# around us

Financial Results – Half Year 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 |
| Abdul Samad Dawood | Member |
| Ruhail Mohammed | Member |
| Shahzada Dawood | Member |

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

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

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

### Bankers
Al-Baraka Bank Pakistan Limited
Allied Bank Limited
Askari Bank Limited
Bank Al-Falah Limited
Bank Al-Habib Limited
Bank Al-Habib Limited - Islamic Banking
Barclays Bank PLC Pakistan
Citibank N.A.
Deutchse Bank AG
Faysal Bank Limited
Habib Bank Limited
Habib Metropolitan Bank Limited
HSBC Bank Middle East Limited
MCB Bank Limited
Meezan Bank Limited
National Bank of Pakistan
NIB Bank 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
6th Floor, The Harbor Front Building
HC-3, Marine Drive, Block - 4, Clifton
Karachi - 75600, Pakistan.
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Fax: +92(21) 35295961-2
e-mail: info@engro.com
Website: www.engrofoods.com / www.engro.com



engro foods

# CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED) FOR THE HALF YEAR ENDED JUNE 30, 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 the half year ended June 30, 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 has reported Rs. 20.10 billion in consolidated revenue vs. Rs. 18.93 billion in the same period last year, and Rs. 329 million in consolidated profit vs. Rs. 1,113 million in the same period last year for period ended June 30, 2014. Although the company achieved consolidated revenue growth of 6.2% vs. the same period last year but gross profit declined by 8% due to higher milk prices which were not passed on to consumer due to market environment.

DAIRY AND BEVERAGES SEGMENT

During the period ended June 30, 2014, the company witnessed volumetric growth of 3.7% vs. the same period last year. Dairy market share was 51% as of May 2014 as per A.C. Neilsen and the segment reported a top line of Rs. 18.2 billion registering a growth of 3.6% vs. the same period last year. Profit after tax for the half year is Rs. 630 million showing a decline of 53% vs. the same period last year due to lower gross margins. Margins remained on the lower side mainly on account of higher milk prices which were not passed on to consumer due to market environment.

During the second quarter, two new products were launched, i.e., Olpers Lassi and Y Frooter in kids beverage range to tap into the ever growing beverage category.




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 June 30, 2014, there are 14 shops in operation.






## ICE CREAM AND FROZEN DESSERTS SEGMENT

During the first half 2014, the Ice Cream business witnessed volumetric growth of 21% vs. the same period last year. Due to early launches there was incremental brand investment compared to 2013, resulting in operational loss of Rs. 131 million vs. loss of Rs. 125 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 38,221 liters per day vs. 24,979 liters per day in the same period last year. The total herd size was 3,783 animals as of June 30, 2014. Milking animals in the first half 2014 were 1,480 vs. 1,196 in the same period last year. Appreciation of PKR in the first half 2014 resulted in valuation loss of Rs. 31 million; Nara Farm registered a loss of Rs. 10 million vs. loss of Rs.115 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 half year was CAD$2,664K vs. CAD$ 4,995K 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$ 675K vs. CAD$ 1,002K in the same period last year.




## CONSOLIDATED FINANCIAL PERFORMANCE

The consolidated financial performance of the company for first half 2014 is summarized below:

| (Rs. in million) | Half year ended June 30, | | Variation |
|---|---|---|---|
| | 2014 | 2013 | |
| Net Sales | 20,100 | 18,933 | 6% |
| Operating Profit | 1,043 | 1,965 | |
| % of sales | 5% | 10% | |
| Profit after tax | 329 | 1,113 | (70%) |
| % of sales | 1.6% | 5.8% | |
| Earnings per share – basic (Rs.) | 0.43 | 1.46 | (70%) |

## FUTURE OUTLOOK

The management will continue to focus on maintaining its market share in UHT segment and continue innovation, brand differentiation and continuous business expansion including diversification into new product lines while carrying out a strategic review on its Canadian operations. 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: August 05, 2014

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

## Introduction

We have reviewed the accompanying condensed interim balance sheet of Engro Foods Limited as at June 30, 2014 and the related 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, together with the notes forming part thereof (here-in-after referred to as the "condensed interim financial information") for the half year then ended. Management is responsible for the preparation and presentation of this condensed interim financial information in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting. Our responsibility is to express a conclusion on this condensed interim financial information based on our review.

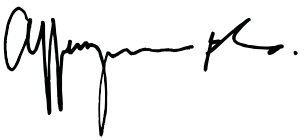
The figures of the condensed interim profit and loss account and condensed interim statement of comprehensive income for the quarters ended June 30, 2014 and 2013 have not been reviewed, as we are required to review only the cumulative figures for the half year ended June 30, 2014.

## Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information as of and for the half year ended June 30, 2014 is not prepared, in all material respects, in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting.



Chartered Accountants
Karachi
Date: August 27, 2014

Engagement Partner: Waqas A. Sheikh

# condensed interim balance sheet (unaudited) as at june 30, 2014

(Amounts in thousand)

| | Note | Unaudited June 30, 2014 | Audited December 31, 2013 |
|---|---|---|---|
| | | Rupees | |
| **ASSETS** | | | |
| **Non-Current Assets** | | | |
| Property, plant and equipment | 4 | 15,379,310 | 14,504,771 |
| Biological assets | | 746,761 | 716,465 |
| Intangible assets | | 122,968 | 122,838 |
| Long term advances and deposits | | 111,858 | 93,132 |
| Deferred employee share option compensation expense | 6 | 149,405 | 168,865 |
| Investment in subsidiary | | 387,098 | 427,288 |
| | | 16,897,400 | 16,033,359 |
| **Current Assets** | | | |
| Stores, spares and loose tools | | 840,663 | 739,671 |
| Stock-in-trade | 5 | 5,761,462 | 3,083,583 |
| Trade debts | | 136,155 | 153,573 |
| Advances, deposits and prepayments | | 257,351 | 181,080 |
| Other receivables | | 2,529,719 | 2,354,280 |
| Deferred employee share option compensation expense | 6 | 120,608 | 136,153 |
| Taxes recoverable | | 1,097,545 | 636,588 |
| Short term investments | | - | 170,000 |
| Cash and bank balances | | 203,693 | 557,266 |
| | | 10,947,196 | 8,012,194 |
| **TOTAL ASSETS** | | 27,844,596 | 24,045,553 |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Share capital | | 7,665,961 | 7,665,961 |
| Share premium | | 865,354 | 865,354 |
| Employee share option compensation reserve | 6 | 437,092 | 407,133 |
| Hedging reserve | | (2,132) | (9,581) |
| Remeasurement of post employment benefits - Actuarial loss | | (32,692) | (34,839) |
| Unappropriated profit | | 2,150,327 | 1,821,182 |
| | | 11,083,910 | 10,715,210 |
| **Non-Current Liabilities** | | | |
| Long term finances | | 6,478,765 | 7,126,994 |
| Deferred taxation | | 1,446,479 | 1,538,583 |
| Deferred income | | 6,268 | 9,410 |
| | | 7,931,512 | 8,674,987 |
| **Current Liabilities** | | | |
| Current portion of long term finances | | 1,165,145 | 1,032,008 |
| Trade and other payables | | 2,849,703 | 3,369,182 |
| Derivative financial instruments | | 3,183 | 14,517 |
| Accrued interest / mark-up on | | | |
| - long term finances | | 220,388 | 229,312 |
| - short term finances | | 92,993 | 10,337 |
| Short term finances | 7 | 4,497,762 | - |
| | | 8,829,174 | 4,655,356 |
| **Contingencies and Commitments** | 8 | | |
| **TOTAL EQUITY AND LIABILITIES** | | 27,844,596 | 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 half year ended june 30, 2014

