



# Elevating consumer delight **worldwide**



engro foods

Third Quarter 2011 Accounts

# contents

company information	2
directors' report	4
consolidated condensed interim balance sheet	6
consolidated condensed interim profit and loss account	7
consolidated condensed interim statement of comprehensive income	8
consolidated condensed interim statement of cash flows	9
consolidated condensed interim statement of changes in equity	10
notes to the consolidated condensed interim financial information	11
condensed interim balance sheet	22
condensed interim profit and loss account	23
condensed interim statement of comprehensive income	24
condensed interim statement of cash flows	25
condensed interim statement of changes in equity	26
notes to the condensed interim financial information	27



# company information

## Board of Directors

Asad Umar	Chairman
Afnan Ahsan	Chief Executive Officer
Ruhail Mohammed	Non-Executive Director
Isar Ahmed	Non-Executive Director
Shahzada Dawood	Non-Executive Director
Mujahid Hamid	Non-Executive Director
Muhammed Amin	Non-Executive Director
Ms. Spenta Kandawalla	Non-Executive Director
Abdul Samad Khan	Non-Executive Director
Zafar Ahmed Siddiqui	Non-Executive Director

## Chief Financial Officer & Company Secretary

Imran Anwer

## Members of Audit Committee

Shahzada Dawood	Chairman
Ruhail Mohammed	Member
Abdul Samad Khan	Member
Zafar Ahmed Siddiqui	Member

The secretary of committee is Mazhar Hasnani,  
GM Internal Audit Department

## Auditors

A. F. Ferguson & Co.  
Chartered Accountants

## Share Registrar

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

## Bankers

Al-Baraka Islamic Bank Limited  
Allied Bank Limited  
Askari Bank Limited  
Bank Al-Falah Limited  
Bank Al-Habib Limited  
Bank of Punjab  
Burj Bank Limited  
Citibank N.A.  
Dubai Islamic Bank Pakistan Limited  
Faysal Bank Limited  
Habib Bank Limited  
HSBC Bank Middle East Limited  
MCB Bank Limited  
Meezan Bank Limited  
National Bank of Pakistan  
NIB Bank Limited  
Standard Chartered Bank (Pakistan) Limited  
United Bank Limited

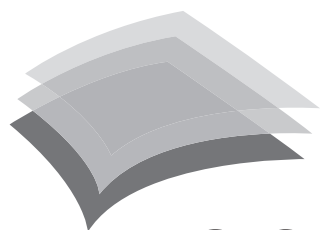
## Registered Office

6th Floor, The Harbor Front Building  
HC-3, Marine Drive, Block - 4, Clifton  
Karachi, Pakistan.



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Third Quarter 2011 Accounts



engro foods

CONSOLIDATED CONDENSED INTERIM  
FINANCIAL INFORMATION (UNAUDITED)  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011

# directors' report

## Nine Months 2011 review for the Shareholders of Engro Foods Limited

On behalf of the Board of Directors of Engro Foods Limited (a subsidiary of Engro Corporation Limited), we are pleased to present the consolidated condensed interim financial information of the Company for the nine months ended September 30, 2011.

### BUSINESS REVIEW

#### DAIRY AND JUICES SEGMENT

Total sales of Dairy and Juice segment during the nine months of 2011 were Rs. 19.2 billion vs. Rs. 13.7 billion during the same period in 2010, growth of 40%. Profit after tax increased by 84% to Rs. 804 million from profit of Rs 436 million in the same period last year.

#### Dairy:



Dairy volume grew by 20% over the corresponding period last year which translates into a revenue growth of 40%. The Company continues to remain the market leader in Ambient UHT milk segment. Dairy Omung was introduced to promote its offering in the budget conscious segment of the society as well as Olper's extended its variants line to include Badam Zafran and Rose flavors.

#### Juices and Nectars:

Olfrute is showing consistent growth. During the nine months, new flavors were added to the portfolio such as Apricot and Green Cocktail which were new to Pakistani market.



#### ICE CREAM AND FROZEN DESSERTS SEGMENT



Omorè was launched in Karachi in the first quarter of 2011 in order to expand geographically and increase its market share. With 45% volumetric growth over the corresponding period last year, revenue grew by 64% to Rs 2.2 billion during the nine months of 2011.

As per plan, Ice Cream segment incurred a loss during the nine months primarily due to continued investment in its brands and the cold chain infrastructure. The loss after tax was Rs. 285 million during the nine months of 2011 as compared to Rs 293 million during the same period last year.

#### DAIRY FARM SEGMENT

During the nine months of 2011, Dairy Farm produced 13,223 liters of milk per day. At September 30, 2011, Dairy Farm herd was 2,615 animals (December 2010: 2,513). Loss after tax stood at Rs. 87 million vs. Rs. 69 million of prior period primarily due to lower yield than international benchmark and less utilization of farm housing capacity.



#### RICE SEGMENT

Engro Foods Limited's 70% owned subsidiary Engro Foods Supply Chain (Pvt.) Limited has set up a rice processing facility at Muridke.



During the nine months of 2011, Engro Foods Supply Chain processed 10,345 tons of finished rice for Exim and earned revenue of Rs. 509 million, enough to cover its cost and achieve break even.

As part of the Company's plans to focus on its core business activities, the Board has approved sale of the 70% equity shares in Engro Foods Supply Chain (Pvt.) Limited at fair value of Rs 10.64 per share. The company will use the sale proceeds to finance the continued rapid expansion of its existing business.

## ENGRO FOODS CANADA

As a first overseas venture, Engro Corporation acquired operations of one of the oldest North American Halal meat brand 'Al-Safa' at a total cost of US \$ 6.3 million. Engro Foods will run the operations of Engro Foods Canada and has agreed to acquire it later from Engro Corporation at actual cost once Regulator approves the transfer. During the first 5 months of operations, Al Safa brand sales was US \$ 3 million and loss after tax was US \$ 0.65 million which includes pre-commencement cost of US \$ 0.33 million. These losses are directly consolidated in Engro Corporation financial statements and are not included in the financial performance mentioned below.



## CERTIFICATIONS AND AWARDS

Marketing campaign of Olfrote won Best International Campaign at the Outdoor Advertising Convention Awards 2011.

Recently, Engro Milk Automated Network (EMAN) earned the prestigious PASHA ICT Awards in E-Community and E-Inclusion categories.

## FINANCIAL PERFORMANCE

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

(Rs. in million)	Nine months ended September 30		Variation (%)
	2011	2010	
Net Sales	21,875	15,020	46%
Operating Profit	1,540	540	
% of sales	7%	3.6%	
Profit after tax	408	35	
% of sales	1.9%	0.2%	
Earnings per share (Rs.)	0.56	0.08	7 times

## CHANGE IN CHIEF EXECUTIVE OFFICER

Effective October 8, 2011, Mr. Sarfaraz A. Rehman, the former Chief Executive Officer, has left the Company to pursue voluntary work for philanthropic causes. The Board is thankful for his commendable contributions towards success of Engro Foods.

The Board also welcomes Mr. Afnan Ahsan as the new Chief Executive Officer and is confident that he will take the Company to new heights of success.

## FUTURE OUTLOOK

We continue to strive for growth in all our business segments and expect to deliver performance in 2011 as indicated at the time of the Company's public offering.

