engro foods

# khud pakistan

Third Quarter 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 |
| Muhammed Amin | Non-Executive Director |
| Mujahid Hamid | Non-Executive Director |
| Roshaneh Zafar | Non-Executive Director |
| Ruhail Mohammed | Non-Executive Director |
| Sabrina Dawood | 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 |
| 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
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
The Bank of Punjab
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

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 nine months ended September 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 nine months of 2013, the Company's revenue fell by 4.7%. First nine months witnessed a declining industry on the back of slowdown in consumer demand coupled with distribution issues in certain cities. The Company reported revenue of Rs. 28,023 million, decline by Rs.1,372 million over corresponding period, and declared profit of Rs. 1,241 million.




### DAIRY AND JUICES SEGMENT

Volumetric decline of 12% compared to the corresponding period, is primarily due to operational challenges coupled with decline in industry volume. However, market share remained 50.5% as of August 2013. The Company has taken corrective actions to revamp its distribution.



### ICE CREAM AND FROZEN DESSERTS SEGMENT




During the first nine months of 2013, the Ice Cream industry declined by 16% due to persistent load shedding. The Company reported revenue of Rs. 2,266 million, decreased by Rs. 170 million. The segment made an operational loss of Rs. 136 million as opposed to loss of Rs. 276 million in first nine months of 2012. The Company continues to innovate in this segment and the response to our new launch "Monkey peel" has been 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 21,226 liters per day (compared to 24,480 liters per day in the



corresponding period) with a total herd size of 3,911 animals. The average milking animals in first nine months of 2013 were 1,136 compared to 1,409 in the corresponding period. Due to dip in value of animals in the international market and feed cost inflation during the peroid, the Nara Farm registered a loss of Rs.129 million compared to a loss of Rs. 25 million in 2012.

## ENGRO FOODS CANADA

Al-Safa Halal-halal meat brand, with operations spread in Canada and North America - posted sales of Rs. 719 million (first nine months of 2012: Rs. 810 million) due to




increased competition as new entrants pushing shelf-space. The Company reported a loss after tax of Rs. 109 million (first nine months of 2012: Rs. 135 million). The loss is directly consolidated in Engro Corporation financial statements and is not included in the financial performance mentioned below. The Company shall acquire the entire interest in Engro Foods Canada at cost, subject to requisite approvals from the regulators.

## FINANCIAL PERFORMANCE

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

| (Rs. in million) | Nine months ended September 30, | | Variation |
|---|---|---|---|
| | 2013 | 2012 | |
| Net Sales | 28,023 | 29,395 | (4.7%) |
| Operating Profit | 2,329 | 3,110 | |
| % of sales | 8% | 11% | |
| Profit after tax | 1,241 | 1,619 | (23.3%) |
| % of sales | 4% | 5.5% | |
| Earnings per share -basic (Rs.) | 1.62 | 2.14 | (24.3%) |

## FUTURE OUTLOOK

Based on the corrective actions taken, we are confident that volume declines will be arrested and the Company will resume its growth in sales volumes. 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. pilots of fresh dairy and meat.

Aliuddin Ansari
Chairman

Sarfaraz A. Rehman
Chief Executive

Karachi: October 22, 2013

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

(Amounts in thousand)

