Oman National Dairy Products Co. Ltd. (SAOG)

UNAUDITED FINANCIAL STATEMENTS

31 MARCH 2003

Released on 26th April 2003

BOARD OF DIRECTORS' REPORT

We are pleased to report continued growth of our business during the quarter. The first quarter represents a low season period for the year. Our efforts were focused on expanding the distribution and launching of promotions in the GCC markets for the main season ahead.

We have made a strong start to the year with an overall sales growth rate of 30%. With the sales growth and protection of the Gross Margins, the Profits from Operations improved to RO 141,910 (versus RO 79,996 in 2002) and the Net Profit Before Tax to RO 28,462 (versus RO 1,763 in 2002).

Economic and Political Situations

During the quarter, uncertainties in the region brought their own share of risks and challenges for our business. While some of the changes like the increase in the shipping costs are here to stay in the medium term, we are addressing the other risk and opportunity areas in a post war period.

Board Changes

Sheikh Saud Bin Ali Al Khalili, an independent and non-executive director of our company, has tendered his resignation after serving on the board for nearly two decades. With his resignation the total number of directors on the board is now eight, all of whom are independent and non-executive.

Senior Management Changes

Mr. Murtadha Ahmed Sultan has resigned from his position as the Chief Executive Officer of the company on 24th February 2003 after serving the company for over 12 years as Managing Director and subsequently as the Chief Executive Officer. With his resignation the General Manager of the company will now report directly to the Chairman.

Stakeholders

In line with our last report, we started the strategic distribution alliance with M/S National Mineral Water Company during the quarter. We believe that co-operation with strategic partners is the key to our future growth and overall profitability.

On behalf of all the directors, I wish to express our deepest gratitude to His Majesty Sultan Qaboos Bin Said and his government for their support. We are also grateful to all our stakeholders for their continued support and to our company's employees without whose dedicated effort the good performance of the company would not be possible.

Mohamed Ali A. Amir Sultan
Chairman

26th April 2003

BALANCE SHEET
31 March 2003

	Notes	2003 RO'000	2002 RO'000
ASSETS			
Non – current assets			
Property, plant and equipment		**5,306**	3,503
Deferred tax asset		**0**	48
		5,306	3,551
Current assets			
Inventories	**3**	**3,455**	2,112
Accounts receivable and prepayments	**4**	**4,412**	3,544
Bank balances and cash		**35**	17
		7,902	5,673
TOTAL ASSETS		**13,208**	9,224
EQUITY AND LIABILITIES			
Equity			
Share capital		**1,320**	1,320
Statutory reserve		**418**	386
General reserve		**169**	169
Revaluation Reserve	**8**	**1,220**	0
Retained earnings		**460**	409
Total equity		**3,587**	2,284
Non current liabilities			
Term loans		**108**	108
Deferred Government grant		**33**	43
Deferred Taxation		**15**	
Employees' end of service benefit		**153**	153
Long term payable		**92**	-
		401	304
Current liabilities			
Accounts payable and accruals	**5**	**2,520**	861
Bank overdrafts		**4,197**	2,807
Current portion of term loans		**51**	313
Short term loans		**2,452**	2,655
		9,220	6,636
Total liabilities		**9,621**	6,940
TOTAL EQUITY AND LIABILITIES		**13,208**	9,224
Net assets per share		**2.717**	1.730

Mohamed Ali A. Amir Sultan
Chairman

N. Ramachandran
General Manager

The attached notes 1-to 8 form part of these financial statements.

STATEMENT OF INCOME

Quarter ended 31 March 2003

	Notes	***2003 RO'000***	*2002 RO'000*
Sales		**2,996**	2,307
Cost of sales		**(2,010)**	(1,555)
GROSS PROFIT		**986**	752
% Gross Margin		**33 %**	33%
Sales and Distribution costs		**(731)**	(586)
Administration expenses		**(113)**	(86)
PROFIT / (LOSS) FROM OPERATIONS		**142**	80
Finance costs		**(115)**	(93)
Deferred Government grant income		**6**	3
Profit on sale of property, plant and equipment			
Interest income		**6**	9
Miscellaneous income / (expense)		**(11)**	3
PROFIT (LOSS) BEFORE TAXATION		**28**	2
Income tax		**-**	-
NET PROFIT / (LOSS) FOR THE QUARTER		**28**	2
Basic earnings (loss) per share		**0.103**	0.001

The attached notes 1-to-8 form part of these financial statements.

