

Oman National Dairy Products Co. Ltd. (SAOG)

FINANCIAL STATEMENTS

31 DECEMBER 2002

BALANCE SHEET

At 31 December 2002

BOARD OF DIRECTORS' REPORT

We are pleased to report positive results from the growth strategies implemented during the last few years. Buoyed by a 54.4% growth in export, we registered an overall sales growth of 14.9%. The top line growth with a 3.2% improvement in Gross Margins helped us grow the Net Profit before tax to RO 404,497 (2001: RO 323,806). The income tax expense of RO 69,674 (2001: Nil) includes a deferred tax charge of RO 63,348.

One of the key challenges before us is to rekindle growth in the local market, which was sluggish during the year. We believe that consolidation within the local dairy and beverages industry is the key to future growth and overall profitability. In early 2003, we announced our intent for the strategic alliances with M/S Dhofar Cattle Feed Company and M/S National Mineral Water Company in the Sultanate of Oman.

We also increased the level of investment in our brands to sustain our growth and to protect our margins in highly competitive markets. We will continue to offer healthy products of great value to our consumers. It is no surprise that 'Zain' our flagship brand was voted as the best Omani brand for two years in succession in a survey conducted by Business Today. Our emphasis on quality systems and international standards has earned us customers in over 40 countries worldwide and makes 'Zain' an international brand.

We believe that for a company to succeed on a sustainable basis, it must maintain high standards of corporate governance towards its shareholders, employees, consumers and society. To this end, we as a company have always focused on good corporate governance. We enclose a copy of our report on compliance to the Code of Corporate Governance for MSM listed companies pioneered by CMA in the Sultanate of Oman.

We believe that well trained, motivated and empowered employees are key to sustainable growth of our business. In line with the national priority, we are committed to improve our level of omanization, which was 45% as at the end of the year (2001: 42%). Our focus on our employees was recognized by being voted as one of best ten companies to work for in the Sultanate of Oman in a survey carried out by Business Today

We will continue to contribute to the development of the local industry and society. We launched the School Milk Program with the active support of the ministries of Education and Health. We were honored as one of the ten best factories for His Majesty's cup for 2002.

On behalf of the directors, I would like to thank our valued customers, shareholders, employees and other stakeholders for their valuable support in these challenging times.



Mohamed Ali A. Amir Sultan
Chairman

25th February 2003


**AUDITORS' REPORT TO THE SHAREHOLDERS OF
OMAN NATIONAL DAIRY PRODUCTS CO. LTD. (SAOG)**

We have audited the accompanying balance sheet of Oman National Dairy Products Co. Ltd (SAOG) as of 31 December 2002, and the related statements of income, cash flows and changes in equity for the year then ended. These financial statements are the responsibility of the company's board of directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements:-

- i) Present fairly, in all material respects, the financial position of the company as of 31 December 2002 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.
- ii) Comply, in all material respects, with the relevant disclosure requirements of the Commercial Companies Law of 1974, as amended, and the minimum disclosure requirements for Public Joint Stock Companies issued by the Capital Market Authority.



25 February 2003
Muscat



Philip D Stanton
Partner

BALANCE SHEET

At 31 December 2002

	Note	2002 RO	2001 RO
ASSETS			
Non – current assets			
Property, plant and equipment	3	5,380,225	3,456,022
Deferred tax asset	4	-	48,459
		<u>5,380,225</u>	<u>3,504,481</u>
Current assets			
Inventories	5	3,553,465	2,022,615
Accounts receivable and prepayments	6	3,961,450	3,598,322
Bank balances and cash	7	214,081	58,598
		<u>7,728,996</u>	<u>5,679,535</u>
TOTAL ASSETS		<u>13,109,221</u>	<u>9,184,016</u>
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	8	1,320,000	1,320,000
Statutory reserve	9	418,161	386,177
General reserve	10	168,600	168,600
Revaluation reserve	11	1,219,843	-
Retained earnings		563,304	407,445
Total equity		<u>3,689,908</u>	<u>2,282,222</u>
Non current liabilities			
Term loans	12	98,878	154,807
Deferred Government grant	12	43,395	58,709
Deferred taxation	4	14,889	-
Employees' end of service benefits	13	174,302	155,360
Long term payable	14	92,479	-
		<u>423,943</u>	<u>368,876</u>
Current liabilities			
Accounts payable and accruals	15	2,715,782	936,656
Bank borrowings	7	3,617,031	2,880,679
Income tax payable	4	6,306	-
Current portion of term loans	12	81,251	260,433
Short term loans	16	2,575,000	2,455,150
		<u>8,995,370</u>	<u>6,532,918</u>
Total liabilities		<u>9,419,313</u>	<u>6,901,794</u>
TOTAL EQUITY AND LIABILITIES		<u>13,109,221</u>	<u>9,184,016</u>
NET ASSET PER SHARE		<u>2.807</u>	<u>1.729</u>

