engro foods

years of elevation

Financial Results – First Quarter 2016



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company information

Company Information

Board of Directors

Abdul Samad Dawood	Chairman
Babur Sultan	Chief Executive Officer
Muhammed Amin	Non-Executive Director
Sabrina Dawood	Non-Executive Director
Marco L. Spits	Independent
Rehan Hassan	Non-Executive Director
Zafaryab Ali Khan	Independent
Isfandiyar Shaheen	Non-Executive Director
Syed Khalid Siraj Subhani	Non-Executive Director
Wim Torfs	Independent

Chief Financial Officer
Imran Husain

Company Secretary
Faiz Chapra

Members of Audit Committee

Muhammed Amin	Chairman
Abdul Samad Dawood	Member
Zafaryab Ali Khan	Member
Isfandiyar Shaheen	Member

The secretary of committee is
Saleem Lallany, GM Internal Audit Department

Auditors
A. F. Ferguson & Company
Chartered Accountants

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M/s. FAMCO Associates (Private) Limited
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Shahrah-e-Faisal Karachi - Pakistan
Tel: +92(21) 34380104-5, 34384621-3
Fax +92(21) 34380106

Bankers
Al-Baraka Bank Pakistan Limited
Allied Bank Limited
Askari Bank Limited
Bank Al-Falah Limited
Bank Al-Habib Limited
Citibank N.A.
Deutchse Bank AG
Faysal Bank Limited
Habib Bank Limited
Habib Metropolitan Bank Limited
Industrial and Commercial Bank of China 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

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engro foods

CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED) FOR THE QUARTER ENDED MARCH 31, 2016

directors' report

On behalf of the Board of Directors of Engro Foods Limited (a majority owned subsidiary of Engro Corporation Limited), we are pleased to submit the report and the condensed interim financial information of the Company for the quarter ended March 31, 2016.

BUSINESS REVIEW:

During the period, the Company attained a revenue of Rs. 11.7 billion versus Rs. 12.5 billion in the same period last year. Gross margin of the Company improved from 26.8% to 28.1%. As a result, the overall profitability of the Company increased to Rs. 1,108 million from Rs. 1,069 million in the same period last year.



DAIRY AND BEVERAGES SEGMENT

The higher margins on account of lower milk prices and fuel costs led to growth in gross profit. The two key brands Olpers and Omung delivered significant volumetric growth over the same period last year, accordingly profit after tax for the three months was Rs. 1,202 million showing an increase of 3% versus the same period last year. However, deep discounting in the STC segment led to Tarang losing share. As a result the segment reported a top line of Rs. 11 billion registering a decline of 7% versus the same period last year. The appropriate strategy to reclaim share has since been deployed with Tarang staging a strong comeback in April. We intend to continue to strengthen brand equity and extend leadership.





ICE CREAM AND FROZEN DESSERTS SEGMENT

During the first quarter ended March 31, 2016, the Ice Cream business performed well led by consumer relevant product launches and driving operational excellence in the distribution network. This segment reported loss of Rs 119 million versus loss of Rs 137 mn in corresponding period last year.



DAIRY FARM SEGMENT

The Company's Dairy Farm continued to remain a rich and nutritious source of raw material for our dairy segment. The segment reported the Profit of Rs 25 million in the first quarter versus profit of Rs 33 million in corresponding period last year.



FINANCIAL PERFORMANCE

The financial performance of the company for first quarter of 2016 is summarized below:

(Rs. in million)	Quarter ended March 31,		Variation
	2016	2015	
Net Sales	11,743	12,490	(6.0%)
Operating Profit	1,656	1,827	(9.4%)
% of sales	14.1%	14.6%	
Profit after tax	1,108	1,069	3.6%
% of sales	9.4%	8.6%	
Earnings per share (Rs.)	1.45	1.39	3.6%

POTENTIAL ACQUISITION BY FRIESLANDCAMPINA INTERNATIONAL

The Company has received an announcement of intention from Royal FrieslandCampina International Holding B.V (RFC), stating that RFC intend to acquire up to 51% of the ordinary shares of the Company cumulatively through an agreement with Engro Corporation (the majority shareholder) and a public offer. Due Diligence is well underway and we believe that the potential partnership with RFC, if it comes to fruition, will accelerate our purpose of elevating consumer delight by providing safe and nutritious milk products to every household.

