

Nurturing Growth



1ST HALF YEARLY REPORT 2008-09



ABOUT THE COVER



A comprehensive Sustainability Strategy is Nurturing Growth at National Foods Limited today, driving all operations towards Vision 20/20. Featured on the cover is the red chilli plant (*Capsicum annum*). As part of its sustainability strategy, National Foods Limited is undertaking a planned effort, starting at the grassroots level, to support quality improvement and enhanced production of red chilli in Pakistan.

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Chilli
Capsicum annuum



COMPANY INFORMATION

BOARD OF DIRECTORS

Mr. Abdul Majeed
Mr. Abrar Hasan
Mr. Waqar Hasan
Mr. Khawaja Munir Mashooqullah
Mr. Zahid Majeed
Mr. Ebrahim Qasim
Mr. Iqbal Alimohamed

Chairman
Managing Director / Chief Executive
Director
Director
Director
Director
Director

AUDIT COMMITTEE

Mr. Waqar Hasan
Mr. Ebrahim Qasim
Mr. Zahid Majeed

Chairman
Member
Member

COMPANY SECRETARY AND SECRETARY AUDIT COMMITTEE

Mr. Fayyaz Abdul Ghaffar

CHIEF FINANCIAL OFFICER

Mr. Muhammad Kashif Iqbal

INTERNAL AUDITORS

Messrs Ford Rhodes Sidat Hyder & Co.

Chartered Accountants

COMPANY MANAGEMENT

Mr. Abrar Hasan
Mr. Shakaib Arif
Mr. Kamran Khan
Mr. Waqas Abrar Khan
Mr. M. Azher Ali
Mr. Saleem Khilji
Mr. Muhammad Iqbal
Mr. Arif Shaikh
Mr. Zahid Marghoob Sheikh
Mr. Muhammad Kashif Iqbal

Managing Director / Chief Executive
Chief Operating Officer
Chief Commercial Officer
General Manager Human Resource
Sr. Business Unit Manager – PQ Plant
Business Unit Manager – SITE Plant
Head of Supply Chain Management
Head of Quality, Research & Development
Head of Information Technology
Head of Finance

AUDITORS

A. F. Ferguson & Co.

Chartered Accountants
State Life Building, 1-C, I.I. Chundrigar Road, Karachi

SHARE REGISTRATION OFFICE

Noble Computer Services (Pvt.) Limited

2nd Floor, Sohni Centre, BS 5 & 6 Karimabad,
Block-4, Federal B. Area, Karachi-75950
Phone: 6801880 -82 (3 Lines) Fax: 6801129

PRINCIPAL BANKERS

Bank Al-Habib Limited

I.I. Chundrigar Road Branch, Karachi
S.I.T.E Branch, Karachi
New Garden Town Branch, Lahore.
Abdullah Haroon Road, Karachi

Royal Bank of Scotland (RBS)
(Formerly ABN AMRO Bank N.V.)

Muslim Commercial Bank

Clifton Corporate Branch, Karachi
Shaheen Complex Branch, Karachi

Habib Bank Limited

Citibank N.V.

Hub River Road Branch, Karachi
SITE Branch, Karachi

REGISTERED OFFICE

12/CL-6, Claremont Road, Civil Lines,
Karachi 75530 P.O.Box No. 15509
Phone: 5662687, 5670540, 5670585,
5670793 & 5672268 Fax: 5684870



FIRST HALF YEARLY REPORT

TO THE SHAREHOLDERS

On behalf of the Board of Directors of National Foods Limited, I am pleased to present you the unaudited financial statements of the second quarter and six months ended December 31, 2008 along with certain performance indicators thereof. These financial statements are submitted in accordance with the Section 245 of the Companies Ordinance, 1984.

SUMMARY

Summary of the results are presented below:

| | Jul 2008 to Dec 2008 | Jul 2007 to Dec 2007 | Growth | % of Net Sales | | |
|-----------------------------|-------------------------|-------------------------|----------|--------------------|---------|-------------------|
| | | | | Jul-Dec 2008-09 | 2007-08 | Variance (+/-) |
| Top Line Growth | | | | | | |
| Corporate Sales | | | | | | |
| Gross sales | 2,713,494 | 2,109,791 | 28.61% | | | |
| Net sales | 2,016,015 | 1,548,299 | 30.21% | | | |
| Local sales | | | | | | |
| Gross sales | 2,548,862 | 1,983,295 | 28.52% | | | |
| Net sales | 1,851,383 | 1,427,688 | 29.68% | | | |
| Export sales | | | | | | |
| Gross sales | 164,632 | 126,496 | 30.15% | | | |
| Net sales | 164,632 | 120,611 | 36.50% | | | |
| Gross Profit | 607,020 | 530,901 | 14.34% | 30.11% | 34.29% | (4.18%) |
| Bottom Line Growth | | | | | | |
| Operating profit | 184,909 | 140,535 | 31.58% | 9.17% | 9.08% | 0.09% |
| Other income | 6,568 | 5,148 | 27.58% | 0.33% | 0.33% | - |
| Pre-tax profit | 142,692 | 118,448 | 20.47% | 7.08% | 7.65% | (0.57%) |
| Net profit | 91,561 | 81,724 | 12.04% | 4.54% | 5.28% | (0.74%) |
| Expense control | | | | | | |
| Selling expenses | 184,392 | 146,583 | 25.79% | 9.15% | 9.47% | (0.32%) |
| Advertising and sales promo | 159,466 | 184,260 | (13.46%) | 7.91% | 11.90% | (3.99%) |
| Administrative expenses | 73,198 | 54,521 | 34.26% | 3.63% | 3.52% | 0.11% |
| Other operating expenses | 11,623 | 10,150 | 14.51% | 0.58% | 0.66% | (0.08%) |
| Financial expenses | 42,217 | 22,087 | 91.14% | 2.09% | 1.43% | 0.66% |



OPERATING RESULTS

The on going recession in the world's economy has had a negative pressure on the local economy. Inflation in food segment continues unabated and has resulted in strong top line VALUE growth of 28%. However consumption in tonnage terms and consumer spending in terms of purchase power is now showing signs of decline. Similar growth has been registered in exports in the first half of the year. This is due to a favourable exchange rate because of Rupee devaluation as compared to last year. Global markets have seen a decline in some major commodity prices; however our raw material prices remain high due to major goods being sourced from the local agricultural base. Inefficient crop management and wastage continues to keep the prices at a higher level. Packaging materials have seen a favourable decline but not enough. As a result the Gross Margins remain low as compared to last year.

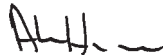
The company managed to control its selling expenses to Rs.184 Million, increasing it by 25.79%. This increase was partially offset by controlling advertising spends, and accordingly the overall Distribution cost increased by only 4%. Administrative expenses increased by 34%, due to general inflation and increasing amortization/depreciation of SAP and related equipments. Due to seasonal sales impact, such costs have been covered reflecting a very healthy operating profit of 9.17%. However, interest coverage ratio has declined to 4.38 times during six months compared with 6.68 times during comparative period of last year. Pre-tax and net profit has declined to 7.08% and 4.54% respectively compare to 7.65% and 5.28% during corresponding period last year.

FUTURE OUTLOOK

JCR-VIS Credit Rating Company Ltd. (JCR-VIS) has re-affirmed the medium to long-term entity rating of the Company at 'A+' (Single A Plus) and short term entity rating at 'A-2' (A Two). Outlook on the medium to long-term rating is 'Stable'. The ratings are maintained for four years in a row, evidencing strong capital structure, sustainable sales growth and established brand name. This has been the 4th consecutive year that the company has maintained it's A+ rating. Professional financial management within the company needs to be congratulated to manage this in an extremely uncertain financial global environment.

As is evident from the financial analysis, very high interest rates continue to hamper growth and investment. Internal cash generation has now become extremely important to keep interest costs sustained. As the liquidity of financial institution is also uncertain, it is prudent that inventory optimization and consolidation of operations and investment now take extreme priority.

The GDP growth rate which averaged 6.8 percent in past five years is expected to weaken to 3.4 percent by the end of the current fiscal year from 5.8 percent last year. The increasing trend of Interest rates has stabilized somewhat due to a tighter monetary policy announced by the State Bank of Pakistan however a rate reversal in the short term is not expected. Optimization of resources and focus on improving our operational efficiencies through maintenance of high quality standards will be the keys in success towards our business targets.



Abrar Hasan
Chief Executive



AUDITORS' REPORT TO THE MEMBERS

ON REVIEW OF CONDENSED INTERIM FINANCIAL INFORMATION

Introduction

We have reviewed the accompanying condensed interim balance sheet of National Foods Limited as at December 31, 2008 and the related condensed interim profit and loss account, condensed interim changes in equity and condensed interim cash flow statement for the half year then ended (here-in-after referred to as the "interim financial information"). Management is responsible for the preparation and presentation of this interim financial information in accordance with approved accounting standards as applicable in Pakistan. Our responsibility is to express a conclusion on this interim financial information based on our review. The figures of the condensed interim profit and loss account for the quarters ended December 31, 2008 and 2007 have not been reviewed, as we are required to review only the cumulative figures for the half year ended December 31, 2008.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements ISRE 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 interim financial information as of and for the half year ended December 31, 2008 is not prepared, in all material respects, in accordance with approved accounting standards as applicable in Pakistan.



