

BOARD OF DIRECTORS' REPORT

We are pleased to present the annual report and audited financial accounts for the year ending 31 December 2004.

It has been a challenging year and the company responded well to these challenges. The unprecedented increase in the prices of raw materials combined with the continued price competition continued to exert pressure on margins. While the raw material prices have started to ease at the time of writing this report, we take active part in the industry level initiatives to curtail unhealthy price competition and longer-term profitable development of the industry.

After three consecutive years of double-digit growth, the volume declined by 4.5% during the year. The drop was mainly in the highly competitive export markets. We believe that this is a temporary phase of adjusting to an era of high commodity costs and our product and distribution expansions will bring back the top line growth to our business.

The increase in raw material costs also affected the Gross Profit margin, which declined by a percentage point to 31.3%. This combined with the decline in the sales volume led to a Gross Profit of RO 3.86 Millions (2003: RO 4.16 Millions). The restructuring of the local sales reorganization through our strategic alliances reduced the distribution costs buffering part of the decline on the gross profits. The Net Profit After Tax of RO 257,269 (2003: RO 341,709) translates to a Basic Earning per share of RO 0.121 on the diluted capital (2003: RO 0.200).

Financial Restructuring

As we reported in our last report, we completed the financial restructuring exercise to improve the borrowing structure, reduced the risk and trimmed the overall interest costs by refinancing the short-term borrowings with long-term loans through the banking system and bonds. The exercise completed in the last quarter of the year and its full impact on the finance cost would be felt in the future.

Strategic Alliances

One of the key challenges before us is to rekindle growth in the local market, while sustaining the export growth rates. We believe that consolidation within the local dairy and beverages industry is the key to future growth and overall profitability. We continued to work closely with our strategic partners in the country in areas of mutual interests. We continued to expand and strengthen the local distribution arrangements with M/s National Mineral Water Company and M/s Bhacker Suleman Jaffer Co.

Expansion of our product portfolio

We increased the level of investment in our brands to sustain our growth and to protect our margins in the highly competitive regional market. We also expanded our product range with the addition of new and innovative products. During the year, we launched our range of PET Fruit Beverages within the GCC and we entered the strategically important Fresh Milk market within the Sultanate of Oman. We believe that our high quality standards and product innovations are the keys to our growth.

Corporate Governance

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.

Omanization

We believe that well trained, motivated and empowered employees are the keys to sustainable growth of our business. In line with the national priority, we are committed to improve our level of omanization, which was 49% as at the end of the year (2003: 48%). We continue to take active part in the government programs and invest in the training and development of our employees.

Future Outlook

The industry will remain highly competitive with significant pressures on realization and costs. Our renewed focus on strategic alliances, investment in the brands and quality systems and product development will lead to profitable growth in the coming years. While the balance sheet of the company

has been strengthened by the financial restructuring exercise, the management of the working capital intensity of the business will continue to be a key focus area for the management team.

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.

During the year, we received the Certificate of Merit for being one of the ten finalists for His Majesty's award for industrial excellence.

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 Abdul Amir Sultan
Chairman

3rd March 2005

Corporate Governance Report 2004

Oman National Dairy Products Company Limited (S.A.O.G.) believes that for a company to succeed on a sustainable basis, it must maintain high standards of corporate governance towards all its stakeholders. To this end, we as a company have always focused on good corporate governance, which is a key driver of sustainable and profitable growth and long-term value creation for our shareholders.

The Board of Directors (the "**Board**") of Oman National Dairy Products Company Limited S.A.O.G. (the "**Company**") has developed and adopted certain corporate governance principles (the "**Guidelines**") establishing a common set of expectations to assist the Board and its committees in performing their duties in compliance with applicable requirements. In recognition of the continuing discussions about corporate governance, the Board will review and, if appropriate, revise these Guidelines from time to time.

The Capital Market Authority through its publication Code of Corporate Governance for MSM listed companies (*Code*) on 3rd June 2002 and amendment in January 2003 pioneered the corporate governance in the Sultanate of Oman.

1. Board of Directors

a. Director Responsibilities

As prescribed under Article 5 of the **Code**, the following responsibilities are assigned to the Company's board of directors.

1. Approving the business and financial policy of the company to meet the objectives of the business and to maximize the shareholders' value.
2. Reviewing and approving the company's financial objectives, plans and actions.
3. Approving the internal regulations of the company regarding routine activities and specifying the responsibilities and the authorities of the executive management.
4. Approving and implementing the disclosure policy of the company and monitoring its compliance with the regulatory requirements.
5. Approving the delegation of power to the executive management specifying clearly the level of the approving authority and modes of tendering with appropriate limits. Any exceptional circumstances under which tender other than the lowest tender is to be accepted are referred to the Audit Committee and/or the Full Board. Such cases are substantiated with reasons in writing for ignoring the lowest bid.
6. Reviewing the company's performance to evaluate whether the business is properly managed according to the company's objective and ensuring compliance with the laws and regulations through proper internal control systems.

7. Reviewing material transactions with the related party, which is not in the ordinary course of business prior to the same being brought before the general meeting of the company.
8. Nominating the members of the subcommittees and specifying their roles, responsibilities and power.
9. Selecting the General Manager and other key executives and specifying their roles, responsibilities and power.
10. Evaluating the functions of the sub-committees, General Manager and key employees.
11. Approving interim and annual financial statements.
12. Reporting to the shareholders, in the annual report, about the going concern status of the company with supporting assumptions and qualification as necessary.

As a good practice, the board of directors reviews the company's corporate governance principles, policies and procedures at least once every year and amendments, if any, are updated in the Administration Manual and Schedules of Authority of the **Company**.

b. Dominant Shareholders

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:

	<u>2004</u>		<u>2003</u>	
	<u>Shares</u>	<u>%</u>	<u>Shares</u>	<u>%</u>
W J Towell & Company (LLC)	655,792	30.83	596,175	30.83
Oman International Development and Investment Co. SAOG	417,945	19.65	379,950	19.65

c. Composition of the Board

During the Annual General Meeting held on 3rd April 2004, elections were held for all the seven positions on the board and the following directors (para 1d) were elected.

The composition of the board of directors is in accordance with Article 3 of the Code.

- a) All Directors, including the Chairman, were non-executive and independent
- b) Three out of the seven directors were elected on their individual capacities and the balance four directors represent juristic persons.

Mr. Mohsin Haider Darwish, an independent and non-executive director of our company, tendered his resignation from the board and his resignation was accepted on 28th June 2004. With his preoccupation with other businesses and interests, he expressed his inability to devote adequate time to our company. On 21st August 2004, the Board of Directors appointed Sheikh Mohd Bin Said Rashid Al Balushi to this temporary vacancy until the next Annual General Meeting.

d. Other Directorships held during the year

Name of Director	Name of the company	Position Held
Mohd Ali Abdul Amir Sultan (representing W.J. Towell & Co. (LLC))	Shurooq Investment Services Co. W.J. Towell & Co. (LLC) Musandam Investment & Marketing Co. Majan College	Chairman Director Director Director
Ahmed Said Zaki (representing OMINVEST)	Oman Arab Bank SAOC National Finance Company SAOG	Director Director
Mushtaq Qamer Sultan	Oman Medical Projects Company	Director
Naeem Qamer Sultan	-	-
S Suryanarayanan	-	-
Darius Soli Framrose (representing ONIC Holding)	Al Ahlia Insurance Co. Oman ORIX Leasing Co. Al Anwar Holdings	Director Director Director
Sheikh Mohd Bin Said Rashid Al Balushi (appointed on 21 st August 2004)	Oryx Fund JIA	Director
Mohsin Haider Darwish (representing Mohsin Haider Darwish LLC) Resigned on 28 June 2004	Mohsin Haider Darwish LLC Special Oilfield Services Company LLC Darwish Polycon LLC Darwish Ast LLC Muscat Electronics Company LLC	Managing Director Chairman Chairman Director Director