(Amounts in thousand except for earnings per share)

| | Note | Quarter ended June 30, | | Half year ended June 30, | |
|---|---|---|---|---|---|
| | | 2014 | 2013 | 2014 | 2013 |
| | | Rupees | | | |
| Net sales | | 9,818,834 | 9,309,357 | 19,855,702 | 18,932,879 |
| Cost of sales | | (7,810,803) | (6,853,119) | (15,805,169) | (13,635,580) |
| **Gross profit** | | 2,008,031 | 2,456,238 | 4,050,533 | 5,297,299 |
| Distribution and marketing expenses | | (1,249,465) | (1,273,049) | (2,307,262) | (2,637,387) |
| Administrative expenses | | (232,826) | (280,034) | (601,949) | (550,622) |
| Other operating expenses | | (80,940) | (118,652) | (139,958) | (223,499) |
| Other income | | 85,758 | 8,304 | 96,934 | 79,432 |
| **Operating profit** | | 530,558 | 792,807 | 1,098,298 | 1,965,223 |
| Other expense | 9 | (61,805) | - | (61,805) | - |
| Finance cost | | (350,685) | (198,017) | (603,734) | (397,900) |
| **Profit before taxation** | | 118,068 | 594,790 | 432,759 | 1,567,323 |
| Taxation | | (8,340) | (134,695) | (103,614) | (454,605) |
| **Profit for the period** | | 109,728 | 460,095 | 329,145 | 1,112,718 |
| **Earnings per share** | | | | | |
| - basic | 10 | 0.14 | 0.60 | 0.43 | 1.46 |
| - diluted | 10 | 0.14 | 0.60 | 0.43 | 1.45 |

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 half year ended june 30, 2014

(Amounts in thousand)

| | Quarter ended June 30, | | Half year ended June 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| | Rupees | | | |
| **Profit for the period** | 109,728 | 460,095 | 329,145 | 1,112,718 |
| **Other comprehensive income:** | | | | |
| **Items that may be reclassified subsequently to profit or loss** | | | | |
| Gain / (Loss) on hedges during the period | (22,301) | (17,749) | (50,240) | (63,755) |
| Less: Adjustments for amounts transferred to initial carrying amounts of hedged items - capital work-in-progress / stock-in-trade | 47,886 | 16,497 | 61,575 | 15,758 |
| Income tax relating to hedging reserve | (8,731) | 666 | (3,886) | 16,577 |
| | 16,854 | (586) | 7,449 | (31,420) |
| **Items that will not be reclassified to profit or loss** | | | | |
| Remeasurement of post employment benefits obligation - Actuarial loss | 3,204 | 6,276 | 3,204 | 6,276 |
| Income tax relating to Acturial loss | (1,057) | (2,133) | (1,057) | (2,133) |
| | 2,147 | 4,143 | 2,147 | 4,143 |
| Other comprehensive income / (loss) for the period, net of tax | 19,001 | 3,557 | 9,596 | (27,277) |
| **Total comprehensive income for the period** | 128,729 | 463,652 | 338,741 | 1,085,441 |

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 half year ended june 30, 2014

(Amounts in thousand)

| | RESERVES | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | 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)** | 7,615,776 | 1,234 | 810,280 | - | 16,761 | 1,610,222 | (22,954) | 10,031,319 |
| **Transactions with owners** | | | | | | | | |
| - Share capital issued | 48,635 | (1,234) | 53,369 | - | - | - | - | 100,770 |
| Employee share option scheme | - | - | - | 432,885 | - | - | - | 432,885 |
| Total comprehensive income for the half year ended June 30, 2013 | - | - | - | - | (31,420) | 1,112,718 | 4,143 | 1,085,441 |
| **Balance as at June 30, 2013 (Unaudited)** | 7,664,411 | - | 863,649 | 432,885 | (14,659) | 2,722,940 | (18,811) | 11,650,415 |
| **Transactions with owners** | | | | | | | | |
| - Share capital issued | 1,550 | - | 1,705 | - | - | - | - | 3,255 |
| Employee share option scheme | - | - | - | (25,752) | - | - | - | (25,752) |
| Total comprehensive loss for the half year ended December 31, 2013 | - | - | - | - | 5,078 | (901,758) | (16,028) | (912,708) |
| **Balance as at December 31, 2013** | 7,665,961 | - | 865,354 | 407,133 | (9,581) | 1,821,182 | (34,839) | 10,715,210 |
| Employee share option scheme | - | - | - | 29,959 | - | - | - | 29,959 |
| Total comprehensive income for the half year ended June 30, 2014 | - | - | - | - | 7,449 | 329,145 | 2,147 | 338,741 |
| **Balance as at June 30, 2014 (Unaudited)** | 7,665,961 | - | 865,354 | 437,092 | (2,132) | 2,150,327 | (32,692) | 11,083,910 |

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 half year ended june 30, 2014

(Amounts in thousand)

| | Note | Half year ended June 30, 2014 | 2013 |
|---|---|---|---|
| | | Rupees | |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Cash (utilized in) / generated from operations | 11 | (1,473,145) | 2,391,282 |
| Finance cost paid | | (530,002) | (496,700) |
| Taxes paid | | (661,618) | (226,071) |
| Retirement benefits paid | | (58,420) | (69,353) |
| Long term advances and deposits - net | | (18,726) | (9,301) |
| **Net cash (utilized in) / generated from operating activities** | | (2,741,911) | 1,589,857 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Purchases of | | | |
| - property, plant and equipment | | (1,782,288) | (2,533,054) |
| - intangible assets | | (31,434) | - |
| Proceeds from disposal of | | | |
| - property, plant and equipment | | 36,171 | 200,546 |
| - biological assets | | 37,535 | 21,607 |
| Advance against purchase of shares of Engro Foods Netherlands B.V. | | - | (134,303) |
| Investment in Engro Foods Netherlands B.V., a subsidiary company | | (21,615) | - |
| **Net cash utilized in investing activities** | | (1,761,631) | (2,445,204) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from issue of share capital | | - | 100,770 |
| Proceeds from long term finances | | - | 377,635 |
| Repayments of | | | |
| - long term finances | | (517,793) | (1,440,000) |
| - obligations under finance lease | | - | (1,294) |
| **Net cash utilized in financing activities** | | (517,793) | (962,889) |
| **Net decrease in cash and cash equivalents** | | (5,021,335) | (1,818,236) |
| **Cash and cash equivalents at beginning of the period** | | 727,266 | 3,045,369 |
| **Cash and cash equivalents at end of the period** | 12 | (4,294,069) | 1,227,133 |

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 half year ended june 30, 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 desserts. The Company also owns and operates a dairy farm. Further, the Company also has international operations i.e. a halal food business, Al Safa Halal, Inc. (Al-Safa) in North America, being managed through Engro Foods Netherlands B.V., a wholly owned subsidiary of the Company.

The Company is also operating and managing a meat trading business on pilot / test basis on behalf of ECL, the Holding Company.

## 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. This condensed interim financial information has, however, been subjected to limited scope review by the auditors, as required by the Code of Corporate Governance, and should be read in conjunction with the financial statements of the Company for the year ended December 31, 2013.

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, 2013, except for change in certain estimates / judgments regarding the new Employees Share Options Scheme (ESOS). The estimated fair value of these options and the underlying assumptions are disclosed in note 6. 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.

