engro foods

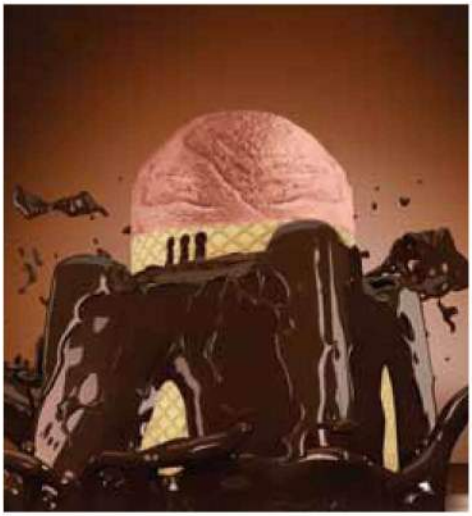
khud pakistan

Half Year 2013 Accounts









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company information

Board of Directors

Aliuddin Ansari	Chairman
Sarfaraz A. Rehman	Chief Executive Officer
Abdul Samad Dawood	Non-Executive Director
Abdul Samad Khan	Non-Executive Director
Muhammed Amin	Non-Executive Director
Mujahid Hamid	Non-Executive Director
Roshaneh Zafar	Non-Executive Director
Ruhail Mohammed	Non-Executive Director
Shahzada Dawood	Non-Executive Director
Zafar Ahmed Siddiqui	Non-Executive Director

Chief Financial Officer
Imran Anwer

Company Secretary
Faiz Chapra

Members of Audit Committee

Zafar Ahmed Siddiqui	Chairman
Abdul Samad Khan	Member
Ruhail Mohammed	Member
Shahzada Dawood	Member

The secretary of committee is
Muhammad Imran Khalil, GM Internal Audit Department

Auditors
A. F. Ferguson & Company
Chartered Accountants
State Life Building No. 1- C
I.I. Chundrigar Road
Karachi - 74000, Pakistan.
Tel: +92(21) 32426682 -6 / 32426711-5
Fax: +92(21) 32415007 / 32427938

Share Registrar
M/s. FAMCO Associates (Private) Limited
First Floor, State Life Building 1-A, I.I. Chundrigar Road, Karachi - 74000, Pakistan.

Bankers
Al-Baraka Bank Pakistan Limited
Allied Bank Limited
Askari Bank Limited
Bank Al-Falah Limited
Bank Al-Habib Limited
Bank of Punjab
Barclays Bank PLC Pakistan
Burj Bank Limited
Citibank N.A.
Dubai Islamic Bank Pakistan Limited
Faysal Bank Limited
Habib Bank Limited
Habib Metropolitan Bank Limited
HSBC Bank Middle East Limited
JS Bank Limited
MCB Bank Limited
Meezan Bank Limited
National Bank of Pakistan
NIB Bank Limited
Pak Brunei Investment Company Limited
Soneri Bank Limited
Standard Chartered Bank Pakistan Limited
The Bank of Khyber
United Bank Limited

Registered Office
6th Floor, The Harbor Front Building
HC-3, Marine Drive, Block - 4, Clifton
Karachi - 75600, Pakistan.
Tel: +92(21) 35297501 - 35297510
Fax: +92(21) 35810669
e-mail: info@engro.com
Website: www.engrofoods.com | www.engro.com

directors' report

directors' report to the shareholders for the half year ended june 30, 2013

On behalf of the Board of Directors of Engro Foods Limited (a majority owned subsidiary of Engro Corporation Limited), we are pleased to submit the report and the condensed interim financial information of the Company for the half year ended June 30, 2013.

PRINCIPAL ACTIVITIES:

Engro Foods Limited is engaged in the manufacturing, processing and marketing of dairy products, juices, frozen desserts and ice cream. Engro Foods is also managing Al-Safa brand in North America and a dairy farm in Pakistan.

The business encompasses established household brands in Pakistan such as Olper's, Omore, Olper's Lite, Dairy Omung, Tarang and Omung Lassi.

BUSINESS REVIEW

During first half 2013, the Company„s revenue fell by 4.3%. First half witnessed slowdown in consumer demand due to distribution issues in certain cities, electoral process in country, deteriorating law and order situation and severe power crisis. The Company reported revenue of Rs.18,933 million, decline by Rs. 832 million over corresponding period and declared profit of Rs.1,113 million.



DAIRY AND BEVERAGES SEGMENT



Volumetric decline of 13% compared to the corresponding period is primarily due to decline in industry volume,coupled with operational challenges. However, market share remained 51% as of May 2013. The Company is in process of revamping its distribution structure to support growth trajectory going forward.

ICE CREAM AND FROZEN DESSERTS SEGMENT



During the first half 2013, the Ice Cream industry declined by 17% due to persistent load shedding. The Company reported revenue of Rs 1,441 million, decreased by Rs. 114 million over corresponding peroid last year. The segment made an operational loss of Rs. 125 million as opposed to loss of Rs. 166 million in first half of 2012. Initial response on new launch "Monkey peel" is very encouraging.

DAIRY FARM SEGMENT



The Company„s Dairy Farm located in Nara continued to remain a rich and nutritious source of raw material for our dairy segment. The Farm currently produces 24,519 liters per day (compared to 29,251 liters per day in the corresponding period) with a total herd size of 3,329 animals. The average milking animals in first half 2013 were 1,196 compared to 1,520 in the corresponding period. Due to dip in value of animals in the international market in first half 2013 and feed cost inflation, the Nara Farm registered a loss of Rs. 115 million compared to a profit of Rs. 4.8million in 2012.

