

DIRECTORS' REPORT

On behalf of the Board of Directors, I take pleasure in placing before you the results of the Company for the six months period ended 30 June 2009.

Operating performance

The company has limited its new business disbursements due to the current economic situation and the constraints on increasing bank funding. Moreover, during this critical period, your company wanted to adopt a more conservative approach to credit approvals. New business volumes have consequently dropped by 49% compared to the same period in the previous year. While the net investment in finance leases increased by 20% to RO 73.3 million against the same period last year (RO 61.2 million as on June 2008), it may be noted that our portfolio showed a decline vis-à-vis December 2008 (RO 76.9 million).

The company continues to follow a prudent provisioning policy based on its assessment of the risks inherent to its portfolio.

Overall, the Company achieved a net profit of RO 1436 K for the six month ended 30 June 2009 which includes before tax profit of RO 486 K towards sale of property held for sale. (RO 850 K for the same period in 2008). Even after excluding this extraneous item of property sale, the company has registered a growth of 12% in net profit over the same period last year.

Future outlook

We expect 2009 to continue to remain challenging and the main issues facing the company are high interest rates, shortage of liquidity and the impact of economic slowdown on our customers.

Your company is equipped to face this challenging period and is taking appropriate actions to manage the risk arising out of reduced margins, liquidity constraints and increased customer risk. The well-defined policies and procedures, strong channels of communication and customer relationships, experienced and result oriented management and staff will enable the company to deal with the challenges of a rapidly changing global and local economy.

During this year, given the tight money market situation, management of debt and recoveries assume great importance. The company management is well equipped to deal with this aspect of business and all efforts are made to ensure NPAs are kept to its minimum level.

Other Matters

The company continued its training efforts for its personnel. As of 30 June 2009 the Omanisation level stood at 63% which continued to be higher than the minimum prescribed for leasing companies. The company continues to remain committed to providing increased exposure and training to Omani staff to prepare them for higher responsibilities.

Taya Bin Jandal Bin Ali
Chairman
July 27, 2009

NATIONAL FINANCE COMPANY SAOG

UNAUDITED CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME

		Quarter ended 30th June 2009	Six Months ended 30th June 2009	Quarter ended 30th June 2008	Six Months ended 30th June 2008
	Note	RO '000	RO '000	RO '000	RO '000
Revenue					
Income from financing activities		1,940	4,136	1,689	3,238
Interest expense		(997)	(1,955)	(592)	(1,150)
Net Finance Income		943	2,181	1,097	2,088
Other income	3	156	278	165	312
Operating Income		1,099	2,459	1,262	2,400
Income from sale of property	10	486	486	-	-
Total Income		1,585	2,945	1,262	2,400
Expenses					
General and administrative expenses	4	(483)	(1,032)	(504)	(1,113)
Depreciation on property and equipment	11	(32)	(59)	(29)	(52)
Profit before provisions		1,070	1,854	729	1,235
Provision for impairment of lease receivables – net	9	(106)	(211)	(179)	(259)
Bad debts written off		(5)	(8)	0	(4)
Profit before taxation		959	1,635	550	972
Taxation	5	(116)	(199)	(68)	(120)
Profit for the period		843	1,436	482	852
Revaluation of land & building		6	13	6	13
Total Comprehensive income for the period		849	1,449	488	865
Earnings per share (RO)	6	0.007	0.011	0.005	0.008

The notes on pages 6 to 12 form an integral part of these condensed interim financial statements.

The review report is set forth on page 1.