## 4. PROPERTY, PLANT AND EQUIPMENT

| | Unaudited June 30, 2014 | Audited December 31, 2013 |
|---|---|---|
| | Rupees | |
| Operating assets, at net book value (notes 4.1 and 4.2) | 14,114,768 | 11,045,375 |
| Capital work-in-progress (note 4.3) | 1,144,461 | 3,328,363 |
| Major spare parts and stand by equipment | 120,081 | 131,033 |
| | 15,379,310 | 14,504,771 |

(Amounts in thousand)

| | | Unaudited June 30, 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: | | |
| | Free hold land (note 4.1.1) | - | 228,625 |
| | Buildings on freehold land | 719,335 | 200,265 |
| | Plant, machinery and related equipment | 3,150,671 | 1,960,870 |
| | Office equipment and furniture and fittings | 46,162 | 44,663 |
| | Computers | 20,779 | 58,793 |
| | Vehicles | 33,990 | 141,169 |
| | | 3,970,937 | 2,634,385 |

4.1.1 The Company 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 the land. The Government will in turn pay to the respective land owners.

In 2013, few land owners filed writ petitions against the Government's action at Lahore High Court (the Court). During the period, the writ petitions has been decided in favor of the Company by the Court. However, an intra-court appeal has been filed against the aforesaid decision by few landowners, for which no stay has been granted.

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

| | Cost | Accumulated depreciation | Net book value | Sales proceeds | Mode of disposal |
|---|---|---|---|---|---|
| | Rupees | | | | |
| Plant, machinery and equipment | 21,378 | (19,098) | 2,280 | 4,152 | Insurance claims / Sales |
| Vehicles: | | | | | |
| - owned | 58,620 | (31,755) | 26,865 | 30,904 | Insurance claims / Employee |
| - leased | 530 | (530) | - | 311 | buyback / Bidding / Theft |
| | 59,150 | (32,285) | 26,865 | 31,215 | recovery |
| Computers | 6,785 | (5,862) | 923 | 639 | Insurance claim |
| Office equipment | 661 | (449) | 212 | 165 | Insurance claim |
| June 30, 2014 | 87,974 | (57,694) | 30,280 | 36,171 | |
| December 31, 2013 | 286,443 | (69,258) | 217,185 | 230,662 | |

(Amounts in thousand)

| | | Unaudited June 30, 2014 | Audited December 31, 2013 |
|---|---|---|---|
| | | Rupees | |
| 4.3 | Movement in capital work-in-progress during the period / year: | | |
| | Balance at beginning of the period / year | 3,328,363 | 765,397 |
| | Additions: | | |
| | Land | - | 216,793 |
| | Building on freehold land | 770,341 | 515,260 |
| | Plant, machinery and equipment | 891,531 | 4,272,590 |
| | IS and milk automation projects | 31,434 | 20,376 |
| | Office equipment, furniture & fittings and computers | 29,352 | 132,791 |
| | Vehicles | 91,064 | 108,389 |
| | | 1,813,722 | 5,266,199 |
| | Less: | | |
| | Transfers to: | | |
| | - Operating assets | (3,970,937) | (2,634,385) |
| | - Intangible assets | (26,687) | (68,848) |
| | Balance at end of the period / year | 1,144,461 | 3,328,363 |

## 5. STOCK-IN-TRADE

| | Unaudited June 30, 2014 | Audited December 31, 2013 |
|---|---|---|
| | Rupees | |
| Raw and packaging material (note 5.1) | 2,401,371 | 2,128,503 |
| Work in process | 2,312,019 | 390,133 |
| Finished goods (note 5.2 and 5.3) | 1,048,072 | 564,947 |
| | 5,761,462 | 3,083,583 |

5.1 Includes Nil (December 31, 2013: Rs. 3,326) in respect of stock held by third parties.

5.2 Includes Rs. 18,728 (December 31, 2013: Rs. 33,010) in respect of stock held by third parties.

5.3 These are net of provision against expired / obsolete stock and net realizable value amounting to Rs. 150,391 (December 31, 2013: Rs. 132,552).

## 6. EMPLOYEES' SHARE OPTION SCHEME

In 2013, the shareholders of the Company 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.

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. These options are exercisable within 3 years from the end of vesting period. The details of share options granted to date, which remained outstanding as at June 30, 2014 are as follows:

| | |
|---|---|
| - number of options | Rs. 5,700,000 |
| - range of exercise price | Rs. 191.89 - Rs. 253.77 |
| - weighted average remaining contractual life | 4.75 years |

(Amounts in thousand)

The weighted average fair value of options granted till date, as estimated at the date of grant using the Black-Scholes model was Rs. 24.43 per option whereas weighted average fair value of options to be granted has been estimated as Rs. 26.59 per option. The following weighted average assumptions were used in calculating the fair values of the options:

| | Options granted in 2013 | Options to be granted |
|---|---|---|
| - share price | Rs. 127.23 | Rs. 102.53 |
| - exercise price | Rs. 191.89 | Rs. 169.33 |
| - expected volatility | 34.16% | 38.89% |
| - expected life | 3 years | 3.75 years |
| - annual risk free interest rate | 9.71% | 10.70% |

No option has been granted during the period.

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

In this respect, Employee share option compensation reserve and the related deferred expense amounting to Rs. 437,092 has been recognized, out of which Rs.167,079 has been amortized to date including Rs. 64,964 as charge for the current period in respect of related employees services received to the balance sheet date.

## 7. SHORT TERM FINANCES - secured

7.1 The facilities for short term finance available from various banks, which represent the aggregate sale price of all mark-up arrangements, amounts to Rs. 5,200,000 (December 31, 2013: Rs. 3,200,000). The unutilized balance against these facilities as at June 30, 2014 was Rs. 702,238 (December 31, 2013: Rs. 3,200,000). The rates of mark-up on these finances are KIBOR based and range from 10.89% to 12.64% (December 31, 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.

7.2 The facilities for opening letters of credit and guarantees as at June 30, 2014 amounts to Rs. 4,415,000 (December 31, 2013: Rs. 4,515,000), of which the amount remaining unutilized as at June 30, 2014 was Rs. 2,546,498 (December 31, 2013: Rs. 2,558,450).

## 8. CONTINGENCIES AND COMMITMENTS

8.1 The Company has provided bank guarantees to:

- Sui Southern Gas Company Limited amounting to Rs. 56,199 (December 31, 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) under the contract for supply of gas;

- Collector of Sales Tax, Large Tax Payers Unit (LTU), Karachi amounting to Rs. 258,172 (December 31, 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 (December 31, 2013: Rs. 172,000) have been received to-date;

(Amounts in thousand)

- Controller Military Accounts, Rawalpindi amounting to Rs. 4,326 (December 31, 2013: Rs. 6,872), as collateral against supplies;
- Collector of Customs, Model Customs Collectorate amounting to Nil (December 31, 2013: Rs. 54,081) against payment of sales tax on import of plant and machinery; and
- Parco Pearl Gas Co. Private Limited amounting to Rs. 600 (December 31, 2013: Nil) as collateral against supplies.

8.2 As at June 30, 2014 post-dated cheques amounting to Rs. 36,291 (December 31, 2013: Rs. 44,003) 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.

8.3 Commitments in respect of capital expenditure contracted for but not incurred as at June 30, 2014 amounted to Rs. 245,365 (December 31, 2013: Rs. 966,772).

8.4 Commitments in respect of purchase of certain commodities as at June 30, 2014 amounted to Rs. 1,193,285 (December 31, 2013: Rs. 731,586).

8.5 Commitments for rentals payable under the Ijarah agreement as at June 30, 2014 amounted to Rs. 297,756 (December 31, 2013: Rs. 235,634).

8.6 Following is the position of the Company's open tax assessments/matters as at June 30, 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 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.

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.