FUTURE OUTLOOK

The competitive scenario in the UHT industry has intensified therefore, the Company has undertaken a number of market place actions to increase its market share and fuel it's growth. Growing sales tax refunds exert pressure on working capital, the company will continue its efforts to engage with relevant stakeholders to expedite its recovery. In future, Engro Foods will continue to invest behind its brands to deliver growth and generate shareholder value.

Abdul Samad Dawood
Chairman

Babur Sultan
Chief Executive

Karachi: April 19, 2016

condensed interim balance sheet (unaudited) as at march 31, 2016

(Amounts in thousand)

	Note	Unaudited March 31 2016	Audited December 31, 2015
		Rupees	
ASSETS			
Non-Current Assets			
Property, plant and equipment	4	13,790,278	13,860,273
Biological assets		1,019,416	1,024,251
Intangible assets		57,456	63,923
Long term advances and deposits		129,278	134,451
Deferred employee share option compensation expense	5	114,331	147,456
		15,110,759	15,230,354
Current Assets			
Stores, spares and loose tools		817,903	792,929
Stock-in-trade	6	5,034,638	3,071,379
Trade debts		82,314	117,568
Advances, deposits and prepayments		219,805	133,999
Other receivables		189,713	598,555
Sales tax recoverable		3,996,292	3,724,441
Taxes recoverable		2,099,027	2,234,126
Deferred employee share option compensation expense	5	74,111	92,986
Cash and bank balances		326,604	289,049
		12,840,407	11,055,032
TOTAL ASSETS		27,951,166	26,285,386
EQUITY AND LIABILITIES			
Equity			
Share capital		7,665,961	7,665,961
Share premium		865,354	865,354
Employee share option compensation reserve		522,368	595,144
Hedging reserve		-	(1,770)
Remeasurement of post employment benefits - Actuarial loss		(84,356)	(84,356)
Unappropriated profit		6,980,525	5,872,468
		15,949,852	14,912,801
Non-Current Liabilities			
Long term finances		1,793,335	2,195,988
Deferred taxation		2,039,316	1,816,289
Deferred income		191	568
		3,832,842	4,012,845
Current Liabilities			
Current portion of long term finances		2,903,930	3,171,417
Current portion of deferred income		2,455	3,122
Trade and other payables		3,841,139	3,666,927
Derivative financial instruments		-	2,604
Accrued interest / mark-up on			
- long term finances		97,011	98,993
- short term finances		5,289	6,920
Short term finances	7	1,318,648	409,757
		8,168,472	7,359,740
Contingencies and Commitments	8		
TOTAL EQUITY AND LIABILITIES		27,951,166	26,285,386

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, 2016

(Amounts in thousand except for earnings per share)

	Note	Quarter ended March 31,	
		2016	2015
		Rupees	
Net sales		11,742,958	12,489,664
Cost of sales		(8,439,108)	(9,141,583)
Gross profit		3,303,850	3,348,081
Distribution and marketing expenses		(1,392,688)	(1,163,273)
Administrative expenses		(191,199)	(325,655)
Other operating expenses		(119,512)	(124,927)
Other income		55,842	92,481
Operating profit		1,656,293	1,826,707
Finance costs		(102,197)	(266,658)
Profit before taxation		1,554,096	1,560,049
Taxation		(446,039)	(491,142)
Profit for the period		1,108,057	1,068,907
Earnings per share - basic and diluted	9	1.45	1.39

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, 2016

(Amounts in thousand)

