



Oman National Dairy Products Co. Ltd. (SAOG)

UNAUDITED FINANCIAL STATEMENTS

30 SEPTEMBER 2004

Released on 26th October 2004

BOARD OF DIRECTORS' REPORT

We are pleased to present our report on the company's activities and financial results for the nine months ended 30th September 2004.

Operating and Financial Performance

The current year saw an unprecedented increase in the prices of key commodities and we believe that some of these increases are here to stay in the medium term. We therefore redoubled our efforts to protect our realization/mix and operating margins even at the cost of loss of volumes in the short term. While we implemented our initiatives successfully in Oman and key export markets outside GCC, the adverse impact on our GCC volumes was significant. In spite of the short-term volume risk associated with this strategy, we believe that our focus on quality and value addition is an essential step for the longer-term profitable growth of our business.

As we reported earlier, we are happy to inform you about our entry into Fresh Milk market in the Sultanate of Oman and PET Fruit Drinks in the GCC with the help of our strategic partners. The initial market response to the launches is encouraging and we believe that these additions to our portfolio will help us grow our volume and market share.

Our key initiatives to protect our operating margins led to a Net Profit After Tax of RO 245,647 for the nine months (2003: RO 244,019). This translates to an annualized Basic Earning per share of RO 0.158 (2003: RO 0.246) on the increased share capital.

Financial Restructuring

We completed the financial restructuring process successfully in September 2004. While the new structure provides operational flexibility for a seasonal business like ours, bringing down the working capital intensity of the business will remain a key focus area for the management team.

Board Changes

As reported earlier, the resignation of Mr. Mohsin Haider Darwish caused a temporary vacancy in the Board of Directors for the remaining period of his term. We appointed Sheikh Mohamed Bin Said Al Balushi as a temporary director of the company, who will hold his office until the next Annual General Meeting.

Future Outlook

The GCC industry will remain highly competitive with significant pressures on the operating margins. With a balanced portfolio of products and geographical segments, the company is well poised for maintaining profitable growth rates in the future. The increase in the share capital through the Rights Issue supplemented by the bond issue and long-term loans corrected the financial structure to support the future growth.

We wish to express our deepest gratitude to His Majesty Sultan Qaboos Bin Said and his government for their support. We are also grateful to our valued customers, shareholders, employees and other stakeholders for their valuable support in these challenging times.

Mohamed Ali AbdulAmir Sultan
Chairman

26th October 2004

BALANCE SHEET - UNAUDITED

30 September 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		4,998	5,104
Deferred tax asset		0	0
		<u>4,998</u>	<u>5,104</u>
Current assets			
Inventories	3	3,521	3,099
Accounts receivable and prepayments	4	4,360	3,433
Bank balances and cash		181	28
		<u>8,062</u>	<u>6,560</u>
TOTAL ASSETS		<u><u>13,060</u></u>	<u><u>11,664</u></u>
EQUITY AND LIABILITIES			
Equity			
Share capital		2,127	1,320
Statutory reserve		709	418
General reserve		-	169
Revaluation Reserve	8	1,220	1,220
Retained earnings		1,010	674
Total equity		<u>5,066</u>	<u>3,801</u>
Non current liabilities			
Term loans		3,631	885
Deferred Government grant		55	255
Deferred Taxation		36	44
Employees' end of service benefit		150	150
Financial Lease Liability		78	-
Long term payable		-	106
		<u>3,950</u>	<u>1,440</u>
Current liabilities			
Accounts payable and accruals	5	862	1,187
Bank overdrafts, Bills Discounted, LTR		2,372	3,812
Current portion of long term loans, Financial Lease		810	24
Short term loans		-	1,400
		<u>4,044</u>	<u>6,463</u>
Total liabilities		<u>7,994</u>	<u>7,863</u>
TOTAL EQUITY AND LIABILITIES		<u><u>13,060</u></u>	<u><u>11,664</u></u>
Net assets per share		<u><u>2.382</u></u>	<u><u>2.880</u></u>