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 taxes recoverable have 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,

(Amounts in thousand)

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. Accordingly, 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.

f) During the period, the Additional Commissioner Inland Revenue raised a demand of Rs. 713,341 for tax year 2012 by disallowing the initial allowance and depreciation on certain additions to property, plant and equipment, provision for retirement and other service benefits, purchase expenses, sales promotion and advertisement and other expenses etc. The Company has obtained a stay order from the Sindh High Court against the recovery 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.

## 9. OTHER EXPENSE

Represents provision against investment in Engro Foods Netherlands B.V., a wholly owned subsidiary.

## 10. EARNINGS PER SHARE - Basic and diluted

| | Quarter ended June 30, | | Half year ended June 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| | Rupees | | | |
| The basic and diluted earnings per share of the Company are based on: | | | | |
| Profit for the period | 109,728 | 460,095 | 329,145 | 1,112,718 |
| | Number of shares | | | |
| Weighted average number of ordinary shares in issue during the period (in thousand) | 766,596 | 764,655 | 766,596 | 763,744 |
| Weighted average number of ordinary shares for determination of diluted EPS (in thousand) | 766,596 | 766,342 | 766,596 | 766,158 |

# notes to the condensed interim financial information (unaudited) for the half year ended june 30, 2014

(Amounts in thousand)

| | | Unaudited June 30, 2014 | Unaudited June 30, 2013 |
|---|---|---|---|
| | | Rupees | |
| 11. | CASH GENERATED FROM OPERATIONS | | |
| | Profit before taxation | 432,759 | 1,567,323 |
| | Adjustment for non-cash charges and other items: | | |
| | - Depreciation | 863,041 | 713,975 |
| | - Amortization of intangible assets | 26,557 | 23,040 |
| | - Amortization of deferred income | (3,142) | (4,496) |
| | - Amortization of arrangement fees on long term loan | 2,701 | 2,391 |
| | - Amortization of deferred employee share option compensation reserve | 64,964 | 45,092 |
| | - Loss on disposal of biological assets | 496 | 9,228 |
| | - Biological assets written-off | - | 50,533 |
| | - Gain on disposal of operating assets | (5,890) | (12,521) |
| | - Gain arising from changes in fair value less estimated point-of-sale costs of biological assets | (68,327) | (2,683) |
| | - Provision for retirement and other service benefits | 39,276 | 35,944 |
| | - Provision for stock-in-trade | 77,393 | 42,851 |
| | - Provision for slow moving spares | 2,214 | 2,174 |
| | - Provision for impairment of trade debts | 124 | 507 |
| | - Provision for impairment of property, plant and equipment | 8,222 | 62,909 |
| | - Provision against investment in subsidiary | 61,805 | - |
| | - Finance costs | 603,734 | 397,900 |
| | Working capital changes (note 11.1) | (3,579,072) | (542,885) |
| | | (1,473,145) | 2,391,282 |
| 11.1 | Working capital changes | | |
| | (Increase) / Decrease in current assets | | |
| | - Stores, spares and loose tools | (92,254) | (136,912) |
| | - Stock-in-trade | (2,755,272) | (459,981) |
| | - Trade debts | 17,294 | 30,296 |
| | - Advances, deposits and prepayments | (76,271) | 68,563 |
| | - Other receivables | (175,439) | (237,596) |
| | | (3,081,942) | (735,630) |
| | Increase / (Decrease) in current liabilities | | |
| | Trade and other payables - net | (497,130) | 192,745 |
| | | (3,579,072) | (542,885) |
| 12. | CASH AND CASH EQUIVALENTS | | |
| | Cash and bank balances | 203,693 | 979,654 |
| | Short term investments | - | 247,479 |
| | Short term finances | (4,497,762) | - |
| | | (4,294,069) | 1,227,133 |

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

| | | Half year ended June 30, | |
|---|---|---|---|
| | | 2014 | 2013 |
| | | Rupees | |
| Nature of relationship | Nature of transactions | | |
| Holding company | Arrangement for sharing of premises, utilities, personnel and assets | 110,666 | 104,074 |
| | Advance against purchase of shares of Engro Foods Netherlands B.V. | - | 134,303 |
| | Pension fund contribution | 528 | 552 |
| | Provident fund contribution | 13,211 | 10,635 |
| | Gratuity fund contribution | 483 | 946 |
| | Reimbursement of net cost incurred for meat business | 38,943 | - |
| Subsidiary and associated companies | Investment in subsidiary | 21,615 | - |
| | Arrangement for sharing of premises, utilities, personnel and assets | 28,299 | 62,579 |
| | Purchases of goods | 53,188 | 76,807 |
| | Purchases of services | 31,450 | 1,355 |
| | Donation | 12,000 | 10,000 |
| | Subsidy received | - | 1,527 |
| Contribution to staff retirement funds | Provident Fund | 102,915 | 82,343 |
| | Gratuity Fund | 58,310 | 68,407 |
| Key management personnel | Managerial remuneration | 67,600 | 52,665 |
| | Contribution for staff retirement benefits | 5,519 | 6,544 |
| | Bonus payment | 7,071 | 78,328 |
| | Other benefits | 759 | 748 |

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

# notes to the condensed interim financial information (unaudited) for the half year ended june 30, 2014

(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 published 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 and inter-segment sales of raw milk are made by Dairy farm to Dairy & Beverages, at market value.

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

| | Unaudited Half year ended June 30, 2014 | | | | | | Unaudited Half year ended June 30, 2013 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Dairy & Beverages | Ice cream & Frozen desserts | Dairy farm | Business development | Others | Total | Dairy & Beverages | Ice cream & Frozen desserts | Dairy farm | Business development | Total |
| | Rupees | | | | | | | | | | |
| Results for the period | | | | | | | | | | | |
| Net sales | 18,212,293 | 1,680,996 | 426,468 | 39,551 | - | 20,359,308 | 17,579,743 | 1,441,388 | 250,380 | - | 19,271,511 |
| Inter-segment sales | (98,225) | - | (426,468) | (11,119) | - | (535,812) | (102,023) | - | (250,380) | - | (352,403) |
| Net revenue from external customers | 18,114,068 | 1,680,996 | - | 28,432 | - | 19,823,496 | 17,477,720 | 1,441,388 | - | - | 18,919,108 |
| Raw milk sales | 32,206 | - | - | - | - | 32,206 | 13,771 | - | - | - | 13,771 |
| | 18,146,274 | 1,680,996 | - | 28,432 | - | 19,855,702 | 17,491,491 | 1,441,388 | - | - | 18,932,879 |
| Segment profit / (loss) | 630,126 | (130,516) | (10,014) | (102,887) | (57,564) | 329,145 | 1,363,204 | (124,808) | (115,114) | (10,564) | 1,112,718 |
| | As at June 30, 2014 (Unaudited) | | | | | | As at December 31, 2013 (Audited) | | | | |
| Assets | | | | | | | | | | | |
| - Segment assets | 20,730,056 | 2,606,572 | 1,810,231 | 78,656 | - | 25,225,515 | 16,913,103 | 2,610,091 | 1,706,295 | 58,859 | 21,288,348 |
| - Un-allocated assets | - | - | - | - | - | 2,619,081 | - | - | - | - | 2,757,205 |
| | 20,730,056 | 2,606,572 | 1,810,231 | 78,656 | - | 27,844,596 | 16,913,103 | 2,610,091 | 1,706,295 | 58,859 | 24,045,553 |

## 15. SEASONALITY

The Company's 'Ice cream' and 'Beverages' businesses are 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 as at June 30, 2014 are not necessarily indicative of the results to be achieved for the full year.