Chartered Accountants

Karachi

Dated: 18 February, 2009

Engagement Partner - Farrukh Rehman



CONDENSED INTERIM BALANCE SHEET

AS AT DECEMBER 31, 2008

| | Note | (Un-audited) Dec 31, 2008 | (Audited) Jun 30, 2008 |
|---|------|---------------------------------|------------------------------|
| ASSETS | | | |
| Non-Current Assets | | | |
| Property, plant and equipment | 2 | 653,999 | 635,325 |
| Intangibles | | 33,515 | 2,194 |
| Long term deposits | | 5,209 | 4,444 |
| | | 692,723 | 641,963 |
| Current Assets | | | |
| Stores, spare parts and loose tools | | 5,274 | 7,499 |
| Stock in trade | | 878,195 | 755,259 |
| Trade debts | | 221,767 | 259,091 |
| Advances | | 58,907 | 18,965 |
| Deposits and prepayments | | 10,427 | 2,333 |
| Other receivables | | 2,200 | 1,446 |
| Tax refunds due from / adjustable with the government | | 29,460 | 46,603 |
| Cash and bank balances | 5 | 33,738 | 13,496 |
| | | 1,239,968 | 1,104,692 |
| | | 1,932,691 | 1,746,655 |
| SHARE CAPITAL AND RESERVES | | | |
| Issued, subscribed and paid-up capital | | 331,542 | 55,257 |
| Capital Reserves - Share premium | | - | 6,102 |
| Unappropriated profit | | 275,944 | 454,566 |
| | | 607,486 | 515,925 |
| NON-CURRENT LIABILITIES | | | |
| Long term financing | | 80,000 | 100,000 |
| Liabilities against assets subject to finance leases | | 33,932 | 26,262 |
| Deferred liability - Retirement benefits | 6.1 | 8,971 | - |
| Deferred tax | | 63,824 | 70,758 |
| | | 186,727 | 197,020 |
| CURRENT LIABILITIES | | | |
| Trade and other payables | | 500,406 | 369,565 |
| Accrued interest/ mark up | | 20,735 | 17,186 |
| Short term borrowings | | 485,606 | 536,341 |
| Current maturity of: | | | |
| Long term financing | | 40,000 | 43,000 |
| Liabilities against assets subject to finance leases | | 16,519 | 12,341 |
| Provision for income tax | | 61,091 | 42,000 |
| Due to the government - Sales tax / Special excise duty | | 14,121 | 13,277 |
| | | 1,138,478 | 1,033,710 |
| COMMITMENTS | | | |
| | 3 | | |
| | | 1,932,691 | 1,746,655 |

The annexed notes 1 to 8 form an integral part of these financial statements.


Abrar Hasan
Chief Executive


Zahid Majeed
Director

CONDENSED INTERIM PROFIT AND LOSS ACCOUNT

FOR THE HALF YEAR ENDED
DECEMBER 31, 2008 (UNAUDITED)

| | Quarter ended | | Half year ended | |
|---|----------------------|---------------------|----------------------|---------------------|
| | December 31, 2008 | December 31 2007 | December 31, 2008 | December 31 2007 |
| | (Rupees in thousand) | | | |
| Net sales | | | | |
| Local | 851,332 | 659,993 | 1,851,383 | 1,427,688 |
| Export | 133,894 | 46,997 | 164,632 | 120,611 |
| | 985,226 | 706,990 | 2,016,015 | 1,548,299 |
| Cost of sales | 702,020 | 469,541 | 1,408,995 | 1,017,398 |
| Gross profit | 283,206 | 237,449 | 607,020 | 530,901 |
| Distribution cost | 191,375 | 135,586 | 343,858 | 330,843 |
| Administrative expenses | 32,755 | 26,548 | 73,198 | 54,521 |
| Other operating expenses | 2,721 | 5,625 | 11,623 | 10,150 |
| | 226,851 | 167,759 | 428,679 | 395,514 |
| Other operating income | 758 | 4,071 | 6,568 | 5,148 |
| Profit from operations | 57,113 | 73,761 | 184,909 | 140,535 |
| Finance costs | 23,495 | 11,202 | 42,217 | 22,087 |
| Profit before taxation | 33,618 | 62,559 | 142,692 | 118,448 |
| Taxation | 10,948 | 17,975 | 51,131 | 36,724 |
| Profit after taxation | 22,670 | 44,584 | 91,561 | 81,724 |
| Earnings per share - Basic and Diluted - Rupees | 0.82 | 1.61 | 3.31 | 2.96 |

The annexed notes 1 to 8 form an integral part of these financial statements.


