



Number One Food Brand in Pakistan

1st Half Yearly Report 2010-11

National Foods Limited

National Foods Limited (NFL), founded in 1970, is Pakistan's Leading multi-category Food Company today with over 250 different products in 12 categories. NFL holds ISO 9001, ISO 22000 and HACCP certifications along with SAP business technology to drive the Company's strong commitment to quality and management excellence.

NFL is an international brand sold in over 35 countries and it aims to be a Rs. 50 billion company under its Vision 20/20 plan.

NFL is dedicated to improving the well-being of society through continuous development of innovative products and through a wide-ranging corporate social responsibility program.

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Company Information

BOARD OF DIRECTORS

Mr. Abdul Majeed	Chairman
Mr. Abrar Hasan	Managing Director / Chief Executive
Mr. Waqar Hasan	Director
Mr. Khawaja Munir Mashooqullah	Director
Mr. Zahid Majeed	Director
Mr. Ebrahim Qassim	Director
Mr. Iqbal Alimohamed	Director

AUDIT COMMITTEE

Mr. Ebrahim Qassim	Chairman
Mr. Waqar Hasan	Member
Mr. Zahid Majeed	Member

COMPANY SECRETARY AND SECRETARY AUDIT COMMITTEE

Mr. Fayyaz Abdul Ghaffar

CHIEF FINANCIAL OFFICER

Mr. Muhammad Kashif Iqbal

INTERNAL AUDITORS

Messrs. Ernst & Young Ford Rhodes Sidat Hyder & Co. Chartered Accountants

COMPANY MANAGEMENT

Mr. Abrar Hasan	Managing Director / Chief Executive
Mr. Shakaib Arif	Chief Operating Officer
Mr. Waqas Abrar Khan	Head of HR, Training and Administration
Mr. Adnan Malik	Head of Marketing
Mr. Rana Azam	Head of Sales
Mr. Fawaz Ahmed	Head of Rice and Export Division

AUDITORS

A. F. Ferguson & Co.	Chartered Accountants State Life Building, 1-C, I.I. Chundrigar Road, Karachi
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SHARE REGISTRATION OFFICE

Noble Computer Services (Pvt.) Limited	Mezzanine Floor, House of Habib Building (Siddiqsons Tower), 3-Jinnah C.H. Society, Main Shahrah-e-Faisal, Karachi-75350 PABX: (92-21) 34325482-87 Fax: (92-21) 34325442
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PRINCIPAL BANKERS

Bank Al-Habib Limited	I.I. Chundrigar Road Branch, Karachi S.I.T.E Branch, Karachi New Garden Town Branch, Lahore
Faysal Bank Limited (Formerly Royal Bank of Scotland)	16, Abdullah Haroon Road, Karachi
MCB Bank Limited	Shaheen Complex Branch, Karachi
United Bank Limited	I.I. Chundrigar Road, Karachi
Bank Al Falah Limited (Islamic Banking Group)	Port Qasim Authority Branch, Karachi
Barclays Bank Plc, Pakistan	Dawood Centre, M.T. Khan Road, Karachi
Meezan Bank Limited	M.T. Khan Road, Karachi
Bank Islami Pakistan Limited	S.I.T.E. Branch, Karachi
Habib Bank Limited	S.I.T.E. Branch, Karachi
Habib Metropolitan Bank Limited	Main Branch, Karachi

REGISTERED OFFICE

12/CL-6, Claremont Road, Civil Lines,
Karachi 75530 P.O.Box No. 15509
Phone: 021-35662687, 021-35670540, 021-35670585,
021-35670793 & 021-35672268
Fax: 021-35684870

First Half Yearly Directors' Report To The Shareholders

On behalf of the Board of Directors of National Foods Limited, I am pleased to present to you the Half Yearly Report for 2010, along with the reviewed financial statements of the company for the first half ended December 31, 2010.

The company has delivered a healthy value sales growth of 24.9% for the first half amidst challenging economic times, low GDP growth, post impact of floods and high inflationary trend. Some of our key categories like Ketchup & Pickles have shown impressive double digit volume growth as we endeavour to make our consumers feel kinship and camaraderie through National Foods products. We continue to remain focused in consolidating our portfolio. The financial performance for six months under review is summarized below.

PKR Thousand	July- Dec 2010-11	July- Dec 2009-10	Change Percent
Sales	2,828,332	2,265,102	+ 24.9
Gross Profit	843,156	690,818	+ 22.1
% of sales	29.8%	30.5%	
Operating Profit	244,272	103,072	+ 137.0
% of sales	8.6%	4.5%	
Profit before tax	178,994	64,340	+ 178.2
% of sales	6.3%	2.8%	
Profit after tax	118,582	41,775	+ 183.9
% of sales	4.2%	1.8%	
Earnings per share	2.86	1.01	+ 183.2

All food categories delivered excellent results in the first half, aided by seasonal sales of Ramadan & Eid, and registered record revenue of Rs 3.8 billion. Exports grew by a modest 9%, despite recessionary pressures affecting the international markets.

