

# [CONTENTS]

OUR STORY	02
FOUNDERS' PHILOSOPHY	04
VISION/MISSION STATEMENT	06
CORE VALUES	08
CODE OF ETHICS AND BUSINESS PRACTICES	10
COMPANY INFORMATION	12
CALENDAR OF MAJOR EVENTS	14
ORGANIZATIONAL CHART	15
DIRECTORS PROFILES AND INFORMATION	16
HEAD OF DEPARTMENTS	20
CEO'S REVIEW	22
DIRECTORS' REPORT TO THE SHAREHOLDERS	24
MANAGEMENT REVIEW	31
KEY FINANCIAL AND OPERATING HIGHLIGHTS	61
HORIZONTAL ANALYSIS	62
VERTICAL ANALYSIS	63
SUMMARY OF FIVE YEAR CASH FLOWS	64
STATEMENT OF VALUE ADDED AND ITS DISTRIBUTION	65
STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE	66
REVIEW REPORT ON COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE	68
AUDITORS' REPORT TO THE MEMBERS	69
BALANCE SHEET	72
PROFIT AND LOSS ACCOUNT	73
CASH FLOW STATEMENTS	74
STATEMENT OF CHANGES IN EQUITY	75
NOTES TO THE FINANCIAL STATEMENTS	76
PATTERN OF SHAREHOLDING	99
NOTICE OF ANNUAL GENERAL MEETING	101
FORM OF PROXY	103



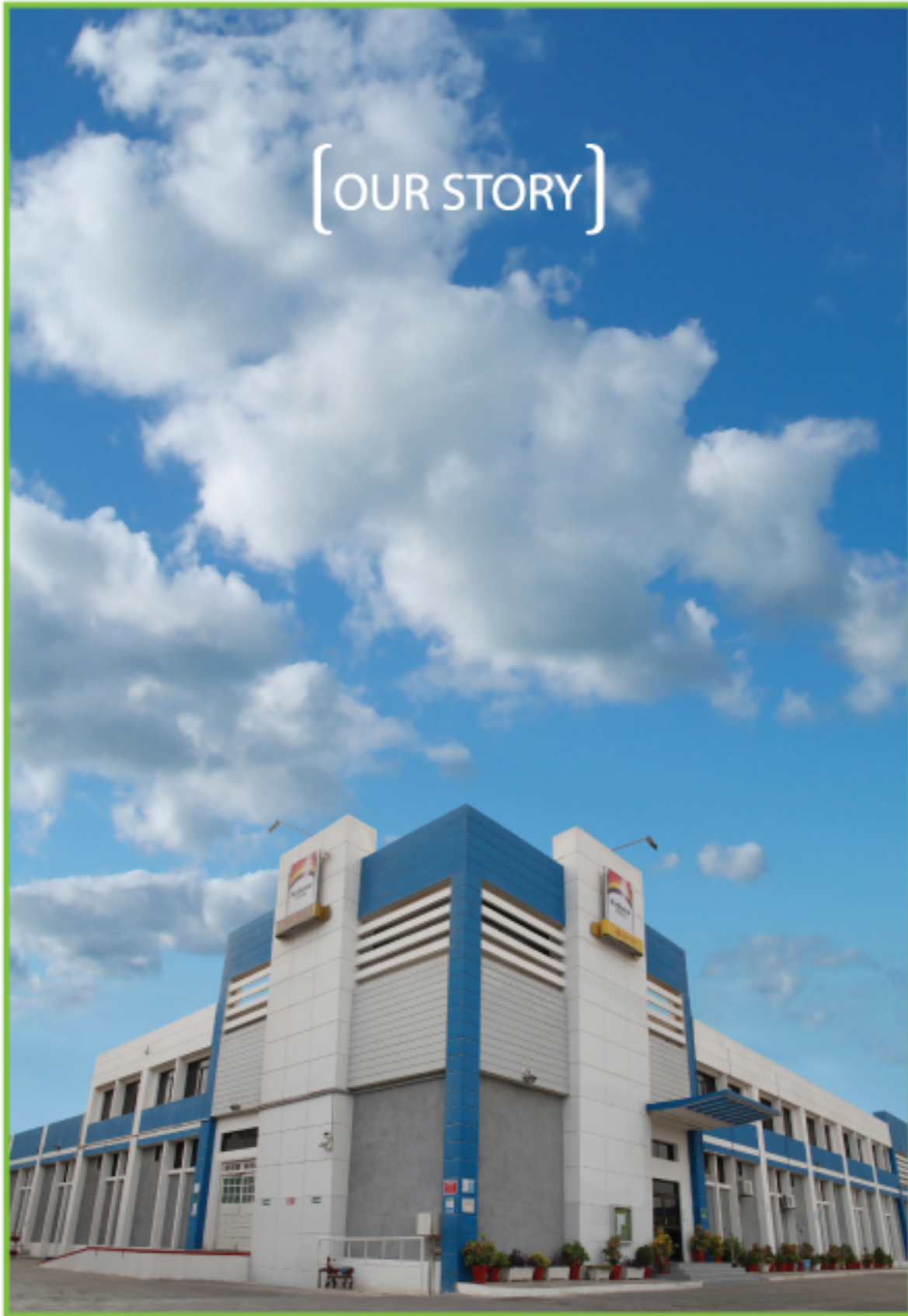
## [OUR STORY]

## [OUR STORY]

National Foods Limited (NFL), founded in 1970, is Pakistan's Leading multi-category Food Company today with over 250 different products in 12 categories. NFL holds ISO 9001, ISO 22000, and HACCP certifications along with SAP business technology to drive the company's strong commitment to quality and management excellence.

NFL is an international brand sold in over 35 countries and it aims to be a Rs.50 billion company under its Vision 20/20 plan.

NFL is dedicated to improving the well-being of society through continuous development of innovative food products and through a wide-ranging corporate social responsibility program.



## FOUNDERS PHILOSOPHY

## FOUNDERS PHILOSOPHY

National Foods Limited must focus on customers' needs and serve them with quality products at affordable prices at their doorstep.

Our products must be pure, conforming to international standards.

Our research must produce continuously new, adventurous products that are scientifically tested and hygienically wrapped in safe and attractive packages.

We must create an environment in our offices and factories where talents are groomed and our people have every opportunity to advance in their careers.

We must prove ourselves good corporate citizens, support good causes and charity and bear our fair share of taxes.

Reserves must be built, new factories created, sound profit made and fair dividends paid to our stock holders.

Through building a reliable brand, National Foods Limited must get itself recognized as a leader in Pakistan and abroad.

With the help of Almighty God, the Company can achieve its target in time to come.



# VISION & MISSION STATEMENT



# VISION & MISSION STATEMENT

"Our vision is to be a Rs.50 billion food company by the year 2020 in the convenience food segment by launching products and services in the domestic and international markets that enhance lifestyle and create value for our customers through management excellence at all levels."



## [ CORE VALUES ]



## [ CORE VALUES ]

### **Passion**

We act with intense positive energy and are not afraid to take risks. We challenge ourselves continuously, we're good at what we do, and we take pride in who we are.

### **People-centric**

We put our people first. We treat them with respect and actively contribute towards their development.

### **Customer Focus**

We see the world through the eyes of our customers. We do everything possible that makes them happy.

### **Leadership**

We are part of the solution, never the problem. We act like owners and have a positive influence on others.

### **Teamwork**

Our roles are defined, not our responsibilities. We believe in going the extra mile to accomplish our goals. We coach and support each other to ensure everyone wins. We have a "WE versus I" mindset.

### **Ethics**

We don't run our business at the cost of human or ethical values.

### **Excellence in execution**

We say. We do. We deliver. We talk with our actions. We strive for nothing but the best. Execution is the key to winning!

### **Accountability**

We see. We act. We take full responsibility for our actions and results. We don't blame others for our mistakes; we analyze them and correct them.



## CODE OF ETHICS AND BUSINESS PRACTICES

## CODE OF ETHICS AND BUSINESS PRACTICES

NFL believes in conducting its operations with strong ethical and moral standards. NFL's statement of code of ethics & business practices aims to provide guidance on carrying out its business-related decisions and activities. We wish to achieve excellence in all spheres of our operations for which business ethics form the basis. Any party entering any form of contract with NFL is bound to comply with the given guidelines. NFL's statement of code of ethics & business practices has the following 07 guidelines:

### 1. Unfair Means:

Any use of bribery, kickbacks or any form of payment in cash/kind to obtain business related or otherwise gainful benefit for the Company is strictly prohibited. Excessive business gifts and entertainment also hold the same meaning and NFL does not approve of such payments.

### 2. Respect and Integrity:

NFL believes in giving respect to individuals. We aim to operate in a manner that discourages discrimination, harassment and/or influence. Discrimination refers to favoritism based on a particular aspect of an individual's personality. Harassment includes gender harassment creating an intimidation, hostile or offensive work environment causing interference with work performance. Influence could be an abuse of authority or the wish to alter personal believes.

### 3. Conflict of Interest:

NFL prohibits actions that are in conflict with the Company's business interests. This may include but is not limited to:

- Providing assistance to the competition or holding ownership interests in a customer, supplier, distributor or competitor.
- Making personal gains at company's expense.

### 4. Confidentiality:

NFL believes in confidentiality of information related to Company's business activities. The Company expects employees not to disclose or divulge by any means the confidential and commercially sensitive information except to the authoritative personnel requiring it. Furthermore, they should use their best endeavors to prevent the disclosure of such information by other people. The obligation of confidentiality shall survive the expiration or the cessation of contacts with National Foods Limited and is equally applicable to intellectual property.

### 5. Statutory Compliance:

NFL believes in providing total support and cooperation to all the governmental and regulatory bodies irrespective of the extent of prevalent enforcement.

### 6. Financial Integrity:

NFL believes in complete compliance with the accepted accounting rules and procedures. This includes but is not limited to:

### Transparency:

NFL discourages any illegal activity for the purpose of any benefit to the Company or others. All information supplied to the stakeholders and/or auditors must be authentic & transparent.

### Disclosure:

All transactions must be fully disclosed and must be for the purpose stated for.

### 7. Health, Safety and Community Responsibility:

NFL is fully committed to safety, health and responsibility towards environment and community. All activities of NFL must portray responsibility towards the community and nation as a whole. NFL seeks to employ procedures that are safe, healthy and environment friendly.

# COMPANY INFORMATION

## BOARD OF DIRECTORS

Mr. Abdul Majeed	Chairman
Mr. Abrar Hasan	Managing Director/ CEO
Mr. Waqar Hasan	Director
Mr. Khawaja Munir Mashooqullah	Director
Mr. Zahid Majeed	Director
Mr. Ebrahim Qassim	Director
Mr. Iqbal Allmohamed	Director

## AUDIT COMMITTEE

Mr. Ebrahim Qassim	Chairman
Mr. Waqar Hasan	Member
Mr. Zahid Majeed	Member

## COMPANY SECRETARY AND SECRETARY AUDIT COMMITTEE

Mr. Fayyaz Abdul Ghaffar

## CHIEF FINANCIAL OFFICER

Mr. Muhammad Kashif Iqbal

## INTERNAL AUDITORS

Messrs. Ernst & Young Ford Rhodes Sidat Hyder & Co. Chartered Accountants

## COMPANY MANAGEMENT

Mr. Abrar Hasan	Managing Director/ Chief Executive
Mr. Shakaib Arif	Chief Operating Officer
Mr. Ismail Tahir Ahmed	General Manager Human Resource

## 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

1st Floor, House of Habib  
Building Siddiqsons Towers,  
3-Jinnah C.H. Society, Main  
Shahrah-e-Faisal, Karachi-75350  
PABX: (92-21) 3432582-87  
Fax: (92-21) 34325442

## PRINCIPAL BANKERS

Bank Al Falah Limited (Islamic Banking Group)	Port Qasim Authority Branch, Karachi
Barclays Bank Plc, Pakistan	Dawood Center, M.T. Khan Road, Karachi
Habib Bank Limited	S.I.T.E. Branch, Karachi
Habib Metropolitan Bank Limited	Main Branch, Karachi
MCB Bank Limited	Shaheen Complex Branch, Karachi
United Bank Limited	I.I. Chundrigar Road, Karachi
Meezan Bank Limited	M.T. Khan Road, Karachi

## REGISTERED OFFICE

12/CL-6 Claremont Road, Civil Lines,  
Karachi 75530 P.O. Box No. 15509  
Phone: (92-21) 35662687, 35670540,  
35670585, 35670793 & 35672268  
Fax: (92-21) 35684870

# CALENDAR OF MAJOR EVENTS

# ORGANIZATIONAL CHART

## July 2010

- **Star of the Year Awards** were held to recognize high performers from all functions across the organization
- Launch of **Humarey Khaney Humarey Tehwaar** campaign to introduce NFL Recipe for special moments we experience everyday

## August 2010

- NFL sponsored the **Pakistan Festival** in Vancouver to celebrate our Independence Day, where 11,000 diverse nationalities came together

## October 10

- NFL's Annual General Meeting
- Co-sponsored the **Canada-Pakistan Expo** in Toronto celebrating ethnic festivities & music by Rahat Fateh Ali, Shazia Manzoor & Shafqat Amanat Ali
- **Fire Fighting & First Aid Training** was rolled out to all NFL employees

## November 10

- A **2-day Eye Camp** was held at Port Qasim as an initiative towards the importance of workers' health

## December 10

- Visits to **flood affected areas** of Jati and Sajawal

## January 11

- Kick off of **S&OP - Sales and Operational Planning** function

## February 11

- **Aagahi Adult Literacy Program** Graduation Ceremony after a successful roll out of the 9th Phase
- Members of all the departments competed in matches at the **NFL Cricket Series**
- Received **Best Salt Processor of the Year Award** in Punjab

## March 11

- NFL at the **Gulf Foods Festival** in Dubai, a 4-day event bringing together food companies from all over the world

