
Total liabilities	28,481	25,163	30,602	-	84,246

3.3.4 Off balance sheet items

2006 USD'000	**2007 USD'000**		**2007 RO'000**	2006 RO'000
6,344	**9,802**	Approved lease commitments at 31 December	**3,770**	2,440
57	**257**	Operating leases commitments (Note 26)	**99**	22
65	**86**	Bank guarantee (valid until 8 August 2008)	**33**	25
-	**18**	Letter of credit (valid until 22 August 2008)	**7**	-
6,466	**10,163**	**Total exposure**	**3,909**	2,487

The Company expects the majority of the approved lease commitments to be exercised by the customers and disbursed by the Company within 3 months (2006 - 3 months) of the balance sheet date.

3.4 Fair values

The face value less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values. The fair values of long-term bank borrowings is considered to approximate to their carrying amounts as these either carry variable interest rates in line with current market rates or interest rates linked to LIBOR. The fair value of fixed deposits is not considered to be materially different from their carrying amount in view of the duration of these deposits that does not exceed 2 years.

None of the Company's financial instruments are carried in the balance sheet at fair value as all the Company's financial assets and financial liabilities are carried in the balance sheet at amortised cost.

3.5 Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividend paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debts.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007 (continued)

3.5 Capital management (continued)

The Company's main objective with respect to capital is to meet the requirements of the Central Bank of Oman, the Regulatory Authority. As per the Regulatory Authority guidelines, the Company requires to increase its issued share capital to RO 10 million before 31 July 2009. The Company has adequate retained reserves to achieve this objective before this stipulated time.

The Company has established a foreign currency reserve in accordance with the requirements of the Central Bank of Oman. In accordance with Article 106 of the Commercial Companies Law of Oman of 1974, annual appropriations of 10% of the profit for the year are made to the legal reserve until the accumulated balance of the reserve is equal to at least one third of the Company's share capital.

The Company aims to maintain a gearing ratio within the limits prescribed by the Regulatory Authority. At 31 December 2007, the gearing ratio with reference to total borrowings : equity amounted to 3.04:1 (2006 – 1.93:1).

4 Critical accounting estimates and judgments

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Impairment losses on lease receivables

The Company reviews its lease receivable portfolio to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the company makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of lease receivables before the decrease can be identified with an individual receivable in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics, peer statistics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

5 Segment analysis

The Company is engaged in leasing activities, all of which are carried out in Oman. Although the Company has individual and corporate customers, all of the lease portfolio is managed internally as one business segment. All the Company's funding and costs are common and are not shared between these two portfolios.

6 Other income

2006 USD'000	**2007 USD'000**		**2007 RO'000**	2006 RO'000
377	**325**	Penal charges received	**125**	145
637	**707**	Income from pre-closed leases	**272**	245
21	**16**	Front-end fees	**6**	8
239	**190**	Miscellaneous income	**73**	92
1,274	**1,238**		**476**	490

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007 (continued)

7 General and administrative expenses

2006 USD'000	2007 USD'000		2007 RO'000	2006 RO'000
2,320	**3,143**	Employee related expenses	**1,209**	892
57	**55**	Occupancy costs	**21**	22
141	**135**	Communication costs	**52**	54
252	**187**	Professional fees and subscriptions	**72**	97
392	**414**	Advertising and sales promotion	**159**	151
57	**36**	Directors' sitting fees	**14**	22
-	**81**	Directors' remuneration	**31**	-
605	**556**	Other office expenses	**214**	233
3,824	**4,607**		**1,772**	1,471

Total employee related expenses included under general and administrative expenses comprise:

2006 USD'000	2007 USD'000		2007 RO'000	2006 RO'000
1,690	**2,527**	Salaries and allowances	**972**	650
289	**315**	Other benefits	**121**	111
60	**62**	Social security costs	**24**	23
122	**143**	Staff terminal benefits expense	**55**	47
159	**96**	Other incentives	**37**	61
2,320	**3,143**		**1,209**	892

8 Income tax

(a) Components of taxation for the year

The company is liable to income tax in accordance with the income tax law of the Sultanate of Oman at the tax rate of 12% on the taxable profits in excess of RO 30,000. The reconciliation between the tax expense and the profit before taxation is as follows