| ASSETS | Note | Unaudited September 30, 2013 | (Restated) Audited December 31, 2012 |
|---|---|---|---|
| | | Rupees | |
| **Non-Current Assets** | | | |
| Property, plant and equipment | 4 | 13,279,240 | 10,958,079 |
| Biological assets | | 669,887 | 668,455 |
| Intangible assets | | 117,841 | 104,569 |
| Long term advances and deposits | | 96,035 | 81,862 |
| Deferred employee share compensation expense | 7 | 67,018 | - |
| Advance against purchase of shares of Engro Foods Netherland B.V. | | 1,032,667 | 863,018 |
| | | 15,262,688 | 12,675,983 |
| **Current Assets** | | | |
| Stores, spares and loose tools | | 835,236 | 675,807 |
| Stock-in-trade | 5 | 2,657,612 | 3,494,605 |
| Trade debts | | 146,545 | 149,074 |
| Advances, deposits and prepayments | | 167,164 | 261,790 |
| Other receivables | | 2,257,492 | 1,440,167 |
| Taxes recoverable | | 341,335 | 347,075 |
| Deferred employee share compensation expense | 7 | 74,464 | - |
| Derivative financial instruments | | 43,324 | 25,787 |
| Short term investments | | - | 2,708,750 |
| Cash and bank balances | | 499,601 | 422,008 |
| | | 7,022,773 | 9,525,063 |
| TOTAL ASETS | | 22,285,461 | 22,201,046 |
| EQUITY AND LIABILITIES | | | |
| **Equity** | | | |
| Share capital | 6 | 7,664,911 | 7,615,776 |
| Advance agianst issue of share capital | | - | 1,234 |
| Share premium | 6.1 | 864,199 | 810,280 |
| Employee share compensation reserve | 7 | 178,714 | - |
| Hedging reserve | | 28,594 | 16,761 |
| Remeasurement of post employment benefits - Actuarial loss | | (18,811) | (22,954) |
| Unappropriated profit | | 2,850,720 | 1,610,222 |
| | | 11,568,327 | 10,031,319 |
| **Non-Current Liabilities** | | | |
| Long term finances | | 5,194,168 | 6,023,070 |
| Deferred taxation | 8 | 1,748,045 | 1,652,520 |
| Deferred income | | 10,970 | 17,390 |
| | | 6,953,183 | 7,692,980 |
| **Current Liabilities** | | | |
| Current portion of | | | |
| - long term finances | | 965,966 | 1,685,823 |
| - obligations under finance lease | | 648 | 2,589 |
| Trade and other payables | | 2,624,028 | 2,394,108 |
| Derivative financial instruments | | - | - |
| Accrued interest / mark-up on | | | |
| - long term finances | | 162,373 | 302,273 |
| - short term finances | | 1,135 | 6,565 |
| Short term finances | 9 | 9,801 | 85,389 |
| | | 3,763,951 | 4,476,747 |
| Contingencies and Commitments | 10 | | |
| TOTAL EQUITY AND LIABILITIES | | 22,285,461 | 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 nine months ended september 30, 2013

(Amounts in thousand except for earnings per share)

| | Note | Quarter ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|---|
| | | 2013 | 2012 | 2013 | 2012 |
| | | Rupees | | | |
| Net sales | | 9,090,531 | 9,630,158 | 28,023,410 | 29,395,294 |
| Cost of sales | | (7,480,530) | (7,145,584) | (21,116,110) | (22,115,803) |
| Gross profit | | 1,610,001 | 2,484,574 | 6,907,300 | 7,279,491 |
| Distribution and marketing expenses | | (1,131,073) | (1,149,661) | (3,768,459) | (3,560,265) |
| Administrative expenses | | (189,128) | (170,743) | (739,750) | (595,550) |
| Other operating expenses | | (47,783) | (102,164) | (271,282) | (256,646) |
| Other operating income | | 121,956 | 71,071 | 201,387 | 242,591 |
| Operating profit | | 363,973 | 1,133,077 | 2,329,196 | 3,109,803 |
| Finance costs | | (188,345) | (236,007) | (586,245) | (676,844) |
| Profit before taxation | | 175,628 | 897,070 | 1,742,951 | 2,432,959 |
| Taxation | | (47,848) | (296,162) | (502,453) | (814,377) |
| Profit for the period | | 127,780 | 600,908 | 1,240,498 | 1,618,582 |
| Earnings per share | | | | | |
| - basic | 11 | 0.17 | 0.79 | 1.62 | 2.14 |
| - diluted | 11 | 0.17 | 0.78 | 1.62 | 2.12 |

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 nine months ended september 30, 2013

(Amounts in thousand)

| | Quarter ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2013 | 2012 (Restated) | 2013 | 2012 (Restated) |
| | Rupees | | | |
| Profit for the period | 127,779 | 600,908 | 1,240,498 | 1,618,582 |
| Other comprehensive income: | | | | |
| Items that may be reclassified subsequently to profit or loss | | | | |
| Gain on hedges during the period | 83,367 | 38,820 | 19,612 | - |
| Less: Adjustments for amounts transferred to initial carrying amounts of hedged items - capital work-in-progress/ stock-in-trade | (17,834) | (13,486) | (2,076) | 27,966 |
| Income tax relating to hedges | (22,280) | (8,867) | (5,703) | (9,788) |
| | 43,253 | 16,467 | 11,833 | 18,178 |
| Items that will not be reclassified to profit or loss | | | | |
| Remeasurement of post employment benefits obligation - Actuarial loss, net of tax | - | (1,306) | 4,143 | (3,918) |
| Other comprehensive income / (loss) for the period, net of tax | 43,253 | 15,161 | 15,976 | 14,260 |
| Total comprehensive income for the period | 171,032 | 616,069 | 1,256,474 | 1,632,842 |

