The background of the entire page is a photograph of a person's hands and forearms gripping the rungs of a wooden ladder. The ladder is made of light-colored wood and is set against a plain, light-colored wall. The lighting is warm, highlighting the texture of the wood and the skin. The ladder's rungs are horizontal, and the person's hands are firmly grasping them, suggesting a sense of climbing or reaching upwards.

RISING ABOVE  
first half yearly report  
December 31, 2005

## Contents

2	Company Information
3	First Half Yearly Report to the Shareholders
4	Review Report to the Members
5	Balance Sheet
6	Profit and Loss Account
7	Cash Flow Statement
8	Statement of Changes in Equity
9	Selected Notes to the Financial Statements



## Company Information

### Board of Directors

Mr. A. Majeed  
Mr. Abrar Hasan  
Mr. Waqar Hasan  
Mr. Khawar M. Butt  
Mr. Zahid Majeed  
Mr. Ebrahim Qasim  
Mr. Jawaid Iqbal

Chairman  
Managing Director / Chief Executive  
Director  
Director  
Director  
Director  
Director

### Audit Committee

Mr. Waqar Hasan  
Mr. Khawar M. Butt  
Mr. Ebrahim Qasim

Chairman  
Member  
Member

### Company Secretary / Secretary Audit Committee

Mr. Muhammad Kashif Iqbal

### Internal Auditor

Ford Rhodes Sidat Hyder & Co.

### Chief Financial Officer

Mr. Shakaib Arif

### Company Management

Mr. Abrar Hasan  
Mr. S.M.H. Wasti  
Mr. Munawar Ahmad Rana  
Mr. Waqas Abrar Khan  
Mr. Shakaib Arif  
Mr. Zaheer Ahmed  
Mr. Syed Ahmed Iqbal  
Dr. Syed Asad Sayeed

Chief Executive  
General Manager Material Management  
General Manager Operations  
Group Human Resource Manager  
Head of Finance  
Sales and Marketing Manager (Kitchen Foods Division)  
Sales and Marketing Manager (Family Foods Division)  
Head of Quality and Research & Development

### Auditors

A. F. Ferguson & Co., Chartered Accountants,  
State Life Building, 1-C, Karachi

### Registrar

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 E-mail: ncs1@noble-computers.com

### Bankers

Bank Al-Habib Limited  
I.I. Chundrigar Road Branch, Karachi  
S.I.T.E Branch, Karachi  
New Garden Town Branch, Lahore

ABN AMRO Bank  
Abdullah Haroon Road, Karachi

Muslim Commercial Bank  
Clifton Corporate Branch, Karachi  
Shaheen Complex Branch, Karachi

### Registered Office

12/CL-6, Claremont Road, Civil Lines, Karachi 75530  
P.O. Box No.15509 Phone: 5662687, 5670540,  
5670585, 5670646, 5670793 & 5672268 Fax: 5684870

## First Half Yearly Report to the Shareholders

On behalf of the Board of Directors of National Foods Limited, I am pleased to present the un-audited accounts and main performance indicators for the first half ending 31st December 2005

	Rs. in thousands			% of Net sales		
	Jul 2005 to Dec 2005	Jul 2004 to Dec 2004	Growth	Jul-Dec 2005	2004	Variance (+/-)
<b>Top Line Growth</b>						
<b>Corporate sales</b>						
Gross sales	1,471,464	1,170,562	25.71%			
Net sales	1,086,207	879,410	23.52%			
<b>Local sales</b>						
Gross sales	1,370,822	1,045,592	31.10%			
Net sales	987,580	755,071	30.79%			
<b>Export sales</b>						
Gross sales	100,642	124,970	(19.47%)			
Net sales	98,627	124,339	(20.68%)			
<b>Bottom Line Growth</b>						
Gross Profit	335,141	254,944	31.46%	30.85%	28.99%	1.86%
Profit from operations	82,251	58,292	41.10%	7.57%	6.63%	0.94%
Pre-tax profit	67,746	51,560	31.39%	6.24%	5.86%	0.37%
Profit after taxation	45,174	33,023	36.80%	4.16%	3.76%	0.40%
<b>Expense Control</b>						
Distribution Cost	218,228	166,866	30.78%	20.09%	18.97%	1.12%
Administrative Expenses	31,506	24,713	27.49%	2.90%	2.81%	0.09%
Other operating Expenses	5,360	7,455	(28.10%)	0.49%	0.85%	(0.35%)
Financial Expenses	14,505	6,732	115.46%	1.34%	0.77%	0.57%