## April 11

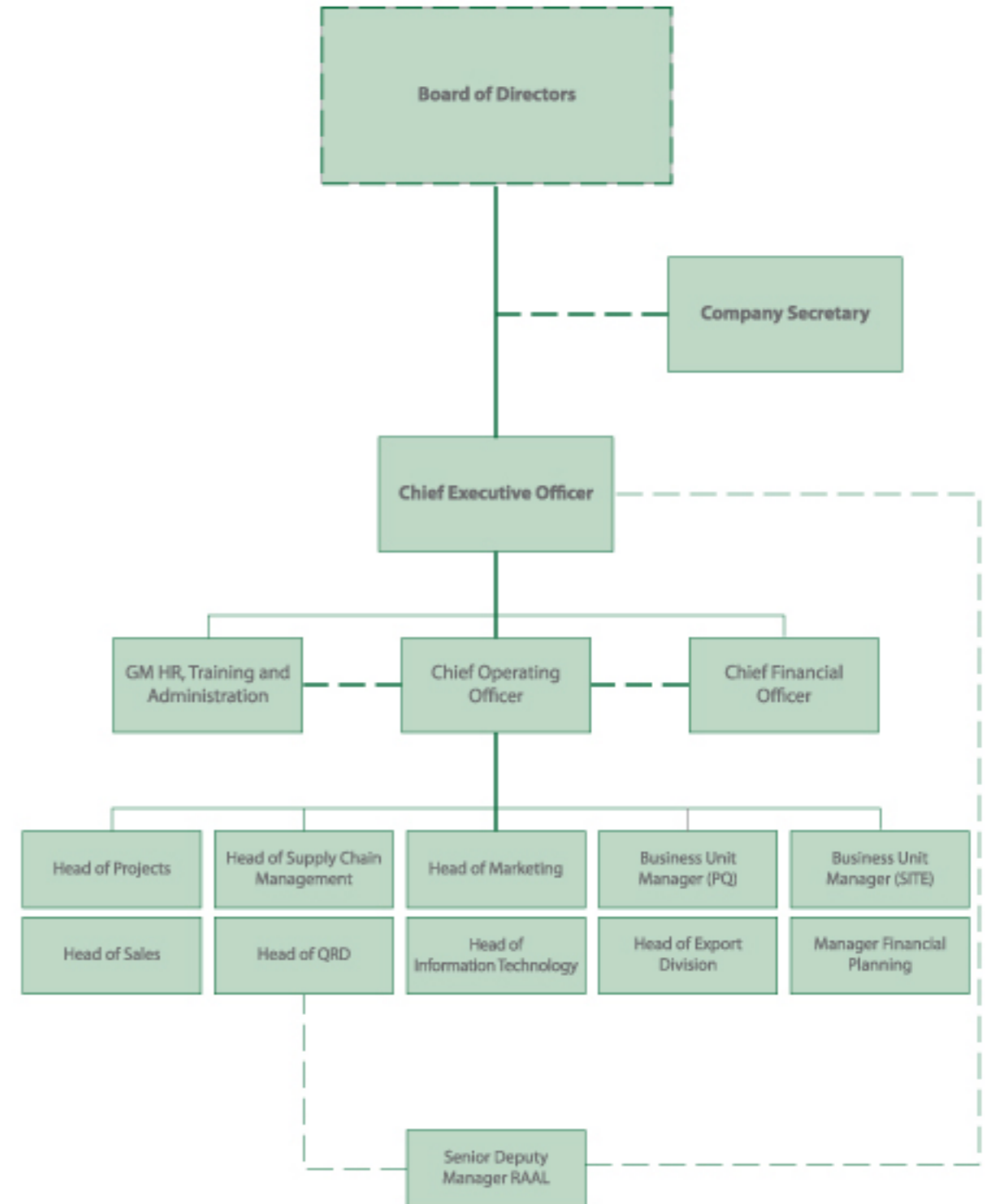
- NFL at the **Rand Show** in Johannesburg - the largest food festival in South Africa
- The Management staff spent a whole day at the **NFL Beach Bach Bachao Trip**

## May 11

- Participated in the **United Nations Global Compact Session**, the largest voluntary corporate responsibility initiative in the world

## June 11

- Implementation of **Virtualization & Disaster Recovery Solution - PladeSpin** for SAP landscape
- Launch of the **Demand Planning Scorecard**







**Mr. Abdul Majeed**  
Chairman

Mr. Abdul Majeed is founder, director and chairman of National Foods Limited and Associated Textile Consultants (Pvt.) Ltd. He is also Chairman of Precision Rubber Products Ltd. and Nazaria-e-Pakistan Trust, Sindh – a chapter of its counterpart in Lahore.

Today, in addition to playing a vital role in the establishment of National Foods as a leading food company in Pakistan, he is a member of Academic Council of Textile Institute of Pakistan, Board of Governors of National Textile University, Faisalabad and Nazaria-e-Pakistan Trust, Lahore. He was also the former member of the Federal Textile Board and the Engineering Development Board, Government of Pakistan.

Mr. A. Majeed's experiences have been diverse from the very beginning, adding to the depth of what he offers as a key leader at National Foods. After graduating from the F.C. College, Lahore with a B.Sc. in Physics and

Mathematics, he was selected by the British Council for Higher Studies in Textile Engineering and completed a B.Sc. (Hons.) in Technology from Manchester University in 1959.

His interests and affiliations range from serving the Rotary District 3270 in different capacities as secretary and chairman from 1987 till present, as well as being active in social forums. He was a past president of the Rotary Club of Karachi North, Vice President Alumni Association of F.C. College, Lahore, member of the Advisory Committee, School of Management and ex-board member of the Society for the promotion of Arabic.

A life member of Anjuman Himayat-ul-Islam, Lahore and Arts Council, Karachi, a trustee member of Formanite Welfare Trust, a professional member of World Future Society, Bathesda, USA. Mr. A. Majeed is a believer in cultural progression and community development.



**Mr. Abrar Hasan**  
CEO

Mr. Abrar Hasan has been with National Foods since 1993. During his association with the company he has successfully spearheaded the organization to its present position. Mr. Hasan has used his proficiency in Operations Management, Marketing and Finance with diligence to make National Foods what it is today and one of the largest and most successfully innovative food industries in Pakistan.

Mr. Abrar Hasan graduated with a BS in Industrial Management with a minor in Industrial Engineering from Purdue University, Indiana, USA. In 1990 he returned to Pakistan and joined Precision Rubber Products (Pvt.) Ltd. as Plant Director. He remained with this company for almost 3 years and was responsible for Production and Manufacturing Management. With his well-developed skill set, Abrar Hasan joined National Foods in 1993 as Plant Director and was appointed by the Board of Directors as the Chief Executive of the company in the year 2000.

His dedicated approach and inspirational leadership has taken National Foods from a simple recipe producer to a full-fledged food company today. He is the driving force behind his team of skilled professionals and has introduced innovative technology, human resource development & management and new marketing trends that have made the Company an undisputed market leader. Mr. Abrar Hasan was invited to join the Board of Cherat Packaging Limited as an Independent Director in September 2010

Mr. Zahid Majeed joined National Foods Limited in 1987 as Plant Director, from where his experience and contribution to the company have both evolved. From 1993 onwards, he has been responsible for the Textile and Trading Business within the group as well as International Business expansion.

As a graduate of Philosophy, Politics and Economics from Oxford, Mr. Majeed enjoys the entrepreneurial challenge of Business Development and transforming business ideas into reality.

Currently, he is actively focused on transforming the National Foods international business into a major part of the company with a strong emphasis on organization and brand building as well as distribution re-structuring. The vision behind this is to create a genuine global Pakistani food brand and an ambassador for the country.

In addition to this, Mr. Majeed has pioneered the introduction of an active Corporate Social Responsibility (CSR) culture within the company involving himself in flood relief projects and agricultural development initiatives. This is all in line with the NFL vision of becoming a responsible and progressive corporate citizen of Pakistan.



**Mr. Zahid Majeed**  
Director

## DIRECTOR PROFILES AND INFORMATION



Mr. Waqar Hasan  
Director

Mr. Waqar Hasan is Corporate Director at National Foods Limited, who has vast and diversified experience, both, as a high-profile businessman of the textile and food industry as well as a cricket administrator.

His association to National Foods first began with its inception in 1971, when he established the organization in collaboration with Chairman Mr. A. Majeed. Serving as Managing Director at NFL till the year 2000, Mr. Hasan, through his leadership, set the fundamentals and ethics embedded in the culture still practiced presently.

During this time he not only managed operations, but also played a vital strategic role in making the company what it is today. Mr. Hasan's ambition and dedication resonates in the expansion of NFL from a small-time operation to an organization that now envisions becoming a Rs.50 billion company in 2020. His belief in NFL's people and developing their talent is also a premise that continues over 4 decades later,

enabling the company to achieve new heights each year, building a legacy. His achievements range from transforming NFL into a public limited company to the recognition of National Foods as a Pakistani household brand as well as the growth of the organization's export operations.

He stepped down as MD, only to go on to join the Board of Directors of National Foods. Besides being the founder director of NFL, he is Chairman of the Audit Committee and made his mark as a test cricketer for Pakistan, where his sports career spans almost 14 years since making his debut in Lahore in 1948-49. Besides performing on the field for the country, Mr. Hasan served off the field as well in different administrative capacities for the Pakistan Cricket Board (PCB – formerly BCCP).

Mr. Khawaja Munir Mashooqullah is the founder and president of Synergies Worldwide - a global supply chain management company operating in over 15 countries. Having received his MBA from the Olin School of Business from Washington University in St. Louis and also received outstanding 50 Asian Americans in Business award by The Asian American Business Development Center, Mr. Mashooqullah has been a member of the board of directors at National Foods since 2007. His experience spans out over multiple industries, where prior to founding Synergies in 1987, Mr. Mashooqullah worked in the food and textile-manufacturing sector in Pakistan. Today, he is Chairman of Hertzman Media, and also serves on the board of Quizsense Inc., and various textile, design and food companies in Bangladesh, China, USA and Pakistan.

He has served as the Chairman of Korangi Industrial Association (KATI) and on the Executive Committee of KCCI and FPCCI. Mr. Mashooqullah was also the Founding Trustee of College of Business Management (CBM).

Mr. Mashooqullah has worked as an independent consultant in many companies and is actively involved in charitable organizations in South Asia ranging from computer literacy to drug rehabilitation. Mr. Mashooqullah is a member of Young Presidents Organization.



Mr. Khawaja Munir Mashooqullah  
Director

## DIRECTOR PROFILES AND INFORMATION



Mr. Ebrahim Qassim  
Director

Mr. Ebrahim Qassim a Chartered Accountant by qualification has been on the board of National Foods since 2000. He has worked as a professional manager in a British pharmaceutical company for three years in different positions before finally becoming its Country Manager. Commenced his own distribution business as Premier Distributors in 1971 now with set up all over Pakistan.

He has been on the National Council of the Institute of Chartered Accountants of Pakistan (ICAP) and Marketing Association of Pakistan. He has served as a member on the Board of Directors of the Karachi Stock Exchange in the year 2000. Currently he is on the board of directors of English Biscuits (Private) Ltd and Coronet Foods (Private) Ltd and is Chairman of Shield Corporation Limited.

Mr. Alimohamed is a fellow member of the Institute of Chartered Accountants, ICAEW (England and Wales) as well as the Institute of Chartered Accountants in Pakistan (ICAP), besides his vast experience in the Textile Industry he also has very rich experience in the banking and financial industry fields and modern day management in Pakistan. Some of the organizations established and managed by him have become Centers of Excellence in their respective categories.

Mr. Iqbal Alimohamed is the Director of National Foods Limited since 2008. National Foods Limited is Pakistan's Multi-Category Food Company with over 250 different products in 12 categories. It is the only food company in Pakistan to have ISO 9001 and HACCP certifications along with SAP business technology to drive the company's strong commitment to quality and management excellence. National Foods Limited is an international brand sold in over 35 countries and it aims to be a Rs. 50 billion company under its Vision 20/20.

Mr. Iqbal Alimohamed is the Chief Executive and Chairman of the Board of Directors of Gul Ahmed Energy Limited – an independent Power Producer in the country. Mr. Alimohamed's affiliations are extensive, such as with Metro Securities (Pvt.) Ltd., Metro Power Company Ltd., Gul Ahmed Wind Power Limited etc. moreover, in the past he has been the Chief Executive Officer and Chairman of Gul Ahmed Textile Mills Ltd., Chairman and Board of Directors of Mybank Ltd. (now Summit Bank) and Chairman of the Board of Directors of Excel Insurance Limited. Mr. Alimohamed has also been the Director of Faysal Asset Management, Swift Textile Mills (Pvt.) Ltd., and Chairman and Chief Executive of Metro Securities (Pvt.) Ltd.

Mr. Alimohamed also served as Chairman of APTMA during his association with Gul Ahmed Textile Mills Ltd. and has assisted and contributed to Government Policies through participation and interaction at different forums. Mr. Alimohamed is a founder member and Chairman of the Board of Trustees of Haji Alimohamed Foundation & member and Trustee of Haji Tarmohammad Kassam Teli Charitable Trust a philanthropic institutions.



Mr. Iqbal Alimohamed  
Director

# [ HEAD OF DEPARTMENTS ]



**From LR, Standing**

Mr. Muhammad Arif, Mr. Saleem Khilji ,  
Mr. Rana Azam, Mr. Fawaz Ahmed,  
Mr. Kashif Iqbal, Mr. Fayyaz Abdul Ghaffar,  
Mr. Azhar Ali, Mr. Muhammad Iqbal

**From LR, Sitting**

Mr. Ismail Ahmed Tahir, Mr. Adnan Malik,  
Mr. Shakaib Arif, Mr. Muzammil Mustufa



I am delighted with our outstanding performance this year, despite the difficult business climate in which we operate. We have scaled new heights of success and our strong top line growth of 22.96%; with a handsome market share gain; is a testimony that our consolidation phase has borne fruitful results and we emerge as clear winners in the market place. We have consolidated our portfolio, creating a sharper focus on brands that will yield us greater return in the future.

This year our "Cost Control & Cost Management Program" has been a great success. It has paid us attractive dividends and considerable savings in these highly inflationary times. The management is very focused in driving out unnecessary costs and I am pleased with the progress that we have made. There is now significant ownership across all levels to generate value for the money spent. During the year, various cost saving projects were identified and successfully implemented. I am personally involved in monitoring the progress of these cost savings initiatives. The newly introduced Cost Trackers enable employees in managing costs efficiently.

We have focused significantly in modernizing our business and building World Class Processes, which will help us to serve our customers & consumers better in the future. "Sales & Operational Planning" enables us to plan and make goods more efficiently so that we are able to timely service our customer needs. The integration of key functions of Sales, Marketing, Supply Chain & Finance under one platform has helped us in deriving synergies.

The speed at which we take decisions & monitor our performance has increased manifold and with strong analytics & a Commercial Management Department, we are swift in reacting in the market place, as well as internally. We also continue to invest in new state-of-the-art Information Technol-

ogy tools to make us truly world class. Our monthly "Mancom Meetings" enable us to discuss business issues candidly & take prompt decisions.

We have turned around our export business and believe that there is great potential for National Foods to tap in international markets. With our local repute, size and strong brand portfolio, we have the capability to unleash this & grow faster on the international front. We have launched several new brands in these markets to meet consumer needs and are up-to-date with our customer requirements. We have exciting plans for next year to improve our servicing capabilities.

Our people are an asset to the company and we continue to invest & develop this talent. Due to changing needs, we have re-organized and modernized the organizational structure, adding new positions to the mix. I am confident that we have a strong, competitive team with good fusion of fresh talent and our own people, giving us a leading edge in the market place.

I am thankful to all our shareholders, our employees and for all those whose lives are touched by our business. We continue to adhere to our philosophy to focus on consumer needs and serve them with our quality products.