ENGRO FOODS CANADA

Al-Safa Halalfi halal meat brand, with operations spread in Canada and North America fi posted sales of Canadian $5.0 million (first half of 2012: Canadian $5.7 million) due



to increased competition as new entrants pushing shelf-space. The Company reported a loss after tax of Canadian $ 707 thousand (first half of 2012: Canadian $ 670 thousand). The loss is directly consolidated in Engro Corporation financial statements and is not included in the financial performance mentioned below.

FINANCIAL PERFORMANCE

The financial performance of the company for the first half is summarized below:

(Rs. in million)	Half Year ended June 30,		Variation
	2013	2012	
Net Sales	18,933	19,765	(4.21%)
Operating Profit	1,965	1,977	
% of sales	10%	10%	
Profit after tax	1,113	1,018	9.33%
% of sales	6%	5%	
Earnings per share -basic (Rs.)	1.46	1.35	8.15%

FUTURE OUTLOOK

Strong emphasis will be placed in second half to revamp distribution structure and brand communication combined with innovation to restart market growth. The management will continue to focus on key growth parameters of; innovation, brand differentiation and continuous business expansion including expansion in new categories e.g. pilot of fresh dairy and meat.

Aliuddin Ansari
Chairman

Sarfaraz A. Rehman
Chief Executive

Karachi: July 30, 2013

auditors' report to the members on review of condensed interim financial information

Introduction

We have reviewed the accompanying condensed interim balance sheet of Engro Foods Limited as at June 30, 2013 and the related condensed interim profit and loss account, condensed interim statement of changes in equity and condensed interim statement of cash flows together with the notes forming part thereof for the half year then ended (here-in-after referred to as the "condensed interim financial information"). Management is responsible for the preparation and presentation of this condensed 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 condensed interim financial information based on our review.

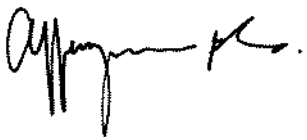
The figures of the condensed interim profit and loss account and condensed interim statement of comprehensive income for the quarters ended June 30, 2013 and 2012 have not been reviewed, as we are required to review only the cumulative figures for the half year ended June 30, 2013.

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 condensed interim financial information as of and for the half year ended June 30, 2013 is not prepared, in all material respects, in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting.



Chartered Accountants
Karachi
Date: August 27, 2013

Engagement partner: Waqas A. Sheikh

condensed interim balance sheet (unaudited) as at june 30, 2013

(Amounts in thousand)

	Note	Unaudited June 30, 2013	(Restated) Audited December 31, 2012
		Rupees	
ASSETS			
Non-Current Assets			
Property, plant and equipment	4	12,478,785	10,958,079
Biological assets		589,770	668,455
Intangible assets		128,968	104,569
Long term advances and deposits		91,163	81,862
Deferred employee share compensation expense	7	207,425	-
Advance against purchase of shares of Engro Foods Netherland B.V.		997,321	863,018
		14,493,432	12,675,983
Current Assets			
Stores, spares and loose tools		810,545	675,807
Stock-in-trade	5	3,911,735	3,494,605
Trade debts		118,271	149,074
Advances, deposits and prepayments		193,227	261,790
Other receivables		1,677,763	1,440,167
Taxes recoverable		297,098	347,075
Deferred employee share compensation expense	7	180,368	-
Derivative financial instruments		-	25,787
Short term investments		247,479	2,708,750
Cash and bank balances		979,654	422,008
		8,416,140	9,525,063
TOTAL ASSETS		22,909,572	22,201,046
EQUITY AND LIABILITIES			
Equity			
Share capital	6	7,664,411	7,615,776
Advance agianst issue of share capital		-	1,234
Share premium	6.1	863,649	810,280
Employee share compensation reserve	7	432,885	-
Hedging reserve		(14,659)	16,761
Remeasurement of post employment benefits - Actuarial loss		(18,811)	(22,954)
Unappropriated profit		2,722,940	1,610,222
		11,650,415	10,031,319
Non-Current Liabilities			
Long term finances		5,636,681	6,023,070
Deferred taxation	8	1,816,636	1,652,520
Deferred income		12,894	17,390
		7,466,211	7,692,980
Current Liabilities			
Current portion of			
- long term finances		1,012,238	1,685,823
- obligations under finance lease		1,295	2,589
Trade and other payables		2,547,165	2,394,108
Derivative financial instruments		22,210	-
Accrued interest / mark-up on			
- long term finances		208,550	302,273
- short term finances		1,488	6,565
Short term finances	9	-	85,389
		3,792,946	4,476,747
Contingencies and Commitments	10		
TOTAL EQUITY AND LIABILITIES		22,909,572	22,201,046

The annexed notes 1 to 18 form an integral part of this condensed interim financial information.

