



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

**UNAUDITED FINANCIAL STATEMENTS**

**30 JUNE 2005**

Oman National Dairy Products Co. Ltd. (SAOG)

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STATEMENT OF CHANGES IN EQUITY – UNAUDITED

Six Months ended 30 June 2005

**Released on 26<sup>th</sup> July 2005**

STATEMENT OF CHANGES IN EQUITY – UNAUDITED

Six Months ended 30 June 2005

## **BOARD OF DIRECTORS' REPORT**

We are pleased to present our report of the company's activities and financial results for the six months ended 30<sup>th</sup> June 2005.

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

During the quarter we continued to make progress against our sustainable growth plan with strong contributions from new product launches, distribution initiatives and cost engineering efforts. These initiatives along with selective price increase helped us partly offset the impact of the unprecedented increase in the prices of raw materials and fuel costs.

As we reported earlier, the increase in the international dairy commodity prices continue to affect our gross margins. In the medium term, we believe that the raw material prices have peaked and should start to ease during the second half of the year.

As a result of the cost pressures, the Net Profit After Tax for the half year dropped by 40% to RO 102,792 (2004: RO 169,435). This translates to a Basic Earning per share of RO 0.092 (2003: RO 0.163) on the increased share capital.

### ***Board and Senior Management Changes***

Mr. S Suryanarayanan, an independent and non-executive director of our company, resigned from our board for family reasons.

As per article 25 of the Articles of Association, the Board of Directors appointed Mr. Manohar Shenoy, CFO of W.J. Towell & Co. (LLC) to this temporary vacancy created by the resignation of Mr. S Suryanarayanan. He will hold the office until the next Annual General Meeting.

Mr. Ujjal Kumar Mukherjee has joined the company as the Chief Financial Officer. He comes to the organization with extensive experience in multi-national FMCG companies like Unilever and Coca Cola.

### ***Balance of the Year***

We expect the sales growth to be strong during the balance of the year. In spite of the continued pressure on realization and increased cost, the sales growth will help the business deliver the profit forecast for the year.

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

26<sup>th</sup> July 2005

## BALANCE SHEET - UNAUDITED

30 June 2005

	<i>Notes</i>	<i>2005</i>	<i>2004</i>
		<i>RO'000</i>	<i>RO'000</i>
<b>ASSETS</b>			
<b>Non – current assets</b>			
Property, plant and equipment		4,960	4,917
		-----	-----
		4,960	4,917
<b>Current assets</b>			
Inventories	3	3,346	3,398
Accounts receivable and prepayments	4	4,957	3,749
Bank balances and cash		68	16
		-----	-----
		8,371	7,163
<b>TOTAL ASSETS</b>		-----	-----
		13,331	12,080
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital		2,234	2,127
Statutory reserve		745	709
Revaluation Reserve	8	1,220	1,220
Retained earnings		875	934
		-----	-----
<b>Total equity</b>		5,074	4,990
<b>Non current liabilities</b>			
Term loans & bonds		3,049	606
Deferred Government grant		138	164
Deferred Taxation		42	36
Employees' end of service benefit		166	144
Finance Lease Liability		140	-
		-----	-----
		3,535	950
<b>Current liabilities</b>			
Accounts payable and accruals	5	916	1,018
Bank Borrowings		3,018	3,992
Current portion of long term loans, bond & Lease Liability		822	198
Short term loans		-	900
Income Tax Payable		16	32
		-----	-----
		4,772	6,140
<b>Total liabilities</b>		-----	-----
		8,257	7,090
<b>TOTAL EQUITY AND LIABILITIES</b>		-----	-----
		13,331	12,080
<b>Net assets per share (on diluted equity)</b>		-----	-----
		2.627	2.346
		-----	-----

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Mohamed Ali AbdulAmir Sultan  
Chairman

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N. Ramachandran  
General Manager

The attached notes 1-to 8 form part of these financial statements. The management discussion on the major operational and financial performance indicators is enclosed.