	Oman International Development Co. LLC Oman Abrasives LLC	Director Director
Sheikh Mohd Bin Hamed Ali Al Masroory (until 3 April 2004)	Oman Fisheries Co. Ltd. SAOG	Director
Abdullah Darwish Al Qasmi (until 3 April 2004)	-	

No one is a member of the board or a representative of a corporate body of more than four public stock companies whose principal place of business is in the Sultanate of Oman, or is a chairman of more than two such companies. No one is simultaneously a member of the board of directors of a public and another joint stock company which both carry out similar objectives and whose principal places of businesses are in the Sultanate of Oman. The Company hereby confirms compliance to article 95 of The Commercial Companies Law No. 4/1974.

e. Board Meetings

The **Company** held in total six board meetings during the year ended 31st December 2004. They were held on 23rd February, 3rd March, 28th April, 22nd June, 18th October and 12th December 2004. The maximum interval between any two meetings was 118 days, which is within the limit of four months prescribed by the **Code**.

f. Directors' attendance record

Name of Director	Position	Meetings held in 2004	Meetings attended in 2004	Whether attended the last AGM
Mohd Ali.A. Amir Sultan	Non-executive Chairman & Independent Director	6	6	Yes
Ahmed Said Zaki	Non-Executive Vice Chairman & Independent Director (Representing OMINVEST)	6	6	Yes
Mushtaq Qamer Sultan	Non-Executive & Independent Director	6	5	Yes
Naeem Qamer Sultan	Non-Executive & Independent Director	6	6	Yes
S Suryanarayanan	Non-Executive & Independent Director	6	5	Yes
Darius Soli Framrose	Non-Executive & Independent Director (Representing ONIC Holding)	4	3	Yes
Sheikh Mohd Bin Said Rashid Al Balushi (appointed as a Temporary Director on 21 st August 2004)	Non-Executive & Independent Director	5	4	Yes
Mohsin Haider Darwish (resigned on 28 th June 2004)	Non-Executive & Independent Director (Representing Mohsin Haider Darwish LLC)	3	3	Yes
Sheikh Mohd Bin Hamed Ali Al Masroory (until 3 April 2004)	Non-Executive & Independent Director	2	2	Yes
Abdullah Darwish Al Qasmi (until 3 April 2004)	Non-Executive & Independent Director	2	2	No

g. Information supplied to the board and its committee

The **Company** strives to provide comprehensive information on the affairs of the company to the board and their committees with a view to enable them discharge their duties effectively.

The minimum information provided to the board include:

- Capital and operating budgets and quarterly updates
- Quarterly and annual results of the company before submission to MSM and CMA
- Monthly Management Reports

- Minutes of the Audit Committee Meetings
- Information on recruitment, resignation and removal of senior executives along with the updated organization chart
- Legal cases which are material
- Serious accidents, dangerous occurrences and pollution problems, if any
- Material default in financial obligations to or by the company
- Issues involving public or product liability claims of significance
- Joint Venture proposals and agreements
- Transactions involving payment towards intellectual property/goodwill/brand equity
- Any significant industrial relations problem including new wage agreement
- Sale of investments, assets and divisions which are not in the normal course of business
- Non-compliance with any regulatory requirement
- Details of any foreign exchange exposure and steps taken to hedge the risk

The **Board** is routinely presented with all the above information whenever applicable and are materially significant. These are submitted either as part of the agenda papers in advance of the board meetings or are tabled during the course of the board meetings or through circulation.

h. Directors with materially significant related party transactions, pecuniary or business relationship with the company

During the current financial year, there were no materially significant related party transactions or pecuniary transactions between the Company and its directors that may have potential conflict with the interests of the company at large.

The normal contracts and transactions in ordinary course of business are decided at arms length based on competitive quotes and on transparent mode of tendering without any differential advantage accruing to the related party. While the **Company's** management approves the pricing policies and terms of these normal small value transactions, the Audit Committee approves all transactions of total value of over RO 25,000.

i. Board Meetings and Secretary to the Board

During the current financial year, Mr. Jamal Nasser Al Shidhani continued to serve as Secretary to the Board. He is responsible for drawing up the minutes of the board meetings which are subsequently approved and signed. The minutes which are serially numbered and maintained under security.

j. Remuneration of Directors

An amount of RO 16,200 (2003: RO 12,300) was paid as sitting fees for board and audit committee meetings held during the current financial year.

The board also proposed a remuneration of **RO 15,500** (2003: RO 17,500) subject to the approval of the shareholders.

k. Disclosure Policies

The Company strives to ensure that shareholders have access to relevant up-to-date and consistent information in a timely fashion. This information should allow shareholders as well as prospective investors to make informed judgments about its operations. The company pursues a policy of disclosure and transparency, which may be modified only when it is necessary to protect the company's competitive, commercial and legal positions.

A formal disclosure policy document covering systems, procedures and responsibilities was approved by the **board** to meet the requirements of Capital Market Authority's Circular number 29/2001.

l. Review of Internal Control systems

The Audit Committee, on behalf of the Board has regularly reviewed the internal control environment of the company. They have met the internal auditors on a regular basis to review the internal audit reports, recommendations and management comments thereupon. They have also met the external auditors to review audit findings and management letter. The audit committee has also met the internal and external

auditors in absence of management as required under the code of Corporate Governance. The Audit Committee has further briefed the Board at the board meeting about the effectiveness of internal controls in the company. The Audit committee and the board are pleased to inform the shareholders that an adequate and effective control system is in place and that there are no significant concerns.

2. Committees of the Board

Audit Committee

The purpose of the Audit Committee of the **Board** of the **Company** is to assist the Board's oversight of (a) the quality and integrity of the Company's financial statements, (b) the Company's compliance with legal and regulatory requirements, (c) the statutory auditor's qualifications and independence, and (d) the performance of the Company's internal audit function and the statutory auditors.

In addition to the purposes set forth above, the primary duties and responsibilities of the Committee are:

Statutory auditors

1. Considering the name of the auditor in the context of their independence (particularly with reference to any other non-audit services), fee and terms of engagement and recommending its name to the board for putting before AGM for appointment.
2. Reviewing audit plan and results of the audit and as to whether auditors have full access to all relevant documents
3. The Committee shall as part of such process, obtain from such statutory auditors, and discuss with them, the required disclosures regarding independence, as such requirements are amended or supplemented from time to time.
4. At least annually, obtain and review a report from the statutory auditor describing their internal quality control procedures and other subjects disclosed by the statutory auditors.