The financial statements were authorised for issue in accordance with a resolution of the directors on 25 February 2003



Chairman



General Manager

The attached notes 1 to 27 form part of these financial statements.

INCOME STATEMENT

Year ended 31 December 2002

	<i>Notes</i>	<i>2002</i> RO	<i>2001</i> RO
Sales		10,521,327	9,159,614
Cost of sales		(6,731,741)	(6,157,149)
GROSS PROFIT		3,789,586	3,002,465
Distribution costs		(2,676,583)	(1,994,586)
Provision for doubtful debts		(47,592)	(59,258)
Administration expenses		(414,168)	(395,689)
PROFIT FROM OPERATIONS		651,243	552,932
Finance costs (net)	19	(304,528)	(303,585)
Deferred Government grant income		15,314	19,931
Profit on sale of property, plant and equipment		34,089	24,473
Loss on exchange		(34,136)	(2,783)
Miscellaneous income		27,515	32,838
PROFIT BEFORE TAXATION		389,497	323,806
Income tax expense	4	(69,654)	-
NET PROFIT FOR THE YEAR		319,843	323,806
Basic earnings per share	23	0.242	0.245

The attached notes 1 to 27 form part of these financial statements.

STATEMENT OF CASH FLOWS

Year ended 31 December 2002

	<i>Note</i>	<i>2002</i> <i>RO</i>	<i>2001</i> <i>RO</i>
OPERATING ACTIVITIES			
Net profit before taxation		389,497	323,806
Adjustments for:			
Depreciation		618,191	529,203
Accrual for employees' terminal benefits		45,632	48,109
Interest expense		411,990	336,625
Interest income		(107,462)	(33,040)
Profit on sale of property, plant and equipment		(34,089)	(24,473)
Operating profit before working capital changes:		<u>1,323,759</u>	<u>1,180,230</u>
Inventories		(1,530,850)	(700,155)
Receivables		(363,128)	(442,472)
Payables		<u>1,871,605</u>	<u>(540,750)</u>
Cash from (used in) operations		<u>1,301,386</u>	<u>(503,147)</u>
Interest expense		(411,990)	(336,625)
Employees' end of service benefits paid		(26,690)	(22,737)
Net cash from (used in) operating activities		<u>862,706</u>	<u>(862,509)</u>
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(1,324,363)	(1,409,114)
Proceeds from sale of property, plant and equipment		<u>35,901</u>	<u>126,631</u>
Net cash used in investing activities		<u>(1,288,462)</u>	<u>(1,282,483)</u>
FINANCING ACTIVITIES			
New term loan		-	235,076
Repayment of term loans		(250,425)	(74,250)
New short term loans		1,375,000	500,000
Repayment of short term loans		(1,255,150)	-
Increase in bills discounted		484,808	587,219
Interest income		107,462	33,040
Obligation under finance lease		-	(19,960)
Dividends paid		(132,000)	-
Net cash from financing activities		<u>329,695</u>	<u>1,261,125</u>
DECREASE IN CASH AND CASH EQUIVALENTS		(96,061)	(883,867)
Cash and cash equivalents at the beginning of the year		<u>(2,234,862)</u>	<u>(1,350,995)</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	7	<u><u>(2,330,923)</u></u>	<u><u>(2,234,862)</u></u>

