around us

Financial Results – First Quarter 2014



engro foods

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company information

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
Citibank N.A.
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
Samba Bank Limited
Soneri Bank Limited
Standard Chartered Bank Pakistan Limited
Summit Bank Limited
The Bank of Khyber
The Bank of Punjab
United Bank Limited

Registered Office
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e-mail: info@engro.com
Website: www.engrofoods.com / www.engro.com



engro foods

CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED) FOR THE QUARTER ENDED MARCH 31, 2014

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 consolidated condensed interim financial information of the Company for first quarter ended March 31, 2014.

PRINCIPAL ACTIVITIES:

Engro Foods Limited, a majority owned subsidiary of Engro Corporation Limited, is engaged in manufacturing, processing and marketing of dairy products, ice cream & frozen desserts and beverages. As an example of Engro's pursuit of excellence, the business has established several brands that have already become household names in Pakistan such as Olper's, Tarang, Dairy Omung and Omore and others. The Company has a wholly owned packaged food marketing company based out of Canada. (Brand name: Al-Safa Halal).

BUSINESS REVIEW:

The Company achieved consolidated revenue growth of 5.7% vs. the same period last year and 3.0% revenue growth vs Q4 2013. Sales price increases and favorable raw material cost resulted in 7.5% gross profit increase vs Q4 2013. However, margins dropped by 9.2% in the first quarter of 2014 vs. the same period last year due to higher cost inflation. The Company has reported Rs.10.2 billion in consolidated revenue vs. Rs. 9.6 billion in the same period last year, and Rs. 190 million in consolidated profit vs. Rs. 653 million in the same period last year.



DAIRY AND BEVERAGES SEGMENT

During the first quarter of 2014, the Company witnessed volumetric growth of 6% vs. the same period last year. This was primarily driven by focused marketing activities and innovation in various brands. Dairy market share was 52% as of February 2014. Dairy segment reported a topline of Rs. 9.5 billion registering a growth of 3% vs. the same period last year. Profit after tax for the quarter was Rs. 476 million showing a decline of 42% vs. the same period last year due to lower gross margins.

The new Powder Plant was commissioned successfully during the quarter, which will enable the Company to further diversify its product portfolio and improve overall margins.

During last quarter of 2013, the Company entered into fresh dairy segment on trial basis, whereby, pilot shops under the brand name of "Mabrook" were opened on a franchise model. As of March 31, 2014, there are 8 shops in operation.



ICE CREAM AND FROZEN DESSERTS SEGMENT

During the first quarter 2014, the Ice Cream business witnessed volumetric growth of 9% vs. the same period last year. Due to early launches there was incremental brand investment compared to 2013, resulting in operational loss of Rs. 169 million vs. loss of Rs. 143 million in the same period last year.





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 produced 43,457 liters per day vs. 28,926 liters per day in the same period last year. The total herd size was 3,979 animals as of March 31, 2014. Milking animals in Q1 2014 were 1,829 vs. 1,234 in the same period last year. Appreciation of PKR in Q1 2014 resulted in valuation loss of Rs. 34 million; Nara Farm registered a loss of Rs. 20 million vs. loss of Rs. 18 million in the same period last year.



ENGRO FOODS CANADA



Al-Safa Halal, is a halal meat brand, with operations spread in Canada and USA. Sales for Q1 2014 were CAD $ 1,408K vs. CAD $ 2,197K in the same period last year, due to increased competition with new entrants pushing shelf-space at retailers. The Company reported a loss after tax of CAD$315K vs. CAD$303K in the same period last year.

CONSOLIDATED FINANCIAL PERFORMANCE

The consolidated financial performance of the Company for Q1 2014 is summarized below:

(Rs. in million)	Quarter ended March 31,		Variation
	2014	2013	
Net Sales	10,168	9,624	6%
Operating Profit	542	1,173	
% of sales	5.3%	12.2%	
Profit after tax	190	653	(71%)
% of sales	1.9%	6.8%	
Earnings per share – basic (Rs.)	0.25	0.86	(71%)

FUTURE OUTLOOK

With distribution issue mostly addressed, we maintain a strong positive outlook for the next quarter. Exponential growth in milk collection and successful commissioning of the new powder plant will provide a clear advantage in terms of margin growth in the summers. Furthermore, management will continue to focus on key growth parameters like innovation, brand differentiation and continuous business expansion through diversification into new product lines. Hence, Engro Foods will continue to live its purpose-inspired growth strategy and bring to the fore affordable and nutritious products that guarantee wholesome goodness to its consumers.

Aliuddin Ansari
Chairman

Sarfaraz A. Rehman
Chief Executive

Karachi: April 17, 2014

condensed interim balance sheet (unaudited) as at march 31, 2014

(Amounts in thousand)	Note	Unaudited March 31, 2014	Audited December 31, 2013
		Rupees	
ASSETS			
Non-Current Assets			
Property, plant and equipment	4	15,003,313	14,504,771
Biological assets		692,845	716,465
Intangible assets		117,094	122,838
Long term advances and deposits		111,169	93,132
Deferred employee share option compensation expense		203,210	168,865
Investment in subsidiary		448,903	427,288
		16,576,534	16,033,359
Current Assets			
Stores, spares and loose tools		792,237	739,671
Stock-in-trade	5	6,007,727	3,083,583
Trade debts		90,310	153,573
Advances, deposits and prepayments		235,109	181,080
Other receivables		2,100,001	2,354,280
Deferred employee share option compensation expense		171,007	136,153
Taxes recoverable		879,075	636,588
Short term investments		-	170,000
Cash and bank balances	12	259,135	557,266
		10,534,601	8,012,194
TOTAL ASSETS		27,111,135	24,045,553
EQUITY AND LIABILITIES			
Equity			
Share capital	6	7,665,961	7,665,961
Share premium		865,354	865,354
Employee share option compensation reserve		521,387	407,133
Hedging reserve		(18,986)	(9,581)
Remeasurement of post employment benefits - Actuarial loss		(34,839)	(34,839)
Unappropriated profit		2,040,599	1,821,182
		11,039,476	10,715,210
Non-Current Liabilities			
Long term finances		6,870,216	7,126,994
Deferred taxation		1,528,591	1,538,583
Deferred Income		7,575	9,410
		8,406,382	8,674,987
Current Liabilities			
Current portion of			
- long term finances		783,675	1,032,008
Trade and other payables		4,174,574	3,369,182
Derivative financial instruments		28,767	14,517
Accrued interest / mark-up on			
- long term finances		250,159	229,312
- short term finances		38,770	10,337
Short term finances	8	2,389,332	-
		7,665,277	4,655,356
Contingencies and Commitments	9		
TOTAL EQUITY AND LIABILITIES		27,111,135	24,045,553

The annexed notes 1 to 17 form an integral part of this condensed interim financial information.

