

Sahara Hospitality Company SAOG ("the Company") is a public joint stock company and its principal activity is to build, own and operate permanent accommodations ("the PACs") for staff and contractors of Petroleum Development Oman LLC ("PDO") in Fahud, Nimr and Rima. PDO is committed under an agreement with the Company dated 30 May 1998 to provide land free of cost, on which the PACs are situated.

During 2012, the Company has been awarded a contract for renovation, operation and maintenance of PDO Rima Camp by variation to an existing contract on the same terms and conditions for a period of 20 years.

The PACs are operated, in accordance with the terms and conditions of a service agreement dated 24 July 1999 as amended on 20 June 2012 ("the Contract"), by a related party, Catering and Supplies Company LLC ("CSC"). Under the terms of the Contract, CSC operates the PACs in return for agreed rates. The Contract provides that CSC will indemnify the Company in respect of any penalties payable by the Company arising due to CSC's failure to provide the services prescribed therein.

The financial statements have been prepared on the historical cost basis, as modified to include the fair value of certain financial assets and liabilities.

The principal accounting policies applied in the preparation of the financial statements are set out below. These accounting policies have been consistently applied by the Company to all the years presented, unless otherwise stated.

Income from operations

The Company is operating permanent accommodations ("the PACs") for contractors of Petroleum Development Oman LLC ("PDO") in Fahud, Nimr and Rima. The Services are provided through a service provider. Income from operations represents sale of goods and services in normal course of business and is recognized at a point in time and over the period when the performance obligation is satisfied and is based on the amount of the transaction price that is allocated to the performance obligation. The transaction price is the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods or services to the customer.

The consideration expected by the Company may include fixed or variable amounts which can be impacted by sales returns, trade discounts and volume rebates. Income from operations is recognized when control of the asset is transferred to the buyer and only when it is highly probable that a significant reversal of revenue will not occur when uncertainties related to a variable consideration are resolved.

Transfer of control varies depending on the individual terms of the contract of sale. Revenue from transactions that have distinct goods or services are accounted for separately based on their stand-alone selling prices. A variable consideration is recognized to the extent it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

For products for which a right of return exists during a defined period, revenue recognition is determined based on the historical pattern of actual returns, or in cases where such information is not available, revenue recognition is postponed until the return period has lapsed.

Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses, if any. After the initial recognition, expenditure incurred to replace a component of an item of property, plant and equipment which increases the future economic benefits embodied in the item of property, plant and equipment is capitalized. All other expenditures are recognized in the statement of income as an expense as incurred.

Items of property, plant and equipment are derecognized upon disposal or when no future economic benefit is expected to arise from the continued use of the asset. Any gain or loss arising on de-recognition of the asset is included in the statement of comprehensive income in the year the item is derecognized.

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

	Years
Buildings on leasehold land	30
Equipment	15
Furniture and fixtures	7
Motor vehicles	5
Pre-fabricated buildings	7

Depreciation methods and useful lives as well as residual values are reassessed annually

Financial instruments

To determine the classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

The three measurement categories of financial assets are:

- * Financial assets carried at amortized cost;
- * Financial assets carried at fair value through other comprehensive income (FVOCI); and
- * Financial assets carried at fair value through profit or loss (FVTPL)

Financial assets at amortized cost

Investments at amortized cost are non-derivative financial assets held within the business model with the objective of holding the assets to collect contractual cash flows; and contractual terms of the financial asset gives rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding. Subsequent to initial recognition, investments at amortized cost are measured at amortized cost using the effective interest method less any impairment. Investments at amortized cost are included in non-current assets, except for those with maturities of less than 12 months from the end of the reporting period.

i) Recognition and measurement

Financial assets and financial liabilities are initially recognized when the Company becomes a party to the contractual provisions of the instrument.

A financial asset is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. Trade receivables are measured at the transaction price determined under IFRS 15.

All financial liabilities are recognized initially at fair value and, in the case of payables, net of directly attributable transaction costs.