Mohamed Ali AbdulAmir Sultan
Chairman

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 INCOME - UNAUDITED

Year To Date 30 September 2004

	<i>Notes</i>	<i>2004</i> <i>RO'000</i>	<i>2003</i> <i>RO'000</i>
Sales	8	8,763	9,266
Cost of sales		<u>(5,902)</u>	<u>(6,265)</u>
GROSS PROFIT		2,861	3,001
% Gross Margin		32	32
Sales and Distribution costs		(1,889)	(2,048)
Administration expenses		(353)	(344)
PROFIT FROM OPERATIONS		619	609
Finance costs		(343)	(394)
Deferred Government grant income		10	28
Profit on sale of property, plant and equipment		3	65
Interest income		1	9
Miscellaneous income / (expense)		-	(44)
PROFIT BEFORE TAXATION		290	273
Income tax		(45)	(29)
NET PROFIT FOR YEAR TO DATE 30 SEPTEMBER		245	244
Basic earnings per share (annualized) RO		0.158 =====	0.246 =====

Notes:

1. The Income Tax expense is provided based on the average rate for the year 2003
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 CASH FLOW - UNAUDITED

Year To Date 30 September 2004

	<i>Notes</i>	<i>2004</i> <i>RO'000</i>	<i>2003</i> <i>RO'000</i>
OPERATING ACTIVITIES			
Net profit before taxation		290	273
Adjustments for:			
Depreciation		526	528
Net Interest expense		343	369
Interest income		(1)	(9)
Profit on sale of equipment		(3)	(65)
Operating profit before working capital changes		1,155	1,096
Inventories		(458)	455
Receivables		(171)	529
Payables		(797)	(1,554)
Cash (used in) / generated by operations		(271)	526
Income Tax Paid		(42)	(5)
Interest Expense		(343)	(369)
Employees' terminal benefits paid (net)		13	(24)
Net cash (used in) / generated by operating activities		(643)	128
INVESTING ACTIVITIES			
Purchase of plant and equipment		(505)	(252)
Proceeds from sale of equipment		30	65
Interest income		1	9
Net cash (used in) investing activities		(474)	(178)
FINANCING ACTIVITIES			
New Long-Term loans		3,500	1,000
Repayment of Long-Term loans		(167)	(24)
New Financial Lease		100	
New Short-Term loans		-	550
Repayment of Short-Term loans		(1,325)	(1,725)
Dividends paid		-	(132)
Net cash (used in) financing activities		2,108	(331)
DECREASE IN CASH AND CASH EQUIVALENTS		991	(381)
Cash and cash equivalents at the beginning of the year		(3,182)	(3,403)
CASH AND CASH EQUIVALENTS AT THE END THIRD QUARTER	6	(2,191)	(3,784)

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.

	<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 2003	1,320		418	169	562	1,220	3,689
Profit for the period					244		244
Less: Dividend payment for 2002					(132)		(132)
Balance at 30 September 2003	1,320	-	418	169	674	1,220	3,801
Balance at 1 January 2004	1,934	80	645	169	773	1,220	4,821
Profit for the period					245		245
Bonus Shares for 2003	193	(80)	64	(169)	(8)		0
Balance at 30 September 2004	2,127	0	709	0	1,010	1,220	5,066

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

NOTES TO THE FINANCIAL STATEMENTS

30 September 2004

1. ACTIVITIES

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

3. INVENTORIES

	<u>2004</u> <u>RO'000</u>	<u>2003</u> <u>RO'000</u>
Raw material and packing material	2,222	2,008
Finished goods and goods for resale	390	453
Engineering stocks and consumables	194	269
Promotional items	6	15
Work in progress	50	56
Goods In Transit	659	298
	<u>3,521</u>	<u>3,099</u>

4. ACCOUNTS RECEIVABLE AND PREPAYMENTS

	<u>2004</u> <u>RO'000</u>	<u>2003</u> <u>RO'000</u>
Trade accounts receivable	3,469	2,734
Other receivables	293	321
Warehouse fire claim receivable (refer note below)	83	110
Prepaid expenses	515	215
Advance to suppliers	-	53
	<u>4,360</u>	<u>3,433</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 83,146 is due in installments from a non-related party.

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

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5 ACCOUNTS PAYABLE AND ACCRUALS

	2004	2003
	<u>RO'000</u>	<u>RO'000</u>
Trade accounts payables	754	983
Creditors for Capital Purchases	-	167
Other payables	45	18
Accrued expenses	63	19
	<u>862</u>	<u>1,187</u>

6 CASH AND CASH EQUIVALENTS

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

	2004	2003
	<u>RO'000</u>	<u>RO'000</u>
Bank balance and cash	181	28
Bank overdrafts, Bills Discounted, LTR	(2,372)	(3,812)
	<u>(2,191)</u>	<u>(3,784)</u>