Reporting and disclosure to the Board of Directors

5. Review with the statutory auditors and the management the quarterly and annual financial statements, including significant changes in accounting principles or their application, disclosure under the "Management's Discussion and Analysis" and management's certification of such statements
6. Review regularly the external auditor's report submitted to the Committee regarding the Company's critical accounting policies and practices, alternative treatments of financial information that have been discussed with management, and written communications between the Company's management and the external auditors.
7. Review with the external auditors their reports on the annual financial statements and all communications required of the external auditors; and discuss with the external auditors and management their judgment as to the quality of the Company's accounting principles, including the application of the Company's accounting principles.
8. Review and discuss on a general basis the types of information disclosed in, and the types of presentations to be made for earnings, press releases, as well as updated or new material financial information or earnings guidance provided to analysts and ratings agencies.
9. Review with management, the external auditors and the internal auditors, the adequacy of the Company's internal controls, disclosure processes and management's responses with respect to recommendations for internal control improvements.
10. Review with management the financial statements prior to the filing of quarterly periodic reports. This review includes significant adjustments, management adjustments and accounting estimates and significant new accounting policies. In exceptional case, the Chair of the Committee may represent the entire Committee for purposes of this review.
11. Regularly report Committee actions to the Board of Directors, with such recommendations, as the Committee deems appropriate.

Corporate oversight

12. Assist the Board's oversight of the Company's compliance with respect to its financial reporting and disclosure processes, disclosure requirements and internal control systems. Review (a) major issues regarding accounting principles and financial statement presentations, including any significant changes in the Company's selection or application of accounting principles, and major issues as to the adequacy of the Company's internal controls and any special audit steps adopted in light of material control deficiencies; (b) analyses prepared by management and/or the external auditor setting forth significant financial reporting issues and judgments made in

- connection with the preparation of the financial statements, including analyses of the effects of alternative International Financial Reporting Standards on the financial statements; (c) the effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on the financial statements of the Company and d) reviewing proposed specific transactions with related parties for making suitable recommendations to the board.
13. Assist the Board's oversight of the audit processes of the Company's external auditors and internal auditors.
 14. Provide an open avenue of communication among the Company's external auditors, senior management, the internal auditor, and the Board.
 15. Discuss the guidelines and policies with respect to the Company's risk management policies and procedures.
 16. Review the audit plans and activities of the external auditors and the internal auditors, and the coordination of their audit efforts.
 17. Review the performance and recommend to the board on the appointment or replacement of the Company's internal auditor.
 18. Establish procedures for the Committee to receive, retain and respond to anonymous complaints regarding the preparation of financial statements, accounting, internal accounting controls, and auditing matters.
 19. Conduct or authorize investigations into any matters within the Committee's scope of responsibilities.
 20. Checking financial frauds reported by the management, external auditors, internal auditors and/or through anonymous complaints
 21. Consider such other matters with respect to the Company's financial affairs, internal controls and the external/internal audit as the Committee may deem advisable.
 22. Obtain advice and assistance from outside legal, accounting, or other advisors as is necessary and appropriate.
 23. Review the Audit Committee Charter on an annual basis, update it as appropriate, and submit it for the approval of the Board when updated.
 24. Undertake such other responsibilities or tasks as the Board may delegate or assign to the Committee from time to time.

Composition of the Audit Committee

After the election of the board of directors in April 2004 during the AGM, the audit committee of the company was reconstituted with three non-executive and independent directors (Mr. Ahmed Said Zaki, Mr. S Suryanarayanan and Mr. Darius Soli Framroze). During the meeting held on 18th October 2004 the board nominated Sheikh Moh'd. bin Said Rashid Al Balushi as a member of the Audit Committee. With this addition, the total number of members of the Audit Committee increased to four directors, who are all non-executive and independent.

The members of the audit committee are knowledgeable in finance, industry and laws/regulations governing SAOG companies.

The audit committee met five times during the year and the attendance record is tabled below.

Name of Committee Member	Position	Meetings held during the year	Meetings attended during the year
Ahmed Said Zaki	Chairman	5	5
Mushtaq Qamer Sultan (until 3 April 2004)	Member	2	1
Abdullah Darwish Al Qasmi (until 3 April 2004)	Member	2	2
S Suryanarayanan (appointed on 3 April 2004)	Member	3	3
Darius Soli Framroze (appointed on 3 April 2004)	Member	3	3
Sheikh Mohd Bin Said Rashid Al Balushi (renominated on 21 st August 2004)	Member	3	3

3. Management

a. Management Discussion and Analysis

Management Discussion and Analysis forms a part of the annual report.

b. Management Remuneration

Apart from the base salary, all full-time employees of the company are paid allowances and perquisites as per the employment contracts. Performance Incentive based on their achievement against the set objectives agreed at the start of each year.

The remuneration paid during the year to the top 5 full time officers of the company are:

Base Salary, Perquisites	RO 128,758
Performance Incentive	RO 22,179
TOTAL	RO 150,937

Employment contracts: Expatriate employees and some Omani employees are employed on three year contract, extendable on mutually acceptable terms on expiry. Notice period is generally 3 months for all key positions or salary in lieu thereof and for other positions one month or salary in lieu thereof. No severance terms are specified in the contracts.

c. Disclosures by management to the Board

All details relating to financial transactions where Directors may have a potential interest are provided to the board, and the interested Directors neither participate in the discussion, nor do they vote on such matters. All such matters are also discussed in detail with the audit committee.

4. Shareholders

a. Disclosures regarding re-appointment of Directors

The article of association of the company provides for seven directors.

The Ministerial Decision 137/2002 laid down rules and conditions for the election of directors in public joint-stock companies and their responsibilities. The elections of the Directors during the AGM held on 3 April 2004 were governed by these rules.

b. Communication to shareholders and investors

Oman National Dairy Products Co. Ltd. has its own web site where the quarterly financial results are posted. The quarterly financial results were also published in the leading local newspapers.

The company's web-site address is www.ondpoman.com

The company also follows an open door policy for financial analysts and media. We strived to provide information and clarifications to the general public without compromising on the company's competitive, commercial or legal positions. However, no formal presentations were made to any of the institutional investors or to the analysts during the financial year under review.

A copy of the Management Discussion and Analysis report is provided with the quarterly and annual results as it provides the shareholders and investors a valuable insight into the performance of the company through the eyes of the management team.

c. Distribution of shareholding

The shareholding pattern as on 31st December 2004 was:

Number of Shares	Number of shareholders	Total Shares	% Share Capital
Above 212,737 (10%)	2	1,073,737	50.5
106,368 (5%) to 212,736	2	422,131	19.8
21,274 (1%) to 106,367	7	346,515	16.3
5,000 to 21,274	15	147,762	6.9
Below 5,000	137	137,220	6.5
GRAND TOTAL	163	2,127,365	100.0

d. Professional profile of the external auditor

ONDP's external auditors are Ernst & Young (E&Y) who are one of the four largest auditing firms in the world. E&Y is one of the Oman's oldest established accounting firms, having had a permanent office in the country since 1974. The practice comprises some eighty professionals, and is under the direction of three partners.

The Oman office forms part of Ernst & Young's Middle East practice, with over 80 partners and nearly 1,700 other professionals in 16 offices throughout the region.

The Middle East practice is a member firm of Ernst & Young Global, operating in more than 130 countries with approximately 100,000 personnel worldwide.

At the end of the current financial year, M/s Ernst & Young completed four consecutive years as external auditors. As per article 9 (para b) of the code M/s Ernst & Young are not eligible for reappointment as company's external auditors for a cooling off period of at least two years.

e. Internal Auditors

During the year 2003, the Board of Directors appointed KPMG as the Internal Auditor for the two years 2003 and 2004. The Audit Committee approved their scope of work. As part of their scope, they presented a Risk Analysis of the business to the Audit Committee and the Board of Directors, who approved the findings.

f. Legal Advisor

M/s Al Alawi, Mansoor Jamal continued to serve the company as the Legal Advisors during the year.

g. Increase in paid up capital through Share Dividend

The capital paid up capital of the company was RO 1,933,968 as on 31 December 2003.

