



Oman National Dairy Products Co. Ltd. (SAOG)

UNAUDITED FINANCIAL STATEMENTS

30 SEPTEMBER 2003

Released on 26th October 2003

BOARD OF DIRECTORS' REPORT

We are pleased to report that your company has posted a growth for the third consecutive year and is making progress on all key business areas.

During the current year, we decided to consolidate the investments made and market gains achieved during the last few years. Our decision to focus our resources on the GCC and few key strategic markets outside paid rich dividends with an overall sales growth of 21% achieved during the first three quarters of the year.

The sales growth helped us achieve a 33% improvement in the profit from operations. The delay in the realization of our claims and in the disbursement of the term loans led to higher short-term borrowings and a 31% increase in the finance cost partly offsetting the increase in profits from operations

We are initiating measures to strengthen the capital structure of the company, which includes a rights issue in the ratio of one Share for every two shares held by each shareholder. We will soon be approaching CMA and other authorities for statutory approvals related to the issue.

We have also initiated a series of management measures to reduce the working capital intensity of the business and some of these measures have started to yield positive results. We have retained the Investment Banking Division of Bank Muscat (S.A.O.G.) to advise us on the restructuring of our funding for growth.

Economic and Political Situation

During the last few quarters, the political uncertainties within the region started to recede bringing its share of opportunities, which we are approaching with cautious optimism. We will continue to explore and exploit business opportunities opening up within the region.

Stakeholders

In line with our last report, we continued to expand our strategic distribution alliance with M/S National Mineral Water Company in line with the phased implementation plan. We are also happy to report that the alliance with M/S Dhofar Cattle Feed Company started in July 2003 with the launch of fresh milk and chilled products in the Al Batna coastal area. A phased implementation plan has been agreed with both the strategic partners. We believe that these strategic alliances will make the local companies a formidable force within the fast growing Dairy and Beverages market.

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 October 2003

BALANCE SHEET - UNAUDITED

30 September 2003

	<i>Notes</i>	<i>2003</i> <i>RO'000</i>	<i>2002</i> <i>RO'000</i>
ASSETS			
Non – current assets			
Property, plant and equipment		5,104	4,954
Deferred tax asset		0	9
		5,104	4,963
Current assets			
Inventories	3	2,801	2,044
Accounts receivable and prepayments	4	3,433	3,791
Bank balances and cash		28	10
		6,262	5,845
TOTAL ASSETS		11,366	10,808
EQUITY AND LIABILITIES			
Equity			
Share capital		1,320	1,320
Statutory reserve		418	386
General reserve		169	169
Revaluation Reserve	8	1,220	1,220
Retained earnings		674	469
Total equity		3,801	3,564
Non current liabilities			
Term loans		885	205
Deferred Government grant		255	43
Deferred Taxation		44	
Employees' end of service benefit		150	155
Long term payable		106	-
		1,440	403
Current liabilities			
Accounts payable and accruals	5	889	863
Bank overdrafts		3,812	3,330
Current portion of long term loans		24	48
Short term loans		1,400	2,600
		6,125	6,841
Total liabilities		7,565	7,244
TOTAL EQUITY AND LIABILITIES		11,366	10,808
Net assets per share		2.880	2.700



Mohd. Ali A Amir Sultan
Chairman



N. Ramachandran
General Manager

The attached notes 1-to 9 form part of these financial statements. The management discussion on the major operational and financial performance indicators is enclosed.