STATEMENT OF CASH FLOWS
Quarter ended 31 March 2003

	Notes	***2003 RO'000***	*2002 RO'000*
OPERATING ACTIVITIES			
Net profit (loss) before taxation		**28**	**2**
Adjustments for:			
Depreciation		**178**	**147**
Accrual for employees' terminal benefits			**4**
Interest expense		**115**	**90**
Interest income		**(6)**	**(9)**
Profit on sale of equipment		**0**	**-**
Operating profit (loss) before working capital changes		**315**	**234**
(Increase) / Decrease in inventories		**99**	**(90)**
(Increase) / Decrease in accounts receivables		**(451)**	**54**
Increase / (Decrease) in accounts payables		**(329)**	**77**
Cash generated by (used in) operations		**(366)**	**275**
Income Tax Paid		**(5)**	
Interest paid		**(115)**	**(90)**
Employees' terminal benefits paid		**(21)**	**(6)**
Net cash generated by (used in) operating activities		**(507)**	**179**
INVESTING ACTIVITIES			
Purchase of plant and equipment		**(104)**	**(282)**
Proceeds from sale of equipment			**-**
Interest income		**6**	**9**
Net cash used in investing activities		**(98)**	**(273)**
FINANCING ACTIVITIES			
New term loan			**-**
Repayment of term loans		**(32)**	**(74)**
New short term loans			**200**
Repayment of Short term loans		**(122)**	
Obligation under finance lease			**-**
Net cash from financing activities		**(154)**	**126**
DECREASE IN CASH AND CASH EQUIVALENTS		**(759)**	**32**
Cash and cash equivalents at the beginning of the quarter		**(3,403)**	**(2,822)**
CASH AND CASH EQUIVALENTS AT THE END OF THE QUARTER	**6**	**(4,162)**	**(2,790)**

The attached notes 1-to-8 form parts of these financial statements.

STATEMENT OF CHANGES IN EQUITY
Quarter ended 31 March 2003

	Share Capital RO'000	*Statutory Reserve RO'000*	*General reserve RO'000*	*Revaluation Reserve*	*Retained earnings RO'000*	*Total RO'000*
Balance at 1 January 2002	1,320	386	169	-	407	2,282
Profit for the quarter	-	-	-	-	2	2
Balance at 31 March 2002	**1,320**	**386**	**169**		**409**	**2,284**
Balance at 1 January 2003	1,320	418	169	1,220	564	3,690
Dividends paid					(132)	(132)
Profit for the quarter					28	28
Balance at 31 March 2003	**1,320**	**418**	**169**	**1,220**	**460**	**3,586**

The attached notes 1-to 8 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

31 March 2003

1. ACTIVITIES

The unaudited financial statements of Oman National Dairy Products Co Ltd (SAOG) are for the period ended 31 March 2002. Oman National Dairy Products Co Ltd (SAOG) is an Omani general joint stock company registered under the commercial companies law of the Sultanate of Oman. The company is engaged in the manufacture, processing and sale of milk and milk products, yoghurt, ice creams and juices. The company also trades in purchased foodstuff. The registered address of the company is PO Box 610, Ruwi, Postal Code 112, Sultanate of Oman.

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation:

The financial statements have been prepared in accordance with International Accounting Standards issued by the International Accounting Standards Board (IASB) and interpretations issued by the Standing Interpretations Committee of the IASB and applicable requirements of Oman commercial companies law and the Capital Market Authority. There were no changes in any of the accounting policies or standards during the quarter.

