



**Oman National Dairy Products Co. Ltd.  
(SAOG)**

**UNAUDITED FINANCIAL STATEMENTS**

**31 MARCH 2005**

31 March 2005

## **BOARD OF DIRECTORS' REPORT**

We are pleased to present our report of the company's activities and financial results for the three months ended 31<sup>st</sup> March 2005.

### ***Operating and Financial Performance***

The first quarter represents a low season period for the year and we are off with a good start to the year with a 12% growth of our sales over last year. Our efforts focused on expanding the distribution in the GCC and local markets have started yielding results.

As we reported earlier the unprecedented increase in the prices of raw materials combined with the continued price competition affected our gross margins. We believe that the raw material prices have peaked and should start to ease. While any easing of prices will improve our gross profit margin during the balance of the year, we have also initiated dialogue with the government on regulating the industry. Other GCC countries have taken a lead in regulations to curtail unhealthy price competition and to ensure longer-term profitable development of the industry.

With the strategic alliances for distribution in Oman, we managed to reduce the distribution costs by 3%, which helped us offset the drop in Gross Profit Margin. Overall we maintained the profitability at the last year level, with a Net Profit After Tax of RO 47,711 (2003: RO 50,875). This translates to a Basic Earning per share of RO 0.090 (2003: RO 0.105) on the increased share capital.

### ***Board Changes***

During the Annual General Meeting held on 3 April 2005, the shareholders of the company elected Sheikh Mohd Bin Said Rashid Al Balushi as an independent director to fill the vacancy created by the resignation of Mr Mohsin Haider Darwish on 28 June 2004. With this election, the total number of directors on the board is seven, all of whom are non-executive and independent.

### ***Strategic Alliances***

As stated in our last report, we believe that consolidation and/or collaboration within the local industry is the key to our future growth and overall profitability. We are also working on specific initiatives to strengthen the existing arrangements and also to build new alliances, which we hope to finalize soon.

### ***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.

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.

Finally, I thank His Majesty Sultan Qaboos bin Said for his wise leadership that has brought stability and progress within our country and for his support for the local industries.

Mohamed Ali AbdulAmir Sultan  
Chairman

27<sup>th</sup> April 2005

## UNAUDITED BALANCE SHEET

31 March 2005

	<i>Notes</i>	<b>2005</b> <i>RO'000</i>	<i>2004</i> <i>RO'000</i>
<b>ASSETS</b>			
<b>Non – current assets</b>			
Property, plant and equipment		<b>5,044</b>	5,049
		<b>5,044</b>	5,049
<b>Current assets</b>			
Inventories	<b>3</b>	<b>3,493</b>	3,203
Accounts receivable and prepayments	<b>4</b>	<b>4,801</b>	3,661
Bank balances and cash		<b>70</b>	53
		<b>8,364</b>	6,917
<b>TOTAL ASSETS</b>		<b>13,408</b>	11,966
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital		<b>2,127</b>	1,934
Share Premium		<b>-</b>	80
Statutory reserve		<b>709</b>	645
General reserve		<b>-</b>	169
Revaluation Reserve	<b>8</b>	<b>1,220</b>	1,220
Retained earnings		<b>1,070</b>	824
<b>Total equity</b>		<b>5,126</b>	4,872
<b>Non current liabilities</b>			
Term loans & bonds		<b>3,323</b>	594
Deferred Government grant		<b>147</b>	176
Deferred Taxation		<b>42</b>	36
Employees' end of service benefit		<b>154</b>	130
Finance Lease Liability		<b>115</b>	-
		<b>3,781</b>	936
<b>Current liabilities</b>			
Accounts payable and accruals	<b>5</b>	<b>661</b>	945
Bank Borrowings		<b>2,941</b>	4,007
Current portion of term loans & lease liability		<b>858</b>	204
Short term loans		<b>-</b>	950
Income Tax Payable		<b>41</b>	52
		<b>4,501</b>	6,158
<b>Total liabilities</b>		<b>8,282</b>	7,094
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>13,408</b>	11,966
<b>Net assets per share</b>		<b>2.410</b>	2.524