	Quarter ended March 31,	
	2016	2015
	Rupees	
Profit for the period	1,108,057	1,068,907
Other comprehensive income:		
Items that may be reclassified subsequently to profit or loss		
Gain / (Loss) on hedges during the period	-	3,776
Less: Adjustments for amounts transferred to initial carrying amounts of hedged items - capital work-in-progress / stock-in-trade	2,604	37,621
Income tax relating to hedging reserve	(834)	(13,661)
Other comprehensive income for the period, net of tax	1,770	27,736
Total comprehensive income for the period	1,109,827	1,096,643

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, 2016

(Amounts in thousand)

	RESERVES						Total
	Share capital	CAPITAL			REVENUE		
		Share premium	Employee share option compensation reserve	Hedging reserve	Remeasurement of post employment benefits - Actuarial loss	Unappropriated profit	
	Rupees						
Balance as at January 1, 2015 (Audited)	7,665,961	865,354	399,740	(27,736)	(35,715)	2,710,013	11,577,617
Employee share option scheme	-	-	(846)	-	-	-	(846)
Total comprehensive income for the period	-	-	-	27,736	-	1,068,907	1,096,643
Balance as at March 31, 2015 (Unaudited)	7,665,961	865,354	398,894	-	(35,715)	3,778,920	12,673,414
Employee share option scheme	-	-	196,250	-	-	-	196,250
Total comprehensive income for the period	-	-	-	(1,770)	(48,641)	2,093,548	2,043,137
Balance as at December 31, 2015 (Audited)	7,665,961	865,354	595,144	(1,770)	(84,356)	5,872,468	14,912,801
Employee share option scheme	-	-	(72,776)	-	-	-	(72,776)
Total comprehensive income for the period	-	-	-	1,770	-	1,108,057	1,109,827
Balance as at March 31, 2016 (Unaudited)	7,665,961	865,354	522,368	-	(84,356)	6,980,525	15,949,852

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, 2016

(Amounts in thousand)

	Note	Quarter ended March 31, 2016	2015
		Rupees	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	10	376,655	129,393
Finance costs paid		(105,810)	(222,744)
Taxes paid		(88,747)	(127,863)
Retirement benefits paid		(479)	(162)
Long term advances and deposits - net		5,173	(28,360)
Net cash generated from / (utilized in) operating activities		186,792	(249,736)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of:			
- property, plant and equipment		(428,595)	(369,923)
- intangible assets		(6,176)	-
- biological assets		(4,342)	-
Proceeds from disposal of:			
- property, plant and equipment		19,096	18,792
- biological assets		33,138	24,580
Net cash utilized in investing activities		(386,879)	(326,551)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayments of long term finances		(671,249)	(258,122)
Net decrease in cash and cash equivalents		(871,336)	(834,409)
Cash and cash equivalents at beginning of the period		(120,708)	(2,134,993)
Cash and cash equivalents at end of the period	11	(992,044)	(2,969,402)

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, 2016

(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 Pakistan Stock Exchange. The Company is a subsidiary of Engro Corporation Limited (ECL) and its registered office is situated at 5th 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.

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 should be read in conjunction with the annual financial statements of the Company for the year ended December 31, 2015.

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, 2015, except for change in certain estimates / judgments regarding the Employees Share Options Scheme (ESOS). The estimated fair value of these options and the underlying assumptions are disclosed in note 5. 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

3.1 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, 2015.

3.2 Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual profit or loss.

	Unaudited March 31, 2016	Audited December 31, 2015
	Rupees	
4. PROPERTY, PLANT AND EQUIPMENT		
Operating assets, at net book value (notes 4.1 and 4.2)	13,101,645	13,281,414
Capital work-in-progress (note 4.3)	524,883	419,755
Major spare parts and stand-by equipment	163,750	159,104
	13,790,278	13,860,273

notes to the condensed interim financial information (unaudited) for the quarter ended march 31, 2016

(Amounts in thousand)

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

	Unaudited March 31, 2016	Audited December 31, 2015
	Rupees	
Free hold land	-	1,108
Buildings on freehold land	5,000	141,974
Plant, machinery and related equipment	268,261	855,459
Office equipment & furniture and fittings	4,987	14,272
Computer equipment	2,768	12,756
Vehicles	47,541	131,183
	328,557	1,156,752