I look forward to the next year for National Foods to reach further success and achievements. The mission that we have set ourselves to, I am confident that we will be able to even surpass it.

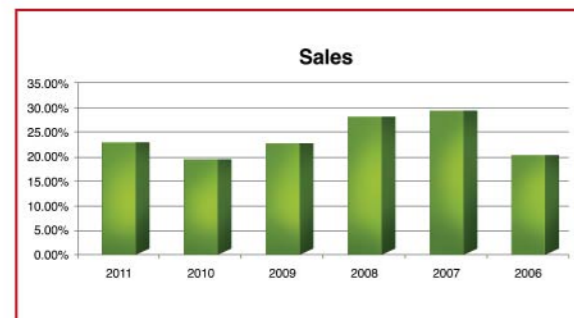
Abrar Hasan  
Chief Executive

Karachi: September 16, 2011

On behalf of the Board of Directors of National Foods Limited, I present the accounts and performance report for the financial year ended June 30, 2011. These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan and the requirements of the Companies Ordinance, 1984. The directors' report is prepared under section 236 of the Companies Ordinance, 1984 and clause xix of the Code of Corporate Governance.

## FINANCIAL AND NON-FINANCIAL PERFORMANCE OVERVIEW

The company has delivered outstanding results in 2011, with a strong top line growth in sales of 22.96%, in the backdrop of a difficult operating



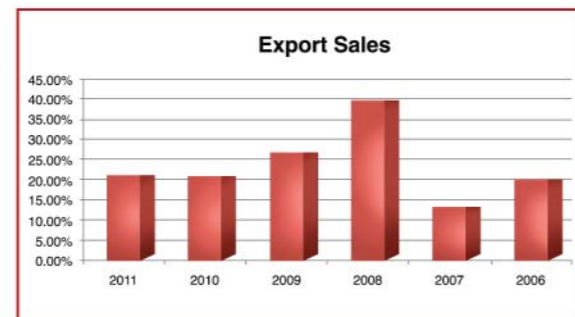
scenario, inflation and devastating impact of floods. This demonstrates the resilience of our business and our brands as market leaders in almost every category that we operate. With a strong brand portfolio, effective marketing activities and clear strategic alignment, backed by operational excellence, the company gained significant market shares during the current year.

A brief financial analysis is presented as follows:

PKR Million	JUNE 30, 2011	JUNE 30, 2010	Change Percent
Sales	5,520.78	4,489.94	22.96
Gross Profit	1,573.98	1,326.74	18.64
% of sales	28.51	29.55	(1.04)
Operating Profit	487.45	258.54	88.53
% of sales	8.83	5.76	3.07
Profit before tax	361.75	159.18	127.25
% of sales	6.55	3.54	3.01
Profit after tax	230.60	86.55	166.43
% of sales	4.17	1.92	2.25
Earnings per share – Rupees	5.56	2.09	166.03
Operating cash flows	422.60	(391.19)	208.03

We have successfully consolidated our portfolio to focus on the most promising opportunities, enhancing consumer value and offering superior products with attractive price offerings. Effective product mix, containment of fixed overheads, focused investment behind our brands & diversified product portfolio were the key elements for the success of our results.

All key categories have delivered good results. In the local business, some of our categories like Sauces and Salt have delivered excellent double digit volume growth. The export business has increased its turnover by 21 % despite a challeng-



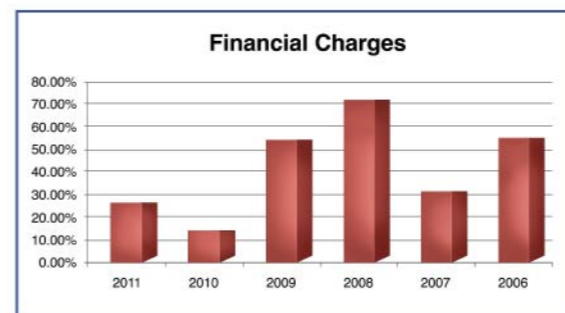
ing start, as we continue to leverage our brand strength globally. The gross margins continuously remained under pressure in 2011 on account of extraordinary cost inflation in agricultural commodities and volatility in the material prices in international market. Price increases on our brands were meticulously done and some of rising input costs were absorbed selectively. Overall Gross Margins are down by 104 bps over the preceding year. Rising international fuel & freight prices adjustment in domestic fuel prices has had an adverse impact on profitability.

Advertising & Promotional activities like television campaigns, attractive in-store displays and successful below-the-line activities, all contributed strongly to business growth. The negative impact of input cost was, to some extent, offset by an efficient product sales mix, rationalization of advertising costs and cost control measures to reduce the pressure on margins. The various initiatives taken have borne good results to partially offset the negative impact of escalating costs. Consequently

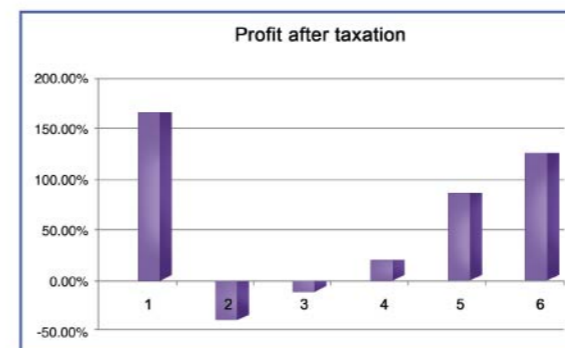
operating profits for the year grew by 88.53% to Rs 487.45 million, as compared to last year.



State Bank of Pakistan increased interest rates twice during the year and coupled with high borrowing levels, financial charges increased by 26.50% over last year to Rs.126 million.



Overall, we finished 2011 well ahead of our targets and surpassed all records set previously. We made significant progress in our effort to drive out cost and grow our business. Overall profit after tax was Rs 230.60 million and showed an increase of 166.43% over the preceding year.



I am very pleased with the direction and momentum of our consolidation phase with a clear strategic alignment backed by operational excellence. It was an outstanding effort by our team in a difficult consumer environment.

## KEY CATEGORY HIGHLIGHTS

### Recipe Mix:

The category turnover grew by 33.76%. As market leaders, this is the star category and includes recipes for the most ethnic dishes the subcontinent has to offer in hygienic and easy-to-use packaging. The portfolio includes Bombay Biryani Masala, Achar Gosht, Karahi Gosht, Murgi Masala and Fish Masala. We remarkably boosted the brand profile and expanded our market share in the face of focused and effective marketing campaigns. Our thematic advertising campaign of "Humarey Khaney Humarey Tehwaar" of celebrating special events was well lauded by the consumers. The main stay of the campaign reflected the importance of family, togetherness and the joy of cooking special meals to celebrate the people we love. The advertising campaign during Eid also revolved around tradition, family and food and resonated deeply with consumers.

### Ketchup:

The Sauces Category, which comprises of Ketchups showed impressive performance. National's Tomato Ketchup with the perfect balance of sour and sweetness turns the simplest of snacks into delicious meals. During Ramadan the company launched the Ketchup and Chat Masala Combo Pack, which was enthusiastically appreciated by consumers. The promotion led to an incredible boost in sales, outperforming competition.

### Fruitily:

The new brand launched in our portfolio "Fruitily"; a powdered drink propped by claims of "Mineral Power" and available in four flavors has shown an overwhelming response from consumers. Taste trials have given remarkable feedback from customers on product taste and quality. The publicity campaign "Stir the Magic" through a television commercial and street side hoardings built in light boxes - the first of its kind to be used in Pakistan, created significant consumer awareness. Trade was equally energized with display drives. The pace at which we have gained market share is encouraging and prompts us to continue to nurture this brand, innovate and invest behind it in the coming years.

### Salt:

National Foods Limited was the first company to manufacture iodized salt in Pakistan and we are

now brand leaders in the class, so much so that iodized salt is synonymous with National Foods. During the year, the category delivered strong volume growth.

## Pickles:

As market leaders, National Foods' pickles have been a mainstay on the dining table for generations and are legendary for a uniquely mouthwatering flavor that makes all the difference to any meal.

## EXPORTS

We made good progress in exports as we continued to innovate within the portfolio. The Chutney range saw an expansion with unique brands targeting ethnic and mainstream customers as did the Desserts category with the introduction of fast-moving, eye-catching ethnic products. We made considerable progress during the year by optimizing the product mix, which yielded benefits as the year progressed. Significant efforts were made to meet Ramadan and Eid sales requirement of our international customers.

The rollout of the logo on packaging material in major markets has helped to improve brand image in major categories and has generated positive consumer and retailer feedback. Participating in the Gulf Food Festival has served as a useful platform to interact with businessmen paving opportunities in existing and new markets.

Significant internal capabilities were geared up to meet large customer orders. We are designing plans to improve our sales and distribution model so that it meets our growth ambitions.

## CORPORATE SUSTAINABILITY

Commitment to Corporate Social Responsibility has been a part of the National Foods Limited strategy since the inception of the organization. Different philanthropic activities as well as sustainability programmes, reflecting our values are undertaken to give back to the society that has supported our business throughout the years.

### i) Community Investment

The company undertook several initiatives in helping farmers, improving literacy levels of workers, and providing consumers with better and healthier products, meeting their everyday needs.

### Value Chain Empowerment:

The company conducted research in Kunri fields, leading to the development of a Value Chain Empowerment business model, which assists in alleviation of the problem that farmers face when Red chili production suffers from Aflatoxin contamination.

### Aagahi Adult Literacy Programme (ALP):

The objective of the ALP is to attain a 100 percent literacy rate amongst workers. Furthermore, we focused on female empowerment through Aagahi ALP. In collaboration with The Citizen's Foundation, over 5,500 women were educated, and in January 2011, 80 centers were established all over Pakistan.

### Drinking Water Plant at Muridke:

National Foods Limited undertook a public drinking water project to cater to an essential need of the community around its production facility at Muridke, which is a small town approximately 50 miles from Lahore.

### Nutritional Meals:

To address the issue of children malnutrition, the company created a Nutritional Meal for the purpose of fulfilling specific dietary needs of children in emergency situations such as Internally Displaced Person (IDP) camps and flood refugees.

### ii) Philanthropic Initiatives

#### Donations toward Quality Education:

National Foods Limited continued its support to the cause of quality education in Pakistan through donations made to the Institute of Business Administration. The key objective of such an initiative is to assist in enriching knowledge and developing skills, for both faculty & students, ultimately resulting in the improvement of educational standards in the country.

#### Product Donations:

Sachets of Fruitily were donated to the Children's Cancer Hospital, The Garage School, Orangi Pilot Project, Child Aid Association at Jinnah Hospital, Karachi and Gharoo Medical Centre of Baqai Medical University.

The company contributed Rs. 2.5 million to national causes, whether monetarily or through our products.

### Eye Camp:

A 2-day eye camp was organized by NFL as part of our aim to improve employee health. Consultants of Al-Ibrahim Eye Hospital were taken on board to execute the medical program in Karachi, in collaboration with the CSR team. 300 workers were examined and received treatment free of cost through this initiative.

### Celebrating Women's Day:

A health awareness session was held for the female employees of NFL on the important issue of breast cancer and its prevention, conducted by the Health & Nutritional Development Society (HANDS).

### iii) Rural Development Programmes

The company made significant efforts towards flood relief victims in partnership with the National Rural Support Programme (NRSP). As a food company, our concentration lay upon nutritional meals and other food items to address malnutrition. NFL also generated funding for flood relief activities in collaboration with NRSP all over Pakistan and ran an Adult Literacy Programme session for flood refugees.

### iv) Energy conservation

NFL continually strives to reduce its environmental footprint and improve eco-efficiency. An extremely important initiative towards sustainability for CSR is energy efficiency and is practiced at all our facilities. All NFL sites play their part to protect the environment within their domain. An Energy Conservation Awareness program was run across the departments to save electricity and water, including actions such as turning off the lights and air-conditioning during lunch hour.

### v) Occupational Safety and Health

In 2010, National Foods Limited initiated the implementation of OHSAS (Occupational Health and Safety Assessment Series ISO 18001:2007) with the slogan "SAFETY STARTS WITH ME" at our facilities to ensure safety of employees/equipments on work place.

### vi) Industrial Relations

As part of NFL's conscientiousness towards our people, who make the organization what it is today, we ensure that our employees receive the best in worker's protection and benefits. One such

example could be in the wake of the recent 18th Constitutional amendment, where these laws have become non-operative till they are adopted by the respective Provincial Governments. As part of the NFL family and legacy, we still strive to ensure that our employees continue to receive their statutory cash and welfare benefits.

### vii) Business Ethics and Anti-corruption Measures

This year, the company rolled out an online employee acknowledgement of Code of Ethics & Core Values.

## CONTRIBUTION TO NATIONAL EXCHEQUER

During the year, the contribution to national exchequer has further increased and the company paid over Rs. 1215.37 million (2010: Rs.919.03 million) to the government and its various agencies on account of different government levies, including custom duty, sales tax and income tax. Moreover, foreign exchange of Rs. 717 million (2010: Rs.594 million) was also generated through export of products, further reflecting our participation in the national economy.

## OUR PEOPLE

Perhaps our most significant accomplishment in 2011 was the continued build-out of a first-class leadership team. During the year, we made key additions in the areas of supply chain planning, human resources and information technology. We are fortunate to have attracted some of the best talent in the consumer goods industry. We now have a management team that I believe has the right combination of creating solutions to win the hearts and minds of the consumer through exciting innovations and value to our consumers.

## OUR WEBSITE

We have re-launched our website by modernizing and updating the portal, in order to provide access of comprehensive information to our customers with convenience.

## CREDIT RATING

JCR-VIS rated National Foods' credit quality unchanged for the fifth year in a row, and they maintained our short term rating as "A2" and Long term rating as "A+".

## COMPLIANCE WITH CODE OF CORPORATE GOVERNANCE

The management of National Foods Limited is committed to good corporate governance and complying with best practices. As required under the listing rules the Code of Corporate Governance (Code) issued by Securities & Exchange Commission of Pakistan, the company has adopted the Code in letter and spirit as follows:

- The financial statements, present fairly the state of affairs of the Company, the results of its operations, cash flows and changes in equity.
- Proper books of account of the Company have been maintained.
- Appropriate accounting policies as stated in the notes to the financial statements have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- International Financial Reporting standards have been followed in preparation of financial statements and any departure there from has been adequately disclosed.
- The system of internal control is sound in design and has been effectively implemented and monitored. The Board has constituted an Audit Committee consisting of three members, including Chairman of the Committee. The Committee regularly meets as per requirements of the Code.
- There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.
- There are no significant doubts upon the company's ability to continue as a going concern.
- The outstanding duties, statutory charges and taxes, if any, have been duly disclosed in the financial statements.
- A statement regarding key financial data for the last six years is annexed to this report.
- The value of investments of Provident Fund based on audited accounts was Rs. 119 million.
- During the last business year four meetings of the Board of Directors were held. Attendance by each Director was as follows:

Name of Director	No. of meetings attended	Leaves granted
Mr. Abdul Majeed	4	-
Mr. Abrar Hasan	4	-
Mr. Waqar Hasan	4	-
Mr. Zahid Majeed	4	-
Mr. Ebrahim Qassim	3	1
Mr. Khawaja Munir Mashooqullah	3	1
Mr. Iqbal Alimohamed	4	-

## Pattern of shareholding

The pattern of shareholding of the company is annexed.