3 INVENTORIES

	2003	*2002*
	RO'000	*RO'000*
Raw material and packing material	**2,224**	1,402
Finished goods and goods for resale	**612**	396
Engineering stocks and consumables	**236**	223
Promotional items	**25**	33
Goods in transit	**302**	-
Work in progress	**56**	58
	3,455	2,112

4. ACCOUNTS RECEIVABLE AND PREPAYMENTS

	2003	*2002*
	RO'000	*RO'000*
Trade accounts receivable	**2,731**	2,446
Other receivables	**529**	366
Amounts due from Related parties	**94**	-
Warehouse fire claim receivable (refer note below)	**719**	636
Prepaid expenses	**264**	92
Advance to suppliers	**75**	4
	4,412	3,544

Warehouse fire claim receivable relates to the fire, which occurred on 14 November 1998 at a warehouse that was being built for the company. The High Court on 26 February 2003 passed judgments in favor of the company for RO 602,576 (2002: RO 570,576) due jointly and severally from three parties including one entity related to a director of the company. The company has also accrued for RO 115,940 towards interest receivable and court fees in accordance with the court order.

As accounts receivable are stated net of any required provision and are short term in nature, fair value approximates to carrying value.

NOTES TO THE FINANCIAL STATEMENTS
31 March 2003

5. ACCOUNTS PAYABLE AND ACCRUALS

	2003	*2002*
	RO'000	*RO'000*
Trade accounts payables	**2,103**	646
Creditors for Capital Purchases	**155**	-
Amounts due to Related Parties	**26**	-
Other payables	**19**	104
Accrued expenses	**217**	111
	2,520	861

6 CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the statement of cash flows comprise the following balance sheet amounts:

	2003	*2002*
	RO'000	*RO'000*
Bank balance and cash	**35**	**17**
Bank overdrafts	**(4,197)**	**(2,807)**
	(4,162)	(2,790)

7. RELATED PARTY TRANSACTIONS

These represent transactions with related parties, i.e. shareholders and senior management of the company, and companies of which they are principal owners. The company's management approves pricing policies and terms of these transactions.

Statement of income

Transactions with related parties or holders of 10% or more of the company's shares or their family members, included in the statement of income are as follows:

	2003	***2002***
	RO'000	***RO'000***
Sales	**34**	50
Purchases	**4**	12
Expenses	**14**	20

These represent normal contracts and transactions in the ordinary course of business without any differential advantage accruing to the related party.

8 BUSINESS AND GEOGRAPHICAL SEGMENTS

Since all the company's products have associated risks and returns, which are similar in nature, the directors consider the entire product range to be a single business. The company operates within the following geographical markets.

	2003		*2002*	
	Sales RO'000	*Debtors RO'000*	*Sales RO'000*	*Debtors RO'000*
Oman	1,536	1,332	1,594	1,626
Other GCC countries	1,197	1,156	465	576
Other Export Markets	263	337	248	244
	2,996	**2,825**	**2,307**	**2,446**

9 REVALUATION RESERVE

Freehold land was revalued at its open market value for existing use on 28th May 2002 by professional charted surveyors at RO 1,350,000. On revaluation the original cost was eliminated and the revalued amount was considered to be the new gross carrying amount.

The revaluation reserve represents the surplus of revaluation of freehold land and is not available for distribution until the related assets have been disposed off.

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MANAGEMENT DISCUSSION AND ANALYSIS

This report contains forward-looking statements, which reflect management's current views and estimates. The forward-looking statements involve certain risks and uncertainties that could cause actual results to differ materially from those contained in the forward-looking statements. Potential risks and uncertainties include such factors as general economic conditions, foreign exchange fluctuations, competitive product and pricing pressures and regulatory developments.

1. Key financial performance highlights

- Overall sales growth of 29.9% buoyed by doubling of export volumes
- Gross Profit margin protected at last year levels
- 25% increase in Distribution expenses driven by investments in Advertising & Promotions
- 24% increase in the Finance Costs driven by the increased borrowing

Table 1 Key Financial Indicators

First Quarter	Sales (RO'000)	Sales Growth %	Gross Profit (RO'000)	Gross Margin %	Profit/(Loss) before Tax (RO'000)
2001	**1,907**	**18%**	**512**	**27%**	**(38)**
2002	**2,307**	**21%**	**752**	**33%**	**2**
2003	**2,996**	**30%**	**986**	**33%**	**28**

2. Industry structure and development

We continue to focus on our core business of dairy products and fruit beverages and on the GCC markets, which accounts for 90% of our sales revenue.