The company has performed well in terms of top line growth, finishing with a corporate growth rate of 25.7%. Of note is the strong performance of the domestic market with 31.1% growth. On the other hand export sales have registered a decline by 19.4%. As also mentioned in the first quarter report, the Company is in advance stage of finalizing the evaluation and appointment process of new distributor(s) in the Middle East region after which the export deficit is expected to be reduced.

Due to the seasonal effect of couple of religious events, the local sales have benefited more in terms of higher growth than average. This is expected to smooth out in the balance six months. Moreover, sales in the northern region have also affected due to the unfortunate incident of earthquake in October 2005.

Despite inflationary pressure in general, the cost of materials are with in budgetary controls with an exception of sugar. In addition, product trimming and price adjustments in certain cases also contribute in improving the overall gross margins by 1.86%. This results in exceeding the pre-tax benchmark of 5% set in its budget.

The company is actively working on developing its supply chain program and is also looking to redesign its quality assurance system and its organization for management along the modern techniques and principles. It is expected that all these measures will contribute in increasing the bottom line growth in the future.

The Bin Qasim project is going at a satisfactory pace and is expected to be completed with in the targeted time.

The general outlook remains bullish with increased consumer spending and good macro economic support figures. The management continues to work hard and is expected to deliver a company performance in line with budgetary expectations.



Abrar Hasan  
Chief Executive



## Review Report to the members

We have reviewed the annexed balance sheet of National Foods Limited as at December 31, 2005 and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof (here-in-after referred to as the "financial statements"), for the half year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to issue a report on these financial statements based on our review. The figures of the profit and loss account for the quarters ended December 31, 2004 and 2005 and the notes forming part thereof have not been reviewed as we are required to review only the cumulative figures for the half year ended December 31, 2005.

We conducted our review in accordance with the International Standard on Review Engagement 2400. This Standard requires that we plan and perform the review to obtain moderate assurance as to whether the financial statement are free of material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the annexed financial statements are not presented fairly, in all material respects, in accordance with approved accounting standards as applicable in Pakistan.

A. F. Ferguson & Co.

Chartered Accountants

Karachi

Dated: February 18, 2006

## Balance Sheet as at December 31, 2005

	Note	Unaudited December 31, 2005 (Rupees in thousand)	Audited June 30, 2005
<b>ASSETS</b>			
Non-Current Assets			
Property, plant and equipment	2	288,620	226,575
Intangibles		3,915	4,290
Long term deposits		2,357	2,139
		<u>294,892</u>	<u>233,004</u>
Current Assets			
Stores, spare parts and loose tools		4,092	3,299
Stock in trade		269,312	356,655
Trade debts		173,633	75,877
Advances		37,040	14,029
Trade deposits and prepayments		3,411	1,822
Other receivables		2,084	913
Tax refunds due from / adjustable with the government		11,991	17,553
Cash and bank balances		111,829	5,579
		<u>613,392</u>	<u>475,727</u>
		<u>908,284</u>	<u>708,731</u>
<b>SHARE CAPITAL AND RESERVES</b>			
Issued, subscribed and paid-up capital		42,505	42,505
Capital Reserve - Share premium		6,102	6,102
Unappropriated profit		173,292	134,494
		<u>221,899</u>	<u>183,101</u>
<b>NON-CURRENT LIABILITIES</b>			
Long term financing		141,000	76,000
Liabilities against assets subject to finance leases		4,351	2,331
Deferred tax		8,954	11,808
		<u>154,305</u>	<u>90,139</u>
<b>CURRENT LIABILITIES</b>			
Trade and other payables		276,274	140,458
Accrued interest / mark up		9,087	4,688
Short term borrowings		212,657	270,718
Current maturity of:			
Long term financing		6,000	6,000
Liabilities against assets subject to finance leases		2,062	1,627
Provision for income tax		26,000	12,000
		<u>532,080</u>	<u>435,491</u>
<b>COMMITMENTS</b>	3	<u>908,284</u>	<u>708,731</u>

