

SME Development Fund PROSPECTUS



National Company for Projects & Management
Post Box 119, Postal Code 103, Bareeq Al Shatti, Oman





HIS MAJESTY SULTAN QABOOS BIN SAID



SME Development Fund (Close Ended Fund)

Private Placement Prospectus

(Strictly Private & Confidential)

Relating to (Issue of 2,000 units at a subscription price of RO 10000 per unit plus issue expenses RO 200)

Founder



Investment Manager



National Company for Projects & Management LLC

Strictly Private and Confidential



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This prospectus contains information provided as per the requirements of prospectus of securities in the primary market issued by CMA , Oman . This prospectus is approved by the CMA vide Administrative Order No. K/94/2013 dated 24/12/2013 and CMA assumes no responsibility for the proper and adequate information mentioned in this prospectus nor shall assume any responsibility for any damage or loss that may arise as a result of relying on these statements and information or use of them by third party

Subscription Opening Date: 05/01/2014

Subscription Closing Date: 03/02/2014

Founder



Issue Manager & Investment Manager



National Company for Projects & Management LLC

Collecting Banks



This Private Placement Prospectus ("PPP" or "Prospectus") is prepared in accordance with the requirements prescribed by the CMA agreed upon in the format of prospectus prepared in Arabic and approved by the CMA vide Administrative decision No. K/94/2013. The CMA assumes no responsibility for the accuracy of the statements mentioned in this PPP.

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IMPORTANT NOTICE

This document ("Prospectus") is for the use of the addressee only. Recipients are required to keep the contents of the information contained herein confidential. It may not be copied or distributed or otherwise made available by any recipient without the express, advance, written consent of the Investment Manager. This Prospectus is issued by National Company for Projects & Management LLC ("Issue Manager") on behalf of the SME Development Fund (the "Fund"). This Prospectus is compiled by KPMG, Oman on behalf of the Investment Manager. The Investment Manager accepts responsibility for the information contained in this Prospectus. To the best of the knowledge of the Investment Manager (who has taken all reasonable care to ensure that such is the case) the information contained in this Prospectus, at the time of its submission to CMA for initial approval, viz., May 2012, is in accordance with the facts and does not omit information, the omission of which may affect the investment decision in this fund.

This Offering is a private placement. It is subject to the regulations of the Capital Market Authority of Oman that apply to public offering of securities and the extensive disclosure requirements and other protections that these regulations contain. This Prospectus is intended only for potential private investors.

The Units offered in accordance with this Prospectus may only be offered in minimum subscription of Omani Rials 1. million (Omani Rials One Million) plus RO 200 per unit as issue expenses , as set out in section titled "Subscription Procedure".

Statements of belief, projections, forecasts and expectations in connection with the Fund represents the Investment Manager's assessment and interpretation of information available to it at the date of this Prospectus. It is expected that if any licenses are required to operate and achieve objectives of fund, from any regulator / authority, this shall be applied and obtained as required. No representations are given that the statements of belief, views, projections or forecasts are correct or that the objectives of the Fund will be achieved and no responsibility is accepted by the Investment Manager or the Fund in respect of them. Investors must determine for themselves what reliance they should place on the statements of belief, views, projections and forecasts.

The Fund does not undertake any obligation to update or revise the forward-looking statements contained in this Prospectus to reflect events or circumstances occurring after the date of this Prospectus or to reflect the occurrence of unanticipated events.

No person is authorized to give any information or make any representations other than those contained in this Prospectus in connection with placement of the Units, and if given or made, such other information and representations must not be relied upon. The delivery of this Prospectus at any time does not imply that information contained herein is correct as of any time subsequent to the date of its issue.

The Fund has been established under the laws of the Sultanate of Oman as a close ended fund.

Distribution of this Prospectus is restricted and is being made to a limited number of parties who have expressed an interest to invest in the Fund.



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1. Definitions

Applicant	A person/organization applying for the Units through this Prospectus and the associated Subscription Form
Articles	The Articles of Association of the Fund including any amendments, modification and restatement thereto.
Board of Directors	Refer Fund Management
Capital Committed	The amount of subscription in the Fund, in the 'Issue of Capital' as subscribed by the investors and as more fully described in section 2, 'The Summary of Principal Terms'.
Equity Payback Period	The amount of years taken to break even on an equity investment
Executive Management	The staff deputed from the Investment Manager to run the daily operations of the Fund
Financial Year	The financial year of the Fund shall commence on 1 January and end on 31 December of the same year except, in case of first financial year which shall commence on the date of initial closing of the Fund and end on 31 December 2014.
First Subscription	50% of Capital Committed comprising 1,000 units at a price per unit of RO 10,400 (including issue expenses of RO 200 per unit of Capital Committed), totaling RO 10.4 million
Fund	SME Development Fund (the "Fund") is a fund registered as a close ended fund in the Sultanate of Oman with the principle aim of generating investor value by providing financial assistance along with support services to prospective entrepreneurs and SME clients, profitably.
Fund Management	The management body elected by the general meeting to supervise and manage the Fund, also referred as the Board of Directors or Board
Internal Rate of Return	Internal Rate of Return is the discount rate that makes the net present value of all cash flows from a particular project equal to zero.
Investor	An Individual or institutional investor(s), whose application to subscribe for Units in the SME Development Fund has been accepted.
Investment	An investment made by an Investor in the Units of the SME Development Fund.
Oman Law	The laws and regulations in force in the Sultanate of Oman.
Omani Rials or RO	The lawful currency of the Sultanate of Oman



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Private Placement Prospectus, PPP or Prospectus	This document approved by CMA vide decision number K/94/2013 dated 24/12/2013, on the basis of the document, dated May 2012 under which the Offering is being made
Project	Has the meaning given to it in the section titled "The Project"
Second Subscription	50% of Capital Committed comprising 1,000 units at a price per unit of RO 10,000, totaling RO 10 million
Second Subscription Due Date	The first anniversary of the closing date of the First Subscription
Unit	A voting, participating unit in the Fund
Unit Holders	Unit Holders of the Fund as they would appear in the Register of Members of the Fund maintained by the Muscat Depository post allotment of Units being offered through this Offering
Investment Manager	National Company for Projects & Management LLC ("NCPM"), a company registered as a limited liability company in the Sultanate of Oman with company registration number 1106657
Subscription Form	The Agreement with the Fund pursuant to which Applicants will acquire Units in the Fund
Subscription Price	RO 10,200 including issue expenses of RO 200.
Subscription Terms and Conditions	The terms and conditions pursuant to which Applicants apply for the Units under this Offering including those terms and conditions which are set out in the Prospectus and those terms and conditions contained in the Subscription Form.

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2. Summary of Principle Terms

The following are the terms of this Offering. These terms are qualified in its entirety by the detailed information included elsewhere in this Prospectus and should be read in conjunction with the full text of this Prospectus.

Type of Offer	Private Placement of the first tranche of Units in the Fund to select financial and strategic investors.
Opening Date	05/01/2014
Closing Date	03/02/2014
Authorized Capital	RO 100 million comprising of 10,000 units.
Number of Units being offered under this Offering	2,000 Units (20%) of the Authorized Capital of the Fund.
Issue of Capital	RO 20,000,000 comprising 2,000 units.
First Subscription	50% of Capital Committed comprising 1,000 units plus issue expenses of RO 200 per unit of Capital Committed. The total amount due on first subscription is RO 10.4 million (including issue expenses of RO 0.4 million).
Second Subscription	The remaining 50% of the Capital Committed, comprising 1,000 units payable on the Second Subscription Due Date. The total amount due on Second Subscription is RO 10 million. If unit holders fail to pay the amount of Second Subscription within 14 days from the Second Subscription Due Date, the amount shall accrue interest daily at a rate of 8 percent per annum until payment in full of the Second Subscription. If any amount remains unpaid by unit holders for a period of eight weeks after the Second Subscription Due Date, the units held by the defaulting units holder in the fund will be forfeited. The procedure for the Second Subscription is more fully described in Section 8.
Life of the Fund	The life of the Fund is 50 years, as per the Articles of Association of the Fund
Founder	Omar Zawawi Establishment (OMZEST).
Investment Manager	National Company for Projects & Management LLC.
Issue Manager	National Company for Projects & Management LLC.
Subscription Currency	Omani Rials
Subscription Price	RO 10,200 including issue expenses of RO 200.
Minimum subscription per Applicant	Minimum Subscription is 100 Units. Subscriptions over and above the specified minimum can be made in multiples of 10 Units. However, the Issue Manager may, at its sole discretion, accept applications which are below the specified number of Units.



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Maximum subscription per Applicant	Maximum Subscription is equivalent to 20% of the Offering, i.e. 400 Units. However, the Issue Manager may, at its sole discretion, accept applications which are higher than the specified number of Units.
Use of proceeds	<p>Proceeds from this Offering will be utilized towards the fulfillment of the primary objective of the Fund and issue expenses of RO 200 per units towards the issue, establishment and pre-operative costs incurred by the Investment Manager.</p> <p>Surplus, if any, of the issue expenses amount collected, after incurring all establishment and pre-operative costs, will be utilized towards training & nurturing expenses by the Fund.</p>
Net Asset Value (“NAV”)	The value of the Units calculated and stated as NAV in the financial statements of the Fund; or calculated according to the method used to calculate NAV in the financial statements of the Fund, in accordance with the International Financial Reporting Standards
Non-withdrawal	Once the signed Subscription Form has been submitted, Applicants may not withdraw their application and the funds submitted shall be non-refundable regardless of the reason save for refunds made under the terms of the Subscription Form or this Prospectus.
Allocation process	Units will be allocated to the Applicant, at the sole discretion of the Issue Manager, and who may, on behalf of the Fund allocate Units to Applicants in consultation with the Capital Market Authority, or may decline in full or in part any application from any Applicant without specifying a reason. In respect of funds received but not accepted, whether partially or fully, such funds would be returned, net of bank charges, if any.
Risk factors & mitigants	Investment in the Units of the Fund will involve certain risks and should only be made by investors who understand the risks involved and are able and willing to withstand the risk of loss (see section titled “Principal Risk Factors & Mitigants”).
Withdrawal of the Offering	The Issue Manager reserves the right to withdraw this Offering after getting the approval of CMA, in whole or in part, at any time for any reason.



3. The Project

The Omani Ministry of Commerce and Industry is supporting the establishment of a new Fund targeted at the growing Small and Medium Sized Enterprise sector of the Omani economy. The Fund will have authorized capital of RO 100 million. The Fund's primary objective is to increase investor value by profitably financing SMEs, whilst promoting entrepreneurship and sustainable SME development. The Fund will utilize its capital, commercial debt and preferential loans to achieve this objective. It would also utilize grant finance as described later in this Prospectus to train entrepreneurs and provide various business support services, thereby improving SME performance and reducing their credit risk, which in turn would improve the overall financial performance of the Fund.

The Fund is supported by NCPM, who will offer SMEs targeted training, nurturing and support in terms of accounting, sales, market access and regulation. Key Management of NCPM comprises seasoned professionals from the SME financing sector, each selected for exceptional track record and significant hands-on experience in the Omani finance market.

3.1 Fund Introduction

The Partnership For Development Program ("PFD") is Oman's offset program that seeks to leverage economic benefits for Oman off the back of defense and security procurements. Under the program, overseas suppliers, are required to invest a proportion of the value of the contracts awarded to them, back in the Sultanate, and are referred to as the offset obligors. Key focus areas for the program are SME development, job creation, economic development and technology transfer. Project proposals are submitted to the PFD Committee, by the obligors, for approval. The PFD Committee, chaired by HE the Minister of Commerce and Industry, includes representatives from the Ministries of Defense, Finance and Commerce and Industry.

The SME Development Fund is a PFD project. Support to the Fund, via the PFD Program will be by way of grants and low interest loans. The grants will be received by the Fund on behalf of NCPM, and the Advisory Committee of the NCPM would approve specific programs and monitor the use of grant finance by the SME Development Fund, within the parameters set out in this Prospectus. In terms of the quantum and allocation of the funding, a grant of Euro 6.5 million (approximately RO 3.1 million) would be used for specific forms of training, nurturing and support for existing SMEs and prospective entrepreneurs, as detailed elsewhere in this Prospectus. Additional grants of GBP 12 million (approximately RO 7.60 million) (over 3 years) and Euro 1.4 million (Approximately RO 700,000) have been earmarked for providing an interest rate subsidy for qualifying SMEs. The preferential term loan of Euro 50 million would support the operations of the Fund, facilitate initial access to credit lines and improve profitability. It may be noted that the actual receipt of funds would be based on certain milestones; the schedules shown in the financials presented herewith and the conversion rates used may be taken as being indicative. The preferential term loan of Euro 50 million may be availed from overseas or locally based on interest rate and availability; while the repayment of loan is shown as bullet payment, the actual repayment will be based on ALCO requirements at the time of the structuring of the loan and as determined by the Advisory Committee.



3.2 The Purpose of the Fund

The purpose of the Fund is to profitably provide financial assistance and business support services to existing SMEs who are seeking to expand, and to 'create' new SMEs, as a means of boosting economic activity and creating employment, thereby ensuring adequate returns for its stakeholders. The procedures and policies for operations of the Fund will be as per the procedure manual which will be approved by the Fund Board.

3.3 The Fund's Structure

The Fund expects to receive equity participation from local and international financial institutions, business groups and other investors, as well as the preferential loan of approximately RO 25 million (Euro 50 million), facilitated by the Offset Partners. Equity participation will be raised in tranches as the Fund scales up.

The first tranche of RO 20 million would be raised in 2 years, with RO 10 million plus collection charges paid on application and the balance of RO 10 million in the second year. Subsequent tranches are expected to be issued at a premium to third parties.

Election of Fund Board

The Fund shall be managed and supervised by a management body (hereinafter referred to as the Board). The Board shall consist of seven (7) members. The Board shall be elected by the general meeting in accordance with the provisions of the Articles of Association, save for the initial Board, in which three (3) members have been nominated by NCPM. The term of office for the Members of the initial Board of the Fund shall be until the first General Meeting, convened as per Section 9 of the prospectus. Subsequent Boards will be elected for a maximum term of 3 years. However, two (2) members of the Board must be appointees of NCPM till such time as NCPM continues to provide grants to the Fund.

Members of the Board are liable before the investors and CMA, to supervise and oversee the Executive Management and service providers and to safeguard the interests of the Fund and investors in accordance with the law.