Chairman

Chief Executive

condensed interim
profit and loss account (unaudited)
for the quarter ended march 31, 2014

(Amounts in thousand except for earnings per share)

	Note	Quarter ended March 31, 2014	Quarter ended March 31, 2013
		Rupees	
Net sales		10,036,868	9,623,522
Cost of sales		(7,994,366)	(6,782,461)
Gross profit		2,042,502	2,841,061
Distribution and marketing expenses		(1,057,797)	(1,364,228)
Administrative expenses		(369,123)	(270,699)
Other operating expenses		(59,018)	(104,847)
Other income		11,176	71,128
Operating profit		567,740	1,172,416
Finance cost		(253,049)	(199,883)
Profit before taxation		314,691	972,533
Taxation		(95,274)	(319,910)
Profit for the period		219,417	652,623
Earnings per share	10		
- basic		0.29	0.86
- diluted		0.29	0.85

The annexed notes 1 to 17 form an integral part of this condensed interim financial information.

Chairman

Chief Executive

condensed interim statement of comprehensive income (unaudited) for the quarter ended march 31, 2014

(Amounts in thousand)

	Quarter ended March 31, 2014	Quarter ended March 31, 2013
	Rupees	
Profit for the period	219,417	652,623
Other comprehensive income:		
Items that may be reclassified subsequently to profit or loss		
Loss arising during the period	(27,939)	(46,006)
Less: Adjustments for amounts transferred to initial carrying amounts of hedged items - Capital work-in-progress / stock in trade	13,689	547
Income tax relating to hedging reserve	4,845	15,911
Other comprehensive income / (loss) for the period, net of tax	(9,405)	(29,548)
Total comprehensive income for the period	210,012	623,075

The annexed notes 1 to 17 form an integral part of this condensed interim financial information.

Chairman

Chief Executive

condensed interim statement of changes in equity (unaudited) for the quarter ended march 31, 2014

(Amounts in thousand)

	RESERVE							
	CAPITAL					REVENUE		
	Share capital	Advance against issue of share capital	Share premium	Employee share option compensation reserve	Hedging reserve	Unappropriated profit / (Accumulated loss)	Remeasurement of post employment benefits - Actuarial loss	Total
	Rupees							
Balance as at January 1, 2013 (Audited) - as previously reported	7,615,776	1,234	810,280	-	16,761	1,574,907	-	10,018,958
Effect of retrospective change in accounting policy with respect to accounting for acturial gains and losses	-	-	-	-	-	35,315	(22,954)	12,361
Balance as at January 1, 2013 (Audited)	7,615,776	1,234	810,280	-	16,761	1,610,222	(22,954)	10,031,319
Share capital issued	23,130	(1,234)	25,313	-	-	-	-	47,209
Total comprehensive income for the period	-	-	-	-	(29,548)	652,623	-	623,075
Balance as at March 31, 2013 (Unaudited) - restated	7,638,906	-	835,593	-	(12,787)	2,262,845	(22,954)	10,701,603
Share capital issued	27,055	-	29,761	-	-	-	-	56,816
Employee share option scheme	-	-	-	407,133	-	-	-	407,133
Total comprehensive income for the period (including the effect of retrospective change in accounting policy with respect to accounting for acturial gains and losses)	-	-	-	-	3,206	(441,663)	(11,885)	(450,342)
Balance as at December 31, 2013 (Audited)	7,665,961	-	865,354	407,133	(9,581)	1,821,182	(34,839)	10,715,210
Employee share option scheme	-	-	-	114,254	-	-	-	114,254
Total comprehensive income for the period	-	-	-	-	(9,405)	219,417	-	210,012
Balance as at March 31, 2014 (Unaudited)	7,665,961	-	865,354	521,387	(18,986)	2,040,599	(34,839)	11,039,476

The annexed notes 1 to 17 form an integral part of this condensed interim financial information.

Chairman

Chief Executive

condensed interim statement of cash flows (unaudited) for the quarter ended march 31, 2014

(Amounts in thousand)

	Note	Quarter ended March 31, 2014	Quarter ended March 31, 2013
		Rupees	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	11	(803,618)	1,072,619
Finance cost paid		(203,769)	(356,606)
Taxes paid		(342,909)	(60,794)
Retirement benefits paid		(58,633)	(500)
Long term advances and deposits - net		(18,037)	(7,162)
Net cash (utilized in) / generated from operating activities		(1,426,966)	647,557
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of			
- property, plant and equipment		(919,745)	(1,040,259)
- intangible assets		(21,978)	-
Proceeds from disposal of			
- property, plant and equipment		24,680	41,699
- biological assets		14,616	8,172
Advance against purchase of shares of Engro Foods Netherlands B.V.		(21,615)	(101,000)
Net cash utilized in investing activities		(924,042)	(1,091,388)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of share capital		-	47,209
Proceeds from long term finances		-	377,635
Repayments of			
- long term finances		(506,455)	(1,440,000)
- obligations under finance lease		-	(647)
Net cash utilized in financing activities		(506,455)	(1,015,803)
Net decrease in cash and cash equivalents		(2,857,463)	(1,459,634)
Cash and cash equivalents at beginning of the year		727,266	3,045,369
Cash and cash equivalents at end of the period	12	(2,130,197)	1,585,735

The annexed notes 1 to 17 form an integral part of this condensed interim financial information.

Chairman

Chief Executive

notes to the condensed interim financial information (unaudited) for the quarter ended march 31, 2014

(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).

2. BASIS OF PREPARATION

2.1 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, 2013, 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) using the Black Scholes Pricing model. The estimated fair value of these options and the underlying assumptions are disclosed in note 7. 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, 2013.