# notes to the condensed interim financial information (unaudited) for the half year ended june 30, 2014

(Amounts in thousand)

## 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 August 05, 2014 by the Board of Directors of the Company.

Chairman

Chief Executive



engro foods

# CONSOLIDATED CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED) FOR THE HALF YEAR ENDED JUNE 30, 2014

pwc

A. F. FERGUSON & CO.

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

## Introduction

We have reviewed the annexed consolidated condensed interim balance sheet of Engro Foods Limited (the Holding Company) and its subsidiary company, Engro Foods Netherlands B.V. as at June 30, 2014 and the related consolidated condensed interim profit and loss account, consolidated condensed interim statement of comprehensive income, consolidated condensed interim statement of changes in equity and consolidated condensed interim statement of cash flows, together with the notes forming part thereof (here-in-after referred to as the "consolidated condensed interim financial information") for the half year then ended. Management is responsible for the preparation and presentation of this consolidated condensed interim financial information in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting. Our responsibility is to express a conclusion on this consolidated condensed interim financial information based on our review.

The figures of the consolidated condensed interim profit and loss account and consolidated condensed interim statement of comprehensive income for the quarters ended June 30, 2014 and 2013 have not been reviewed, as we are required to review only the cumulative figures for the half year ended June 30, 2014.

## Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated condensed interim financial information as of and for the half year ended June 30, 2014 is not prepared, in all material respects, in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting.

Chartered Accountants
Karachi
Date: August 27, 2014

Engagement Partner: Waqas A. Sheikh

# consolidated condensed interim balance sheet (unaudited) as at june 30, 2014

(Amounts in thousand)

| | Note | Unaudited June 30, 2014 | Audited December 31, 2013 |
|---|---|---|---|
| | | Rupees | |
| **ASSETS** | | | |
| **Non-Current Assets** | | | |
| Property, plant and equipment | 4 | 15,382,988 | 14,509,608 |
| Biological assets | | 746,761 | 716,465 |
| Intangible assets | | 573,722 | 603,719 |
| Long term advances and deposits | | 111,858 | 93,132 |
| Deferred employee share option compensation expense | 6 | 149,405 | 168,865 |
| | | 16,964,734 | 16,091,789 |
| **Current Assets** | | | |
| Stores, spares and loose tools | | 840,663 | 739,671 |
| Stock-in-trade | 5 | 5,818,910 | 3,199,390 |
| Trade debts | | 195,386 | 245,767 |
| Advances, deposits and prepayments | | 265,316 | 186,754 |
| Other receivables | | 2,534,056 | 2,359,162 |
| Deferred employee share option compensation expense | 6 | 120,608 | 136,153 |
| Taxes recoverable | | 1,097,545 | 636,588 |
| Short term investments | | - | 170,000 |
| Cash and bank balances | | 204,255 | 575,036 |
| | | 11,076,739 | 8,248,521 |
| **TOTAL ASSETS** | | 28,041,473 | 24,340,310 |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Share capital | | 7,665,961 | 7,665,961 |
| Share premium | | 865,354 | 865,354 |
| Employee share option compensation reserve | 6 | 437,092 | 407,133 |
| Hedging reserve | | (2,132) | (9,581) |
| Remeasurement of post employment benefits - Actuarial loss | | (32,692) | (34,839) |
| Other reserve | | (628,780) | (628,780) |
| Exchange revaluation reserve | | (22,237) | 14,727 |
| Unappropriated profit | | 2,809,739 | 2,480,594 |
| | | 11,092,305 | 10,760,569 |
| **Non-Current Liabilities** | | | |
| Long term finances | | 6,478,765 | 7,126,994 |
| Deferred taxation | | 1,446,479 | 1,538,583 |
| Deferred income | | 6,268 | 9,410 |
| | | 7,931,512 | 8,674,987 |
| **Current Liabilities** | | | |
| Current portion of long term finances | | 1,165,145 | 1,032,008 |
| Trade and other payables | | 2,860,192 | 3,405,175 |
| Derivative financial instruments | | 3,183 | 14,517 |
| Accrued interest / mark-up on | | | |
| - long term finances | | 220,388 | 229,312 |
| - short term finances | | 92,993 | 10,337 |
| Short term finances | 7 | 4,675,755 | 213,405 |
| | | 9,017,656 | 4,904,754 |
| **Contingencies and Commitments** | 8 | | |
| **TOTAL EQUITY AND LIABILITIES** | | 28,041,473 | 24,340,310 |

The annexed notes 1 to 16 form an integral part of this consolidated condensed interim financial information.

Chairman

Chief Executive

# consolidated condensed interim profit and loss account (unaudited) for the half year ended june 30, 2014

(Amounts in thousand except for earnings per share)

| | Note | Quarter ended June 30, | | Half year ended June 30, | |
|---|---|---|---|---|---|
| | | 2014 | 2013 | 2014 | 2013 |
| | | Rupees | | | |
| Net sales | | 9,931,364 | 9,309,357 | 20,099,605 | 18,932,879 |
| Cost of sales | | (7,912,680) | (6,853,119) | (16,015,964) | (13,635,580) |
| **Gross Profit** | | 2,018,684 | 2,456,238 | 4,083,641 | 5,297,299 |
| Distribution and marketing expenses | | (1,269,562) | (1,273,049) | (2,337,897) | (2,637,387) |
| Administrative expenses | | (283,241) | (280,034) | (687,755) | (550,622) |
| Other operating expenses | | (50,490) | (118,652) | (111,924) | (223,499) |
| Other income | | 85,758 | 8,304 | 96,934 | 79,432 |
| **Operating profit** | | 501,149 | 792,807 | 1,042,999 | 1,965,223 |
| Finance costs | | (353,743) | (198,017) | (610,240) | (397,900) |
| **Profit before taxation** | | 147,406 | 594,790 | 432,759 | 1,567,323 |
| Taxation | | (8,340) | (134,695) | (103,614) | (454,605) |
| Profit for the period | | 139,066 | 460,095 | 329,145 | 1,112,718 |
| Earnings per share | | | | | |
| - basic | 9 | 0.18 | 0.60 | 0.43 | 1.46 |
| - diluted | 9 | 0.18 | 0.60 | 0.43 | 1.45 |

The annexed notes 1 to 16 form an integral part of this consolidated condensed interim financial information.

Chairman

Chief Executive

# consolidated condensed interim statement of comprehensive income (unaudited) for the half year ended june 30, 2014

(Amounts in thousand)

| | Quarter ended June 30, | | Half year ended June 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| | Rupees | | | |
| Profit for the period | 139,066 | 460,095 | 329,145 | 1,112,718 |
| Other comprehensive income: | | | | |
| Items that may be reclassified subsequently to profit or loss | | | | |
| Gain / (Loss) on hedges during the period | (22,301) | (17,749) | (50,240) | (63,755) |
| Less: Adjustments for amounts transferred to initial carrying amounts of hedged items - capital work-in-progress / stock-in-trade | 47,886 | 16,497 | 61,575 | 15,758 |
| Income tax relating to hedging reserve | (8,731) | 666 | (3,886) | 16,577 |
| | 16,854 | (586) | 7,449 | (31,420) |
| Items that will not be reclassified to profit or loss | | | | |
| Remeasurement of post employment benefits obligation - Actuarial loss | 3,204 | 6,276 | 3,204 | 6,276 |
| Income tax relating to Acturial loss | (1,057) | (2,133) | (1,057) | (2,133) |
| | 2,147 | 4,143 | 2,147 | 4,143 |
| Exchange differences on translation of foreign operations | 12,599 | - | (36,964) | - |
| Other comprehensive income / (loss) for the period, net of tax | 31,600 | 3,557 | (27,368) | (27,277) |
| Total comprehensive income for the period | 170,666 | 463,652 | 301,777 | 1,085,441 |

The annexed notes 1 to 16 form an integral part of this consolidated condensed interim financial information.