STATEMENT OF INCOME - UNAUDITED

Year To Date 30 September 2003

	<i>Notes</i>	2003 RO'000	2002 RO'000
Sales	8	9,266	7,652
Cost of sales		(6,265)	(5,115)
GROSS PROFIT		3,001	2,537
% Gross Margin		32	33
Sales and Distribution costs		(2,048)	(1,824)
Administration expenses		(344)	(255)
PROFIT FROM OPERATIONS		609	458
Finance costs		(394)	(291)
Deferred Government grant income		28	10
Profit on sale of property, plant and equipment		65	35
Interest income		9	28
Miscellaneous income / (expense)		(44)	(7)
PROFIT BEFORE TAXATION		273	233
Income tax		(29)	(39)
NET PROFIT FOR YEAR TO DATE 30 SEPTEMBER		244	194
Basic earnings per share (annualized) RO		0.246 =====	0.196 =====

Note: The Income Tax liability for the period is calculated based on the average tax rate and not adjusted for Tax Depreciation

STATEMENT OF CASH FLOWS - UNAUDITED

Year To Date 30 September 2003

	<i>Notes</i>	<i>2003</i> <i>RO'000</i>	<i>2002</i> <i>RO'000</i>
OPERATING ACTIVITIES			
Net profit before taxation		273	233
Adjustments for:			
Depreciation		528	447
Net Interest expense		369	291
Interest income		(9)	(28)
Profit on sale of equipment		(65)	(35)
Operating profit before working capital changes		1,096	908
Inventories		753	26
Receivables		529	(153)
Payables		(1,852)	(415)
Cash (used in) / generated by operations		526	366
Income Tax Paid		(5)	
Interest Expense		(369)	(291)
Employees' terminal benefits paid (net)		(24)	(2)
Net cash (used in) / generated by operating activities		128	73
INVESTING ACTIVITIES			
Purchase of plant and equipment		(252)	(599)
Proceeds from sale of equipment		65	35
Interest income		9	28
Net cash (used in) investing activities		(178)	(536)
FINANCING ACTIVITIES			
New Long-Term loans		1,000	-
Repayment of Long-Term loans		(24)	(58)
New Short-Term loans		550	145
Repayment of Short-Term loans		(1,725)	
Dividends paid		(132)	(132)
Net cash (used in) financing activities		(331)	(45)
DECREASE IN CASH AND CASH EQUIVALENTS		(381)	(508)
Cash and cash equivalents at the beginning of the year		(3,403)	(2,812)
CASH AND CASH EQUIVALENTS AT THE END THIRD QUARTER	6	(3,784)	(3,320)

The attached notes 1-to 9 form part of these financial statements. The management discussion on the major operational and financial performance indicators is enclosed.

STATEMENT OF CHANGES IN EQUITY - UNAUDITED

Year To Date 30 September 2003

	<i>Share Capital</i>	<i>Statutory Reserve</i>	<i>General reserve</i>	<i>Retained earnings</i>	<i>Revaluation Reserve</i>	<i>Total</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Balance at 1 January 2002	1,320	386	169	407	0	2,282
Profit for the period	-	-	-	194		194
Less: Dividend payment for 2001				(132)		(132)
Revaluation during 2002					1,220	1,220
Balance at 30 September 2002	1,320	386	169	469	1,220	3,564
Balance at 1 January 2003	1,320	418	169	563	1,220	3,690
Profit for the period				243		243
Less: Dividend payment for 2002				(132)		(132)
Balance at 30 September 2003	1,320	418	169	674	1,220	3,801

The attached notes 1-to 9 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

30 September 2003

1. ACTIVITIES

The unaudited financial statements of Oman National Dairy Products Co Ltd (SAOG) are for the nine months ended 30 September 2003. 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 Standards issued or adopted by the International Accounting Standards Board, interpretations issued by the International Financial Reporting Interpretations Committee, and applicable requirements of the Commercial Companies Law and the Capital Market Authority of the Sultanate of Oman. The financial statements have been presented in Rial Omani.

3. INVENTORIES

	<u>2003</u> <u>RO'000</u>	<u>2002</u> <u>RO'000</u>
Raw material and packing material	2,008	1,432
Finished goods and goods for resale	453	300
Engineering stocks and consumables	269	234
Promotional items	15	22
Work in progress	56	56
	2,801	2,044

4. ACCOUNTS RECEIVABLE AND PREPAYMENTS

	<u>2003</u> <u>RO'000</u>	<u>2002</u> <u>RO'000</u>
Trade accounts receivable	2,734	2,382
Other receivables	321	393
Warehouse fire claim receivable (refer note below)	110	669
Prepaid expenses	215	247
Advance to suppliers	53	100
	3,433	3,791

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 major portion of this amount had been recovered by September 2003.