The initial Board of the Fund will comprise of the three (3) Directors, as follows:

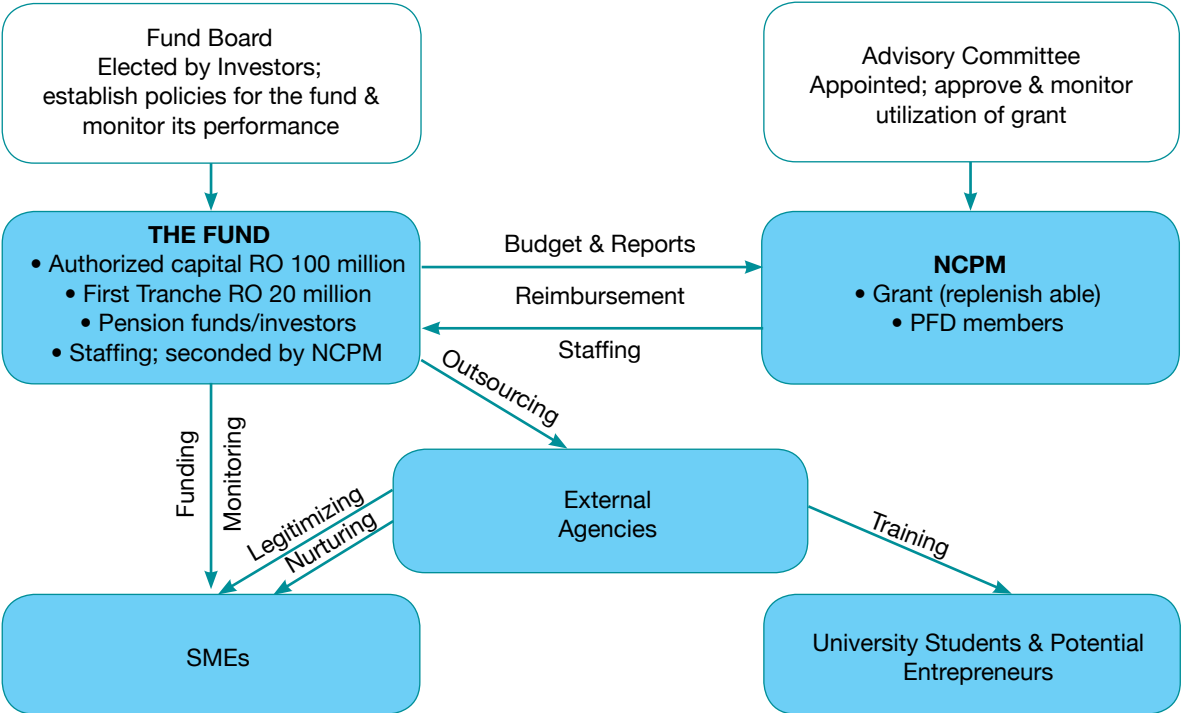
- Mr. Saleem Qassim Ahmed Al Zawawi
- Mr. Salah Hilal Nasser Al-Maawali
- Mr. Xavier Francois Marie Azan

3.4 Operations of the Fund

The Fund would use its capital, preferential loans arranged by the PFD Partners and commercial debt to create shareholder value by profitably financing SMEs. It would use the grant finance provided by the PFD Partners, to the Fund on behalf of NCPM, to 'develop' entrepreneurship, nurture SMEs, subsidize interest on the funds lent to qualifying SMEs and to create opportunities for small business, thereby improving their performance and reducing their credit risk, which in turn would improve the overall financial performance of the Fund. The overarching objective of NCPM and the Fund is to finance and support existing SMEs who have sound business plans and the possibility of



growth, and to encourage the formation of new SMEs, as a means of boosting economic activity and creating employment. NCPM and the Fund play a mutually supportive role for the development of the SME sector in Oman. However, their roles are clearly distinct and the very reason for setting up two corporate entities is to ensure independence and governance. It is therefore of vital importance that the two organizations be managed by independent boards/committees with a ‘Chinese wall’ being maintained between them as indicated in section 3.9 ‘Governance of the Fund & NCPM’. The proposed strategy is illustrated graphically below.



3.4.1 The Four Point Plan

The Fund has developed an integrated Four Point plan, described below, to achieve the above objective

1. Financing

As per the information obtained by KPMG from the Ministry of Commerce and Industry, as of January 2011, there are approximately 117,000 Small and Medium Enterprises in the Country, with a value addition of approximately RO 4.6 billion (23% of GDP). Research by World Bank and others demonstrates that appropriate funding is the main difficulty faced by the sector. The Fund will, inter alia, seek to finance new enterprises created through its enabling, entrepreneurship development and nurturing activities (described later in this section), as well as the expansion, modernization and replacement needs of existing viable SMEs, offering, inter alia, the following products:

- **Equipment leasing:** for the acquisition of movable and fixed assets by the SME (called the lessee). In these transactions, the asset is owned by the lessor (the Fund in this case) providing a higher level of security, as experience in Oman has shown. Hire-purchase and installment sales are variants of the Lease transaction.



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- **Factoring:** for the working capital needs of SMEs. In factoring, the SME's receivables from his customers are assigned to the Factor (the Fund). The Factor would extend finance against the receivables and collect the same on due date from the customers. Careful assessment of borrower and customer is carried out and as the factor collects the payments directly, risk to the factor has been found to be low in Oman.
- **Project financing:** against the assignment of projects being executed by SMEs for Government and large businesses or for their own use. Here the funding is secured by an assignment of the assets/proceeds of the project, to mitigate risk.
- **Working capital financing:** to meet the growth needs of the SMEs. Here the finance is usually of a short term nature and is provided against suitable security in the form of assigned receivables, movable or immovable assets.
- The Fund would also earn non-fund based income by providing the SMEs with 'bankassurance' style insurance as well as LC, guarantee and trade finance facilities directly and through banks.
- Further, the interest would be subsidized for qualifying new and growing SMEs using interest subsidy grants provided under the offset program.

The Fund would also selectively finance larger companies based on the availability of liquidity to improve portfolio diversification and profitability.

To grow the market and to enhance the success of SMEs (and thereby of the fund itself), the Fund would implement the additional elements of the Four Point program mentioned below.

2. Entrepreneurship Development

A significant portion of the grants provided under the offset program is earmarked for developing entrepreneurship. This is expected to ramp up the SME base in the Country, thus creating employment opportunities for young Omanis, adding to the Country's GDP and creating funding opportunities for the Fund. The entrepreneurship development efforts would be aimed at potential experienced entrepreneurs as well as school and college students, as described below.

Experienced individuals: Experienced individuals with significant work experience and managerial or technical skills constitute an attractive pool of potential entrepreneurship. They, however, require training in the basics of managing a business to make the transition to entrepreneurship successfully. A training program, styled 'Start your own Company' would be offered to experienced Omanis seeking to take the plunge. This would be done in conjunction with important stakeholders like the Chamber of Commerce & Industry, the Ministry of Commerce and Industry, banks, etc., who would help spread the message and provide some elements of infrastructural support.

Students: With a view to creating future entrepreneurs, the Fund would seek to enhance entrepreneurs development in colleges and universities, and later in schools. The approach could include a combination of:

- **Introduction to entrepreneurship:** a brief one day seminar, seeking to introduce all students to the opportunities and challenges of entrepreneurship.
- **Videos:** on successful young Omani entrepreneurs, the challenges they faced and their message to students. These will be integrated with the 'Introduction' seminar and also screened separately in all participating colleges & universities.

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- **E-Societies:** entrepreneurship societies to channel and increase interest in entrepreneurship activities on campuses. These could include guest lectures by entrepreneurs, company visits, internships, business plan contests, entrepreneurial games and some of the activities below.
- **Poster contests:** at the participating colleges to sustain momentum and visibility.
- **'Campus Companies':** the e-societies would be encouraged to have their members run entrepreneurial activities (like canteen, laundry, photocopy center, book binding) to inculcate the dignity of labor and to give a hands on experience of entrepreneurship, in a safe environment.
- **Developing Entrepreneurship:** the culmination of the 'entrepreneurial campus' program will be a more detailed course on entrepreneurship, aimed at the students who show potential and have participated in many of the activities above.

It is intended that the initial training would be carried out by training institutes in the country, paid from the grants provided under the offset program. The advanced module would be run by the faculty of the colleges and universities. Curriculum for training and models for the e-societies, e-competitions, etc., have been well developed in various countries and would be modified for implementation in Oman. The concept has been discussed with a wide cross section of colleges & universities along with the Ministry of Higher Education and has received enthusiastic support. The program would be test launched soon after commencement of the Fund.

3. Nurturing

SME financing, as a consequence of small transaction sizes, entails high transaction costs. Consequently, the banks and other players in the SME space tend to limit post disbursement monitoring. Inadequate monitoring, combined with the intrinsic vulnerability of SMEs or diversion of funds, results in build-up of arrears. The financier often intervenes only once there is delinquency. This belated intervention usually aggravates the problem, the business fails and finally bad debt ensues, ruining the entrepreneur and causing losses for the financier.

Having the advantage of the grants provided under the offset program, the Fund would implement the following initiatives to improve SME viability and reduce delinquency:

1. **Accounting support:** A major shortcoming of new entrepreneurs is faulty accounting and inadequate understanding of cash flow issues. It is proposed that accounting support be offered to SMEs, using the help of external accounting firms who would visit the SMEs as required, to write up the books and report financial position to the SMEs and the monitoring team of the Fund (see below). The program would be monitored by the Head of Finance of the Fund and monitoring action taken based on the feedback from the accounting program. It is expected that this initiative would not only put SMEs on a stronger footing but also reduce the problem of information opacity for the Fund and other financiers.
2. **Software:** To encourage SMEs to computerize their accounts, standardized accounting software will be sourced and provided at an affordable price to the SMEs. This will enable the Fund to obtain at a minimum, the basic MIS for monitoring.
3. **Monitoring:** Possibly the single major cause of failure of SMEs and of the lending programs is inadequacy of post lending follow up. This results in diversion of funds, delayed payment, cash flow problems and finally litigation and default. The high level of default, in turn, results



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in funding drying up for the entire sector. To solve this issue, it is proposed that, each new account be monitored monthly. The monitoring effort would be calibrated based on the reports from the 'accounting support' team. To ensure that the monitoring team has a clear understanding of the clients' business, needs and problems, the function would report to the Marketing Manager. The monitoring team and managerial support for the same would be funded by the offset grant.

4. **Mentoring:** To support the SME clients, a 'mentoring' process will be set up in due course. This is intended to be staffed by volunteer senior managers from the private and public sectors. Prima facie, a mentor would act as mentor to a number of SMEs selected for geographic proximity or sector similarity. The mentors would guide their 'mentee' SMEs, sharing experience and helping the mentees address challenges faced and to grow and succeed in business. It is also expected that the mentors will use their contacts and experience to assist the mentees to improve their market access. Expenses for the mentoring initiative would be relatively limited and would be met from the offset grant. Given the complexity of the effort, it would be launched once other operations stabilize.
5. **Market Linkage:** Experience in Oman and elsewhere shows that SMEs, especially in the initial stages, face difficulty in marketing their products and services both in the B2B (business to business) and in the B2C (business to consumer) space. Some of the challenges in the B2B space will be addressed by creating an enabling environment (see below); in addition, the mentors, with their seniority and contacts, would be expected to help the SMEs to access potential clients. The mentor forum meetings would provide a platform for individual mentors to draw on the contacts of their peers. The mentor program could also address some of the distribution related issues of B2C marketing. No additional market linkage is planned or budgeted for at this juncture; however, this may be reviewed in due course.

4. Enabling Environment

One of the major complaints of the SME sector has been that the environment is not conducive for the small business. Anecdotal examples are myriad and evident – some examples are the inability to quote for large tenders, challenges of staffing, high initial cost of setting up the company, difficulty in arranging bid bonds, performance guarantee, payment delay's, etc.

Much of the environment creation responsibility lies with Government and is outside the purview of the Fund. However, with the help of MOCI and other stakeholders, the Executive Management would seek to, inter-alia:

- Intervene with the Tender Board to improve access for SMEs.
- Liaise with Ministry of Finance to obtain assignment of payments, for projects financed by the Fund. This would enable the Fund to finance the SME against these cash flows, in lieu of collateral.
- Arrange conferences in selected PEIE locations, FTZs or at the Chamber of Commerce and Industry to encourage the private and Government sectors to support SMEs.



3.5 Engaging with Stakeholders

Excellent work has been done by the Directorate General of Small and Medium Enterprises, Banks, Non Banking Financial Companies, ODB, Youth Fund, Sanad, Intilaqa – Grofin, private associations, etc. to forge entrepreneurship and develop SMEs. In the interest of creating a conducive environment, the Fund would seek to work closely with the stakeholders to help scale up the effort and to create a cluster of SME support services and competence. At the same time it is recognized that each entity plays a distinct role with a distinct set of values, objectives, and competencies and care would be taken to maintain the independence and ‘arm’s length’ relationships.

3.6 Founder

Founder

Omar Zawawi Establishment LLC shall be the founder of the fund.

Founder’s commitment

The Founder undertakes to subscribe to at least 5% of the total units of the Fund on offer. In accordance with Article 221 of the Executive Regulation of the Capital Market Law, the Founder shall not sell or redeem its units except after three years from the date of closure of subscription.

3.7 Investment Manager

The Investment Manager is National Company for Projects & Management LLC (“NCPM”), a company registered in March 2011, as a limited liability company. The company is nominally owned by Mr. Xavier Francois Marie Azan, a French national, representing certain of the offset partners and Mr. Muhanna Hamed Said Al Riyami, an Omani national; the company is, however, beneficially owned by the Ministry of Commerce and Industry (“MOCI”) who have the right to take over the shares at any point in time and at its discretion. The primary objective of NCPM is to establish the SME Development Fund, including channelizing the grants received (described elsewhere in this Prospectus) and monitoring its use. The Advisory Committee of NCPM would approve the plans prepared for training, interest subsidy, legitimizing and nurturing as described elsewhere and would monitor the appropriate implementation of the approved plans. NCPM would also depute the Management and operating staff who would constitute the Executive Management and staff of the SME Development Fund, for no additional fee; however, salaries of the deputed staff would be borne by the fund.

The key strengths of NCPM are as follows:

- **Experienced Team:** The CEO and the top management team have an exceptional track record in managing financial institutions and have close to 100 man years of combined experience, a large part of which is in SME financing and development.
- **Grant Finance:** NCPM will arrange, in the first instance, approximately USD 30 million (approximately RO 11.5 million) of grant finance. Further tranches of grant may be expected in coming years. The grant finance improves the viability of the Fund as described in the section ‘Four Point Plan’.
- **Disciplined and Rigorous Processes:** Based on the experience of the team and the advice of professional advisors, the Executive Management deputed by NCPM will establish rigorous process to supervise and monitor the operations of the Fund.



3.8 Investment Manager Fee

With a view to improving the returns to the Investors and to further the social objectives of the Fund, the Investment Manager would charge no fund management fees to the Fund. NCPM would depute the Management and operating staff, who would constitute the Executive Management and staff of the SME Development Fund, however, salaries of the deputed staff would be borne by the Fund.