As stated in our last report, we believe that consolidation and/or collaboration within the local industry is the key to future growth and overall profitability. We started the distribution operations with M/S National Mineral Water Company in the Sultanate of Oman during the quarter. We believe that both the companies will benefit financially from the synergies.

3. Key Opportunity and threats

a) GCC Customs Unification

The GCC customs union came into effect from 1st January 2003. While the unification procedures were implemented seamlessly, certain uncertainties regarding the effective customs duty rates on some of our imports are being addressed with the concerned ministries and departments. At the time of writing this report, we received an official intimation from the Ministry of Commerce & Industry exempting us fully from payment of customs duty on our import of Raw Materials and Semi Finished goods. This will improve our competitiveness within the GCC markets.

The doubling of exports to other countries in the GCC Union during the current quarter vindicates our belief that the customs union will help us grow our exports.

b) Key Raw Material Prices

Our business is based on international commodities and diversification of supply sources is a key element of our risk minimization measures. The strengthening of the management information, purchasing strategies and systems will remain a key focus area.

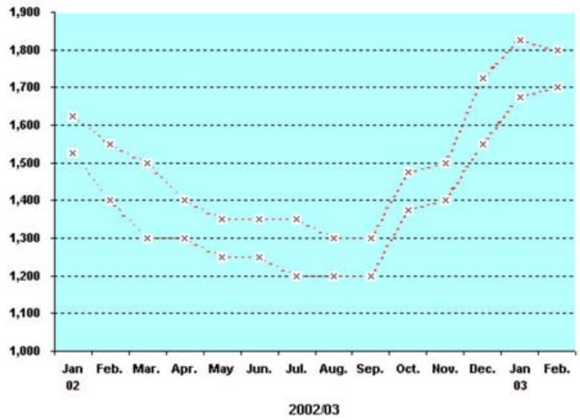
Our diversified product portfolio also serves as a hedge against major fluctuations in the commodity prices. While the Whole Milk Powder prices rose significantly during the quarter, the price of fruit concentrates dropped during the same period.

NOTES TO THE FINANCIAL STATEMENTS

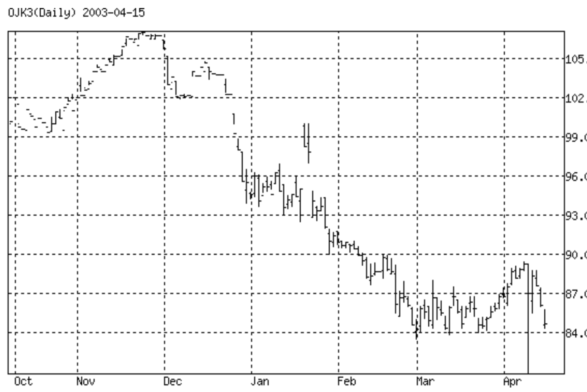
31 March 2003

Chart 1: Key Raw Material Price Graphs

USDA WMP Prices



NYBOT Orange Juice Spot Prices



c) Export Markets

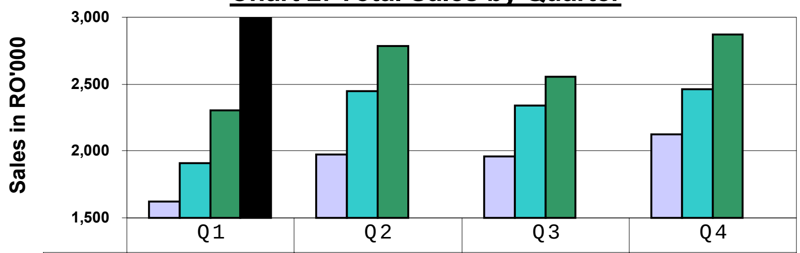
During the last quarter, we reported about the contract for Euro 2.2 Million under the UN Iraqi Oil for Food Program for execution in Q1/Q2 of 2003. Due to the political development in the region, the order is now placed on hold.