Apart from following transactions, the Chief Executive, Directors, Chief Financial Officer, Company Secretary and their spouses and minor children did not carry out any transaction in the shares of the Company during the year:

Name	Nature of transaction	No. of shares
Mr. Abdul Majeed	Purchase	10,700

All statutory returns in this connection were filed.

## Internal Auditors

On the recommendation of the Audit Committee, the Board of Directors in its meeting held on September 16, 2011, has reappointed Messrs. Ernst & Young Ford Rhodes Sidat Hyder & Co., Chartered Accountants as internal auditors of the Company.

## External Auditors

The present auditors Messrs. A. F. Ferguson & Co., Chartered Accountants are retiring and being eligible, offer themselves for re-appointment. The Board of Directors, on the recommendation of the Audit Committee, proposes the appointment of Messrs. A. F. Ferguson & Co., Chartered Accountants as the auditor until the next Annual General Meeting.

## BUSINESS RISKS FUTURE OUTLOOK

The effect of global recession and the tough domestic economy has put considerable pressure on all walks of life. While some of these issues are short term, the lingering effects on consumers and customers represent a fundamental shift in value expectations, which will present challenges and opportunities to the foods industry. Elevated consumer and customer value expectations will be a catalyst for the industry to become more efficient in its operations. We have an enviable position of being market leaders, with leading brands, unparalleled manufacturing and distribution systems and an outstanding team of employees. With these assets and our commitment to build a stronger company, we are well-positioned for future long-term growth.

2012 will continue to be a challenging year, but I believe that our business is uniquely positioned to deliver as per plan. The economic environment and volatile security situation present challenges, but we will continue to consolidate our portfolio and with careful management of the value equation and appropriate cost reductions measures, accelerate growth further.

# [ DIRECTORS' REPORT TO THE SHAREHOLDERS ]

## ACKNOWLEDGEMENT

I would like to thank each of our employees for their focused dedication and hard work throughout this period of volatility and transition. And, I thank you, our shareholders, for your continued investment in and support of our company.

## APPROPRIATION OF PROFITS

Your directors have recommended following for the approval by the shareholders:

Final cash dividend of Rs. 2.50 (2010: Rs.1.20) per share of Rs.10 each.

On behalf of the Board of Directors



**A. Majeed**  
Chairman

Karachi  
September 16, 2011



# [ MANAGMENT REVIEW ]



**Recipes and Spices Gain Larger Market Share**

In the year under review, the National Foods Limited Marketing department pushed out advertising and promotional drives that boosted both, the Company's visual profile as well as sales figures. The key objectives underlying both drives were to build an instantly identifiable connection between NFL's products, family and food; to absolutely own all occasions where focus is placed on these two elements, and to increase market share (especially in Karachi).

In July 2010, the NFL marketing team initiated a new thematic advertising campaign celebrating special events. The mainstay of the campaign was a television commercial reflecting the importance of family, togetherness, and the joy of cooking special meals to celebrate the people we love. The commercial was divided into segments showcasing the most popular celebrations revolving around family and food. This was greatly appreciated by the consumers.

The second advertising campaign focused closely on celebrating Eid. The event itself is a concentration of tradition, family, and food, and the campaign reflected all these elements against a gloriously charming backdrop of Pakistan and India.

The campaign drives, appearing in short bursts as opposed to regular air-time used by competitors, proved to be highly successful where the heartwarming commercials resonated deeply with viewers.



**Market Expansion: Introducing Fruitily**

NFL introduced Fruitily – our powdered drink with the key differentiating addition of energy-boosting minerals - with a range of flavors including Lemon, Orange, Mango and Mixed Fruit.



The marketing team's innovative idea of a massive publicity campaign that launched the brand with the slogan, "Stir the Magic" was widely appreciated. The television commercial was reinforced with innovative street-side hoardings incorporating built-in light boxes – the first of its kind to be used in Pakistan – as well as vans mounted with fiberglass models of the Fruitily glass, and in-store set-ups were flooded with the product.

**The National Foods Website: Amped and Revamped**  
With a memorable web presence becoming increasingly important, NFL overhauled its official website that mirrored its product repackaging. This demonstrates the creativity of our Marketing team.

The website is a comprehensive look into the NFL organization including its history, functions and scope of activities. A special emphasis, proven to be immensely valuable to consumers at all levels, is our products section, where a complete list of our product ranges under all the categories NFL operates in is presented.



**The National Foods Cookbook**

As a special enterprise, we published a limited-edition, premium, National Foods Cookbook. The book includes recipes fit for the most popularly celebrated occasions in Pakistan - birthdays, anniversaries, wedding ceremonies such as Mayun, children's ceremonies such as Aqika and Bismillah, Eid and the seasonal celebration of Basant.

**Connecting with our Customers**

**Home Gatherings - Recipes:**

For NFL's Recipes, we visited the homes of our consumers, allowing them to sample a taste of our product as well as providing us with an insight to their needs.

**Taste Trials with General Traders – Recipes:**

With the aim of building our customer base, we ran taste trails at major General Trade outlets in Karachi, Lahore and Pindi

**Taste Trials – Fruitily:**

The Fruitily APV van, roamed around all over the Karachi, offer a taste of the refreshing drink at major parks, bus stops and other outlets. Various schools were visited, indulging in an array of physical and mental stimulation activities, all with the message of Fruitily's 'Mineral Power'.

**Visibility Drives:**

Every year NFL puts together various trade activities, where major Modern Trade and General Trade outlets are taken on board to showcase our brands across these stores. This year was no exception as we went all over the nation creating visibility and accessibility to the NFL product portfolio.

**Product Pruning:**

In order to optimize product efficiency and category profitability, NFL decided to prune certain SKUs and variants of different brands. This measure tuned in trade support's focus on star SKUs and variants and helped improve our overall sales return.

(OUR BRANDS)





# Recipes

How do you recreate that special taste time and time again? Simply by cooking with National Recipes, mixes of whole spices that are roasted, ground, and carefully measured in perfectly balanced proportions.

NFL knows that sub-continental cuisine is a very delicate art, where just a couple of spices can change Chicken Karhai into Chicken Achar. Ever since we debuted our spice mix to the Pakistani consumer in the 70s' our ingredients have been meticulously selected and blended to ensure the right combination for perfect results every time. Our range includes recipes for the most popular ethnic dishes the subcontinent has to offer, in hygienic, easy-to-use packaging.





# Ketchup

Creating really good Tomato Ketchup is a challenge, because while it's a popular food with adults, the biggest consumers of Tomato Ketchup are children – and children are very hard to please.

It certainly speaks volumes then, that National Tomato Ketchup has met the exacting standards of children year after year, time after time. Only the freshest, reddest, plumpest, sun-ripened tomatoes are picked, and sent through a process that keeps all their goodness and nutrients intact.

National Tomato Ketchup, turns the simplest of snacks and sandwiches into delicious, healthy meals and works just as well with traditional snacks like samosas and pakoras, as with burgers and fries.

# Snacks

At National, we love food. Specifically, we love food that is easy to make and good to eat at any time of day.

Our Snacks range takes us from the strictly lunch-and-dinner crowd to any-time, any-place versatility. Measured for best results and tidily packaged, National Instant Dahi Bara Powder and Chatpata Pakora Mix let you whip up spicy, sizzling snacks in no time.

Accompanying snacks are the all-important sprinklings and condiments; National Chutney Mix, Fruit Chat Masala and Chat Masala enhance flavor, texture, and add that extra zest of life to everything on the table, no matter if it is homemade or store-bought.



# Fruitily

NFL's Fruitily Instant Drink Mix is so much more than a refreshing beverage. Each serving of Fruitily is chock-a-block with essential nutrients that provide the energy your body and mind need to replenish every day.

Just one glass of Fruitily gives you a healthy boost of Vitamin C and packs a mineral punch (with calcium, magnesium and potassium ) that keeps your body and brain working at their optimal best.

Fruitily Instant Drink Mixes are available in 4 fresh flavors; Lemon, Orange, Mango, and Mixed Fruit. Each one is a source of real fruit refreshment, made from the purest ingredients found in nature.



## Desserts

National Desserts make sure that the end to a meal is perfect for everyone's taste. That's why in our Desserts range, our traditional sweets run parallel to our contemporary treats.

When it comes to traditional sweets, NFL takes out all the hard work, leaving you with the perfect dish to serve. Whether it is Eid or any other auspicious festival, our wide variety of traditional desserts are a real treat for your sweet tooth. Our products include mixes for Kheer, Sheer Khurma, Feerni and Vermicelli.

Our contemporary treats have a range of flavored, moldable Jellies and Custard Powders that can be used as a base for trifles and puddings, to top cakes and pies, or to pour over chopped fruit.

## Jellies

In 2008, NFL spun off the National Jellee range, and mothers all over Pakistan sighed with joy, because now there was a fruit spread dedicated to the children.

National Jellee is an exciting treat powered with real fruit juices extracted from the finest fruits, making it an ideal breakfast, snack, and lunchbox meal for the little ones. National Jellees are PSQCA-certified, great to look at, fun to eat, and unlike other confectionary jellies, keep the healthy, natural nutrients of fruit intact.



## Pickles

Tangy pickles are a versatile accompaniment to popular Pakistani foods regardless of time of day. They are eaten to counteract the heaviness of breakfast puris, contrast in flavor and texture to lunchtime besan ki roti, add zing to daal chawal at dinner, and even as a digestive aid.

National Pickles come in an enormous variety; Mango, Lemon, Garlic, Green and Red Chili, Kasundi, Karela and Lasoora. These are pickled in season, then chopped and cured in vegetable oil, mixed spices, salt, and citric acid.

Our pickles have been a mainstay on the dining table for generations, and are legendary for a uniquely mouthwatering flavor that makes all the difference to any meal.



## Spices

Nobody does spices quite like National Foods Limited. Our history marks us as the first company to pack and retail powdered spices during an era when consumers mistrusted any product that was not freshly ground right before their eyes. NFL has proven to be a purveyor of quality, taste, and superior convenience, time and time again, and 40 years later, we are still the number one choice of women all around the country.

Our complete range of Plain Spices includes everything a chef could possibly need; Ground Red Chilies, Ground Cumin, Coriander, Black Pepper, Garlic Powder, Ginger Powder, Mango Powder – a collection of 123 products, in fact, to stock any kitchen from end to end.

# Salt

Good quality salt is a very powerful ingredient with the power to make or break any dish, and National Salt is a brilliant white, hygienic, 99.1% pure, free flowing refined product that adds taste and serves the human body's requirement for iodine.

National Salt is made from carefully chosen raw material, and maximum purity is achieved through cleaning, washing and centrifuging processes. Special techniques ensure a free-flowing consistency that prevents lumps from forming.

NFL was the first company to manufacture iodized salt in Pakistan, and we are now brand leaders in the class, so much so that iodized salt is now synonymous with National Foods Limited.



# Chinese

Chinese cuisine is extremely popular in Pakistan; every household enjoys Chinese meals at least once a month, we all have our favorite dishes, and it's not unheard of to add oriental sauces and salts to regular foods for extraordinary flavor.

National Foods Chinese recipes make authentic, home-made Chinese a breeze to cook. A dash of National's Soy Sauce livens up any soup with savory, mouthwatering flavor; crystal clear Vinegar and spicy Chili Sauce are an essential for even non-Chinese cooking, and Chinese Salt adds that exquisite touch that keeps food lovers coming back for more.





# Jams

In 1998, NFL introduced their first fruit preserves; delicious concoctions of fruit that transformed the simplest of foods – basic bread – into a pleasing and satisfying meal. National Jams are now a staple on the breakfast table, available in a variety of flavors from world-favorite berries to those made with Pakistan's most popular tropical fruits, such as mangoes and apples. National has also ensured that aesthetics aren't forgotten in the process; our jams maintain their bright color, goodness of fruit flavor and that sought after spreadable consistency that sets them apart for quality.



# Rice

Originating from the words “bas”, meaning aroma, and “mati”, meaning princess, National Super Kernel Basmati is the perfect rice.

Premium quality, 100% authentic basmati is grown only in Punjab, where the unique combination of soil and climate produces the famous long grain, musky aroma, and delicate flavor prized by connoisseurs all over the world.

National Super Kernel Basmati is pure basmati, extra-long, polished to a silky sheen, unbroken and ready to cook straight from the bag – no picking or cleaning required. Each grain increases exponentially after cooking to produce fluffy white rice for dishes that look beautiful and taste spectacular.



Commitment to CSR has been a part of the NFL strategy since inception. Different philanthropic activities reflecting our values are undertaken to give back to the society that has supported our business throughout the years.

At NFL, we believe that Corporate Social Responsibility starts with providing the highest quality of products and services at the least cost and with the least environmental impact.

From this foundation, our CSR aspirations continue to grow, incorporating processes and activities that aim to strengthen society in a sustainable manner.

## CSR Mission

Sustainability underlines the foundation for NFL's business endeavors. We realize that our CSR commitments must reflect all facets of our corporate personality – NFL as a manufacturer, an employer, a consumer in itself and as an industry leader. We uphold these commitments through our values, policies and our practices.

NFL especially engages in strategic social investments, working to empower and uplift communities.

## I. Commitment to Partners

### (i) Aagahi Adult Literacy Programme (ALP)

NFL believes that "an educated workforce is a quality workforce".

We keenly focus on worker education and subsequently providing educational opportunities to our workforce. The overall objective of the Adult Literacy Program is to attain a 100% literacy rate amongst workers, whereby in 2009-2010, NFL was able to achieve 90% literacy across the workforce.

The Aagahi Adult Literacy Award ceremony, held at the NFL Corporate Office, organized by the NFL team, recognized these efforts made by The Citizens Foundation (TCF) school teachers and principals working for the program. Moreover, the ceremony encouraged learners of Aagahi ALP, with a special emphasis on those who completed the course successfully.

ALP, in partnership with The Citizens Foundation, Literate Pakistan Foundation (LPF) & Shield Corporation Limited, runs across Bahawalpur, Rawalpindi, Muzaffer Garah, Texila, Lahore, Mardan, Faisalabad, Mansehra, Chiniot, Muzafferabad, Khushab, Karachi & Mianwali districts.

### (ii) Female Empowerment through Aagahi ALP-Nationwide

NFL pays special attention towards literacy, especially among the women of the nation. In collaboration with TCF and LPF, NFL's role towards this commitment extends to funding learning material and financial support to teachers, along with other needs of the program.