If the net income generated by the fund exceeds a hurdle rate of 12% of issued capital in any financial year, a special reserve equal to 15% of the excess of the net income over the hurdle rate would be created. The special reserve thus created would be utilized towards training and nurturing expenses by the fund.

3.9 Governance of the Fund & NCPM

The Fund and the NCPM would be managed by separate management bodies.

The Advisory Committee of NCPM performs two vital functions, firstly the assistance in establishment of the Fund and secondly, they would act as guardian of the grants being provided to the Fund; studying the needs of the SME sector and advising on the Four Point Program that has been approved by the PFD committee and funded by the PFD obligors. More specifically, the Advisory Committee would:

- Guide and assist in liaison with the CMA/MOCI and other authorities for the establishment of the Fund and with prospective investors for its successful floatation;
- Review and approve/modify the Proposals for utilization of the Grant ("PFG") prepared by executive management of SME Development Fund, comprising operating plans and estimated expenses for the implementation of the training, nurturing, subsidy and legitimizing program. The PFG would be drawn up in keeping with the overall parameters set out in this PPP;
- Review and approve quarterly statements submitted by the Fund for the utilization of the grant and the implementation of the training, nurturing, subsidy and legitimizing programs;
- Guide Management in its liaison with regulatory bodies; Government agencies; major business groups for achieving the objectives of 'Legitimizing' and the other elements of the 'Four Point Program';
- Raising of further tranches of grant;
- Approval of the annual accounts of NCPM and reporting of the same to the stakeholders; and
- Appointment and removal of the auditors and other service providers of NCPM.

The Board of the Fund performs two vital functions. Firstly, it would be responsible for drawing up of the strategy, within the broad guidelines set in the Executive Regulations of the Capital Market Law, the Articles of Association of the Fund and the Prospectus, for the achievement of the financial and non-financial objectives of the Fund. Secondly, the Board would supervise the implementation of the Four Point Program and the utilization of funds released by the Advisory Committee and the reporting thereof. More specifically, the functions would comprise:

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In Relation to NCPM:

- Monitor the implementation of the Four Point Plan by the Fund and submit quarterly performance reports, regarding the utilization of grant and the implementation of the Four Point Program (as described in Section 3.5.1), to the Advisory Committee, along with an analysis of variance; and
- Submission of annual certificate from the auditors for funds received and expenses incurred on behalf of NCPM.

In Relation to the establishment/operations of the Fund:

- Review and approve the Private Placement Prospectus (PPP) submitted to the CMA;
- Evaluation of the Fund's performance taking into account the objectives of the Fund;
- Approve the annual report, financial statements, related parties and other information and disclose the same to the unit holders and stakeholders in a fair, timely, transparent manner;
- Review of strategies prepared by the Management for achieving the objectives of the Fund;
- Review of funding proposals beyond the powers of Executive Committee;
- Approve increases in the issued capital of the Fund in accordance with the provisions of the Articles of Association;
- Evaluation of the Fund's compliance with the Prospectus, Articles of Association and applicable statutory requirements;
- Evaluation of the performance of the Management and service providers;
- Ensure adequacy of the Fund's systems to safeguard its assets and that adequate controls are in place so as to protect the interests of the Fund, NCPM and unit holders and for the avoidance of conflicts of interest and to ensure that adequate procedures are in place to resolve any conflicts of interest in the best interest of all stakeholders;
- Appointment and removal of service providers and determining their fees in accordance with the provisions of the agreements signed by the Fund with such service providers; and
- Approve distributions to the Unit Holders.

3.10 Directors and Executive Management

The profiles of the members of the initial Board of the Fund are as follows.

Chairman: Mr. Saleem Qassim Ahmed Al Zawawi

Saleem Zawawi is Omani national with over 20 years of experience in Government; Corporate sector; Banking and Regulation comprising top management positions, board responsibility, regulatory responsibility and policy formulation. He has conceptualized, implemented and supervised numerous projects of national importance, turned around many firms and worked on organizational transformation.

Saleem holds a MBA and a Bachelor of Finance from University of Arkansas, USA and is presently Advisor to the Minister of Commerce & Industry. Saleem is member of PFD committee, Chairman



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of PFD Technical Committee and Head of PFD Secretariat. Saleem is also on the Board of various committees and companies including Chairman of Bandar Al Rowdha Steering Committee; Member Economic Committee, Chamber of Commerce & Industry; Member of the Asian Cooperation Dialogue Committee; Member of Oman-South Africa Committee for Research and Technical Cooperation between the Sultanate of Oman and the Republic of South Africa; Member of Agricultural Development Fund; Vice Chairman of the National Transport Steering Committee; Member of Executive Committee to evaluate, enhance and develop the land transport sector and Chairman of Al Fajar International SOAG.

Saleem was Executive Director and special advisor to Chairman in Zawawi Trading Company LLC for 3 years; AGM in Commercial Bank of Oman for 4 years and incharge of Investment Banking unit of Central Bank of Oman for four years.

Director: Mr. Salah Hilal Nasser Al-Maawali

Salah Maawali is an Omani national with over 14 years of experience in Government and corporate sector involving Investment Planning, policy development, strategic planning, organizational development and project co-ordination.

Salah holds M.Sc. in International Business & Management from University of Sheffield (UK) and B.Sc.in Business Administration from University of Arkansas (USA). Presently Salah is Director General for the Development of SMEs (DGSME), in the Ministry of Commerce & Industry. Salah has successfully built the organization from scratch. Salah developed public private participation, with different stakeholders including the financial institutions, CCI and entrepreneurs to formulate specific programs for SME development in Oman. Salah conducted two national conference and exhibition on SMEs. Salah designed and implemented extensive training program on Entrepreneurship. Salah also holds board position including, Vice Chairman of the committee for Oman Investment Stabilization Fund; member investment committee of The Oman Investment Opportunity Fund; Director and member of Audit Committee of Oman Investment and Finance Company SAOG; Vice Chairman of Oman Flour Mill company SAOG, Vice Chairman of Al Batinah Real Estate Development LLC; Director & member of Audit Committee of Oman Fisheries Company SAOG.

In the Ministry of Commerce and Industry Salah handled various position such as Director- Office of the undersecretary of Commerce & industry; Assistant Director – Business Relation, Directorate General organization and business relations; Acting Director – Research & Studies of Directorate General – planning & follow up. Salah also worked as General Manager of Al Hilal General Trading & Contracting Establishment for 3 years. Salah represented in various delegations to important overseas delegates. Salah published paper in Foreign Direct Investment in the world economy magazine at Kangawa University, Japan.

Director: Mr. Xavier Francois Marie Azan

Xavier Azan is a French national with over 24 years of corporate experience in leadership, finance and investment with various reputed companies in Europe and Middle East.

Xavier holds a MBA from University of Paris (France) and Military office diploma (France) and is presently General Manager of SIMLEASE FZE. The company is based in Dubai, incharge of purchasing managing or leasing flight simulation devices or flight training capabilities. Xavier is also Managing Director of ODC, FZE, a company based in Dubai, providing support services for the Offset obligations in the GCC and India.

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Xavier was CEO of EUROMED (Export Support in GCC based in UAE) for 3 years. Xavier was CEO of EUROMOGA (Export Support in GCC based in France) for 3 years. Xavier was GM in Quadra (Oil Consultancy Firm) in France for 12 years.

Below are the brief profiles of the Key Management of NCPM.

Chief Executive Officer: Mr. Raphael Parambi

Raphael Parambi has over 30 years of experience in General Management, Leasing, Microfinance, Factoring, Hire Purchase, Consulting & Marketing. As founding General Manager of Muscat Finance Co (“MFC”), he pioneered leasing & factoring in Oman. A finance company had earlier been considered unviable, given the conditions stipulated & the disorganized market. Nevertheless MFC was incorporated, in 1987, by Omani shareholders. MFC launched Hire Purchase, Leasing, Factoring, Working Capital Financing, Project Finance and Home Plan, an innovative consumer credit scheme that was offered through 200 major employers and 2 banks. Many of these were pioneering launches not only for the Country but for the entire region and have since been launched by players elsewhere as well. The core competencies developed and the strategies implemented resulted in MFC increasing profits in each of the years since inception till 2007 (and thereafter). The company has, since inception till 2007, distributed RO 20 million dividends by way of cash and stock dividends and director’s remuneration, against the capital of RO 3.4 million injected in cash (5.92 times). This was achieved through the building of a highly motivated and well trained team of professionals and the adoption of a consistent conservative policy, following a strategy of selective booking of business, aggressive provisioning & prudent asset liability management. The company continues to be profitable and successful to date. Today, Oman has a finance industry which supports 6 strong players with an estimated Asset Size of around RO 550 million & annual advances of around RO 230 million.

Raphael was Chief Mentor at ESAF Micro Finance & Investments Ltd., a leading Microfinance institution in India, from 2008 to 2011, where he mentored top management as the company scaled up operations, attracted private equity and supported thousands of new entrepreneurs and small enterprises. Mr. Raphael represented Oman at the UNIDROIT ‘Committee on leasing law’; he was also a member of the Leasing Committee and member of the Insurance Committee at the Oman Chamber of Commerce and Industry and is currently a member of the SME Development Committee, at the Oman Chamber of Commerce and is on the Advisor Board of the Global Leasing Resource, USA. He has also served on various boards in Oman and abroad. Raphael is an Alumnus of the prestigious Indian Institute of Technology, Kanpur, XLRI, Jamshedpur, and Harvard Business School, Boston. He has spoken at numerous international conferences on leasing, microfinance and management. Raphael's areas of expertise include managing turnarounds, managing rapid growth and risk management. He has published numerous papers on Asset Finance, Micro Credit & Personal Finance in prestigious journals in Asia, Europe & the US.

Head of Finance: Mr. L R Sharma

L R Sharma is a proficient financial management professional having over 18 years of cross-functional experience in fields of Business Strategy & Implementation, Merger & Acquisition, Handling IPO's & QIP, Financial Management (Fund Management, Budgeting), Asset Receivable & NPA Management, Internal Audit & Risk Management and Management Information System (MIS) / ERP Implementation.

Prior to joining NCPM, Sharma was Chief Financial Officer of Muscat Finance Co. Whilst at Muscat Finance, Sharma handled various functions such as Treasury, Risk & Asset Receivables Management,



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etc. Prior to Muscat Finance Co, Sharma was with Shriram Transport Finance Company (“STFC”), one of India’s largest asset based Non-Banking Financial Companies with assets under management over USD 7.5 billion.(approximately RO 2.8 billion) STFC is a leading financier to SMEs with around 488 branches and 17,500 employees spread across India. Sharma was a member of various core committees at Shriram, including Risk, NPA, HR, Audit and Investment. Further, he was responsible for general financial management including asset liability management, liaising with rating agencies and Investor relations. He was involved in the fund raising activity such as Initial Public offering, Qualified Institutional Placement and Private Equity Investments.

He was a visiting Faculty in reputed Management Institutes in Mumbai, India, teaching Financial Management & Management Accounting.

Manager (Administration, Credit & Recovery): Mr. Khalid Al Zadjali

Khalid Al Zadjali has more than 10 years of experience in a reputed finance company and handled various functions such as Marketing, Customer Relationship Management, Receivables Management & Administration. As a Branch Manager in United Finance Company Limited (“UFC”), he created a good quality business and helped UFC to achieve growth in business volume. As a Recovery Manager, Khalid had helped UFC to successfully reduce NPA’s and increase profitability and sustainability during a very difficult period for the company.

Khalid has in-depth understanding of SMEs in Oman & Market Dynamics. He has also entrepreneurship experience and had done business in Oman for over 20 years, prior to his foray into financial services. He has completed courses from Institute of Banking & Financial Studies and also attended various workshops on CRM, Work Ethics, Motivation, Negotiation skills & Management Development.

3.11 Service Providers

3.11.1 Investment Manager

National Company for Projects & Management LLC shall be the Investment Manager for the Fund. For further details, please see Sections 3.7, 3.8 and 3.9.

3.11.2 Issue Manager

National Company for Projects & Management LLC has been appointed as the Issue Manager for this issue of the Fund.

3.11.3 Legal Advisor

M/s DENTONS & CO. OMAN BR. has been appointed as the Legal Advisor to the Fund.

M/s DENTONS & CO. OMAN BR. is a pre-eminent law firm in Oman.

3.11.4 Auditors

KPMG, Oman, an international auditing and accounting firm, has been appointed as the independent Auditors of the Fund.

KPMG is a global network of professional firms providing Audit, Tax and Advisory services, having 138,000 outstanding professionals working together to deliver value in 150 countries worldwide.

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3.11.5 Collecting Banks

The following Banks have been appointed as the Collecting Banks for the Fund:

Bank Sohar SAOG

National Bank of Oman SAOG

The fee for collecting Banker is NIL.

3.11.6 Custodian

The Board shall appoint the Custodian, whose principal place of business is within the Sultanate of Oman.

The Fund's assets are of the nature of current assets, represented by cheques and assignments of receivables. The operations of the Fund are very transaction intensive, and therefore the custodian shall hold under custody the following assets of the Fund only, in order to make the fund viable and protect the interests of the unit holders;

- Documentation of Leases exceeding two (2) years; and
- Ownership documents pertaining to land and building owned by the Fund.

The following assets (indicative list only), which would be handled more frequently and are required for customer service, will be held directly by the Fund, under the supervision of the Fund Board:

- Current Assets, including cash, bank accounts;
- Postdated cheques received from the borrowers, assignments of payments, bills of exchange and other instruments of payment;
- Factoring receivables, project finance receivables, machinery, vehicles, and other assets (including security interest thereon) financed by the fund for the SME borrowers, and
- Similar assets required/acquired in the day to day operations of the Fund.

The Custodian may, where deemed necessary, appoint a sub-custodian to hold security documents and to perform other such functions on its behalf, without prejudice the liability of Custodian)

Written consent of the Fund Board shall be obtained for all the contracts concluded with the sub-custodian and such contracts shall provide adequate protection for the assets on terms and conditions consistent with the contract with the main Custodian.

All contracts concluded with the main Custodian or sub-custodian shall cover the following:

- Requirements that enable the Fund to exercise all the rights pertaining to the assets kept with the Custodian or sub-custodian;
- Requirements pertaining to the location where the Fund's assets are kept;
- Method of holding the assets;
- Care and liability for loss;



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- Review and compliance reports; and
- Fees, method of payment and timing of payment.

National Bank of Oman has been appointed as custodian of SME Development Fund.

Custodian Fee:

1. Fixed fee: RO 5,000/= per annum
2. Volume based fee: RO 1.500/- per document (under custody). Volume based fee for the first 100 documents will be waived.