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 nine months ended september 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 | 83,497 | - | 75,147 | - | - | - | - | 158,644 |
| Total comprehensive income for the nine months ended September 30, 2012 | - | - | - | - | 18,178 | 1,618,582 | (3,918) | 1,632,842 |
| Balance as at September 30,2012 (unaudited) | 7,601,386 | - | 797,329 | - | - | 633,631 | (21,648) | 9,010,698 |
| Transactions with owners | | | | | | | | |
| Advance received during the period | - | 1,234 | - | - | - | - | - | 1,234 |
| Share capital issued | 14,390 | - | 12,951 | - | - | - | - | 27,341 |
| | 14,390 | 1,234 | 12,951 | - | - | - | - | 28,575 |
| Total comprehensive income for the three months ended December 31, 2012 | - | - | - | - | 16,761 | 976,591 | (1,306) | 992,046 |
| 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 | 49,135 | (1,234) | 53,919 | - | - | - | - | 101,820 |
| Employee share compensation reserves | - | - | - | 178,714 | - | - | - | 178,714 |
| Total comprehensive income for the nine months ended September 30, 2013 | - | - | - | - | 11,833 | 1,240,498 | 4,143 | 1,256,474 |
| Balance as at September 30, 2013 (Unaudited) | 7,664,911 | - | 864,199 | 178,714 | 28,594 | 2,850,720 | (18,811) | 11,568,327 |

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 nine months ended september 30, 2013

(Amounts in thousand)

| | Note | Nine months ended September 30, 2013 | 2012 (Restated) |
|---|---|---|---|
| | | Rupees | |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Cash generated from operations | 12 | 3,780,796 | 2,044,997 |
| Finance costs paid | | (731,575) | (915,029) |
| Taxes paid | | (409,030) | (317,440) |
| Retirement benefits paid | | (69,479) | (69,754) |
| Long term advances and deposits - net | | (14,173) | (45,655) |
| Net cash generated from operating activities | | 2,556,539 | 697,119 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Purchases of | | | |
| - property, plant and equipment | | (3,735,522) | (1,858,287) |
| - intangible assets | | (2,441) | (11,665) |
| Proceeds from disposal of | | | |
| - property, plant and equipment | | 215,728 | 53,564 |
| - biological assets | | 32,262 | 26,237 |
| Advance against purchase of shares of Engro Foods Netherlands B.V. | | (169,649) | - |
| Net cash utilized in investing activities | | (3,659,622) | (1,790,151) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from issue of share capital | | 101,820 | 158,644 |
| Proceeds from long term finances | | 377,635 | 622,096 |
| Repayments of | | | |
| - long term finances | | (1,930,000) | (465,000) |
| - obligations under finance lease | | (1,941) | (1,942) |
| Net cash (utilized in) / generated from financing activities | | (1,452,486) | 313,798 |
| Net decrease in cash and cash equivalents | | (2,555,569) | (779,234) |
| 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 | 489,800 | 613,244 |

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 nine months ended september 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 deserts. 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 - '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.

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 / judgments 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 expect as follows:

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

The Company has applied IAS 19 - 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 September 30, 2013 | Audited December 31, 2012 |
|---|---|---|---|
| | | Rupees | |
| 4. | PROPERTY, PLANT AND EQUIPMENT | | |
| | Operating assets, at net book value (notes 4.1 and 4.2) | 10,412,204 | 10,192,682 |
| | Capital work-in-progress (note 4.3) | 2,867,036 | 765,397 |
| | | 13,279,240 | 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) | 213,404 | - |
| | Buildings on freehold land | 22,963 | 320,333 |
| | Plant, machinery and related equipment | 1,171,179 | 2,216,129 |
| | Office equipment and furniture and fittings | 42,789 | 43,733 |
| | Computers | 23,669 | 51,583 |
| | Vehicles | 111,240 | 396,860 |
| | | 1,585,244 | 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 | 102,888 | (51,190) | 51,698 | 65,895 | Insurance claims / Employee buyback / Bidding Theft recovery |
| Computer Equipment | 692 | (154) | 538 | 250 | Insurance claim |
| Office Equipment | 815 | (255) | 560 | 627 | Insurance claim |
| Plant, machinery and related equipment | 151,911 | (3,162) | 148,749 | 148,956 | Insurance claim / Bidding |
| September 30, 2013 | 256,306 | (54,761) | 201,545 | 215,728 | |
| December 31, 2012 | 138,047 | (76,763) | 61,284 | 73,460 | |

| | Unaudited September 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 | 232,302 | 11,832 |
| Building on freehold land | 161,768 | 184,262 |
| Plant, machinery and equipment | 3,121,486 | 1,947,690 |
| IS and milk automation projects | 14,730 | 73,993 |
| Office equipment, furniture, fittings and computers | 113,551 | 85,491 |
| Vehicles | 91,685 | 319,474 |
| | 3,735,522 | 2,622,742 |
| Less: | | |
| Transfer to: | | |
| - Operating assets | (1,585,244) | (3,028,638) |
| - Intangibles | (48,639) | (11,666) |
| Balance as at September 30 / December 31 | 2,867,036 | 765,397 |