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

	Cost	Accumulated depreciation / impairment	Net book value	Sales proceeds	Mode of disposal
	Rupees				
Plant , machinery and equipment	3,796	(2,804)	992	154	Insurance claims / Bidding / Auction
Vehicles - owned	45,515	(35,960)	9,555	18,826	Insurance claims / Employee buyback / Auction
Computer equipment	235	(134)	101	-	Insurance claims / Bidding / Auction
Office equipment & furniture and fixture	214	(98)	116	116	Insurance claims / Bidding / Auction
March 31, 2016	49,760	(38,996)	10,764	19,096	
December 31, 2015	245,272	(121,001)	124,271	133,046	

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

	Unaudited March 31, 2016	Audited December 31, 2015
	Rupees	
Balance as at January 1	419,755	605,918
Additions:		
Land	-	1,108
Building on freehold land	54,889	106,101
Plant, machinery and related equipment	290,823	677,539
IS and project automation	6,176	5,792
Office equipment, furniture & fittings and computers equipment	10,408	30,621
Vehicles	72,475	151,862
	434,771	973,023
Less:		
Transfers to:		
- Operating assets	(328,557)	(1,156,752)
- Intangible assets	(1,086)	(2,434)
Balance as at March 31 / December 31	524,883	419,755

(Amounts in thousand)

5. EMPLOYEES' SHARE OPTION SCHEME

In 2013, the shareholders of the Company approved 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.

Under the Scheme, options were to be granted in the years 2013 to April 2015. 50% of the options granted were to vest in two years whereas the remaining 50% were to 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 under the Scheme, which remained outstanding as at March 31, 2016 are as follows:

- number of options 5,200,000
- range of exercise price Rs. 182.85 - Rs. 253.77
- weighted average remaining contractual life 2.91 years

The weighted average fair value of options granted to date, as estimated at the date of grant using the Black-Scholes model was Rs. 24.81 per option, whereas weighted average fair value of options to be granted has been estimated as Rs. 33.62 per option. The following weighted average assumptions have been used in calculating the fair values of the options:

	Options granted in 2013	Options granted in 2015	Options to be granted
- number of options	4,400,000	800,000	11,700,000
- share price	Rs. 133.58	Rs. 107.67	Rs. 159.24
- exercise price	Rs. 191.89	Rs. 182.85	Rs. 230.76
- expected volatility	32.54%	30.32%	34.82%
- expected life	3 years	3.5 years	3.69 years
- annual risk free interest rate	9.42%	7.93%	6.15%

The volatility has been measured as the standard deviation of quoted share prices over the last one year from each respective / expected grant date.

The time period under the Scheme for granting of share options expired during the year in April 2015. However, the Company obtained approval of shareholders for extension in share options grant period for further 3 years in the Annual General Meeting held on April 27, 2015. The approval from SECP for aforementioned modification in the Scheme and the related vesting period has also been received through letter dated August 31, 2015 .

In respect of the Scheme, Employee share option compensation reserve and the related deferred expense amounting to Rs. 522,368 has been recognized, out of which Rs. 333,926 has been amortized to date, including reversal of Rs. 20,776 in current period owing to change in fair value of options to be granted net off charge in respect of employees services received till balance sheet date.

6. STOCK-IN-TRADE

	Unaudited March 31, 2016	Audited December 31, 2015
	Rupees	
Raw and packaging material (note 6.1)	2,040,382	2,103,805
Work in process (note 6.2)	2,349,838	169,194
Finished goods (note 6.3 and 6.4)	644,417	798,380
	5,034,637	3,071,379

(Amounts in thousand)

6.1 Includes Rs. 360,722 (December 31, 2015: Nil) in respect of raw material held by third parties.

6.2 Includes Rs. 611,475 (December 31, 2015: Nil) in respect of work in process held by third parties.

6.3 Includes Rs. 83,587 (December 31, 2015: Rs. 163,084) in respect of finished goods held by third parties.

6.4 These are net of provision against expired / obsolete stock and net realizable value amounting to Rs. 38,010 (December 31, 2015: Rs. 47,092). Stock amounting to Rs. 9,082 (December 31, 2015: Rs. 80,380) has been written off against provision during the period.