Chairman

Chief Executive

condensed interim
profit and loss account (unaudited)
for the half year ended june 30, 2013

(Amounts in thousand except for earnings per share)

	Note	Quarter ended June 30,		Half Yearly ended June 30,	
		2013	2012	2013	2012
		Rupees			
Net sales		9,309,357	10,098,821	18,932,879	19,765,137
Cost of sales		(6,853,119)	(7,512,071)	(13,635,580)	(14,922,219)
Gross profit		2,456,238	2,586,750	5,297,299	4,842,918
Distribution and marketing expenses		(1,273,049)	(1,394,304)	(2,637,387)	(2,409,604)
Administrative expenses		(280,034)	(188,558)	(550,622)	(473,808)
Other operating expenses		(118,652)	(81,570)	(223,499)	(154,300)
Other operating income		8,304	106,515	79,432	171,520
Operating profit		792,807	1,028,833	1,965,223	1,976,726
Finance costs		(198,017)	(231,571)	(397,900)	(440,837)
Profit before taxation		594,790	797,262	1,567,323	1,535,889
Taxation		(134,695)	(265,487)	(454,605)	(518,215)
Profit for the period		460,095	531,775	1,112,718	1,017,674
Earnings per share					
- basic	11	0.60	0.71	1.46	1.35
- diluted	11	0.60	0.70	1.45	1.34

The annexed notes 1 to 18 form an integral part of this condensed interim financial information.

Chairman

Chief Executive

condensed interim statement of comprehensive income (unaudited) for the half year ended June 30, 2013

(Amounts in thousand)

	Quarter ended June 30,		Half Yearly ended June 30,	
	2013	2012 (Restated)	2013	2012 (Restated)
	Rupees			
Profit for the period	460,095	531,775	1,112,718	1,017,674
Other comprehensive income:				
Items that may be reclassified subsequently to profit or loss				
Loss on hedges during the period	(17,749)	(38,820)	(63,755)	(38,820)
Less: Adjustments for amounts transferred to initial carrying amounts of hedged items - capital work-in-progress/ stock-in-trade	16,497	13,486	15,758	41,452
Income tax relating to hedges	666	8,867	16,577	(921)
	(586)	(16,467)	(31,420)	1,711
Items that will not be reclassified to profit or loss				
Remeasurement of post employment benefits obligation - Actuarial loss, net of tax	4,143	(2,612)	4,143	(2,612)
Other comprehensive income / (loss) for the period, net of tax	3,557	(19,079)	(27,277)	(901)
Total comprehensive income for the period	463,652	512,696	1,085,441	1,016,773

The annexed notes 1 to 18 form an integral part of this condensed interim financial information.

Chairman

Chief Executive

condensed interim statement of changes in equity (unaudited) for the half year ended june 30, 2013

(Amounts in thousand)

			Reserves					
			Capital			Revenue		
	Share capital	Advance against issue of share capital	Share premium	Employee share compensation reserve	Hedging reserve	Unappropriated Profit / (Accumulated loss)	Remeasurement of post employment benefits - Actuarial loss	Total
	Rupees							
Balance as at January 1, 2012 (Audited) as previously reported	7,517,889	-	722,182	-	(18,178)	(984,951)	-	7,236,942
Effect of change in accounting policy due to application of IAS - 19 (Revised) note 3.1 net of tax	-	-	-	-	-	-	(17,730)	(17,730)
Balance as at January 1, 2012 - restated	7,517,889	-	722,182	-	(18,178)	(984,951)	(17,730)	7,219,212
Transaction with owners								
Share capital issued	44,120	-	39,709	-	-	-	-	83,829
Total comprehensive income for the half year ended June 30, 2012	-	-	-	-	1,711	1,017,674	(2,612)	1,016,773
Balance as at June 30,2012 (unaudited)	7,562,009	-	761,891	-	(16,467)	32,723	(20,342)	8,319,814
Transactions with owners								
Advance received during the period	-	1,234	-	-	-	-	-	1,234
Share capital issued	53,767	-	48,389	-	-	-	-	102,156
	53,767	1,234	48,389	-	-	-	-	103,390
Total comprehensive income for the half year ended December 31, 2012	-	-	-	-	33,228	1,577,499	(2,612)	1,608,115
Balance as at December 31, 2012 - restated	7,615,776	1,234	810,280	-	16,761	1,610,222	(22,954)	10,031,319
Transactions with owners								
Share capital issued during the period	48,635	(1,234)	53,369	-	-	-	-	100,770
Employee share compensation reserves	-	-	-	432,885	-	-	-	432,885
Total comprehensive income for the half year ended June 30, 2013	-	-	-	-	(31,420)	1,112,718	4,143	1,085,441
Balance as at June 30, 2013 (Unaudited)	7,664,411	-	863,649	432,885	(14,659)	2,722,940	(18,811)	11,650,415

The annexed notes 1 to 18 form an integral part of this condensed interim financial information.

Chairman

Chief Executive

condensed interim statement of cash flows (unaudited) for the half year ended june 30, 2013

(Amounts in thousand)

	Note	Half Year ended June 30, 2013	Half Year ended June 30, 2012 (Restated)
		Rupees	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	12	2,391,282	1,512,770
Finance costs paid		(496,700)	(511,748)
Taxes paid		(226,071)	(230,203)
Retirement benefits paid		(69,353)	(68,995)
Long term advances and deposits - net		(9,301)	(44,339)
Net cash generated from operating activities		1,589,857	657,485
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of			
- property, plant and equipment		(2,533,054)	(1,418,105)
- intangible assets		-	(8,990)
Proceeds from disposal of			
- property, plant and equipment		200,546	39,907
- biological assets		21,607	17,778
Advance against purchase of shares of Engro Foods Netherlands B.V.		(134,303)	-
Net cash utilized in investing activities		(2,445,204)	(1,369,410)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of share capital		100,770	83,829
Proceeds from long term finances		377,635	516,899
Repayments of			
- long term finances		(1,440,000)	(141,666)
- obligations under finance lease		(1,294)	(1,295)
Net cash (utilized in) / generated from financing activities		(962,889)	457,767
Net decrease in cash and cash equivalents		(1,818,236)	(254,158)
Cash and cash equivalents at beginning of the period		3,045,369	1,392,478
Cash and cash equivalents at end of the period	13	1,227,133	1,138,320

The annexed notes 1 to 18 form an integral part of this condensed interim financial information.