(Amounts in thousand)

| | Unaudited September 30, 2013 | Audited December 31, 2012 |
|---|---|---|
| | Rupees | |
| **5. STOCK-IN-TRADE** | | |
| Raw and packaging material (note 5.1) | 1,879,511 | 2,595,145 |
| Work in process | 216,962 | 276,851 |
| Finished goods (note 5.2) | 561,139 | 622,609 |
| | 2,657,612 | 3,494,605 |

5.1 Includes Rs. 4,936 (2012: Rs. Nil) in respect of stock held by third parties.

5.2 Includes Rs. 50,275 (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 | | |
| 766,491,075 (December 31, 2012 : 761,577,575) Ordinary shares of Rs. 10 each fully paid in cash (note 6.1) | 7,664,911 | 7,615,776 |

6.1 During the period, the Company issued and allotted (i) 65,000 shares at Rs. 19 per share; and (ii) 4,848,500 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 September 30, 2013 using the Black-Scholes model was Rs. 12.86 per option. The significant inputs into the model were share price; being the quoted price as at reporting date September 30, 2013 of Rs. 101.69, exercise price of Rs. 191.89, volatility of 35.93%, 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 may 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. 178,714 has been recognized out of which Rs. 37,232 has been amortized as charge for the period.

## 8. DEFERRED TAXATION

As at September 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. 3,200,000 (December 31, 2012: Rs. 3,600,000). The unutilized balance against these facilities as at September 30, 2013 was Rs. 3,190,022 (December 31, 2012: Rs. 3,514,611). The rates of mark-up on these finances are KIBOR based and range from 10.01% to 12.08% (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 September 30, 2013 amounts to Rs. 3,915,000 (December 31, 2012: Rs. 5,315,000), of which the amount remaining unutilized as at September 30, 2013 was Rs. 1,271,284 (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. 6,872 (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 September 30, 2013 post-dated cheques amounting to Rs. 93,097 (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 September 30, 2013 amounted to Rs.1,608,170 (December 31, 2012: Rs. 2,139,539).

10.4 Commitments in respect of purchase of certain commodities as at September 30, 2013 amounted to Rs. 1,242,711 (December 31, 2012: Rs. 181,420).

10.5 Commitments for rentals payable under the Ijarah agreement as at September 30, 2013 amounted to Rs. 198,004 (December 31, 2012: Rs. 296,581).

10.6 Following is the position of the Company's open tax assessments/matters as at September 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. 208,456 has been recorded as sales tax recoverable.

| | Quarter ended September 30, | | Nine months ended September 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 | 127,779 | 600,908 | 1,240,498 | 1,618,582 |
| | Number of shares | | | |
| Weighted average number of ordinary shares issue during the period (in thousand) | 766,482 | 758,494 | 764,667 | 754,877 |
| Weighted average number of ordinary shares for determination of dilluted EPS (in thousand) | 766,630 | 763,389 | 766,297 | 762,376 |

# notes to the condensed interim financial information (unaudited) for the nine months ended september 30, 2013

(Amounts in thousand)

| | Unaudited September 30, 2013 | (Restated) Unaudited September 30, 2012 |
|---|---|---|
| | Rupees | |
| **12. CASH GENERATED FROM OPERATIONS** | | |
| Profit before taxation | 1,742,951 | 2,432,959 |
| Adjustment for non-cash charges and other items: | | |
| - Depreciation | 1,070,266 | 898,097 |
| - Amortization of intangible assets | 35,367 | 30,408 |
| - Amortization of deferred income | (6,420) | - |
| - Amortization of arragement fees on long term loan | 3,607 | - |
| - Amortization of deferred employee share compensation expenses | 37,232 | - |
| - Loss / (Gain) on disposal of biological assets | 13,057 | (1,061) |
| - Biological assets written-off | 50,533 | - |
| - Gain on disposal of operating assets | (14,182) | (9,447) |
| - Provision against sales tax refundable | - | (4,358) |
| - (Gain) / Loss arising from changes in fair value less estimated point-of-sale costs of biological assets | (94,844) | (131,576) |
| - Provision for retirement and other service benefits | 55,446 | 54,298 |
| - Provision for stock -in- trade | 97,427 | 9,204 |
| - Provision for slow moving spares | 2,174 | 683 |
| - Provision for impairment of trade debts | 811 | 185 |
| - Provision for impairment of property, plant and equipment | 93,909 | - |
| - Finance costs | 586,245 | 676,844 |
| Working capital changes (note 12.1) | 107,217 | (1,911,239) |
| | 3,780,796 | 2,044,997 |
| 12.1 Working capital changes | | |
| (Increase) / Decrease in current assets | | |
| - Stores, spares and loose tools | (161,603) | (112,242) |
| - Stock-in-trade | 739,566 | (1,714,979) |
| - Trade debts | 1,718 | 5,096 |
| - Advances, deposits and prepayments | 94,626 | (22,319) |
| - Other receivables | (817,325) | 152 |
| | (143,018) | (1,844,292) |
| Increase / (Decrease) in current liabilities | | |
| - Trade and other payables - net | 250,235 | (66,947) |
| | 107,217 | (1,911,239) |
| **13. CASH AND CASH EQUIVALENTS** | | |
| Cash and bank balances | 499,601 | 422,453 |
| Short term investments | - | 190,806 |
| Short term finances | (9,801) | (15) |
| | 489,800 | 613,244 |