7. SHORT TERM FINANCES - secured

7.1 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. 7,500,000 (December 31, 2015: Rs. 8,000,000). The unutilized balance against these facilities as at period end was Rs. 6,181,352 (December 31, 2015: Rs. 7,590,243). The rates of mark-up on these finances are KIBOR based and range from 6.71% to 7.74% (December 31, 2015: 7.26% to 8.10%) 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 bank guarantees as at March 31, 2016 amounts to Rs. 6,315,000 (December 31, 2015: Rs. 6,015,000), of which the amount remaining unutilized as at period end was Rs. 4,274,986 (December 31, 2015: Rs. 3,871,198).

8. CONTINGENCIES AND COMMITMENTS

8.1 As at March 31, 2016, the Company has provided bank guarantees to:

- Sui Southern Gas Company Limited amounting to Rs. 62,842 (December 31, 2015: Rs. 62,842) under the contract for supply of gas;
- Sui Northern Gas Company Limited amounting to Rs. 34,350 (December 31, 2015: Rs. 34,350) under the contract for supply of gas;
- Collector of Sales Tax, Large Tax Payers Unit (LTU), Karachi amounting to Rs. 258,712 (December 31, 2015: 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, 2015: Rs. 172,000) have been received to-date;
- Controller Military Accounts, Rawalpindi amounting to Rs. 4,675 (December 31, 2015: Rs. 9,001) as collateral against supplies;
- Parco Pearl Gas Co. (Private) Limited amounting to Rs. 1,000 (December 31, 2015: Rs. 1,000) as collateral against supplies; and
- Officer Commanding PAF Faisal Base amounting to Rs. 4,745 (December 31, 2015: Rs. 4,745) as collateral against supplies.

8.2 Commitments in respect of capital expenditure contracted for but not incurred as at March 31, 2016 amounts to Rs. 566,608 (December 31, 2015: Rs. 791,590).

8.3 Commitments in respect of purchase of certain commodities as at March 31, 2016 amounts to Rs. 1,168,518 (December 31, 2015: Rs. 1,090,580).

8.4 Commitments for rentals payable under the Ijarah agreement as at March 31, 2016 amounts to Rs. 190,765 (December 31, 2015: Rs. 214,005).

(Amounts in thousand)

8.5 As at March 31, 2016 post-dated cheques amounting to Rs. 467 (December 31, 2015: 467) 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.

8.6 Following is the position of the Company's open tax assessments/matters as at March 31, 2016:

a) The Company in accordance with section 59 B (Group Relief) of the Income Tax Ordinance (ITO), 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 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 the balance of taxes recoverable has not been reduced by the effect of the aforementioned disallowance.

c) 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. In response to the appeal filed against the audit proceedings, the Commissioner Appeals issued an appellate order in favour of the Company holding the selection of case for audit to be illegal and without jurisdiction. The tax department has filed an appeal against the order with the Appellate Tribunal Inland Revenue, however, no hearing has been conducted to date. 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.

d) 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 turnover tax amounting to Rs. 1,107,039 made in prior years.

e) In 2014, 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.

notes to the condensed interim financial information (unaudited) for the quarter ended march 31, 2016

(Amounts in thousand)