	Unaudited March 31, 2014	Audited December 31, 2013
	Rupees	
4 PROPERTY, PLANT AND EQUIPMENT		
Operating assets, at net book value (notes 4.1 and 4.2)	13,572,133	11,045,375
Capital work-in-progress (note 4.3)	1,310,314	3,328,363
Major spare parts and stand by equipment	120,866	131,033
	15,003,313	14,504,771

notes to the condensed interim financial information (unaudited) for the quarter ended march 31, 2014

(Amounts in thousand)

	Unaudited March 31, 2014	Audited December 31, 2013
	Rupees	
4.1 Following additions, including transfers from capital work-in-progress, were made to operating assets during the period / year:		
Land	-	228,625
Buildings on freehold land	499,985	200,265
Plant, machinery and related equipment	2,390,734	1,960,870
Office equipment and furniture fixture	27,813	44,663
Computers	9,672	58,793
Vehicles	24,136	141,169
	2,952,340	2,634,385

4.2 The details of operating assets disposed/written-off during the period are as follows:

	Cost	Accumulated depreciation	Net book value	Sales proceeds	Mode of disposal
	Rupees				
Plant , Machinery and Equipment	14,811	(12,710)	2,101	3,477	Insurance claim
Vehicles:					
- owned	37,496	(21,275)	16,221	20,929	Insurance claims / Employee buyback / Sale of Redundnat Assets / Theft recovery
- leased	789	(789)	-	207	
	38,285	(22,064)	16,221	21,136	
Computer Equipment	375	(211)	165	67	Insurance claim
March 31, 2014	53,471	(34,985)	18,487	24,680	
December 31, 2013	286,443	(69,258)	217,185	230,662	

notes to the condensed interim financial information (unaudited) for the quarter ended march 31, 2014

(Amounts in thousand)

		Unaudited March 31, 2014	Audited December 31, 2013
		Rupees	
4.3	Movement in capital work-in-progress during the period / year:		
	Balance as at January 1	3,328,363	765,397
	Additions:		
	Land	-	216,793
	Building on freehold land	467,018	515,260
	Plant, machinery and related equipment	407,595	4,272,590
	IS and milk automation	21,978	20,376
	Office equipment, furniture, fittings and computers	16,639	132,791
	Vehicles	28,493	108,389
		941,723	5,266,199
	Less:		
	Transfer to:		
	- Operating assets	(2,952,340)	(2,634,385)
	- Intangibles	(7,432)	(68,848)
	Balance as at March 31 / December 31	1,310,314	3,328,363
5	STOCK-IN-TRADE		
	Raw and packaging material (note 5.1)	2,621,750	2,128,503
	Work in process	2,527,312	390,133
	Finished goods (note 5.2)	858,665	564,947
		6,007,727	3,083,583

5.1 Includes Rs. 1,823 (2013: Rs. 4,936) in respect of stock held by third parties.

5.2 Includes Rs. 19,256 (2013: Rs. 51,790) in respect of stock held by third parties.

		Unaudited March 31, 2014	Audited December 31, 2013
		Rupees	
6	SHARE CAPITAL		
	Authorized capital		
	850,000,000 (2013: 850,000,000) Ordinary shares of Rs. 10 each	8,500,000	8,500,000
	Issued, subscribed and paid-up capital		
	766,596,075 (2013: 766,596,075) Ordinary shares of Rs. 10 each fully paid in cash	7,665,961	7,665,961

(Amounts in thousand)

7 EMPLOYEES' SHARE OPTION SCHEME

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 SECP on May 27, 2013.

Under the Scheme, options can be granted in the 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 while 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. The details of share options granted which remained outstanding as at March 31, 2014 are as follows:

- number of options	5,700,000
- range of exercise price	Rs. 191.89 - Rs. 253.77
- weighted average remaining contractual life	5.25 years

The weighted average fair value of options granted during the year, as estimated at the date of grant using the Black-Scholes model was Rs. 24.43 per option. The following weighted average assumptions were used in calculating the fair values of the options:

- share price	Rs. 111.33
- exercise price	Rs. 169.33
- expected volatility	34.16%
- expected life	3 years
- annual risk free interest rate	9.71%

The volatility has been measured as the standard deviation of quoted share prices over the last one year from each respective grant date. In addition, the Company estimates that during the year 2014 options for remaining 11.2 million shares may be granted.

In this respect, Employee share option compensation reserve and the related Deferred expense amounting to Rs. 521,387 has been recognized out which Rs.45,055 has been amortized and recognized as charge for the period in respect of related employees services received to the balance sheet date.

8 SHORT TERM FINANCES - secured

8.1 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 (2013: Rs. 3,200,000). The unutilized balance against these facilities as at year end was Rs. 1,210,668 (2013: Rs. 3,200,000). The rates of mark-up on these finances are KIBOR based and range from10.83% to 12.57% (2013: 10.01 % to 12.01%) per annum. These facilities are secured by way of hypothecation upon all the present and future current assets of the Company.

8.2 The facilities for opening letters of credit and guarantees as at March 31, 2014 amounts to Rs. 4,615,000 (2013: Rs. 4,515,000), of which the amount remaining unutilized as at March 31,2014 was Rs. 2,663,027 (2013: Rs. 2,558,450).

(Amounts in thousand)

9 CONTINGENCIES AND COMMITMENTS

9.1 The Company has provided bank guarantees to:

- Sui Southern Gas Company Limited amounting to Rs. 55,242 (2013: Rs. 55,242) under the contract for supply of gas;
- Sui Northern Gas Company Limited amounting to Rs. 34,350 (December 31, 2013: Rs. 34,350) in accordance with contracts for supply of gas;
- Collector of Sales Tax, Large Tax Payers Unit (LTU), Karachi amounting to Rs. 258,712 (2013: 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 (2013: Rs. 172,000) have been received to-date;
- Controller Military Accounts, Rawalpindi amounting to Rs. 6,872 (2013: Rs. 6,872), as collateral against supplies;
- Collector of Customs, Model Customs Collectorate amounting to Rs. 54,081 (2013: 54,081); and
- Parco Pearl Gas Co Pvt Ltd amounting to Rs. 600 (2013: Nil)

9.2 As at March 31, 2014 post-dated cheques amounting to Rs.39,950 (2013: Rs. 44,003) have been provided as collateral to customs authorities, in accordance with the procedures prescribed by the Government of Pakistan through notification dated July 8, 2011 and August 1, 2011.

9.3 Commitments in respect of capital expenditure contracted for but not incurred as at March 31, 2014 amounted to Rs. 764,025 (2013: Rs. 966,772).

