



Oman National Dairy Products Co. Ltd. (SAOG)

UNAUDITED FINANCIAL STATEMENTS

31 MARCH 2004

Released on 24th April 2004

31 March 2004

BOARD OF DIRECTORS' REPORT

We are pleased to present our report of the company's activities and financial results for the three months ended 31st March 2004.

Operating and Financial Performance

The first quarter represents a low season period for the year and the start was rather slow. Our efforts were focused on expanding the distribution in the GCC markets for the main season ahead. The high base sales in the GCC markets were hard to beat, while we continued to grow in the local and export markets

During the year, we hope to consolidate on the volume and market share gains achieved during the year. Our key initiatives to improve the profit margins led to an improvement in the Net Profit After Tax to RO 50,875 (2003: RO 24,073). This translates to a Basic Earning per share of RO 0.105 (2003: RO 0.073) on the increased share capital.

Financial Restructuring

During the Annual General Meeting held in April 2004, the shareholders approved issue of bonus shares of 10%, which will take the share capital beyond RO 2.0 Million, the minimum prescribed by the Commercial Companies Law.

As reported earlier, the financial restructuring process is in progress. In line with the article 86 of the Commercial Companies Law, an Extraordinary General Meeting adopted a resolution for the issue of bonds. We hope to complete the process well before the end of the next quarter through the banking system and/or bonds through the capital markets.

Board Changes

During the Extra-ordinary General Meeting held recently, the company's Articles of Association were amended including a reduction in the number of directors to make the board more effective. The board of directors was elected/re-elected in line with the Ministerial Decision 137/2002.

Strategic Alliances

As we reported earlier, we restructured our selling systems by appointing M/s National Mineral Water Company and M/s Bhacker Suleman Jaffer Co. as retail distributors for our range of long life products leaving the expensive cold chain distribution system of the company focusing on the chilled and frozen products. These initiatives have started to yield results.

Future Outlook

The GCC industry will remain highly competitive with significant pressures on realization and margins. The company is well poised for maintaining the growth rates in the coming years. The increase in the share capital through the Rights Issue supplemented by the long-term loans will correct the financial structure and support the growth for the future.

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.



Ahmed Said Zaki
Deputy Chairman

24th April 2004

BALANCE SHEET

31 March 2004

	<i>Notes</i>	<i>2004</i> <i>RO'000</i>	<i>2003</i> <i>RO'000</i>
ASSETS			
Non – current assets			
Property, plant and equipment		5,049	5,306
		<u>5,049</u>	<u>5,306</u>
Current assets			
Inventories	3	3,203	3,455
Accounts receivable and prepayments	4	3,661	4,412
Bank balances and cash		53	35
		<u>6,917</u>	<u>7,902</u>
TOTAL ASSETS		<u><u>11,966</u></u>	<u><u>13,208</u></u>
EQUITY AND LIABILITIES			
Equity			
Share capital		1,934	1,320
Share Premium		80	-
Statutory reserve		645	418
General reserve		169	169
Revaluation Reserve	8	1,220	1,220
Retained earnings		824	456
Total equity		<u>4,872</u>	<u>3,583</u>
Non current liabilities			
Term loans		594	108
Deferred Government grant		176	33
Deferred Taxation		36	15
Employees' end of service benefit		130	153
Long term payable		-	92
		<u>936</u>	<u>401</u>
Current liabilities			
Accounts payable and accruals	5	945	2,520
Bank overdrafts		4,007	4,197
Current portion of term loans		204	51
Short term loans		950	2,452
Income Tax Payable		52	4
		<u>6,158</u>	<u>9,224</u>
Total liabilities		<u>7,094</u>	<u>9,621</u>
TOTAL EQUITY AND LIABILITIES		<u><u>11,966</u></u>	<u><u>13,208</u></u>
Net assets per share		<u><u>2.524</u></u>	<u><u>2.717</u></u>