		Unaudited March 31, 2016	Unaudited March 31, 2015
		Rupees	
9.	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	1,108,057	1,068,907
	Weighted average number of ordinary shares for determination of basic & diluted EPS (in thousand)	766,596	766,596
10.	CASH GENERATED FROM OPERATIONS		
	Profit before taxation	1,554,096	1,560,049
	Adjustment for non-cash charges and other items:		
	- Depreciation	497,299	481,896
	- Impairment of operating assets - net	263	47
	- Amortization of intangible assets	7,553	12,567
	- Amortization of deferred income	(1,044)	(51)
	- Amortization of arrangement fees on long term loan	1,109	1,343
	- Amortization of deferred employee share option compensation reserve	(20,776)	6,503
	- Gain on disposal of biological assets	(2,230)	(3,159)
	- Gain on disposal of operating assets	(8,332)	(9,703)
	- Gain arising from changes in fair value less estimated point-of-sale costs of biological assets	(21,731)	(61,494)
	- Provision for retirement and other service benefits	25,430	23,992
	- Provision for stock-in-trade	-	23,480
	- Reversal of provision for slow moving spares	-	(299)
	- (Reversal of provision) / Provision for impairment of trade debts	(63)	2,135
	- Finance costs	102,197	266,658
	Working capital changes (note 10.1)	(1,757,116)	(2,174,571)
		376,655	129,393
10.1	Working capital changes		
	(Increase) / Decrease in current assets		
	- Stores, spares and loose tools	(29,620)	(2,032)
	- Stock-in-trade	(1,963,259)	(2,632,650)
	- Trade debts	35,317	(11,554)
	- Advances, deposits and prepayments	(85,806)	(123,166)
	- Other receivables	408,842	(64,828)
	- Sales tax recoverable	(271,851)	(227,614)
		(1,906,377)	(3,061,844)
	Increase / (Decrease) in current liabilities		
	- Trade and other payables - net	149,261	887,273
		(1,757,116)	(2,174,571)
11.	CASH AND CASH EQUIVALENTS		
	Cash and bank balances [Including foreign currency account of Rs. 295,669 (March 31, 2015:Rs. 220,402)]	326,604	223,188
	Short term finances	(1,318,648)	(3,192,590)
		(992,044)	(2,969,402)

notes to the condensed interim financial information (unaudited) for the quarter ended march 31, 2016

(Amounts in thousand)

12. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

12.1 Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk (including curreny risk and interest rate risk), credit risk and liquidity risk.

There have been no changes in the risk management policies during the period, consequently this condensed interim financial information does not include all the financial risk management information and disclosures required in the annual financial statements.

12.2 Fair value estimation

The carrying value of all financial assets and liabilites reflected in this condensed interim financial information approximate their fair values.

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, 2016	Unaudited March 31, 2015
		Rupees	
Nature of relationship	Nature of transactions		
Holding company	Arrangement for sharing of premises, utilities, personnel and assets	51,871	46,851
	Reimbursement of expense paid on behalf of	8,087	4,280
Subisdiary and associated companies	Arrangement for sharing of premises, utilities, personnel and assets	3,656	3,104
	Reimbursement of expense paid on behalf of	20,718	1,314
	Purchases of goods	15,502	25,206
	Purchases of services	-	55
	Donation	4,500	6,000
Contribution to staff retirement funds	Managed and operated by the Holding Company :		
	- Pension fund contribution	-	358
	- Provident fund contribution	69,510	61,989
	- Gratuity fund contribution	479	163
Key management personnel	Managerial remuneration	43,384	32,845
	Contribution for staff retirement benefits	3,409	2,797
	Bonus payment	67,487	11,370
	Other benefits	-	627

notes to the condensed interim financial information (unaudited) for the quarter ended march 31, 2016

(Amounts in thousand)

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, 2015.

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

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

	Unaudited Quarter ended March 31, 2016				Unaudited Quarter ended March 31, 2015			
	Dairy and Beverages	Ice cream & frozen desserts	Dairy farm	Total	Dairy and Beverages	Ice cream & frozen desserts	Dairy farm	Total
	Rupees							
Results for the period								
Net sales	11,077,326	658,701	305,070	12,041,097	11,962,037	575,213	262,284	12,799,534
Inter-segment sales	(2,778)	-	(305,070)	(307,848)	(62,256)	-	(262,284)	(324,540)
	11,074,548	658,701	-	11,733,249	11,899,781	575,213	-	12,474,994
Raw milk sales	9,709	-	-	9,709	14,669	-	-	14,669
	11,084,257	658,701	-	11,742,958	11,914,450	575,213	-	12,489,663
Net profit / (loss) after tax	1,202,306	(119,116)	24,866	1,108,057	1,172,242	(136,671)	33,336	1,068,907