Afnan Ahsan  
Chief Executive

Shahzada Dawood  
Director

Karachi: October 20, 2011



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Third Quarter 2011 Accounts

# consolidated condensed interim balance sheet (unaudited) as at september 30, 2011

(Amounts in thousand)

	Note	Unaudited September 30, 2011	Audited December 31, 2010
Rupees			
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Property, plant and equipment	4	13,039,710	9,488,797
Biological assets		460,831	428,293
Intangible assets		116,401	142,433
Long term advances, deposits and prepayments		28,610	24,707
		<u>13,645,552</u>	<u>10,084,230</u>
<b>Current Assets</b>			
Stores, spares and loose tools		613,506	441,841
Stock-in-trade	5	3,069,758	2,089,221
Trade debts, unsecured	6	126,536	51,879
Advances, deposits and prepayments		287,175	247,553
Other receivables	7	1,212,476	723,107
Taxes recoverable		148,255	23,280
Derivative financial instruments		-	510
Cash and bank balances		394,145	369,325
		<u>5,851,851</u>	<u>3,946,716</u>
<b>TOTAL ASSETS</b>		<u><u>19,497,403</u></u>	<u><u>14,030,946</u></u>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	8	7,480,000	7,000,000
Share premium, net	8.2	698,165	-
Hedging reserve		-	331
Accumulated loss		(1,468,364)	(1,875,971)
		<u>6,709,801</u>	<u>5,124,360</u>
<b>Non-controlling interest</b>		<u>570,000</u>	<u>419,979</u>
		<u>7,279,801</u>	<u>5,544,339</u>
<b>Non-Current Liabilities</b>			
Long term borrowings		7,434,636	5,540,051
Obligations under finance lease		4,075	4,714
Deferred taxation		190,948	181,548
Deferred liabilities		5,507	3,638
		<u>7,635,166</u>	<u>5,729,951</u>
<b>Current Liabilities</b>			
Current portion of			
- long term borrowings		714,000	200,000
- obligations under finance lease		2,589	3,675
Trade and other payables	9	2,156,615	2,247,957
Accrued interest / mark-up on			
- long term borrowings		201,326	302,834
- short term borrowings		57,642	2,190
Short term borrowings	10	1,450,264	-
		<u>4,582,436</u>	<u>2,756,656</u>
<b>Contingencies and Commitments</b>	11		
<b>TOTAL EQUITY AND LIABILITIES</b>		<u><u>19,497,403</u></u>	<u><u>14,030,946</u></u>

The annexed notes 1 to 19 form an integral part of this consolidated condensed interim financial information.



Chief Executive



Director



engro foods

Third Quarter 2011 Accounts

# consolidated condensed interim profit and loss account (unaudited) for the nine months ended september 30, 2011

(Amounts in thousand except for earnings/(loss) per share)

	Note	Quarter ended		Nine months ended	
		September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
		Rupees		Rupees	
Net sales		8,223,568	5,490,664	21,875,212	15,020,002
Cost of sales		(6,376,556)	(4,224,745)	(17,106,249)	(11,752,172)
<b>Gross profit</b>		<b>1,847,012</b>	<b>1,265,919</b>	<b>4,768,963</b>	<b>3,267,830</b>
Distribution and marketing expenses		(987,401)	(676,235)	(2,689,125)	(2,414,124)
Administrative expenses		(177,915)	(158,901)	(530,644)	(411,175)
Other operating expenses		(40,550)	(17,132)	(94,843)	(63,661)
Other operating income		42,456	96,532	85,975	161,071
<b>Operating profit</b>		<b>683,602</b>	<b>510,183</b>	<b>1,540,326</b>	<b>539,941</b>
Finance costs		(368,728)	(180,393)	(890,541)	(487,470)
<b>Profit before taxation</b>		<b>314,874</b>	<b>329,790</b>	<b>649,785</b>	<b>52,471</b>
Taxation		(123,756)	(114,379)	(242,157)	(17,129)
<b>Profit after taxation</b>		<b>191,118</b>	<b>215,411</b>	<b>407,628</b>	<b>35,342</b>
<b>Profit attributable to:</b>					
- Owners of the Holding Company		191,118	214,774	407,607	35,532
- Non-controlling interest		-	637	21	(190)
		<b>191,118</b>	<b>215,411</b>	<b>407,628</b>	<b>35,342</b>
Earnings per share - basic and diluted	12	<b>0.26</b>	<b>0.40</b>	<b>0.56</b>	<b>0.08</b>

The annexed notes 1 to 19 form an integral part of this consolidated condensed interim financial information.



Chief Executive



Director



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Third Quarter 2011 Accounts



# consolidated condensed interim statement of comprehensive income (unaudited) for the nine months ended september 30, 2011

(Amounts in thousand)

	Quarter ended		Nine months ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
	Rupees		Rupees	
Profit for the period	191,118	215,411	407,628	35,342
Other comprehensive income for the period				
- Unrealized gain on available for sale investment	-	-	-	365
- Realized gain on settlement of Forward Foreign Exchange contracts	-	-	(331)	-
<b>Total comprehensive income for the period</b>	<b>191,118</b>	<b>215,411</b>	<b>407,297</b>	<b>35,707</b>
<b>Total comprehensive income attributable to:</b>				
- Owners of the Holding Company	191,118	214,774	407,276	35,897
- Non controlling interest	-	637	21	(190)
<b>Total comprehensive income for the period</b>	<b>191,118</b>	<b>215,411</b>	<b>407,297</b>	<b>35,707</b>

The annexed notes 1 to 19 form an integral part of this consolidated condensed interim financial information.



Chief Executive



Director



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Third Quarter 2011 Accounts

# consolidated condensed interim statement of cash flows (unaudited) for the nine months ended september 30, 2011

(Amounts in thousand)

	Note	Nine months ended	
		September 30, 2011	September 30, 2010
		Rupees	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash generated from operations	13	489,460	587,141
Finance costs paid		(925,834)	(546,140)
Taxes paid		(374,552)	(139,394)
Retirement benefits paid		(72,377)	-
Long term deposits and advances - net		(3,903)	(14,014)
<b>Net cash (outflow)/inflow from operating activities</b>		<b>(887,206)</b>	<b>(112,407)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of			
- operating assets		(4,296,134)	(2,807,340)
- intangible assets		(3,563)	(5,243)
- biological assets		-	(365)
Proceeds from disposal of			
- operating assets		15,554	15,428
- biological assets		8,239	54,705
Long term investments		-	-
Interest received on bank deposits/savings account		14,399	-
Subordinated loan to holding company		-	(300,000)
<b>Net cash outflow from investing activities</b>		<b>(4,261,505)</b>	<b>(3,042,815)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Advance against issue of share capital received from			
Engro Corporation Limited (ECL), the Holding Company		-	1,220,200
Engro Eximp (Private) Limited		-	157,800
Proceeds from issue of share capital		1,200,000	-
Share issuance costs, net		(33,593)	-
Proceeds from long term borrowings		2,608,585	1,917,616
Advance against issue of share capital from non controlling interest		150,000	-
Repayments of			
- long term borrowings		(200,000)	(116,667)
- obligation under finance lease		(1,725)	(3,719)
<b>Net cash inflow from financing activities</b>		<b>3,723,267</b>	<b>3,175,230</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(1,425,444)</b>	<b>20,008</b>
Cash and cash equivalents at beginning of the period		369,325	41,864
<b>Cash and cash equivalents at end of the period</b>	14	<b>(1,056,119)</b>	<b>61,872</b>

The annexed notes 1 to 19 form an integral part of this consolidated condensed interim financial information.