The attached notes 1 to 27 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2002

	<i>Notes</i>	<i>Share capital RO</i>	<i>Statutory reserve RO</i>	<i>General reserve RO</i>	<i>Revaluation reserve RO</i>	<i>Retained earnings RO</i>	<i>Total RO</i>
At 1 January 2001		1,320,000	353,797	168,600	-	116,019	1,958,416
Net profit for the year		-	-	-	-	323,806	323,806
Transfer to statutory reserve		-	32,380	-	-	(32,380)	-
At 31 December 2001		1,320,000	386,177	168,600	-	407,445	2,282,222
Dividends paid	22	-	-	-	-	(132,000)	(132,000)
Net profit for the year		-	-	-	-	319,843	319,843
Transfer to statutory reserve		-	31,984	-	-	(31,984)	-
Surplus on revaluation of free hold land	11	-	-	-	1,219,843	-	1,219,843
At 31 December 2002		1,320,000	418,161	168,600	1,219,843	563,304	3,689,908

The attached notes 1 to 27 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2002

1 ACTIVITIES

Oman National Dairy Products Co Ltd (SAOG) is registered as a joint stock company under the Commercial Companies Law of Oman and is engaged in the manufacture, processing and sale of milk and milk products, yoghurt, ice creams and juices. The company also trades in purchased foodstuffs. Its registered address is PO Box 610, Ruwi, Postal Code 112, Sultanate of Oman.

The company operates in the Sultanate of Oman and employed 261 employees as of 31 December 2002 (2001 - 253).

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.

Accounting convention

The financial statements are prepared under the historical cost convention, modified to include the revaluation of freehold land.

The accounting policies are consistent with those used in the previous year.

Property, plant and equipment

Property, plant and equipment is initially recorded at cost. Freehold land is subsequently revalued, to its market value. The revaluation of freehold land is made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date..

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

When an asset is revalued, any increase in the carrying amount arising on revaluation is credited directly to equity under the revaluation reserve, except to the extent that a revaluation increase merely restores the carrying value of an asset to its original cost, whereby it is recognised as income. A decrease resulting from a revaluation is initially charged directly against any related revaluation surplus held in respect of that same asset, the remaining portion being charged as an expense. On disposal the related revaluation surplus is credited directly to retained earnings.

Depreciation is calculated on a straight line basis on all property, plant and equipment other than freehold land which is determined to have an indefinite life. The rates of depreciation are based upon the following estimated useful lives:

Buildings	Over 20 years
Plant and machinery	Over 4 to 10 years
Motor vehicles	Over 4 years
Furniture, fixtures and office equipment	Over 2 to 4 years

Impairment and uncollectibility of financial assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a financial asset or group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss recognised for the difference between the recoverable amount and the carrying amount. Impairment losses are recognised in the income statement.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2002

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs are those expenses incurred in bringing each product to its present location and condition, as follows:

Raw materials, packing materials, engineering stocks and consumables and promotional items	- purchase cost on a weighted average basis.
Finished goods and goods for resale	- cost of direct materials and labour plus attributable overheads based on a normal level of activity.

Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

Accounts receivable

Accounts receivable are stated at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

Cash and cash equivalents

Cash and cash equivalents comprise cash at hand, bank balances and short-term deposits with an original maturity of three months or less.

For the purpose of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Accounts payable and accruals

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

Term loan from a commercial bank

Each term loan is carried on the balance sheet at its principal amount. Instalments due within one year are shown as a current liability. Interest is charged as an expense as it accrues, with unpaid amounts included in "accounts payable and accruals".

Loan from the Government of Oman

The loan from the Government of Oman is carried on the balance sheet at its fair value being the fair value of consideration received. The fair value of the consideration received is the sum of all future cash payments, discounted using the market borrowing rates of interest for loans having similar maturity to discount the future contractual cash flow.

The difference between the fair value and the principal amount of the loan is treated as a Government grant and is deferred over the period of the loan.

Deferred Government grant

The deferred government grant is recognised as income over the periods necessary to match it on a systematic basis to the costs which it is intended to compensate.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2002

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax

Taxation is provided for in accordance with Omani fiscal regulations.