4 Oman's Economic Overview

The Sultanate of Oman is a politically stable country that has a strong and increasingly diversified economy. The country has in place well balanced social systems and benefits from having strong relationships with its neighboring countries. Spread over 309,500 square km, Oman consists of five regions and four governorates with 12 regional centers. Under the leadership of His Majesty Sultan Qaboos bin Said Al Said, Oman has transformed itself into a modern, liberal country with a positive economic outlook and clear plans for a sustainable future. Oman has been rated "A" by Standard & Poor's Rating Services and "A1" by Moody's Investor Services with a stable outlook.

The Omani economy is in robust health and experienced a significant rebound in 2010, largely as a result of the increase in oil prices. Oil accounted for over 45% of Omani GDP in 2010. The Government's development strategy, Vision 2020 sets out the strategic goals to develop Oman's economy by the year 2020. Vision 2020 aims to shift crude oil contribution to below 10% of GDP and increase natural gas and industrial contributions to above 10% and 20% respectively, whilst actively developing Omani human resources and skills. SME development will play a crucial part in achieving Vision 2020.

4.1 Economic Overview

After a slowdown in 2009, the Omani economy witnessed a swift recovery; sustained domestic demand, supported by accommodative fiscal and monetary policies, also contributed to the economic recovery.

According to the Annual Report 2010 by the Central Bank of Oman ("CBO"), Sultanate's Gross Domestic Product (GDP) at current prices grew by 23.4 percent in 2010 as against a decline of 22.6 percent in the previous year. While nominal GDP emanating from the hydrocarbon sector registered a robust growth of 41.2 percent, the same from non-hydrocarbon activities witnessed a growth of 11.1 percent during 2010. As a result, the share of petroleum activities in the overall GDP increased from 40.6 percent in 2009 to 46.5 percent in 2010.

Consumption demand was sustained, mainly due to countercyclical fiscal and monetary policies; however the investment demand, particularly in the private sector was weakened. Nevertheless employment opportunities, particularly in the private sector, improved marginally in 2010. External demand remained robust as a result of the global recovery causing crude oil prices in the international markets to rise.

Liquidity in Oman was comfortable throughout the year leading to a moderation of domestic interest rates. Although inflationary pressures in Oman remained largely under control in 2010, the recent increase in prices of food and other essential commodities in the international markets has been a matter of concern for the CBO. During 2010, the major policy challenge for the CBO was to secure a broad-based economic recovery through accommodative monetary policy.

The diagrams below illustrate the estimated Government revenue and expenditure for 2011 as per the Oman Budget 2011

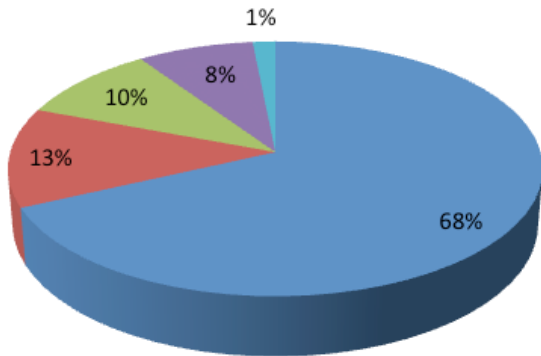


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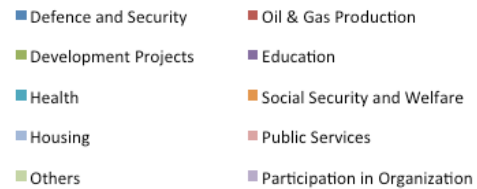
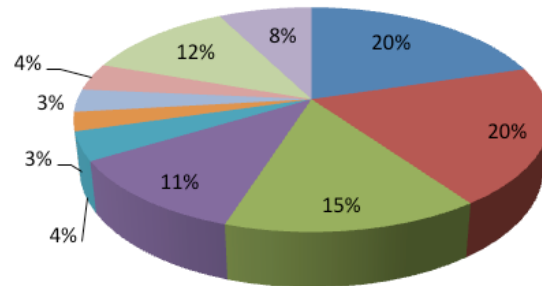
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Revenue



Expenditure



4.2 Impact of Global Economic Downturn on Oman

Oman had been affected by the global recession; in terms of low oil prices, a reduction in foreign investment, volatility in the market due to uncertainty and reduced liquidity. However, due to Oman's conservative banking sector and positive stimulus from the Government into the economy, the impact of the global economic downturn on Oman has been limited.

4.3 Inflation

According to the Annual Report 2010 by the CBO, inflationary pressures in Oman remained largely under control in 2010. Annual inflation rate measured by movement in the average Consumer Price Index (CPI) for the Sultanate stood at 3.3 percent in 2010 compared to 3.4 percent in the previous year. On a point-to-point basis, the CPI inflation in the Sultanate accelerated to 4.2 percent by the end of 2010 compared to 0.9 percent a year ago.

Since the global recovery is being consolidated and commodity prices in the international markets are either close to the pre-crisis level or even higher in certain cases, there is a potential threat of inflationary pressures in Oman. A decline in the value of the dollar, to which the Omani and other GCC currencies are pegged, could also add to the cost of imports and therefore inflation. However, there is less concern that inflation would return to the troubling levels of 2007 and 2008.

4.4 Vision 2020: Oman's long-term strategy

Omani policymakers have been actively developing the national economy through new tax laws, new privatization laws, enhancing the non-oil sectors and creating a market-friendly economic environment to encourage an active private sector. In 1995, Oman outlined a long-term development plan, Vision 2020 (the "Vision"), which sets out the strategic goals to develop Oman's economy by

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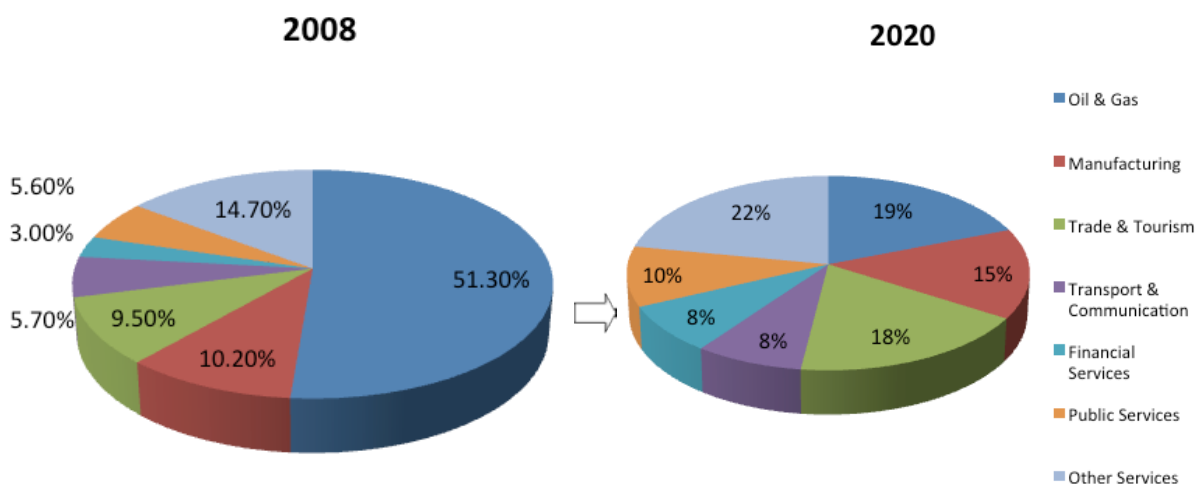


the year 2020. In addition, Vision 2020 aims to diversify the economy by reducing the contribution of crude to below 10% of GDP and increasing the contribution of the natural gas and industrial sectors to above 10% and 20%, respectively.

As per Vision 2020, the Government has set out the following fundamental goals for Oman:

- Develop Omani human resources and skills.
- Create a stable macro-economic framework to support the development of the private sector, which will be capable of using optimal human and natural resources in an ecological way.
- Encourage the development of an effective and competitive private sector.
- Provide the conditions for economic diversification.
- Increase the standard of living among Omani people.
- Preserve the achievements of the last 25 years.

The diagrams below illustrate the objective of the Vision 2020:



The objective of the Vision is to substantially reduce the Country's dependence on oil and to diversify the economy. The economic plan focuses on Oman's non-oil sectors such as natural gas, industry and tourism. By 2020, oil and gas revenue should only contribute to 19% of GDP, reducing by 32.3% from 2008, while Manufacturing will account for 15% of GDP, which is an increase of 4.8% and Trade and Tourism will account for 18%, increasing by 8.5%. The development of Small and Medium sector constitutes a key element of Vision 2020.

4.5 Oil & Gas sector

Hydrocarbons remain the cornerstone of the economy, accounting for 40% of the Sultanate's GDP and 65% of all export revenue in 2009, according to the Ministry of National Economy. Oman managed in 2008 to turn around what many saw as an inevitable decline in oil production that begun in 2001, and continued this trend in 2009. The value of hydrocarbons reached its highest level to date in 2008, with the Sultanate recording RO 11.8 billion (USD 30.56 billion) in revenues, which fell to RO 7.26 billion (USD 18.8 billion) in 2009 because of the declining oil prices worldwide and the



global financial crisis. Total oil reserves dipped by approximately 3% in 2009 as production exceeded new oil discovery, according to the central bank's annual report. Oil and condensate reserves stood at 4.83 billion barrels in 2009, down from 4.98 billion barrels in 2008. The year 2010 was another year of expansion, with expected production of 870,000 barrels per day (bpd) on average for the year, which marked a rise of 8% over 2009 levels.

Oman's Oil and Gas sector is controlled by the Government of Oman through two strategic companies, Oman Oil Company (OOC) and Petroleum Development Oman (PDO). At present, PDO is directly responsible for 90% of the Sultanate's oil reserves and 85% of production. PDO, indirectly and directly, continues to be the biggest client in terms of manufacture, remanufacture, repair, and refurbishment business for the oil and gas sector of Oman.

Oman has managed to create a conducive economic environment that encourages foreign direct investments through its provisional framework of concession blocks; waiting to be tapped by potential investors. Its economic agenda further drives this interest through its commitment to encouraging healthy competition in the services sector, particularly in drilling, pipelines, casings and other supporting industries.

4.6 Banking Sector

According to the Annual Report 2010 by the CBO, the global economy witnessed uneven speed of recovery during 2010. While several developing countries posted robust recovery, the momentum of growth was sluggish in the advanced economies. The emergence of sovereign debt crisis, particularly in the euro area, trimmed the growth momentum considerably in the OECD countries.

Overall bank profits in Oman were down by 18.5 % in 2009, largely as a result of much higher loan – loss provisioning and decreased non – interest income. Profits totaled RO 190.8 million (USD 498 million) in 2009, down from RO 234.1 million (USD 611 million) in 2008.

Banks earned 73% of their income from interest in 2009, up 11.6% year-on-year, but well below the 2008 growth rate of 18.8% and the 34% rate seen in 2007. However, interest expenses also increased at a lower rate of 7.4% for 2009, compared with 20.7% in 2007 and 12% in 2008, producing net interest growth of 14.5% to RO 414.5 million (USD 1.08 billion).

One notable feature of 2009 was the substantial increase in provisioning to RO 186.5 million (USD 486 million) from RO 104.9 million (USD 274 million) the previous year as banks protected themselves against potential loan losses in Oman and abroad. Shareholders felt the impact of the lower profit levels, as cash dividends declined by 14% to RO 85.4 million (USD 223 million)

However, in 2010/11 the Omani banking sector has recovered robustly with a number of Banks posting record profits, confirming that Oman's prudent approach to banking operations is providing sustainable banking development.

4.7 Foreign Trade

According to the Annual Report 2010 by the CBO, world trade rebounded in 2010 from its depressed level in the previous year. The volume of world merchandise exported was estimated to have increased by 14.5 percent in 2010, bringing it back to its pre-crisis level.



The short-term outlook for world trade seems uncertain given the adverse global developments such as catastrophe in Japan, sovereign debt problems in the euro zone, rising prices of food and other primary commodities, persistent unemployment in developed countries, and unrest in several oil exporting economies. The World Trade Organization (WTO), in its press release (April 7, 2011), projected a lower growth of merchandise trade volume at 6.5 percent in 2011.

Oman's balance of payments position in 2010 improved markedly due to the increase in world crude oil prices, supported by strong growth in Omani exports, both oil and non-oil. Total exports increased by 32.4 percent and merchandise imports increased by 11.4 percent in 2010. As a result, the trade surplus stood much higher at RO 7.2 billion in 2010 compared to RO 4.5 billion in 2009.

After netting out outflows on account of services, income and current transfers, the current account witnessed a surplus of RO 1,960 million in 2010 (as against a deficit of RO 230 million in 2009) and accounted for 8.8 percent of nominal GDP in 2010.

The capital and financial account posted a net outflow of RO 938 million in 2010 as against a net inflow of RO 948 million in the preceding year. The overall position in the balance of payments account (current, capital and financial accounts combined) registered a larger surplus of RO 574 million in 2010 compared to a surplus of RO 297 million in 2009.

The foreign exchange reserves of the Central Bank of Oman (net of valuation adjustments) increased by RO 339 million, while foreign assets of the Government increased by RO 235 million in 2010. As at the end of 2010, the gross foreign assets of the Central Bank of Oman stood at RO 5,008.5 million, providing cover for roughly 8 months of merchandise imports.

4.8 Tourism and Hospitality Sector

According to the Annual Report 2010 by the CBO, the hotels and restaurants sector recorded an increase in growth in 2010 of 3.5% compared to a decrease of 0.5% in 2009. Value added for the sector increased from RO 175.1 million in 2009 to RO 181.3 million in 2010.

The five and four star hotels witnessed a decline in their revenues by 0.6% and 0.8% in 2010 respectively, caused by the reduction in incoming foreign tourists due to the global economic crisis.

4.9 Industry and Retail

Oman has seen considerable investment and growth in the industrial sector over the past few years. Manufacturing has continued to grow despite the global recession. The value of non-oil exports rose significantly from RO 502.5 million to RO 785.4 million between 2009 and 2010.

For a number of years, Oman has been engaged in a series of industrial mega projects in areas such as metallurgy and petrochemicals. Many of these are located in new industrial ports which benefit from a variety of tax and financial incentives and enjoy good communication and transport links.

Overall, heavy and light industry remains at the forefront of efforts to diversify the Omani economy, both in terms of its sectorial and regional structure. Omani manufacturing has emerged relatively unscathed from the world recession and appears to be in a strong position to gain an increased share of the national, regional and world markets.



4.10 Construction and Real Estate

In keeping with the Sultanate's desire to diversify its economy, the Government is keen to invest in the infrastructure, such as roads, utilities, health, educational facilities and industry, which are needed for real estate growth. An ongoing focus on infrastructure is a key component of the Eighth Five Year Development Plan (2011-15), part of the Government's Vision 2020.

