

# Nurturing Growth



1ST QUARTERLY REPORT 2008-09



#### ABOUT THE COVER



A comprehensive Sustainability Strategy is Nurturing Growth at National Foods Limited today, driving all operations towards Vision 20/20. Featured on the cover is the red chilli plant (*Capsicum annum*). As part of its sustainability strategy, National Foods Limited is undertaking a planned effort, starting at the grassroots level, to support quality improvement and enhanced production of red chilli in Pakistan.

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**Chilli**  
*Capsicum annuum*



# COMPANY INFORMATION

## BOARD OF DIRECTORS

Mr. Abdul Majeed  
Mr. Abrar Hasan  
Mr. Waqar Hasan  
Mr. Khawaja Munir Mashooqullah  
Mr. Zahid Majeed  
Mr. Ebrahim Qasim  
Mr. Iqbal Alimohamed

Chairman  
Managing Director / Chief Executive  
Director  
Director  
Director  
Director  
Director

## AUDIT COMMITTEE

Mr. Waqar Hasan  
Mr. Ebrahim Qasim  
Mr. Zahid Majeed

Chairman  
Member  
Member

## COMPANY SECRETARY AND SECRETARY AUDIT COMMITTEE

Mr. Fayyaz Abdul Ghaffar

## CHIEF FINANCIAL OFFICER

Mr. Muhammad Kashif Iqbal

## INTERNAL AUDITORS

Messrs. Ford Rhodes Sidat Hyder & Co.

Chartered Accountants

## COMPANY MANAGEMENT

Mr. Abrar Hasan  
Mr. Shakaib Arif  
Mr. Kamran Khan  
Mr. Waqas Abrar Khan  
Mr. M. Azher Ali  
Mr. Saleem Khilji  
Mr. Muhammad Iqbal  
Mr. Arif Shaikh  
Mr. Zahid Marghoob Sheikh  
Mr. Muhammad Kashif Iqbal

Managing Director / Chief Executive  
Chief Operating Officer  
Chief Commercial Officer  
General Manager Human Resource  
Sr. Business Unit Manager – PQ Plant  
Business Unit Manager – SITE Plant  
Head of Supply Chain Management  
Head of Quality, Research & Development  
Head of Information Technology  
Head of Finance

## AUDITORS

A. F. Ferguson & Co.

Chartered Accountants  
State Life Building, 1-C, I.I. Chundrigar Road, Karachi

## SHARE REGISTRATION OFFICE

Noble Computer Services (Pvt.) Limited

2nd Floor, Sohni Centre, BS 5 & 6 Karimabad,  
Block-4, Federal B. Area, Karachi-75950  
Phone: 6801880 -82 (3 Lines) Fax: 6801129

## PRINCIPAL BANKERS

Bank Al-Habib Limited

Royal Bank of Scotland (RBS)  
(Formerly ABN AMRO Bank N.V.)  
Muslim Commercial Bank

Habib Bank Limited  
Citibank N.V.

I.I. Chundrigar Road Branch, Karachi  
S.I.T.E Branch, Karachi  
New Garden Town Branch, Lahore.  
Abdullah Haroon Road, Karachi

Clifton Corporate Branch, Karachi  
Shaheen Complex Branch, Karachi  
Hub River Road Branch, Karachi  
SITE Branch, Karachi

## REGISTERED OFFICE

12/CL-6, Claremont Road, Civil Lines,  
Karachi 75530 P.O.Box No. 15509  
Phone: 5662687, 5670540, 5670585,  
5670793 & 5672268 Fax: 5684870



# FIRST QUARTERLY REPORT

## TO THE SHAREHOLDERS

It is my pleasure to present before you the performance and accounts of the first quarter of 2008-09 for National Foods Limited.

### SUMMARY

Overall performance has been quite good with regards to the prevailing economic conditions. The company has actively worked on curtailing unnecessary expenditures and placed emphasis on productivity which has helped to keep the fixed costs in check.