Chief Executive



Director



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Third Quarter 2011 Accounts

# consolidated condensed interim statement of changes in equity (unaudited) for the nine months ended september 30, 2011

(Amounts in thousand)

	Share capital	Share premium	Advance against issue of share capital	Hedging reserve	Accumulated loss	Subtotal	Non Controlling Interest	Total
	Rupees							
Balance as at January 1, 2010 (Audited)	5,423,000	-	-	-	(2,052,852)	3,370,148	-	3,370,148
Advance received during the period	-	-	1,220,200	-	-	1,220,200	67,800	1,288,000
Capital of subsidiary company	-	-	-	-	-	-	90,000	90,000
Share in the opening reserve of the subsidiary	-	-	-	-	392	392	(392)	-
Total comprehensive income for the nine months ended September 30, 2010	-	-	-	-	35,532	35,532	(190)	35,342
<b>Balance as at September 30, 2010 (Unaudited)</b>	<b>5,423,000</b>	<b>-</b>	<b>1,220,200</b>	<b>-</b>	<b>(2,016,928)</b>	<b>4,626,272</b>	<b>157,218</b>	<b>4,783,490</b>
Advance received during the period	-	-	356,800	-	-	356,800	(67,800)	289,000
Share capital issued during the period	1,577,000	-	(1,577,000)	-	-	-	-	-
Capital of subsidiary company	-	-	-	-	-	-	330,000	330,000
Total comprehensive income for the three months ended December 31, 2010	-	-	-	331	140,957	141,288	561	141,849
<b>Balance as at December 31, 2010 (Audited)</b>	<b>7,000,000</b>	<b>-</b>	<b>-</b>	<b>331</b>	<b>(1,875,971)</b>	<b>5,124,360</b>	<b>419,979</b>	<b>5,544,339</b>
Share capital issued during the period	480,000	720,000	-	-	-	1,200,000	-	1,200,000
Share issuance cost, net	-	(21,835)	-	-	-	(21,835)	-	(21,835)
Capital of subsidiary company	-	-	-	-	-	-	150,000	150,000
Total comprehensive income for the nine months ended September 30, 2011	-	-	-	(331)	407,607	407,276	21	407,297
<b>Balance as at September 30, 2011 (Unaudited)</b>	<b>7,480,000</b>	<b>698,165</b>	<b>-</b>	<b>-</b>	<b>(1,468,364)</b>	<b>6,709,801</b>	<b>570,000</b>	<b>7,279,801</b>

The annexed notes 1 to 19 form an integral part of this consolidated condensed interim financial information.



Chief Executive



Director



engro foods

Third Quarter 2011 Accounts

# notes to the consolidated condensed interim financial information (unaudited) for the nine months ended september 30, 2011

(Amounts in thousand)

## 1. LEGAL STATUS AND OPERATIONS

- 1.1 The Group consists of Engro Foods Limited (the Company) and its 70% owned subsidiary company, Engro Foods Supply Chain (Private) Limited.
- 1.2 The Company, incorporated in Pakistan on April 26, 2005, under the Companies Ordinance, 1984, is a listed company on Karachi and Lahore Stock Exchanges. The Company is a subsidiary of Engro Corporation Limited (ECL) and its registered office is situated at 6th Floor, Harbour Front Building, Plot No. HC-3, Block-4, Scheme No. 5, Clifton, Karachi.
- 1.3 The principal activity of the Company is to manufacture, process and sell dairy, ice-cream, juices and other food products. The Company also owns and operates a dairy farm. Further, during the period, the Company has also entered into international market and its first venture is to manage a halal food business, Al Safa Halal, Inc. (Al-Safa) in North America, which has been recently acquired by ECL. The entire shares of Al-Safa are proposed to be acquired by the Company from ECL at cost subject to requisite approvals from the regulators.

During the period, the Company issued 48 million ordinary shares to certain private investors at Rs. 25 per share, after waiver by ECL of its pre-emptive rights to these shares.

- 1.4 The principal activity of Engro Foods Supply Chain (Private) Limited (the subsidiary), incorporated on November 3, 2009, is to produce, manufacture and trade all kinds of raw, processed and prepared food products including agriculture, dairy and farming products. The subsidiary is currently involved in the construction and set-up of its rice processing plant in District Sheikhpura. The subsidiary commissioned and started commercial production from drying unit of the rice processing plant from November 7, 2010. During the period, the commercial production of milling unit on line 1 commenced on June 1, 2011 and milling unit of line 2 and parboiling commenced on July 1, 2011 for processing from paddy/unprocessed rice to finished brown rice.

## 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.
- 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 Company's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

During preparation of this consolidated condensed interim financial information, the significant judgments made by the management in applying the Company's accounting policies and the key sources of estimation and uncertainty are the same as those that apply to financial statements for the year ended December 31, 2010.

## 3. ACCOUNTING POLICIES

The accounting policies and the methods of computation adopted in the preparation of this consolidated condensed interim financial information are consistent with those applied in the preparation of the annual financial statements for the year ended December 31, 2010.



# notes to the consolidated condensed interim financial information (unaudited) for the nine months ended september 30, 2011

(Amounts in thousand)

Unaudited September 30, 2011	Audited December 31, 2010
Rupees	

## 4. PROPERTY, PLANT AND EQUIPMENT

Operating assets, at net book value (notes 4.1 and 4.2)	10,411,187	7,832,259
Capital work-in-progress (note 4.3)	2,628,523	1,656,538
	<u>13,039,710</u>	<u>9,488,797</u>

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

Freehold land	2,808	5,456
Buildings on freehold land	727,974	617,537
Plant, machinery and related equipment	2,444,630	2,249,461
Office equipment	63,892	31,806
Computers	15,174	15,005
Furniture and fittings	1,622	227
Vehicles	68,048	154,807
	<u>3,324,148</u>	<u>3,074,299</u>

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

	Cost	Accumulated depreciation	Net book value	Sales proceeds	Mode of disposal
	Rupees				
Vehicles - owned	26,824	(13,700)	13,124	15,176	Insurance claims / Employee buyback
Computer Equipment	100	(50)	50	74	Insurance claim
Plant and machinery	646	(416)	230	304	Insurance claim
September 30, 2011	<u>27,570</u>	<u>(14,166)</u>	<u>13,404</u>	<u>15,554</u>	
December 31, 2010	<u>55,256</u>	<u>(39,575)</u>	<u>15,681</u>	<u>19,530</u>	

# notes to the consolidated condensed interim financial information (unaudited) for the nine months ended september 30, 2011

(Amounts in thousand)

	Unaudited September 30, 2011	Audited December 31, 2010
	Rupees	
4.3 Following additions were made to capital work-in-progress during the period / year:		
Building on freehold land	696,751	266,376
Plant, machinery and related equipment	3,234,500	1,546,832
SAP Project and milk automation	3,563	122,561
Office equipment, furniture, fittings and computers	100,389	69,588
Vehicles	264,493	178,888
	<u>4,299,696</u>	<u>2,184,245</u>

## 5. STOCK-IN-TRADE

Raw & packaging materials (note 5.1)	2,295,516	1,484,350
Work in process	162,830	48,564
Finished goods (note 5.1)	611,412	556,307
	<u>3,069,758</u>	<u>2,089,221</u>

5.1 These include raw and packaging materials amounting to Rs. 79,615 (December 31, 2010: Rs. 65,206) and finished goods amounting to Nil (December 31, 2010: Rs. 35,102) held by third parties.

## 6. TRADE DEBTS - unsecured

Include Rs. 54,411 (December 31, 2010: Nil) due from Engro Eximp (Private) Limited, a related party.

	Unaudited September 30, 2011	Audited December 31, 2010
	Rupees	
7. OTHER RECEIVABLES		
Sales tax refundable (note 7.1)	751,600	518,439
Receivable from bank guarantee	-	5,000
Receivable from Tetra Pak Pakistan Limited (note 7.2)	421,899	165,876
Receivable from associated companies:		
Engro Corporation Limited	20,635	-
Engro Foods Canada Limited	5,231	-
Engro Foundation	1,811	-
Insurance claims receivable	6,816	-
Others	4,484	33,792
	<u>1,212,476</u>	<u>723,107</u>

7.1 Sales tax has been zero rated on the Company's supplies (output) and raw materials, components and assemblies imported or purchased locally by the Company for manufacturing in respect of its dairy products.

# notes to the consolidated condensed interim financial information (unaudited) for the nine months ended september 30, 2011

(Amounts in thousand)

7.2 Includes market support subsidy quantity size discount and investment support allowance, net of amount due on account of packaging material purchased.