Gross Margins have slipped by 69 bps due to the above-mentioned inflationary impact on input costs. Efforts of enhancing consumer and customer value, effective product mix management and significant effort has helped to increase gross profits by 22.1%

Rising international fuel & freight prices, adjustment in domestic fuel prices coupled with logistical disruption after the floods have significantly increased freight costs and negatively impacted the bottom line.

Improved efficiencies across the entire organisation, cost control & cost management activities have helped improve profitability. Advertising & Promotion costs were also rationalised & selectively spent on effective television campaigns revamping in-store displays to engage attention & successful below the line activities.

As a consequence Operating profits grew by 137.0% to Rs 244 M for the half year ended and showed an increase of 409bps in margin compared to the same period last year. Rising interest costs & higher level of borrowing for working capital requirements has increased financing costs significantly & negatively impacted the profitability.

Net profit after tax amounted to Rs 118 M, recording an improvement of 235 bps in margins compared to first half last year. Earnings per share also grew by 183.2 % & stands at Rs 2.86 per share.

On our part as good corporate citizen we have across Pakistan successfully scaled up our Adult Literacy and Female empowerment Program. In addition we have also donated food products to the flood affected areas.

FUTURE OUTLOOK

The company holds a strong position as market leaders in a number of key categories in which we operate and the strength of our value-added products gives us a strategic advantage. The economic recovery of the country is likely to remain constrained by the after effects of the floods. However we will continue our efforts to consolidate the portfolio innovate & invest selectively in our products.

Our management team, with sound business experience & expertise gives me great confidence that the company will create maximum value for its shareholders.



A. Majeed.
CHAIRMAN

Auditors' Report To The Members On Review Of Interim Financial Information

Introduction

We have reviewed the accompanying condensed interim balance sheet of National Foods Limited as at December 31, 2010 and the related condensed interim profit and loss account, condensed interim cash flow statement and condensed interim statement of changes in equity together with the notes forming part thereof for the half year then ended (here-in-after referred to as the "interim financial information"). Management is responsible for the preparation and presentation of this interim financial information in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting. Our responsibility is to express a conclusion on this interim financial information based on our review. The figures of the condensed interim profit and loss account for the quarters ended December 31, 2010 and 2009 have not been reviewed, as we are required to review only the cumulative figures for the half year ended December 31, 2010.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information as of and for the half year ended December 31, 2010 is not prepared, in all material respects, in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting.

Chartered Accountants
Karachi

Dated: February 23, 2011

Name of the engagement partner: Syed Fahim ul Hasan

Condensed Interim Balance Sheet

AS AT DECEMBER 31, 2010

Note (Unaudited) (Audited)
December 31, June 30,
2010 2010
(Rupees in thousand)

ASSETS

Non-Current Assets

Property, plant and equipment	2	773,877	794,771
Intangibles		17,424	25,688
Long term deposits		4,871	4,509
		<u>796,172</u>	<u>824,968</u>

Current Assets

Stores, spare parts and loose tools		6,157	5,360
Stock in trade		1,541,604	1,502,232
Trade debts		181,376	253,050
Advances		41,302	43,867
Trade deposits and prepayments		18,945	10,118
Other receivables		890	20,664
Cash and bank balances		24,582	14,101
		<u>1,814,856</u>	<u>1,849,392</u>
		<u>2,611,028</u>	<u>2,674,360</u>

SHARE CAPITAL AND RESERVES

Issued, subscribed and paid-up capital		414,427	414,427
Unappropriated profit		396,369	327,518
		<u>810,796</u>	<u>741,945</u>

NON-CURRENT LIABILITIES

Long term financing		194,000	20,000
Liabilities against assets subject to finance lease		225	2,260
Deferred tax		77,990	72,621
Retirement benefits obligations		2,734	10,707
		<u>274,949</u>	<u>105,588</u>

CURRENT LIABILITIES

Trade and other payables	3	768,534	530,063
Accrued interest / mark up		18,127	28,319
Short term borrowings		611,498	1,189,769
Current maturity of:			
Long term financing		40,000	40,000
Liabilities against assets subject to finance lease		5,859	10,238
Taxation - provision less payments		46,339	12,407
Due to the government		34,926	16,031
		<u>1,525,283</u>	<u>1,826,827</u>

COMMITMENTS

	4	<u>2,611,028</u>	<u>2,674,360</u>
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The annexed notes 1 to 10 form an integral part of this financial information.