Ahmed Said Zaki
Deputy Chairman



N. Ramachandran
General Manager

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

STATEMENT OF INCOME

Three Months ended 31 March 2004

	<i>Notes</i>	2004 RO'000	2003 RO'000
Sales		2,760	2,996
Cost of sales		(1,908)	(2,010)
GROSS PROFIT		852	986
% Gross Margin		30 %	33 %
Sales and Distribution costs		(588)	(731)
Administration expenses		(112)	(113)
PROFIT / (LOSS) FROM OPERATIONS		152	142
Finance costs		(125)	(115)
Deferred Government grant income		13	6
Profit on sale of property, plant and equipment		1	-
Gain / (Loss) on foreign exchange		15	-
Interest income		-	6
Miscellaneous income / (expense)		4	(11)
PROFIT (LOSS) BEFORE TAXATION		60	28
Income tax payable		(9)	(4)
NET PROFIT / (LOSS) FOR THE QUARTER		51	24
Basic earnings per share (annualized)		0.105	0.073

Notes:

1. The Income Tax expense is provided based on the average rate for the year 2003
2. The attached notes 1 to 9 form part of these financial statements.

STATEMENT OF CASH FLOWS

Three months ended 31 March 2004

	<i>Notes</i>	2004 RO'000	2003 RO'000
OPERATING ACTIVITIES			
Net profit (loss) before taxation		60	28
Adjustments for:			
Depreciation		177	178
Accrual for employees' terminal benefits		7	7
Interest expense		125	115
Interest income		(1)	(6)
Profit on sale of equipment		(1)	0
		<hr/>	<hr/>
Operating profit (loss) before working capital changes		367	322
(Increase) / Decrease in inventories		(142)	99
(Increase) / Decrease in accounts receivables		529	(451)
Increase / (Decrease) in accounts payables		(658)	(330)
		<hr/>	<hr/>
Cash generated by (used in) operations		96	(360)
Income Tax Paid		(9)	(4)
Interest paid		(125)	(115)
Employees' terminal benefits paid		(14)	(28)
		<hr/>	<hr/>
Net cash used in operating activities		(52)	(507)
		<hr/>	<hr/>
INVESTING ACTIVITIES			
Purchase of plant and equipment		(180)	(104)
Proceeds from sale of equipment		1	
Interest income		1	6
		<hr/>	<hr/>
Net cash used in investing activities		(178)	(98)
		<hr/>	<hr/>
FINANCING ACTIVITIES			
New term loan			
Repayment of term loans		(167)	(32)
New short term loans		-	
Repayment of Short term loans		(375)	(122)
		<hr/>	<hr/>
Net cash from financing activities		(542)	(154)
		<hr/>	<hr/>
DECREASE IN CASH AND CASH EQUIVALENTS		(772)	(759)
Cash and cash equivalents at the beginning of the quarter		(3,182)	(3,403)
		<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT THE END OF THE QUARTER	6	(3,954)	(4,162)
		<hr/> <hr/>	<hr/> <hr/>

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

STATEMENT OF CHANGES IN EQUITY

Three months ended 31 March 2004

<i>Notes</i>	<i>Share Capital RO'000</i>	<i>Share Premium RO'000</i>	<i>Statutory reserve RO'000</i>	<i>General reserve RO'000</i>	<i>Revaluation reserve RO'000</i>	<i>Retained earnings RO'000</i>	<i>Total RO'000</i>
At 1 January 2003	1,320	-	418	169	1,220	563	3,690
Dividends paid – 2002	-	-	-	-	-	(132)	(132)
Net profit for the Quarter	-	-	-	-	-	24	24
Transfer to statutory reserve	-	-	-	-	-	-	-
Balance as on 31 March 2003	<u>1,320</u>	<u>-</u>	<u>418</u>	<u>169</u>	<u>1,220</u>	<u>456</u>	<u>3,583</u>
At 1 January 2004	1,934	80	645	169	1,220	773	4,821
Dividends paid – 2003 (refer Notes)	-	-	-	-	-	-	-
Net profit for the Quarter	-	-	-	-	-	51	51
Transfer to statutory reserve	-	-	-	-	-	-	-
Balance as on 31 March 2004	<u>1,934</u>	<u>80</u>	<u>645</u>	<u>169</u>	<u>1,220</u>	<u>824</u>	<u>4,872</u>

Note: The Board of Directors has proposed a bonus issue of 193,397 shares of RO 1 each, which was approved by the shareholders at the Annual General Meeting (2002 – not applicable) held on 3rd April 2004. The consequent change to the Share Capital and Reserves will be made after receiving required approvals of the regulating authorities.