**STATEMENT OF CASH FLOW - UNAUDITED**

Six Months ended 30 June 2005

	<i>Notes</i>	<i>2005</i> <i>RO'000</i>	<i>2004</i> <i>RO'000</i>
Sales	8	6,233	5,667
Cost of sales		(4,458)	(3,848)
<b>GROSS PROFIT</b>		1,775	1,819
% Gross Margin		28.1%	31.5%
Sales and Distribution costs		(1,189)	(1,182)
Administration expenses		(252)	(235)
<b>PROFIT FROM OPERATIONS</b>		334	402
Finance costs		(238)	(252)
Deferred Government grant income		19	25
Profit on sale of property, plant and equipment		-	3
Gain / (Loss) on foreign exchange		(5)	
Interest income		4	3
Miscellaneous income / (expense)		5	19
<b>PROFIT BEFORE TAX</b>		119	200
Income tax		(16)	(31)
<b>NET PROFIT FOR HALF YEAR</b>		103	169
Basic earnings per share (Annualized)		0.092	0.163

Notes:

1. The Income Tax expense is provided based on the average rate for the year 2004
2. The attached notes 1 to 8 form part of these financial statements.
3. The management discussion on the major operational and financial performance indicators is enclosed.

## STATEMENT OF CHANGES IN EQUITY – UNAUDITED

Six Months ended 30 June 2005

	<i>Notes</i>	<b>2005</b>	<b>2004</b>
		<b>RO'000</b>	<b>RO'000</b>
<b>OPERATING ACTIVITIES</b>			
Net profit before taxation		103	200
Adjustments for:			
Depreciation		384	354
Interest expense		238	252
Interest income		(4)	(3)
Profit on sale of equipment		-	-
		-----	-----
Operating profit before working capital changes		721	803
Inventories		945	(335)
Receivables		182	439
Payables		(95)	(581)
		-----	-----
Cash (used in) / generated by operations		1,753	326
Income Tax Paid		(33)	(42)
Interest Expense		(238)	(252)
Employees' terminal benefits paid / (accrued)		(15)	5
		-----	-----
Net cash (used in) / generated by operating activities		1,467	37
		-----	-----
<b>INVESTING ACTIVITIES</b>			
Purchase of plant and equipment		(204)	(218)
Proceeds from sale of equipment		-	3
Interest income		4	3
		-----	-----
Net cash (used in) investing activities		(200)	(212)
		-----	-----
<b>FINANCING ACTIVITIES</b>			
Repayment of Long-Term loans, bonds and financial leases		(530)	(194)
Repayment of Short-Term loans		-	(425)
Dividends paid		(107)	-
		-----	-----
Net cash (used in) financing activities		(637)	(619)
		-----	-----
<b>DECREASE IN CASH AND CASH EQUIVALENTS</b>		<b>630</b>	<b>(794)</b>
Cash and cash equivalents at the beginning of the year		(3,580)	(3,182)
		-----	-----
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE HALF YEAR</b>	<b>6</b>	<b>(2,950)</b>	<b>(3,976)</b>
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The attached notes 1-to-8 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

Six Months ended 30 June 2005

	<i>Share Capital</i>	<i>Share Premium</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>	<i>RO'000</i>
Balance at 1 January 2004	1,934	80	645	169	773	1,220	4,821
Profit for the period					169		169
Bonus Shares for 2003	193	(80)	64	(169)	(8)		0
Balance at 30 June 2004	<b>2,127</b>	<b>0</b>	<b>709</b>	<b>0</b>	<b>965</b>	<b>1,220</b>	<b>4,990</b>
Balance at 1 January 2005	2,127	-	709	-	1,022	1,220	5,078
Profit for the period					103		103
Bonus Shares for 2004	107	-	36	-	(143)		0
Dividends paid for 2004					(107)		(107)
Balance at 30 June 2005	<b>2,234</b>	<b>-</b>	<b>745</b>	<b>-</b>	<b>875</b>	<b>1,220</b>	<b>5,074</b>