2006 USD'000	2007 USD'000		2007 RO'000	2006 RO'000
2,964	**4,462**	Profit before taxation	**1,716**	1,141
		Current tax		
286	**496**	- current year	**191**	110
		Deferred tax asset		
26	**49**	- current year	**19**	10
		Deferred tax liability		
49	**(2)**	- current year	**(1)**	19
361	**543**	Taxation charge for the year	**209**	139

(b) Reconciliation of income tax

2006 US$'000	2007 US$'000		2007 RO'000	2006 RO'000
2,964	**4,463**	Profit before taxation	**1,716**	1,141
356	**535**	Tax at the applicable tax rate	**206**	137
5	**8**	Expenses not allowed for tax	**3**	2
361	**543**	Taxation charge for the year	**209**	139

(c) Status of tax assessments

Tax assessments up to year 2002 are complete. Assessments for tax years 2003 to 2006 are subject to agreement with the Oman Taxation Authorities. The Directors are of the opinion that the additional taxes assessed, if any, would not be material to the Company's financial position as at 31 December 2007.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007 (continued)

9 Earnings per share

The calculation of earnings per share is as follows:

2006 USD'000	2007 USD'000		2007 RO'000	2006 RO'000
2,605	**3,920**	Profit for the year attributable to the ordinary shareholders	**1,507**	1,002
9,056	**9,056**	Weighted average number of shares	**9,056**	9,056
USD 0.29	**USD 0.43**	Earnings per share	**RO 0.166**	RO 0.111

10 Cash and bank balances

2006 USD'000	2007 USD'000		2007 RO'000	2006 RO'000
1,069	**887**	Bank current accounts	**341**	411
36	**20**	Cash in hand	**8**	14
1,105	**907**		**349**	425

11 Statutory deposit

The company is required to maintain a deposit of RO 50,000 (2006 – RO 50,000) with the Central Bank of Oman (CBO) in accordance with the applicable licensing requirements. During the year the deposit earned interest at the rate of 2.5% per annum (2006 – 2.6%).

12 Net investment in finance leases

2006 USD'000	2007 USD'000		2007 RO'000	2006 RO'000
117,556	**170,298**	Gross investment in finance leases	**65,499**	45,214
(16,437)	**(25,293)**	Unearned lease income	**(9,728)**	(6,322)
101,119	**145,004**		**55,771**	38,892
(14,017)	**(13,458)**	Provision for impairment of lease receivable	**(5,176)**	(5,391)
(2,163)	**(1,965)**	Unrecognised contractual income	**(756)**	(832)
84,939	**129,582**	Net investment in finance leases	**49,839**	32,669

(a) Contractual income is not recognised by the Company on impaired finance leases to comply with the rules, regulations and guidelines issued by the Central Bank of Oman. As at 31 December 2007, the net investment in such assets amounted to RO 0.44 million (RO 6.4 million before provisions and unrecognised contractual income). The comparable figure for the previous year amounted to RO 1.4 million (RO 7.61 million before provisions and unrecognised contractual income).

(b) As at 31 December 2007, net investment in rescheduled finance leases was as below:

2006 USD'000	2007 USD'000		2007 RO'000	2006 RO'000
1,823	**1,222**	Net investment in rescheduled finance leases	**470**	701

(c) Gross lease repayments due more than one year from the balance sheet date amount to RO 28.8 million (2006 - RO 14.6 million).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007 (continued)

12 Net investment in finance leases (continued)

(d) Unearned lease income

2006 USD'000	2007 USD'000		2007 RO'000	2006 RO'000
11,731	**16,437**	1 January	**6,322**	4,512
13,330	**20,709**	Additions during the year	**7,965**	5,127
(8,624)	**(11,851)**	Recognised during the year	**(4,558)**	(3,317)
16,437	**25,295**	31 December	**9,729**	6,322

(e) Provision for impairment of lease receivables

2006 USD'000	2007 USD'000		2007 RO'000	2006 RO'000
14,225	**14,017**	1 January	**5,391**	5,471
3,076	**3,193**	Provided during the year	**1,228**	1,183
(2,626)	**(3,515)**	Released during the year	**(1,352)**	(1,010)
(658)	**(237)**	Write offs during the year	**(91)**	(253)
14,017	**13,458**	31 December	**5,176**	5,391

(f) Unrecognised contractual income

2006 USD'000	2007 USD'000		2007 RO'000	2006 RO'000
2,644	**2,163**	1 January	**832**	1,017
270	**361**	Unrecognised during the year	**139**	104
(751)	**(559)**	Recognised during the year	**(215)**	(289)
2,163	**1,965**	31 December	**756**	832

13 Property pending sale

Property pending sale represents land and buildings acquired by the Company in part settlement of amounts due by a borrower following the conclusion of all credit recovery procedures available to the Company. The property pending sale is shown at the lower of cost and net realisable value. The market value of this property was estimated by independent third party property consultants at between RO 0.4 million and RO 0.5 million.