Chairman

Chief Executive

# consolidated condensed interim statement of changes in equity (unaudited) for the half year ended june 30, 2014

(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 | Other reserve | Exchange revaluation reserve | Total |
| | Rupees | | | | | | | | | |
| Balance as at January 1, 2013 (Audited) | 7,615,776 | 1,234 | 810,280 | - | 16,761 | 1,610,222 | (22,954) | - | - | 10,031,319 |
| Transactions with owners | | | | | | | | | | |
| - Share capital issued | 48,635 | (1,234) | 53,369 | - | - | - | - | - | - | 100,770 |
| Employee share option scheme | - | - | - | 432,885 | - | - | - | - | - | 432,885 |
| Total comprehensive income for the half year ended June 30, 2013 | - | - | - | - | (31,420) | 1,112,718 | 4,143 | - | - | 1,085,441 |
| Balance as at June 30, 2013 (Unaudited) | 7,664,411 | - | 863,649 | 432,885 | (14,659) | 2,722,940 | (18,811) | - | - | 11,650,415 |
| Transactions with owners | | | | | | | | | | |
| - Share capital issued | 1,550 | - | 1,705 | - | - | - | - | - | - | 3,255 |
| Employee share option scheme | - | - | - | (25,752) | - | - | - | - | - | (25,752) |
| Reserve on acquisition of subsidiary | - | - | - | - | - | - | - | (628,780) | 13,285 | (615,495) |
| Total comprehensive loss for the half year ended December 31, 2013 | - | - | - | - | 5,078 | (242,346) | (16,028) | - | 1,442 | (251,854) |
| 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 | - | - | - | 29,959 | - | - | - | - | - | 29,959 |
| Total comprehensive income for the half year ended June 30, 2014 | - | - | - | - | 7,449 | 329,145 | 2,147 | - | (36,964) | 301,777 |
| Balance as at June 30, 2014 (Unaudited) | 7,665,961 | - | 865,354 | 437,092 | (2,132) | 2,809,739 | (32,692) | (628,780) | (22,237) | 11,092,305 |

The annexed notes 1 to 16 form an integral part of this consolidated condensed interim financial information.

Chairman

Chief Executive

# consolidated condensed interim statement of cash flows (unaudited) for the half year ended june 30, 2014

(Amounts in thousand)

| | Note | Half year ended June 30, 2014 | 2013 |
|---|---|---|---|
| | | Rupees | |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Cash (utilized in) / generated from operations | 10 | (1,470,050) | 2,391,282 |
| Finance costs paid | | (536,508) | (496,700) |
| Taxes paid | | (661,618) | (226,071) |
| Retirement benefits paid | | (58,420) | (69,353) |
| Long term advances and deposits - net | | (18,726) | (9,301) |
| **Net cash (utilized in) / generated from operating activities** | | (2,745,322) | 1,589,857 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Purchases of | | | |
| - property, plant and equipment | | (1,782,288) | (2,533,054) |
| - intangible assets | | (31,434) | - |
| Proceeds from disposal of | | | |
| - property, plant and equipment | | 36,171 | 200,546 |
| - biological assets | | 37,535 | 21,607 |
| Advance against purchase of shares of Engro Foods Netherlands B.V. | | - | (134,303) |
| **Net cash utilized in investing activities** | | (1,740,016) | (2,445,204) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from issue of share capital | | - | 100,770 |
| Proceeds from long term finances | | - | 377,635 |
| Repayments of | | | |
| - long term finances | | (517,793) | (1,440,000) |
| - obligations under finance lease | | - | (1,294) |
| **Net cash utilized in financing activities** | | (517,793) | (962,889) |
| **Net decrease in cash and cash equivalents** | | (5,003,131) | (1,818,236) |
| **Cash and cash equivalents at beginning of the period** | | 531,631 | 3,045,369 |
| **Cash and cash equivalents at end of the period** | 11 | (4,471,500) | 1,227,133 |

The annexed notes 1 to 16 form an integral part of this consolidated condensed interim financial information.

Chairman

Chief Executive

# notes to the consolidated condensed interim financial information (unaudited) for the half year ended june 30, 2014

(Amounts in thousand)

## 1. LEGAL STATUS AND OPERATIONS

1.1 Engro Foods Limited (the Holding 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 Holding Company is a subsidiary of Engro Corporation Limited (ECL). The registered office of the Holding Company 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 Holding Company is to manufacture, process and sell dairy products, beverages, ice cream and frozen deserts. The Holding Company also owns and operates a dairy farm.

The Holding Company is also operating and managing a meat trading business on pilot / test basis on behalf of ECL.

1.3 The Group consist of:

Holding Company: Engro Foods Limited

Subsidiary Company: Engro Foods Netherlands B.V. (note 1.3.1), in which the Holding Company owns 100% voting rights and is controlled by the Holding Company

1.3.1 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.

## 2. BASIS OF PREPARATION

2.1 This consolidated 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. This consolidated condensed interim financial information has, however, been subjected to limited scope review by the auditors, as required by the Code of Corporate Governance, and should be read in conjunction with the financial statements of the Holding Company for the year ended December 31, 2013.

2.2 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 Group'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 Group'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 change in certain estimates / judgments regarding the new Employees Share Options Scheme (ESOS). The estimated fair value of these options and the underlying assumptions are disclosed in note 6. 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.

(Amounts in thousand)

2.3 BASIS OF CONSOLIDATION

i) The consolidated condensed interim financial information include the condensed interim financial information of Engro Foods Limited and its subsidiary company - Engro Foods Netherlands B.V. (the Group).

ii) The assets and liabilities of subsidiary company have been consolidated on a line by line basis at their book value. The carrying value of investment held by the Holding Company is eliminated against the subsidiary's share capital in the consolidated condensed interim financial information.

iii) Material intra-group balances and transactions are eliminated.

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 of the Group for the year ended December 31, 2013.

| | Unaudited June 30, 2014 | Audited December 31, 2013 |
|---|---|---|
| | Rupees | |
| **4. PROPERTY, PLANT AND EQUIPMENT** | | |
| Operating assets, at net book value (notes 4.1 and 4.2) | 14,118,446 | 11,050,212 |
| Capital work-in-progress (note 4.3) | 1,144,461 | 3,328,363 |
| Major spare parts and stand by equipment | 120,081 | 131,033 |
| | 15,382,988 | 14,509,608 |
| 4.1 Following additions, including transfers from capital work-in-progress, were made to operating assets during the period / year: | | |
| Free hold land (note 4.1.1) | - | 228,625 |
| Buildings on freehold land | 719,335 | 200,265 |
| Plant, machinery and related equipment | 3,150,671 | 1,960,870 |
| Office equipment and furniture and fittings | 46,162 | 44,663 |
| Computers | 20,779 | 58,793 |
| Vehicles | 33,990 | 141,169 |
| | 3,970,937 | 2,634,385 |

4.1.1 The Holding Company 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 Holding Company paid Rs. 212,514 to the Government for purchase of the land. The Government will in turn pay to the respective land owners.

(Amounts in thousand)

In 2013, few land owners filed writ petitions against the Government's action at Lahore High Court (the Court). During the period, the writ petitions has been decided in favor of the Holding Company by the Court. However, an intra-court appeal has been filed against the aforesaid decision by few landowners, for which no stay has been granted.