Summary of the results are presented below:

	Jul 2008 to Sep 2008	Jul 2007 to Sep 2007	Growth	% of Net Sales		
				Jul-Sep 2008-09	Jul-Sep 2007-08	Variance (+/-)
<b>Top Line Growth</b>						
<b>Corporate Sales</b>						
Gross sales	1,363,938	1,108,114	23.09%			
Net sales	1,030,789	841,309	22.52%			
<b>Local sales</b>						
Gross sales	1,333,200	1,034,500	28.87%			
Net sales	1,000,051	767,695	30.27%			
<b>Export sales</b>						
Gross sales	30,738	73,614	(58.24%)			
Net sales	30,738	73,614	(58.24%)			
<b>Gross Profit</b>	<b>323,814</b>	<b>293,452</b>	<b>10.35%</b>	<b>31.41%</b>	<b>34.88%</b>	<b>(3.47%)</b>
<b>Bottom Line Growth</b>						
Operating profit	127,796	66,774	91.39%	12.40%	7.94%	4.46%
Other income	5,810	1,077	439.46%	0.56%	0.13%	0.43%
Pre-tax profit	109,074	55,889	95.16%	10.58%	6.64%	3.94%
Net profit	68,891	37,140	85.49%	6.68%	4.41%	2.27%
<b>Expense control</b>						
Selling expenses	79,112	78,638	0.60%	7.67%	9.35%	(1.68%)
Advertising and sales promo	73,371	116,619	(37.08%)	7.12%	13.86%	(6.74%)
Administrative expenses	40,443	27,973	44.58%	3.92%	3.32%	0.60%
Other operating expenses	8,902	4,525	96.73%	0.86%	0.54%	0.32%
Financial expenses	18,722	10,885	72.00%	1.82%	1.29%	0.53%



#### ANALYSIS

Gross margins remain under pressure due to extra ordinary inflation. Regular cost containment and innovative business processes have helped us only to a certain extent; however inflationary pressures have reduced it by almost 3% compared to last period.

Increase in material rates globally for commodities and utilities have raised the variable costs considerably. The company has taken necessary steps to increase prices, but rapid change in inflation has outpaced our measures.

Exports sales show a negative growth primarily due to late dispatches. The local government was faced with negotiations with logistics providers which led to the delay in container dispatches for export despite order completion. All export sales will be booked and reflected in the second quarter results.

Due to seasonal sales impact the fixed costs have been reduced which has reflected in a very healthy bottom line performance.

#### OUTLOOK

Present economic performance is quite dismal, which has led to a free fall in the value of the rupee. This is compounded by unchecked inflation which has placed tremendous burden on the purchase power of ordinary consumers. At the present rupee value, export sales is quite lucrative, however due to frequent changes in cost at the same time, development of business remains a critical issue.

This year will be a huge challenge for the company in terms of meeting its targets. Waste minimization, reduction in sales returns and distribution expenditures have been identified as the key heads which require a thorough business process review. The management is astutely aware of these challenges and is investing in innovative processes which would bring about a sustainable and positive change in the operations of the company.



**Abrar Hasan**  
Chief Executive




# BALANCE SHEET

AS AT SEPTEMBER 30, 2008

	Notes	(Un-audited) Sep 30, 2008	(Audited) Jun 30, 2008
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Property, plant and equipment	2	656,328	635,325
Intangibles		2,625	2,194
Long term deposits		5,381	4,444
		<b>664,334</b>	<b>641,963</b>
<b>Current Assets</b>			
Stores, spare parts and loose tools		5,276	7,499
Stock in trade		800,316	755,259
Trade debts		326,724	259,091
Advances		22,408	18,965
Deposits and prepayments		4,105	2,333
Other receivables		2,090	1,446
Tax refundable from / adjustable with the government		58,032	46,603
Cash and bank balances		23,583	13,496
		<b>1,242,534</b>	<b>1,104,692</b>
		<b>1,906,868</b>	<b>1,746,655</b>
<b>SHARE CAPITAL AND RESERVES</b>			
Authorised capital 10,000,000 Ordinary shares of Rs.10 each		100,000	100,000
Issued, subscribed and paid-up capital		55,257	55,257
Reserves		529,559	460,668
		<b>584,816</b>	<b>515,925</b>
<b>NON-CURRENT LIABILITIES</b>			
Long term financing		90,000	100,000
Liabilities against assets subject to finance leases		22,131	26,262
Deferred tax		71,625	70,758
		<b>183,756</b>	<b>197,020</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables		517,914	369,565
Markup / Interest accrued on long term financing, short term borrowings and finance leases		23,095	17,186
Short term borrowings		422,968	536,341
Current portion of long term financing		43,000	43,000
Current portion of liabilities against assets subject to finance leases		13,079	12,341
Provision for income tax		81,315	42,000
Due to / adjustable with the government		36,925	13,277
		<b>1,138,296</b>	<b>1,033,710</b>
<b>COMMITMENTS</b>			
	3	<b>1,906,868</b>	<b>1,746,655</b>

The annexed notes form an integral part of these financial statements.

