



Third Quarterly Report  
2009-10

year  
of  
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“change in all  
things is sweet.”  
Aristotle.



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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. Ford Rhodes Sidat Hyder & Co. Chartered Accountants

## COMPANY MANAGEMENT

Mr. Abrar Hasan	Managing Director / Chief Executive
Mr. Shakaib Arif	Chief Operating Officer
Mr. Kamran Khan	Chief Commercial Officer
Mr. Waqas Abrar Khan	General Manager Human Resource

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<b>AUDITORS</b>	
A. F. Ferguson & Co.	Chartered Accountants State Life Building, 1-C, I.I. Chundrigar Road, Karachi
<b>SHARE REGISTRATION OFFICE</b>	
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
<b>PRINCIPAL BANKERS</b>	
<b>Bank Al-Habib Limited</b>	I.I. Chundrigar Road Branch, Karachi S.I.T.E Branch, Karachi New Garden Town Branch, Lahore
<b>Royal Bank of Scotland (RBS)</b> (Formerly ABN AMRO Bank)	16, Abdullah Haroon Road, Karachi
<b>MCB Bank Limited</b>	Shaheen Complex Branch, Karachi
<b>United Bank Limited</b>	I.I. Chundrigar Road, Karachi
<b>Bank Al Falah Limited</b> (Islamic Banking Group)	Port Qasim Authority Branch, Karachi
<b>Barclays Bank Plc, Pakistan</b>	Dawood Centre, M.T. Khan Road, Karachi
<b>Meezan Bank Limited</b>	M.T. Khan Road, Karachi
<b>Bank Islami Pakistan Limited</b>	S.I.T.E. Branch, Karachi.
<b>Habib Bank Limited</b>	S.I.T.E. Branch, Karachi.
<b>REGISTERED OFFICE</b>	12/CL-6, Claremont Road, Civil Lines, Karachi 75530 P.O.Box No. 15509 Phone: 35662687, 35670540, 35670585, 35670793 & 35672268 Fax: 35684870

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# THIRD QUARTERLY REPORT TO THE SHAREHOLDERS

On behalf of the Board of Directors of National Foods Limited, I am pleased to present to you the unaudited financial statements of the third quarter and nine months ended March 31, 2010 along with certain performance indicators thereof. These financial statements are submitted in accordance with the Section 245 of the Companies Ordinance, 1984.

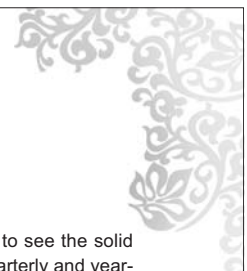
## SUMMARY

Summary of the results are presented below:

	Jan 2010 to Mar 2010	Jan 2009 to Mar 2009	Growth	% of Net Sales		
				Jan-Mar 2009-10	2008-09	Variance (+/-)
<b>Top Line Growth</b>						
<b>Corporate Sales</b>						
Gross sales	1,429,250	1,090,830	31.02%			
Net sales	1,088,321	814,324	33.65%			
<b>Local sales</b>						
Gross sales	1,247,869	964,926	29.32%			
Net sales	906,940	688,420	31.74%			
<b>Export sales</b>						
Gross sales	181,381	125,904	44.06%			
Net sales	181,381	125,904	44.06%			
<b>Gross Profit</b>	<b>299,935</b>	<b>229,056</b>	<b>30.94%</b>	<b>27.56%</b>	<b>28.13%</b>	<b>(0.57%)</b>
<b>Bottom Line Growth</b>						
Operating profit	75,262	38,877	93.59%	6.92%	4.77%	2.15%
Other income	9,322	5,866	58.92%	0.86%	0.72%	0.14%
Pre-tax profit	49,367	10,525	369.05%	4.54%	1.29%	3.25%
Net profit	37,097	8,525	335.16%	3.41%	1.05%	2.36%
<b>Expense Control</b>						
Selling expenses	74,037	62,453	18.55%	6.80%	7.67%	(0.87%)
Cartage and freight & forwarding	48,018	27,198	76.55%	4.41%	3.34%	1.07%
Advertising and sales promotion	67,676	73,110	(7.43%)	6.22%	8.98%	(2.76%)
Administrative expenses	41,764	31,501	32.58%	3.84%	3.87%	(0.03%)
Other operating expenses	2,500	1,783	40.21%	0.23%	0.22%	0.01%
Financial expenses	25,895	28,352	(8.67%)	2.38%	3.48%	(1.10%)

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#### **TURNOVER ANALYSIS**

We are pleased to report record sales for the quarter. We are particularly gratified to see the solid improvement in Local sales and will continue to focus our efforts in this area. The quarterly and year-to-date growth is attributable to our strategy of continuing focus on our key product categories. As mentioned in the earlier report this year, this growth was also helped by new packaging launch which started in the last fiscal year and aggressive advertising of the brand in all media segments.