14 Deferred tax

(a) Deferred tax asset

Deferred tax asset arises in respect of provision for impairment of lease receivables. The deferred tax asset recognised in the balance sheet and the movements during the year are as follows:

2006 USD'000	2007 USD'000		2007 RO'000	2006 RO'000
1,698	**1,672**	1 January	**643**	653
(26)	**(49)**	Recognised in the income statement	**(19)**	(10)
1,672	**1,623**	31 December	**624**	643

(b) Deferred tax liability

Deferred tax liability arises in respect of unamortised initial direct costs and revaluation of land and buildings. The deferred tax liability recognised in the balance sheet and the movements during the year are as follows:

2006 USD'000	2007 USD'000		2007 RO'000	2006 RO'000
91	**140**	1 January	**54**	35
49	**(2)**	Recognised in the income statement	**(1)**	19
-	**289**	Revaluation reserve charged to equity	**111**	2
140	**427**	31 December	**164**	55

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007 (continued)

15 Property and equipment

	Freehold land RO'000	Buildings RO'000	Furniture, fixtures and equipment RO'000	Motor vehicles RO'000	Total RO'000	Total USD'000
Cost or valuation						
1 January 2007	60	398	372	14	844	2,195
Revaluation surplus	740	184	-	-	924	2,403
Additions	-	-	32	-	32	83
Released on disposals	-	-	(2)	-	(2)	(5)
31 December 2007	800	582	402	14	1,798	4,676
Depreciation						
1 January 2007	-	148	314	7	469	1,220
Charge for the year	-	39	29	4	72	187
Released on disposals	-	-	(2)	-	(2)	(5)
31 December 2007	-	187	341	11	539	1,402
Net book value						
31 December 2007	**800**	**395**	**61**	**3**	**1,259**	**3,274**

	Freehold land RO'000	Buildings RO'000	Furniture, fixtures and equipment RO'000	Motor vehi RO'000	Total RO'000	Total USD'000
Cost						
1 January 2006	60	356	329	14	759	1,973
Additions	-	42	42	-	84	219
Released on disposals	-	-	1	-	1	3
31 December 2006	60	398	372	14	844	2,195
Depreciation						
1 January 2006	-	111	287	2	400	1,040
Charge for the year	-	37	26	5	68	177
Released on disposals	-	-	1	-	1	3
31 December 2006	-	148	314	7	469	1,220
Net book value						
31 December 2006	60	250	58	7	375	975

The carrying value of land and building was revalued as at 31 December 2007. The valuation was done by an independent valuation firm at market value, as defined in the guidance notes issued by the Royal Institution of Chartered Surveyors as being:

"the best price at which the sale of an interest in property would have been completed unconditionally for cash consideration on the date of the valuation, assuming:

i. a willing seller:
ii. that, prior to the date of valuation, there had been a reasonable period (having regards to the nature of the property and the state of the market) for the proper marketing of the interest, for the agreement of price and terms for completion of the sales;
iii. that, the state of the market, level of value and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation;
iv. that no account is taken of any additional bid by a purchaser with special interest; and
v. that both parties to the transaction had acted knowledgeably, prudently and without compulsion."

15 Property and equipment (continued)

If land and buildings were stated on the historical cost basis, the carrying amounts would have been as follows:

2006 USD'000	2007 USD'000		2007 RO'000	2006 RO'000
2,195	**2,272**	Cost	**874**	844
(1,220)	**(1,402)**	Accumulated depreciation	**(539)**	(469)
975	**870**	**Net book value**	**335**	375

16 Share capital

The authorised share capital of the Company comprises 10,000,000 (2006 - 10,000,000) ordinary shares of RO 1 each. The Company's issued and fully paid-up share capital amounts to 9,056,250 (2006 - 7,245,000) ordinary shares of RO 1 each. The increase in the Company's issued share capital during 2007 was due to a bonus issue of shares made during the year.