NATIONAL FINANCE COMPANY SAOG

UNAUDITED CONDENSED INTERIM BALANCE SHEET AS AT

	Note	As at 30 th June 2009 RO'000	As at 30 th June 2008 RO'000	Audited As At 31 December 2008 RO'000
Assets				
Cash and bank balances		491	362	241
Statutory deposit	8	50	50	50
Net investment in finance leases	9	73,332	61,287	76,899
Advances and prepayments		1,125	491	1,054
Property pending sale	10	28	167	167
Deferred tax asset		730	655	705
Property and equipment	11	1,218	1,227	1,243
Total asset		76,974	64,239	80,359
Equity				
Share capital	12	12,611	9,056	11,465
Share Premium		-	-	937
Revaluation reserve		774	800	787
Legal reserve		1,326	1,126	1,326
Foreign currency reserve		153	153	153
Retained earnings		3,035	1,986	2,942
Total equity		17,899	13,121	17,610
Liabilities				
Creditors and accruals	13	2,124	3,746	3,382
Staff terminal benefits		227	153	184
Provision for income tax		346	507	556
Bank borrowings	14	47,429	37,095	48,215
Fixed deposits	15	8,748	9,446	10,205
Deferred tax liability		201	171	207
Total liabilities		59,075	51,118	62,749
Total equity and liabilities		76,974	64,239	80,359
Net Asset per share		0.142	0.129	0.140

These unaudited condensed interim financial statements were approved and authorised for issue in accordance with a resolution of the Directors on July 27, 2009 and signed on their behalf by:

AHMED SAID ZAKI
DIRECTOR

ROBERT PANCRAS
CHIEF EXECUTIVE OFFICER

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NATIONAL FINANCE COMPANY SAOG

UNAUDITED CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED 30 JUNE 2009

	Share capital	Share Premium	Revaluation reserve	Legal reserve	Foreign currency reserve	Retained earnings	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
January 1, 2009	11,465	937	787	1,326	153	2,942	17,610
Dividend paid	-	-	-	-	-	(1,147)	(1,147)
Issue of Bonus Shares	1,146	(937)	-	-	-	(209)	-
Transfer to Retained Earnings	-	-	(13)	-	-	13	-
Profit for the period	-	-	-	-	-	1,436	1,436
June 30, 2009	12,611	-	774	1,326	153	3,035	17,899

	Share capital	Revaluation reserve	Legal reserve	Foreign currency reserve	Retained earnings	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
January 1, 2008 (restated)	9,056	813	1,126	153	1,574	12,722
Dividend paid	-	-	-	-	(453)	(453)
Transfer to Retained Earnings	-	(13)	-	-	13	0
Profit for the period	-	-	-	-	852	852
June 30, 2008	9,056	800	1,126	153	1,986	13,121

	Share capital	Share Premium	Revaluation reserve	Legal reserve	Foreign currency reserve	Retained earnings	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
January 1, 2008	9,056	-	813	1,126	153	1,844	12,992
Restatement (note 19)	-	-	-	-	-	(270)	(270)
1 January 2008 (restated)	9,056	-	813	1,126	153	1,574	12,722
Transfer to retained earnings	-	-	(26)	-	-	26	-
Transfer to legal reserve	-	-	-	200	-	(200)	-
Dividend paid	-	-	-	-	-	(453)	(453)
Rights Issue	2,409	937	-	-	-	-	3,346
Profit for the year	-	-	-	-	-	1,995	1,995
December 31, 2008	11,465	937	787	1,326	153	2,942	17,610

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NATIONAL FINANCE COMPANY SAOG
UNAUDITED CONDENSED INTERIM CASH FLOW STATEMENT FOR THE PERIOD ENDED
30 June 2009

	Six Months ended 30 th June 2009 RO '000	Six Months ended 30 th June 2008 RO '000
Operating activities		
Profit before taxation	1,635	970
Adjustments for:		
Depreciation	59	52
Provision for end of service benefits	53	25
Profit on sale of property pending sale	(486)	-
Provision for impairment of lease receivables	179	155
Bad debts written off	8	4
Interest expense	1,955	1,150
Operating profit before working capital changes and payment of end of service benefits	3,403	2,356
End of service benefits paid	(10)	(15)
Changes in operating assets and liabilities		
Investment in finance leases	3,381	(11,418)
Advances and prepayments	304	330
Creditors and accruals	(1,257)	1,094
Interest paid	(1,955)	(1,150)
Income tax paid	(441)	(185)
Net cash flow from (used in) operating activities	(A) 3,425	(8,988)
Cash flows from investing activities		
Purchase of property and equipment	(34)	(20)
Purchase of collateral asset	(28)	-
Sale of property	277	-
Net cash flow from (used in) investing activities	(B) 215	(20)
Cash flows from financing activities		
Bank borrowings (net)	(1,053)	5,830
Fixed deposits (net)	(1,458)	3,644
Dividend paid	(1,146)	(453)
Net cash flow (used in) from financing activities	(C) (3,657)	9,021
Net change in cash and cash equivalents (A + B + C)	(17)	13
Cash and cash equivalents at the beginning of the period	(90)	399
Cash and cash equivalents at the end of the period	(107)	412

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NATIONAL FINANCE COMPANY SAOG

Notes

(forming part of the financial statements)

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 have been consistently applied to all the years presented unless otherwise stated.