  
Abrar Hasan  
Chief Executive

  
Zahid Majeed  
Director



# PROFIT AND LOSS ACCOUNT

FOR THREE MONTHS ENDED  
SEPTEMBER 30, 2008 (UNAUDITED)

	Sep 30, 2008	Sep 30, 2007
	(Rupees in thousand)	
Net sales		
Local	1,000,051	767,695
Export	30,738	73,614
	<b>1,030,789</b>	841,309
Cost of sales	<b>706,975</b>	547,857
Gross profit	<b>323,814</b>	293,452
Operating expenses		
Distribution cost	152,483	195,257
Administrative expenses	40,443	27,973
Other operating expenses	8,902	4,525
	<b>201,828</b>	227,755
Other income	5,810	1,077
Profit from operations	<b>127,796</b>	66,774
Finance cost	18,722	10,885
Profit before taxation	<b>109,074</b>	55,889
Taxation	40,183	18,749
Profit after taxation	<b>68,891</b>	37,140
Basic and diluted earnings per share	<b>12.47</b>	6.72

The annexed notes form an integral part of these financial statements.



*Abbr Hasan*  
Abbr Hasan  
Chief Executive

*Zahid Majeed*  
Zahid Majeed  
Director



# CASH FLOW STATEMENT

FOR THREE MONTHS ENDED  
SEPTEMBER 30, 2008 (UNAUDITED)

	Notes	Sep 30, 2008	Sep 30, 2007
(Rupees in thousand)			
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Cash generated from operations	4	199,656	112,156
Financial charges paid		(11,663)	(8,684)
Income Tax paid		(11,430)	(9,806)
<b>Net cash inflow from operating activities</b>		<b>176,563</b>	<b>93,666</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Fixed capital expenditure		(38,600)	(46,848)
Sale proceeds of fixed assets		-	16
Long term deposits - Net		(937)	(1,553)
<b>Net cash (outflow) from investing activities</b>		<b>(39,537)</b>	<b>(48,385)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Long term financing - Net		(10,000)	(11,500)
Liability against assets subject to finance leases - Net		(3,393)	(1,445)
Dividend paid		(173)	-
<b>Net cash (outflow) from financing activities</b>		<b>(13,566)</b>	<b>(12,945)</b>
Net increase in cash and cash equivalents		123,460	32,336
Cash and cash equivalents at the beginning of the period		(522,845)	(193,126)
Cash and cash equivalents at the end of the period	5	(399,385)	(160,790)

The annexed notes form an integral part of these financial statements.

  
Abrar Hasan  
Chief Executive

  
Zahid Majeed  
Director



# STATEMENT OF CHANGES IN EQUITY

FOR THREE MONTHS ENDED  
SEPTEMBER 30, 2008 (UNAUDITED)

	Issued subscribed and paid up capital	Capital reserve			Total
		Share premium	Bonus share	Unappropriated profit	
(Rupees in thousand)					
Balance as at June 30, 2007	42,505	6,102	-	319,273	367,880
Profit for the three months ended September 30, 2007	-	-	-	37,140	37,140
Final dividend for the year ended June 30, 2007 (Rs 2.00 per share)	-	-	-	(8,501)	(8,501)
Transfer to bonus share reserve June 30, 2007 (3 share for every 10 share held)	-	-	12,752	(12,752)	-
Balance as at September 30, 2007	42,505	6,102	12,752	335,160	396,519
Balance as at June 30, 2008	55,257	6,102	-	454,566	515,925
Transfer to bonus share reserve June 30, 2008 (5 share for every 1 share held)	-	(6,102)	276,285	(270,183)	-
Profit for the three months ended September 30, 2008	-	-	-	68,891	68,891
<b>Balance as at September 30, 2008</b>	<b>55,257</b>	<b>-</b>	<b>276,285</b>	<b>253,274</b>	<b>584,816</b>



*Abbr Hasan*  
Abbr Hasan  
Chief Executive

*Zahid Majeed*  
Zahid Majeed  
Director

# SELECTED NOTES TO THE FINANCIAL STATEMENTS

## FOR THREE MONTHS ENDED SEPTEMBER 30, 2008 (UNAUDITED)

### 1. BASIS FOR PREPARATION

- 1.1 These financial statements have been prepared in accordance with the requirements of International Accounting Standard No. 34, Interim Financial Reporting and are 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 Stocks Exchanges.
- 1.2 The accounting policies adopted for the preparation of these financial statements are the same as those applied in the preparation of the annual financial statements of the company for the year ended June 30, 2008.