#### **NEW DEVELOPMENTS**

Our announcement in first week of April 2010 regarding "Fruitily" brand advertising campaign demonstrates our commitment to growing our top-line. Fruitily is one of its kind powdered drink, which not only is excellent in taste but also encapsulates all necessary minerals to keep body and mind going. The product is available in four exciting flavors i.e. Orange, Lemon, Mango and Mixed Fruit.

#### **PROFITABILITY ANALYSIS**

As discussed in last half yearly report, lesser allocation of advertising spends in second half of the year resulted in increased Pre-tax profit for the Quarter by Rs.38.842 million over the comparative prior period.

Gross margins as a percentage of net sales for the quarter is under pressure mainly due to increase in material prices both locally and internationally, impact of depreciation of Pak Rupee on our imports, and the consequential increase observed across all cost categories particularly in fuel and energy prices, transportation costs, labour costs etc. All these factors have resulted in escalation of production costs of food products and consequential erosion of gross margins.

#### **FUTURE OUTLOOK**

I am pleased with the direction and momentum of our business. The combination of our focused strategy, disciplined investment decisions on brand imaging and packaging, and the appropriate reinvestment in the business has built a solid platform for growth, and I feel comfortable that this will allow us to meet our targeted growth objectives for the year. Although the sales growth is expected to contribute positively to the bottom line, investments in new category launches put pressure on the company in terms of meeting its bottom line targets. The Company hopes to gain significantly in the future years through this investment.

**Abrar Hasan**  
Chief Executive

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# CONDENSED INTERIM BALANCE SHEET

AS AT MARCH 31, 2010

	Note	(Un-audited) Mar 31, 2010	(Audited) Jun 30, 2009
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Property, plant and equipment	2	662,515	614,004
Intangibles		28,245	35,668
Long term deposits		7,111	5,163
		<b>697,871</b>	<b>654,835</b>
<b>Current Assets</b>			
Stores, spares and loose tools		5,407	5,432
Stock in trade		1,341,910	846,977
Trade debts		247,127	274,556
Advances		20,028	29,044
Trade deposits and prepayments		13,169	6,660
Other receivables		753	2,632
Tax refunds due from / adjustable with the government		97,537	76,435
Cash and bank balances		36,435	15,205
		<b>1,762,366</b>	<b>1,256,941</b>
		<b>2,460,237</b>	<b>1,911,776</b>
<b>SHARE CAPITAL AND RESERVES</b>			
Issued, subscribed and paid-up capital		414,427	331,542
Unappropriated profit		319,831	323,844
		<b>734,258</b>	<b>655,386</b>
<b>NON-CURRENT LIABILITIES</b>			
Long term financing		30,000	60,000
Liabilities against assets subject to finance leases		6,356	13,700
Deferred liability - Retirement benefits		9,394	6,780
Deferred tax		59,564	59,999
		<b>105,314</b>	<b>140,479</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables		517,136	460,626
Accrued interest / mark up		14,172	17,764
Short term borrowings		899,588	485,536
Current maturity of:			
Long term financing		40,000	40,000
Liabilities against assets subject to finance leases		14,608	12,510
Provision for income tax		99,373	82,000
Due to the government - Sales tax/ Special excise duty		35,788	17,475
		<b>1,620,665</b>	<b>1,115,911</b>
<b>COMMITMENTS</b>			
	3	<b>2,460,237</b>	<b>1,911,776</b>

The annexed notes 1 to 8 form an integral part of this financial information.