Chairman

Chief Executive

notes to the condensed interim financial information (unaudited) for the half year ended june 30, 2013

(Amounts in thousand)

1. LEGAL STATUS AND OPERATIONS

1.1 Engro Foods Limited (the Company), is a public listed company incorporated in Pakistan, under the Companies Ordinance, 1984, and its shares are quoted on the Karachi and Lahore Stock Exchanges. The Company is a subsidiary of Engro Corporation Limited (ECL) and its registered office is situated at 6th Floor, The Harbour Front Building, Plot No. HC-3, Block-4, Scheme No. 5, Clifton, Karachi.

1.2 The principal activity of the Company is to manufacture, process and sell dairy products, beverages, ice cream and frozen desserts. The Company also owns and operates a dairy farm. Further, the Company also has presence in the international market; its first venture being to manage the halal food business, Al Safa Halal, Inc. (Al-Safa) in North America, which has been acquired by ECL through Engro Foods Netherlands B.V. (EF Netherlands). The entire interest of ECL in EF Netherlands is proposed to be acquired by the Company at cost subject to requisite approvals from the regulators.

2. BASIS OF PREPARATION

2.1 This condensed interim financial information is unaudited and has been prepared in accordance with the requirements of the International Accounting Standard 34 fi ‚Interim Financial Reporting„ and provisions of and directives issued under the Companies Ordinance, 1984 (the Ordinance). In case where requirements differ, the provisions of or directives issued under the Ordinance have been followed. This condensed interim financial information has, however, been subjected to limited scope review by the auditors, as required by the Code of Corporate Governance, and should be read in conjunction with the financial statements of the Company for the year ended December 31, 2012.

2.2 The preparation of this condensed interim financial information in conformity with the approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

During preparation of this condensed interim financial information, the significant judgments made by the management in applying the Company's accounting policies and the key sources of estimation and uncertainty are the same as those that apply to the financial statements for the year ended December 31, 2012, except for the estimates / judgements regarding the new Employees Share Options Scheme (ESOS). The management has determined the fair value of the options under the new ESOS (note 7.1) using the Black Scholes Pricing model. The estimated fair value of these options and the underlying assumptions are disclosed in note 7.2. Any changes in these assumptions may materially impact the carrying amount of deferred employee share compensation expense and employee share compensation reserve within the current and next financial year.

3. ACCOUNTING POLICIES

The accounting policies and the methods of computation adopted in the preparation of this condensed interim financial information are consistent with those applied in the preparation of the annual financial statements for the year ended December 31, 2012 except as follows:

3.1 Initial application of a standard, amendment or interpretation to an existing standard:

The Company has applied IAS 19 fi Employee benefits (revised in June 2011) which is applicable for annual periods beginning on or after January 01, 2013. In accordance with the transitional provisions as set out in IAS 19 the Company has applied the revised standard retrospectively and, consequently the earliest periods presented in the Condensed Interim Statement of Changes in Equity and the Condensed Interim Balance Sheet have been restated.

(Amounts in thousand)

The revised standards (i) requires past service cost to be recognized immediately in the profit or loss; (ii) replaces the interest cost on the defined benefit obligation and the expected return on plan assets with a net interest cost based on the net defined benefit asset or liability and the discount rate, measured at the beginning of the year; (iii) introduced a new term ‚remeasurements„ which is made up of actuarial gains and losses, the difference between actual investment returns and the return implied by the net interest cost. The revised standard eliminates the corridor approach and requires to recognize all remeasurement gain or loss / actuarial gain or loss in the Other Comprehensive Income (OCI) immediately as they occur.

The impacts of retrospective application of IAS 19 (Revised) are as follows:

	Trade and other payables	Taxes recoverable	Other Comprehensive, Income - Remeasurement of post employment benefits - Actuarial loss
	Rupees		
Balance as at December 31. 2011 as previously reported	2,343,506	1,443	-
Restatement - recognition of remeasurement gain/loss in OCI	27,277	9,547	17,730
Restated balance as at December 31, 2011 / January 1, 2012	2,370,783	10,990	17,730
Balance as at December 31, 2012 as previously reported	2,358,793	334,714	-
Restatement - recognition of remeasurement gain/loss in OCI			
- For the year 2011	27,277	9,547	17,730
- For the year 2012	8,038	2,814	5,224
Restated balanace as at December 31, 2012	2,394,108	347,075	22,954

The effect of change in accounting policy, due to adoption of IAS 19 (Revised), on the profit and loss account was immaterial.