---

Mohamed Ali AbdulAmir Sultan  
Chairman

---

N. Ramachandran  
General Manager

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

**UNAUDITED STATEMENT OF INCOME**

Three Months ended 31 March 2005

	<i>Notes</i>	<b>2005</b>	<b>2004</b>
		<b>RO'000</b>	<b>RO'000</b>
Sales		<b>3,123</b>	2,760
Cost of sales		<b>(2,288)</b>	(1,908)
<b>GROSS PROFIT</b>		<b>835</b>	852
% Gross Margin		<b>26%</b>	31 %
Sales and Distribution costs		<b>(573)</b>	(588)
Administration expenses		<b>(110)</b>	(112)
<b>PROFIT / (LOSS) FROM OPERATIONS</b>		<b>152</b>	152
Finance costs		<b>(113)</b>	(125)
Deferred Government grant income		<b>10</b>	13
Profit on sale of property, plant and equipment		-	1
Gain / (Loss) on foreign exchange		-	15
Interest income		<b>3</b>	-
Miscellaneous income / (expense)		<b>2</b>	4
<b>PROFIT (LOSS) BEFORE TAXATION</b>		<b>54</b>	60
Income tax payable		<b>(6)</b>	(9)
<b>NET PROFIT / (LOSS) FOR THE QUARTER</b>		<b>48</b>	51
Basic earnings per share (annualized)		<b>0.090</b>	0.105

Notes:

1. The Income Tax expense is provided based on the average rate of 11.16% for the year 2004
2. The attached notes 1 to 8 form part of these financial statements.

**UNAUDITED STATEMENT OF CASH FLOWS**

Three months ended 31 March 2005

	<i>Notes</i>	<b>2005</b> <i>RO'000</i>	<b>2004</b> <i>RO'000</i>
<b>OPERATING ACTIVITIES</b>			
Net profit (loss) before taxation		54	60
Adjustments for:			
Depreciation		192	177
Accrual for employees' terminal benefits		6	7
Interest expense		113	125
Interest income		(3)	(1)
Profit on sale of equipment		-	(1)
		-----	-----
Operating profit (loss) before working capital changes		362	367
(Increase) / Decrease in inventories		797	(142)
(Increase) / Decrease in accounts receivables		(12)	529
Increase / (Decrease) in accounts payables		9	(658)
		-----	-----
Cash generated by (used in) operations		1,156	96
Income Tax Paid		(6)	(9)
Interest paid		(113)	(125)
Employees' terminal benefits paid		(3)	(14)
		-----	-----
Net cash used in operating activities		1,034	(52)
		-----	-----
<b>INVESTING ACTIVITIES</b>			
Purchase of plant and equipment		(109)	(180)
Proceeds from sale of equipment		-	1
Interest income		3	1
		-----	-----
Net cash used in investing activities		(106)	(178)
		-----	-----
<b>FINANCING ACTIVITIES</b>			
Repayment of term loans & lease		(219)	(167)
Repayment of Short term loans		-	(375)
		-----	-----
Net cash from financing activities		(219)	(542)
		-----	-----
<b>INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>709</b>	<b>(772)</b>
Cash and cash equivalents at the beginning of the quarter		(3,580)	(3,182)
		-----	-----
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE QUARTER</b>	<b>6</b>	<b>(2,871)</b>	<b>(3,954)</b>
		-----	-----

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

## UNAUDITED STATEMENT OF CHANGES IN EQUITY

Three months ended 31 March 2005

<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 2004	1,934	80	645	169	1,220	773	4,821
Dividends paid – 2004	-	-	-	-	-	-	-
Net profit for the Quarter	-	-	-	-	-	51	51
Transfer to statutory reserve	-	-	-	-	-	-	-
	-----	-----	-----	-----	-----	-----	-----
Balance as on 31 March 2004	<b>1,934</b>	<b>80</b>	<b>645</b>	<b>169</b>	<b>1,220</b>	<b>824</b>	<b>4,872</b>
	-----	-----	-----	-----	-----	-----	-----
At 1 January 2005	2,127	NIL	709	NIL	1,220	1,022	5,078
Dividends paid – 2005 (refer Notes)	-	-	-	-	-	-	-
Net profit for the Quarter	-	-	-	-	-	48	48
Transfer to statutory reserve	-	-	-	-	-	-	-
	-----	-----	-----	-----	-----	-----	-----
Balance as on 31 March 2005	<b>2,127</b>	<b>NIL</b>	<b>709</b>	<b>NIL</b>	<b>1,220</b>	<b>1,070</b>	<b>5,126</b>
	-----	-----	-----	-----	-----	-----	-----

Note: The Board of Directors has proposed a bonus issue of 106,368 shares of RO 1 each and a cash dividend 5%, which were approved by the shareholders at the Annual General Meeting (2003-193,397 bonus shares of RO 1 each) held on 3<sup>rd</sup> April 2005. 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 2005

**1. ACTIVITIES**

The unaudited financial statements of Oman National Dairy Products Co Ltd (SAOG) are for the three months ended 31 March 2005. 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 its Standing Interpretations Committee, and applicable requirements of the Commercial Companies Law and the Capital Market Authority.

The financial statements have been presented in Rial Omani.