Deferred income taxation is provided using the liability method on all temporary differences at the reporting date. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liabilities is settled, based on tax rates (and laws) that have been enacted or substantively enacted at the balance sheet date.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Employees' end of service benefits

Payment is made to the Omani Government Social Security Scheme under Royal Decree No. 72/91 for Omani employees.

Accrual is made for amounts payable under the Oman labour law applicable to non Omani employees' accumulated periods of service as of the balance sheet date.

Provisions

Provisions are recognised when the company has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and able to be reliably measured.

Sales and interest revenue recognition

Sales represent the invoiced value of goods supplied by the company during the year. Interest revenue is recognized as the interest accrues.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the income statement.

Fair values

The fair value of interest bearing items is estimated based on discounted cash flows using interest rates for similar terms and risk characteristics.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2002

3 PROPERTY, PLANT AND EQUIPMENT

	<i>Freehold land and buildings RO</i>	<i>Plant and machinery RO</i>	<i>Motor vehicles RO</i>	<i>Furniture, fixtures and office equipment RO</i>	<i>Capital work in progress RO</i>	<i>Total RO</i>
Balance at 1 January 2002, net of accumulated depreciation	790,568	2,308,219	122,473	121,997	112,765	3,456,022
Additions	-	-	-	-	1,324,363	1,324,363
Surplus on revaluation	1,219,843	-	-	-	-	1,219,843
Transfers	101,650	1,105,471	23,598	57,073	(1,287,792)	-
Disposals	-	(1,749)	(63)	-	-	(1,812)
Depreciation for the year	(55,358)	(473,647)	(46,037)	(43,149)	-	(618,191)
Balance at 31 December 2002, net of accumulated depreciation	<u>2,056,703</u>	<u>2,938,294</u>	<u>99,971</u>	<u>135,921</u>	<u>149,336</u>	<u>5,380,225</u>
Property, plant and equipment						
At cost or valuation	3,038,557	6,773,771	467,969	402,717	149,336	10,832,350
Accumulated depreciation	(981,854)	(3,835,477)	(367,998)	(266,796)	-	(5,452,125)
Net carrying amount at 31 December 2002	<u>2,056,703</u>	<u>2,938,294</u>	<u>99,971</u>	<u>135,921</u>	<u>149,336</u>	<u>5,380,225</u>

Freehold land and buildings include freehold land of RO 1,350,000 (2001 – RO 130,157) on which no depreciation is charged.

Property, plant and equipment has been mortgaged against the Government soft loan and term loan (notes 12 and 15).

Freehold land was revalued at its open market value for existing use on 28 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.

The depreciation charge for the year has been dealt with in the income statement as follows:

	<i>2002 RO</i>	<i>2001 RO</i>
Cost of sales	417,573	366,895
Administration expenses	200,618	162,308
	<u>618,191</u>	<u>529,203</u>

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2002

4 TAXATION

	<i>2002</i> <i>RO</i>	<i>2001</i> <i>RO</i>
Current Liability:		
Current year	<u>6,306</u>	<u>-</u>
Income statement:		
Current year	6,306	-
Deferred tax charge relating to the origination and reversal of temporary differences	<u>63,348</u>	<u>-</u>
	<u>69,654</u>	<u>-</u>
Deferred tax (liability) asset:		
At 1 January	48,459	48,459
Movement for the year	<u>(63,348)</u>	<u>-</u>
At 31 December	<u>(14,889)</u>	<u>48,459</u>
The deferred (liability) asset comprises following types of temporary differences:		
Taxable timing difference on plant and equipment qualifying for accelerated tax relief	(39,335)	(24,596)
Deductible timing difference on provisions	24,446	27,224
Tax losses available for set off	-	46,831
At 31 December	<u>(14,889)</u>	<u>48,459</u>

The tax rate applicable to the company is 12% (2001 - 12%). For the purpose of determining the taxable result for the year, the accounting profit has been adjusted for tax purposes. Adjustments for tax purposes include items relating to both income and expense. After giving effect to the adjustments, the average effective tax rate is estimated to be 1.56 % (2001 – Nil).