8. SHARE CAPITAL	Unaudited September 30, 2011	Audited December 31, 2010
	Rupees	
<b>Authorized capital</b>		
850,000,000 (December 31, 2010: 800,000,000) Ordinary shares of Rs. 10 each (note 8.1)	8,500,000	8,000,000
<b>Issued, subscribed and paid-up capital</b>		
748,000,000 (December 31, 2010: 700,000,000) Ordinary shares of Rs.10 each paid in cash (note 8.2)	7,480,000	7,000,000

8.1 During the period, the Company has increased its authorized share capital by 50,000,000 ordinary shares of Rs. 10 each.

8.2 During the period, the Company has issued and allotted, to certain private investors, 48,000,000 ordinary shares of Rs. 10 each at a premium of Rs. 15 per share, ranking pari passu in all respects with the existing shares of the Company. These shares were first offered to existing shareholder Engro Corporation Limited (ECL), however, ECL waived its pre-emptive rights over these shares.

## 9. TRADE AND OTHER PAYABLES

Includes following amounts due to related parties:

	Unaudited September 30, 2011	Audited December 31, 2010
	Rupees	
Engro Corporation Limited	-	1,204
Engro Fertilizers Limited	667	880
Engro Polymer and Chemicals Limited	1,161	-
Avanceon Limited	3,065	-
	<u>4,893</u>	<u>2,084</u>

## 10. SHORT TERM FINANCES - secured

10.1 The facilities for short term running finance available from various banks, which represents the aggregate sale price of all mark-up arrangements amount to Rs. 2,800,000 (December 31, 2010: 1,600,000). The unutilized balance against these facilities as at period end was Rs. 1,349,736 (December 31, 2010: Rs. 1,600,000). The facilities are secured by way of hypothecation upon all present and future current assets of the Company. The corresponding purchase prices are payable on various dates by February 15, 2014.

10.2 The facilities for opening letters of credit and guarantees as at September 30, 2011 amount to Rs. 4,175,000 (December 31, 2010: Rs. 3,115,000) of which, the amount remaining unutilized at period end was Rs. 3,833,000 (December 31, 2010: Rs. 1,305,600).



# notes to the consolidated condensed interim financial information (unaudited) for the nine months ended september 30, 2011

(Amounts in thousand)

## 11. CONTINGENCIES AND COMMITMENTS

### 11.1 Contingencies

11.1.1 The Company has provided bank guarantees to:

- Sui Southern Gas Company Limited amounting to Rs. 39,037 (December 31, 2010: Rs. 33,993) in accordance with contracts for supply of gas;
- Sui Northern Gas Company Limited amounting to Rs. 34,350 (December 31, 2010: Rs. 34,350) in accordance with contracts for supply of gas;
- Irrigation and Power Department, Government of Sindh amounting to Rs. 100 (December 31, 2010: Rs. 100) under an agreement for disposal of treated waste water;
- Collector of Sales tax, Large Tax Payers Unit (LTU), Karachi amounting to Rs. 258,800 (December 31, 2010: Rs. 258,800) 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, 2010: Rs. 172,000) have been received to-date; and
- Controller Military Accounts, Rawalpindi amounting to Rs. 5,351 (December 31, 2010: Rs. 3,217), as collateral against supplies.

11.1.2 Last year, a lawsuit was filed against the subsidiary by certain previous co-owners in the Civil Court, Sheikhpura claiming preemptive right over a portion of the land, acquired by the subsidiary for construction of rice processing plant. The subsidiary has filed its written statement thereagainst and the case will now come up for hearing. However, the subsidiary, based on the opinion of its legal advisor is confident that the matter will be decided in its favour and accordingly the financial effect, if any, has not been considered in the preparation of this consolidated condensed interim financial information.

11.1.3 Following is the position of Company's open tax assessments/matters as at September 30, 2011:

- 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 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 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 pending for hearing. 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.

- 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



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Third Quarter 2011 Accounts



# notes to the consolidated condensed interim financial information (unaudited) for the nine months ended september 30, 2011

(Amounts in thousand)

opinion of its tax consultant, is confident of a favourable outcome of the appeal, and hence the deferred tax asset recognized on taxable losses has not been reduced by the effect of the aforementioned disallowance.

- c) Last year, the Commissioner Inland Revenue raised a demand of Rs. 337,386 for tax year 2008 by disallowing the provision for gratuity, advances and stock written-off, repair and maintenance, provision for bonus, sales promotion and advertisement expenses. Further, in the aforementioned order the consideration receivable from ECL, the Holding Company, on surrender of tax loss has been added to income for the year. The Company had filed an appeal before Commissioner Appeals and has received his order on September 16, 2011, whereby Commissioner has withdrawn demand amounting to Rs 222,357 in favour of the Company. The Company now intends to file appeal at ATIR level for the remainder amounts which have been remanded back / disallowed. However, the Company, based on the opinion of its tax consultant, is confident of a favourable outcome of the appeal, and hence the deferred tax asset recognized on taxable losses has not been reduced by the effect of the aforementioned disallowance.

## 11.2 Commitments

Commitments in respect of capital expenditure contracted for but not incurred as at September 30, 2011 amounted to Rs. 127,968 (December 31, 2010: Rs. 696,170).

## 12. EARNINGS PER SHARE - Basic and diluted

	Unaudited Quarter ended		Unaudited Nine months ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
	Rupees			
There is no dilutive effect on the basic earnings per share of the Company, which is based on:				
Profit for the period attributable to owners of the Holding Company	191,118	214,774	407,607	35,532
	(Number of shares)			
Weighted average number of ordinary shares in issue during the period (in thousand)	748,000	542,300	724,088	447,996
Earnings per share - basic and diluted (in rupees)	0.26	0.40	0.56	0.08

# notes to the consolidated condensed interim financial information (unaudited) for the nine months ended september 30, 2011

(Amounts in thousand)

	Unaudited September 30, 2011	Unaudited September 30, 2010
	Rupees	
<b>13. CASH UTILIZED IN OPERATIONS</b>		
Profit/(loss) before taxation	649,785	52,471
Adjustment for non-cash charges and other items:		
- Depreciation	731,817	505,777
- Amortization of intangible assets	29,595	6,864
- Amortization of deferred income	(30)	(66)
- (Gain)/Loss on death / disposal of biological assets	(485)	6,688
- Gain on disposal of operating assets	(2,150)	(4,456)
- Loss/(gain) arising from changes in fair value less estimated point-of-sale costs of biological assets	(40,292)	(14,037)
- Provision for retirement and other service benefits	42,499	423
- Income on bank deposits / saving accounts	(14,399)	-
- Finance costs	890,541	487,470
Working capital changes (note 13.1)	(1,797,421)	(453,993)
	<u>489,460</u>	<u>587,141</u>
<b>13.1 Working capital changes</b>		
(Increase) / Decrease in current assets		
Stores, spares and loose tools	(171,665)	(141,522)
Stock-in-trade	(980,537)	(284,574)
Trade debts	(74,657)	(32,928)
Advances, deposits and prepayments	(5,628)	32,717
Other receivables - net	(486,101)	(128,390)
	<u>(1,718,588)</u>	<u>(554,697)</u>
Increase / (Decrease) in current liabilities		
Trade and other payables - net	(78,833)	100,704
	<u>(1,797,421)</u>	<u>(453,993)</u>
<b>14. CASH AND CASH EQUIVALENTS</b>		
Cash and bank balances	394,145	163,323
Short term borrowings	(1,450,264)	(101,451)
	<u>(1,056,119)</u>	<u>61,872</u>



# notes to the consolidated condensed interim financial information (unaudited) for the nine months ended september 30, 2011

(Amounts in thousand)