As advised by CMA, the Board of Directors and the Annual General Meeting approved the issue of 193,397 shares as dividend during the AGM held on 3 April 2004 to take the paid up capital beyond the minimum two million Rials prescribed under Article 58 of The Commercial Companies Law No. 4/1974 as amended.

With this issue of share dividend, the paid up capital of the company is now RO 2,127,365.

h. Dividend Policy

The Company's dividend policy is to reward the shareholders by distributing an optimal amount of profits earned during the year. While considering the payout for the year the Board of Directors consider the Debt servicing requirements, need for retention for new projects and additional working capital requirements of the business. The Company strives to maintain an optimal balance between current payout and a sustainable growth in the rate of dividend.

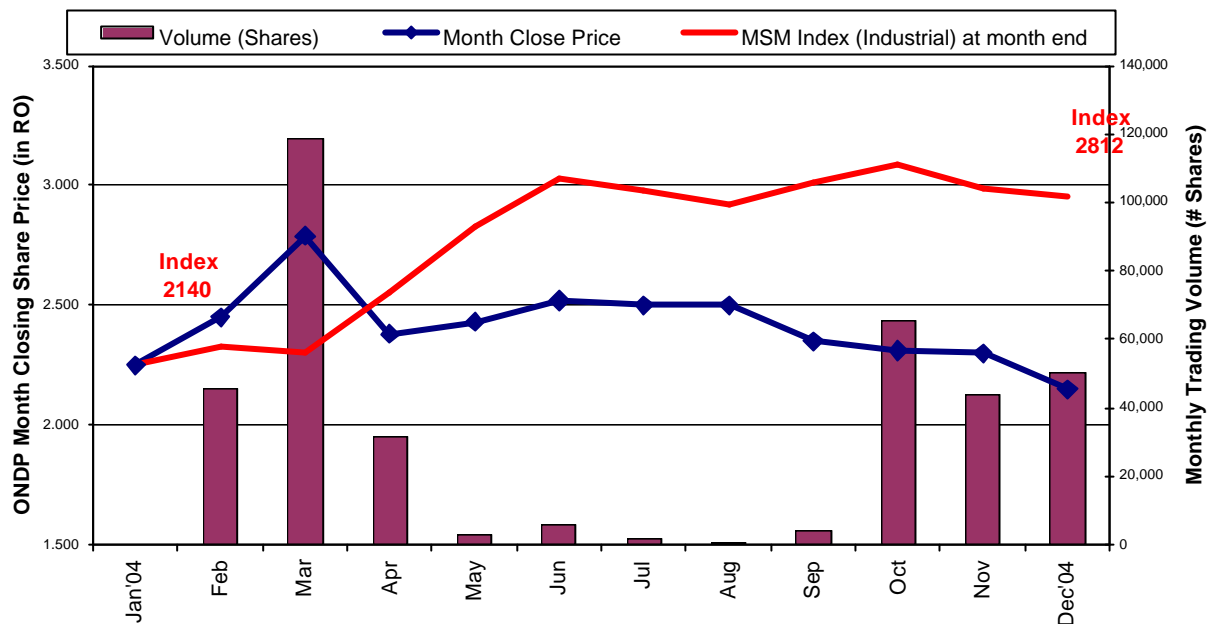
i. Market Price Data

The monthly high and low share prices during 2004 (source: MSM online database)

<u>Month</u>	<u>High/Low Share Prices</u>	
	<u>High (RO)</u>	<u>Low (RO)</u>
January 2004	2.250	2.250
February 2004	2.500	2.300
March 2004	2.810	2.450
April 2004	2.750	2.300

May 2004	2.450	2.420
June 2004	2.550	2.460
July 2004	2.550	2.500
August 2004	2.440	2.250
September 2004	2.350	2.350
October 2004	2.300	2.300
November 2004	2.300	2.300
December 2004	2.250	2.150

A graphical comparison of monthly closing price of the company's share versus the monthly closing MSM index for the Industries Sector for the year 2004 is presented below. During the financial year, the company's share prices (after adjusting for the Share Dividends in April 2004) lagged behind the MSM Composite Index for the Industries Sector.



Source: MSM online database

There were no outstanding GDRs/ADRs/Warrants or any other convertible instruments during the financial year under review, which will have an impact on the equity.

i. Details of non-compliance with the provisions of the Code

There have been no instances of non-compliance on any matter relating to the Commercial Companies Law No. 4/1974, CMA's code of corporate governance for MSM listed companies, CMA regulations or the MSM listing agreements

j. Other non-compliance by the company

There were no penalties or strictures imposed on the company by CMA, MSM or any other statutory authority on any matter related to capital markets during the last three years.

2 March 2005

Management Discussion and Analysis

1. Key Financial highlights

- Overall sales declined by 4.5% driven mainly by the drop in GCC
- Higher raw material prices and lower volumes pushed the gross margin down to 31.3%
- Sales Reorganization in Oman with the appointment of distributors started to yield results in terms of 8% reduction in the distribution costs

Table 1 Financial Highlights

Year	Sales (RO'000)	Sales Growth	Gross Profit (RO'000)	Gross Margin	Profit From Operation (RO'000)	Profit/(Loss) Before Tax (RO'000)
2001	9,160	19.2%	3,002	32.8%	553	324
2002	10,521	14.9%	3,790	36.0%	651	389
2003	12,901	22.6%	4,161	32.3%	859	404
2004	12,324	(4.5%)	3,858	31.3%	791	297

2. Industry structure and development

We continue to focus on our core business of dairy products and fruit beverages within GCC. Even though the GCC markets continued to grow, the high number of players and current excess capacities within the industry led to intense price competition at the high volume end of the market. We expect the industry to consolidate over the next few years and the GCC Customs Union will speed up the process.

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. Our key initiatives during the year were:

- › Geographic expansion of the distribution operations through M/s Bhacker Suleiman Jaffer and National Mineral Water Company within the Sultanate of Oman
- › Our entry into the Fresh Milk market sourced from Dhofar Cattle Feed Company
- › Launch of PET Fruit Drinks in the local and export markets

We will continue to explore avenues with our strategic partners to improve mutual cost rationalization and improvement of our market positions.

3. Key Business Opportunities and threats

a. Competitive pressures

With the rapid growth in the number of players and installed capacity, we expect the competition in the local and other GCC markets to intensify further in future. As a result, we will face pressures on realization and margin as the market matures.

Key Mitigating Factors:

With regards to risks on account of competitive pressures, our business model has inherent mitigants like operating in a fairly large market and offering a wide range of quality products.

Against the backdrop of the unprecedented material price increases, the industry came together during the year to take necessary measures for orderly and profitable longer term development and we took active part in the initiatives to curtail unhealthy price competition.