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

| | Cost | Accumulated depreciation | Net book value | Sales proceeds | Mode of disposal |
|---|---|---|---|---|---|
| | Rupees | | | | |
| Plant, machinery and equipment | 21,378 | (19,098) | 2,280 | 4,152 | Insurance claims / Sales |
| Vehicles: | | | | | |
| - owned | 58,620 | (31,755) | 26,865 | 30,904 | Insurance claims / Employee |
| - leased | 530 | (530) | - | 311 | buyback / Bidding / Theft |
| | 59,150 | (32,285) | 26,865 | 31,215 | recovery |
| Computers | 6,785 | (5,862) | 923 | 639 | Insurance claim |
| Office equipment | 661 | (449) | 212 | 165 | Insurance claim |
| June 30, 2014 | 87,974 | (57,694) | 30,280 | 36,171 | |
| December 31, 2013 | 286,443 | (69,258) | 217,185 | 230,662 | |

4.3 Movement in capital work-in-progress during the period / year:

| | Unaudited June 30, 2014 | Audited December 31, 2013 |
|---|---|---|
| | Rupees | |
| Balance at beginning of the period / year | 3,328,363 | 765,397 |
| Additions: | | |
| Land | - | 216,793 |
| Building on freehold land | 770,341 | 515,260 |
| Plant, machinery and equipment | 891,531 | 4,272,590 |
| IS and milk automation projects | 31,434 | 20,376 |
| Office equipment, furniture & fittings and computers | 29,352 | 132,791 |
| Vehicles | 91,064 | 108,389 |
| | 1,813,722 | 5,266,199 |
| Less: | | |
| Transfers to: | | |
| - Operating assets | (3,970,937) | (2,634,385) |
| - Intangible assets | (26,687) | (68,848) |
| Balance at end of the period / year | 1,144,461 | 3,328,363 |

(Amounts in thousand)

| 5. STOCK-IN-TRADE | Unaudited June 30, 2014 | Audited December 31, 2013 |
|---|---|---|
| | Rupees | |
| Raw and packaging material (note 5.1) | 2,401,841 | 2,150,536 |
| Work in process | 2,312,019 | 390,133 |
| Finished goods (note 5.2 and 5.3) | 1,105,050 | 658,721 |
| | 5,818,910 | 3,199,390 |

5.1 Includes Nil (December 31, 2013: Rs. 3,326) in respect of stock held by third parties.

5.2 Includes Rs. 18,728 (December 31, 2013: Rs. 33,010) in respect of stock held by third parties.

5.3 These are net of provision against expired / obsolete stock and net realizable value amounting to Rs. 150,391 (December 31, 2013: Rs. 132,552).

6. EMPLOYEES' SHARE OPTION SCHEME

In 2013, the shareholders of the Holding Company 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.

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. These options are exercisable within 3 years from the end of vesting period. The details of share options granted to date, which remained outstanding as at June 30, 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 | 4.75 years |

The weighted average fair value of options granted till date, as estimated at the date of grant using the Black-Scholes model was Rs. 24.43 per option whereas weighted average fair value of options to be granted has been estimated as Rs. 26.59 per option. The following weighted average assumptions were used in calculating the fair values of the options:

| | Options granted in 2013 | Options to be granted |
|---|---|---|
| - share price | Rs. 127.23 | Rs. 102.53 |
| - exercise price | Rs. 191.89 | Rs. 169.33 |
| - expected volatility | 34.16% | 38.89% |
| - expected life | 3 years | 3.75 years |
| - annual risk free interest rate | 9.71% | 10.70% |

No option has been granted during the period.

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

In this respect, Employee share option compensation reserve and the related deferred expense amounting to Rs. 437,092 has been recognized, out which Rs.167,079 has been amortized to date including Rs. 64,964 as charge for the current period in respect of related employees services received to the balance sheet date.

(Amounts in thousand)

## 7. SHORT TERM FINANCES - secured

### 7.1 Holding company

The facilities for short term finance available from various banks, which represent the aggregate sale price of all mark-up arrangements, amounts to Rs. 5,200,000 (December 31, 2013: Rs. 3,200,000). The unutilized balance against these facilities as at June 30, 2014 was Rs. 702,238 (December 31, 2013: Rs. 3,200,000). The rates of mark-up on these finances are KIBOR based and range from 10.89% to 12.64% (December 31, 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 Holding Company.

The facilities for opening letters of credit and guarantees as at June 30, 2014 amounts to Rs. 4,415,000 (December 31, 2013: Rs. 4,515,000), of which the amount remaining unutilized as at June 30, 2014 was Rs. 2,546,498 (December 31, 2013: Rs. 2,558,450).

### 7.2 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 $1,000. Borrowing under this term facility bear interest at prime rate plus 1% payable monthly. There are no performance covenants under the agreement and, as at June 30, 2014, the EFCL had drawn CAD$ 895 (Rs. 82,644) [December 31, 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 June 30, 2014. EFCL had drawn US$ 1,249(Rs. 115,369) [December 31, 2013: US$ 1,242 (Rs. 122,508)] on the revolving working capital facility. This revolving working capital facility will expire on September 30, 2014.

## 8. CONTINGENCIES AND COMMITMENTS

8.1 The Holding Company has provided bank guarantees to:

- Sui Southern Gas Company Limited amounting to Rs. 56,199 (December 31, 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) under the contract for supply of gas;
- Collector of Sales Tax, Large Tax Payers Unit (LTU), Karachi amounting to Rs. 258,172 (December 31, 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 (December 31, 2013: Rs. 172,000) have been received to-date;
- Controller Military Accounts, Rawalpindi amounting to Rs. 4,326 (December 31, 2013: Rs. 6,872), as collateral against supplies;
- Collector of Customs, Model Customs Collectorate amounting to Nil (December 31, 2013: Rs. 54,081) against payment of sales tax on import of plant and machinery; and
- Parco Pearl Gas Co. (Private) Limited amounting to Rs. 600 (December 31, 2013: Nil) as collateral against supplies.

8.2 As at June 30, 2014 post-dated cheques amounting to Rs. 36,291 (December 31, 2013: Rs. 44,003) have been provided as

(Amounts in thousand)

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.

8.3 Commitments in respect of capital expenditure contracted for but not incurred as at June 30, 2014 amounted to Rs. 245,365 (December 31, 2013: Rs. 966,772).

8.4 Commitments in respect of purchase of certain commodities as at June 30, 2014 amounted to Rs. 1,193,285 (December 31, 2013: Rs. 731,586).

8.5 Commitments for rentals payable under the Ijarah agreement as at June 30, 2014 amounted to Rs. 287,859 (December 31, 2013: Rs. 235,634).

8.6 Following is the position of the Holding Company's open tax assessments/matters as at June 30, 2014:

a) The Holding 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 Holding Company has been designated as part of the Group of Engro Corporation Limited (ECL) 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 is 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.

In 2013, 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 taxes recoverable have 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 disallowances will be claimed in tax year 2014 as significant time has lapsed, and no amount has been realized thereagainst to date. Accordingly, there will be no effect on the results of the Group.