The construction industry on its own contributed RO 1.2 billion to the Sultanate's GDP in 2009, according to the Ministry of National Economy. This represents a 5.6% increase over the sector's 2008 return of RO 1.14 billion. This took its share of overall GDP to 6.8% from 4.9% in 2008.

4.11 Telecom and Information Technology

With two main competitors fighting for market share and a customer base eager to enjoy the benefits of modern mobile telephony, Oman's telecommunications market is modernizing at a steady pace.

The Information Technology Authority has had significant success in meeting its mandate to provide the Country with sound IT infrastructure and technical expertise. However, it is hoped the private sector will continue to develop and, in certain cases, assume control of public projects. Nawras's entry as the Country's second ISP signals a shift in this direction. In addition, the Government's substantial investment in training students, professionals and residents in general should also increase overall IT usage and has the potential to produce a generation of internet-savvy citizens and entrepreneurs.

4.12 Insurance

The insurance sector in Oman has been steadily growing and developing despite the challenges related to the global economic downturn, increasing competition in the market place, and natural disasters such as cyclones Gonu and Phet. Since the year 2000, insurance premiums have been growing at an annual average rate of 16%. By the end of 2009, the total insurance premium of Oman was USD 613 million or USD 218.2 per capita. This represents approximately 1.1% of the total GDP.

It is widely known that Oman is one of the lowest consumers of insurance per capita in comparison to other GCC countries. However, demand is growing.

4.13 Transport

Oman's position at the heart of major trade routes between Asia, Africa and the Middle East has made Oman a transport hub for millennia. Significant development and changes are currently underway that have the potential to fundamentally alter Oman's position in world markets and the underlying economy of the Sultanate. Oman's Government has made significant financial commitments to developing the Country's transportation networks. Upgrades to the air, road and port infrastructure have moved forward in 2010 and groundbreaking for the long awaited rail network appears imminent.

The Government's investment commitment in the Eight Five-Year Development Plan is RO 6 billion. Current transport projects, most of which were initiated in the course of the seventh five year plan, are projected to be completed from December 2010 to 2017. The flagship projects for 2009-2010, and the ones most likely to dominate the headlines in the coming year, include the overhaul and expansion of the Sohar and Salalah ports, the construction of four airports in addition to the overhaul of the Muscat International Airport, a new rail transport system, and the development of a transport hub at Duqm.



4.14 Utilities

Oman's expanding power sector is projected to attract as much as USD 7 billion in new investments over the next five years. Of this, some USD 1 billion will be used to expand power transmission and distribution networks, and the balance will go towards developing generation and desalination capacity. A full review was being conducted throughout 2010 and the Oman Power and Water Procurement Company SAOC is due to release its seven-year strategic plan. This investment in expansion is justified by the fast-growing demand for utilities, which has been outpacing expectations.

For Oman to meet this electricity and water demand forecast, it will need to continually and heavily invest in its power and water generation capabilities. The Government has indicated that it is happy to do so in the form of subsidies to suppliers and consumers, making it an attractive partner for the private sector.

4.15 Education

The trend towards higher education spending and a broadening of curricula to link students at all levels more strongly to the practicalities of the employment market looks set to continue. The literacy rate in the Sultanate is now 86.7%, while for young Omanis aged 15 to 24 it is even higher, at 97.6%; and Oman's education authorities are aware that the education system and its graduates require increasing flexibility to cope with rapidly changing economic conditions and the impact of technology, in the very near future.

While the Government will continue to take the major responsibility for education, it is likely to turn more to the private sector in the coming years, particularly to support the expansion of the primary education sector.

4.16 Health

The Sultanate has made great strides in developing healthcare over the past four decades. New initiatives have been undertaken to set up specialized tertiary care facilities, such as hospitals in Muscat and a national cardiac center. There are also plans to set up tertiary care centers for diabetes and genetic disorders that were included in the seventh five-year plan. Besides completing the psychiatric hospital in Muscat with 245 beds, hospitals in Salalah and Saham will be built soon and the one in Samail, upgraded. There are also plans to build secondary care hospitals in Suwaiq, Jalan Bani Bu Ali and Sinaw, and a modern laboratory for infectious diseases in Muscat.

As Oman implements its Eighth Development Plan, it will be looking for further ways to raise efficiency and control costs to ensure that rising health investment brings a solid return in terms of better health outcomes and improved patient satisfaction.



5 Small and Medium Enterprise Overview

The Government is now sharply focused on the SME sector, which bears special mention in the Budget 2013, 8th five year plan, and whose growth is inextricably linked with the wealth and employment generation objectives of Vision2020. Small and Medium Sized Enterprises (SME) are small owner-managed or owner-controlled businesses, sometimes with multiple shareholders or partners, but more often than not they are controlled by a single person.

SMEs by virtue of their size tend to focus on a single product or small range of products and be based in one or few locations. This allows the company to concentrate limited resource on a market niche – offering a product or service that larger companies cannot match. SMEs play a central role in the Oman economy. The benefits of SME development in Oman are employment generation, inclusive growth, distributed development, balance of payment advantages and economic progress.

As per Government statistics there is a large SME sector contributing 23% of GDP. While there are agencies financing SMEs, there is a large gap (availability of finance is one of the major challenges that SMEs face).

5.1 SME Definition

Background

Micro Enterprises are typically established by individuals or families with a focus on generating a livelihood from a craft, skill, idea or enterprise (Similar 'pragmatic criteria' are contained in the World Banks Report "Towards a Comprehensive SME Development Strategy for Oman" (volume II- annexes) June 2004). The dominant factor of production is labor and little capital is employed. In such enterprises, typically, there is no division of labor and all functions are carried out by the individual(s) concerned. Accounting and management are very basic if present at all, and the number of employees is usually less than 10. Micro enterprises do occasionally grow into small or even medium scale; however, the transition is not common and requires changes in management and operating processes and accounting capability. External intervention and support is often required for this transition to succeed.

Small enterprises usually employ 5-50 persons. These are characterized by some degree of division of labor and functional specialization. Small enterprises are set up by entrepreneurs seeking to cater to a need in the market and such entrepreneurs seek to generate entrepreneurial profit from the enterprise, rather than merely creating 'wage employment'. While there is some management process, in Small Enterprises, this is often provided by the owner-promoter. Consequently, these are usually weak in one or more functional areas, especially Marketing and Finance/Accounting. Small Enterprises often use a mix of labor and capital as factors of production with the mix varying sharply from industry to industry and indeed from enterprise to enterprise. Entrepreneurs setting up small enterprises often have a desire and ability to grow their enterprise into the next Apple or Microsoft. However, the transition requires major improvements in management and financial capability.

Medium enterprises could have 50-200 employees and are characterized by improved processes and often have better capital and managerial function than do the small enterprises. However, this segment too has limitations in ability to pay and attract talent and could face weaknesses in some

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areas of management. Availability of capital, both in the form of debt or equity is also often a constraint as capital markets and financial institutions often do not have the ability to assess this sector.

In essence, the entire MSME (Micro, Small & Medium Enterprises) sector is characterized by its vulnerability and its low threshold of tolerance to the vicissitudes of markets, regulation or funding sources. Consequently, any adverse changes could threaten the very existence of the sector.

Omani Definition of SME's: The Ministry of Commerce and Industry has recently taken a bold step of revising the definition of SME's in Oman, as per their circular number 5674/2012, which is depicted in the table below:

Enterprise size	Head count	Annual sales
Micro	Fewer than 5 workers	Less than RO 25,000
Small	5-9 workers	RO 25,000 – 250,000
Medium	10-99 workers	RO 250,000 – 1.5 million

This is expected to become an industry standard and will be adopted by the SME Development Fund. In addition to the above, two more definitions by the Ministry of Manpower and the Central Bank of Oman still exists in the Country. The Ministry of Manpower uses a definition based on number of employees, with 99 employees being the cut off, for reporting purposes. While, the Central Bank of Oman has proposed another definition and specifies that any company with a turnover of less than RO 2 million, assets of less than RO 5 million or less than 99 employees would qualify as an SME. Further, various banks have their own definitions and the Tender Board is understood to have yet another definition.

5.2 Importance of developing the SME sector

Over the past decade and a half, with the unveiling of the Vision 2020, the Country has been seeking to diversify its economy and invest in income and employment generating sectors congruent with its comparative advantages and social and cultural preferences. This strategy has begun to bear fruit with the development of a modern infrastructure, rapid strides in education and health, the building of world class ports and airports, the development of competitive Free Trade Zones, creation of mega manufacturing projects and industrial clusters and the emergence of a vibrant tourism sector, which is likely to receive further impetus in the coming years.

5.2.1 SME Sector in Oman

With the major building blocks in place, the Government is now sharply focused on the SME sector, which bears special mention in the 8th five year plan, and whose growth is inextricably linked with the wealth and employment generation objectives of Vision 2020, for the following reasons:

- 1) **Employment Generation:** with a growing population of youth entering the work space, creation of employment is a key imperative. The SME sector has been found to create approximately 60% of all employment in both high and middle income countries as per "Small and Medium Enterprises Across the Globe", World Bank 2003. This is so because the sector, in the main, uses labor rather than capital as its dominant factor of production.



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- 2) **Inclusive growth:** the SME sector, typically, provides employment avenues for workers with lower levels of education and skill than do large corporations with their dependence on sophisticated technology and automation. Similarly, large corporations are typically established and provide employment in concentrated pockets near large cities, ports, etc. SMEs on the other hand can and do develop around local markets and thus create geographically distributed employment in more rural areas, where the need for employment is greater. Thus SMEs make growth more inclusive socially and geographically.
- 3) **Distributed development:** geographically distributed SMEs, in addition to providing local employment, also tend to get involved and invest in the communities in which they develop and operate. Thus the benefits of development are more equitably and widely distributed, in terms of community development.
- 4) **Balance of Payment advantages:** It may be noted that large enterprise tend to depend on large amounts of debt and equity, often sourced from overseas, thus for every large petrochemical complex or port that is built, the Country (or its private sector) takes on large amounts of foreign debt and equity, with the liability for substantial out flows in future years. In addition, much of the initial value added in the form of plant and equipment, technology and erection, has to be sourced from overseas. In the case of SMEs, there is seldom foreign debt and the foreign component of initial value added is low. Thus a strategy focusing on SMEs would be advantageous on a balance of payments basis.
- 5) **Economic Progress:** Despite the presence of mega corporations and large multinationals, SMEs contribute more than 50% of the GDP in developed countries. In Oman, SMEs are the dominant form of enterprise and their contribution to GDP is a satisfactory 23% (As per KPMG: Small and Medium Enterprises ("SME") Fund - Market Assessment and Business Plan), however, there is scope for improvement. The low level of SME penetration is common in developing economies; Dr. Lant Pritchett of Harvard describes this gap in the contribution of the SME sector as the 'Missing-Middle'. Bridging the 'Missing Middle' through SME development offers huge benefits to the developing economy in terms of accretion to GDP, employment generation, socially and geographically equitable growth and balance of payments.

With the creation of excellent infrastructure, the growth of tourism and industrial clusters and given the emergence of a large pool of educated youth, the conditions are ripe for the Sultanate to roll out a strategy to address the Missing Middle.

5.3 SME Lending in Oman

In Oman, there is no common policy to help start-up and expansion of small entrepreneurial firms. Oman Development Bank has its own plan to extend support for SMEs. Though the CBO has some form of definition, each commercial bank has its own definition of SME and its own policies and procedures for lending to SMEs. While the SANAD Program of the Ministry of Manpower provides some support services and start-up capital (around RO 50,000 per individual entrepreneur) it has its own terms and conditions. Furthermore, the 'Fund for Development of Youth Projects', established by the Royal Decree in 1998, is also dedicated to the promotion, development and financing of SMEs in Oman. This is essentially the venture capital fund for SMEs and the supported projects are 5-year tax-exempt. The fund provides financing to existing and proposed projects that have a capital outlay not exceeding RO 1,000,000. Another Fund established in Oman is GroFin Oman. GroFin Oman manages the local commitments of the fund established by Shell in response to its Corporate

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Social Responsibility, in South Africa. They provide traditional loan facility, along with business development services which includes advisory services, management skills training, accounting needs identification, training, business plan preparation assistance, linking to providers of technology & services, etc.

Various methods of financing SMEs are also practiced in the Sultanate, as described below.

5.3.1 Financial Statements Lending

Financial statement lending involves underwriting loans based on the strength of a borrower's financial statements. There are two requirements for this option. First, the borrower must have informative financial statements (e.g., audited statements prepared by reputable accounting firms according to widely accepted accounting standards such as IFRS).

Second, the borrower must have a strong financial condition as reflected in the financial ratios calculated from these statements. The loan contract that arises out of the analysis of these financial statements may reflect a variety of different contracting elements including collateral, personal guarantees and/or covenants.

However, under financial statement lending, the lender will view the expected future cash flow of the company as the primary source of repayment.

5.3.2 Asset – Based Lending

Under asset-based lending, the financial intermediary looks to the underlying assets of the borrower which are taken as collateral. The primary source of repayment is the cash generating ability of the asset. For working capital financing, banks use short-term assets, such as accounts receivable and inventory. For long-term financing, they use equipment.

The pledging of collateral by itself, however, does not distinguish asset-based lending from any of the other lending. Collateralization with accounts receivable, inventory and/or equipment is often associated, for example, with financial statement lending, relationship lending, and credit scoring where collateral is used as a secondary source of repayment.

Under asset-based lending, in contrast, the extension of credit is primarily based on the value of specific borrower's assets rather than the overall creditworthiness of the borrower.

Asset-based lending solves the informational opacity problem by shifting the underwriting criteria from a comprehensive evaluation of a borrower's risk profile to a specific evaluation of a subset of the firm's assets – specifically the tangible assets, real estate, accounts receivable, inventory and equipment.

5.3.3 Factoring

Factoring involves the purchase of accounts receivable by a "lender" known as a factor. Like asset-based lending, factoring focuses on the value of an underlying asset rather than the overall value/risk of the firm.

In some sense, it is a cousin of asset-based lending. However, there are three important distinctions. First, factoring only involves the financing of accounts receivable unlike asset-based lending which, in addition to accounts receivable, involves financing inventory and equipment. So factoring is more focused. Second, under factoring the underlying asset, accounts receivable, is sold to the "lender" (i.e., the factor). Thus, title to the asset passes from the borrower to the lender.



The third distinguishing feature of factoring is that factoring is essentially a bundle of four financial services: a financing component, a credit component, a collections component and a bookkeeping component. Essentially, under most factoring relationships the borrower outsources its credit and collections activities in addition to obtaining financing.