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Abrar Hasan  
Chief Executive

  
Zahid Majeed  
Director



# CONDENSED INTERIM PROFIT AND LOSS ACCOUNT

FOR THE NINE MONTHS ENDED  
MARCH 31, 2010 (UNAUDITED)

	Quarter ended		Nine months ended	
	March 31, 2010	March 31, 2009	March 31, 2010	March 31, 2009
	(Rupees in thousand)			
Net sales				
Local	906,940	688,420	2,931,145	2,539,803
Export	181,381	125,904	422,278	290,536
	<b>1,088,321</b>	814,324	<b>3,353,423</b>	2,830,339
Cost of sales	<b>788,386</b>	585,268	<b>2,362,670</b>	1,994,263
Gross profit	<b>299,935</b>	229,056	<b>990,753</b>	836,076
Distribution cost	189,731	162,761	705,328	506,619
Administrative expenses	41,764	31,501	119,274	104,699
Other operating expenses	2,500	1,783	10,700	13,406
	<b>233,995</b>	196,045	<b>835,302</b>	624,724
Other operating income	9,322	5,866	22,883	12,434
Profit from operations	<b>75,262</b>	38,877	<b>178,334</b>	223,786
Finance costs	<b>25,895</b>	28,352	<b>64,627</b>	70,569
Profit before taxation	<b>49,367</b>	10,525	<b>113,707</b>	153,217
Taxation	<b>12,270</b>	2,000	<b>34,835</b>	53,131
Profit after taxation	<b>37,097</b>	8,525	<b>78,872</b>	100,086
Earnings per share - Rupees <sup>7</sup>	<b>0.90</b>	0.21	<b>1.90</b>	2.42

The annexed notes 1 to 8 form an integral part of this financial information.

  
Abrar Hasan  
Chief Executive

  
Zahid Majeed  
Director

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# CONDENSED INTERIM CASH FLOW STATEMENT

FOR THE NINE MONTHS ENDED  
MARCH 31, 2010 (UNAUDITED)

	Note	Mar 31, 2010	Mar 31, 2009
(Rupees in thousand)			
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash generated from operations	4	(142,148)	302,819
Finance cost paid		(63,348)	(60,801)
Income tax paid		(38,999)	(30,787)
Net increase in long term deposits		(1,948)	(937)
<b>Net cash (used)/from operating activities</b>		<b>(246,443)</b>	<b>210,294</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment		(107,098)	(106,094)
Sale proceeds on disposal of property, plant and equipment		4,193	386
Return receipt on term deposit		-	492
<b>Net cash used in investing activities</b>		<b>(102,905)</b>	<b>(105,216)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Repayment of long term financing		(30,000)	(33,000)
Liabilities against assets subject to finance lease (net)		(13,474)	17,110
Dividend paid		-	(177)
<b>Net cash used in financing activities</b>		<b>(43,474)</b>	<b>(16,067)</b>
Net (decrease) / increase in cash and cash equivalents		(392,822)	89,011
Cash and cash equivalents at the beginning of the period		(470,331)	(522,845)
Cash and cash equivalents at the end of the period	5	(863,153)	(433,834)

The annexed notes 1 to 8 form an integral part of this financial information.

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Abrar Hasan  
Chief Executive

  
Zahid Majeed  
Director

# CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY

FOR THE NINE MONTHS ENDED  
MARCH 31, 2010 (UNAUDITED)

	Issued subscribed and paid up capital	Capital reserve - share premium	Unappropriated profit	Total
	← (Rupees in thousand) →			
Balance as at June 30, 2008	55,257	6,102	454,566	515,925
Issue of 5 bonus shares for every 1 share held	276,285	(6,102)	(270,183)	-
Profit for the nine months ended March 31, 2009	-	-	100,086	100,086
<b>Balance as at March 31, 2009</b>	<b>331,542</b>	<b>-</b>	<b>284,469</b>	<b>616,011</b>
<b>Profit for the quarter ended June 30, 2009</b>	<b>-</b>	<b>-</b>	<b>39,375</b>	<b>39,375</b>
<b>Balance as at June 30, 2009</b>	<b>331,542</b>	<b>-</b>	<b>323,844</b>	<b>655,386</b>
Issue of 1 bonus share for every 4 shares held	82,885	-	(82,885)	-
Profit for the nine months ended March 31, 2010	-	-	78,872	78,872
<b>Balance as at March 31, 2010</b>	<b>414,427</b>	<b>-</b>	<b>319,831</b>	<b>734,258</b>

The annexed notes 1 to 8 form an integral part of this financial information.

  
Abrar Hasan  
Chief Executive

  
Zahid Majeed  
Director

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# NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION

FOR THE NINE MONTHS ENDED  
MARCH 31, 2010 (UNAUDITED)

## 1. BASIS OF PREPARATION

- 1.1 This condensed interim 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, 2009.