The additional measures taken to minimize the impact of these risks are:

- Continued investment in our flag ship brand “Zain”
- Maintaining leadership in the local market through product innovations and strategic alliances
- Exploitation of cost advantage in UHT products versus new High Investment/Cost entrants

b. Uncertain Raw Material Prices

The primary raw materials for processed food industry like ONDP are agricultural commodities, which are sourced from international markets. The high dependence on international agricultural commodities exposes all players within the industry to possible political and economic uncertainties. During the year, the international prices of Dairy products rose throughout the year and the FAO Dairy Price Index reached 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)

Key mitigating factors:

Our business model based on a wide product range act buffers the business against price increases of any one major raw material. During the year, the international prices of some of key fruit concentrates were at their historical low partly compensating the increase in the prices of Dairy Products. While the industry has not witnessed any longer term adverse trend in raw material prices during the last decade, any potential short-term price risks are mitigated through:

- Strategic alliances with the international suppliers of raw materials and diversification of sources
- Collaboration in procurement with other players within the region
- Strengthening of Management Information systems and purchase processes.

c. Protection of Gross Margins

With the intensification of price competition within GCC, maintaining a good gross margin will be the key to a profitable growth.

Key mitigating factors

- Strategic alliances with local companies will help leverage surplus production capacities available within the industry
- Greater focus on value added and higher margin products in the future
- Being one of the oldest units within the region, the company enjoys a cost advantage over the new players with far higher level of investment and learning costs.

d. Foreign Currency Exposure

The regional industry relies heavily on imports from Europe for its key Raw Materials. The recent strengthening of Euro against US Dollar will have a significant impact on the company and on the industry as a whole. In spite of our strategy of diversification of our sources, the direct and indirect impact of a weak US Dollar will continue to be a key operational risk area.

Key mitigating factors

- change over to US Dollar purchase contracts or US Dollar linked areas
- balancing of exposure on imports with those on our exports

We are also in discussion with few local banks on appropriate products to manage our risks on foreign currencies.

4. Discussion on financial and operational performance

a. Geographical Segments

Table 2: Sales by Geographical Segment (in RO'000)

Segment	2004	% Growth	2003	% Growth	2002
Oman	6,397	(2.2%)	6,547	(0.2%)	6,560
Other GCC	4,141	(4.2%)	4,322	54.7%	2,793
GCC TOTAL	10,538	(3.0%)	10,869	16.2%	9,353
One Off Contracts	0	~	858	~	0
Other Exports	1,786	52.1%	1,174	0.5%	1,168
COMPANY TOTAL	12,324	(4.5%)	12,901	22.6%	10,521

During the year, we trimmed our geographic portfolio and refocused our resources on select strategic export markets.

Our initiatives for growth within Oman included expansion of our product portfolio with the addition of Fresh Milk and PET Fruit Drinks sourced from our strategic partners and expansion of distribution for our ambient products through our strategic alliance partners.

While GCC was the prime engine of growth during the last three years, the marginal decline in the volume during the year was due to the aggressive price competition and the industry's adjustment to high prices of raw materials. Based on the performance of the first two months of the 2005, we are confident of achieving our double-digit growth rate in this strategically important geographical segment.

Our refocus of select few strategically important export markets with a trimmed product portfolio resulted in the significant growth in sales to markets outside GCC. The Inter Arab Free Trade covering 17 Arab countries, which came into effect on 1 January 2005, will be an added fillip to our growth initiatives within the Arab markets.

b) Profitable Growth

Operating in a relatively small market the growth of exports, in particular to the other GCC countries, is vital to achieve viable and profitable scale of operation. We will continue our efforts to widen our product portfolio with the help of strategic partners apart from organic growth of our manufactured products.

The Gross Profit Margin of the base business is one of key business levers to ensure the sales growth is profitable too. Our margins are in line with our internal targets, are a result of our focus on value addition, and cost rationalization of manufactured products.

In spite of the industry level price increases in all Dairy products and rationalization of product range to partly off-set the unprecedented raw material price increases, the drop in the overall gross profit margin for the year is due to

- change over to the 'distributor model' in the local market,
- increase in raw material costs, which could not be covered through price increases

In a cyclical agricultural business, the increase/decrease of raw material cost are temporary; the reduction in realization and margin due to the change in the selling system will be offset by the rationalization and reduction of distribution costs discussed below.

c) Distribution Costs

Table 3 Distribution Costs (in RO'000)

	2004	% Sales	2003	% Sales	2002	% Sales
NET SALES	12,324		12,901		10,521	
Gross Margin %	31.3%		32.3%		36.0%	
A & P	625	5.3%	689	5.3%	613	5.8%
Distribution	1,938	15.8%	2,063	16.0%	2,064	19.6%
TOTAL	2,563	20.9%	2,752	21.3%	2,677	25.4%

In a geographically dispersed market of Oman, the ubiquitous distribution infrastructure has been our key competitive advantage. This acted as an entry barrier, in the interiors in particular, for any new player. Our strategic alignments with National Mineral Water Company and M/s Bhacker Suleman Jaffer Co. will help us restructure our distribution costs without sacrificing our distribution reach. We hope to bring down the distribution costs as % of sales through these initiatives.

The margins paid to the distributor will reduce the Net Sales and hence the gross profit margins.

d) Working Capital & Interest Costs

Working in a credit driven GCC market, where the credit terms are an average of 90-120 days, it is a challenge to contain and reduce the Debtors days. With our local sales product mix shifting marginally towards cash sales and with concerted industry efforts, we hope to bring down the local debtors days in the coming years.

The tight supply position in international markets for our key raw materials and their prices, drove the stock levels higher as at the end of the year, as well as shifted the credit terms unfavorably.

The management of the working capital intensity of the company ahead of the industry norms will be the key challenge to the management team in the coming years.

5. Risks and concerns

The company is still in a restructuring phase in a highly dynamic and competitive 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 are:

- With the intensity of the industry the pressure on realizations and margins are here to stay. The key management challenge will at least be to protect the margins with improvements where feasible, through product innovations, promotions and cost focus.
- The high level of credit in the GCC market has been the bane of the industry. Greater focus on the credit practices and credit risks will continue to be a key concern area

- Operating between a highly fluctuating international market for the key raw materials and a credit driven GCC market, management of working capital and cash are important
- The need to restructure and reduce bank borrowings and rapid reduction in the interest cost will be high on priority

6. Internal Control Systems and their adequacy

We believe that development of our employees and effective systems are critical for the success of any business in today's competitive business environment. Apart from our investments in selection and training of our employees, we have also invested in business systems and processes in the key areas of our business.

We implemented an Enterprise Resource Planning system in 2001. We believe that this has significantly improved our management information and internal control systems. We are currently extending this system to the retail level through automation of our van sales process during 2005. Apart from improving the retail sales and credit controls, it will also help us improve our information and customer service levels.

We also believe that for a company to succeed on a sustainable basis, it must maintain high standard of corporate governance towards all its stakeholders. As an ISO accredited company the policies, systems and procedures are documented and communicated to all employees. The Board of Directors directly and through the Audit Committee periodically reviews the key issues related to employees, business processes and internal controls.

With the fast changing business environment and technology, the process of review and up gradation of business processes and control systems is a continuous process.

7. Outlook for 2005

We will continue to pursue our growth targets for local and export markets and progressive increase in the 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" aimed at ensuring achievement of our growth objectives include:

- exploitation of export opportunities while trying to rekindle local growth
- reduction of our sales & distribution expenses and expansion of our chilled product portfolio through strategic alliances with Dhofar Cattle Feed Company, National Mineral Water Company and Bhacker Suleman Jaffer Co
- forward cover for key raw materials to buffer any adverse impact from fluctuations in international material prices and execution of realization improvement initiatives
- reengineering of the planning and procurement processes to achieve significant reduction in the working capital intensity of the business

We are very 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

2 March 2005

Oman National Dairy Products Co. Ltd. (SAOG)

FINANCIAL STATEMENTS

31 DECEMBER 2004

**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 2004, 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 2004 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.