5. ACCOUNTS PAYABLE AND ACCRUALS

	<u>2003</u> <u>RO'000</u>	<u>2002</u> <u>RO'000</u>
Trade accounts payables	685	794
Creditors for Capital Purchases	167	-
Other payables	18	16
Accrued expenses	19	53
	889	863

NOTES TO THE FINANCIAL STATEMENTS

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6 CASH AND CASH EQUIVALENTS

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

	2003 RO'000	2002 RO'000
Bank balance and cash	28	10
Bank overdrafts & Bills Discounted	(3,812)	(3,330)
	(3,784)	(3,320)

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.

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 RO'000	2002 RO'000
Sales	89	242
Purchases	25	42
Expenses	27	56

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	
	<i>Sales</i> <i>RO'000</i>	<i>Debtors</i> <i>RO'000</i>	<i>Sales</i> <i>RO'000</i>	<i>Debtors</i> <i>RO'000</i>
Oman	4,879	994	4,927	1,452
Other GCC countries	3,493	1,327	1,804	588
Other Export Markets	894	413	921	342
	9,266	2,734	7,652	2,382

9 REVALUATION RESERVE

Freehold land was revalued at its open market value for existing use on 28th May 2002 by professional chartered 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.

NOTES TO THE FINANCIAL STATEMENTS

30 September 2003

MANAGEMENT DISCUSSION AND ANALYSIS

CAUTIONARY STATEMENT

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, international prices of key raw materials and regulatory developments.

1. Key financial performance highlights

- Overall sales growth of 21% buoyed by doubling of export volumes
- 33% increase in the profit from operations
- 31% increase in the Net Finance Costs driven by the increased borrowing and mix offset partly the increase in profits from operations

Table 1 : Key Financial Indicators

YTD Sep	Sales (RO'000)	Sales Growth %	Gross Profit (RO'000)	Gross Margin %	Profit From Operation (RO'000)	Profit/(Loss) Before Tax (RO'000)
2000	5,559	(3%)	1,692	30%	207	(33)
2001	6,697	20%	1,924	29%	265	124
2002	7,652	14%	2,537	33%	458	233
2003	9,266	21%	3,001	32%	609	273

2. Industry structure and development

We continue to focus on our core business of dairy products and fruit beverages and GCC continue to be the key market segment.

To maintain our competitive lead as a quality supplier, we upgraded our ISO processes to the new ISO standard 9001 of 2000 and we were also approved as a HACCP factory during the quarter.

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 continued to expand geographically the joint distribution operations through M/s National Mineral Water Company in the Sultanate of Oman. We also started our joint operation with M/s Dhofar Cattle Feed Company during the quarter. We are evaluating opportunities in leveraging the production infrastructure of the two companies.

We believe that the benefits from the alliances arise from realizing the production and distribution synergies of the three companies.

3. Key Business risks

3.1. Competitive pressures

With the growth in the number of players and installed capacity of the industry growing at a rate higher than the growth rate of the demand within the GCC, we expect the competition in both local and GCC markets to intensify further in future. As a result, we may face pressures on realization and margin until the market matures.

Key Mitigating Factors:

With regards to risks on account of competitive pressures, our business model has inherent mitigants like operating in a fairly large market and offering a wide range of quality products. However, the additional measures taken to minimize the impact of these risks are:

- ⇒ Maintaining and enhancing the brand awareness for "Zain"
- ⇒ Maintaining leadership in the local market through product innovations and strategic alliances with other companies in the industry,
- ⇒ Exploitation of cost advantage in UHT products versus new High Investment/Cost entrants

NOTES TO THE FINANCIAL STATEMENTS

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3.2. Uncertain Raw Material Prices

The primary raw materials for processed food industry like ONDP are agricultural commodities not available in regional markets. Hence, the high dependence on the international agricultural commodities exposes all players in the industry to possible political and environmental uncertainties operating in these markets.