The Company does not trade in any financial liabilities and does not classify or measure any financial liabilities as at fair value through profit or loss. Consequently, all financial liabilities are classified and subsequently measured at amortized cost.

ii) DE recognition of financial assets and liabilities

The Company derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfer nor retain substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled, or expired.

Impairment of financial assets

The Company recognizes allowances for expected credit losses (ECLs) on financial instruments, including financial assets measured at amortized cost and trade and other receivables. Credit losses are measured as the present value of all cash shortfalls. ECLs are recognized in two stages:

For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL).

For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables, the Company applies a simplified approach in calculating ECLs. Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs. Therefore, the Company does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Company is having a method of provisioning that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortized cost are credit impaired. A financial asset is 'credit-impaired' when one or more events that

have a detrimental impact on the estimated future cash flows of the financial asset have occurred. A receivable is considered as in default, if the receivable is past due more than 45 days.

Impairment provision for other receivables and receivables from related parties are also recognized based on a forward looking expected credit loss model.

Write-off

A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows. The gross carrying amount of a financial asset is written off against the related provision, when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof.

Inventories

Inventories are stated at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost of inventories is based on the first-in-first out basis

Impairment of non-financial assets

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

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

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

Cash and cash equivalents

For the purpose of statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities up to three months or less and bank overdraft.

Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in profit or loss over the period of the borrowings using the effective interest rate method.

Employees' end of service benefits

Contributions to a defined contribution retirement plan for Omani employees in accordance with the Oman Social Insurance Scheme, are recognized as an expense in the statement of comprehensive income as incurred.

Provision for non-Omani employee terminal benefits, which is an unfunded defined benefit retirement plan, is made in accordance with Oman Labor Law and is based on the liability that would arise if the employment of all employees were terminated at the end of the reporting period.

Payables and accruals

Liabilities are recognized for amounts to be paid for goods and services received, whether or not billed to the Company.

Provisions

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

Finance charges

Finance charges comprise of interest payable on borrowings. All interest costs incurred in connection with borrowings are expensed as part of finance costs on accrual basis using the effective interest rate.

Foreign currency transactions

Transactions denominated in foreign currencies entered into during the year have been translated into Rial Omani at the rates of exchange prevailing at the date of transactions. Foreign currency monetary assets and liabilities denominated in foreign currency at the end of the reporting period are translated into Rial Omani at the exchange rates prevailing at the end of the reporting period. Transaction gain and loss arising from foreign currency transactions are dealt in the statement of comprehensive income.

Leases

The Company assesses whether a contract is or contains a lease, at inception of the contract. The Company recognizes a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Company recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed. Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfer's ownership of the underlying asset or the cost of the right-of-use asset reflects that the Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the lessee uses its incremental borrowing rate. The right-of-use assets and the lease liabilities are presented as separate line items in the statement of financial position. The

Company applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the impairment of non-financial assets' policy.

Income tax

Income tax on the results for the year comprises current tax and deferred tax. Income tax is recognized in the statement of comprehensive income except to the extent that it relates to items recognized directly to equity, in which case it is recognized in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years. Deferred tax is calculated by providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the end of the reporting period. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Dividends

Dividends are recommended by the Board after considering the profits available for distribution and the Company's future cash requirements and are subject to approval by the shareholders at Annual General Meeting. Dividends are recognized as a liability in the period in which they are declared and approved by the shareholders.

Earnings and net assets per share

The Company presents earnings per share ("EPS") and net assets per share data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year. Net assets per share is calculated by dividing the net assets attributable to ordinary shareholders of the Company by the number of shares outstanding at the reporting date.

Directors' remuneration

The Directors' remuneration is governed as set out in the Memorandum of Association of the Company, the Commercial Companies Law and regulations issued by the Capital Market Authority. The General Meeting shall determine and approve the remuneration and the sitting fees of the members of the Board of Directors in accordance with the Commercial Companies Law of the Sultanate of Oman and the rules set forth in the Regulations.

Segment reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses and whose operating results are regularly reviewed by the Board of Directors to make decisions about resources to be allocated to the segment and assess its performance. The Company has a single reportable segment.