Shareholders who own 10% or more of the company's share capital are:

	2007 Number of shares held	**2007** %	2006 Number of shares held	2006 %
Al Hilal Investment Co. LLC	**3,197,732**	**35.31**	2,558,186	35.31
Oman International Development and Investment Company SAOG	**1,927,237**	**21.28**	1,541,790	21.28

17 Revaluation reserve

The revaluation reserve is a specific purpose reserve arising on revaluation of land and buildings. This reserve is not available for distribution as dividend.

2006 USD'000	2007 USD'000		2007 RO'000	2006 RO'000
-	**2,403**	Revaluation reserve	**924**	-
-	**(289)**	Less: Deferred tax liability	**(111)**	-
-	**2,114**	Net revaluation reserve	**813**	-

18 Legal reserve

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

19 Foreign currency reserve

The foreign currency reserve has been created as per the directives of the Central Bank of Oman for un-hedged long-term foreign currency loans. This reserve is not available for distribution.

20 Creditors and accruals

2006 USD'000	2007 USD'000		2007 RO'000	2006 RO'000
4,336	**5,591**	Creditors	**2,150**	1,668
1,014	**1,348**	Accruals and other liabilities	**519**	390
5,350	**6,939**		**2,669**	2,058

NOTES TO THE FINANCIAL STATEMENTS
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21 Staff terminal benefits

The movement in staff terminal benefits during the year is as follows:

2006 USD'000	2007 USD'000		2007 RO'000	2006 RO'000
208	**255**	1 January	**98**	80
122	**182**	Provision during the year	**70**	47
(75)	**(104)**	Payments during the year	**(40)**	(29)
255	**333**	31 December	**128**	98

22 Bank borrowings

2006 USD'000	2007 USD'000		2007 RO'000	2006 RO'000
445	**3,658**	Overdrafts	**1,407**	171
26,551	**39,895**	Short-term loans	**15,344**	10,212
28,348	**37,736**	Long-term loans	**14,514**	10,903
55,344	**81,289**		**31,265**	21,286

(a) During the year interest was charged on the above borrowings at rates ranging between 5.25% and 7.4% per annum (2006 – 3.75% and 7.75% per annum).

(b) At the balance sheet date all outstanding borrowings were secured by a first priority pari-passu floating charge on the trade name and tangible and intangible assets of the Company, including but not limited to the Company's receivables from its customers, excluding the receivables of the lease portfolio acquired from The Zubair Corporation LLC (TZC portfolio). An exclusive charge on the TZC portfolio receivables of RO 0.5 million (2006 - RO 0.7 million) has been granted to one of the banks.

(c) During 2007 and 2006 the Company complied with the various loan covenants with respect to its bank borrowings.

23 Fixed deposits

During 2007, the Company raised fixed deposits from corporate entities based in Oman for a total amount of RO 5.75 million, with tenors ranging from 1 to 2 years, as per guidelines issued by the Central Bank of Oman. These deposits carry interest rates between 5.0% and 6.5% per annum. The carrying amount includes interest accrued till the year end.

24 Notes to the cash flow statement

(a) Reconciliation of profit before tax to cash generated from operations

2006 USD'000	2007 USD'000		2007 RO'000	2006 RO'000
		Cash flows from operating activities		
2,967	**4,462**	Profit before taxation	**1,716**	1,141
		Adjustments for:		
177	**187**	Depreciation	**72**	68
122	**182**	Provision for end of service benefits	**70**	47
450	**(767)**	Provision for impairment of lease receivables	**(295)**	173
8	**10**	Bad debts written off	**4**	3
2,473	**4,144**	Interest expense	**1,594**	951
6,196	**8,218**	**Operating profit before working capital changes and payment of end of service benefits**	**3,161**	2,383
(75)	**(104)**	End of service benefits paid	**(40)**	(29)
		Changes in operating assets and liabilities		
(18,866)	**(43,839)**	Investment in finance leases	**(16,861)**	(7,256)
(541)	**(1,209)**	Advances and prepayments	**(465)**	(208)
1,115	**1,591**	Creditors and accruals	**612**	429
(12,171)	**(35,343)**	**Cash used in operations**	**(13,593)**	(4,681)

24 Notes to the cash flow statement (continued)

(b) Cash and cash equivalents

2006 USD'000	2007 USD'000		2007 RO'000	2006 RO'000
1,105	**907**	Cash and bank balances	**349**	425
(445)	**(3,658)**	Bank overdraft	**(1,407)**	(171)
660	**(2,751)**		**(1,058)**	254

25 Dividends

The Board of Directors at the forthcoming Annual General Meeting will propose a cash dividend of 5% amounting to RO 452,810 for 2007 (2006 - cash dividend : RO 362,250 stock dividend: RO 1,811,250). These financial statements do not reflect these dividends, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the year ending 31 December 2008.