Today, the Aagahi Adult Literacy Program has empowered over 5,500 women to-date. In 2010 alone, the program helped nearly 2,800 women in 16 cities across Pakistan. In January 2011, 80 centers were established all over Pakistan with an enrollment of another 1,500 learners.

## II Commitment to the Environment

### Energy Efficiency

NFL continually strives to reduce its environmental footprint and improving eco-efficiency. An extremely important initiative towards sustainability for CSR is energy efficiency and is practiced at all our facilities.

## III Commitment to Society

### (i) Disaster Relief

We have contributed our efforts towards flood relief victims in partnership with the National Rural Support Program (NRSP). As a food company, our concentration lay upon nutritional meals, baby food and other food items to address malnutrition. NFL also generated funding for flood relief activities in collaboration with NRSP all over Pakistan. Moreover, in partnership with the Literate Pakistan Foundation, NFL also rolled out an Aagahi ALP in flood relief camps.

### (ii) Iodized Salt

To address the issue of micro-nutrient malnutrition, NFL launched iodized salt in 1990. Worked jointly on a campaign with UNICEF to promote the use of iodized salt across Pakistan,

consumption- saw a rise from virtually no consumption to over 50 percent in the span of 5 years. This initiative led to a marked reduction in iodine-deficiency related health issues and today it has become a benchmark product.

### (iii) Nutritional Meals

Our CSR strategy includes the prevention and elimination of malnutrition. To address the issue of children malnutrition, NFL created a Nutritional Meal for the purpose to fulfill the specific dietary needs of children in emergency situations such as IDP camps and flood refugees. Made with natural, local ingredients, NFL's Nutritional Meals are low cost, easy to prepare (especially for handling in emergencies) & high in nutritional value.

### (iv) Drinking Water Plant at Muridke

NFL has taken on a public drinking water project under its wing to cater to an essential need of the community around our production facility at Muridke (a small town about 50 miles from Lahore).



### (iv) Celebrating Women's Day

A health awareness session on breast cancer was held for women at NFL's Port Qasim facility. This session, conducted by the Health & Nutritional Development Society (HANDS), aimed to create an understanding of the subject, its prevalence and prevention.

## A Snap Shot of NFL's Disaster Relief Donations

Flour	Badin- Sindh	20 tons
Nutritional meal	Islamabad- Punjab, KPK, Sindh	156,000 servings
Nutritional meal	Shaheed Benazir abad, Sindh	12,000 servings
Ready to eat curry	*Thatta (Sindh)	19,000 packs
Khichri	Islamabad- Punjab, KPK, Sindh	10,000 packs
Fruityly	Islamabad- Punjab, KPK, Sindh	300,000 Sachets
Rice	Islamabad- Punjab, KPK, Sindh	800bags(5kg each)
Medicines	Islamabad Punjab	61 cartons

## IV) Corporate Philanthropy

### (i) Product Donations

Sachets of Fruityly were donated to the Children's Cancer Hospital, The Garage School, Orangi Pilot Project, Child Aid Association (Jinnah Hospital, Karachi) and Gharoo Medical Centre (Baqai Medical University).

### (ii) Contributing to Quality Education

Towards the pertinent need for quality education in the country, NFL contributed to the cause through donations to The Institute of Business Administration. This contribution assists faculty & students in enriching their knowledge and skills, with the aim of ultimately improving education standards in Pakistan.

### (iii) Eye Camp

A 2-day eye camp was hosted by NFL Port Qasim, in collaboration with consultants of Al-Ibrahim Eye Hospital, Karachi. 300 workers were examined by the professionals and received treatment, free of cost.





## Finance

The Accounts and Finance Department at NFL comprises of a diverse team of professionals, committed to continuously improve our processes. The role of the department has undergone significant changes over time, with some of the biggest changes taking place in the last few years. Businesses, including ours, have adapted to the varying range of developments in economic and regulatory environments. As never before, there has become a pertinent need for the transparency of business activities.

The magnitude of complexity, especially when dealing with sensitive and essential information needed for the business, translates to sifting of the right data to support business decisions, ascertaining the accuracy and reliability of data and utilizing relevant data for analysis and judgment. As a team, where demands continue to grow, outsourcing is a viable form of support.

Under the umbrella of Finance, the cost saving initiative has progressed well. Our initiative of 'Cost Trackers' has equipped our managers to reduce cost by accurately and timely monitoring our resource utilization.

We have increased focus on analytics and set up the Commercial Management Department to help in strategic decision making. The function acts as a business partner and plays a key role in strategy and decision making. In finance we have tried to build World Class Processes.

## International Division

Export business showed good performance, during the year, where within the traditional markets like Middle East, USA and UK, aggressive marketing and branding strategies pushed sales up. Participating successfully in Gulf Foods 2011,

the NFL display was regarded as the best and largest from any company participating from Pakistan. This also served as a platform to interact with different members of the industries, paving opportunities in existing and new markets.

All in all, this year we placed heavy emphasis on product development, market development, supply chain improvement and profitability, all of which contributed to the growth in National Foods exports, despite tough environment during the year.

Moreover, we rolled out the logo packaging in all major markets including the Middle East, Europe, North America, Asia Pacific and Africa. This major step was a combination of the rationalization and review of packaging material resulting in lower packaging inventories for multiple markets. The resulting improvement of brand image in major categories - pickles, recipes, spices and desserts - contributed to an increase in sales turnover and generated positive consumer and retailer feedback.

The company continues to remain tuned into changing consumer trends through the introduction of innovative and value added export-oriented products. The Chutneys range saw an expansion with unique products targeting ethnic and mainstream customers, as did the Desserts category with the introduction of fast moving, eye-catching ethnic products. The Recipes, Pickles and Pastes categories were also extended, resulting in higher sales during the year.

Having established distribution in major markets, NFL extended its reach to new markets with a focus on the nontraditional markets. National Foods Limited is currently supplying products to over 30 countries across the globe.

The thriving need in the industry towards business transformation through information technology is a key driving force and basis upon which the I.T department at NFL introduces and adapts its various programs. NFL is a progressive I.T-based organization that prides itself on continual improvement of business solutions and connectivity amongst stakeholders.

Implementation of Systems, Applications, Products (SAP) - the world's leading business application, in merely a six-month timeframe had been one of our key successful initiatives and achievements towards process standardization and integrated information management at National Foods.

NFL pioneered BusinessObjects for effective strategy formulation, decision making and enterprise performance management.

SIMS (Sales and Inventory Management System) is another major project of the I.T Department, which was developed internally to enhance our insight into NFL's distribution network and optimize this relationship. This system provides a mechanism through which we obtain sales transparency and competitive information analysis for managers, at both the operational and strategic level.

IBM Lotus Notes / Domino has helped I.T transform the way stakeholders of the company engage. This has also enhanced the speed of collaboration and interaction significantly via the use of email, instant messaging, meeting scheduling, document sharing and management, our learning portal and many other features. Integration of Lotus with BlackBerry services has further enabled management staff to effectively collaborate with stakeholders irrespective of their geographical location, especially during traveling.

Moreover, our teams are able to communicate with their peers from any and all of NFL's operational sites through Video Conferencing and virtual meetings. This has proven to be an essential tool for effective decision making from remote locations, increasing efficiency, convenience and reduction in traveling time and cost as compared to conventional modes of meeting.



Further additions to this objective of accessibility are Remote Data Center Management, Remote Monitoring and Remote Workplace initiated by NFL, which enable I.T administrators and business users to securely access their workspace via VPN.

Another first in I.T as a local company was NFL's Disaster Recovery program made successful with the implementation of Virtual DR Machine - PladeSpin by Novell. At present, our complete SAP landscape's DR setup is run on this Virtual Box



## Sales Function

2010 has been a year that has tested our mettle as a nation, with disasters such as the devastating floods, an ever-changing economic climate as well as volatile political conditions. Even with such obstacles, we can proudly say that as a sales team and NFL as an organization, we have managed to steer ourselves in the right direction and perform above par. Not only did we meet our sales target for the year, our achievement rose above the expected.

The year has been eventful for the sales team, as we penetrated the confectionary market with the launch of Fruitily, conducted trial runs in the rural market, and focused on smaller outlets this time around.

Highlights for the function include the transformation of the order booking function at NFL being transferred to the distribution network, expansion of NFL's Trade Marketing Department and Technological advancement through the introduction of the Sales Inventory Management System (SIMS) and successful trial runs with major distributors.



## Key Accounts Sales

Our key accounts for the year included Makro, Metro Cash & Carry and Hyperstar, with a new addition of Agrow chain of stores to our list of customers. This Key Accounts Sales Teams persistent determination coupled with trade activities such as our Fruitily - Buy 1 pouch and get 1 sachet free scheme were successful.

## Safety

The safety and security of our staff as well as our partners is taken to be crucial at NFL. As a large and growing organization, we strive to implement the highest of standards and programs into the company towards creating a secure environment for our people in terms of external factors as well as internal working conditions.

In 2010, we trained employees on the "Occupational Health and Safety" (OHSAS) program, involving a number of sessions and tasks that have been completed.

Another initiative towards security was where the Human Resource and Administration departments organized a training session on fire fighting at NFL. Here, we nominated Fire Wardens and participated in a fire drill, in order to create and refresh knowledge about the safety measures needed to be taken on all our sites.

So far, we have achieved:

- Certification of participants after the completion of the course conducted at NFL premises.
- Identification of necessary Fire Fighting and Safety resources
- Successful audit of program tasks carried out internally by the NFL team



Representing NFL at various internal and external forums, Human Resources is a major support function that serves the organization both strategically as well as through its daily operations.

National Foods Limited is where it is today because of its people who live up to the values resounded throughout the company culture. Our organizational strategy for success is built on the premise of continual excellence from our human capital. Our main goal is to attract the best talent with competitive and fulfilling job roles, to engage this talent with opportunities to explore their strengths and areas of improvement, in order to develop and hone their talent further and ultimately to retain and integrate them as part of NFL's family and legacy.

## Operations:

Operations is a mainstream segment of HR at NFL, continually entertaining traffic from all departments. Major operations include compensation and benefits, services, and policy design and implementation. We constantly strive to introduce the latest systems and best practices into the department, to streamline processes and optimize resource utilization in a manner that brings us at par with multi-national organizations.

Our Latest Milestones include the roll out of the Employee's Acknowledgement of Code of Ethics & Core Values, Employee Benefits Awareness Program (EBAP) conducted country - wide and the launch of the Smartest Sales Person (SSP) Program - a recognition initiative for our Sales Team

## Business Partnering:

The concept of Business Partnering was introduced in NFL this year. Business partners help align their respective functions, both in terms of operations and human capital, strategically to NFL's business strategy.

## Learning & Development:

HR's Learning & Development (L&D) function at NFL supports the organization's mission by nurturing and growing the capabilities of managers and employees in order to build a

motivated, engaged and high-performing workforce. It provides training and development opportunities at the self, team and strategic levels.

During the year 2010 - 2011, our employees were trained in areas such as Conflict Management, Inspired Leadership, Innovative Thinking, Leadership and Emotional Intelligence. In addition, some functional programs were also conducted to meet the training requirements for Sales and Supply Chain teams. Our latest endeavors include identifying a pool of internal trainers who, after their certification, would train under the area of their expertise.



## Corporate Communications:

Introducing Communications as a function of the Human Resources department this year, NFL's aim is to build the initiative as an integral part of the company strategy. Under the Corporate Communications front, one of our key projects include the relaunch of the Hamsab Newsletter - a quarterly internal publication (based on NFL's Hamsab Values Program) as a means to stay connected at all levels of the corporate structure.

## Employee Engagement:

The HR department continually and consistently makes an effort to keep the organization's employees engaged both amongst their own teams as well as other departments. For this purpose, several programs and events were held throughout the year.



## Employee Recognition Program:

Based on the NFL values, Recognition Cards were distributed organization-wide, whereby each employee could recognize fellow peers on the good work they have done.

## Beach Bach Bachao:

NFL arranged a Beach Bach Bachao program for members of the management team. It was a fun-filled day, which involved an agenda of games that revolved around the values of NFL, making a great impact on learning for the employees and organizational commitment.

## NFL Cricket:

2011 made way for NFL's Cricket Series. The matches gained immense popularity and employees from every nook of the organization came together to participate.

## STAR of the Year:

Like all years, the star of the year ceremony was conducted to reward the highest performing employees in the organization in an interactive and engaging day long affair.

## Quality at NFL

National Foods Limited has always been committed to providing the best in quality food products to its consumers, which are not only convenient and cost effective, but also healthy.

## The National Foods Lab

The NFL Laboratory is the only internationally accredited Business supporting Food laboratory in Pakistan. Pakistan National Accreditation Council (MRA on APLAC and ILAC) awarded NFL this distinction ISO/IEC 17025:2005 (E) in 2010.

## Our Role

The NFL Lab serves our customers efficiently through highly trained scientists and technicians, who conduct research using state-of-the-art instruments under universal standards. Products can be tested, as per WHO and ICH guidelines, at any stage of their cycle from raw material to the finished product test. The laboratory has implemented various new tests in a short period of time such as quality improvement in our products like red chili, turmeric, iodized salt, cabbage, mango seeds, rapid drying methods of spices, fruits and vegetables and herb extraction.



We have also published research papers in the NFL Magazine and in Tripple Bottom Line (TBL) Magazine.

## Systems and Service Quality

We strive to build a system-oriented culture within the company, which extends not only to the quality of our products, but to our commitment towards employee safety as well. NFL has implemented different types of Management Systems in the organization as per International Organization for Standardization (ISO).

- Quality Management System (ISO 9001:2008) in overall organization
- Food Safety Management System (ISO 22000:2005) for Products and Laboratory Accreditation (ISO 17025:2005)
- Occupational Health and Safety Assessment Series (ISO 18001:2007)
- Halal Certification: All ingredients in manufacturing and processing are certified as Halal





Our achievements include testing accreditation of ISO/IEC-17025 in 2010 and being declared the 2nd position by the Department of Science services Proficiency Testing Program (Bangkok, Thailand) amongst 234 lab participants worldwide.

### Research & Development

This year boasted various developments for NFL's well-established R&D product and packaging divisions. As always, the ultimate objective was providing the best in quality products to our consumers at the most affordable and competitive prices. Our main agenda featured the successful launch of Powdered Drinks in the local market, the extension of NFL's Desserts line and Pickle range, the introduction of Ginger-Garlic Pastes into export markets, a fresh new look of export packaging and lastly some legally pro-active measures introduced to the business.

Powdered Drinks, a new category with a different production and packaging medium, called for a completely new setup in the Engineering Department. A separate facility was designed at Port Qasim. The product was on shelves last summer, available in 4 different flavors and 4 different sizes, ready to take on international and local competitors in terms of taste and performance.