2.1 Basis of preparation

These unaudited condensed interim 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. They do not include all the information required for full annual financial statements, and should be read in conjunction with the full audited financial statements of the Company as at and for the year ended 31 December 2008.

The accounting policies applied by the Company in these condensed interim financial statements are consistent with those applied by the Company in its audited financial statements for the year ended 31 December 2008. However, in preparing these condensed interim financial statements, the Company has adopted the revised IAS 1 “presentation of financial statements” which introduces the term total comprehensive income. The Company opted to present a single statement of comprehensive income. The adoption of IAS 1(revised) has not affected the Company’s financial position or performance as it relates solely to the presentation of the financial statements.

The Company concluded that the segment reporting determined in accordance with IFRS 8 is the same as the business segments previously identified under IAS 14. Accordingly, adoption of IFRS 8 has had no impact on these unaudited condensed interim financial statements.

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.

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.

3 Other income

	Quarter ended 30th June 2009 RO '000	Six Months ended 30th June 2009 RO '000	Quarter ended 30th June 2008 RO '000	Six Months ended 30th June 2008 RO '000
Income from pre-closed leases	121	224	145	268
Front-end fees	-	-	1	3
Miscellaneous income	35	54	19	41
	<u>156</u>	<u>278</u>	<u>165</u>	<u>312</u>

4 General and administrative expenses

	Quarter ended 30 th June 2009	Six Months ended 30 th June 2009	Quarter ended 30 th June 2008	Six Months ended 30 th June 2008
Employee related expenses	338	738	331	713
Occupancy costs	10	20	6	11
Communication costs	11	22	16	27
Professional fees	21	42	32	39
Advertising and sales promotion	19	60	11	23
Directors' sitting fees	4	8	4	8
Directors' remuneration	8	23	13	25
Other office expenses	72	119	91	267
	<u>483</u>	<u>1,032</u>	<u>504</u>	<u>1,113</u>

5 Income tax

Components of taxation for the period

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:

	Quarter ended 30 June 2009 RO'000	Six Months ended 30 June 2009 RO'000	Quarter ended 30 June 2008 RO'000	Six months ended 30 June 2008 RO'000
Profit before taxation	960	1,635	551	970
<i>Current tax</i>				
- current period	132	229	85	144
<i>Deferred tax asset</i>				
- current period	(12)	(25)	(21)	(31)
<i>Deferred tax liability</i>				
- current period	(4)	(5)	4	7
Taxation charge for the period	<u>116</u>	<u>199</u>	<u>68</u>	<u>120</u>

6 Earnings per share

The calculation of earnings per share is as follows:

	Quarter ended 30 th June 2009	Six Months ended 30 th June 2009	Quarter ended 30 th June 2008	Six Months ended 30 th June 2008
Earnings per share				
Profit for the period attributable to ordinary shareholders (RO'000)	843	1,436	482	852
Number of shares (Nos '000)	<u>126,110</u>	<u>126,110</u>	<u>102,027</u>	<u>102,027</u>
Earnings per share (RO)	<u>0.007</u>	<u>0.011</u>	<u>0.005</u>	<u>0.008</u>

7 Cash and cash equivalents

	Six months ended 30 June 2009 RO'000	Six months ended 30 June 2008 RO'000	Year ended 31 December 2008 RO'000
Cash and bank balance	491	31	241
Overdraft	(598)	331	(331)
	<u>(107)</u>	<u>362</u>	<u>(90)</u>

8 Statutory deposit

The Company is required to maintain a deposit of RO 50,000 (2008 – RO 50,000) with the Central Bank of Oman (CBO) in accordance with the applicable licensing requirements. During the period the deposit earned interest at the rate of 2% per annum (2008 – 2%).