	Unaudited March 31, 2016				Audited December 31, 2015			
Assets								
- Segment assets	16,279,532	2,410,793	2,014,479	20,704,804	14,453,470	2,278,947	2,090,921	18,823,338
- Un-allocated assets	-	-	-	7,246,362	-	-	-	7,462,048
	16,279,532	2,410,793	2,014,479	27,951,166	14,453,470	2,278,947	2,090,921	26,285,386

notes to the condensed interim financial information (unaudited) for the quarter ended march 31, 2016

(Amounts in thousand)

15. SEASONALITY

The Company's 'Ice Cream' and 'Beverages' business 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 March 31, 2016 are not necessarily indicative of result to be expected for the full year.

16. CORRESPONDING FIGURES

16.1 In order to comply with the requirements of International Accounting Standard 34 - 'Interim Financial Reporting', the condensed interim balance sheet has been compared with the balances of annual 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.

16.2 For better presentation, following reclassifications have been made in this condensed interim financial information:

Description	Rupees	Head of account in condensed interim financial information for the period ended March 31, 2015	Head of account in condensed interim financial information for the period ended March 31, 2016
Profit and loss account			
Trade offers and volume rebates	86,708	Distribution and marketing expenses - Advertising	Net sales - Trade and other discounts

17. DATE OF AUTHORIZATION FOR ISSUE

This condensed interim financial information was authorized for issue on April 19, 2016 by the Board of Directors of the Company.

Chairman

Chief Executive

ڈائریکٹرز رپورٹ

اینگرو فوڈز لمیٹڈ (اینگرو کارپوریشن لمیٹڈ کے اکثریت ملکیتی ماتحت ادارہ) کے بورڈ آف ڈائریکٹرز کی جانب سے، ہم 31 مارچ 2016 کو ختم ہونے والی مالیاتی سال کی پہلی سہ ماہی کی عبوری مالی معلومات اور ڈائریکٹرز رپورٹ پیش کرنے پر مسرت محسوس کرتے ہیں۔

کاروبار کا جائزہ

زیر جائزہ مدت کے دوران کمپنی نے گزشتہ سال کی اسی مدت میں حاصل ہونے والی آمدنی 12.5 ارب روپے کے مقابلے اس سہ ماہی میں 11.7 ارب روپے آمدنی رپورٹ کی۔ کمپنی کا مجموعی مارجن 26.8 فیصد سے بڑھ کر 28.1 فیصد ہو گیا اس کے نتیجے میں کمپنی کا مجموعی منافع 1,108 ملین روپے ہوا جبکہ گزشتہ سال کی اسی مدت میں کمپنی نے اپنا مجموعی منافع 1,069 ملین کمایا تھا۔

ڈیری اور مشروبات سیگمنٹ

دودھ کی کم قیمتوں اور ایندھن کے اخراجات میں کمی کی بدولت مجموعی منافعے میں نمو دیکھی گئی۔ کمپنی کے دو اہم برانڈز اولپر اور امنگ نے زیر جائزہ مدت کے دوران حجم میں قابل ذکر نمو حاصل کی۔ اسی طرح کمپنی کا منافع بعد از ٹیکس 1,202 ملین روپے رہا جو گزشتہ سال کی پہلی سہ ماہی سے 3 فیصد زیادہ ہے۔ تاہم STC سیگمنٹ میں زیادہ ڈسکاؤنٹ کی وجہ سے ترنگ کا مارکیٹ شیئر متاثر ہوا۔ اس کے نتیجے میں سیگمنٹ نے 11 بلین روپے کا ٹاپ لائن رپورٹ کیا جو گزشتہ سال کی اسی سہ ماہی کے مقابلے 7 فیصد کم ہے۔ ترنگ کا مارکیٹ شیئر دوبارہ حاصل کرنے کے لیے مناسب حکمت عملی اپنائی گئی ہے جس کی وجہ سے اپریل میں ترنگ نے اچھی کارکردگی کا مظاہرہ کیا۔ ہم برانڈ ایکوئٹی کو مضبوط اور اس کی اول درجہ بندی برقرار رکھنا چاہتے ہیں۔