The difference between the applicable tax rate of 12 % (2001 – 12%) and the effective rate of 1.56 % (2001 – Nil) arises due to the net tax effect of income not considered to be taxable and expenses that are not considered to be deductible. The adjustments are based on the current understanding of the existing tax laws, regulations and practices.

The company's tax assessments have been agreed with the tax authorities up to tax year 1996.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2002

5 INVENTORIES

	<i>2002</i> <i>RO</i>	<i>2001</i> <i>RO</i>
Raw material and packing material	1,705,385	1,065,847
Finished goods and goods for resale	538,291	399,436
Engineering stocks and consumables	249,774	196,671
Promotional items	18,462	35,851
Goods in transit	987,287	270,030
Work in progress	54,266	54,780
	<u>3,553,465</u>	<u>2,022,615</u>

6 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	<i>2002</i> <i>RO</i>	<i>2001</i> <i>RO</i>
Trade accounts receivable	2,494,911	2,494,016
Other receivables	471,415	354,310
Amounts due from related parties (note 21)	101,004	108,520
Prepaid expenses	124,502	16,012
Warehouse fire claim receivable (note 21)	713,748	594,526
Advance to supplier	55,870	30,938
	<u>3,961,450</u>	<u>3,598,322</u>

Trade accounts receivable include RO 806,727 (2001 - RO 708,819) secured under an Export Credit Guarantee Scheme administered by the Oman Development Bank SAOG.

Other receivables include an amount of RO 364,038 relating to customs duty refundable in accordance with an approval received from the Ministry of Commerce and Industry.

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 company has received a court order confirming a claim receivable of RO 602,576 (2001 – RO 594,527) due jointly and severally from three parties including two entities related to directors of the company. The company has also accrued for interest receivable of RO 101,926 and court fees of RO 9,246 in accordance with the court order. The defendant parties have appealed against the judgement. Management and the legal counsel are confident of a favourable judgement against the appeal.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2002

7 CASH AND CASH EQUIVALENTS

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

	<i>2002</i> <i>RO</i>	<i>2001</i> <i>RO</i>
Bank balance and cash	214,081	58,598
Bank overdrafts	(2,545,004)	(2,293,460)
	<u>(2,330,923)</u>	<u>(2,234,862)</u>

Bank borrowings in the balance sheet comprise the following:

	<i>2002</i> <i>RO</i>	<i>2001</i> <i>RO</i>
Bank overdrafts	2,545,004	2,293,460
Bills discounted	1,072,027	587,219
	<u>3,617,031</u>	<u>2,880,679</u>

Bank overdrafts carry interest at an effective annual interest rate of 6 % to 10% (2001 –8 % to 10 %)

The funding under bills discounted is at an effective annual interest rate of 6 % to 8.5 % (2001 – same terms and condition). The funding is for a period of 90 days from the date of issue of the invoice to the customer.

8 SHARE CAPITAL

	<i>Authorised, issued and fully paid</i>	
	<i>2002</i> <i>RO</i>	<i>2001</i> <i>RO</i>
Shares of RO 1 each	1,320,000	1,320,000

Shareholders of the company who own 10% or more of the company's shares, whether in their name, or through a nominee account, and the number of shares they hold are as follows:

	<i>2002</i> <i>Number of</i> <i>share</i>	<i>2002</i> <i>%</i>	<i>2001</i> <i>Number of</i> <i>share</i>	<i>2001</i> <i>%</i>
W J Towell & Company	544,819	41.2	554,819	41.27
Oman International Development and Investment Co. SAOG	253,300	19.1	277,800	21.05
		7		
		9		

Transactions with these shareholders are not disclosed separately in note 21 as they are not material.

9 STATUTORY RESERVE

As required by the Commercial Company Law of the Sultanate of Oman, 10% of the net profit for the year has been transferred to a statutory reserve. The company may resolve to discontinue such annual transfers when the reserve totals one third of the issued share capital. The reserve is not available for distribution.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2002

10 GENERAL RESERVE

In accordance with the articles of association of the company, annual appropriations not exceeding 20 % of the profit for the year after deduction of statutory reserve, may be made to this reserve. The accumulated balance of the reserve may not exceed half the value of the company's paid up share capital.