Key mitigating factors:

While the industry has not witnessed any longer term adverse trend in raw material prices during the last decade, any potential short-term price risks are mitigated through:

- ⇒ Strategic alliances with international suppliers of raw materials and diversification of sources.
- ⇒ Collaboration in procurement with other players within the region
- ⇒ Strengthening of Management Information systems and management processes.

3.3. Protection of Gross Margins

With the intensification of price competition within GCC, maintaining a good gross margin will be key to a profitable growth.

Key mitigating factors

- ⇒ Strategic alliances with local companies will help leverage surplus production capacities available within the industry whereby lowering cost of sales
- ⇒ Greater focus on manufactured, higher margin and branded products in the future
- ⇒ Being one of the oldest units within the region, the company enjoys a cost advantage over the new players with far higher level of investment and learning costs.

3.4. GCC Unification and World Trade Organization (WTO)

An independent study carried out for OCIPED quantifies the cost disadvantage of the industry in the Sultanate of Oman at an average of 4% compared to similar units in other GCC countries.

Key mitigating factors

While the company will continue to work with the government departments and agencies for minimization/elimination of the differential, ONDP believes that the subsidies within the GCC countries will even out over a period. The GCC customs unification will remove other non-tariff barriers within our key GCC market.

3.5. Financial Leverage

The current financial leverage of the company is a major internal risk facing the company.

Key mitigating factors

The proposed rights issue and the other financial restructuring initiatives will correct the leverage before the end of the current financial year. Being a major foreign exchange earner as a non-oil exporter, the company proposes to exploit the opportunities in the international financial markets to reduce the interest burden further.

4. Discussion on financial and operational performance

4.1. Source of Sales Growth

The sales growth over the last three years is in line with the growth plans. While the exports to GCC continued to be the key top line driver for the company, the local sales have been sluggish during the year due to our restructuring initiatives.

NOTES TO THE FINANCIAL STATEMENTS

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Chart 1 : Net Sales by quarter

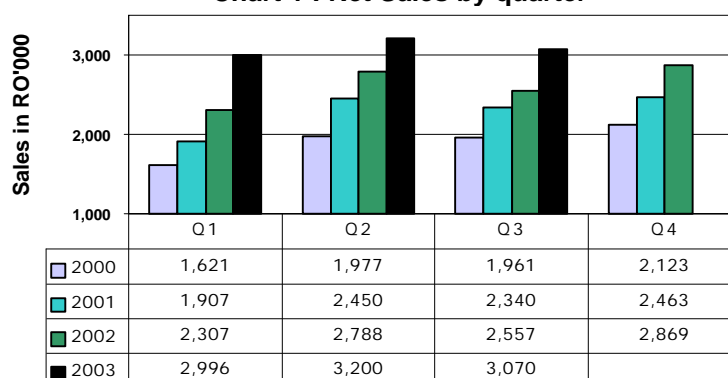


Table 2 : Sales Growth by Geographical Segments

Geographical Segments	YTD SEP 03		YTD SEP 02		YTD SEP 01		YTD SEP 00
	RO'000	% Growth	RO'000	% Growth	RO'000	% Growth	RO'000
Oman	4,879	(1.0%)	4,927	3.2%	4,775	11.7%	4,275
Other GCC	3,493	93.6%	1,804	27.8%	1,412	85.3%	762
TOTAL GCC	8,372	24.4%	6,731	8.8%	6,187	22.8%	5,037
Other Exports	894	(2.9%)	921	80.6%	510	(2.3%)	522
COMPANY TOTAL	9,266	21.1%	7,652	14.3%	6,697	20.5%	5,559

The revival of the local volumes without taking any undue credit risks will be a slow and steady process.

4.2. Cost of Sales – Profitable Sales Growth

Protecting and improving the Gross Profit Margin is essential for our growth to be profitable. Our current gross profit margin is in line with our internal targets and the improvement will be mainly from the leveraging of the fixed factory costs.