NOTES TO THE FINANCIAL STATEMENTS

31 March 2004

1. ACTIVITIES

The unaudited financial statements of Oman National Dairy Products Co Ltd (SAOG) are for the three months ended 31 March 2004. 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

	<i>2004</i> <i>RO'00</i>	<i>2003</i> <i>RO'000</i>
	<i>0</i>	
Raw material and packing material	1,803	2,224
Finished goods and goods for resale	569	612
Engineering stocks and consumables	172	236
Promotional items	5	25
Goods in transit	607	302
Work in progress	47	56
	<u>3,203</u>	<u>3,455</u>

4. ACCOUNTS RECEIVABLE AND PREPAYMENTS

	<i>2004</i> <i>RO'00</i>	<i>2003</i> <i>RO'000</i>
	<i>0</i>	
Trade accounts receivable	2,782	2,825
Other receivables	352	529
Warehouse fire claim receivable (refer note below)	92	719
Prepaid expenses	317	264
Advance to suppliers	-	75
	<u>3,661</u>	<u>4,412</u>

Warehouse fire claim receivable relates to a fire occurred on 14 November 1998 at a warehouse that was being built for the company. The High Court in its court order of 26 February 2003 has confirmed a claim receivable of RO 602,576 by the company along with interest on the claim amount and reimbursement of court fees charges incurred by the company. During 2003, the company has recovered RO 627,215 from three judgment creditors including two entities related to a director of the company. The remaining amount of RO 91,911 primarily due from a non-related party will be recovered in installments during 2004.

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 2004

5. ACCOUNTS PAYABLE AND ACCRUALS

	2004 RO'00	2003 RO'000
	0	
Trade accounts payables	853	2,103
Creditors for Capital Purchases	-	155
Other payables	-	19
Accrued expenses	93	217
	<u>946</u>	<u>2,520</u>

6 CASH AND CASH EQUIVALENTS

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

	2004 RO'00	2003 RO'000
	0	
Bank balance and cash	53	35
Bank overdrafts	(4,007)	(4,197)
	<u>(3,954)</u>	<u>(4,162)</u>

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:

	2004 RO'000	2003 RO'000
Sales	5	34
Purchases	8	4
Expenses	35	14

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

NOTES TO THE FINANCIAL STATEMENTS

31 March 2004

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.

	2004		2003	
	<i>Sales RO'000</i>	<i>Debtors RO'000</i>	<i>Sales RO'000</i>	<i>Debtors RO'000</i>
Oman	1,527	1,157	1,536	1,332
Other GCC countries	890	1,115	1,197	1,156
Other Export Markets	343	510	263	337
	2,760	2,782	2,996	2,825

9 REVALUATION RESERVE

The freehold land at Al Ghubra 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. If the freehold land owned at 31 March 2003, had been carried at cost, the carrying amount would have been RO 130,157.

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.

- - - - -

NOTES TO THE FINANCIAL STATEMENTS

31 March 2004

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 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
2004	2,760	(8%)	852	30%	60

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 88% 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. The distribution operations with M/s National Mineral Water Company and M/s Bhacker Suleman Jaffer Co have started to yield results. This arrangement relieved our more expensive cold chain capacities to focus on the higher margin chilled and frozen products.

The competition in the GCC markets continued to be aggressive with greater pressure on realization. We will continue to focus on profitable segments of the market, where our competitive advantage can be leveraged.