11 REVALUATION RESERVE

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

12 TERM LOANS

		<i>2002</i> <i>RO</i>	<i>2001</i> <i>RO</i>
Interest free loan from the Government of Oman	(i)	164,623	188,873
Loan from a commercial bank	(ii)	58,901	235,076
Interest free loan from the Government of Oman		-	50,000
		<u>223,524</u>	<u>473,949</u>
Less: Deferred Government grant		<u>(43,395)</u>	<u>(58,709)</u>
		180,129	415,240
Less: term loan instalments due within one year		<u>(81,251)</u>	<u>(260,433)</u>
		<u>98,878</u>	<u>154,807</u>

- i) The loan is repayable in ten annual instalments of RO 24,250 each, commencing from 2001, the final payment being due in 2009. The loan is secured by a first charge on all of the company's assets.

The loan is carried at the fair value (2001- fair value) of the consideration received. The fair value of the consideration received is the sum total of all future payments, discounted using the market borrowing rate of 8.5% for loans having similar maturity.

The difference between fair value and book value is treated as a deferred Government grant income and is released to income over the period necessary to match it with the related Government loan interest expense.

- ii) The loan from a commercial bank is repayable in fourteen monthly instalments of RO 16,000 each with the balance amount payable in the final instalment in June 2003. The loan bears an effective annual interest rate of 8.5 % (2001 - same terms and conditions) and is secured by a second charge on all of the company's assets.

13 EMPLOYEES' END OF SERVICE BENEFITS

	<i>2002</i> <i>RO</i>	<i>2001</i> <i>RO</i>
Movements in the liability recognised in the balance sheet are as follows:		
Accrual as at 1 January	155,360	129,988
Accrued during the year	45,632	48,109
End of service benefit paid	<u>(26,690)</u>	<u>(22,737)</u>
Accrual as at 31 December	<u>174,302</u>	<u>155,360</u>

14 LONG TERM PAYABLE

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2002

Long term payable is the purchase price payable to a supplier for the purchase of machinery. As per agreement with the supplier, the amount is interest free and repayable in 11 equal quarterly instalments, the final payment being due in October 2004. An amount of RO 204,525 due within one year has been included in creditors for capital purchases under accounts payable and accruals (note 15).

15 ACCOUNTS PAYABLE AND ACCRUALS

	<i>2002</i>	<i>2001</i>
	<i>RO</i>	<i>RO</i>
Trade accounts payables	2,315,103	550,452
Creditors for capital purchases	204,525	179,033
Amounts due to related parties (note 21)	42,427	47,351
Other payables	16,023	16,023
Accrued expenses	137,704	143,797
	<u>2,715,782</u>	<u>936,656</u>

16 SHORT TERM LOANS

Short term loans in Rial Omani are from commercial banks and carry interest at an annual interest rate of 4.75% to 8.5% (2001 - 3.5% to 7.5% per annum) and are repayable on demand (2001 - repayable on demand). The loans are secured by a second charge on all of the company's assets.

17 EXPENDITURE COMMITMENT

Capital expenditure commitments

	<i>2002</i>	<i>2001</i>
	<i>RO</i>	<i>RO</i>
Estimated capital expenditure contracted for outstanding at the balance sheet date but not provided for:		
Plant and equipment	<u>136,654</u>	<u>107,364</u>

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2002

18 SEGMENTAL ANALYSIS

Primary segment

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

	<i>Oman</i>		<i>Other GCC countries</i>		<i>Other Non – GCC Countries</i>		<i>Total</i>	
	2002 RO	<i>2001</i> <i>RO</i>	2002 RO	<i>2001</i> <i>RO</i>	2002 RO	<i>2001</i> <i>RO</i>	2002 RO	<i>2001</i> <i>RO</i>
Sales								
Total sales	6,559,510	6,505,781	2,793,478	1,933,607	1,168,339	720,226	10,521,327	9,159,614
Financial performance								
Segment gross profit	2,362,613	2,132,530	1,006,158	633,817	420,815	236,118	3,789,586	3,002,465
Common costs							(3,138,343)	(2,449,533)
Profit from operations							651,243	552,932
Finance costs							(325,266)	(303,585)
Other income (net)							63,520	74,459
Profit before taxation							389,497	323,806
Other information								
Total segment assets	8,002,334	6,520,651	3,651,175	1,928,643	1,455,712	734,722	13,109,221	9,184,016
Total segment liabilities	8,002,334	6,520,651	3,651,175	1,928,643	1,455,712	734,722	13,109,221	9,184,016