	Sep 30, 2008	Jun 30, 2008
	(Rupees in thousand)	
<b>2. PROPERTY, PLANT AND EQUIPMENT</b>		
2.1 Operating Assets	<b>555,814</b>	564,514
Capital work in progress	<b>100,514</b>	70,811
	<u><b>656,328</b></u>	<u>635,325</u>
2.2 Additions and Disposals during the period		
Additions		
Building	<b>972</b>	672
Plant and machinery	<b>2,844</b>	985
Furniture and fixtures	<b>1,587</b>	1,076
Motor vehicles	<b>986</b>	3,027
Office and other equipments	<b>143</b>	679
Computers	<b>1,327</b>	1,573
	<u><b>7,859</b></u>	<u>8,012</u>
Disposals		
Motor vehicles	<u>-</u>	<u>247</u>

### 3. COMMITMENTS

- 3.1 Aggregate commitments for capital expenditure amounted to Rs.4.9 million (June 30, 2008: Rs. 5.4 million).



	<b>Sep 30, 2008</b>	<b>Sep 30, 2007</b>
	(Rupees in thousand)	
<b>4. CASH FLOW FROM OPERATIONS</b>		
Profit before taxation	<b>109,074</b>	55,889
Adjustments of non cash charges and other items		
Depreciation / amortisation on fixed assets	<b>17,166</b>	11,214
Financial charges	<b>17,572</b>	9,829
Gain on disposal of fixed assets	-	(16)
Working capital changes	<b>55,844</b>	35,240
	<hr/>	<hr/>
Cash generated from operations	<b>199,656</b>	112,156
	<hr/> <hr/>	<hr/> <hr/>
4.1 Working Capital Changes		
(Increase) / Decrease in current assets		
Stores, spares and tools	<b>2,223</b>	(1,904)
Stock in trade	<b>(45,057)</b>	51,087
Trade debts	<b>(67,633)</b>	(128,288)
Advances	<b>(3,443)</b>	(7,341)
Deposits and prepayments	<b>(1,772)</b>	(3,776)
Other receivables	<b>(644)</b>	24,066
	<hr/>	<hr/>
	<b>(116,326)</b>	(66,156)
	<hr/>	<hr/>
Increase in current liabilities		
Trade and other payables	<b>172,170</b>	<b>101,396</b>
	<hr/>	<hr/>
	<b>55,844</b>	35,240
	<hr/> <hr/>	<hr/> <hr/>
<b>5. CASH AND CASH EQUIVALENTS</b>		
Cash and bank balances	<b>23,583</b>	45,297
Short term borrowings	<b>(422,968)</b>	(206,087)
	<hr/>	<hr/>
	<b>(399,385)</b>	(160,790)
	<hr/> <hr/>	<hr/> <hr/>



**Sep 30, 2008**      **Sep 30, 2007**  
(Rupees in thousand)


**6. TRANSACTIONS WITH RELATED PARTIES**

Significant related parties transactions are as follows:

Common expenses charged to related parties	<b>652</b>	564
Sales of goods	<b>199,396</b>	180,056
Key management compensation:		
Salaries and other short term employee benefits	<b>13,727</b>	13,207
Post employment benefits	<b>520</b>	437
Pension	<b>8,971</b>	-

**7. DATE OF AUTHORISATION**

These financial statements were authorised for issue on October 28, 2008 by the Board of Directors of the company.

  
**Abrar Hasan**  
Chief Executive

  
**Zahid Majeed**  
Director



## **NATIONAL FOODS LIMITED**

National Foods Limited (NFL), founded in 1970, is today Pakistan's leading multi-category Food Company with over 250 different products in 12 categories. It is the only food Company in Pakistan to have ISO 9001 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. NFL is dedicated to improving the well-being of society through continuous development of innovative food products and through a wide-ranging corporate social responsibility program.







A young Chilli plant  
*Capsicum annuum*



NATIONAL FOODS LIMITED  
[www.nfoods.com](http://www.nfoods.com)