## 15. TRANSACTIONS WITH RELATED PARTIES

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

Nature of relationship	Nature of transactions	Unaudited Nine months ended	
		September 30, 2011	September 30, 2010
		Rupees	
Holding company	Arrangement for sharing of personnel, premises, utilities and services	123,212	80,563
	Advance against issue of share capital	-	1,220,200
	Claimable expenses	-	755
	Use of assets	-	1,390
	Share of refurbishment cost	-	28,138
	Pension fund contribution	-	1,207
	Provident fund contribution	-	3,232
	Gratuity fund contribution	-	212
	Sub-ordinated loan	-	300,000
	Associated companies	Purchases of goods & services	52,852
Sale of goods		-	27,106
Advance against share capital for subsidiary		150,000	157,800
Revenue for services provided - Rice processing		509,381	928
Purchase of plant and machinery		33,790	-
Arrangement for sharing of premises, utilities and services		17,958	16,948
Provident fund contribution		4,263	172
Pension fund contribution		7,492	-
Gratuity fund contribution		-	60
Donations		13,131	16,090
Use of assets		4,308	4,478
Claimable expenses		-	3,034
Contribution to staff retirement funds		Provident fund	52,934
	Gratuity fund	72,377	-
Key management personnel	Managerial remuneration	109,118	41,000
	Retirement benefits	7,877	6,550
	Other benefits	2,204	26,179



# notes to the consolidated condensed interim financial information (unaudited) for the nine months ended september 30, 2011

(Amounts in thousand)

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

## 16. SEGMENT INFORMATION

16.1 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, 2010.

Unallocated assets include long term investment, long and short term advances, deposits and prepayments, other receivables, short term investments and cash and bank balances.

Liabilities are not reported segment-wise to the Board of Directors. Further, all the unallocated assets are reported to the Board of Directors at entity level. Inter-segment sales of powder and cream by Dairy to Ice cream and of unprocessed milk by Dairy farm to Dairy are made at prevailing market price.

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

	Unaudited Nine months ended September 30, 2011						Unaudited Nine months ended September 30, 2010					
	Dairy and juice	Ice cream & frozen desserts	Dairy farm	Rice	Business Development	Total	Dairy and juice	Ice cream & frozen desserts	Dairy farm	Rice	Business Development	Total
Rupees												
Results for the year												
Net sales	19,446,727	2,168,557	191,963	509,381	-	22,316,628	14,106,646	1,322,222	165,793	-	-	15,594,661
Inter-segment sales	(259,476)	-	(191,963)	-	-	(451,439)	(426,204)	-	(165,793)	-	-	(591,997)
Net revenue from external customers	19,187,251	2,168,557	-	509,381	-	21,865,189	13,680,442	1,322,222	-	-	-	15,002,664
Raw milk sales	10,023	-	-	-	-	10,023	17,338	-	-	-	-	17,338
	<u>19,197,274</u>	<u>2,168,557</u>	<u>-</u>	<u>509,381</u>	<u>-</u>	<u>21,875,212</u>	<u>13,697,780</u>	<u>1,322,222</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,020,002</u>
Segment profit / (loss)	<u>804,207</u>	<u>(285,317)</u>	<u>(87,031)</u>	<u>68</u>	<u>(24,299)</u>	<u>407,628</u>	<u>436,154</u>	<u>(293,201)</u>	<u>(69,266)</u>	<u>(1,950)</u>	<u>(36,395)</u>	<u>35,342</u>
Assets												
	Unaudited September 30, 2011						Audited December 31, 2010					
- Segment assets	10,343,372	3,234,341	1,207,571	2,141	4,506,551	19,293,976	6,776,500	2,533,097	924,769	2,554,150	-	12,788,516
- Un-allocated assets	-	-	-	-	-	203,427	-	-	-	-	-	1,242,430
	<u>10,343,372</u>	<u>3,234,341</u>	<u>1,207,571</u>	<u>2,141</u>	<u>4,506,551</u>	<u>19,497,403</u>	<u>6,776,500</u>	<u>2,533,097</u>	<u>924,769</u>	<u>2,554,150</u>	<u>-</u>	<u>14,030,946</u>

# notes to the consolidated condensed interim financial information (unaudited) for the nine months ended september 30, 2011

(Amounts in thousand)

## 17. SEASONALITY

The Company's 'Ice Cream' and 'Juice' business is subject to seasonal fluctuation, with demand of ice cream and juice products increasing in summer. The Company's dairy business is also subject to seasonal fluctuation due to lean and flush cycles of milk collection. Therefore, revenues and profits are not necessarily indicative of result to be expected for the full year.

## 18. 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, the consolidated condensed interim statement of comprehensive income, the consolidated condensed interim statement of changes in equity and the consolidated condensed interim statement of cash flows have been compared with the balances of comparable period of immediately preceding financial year.

## 19. DATE OF AUTHORIZATION FOR ISSUE

This consolidated condensed interim financial information was authorized for issue on October 20, 2011 by the Board of Directors of the Company.



Chief Executive

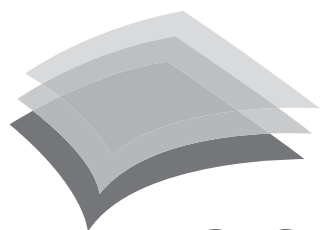


Director



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Third Quarter 2011 Accounts



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CONDENSED INTERIM  
FINANCIAL INFORMATION (UNAUDITED)  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011

# condensed interim balance sheet (unaudited) as at september 30, 2011

(Amounts in thousand)

	Note	Unaudited September 30, 2011	Audited December 31, 2010
Rupees			
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Property, plant and equipment	4	9,107,805	7,148,219
Long term investments	5	1,330,000	980,000
Biological assets		460,831	428,293
Intangible assets		116,401	142,433
Long term advances, deposits and prepayments		26,248	23,126
		<u>11,041,285</u>	<u>8,722,071</u>
<b>Current Assets</b>			
Stores, spares and loose tools		584,340	441,841
Stock-in-trade	6	3,069,758	2,089,221
Trade debts, unsecured		72,125	51,879
Advances, deposits and prepayments		226,672	244,209
Other receivables	7	1,212,119	720,735
Taxes recoverable		105,351	9,417
Derivative financial instruments		-	510
Cash and bank balances		9,202	180,181
		<u>5,279,567</u>	<u>3,737,993</u>
<b>TOTAL ASSETS</b>		<u><b>16,320,852</b></u>	<u><b>12,460,064</b></u>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	8	7,480,000	7,000,000
Share premium, net	8.2	698,165	-
Hedging reserve		-	331
Accumulated loss		(1,468,364)	(1,875,924)
		<u>6,709,801</u>	<u>5,124,407</u>
<b>Non-Current Liabilities</b>			
Long term borrowings		5,361,000	4,625,000
Obligations under finance lease		4,075	4,714
Deferred taxation		187,020	180,964
Deferred liabilities		2,943	3,462
		<u>5,555,038</u>	<u>4,814,140</u>
<b>Current Liabilities</b>			
<b>Current portion of</b>			
- long term borrowings		464,000	200,000
- obligations under finance lease		2,589	3,675
Trade and other payables	9	1,988,214	2,040,575
<b>Accrued interest / mark-up on</b>			
- long term borrowings		142,206	275,077
- short term borrowings		57,592	2,190
Short term borrowings	10	1,401,412	-
		<u>4,056,013</u>	<u>2,521,517</u>
Contingencies and Commitments	11		
<b>TOTAL EQUITY AND LIABILITIES</b>		<u><b>16,320,852</b></u>	<u><b>12,460,064</b></u>

The annexed notes 1 to 19 form an integral part of this condensed interim financial information.