3. Discussion on financial and operational performance

a) Source of Sales Growth and seasonality

In line with our growth strategy, the sales have been growing consistently over the last three years.

Chart 2: Total Sales by Quarter



	Q1	Q2	Q3	Q4
2000	1,621	1,977	1,961	2,123
2001	1,907	2,450	2,340	2,463
2002	2,307	2,788	2,557	2,869
2003	2,996			

While the export growth rates have been healthy, the local sale was sluggish during the year due to the significant changes taking place within the distributive trade. However, we took this opportunity to improve the product mix and tighten the credit terms (refer to note 8 on page 8).

Table 2 Sales by Geographical Segment (in RO'000)

Geographical Segments	Q1 2003		Q1 2002		Q1 2001		Q1 2000
	RO'000	% Growth	RO'000	% Growth	RO'000	% Growth	RO'000
Oman	1,536	(3.6%)	1,594	11.5%	1,430	10.9%	1,289
Other GCC	1,197	157.4%	465	50.0%	310	71.5%	181
TOTAL GCC	**2,733**	**32.7%**	**2,059**	**18.3%**	**1,740**	**18.4%**	**1,470**
Other Exports	263	6.0%	248	48.5%	167	10.7%	151
COMPANY TOTAL	**2,996**	**29.9%**	**2,307**	**21.0%**	**1,907**	**17.6%**	**1,621**

We hope to bring back the growth in the local sales through a series of product and distribution initiatives including strategic alignments.

b) Focus on manufactured products

Improving the Gross Profit Margin is one of key business levers to ensure the sales growth is profitable too. Our gross profit margin is in line with our internal targets and is a result of leveraging of the factory overhead and depreciation costs.

Chart 3 Manufacturing Volumes
First Quarter

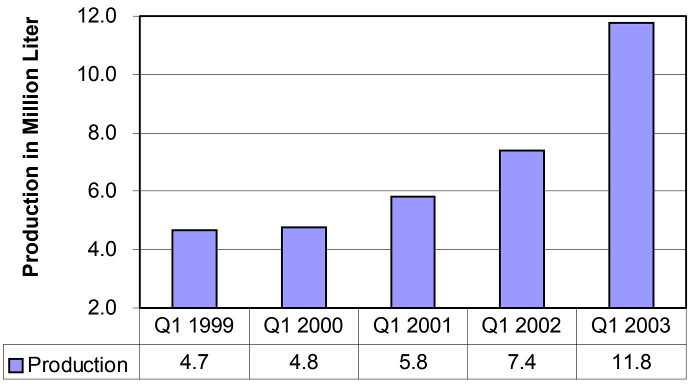


Table 3 Cost of Sales

Expense Head	Q1 2003		Q1 2002		Q1 2001
	RO'000	%Inc/(Dec)	RO'000	%Inc/(Dec)	RO'000
NET SALES	**2,996**	**29.9%**	**2,307**	**21.0%**	**1,907**
Material Cost	1,618	37.5%	1,177	5.4%	1,116
Factory Overheads	271	(1.9%)	277	42.8%	194
Depreciation	120	20.4%	100	18.1%	84
COST OF SALES	**2,010**	**29.4%**	**1,553**	**11.4%**	**1,395**

c) Sales & Distribution Costs

Our strategic alignments with National Mineral Water Company offers synergies to both the companies to restructure distribution infrastructure without sacrificing our distribution reach. We hope to significantly bring down the local distribution costs as % of sales through this strategic initiative.

Table 4 Sales & Distribution Costs (in RO'000)

Expense Head	2002	% Sales	2001	% Sales
NET SALES	**2,996**		**2,307**	
Employee Costs	164	5.5%	191	8.3%
Advertisement & Promotion	194	6.5%	92	4.0%
Transport (local & export)	194	6.5%	147	6.4%
Others	179	5.9%	156	6.8%
TOTAL	**731**	**24.4%**	**586**	**25.4%**

While the transport cost is fully variable, our objective is to hold on to the current level within the context of increase in the shipping costs and war surcharges. We will continue to invest in Advertising and Promotion at the current levels to build our brands and maintain the growth rates.