		Unaudited June 30, 2013	Audited December 31, 2012
		Rupees	
4.	PROPERTY, PLANT AND EQUIPMENT		
	Operating assets, at net book value (notes 4.1 and 4.2)	10,586,591	10,192,682
	Capital work-in-progress (note 4.3)	1,892,194	765,397
		12,478,785	10,958,079
4.1	Following additions, including transfers from capital work-in-progress, were made to operating assets during the period / year:		
	Land (note 4.1.1)	213,044	-
	Buildings on freehold land	16,589	320,333
	Plant, machinery and related equipment	984,888	2,216,129
	Office equipment and furniture and fittings	21,302	43,733
	Computers	34,779	51,583
	Vehicles	88,216	396,860
		1,358,818	3,028,638

(Amounts in thousand)

4.1.1 The Company has acquired land measuring 537 Kanals, 37 Marlas surrounding its Sahiwal plant through the Commissioner, Sahiwal Division, Government of Punjab (the Government) action, by invoking provisions of Land Acquisition Act, 1894.

Under the said law, the price of the nearby land was assessed by the Government authorities and the Company paid Rs. 212,514 to the Government for purchase of land. The Government will in turn pay to the respective land owners.

Few land owners have filed writ petitions against the Government's action and the matter is in progress at Lahore High Court. Stay has been granted against most of the petitions filed against the Company. The management is of the view that the purchase of land is legal and therefore, the case will be decided in its favour.

4.2 The details of operating assets disposed during the period are as follows:

	Cost	Accumulated depreciation	Net book value	Sales proceeds	Mode of disposal
	Rupees				
Vehicles - owned	76,648	(37,855)	38,793	51,153	Insurance claims / Employee buyback / Bidding Theft recovery
Computer Equipment	480	(88)	392	157	Insurance claim
Office Equipment	623	(207)	416	439	Insurance claim
Plant, machinery and related equipment	151,477	(3,053)	148,424	148,797	Insurance claim / Bidding
June 30, 2013	229,228	(41,203)	188,025	200,546	
December 31, 2012	138,047	(76,763)	61,284	73,460	

	Unaudited June 30, 2013	Audited December 31, 2012
4.3 Movement in capital work-in-progress during the period / year	Rupees	
Balance as at January 1	765,397	1,182,959
Additions:		
Land	220,574	11,832
Building on freehold land	47,656	184,262
Plant, machinery and equipment	2,120,962	1,947,690
IS and milk automation projects	5,140	73,993
Office equipment, furniture, fittings and computers	81,701	85,491
Vehicles	57,021	319,474
	2,533,054	2,622,742
Less:		
Transfer to:		
- Operating assets	(1,358,818)	(3,028,638)
- Intangibles	(47,439)	(11,666)
Balance as at June 30 / December 31	1,892,194	765,397

notes to the condensed interim financial information (unaudited) for the half year ended june 30, 2013

(Amounts in thousand)

	Unaudited June 30, 2013	Audited December 31, 2012
	Rupees	
5. STOCK-IN-TRADE		
Raw and packaging material (note 5.1)	2,651,281	2,595,145
Work in process	524,836	276,851
Finished goods (note 5.2)	735,618	622,609
	3,911,735	3,494,605

5.1 Includes Rs. 5,432 (2012: Rs. Nil) in respect of stock held by third parties.

5.2 Includes Rs. 39,875 (2012: Rs. 40,198) in respect of stock held by third parties.

6. SHARE CAPITAL		
Authorized capital		
850,000,000 (December 31, 2012 : 850,000,000) Ordinary shares of Rs. 10 each	8,500,000	8,500,000
Issued, subscribed and paid-up capital		
Rs. 766,441,075 (December 31, 2012 : 761,577,575) Ordinary shares of Rs. 10 each fully paid in cash (note 6.1)	7,664,411	7,615,776

6.1 During the period, the Company issued and allotted (i) 65,000 shares at Rs. 19 per share; and (ii) 4,798,500 shares at Rs. 21 per share to employees who exercised their share options under the previous Employees' Share Option Scheme (ESOS).

7. EMPLOYEES' SHARE OPTION SCHEME

7.1 During the period, the shareholders of the Company in their meeting held on March 22, 2013 approved a new Employees' Share Option Scheme (the Scheme) for granting of options to certain critical employees up to 16.9 million new ordinary shares, to be determined by the Board Compensation Committee. The Scheme was approved by the Securities and Exchange Commission of Pakistan on May 27, 2013.

Under the Scheme, options can be granted in years 2013 to 2015. 50% of the options granted will vest in two years whereas the remaining 50% will vest in three years from the date of the grant of options. However, for the purpose of the options granted in 2013 (Option year), 50% of such options shall vest on April 1, 2015 with remaining 50% will vest on April 01, 2016. Further, those eligible employees who will join the Company or will be promoted to the employee cadre / grade eligible for options, till April 1, 2015 are also entitled to these options. These options do not carry dividends or voting rights and the maximum number of options to be issued to a single eligible employee is for 1.69 million ordinary shares. These options are exercisable within 3 years from the end of vesting period. For options granted in 2013 (Option Year), the exercise price would be as follows:

	Rupees / Share
April 1, 2016 - March 31, 2017	191.89
April 1, 2017 - March 31, 2018	220.67
April 1, 2018 - March 31, 2019	253.77

(Amounts in thousand)

7.2 The fair value of options determined as at June 30, 2013 using the Black-Scholes model was Rs. 31.14 per option. The significant inputs into the model were share price; being the quoted price as at reporting date June 30, 2013 of Rs. 140.77, exercise price of Rs. 191.89, volatility of 31.91%, an expected option life of approximately three and half years and annual risk free interest rate of 9.12%. The volatility has been measured as the standard deviation of quoted share prices over the last one year. The Company estimates that during the year 2013 (Option year) options for 13.9 million shares will be granted and the vesting period of these options has commenced from April 1, 2013, therefore, Employee share compensation reserve and the related Deferred expense amounting to Rs. 432,885 has been recognized out which Rs. 45,092 has been amortized as charge for the period.