Chief Executive



Director



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Third Quarter 2011 Accounts

# condensed interim profit and loss account (unaudited) for the nine months ended september 30, 2011

(Amounts in thousand except for earnings/(loss) per share)

	Note	Quarter ended		Nine months ended	
		September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
		Rupees		Rupees	
Net sales		7,922,219	5,490,664	21,365,831	15,020,002
Cost of sales		(6,219,654)	(4,224,745)	(16,841,370)	(11,752,172)
<b>Gross profit</b>		<b>1,702,565</b>	<b>1,265,919</b>	<b>4,524,461</b>	<b>3,267,830</b>
Distribution and marketing expenses		(987,401)	(676,235)	(2,689,125)	(2,414,124)
Administrative expenses		(112,049)	(158,901)	(391,933)	(361,175)
Other operating expenses		(38,498)	(17,120)	(92,036)	(58,351)
Other operating income		38,413	95,633	74,008	109,794
<b>Operating profit</b>		<b>603,030</b>	<b>509,296</b>	<b>1,425,375</b>	<b>543,974</b>
Finance costs		(308,568)	(180,313)	(799,163)	(487,365)
<b>Profit before taxation</b>		<b>294,462</b>	<b>328,983</b>	<b>626,212</b>	<b>56,609</b>
Taxation		(103,344)	(114,379)	(218,652)	(19,317)
<b>Profit after taxation</b>		<b>191,118</b>	<b>214,604</b>	<b>407,560</b>	<b>37,292</b>
Earnings per share - basic and diluted	12	0.26	0.40	0.56	0.08

The annexed notes 1 to 19 form an integral part of this condensed interim financial information.



Chief Executive



Director



engro foods

Third Quarter 2011 Accounts



# condensed interim statement of comprehensive income (unaudited) for the nine months ended september 30, 2011

(Amounts in thousand)

	Quarter ended		Nine months ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
	Rupees		Rupees	
Profit for the period	191,118	214,604	407,560	37,292
Other comprehensive income for the period				
- Unrealized gain on available for sale investment	-	-	-	365
- Realized gain on settlement of Forward Foreign Exchange contracts	-	-	(331)	-
Total comprehensive income for the period	<u>191,118</u>	<u>214,604</u>	<u>407,229</u>	<u>37,657</u>

The annexed notes 1 to 19 form an integral part of this condensed interim financial information.



Chief Executive



Director



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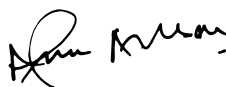
Third Quarter 2011 Accounts

# condensed interim statement of cash flows (unaudited) for the nine months ended september 30, 2011

(Amounts in thousand)

	Note	Nine months ended	
		September 30, 2011	September 30, 2010
Rupees			
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash generated from operations	13	492,673	630,438
Finance costs paid		(876,632)	(553,618)
Taxes paid		(314,586)	(131,381)
Retirement benefits paid		(72,377)	-
Long term deposits and advances - net		(3,122)	(12,730)
<b>Net cash (outflow)/inflow from operating activities</b>		<b>(774,044)</b>	<b>(67,291)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of			
- operating assets		(2,635,691)	(1,607,285)
- intangible assets		(3,563)	(5,243)
- biological assets		-	(365)
Proceeds from disposal of			
- operating assets		15,554	15,428
- biological assets		8,239	54,705
Long term investments		(350,000)	(690,200)
Interest received on bank deposits/savings account		2,432	-
Subordinated loan to holding company		-	(300,000)
<b>Net cash outflow from investing activities</b>		<b>(2,963,029)</b>	<b>(2,532,960)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Advance against issue of share capital received from Engro Corporation Limited (ECL), the Holding Company		-	1,220,200
Proceeds from issue of share capital		1,200,000	-
Share issuance costs, net		(33,593)	-
Proceeds from long term borrowings		1,200,000	1,499,999
Repayments of			
- long term borrowings		(200,000)	(116,667)
- obligation under finance lease		(1,725)	(3,719)
<b>Net cash inflow from financing activities</b>		<b>2,164,682</b>	<b>2,599,813</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(1,572,391)</b>	<b>(439)</b>
Cash and cash equivalents at beginning of the period		180,181	40,666
<b>Cash and cash equivalents at end of the period</b>	14	<b>(1,392,210)</b>	<b>40,227</b>

The annexed notes 1 to 19 form an integral part of this condensed interim financial information.



Chief Executive



Director



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Third Quarter 2011 Accounts

# condensed interim statement of changes in equity (unaudited) for the nine months ended september 30, 2011

(Amounts in thousand)

	Share capital	Share premium	Advance against issue of share capital	Hedging reserve	Accumulated loss	Total
	Rupees					
Balance as at January 1, 2010 (Audited)	5,423,000	-	-	-	(2,051,546)	3,371,454
Advance received during the period	-	-	1,220,200	-	-	1,220,200
Total comprehensive income for the nine months ended September 30, 2010	-	-	-	-	37,292	37,292
Balance as at September 30, 2010 (Unaudited)	5,423,000	-	1,220,200	-	(2,014,254)	4,628,946
Advance received during the period	-	-	356,800	-	-	356,800
Share capital issued during the period	1,577,000	-	(1,577,000)	-	-	-
Total comprehensive income for the three months ended December 31, 2010	-	-	-	331	138,330	138,661
Balance as at December 31, 2010 (Audited)	7,000,000	-	-	331	(1,875,924)	5,124,407
Share capital issued during the period	480,000	720,000	-	-	-	1,200,000
Share issuance cost, net	-	(21,835)	-	-	-	(21,835)
Total comprehensive income for the nine months ended September 30, 2011	-	-	-	(331)	407,560	407,229
Balance as at September 30, 2011 (Unaudited)	<u>7,480,000</u>	<u>698,165</u>	<u>-</u>	<u>-</u>	<u>(1,468,364)</u>	<u>6,709,801</u>

The annexed notes 1 to 19 form an integral part of this condensed interim financial information.



Chief Executive



Director

# notes to the condensed interim financial information (unaudited) for the nine months ended september 30, 2011

(Amounts in thousand)

## 1. LEGAL STATUS AND OPERATIONS

Engro Foods Limited (the Company), incorporated in Pakistan on April 26, 2005, under the Companies Ordinance, 1984, is a listed public company on Karachi and Lahore Stock Exchanges. The Company is a subsidiary of Engro Corporation Limited (ECL) (formerly Engro Chemicals Pakistan Limited). The Company's registered office is situated at 6th Floor, The Harbour Front Building, Plot No. HC-3, Block-4, Scheme No. 5, Clifton, Karachi.

The principal activity of the Company is to manufacture, process and sell dairy, ice-cream, juices and other food products. The Company also owns and operates a dairy farm. Further, during the period, the Company has also entered into international market and its first venture is to manage a halal food business, Al Safa Halal, Inc. (Al-Safa) in North America, which has been recently acquired by ECL. The entire shares of Al-Safa are proposed to be acquired by the Company from ECL at cost subject to requisite approvals from the regulators.

During the period, the Company issued 48 million ordinary shares to certain private investors at Rs. 25 per share, after waiver by ECL of its pre-emptive rights to these shares.

## 2. BASIS OF PREPARATION

2.1 This condensed interim financial information is unaudited and has been prepared in accordance with the requirements of the International Accounting Standard 34 – 'Interim Financial Reporting' and provisions of and directives issued under the Companies Ordinance, 1984 (the Ordinance). In case where requirements differ, the provisions of or directives issued under the Ordinance have been followed.

2.2 The preparation of this condensed interim financial information in conformity with the approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

During preparation of this condensed interim financial information, the significant judgments made by the management in applying the Company's accounting policies and the key sources of estimation and uncertainty are the same as those that apply to the financial statements for the year ended December 31, 2010.