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2002

19 FINANCE COSTS (NET)

	<i>2002</i> <i>RO</i>	<i>2001</i> <i>RO</i>
Bank interest	278,350	286,886
Term loan interest	133,640	49,739
Total finance cost	411,990	336,625
Bank interest	(5,536)	(7,364)
Interest on insurance claim receivable (note 6)	(101,926)	(25,676)
Total finance income	(107,462)	(33,040)
Finance costs (net)	304,528	303,585

20 NET PROFIT FOR THE YEAR

The net profit for the year is stated after charging:

	<i>2002</i> <i>RO</i>	<i>2001</i> <i>RO</i>
Staff costs	1,422,741	1,433,614

21 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. Pricing policies and terms of these transactions are approved by the company's management.

Transactions with related parties included in the statement of income are as follows:

	<i>2002</i> <i>RO</i>	<i>2001</i> <i>RO</i>
Sales	218,523	277,583
Purchases	59,494	113,429
Expenses	86,417	181,926

Amounts due from and due to related parties are disclosed in notes 6 and 15, respectively.

The warehouse fire claim receivable amounting to RO 713,748 (2001 - RO 594,527) included in accounts receivable and prepayments (note 6) is due jointly and severally from three parties including two entities related to directors of the company.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2002

22 DIVIDENDS

During the year, dividends of RO 0.100 per share totalling RO 132,000 relating to 2001 were declared and paid (2001 – Nil).

The Board of Directors has proposed a cash dividend of RO 0.100 per share totalling RO 132,000 which is subject to the approval of the shareholders at the Annual General Meeting.

23 BASIC EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit for the year by the weighted average number of shares outstanding during the period as follows:

	<i>2002</i> <i>RO</i>	<i>2001</i> <i>RO</i>
Net profit for the year	319,843	323,806
Weighted average number of shares outstanding during the year	1,320,000	1,320,000
Basic earnings per share	0.242	0.245

No figure for diluted earnings per share has been presented as the company has issued no ordinary shares that may be dilutive.

24 CONTINGENCIES

Contingent liabilities

At 31 December 2002 the company had contingent liabilities in respect of bank and other guarantees and other matters arising in the ordinary course of business from which it is anticipated that no material liabilities will arise, amounting to RO 541,619 (2001 - RO 32,800).

25 RISK MANAGEMENT

Interest rate risk

The company is exposed to interest rate risk on its interest bearing liabilities (short term loan and long term loan). The management monitors the interest rate risk by setting limits on the interest rate gaps for stipulated periods.

Credit risk

The company seeks to limit its credit risk with respect to customers by setting credit limits for individual customers and monitoring outstanding receivables.

The company sells its products to a large number of customers in Oman, GCC and other countries. Its 40 largest customers account for 65% (2001 - 52%) of outstanding accounts receivable at 31 December 2002 (2001 – 52%).

Liquidity risk

The company limits its liquidity risk by ensuring bank facilities are available. The company's terms of sales require amounts to be paid within 120 days of the date of sale. Trade payables are normally settled within 90 days of the date of purchase.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2002

26 FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprise of financial assets and liabilities.

Financial assets consist of cash and bank balances and receivables. Financial liabilities consist of payables, short term loan and accrued expenses.

The fair values of the financial assets and liabilities are not materially different from their carrying values.

27 COMPARATIVE AMOUNTS

The corresponding figures for 2001 have been reclassified in order to conform with the presentation for the current year. Such reclassifications do not affect previously reported net profit or shareholders' equity.