9.4 Commitments in respect of purchase of certain commodities as at March 31, 2014 amounted to Rs. 950,702 (2013: 731,586)

9.5 Commitments for rentals payable under the Ijarah agreement as at March 31, 2014 amounted to Rs. 270,462 (2013: Rs. 235,634)

9.6 Following is the position of the Company's open tax assessments/matters as at March 31, 2014:

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 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.

Further, 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 Holding 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 are 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.

In 2013, the Appellate Tribunal also decided the similar appeal filed by the Holding Company for the year ended December 31, 2008 in favour of the Holding Company.

(Amounts in thousand)

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 balance of taxes recoverable 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 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 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 2014 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.

d) In 2013, the Commissioner Inland Revenue raised a demand of Rs. 223,369 for tax year 2009 by disallowing the provision for advances, stock written-off, repair and maintenance, sales promotion and advertisement expenses etc. The Company has obtained stay order from the Sindh High Court against the audit proceedings and has also filed an appeal thereagainst before the Commissioner Appeals. The Company, based on the opinion of its tax consultant, is confident of a favourable outcome of the appeal, and, accordingly taxes recoverable have not been reduced by the effect of the aforementioned disallowances.

e) In 2013, 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 maintained the adjustment of carried forward minimum tax amounting to Rs. 473,589, made in prior years.

10 EARNINGS PER SHARE - Basic and diluted

	Unaudited March 31, 2014	Unaudited March 31, 2013
	Rupees	
There is no dilutive effect on the basic earnings per share of the Company, which is based on:		
Profit for the period	219,417	652,623
Weighted average number of ordinary shares in issue during the period (in thousand)	766,596	762,794
Weighted average number of ordinary shares in for determination of dilluted EPS (in thousand)	766,596	765,926

notes to the condensed interim financial information (unaudited) for the quarter ended march 31, 2014

(Amounts in thousand)

	Unaudited March 31, 2014	Unaudited March 31, 2013
	Rupees	
11 CASH GENERATED FROM OPERATIONS		
Profit before taxation	314,691	972,533
Adjustment for non-cash charges and other items:		
- Depreciation	407,096	369,268
- Amortization of intangible assets	13,177	9,996
- Amortization of deferred income	(1,835)	(2,187)
- Amortization of arragement fees on long term loan	1,343	1,189
- Amortization of deferred emplolyee share option compensation reserve	45,055	-
- Loss on disposal of biological assets	1,544	9,851
- Gain on disposal of operating assets	(6,193)	(9,999)
- Loss / (Gain) arising from changes in fair value less estimated point-of-sale costs of biological assets	7,460	(33,138)
- Provision for retirement and other service benefits	21,299	17,360
- Provision for stock-in-trade	105,000	-
- Provision for slow moving spares	1,853	-
- Provision/ (Reversal of provision) for impairment of trade debts	90	(1,247)
- Finance cost	253,049	199,883
Working capital changes (note 11.1)	(1,967,247)	(460,890)
	(803,618)	1,072,619
11.1 Working capital changes		
(Increase) / decrease in current assets		
- Stores, spares and loose tools	(44,252)	(69,547)
- Stock-in-trade	(3,029,144)	(618,358)
- Trade debts	63,173	30,148
- Advances, deposits and prepayments	(54,029)	50,447
- Other receivables	254,279	139,876
	(2,809,973)	(467,434)
Increase / (decrease) in current liabilities		
- Trade and other payables - net	842,726	6,544
	(1,967,247)	(460,890)
12 CASH AND CASH EQUIVALENTS		
Short term investments	-	1,170,666
Cash and bank balances [Including foreign currency account of Rs.162,559 (2013:161,141) & cash in transit Rs. 96,576 (2013:122,037)]	259,135	415,254
Short term finances	(2,389,332)	(185)
	(2,130,197)	1,585,735

notes to the condensed interim financial information (unaudited) for the quarter ended march 31, 2014

(Amounts in thousand)

13 TRANSACTIONS WITH RELATED PARTIES

13.1 Transactions with related parties, other than those which have been disclosed elsewhere in this condensed Interim Financial Information, are as Follows:

		Unaudited March 31, 2014	Unaudited March 31, 2013
		Rupees	
Nature of relationship	Nature of transactions		
Holding company	Arrangement for sharing of premises, utilities, personnel and assets	63,832	61,222
	Advance against purchase anof shares of Engro Foods Netherlands B.V.	-	101,000
	Pension fund contribution	224	276
	Provident fund contribution	6,215	5,525
	Gratuity fund contribution	286	500
Subsidiary and associated companies	Investment in subsidiary	21,615	-
	Arrangement for sharing of premises, utilities, personnel and assets	32,627	51,453
	Purchases of goods	6,120	9,352
	Purchases of services	346	-
	Donation	-	7,000
	Subsidy received	-	1,306
Contribution to staff retirement funds	Provident Fund	49,941	38,402
	Gratuity Fund	58,310	-
Key management personnel	Managerial remuneration	34,483	26,306
	Contribution for staff retirement benefits	2,935	3,355
	Bonus payment	7,071	78,328
	Other benefits	759	-

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

(Amounts in thousand)

14 SEGMENT INFORMATION

14.1 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, 2013.

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 & forzen desserts and inter-segment sales of raw milk are made by Dairy farm and Fresh dairy to Dairy, at market value.

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

	Unaudited Quarter ended March 31, 2014					Unaudited Quarter ended March 31, 2013				
	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	9,538,389	511,812	243,454	14,006	10,307,661	9,214,516	462,804	144,554	-	9,821,874
Inter-segment sales	(38,388)	-	(243,454)	(6,220)	(288,062)	(61,491)	-	(144,554)	-	(206,045)
Net revenue from external customers	9,500,001	511,812	-	7,786	10,019,599	9,153,025	462,804	-	-	9,615,829
Raw milk sales	17,269	-	-	-	17,269	7,693	-	-	-	7,693
	9,517,270	511,812	-	7,786	10,036,868	9,160,718	462,804	-	-	9,623,522
Net profit / (loss) after tax	447,011	(168,531)	(20,470)	(38,593)	219,417	824,080	(142,752)	(18,433)	(10,272)	652,623

	Unaudited March 31, 2014					Audited December 31, 2013				
Assets										
- Segment assets	20,251,726	2,604,873	1,692,026	62,875	24,611,500	16,913,103	2,610,091	1,706,295	58,859	21,288,348
- Un-allocated assets	-	-	-	-	2,378,769	-	-	-	-	2,757,205
	20,251,726	2,604,873	1,692,026	62,875	26,990,269	16,913,103	2,610,091	1,706,295	58,859	24,045,553

notes to the condensed interim financial information (unaudited) for the quarter ended march 31, 2014

(Amounts in thousand)

15 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.