## 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, 2010.

Unaudited September 30, 2011	Audited December 31, 2010
_____	_____
Rupees	

## 4. PROPERTY, PLANT AND EQUIPMENT

Operating assets, at net book  
value (notes 4.1 and 4.2)  
Capital work-in-progress (note 4.3)

8,282,865	6,661,790
824,940	486,429
<u>9,107,805</u>	<u>7,148,219</u>



engro foods

Third Quarter 2011 Accounts

# notes to the condensed interim financial information (unaudited) for the nine months ended september 30, 2011

(Amounts in thousand)

	Unaudited September 30, 2011	Audited December 31, 2010
	Rupees	
4.1 Following additions, including transfers from capital work-in-progress, were made to operating assets during the period / year:		
Buildings on freehold land	352,267	249,121
Plant, machinery and related equipment	1,821,135	1,615,920
Office equipment	38,934	30,335
Computers	15,174	13,246
Furniture and fittings	1,622	-
Vehicles	68,048	153,097
	<u>2,297,180</u>	<u>2,061,719</u>

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

	Cost	Accumulated depreciation	Net book value	Sales proceeds	Mode of disposal
	Rupees				
Vehicles - owned	26,824	(13,700)	13,124	15,176	Insurance claims / Employee buyback
Computer Equipment	100	(50)	50	74	Insurance claim
Plant and machinery	646	(416)	230	304	Insurance claim
September 30, 2011	<u>27,570</u>	<u>(14,166)</u>	<u>13,404</u>	<u>15,554</u>	
December 31, 2010	<u>55,256</u>	<u>(39,575)</u>	<u>15,681</u>	<u>19,530</u>	

	Unaudited September 30, 2011	Audited December 31, 2010
	Rupees	
4.3 Following additions were made to capital work-in-progress during the period / year:		
Building on freehold land	383,387	266,376
Plant, machinery and related equipment	1,887,422	1,546,832
SAP Project and milk automation	3,563	122,561
Office equipment, furniture, fittings and computers	100,389	69,588
Vehicles	264,493	178,888
	<u>2,639,254</u>	<u>2,184,245</u>



engro foods

Third Quarter 2011 Accounts

# notes to the condensed interim financial information (unaudited) for the nine months ended september 30, 2011

(Amounts in thousand)

	Unaudited September 30, 2011	Audited December 31, 2010
	Rupees	
<b>5. LONG-TERM INVESTMENTS</b>		
Subsidiary - at cost		
Engro Foods Supply Chain (Private) Limited [equity held: 70% (December 31, 2010: 70%)]		
- 98,000,000 (December 31, 2010: 98,000,000) ordinary shares of Rs. 10 each	980,000	980,000
- Advance against issue of share capital	350,000	-
	<u>1,330,000</u>	<u>980,000</u>

5.1 Subsequent to the balance sheet date, the board has approved sale of the 70% equity shares of Engro Foods Supply Chain (Private) Limited to Engro Eximp (Private) Limited, an associated company, for cash.

## 6. STOCK-IN-TRADE

Raw & packaging materials (note 6.1)	2,295,516	1,484,350
Work in process	162,830	48,564
Finished goods (note 6.1)	611,412	556,307
	<u>3,069,758</u>	<u>2,089,221</u>

6.1 These include raw and packaging materials amounting to Rs. 79,615 (December 31, 2010: Rs. 65,206) and finished goods amounting to Nil (December 31, 2010: Rs. 35,102) held by third parties.

	Unaudited September 30, 2011	Audited December 31, 2010
	Rupees	

## 7. OTHER RECEIVABLES

Sales tax refundable (note 7.1)	751,600	518,439
Receivable from Tetra Pak Pakistan Limited (note 7.2)	421,899	165,876
Receivable from associated companies:		
Engro Foods Supply Chain (Private) Limited - a subsidiary company	-	3,268
Engro Corporation Limited	20,635	-
Engro Foods Canada Limited	5,231	-
Engro Foundation	1,811	-
Insurance claims receivable	6,786	-
Others	4,157	33,152
	<u>1,212,119</u>	<u>720,735</u>

7.1 Sales tax has been zero rated on the Company's supplies (output) and raw materials, components and assemblies imported or purchased locally by the Company for manufacturing in respect of its dairy products.



engro foods

Third Quarter 2011 Accounts

# notes to the condensed interim financial information (unaudited) for the nine months ended september 30, 2011

(Amounts in thousand)

- 7.2 Includes market support subsidy, quantity size discount and investment support allowance, net of amount due on account of packaging material purchased.

8. SHARE CAPITAL	Unaudited	Audited
	September 30, 2011	December 31, 2010
	Rupees	
<b>Authorized capital</b>		
850,000,000 (December 31, 2010: 800,000,000) Ordinary shares of Rs. 10 each (note 8.1)	8,500,000	8,000,000
<b>Issued, subscribed and paid-up capital</b>		
748,000,000 (December 31, 2010: 700,000,000) Ordinary shares of Rs.10 each paid in cash (note 8.2)	7,480,000	7,000,000

- 8.1 During the period, the Company has increased its authorized share capital by 50,000,000 ordinary shares of Rs. 10 each.
- 8.2 During the period, the Company has issued and allotted, to certain private investors, 48,000,000 ordinary shares of Rs. 10 each at a premium of Rs. 15 per share, ranking pari passu in all respects with the existing shares of the Company. These shares were first offered to existing shareholder Engro Corporation Limited (ECL), however, ECL waived its pre-emptive rights over these shares.

## 9. TRADE AND OTHER PAYABLES

Includes following amounts due to related parties:

	Unaudited	Audited
	September 30, 2011	December 31, 2010
	Rupees	
Engro Corporation Limited	-	1,204
Engro Fertilizers Limited	667	880
Engro Polymer and Chemicals Limited	1,161	-
Avanceon Limited	3,065	-
	<u>4,893</u>	<u>2,084</u>

## 10. SHORT TERM FINANCES - secured

- 10.1 The facilities for short term running finance available from various banks, which represents the aggregate sale price of all mark-up arrangements amount to Rs. 2,600,000 (December 31, 2010: 1,600,000). The unutilized balance against these facilities as at period end was Rs. 1,198,588 (December 31, 2010: Rs. 1,600,000). The facilities are secured by way of hypothecation upon all present and future current assets of the Company. The corresponding purchase prices are payable on various dates by February 15, 2014.
- 10.2 The facilities for opening letters of credit and guarantees as at September 30, 2011 amount to Rs. 3,700,000 (December 31, 2010: Rs. 3,115,000) of which, the amount remaining unutilized at period end was Rs. 3,435,000 (December 31, 2010: Rs. 1,305,600).



# notes to the condensed interim financial information (unaudited) for the nine months ended september 30, 2011

(Amounts in thousand)

## 11. CONTINGENCIES AND COMMITMENTS

### 11.1 Contingencies

11.1.1 The Company has provided bank guarantees to:

- Sui Southern Gas Company Limited amounting to Rs. 39,037 (December 31, 2010: Rs. 33,993) in accordance with contracts for supply of gas;
- Sui Northern Gas Company Limited amounting to Rs. 34,350 (December 31, 2010: Rs. 34,350) in accordance with contracts for supply of gas;
- Irrigation and Power Department, Government of Sindh amounting to Rs. 100 (December 31, 2010: Rs. 100) under an agreement for disposal of treated waste water;
- Collector of Sales tax, Large Tax Payers Unit (LTU), Karachi amounting to Rs. 258,800 (December 31, 2010: Rs. 258,800) 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, 2010: Rs. 172,000) have been received to-date; and
- Controller Military Accounts, Rawalpindi amounting to Rs. 5,351 (December 31, 2010: Rs. 3,217), as collateral against supplies.

11.1.2 Following is the position of Company's open tax assessments/matters as at September 30, 2011:

- 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 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 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 pending for hearing. 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.