**3. INVENTORIES**

	<b>2005</b>	<b>2004</b>
	<b>RO'000</b>	<b>RO'000</b>
Raw material and packing material	<b>2,340</b>	1,803
Finished goods and goods for resale	<b>393</b>	569
Engineering stocks and consumables	<b>185</b>	172
Promotional items	<b>26</b>	5
Goods in transit	<b>504</b>	607
Work in progress	<b>45</b>	47
	-----	-----
	<b>3,493</b>	3,203
	-----	-----

**4. ACCOUNTS RECEIVABLE AND PREPAYMENTS**

	<b>2005</b>	<b>2004</b>
	<b>RO'000</b>	<b>RO'000</b>
Trade accounts receivable	<b>4,161</b>	2,782
Other receivables	<b>320</b>	444
Prepaid expenses	<b>320</b>	317
	-----	-----
	<b>4,801</b>	3,661
	-----	-----

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 2005

- 6 -

**5. ACCOUNTS PAYABLE AND ACCRUALS**

	<b>2005</b>	<b>2004</b>
	<b>RO'000</b>	<b>RO'000</b>
Trade accounts payables	<b>577</b>	<b>853</b>
Accrued expenses	<b>84</b>	<b>92</b>
	<b>-----</b>	<b>-----</b>
	<b>661</b>	<b>945</b>
	<b>-----</b>	<b>-----</b>

**6 CASH AND CASH EQUIVALENTS**

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

	<b>2005</b>	<b>2004</b>
	<b>RO'000</b>	<b>RO'000</b>
Bank balance and cash	<b>70</b>	<b>53</b>
Bank overdrafts	<b>(2,941)</b>	<b>(4,007)</b>
	<b>-----</b>	<b>-----</b>
	<b>(2,871)</b>	<b>(3,954)</b>
	<b>-----</b>	<b>-----</b>

**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:

	<b>2005</b>	<b>2004</b>
	<b>RO'000</b>	<b>RO'000</b>
Sales	<b>10</b>	<b>5</b>
Purchases	<b>18</b>	<b>8</b>
Expenses	<b>12</b>	<b>35</b>

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 2005

- 7 -

**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.

	<b>2005</b>		<b>2004</b>	
	<i>Sales</i>	<i>Debtors</i>	<i>Sales</i>	<i>Debtors</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Oman	1,595	1,475	1,527	1,157
Other GCC countries	1,158	1,958	890	1,115
Other Export Markets	370	728	343	510
	<b>3,123</b>	<b>4,161</b>	<b>2,760</b>	<b>2,782</b>

NOTES TO THE FINANCIAL STATEMENTS

31 March 2005

NOTES TO THE FINANCIAL STATEMENTS

31 March 2005

**MANAGEMENT DISCUSSION AND ANALYSIS**

**1. Key financial indicators**

<b>First Quarter of</b>	<b>Sales (RO'000)</b>	<b>% Sales Growth</b>	<b>Gross Profit (RO'000)</b>	<b>% Gross Margin</b>	<b>Net Profit/ (Loss) before Tax (RO'000)</b>
2002	<b>2,307</b>	<b>21%</b>	<b>752</b>	<b>33%</b>	<b>2</b>
2003	<b>2,996</b>	<b>30%</b>	<b>986</b>	<b>33%</b>	<b>28</b>
2004	<b>2,760</b>	<b>(8%)</b>	<b>852</b>	<b>31%</b>	<b>60</b>
2005	<b>3,123</b>	<b>13%</b>	<b>835</b>	<b>26%</b>	<b>54</b>

**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 earlier reports, we believe that consolidation and/or collaboration within the local industry is the key to future growth and overall profitability.

With the distribution arrangements with M/s National Mineral Water Company and M/s Bhacker Suleman Jaffer Co we managed to grow the distribution coverage and sales volumes within Oman of our long life products, while cutting down our distribution costs.

We entered the large and competitive Fresh Milk market in 2004 with the help of our strategic partner, M/s Dhofar Cattle Feed Company. We are currently looking at means to enhance this relationship to leverage the expensive production system and cold chains of the two companies.

While the competition in the GCC markets will continue to be aggressive with greater pressure on realization, we continued 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. Apart from the PET Fruit Drinks and Fresh Milk rolled out during the last quarter of 2004, we expanded our product portfolio in Fresh Juices through new variants and with attractive new packaging. The initial response to the new range of Fresh Juices exceeded our internal targets and we are enhancing our production capability to meet the increase in demand.

We will continue to upgrade our current range of products through line extensions and packaging innovations using the in-house production capacities and those of our strategic partners.