Abrar Hasan
Chief Executive


Zahid Majeed
Director

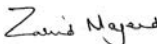
CONDENSED INTERIM CASH FLOW STATEMENT

FOR THE HALF YEAR ENDED
DECEMBER 31, 2008 (UNAUDITED)

| | Note | 2008 (Rupees in thousand) | 2007 |
|--|------|------------------------------|------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Cash generated from operations | 4 | 229,300 | 194,682 |
| Finance cost paid | | (37,659) | (21,987) |
| Income tax paid | | (21,831) | (19,213) |
| Net increase in long term deposits | | (765) | (1,553) |
| Net cash from operating activities | | 169,045 | 151,929 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchase of property, plant and equipment | | (44,996) | (117,998) |
| Sale proceeds on disposal of property, plant and equipment | | 959 | 664 |
| Purchase of intangible assets | | (22,877) | (640) |
| Net cash used in investing activities | | (66,914) | (117,974) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Repayment of long term financing | | (23,000) | (23,000) |
| Liability against assets subject to finance leases - (net) | | (7,981) | (904) |
| Dividend paid | | (173) | (8,242) |
| Net cash used in financing activities | | (31,154) | (32,146) |
| Net increase in cash and cash equivalents | | 70,977 | 1,809 |
| Cash and cash equivalents at the beginning of the period | | (522,845) | (193,126) |
| Cash and cash equivalents at the end of the period | 5 | (451,868) | (191,317) |

The annexed notes 1 to 8 form an integral part of these financial statements.


Abrar Hasan
 Chief Executive


Zahid Majeed
 Director

CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY

FOR THE HALF YEAR ENDED
DECEMBER 31, 2008 (UNAUDITED)

| | Issued subscribed and paid up capital | Capital reserve - share premium | Unappropriated profit | Total |
|---|--|--|--------------------------|----------------|
| | ← (Rupees in thousand) → | | | |
| Balance as at June 30, 2007 | 42,505 | 6,102 | 319,273 | 367,880 |
| Final dividend for the year ended June 30, 2007 (Rs 2 per share) | - | - | (8,501) | (8,501) |
| Issue of 3 bonus shares for every 10 shares held | 12,752 | - | (12,752) | - |
| Profit for the half year ended December 31, 2007 | - | - | 81,724 | 81,724 |
| Balance as at December 31, 2007 | 55,257 | 6,102 | 379,744 | 441,103 |
| Balance as at June 30, 2008 | 55,257 | 6,102 | 454,566 | 515,925 |
| Issue of 5 bonus shares for every 1 share held | 276,285 | (6,102) | (270,183) | - |
| Profit for the half year ended December 31, 2008 | - | - | 91,561 | 91,561 |
| Balance as at December 31, 2008 | 331,542 | - | 275,944 | 607,486 |

The annexed notes 1 to 8 form an integral part of these financial statements.


Abrar Hasan
Chief Executive


Zahid Majeed
Director

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION

FOR THE HALF YEAR ENDED DECEMBER 31, 2008 (UNAUDITED)

1. BASIS FOR PREPARATION

1.1 This condensed interim financial information has been prepared in accordance with the requirements of International Accounting Standard (IAS) 34, Interim Financial Reporting and is being submitted to the shareholders as required by section 245 of the Companies Ordinance, 1984 and the Listing Regulations of the Karachi, Lahore and Islamabad Stock Exchanges.