9 Net investment in finance leases

	Six Months ended 30 June 2009 RO'000	Six months ended 30 June 2008 RO'000	Year ended 31 December 2008 RO'000
Net investment in finance leases			
Gross investment in finance leases	93,543	79,171	98,429
Unearned lease income	(13,519)	(11,793)	(15,024)
	<u>80,024</u>	<u>67,378</u>	<u>83,405</u>
Provision for impairment of lease receivable	(5,868)	(5,382)	(5,789)
Unrecognised contractual income	(824)	(709)	(717)
Net investment in finance leases	<u>73,332</u>	<u>61,287</u>	<u>76,899</u>

(a) Unearned lease income

Opening balance	15,024	9,729	9,538
Additions during the period	2,631	5,302	12,725
Recognised during the period	(4,136)	(3,238)	(7,239)
Closing balance	<u>13,519</u>	<u>11,793</u>	<u>15,024</u>

(b) Provision for impairment of lease receivables

	Six months ended 30 June 2009 RO'000	Six months ended 30 June 2008 RO'000	Year Ended 31 December 2008 RO'000
Opening balance	5,789	5,176	5,176
Provided during the period	608	806	1,392
Released during the period	(397)	(547)	(715)
Write offs during the period	(132)	(53)	(64)
Closing balance	5,868	5,382	5,789

(c) Unrecognised contractual income

	Six months ended 30 June 2009 RO'000	Six months ended 30 June 2008 RO'000	Year Ended 31 December 2008 RO'000
Opening balance	717	756	756
Unrecognised during the period	172	40	75
Recognised during the period	(65)	(87)	(114)
Closing balance	824	709	717

10 Property Pending sale

Property pending sale represents land and buildings acquired by the Company in part settlement of amounts due by borrower following the conclusion of all credit recovery procedures available to the Company. The property pending sale is shown at lower of cost and net realisable value. During the period the Company acquired freehold land worth RO 29,000 from one of its customers through open auction process and sold land and building acquired previously. Profit earned before tax on sale of property is RO 486 K which is shown under profit on sale of fixed asset.

11 Property and Equipment

	Freehold land RO'000	Buildings RO'000	Furniture, fixtures and equipment RO'000	Motor vehicles RO'000	Total RO'000
Cost or valuation					
01-Jan-09	800	395	481	14	1690
Additions	-	-	34	-	34
30-Jun-09	800	395	515	14	1,724
Depreciation					
01-Jan-09	-	55	378	14	447
Charge for the period	-	33	26	-	59
30-Jun-09	-	88	404	14	506
Net book value 30-Jun-09	800	307	111	-	1,218

	Freehold land	Buildings	Furniture, fixtures and equipment	Motor vehicles	Total
Cost or valuation					
01-Jan-08	800	395	402	14	1,611
Additions	-	-	79	-	79
31-Dec-08	800	395	481	14	1,690
Depreciation					
01-Jan-08	-	-	341	11	352
Charge for the Year	-	55	37	3	95
31-Dec-08	-	55	378	14	447
Net book value 31-Dec-08	800	340	103	-	1,243

	Freehold land RO'000	Buildings RO'000	Furniture, fixtures and equipment RO'000	Motor vehicles RO'000	Total RO'000
Cost or valuation					
01-Jan-08	800	582	402	14	1,798
Additions	-	-	20	-	20
30-Jun-08	800	582	422	14	1,818
Depreciation					
01-Jan-08	-	187	341	11	539
Charge for the period	-	33	17	2	52
30-Jun-08	-	220	358	13	591
Net book value					
30-Jun-08	800	362	64	1	1,227

12 Share capital

The authorised share capital of the Company comprises 300,000,000 (2008: 10,000,000) ordinary shares of 100 baizas each. The Company's issued and fully paid-up share capital amounts to 126,109,688 ordinary shares of 100 baizas per share (31 December 2008: 11,465,000 ordinary shares of 100 baizas each). In March 2009, as per resolution passed in the ordinary general meeting held on 12.03.09, the issued and paid up capital was increased to RO 12,610,968 by issue of 11,464,517 bonus shares.