26 Commitments

2006 USD'000	2007 USD'000		2007 RO'000	2006 RO'000
6,344	**9,802**	Approved lease commitments	**3,770**	2,440

Approved lease commitments will be paid within 30 days from the date of lease creation.

At 31 December 2007 the Company had operating lease commitments of RO 99,000 (2006 - RO 22,000) due as follows:

2006 USD'000	2007 USD'000		2007 RO'000	2006 RO'000
57	**96**	Due within one year	**37**	22
-	**161**	Due after one year but within five years	**62**	-
57	**257**		**99**	22

The Company has entered into a 3 year operating lease contract for vehicles used by the Company's staff for performing official visits to dealers, client locations etc. The commitment represents rentals to be paid for these vehicles for the total lease period. The Company has the right to terminate the contract with 2 months notice after 12 months and 1 month notice after 24 months.

27 Contingencies

In its ordinary course of business the Company has arranged for the following in favour of its customers from banks in Oman.

2006 USD'000	2007 USD'000		2007 RO'000	2006 RO'000
65	**86**	Bank Guarantee (valid until 8 August 2008)	**33**	25
-	**18**	Letter of Credit (valid until 22 August 2008)	**7**	-

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007 (continued)

28 Related party transactions

During the year, the Company entered into transactions with entities in which certain Directors have a significant influence. Significant related party transactions during the year and balances as at 31 December 2007 were as follows:

2006 USD'000	**2007 USD'000**		**2007 RO'000**	2006 RO'000
8	**10**	General and administrative expenses	**4**	3
107	**88**	Lease rentals paid for vehicles taken on operating lease	**34**	41
75	**177**	Sales incentive	**68**	29
		Payments to Directors		
57	**34**	Sitting fees	**13**	22
		Other payment to Directors		
-	**81**	Proposed remuneration	**31**	-
		Year end balances arising on the above		
62	**174**	- net investment in finance lease	**67**	24
21	**86**	- payables	**33**	8
		Remuneration to key members of management during the year		
393	**624**	- salaries and other short-term employee benefits	**240**	151
36	**34**	- terminal benefits	**13**	14
429	**658**		**253**	165

29 Proposed merger

The Board of Directors of the Company in its meeting held on 3 December 2007 had discussed the possibility of a merger between National Finance Company SAOG and Muscat Finance Company SAOG. This will be subject to approval by the shareholders of both the companies and the regulatory authority. The proposed merger is envisaged to be beneficial to shareholders as well as other stakeholders of both the companies. A merged company would have a higher market share, be able to compete more effectively in Oman and would also be in a better position to consider regional expansion. A strengthened Board and management would also be advantageous to the merged entity's operations.

30 Maturity analysis of significant assets and liabilities

At 31 December 2007	Up to 1 month RO'000	> 1 month to 1 year RO'000	> 1 year to 5 years RO'000	Non-fixed maturity RO'000	Total RO'000
Assets					
Cash and bank balances	349	-	-	-	**349**
Statutory deposit	-	-	-	50	**50**
Net investment in finance leases	6,661	14,393	28,785		**49,839**
Advances and prepayments	1,281	-	-	-	**1,281**
Property pending sale	-	167	-	-	**167**
Deferred tax asset	-	-	-	624	**624**
Property and equipment	-	-	-	1,259	**1,259**
Total assets	**8,291**	**14,560**	**28,785**	**1,933**	**53,569**
Equity					
Equity	-	-	-	12,994	**12,994**
Liabilities					
Bank borrowings and fixed deposit	9,524	15,509	12,034	-	**37,067**
Creditors and accruals	2,797	-	-	-	**2,797**
Provision for income tax	-	547	-	-	**547**
Deferred tax liability	-	-	-	164	**164**
Total equity and liabilities	**12,321**	**16,056**	**12,034**	**13,158**	**53,569**
Liquidity gap	**(4,030)**	**(1,496)**	**16,751**	**(11,225)**	
Cumulative liquidity gap	**(4,030)**	**(5,526)**	**11,225**		