1.2 The accounting policies and methods of computation adopted for the preparation of these condensed interim financial statements are the same as those applied in the preparation of the annual financial statements of the company for the year ended June 30, 2008.

| | Dec 31, 2008 | Jun 30, 2008 |
|---|-------------------------|-------------------------|
| 2. PROPERTY, PLANT AND EQUIPMENT | (Rupees in thousand) | |
| 2.1 Operating assets - at net book value - note 2.2 | 573,605 | 564,514 |
| Capital work in progress - at cost | | |
| Civil work in progress | 6,141 | 686 |
| Plant and machinery | 30,950 | 14,484 |
| Advance against acquisition of land | 27,417 | 27,417 |
| Advance to suppliers | - | 3,439 |
| Vehicles pending delivery | 2,491 | 1,314 |
| Computer software | 13,395 | 23,471 |
| | 653,999 | 635,325 |
| | Half year ended | |
| | Dec 31, 2008 | Dec 31, 2007 |
| | (Rupees in thousand) | |
| 2.2 Additions and Disposals during the period | | |
| Additions | | |
| Leasehold land | - | 2,200 |
| Building on leasehold land | 1,186 | 122,964 |
| Plant and machinery including generators | 23,689 | 26,373 |
| Motor vehicles | | |
| - Leased | 17,701 | 10,351 |
| - Owned | 840 | 943 |
| Others | 5,808 | 4,076 |
| | 49,224 | 166,907 |
| Disposals - Net Book Value | | |
| Motor Vehicles | 587 | 468 |



3. COMMITMENTS

3.1 There are no commitments for capital expenditure as at December 31, 2008. (June 30, 2008: Rs 5.4 million).

| | Half year ended | |
|--|----------------------|-----------------|
| | Dec 31, 2008 | Dec 31, 2007 |
| | (Rupees in thousand) | |
| 4. CASH GENERATED FROM OPERATIONS | | |
| Profit before taxation | 142,692 | 118,448 |
| Adjustments of non-cash charges and other items | | |
| Depreciation on property, plant and equipment | 35,488 | 22,760 |
| Deferred liability - Retirement benefits | 8,971 | - |
| Amortisation of intangibles | 1,632 | 1,018 |
| Finance cost | 41,208 | 22,087 |
| Gain on disposal of motor vehicles | (372) | (196) |
| Provision for slow moving stock in trade (net) | 30,013 | 1,655 |
| | 116,940 | 47,324 |
| Profit before working capital changes | 259,632 | 165,772 |
| EFFECT ON CASH FLOWS DUE TO WORKING CAPITAL CHANGES | | |
| Decrease / (Increase) in current assets | | |
| Stores, spares parts and loose tools | 2,225 | (2,027) |
| Stock in trade | (152,949) | (137,060) |
| Trade debts | 37,324 | (57,765) |
| Advances | (39,942) | (10,020) |
| Deposits and prepayments | (8,094) | (1,501) |
| Other receivables | (754) | 23,513 |
| | (162,190) | (184,860) |
| Increase in current liabilities | | |
| Trade and other payables | 131,014 | 199,009 |
| Due to the government | 844 | 14,761 |
| | 229,300 | 194,682 |
| 5. CASH AND CASH EQUIVALENTS | | |
| Cash and bank balances | 33,738 | 38,570 |
| Running finance under markup arrangements | (485,606) | (229,887) |
| | (451,868) | (191,317) |



| Half year ended | |
|----------------------|-----------------|
| Dec 31, 2008 | Dec 31, 2007 |
| (Rupees in thousand) | |

6. TRANSACTIONS WITH RELATED PARTIES

| Relationship with the company | Nature of transactions | | |
|---|---|---------|---------|
| Associated companies / Undertakings: | Reciprocal arrangements for sharing of services | 1,263 | 800 |
| | Sale of goods | 388,558 | 324,600 |
| Employee benefit plan | Contribution to employees provident fund | 3,724 | 3,191 |
| Key management compensation: | Salaries and other short term employee benefits | 30,481 | 23,788 |
| | Contribution to Provident Fund | 1,196 | 786 |
| | Post retirement benefits of Executive Directors - note 6.1 | 8,971 | - |
| | | | |

6.1 The Chief Executive Officer and Executive Directors are being provided with retirement benefits through a Defined Benefit Plan of Pension Scheme, a Defined Contribution Plan of Provident Fund and Post Retirement Medical Benefits. The charge is based on actuarial assumptions and valuation reports.

7. EARNINGS PER SHARE

There were no convertible dilutive potential ordinary shares in issue as at December 31, 2007 and 2008.

For the purposes of calculating earnings per share, number of shares outstanding as at December 31, 2007 have been increased to reflect the bonus shares issued during the period.

8. DATE OF ISSUE

This condensed interim financial information was authorised for issue on February 18, 2009 by the Board of Directors of the Company.


Abrar Hasan
Chief Executive


Zahid Majeed
Director





A young Chilli plant
Capsicum annuum



NATIONAL FOODS LIMITED
www.nfoods.com