2 March 2005
Muscat

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

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- 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.

2 March 2005
Muscat

Philip D Stanton
Partner

BALANCE SHEET

At 31 December 2004

	<i>Notes</i>	<i>2004</i> <i>RO</i>	<i>2003</i> <i>RO</i>
ASSETS			
Non current asset			
Property, plant and equipment	3	5,129,737	5,045,796
Current assets			
Inventories	4	4,290,619	3,062,622
Accounts receivable and prepayments	5	5,138,900	4,351,276
Bank balances and cash	6	41,980	969,718
		9,471,499	8,383,616
TOTAL ASSETS		14,601,236	13,429,412
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	7	2,127,365	1,933,968
Share premium		-	80,489
Statutory reserve	8	709,122	644,656
General reserve		-	168,600
Revaluation reserve	9	1,219,843	1,219,843
Retained earnings		1,021,508	773,013
Total equity		5,077,838	4,820,569
Non current liabilities			
Non current portion of term loans	10	3,515,847	799,764
Deferred Government grant	10	114,943	164,649
Deferred taxation	11	42,378	35,565
Employees' end of service benefits	12	151,345	137,605
Long term lease liability	13	200,059	-
		4,024,572	1,137,583
Current liabilities			
Accounts payable and accruals	14	1,010,581	1,775,421
Bank borrowings	6	3,622,116	4,151,715
Short term loans		-	1,325,000
Current portion of term loans	10	759,292	175,960
Current portion of lease liability	13	72,126	-
Income tax payable	11	34,711	43,164
		5,498,826	7,471,260
		9,523,398	8,608,843
TOTAL EQUITY AND LIABILITIES		14,601,236	13,429,412
NET ASSET PER SHARE			
		2.387	2.493

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

Chairman

General Manager

The attached notes 1 to 24 form part of these financial statements.

STATEMENT OF INCOME

Year ended 31 December 2004

	<i>Notes</i>	<i>2004</i> <i>RO</i>	<i>2003</i> <i>RO</i>
Sales		12,324,020	12,901,010
Cost of sales		(8,465,980)	(8,739,925)
GROSS PROFIT		3,858,040	4,161,085
Distribution costs		(2,562,558)	(2,752,218)
Provision for impaired debts		(39,000)	(65,000)
Administration expenses		(465,581)	(485,103)
PROFIT FROM OPERATIONS		790,901	858,764
Finance costs (net)	15	(489,431)	(517,571)
Deferred Government grant income		49,706	48,776
Profit on disposal of property, plant and equipment		2,857	76,944
Loss on exchange		(66,052)	(66,372)
Miscellaneous income		9,274	3,470
PROFIT BEFORE INCOME TAX		297,255	404,011
Income tax expense	11	(39,986)	(62,302)
NET PROFIT FOR THE YEAR	16	257,269	341,709
Basic earnings per share	20	0.121	0.200

The attached notes 1 to 24 form part of these financial statements.

STATEMENT OF CASH FLOWS

Year ended 31 December 2004

	<i>Note</i>	2004 RO	2003 RO
OPERATING ACTIVITIES			
Net profit before income tax		297,255	404,011
Adjustments for:			
Depreciation		712,236	702,462
Accrual for employees' terminal benefits		20,296	26,445
Interest expense		495,910	532,052
Interest income		(6,479)	(14,481)
Profit on disposal of property, plant and equipment		(2,857)	(76,944)
		1,516,361	1,573,545
Working capital changes:			
Inventories		(1,227,997)	490,843
Receivables		(787,624)	176,174
Payables		(764,840)	(1,598,840)
Cash from operations		(1,264,100)	641,722
Interest expense		(495,910)	(532,052)
Employees' end of service benefits paid		(6,556)	(63,142)
Income tax paid		(41,626)	(4,768)
Net cash (used in) from operating activities		(1,808,192)	41,760
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(796,362)	(378,444)
Proceeds from disposal of property, plant and equipment		3,042	87,355
Interest income		6,479	14,481
Net cash used in investing activities		(786,841)	(276,608)
FINANCING ACTIVITIES			
Proceeds from rights issue		-	920,952
Proceeds from bond issue		1,500,000	-
Dividends paid		-	(132,000)
New term loan		2,000,000	1,000,000
Repayment of term loans		(250,291)	(83,151)
New short term loans		-	250,000
Repayment of short term loans		(1,325,000)	(1,500,000)
Increase in bills discounted		1,160,822	(10,623)
Obligation under finance lease		272,185	-
Net cash from financing activities		3,357,716	445,178
INCREASE IN CASH AND CASH EQUIVALENTS		762,683	210,330
Cash and cash equivalents at the beginning of the year		(2,120,593)	(2,330,923)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	6	(1,357,910)	(2,120,593)

The attached notes 1 to 24 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2004

	<i>Note</i>	<i>Share capital RO</i>	<i>Share Premium 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 2003		1,320,000	-	418,161	168,600	1,219,843	563,304	3,689,908
Rights issue proceeds		613,968	306,984	-	-	-	-	920,952
Dividends paid – 2003	19	-	-	-	-	-	(132,000)	(132,000)
Net profit for the year		-	-	-	-	-	341,709	341,709
Transfer to statutory reserve	8	-	(226,495)	226,495	-	-	-	-
		-----	-----	-----	-----	-----	-----	-----
At 31 December 2003		1,933,968	80,489	644,656	168,600	1,219,843	773,013	4,820,569
Bonus Shares Issued – 2004	19	193,397	(80,489)	-	(112,908)	-	-	-
Net profit for the year		-	-	-	-	-	257,269	257,269
Transfer to statutory reserve	8	-	-	64,466	(55,692)	-	(8,774)	-
		-----	-----	-----	-----	-----	-----	-----
At 31 December 2004		2,127,365	-	709,122	-	1,219,843	1,021,508	5,077,838

The attached notes 1 to 24 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2004

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 243 employees as of 31 December 2004 (2003 - 234).

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.

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 the excess 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 over the estimated useful lives of assets, other than freehold land which is determined to have an indefinite life, as follows:

Buildings	over 20 years
Plant and machinery	over 4 to 10 years

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2004

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 2004

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories are stated at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows for both the current and previous year:

Raw materials, packing materials, engineering stocks
and consumables and promotional items - purchase cost on a weighted average
basis.

Work in progress, 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 in the ordinary course of business, less estimated costs of completion and estimated costs necessary to make the sale.

Accounts receivable

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

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash at hand, bank balances and short-term deposits with an original maturity of three months or less, 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.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognised in net profit or loss when the liabilities are derecognised or impaired, as well as through the amortisation process.

Loans from the Government of Oman

The loans from the Government of Oman are carried on the balance sheet at 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 loans are treated as a Government grant and deferred over the period of the loans.

Deferred Government grant

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2004

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 2004

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

Finance leases, which transfer to the company substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

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 are 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.

Revenue recognition

Sales are recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably.