7. RELATED PARTY 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	2003
	<u>RO'000</u>	<u>RO'000</u>
Sales	17	89
Purchases	26	25
Expenses	14	27

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

8 BUSINESS AND GEOGRAPHICAL SEGMENTS

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

	2004		2003	
	Sales	Debtors	Sales	Debtors
	<u>RO'000</u>	<u>RO'000</u>	<u>RO'000</u>	<u>RO'000</u>
Oman	4,782	1,244	4,879	994
Other GCC countries	2,676	1,677	3,493	1,327
Other Export Markets	1,306	548	894	413
	<u>8,763</u>	<u>3,469</u>	<u>9,266</u>	<u>2,734</u>

NOTES TO THE FINANCIAL STATEMENTS

30 September 2004

MANAGEMENT DISCUSSION AND ANALYSIS**CAUTIONARY STATEMENT**

This report contains forward-looking statements, which reflect management's current views and estimates. The forward-looking statements involve certain risks and uncertainties that could cause actual results to differ materially from those contained in the forward-looking statements. Potential risks and uncertainties include such factors as general economic conditions, foreign exchange fluctuations, competitive product and pricing pressures, international prices of key raw materials and regulatory developments.

1. Key financial performance highlights**Table 1 : Key Financial Indicators**

YTD Sep	Sales (RO'000)	Sales Growth %	Gross Profit (RO'000)	Gross Margin %	Profit From Operation (RO'000)	Profit/(Loss) Before Tax (RO'000)
2001	6,697	20%	1,924	29%	265	124
2002	7,652	14%	2,537	33%	458	233
2003	9,266	21%	3,001	32%	609	273
2004	8,763	(5%)	2,861	32%	619	290

2. Industry structure and development

We continue to focus on our core businesses in dairy products and fruit beverages. The GCC market including the Sultanate of Oman accounts for 85% of our sales revenue. We believe that the intense competition within the GCC market is here to stay and we renewed our focus on brand building, investments in product innovations and value added products.

During the current year, the GCC industry found itself sandwiched between the continued intense price competition and the significant increase in the key raw material prices during the year. Responding to the plea from the local industry, formal and informal price/promotion controls are implemented in some of the countries.

While continuing to hold onto to the profitable end of the market for our manufactured products, we launched our range of PET Fruit Drinks within GCC in July 2004 through our joint operations with a leading beverage manufacturer in the Kingdom of Saudi Arabia. Along with our entry into the Fresh Milk market in the Sultanate of Oman, this will widen our playing field and help us grow in spite of the increased intensity of price competition.

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 rolled out our Fresh Milk in the Sultanate of Oman and PET based Fruit Drinks in GCC and other export markets. These product launches will strengthen our position and market shares in Dairy and Fruit Beverages. These products are out sourced from our strategic partners.

The full impact of these new product initiatives will be felt in the future.

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 exceptional 94% during the first nine months of 2003, the new opportunities also led to intensified competition and hence the decline in 2004. The volume and share growth within the GCC will continue to be a key risk area for our business.

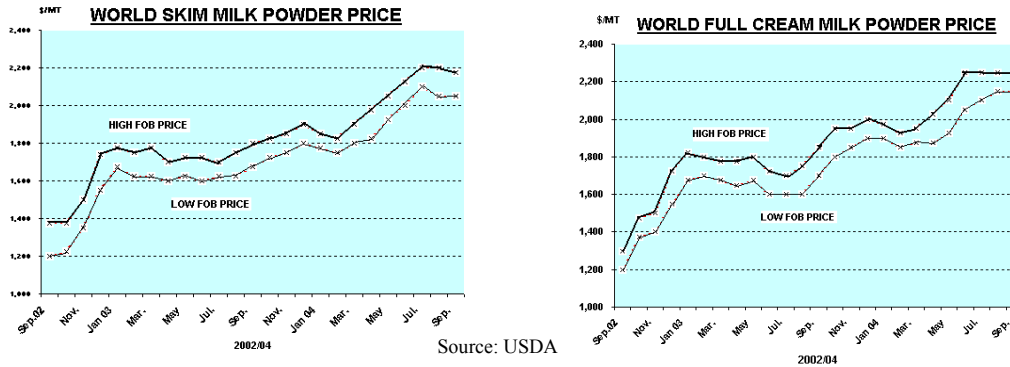
The key to a sustainable growth in the market is therefore to focus on growing segments and categories, while continuing to exploit any short-term opportunities.