Leading the market in Pickles, NFL was proud to extend this category to two new variants, Lasoora and Karela, both in Pakistan and internationally. After having established a complete supply chain set up for the fresh produce requirements of both variants, our efforts for the extension emerged successful, as proven by the improvement in category sales.

More on the agenda was NFL's latest Ginger-Garlic pastes, available to all as convenience products.

Furthermore, the Desserts range welcomed a new addition – Ras Malai Mix, which now shines in premium metallic packs. Redesign in packaging also extended to export products, projecting a fresh new appearance and updates in region-wise labeling.

### Major Trainings Rolled Out

R&D in its nature demands the progression of our knowledge and practices to continually improve our current processes and develop new ones. For this purpose, we roll out several in-house training courses and on-the-job activities to our scientists and technical staff such as Good Manufacturing Practices, Food Safety & Hygiene, Lab Safety ISO 9001, 22000, 17025, and implement initiatives like our "Hygiene Monitoring System" on the production floor to ensure food safety.



Supply Chain Management is an integrated function at NFL to ensure stock availability across Pakistan cost effectively. Ensuring maximum stock availability is an art that is accomplished through planning management, which has become more efficient and convenient with the implementation of SAP-ERP.

The department conducts its function through the following key divisions:

1. Commodities / Sourcing Management ( Procurement )
2. Operations Management (Planning)
3. Logistics Management ( OST: Order, shipment and Transport)

### Procurement

NFL's raw materials by their nature are perishable, therefore, the need to buy in bulk or through contractual means achieving affordable prices through the use of our team's procurement expertise.

### Planning

At NFL, we refer to this process as "integrated planning" where the essence lies in "the set of processes to allocate and align company resources to a single set of supply and sales plans that optimize resources in support of the business objectives documented in our Operating Strategy"



This integrated planning is divided into two phases - a combination of the Business Planning Process, which is incumbent of demand forecasting, demand control, materials forecasting, distribution requirements, capacity and initiative planning and Business Choices that represent the operating strategy and inter-functional agreements.

### OST (Order, Shipping and Transport):

To manage and deliver excellence, we at NFL, apply this concept to our products from raw materials, packaging and finished goods as well. We believe in and are committed to enhancing our client relations in order to best serve their needs and consequently achieve superior quality for our consumers.

**Port Qasim**

Operations at NFL's Port Qasim factory (PQ) began in 2005, where Pickles and our complete line of Spices are produced. Pickles are produced daily at this facility, for both local and foreign markets, under strict hygienic conditions and precise scientific procedures that ultimately result in NFL's unique traditional Pakistani taste. The PQ facility manages the Spices process from the initial cleaning phase to the final packing stage. The production cycle includes multiple tasks, which are cleaning, pulverization, grinding, dehydration & mixing.

New systems are installed in the mixing section to ensure perfect mixing of minute ingredients & liquid flavor mixing. This system also makes sure that all iron filing are removed from products.

**S.I.T.E**

The S.I.T.E facility is primarily concerned with the production of Sauces and Salt. The Sauce manufacturing section was established in 1997, where with the state of the art production plant, high quality products of fruit based Jams, Jellies, Marmalades, Sauces, Ketchup & Pastes of local & export variety are produced.

Established in 1981, NFL processes Iodized Salt at this modern refining facility, which in 1992, was

propagated in collaboration with UNICEF to fight diseases such as Goiters.

**Muridke**

The Muridke facility, established in 1995, is solely used in the capacity of processing Iodized Salt.

Achievements at our Salt facilities include capacity enhancement in Karachi and Lahore plants as well as receiving the 2010 Best Salt Processor Award in Punjab. Since 2008, the Micronutrient Initiative (MI) and the Department of Health in Pakistan award salt processors the Best Salt Processor of the Year, to encourage proper iodization of salt to address iodine deficiency disorders and improve health. Competing with approximately 1,000 salt processors in the Punjab, NFL was one of five to win this prestigious award.



	Unit	2011	2010	2009	2008	2007	2006
<b>Profitability Ratios</b>							
Gross Profit Ratio	Percentage	28.51	29.55	29.97	32.20	34.23	30.92
Operating Profit to Sales	Percentage	8.83	5.76	8.18	9.48	8.38	7.11
Net Profit to Sales	Percentage	4.18	1.93	3.71	5.11	5.41	3.81
EBITDA Margin to Sales	Percentage	10.62	7.85	10.40	11.33	9.97	8.74
Operating Leverage Ratio	Percentage	385.63	(81.89)	26.28	159.98	178.62	643.08
Return on Equity	Percentage	27.70	12.39	23.81	35.43	42.05	32.71
Return on Capital Employed	Percentage	22.79	10.53	18.49	24.56	25.48	19.37
Return on Assets	Percentage	8.08	3.24	7.60	8.96	10.88	7.27
<b>Liquidity Ratios</b>							
Current Ratio	Times	1.23	1.01	1.14	1.07	1.10	1.16
Quick / Acid Test Ratio	Times	0.20	0.19	0.32	0.34	0.34	0.44
Cash to Current Liabilities	Times	(0.43)	(0.64)	(0.45)	(0.51)	(0.31)	(0.22)
Cash Flow from Operations to Sales	Percentage	7.65	(8.71)	5.38	(3.12)	4.24	9.70
Working Capital Turnover	Times	14.20	198.98	26.65	43.13	38.16	22.87
<b>Activity / Operating Performance Ratios</b>							
No. of Days in Inventory	Days	149.57	135.54	111.09	108.33	97.98	103.50
No. of Days in Receivables	Days	17.88	21.45	25.91	22.15	16.37	17.56
No. of Days in Payables	Days	28.89	20.49	22.86	30.80	31.18	25.64
Operating Cycle	Days	138.56	136.49	114.13	99.69	83.17	95.42
Asset Turnover	Times	2.00	1.99	2.10	2.09	2.22	2.20
Inventory Turnover	Times	2.44	2.69	3.29	3.37	3.73	3.53
Receivables Turnover	Times	20.42	17.02	14.09	16.48	22.29	20.78
Payables Turnover	Times	12.63	17.81	15.96	11.85	11.71	14.23
<b>Investment / Market Ratios</b>							
Earnings Per Share	Rupees	5.56	2.09	3.37	3.78	3.12	1.70
Price Earning Ratio	Times	13.48	21.03	17.40	12.81	6.84	6.71
Dividend Yield Ratio	Percentage	3.33	8.42	68.30	0.83	0.96	1.80
Dividend Payout Ratio	Percentage	44.93	177.15	1,188.65	10.59	6.58	12.08
Dividend Cover Ratio	Times	2.23	0.56	0.08	9.44	15.21	8.28
Cash Dividend Per Share	Rupees	2.50	1.20	-	-	2.00	2.00
Cash Dividend	Percentage	25.00	12.00	-	-	20.00	20.00
Stock Dividend Per Share	Rupees	-	2.50	50.00	3.00	-	-
Stock Dividend	Percentage	-	25.00	500.00	30.00	-	-
Market Value Per Share at the end of the year	Rupees	75.00	43.92	73.21	363.00	208.00	111.15
Breakup Value Per Share without Surplus on Revaluation of Fixed Assets	Rupees	22.27	17.90	19.77	93.37	86.55	58.13
Market Capitalisation	Rs. Million	3,108.21	1,820.17	2,427.22	2,005.83	884.10	472.44
<b>Capital Structure Ratios</b>							
Financial Leverage Ratio	Percentage	102.33	170.13	93.34	139.16	114.63	169.54
Weighted Average Cost of Debt	Percentage	11.12	10.35	12.73	9.64	7.60	6.30
Debt to Equity Ratio	Percentage	18.39	3.00	11.25	24.47	43.06	78.80
Interest Coverage Ratio	Times	3.88	2.60	3.54	5.16	6.13	5.28
No. of Ordinary Shares	Rs. Million	41.44	41.44	33.15	5.53	4.25	4.25

# HORIZONTAL ANALYSIS

	2011	2010	2009	2008	2007	2006
	%	%	%	%	%	%
<b>INCOME STATEMENT</b>						
Sales	22.96	19.45	22.76	28.06	29.38	20.47
Cost of Sales	24.79	20.17	26.78	31.98	23.28	12.32
Gross Profit	18.61	17.75	14.30	20.54	43.01	43.72
Administrative Expenses	9.76	9.33	15.38	42.86	24.66	43.14
Distribution Costs	(2.64)	36.64	16.84	10.89	40.82	26.74
Other Operating Expenses	94.12	(15.00)	11.11	(5.26)	111.11	200.00
Financial Costs	27.27	13.79	55.36	69.70	32.00	56.25
Other Operating Income	(47.83)	35.29	(22.73)	(26.67)	328.57	40.00
Profit before Tax	125.63	(27.60)	(5.56)	22.51	78.50	137.78
Taxation	79.45	(9.88)	5.19	24.19	72.22	200.00
Profit after Taxation	164.37	(37.86)	(10.83)	21.71	81.69	115.15
<b>BALANCE SHEET</b>						
Issued, subscribed and paid up capital	0.00	25.08	501.82	27.91	0.00	0.00
Unappropriated Profit	54.88	1.23	(29.72)	41.85	59.31	45.71
Share Capital and Reserves	24.26	13.28	26.94	40.22	48.99	34.97
Long Term Obligations	139.62	(24.29)	(28.93)	1.55	(5.83)	128.89
Total Long-term Liabilities and shareholder equities	38.68	6.67	11.50	26.87	24.06	65.93
Fixed Assets & CWIP	(4.51)	26.15	1.88	28.63	34.05	60.87
Other Non current assets	(20.00)	0.00	25.00	33.33	50.00	0.00
Current Assets	11.79	56.69	6.79	60.14	15.77	25.21
Total Assets	6.73	45.72	5.04	46.93	22.83	36.72
Less: Current Liabilities & Provisions	(8.11)	75.58	0.58	64.91	21.75	18.39
Net Assets	38.68	6.67	11.50	26.87	24.06	65.93

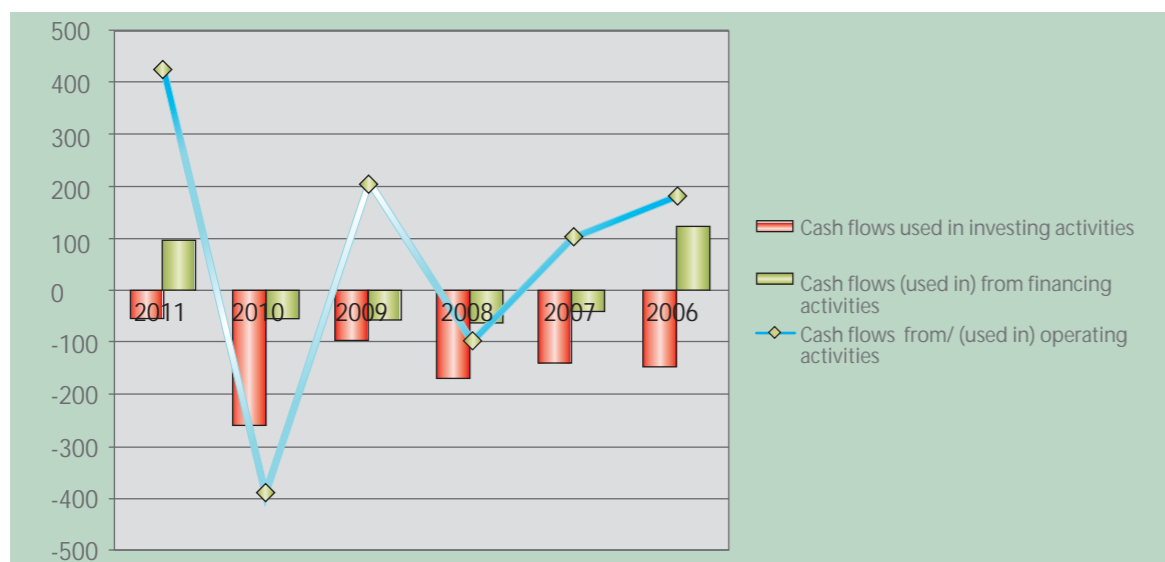
# VERTICAL ANALYSIS

	2011	2010	2009	2008	2007	2006
	%	%	%	%	%	%
<b>INCOME STATEMENT</b>						
Sales	100.00	100.00	100.00	100.00	100.00	100.00
Cost of Sales	71.49	70.45	70.02	67.80	65.79	69.05
Gross Profit	28.51	29.55	29.98	32.20	34.21	30.95
Administrative Expenses	3.26	3.65	3.99	4.25	3.81	3.95
Distribution Costs	16.05	20.27	17.72	18.61	21.50	19.75
Other Operating Expenses	0.60	0.38	0.53	0.59	0.79	0.49
Financial Costs	2.28	2.20	2.31	1.83	1.38	1.35
Other Operating Income	0.22	0.51	0.45	0.72	1.26	0.38
Profit before Tax	6.54	3.56	5.88	7.64	7.99	5.79
Taxation	2.37	1.63	2.15	2.51	2.59	1.95
Profit after Taxation	4.17	1.93	3.72	5.13	5.40	3.84
<b>BALANCE SHEET</b>						
Issued, subscribed and paid up capital	35.20	48.82	41.64	7.71	7.65	9.50
Unappropriated Profit	43.20	38.68	40.75	64.66	57.83	45.03
Share Capital and Reserves	78.40	87.50	82.39	72.37	65.48	54.53
Long Term Obligations	21.60	12.50	17.61	27.63	34.52	45.47
Total Long-term Liabilities and shareholder equities	100.00	100.00	100.00	100.00	100.00	100.00
Fixed Assets & CWIP	66.58	96.70	81.76	89.48	88.26	81.68
Other Non current assets	0.34	0.59	0.63	0.56	0.53	0.44
Current Assets	175.77	218.04	148.43	154.98	122.78	131.57
Total Assets	242.69	315.33	230.82	245.02	211.57	213.69
Less: Current Liabilities & Provisions	142.69	215.33	130.82	145.02	111.57	113.69
Net Assets	100.00	100.00	100.00	100.00	100.00	100.00