8. DEFERRED TAXATION

As at June 30, 2013, deferred tax asset / liability on the deductible / taxable temporary differences has been recognized at the rate of 34%, being the rate substantively enacted at the balance sheet date and is expected to apply to the periods when the asset is realized or the liability is settled.

9. SHORT TERM FINANCES - secured

9.1 The facilities for short term running finance available from various banks, which represent the aggregate sale price of all mark-up arrangements, amounts to Rs. 3,600,000 (December 31, 2012: Rs. 3,600,000). The unutilized balance against these facilities as at June 30, 2013 was Rs. 3,600,000 (December 31, 2012: Rs. 3,514,611). The rates of mark-up on these finances are KIBOR based and range from 10.02% to 12.68% (December 31, 2012: 10.38 % to 13.60%) per annum. These facilities are secured by way of hypothecation upon all the present and future current assets of the Company.

9.2 The facilities for opening letters of credit and guarantees as at June 30, 2013 amounts to Rs. 5,315,000 (December 31, 2012: Rs. 5,315,000), of which the amount remaining unutilized as at June 30, 2013 was Rs. 3,242,317 (December 31, 2012: Rs. 2,881,378).

10. CONTINGENCIES AND COMMITMENTS

10.1 The Company has provided bank guarantees to:

- Sui Southern Gas Company Limited amounting to Rs. 39,037 (December 31, 2012: Rs. 39,037) under the contract for supply of gas;
- Sui Northern Gas Company Limited amounting to Rs. 34,350 (December 31, 2012: Rs. 34,350) under the contract for supply of gas;
- Collector of Sales Tax, Large Tax Payers Unit (LTU), Karachi amounting to Rs. 258,712 (December 31, 2012: Rs. 258,712) under Sales Tax Rules 2006, against refund claim of input sales tax. Against these guarantees, sales tax refunds amounting to Rs. 172,000 (December 31, 2012: Rs. 172,000) have been received to-date;
- Controller Military Accounts, Rawalpindi amounting to Rs. 2,546 (December 31, 2012: Rs. 4,680), as collateral against supplies; and
- Collector of Customs, Model Customs Collectorate amounting to Rs. 54,081 (December 31, 2012: Nil) against payment of sales tax on import of plant and machinery.

10.2 As at June 30, 2013 post-dated cheques amounting to Rs. 38,349 (December 31, 2012: Rs. 15,106) have been provided as collateral to customs authorities, in accordance with the procedures prescribed by the Government of Pakistan through notifications dated July 8, 2011 and August 1, 2011.

(Amounts in thousand)

10.3 Commitments in respect of capital expenditure contracted for but not incurred as at June 30, 2013 amounted to Rs. 1,728,478 (December 31, 2012: Rs. 2,139,539).

10.4 Commitments in respect of purchase of certain commodities as at June 30, 2013 amounted to Rs. 679,434 (December 31, 2012: Rs. 181,420).

10.5 Commitments for rentals payable under the Ijarah agreement as at June 30, 2013 amounted to Rs. 262,555 (December 31, 2012: Rs. 296,581).

10.6 Following is the position of the Company's open tax assessments/matters as at June 30, 2013:

a) The Company in accordance with section 59 B (Group Relief) of the Income Tax Ordinance, 2001 has surrendered to ECL, the Holding Company, its tax losses amounting to Rs. 4,288,134 out of the total tax losses of Rs. 4,485,498 for the years ended December 31, 2006, 2007 and 2008 (Tax years 2007, 2008 and 2009) for cash consideration aggregating to Rs. 1,500,847, being equivalent to tax benefit/effect thereof.

The Company has been designated as part of the Group of Engro Corporation Limited by the Securities and Exchange Commission of Pakistan (SECP) through its letter dated February 26, 2010. Such designation was mandatory for availing Group tax relief under section 59 B(2)(g) of the Ordinance and a requirement under the Group Companies Registration Regulations, 2008 (the Regulations) notified by the SECP on December 31, 2008.

The Appellate Tribunal, in respect of surrender of aforementioned tax losses by the Company to the Holding Company for the years ended December 31, 2006 and 2007, decided the appeals in 2010 in favour of the Company, whereby, allowing the surrender of tax losses by the Company to the Holding Company. The tax department has filed reference application thereagainst before the Sindh High Court, which is under the process of hearings. However, in any event, should the reference application be upheld and the losses are returned to the Company, it will only culminate into recognition of deferred income tax asset thereon with a corresponding liability to the Holding Company for refund of the consideration received. As such there will be no effect on the results of the Company.