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

  
Abrar Hasan  
 Chief Executive

  
Khawar M. Butt  
 Director




## Profit and Loss Account

for the Half Year Ended December 31, 2005 (unaudited)

	Quarter ended		Half year ended	
	December 31, 2005	December 31, 2004	December 31, 2005	December 31, 2004
	← (Rupees in thousand) →			
Net sales				
Local	535,313	410,246	987,580	755,071
Export	49,404	41,611	98,627	124,339
	584,717	451,857	1,086,207	879,410
Cost of sales	385,051	321,046	751,066	624,466
Gross profit	199,666	130,811	335,141	254,944
Distribution cost	130,360	83,731	218,228	166,866
Administrative expenses	16,815	12,812	31,506	24,713
Other operating expenses	3,815	5,687	5,360	7,455
	150,990	102,230	255,094	199,034
Other operating income	2,158	288	2,204	2,382
Profit from operations	50,834	28,869	82,251	58,292
Finance costs	9,746	3,898	14,505	6,732
Profit before taxation	41,088	24,971	67,746	51,560
Taxation	15,572	13,037	22,572	18,537
Profit after taxation	25,516	11,934	45,174	33,023
Earnings per share - basic and diluted - Rupees	6.00	2.81	10.63	7.77

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

  
Abrar Hasan  
 Chief Executive

  
Khawar M. Butt  
 Director

## Cash Flow Statement

for the Half Year Ended December 31, 2005 (unaudited)

	Note	2005 (Rupees in thousand)	2004
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash generated from operations	4	194,800	48,031
Finance cost paid		(10,106)	(5,551)
Income tax paid		(5,864)	(5,721)
Net increase in long term deposits		(218)	(139)
Net cash from operating activities		178,612	36,620
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Fixed capital expenditure		(74,551)	(16,725)
Sale proceeds of property, plant and equipment on disposal		2,040	2,323
Net cash used in investing activities		(72,511)	(14,402)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Long term financing - net		65,000	(3,000)
Liabilities against assets subject to finance leases - net		(892)	(929)
Dividend paid		(5,898)	(16,654)
Net cash from / (used in) financing activities		58,210	(20,583)
Net increase in cash and cash equivalents		164,311	1,635
Cash and cash equivalents at the beginning of the period		(265,139)	(205,023)
Cash and cash equivalents at the end of the period	5	(100,828)	(203,388)

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



Abrar Hasan  
Chief Executive



Khawar M. Butt  
Director






## Statement of Changes in Equity

for the Half Year Ended December 31, 2005 (unaudited)

	Issued subscribed and paid up capital	Capital reserve share premium	Unappropriated profit	Total
← (Rupees in thousand) →				
Balance as at June 30, 2004	42,505	6,102	120,843	169,450
Final dividend for the year ended June 30, 2004 (Rs 4 per share)	-	-	(17,002)	(17,002)
Profit for the half year ended December 31, 2004	-	-	33,023	33,023
Balance as at December 31, 2004	42,505	6,102	136,864	185,471
Balance as at June 30, 2005	42,505	6,102	134,494	183,101
Final dividend for the year ended June 30, 2005 (Rs 1.5 per share)	-	-	(6,376)	(6,376)
Profit for the half year ended December 31, 2005	-	-	45,174	45,174
Balance as at December 31, 2005	42,505	6,102	173,292	221,899

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

  
Abrar Hasan  
 Chief Executive

  
Khawar M. Butt  
 Director

## Notes To The Financial Statement

for the Half Year Ended December 31, 2005 (unaudited)

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 Stock Exchanges.

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, 2005.