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c) Prices of Key Raw Material

With the strengthening of the Euro and changes in the European Dairy market, the prices of Milk Powder in US\$ shot up during the first nine months of the year. We do not expect the prices to ease until the second quarter of next year.



As discussed in our earlier reports, the width of our product portfolio offers us the hedge required against extreme price movement in any one individual international commodity. The prices of the key concentrates/pulps eased during the period compensating partly for the impact of the firmer dairy prices.

We are implementing a product and price rationalization exercise to sustain the material price increases over a medium term.

4. Discussion on financial and operational performance

a) Sales by Geographical Segments

Geographical Segments	YTD SEP 04		YTD SEP 03		YTD SEP 02		YTD SEP 01
	RO'000	% Growth	RO'000	% Growth	RO'000	% Growth	RO'000
Oman	4,782	(2.0%)	4,879	(1.0%)	4,927	3.2%	4,775
Other GCC	2,675	(23.4%)	3,493	93.6%	1,804	27.8%	1,412
TOTAL GCC	7,457	(10.9%)	8,372	24.4%	6,731	8.8%	6,187
Other Exports	1,306	46.0%	894	(2.9%)	921	80.6%	510
COMPANY TOTAL	8,763	(5.4%)	9,266	21.1%	7,652	14.3%	6,697

With our recent entry into the Fresh Milk and PET Fruit Drink markets, we hope to reach the growth targets in our home market.

Our strategy to focus on few high potential markets outside GCC paid rich dividends.

The wild card in our geographical portfolio continues to be exports to the GCC countries. As discussed above, the volumes dropped during the period driven by intense competition and our price increases. We hope to narrow the gap versus last year's sales by the end of the current year.

b) Sales & Distribution Costs

As we discussed in our earlier reports, our strategic alignments with M/s National Mineral Water Company (NMWC) and M/s Bhacker Suleiman Jaffer Co. (BSJ) are to reduce our distribution costs without sacrificing our distribution reach.

NOTES TO THE FINANCIAL STATEMENTS

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The 'distributor model' will reduce our Net Sales and Gross Profit to the extent of the margins paid to the distributors. While the loss of gross profit due to the margins paid to the distributors is offset by the lower distribution costs, this strategic initiative freed our expensive cold chain distribution for the new short-life products like Fresh Milk.

c) Working Capital, Cash Flow and Finance Costs

Table 3: Working Capital Key Performance Indicators (number of days sales)

	30.09.2004		30.09.2003		30.09.2002		30.09.2001	
	RO'000	Days	RO'000	Days	RO'000	Days	RO'000	Days
Net Sales	8,763		9,266		7,652		6,697	
Stocks excl. transit (DII)	2,862	89	2,801	83	2,044	73	1,549	63
Trade Debtors (DSO)	3,469	108	2,734	81	2,382	85	2,165	88
Total Creditors (DPO)	862	27	1,187	35	863	31	1,194	49

While the financial restructuring exercise brought in the much needed operational flexibility and reduced significantly the borrowing cost for the business, the high working capital intensity continue to be a major focus area of the business. The Management focus will be on achieving significant reduction in the working capital levels before the end of the current financial year.

5. Major Risks and concerns

Working between a highly competitive & price sensitive industry and increasing costs of key raw materials, management of the margins while continuing to grow is the key challenge. The key management focus will be on managing the associated business risks without losing the growth momentum established during the last three years. The key business risks and our concerns for the balance of the year are:

- Achievement of aggressive volume targets during the key last quarter of the year
- Exploitation of the growth opportunities offered by the new product launches
- The high concentration of trade debts with fewer customers as a result of the distribution restructuring
- Reduction of stock levels with increasing material prices and wider product portfolio

6. Outlook for the Balance of the year 2004

We continue to target on sales growth and progressive improvement of profit margin. The variables that can profoundly influence the success and failure of our business are too numerous to list, making it impossible to predict the future outcome with any confidence. However, our portfolio of initiatives for the balance of the year aimed at achievement of our financial objectives includes:

- Recouping major part of the 'lost volumes' in the GCC markets during the peak last quarter of the year
- Expansion of local distribution arrangements to improve the width and depth of our reach
- Reduction of debtors through renegotiation of credit days and/or factoring of the major debts
- Running down the stocks during the peak 'Ramadan' and export seasons

We are sure that the empowered and focused management team will deliver sustainable and profitable growth and long-term value creation for our shareholders.

N. Ramachandran
General Manager

26th October 2004