As at 31 December 2006	Up to 1 month RO'000	> 1 month to 1 year RO'000	> 1 year to 5 years RO'000	Non-fixed maturity RO'000	Total RO'000
Assets					
Cash and bank balances	425	-	-	-	425
Statutory deposit	50	-	-	-	50
Net investment in finance leases	7,983	10,083	14,603	-	32,669
Working capital finance	19	-	-	-	19
Advances and prepayments	816	-	-	-	816
Property pending sale	-	167	-	-	167
Deferred tax asset	-	-	-	643	643
Property and equipment	-	-	-	375	375
Total assets	9,293	10,250	14,603	1,018	35,164
Equity					
Equity	-	-	-	11,036	11,036
Liabilities					
Bank borrowings	6,298	8,011	6,977	-	21,286
Creditors and accruals	2,156	-	-		2,156
Provision for income tax	-	632	-		632
Deferred tax liability	-	-	-	54	54
Total equity and liabilities	8,454	8,643	6,977	11,090	35,164
Liquidity gap	839	1,607	7,626	(10,072)	
Cumulative liquidity gap	839	2,446	10,072		

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007 (continued)

30 Maturity analysis of significant assets and liabilities (continued)

At 31 December 2007	Up to 1 month USD'000	> 1 month to 1 year USD'000	> 1 year to 5 years USD'000	Non-fixed maturity USD'000	Total USD'000
Assets					
Cash and bank balances	907	-	-	-	**907**
Statutory deposit		-	-	130	**130**
Net investment in finance leases	17,320	37,422	74,840	-	**129,582**
Advances and prepayments	3,328	-	-	-	**3,328**
Property pending sale	-	434	-	-	**434**
Deferred tax asset	-	-	-	1,623	**1,623**
Property and equipment	-	-	-	3,274	**3,274**
Total assets	**21,555**	**37,856**	**74,840**	**5,027**	**139,278**
Equity					
Equity				33,784	**33,784**
Liabilities					
Bank borrowings and fixed deposits	24,762	40,323	31,288	-	**96,373**
Creditors and accruals	7,272	-	-	-	**7,272**
Provision for income tax	-	1,422	-	-	**1,422**
Deferred tax liability	-	-	-	427	**427**
Total equity and liabilities	**32,034**	**41,745**	**31,288**	**34,211**	**139,278**
Liquidity gap	**(10,479)**	**(3,889)**	**43,552**	**(29,184)**	
Cumulative liquidity gap	**(10,479)**	**(14,368)**	**29,184**		

As at 31 December 2006	Up to 1 month USD '000	> 1 month to 1 year USD '000	> 1 year to 5 years USD '000	Non-fixed maturity USD '000	Total USD '000
Assets					
Cash and bank balances	1,105	-	-	-	1,105
Statutory deposit	130	-	-	-	130
Net investment in finance leases	20,756	26,216	37,967	-	84,939
Working capital finance	49	-	-	-	49
Advances and prepayments	2,122	-	-	-	2,122
Property pending sale	-	434	-	-	434
Deferred tax asset	-	-	-	1,672	1,672
Property and equipment	-	-	-	975	975
Total assets	24,162	26,650	37,967	2,647	91,426
Equity					
Equity	-	-	-	28,694	28,694
Liabilities					
Bank borrowings	16,375	20,829	18,140	-	55,344
Creditors and accruals	5,605	-	-	-	5,605
Provision for income tax	-	1,643	-	-	1,643
Deferred tax liability	-	-	-	140	140
Total equity and liabilities	21,980	22,472	18,140	28,834	91,426
Liquidity gap	2,182	4,178	19,827	(26,187)	
Cumulative liquidity gap	2,182	6,360	26,187		

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007 (continued)