Interest revenue is recognised 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.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2004

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 2004

3 PROPERTY, PLANT AND EQUIPMENT

	<i>Freehold land and buildings</i>	<i>Plant and machiner y</i>	<i>Motor vehicles</i>	<i>Furniture , fixtures and office equipmen t</i>	<i>Capital work in progress</i>	Total
	<i>RO</i>	<i>RO</i>	<i>RO</i>	<i>RO</i>	<i>RO</i>	<i>RO</i>
Balance at 1 January 2004, net of accumulated						
Depreciation	2,084,459	2,743,954	72,625	109,134	35,624	5,045,796
Additions	-	-	-	-	796,362	796,362
Transfers from capital work in progress	12,618	394,271	326,021	8,539	(741,449)	-
Disposals		(185)	-	-	-	(185)
Depreciation for the year	(53,502)	(548,038)	(56,669)	(54,027)	-	(712,236)
Balance at 31 December 2004, net of accumulated						
Depreciation	2,043,575	2,590,002	341,977	63,646	90,537	5,129,737
Property, plant and Equipment						
At cost or valuation	3,137,069	7,494,201	765,280	438,391	90,537	11,925,478
Accumulated depreciation	(1,093,494)	(4,904,199)	(423,303)	(374,745)	-	(6,795,741)
Net carrying amount at 31 December 2004	2,043,575	2,590,002	341,977	63,646	90,537	5,129,737

Freehold land and buildings include freehold land of RO 1,350,000 (2003 – RO 1,350,000) on which no depreciation is charged.

Property, plant and equipment are mortgaged against the Government soft loans, term loans and long term bonds (note 10).

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2004

owned at 31 December 2004, had been carried at cost, the carrying amount would have been RO 130,157 (31 December 2003 – RO 130,157).

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

	<i>2004</i>	<i>2003</i>
	<i>RO</i>	<i>RO</i>
Cost of sales	494,842	482,640
Distribution costs	162,855	164,264
Administration expenses	54,539	55,558
	-----	-----
	712,236	702,462
	-----	-----

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2004

4 INVENTORIES

	<i>2004</i>	<i>2003</i>
	<i>RO</i>	<i>RO</i>
Raw material and packing material	2,980,154	1,473,243
Finished goods and goods for resale	463,570	427,986
Engineering stocks and consumables	189,216	172,683
Goods in transit	588,570	924,063
Work in progress	44,498	49,820
Promotional items	24,611	14,827
	4,290,619	3,062,622

5 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	<i>2004</i>	<i>2003</i>
	<i>RO</i>	<i>RO</i>
Trade accounts receivable	4,214,596	3,490,951
Other receivables	358,288	430,502
Amounts due from related parties (note 18)	4,606	32,958
Prepaid expenses	211,958	178,033
Advance to supplier	349,452	218,832
	5,138,900	4,351,276

Trade accounts receivable include RO 2,492,273 (2003 - RO 905,701) of export and local bills secured under an Export Credit Guarantee Scheme administered by the Oman Development Bank SAOG and Inter Arab Investment and Credit Guarantee Corporation, Kuwait.

Other receivables include an amount of RO 174,859 (2003 – RO 207,791) relating to refund of customs duty. Of this amount RO 167,146 (2003 – RO 167,146) relates to the period from 1997 to 2003 and is under process by the Ministry of Commerce and Industry and the Royal Oman Police.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2004

6 CASH AND CASH EQUIVALENTS

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

	2004	2003
	RO	RO
Bank balance and cash	41,980	969,718
Bank overdrafts	(1,399,890)	(3,090,311)
	(1,357,910)	(2,120,593)

Bank borrowings in the balance sheet comprise the following:

	2004	2003
	RO	RO
Bank overdrafts	1,399,890	3,090,311
Bills discounted	2,222,226	1,061,404
	-	-
	3,622,116	4,151,715
	-	-

Bank overdrafts are unsecured and carry interest at an effective annual rate of 6.5% to 8% (2003 – 7.5% to 9%)

The funding under bills discounted is at an effective annual interest rate of 3.25 to 4.5% (2003 – 5.25% to 6%). The funding is for the credit period approved by the company to its customers under the Export Credit Guarantee Scheme.

7 SHARE CAPITAL

	2004	2003
	RO	RO
Authorised - shares of RO 1 each	5,000,000	5,000,000
Issued and fully paid – shares of RO 1 each	2,127,365	1,933,968

The company's Annual General Meeting held on 3 April 2004 approved a bonus issue of 193,397 shares of RO 1 each, which was subsequently authorised by the Capital Market Authority. The bonus issue has been allocated from the company's share premium and general reserves following the approval of the Capital Market Authority on 5 April 2004.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2004

7 SHARE CAPITAL (continued)

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>2004</i>	<i>2004</i>	<i>2003</i>	<i>2003</i>
	<i>Number</i>	<i>%</i>	<i>Number of</i>	<i>%</i>
	<i>of share</i>		<i>share</i>	
W J Towell & Company	655,792	30.83	596,175	30.83
Oman International Development and Investment Co. SAOG	417,945	19.65	379,950	19.65

Transactions with these shareholders are disclosed separately in note 18.

8 STATUTORY RESERVE

According to the Commercial Companies Law, the company is required to transfer 10% of its profit for the year to legal reserve until the accumulated balance of the reserve equals one third of the company's paid up share capital.

In accordance with the article 78 of the Commercial Companies Law, during 2004 the company has transferred RO 64,466 (2003 – RO 226,495 from share premium account) from its general reserve account and retained earnings to its statutory reserve. The company has resolved to discontinue any further transfers to this reserve as the reserve equals one third of the company's issued share capital. This reserve is not available for distribution.

9 REVALUATION RESERVE

The reserve represents the surplus on the revaluation of freehold land (note 3) and is not available for distribution until the related assets have been disposed off.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2004

10 TERM LOANS	<i>2004</i>	<i>2003</i>
	<i>RO</i>	<i>RO</i>
Term loans from commercial banks (i)	2,000,000	-
Long term bonds (ii)	1,440,626	-
Loan from the Government of Oman (iii)	116,123	140,373
Loan from the Government of Oman (iv)	833,333	1,000,000
	-----	-----
	4,390,082	1,140,373
Less: Deferred Government grant	(114,943)	(164,649)
	-----	-----
	4,275,139	975,724
Less: Term loan instalments due within one year	(759,292)	(175,960)
	-----	-----
	3,515,847	799,764
	-----	-----

- i) Rial Omani term loans carries an effective annual interest rate of 4.5% to 5.25% (31 December 2003 – not applicable). The two loans of RO 1 million each are repayable in equal quarterly instalments of RO 41,667 each, commencing from 2005, final payment being due in 2010. The loan is secured by a second charge over company's assets.
- ii) Following approval from the company's shareholders at the extra ordinary general meeting held on 3 April 2004 the company offered a bonds issue of RO 1.5 Million through private placement during July 2004. The bond issue closed on 26 July 2004 and the entire amount of issue was fully subscribed. The bonds carry an effective annual interest rate of 5.85% and are repayable in annual instalments of RO 250,000 with final instalment payable in 2010. The bonds are secured by a commercial charge over company's assets.
- iii) The loan is interest free and repayable in ten annual instalments of RO 24,250 each, commenced from 2001, the final payment being due in 2009. The loan is secured by a first charge on all of the company's assets (2003 – same terms and conditions).
- iv) The loan carries an effective annual interest rate of 3% and is repayable in six equal annual instalments of RO 166,667 each commencing from March 2004, with the final instalment being due in March 2009. The loan is secured by a first charge on the company's specific assets amounting to RO 1,043,387 (2003 – same terms and conditions).