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

NOTES TO THE FINANCIAL STATEMENTS - UNAUDITED

30 June 2005

**1. ACTIVITIES**

The un-audited 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 company 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>	<i>2004</i>
	<b>RO'000</b>	<i>RO'000</i>
Raw material and packing material	<b>2,180</b>	2,388
Finished goods and goods for resale	<b>395</b>	456
Engineering stocks and consumables	<b>185</b>	182
Promotional items	<b>24</b>	10
Goods In Transit	<b>517</b>	312
Work in progress	<b>45</b>	50
	<b>-----</b>	<b>-----</b>
	<b>3,346</b>	3,398
	<b>-----</b>	<b>-----</b>

**4 ACCOUNTS RECEIVABLE AND PREPAYMENTS**

	<b>2005</b>	<i>2004</i>
	<b>RO'000</b>	<i>RO'000</i>
Trade accounts receivable	<b>4,236</b>	2,844
Other receivables	<b>322</b>	408
Prepaid expenses	<b>399</b>	497
	<b>-----</b>	<b>-----</b>
	<b>4,957</b>	3,749
	<b>-----</b>	<b>-----</b>

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

**5 ACCOUNTS PAYABLE AND ACCRUALS**

	<b>2005</b>	<i>2004</i>
	<b>RO'000</b>	<i>RO'000</i>
Trade accounts payables	<b>912</b>	869
Accrued expenses	<b>144</b>	181
	<b>-----</b>	<b>-----</b>

## NOTES TO THE FINANCIAL STATEMENTS - UNAUDITED

30 June 2005

<b>1,056</b>	1,050
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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:

	<i>2005</i>	<i>2004</i>
	<i>RO'000</i>	<i>RO'000</i>
Bank balance and cash	<b>68</b>	16
Bank borrowings	<b>(3,018)</b>	(3,992)
	-----	-----
	<b>(2,950)</b>	(3,976)
	-----	-----

**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:

	<i>2005</i>	<i>2004</i>
	<i>RO'000</i>	<i>RO'000</i>
<b>Income Statement:</b>		
Sales	<b>12</b>	10
Cost of Goods Sold, Distribution and Administration expenses	<b>95</b>	19
<b>Balance Sheet:</b>		
Accounts Receivable	<b>5</b>	15
Accounts Payable	<b>73</b>	28

**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.

	<i>2005</i>		<i>2004</i>	
	<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>
Sultanate of Oman	3,313	1,607	3,088	1,196
Other GCC countries	2,069	1,835	1,661	980
Other Export Markets	851	794	918	690
	-----	-----	-----	-----
	<b>6,233</b>	<b>4,236</b>	<b>5,667</b>	<b>2,866</b>
	-----	-----	-----	-----

## MANAGEMENT DISCUSSION AND ANALYSIS

### 1. Key financial indicators

HY June	Sales (RO'000)	Sales Growth %	Gross Profit (RO'000)	Gross Margin %	Profit From Operation (RO'000)	PBT (RO'000)
2003	6,196	22%	2,080	33.6%	436	177
2004	5,667	(9%)	1,819	31.5%	402	200
2005	6,233	10%	1,775	28.1%	334	119

### 2. Industry structure and development

The competition in the GCC markets continued to be aggressive with greater pressure on realization.

Some particular upward price pressure is now clearly in evidence. The weakness of the Dollar, coupled with European Union agriculture policy has increased the price of dairy input commodities into the GCC. The industry is reacting to the recent cost increases with imminent upward pressure on prices that the consumer is being expected to pay. This is unlikely to reduce the growth rate recently recorded by the industry.

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 with specific focus on profitable segments of the market, where our competitive advantage can be leveraged.

### 3. Key Opportunity and threats

#### a) Raw Material Price and operating cost increases

As referred above the prices of the key dairy ingredients registered an unprecedented increase on the back of the weakening of US dollar and change in the European Union's Agricultural policy. The OECD and FAO, in their recently published outlook, expect the current high prices to weaken start in the second half of 2005.

While the weakening of prices will help in achieving the full year forecast, we are also adjusting our business processes for a higher cost regime for the next few years. The initiatives include product launches in the higher margin end of the market and an aggressive cost engineering program.