	<b>Mar 31, 2010</b>	<b>Jun 30, 2009</b>
(Rupees in thousand)		
<b>2. PROPERTY, PLANT AND EQUIPMENT</b>		
2.1 Operating assets - at net book value - note 2.2	<b>535,134</b>	565,799
Capital work in progress - at cost		
Civil work in progress	<b>33,515</b>	5,341
Plant and machinery	<b>61,282</b>	8,737
Advance against acquisition of land	<b>27,417</b>	27,417
Advance to suppliers	-	4,296
Vehicles pending delivery	<b>2,052</b>	897
Computer software	<b>3,115</b>	1,517
	<b>662,515</b>	614,004
	<b>Nine months ended</b>	
	<b>Mar 31, 2010</b>	<b>Mar 31, 2009</b>
(Rupees in thousand)		
2.2 Additions and Disposals during the period		
<b>Additions</b>		
Building on leasehold land	-	6,224
Plant and machinery including generators	<b>3,890</b>	37,390
Motor vehicles	<b>10,586</b>	21,300
Others	<b>10,326</b>	7,085
	<b>24,802</b>	71,999
<b>Disposals - Net Book Value</b>		
Plant and machinery	<b>670</b>	-
Motor Vehicles	<b>1,397</b>	599
	<b>2,067</b>	599

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### 3. COMMITMENTS

3.1 Aggregate commitments for capital expenditure as at March 31, 2010 amounted to Rs 24.00 million (June 30, 2009: Rs 4.14 million).

	<u>Nine months ended</u>	
	<b>Mar 31, 2010</b>	<b>Mar 31, 2009</b>
	(Rupees in thousand)	
<b>4. CASH GENERATED FROM OPERATIONS</b>		
Profit before taxation	113,707	153,217
Adjustments for non-cash charges and other items		
Depreciation on property, plant and equipment	72,171	59,294
Deferred liability - Retirement benefits	9,394	8,971
Finance cost	59,756	65,947
Gain on disposal of property, plant and equipment	(2,126)	(386)
Return on term deposit	-	(492)
Provision for slow moving stock in trade (net)	(15,000)	30,013
	<b>124,195</b>	<b>163,347</b>
Profit before working capital changes	<b>237,902</b>	<b>316,564</b>
<b>EFFECT ON CASH FLOW DUE TO WORKING CAPITAL CHANGES</b>		
(Increase) / Decrease in current assets		
Stores, spares and loose tools	25	1,898
Stock in trade	(479,933)	(41,138)
Trade debts	18,035	35,410
Advances	9,016	(15,561)
Deposits and prepayments	(6,509)	(18,784)
Other receivables	1,879	(967)
	<b>(457,487)</b>	<b>(39,142)</b>
Increase in current liabilities		
Trade and other payables	41,037	16,391
Due to the government	36,400	9,006
	<b>77,437</b>	<b>25,397</b>
	<b>(142,148)</b>	<b>302,819</b>
<b>5. CASH AND CASH EQUIVALENTS</b>		
Cash and bank balances	36,435	15,565
Running finance under markup arrangements	(899,588)	(449,399)
	<b>(863,153)</b>	<b>(433,834)</b>

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**Nine months ended**  
**Mar 31, 2010      Mar 31, 2009**  
(Rupees in thousand)

**6. TRANSACTIONS WITH RELATED PARTIES**

Relationship with the company	Nature of transactions		
Associated companies / Undertakings:	Reciprocal arrangements for sharing of services	<b>2,298</b>	1,599
	Sale of goods	<b>598,557</b>	522,417
	Purchase of goods	<b>12,896</b>	-
Employee benefit plan	Contribution to employees provident fund	<b>7,963</b>	6,505
<b>Key management compensation:</b>			
	Salaries and other short term employee benefits	<b>51,878</b>	43,579
	Contribution to Provident Fund	<b>2,683</b>	1,925
	Post retirement benefits of Executive Directors	<b>2,614</b>	8,971

**7. EARNINGS PER SHARE**

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

For the purposes of calculating earnings per share, number of shares outstanding as at March 31, 2009 have been increased to reflect the bonus shares issued during the period.

**8. DATE OF AUTHORISATION OF ISSUE**

This condensed interim financial information was authorised for issue on April 26, 2010 by the Board of Directors of the Company.

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**Abrar Hasan**  
Chief Executive

  
**Zahid Majeed**  
Director

*A chilli field in Kunri, Sindh,  
where National Foods is carrying out  
Aflatoxin-reduction research.*





National Foods Limited  
[www.nfoods.com](http://www.nfoods.com)



As part of National Foods' sustainability strategy,  
this report has been printed on recycled paper to help save the environment.