Chart 2 : Production

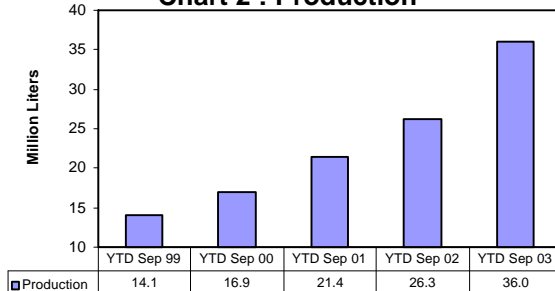


Table 3 : Cost of Sales

Expense Head	YTD SEP 03		YTD SEP 02	
	RO'000	%	RO'000	%
NET SALES	9,266		7,652	
Material Cost	4,977	54%	3,980	52%
Factory Overheads	926	10%	831	11%
Depreciation	362	4%	303	4%
COST OF SALES	6,265	67.6%	5,114	66.8%

4.3. Sales & Distribution Costs

Our strategic alignments with National Mineral Water Co. and Dhofar Cattle Feed Co. offer us an opportunity to restructure distribution costs without sacrificing our distribution reach. As the two projects roll out in phases, the full impact of the fixed cost reductions will be felt from the next financial year.

Table 4 : Sales & Distribution Costs

Expense Head	YTD SEP 03		YTD SEP 02	
	RO'000	%	RO'000	%
NET SALES	9,266		7,652	
Advertising & Promotions	518	6%	314	4%
Variable Export Freight	360	4%	245	3%
Fixed Sales & Distribution Costs	1,170	13%	1,263	17%
Total Sales & Distribution	2,048	22.1%	1,822	23.8%

NOTES TO THE FINANCIAL STATEMENTS

30 September 2003

The reorganization of local Sales & Distribution process is also targeted at significant reduction in the local Debtors. Reference the segment analysis presented in note no. 8 on page 7, a 32% reduction has been achieved in the level of local trade debtors over the corresponding period of 2002. We will continue to shift the local business steadily towards the lower end of credit intensity.

4.3. Working Capital

Working in between a credit driven GCC market and fluctuating international raw material markets is a challenge to contain and reduce the working capital intensity of the business.

Table 5 : Working Capital KPIs

	30.09.2003		30.09.2002		30.09.2001	
	RO'000	Days	RO'000	Days	RO'000	Days
Net Sales	9,266		7,652		6,697	
Cost of Sales	6,265		5,115		4,773	
Stocks excl. transit (DII)	2,801	122	2,044	109	1,549	89
Trade Debtors (DSO)	2,734	81	2,382	85	2,165	88
Total Creditors (DPO)	889	39	863	46	1,194	68

The increase in the Days in Inventory (DII) as on date is due to additional stocks carried for one-off contracts, which are slated for execution in the last quarter of the current financial year. With further initiatives to rationalize the inventory levels, we expect the stocks to come down to our operating target level of 75 days by the end of the year.

4.4. Cash Flow and Finance Costs

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

The proposed Rights issue will correct the high leverage. Apart from internal review to optimize the working capital intensity of the business, we have also retained the Investment Banking Division of Bank Muscat (S.A.O.G.) to advise us on the restructuring of our funding arrangements.

5. Outlook for the balance of the year 2003 and 2004

We will continue with our growth objective with 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. However, we see the following favorable factors out weighing the external risks and threats.

- In spite of our doubling of sales in the GCC markets, we believe that opportunity exists for maintaining double-digit growth rates.
- The impact of the strategic alliance initiatives will start to have material effect on our local volume, debtors and sales & distribution costs
- The full impact of the soft loan, realization of warehouse fire & customs claims and the rights issue will be felt during the following quarters.

We believe that our continued focus on the business fundamentals will deliver sustainable and profitable growth and long-term value creation for our shareholders.



N. Ramachandran
General Manager

26th October 2003