The loans from government of Oman are carried at fair values (2003- fair values) 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 at the time of availment of loan. 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.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2004

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2004

11 INCOME TAX

	<i>2004</i>	<i>2003</i>
	<i>RO</i>	<i>RO</i>
Current liability:		
Current year	33,173	41,626
Prior year	1,538	1,538
	-----	-----
	34,711	43,164
	-----	-----
Income statement:		
Current year	33,173	41,626
Deferred tax charge relating to the origination and reversal of temporary Differences	6,813	20,676
	-----	-----
	39,986	62,302
	-----	-----
Deferred tax liability:		
At 1 January	(35,565)	(14,889)
Movement for the year	(6,813)	(20,676)
	-----	-----
At 31 December	(42,378)	(35,565)
	-----	-----
The deferred liability comprises following types of temporary differences:		
Taxable timing difference on plant and equipment qualifying for accelerated tax relief	(47,058)	(43,365)
Deductible timing difference on provisions	4,680	7,800
	-----	-----
At 31 December	(42,378)	(35,565)
	-----	-----

The tax rate applicable to the company is 12% (2003 - 12%). For the purpose of determining the tax expense 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 11.16 % (2003 - 10.30 %).

The difference between the applicable tax rate of 12% (2003 - 12%) and the effective rate of 11.16% (2003 - 10.30 %) 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 upto tax year 2001.

12 EMPLOYEES' END OF SERVICE BENEFITS

<i>2004</i>	<i>2003</i>
<i>RO</i>	<i>RO</i>

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2004

Movements in the provision recognised in the balance sheet are as follows:

Provision as at 1 January	137,605	174,302
Provided during the year	20,296	26,445
End of service benefit paid	(6,556)	(63,142)
	<hr/>	<hr/>
Provision as at 31 December	151,345	137,605
	-----	-----

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2004

13 FINANCE LEASE COMMITMENTS

	<i>2004</i> <i>RO</i>	<i>2003</i> <i>RO</i>
Future minimum lease payments:		
Within one year	83,898	-
After one year and not more than five years	238,655	-
	-----	-----
Total minimum lease payments	322,553	-
Future finance charges	(50,368)	-
	-----	-----
Total lease liability	272,185	-
	-----	-----
Presented in the balance sheet as follows:		
Current liability	72,126	-
Non current liability	200,059	-
	-----	-----
	272,185	-
	-----	-----
The present value of minimum lease payments comprise:		
Within one year	81,451	-
After one year and not more than five years	207,056	-
	-----	-----
	288,507	-
	-----	-----

The finance lease liability includes an amount of RO 193,086 (2003- Nil) payable to a related party (note 18).

14 ACCOUNTS PAYABLE AND ACCRUALS

	<i>2004</i> <i>RO</i>	<i>2003</i> <i>RO</i>
Trade accounts payables	867,932	1,348,959
Creditors for capital purchases	-	166,733
Amounts due to related parties (note 18)	19,622	66,432
Other payables	-	20,607
Accrued expenses	123,027	172,690
	-----	-----
	1,010,581	1,775,421
	-----	-----

An amount of RO 12,571 was transferred to the Investors' Trust Fund (ITF) account on 31 August 2004 being the unclaimed dividends as on that date. The amount remaining as unclaimed dividends as at the end of the current financial year is therefore NIL (2003: RO 20,607).

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2004

15 FINANCE COSTS (NET)

	2004	2003
	RO	RO
Bank and finance company interest	335,737	428,030
Term loan interest	150,407	104,022
Amortisation of bond issue expenses	9,766	-
	-----	-----
Total finance cost	495,910	532,052
	-----	-----
Bank interest income	(6,479)	(6,173)
Interest on insurance claim receivable	-	(8,308)
	-----	-----
Total finance income	(6,479)	(14,481)
	-----	-----
Finance costs (net)	489,431	517,571
	-----	-----

16 NET PROFIT FOR THE YEAR

The net profit for the year is stated after charging:

	2004	2003
	RO	RO
Staff costs	1,343,674	1,414,967
	-----	-----

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2004

17 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>		<u><i>Other Non – GCC Countries</i></u>		<i>Total</i>	
	<i>2004</i> <i>RO</i>	<i>2003</i> <i>RO</i>	<i>2004</i> <i>RO</i>	<i>2003</i> <i>RO</i>	<i>2004</i> <i>RO</i>	<i>2003</i> <i>RO</i>	<i>2004</i> <i>RO</i>	<i>2003</i> <i>RO</i>
Sales								
Total sales	6,397,473	6,547,099	4,140,538	4,321,950	1,786,009	2,031,961	12,324,020	12,901,010
	-----	-----	-----	-----	-----	-----	-----	-----
Financial performance								
Segment gross profit	2,002,732	2,111,698	1,296,197	1,394,016	559,111	655,371	3,858,040	4,161,085
	-----	-----	-----	-----	-----	-----	-----	-----
Common costs							(3,067,139)	(3,302,321)
							-----	-----
Profit from operations							790,901	858,764
Finance costs							(489,431)	(517,571)
Other income (net)							(4,215)	62,818
							-----	-----
Profit before income tax							297,255	404,011
							-----	-----
Other information								
Total segment assets	7,579,590	6,815,256	4,905,621	4,498,969	2,116,025	2,115,187	14,601,236	13,429,412
	-----	-----	-----	-----	-----	-----	-----	-----
Total segment liabilities and equity	7,579,590	6,815,256	4,905,621	4,498,969	2,116,025	2,115,187	14,601,236	13,429,412
	-----	-----	-----	-----	-----	-----	-----	-----

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2004

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2004

18 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 the pricing policies and terms of these transactions.

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

	<i>2004</i>	<i>2003</i>
	<i>RO</i>	<i>RO</i>
Sales	24,199	41,201
Purchases	30,019	26,830
Expenses	45,041	63,890

Amounts due from and due to related parties are disclosed in notes 5, 13 and 14 respectively.

19 DIVIDENDS

During 2004, bonus shares totalling 193,397 relating to 2003 were declared and issued (2003 – cash dividend of RO 132,000).

Dividends of 50 baizas per share totalling RO 250,000 relating to 2004 have been proposed for approval at the Annual General Meeting to be held in April 2005 (2004: bonus shares totalling RO 193,397 relating to 2003).

20 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>2004</i>	<i>2003</i>
	<i>RO</i>	<i>RO</i>
Net profit for the year	257,269	341,709
Weighted average number of shares outstanding during the year	1,933,968	1,514,362
Adjustment for bonus shares issued during the year	193,397	193,397
Adjusted weighted average number of shares	2,127,365	1,707,759
Basic earnings per share before bonus share issuance	0.133	0.226
Basic earnings per share adjusted for bonus shares	0.121	0.200

No figure for diluted earnings per share has been presented as the company has not issued any ordinary shares that may be dilutive.

Oman National Dairy Products Co. Ltd. (SAOG)

Year ended 31 December 2004

21 CONTINGENCIES

Contingent liabilities

At 31 December 2004 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 1,127,125 (2003 - RO 1,145,458).

A company belonging to a former director has lodged a legal claim of RO 25,703 against the company towards the unbilled portion of a contract executed by it in 1998. The company and their legal consultant believe that the claim is not payable and even if the court decrees against the company, they are confident it is legally recoverable from a third party.

22 RISK MANAGEMENT

Interest rate risk

The company is exposed to interest rate risk on its interest bearing liabilities (bank borrowings, 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 6 largest customers account for 54% (2003 – 6 largest customers account for 57%) of outstanding accounts receivable at 31 December 2004.

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.

23 FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprise financial assets and liabilities.

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

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

24 COMPARATIVE AMOUNTS

Certain corresponding figures for 2003 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.