16 CORRESPONDING FIGURES

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 DATE OF AUTHORIZATION FOR ISSUE

This condensed interim financial information was authorized for issue on April 17, 2014 by the Board of Directors of the Company.

Chairman

Chief Executive



engro foods

CONSOLIDATED CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED) FOR THE QUARTER ENDED MARCH 31, 2014

consolidated condensed interim balance sheet (unaudited) as at march 31, 2014

(Amounts in thousand)	Note	Unaudited March 31, 2014	Audited December 31, 2013
		Rupees	
ASSETS			
Non-Current Assets			
Property, plant and equipment	4	15,007,223	14,509,608
Biological assets		692,845	716,465
Intangible assets		551,921	603,719
Long term advances and deposits		111,169	93,132
Deferred employee share option compensation expense		203,210	168,865
		16,566,368	16,091,789
Current Assets			
Stores, spares and loose tools		792,237	739,671
Stock-in-trade	5	6,104,027	3,199,390
Trade debts		164,832	245,767
Advances, deposits and prepayments		249,105	186,754
Other receivables		2,102,015	2,359,162
Deferred employee share option compensation expense		171,007	136,153
Taxes recoverable		879,075	636,588
Short term investments		-	170,000
Cash and bank balances	12	260,716	575,036
		10,723,014	8,248,521
TOTAL ASSETS		27,289,382	24,340,310
EQUITY AND LIABILITIES			
Equity			
Share capital	6	7,665,961	7,665,961
Share premium		865,354	865,354
Employee share option compensation reserve		521,387	407,133
Hedging reserve		(18,986)	(9,581)
Remeasurement of post employment benefits - Actuarial loss		(34,839)	(34,839)
Other reserves		(628,780)	(628,780)
Exchange valuation reserve		(34,836)	14,727
Unappropriated profit		2,670,673	2,480,594
		11,005,934	10,760,569
Non-Current Liabilities			
Long term finances		6,870,216	7,126,994
Deferred taxation		1,528,591	1,538,583
Deferred Income		7,575	9,410
		8,406,382	8,674,987
Current Liabilities			
Current portion of			
- long term finances		783,675	1,032,008
Trade and other payables		4,204,176	3,405,175
Derivative financial instruments		28,767	14,517
Accrued interest / mark-up on			
- long term finances		250,159	229,312
- short term finances		38,770	10,337
Short term finances	8	2,571,519	213,405
		7,877,066	4,904,754
Contingencies and Commitments	9		
TOTAL EQUITY AND LIABILITIES		27,289,382	24,340,310

The annexed notes 1 to 17 form an integral part of this condensed interim financial information.

Chairman

Chief Executive

consolidated condensed interim profit and loss account (unaudited) for the quarter ended march 31, 2014

(Amounts in thousand except for earnings per share)

	Note	Quarter ended March 31, 2014	Quarter ended March 31, 2013
		Rupees	
Net sales		10,168,241	9,623,522
Cost of sales		(8,103,284)	(6,782,461)
Gross profit		2,064,957	2,841,061
Distribution and marketing expenses		(1,068,335)	(1,364,228)
Administrative expenses		(404,514)	(270,698)
Other operating expenses		(61,434)	(104,847)
Other income		11,176	71,128
Operating profit		541,850	1,172,416
Finance cost		(256,497)	(199,883)
Profit before taxation		285,353	972,533
Taxation		(95,274)	(319,910)
Profit for the period		190,079	652,623
Earnings per share	10		
- basic		0.25	0.86
- diluted		0.25	0.85

The annexed notes 1 to 17 form an integral part of this condensed interim financial information.

Chairman

Chief Executive

consolidated condensed interim statement of comprehensive income (unaudited) for the quarter ended march 31, 2014

(Amounts in thousand)

	Quarter ended March 31, 2014	Quarter ended March 31, 2013
	Rupees	
Profit for the period	190,079	652,623
Other comprehensive income:		
Items that may be reclassified subsequently to profit or loss		
Loss arising during the period	(27,939)	(46,006)
Less: Adjustments for amounts transferred to initial carrying amounts of hedged items - Capital work-in-progress / stock in trade	13,689	547
Income tax relating to hedging reserve	4,845	15,911
	(9,405)	(29,548)
Exchange difference on translation of foreign opertions	(49,563)	-
Other comprehensive income / (loss) for the period, net of tax	(58,968)	(29,548)
Total comprehensive income for the period	131,111	623,075

The annexed notes 1 to 17 form an integral part of this condensed interim financial information.

Chairman

Chief Executive

consolidated condensed interim statement of changes in equity (unaudited) for the quarter ended march 31, 2014

(Amounts in thousand)

			RESERVE							
			CAPITAL			REVENUE				
	Share capital	Advance against issue of share capital	Share premium	Employee share option compensation reserve	Hedging reserve	Unappropriated profit / (Accumulated loss)	Remeasurement of post employment benefits - Actuarial loss	Other reserve	Exchange revaluation reserve	Total
	Rupees									
Balance as at January 1, 2013 (Audited) - as previously reported	7,615,776	1,234	810,280	-	16,761	1,574,907	-	-	-	10,018,958
Effect of retrospective change in accounting policy with respect to accounting for acturial gains and losses	-	-	-	-	-	35,315	(22,954)	-	-	12,361
Balance as at January 1, 2013 (Audited)	7,615,776	1,234	810,280	-	16,761	1,610,222	(22,954)	-	-	10,031,319
Share capital issued	23,130	(1,234)	25,313	-	-	-	-	-	-	47,209
Total comprehensive income for the period	-	-	-	-	(29,548)	652,623	-	-	-	623,075
Balance as at March 31, 2013 (Unaudited) - restated	7,638,906	-	835,593	-	(12,787)	2,262,845	(22,954)	-	-	10,701,603
Share capital issued	27,055	-	29,761	-	-	-	-	-	-	56,816
Employee share option scheme	-	-	-	407,133	-	-	-	-	-	407,133
Reserve on acquisition of subsidiary	-	-	-	-	-	-	-	(628,780)	13,285	(615,495)
Total comprehensive income for the period (including the effect of retrospective change in accounting policy with respect to accounting for acturial gains and losses)	-	-	-	-	3,206	217,749	(11,885)	-	1,442	210,512
Balance as at December 31, 2013 (Audited)	7,665,961	-	865,354	407,133	(9,581)	2,480,594	(34,839)	(628,780)	14,727	10,760,569
Employee share option scheme	-	-	-	114,254	-	-	-	-	-	114,254
Total comprehensive income for the period	-	-	-	-	(9,405)	190,079	-	-	(49,563)	131,111
Balance as at March 31, 2014 (Unaudited)	7,665,961	-	865,354	521,387	(18,986)	2,670,673	(34,839)	(628,780)	(34,836)	11,005,934

The annexed notes 1 to 17 form an integral part of this condensed interim financial information.