(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:

| | | Nine months ended September 30, | |
|---|---|---|---|
| | | 2013 | 2012 |
| Nature of relationship | Nature of transactions | Rupees | |
| Holding company | Arrangement for sharing of premises, utilities, personnel and assets | 160,241 | 197,223 |
| | Advances against purchase of shares of Engro Foods Netherlands B.V. | 169,649 | - |
| | Pension fund contribution | 878 | 4,198 |
| | Provident fund contribution | 17,563 | 19,627 |
| | Gratuity fund contribution | 1,071 | 2,884 |
| Subsidiary and associated companies | Arrangement for sharing of premises, utilities, personnel and assets | 79,253 | 138,814 |
| | Provident fund contribution | - | 40 |
| | Purchases of goods and services | 105,576 | 276,888 |
| | Donation | 10,000 | 10,045 |
| | Subsidy received | 5,099 | 5,000 |
| Contribution to staff retirement funds | Provident Fund | 129,311 | 85,276 |
| | Gratuity Fund | 68,407 | 65,000 |
| Key management personnel | Managerial remuneration | 104,498 | 67,462 |
| | Contribution for staff retirement benefits | 9,690 | 8,762 |
| | Bonus payment | 78,328 | 46,208 |
| | Other benefits | 748 | 1,642 |

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 reported to the Board of Directors on an aggregate basis. 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 Nine months ended September 30, 2013 | | | | | Unaudited Nine months ended September 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 | 25,889,850 | 2,266,160 | 326,410 | 598 | 28,483,018 | 27,189,636 | 2,436,379 | 359,662 | - | 29,985,677 |
| Inter-segment sales | (153,403) | - | (326,410) | - | (479,813) | (255,448) | - | (359,662) | - | (615,110) |
| Net revenue from external customers | 25,736,447 | 2,266,160 | - | 598 | 28,003,205 | 26,934,188 | 2,436,379 | - | - | 29,370,567 |
| Raw milk sales | 20,205 | - | - | - | 20,205 | 24,727 | - | - | - | 24,727 |
| | 25,756,652 | 2,266,160 | - | 598 | 28,023,410 | 26,958,915 | 2,436,379 | - | - | 29,395,294 |
| Segment profit / (loss) | 1,536,208 | (136,421) | (128,800) | (30,488) | 1,240,498 | 1,945,566 | (276,209) | (24,809) | (25,966) | 1,618,582 |
| | As at September 30, 2013 (Unaudited) | | | | | As at December 31, 2012 (Audited) | | | | |
| **Assets** | | | | | | | | | | |
| - Segment assets | 15,286,477 | 2,768,161 | 1,596,576 | 14,934 | 19,666,148 | 12,513,007 | 2,989,067 | 1,632,305 | 5,470 | 17,139,849 |
| - Un-allocated assets | - | - | - | - | 2,619,313 | - | - | - | - | 5,061,197 |
| | 15,286,477 | 2,768,161 | 1,596,576 | 14,934 | 22,285,461 | 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.

(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 ended September 30, 2012 | Head of account in condensed interim financial information for the period ended September 30, 2013 |
|---|---|---|---|
| **Profit and loss account** | | | |
| Communication and other office expenses | 55,000 | Distribution and marketing expenses | Administrative expenses |
| Salaries and other employee benefits | 37,000 | Administrative expenses | Distribution and marketing expenses |
| **Statement of cash flows** | | | |
| Short-term investments | 190,806 | 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 October 22, 2013 by the Board of Directors of the Company.

Chairman

Chief Executive

111-211-211
engrofoods.com

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