During the period, the Appellate Tribunal also decided the similar appeal filed by the Holding Company for the year ended December 31, 2008 in favor of the Holding Company.

b) The Company„s appeal against the order of Commissioner Inland Revenue (CIR) for reduction of tax loss from Rs. 1,224,964 to Rs. 1,106,493 for the tax year 2007, is currently in the process of being heard. However, the Company, based on the opinion of its tax consultant, is confident of a favourable outcome of the appeal, and hence the deferred tax asset recognized on taxable losses has not been reduced by the effect of the aforementioned disallowance.

c) In 2010, the Commissioner Inland Revenue raised a demand of Rs. 337,386 for tax year 2008 by disallowing the provision for gratuity, advances and stock written-off, repair and maintenance, provision for bonus, sales promotion and advertisement expenses. Further, in the aforementioned order the consideration receivable from ECL, the Holding Company, on surrender of tax loss was added to income for the year. The Company had filed an appeal thereagainst before the Commissioner Appeals. The Commissioner Appeals through his order dated September 16, 2011, has decided certain matters in favour of the Company whereby withdrawing the demand amounting to Rs. 222,357. The Company has filed an appeal at the Tribunal level for the remainder matters remanded back or decided against the Company. The tribunal through its order dated May 3, 2013, has decided the remaining matters in favour of the Company except for certain disallowances of advances and stock written-off amounting to Rs. 8,642. These disallowances will be claimed in tax year 2013 as significant time has lapsed, and no amount has been realized thereagainst to date. Therefore, there will be no effect on the results of the Company.

(Amounts in thousand)

10.7 During the period, the Sindh High Court, in respect of another company, has overturned the interpretation of the Appellate Tribunal on Section 113 (2) (c) of the Income Tax Ordinance, 2001 and has decided that the minimum tax paid cannot be carried forward in respect of the year where no tax has been paid on account of loss for the year. The Company„s management, based on the opinion of its legal advisor, is of the view that the above order is not correct and would not be maintained by the Supreme Court, which they intend to approach, if required. Therefore, the Company has adjusted the carried forward minimum tax of Rs. 197,021 while computing the tax payable for the period and has also maintained the adjustment of carried forward minimum tax amounting to Rs. 409,945, made in prior years.

10.8 Ministry of Finance, Economic Affairs, Government of Pakistan (MoF) through SRO 501(I)/2013 dated June 12, 2013 exempted the supplies of Milk and Cream (Dairy products) from levy of sales tax effective from June 13, 2013. Sales tax on these supplies was previously charged at the rate of zero per cent (Zero-rated). Consequent to the aforementioned SRO, input tax could not be claimed/adjusted against the output tax on these supplies. Subsequently, on Company„s plea the MoF through SRO 670/(I)/2013 dated July 18, 2013 reinstated the status of Zero-rating of Dairy products. However, effective date of applicability of Zero-rating is not mentioned in SRO 670/(I)/2013, therefore, the ‚Zero rating„ or ‚exempt„ status of the supplies from June 13, 2013 to July 17, 2013 (interim period) is not clear. The Company, based on the opinion of its tax advisor, is of the view that input tax paid on purchase of raw material for Dairy products during the interim period is recoverable and accordingly an amount of Rs. 24,018 has been recorded as sales tax recoverable.

	Quarter ended June 30,		Half year ended June 30,	
	2013	2012	2013	2012
	Rupees			
11. EARNINGS PER SHARE - Basic and diluted				
The basic and dilutive earning per share of the Company, are based on:				
Profit for the period	460,095	531,775	1,112,718	1,017,674
	Number of shares			
Weighted average number of ordinary shares issue during the period (in thousand)	764,655	752,948	763,744	753,025
Weighted average number of ordinary shares for determination of dilluted EPS (in thousand)	766,342	762,362	766,158	760,883

notes to the condensed interim financial information (unaudited) for the half year ended june 30, 2013

(Amounts in thousand)

	Unaudited June 30, 2013	(Restated) Unaudited June 30, 2012
	Rupees	
12. CASH GENERATED FROM OPERATIONS		
Profit before taxation	1,567,323	1,535,889
Adjustment for non-cash charges and other items:		
- Depreciation	713,975	577,379
- Amortization of intangible assets	23,040	20,063
- Amortization of deferred income	(4,496)	-
- Amortization of arragement fees on long term loan	2,391	-
- Amortization of deferred employee share compensation expenses	45,092	-
- (Gain) / Loss on disposal of biological assets	9228	(1,928)
- Biological assets written-off	50,533	-
- Gain on disposal of operating assets	(12,521)	(5,727)
- Provision against sales tax refundable	-	34,894
- (Gain) / Loss arising from changes in fair value less estimated point-of-sale costs of biological assets	(2,683)	(97,496)
- Provision for retirement and other service benefits	35,944	27,787
- Provision/ (Reversal of provision) for stock -in- trade	42,851	(7,936)
- Provision (Reversal of provision) for slow moving spares	2,174	(683)
- Provision for impairment of trade debts	507	576
- Provision for impairment of property, plant and equipment	62,909	-
- Finance costs	397,900	440,837
Working capital changes (note 12.1)	(542,885)	(1,010,885)
	2,391,282	1,512,770
12.1 Working capital changes		
(Increase) / Decrease in current assets		
- Stores, spares and loose tools	(136,912)	(72,066)
- Stock-in-trade	(459,981)	(1,107,202)
- Trade debts	30,296	(2,829)
- Advances, deposits and prepayments	68,563	8,856
- Other receivables	(237,596)	113,294
	(735,630)	(1,059,947)
Increase / (Decrease) in current liabilities		
- Trade and other payables - net	192,745	49,062
	(542,885)	(1,010,885)
13. CASH AND CASH EQUIVALENTS		
Cash and bank balances	979,654	398,711
Short term investments	247,479	1,103,000
Short term finances	-	(363,391)
	1,227,133	1,138,320