31 Effective interest rate analysis of financial assets and financial liabilities

At 31 December 2007	**0% - less than 5%**	**5% - less than 10%**	**10% - less than 15%**	**15% and above**	**Total**
Assets	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**
Cash and bank balances	349	-	-	-	**349**
Statutory deposit	50	-	-	-	**50**
Net investment in finance leases	319	9,749	39,666	105	**49,839**
Advances and prepayments	1,280	-	-	-	**1,280**
Deferred tax asset	624	-	-	-	**624**
Total	**2,622**	**9,749**	**39,666**	**105**	**52,142**
Liabilities					
Bank borrowings	-	37,067	-	**-**	**37,067**
Creditors and accruals	2,797	-	-	**-**	**2,797**
Provision for income tax	547	-	-	**-**	**547**
Deferred tax liability	164	-	-	-	**164**
Total	**3,508**	**37,067**	**-**	**-**	**40,575**

As at 31 December 2006	0% - less than 5%	5% - less than 10%	10% - less than 15%	15% and above	Total
	RO'000	RO'000	RO'000	RO'000	RO'000
Assets					
Cash and bank balances	425	-	-	-	425
Statutory deposit	50	-	-	-	50
Net investment in finance leases	541	2,418	29,519	210	32,688
Advances and prepayments	816	-	-	-	816
Deferred tax asset	643	-	-	-	643
Total	2,475	2,418	29,519	210	34,622
Liabilities					
Bank borrowings	-	21,286	-	-	21,286
Creditors and accruals	2,156	-	-	-	2,156
Provision for income tax	632	-	-	-	632
Deferred tax liability	54				54
Total	2,842	21,286	-	-	24,128

At 31 December 2007	**0% - less than 5%**	**5% - less than 10%**	**10% - less than 15%**	**15% and above**	**Total**
Assets	**USD'000**	**USD'000**	**USD'000**	**USD'000**	**USD'000**
Cash and bank balances	907	-	-	-	**907**
Statutory deposit	130	-	-	-	**130**
Net investment in finance leases	829	25,347	103,133	273	**129,582**
Advances and prepayments	3,328	-	-	-	**3,328**
Deferred tax asset	1,623	-	-	-	**1,623**
Total	**6,817**	**25,347**	**103,133**	**273**	**135,570**
Liabilities					
Bank borrowings	-	96,373	-	**-**	**96,373**
Creditors and accruals	7,272	-	-	**-**	**7,272**
Provision for income tax	1,422	-	-	**-**	**1,422**
Deferred tax liability	427	-	-	-	**427**
Total	**9,121**	**96,373**	**-**	**-**	**105,494**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007 (continued)

31 Effective interest rate analysis of financial assets and financial liabilities (continued)

As at 31 December 2006	0% - less than 5%	5% - less than 10%	10% - less than 15%	15% and above	Total
	USD'000	USD'000	USD'000	USD'000	USD'000
Assets					
Cash and bank balances	1,105	-	-	-	1,105
Statutory deposit	130	-	-	-	130
Net investment in finance leases	1,407	6,287	76,749	546	84,989
Advances and prepayments	2,122				2,122
Deferred tax asset	1,672	-	-	-	1,672
Total	6,435	6,287	76,749	546	90,018
Liabilities					
Bank borrowings	-	55,344	-	-	55,344
Creditors and accruals	5,606	-	-	-	5,606
Provision for income tax	1,643	-	-	-	1,643
Deferred tax liability	140	-	-	-	140
Total	7,389	55,344	-	-	62,733

32 Interest rate sensitivity analysis

The Company's interest rate sensitivity position, based on the contractual repricing or maturity dates is set out below:

At 31 December 2007	**Up to 1 month**	**> 1 month to 1 year**	**> 1 year to 5 years**	**Non-fixed maturity**	**Total**
	RO'000	**RO'000**	**RO'000**	**RO'000**	**RO'000**
Assets					
Cash and bank balances	349	-	-	-	**349**
Statutory deposit	-	-	-	50	**50**
Net investment in finance leases	6,661	14,393	28,785		**49,839**
Working capital finance	-	-	-	-	**-**
Advances and prepayments	1,281	-	-		**1,281**
Property pending sale	-	167	-	-	**167**
Deferred tax asset	-	-	-	624	**624**
Property and equipment	-	-	-	1,259	**1,259**
Total assets	**8,291**	**14,560**	**28,785**	**1,933**	**53,569**
Equity					
Equity	-	-	-	12,994	**12,994**
Liabilities	-	-	-	-	**-**
Bank borrowings and fixed deposit	9,524	15,509	12,034	-	**37,067**
Creditors and accruals	2,797	-	-	-	**2,797**
Provision for income tax	-	547	-	-	**547**
Deferred tax liability	-	-	-	164	**164**
Total equity and liabilities	**12,321**	**16,056**	**12,034**	**13,158**	**53,569**
Interest rate sensitivity gap	**(4,030)**	**(1,496)**	**16,751**	**(11,225)**	
Cumulative interest rate sensitivity gap	**(4,030)**	**(5,526)**	**11,225**		