13 Creditors and accruals

	Six months ended 30 June 2009 RO'000	Six months ended 30 June 2008 RO'000	Year Ended 31 December 2008 RO'000
Creditors	1,459	3,224	2,574
Accruals and other liabilities	665	524	808
	<u>2,124</u>	<u>3,748</u>	<u>3,382</u>

14 Bank borrowings

	Six months ended 30 June 2009 RO'000	Six months ended 30 June 2008 RO'000	Year Ended 31 December 2008
Overdrafts	598	299	331
Short-term loans	32,288	27,821	34,359
Long-term loans	14,543	8,975	13,525
	<u>47,429</u>	<u>37,095</u>	<u>48,215</u>

15 Fixed deposits

The Company has fixed deposits from corporate entities based in Oman in the amount of RO 8.7 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 4.9% and 7.0% per annum. The carrying amount includes interest accrued till the end of the reporting period.

17 Related party transactions

The Company entered into transactions with entities over which certain Directors are able to exert significant influence. Such transactions are at mutually agreed terms. Significant related party transactions during the six months ended 30 June 2009 were as follows:

	Six months ended 30 June 2009 RO'000	Six months ended 30 June 2008 RO'000
General and administrative expenses	1	2
Lease rentals paid for vehicles taken on operating lease	11	21
Sales incentive	70	78
<i>Payments to Directors</i>		
Sitting fees	5	12
<i>Other payment to Directors</i>		
Proposed remuneration	23	25
Directors remuneration for 2008 paid in March 2009	41	31
<i>Period end balances</i>		
Net investment in finance lease	241	4
<i>Transactions with key members of management during the period</i>		
Salaries and other benefits (Top 5)	225	139
Advances & net investment in leases	41	39

18 Maturity analysis of significant assets and liabilities

At 30 June 2009	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	491	-	-	-	491
Statutory deposit	-	-	-	50	50
Net investment in finance leases	2,180	22,686	48,466	-	73,332
Advances and prepayments	1,125	-	-	-	1,125
Property pending sale	-	28	-	-	28
Deferred tax asset	-	-	-	730	730
Property and equipment	-	-	-	1,218	1,218
Total assets	<u>3,796</u>	<u>22,714</u>	<u>48,466</u>	<u>1,998</u>	<u>76,974</u>
Equity :					
Equity	-	-	-	17,899	17,899
Liabilities:					
Bank borrowings and fixed deposits	6,280	34,756	15,141	-	56,177
Creditors and accruals	2,351	-	-	-	2,351
Provision for income tax	-	346	-	-	346
Deferred tax liability	-	-	-	201	201
Total equity and liabilities	<u>8,631</u>	<u>35,102</u>	<u>15,141</u>	<u>18,100</u>	<u>76,974</u>
Liquidity gap	<u>(4,835)</u>	<u>(12,388)</u>	<u>33,325</u>	<u>(16,102)</u>	
Cumulative liquidity gap	<u>(4,835)</u>	<u>(17,223)</u>	<u>16,102</u>	<u>-</u>	
At 31 December 2008	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	241	-	-	-	241
Statutory deposit	-	-	-	50	50
Net investment in finance leases	2,073	22,215	52,611	-	76,899
Advances and prepayments	1,054	-	-	-	1,054
Property pending sale	-	167	-	-	167
Deferred tax asset	-	-	-	705	705
Property and equipment	-	-	-	1,243	1,243
Total assets	<u>3,368</u>	<u>22,382</u>	<u>52,611</u>	<u>1,998</u>	<u>80,359</u>
Equity :					
Equity	-	-	-	17,610	17,610
Liabilities:					
Bank borrowings and fixed deposits	5,627	38,268	14,525	-	58,420
Creditors and accruals	3,566	-	-	-	3,566
Provision for income tax	-	556	-	-	556
Deferred tax liability	-	-	-	207	207
Total equity and liabilities	<u>9,193</u>	<u>38,824</u>	<u>14,525</u>	<u>17,817</u>	<u>80,359</u>
Liquidity gap	<u>(5,825)</u>	<u>(16,442)</u>	<u>38,086</u>	<u>(15,819)</u>	
Cumulative liquidity gap	<u>(5,825)</u>	<u>(22,267)</u>	<u>15,819</u>	<u>-</u>	