(Amounts in thousand)

14. TRANSACTIONS WITH RELATED PARTIES

14.1 Transactions with related parties, other than those which have been disclosed elsewhere in this condensed interim financial information, are as follows:

		Half Year ended June 30, 2013	Rupees	2012
Nature of relationship	**Nature of transactions**			
Holding company	Arrangement for sharing of premises, utilities, personnel and assets	104,074		95.319
	Advances against purchase of shares of Engro Foods Netherlands B.V.	134,303		-
	Pension fund contribution	552		3,922
	Provident fund contribution	10,635		11,978
	Gratuity fund contribution	946		2,194
Subsidiary and associated companies	Arrangement for sharing of premises, utilities, personnel and assets	62,579		74,900
	Provident fund contribution	-		40
	Purchases of goods and services	78,162		198,789
	Donation	10,000		7,050
	Subsidy received	1,527		5,000
Contribution to staff retirement funds	Provident Fund	82,343		40,277
	Gratuity Fund	68,407		65,000
Key management personnel	Managerial remuneration	52,665		41,044
	Contribution for staff retirement benefits	6,544		5,402
	Bonus payment	78,328		46,208
	Other benefits	748		1,300

14.2 There are no transactions with key management personnel other than under the terms of the employment.

14.3 While the Company manages the Al-Safa business, no remuneration has been charged to Engro Foods Canada Limited as the business is owned by ECL and will be acquired from ECL at cost subject to regulatory approvals.

15. SEGMENT INFORMATION

15.1 The basis of segmentation and reportable segments presented in this condensed interim financial information are the same which were disclosed in annual financial statements for the year ended December 31, 2012.

Unallocated assets include long term investments, long and short term advances, deposits and prepayments, other receivables, taxes recoverable and cash and bank balances.

Liabilities are not segment-wise reported to the Board of Directors. All the unallocated results and assets are reported to the Board of Directors at entity level. Inter-segment sales of processed milk and powder are made by Dairy & Beverages to Ice cream and inter-segment sales of raw milk are made by Dairy farm to Dairy, at market value.

(Amounts in thousand)

15.2 Information regarding the Company's operating segments is as follows:

	Unaudited Half year ended June 30, 2013					Unaudited Half year ended June 30, 2012				
	Dairy and Beverages	Ice Cream & frozen desserts	Dairy farm	Business Development	Total	Dairy and Beverages	Ice Cream & frozen desserts	Dairy farm	Business Development	Total
	Rupees									
Results for the period										
Net Sales	17,579,743	1,441,388	250,380	-	19,271,511	18,396,999	1,555,191	274,129	-	20,226,319
Inter-segment sales	(102,023)	-	(250,380)	-	(352,402)	(206,230)	-	(274,129)	-	(480,359)
Net revenue from external customers	17,477,720	1,441,388	-	-	18,919,108	18,190,769	1,555,191	-	-	19,745,960
Raw milk sales	13,771	-	-	-	13,771	19,177	-	-	-	19,177
	17,491,491	1,441,388	-	-	18,932,879	18,209,946	1,555,191	-	-	19,765,137
Segment profit / (loss)	1,363,204	(124,808)	(115,114)	(10,564)	1,112,718	1,195,221	(166,463)	4,868	(15,952)	1,017,674
	As at June 30, 2013 Unudited					As at December 31, 2012 Audited				
Assets										
- Segment assets	14,921,707	2,974,754	1,538,213	4,594	19,439,268	12,513,007	2,989,067	1,632,305	5,470	17,139,849
- Un-allocated assets	-	-	-	-	3,470,304	-	-	-	-	5,061,197
	14,921,707	2,974,754	1,538,213	4,594	22,909,572	12,513,007	2,989,067	1,632,305	5,470	22,201,046

16. SEASONALITY

The Company's 'Ice Cream' and 'Beverages' business is subject to seasonal fluctuation, with demand of ice cream and beverages products increasing in summer. The Company„s dairy business is also subject to seasonal fluctuation due to lean and flush cycles of milk collection. Therefore, revenues and profits are not necessarily indicative of result to be expected for the full year.

notes to the condensed interim financial information (unaudited) for the half year ended june 30, 2013

(Amounts in thousand)

17. CORRESPONDING FIGURES

17.1 In order to comply with the requirements of International Accounting Standard 34 - 'Interim Financial Reporting', the condensed interim balance sheet has been compared with the balances of annual audited financial statements of preceding financial year, whereas the condensed interim profit and loss account, condensed interim statement of comprehensive income, condensed interim statement of changes in equity and condensed interim statement of cash flows have been compared with the balances of comparable period of immediately preceding financial year.

17.2 During the period, for better presentation, the following reclassifications were made in these condensed interim financial statements:

Description	Rupees	Head of account in condensed interim financial information for the period June 30, 2012	Head of account in condensed interim financial information for the period June 30, 2013
Profit and loss account			
Communication and other office expenses	55,000	Distribution and marketing expenses	Administrative expenses
Statement of cash flows			
Short-term investments	1,103,000	Cash flows from investing activities	Cash and cash equivalents

The effect of other reclassifications is not material.

18. DATE OF AUTHORIZATION FOR ISSUE

This condensed interim financial information was authorized for issue on July 30, 2013 by the Board of Directors of the Company.

Chairman

Chief Executive

111-211-211
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