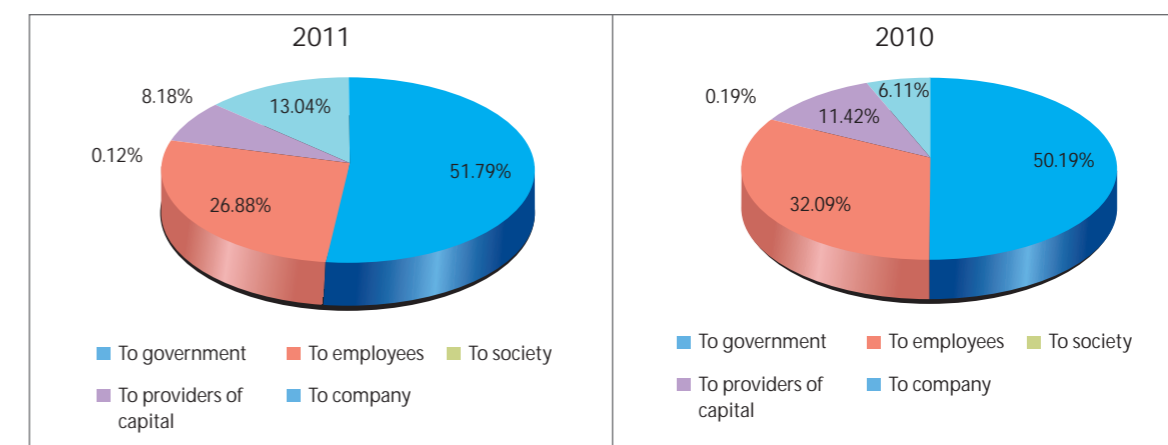
# SUMMARY OF FIVE YEAR CASH FLOWS

	2011	2010	2009	2008	2007	2006
	(Rupees in Millions)					
Cash flows from/ (used in) operating activities	423	(391)	202	(96)	101	179
Cash flows used in investing activities	(55)	(259)	(94)	(171)	(141)	(150)
Cash flows (used in)/ from financing activities	94	(55)	(56)	(63)	(40)	123
Net increase / (decrease) in cash and cash equivalents	462	(705)	52	(330)	(80)	152
Cash and cash equivalents at the beginning of the year	(1,176)	(471)	(523)	(193)	(113)	(265)
Cash and cash equivalents at the end of the year	(714)	(1,176)	(471)	(523)	(193)	(113)



# STATEMENT OF VALUE ADDITION AND ITS DISTRIBUTION

	2011	%	2010	%
	(Rupees in Thousand)		(Rupees in Thousand)	
<b>WEALTH GENERATED</b>				
Total revenue inclusive of Sales Tax and other income	6,485,738		5,229,340	
Brought in materials and services	4,339,966		3,633,726	
	<u>2,145,772</u>	100.00	<u>1,595,614</u>	100.00
<b>WEALTH DISTRIBUTION</b>				
To government				
Income tax, sales tax, excise duty and WWF & WPPF	1,111,278	51.79	800,783	50.19
To employees				
Salaries, benefits and other costs	576,715	26.88	512,013	32.09
To society				
Donations towards educations and welfare	2,528	0.12	3,000	0.19
To providers of capital				
Interest/ mark up on borrowed funds	125,696	5.86	99,364	6.23
Dividend to shareholders	49,731	2.32	82,885	5.19
To Company				
Depreciation, amortisation & retained profits	279,824	13.04	97,569	6.11
	<u>2,145,772</u>	100.00	<u>1,595,614</u>	100.00



## STATEMENT OF COMPLIANCE

WITH THE CODE OF CORPORATE GOVERNANCE

### For the Year Ended June 30, 2011

1. The Company encourages representation of independent non-executive directors and directors representing minority interests on its Board of Directors. At present the Board includes four (04) independent non-executive directors.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including this Company.
3. All the resident directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFIs or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. No casual vacancy occurred in the Board during the year.
5. The Company has prepared a "Code of Business Ethics" which has been signed by all the directors and employees of the Company.
6. The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO and other executive directors, have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. All the directors on the Board are fully conversant with their duties and responsibilities as directors of corporate bodies. The Board had previously arranged an orientation course of the Code of Corporate Governance for its directors to apprise them of their role and responsibilities. Further, the Booklet on Code of Corporate Governance as published by the Securities and Exchange Commission of Pakistan have been circulated amongst the directors on the Board.
10. There was no new appointment of CFO or Company Secretary during the year.
11. The directors' report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
12. The financial statements of the Company were duly endorsed by CEO and CFO before approval of the Board.
13. The directors, CEO and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.
14. The Company has complied with all the corporate and financial reporting requirements of the Code.
15. The Board has formed an audit committee. It comprises three (03) members, of whom two (02) are non-executive directors.

## STATEMENT OF COMPLIANCE

WITH THE CODE OF CORPORATE GOVERNANCE

16. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Company and as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.
17. The Board has outsourced the internal audit function to M/s Ernst & Young Ford Rhodes Sidat Hyder & Co. Chartered Accountants, who are considered suitably qualified and experienced for the purpose and are conversant with the policies and procedure of the Company and they are involved in the internal audit function on a full time basis.
18. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review programme of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.
19. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
20. The related party transactions have been placed before the audit committee and approved by the Board of Directors with necessary justification for non arm's length transactions and pricing methods for transactions that were made on terms equivalent to those that prevail in the arm's length transactions only if such terms can be substantiated.
21. We confirm that all other material principles contained in the Code have been complied with.

Karachi

Dated: September 16, 2011



Abrar Hasan

Chief Executive

## REVIEW REPORT TO THE MEMBERS

### ON STATEMENT OF COMPLIANCE WITH BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of National Foods Limited to comply with the Listing Regulation No. 35 of the Karachi, Lahore and Islamabad Stock Exchanges where the company is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the company's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the company personnel and review of various documents prepared by the company to comply with the Code.

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal controls covers all controls and the effectiveness of such internal controls.

Further, Listing Regulations of the Karachi, Lahore and Islamabad Stock Exchanges require the company to place before the Board of Directors for their consideration and approval related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the audit committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the company for the year ended June 30, 2011.

A. F. Ferguson & Co.  
Chartered Accountants  
Karachi

Dated: September 23, 2011

Name of the Engagement Partner: Syed Fahim ul Hasan

## AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of National Foods Limited as at June 30, 2011 and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the company's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

- (a) in our opinion, proper books of accounts have been kept by the company as required by the Companies Ordinance, 1984;
- (b) in our opinion:
  - (i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of accounts and are further in accordance with accounting policies consistently applied;
  - (ii) the expenditure incurred during the year was for the purpose of the company's business; and
  - (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the company;
- (c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the company's affairs as at June 30, 2011 and of the profit, its cash flows and changes in equity for the year then ended; and
- (d) in our opinion Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the company and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

A. F. Ferguson & Co.  
Chartered Accountants  
Karachi

Dated: September 23, 2011

Name of the Engagement Partner: Syed Fahim ul Hasan



〔FINANCIAL STATEMENT 2011〕

# [ BALANCE SHEET ]

AS AT JUNE 30, 2011

Note	2011	2010
(Rupees in thousand)		
<b>ASSETS</b>		
<b>NON-CURRENT ASSETS</b>		
Property, plant and equipment	774,356	794,771
Intangibles	8,958	25,688
Long term deposits	4,380	4,509
	<u>787,694</u>	<u>824,968</u>
<b>CURRENT ASSETS</b>		
Stores, spare parts and loose tools	5,213	5,360
Stock in trade	1,732,410	1,502,232
Trade debts	287,742	253,050
Advances	13,702	43,867
Trade deposits and prepayments	13,117	10,118
Other receivables	638	20,664
Cash and bank balances	14,225	14,101
	<u>2,067,047</u>	<u>1,849,392</u>
	<u>2,854,741</u>	<u>2,674,360</u>
<b>SHARE CAPITAL AND RESERVES</b>		
Issued, subscribed and paid-up capital	414,427	414,427
Unappropriated profit	508,384	327,518
	<u>922,811</u>	<u>741,945</u>
<b>NON-CURRENT LIABILITIES</b>		
Long term financing	169,750	20,000
Liabilities against assets subject to finance lease	-	2,260
Deferred tax	79,275	72,621
Retirement benefits obligations	4,627	10,707
	<u>253,652</u>	<u>105,588</u>
<b>CURRENT LIABILITIES</b>		
Trade and other payables	816,029	530,063
Accrued interest / mark up	25,717	28,319
Short term borrowings	727,940	1,189,769
Current maturity of:		
Long term financing	44,250	40,000
Liabilities against assets subject to finance lease	2,343	10,238
Taxation - Provision less payments	48,301	12,407
Due to the government	13,698	16,031
	<u>1,678,278</u>	<u>1,826,827</u>
<b>COMMITMENTS</b>		
	<u>2,854,741</u>	<u>2,674,360</u>

The annexed notes 1 to 37 form an integral part of these financial statements.



Chief Executive



Director

# [ PROFIT AND LOSS ACCOUNT ]

FOR THE YEAR ENDED JUNE 30, 2011

Note	2011	2010
(Rupees in thousand)		
Sales	5,520,780	4,489,946
Cost of sales	<u>(3,946,799)</u>	<u>(3,163,199)</u>
Gross profit	1,573,981	1,326,747
Distribution costs	(886,106)	(909,818)
Administrative expenses	(179,724)	(164,303)
Other operating expenses	(32,767)	(17,295)
Other operating income	12,063	23,214
Operating profit	<u>487,447</u>	<u>258,545</u>
Finance costs	<u>(125,696)</u>	<u>(99,364)</u>
Profit before taxation	361,751	159,181
Taxation	<u>(131,154)</u>	<u>(72,622)</u>
Profit after taxation	230,597	86,559
Other comprehensive income	-	-
Total comprehensive income	<u>230,597</u>	<u>86,559</u>
Earnings per share	<u>Rs 5.56</u>	<u>Rs 2.09</u>

The annexed notes 1 to 37 form an integral part of these financial statements.



Chief Executive



Director

# CASH FLOW STATEMENT

FOR THE YEAR ENDED JUNE 30, 2011

	Note	2011	2010
		(Rupees in thousand)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash generated from / (used in) operations	30	650,075	(247,050)
Finance cost paid		(128,298)	(88,809)
Income tax paid		(88,606)	(55,990)
Retirement benefits obligations paid		(10,707)	-
Net decrease in long term deposits		129	654
Net cash generated from / (used in) operating activities		422,593	(391,195)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment		(63,625)	(265,840)
Sale proceeds on disposal of property, plant and equipment		8,868	14,171
Purchase of intangible assets		(250)	(7,612)
Net cash used in investing activities		(55,007)	(259,281)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Increase / (decrease) in long term financing - net		154,000	(40,000)
Decrease in liabilities against assets subject to finance lease - net		(10,155)	(14,846)
Dividend paid		(49,478)	(15)
Net cash generated from / (used in) financing activities		94,367	(54,861)
Net increase / (decrease) in cash and cash equivalents		461,953	(705,337)
Cash and cash equivalents at the beginning of the year		(1,175,668)	(470,331)
Cash and cash equivalents at the end of the year	31	(713,715)	(1,175,668)

The annexed notes 1 to 37 form an integral part of these financial statements.

Chief Executive

Director

# STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED JUNE 30, 2011

	Issued, subscribed and paid-up capital	Unappropriated profit	Total
	(Rupees in thousand)		
Balance as at June 30, 2009	331,542	323,844	655,386
Issue of 1 bonus share for every 4 shares held	82,885	(82,885)	-
Profit for the year ended June 30, 2010	-	86,559	86,559
Balance as at June 30, 2010	414,427	327,518	741,945
Profit for the year ended June 30, 2011	-	230,597	230,597
Final dividend for the year ended June 30, 2010 @ Rs 1.20 per share	-	(49,731)	(49,731)
Balance as at June 30, 2011	414,427	508,384	922,811

The annexed notes 1 to 37 form an integral part of these financial statements.

Chief Executive

Director

## FOR THE YEAR ENDED JUNE 30, 2011

### 1. THE COMPANY AND ITS OPERATIONS

The company was incorporated in Pakistan on February 19, 1970 as a private limited company under the Companies Act, 1913 and subsequently converted into a public limited company under the Companies Ordinance, 1984 by special resolution passed in the extra ordinary general meeting held on March 30, 1988. The company is principally engaged in the manufacture and sale of spices, pickles, ketchup, jams, jellies, sauces, cooking pastes, rice, salt, juices, and ready-to-eat meals. It is listed on Karachi, Lahore and Islamabad Stock Exchanges. The registered office of the company is situated at 12 / CL - 6, Claremont Road, Civil Lines, Karachi.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below.

#### 2.1 Basis of preparation

##### 2.1.1 Statement of compliance

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984. In case requirements differ, the provisions or directives of the Companies Ordinance, 1984 shall prevail.

##### 2.1.2 Critical accounting estimates and judgements

The preparation of financial statements in conformity with the above requirements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The matters involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in respective notes to the financial statements.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

There have been no critical judgements made by the company's management in applying the accounting policies that would have significant effect on the amounts recognised in the financial statements.

##### 2.1.3 Changes in accounting standards, interpretations and pronouncements

#### (a) Standards, interpretations and amendments to published approved accounting standards effective in current year but not relevant

Certain standards, amendments and new interpretations to existing approved accounting standards are applicable from the current year. However, as these did not affect the financial statements, these have not been detailed here.

#### (b) Standards, interpretations and amendments to published approved accounting standards that are not yet effective but relevant

IAS 19 (Amendment) 'Employee Benefits' is effective for the periods beginning on or after January 1, 2013. This amendment requires an entity to recognise actuarial gains and losses (renamed as remeasurements) immediately in other comprehensive income. Actuarial gains and losses will no longer be deferred using the corridor approach or recognised in profit or loss. Past service costs will be recognised in the period of a plan amendment and will no longer be spread over a future-service period. A curtailment now occurs only when an entity significantly reduces the number of employees. Curtailment gains / losses are accounted for as past-service cost. Further,

## FOR THE YEAR ENDED JUNE 30, 2011

presentation and disclosure requirements have also changed. Due to these amendments there will be a change in company's accounting policy regarding retirement benefits and will also change disclosure requirements.

#### (C) Standards, interpretations and amendments to published approved accounting standards that are not yet effective and are not relevant

Other standards, amendments and new interpretations to existing approved accounting standards have been published that are mandatory for future years. However, these are not expected to affect materially the financial statements of the company for the accounting periods beginning on the dates prescribed therein.

### 2.2 Overall valuation policy

These financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below:

#### 2.3 Property, plant and equipment

Property, plant and equipment are stated at cost less residual value if not insignificant, impairment and accumulated depreciation except capital work in progress which is stated at cost.

Depreciation on property, plant and equipment is charged to income applying the straight-line method over the estimated useful lives of related assets. Depreciation on additions is charged from the month in which the assets are put to use and on disposals up to the month of disposal.

Maintenance and normal repairs are charged to income as and when incurred. Major renewals and improvements are capitalised and assets so replaced, if any, are retired.

Profit and loss on sale or retirement of property, plant and equipment is included in income currently.

#### 2.4 Intangibles - computer software

These are stated at cost less accumulated amortisation and impairment, if any. Generally, costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. However, costs that are directly associated with identifiable software and have probable economic benefit exceeding one year, are recognised as intangible assets. Direct costs include the purchase cost of software and related overhead cost.

Amortisation charge is based on the straight-line method whereby the cost of an intangible is written off over its estimated useful life of three years.