5.3.4 Trade Credit

Many of the procedures and processes associated with the other lending options appear to be utilized in underwriting trade credit. For example, credit scoring and similar quantitative techniques have long been a part of the underwriting process used by credit managers. For larger accounts, financial statements are analyzed as part of the underwriting process. No doubt, soft information and mutual trust play a role in some trade credit underwriting similar to relationship lending.

5.3.5 Relationship Lending

Relationship lending is designed to address information problems that are not feasible or cost-effectively solved by the other options.

The primary information used by lenders is based on “soft” information about the relationship between the lender and the borrower. Under relationship lending, the lender acquires proprietary information about the borrower and the business over time with respect to the provision of loans.

Relationship lenders collect information beyond that which is available on the firm’s financial statements and information that is readily available to the public. This includes information on the entrepreneur’s local community/business environment, market reputation and the entrepreneur and the SME’s interaction with that environment.

Thus, for opaque SMEs in Oman for whom asset-based lending or factoring are not feasible or cost-effective, relationship lending is a good alternative.

5.4 Challenges Faced by SME’s in Oman

Oman’s SMEs are no different to SMEs around the World. For enterprises in the start - up stage, personal loans are taken, credit cards are utilized and houses mortgaged and re-mortgaged. Then friends and family are approached for capital to expand the business. In the early stages, personal guarantees and personal security are a must. Most investors take comfort from the fact that the owner of a business has put his own money in first and there is a commitment to get the business off the ground.

Some of the challenges faced by the SMEs in Oman are as follows:

- access to finances;
- inadequate monitoring;
- maintaining appropriate financial records;
- business planning and forecasting;
- access to market and customers, payment delays;
- availability of skilled human resources;
- cost and availability of space, especially in the capital region;
- complexity of procedures;

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- technology, innovation, research and development; and
- availability of accurate information.

5.5 The SME Market

The SME market in Oman is characterized by paucity of information, hence assessing the market from published data is not fruitful and instead, an attempt has been made to assess the market through discussions with the major players and from experience. The major players in this market are the Commercial Banks, the Leasing Companies (Non Banking Financial Companies (“NBFC”) as CBO categorizes them), the Oman Development Bank (“ODB”) and the specialist institutions set up for the purpose. Broadly:

- The NBFC sector has a combined balance sheet size of approximately RO 550 million. Of this around 60% is believed to comprise ‘corporate’ advances of all kinds, with ‘corporate’ comprising any entity with a commercial registration and the funding extending from small advances for cars & computers to multi-million Omani Rials short term loans to large blue chip companies. The sector initially faced problems with SME financing but of late, with access to the CBO’s BCSB credit data and improved monitoring and tighter lending criteria, the sector’s experience with SME financing has improved. SME financing by NBFCs may be estimated at RO 275 million.
- Total bank advances comprise approximately RO 10.9 billion. Of this approximately RO 4 billion comprises personal lending. Data about the rest of the market is inadequate. Different banks have vastly different definitions of SME and estimates of size of market are, at best, guess work; anecdotally, bank’s; exposure to SMEs may be guesstimated at RO 400 million. This could exclude ‘personal loans’ which are often used for startup financing by entrepreneurs. Banks have traditionally been conservative, insisting on high levels of collateral (reportedly 200% of the finance extended).
- ODB has total advances of around RO 110 million. The bank essentially runs a subsidized financing program and lends up to RO 1,000,000 to any one borrower. However, the bulk of its lending is reportedly towards relatively small microfinance type lending and a limited amount is for large loans to larger firms or to small firms that are part of larger groups. The bank reportedly had a very high NPA level, though this has come down sharply in recent years with the changed management and greater independence in credit decisions.
- The Sanad program offers a subsidized interest rate scheme and appears to be more akin to a ‘microfinance’ style employment generation scheme than an SME development program. Sanad has the advantage of considerable Government backing. Distribution of the financing is done through the Walis’ offices across the Country and a number of economic activities are reserved preferentially for Sanad members. Despite this, advances by Sanad over a 10 year period cumulate to merely RO 10 million and bad debt is reportedly in double digits. Grofin - Intilaqa and the Youth Fund have had hardly any impact, reportedly having been afflicted by high levels of NPAs as well.



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Based on feedback from the players, the size of the market may be guesstimated as below:

Agency	Advances (Estimate RO million)
Banks	400
NBFCs	275
Sanad	10
ODB	55
Grofin – Intilaqa & Youth Fund	5
Total	745

From the above it would appear that there is a reasonably large market for SME financing. Moreover, to the major providers of finance to the sector, this is not a focus area and there are believed to be substantial gaps, especially if the Government's estimate of the SME market (GDP contribution of RO 4.6 billion) is even remotely accurate. Clearly there is ample opportunity for a Fund implementing an integrated strategy and focused on SME financing.



6 Financial Projections

The first tranche of issue of capital, of RO 20 million, is split equally over the first two years. The Fund will also be funded by a 'preferential loan' from a foreign or local bank, arranged by the Offset Partners, of Euro 50 million (approximately RO 25 million). The Offset Partners will provide the Fund with approximately RO 3.1 million (Euro 6.5 million) as a sinking fund which is estimated to be utilized over three years. The sinking fund will be used for training expenses, nurturing and legitimizing as described in the section "Four Point Plan". Further, the Offset Partners will also provide the Fund with approximately RO 8.3 million (GBP 12 million and Euro 1.4 million) to subsidize interest from SMEs.

The Fund has been modeled to plough back the receipts from the loans provided to SMEs to provide further loans to new SMEs. The Fund is expected to start dividend payouts from the second year of operations to be paid in the subsequent year. Dividends are projected at 75% of the net profits earned in the year. The Return to the first tranche of Investors of the Fund is approximately 15% per annum, over the forecast period. The Equity Payback Period for the first tranche investors is 10 years. The Fund would utilize grant finance to train entrepreneurs and provide various business support services, thereby improving SME performance and reducing their credit risk, which in turn would improve the overall financial performance of the Fund. With a view to improving the returns to the Investors and to further the social objectives of the Fund, the Investment Manager would charge no fund management fees to the Fund.

The financial model and summary presented in this document is prepared on the basis of assumption, hypothesis and analysis of available market information. Future operating results are impossible to predict and no representation of any kind is made with respect to accuracy or completeness of the forecast projections as to income, expenses, cost or other items. No representations or warranties of any kind are intended or should be inferred with respect to economic return which may accrue to Unit holders.

This financial chapter provides the assumptions and the summary 10 year projections of the key items for the SME Development Fund.

6.1 Project Financial Assumptions

The Fund has been projected to draw RO 60 million of the authorized capital, in three equal tranches, as required during the projection period. This figure could change depending on actual market demand and growth trajectory. The first tranche of RO 20 million is split equally over the first two years, with the issue expenses of RO 0.4 million payable in the first year. The Fund will also be funded by a 'preferential loan' from a foreign or local bank, arranged by the Offset Partners, of Euro 50 million (approximately RO 25 million). It is envisaged that the loan would be sanctioned in the current year and drawn in two tranches of RO 10 million & RO 15 million in second and third year respectively. The Fund is projected to pay interest at 5% per annum and to repay the loan after 5 years in a bullet payment. The actual terms and conditions and quantum of the foreign loan will be dependent on conditions prevalent at the time of arranging the loan.



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The Fund will also utilize local and foreign currency loans from financial institutions to improve overall gearing and the returns on investments. These loans, referred to as 'Local loans' in the projections, will be utilized as and when required. Interest charge on the local loans has been assumed at 6% per annum.

The Offset Partners will provide the Fund with approximately RO 3.1 million (Euro 6.5 million) as a sinking fund which is estimated to be utilized over three years. The sinking fund will be used for training expenses, nurturing and legitimizing as described in the section "Four Point Plan". This amount is expected to be replenished, failing which, the continuance of the training and other services supported by the sinking fund will be reviewed and as such, the financial projections do not capture the allocated overheads in case of a suspension of the training & nurturing sinking fund.

Further, the Offset Partners will also provide the Fund with approximately RO 8.3 million (GBP 12 million and Euro 1.4 million) to subsidize interest from SMEs. The Fund will provide loans to SMEs at an average interest rate of 10% per annum on reducing balances; in addition, it is assumed that 'other income' will constitute 0.5%. An interest subsidy of 6% will be provided to eligible SMEs from the amount received as Interest Subsidy Grant. It has been assumed that of the total loans given during any year, 40% will be eligible for the interest subsidy.

An arrangement fee of 2% of the loan amount received by the SME is payable upfront by the SMEs to the Fund. The Fund Management Expenses relates to the expense of staff deputed to the Fund from NCPM, to run operations, office rent and other expenses are as indicated in the projections.

The Fund has been modeled to plough back the receipts from the loans provided to SMEs to provide fresh loans to new SMEs. Further, a dividend payout percentage of 75% of net profits each year has been assumed. The actual payout percentage is dependent on various factors, such as liquidity, timing, cash flows, etc. and may or may not be as projected.

Due to the type of SMEs that the Fund will attract, the projections assume a provision for doubtful debts at 2.4% of the new loans provided to the SMEs during the year. This is based on the historical performance of local NBFCs; during the period 2006 to 2010; NBFCs made estimated provisions for doubtful debts of 2.1% on average. A 15% higher level of provision has been assumed for the purposes of the following projections.

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6.2 Projected Financial Summary

The projected financial summary for 10 years based on the above financial assumptions is as follows;

(values in RO'000)

Financial Summary/ year	I	II	III	IV	V	VI	VII	VIII	IX	X
Total Income	1,682	3,562	5,961	7,274	10,075	12,764	15,133	17,284	19,263	21,122
Net Profit/(Loss)	-180	886	2,054	3,327	5,264	7,294	9,409	11,229	11,965	12,799
Loans & Advances	12,200	29,280	49,288	71,834	97,307	118,877	138,006	155,184	170,800	185,440
Net Worth	9,820	20,041	20,555	21,386	52,702	54,526	91,313	94,120	97,111	100,311
Total Borrowing	2,500	12,500	27,500	47,000	47,000	64,500	48,500	63,500	77,000	88,000
Gearing	0.25	0.62	1.34	2.2	0.89	1.18	0.53	0.67	0.79	0.88
Cash & Bank Balances	4,945	9,446	5,624	2,178	6,342	2,138	2,713	2,733	3,372	2,925
Dividends Paid	-	664	1,540	2,495	3,948	5,470	7,057	8,422	8,973	9,599
Projected return to first tranche investors	15%									

6.3 Projected Dividends

The Fund is expected to start dividend payouts from the second year of operations to be paid in the subsequent year. Dividends are projected at 75% of the net profits earned in the year.

This dividend policy is proposed and the actual dividend policy will be influenced by market conditions and operating plans at the time and this is also subject to the discretion of the Board.



7 Key Performance Indicators

7.1 Return to Investors

Based on the estimated costs, returns thereon, equity participation, the operating results and the cash flows of the Fund, the Return to the first tranche of Investors of the Fund is approximately 15% per annum, over the forecast period.

This return is however, dependent on factors, including exit price, market forces, subsequent issues, etc., that may or may not be directly controllable by the Fund or the Fund Board.

7.2 Equity Payback Period

Based on the equity contribution and cash flows of the first tranche of investors in the Fund, the Equity Payback Period for the first tranche investors is 10 years.



8 Subscription Procedure

This Prospectus, including the Summary of Principal Terms contained herein, is qualified in its entirety by reference to the Subscription Form, copies of which will be furnished to each qualified prospective investor as part of the subscription process. Those persons desiring to invest in the Fund must complete and execute a Subscription Form and return it as specified there in.

8.1 Procedure for subscription and drawdown of subscription amount

The Fund shall receive subscriptions in the form of capital commitments from the investors. The detailed drawdown procedures are as set out below:

- i. On subscription, 50% of Capital committed comprising 1,000 units at the subscription price per unit of RO 10,000 (plus issue expenses of RO 200 per unit of Capital Committed) totaling RO 10.4 million (First Subscription).
- ii. The remaining 50% of the Capital Committed, comprising 1,000 units at the subscription price per unit of RO 10,000 totaling RO 10 million (Second Subscription) payable on the first anniversary of the closing date of the First Subscription (Second Subscription Due Date).
- iii. The Second Subscription will not require any Unit Holder approval or regulatory approval including that from the CMA and no prospectus or offer document will be prepared.
- iv. If a unit holder fails to pay the subscription monies payable on the Second Subscription Due Date within 14 days thereafter, the amount due shall accrue interest daily at a rate of 8 percent per annum. If any amount remains unpaid by a unit holder for a period of eight weeks after the Second Subscription Due Date, the units held by the defaulting unit holder in the fund will be forfeited.
- v. In the event of a default by a Unit Holder, the Investment Manager may, in conjunction with the Fund Management Board, offer the forfeited units to other unit holders or to third parties so as to maximize the return to the Fund.

8.2 Minimum Subscription

The Minimum Subscription is (100 Units) per application and thereafter applications can be made in increments of 10 Units. However the Issue Manager, may, at its sole discretion, accept applications which are below the specified number of units.

8.3 Maximum Subscription

Each Applicant can have a maximum subscription equivalent to 20% of the total Units in the Offering, i.e. 400 Units. However, the Issue Manager may, at its sole discretion, accept applications which are higher than the specified number of Units.

8.4 Terms of the Offering

Subscription for Units shall be paid in cash per Unit purchased upon subscription. The full amount of subscriptions received will be placed in an escrow account governed by the terms of the Escrow Agreement. Once the signed Subscription Form has been submitted, Applicants may not withdraw their application and the funds submitted shall be non-refundable regardless of the reason save for refunds made under the terms of the Subscription Form.



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Subscription for the Units must be made pursuant to the terms and conditions stated in the Subscription Form accompanying this Prospectus ("Subscription Terms and Conditions") and the information and terms and conditions in this Prospectus. Investors wishing to invest in the Units shall adhere to the following steps:

- Complete and sign Subscription Form together with all other documentation as prescribed in the subscription form or any other document as may be required from time to time;
- Submit the original Subscription Form to the Collecting Bank(s) at the address provided in the Subscription Form; and
- Payment of the subscription amount as per the payment terms of the Subscription Form should be deposited in the Collecting Bank(s) account, as follows:
 - Bank Sohar SAOG
 - National Bank of Oman SAOG

Investors shall be informed of their allocations within 15 days after the Closing Date, after obtaining CMA approval of the allotment. The subscription Closing Date may be extended at the sole discretion of the Issue Manager, subject to approval of CMA.

Notes:

- Payment must be made in Omani Rials.
- The Issue Manager reserves the right to reject any application in whole or in part without having to give any reasons for such rejection, which event the application monies or balance thereof will be returned.
- The Subscription Form along with the payment has to be submitted to the Collecting Bank(s) during the offer period prescribed in this Prospectus.
- Each applicant should have an investor number issued from Muscat Clearing & Depository ("MCD").
- Each applicant should also provide the ID copy, in case of individuals and the Commercial Registration copy, in case of a company.