آئس کریم اور منجمد ڈزرٹ سیگمنٹ

31 مارچ 2016 کو ختم ہونے والی سہ ماہی میں آئس کریم کے کاروبار نے صارفین سے متعلقہ مصنوعات متعارف کروانے اور ترسیل کے نیٹ ورک کو عمدہ آپریشنل استعداد کار سے ہم آہنگ کر کے اعلیٰ کارکردگی کا مظاہرہ کیا۔ زیر جائزہ مدت کے دوران اس سیگمنٹ کے نقصانات 119 ملین روپے رپورٹ کئے گئے جبکہ گزشتہ سال اس سیگمنٹ کے نقصانات 137 ملین روپے تھے۔

ڈیری فارم سیگمنٹ

زیر جائزہ مدت کے دوران کمپنی کا ڈیری فارم غذائیت سے بھرپور دودھ مسلسل فراہم کرتا رہا۔ ڈیری فارم سیگمنٹ نے اس سہ ماہی میں 25 ملین روپے کا منافع حاصل کیا جبکہ گزشتہ سال کی اسی مدت میں 33 ملین کا منافع ہوا تھا۔

مالیاتی کارکردگی

کمپنی کی2016 کی پہلی سہ ماہی میں مالیاتی کارکردگی کا ذیل میں خلاصہ پیش ہے:

رقم ملین میں	سہ ماہی اختتام 31 مارچ 2016	2015	تبدیلی
خالص فروخت	11,743	12,490	(6.0%)
آپریٹنگ منافع	1,656	1,827	(9.4%)
فروخت کی شرح	14.1%	14.6%	
منافع بعد از ٹیکس	1,108	1,069	3.6%
فروخت کی شرح	9.4%	8.6%	
آمدنی فی شیئر .Rs	1.45	1.39	3.6%

رائل فریسلینڈ کمپینا انٹرنیشنل کی کمپنی کے حصص کی ممکنہ خرید

کمپنی کو ایک اعلان موصول ہوا ہے جس میں رائل فریسلینڈ کمپینا انٹرنیشنل ہولڈنگ B.V (RFC) نے اینگرو کارپوریشن (اکثریتی شیئر ہولڈر) کے ساتھ معاہدے اور پبلک آفرنگ کے ذریعے کمپنی کے 51 فیصد عام حصص کے حصول میں دلچسپی ظاہر کی ہے۔ اس حوالے سے مطلوبہ احتیاط لی جارہی ہے اور کمپنی یہ سمجھتی ہے کہ RFC کے ساتھ شراکت داری صارفین کے لیے محفوظ اور غذائیت سے بھرپور دودھ کی مصنوعات فراہم کرنے کی ہماری کوششوں کو دوام بخشے گی۔

مستقبل کا نقطہ نظر

UHT کی صنعت میں مختلف کمپنیوں کے مابین مسابقت مسلسل جاری ہے۔ اسی لیے کمپنی نے اپنے مارکیٹ شیئر میں اضافے اور نمو کے لیے مختلف اقدامات کئے ہیں۔ بڑھتے سیلز ٹیکس ریفنڈز ورکنگ کیپٹل پر دباؤ ڈالتے ہیں اسی لیے کمپنی سیلز ٹیکس ریفنڈز کے حصول کے لیے تمام اسٹیک ہولڈرز کے ساتھ رابطے میں ہے۔ مستقبل میں اینگرو فوڈز برانڈز میں سرمایہ کاری کرتی رہے گی تاکہ نمو کے ساتھ ساتھ شیئر ہولڈر کی ویلیو میں بھی اضافہ ہو۔

بابر سلطان
چیف ایگزیکٹو

عبدالصمد داود
چیئرمین

کراچی: 19 اپریل، 2016

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