#### b) New Product Developments

In a highly competitive and crowded market place, product innovation is a key differentiating factor.

The re-launch of our short life juices in attractive packing and with innovative variants exceeded our expectations. We will continue to strengthen this product range during the balance of the year and will be the backbone of our growth in the local market.

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

## NOTES TO THE FINANCIAL STATEMENTS - UNAUDITED

30 June 2005

**c) GCC Market Developments**

The GCC dairy market continued to grow rapidly and some of the larger players are consolidating their market positions for the future in the single market. While our volumes grew by a compounded annual rate of 33% over the last three years, the new opportunities also intensified the level of 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.

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

During the period under review, the local and export demand continued to be strong helped us register significant growth in all key markets, in spite of the price increases.

Geographical Segments	HY JUN 05		HY JUN 04		HY JUN 03		HY JUN 02
	RO'000	% Growth	RO'000	% Growth	RO'000	% Growth	RO'000
Sultante of Oman	3,313	7%	3,088	0.1%	3,084	(1%)	3,109
Other GCC	2,069	25%	1,661	(36%)	2,593	206%	848
<b>TOTAL GCC</b>	<b>5,382</b>	<b>13%</b>	<b>4,749</b>	<b>(16%)</b>	<b>5,677</b>	<b>43%</b>	<b>3,957</b>
Other Exports	851	(7%)	918	77%	519	30%	400
<b>COMPANY TOTAL</b>	<b>6,233</b>	<b>10%</b>	<b>5,667</b>	<b>(9%)</b>	<b>6,196</b>	<b>42%</b>	<b>4,357</b>

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

**b) Sales & Distribution arrangements**

In Oman, we continued with our strategy of outsourcing the distribution of ambient products through our distribution partners, while retaining the focus of the higher margin chilled and frozen products leveraging our expensive cold chain distribution system.

We consolidated our product range distributed through the Coca Cola system with the transfer of the beverage distribution network from M/s Bhacker Suleman Jaffer Co to M/s Al Ahlia-Gulf Line General Trading Co. This will help leverage the strengths of the two systems without sacrificing our distribution reach. We hope to register double digit growth of sales within Oman during the balance of the year.

**c) Working Capital**

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 over time.

We are implementing a Van Sales accounting and control system with handheld computers with all van salesmen; which will help improve the selling collection efficiencies when the project is fully rolled out by the end of the year.

**5. Risks and concerns**

Operating 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 - UNAUDITED

30 June 2005

- With the continued competitive pressure on realizations and margins and increasing input costs, the key management challenge will 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
- With the increase in operating costs, achievement of economies of scale and cost rationalization are imperative to become a low cost manufacturer and distributor within the industry
- The need to reduce bank borrowing and management of risk associated with high gearing are being addressed.

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**6. Outlook for the balance of the year 2005**

Against a background on increased input costs, the demand within the GCC markets continued to be string. With firm food service contracts on hand, we hope to achieve double digit growth for the current year which will help us achieve the forecast for the year in spite of the cost and input cost increases.

Our portfolio of initiatives for the balance of the year to ensure achievement of our financial forecast includes:

- Exploitation of the supply contracts within the GCC's food service sector
- New Product launches to sustain the growth of short life juices within the Oman market
- Stabilization of the distributor network for ambient products
- Forward covers and strategic suppliers to protect the company against material price risks
- Aggressive cost engineering process to significantly lower the operating costs.

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

26<sup>th</sup> July 2005

NOTES TO THE FINANCIAL STATEMENTS - UNAUDITED

30 June 2005

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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 - UNAUDITED**

30 June 2005

We continued to make progress against our sustainable growth plan in the second quarter with strong contributions from new products, product mix improvements, higher marketing spending and cost restructuring efforts," said Roger K. Deromedi, CEO of Kraft Foods. "These initiatives and increased prices have helped to offset the impact of higher commodity costs this year, which have been greater than anticipated. While these price increases have had a short-term impact on our volume growth, we continue to support our businesses through increased consumer marketing spending, building brand value for the long-term."