The reduction in the distribution costs will therefore come mainly from the manpower and other costs by restructuring the distribution system and through strategic distribution alignments.

d) Working Capital

Table 5 : Working Capital KPIs

	31.03.2003		31.03.2002		31.03.2001	
	RO'000	Days	RO'000	Days	RO'000	Days
Net Sales	**2,996**		**2,307**		**1,907**	
Cost of Sales	**2,010**		**1,553**		**1,395**	
Stocks excl. transit (DII)	3,152	143	2,112	124	1,245	81
Trade Debtors (DSO)	2,825	86	2,446	97	2,491	119
Trade Creditors (DPO)	2,129	97	646	38	772	50

Working in a credit driven GCC market, where the credit terms average 120 days, it is a challenge to contain and reduce the Days Sales Outstanding (DSO). With our local sales product mix shifting slowly towards cash sales and concerted industry efforts, we hope to bring down the DSO further from the current level of 86 days.

As discussed in para 3b, with the high seasonality of our key raw materials and fluctuating prices of our key raw materials we have evolved a system of hedging our yearly requirements through stocking up or on forward covers.

The spurt in the Days in Inventory (DII) as on 31.03.2002 is due to additional milk powder covered at low prices in Q3/Q4 of 2002 (refer chart 1) and stock cover for the Iraqi Tender business. With the postponement of the Iraqi order, we have started consuming the material for our process requirements and we expect the stocks to come down to our operating target levels of 75-90 days by end June 2003. Since these carry a supplier credit of 60 to 90 days, this also explains the spurt in the Days Payable Outstanding (DPO).

e) Cash Flow and Finance Costs

The operating cash flow, reduction of borrowings and interest burden will continue to be a major risk and focus area for the company.

In January 2003, the Ministry of Commerce & Industry approved a soft loan of RO 1.0 Million to fund the company's expansion plans. This will reduce the trade creditors and ease the dependence on the short-term bank borrowings leading to reduction in the interest costs.

As reported in page # 6 under note # 4 to the financial statements, the High Court on 26th February 2003 passed judgments in favor of the company for RO 602,576 along with interest and court fees of RO 115,940 due jointly and severally from three parties. The company hopes to realize this claim during the second quarter of 2003 through the enforcement of the judgment.

4. Risks and concerns

The company is still in a restructuring phase of the business in a highly dynamic and competitive industry. The key management focus will be on managing the associated business risks without loosing the growth momentum established during the last three years. Some of the key business risks and our concerns for the next quarter are:

- With the continued competitive pressure on realizations and margins, the key management challenge will at least be to protect the gross margins, if improvements are not feasible, through product innovations, investment in A&P and cost focus.
- The high working capital intensity of the business and the need to reduce credit and liquidity risks will continue to be a key concern area
- Operating between a highly fluctuating international market for the key raw materials and effective management of material costs and gross margins will continue to be key focus area.
- The need to reduce bank borrowing and management of risk associated with high gearing are being addressed.

NOTES TO THE FINANCIAL STATEMENTS

31 March 2003

5. *Outlook for Second Quarter of 2003*

We will continue with our growth objective of double-digit sales growth targets and progressive growth of net profit. The variables that can profoundly influence the success and failure of our business are too numerous to list, making it impossible to predict the future outcome with any confidence. Our portfolio of initiatives for the quarter aimed at ensuring achievement of our financial objectives include:

- To rekindle local growth through distribution and product initiatives, while maintaining the growth momentum in the GCC export markets
- Reduction in the sales & distribution costs through our strategic alliance with National Mineral Water Company
- Forward cover for key raw materials for our fruit beverage business to assure us the planned profits for the next two quarters and buffer us against any adverse impact from fluctuations in international prices
- Government soft loan of RO 1.0 Million and recovery of claim of RO 718,516 due from the judgment passed by the High Court to ease the pressure on cash and reduce borrowing/interest burden.

We are proud of the winning culture we nurture and strive to develop within the organization. We are sure that the empowered team will deliver sustainable and profitable growth and long-term value creation for our shareholders.

N. Ramachandran
General Manager

26th April 2003