	Note	2005 (Rupees in thousand)	2004
2. PROPERTY, PLANT AND EQUIPMENT			
2.1 Operating Assets	2.2	192,469	182,688
Capital work in progress		96,151	43,887
		<u>288,620</u>	<u>226,575</u>

		2005 (Rupees in thousand)	2004
2.2 Additions and Disposals during the period			
Additions			
Leasehold land		-	1,500
Plant and machinery including generators		18,466	8,729
Furniture and Fittings		259	336
Motor Vehicles		3,093	4,118
Office and other equipments		1,411	369
Computers		1,997	691
Laboratory equipment		32	-
		<u>25,258</u>	<u>15,743</u>
Disposals - Net Book Value			
Plant and machinery including generators		71	19
Motor Vehicles		1,689	1,494
		<u>1,760</u>	<u>1,513</u>



2.3 During the period, the Company reviewed the expected pattern of consumption of the future economic benefits embodied in the assets of the Company and consequently changed the depreciation method from reducing balance to straight line. Moreover, the Company also reviewed the useful life of its assets and accordingly, adjusted the depreciation rates wherever necessary. Had these changes not been made the depreciation charge for the period would have been lower by Rs 1.73 million.

3. COMMITMENTS

3.1 Aggregate commitments for capital expenditure amounted to Rs 99.63 million (June 30, 2005: Rs 122.98 million).

	2005	2004
	(Rupees in thousands)	
<b>4. CASH GENERATED FROM OPERATIONS</b>		
Profit before taxation	67,746	51,560
Adjustments of non-cash charges and other items		
Depreciation on property, plant and equipment	13,717	10,646
Amortisation of intangibles	751	599
Finance cost	14,505	6,732
Gain on disposal of property, plant and equipment	(280)	(811)
Stock written off	2,565	-
Provision for slow moving stock	12,624	-
	<u>43,882</u>	<u>17,166</u>
Profit before working capital changes	111,628	68,726
<b>EFFECT ON CASH FLOWS DUE TO WORKING CAPITAL CHANGES</b>		
Decrease / (increase) in current assets		
Stores, spare parts and loose tools	(793)	(153)
Stock in trade	72,154	(44,411)
Trade debts	(97,756)	(56,977)
Advances	(23,011)	(13,346)
Deposits and prepayments	(1,589)	(3,352)
Other receivables	(1,171)	(792)
	(52,166)	(119,031)
Increase / (Decrease) in current liabilities		
Trade and other payables	135,338	98,336
	<u>194,800</u>	<u>48,031</u>

	2005 (Rupees in thousands)	2004
5. CASH AND CASH EQUIVALENTS		
Cash and bank balances	111,829	12,028
Short term borrowings	(212,657)	(215,416)
	<u>(100,828)</u>	<u>(203,388)</u>

	2005 (Rupees in thousand)	2004
6. TRANSACTIONS WITH RELATED PARTIES		
Relationship with the company	Nature of transactions	
Associated companies / Undertakings:	Reciprocal arrangements for sharing of services	1,217
	Sale of goods	224,927
Post employment benefit plans	Contribution to employees provident fund	2,281
		2,143

#### 7. SEASONALITY IMPACT

The company's results are affected by seasonal sales due to the occurring of Ramazan and two Eids during a particular period of the year where company's products are sold in a larger number.

#### 8. CORRESPONDING FIGURES

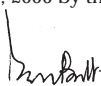
Previous period's figures have been rearranged and reclassified wherever necessary for the purposes of comparison. Major changes made during the period are as follows:

Reclassification from	Reclassification to	Reason for reclassification	Rupees in thousand
Net Sales	Distribution cost	To bring inline with annual financial statements	38,332
Distribution cost	Net Sales	- do -	45,896
Other operating expenses	Administrative expenses	- do -	1,419

#### 9. DATE OF AUTHORISATION

These financial statements were authorised for issue on February 18, 2006 by the Board of Directors of the company.

  
Abrar Hasan  
 Chief Executive

  
Khawar M. Butt  
 Director

to be a part of our success, visit us at  
[www.nfoods.com](http://www.nfoods.com)



*and more...*

National Foods Limited, 12/CL-6, Claremont Road, Civil Lines Karachi-75530, Pakistan.