- b) The Company's appeal against the order of Commissioner Inland Revenue (CIR) for reduction of tax loss from Rs. 1,224,964 to Rs. 1,106,493 for the tax year 2007, is currently in the process of being heard. However, the Company, based on the opinion of its tax consultant, is confident of a favourable outcome of the appeal, and hence the deferred tax asset recognized on taxable losses has not been reduced by the effect of the aforementioned disallowance.
- c) Last year, 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,





# notes to the condensed interim financial information (unaudited) for the nine months ended september 30, 2011

(Amounts in thousand)

on surrender of tax loss has been added to income for the year. The Company had filed an appeal before Commissioner Appeals and has received his order on 16 September 2011, where by Commissioner has withdrawn demand amounting to Rs 222,357 in favour of the Company. The Company now intends to file appeal at ATIR level for the remainder amounts which have been remanded back / disallowed. However, the Company, based on the opinion of its tax consultant, is confident of a favourable outcome of the appeal, and hence the deferred tax asset recognized on taxable losses has not been reduced by the effect of the aforementioned disallowance.

## 11.2 Commitments

Commitments in respect of capital expenditure contracted for but not incurred as at September 30, 2011 amounted to Rs. 127,968 (December 31, 2010: Rs. 696,170).

## 12. EARNINGS PER SHARE - Basic and diluted

	Unaudited Quarter ended		Unaudited Nine months ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
	Rupees			
There is no dilutive effect on the basic earnings per share of the Company, which is based on:				
Profit for the period	191,118	214,604	407,560	37,292
	(Number of shares)			
Weighted average number of ordinary shares in issue during the period (in thousand)	748,000	542,300	724,088	447,996
Earnings per share - basic and diluted (in rupees)	0.26	0.40	0.56	0.08

# notes to the condensed interim financial information (unaudited) for the nine months ended september 30, 2011

(Amounts in thousand)

	Unaudited September 30, 2011	Unaudited September 30, 2010
	Rupees	
<b>13. CASH UTILIZED IN OPERATIONS</b>		
Profit/(loss) before taxation	626,212	56,609
Adjustment for non-cash charges and other items:		
- Depreciation	662,701	505,777
- Amortization of intangible assets	29,595	6,864
- Amortization of deferred income	(30)	(66)
- (Gain)/Loss on death / disposal of biological assets	(485)	6,688
- Gain on disposal of operating assets	(2,150)	(4,456)
- Loss/(gain) arising from changes in fair value less estimated point-of-sale costs of biological assets	(40,292)	(14,037)
- Provision for retirement and other service benefits	40,110	423
- Income on bank deposits / saving accounts	(2,432)	-
- Finance costs	799,163	487,365
Working capital changes (note 13.1)	(1,619,719)	(414,729)
	<u>492,673</u>	<u>630,438</u>
<b>13.1 Working capital changes</b>		
(Increase) / Decrease in current assets		
Stores, spares and loose tools	(142,499)	(141,522)
Stock-in-trade	(980,537)	(284,574)
Trade debts	(20,246)	(32,928)
Advances, deposits and prepayments	51,531	41,633
Other receivables - net	(491,384)	(77,189)
	<u>(1,583,135)</u>	<u>(494,580)</u>
Increase / (Decrease) in current liabilities		
Trade and other payables - net	(36,584)	79,851
	<u>(1,619,719)</u>	<u>(414,729)</u>
<b>14. CASH AND CASH EQUIVALENTS</b>		
Cash and bank balances	9,202	141,678
Short term borrowings	(1,401,412)	(101,451)
	<u>(1,392,210)</u>	<u>40,227</u>



# notes to the condensed interim financial information (unaudited) for the nine months ended september 30, 2011

(Amounts in thousand)

## 15. TRANSACTIONS WITH RELATED PARTIES

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

Nature of relationship	Nature of transactions	Unaudited Nine months ended	
		September 30, 2011	September 30, 2010
		Rupees	
Holding company	Arrangement for sharing of personnel, premises, utilities and services	123,212	80,563
	Claimable expenses	-	755
	Use of assets	-	1,390
	Share of refurbishment cost	-	28,138
	Pension fund contribution	-	1,207
	Provident fund contribution	-	3,232
	Gratuity fund contribution	-	212
	Sub-ordinated loan	-	300,000
Subsidiary	Claimable expenses	78,282	49,013
	Advance against issue of share capital	350,000	690,200
Associated companies	Purchases of goods & services	51,470	15,296
	Sale of goods	-	27,106
	Arrangement for sharing of premises, utilities and services	17,958	16,948
	Provident fund contribution	4,263	172
	Pension fund contribution	7,492	-
	Gratuity fund contribution	-	60
	Donations	13,131	16,090
	Use of assets	3,478	4,478
	Claimable expenses	-	3,034
Contribution to staff retirement funds	Provident fund	52,934	-
	Gratuity fund	72,377	-
Key management personnel	Managerial remuneration	109,118	41,000
	Retirement benefits	7,877	6,550
	Other benefits	2,204	26,179

# notes to the condensed interim financial information (unaudited) for the nine months ended september 30, 2011

(Amounts in thousand)

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

## 16. SEGMENT INFORMATION

16.1 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, 2010.

Unallocated assets include long term investment, long and short term advances, deposits and prepayments, other receivables, short term investments and cash and bank balances.

Liabilities are not reported segment-wise to the Board of Directors. Further, all the unallocated assets are reported to the Board of Directors at entity level. Inter-segment sales of powder and cream by Dairy to Ice cream and of unprocessed milk by Dairy farm to Dairy are made at prevailing market price.

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

	Unaudited Nine months ended September 30, 2011					Unaudited Nine months ended September 30, 2010				
	Dairy and juice	Ice cream & frozen desserts	Dairy farm	Business Development	Total	Dairy and juice	Ice cream & frozen desserts	Dairy farm	Business Development	Total
	Rupees									
Results for the year										
Net sales	19,446,727	2,168,557	191,963	-	21,807,247	14,106,646	1,322,222	165,793	-	15,594,661
Inter-segment sales	(259,476)	-	(191,963)	-	(451,439)	(426,204)	-	(165,793)	-	(591,997)
Net revenue from external customers	19,187,251	2,168,557	-	-	21,355,808	13,680,442	1,322,222	-	-	15,002,664
Raw milk sales	10,023	-	-	-	10,023	17,338	-	-	-	17,338
	<u>19,197,274</u>	<u>2,168,557</u>	<u>-</u>	<u>-</u>	<u>21,365,831</u>	<u>13,697,780</u>	<u>1,322,222</u>	<u>-</u>	<u>-</u>	<u>15,020,002</u>
Segment profit / (loss)	<u>804,207</u>	<u>(285,317)</u>	<u>(87,031)</u>	<u>(24,299)</u>	<u>407,560</u>	<u>436,154</u>	<u>(293,201)</u>	<u>(69,266)</u>	<u>(36,395)</u>	<u>37,292</u>
Assets										
- Segment assets	10,300,468	3,179,930	1,207,571	2,141	14,690,110	6,776,500	2,533,097	924,769	-	10,234,366
- Un-allocated assets	-	-	-	1,630,742	1,630,742	-	-	-	-	2,225,698
	<u>10,300,468</u>	<u>3,179,930</u>	<u>1,207,571</u>	<u>1,632,883</u>	<u>16,320,852</u>	<u>6,776,500</u>	<u>2,533,097</u>	<u>924,769</u>	<u>-</u>	<u>12,460,064</u>



# notes to the condensed interim financial information (unaudited) for the nine months ended september 30, 2011

(Amounts in thousand)

## 17. SEASONALITY

The Company's 'Ice Cream' and 'Juice' business is subject to seasonal fluctuation, with demand of ice cream and juice products increasing in summer. The Company's dairy business is also subject to seasonal fluctuation due to lean and flush cycles of milk collection. Therefore, revenues and profits are not necessarily indicative of result to be expected for the full year.

## 18. 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.

## 19. DATE OF AUTHORIZATION FOR ISSUE

This condensed interim financial information was authorized for issue on October 20, 2011 by the Board of Directors of the Company.



Chief Executive



Director



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Third Quarter 2011 Accounts