Chairman

Chief Executive

consolidated condensed interim statement of cash flows (unaudited) for the quarter ended march 31, 2014

(Amounts in thousand)

	Note	Quarter ended March 31, 2014	Quarter ended March 31, 2013
		Rupees	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	11	(806,756)	1,072,619
Finance cost paid		(207,217)	(356,606)
Taxes paid		(342,909)	(60,794)
Retirement benefits paid		(58,633)	(500)
Long term advances and deposits - net		(18,037)	(7,162)
Net cash (utilized in) / generated from operating activities		(1,433,552)	647,557
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of			
- property, plant and equipment		(919,745)	(1,040,259)
- intangible assets		(21,978)	-
Proceeds from disposal of			
- property, plant and equipment		24,680	41,699
- biological assets		14,616	8,172
Advance against purchase of shares of Engro Foods Netherlands B.V.		-	(101,000)
Net cash utilized in investing activities		(902,427)	(1,091,388)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of share capital		-	47,209
Proceeds from long term finances		-	377,635
Repayments of			
- long term finances		(506,455)	(1,440,000)
- obligations under finance lease		-	(647)
Net cash utilized in financing activities		(506,455)	(1,015,803)
Net decrease in cash and cash equivalents		(2,842,434)	(1,459,634)
Cash and cash equivalents at beginning of the year		531,631	3,045,369
Cash and cash equivalents at end of the period	12	(2,310,803)	1,585,735

The annexed notes 1 to 17 form an integral part of this condensed interim financial information.

Chairman

Chief Executive

notes to the consolidated condensed interim financial information (unaudited) for the quarter ended march 31, 2014

(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 had been acquired by ECL through Engro Foods Netherlands B.V. (EF Netherlands).

1.3 The Group consist of:

Holding Company:

Engro Foods LimitedSubsidiary Company: Engro Foods Netherlands B.V., in which the Holding Company owns 100% voting rights and is controlled by the Holding Company.

1.4 Engro Foods Netherlands B.V. (the Subsidiary Company), was incorporated in Netherlands in 2011. The principal activity of the Subsidiary Company is marketing and selling of Halal food products. For this purpose, the Subsidiary Company has acquired an existing brand of halal meat business known as 'Al-Safa', engaged in supply of variety of packaged halal foods across North America, through Engro Foods Canada Limited (EFCL), a wholly owned subsidiary of EF Netherlands, incorporated in Canada on April 5, 2011 having its registered office situated at 1900 Minnesota Court, Unit No. 112, Mississauga, ON L5N 3C9; and Engro Foods US LLC, a wholly owned subsidiary of EFCL, incorporated as a limited liability company on April 11, 2011 and registered in Delaware, USA.The Subsidiary Company experienced net cash outflows from operations in 2012 and 2013. However, the Subsidiary Company continues to garner financial support from the Holding Company. Accordingly, the financial statements of EF Netherlands have been prepared on a going concern basis.

2. BASIS OF PREPARATION

2.1 The preparation of this consolidated 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 consolidated 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, 2013, 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) using the Black Scholes Pricing model. The estimated fair value of these options and the underlying assumptions are disclosed in note 7. 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 consolidated condensed interim financial information are consistent with those applied in the preparation of the annual financial statements for the year ended December 31, 2013.

	Unaudited March 31, 2014	Audited December 31, 2013
	Rupees	

4 PROPERTY, PLANT AND EQUIPMENT

Operating assets, at net book value (notes 4.1 and 4.2)	13,576,043	11,050,212
Capital work-in-progress (note 4.3)	1,310,314	3,328,363
Major spare parts and stand by equipment	120,866	131,033
	15,007,223	14,509,608

4.1 Following additions, including transfers from capital work-in-progress, were made to operating assets during the period / year:

Land	-	228,625
Buildings on freehold land	499,985	200,265
Plant, machinery and related equipment	2,390,734	1,960,870
Office equipment and furniture fixture	27,813	44,663
Computers	9,672	58,793
Vehicles	24,136	141,169
	2,952,340	2,634,385

4.2 The details of operating assets disposed/written-off during the period are as follows:

	Cost	Accumulated depreciation	Net book value	Sales proceeds	Mode of disposal
	Rupees				
Plant , Machinery and Equipment	14,811	(12,710)	2,101	3,477	Insurance claim
Vehicles:					
- owned	37,496	(21,275)	16,221	20,929	Insurance claims / Employee buyback / Sale of Redundnat Assets / Theft recovery
- leased	789	(789)	-	207	
	38,285	(22,064)	16,221	21,136	
Computer Equipment	375	(211)	165	67	Insurance claim
March 31, 2014	53,471	(34,985)	18,487	24,680	
December 31, 2013	286,443	(69,258)	217,185	230,662	

		Unaudited March 31, 2014	Audited December 31, 2013
		Rupees	
4.3	Movement in capital work-in-progress during the period / year:		
	Balance as at January 1	3,328,363	765,397
	Additions:		
	Land	-	216,793
	Building on freehold land	467,018	515,260
	Plant, machinery and related equipment	407,595	4,272,590
	IS and milk automation	21,978	20,376
	Office equipment, furniture, fittings and computers	16,639	132,791
	Vehicles	28,493	108,389
		941,723	5,266,199
	Less:		
	Transfer to:		
	- Operating assets	(2,952,340)	(2,634,385)
	- Intangibles	(7,432)	(68,848)
	Balance as at March 31 / December 31	1,310,314	3,328,363
5	STOCK-IN-TRADE		
	Raw and packaging material (note 5.1)	2,641,637	2,150,536
	Work in process	2,527,312	390,133
	Finished goods (note 5.2)	935,078	658,721
		6,104,027	3,199,390

5.1 Includes Rs. 1,823 (2013: Rs. 4,936) in respect of stock held by third parties.

5.2 Includes Rs. 19,256 (2013: Rs. 51,790) in respect of stock held by third parties.

		Unaudited March 31, 2014	Audited December 31, 2013
		Rupees	
6	SHARE CAPITAL		
	Authorized capital		
	850,000,000 (2013: 850,000,000) Ordinary shares of Rs. 10 each	8,500,000	8,500,000
	Issued, subscribed and paid-up capital		
	766,596,075 (2013: 766,596,075) Ordinary shares of Rs. 10 each fully paid in cash	7,665,961	7,665,961

7 EMPLOYEES' SHARE OPTION SCHEME

The shareholders of the Holding 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 SECP on May 27, 2013.