8.5 Acceptance

The Issue Manager, on behalf of the SME Development Fund may accept or reject a Subscription application, in whole or part, in its sole and absolute discretion

Each Subscription Form shall be deemed effective when it is accepted by the Issue Manager. The Units will be registered in the register maintained by MCD, as soon as practicable, in the name of Investors whose payments are received and subscriptions accepted.

If an Investor's subscription is not accepted, the subscription amount paid by such Investor as aforesaid will be returned to the Investor, minus any applicable transfer fees, without any compensation whatsoever and the investor shall not be entitled to any claim against the SME Development Fund, Fund Board, Issue Manager or any other Party. Such return of payments shall be made to Investors not later than 15 days from the Closing Date.

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8.6 Expected Time Schedule

The expected time schedule for completion of the initial subscription procedures is as follows:

1	Opening of Subscription	05-01-2014
2	Closing of Subscription	03-02-2014
3	Due date for the Issue Manager to receive the subscription applications from collecting banks	06-02-2014
4	Notifying CMA of the subscription result	09-02-2014
5	Approval of CMA with regard to the approved subscription applications	10-02-2014
6	Refund of the money on applications rejected	10-02-2014
7	Dispatch of the intimation letter regarding Issue of Units	11-02-2014
8	Listing of Units on MSM	16-02-2014

8.7 Use of Proceeds

Proceeds from this Offering will be utilized towards the fulfillment of the primary objective of the Fund and towards the issue, establishment and pre-operative costs incurred by the Investment Manager.

Surplus, if any, of the issue expenses amount collected, after incurring all establishment and pre-operative costs, will be utilized towards training & nurturing expenses by the Fund.

8.8 Net Asset Value of the Units

The NAV shall be calculated in accordance with the International Financial Reporting Standards and published in two daily newspapers, one Arabic and one English, and disclosed on the Muscat Securities Market website every quarter by the Investment Manager on the basis of unaudited financial statements prepared.

8.9 Life of the Fund

As per the Articles of Association of the Fund, the life of the Fund is 50 years, starting from the date of registration with CMA.

8.10 Withdrawal of the Offering

The Issue Manager reserves the right to withdraw this Offering, in whole or in part, at any time for any reason.

8.11 Listing and Trading of Units

The investment units of listed funds shall be listed and traded in the market in accordance with the provisions of Capital Market Law & its Executive Regulation and MSM guidelines.

Transfer of ownership of investment units that are sold or purchased in the market shall be in accordance with the provision of the Capital Market Law. Approval of the Investment Manager for the same is not required.



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Transfer of ownership of investment units shall be evidenced by registering them at MCD.

Registration of ownership shall be carried-out without any restrictions except if the units were pledged or restricted.

8.12 Governing Law

This Offer and the Subscription Form will be governed by, and construed in accordance with, the laws of the Sultanate of Oman. Each Applicant irrevocably submits to the non-exclusive jurisdiction of the Sultanate of Oman courts in respect of these matters. This does not prevent the Fund taking action against an Investor in any other jurisdiction.



9 Unit Holders' Rights

The Unit-holders jointly hold the assets of the Fund, each holding an indivisible proportionate share, the proportion being equal to the number of Units each holds to total number of Units in issue.

All Unit-holders shall have the following rights inherent in the ownership of the Units, namely:

1. the right to receive such profits after expenses as may be derived from the activities of the Fund and as may be, within discretion of the Board of Directors distributed to Unit-holders from time to time;
2. the right to share in the distribution of the Fund's assets upon liquidation of the Fund;
3. the right to inspect the annual balance sheet, profit and loss statement and cash flow statement and the other financial books of accounts and records relating to the Fund;
4. the right to receive notice of and the right to participate and vote in any meeting of the Unit-Holders;
5. the right to apply for the annulment of any decision by a meeting of the Unit-Holders or the Board of Directors or the Investment Manager which is contrary to the law of the Sultanate of Oman or this Prospectus;
6. the right to institute actions against the Board of Directors, the Investment Manager or the Auditors of the Fund on behalf of the Unit-Holders; and
7. any Unit Holder who holds at least 5% of the Units has the right to request the Board to cancel any resolution adopted by the Board or in the General Meeting as the case may be, if such resolution is detrimental to the Fund or Unit Holders. The request shall be referred to the same body which has issued the resolution, to decide on it.

Trading of Units

The Units will be tradable in accordance with the provisions of the Capital Market Law.

General Meetings

The General Meeting is the highest authority of the Fund and comprises all Unit-Holders of the Fund. The Unit-Holders shall have the right to attend General Meetings and shall have one vote against each Unit held by them and may give a written proxy to another person to attend the meeting and vote on its resolutions. The Unit-Holder may revoke such proxy at any time.

General Meetings of Unit-holders may be convened by the Board of Directors at any time whenever required by the Capital Market Law & the regulations of CMA. A meeting may also be convened when a resolution is issued by the CMA in this regard or upon request of one or more Unit-holders who represent at least 10% of the Units in issue. If the Board of Director fails to convene the General Meeting, the Investment Manager will convene a Meeting. The call to attend the meeting shall not be valid unless it is accompanied by the agenda approved by the CMA.

The Unit holders and their proxies representing all the Units of the Fund may hold a general meeting without regard to the rules stipulated for such meeting. The meeting so held may deliberate on all matters that are within the authority of the General Meeting.



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The General Meeting shall be valid if attended by Unit Holders or proxies representing at least 50% of the Units. Where the required quorum is not present, a second General Meeting shall be called within one month from the date of the first meeting. The notice shall be published in two daily newspapers at least one week prior to the date of the meeting. The second General Meeting shall be valid regardless of the percentage of attendance.

The General Meetings of the Fund shall be chaired by the Chairman of the Board of Directors or his deputy. If the general meeting was convened by the Investment Manager, they shall appoint the Chairman for the meeting; the general meeting shall appoint a secretary responsible for preparing the minutes of meeting indicating the proposed resolutions and the voting result during the meeting. Every Unit holder shall have the right to inspect these minutes.

The Chairman of the General Meeting shall set the voting system, which will be by secret ballot.

The agenda for a general meeting shall be approved by the legal adviser prior to submitting it to the CMA.

The Investment Manager shall, within 30 (thirty) days from the expiry of the Subscription Period, invite the Unit Holders to the first General Meeting. The term of the initial Board will expire at this meeting and the new Board will be elected, as per Section 3.3 of the prospectus of the Fund and the applicable regulations.

Extraordinary General Meetings

An Extraordinary General Meeting shall be convened to consider and decide all matters, which such meeting is specifically authorized to settle in accordance with the CMA regulation or the Fund's Articles of Association. The extraordinary general meeting shall decide on the following:

1. Amendment to the articles of association.
2. Change of objectives of the Fund.
3. Change in frequency of calculation of NAV.
4. Dissolution and liquidation of the Fund.
5. Selling or otherwise disposing the whole Fund.

Resolution of the Extraordinary General Meeting shall not be valid unless the meeting is attended by Unit-holders or proxies representing at least 60% of the Units in issue of the Fund. The quorum at the Extraordinary General Meetings of Unit-holders is one or more Unit-holders present in person or by proxy representing at least 60% of the Units in issue. Where such quorum is not established in any meeting, a second meeting shall be called within one month from the date of the first meeting to discuss the same agenda. Such second meeting shall be notified to Unit-holders in the same manner as the first meeting, at least one week prior to the date set for the second meeting. The resolutions of the second general meeting shall be valid if Unit-holders or proxies who represent at least 50% of the Units in issue of the Fund attend the meeting.

Voting Rights

Each Unit-holder has a right to exercise a vote at any meeting of Unit-holders. Each Unit will represent one vote.

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Profits

The Unit-holders are entitled to the net returns (profits) realized by the Fund after deducting all liabilities, including fees, expenses and taxes. However, the Board of Directors has the discretion to distribute the profits as dividend in cash / Units or reinvest such profits without distributing them to the Unit-holders.

The Board of Directors may declare dividends within the Regulations of CMA, in respect of any financial period, to be paid to Unit-holders out of realized profits derived from the operations of the Fund.

Dividend Announcements and Payment

Dividend announcement and distribution will be disclosed to Muscat Security Market through their website. Unless specified otherwise, payment will normally be made in Rial Omani.

Limit of Liability

Once the issue price has been paid in full, a Unit-holder has no further financial liability to any party in respect of the Units or the liabilities of the Fund.

Ownership of Assets

Unit-holders shall own the Fund jointly, each holding an indivisible proportionate share in the Fund, the proportion being equal to the number of Units each holds to total number of Units in issue. The assets of the Fund will be kept separate from the assets of the Investment Manager. The Unit-holders will jointly own the profits and (subject to the limit on liability described above) the losses of the Fund.



10 Issue Expenses

The Fund is expected to incur the following establishment costs; actual costs will be crystallized once the issue closes.

Item	Rial Omani
CMA Fees (Prospectus approval)	10,000
CMA Listing Fees	10,000
Legal Advisory Fees	750
Printing (Prospectus)	1,000
Bank Charges	-
Issue Manager Fees	-
Other Fees/Expenses	8,000
Pre-operative expenses*	553,174
Cost borne by offset partner**	150,000
Total	732,924

* Assuming closure of issue and cost as per projected cash flow plan presented to Advisory Committee.

** The cost borne by offset partner towards market assessment and preparation of business plan and prospectus

An amount upto 2% of the face value of the units subscribed will be collected as Issue Expenses. Surplus or shortfall, if any, of the issue expenses after meeting all establishment and pre-operative costs will be adjusted towards training & nurturing expenses by the Fund. This amount is not being reflected in the financials attached herewith.

Certain capital expenses reflected, in the financial projection in relation to setting up the office, and on IT, are being incurred (approximately RO 300,000) to expedite the launch of fund operations; the funds are being arranged by NCPM and will be recovered from the Fund on actuals.



11 Principal Risk Factors & Mitigates

Prospective investors should carefully consider the risks described below in addition to all other information presented in this Prospectus before investing in the Fund. Investors may note that the risks described below are based on the current information available. The actual risk and impact thereof may be materially different.

11.1 Market Risks

The Fund's investors are subject to market fluctuations and to the risks inherent in all sectors. Therefore, the price of Units may go down as well as up and the value of an investor's investment may be subject to sudden and substantial falls and rises.

11.2 New Business Risk

The Fund has not yet commenced operations and has no performance history. As such, there is no assurance that it will achieve its objectives as envisioned at this point in time. However, the Board of the SME Development Fund will strive to put in place a highly qualified team of professionals to draw up a clear path which would be in conformity with the broad strategic and operational guidelines of the Fund.

11.3 Credit Risk

The Fund, due to its proposed nature will be exposed to credit risk. However, the Fund will mitigate the arising risks by putting in place suitable credit policies and qualified management with a proven track record.

11.4 Political Risk

Political unrest, security concerns, and changes in currently prevailing policies may significantly impact the assets and operations of the SME Development Fund.

Oman enjoys a political stable environment and the Government of Oman supports financial assistance in the SME sector which positively affects the investment.

11.5 Exchange Rate Risks

The base currency of the Fund is denominated in Omani Rials. Fluctuations in the exchange rate of the Omani Rials can adversely impact the expected earnings of the Fund.

Since the Fund's projected operations are in Oman and financial assistance to SME's are to be denominated in Omani Rials, any fluctuations will not have a significant impact on the Fund's performance.

The Fund is expected to receive grants and preferential loans denominated in currency other than Omani Rials. The Fund will seek to limit the exchange rate risk associated with the preferential loan by arranging the same in US Dollars, which is pegged to the Omani Rial.

11.6 Performance Risk

The projections concerning potential rates of return and future performance of the investments described herein represent estimates prepared on the basis of assumptions described in this



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Prospectus. Actual results may vary considerably from the projections. The projected financial performance, as presented elsewhere in this Prospectus and projected return to the investors may not be attained due to slower than projected project implementation, regulatory delays, etc. Adverse economic conditions, changes in the regulatory environment, and/or severe competition could also significantly impact the performance.

The Board will seek to put together a top management team with adequate qualifications and a proven track record in Oman or overseas to mitigate this risk.

11.7 Legal Risk

The Fund could be affected by changes in laws & regulations and any future legislation affecting the operations of the Fund. It is difficult to anticipate the impact of legislative changes on SME's to which the Fund will provide financial assistance.

However, given the recent positive measures taken by the Government to encourage private and international investment in the Country, significant adverse changes in the regulation seem unlikely. It is expected that if any licenses are required to operate and achieve objectives of fund, from any regulator / authority, this shall be applied and obtained as required.

11.8 Interest Rate Risk

Interest rates are generally sensitive to many factors outside of the Fund's control, including monetary policies, Government actions, domestic and international economic and political conditions and other factors. In the event of a significant rise in interest rates, the unit holders may perceive the target return to be too low and lose an opportunity to earn higher returns elsewhere.



12 General Information

The Fund is under formation under the Capital Market Law of the Sultanate of Oman. The Fund is regulated by the Capital Market Authority, under the Capital Market Law of the Sultanate of Oman.

12.1 Number of Units

The Fund's authorized capital is RO 100 million divided into 10,000 voting, participating Units of par value RO 10,000 each to be issued to investors in tranches. Future tranches are estimated to be issued at a premium.

12.2 Distribution

The Fund may make distributions to its Unit Holders from time to time upon the resolution of the Board.

The Units entitle the holder to participate in dividends distributed from time to time.

In liquidation, the assets available for distribution are to be distributed to the holders of the Units pari passu in proportion to nominal amounts paid up on the Units held by them.

12.3 Further Issues of Capital

The Board, based on the advice of the Executive Management and the requirements of the business can raise further tranches of capital, within the overall Authorized Capital of the Fund. It is envisaged that future tranches of capital will be issued at a premium to third party investors, to expand the investor base of the Fund. The Board may also issue units to the employees as 'employee stock options', to motivate the employees, at terms that may be decided upon by the Board. The quantum, timing and pricing of further tranches, reflected in the financial forecasts may be taken as illustrative.

12.4 Enquiries

Enquiries concerning application for Units should be directed to the Issue Manager at:

National Company for Projects & Management LLC

P.O. Box 119,

P.C. 103,

Bareeq Al Shatti,

Sultanate of Oman

Tel: +968 24 391981

Fax: +968 24 483801

12.5 Litigation

The Fund has not been engaged in and is not currently engaged in any litigation or arbitration and, to the best of the Investment Manager's knowledge; no material litigation is threatened against the Fund.



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12.6 Communication

All communications with or concerning the Issue should be mailed to the Issue Manager on behalf of the Investment Manager at the above mentioned address. Communications to individual Unit Holders will be sent to their registered addresses as set forth in the Subscription Form and entered into the register.