3. Key Opportunity and threats**a) New Product Developments**

In a highly competitive and crowded market place, product innovation is a key differentiating factor. We will be rolling out new products during the next quarter to strengthen our position and market shares in Dairy and Fruit Beverages. These products will be out sourced from our strategic partners.

We also continued to upgrade our current range of products through line extensions and packaging innovations.

b) GCC Market Developments

The year 2003 saw an extraordinary growth of the industry driven by the regional developments. While our volumes grew by an extraordinary 157% during the first quarter of 2003, the new opportunities also intensified the competition. The key to a sustainable growth in the market is therefore to focus on growing segments and categories, while continuing to exploit the short-term opportunities.

c) Prices of Key Raw Material

With the strengthening Euro and changes in the International and European Dairy markets, the prices of Milk Powder shot up during the last two quarters. We do not expect the prices to ease until the end of the year. However, the prices on fruit concentrates/pulps eased significantly during the quarter compensating for the risks from the firmer dairy prices.

As discussed in our earlier reports, the width of our product portfolio offers us the hedge required against extremes in the international commodity markets.

NOTES TO THE FINANCIAL STATEMENTS

31 March 2004

4. Discussion on financial and operational performance**a) Sales by Geographical Segments**

As discussed above, we could not better the high base growth rate achieved during 2003. However, the local sales and exports to market outside GCC grew in line with our plans for the quarter.

Geographical Segments	Q1 2004		Q1 2003		Q1 2002		Q1 2001
	RO'000	% Growth	RO'000	% Growth	RO'000	% Growth	RO'000
Oman	1,527	(1%)	1,536	(4%)	1,594	11%	1,430
Other GCC	890	(26%)	1,197	157%	465	50%	310
TOTAL GCC	2,417	(12%)	2,733	33%	2,059	18%	1,740
Other Exports	343	30%	263	6%	248	49%	167
COMPANY TOTAL	2,760	(8%)	2,996	30%	2,307	21%	1,907

The Local and other GCC markets will continue to be our focus areas for the balance of the year.

b) Sales & Distribution Costs

Our strategic alignments with M/s National Mineral Water Company and M/s Bhacker Suleman Jaffer Co offer synergies to restructure the distribution infrastructure without sacrificing our distribution reach. We hope to bring down the local distribution costs as % of sales through this strategic initiative.

The sales and distribution costs dropped by 3 percentage points to 21.3% (2003: 24.4%) during the current quarter

c) Working Capital**Table 3: Working Capital KPIs (number of days sales)**

	31.03.2004		31.03.2003		31.03.2002	
	RO'000	Days	RO'000	Days	RO'000	Days
Net Sales	2,760		2,996		2,307	
Stocks excl. transit (DII)	2,596	86	3,152	96	2,112	84
Trade Debtors (DSO)	2,782	92	2,825	86	2,446	97
Trade Creditors (DPO)	853	28	2,122	65	646	26

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 efforts, we hope to bring down the working capital intensity of our business.

d) Cash Flow and Finance Costs

The operating cash flow, reduction of borrowings and high interest burden will continue to be key focus areas for the company.

As reported at the end of 2003 by our board of directors, the share capital of the company was increased through a Rights Issue followed by bonus shares. This we believe is the first step in the financial restructuring process, which is expected to be complete during the second quarter of the year.

5. 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 losing the growth momentum established during the last three years. Some of the key business risks and our concerns for the next quarter are:

NOTES TO THE FINANCIAL STATEMENTS

31 March 2004

- With the continued competitive pressure on realizations and margins, the key management challenge will at least be to protect the gross margins
- The high working capital intensity of the business and the need to reduce the liquidity risk 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.

6. Outlook for Second Quarter of 2004

We will continue with our objectives of double-digit growth in sales with 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:

- Maintaining the growth momentum established in the GCC export markets during the last few years
- Reduction in the sales & distribution costs without sacrificing the distribution coverage through our strategic alliances
- 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
- Financial restructuring to reduce the interest burden and debt service capacities.

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

24th April 2004