(Amounts in thousand)

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.

f) During the period, the Additional Commissioner Inland Revenue raised a demand of Rs. 713,341 for tax year 2012 by disallowing the initial allowance and depreciation on certain additions to property, plant and equipment, provision for retirement and other service benefits, purchase expenses, sales promotion and advertisement and other expenses etc. The Holding Company has obtained a stay order from the Sindh High Court against the recovery 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.

| | Quarter ended June 30, | | Half year ended June 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| | Rupees | | | |
| **9. EARNINGS PER SHARE - Basic and diluted** | | | | |
| The basic and diluted earnings per share of the Company are based on: | | | | |
| Profit for the period | 139,066 | 460,095 | 329,145 | 1,112,718 |
| | Number of shares | | | |
| Weighted average number of ordinary shares in issue during the period (in thousand) | 766,596 | 764,655 | 766,596 | 763,744 |
| Weighted average number of ordinary shares for determination of diluted EPS (in thousand) | 766,596 | 766,342 | 766,596 | 766,158 |

(Amounts in thousand)

| | | Unaudited June 30, 2014 | Audited December 31, 2013 |
|---|---|---|---|
| | | Rupees | |
| 10. | CASH GENERATED FROM OPERATIONS | | |
| | Profit before taxation | 432,759 | 1,567,323 |
| | Adjustment for non-cash charges and other items: | | |
| | - Depreciation | 864,200 | 713,975 |
| | - Amortization of intangible assets | 56,684 | 23,040 |
| | - Amortization of deferred income | (3,142) | (4,496) |
| | - Amortization of arrangement fees on long term loan | 2,701 | 2,391 |
| | - Amortization of deferred employee share option compensation reserve | 64,964 | 45,092 |
| | - Effect of translation of foreign operations | (36,964) | - |
| | - Loss on disposal of biological assets | 496 | 9,228 |
| | - Biological assets written-off | - | 50,533 |
| | - Gain on disposal of operating assets | (5,890) | (12,521) |
| | - Gain arising from changes in fair value less estimated point-of-sale costs of biological assets | (68,327) | (2,683) |
| | - Provision for retirement and other service benefits | 39,277 | 35,944 |
| | - Provision for stock-in-trade | 77,393 | 42,851 |
| | - Provision for slow moving spares | 2,214 | 2,174 |
| | - Provision for impairment of trade debts | 124 | 507 |
| | - Provision for impairment of property, plant and equipment | 8,222 | 62,909 |
| | - Finance costs | 610,240 | 397,900 |
| | Working capital changes (note 10.1) | (3,515,001) | (542,885) |
| | | (1,470,050) | 2,391,282 |
| 10.1 | Working capital changes | | |
| | (Increase) / Decrease in current assets | | |
| | - Stores, spares and loose tools | (92,254) | (136,912) |
| | - Stock-in-trade | (2,696,913) | (459,981) |
| | - Trade debts | 50,257 | 30,296 |
| | - Advances, deposits and prepayments | (78,562) | 68,563 |
| | - Other receivables | (174,894) | (237,596) |
| | | (2,992,366) | (735,630) |
| | Increase / (Decrease) in current liabilities | | |
| | Trade and other payables - net | (522,635) | 192,745 |
| | | (3,515,001) | (542,885) |

# notes to the consolidated condensed interim financial information (unaudited) for the half year ended june 30, 2014

(Amounts in thousand)

| | Unaudited June 30, 2014 | Audited December 31, 2013 |
|---|---|---|
| | Rupees | |
| **11. CASH AND CASH EQUIVALENTS** | | |
| Cash and bank balances | 204,255 | 979,654 |
| Short term investments | - | 247,479 |
| Short term finances | (4,675,755) | - |
| | (4,471,500) | 1,227,133 |

## 12. TRANSACTIONS WITH RELATED PARTIES

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

| | | Half year ended June 30, | |
|---|---|---|---|
| | | 2014 | 2013 |
| | | Rupees | |
| Nature of relationship | Nature of transactions | | |
| Holding company | Arrangement for sharing of premises, utilities, personnel and assets | 110,666 | 104,074 |
| | Advance against purchase of shares of Engro Foods Netherlands B.V. | - | 134,303 |
| | Pension fund contribution | 528 | 552 |
| | Provident fund contribution | 13,211 | 10,635 |
| | Gratuity fund contribution | 483 | 946 |
| | Reimbursement of net cost incurred for meat business | 38,943 | - |
| Associated companies | Arrangement for sharing of premises, utilities, personnel and assets | 28,299 | 116,324 |
| | Purchases of goods | 53,188 | 23,062 |
| | Purchases of services | 1,803 | 1,355 |
| | Donation | 12,000 | 10,000 |
| | Subsidy received | - | 1,527 |
| Contribution to staff retirement funds | Provident Fund | 102,915 | 82,343 |
| | Gratuity Fund | 58,310 | 68,407 |
| Key management personnel | Managerial remuneration | 67,600 | 52,665 |
| | Contribution for staff retirement benefits | 5,519 | 6,544 |
| | Bonus payment | 7,071 | 78,328 |
| | Other benefits | 759 | 748 |

(Amounts in thousand)

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

## 13. SEGMENT INFORMATION

13.1 The basis of segmentation and reportable segments presented in this condensed interim financial information are the same which were disclosed in annual published 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 and inter-segment sales of raw milk are made by Dairy farm to Dairy, at market value.

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

| | Unaudited Half year ended June 30, 2014 | | | | | | Unaudited Half year ended June 30, 2013 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Dairy & Beverages | Ice cream & Frozen desserts | Dairy farm | Business development | Others | Total | Dairy & Beverages | Ice cream & Frozen desserts | Dairy farm | Business development | Others | Total |
| | Rupees | | | | | | | | | | | |
| **Results for the period** | | | | | | | | | | | | |
| Net sales | 18,212,293 | 1,680,996 | 426,468 | 39,551 | 243,903 | 20,603,211 | 17,579,743 | 1,441,388 | 250,380 | - | - | 19,271,511 |
| Inter-segment sales | (98,225) | - | (426,468) | (11,119) | - | (535,812) | (102,023) | - | (250,380) | - | - | (352,403) |
| Net revenue from external customers | 18,114,068 | 1,680,996 | - | 28,432 | 243,903 | 20,067,399 | 17,477,720 | 1,441,388 | - | - | - | 18,919,108 |
| Raw milk sales | 32,206 | - | - | - | - | 32,206 | 13,771 | - | - | - | - | 13,771 |
| | 18,146,274 | 1,680,996 | - | 28,432 | 243,903 | 20,099,605 | 17,491,491 | 1,441,388 | - | - | - | 18,932,879 |
| Segment profit / (loss) | 630,126 | (130,516) | (10,014) | (102,887) | (57,564) | 329,145 | 1,363,204 | (124,808) | (115,114) | (10,564) | - | 1,112,718 |
| | As at June 30, 2014 (Unaudited) | | | | | | As at December 31, 2013 (Audited) | | | | | |
| **Assets** | | | | | | | | | | | | |
| - Segment assets | 20,732,456 | 2,606,572 | 1,810,231 | 78,656 | 585,282 | 25,813,197 | 17,121,104 | 2,610,091 | 1,706,295 | 58,859 | 485,718 | 21,982,067 |
| - Un-allocated assets | - | - | - | - | - | 2,228,276 | - | - | - | - | | 2,358,243 |
| | 20,732,456 | 2,606,572 | 1,810,231 | 78,656 | 585,282 | 28,041,473 | 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 half year ended june 30, 2014

(Amounts in thousand)

## 14. SEASONALITY

The Holding Company's 'Ice cream' and 'Beverages' businesses are subject to seasonal fluctuation, with demand of ice cream and beverages products increasing in summer. The Holding Company's dairy business is also subject to seasonal fluctuation due to lean and flush cycles of milk collection. Therefore, revenues and profits as at June 30, 2014 are not necessarily indicative of the results to be achieved for the full year.

## 15. CORRESPONDING FIGURES

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

## 16. DATE OF AUTHORIZATION FOR ISSUE

This consolidated condensed interim financial information was authorized for issue on August 05, 2014 by the Board of Directors of the Holding Company.

Chairman

Chief Executive

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