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007 (continued)

32 Interest rate sensitivity analysis (continued)

As at 31 December 2006	Up to 1 month RO'000	> 1 month to 1 year RO'000	> 1 year to 5 years RO'000	Non-fixed maturity RO'000	Total RO'000
Assets					
Cash and bank balances	425	-	-	-	425
Statutory deposit	50	-	-	-	50
Net investment in finance leases	7,983	10,083	14,603	-	32,669
Working capital finance	19	-	-	-	19
Advances and prepayments	816	-	-	-	816
Property pending sale	-	167	-	-	167
Deferred tax asset	-	-	-	643	643
Property and equipment	-	-	-	375	375
Total assets	9,293	10,250	14,603	1,018	35,164
Equity					
Equity	-	-	-	11,036	11,036
Liabilities					
Bank borrowings	6,298	8,011	6,977	-	21,286
Creditors and accruals	2,156	-	-	-	2,156
Provision for income tax	-	632	-	-	632
Deferred tax liability	-	-	-	54	54
Total equity and liabilities	8,454	8,643	6,977	11,090	35,164
Interest rate sensitivity gap	839	1,607	7,626	(10,072)	
Cumulative Interest rate sensitivity gap	839	2,446	10,072		

At 31 December 2007	**Up to 1 month USD '000**	**> 1 month to 1 year USD '000**	**> 1 year to 5 years USD '000**	**Non-fixed maturity USD '000**	**Total USD '000**
Assets					
Cash and bank balances	907	-	-	-	**907**
Statutory deposit				130	**130**
Net investment in finance leases	17,320	37,422	74,840	-	**129,582**
Working capital finance					
Advances and prepayments	3,328	-	-	-	**3,328**
Property pending sale	-	434	-	-	**434**
Deferred tax asset	-	-	-	1,623	**1,623**
Property and equipment	-	-	-	3,274	**3,274**
Total assets	**21,555**	**37,856**	**74,840**	**5,027**	**139,278**
Equity					
Equity				33,784	**33,784**
Liabilities					
Bank borrowings and fixed deposits	24,762	40,323	31,288	-	**96,373**
Creditors and accruals	7,272	-	-	-	**7,272**
Provision for income tax	-	1,422	-	-	**1,422**
Deferred tax liability	-	-	-	427	**427**
Total equity and liabilities	**32,034**	**41,745**	**31,288**	**34,211**	**139,278**
Interest rate sensitivity gap	**(10,479)**	**(3,889)**	**43,552**	**(29,184)**	
Cumulative Interest rate sensitivity gap	**(10,479)**	**(14,368)**	**29,184**		

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007 (continued)

32 Interest rate sensitivity analysis (continued)

As at 31 December 2006	Up to 1 month USD '000	> 1 month to 1 year USD '000	> 1 year to 5 years USD '000	Non-fixed maturity USD '000	Total USD '000
Assets					
Cash and bank balances	1,105	-	-	-	1,105
Statutory deposit	130	-	-	-	130
Net investment in finance leases	20,756	26,216	37,967	-	84,939
Working capital finance	49	-	-	-	49
Advances and prepayments	2,122	-	-	-	2,122
Property pending sale	-	434	-	-	434
Deferred tax asset	-	-	-	1,672	1,672
Property and equipment	-	-	-	975	975
Total assets	24,162	26,650	37,967	2,647	91,426
Equity	-	-	-	28,694	28,694
Liabilities					
Bank borrowings	16,375	20,829	18,140	-	55,344
Creditors and accruals	5,605	-	-	-	5,605
Provision for income tax	-	1,643	-	-	1,643
Deferred tax liability	-	-	-	140	140
Total equity and liabilities	21,980	22,472	18,140	28,834	91,426
Interest rate sensitivity gap	2,182	4,178	19,827	(26,187)	
Cumulative Interest rate sensitivity gap	2,182	6,360	26,187		

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