Under the Scheme, options can be granted in the 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 while 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. The details of share options granted which remained outstanding as at March 31, 2014 are as follows:

- number of options	5,700,000
- range of exercise price	Rs. 191.89 - Rs. 253.77
- weighted average remaining contractual life	5.25 years

The weighted average fair value of options granted during the year, as estimated at the date of grant using the Black-Scholes model was Rs. 24.43 per option. The following weighted average assumptions were used in calculating the fair values of the options:

- share price	Rs. 111.33
- exercise price	Rs. 169.33
- expected volatility	34.16%
- expected life	3 years
- annual risk free interest rate	9.71%

The volatility has been measured as the standard deviation of quoted share prices over the last one year from each respective grant date. In addition, the Company estimates that during the year 2014 options for remaining 11.2 million shares may be granted.

In this respect, Employee share option compensation reserve and the related Deferred expense amounting to Rs. 521,387 has been recognized out which Rs.45,055 has been amortized and recognized as charge for the period in respect of related employees services received to the balance sheet date.

8 SHORT TERM FINANCES - secured

8.1 The Holding Company

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 (2013: Rs. 3,200,000). The unutilized balance against these facilities as at year end was Rs. 1,210,668 (2013: Rs. 3,200,000). The rates of mark-up on these finances are KIBOR based and range from10.83% to 12.57% (2013: 10.01 % to 12.01%) per annum. These facilities are secured by way of hypothecation upon all the present and future current assets of the Company.

The facilities for opening letters of credit and guarantees as at March 31, 2014 amounts to Rs. 4,615,000 (2013: Rs. 4,515,000), of which the amount remaining unutilized as at March 31,2014 was Rs. 2,663,027 (2013: Rs. 2,558,450).

8.2 Subsidiary Company

Engro Foods Canada Limited (EFCL), a subsidiary company of Engro Foods Netherland B.V. entered into:

i) revolving term credit facility with HSBC Bank Canada on August 13, 2012 to provide for maximum operating line of credit of CAD $1,000. Borrowing under this term facility bear interest at prime rate plus 1% payable monthly. There are no performance covenants under the agreement and, as at March 31, 2014, the EFCL had drawn CAD $949 (Rs. 83,822) [(2013: CAD$ 922) (Rs. 90,897)] .

ii) revolving working capital facility with the National Bank of Pakistan, New York on October 29, 2012. The Subsidiary Company's revolving working capital facility provides for a maximum operating line of credit of US $ 2,000. Borrowing under this revolving working capital facility bear interest at US prime rate plus 2.75%, but not less than 5.75% payable monthly. As security, Engro Corporation Limited, the Ultimate Parent Company, provided a guarantee and the general security consists of a first charge over EFCL's current assets up to US $ 2,670. There are certain operational covenants with which EFCL is in compliance as at March 31, 2014. EFCL had drawn $ 1,242(Rs. 109,706) [2013: $ 1,242 (Rs. 122,508)] on the revolving working capital facility. This revolving working capital facility expired on September 30, 2013 and EFCL is in process of signing the renewal agreement.

9 CONTINGENCIES AND COMMITMENTS

9.1 The Holding Company has provided bank guarantees to:

- Sui Southern Gas Company Limited amounting to Rs. 55,242 (2013: Rs. 55,242) under the contract for supply of gas;
- Sui Northern Gas Company Limited amounting to Rs. 34,350 (December 31, 2013: Rs. 34,350) in accordance with contracts for supply of gas;
- Collector of Sales Tax, Large Tax Payers Unit (LTU), Karachi amounting to Rs. 258,712 (2013: 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 (2013: Rs. 172,000) have been received to-date; and
- Controller Military Accounts, Rawalpindi amounting to Rs. 6,872 (2013: Rs. 6,872), as collateral against supplies.
- Collector of Customs, Model Customs Collectorate amounting to Rs. 54,081 (2013: 54,081).
- Parco Pearl Gas Co Pvt Ltd amounting to Rs. 600 (2013: Nil)

9.2 As at March 31, 2014 post-dated cheques amounting to Rs.39,950 (2013: Rs. 44,003) have been provided as collateral to customs authorities, in accordance with the procedures prescribed by the Government of Pakistan through notification dated July 8, 2011 and August 1, 2011.

9.3 Commitments in respect of capital expenditure contracted for but not incurred as at March 31, 2014 amounted to Rs. 764,025 (2013: Rs. 966,772).

9.4 Commitments in respect of purchase of certain commodities as at March 31, 2014 amounted to Rs. 950,702 (2013: 731,586)

9.5 Commitments for rentals payable under the Ijarah agreement as at March 31, 2014 amounted to Rs. 270,462 (2013: Rs. 235,634)

9.6 Following is the position of the Holding Company's open tax assessments/matters as at March 31, 2014:

a) The Holding Company in accordance with section 59 B (Group Relief) of the Income Tax Ordinance, 2001 has surrendered to Engro Corporation Limited (ECL), the Ultimate 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 Rs. 1,500,847, being equivalent to tax benefit/effect thereof.

The Holding 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.