Chief Executive



Director

Condensed Interim Profit And Loss Account

FOR THE HALF YEAR ENDED DECEMBER 31, 2010 - UNAUDITED

	Note	Quarter ended		Half year ended	
		December 31, 2010	December 31, 2009	December 31, 2010	December 31, 2009
		← (Rupees in thousand) →			
Net sales					
Local		1,222,187	964,407	2,566,353	2,024,205
Export		122,964	152,337	261,979	240,897
		1,345,151	1,116,744	2,828,332	2,265,102
Cost of sales		926,459	779,537	1,985,176	1,574,284
Gross profit		418,692	337,207	843,156	690,818
Distribution cost		210,819	266,345	508,438	515,597
Administrative expenses		40,009	38,879	80,073	77,510
Other operating expenses		10,696	3,600	14,113	8,200
		261,524	308,824	602,624	601,307
Other operating income		3,452	10,810	3,740	13,561
Profit from operations		160,620	39,193	244,272	103,072
Finance costs	5	27,015	18,272	65,278	38,732
Profit before taxation		133,605	20,921	178,994	64,340
Taxation		42,871	8,565	60,412	22,565
Profit after taxation		90,734	12,356	118,582	41,775
Earnings per share - Rupees	6	2.19	0.30	2.86	1.01

The annexed notes 1 to 10 form an integral part of this financial information.



Chief Executive



Director

Condensed Interim Cash Flow Statement

FOR THE HALF YEAR ENDED DECEMBER 31, 2010 - UNAUDITED

Note	December 31, 2010	December 31, 2009
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(Rupees in thousand)

CASH FLOWS FROM OPERATING ACTIVITIES

Cash generated from operations	7	595,179	135,624
Finance cost paid		(75,470)	(42,536)
Income tax paid		(21,111)	(25,044)
Retirement benefit obligation paid		(10,707)	-
Net (increase) / decrease in long term deposits		(362)	13
Net cash from operating activities		487,529	68,057

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of property, plant and equipment	(18,923)	(64,717)
Sale proceeds on disposal of property, plant and equipment	2,130	3,869
Purchase of intangible assets	(250)	(1,499)
Net cash used in investing activities	(17,043)	(62,347)

CASH FLOWS FROM FINANCING ACTIVITIES

Increase / (decrease) in Long term financing - (net)	174,000	(20,000)
Liabilities against assets subject to finance leases - (net)	(6,414)	(7,558)
Dividend paid	(49,320)	-
Net cash from / (used in) financing activities	118,266	(27,558)
Net increase / (decrease) in cash and cash equivalents	588,752	(21,848)
Cash and cash equivalents at the beginning of the period	(1,175,668)	(470,331)
Cash and cash equivalents at the end of the period	8 <u>(586,916)</u>	<u>(492,179)</u>

The annexed notes 1 to 10 form an integral part of this financial information.



Chief Executive



Director

Condensed Interim Statement Of Changes In Equity

FOR THE HALF YEAR ENDED DECEMBER 31, 2010 - UNAUDITED

	Issued subscribed and paid up capital	Unappropriated profit	Total
	(Rupees in thousand)		
Balance as at June 30, 2009	331,542	323,844	655,386
Issue of 1 bonus share for every 4 shares held	82,885	(82,885)	-
Profit for the half year ended December 31, 2009	-	41,775	41,775
Balance as at December 31, 2009	414,427	282,734	697,161
Profit for the half year ended June 30, 2010	-	44,784	44,784
Balance as at June 30, 2010	414,427	327,518	741,945
Final dividend for the year ended June 30, 2010 @ Rs 1.20 per share	-	(49,731)	(49,731)
Profit for the half year ended December 31, 2010	-	118,582	118,582
Balance as at December 31, 2010	414,427	396,369	810,796

The annexed notes 1 to 10 form an integral part of this financial information.



Chief Executive



Director

Notes To And Forming Part Of The Condensed Interim Financial Information

FOR THE HALF YEAR ENDED DECEMBER 31, 2010 - UNAUDITED

1. BASIS OF PREPARATION

- 1.1 This condensed interim financial information has been prepared in accordance with the requirements of International Accounting Standard (IAS) 34, Interim Financial Reporting and is being submitted to the shareholders as required by section 245 of the Companies Ordinance, 1984 and the Listing Regulations of the Karachi, Lahore and Islamabad Stock Exchanges.
- 1.2 The accounting policies and methods of computation adopted for the preparation of this condensed interim financial information are the same as those applied in the preparation of the annual financial statements of the company for the year ended June 30, 2010.