12.7 Change of Address

Unit Holders must notify the Fund in writing, at its registered office, of any changes of address or other account information. All notices and communications to Unit Holders will be mailed to their registered address as set forth in the Subscription Form, or such other address as may be communicated to the Fund from time to time.



13 Principal Contacts

Investment Manager	National Company for Projects & Management LLC	P.O. Box 119, P.C. 103, Bareeq Al Shatti, Sultanate of Oman Tel: 2439 1981 Fax: 2448 3801 Email: lrsharma@ncpmoman.com
Issue Manager	National Company for Projects & Management LLC	P.O. Box 119, P.C. 103, Bareeq Al Shatti, Sultanate of Oman Tel: 24 391981 Fax: 24 483801 Email: lrsharma@ncpmoman.com
Collecting Banks	Bank Sohar SAOG	PO Box 44, Hai Al Mina, PC: 114, Sultanate of Oman Tel: 24761938; Fax: 24761791 E-mail: iman.alzadjali@banksohar.net
	National Bank of Oman SAOG	PO Box 751, Ruwi, PC: 112, Sultanate of Oman Tel: 24778993; Fax: 24778757 E-mail: koukabh@nbo.com
Legal Advisor	M/s DENTONS & CO. OMAN BR.	PO Box 3352, PC 112, Ruwi, Sultanate of Oman Tel: 2457 3000; Fax: 24573097 Email: george.sandars@snrdenton.com
Auditors	KPMG Oman	P.O. Box 641, P.C. 112, Ruwi, Sultanate of Oman Tel: 24 709181 Fax: 24 700839 Email: aefmomangeneral@kpmg.com



14 Undertakings

The members of Board jointly and severally undertake as hereunder:

Whereas, the information furnished in this Prospectus is complete, correct and sound, and necessary care has been taken to avoid omission of any material facts or information that may have made the expressions in the Prospectus misleading.

To abide by all the provisions set out in the Capital Market Law and the applicable regulations of CMA.

Members of the Fund Board who are authorized to sign the Prospectus on behalf of the Fund:

Member of Fund Board	Signature
Mr. Saleem Qassim Ahmed Al Zawawi	
Mr. Salah Hilal Nasser Al-Maawali	
Mr. Xavier Francois Marie Azan	



Issue Manager

Pursuant to our responsibility under the capital market law, the executive regulations thereof, and the directives issued by CMA, we have reviewed all the relevant documents and other material required for the preparation of the Prospectus.

The Investment Manager shall bear the responsibility with regard to correctness of the information contained in the Prospectus, and it has confirmed not to have omitted any material information from it, omission of which would have made the Prospectus misleading.

1. We have taken reasonable due diligence to ensure the information given to us by the Investment Manager and included in the Prospectus is conformant with the facts in the documents and other material of the offering.
2. To the best of our knowledge and from the available information, we have not omitted any material information, the omission of which would render the Prospectus misleading.
3. The Prospectus and the offering to which it relates is conformant with all the rules and terms of disclosure stipulated for in the Capital Market Law as amended, the Executive Regulation of the Capital Market Law and they conform to the Commercial Companies Law and the directives and decisions issued in this regard.
4. The information contained in this Prospectus is true, sound and adequate to assist the investor to take the decision as to whether or not to invest in the securities offered.



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Legal Advisor

The Legal Adviser, named hereunder, confirms that all the procedures undertaken with regard to issue of the Units, subject matter of the Prospectus, are consistent and are in conformity with the provisions set out in the laws and statutes relevant to the activity of the Fund, Capital Market Law, regulations & instructions issued by CMA and Articles of Association of the Fund. The Legal Advisor further confirms that the Fund has secured all the licenses and official approvals that are required for engaging in the activities, subject matter of the Prospectus.

Dentons



M/s DENTONS & CO. OMAN BR.



Annexure 1

Subscription Conditions and Procedures

Eligibility for subscription of the Offer Units

The subscription to 2000 units will be open to Omani and Non-Omani individuals and Juristic Persons which have their accounts with MCD, as on the date and/or during the Offer period. All GCC individuals and Juristic Persons are treated as Omani individuals and Juristic Persons for the purpose of owning units in Omani companies and mutual funds.

Prohibitions with regard to the Applications for subscription

According to the Capital Market Law, the following investors will not be permitted to participate in the Offer, except as otherwise stated. All Applications made by such investors will be rejected without contacting the Applicant:

- Sole Proprietorship Establishments: The owners of sole proprietorship establishments must submit Applications in their personal names.
- Multiple Applications: An Applicant may not submit more than one Application.
- Joint Applications (i.e. applications made in the name of more than one individual) including Applications made on behalf of legal heirs: These Applications should only be made in their personal names.

Trust Accounts

Trust accounts are allowed to participate in the Offer by following the below procedure:

- Any person (individuals and juristic persons) shall be eligible to apply through a Trust Account.
- The minimum application size for Trust account shall be 100 units per applicant as in the case of any other unit holders.
- Each Applicant can have a maximum subscription equivalent to 20% of the total Units in the Offering, i.e. 400 Units.
- The trustee will have to submit a document as per the following format signed by the Juristic Person acting as the trust account manager, along with the Trust Account Application:

Name of Beneficiary	I.D. number (in case of Omani applicants); C.R. number (in case of companies)	Address and contact number	Number of Offer Units

Unit holder's (Investor's) Number with Muscat Clearing & Depository Co. SAOC (MCD)



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- Any Applicant who subscribes for the Offer Units must have an account and unit holder's number with the MCD. Any Applicant may apply to obtain an Investor Number and open an account by completing the MCD application form. This may be obtained from the MCD's Head Office or its website at www.csdoman.co.om, or from brokerage companies licensed by the CMA. The completed form may be submitted by an Applicant through any of the following channels:
 - At the Head Office of the MCD, Commercial Business District, Muscat, Oman.
 - At the office of any brokerage company licensed by the CMA.
 - By sending a facsimile to MCD.
- In order to open an account with the MCD, a juristic person will be required to furnish a copy of its constitutional documents, in the form prescribed by the MCD, along with a completed MCD application form in order to open an account and receive an Investor Number.
- Applicants who already hold accounts with the MCD are advised, before the Offer, to confirm their details as noted in the Application.
- Applicants may update their particulars through any of the channels mentioned above.
- All correspondence including allocation notices and dividend cheques will be sent to Applicant's address as recorded at the MCD. Applicants should ensure that their addresses as provided to the MCD are correct.
- Each Applicant should secure from the MCD its Investor Number as the Investor Number will be required in order to complete the Application. Each Applicant is responsible for ensuring that the Investor Number set out in their Application is correct. Applications not bearing the correct Investor Number will be rejected without contacting the Applicants.
- For more information on these procedures, Applicants should contact MCD: Muscat Clearing & Depository Co., SAOC.

Offer Period

The Offer period shall commence on 05/01/2014 and end on 03/02/2014, with the end of the official working hours of the Collecting Banks.

Overall Offering Split and Allotment Procedures

In case of over-subscription, the allocation will be decided by the Issue Manager in consultation with CMA.

Minimum Limit subscription

Minimum Subscription is 100 Units. Subscriptions over and above the specified minimum can be made in multiples of 10 Units. However, the Issue Manager may, at its sole discretion, accept applications which are below the specified number of Units.

Maximum Limit subscription

Maximum Subscription is equivalent to 20% of the Offering, i.e. 400 Units. However, the Issue Manager may, at its sole discretion, accept applications which are higher than the specified number of Units.

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Terms of Payment

The Investment Manager will open an account entitled the “SME DEVELOPMENT FUND (under formation)” account with each of the Collecting Banks for the collection of the Application Money. This account will be managed by each Collecting Bank. Each Applicant can pay by cash, draw a cheque or demand draft or instruct an account transfer for the amount payable at the time of submission of the Application.

Particulars of the Bank Account

Each Applicant is required to furnish the particulars of its bank account (registered in the name of the Applicant). The Applicant must not use the bank account number of any other person except in the case of Minor Children only.

If the bank account of the Applicant is registered with a bank other than one of the Collecting Banks, the Applicant will be required to submit a document to confirm the details of the bank account particulars as provided in the Application. This can be done by submitting any document from the bank of the Applicant that states the account number and name of the account holder. Documents that may be accepted include account statements, a letter, or any document issued by the bank confirming this information. The Applicant is responsible for ensuring that the evidence submitted is legible and contains the required information. The Applicant is not obliged to submit any evidence with regard to the accuracy of its bank account if it is subscribing through the Collecting Bank where it maintains its account. In this case, the bank will be required to verify and confirm the correctness of the Applicant’s account through its own system and procedures or through the evidence submitted to it by the Applicant.

In accordance with the instructions of the CMA, the details of the bank account will be listed in the records of the MCD for transferring any refund as well as for crediting the dividends distributed by the companies listed on the MSM. For Applicants who already have bank accounts registered with the MCD the account mentioned in the Application will be used for the transfer of refunds only.

The Application containing the bank account number of a person other than the Applicant will be rejected, with the exception of the applications made on behalf of Minors that contain bank accounts particulars of their fathers.

Documentation Required

- 1) Submission of a document confirming accuracy of the bank account number as provided for in the Application only where the bank account is registered with a bank that is not the Collecting Bank.
- 2) Copy of a valid Power of Attorney duly endorsed by the competent legal authorities in the event the subscription is on behalf of another person (with the exception of the subscription made by a father on behalf of his Minor Children).
- 3) In case of Applications submitted by juristic persons (non-individuals), which are signed by a person in his or her capacity as an authorized signatory, a copy of adequate and valid documentation should be attached.



Mode of Application

- 1) The Applicant will be responsible for furnishing all his particulars, and will ensure the correctness and validity of the information set out in the Application. The Applicant will be required, before completing the Application, to read the Prospectus including the conditions and procedures governing the subscription with total care and importance.
- 2) The Applicant will be required to fill in the Application and furnish copies of all particulars as noted on the Application.
- 3) The Applicant will be required to submit the Application to one of the Collecting Banks as referred to in the Prospectus, together with the Application Money and the documents in support of the Application.
- 4) Cheque or demand draft for the Application Money will be in favor of "SME DEVELOPMENT FUND (under formation)"

Banks receiving the subscription

The applications for subscription shall be accepted by one of the following commercial banks during the official working hours only:

1) Bank Sohar SAOG

2) National Bank of Oman SAOG

The Collecting Bank receiving the subscription is required to accept the Application after confirmation of compliance of the procedures set out in the Prospectus. The Collecting Bank must instruct the Applicants to comply and fulfill any requirements set out in the Application.

The Applicant must submit an Application to one of the Collecting Banks on or before the Offer Closing Date. The Collecting Bank shall refuse any Application received after the official working hours on the Offer Closing Date.

Acceptance of the Applications for subscription

The Collecting Banks must not accept the Applications in the following circumstances:

- 1) If the Application does not bear the signature of the Applicant.
- 2) If the Application Money is not paid by the Applicant in accordance with the conditions set out in the Prospectus.
- 3) If the Application Money is paid by cheque and the cheque is dishonored for whatever reason.
- 4) If the Application does not include the Applicant's Investor Number registered with the MCD.
- 5) If the Application is submitted in joint names.
- 6) If the Applicant is a Sole Proprietorship account.
- 7) If the Investor Number furnished in the Application is incorrect.
- 8) If the Applicant submits more than one Application in the same name, all of them will be rejected.

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- 9) If the supporting documents are not enclosed with the Application.
- 10) If the Application does not contain all the particulars of the bank account of the Applicant.
- 11) If the particulars of the bank account provided for in the Application are found to be incorrect or not relevant to the Applicant, with the exception of the Applications submitted in the names of Minor Children, who are allowed to make use of the particulars of the bank accounts held by their father.
- 12) If the power of attorney is not attached to the Application in respect of an Applicant who subscribes on behalf of another Person who is above the age of 18.
- 13) If the Application does not comply with the legal requirements as provided for in the Prospectus. If the Collecting Bank receives an Application that does not comply with the procedures set out in the Prospectus, due effort will be taken to contact the Applicant so that the mistake may be corrected. If the Applicant does not rectify the Application within a specified period, the Collecting Bank will return the Application together with the Application Money to the Applicant.

Refusal of Applications

The Issue Manager may reject any Application under any of the conditions referred to above.

Enquiry & Complaints

The Applicants who intend to seek clarification with regard to the issues related to the allotment or rejected applications or refund of the Application Money in excess of the subscription, may contact the Collecting Bank where the subscription was made. In case of absence of any response from the Collecting Bank, the subscriber may refer the subject matter to the Issue Manager who would keep the Applicant informed of the progress and development in respect of the subject matter of the dispute.

Under subscription of Units

The Issue Manager may close this offering subject to the approval of CMA even if it is undersubscribed.

Allotment Letters and Refund of Money

The Issue Manager will arrange to allot the Offer Units to the Applicants within 15 days after the closing date of the Offer Period and after receiving the approval of the CMA on the basis of allotment. The Issue Manager will also arrange to refund the excess money to the eligible Applicants within 15 days after the end of the Offer Period and after receiving the approval of the CMA. The Issue Manager will arrange to send allotment letters to the applicants who have been allotted Units through MCDC as per the addresses registered with the MCDC.



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Proposed Timetable

The expected time schedule for completion of the initial subscription procedures is as follows:

1	Opening of Subscription	05-01-2013
2	Closing of Subscription	03-02-2014
3	Due date for the Issue Manager to receive the subscription applications from collecting banks	06-02-2014
4	Notifying CMA of the subscription result	09-02-2014
5	Approval of CMA with regard to the approved subscription applications	10-02-2014
6	Refund of the money on applications rejected	10-02-2014
7	Dispatch of the intimation letter regarding Issue of Units	11-02-2014
8	Listing of Units on MSM	16-02-2014

Listing & Trading of the Units

The units of the Fund shall be listed and traded in the market in accordance with the provisions of Capital Market Law & its Executive Regulation and MSM guidelines. Transfer of ownership of investment units that are sold or purchased in the market shall be in accordance with the provision of the Capital Market Law. Approval of the Investment Manager for the same is not required.

Transfer of ownership of investment units shall be evidenced by registering them at MCD. Registration of ownership shall be carried-out without any restrictions except if the units were pledged or restricted.

Responsibilities & Obligations

The Issue Manager, Collecting Banks and the MCD shall abide by the responsibilities and obligations set out by the directives and regulations issued by the CMA. The Issue Manager and the Collecting Banks must also abide by any other responsibilities that are provided for in the agreements entered into among them and the Investment Manager and the Fund. The parties concerned will be required to take remedial measures with regard to the damages arising from any negligence committed in the performance of the functions and responsibilities assigned to them. The Issue Manager will be the body responsible before the regulatory authorities in taking suitable steps and measures for repairing such damages.