**b) GCC Market Developments**

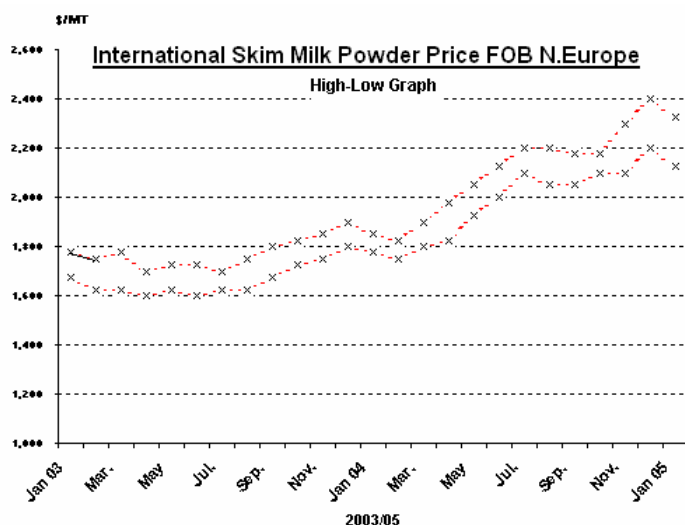
The year 2004 witnessed an unprecedented growth of the industry within GCC driven by the regional developments. In an industry, where the scale of operation drives the costs and profitability, some of the major beverages companies within the region have started to expand their direct operations across the region.

Our strategy for a sustainable growth within the region is to focus on growing segments and product categories and building strategic distribution alliances.

## NOTES TO THE FINANCIAL STATEMENTS

31 March 2005

## c) Prices of Key Raw Material



With the strengthening Euro and changes in the International and European Dairy trade, the international prices of Dairy products rose throughout the year 2004 to reach its highest level since 1990. International dairy prices are expected to remain at or near their current high levels for the short term, but signs of increased supplies are now showing, which should result in reducing high price pressures in 2005 (Source: FAO Dairy Market Assessment, December 2004). With its long supply chain, any impact of easing price pressure (if any) on our average costs will only be felt in the second half of the year.

As discussed in our earlier reports, the width of our product portfolio offers us the hedge required against extremes in the international commodity markets. We expect the prices of the key fruit pulps and concentrates to remain at current level or even lower during the balance of the year with the start of the next season round the corner in June 2005.

## 4. Discussion on financial and operational performance

## a) Sales by Geographical Segments

Geographical Segments	Q1 2005		Q1 2004		Q1 2003		Q1 2002
	RO'000	% Growth	RO'000	% Growth	RO'000	% Growth	RO'000
Oman	1,595	4%	1,527	(1%)	1,536	(4%)	1,594
Other GCC	1,158	30%	890	(26%)	1,197	157%	465
<b>TOTAL GCC</b>	<b>2,753</b>	<b>14%</b>	<b>2,417</b>	<b>(12%)</b>	<b>2,733</b>	<b>33%</b>	<b>2,059</b>
Other Exports	370	8%	343	30%	263	6%	248
<b>COMPANY TOTAL</b>	<b>3,123</b>	<b>13%</b>	<b>2,760</b>	<b>(8%)</b>	<b>2,996</b>	<b>30%</b>	<b>2,307</b>

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

## b) Sales &amp; 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 18.3% (2003: 21.3%) during the current quarter

## c) Working Capital

Working in a credit driven GCC market where the credit terms average 120 days and concentration of 55% of our receivables with 6 major distributors, it is a challenge to contain and reduce the Days Sales Outstanding (DSO). We are working with our distributors for revising the credit terms to bring down the working capital intensity of our business.

The stock levels were brought down during the quarter and management efforts are on to reduce them further during the balance of the year.

NOTES TO THE FINANCIAL STATEMENTS

31 March 2005

- 10 -

**5. Risks and concerns**

The company operates in a highly competitive and fast maturing industry. The key focus will be on managing the associated business risks without losing the growth momentum. Some of the key business risks and our concerns for the balance of the year are:

- In a growing market, keeping our growth rates ahead of the market growth will be essential to improve our market shares and build on economies of scale
- With the continued competitive pressure on realizations, the key management challenge will at least be to protect the gross margins through price regulations and through product mix
- The high working capital intensity of the business and the need to reduce the liquidity risk
- Operating in a highly fluctuating international market for the key raw materials, effective management of material costs through diversification of sources
- Strengthening our current strategic alliances and building new ones is essential to make a quantum shift in the business.

**6. Outlook for the balance of the year**

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 includes:

- Maintaining the growth momentum within the fast growing GCC markets
- Restructuring of our distribution alliances in Oman to grow our distribution reach and reduce costs
- Forward cover for key raw materials for our fruit beverage business at the start of the new season in June 2005 to assure us the planned profits for the balance of the year and buffer us against any adverse impact from fluctuations in international prices
- Making the strategic alliances work

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

27<sup>th</sup> April 2005

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.

NOTES TO THE FINANCIAL STATEMENTS

31 March 2005