December 31, June 30,
2010 2010
(Rupees in thousand)

2. PROPERTY, PLANT AND EQUIPMENT

- 2.1 Operating assets - at net book value - Note 2.2 712,514 731,167

Capital work in progress - at cost

Civil work in progress	19,743	14,982
Plant and machinery	38,113	34,593
Advance against acquisition of land	-	12,012
Vehicles pending delivery	1,060	816
Computer Software	825	1,146
Office Equipment	1,622	55
	<u>773,877</u>	<u>794,771</u>

Half year ended
December 31, December 31,
2010 2009
(Rupees in thousand)

2.2 Additions and Disposals during the period

Additions

Building on leasehold land	579	-
Plant and machinery including generators	13,096	1,265
Motor vehicles - Owned	342	1,167
Others	7,147	5,556
	<u>21,164</u>	<u>7,988</u>

Disposals - Net Book Value

Plant and machinery	-	670
Motor vehicles	159	1,302
Computer equipment	2	-
	<u>161</u>	<u>1,972</u>

December 31, June 30,
2010 2010
(Rupees in thousand)

3. TRADE AND OTHER PAYABLES

Creditors	303,372	210,763
Accrued liabilities	367,036	255,847
Workers' Profits Participation Fund	6,898	-
Workers' Welfare Fund	7,810	6,436
Advances from customers	40,644	23,173
Payable to provident fund	1,414	1,364
Security deposits from customers	4,286	4,238
Tax deducted at source	6,209	2,488
Due to related parties - directors	-	76
- others	-	243
Advances from employees against sale of vehicles	25,300	18,931
Unclaimed dividend	1,163	752
Other liabilities	4,402	5,752
	<u>768,534</u>	<u>530,063</u>

4. COMMITMENTS

Aggregate commitments for capital expenditure as at December 31, 2010 amounted to Rs 7.6 million (June 30, 2010: Rs 18.27 million).

Half year ended
December 31, December 31,
2010 2009
(Rupees in thousand)

5. FINANCE COSTS

Mark up on long term finance	14,435	6,137
Mark up on running finance under mark up arrangements	32,428	19,528
Mark up on export re-finance	10,813	6,590
Mark up on money market loan	124	353
Mark up on finance lease	572	1,692
Mark up on foreign currency import finance	500	-
Bank charges	6,406	4,432
	<u>65,278</u>	<u>38,732</u>

6. EARNINGS PER SHARE

There were no convertible dilutive potential ordinary shares in issue as at December 31, 2009 and 2010.

Half year ended	
December 31, 2010	December 31, 2009
(Rupees in thousand)	

7. CASH GENERATED FROM OPERATIONS

Profit before taxation	178,994	64,340
Adjustments for non-cash charges and other items		
Depreciation on property, plant and equipment	39,656	44,668
Deferred liability - Retirement benefits	2,734	1,964
Amortisation of intangibles	8,514	7,673
Finance cost	65,278	38,732
Gain on disposal of property, plant and equipment	(1,969)	(1,897)
	<u>114,213</u>	<u>91,140</u>
Profit before working capital changes	293,207	155,480

EFFECT ON CASH FLOW DUE TO WORKING CAPITAL CHANGES

Decrease / (increase) in current assets		
Stores, spare parts and loose tools	(797)	210
Stock in trade	(39,372)	(100,699)
Trade debts	71,674	64,560
Advances	2,565	348
Deposits and prepayments	(8,827)	(7,600)
Other receivables	19,774	(1,605)
	<u>45,017</u>	<u>(44,786)</u>
Increase in current liabilities		
Trade and other payables	238,060	17,032
Due to the government	18,895	7,898
	<u>595,179</u>	<u>135,624</u>

8. CASH AND CASH EQUIVALENTS

Cash and bank balances	24,582	20,983
Running finance under markup arrangements	(611,498)	(513,162)
	<u>(586,916)</u>	<u>(492,179)</u>

9. TRANSACTIONS WITH RELATED PARTIES

Relationship with the company	Nature of transactions	Half year ended	
		December 31, 2010	December 31, 2009
		(Rupees in thousand)	
Associated companies / Undertakings:	Reciprocal arrangements for sharing of services	881	1,598
	Sale of goods	361,380	392,290
	Purchase of goods	9,967	6,542
Staff retirement fund:	Expense charged for defined contribution plan	6,037	5,310
	Payments to retirement contribution plan	12,510	16,705
Key management compensation:			
	Salaries and other short-term employee benefits	39,487	36,199
	Contribution to Provident Fund	1,689	1,759
	Post retirement benefits of Executive Directors	2,734	1,964

10. DATE OF AUTHORISATION OF ISSUE

This condensed interim financial information was authorised for issue on February 23, 2011 by the Board of Directors of the company.



Chief Executive



Director



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