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

During the year, the Appellate Tribunal also decided the similar appeal filed by ECL for the year ended December 31, 2008 in favour of ECL.

b) The Holding 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 Holding Company, based on the opinion of its tax consultant, is confident of a favourable outcome of the appeal, and hence the balance of taxes recoverable 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, on surrender of tax loss was added to income for the year. The Holding Company 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 Holding Company whereby withdrawing the demand amounting to Rs. 222,357. The Holding Company filed an appeal at the Tribunal level for the remainder matters remanded back or decided against the Holding Company. The Tribunal through its order dated May 3, 2013, has decided the remaining matters in favour of the Holding Company except for certain disallowances of advances and stock written-off amounting to Rs. 8,642. These disallowa

es will be claimed in tax year 2014 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 Group.

d) In 2013, the Commissioner Inland Revenue raised a demand of Rs. 223,369 for tax year 2009 by disallowing the provision for advances, stock written-off, repair and maintenance, sales promotion and advertisement expenses etc. The Holding Company has obtained stay order from the Sindh High Court against the audit proceedings and has also filed an appeal thereagainst before the Commissioner Appeals. The Holding Company, based on the opinion of its tax consultant, is confident of a favourable outcome of the appeal, and, accordingly taxes recoverable have not been reduced by the effect of the aforementioned disallowances.

e) In 2013, 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 Holding 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 Holding Company has maintained the adjustment of carried forward minimum tax amounting to Rs. 473,589, made in prior years.

	Unaudited March 31, 2014	Unaudited March 31, 2013
	Rupees	

10 EARNINGS PER SHARE - Basic and diluted

There is no dilutive effect on the basic earnings per share of the Company, which is based on:

Profit for the period	190,079	652,623
Weighted average number of ordinary shares in issue during the period (in thousand)	766,596	762,794
Weighted average number of ordinary shares in for determination of dilluted EPS (in thousand)	766,596	765,926

11 CASH GENERATED FROM OPERATIONS

Profit before taxation	285,353	972,533
Adjustment for non-cash charges and other items:		
- Depreciation	407,515	369,268
- Amortization of intangible assets	59,231	9,996
- Amortization of deferred income	(1,835)	(2,187)
- Foreign currency translation	(49,057)	-
- Amortization of arragement fees on long term loan	1,343	1,189
- Amortization of deferred emplolyee share option compensation reserve	45,055	-
- Loss on disposal of biological assets	1,544	9,851
- Gain on disposal of operating assets	(6,193)	(9,999)
- Loss / (Gain) arising from changes in fair value less estimated point-of-sale costs of biological assets	7,460	(33,138)
- Provision for retirement and other service benefits	21,299	17,360
- Provision for stock-in-trade	105,000	-
- Provision for slow moving spares	1,853	-
- Provision/ (Reversal of provision) for impairment of trade debts	90	(1,247)
- Finance cost	256,497	199,883
Working capital changes (note 11.1)	(1,941,911)	(460,890)
	(806,756)	1,072,619

11.1 Working capital changes

(Increase) / decrease in current assets		
- Stores, spares and loose tools	(44,252)	(69,547)
- Stock-in-trade	(3,009,637)	(618,358)
- Trade debts	80,845	30,148
- Advances, deposits and prepayments	(62,351)	50,447
- Other receivables	257,149	139,876
	(2,778,246)	(467,434)
Increase / (decrease) in current liabilities		
- Trade and other payables - net	836,335	6,544
	(1,941,911)	(460,890)

12 CASH AND CASH EQUIVALENTS

	Unaudited March 31, 2014	Unaudited March 31, 2013
	Rupees	
Short term investments	-	1,170,666
Cash and bank balances [Including foreign currency account of 'Rs.162,559 (2013:161,141) & cash in transit Rs. 96,576 (2013:122,037)	260,716	415,254
Short term finances	(2,571,519)	(185)
	(2,310,803)	1,585,735

13 TRANSACTIONS WITH RELATED PARTIES

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

Nature of relationship	Nature of transactions		
Holding company	Arrangement for sharing of premises, utilities, personnel and assets	63,832	61,222
	Advance against purchase anof shares of Engro Foods Netherlands B.V.	-	101,000
	Pension fund contribution	224	276
	Provident fund contribution	6,215	5,525
	Gratuity fund contribution	286	500
Subisdiary and associated companies	Arrangement for sharing of premises, utilities, personnel and assets	32,627	51,453
	Purchases of goods	6,120	9,352
	Purchases of services	346	-
	Donation	-	7,000
	Subsidy received	-	1,306
Contribution to staff retirement funds	Provident Fund	49,941	38,402
	Gratuity Fund	58,310	-
Key management personnel	Managerial remuneration	34,483	26,306
	Contribution for staff retirement benefits	2,935	3,355
	Bonus payment	7,071	78,328
	Other benefits	759	-

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

14 SEGMENT INFORMATION

14.1 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, 2013.

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 & forzen desserts and inter-segment sales of raw milk are made by Dairy farm and Fresh dairy to Dairy, at market value.

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

	Unaudited Quarter ended March 31, 2014						Unaudited Quarter ended March 31, 2013					
	Dairy and Beverages	Ice cream & frozen desserts	Dairy farm	Business Development	EFCL	Total	Dairy and Beverages	Ice cream & frozen desserts	Dairy farm	Business Development	EFCL	Total
	Rupees											
Results for the period												
Net sales	9,538,389	511,812	243,454	14,006	131,373	10,439,034	9,214,516	462,804	144,554	-	-	9,821,874
Inter-segment sales	(38,388)	-	(243,454)	(6,220)	-	(288,062)	(61,491)	-	(144,554)	-	-	(206,045)
Net revenue from external customers	9,500,001	511,812	-	7,786	131,373	10,150,972	9,153,025	462,804	-	-	-	9,615,829
Raw milk sales	17,269	-	-	-	-	17,269	7,693	-	-	-	-	7,693
	9,517,270	511,812	-	7,786	131,373	10,168,241	9,160,718	462,804	-	-	-	9,623,522
Net profit / (loss) after tax	447,011	(168,531)	(20,470)	(38,593)	(29,338)	190,079	824,080	(142,752)	(18,433)	(10,272)	-	652,623

	Unaudited March 31, 2014						Audited December 31, 2013					
Assets												
- Segment assets	20,436,544	2,604,873	1,692,026	62,875	559,603	25,355,921	17,121,104	2,610,091	1,706,295	58,859	485,718	21,982,067
- Un-allocated assets	-	-	-	-	-	1,933,461	-	-	-	-	-	2,358,243
	20,436,544	2,604,873	1,692,026	62,875	559,603	27,289,382	17,121,104	2,610,091	1,706,295	58,859	485,718	24,340,310

notes to the consolidated condensed interim financial information (unaudited) for the quarter ended march 31, 2014

15 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.

16 CORRESPONDING FIGURES

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 DATE OF AUTHORIZATION FOR ISSUE

This consolidated condensed interim financial information was authorized for issue on April 17, 2014 by the Board of Directors of the Company.

Chairman

Chief Executive

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