### 2.5 Taxation

#### i) Current

Charge for current taxation is based on taxable income at the current rates of taxation after taking into account tax credits and rebates available, if any, and taxes paid under the final tax regime.

#### ii) Deferred

Deferred tax is accounted for using the balance sheet liability method on all temporary differences arising between tax base of assets and liabilities and their carrying amounts in the financial statements. Deferred tax liability is generally recognised for all taxable temporary differences and deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilised. Deferred tax is charged or credited in the profit and loss account.

## FOR THE YEAR ENDED JUNE 30, 2011

### 2.6 Employee retirement benefits

#### Defined benefit plans

The company operates a funded pension scheme and post retirement medical benefit for chief executive and executive directors. The charge is based on actuarial valuation using Projected Unit Credit method. Cumulative net unrecognised actuarial gains and losses at the beginning of the year which exceed 10% of the present value of the obligations are amortised over the average remaining working life of the employees. The latest actuarial valuation of the defined benefit plans was conducted at June 30, 2011.

#### Defined contribution plan

The company operates an approved contributory provident fund for all employees. Equal monthly contributions are made, both by the company and the employees, to the fund at the rate of 10% per annum of the basic salary.

### 2.7 Stores, spare parts and loose tools

These are valued at weighted average cost less provision for slow moving and obsolete stores, spare parts and loose tools, if any. Items in transit are valued at cost comprising invoice value plus other charges incurred thereon.

### 2.8 Stock in trade

All stocks are stated at the lower of cost and estimated net realisable value. Cost is determined by weighted average method except for those in transit where it represents invoice value and other charges incurred thereon. Cost of work in process and finished goods includes direct cost of materials, direct cost of labour and production overheads. Net realisable value signifies the estimated selling price in the ordinary course of business less cost necessarily to be incurred in order to make the sale.

### 2.9 Trade and other debts

Trade and other debts are recognised at fair value of consideration receivable. Debts considered irrecoverable are written off and provision is made against those considered doubtful of recovery.

### 2.10 Cash and cash equivalents

Cash and cash equivalents are carried at cost. For the purposes of cash flow statement, cash and cash equivalents comprise of cash, balances with banks on current and deposit accounts and short term borrowings.

### 2.11 Impairment losses

The carrying amount of the company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment loss. If such indications exist, the assets' recoverable amount is estimated in order to determine the extent of impairment loss, if any. Impairment losses are recognised as expense in the profit and loss account.

An impairment loss is reversed if there is a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the assets' carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### 2.12 Finance leases

Leases that transfer substantially all the risks and rewards incidental to ownership of assets are classified as finance leases. Finance leases are capitalised at the inception of the lease term at the lower of fair value of the leased assets and the present value of minimum lease payments. The outstanding obligation under the lease less finance charges allocated to future periods is shown as a liability. Finance charges are allocated to accounting periods in a manner so as to provide a constant periodic rate of charge on the outstanding liability.

## FOR THE YEAR ENDED JUNE 30, 2011

### 2.13 Ijarah

In ijarah transactions significant portion of the risks and rewards of ownership are retained by the lessor. Islamic Financial Accounting Standard 2 – 'Ijarah' requires the recognition of 'ujrah payments' (lease rentals) against ijarah financing as an expense in the profit and loss account on a straight-line basis over the ijarah term.

### 2.14 Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method.

### 2.15 Borrowing costs

Borrowings are recognised initially at fair value, net of transaction costs incurred and are subsequently measured at amortised cost using effective interest method.

Borrowing costs are recognised as an expense in the period in which these are incurred except to the extent of borrowing costs that are directly attributable to the acquisition, construction or production of the qualifying asset, if any, are capitalised as part of the cost of that asset.

### 2.16 Provisions

Provisions are recognised when the company has a present legal or constructive obligation as a result of past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made.

### 2.17 Financial instruments

Financial instruments includes deposits, trade and other debts, cash and bank balances, long term finance, liabilities against assets subject to finance lease, trade and other payables, accrued interest / mark up and short term borrowings. The particular recognition methods adopted are disclosed in the respective policy notes.

### 2.18 Foreign currency transactions and translation

These financial statements are presented in Pak Rupee which is also the functional currency of the company.

Foreign currency transactions are translated into Pak Rupee using the exchange rates approximating those prevailing at the dates of the transactions. All monetary assets and liabilities in foreign currencies are translated into Pak Rupee at the rates of exchange approximating those prevailing at the balance sheet date. Exchange gains / losses on translation are included in income currently.

### 2.19 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the company's activities.

The company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the company and specific criteria have been met for each of the company's activities as described below:

- i) Sale of goods
  - Sales are recognised on despatch of goods to customers.
- ii) Interest / Mark up income
  - Income on bank deposits is recognised on accrual basis.



# NOTES TO THE FINANCIAL STATEMENT

## FOR THE YEAR ENDED JUNE 30, 2011

### 2.20 Research and development

Research and development expenditure is charged to profit and loss account in the period in which it is incurred.

### 2.21 Offsetting

Financial assets and liabilities are offset and the net amount is reported in the balance sheet where there is a legally enforceable right to set-off the recognised amounts and the company intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

### 2.22 Dividends

Dividend distribution to the company's shareholders is recognised as liability at the time of their approval.

2011	2010
(Rupees in thousand)	

### 3. PROPERTY, PLANT AND EQUIPMENT

Operating assets - note 3.1

Capital work in progress - at cost - note 3.2

752,018	731,167
22,338	63,604
<u>774,356</u>	<u>794,771</u>

### 3.1 Operating assets

	Leasehold land	Building on leasehold land	Plant and machinery	Furniture and fittings	Office and other equipments	Computers		Laboratory equipments	Vehicles		Total
						Owned	subject to finance lease		Owned	subject to finance lease	
(Rupees in thousand)											
Net Carrying value basis											
Year ended June 30, 2011											
Opening net book value (NBV)	169,060	267,693	237,821	9,440	7,108	8,022	3,654	5,700	9,156	13,513	731,167
Additions (at cost)	1,962	17,793	60,406	4,781	5,009	6,280	-	1,978	6,682	-	104,891
Disposals (at NBV)	-	-	-	-	-	(2)	-	-	(708)	(1,352)	(2,062)
Depreciation charge	(3,374)	(15,707)	(37,081)	(4,317)	(2,562)	(4,646)	(3,546)	(925)	(3,692)	(6,128)	(81,978)
Closing net book value	<u>167,648</u>	<u>269,779</u>	<u>261,146</u>	<u>9,904</u>	<u>9,555</u>	<u>9,654</u>	<u>108</u>	<u>6,753</u>	<u>11,438</u>	<u>6,033</u>	<u>752,018</u>
Gross Carrying value basis											
At June 30, 2011											
Cost	173,594	355,162	458,761	28,403	33,655	25,118	12,815	11,510	35,216	26,238	1,160,472
Accumulated depreciation	(5,946)	(85,383)	(197,615)	(18,499)	(24,100)	(15,464)	(12,707)	(4,757)	(23,778)	(20,205)	(408,454)
Net book value	<u>167,648</u>	<u>269,779</u>	<u>261,146</u>	<u>9,904</u>	<u>9,555</u>	<u>9,654</u>	<u>108</u>	<u>6,753</u>	<u>11,438</u>	<u>6,033</u>	<u>752,018</u>
Net Carrying value basis											
Year ended June 30, 2010											
Opening net book value (NBV)	15,288	236,586	244,988	13,278	7,484	5,025	6,264	3,907	9,952	23,027	565,799
Additions (at cost)	154,418	43,127	36,208	383	1,655	6,785	989	2,497	5,368	145	251,575
Disposals (at NBV)	-	-	(7,549)	-	-	-	-	-	(584)	(1,771)	(9,904)
Depreciation charge	(646)	(12,020)	(35,826)	(4,221)	(2,031)	(3,788)	(3,599)	(704)	(5,580)	(7,888)	(76,303)
Closing net book value	<u>169,060</u>	<u>267,693</u>	<u>237,821</u>	<u>9,440</u>	<u>7,108</u>	<u>8,022</u>	<u>3,654</u>	<u>5,700</u>	<u>9,156</u>	<u>13,513</u>	<u>731,167</u>
Gross Carrying value basis											
At June 30, 2010											
Cost	171,632	337,369	398,355	23,622	28,646	25,008	12,815	9,532	39,990	37,185	1,084,154
Accumulated depreciation	(2,572)	(69,676)	(160,534)	(14,182)	(21,538)	(16,986)	(9,161)	(3,832)	(30,834)	(23,672)	(352,987)
Net book value	<u>169,060</u>	<u>267,693</u>	<u>237,821</u>	<u>9,440</u>	<u>7,108</u>	<u>8,022</u>	<u>3,654</u>	<u>5,700</u>	<u>9,156</u>	<u>13,513</u>	<u>731,167</u>
Useful life (Years)	38-99	10-52	5-10	5	6-7	3	5	10	5	5	

# NOTES TO THE FINANCIAL STATEMENT

## FOR THE YEAR ENDED JUNE 30, 2011

### 3.2 Capital work in progress

These comprise of:

Civil work in progress	7,159	14,982
Plant and machinery	8,361	34,593
Advance against acquisition of land	-	12,012
Advances to suppliers	4,018	-
Vehicles pending delivery	250	816
Computer software under development	2,550	1,146
Office equipment	-	55
	<u>22,338</u>	<u>63,604</u>

2011	2010
(Rupees in thousand)	
7,159	14,982
8,361	34,593
-	12,012
4,018	-
250	816
2,550	1,146
-	55
<u>22,338</u>	<u>63,604</u>

### 3.3 The details of property, plant and equipment sold during the year are as follows:

	Cost	Accumulated depreciation	Net book value	Sale proceeds	Mode of disposal	Particulars of purchaser
(Rupees in thousand)						
Motor vehicles						
Suzuki Alto	521	339	182	280	Company Policy	Mr. Abdul Majeed Khan Employee
Toyota Corolla	969	808	161	290	"	Mr. Waqas Abrar Khan Ex-executive
Toyota Corolla	945	803	142	180	"	Mr. Syed Muhammad Rizwan Executive
Honda City	846	705	141	253	"	Mr. Muhammad Employee
Honda City	846	733	113	254	"	Mr. Muhammad Iqbal Executive
Suzuki Cultus	600	500	100	192	"	Ms. Eishba Inayat John Ex-Employee
Toyota Vitz	520	433	87	169	"	Mr. Shahid Ali Ex-Employee
Cherry QQ	499	416	83	213	"	Mr. Asad Naeem Khan Ex-Employee
Honda CG-125	83	11	72	86	"	Mr. Pir Muhammad Employee
Suzuki Cultus	600	530	70	150	"	Mr. Ubaid Ur Rehman Executive
Suzuki Alto	504	437	67	168	"	Ms. Samrah Ibadat Ex-executive
Honda CD-70	63	8	55	66	"	Mr. Tahir Khan Ex-Employee
Suzuki Cultus	620	568	52	161	"	Mr. Mussamat Hussain Executive
Honda CG-125	83	32	51	62	"	Mr. Muhammad Ramzan Employee
Honda CD-70	63	8	55	58	Insurance Claim	EFU General Insurance Limited
Master Truck	775	710	65	350	Negotiation	Mr. Umer Zaman House No. 1999, Abidabad Block B, Baldia Town Karachi
Master Truck	775	710	65	350	Negotiation	Mr. Umer Zaman House No. 1999, Abidabad Block B, Baldia Town Karachi
Assets having net book value less than Rs. 50,000	<u>19,261</u>	<u>18,760</u>	<u>501</u>	<u>5,586</u>		
	<u>28,573</u>	<u>26,511</u>	<u>2,062</u>	<u>8,868</u>		

# NOTES TO THE FINANCIAL STATEMENT

FOR THE YEAR ENDED JUNE 30, 2011

	2011	2010
	(Rupees in thousand)	
4. INTANGIBLES - computer software		
Net carrying value basis		
Opening net book value	25,688	35,668
Additions (at cost)	250	7,612
Amortisation for the year	(16,980)	(17,592)
Closing net book value	8,958	25,688
Gross carrying value basis		
Cost - Computer software and ERP System	59,647	59,397
Accumulated amortisation	(50,689)	(33,709)
Net book value	8,958	25,688
5. STOCK IN TRADE		
Raw materials (including in transit Rs. 45.7 million; 2010: Rs 2.80 million)	640,456	707,550
Provision for obsolescence	(4,517)	(2,956)
	635,939	704,594
Packing materials	131,959	148,319
Provision for obsolescence	(12,415)	(18,928)
	119,544	129,391
Work in process	514,291	359,387
Provision for obsolescence	(18,870)	(6,631)
	495,421	352,756
Finished goods	493,654	324,930
Provision for obsolescence	(12,148)	(9,439)
	481,506	315,491
	1,732,410	1,502,232

- 5.1 Stock in trade includes Rs 590.29 million (2010: Rs 108.21 million) held with third parties.
- 5.2 The above balances include items costing Rs 15.31 million (2010: Rs 12.67 million) valued at net realisable value of Rs 14.23 million (2010: Rs 10.90 million).
- 5.3 The company has recognised a provision of Rs 18.89 million for obsolescence (2010: Rs 6.08 million) and has written off stocks amounting to Rs 8.89 million (2010: Rs 16.81 million) against the provision during the year.

	2011	2010
	(Rupees in thousand)	
6. TRADE DEBTS		
Considered good		
Related parties - note 6.2	4,547	14,918
Others		
- local	34,868	81,683
- foreign	248,327	156,449
	287,742	253,050
Considered doubtful	4,601	3,906
	292,343	256,956
Less: Provision for doubtful trade debts	(4,601)	(3,906)
	287,742	253,050

# NOTES TO THE FINANCIAL STATEMENT

FOR THE YEAR ENDED JUNE 30, 2011

- 6.1 As of June 30, 2011, trade debts of Rs 102.24 million (2010: Rs. 133.47 million) were past due but not impaired. These relate to a number of individual customers for whom there is no recent history of default. The age analysis of these trade debts is as follows:

	2011	2010
	(Rupees in thousand)	
Up to 3 months	78,076	83,353
3 to 6 months	7,025	20,551
More than 6 months	17,134	29,565
	102,235	133,469
6.2 Due from related parties		
Premier Distributor	4,126	13,046
Premier Agency	421	1,872
	4,547	14,918
7. ADVANCES		
Considered good		
Employees		
- against expenses	20	5
- against salary	-	147
Suppliers	13,263	43,621
Others	419	94
	13,702	43,867
Considered doubtful		
Suppliers	5,174	-
	18,876	43,867
Provision for doubtful advances to suppliers	(5,174)	-
	13,702	43,867
8. TRADE DEPOSITS AND PREPAYMENTS		
Considered good		
Deposits	4,475	4,705
Prepayments	8,642	5,413
	13,117	10,118
Considered doubtful		
Deposits	1,169	-
	14,286	10,118
Provision for doubtful deposits	(1,169)	-
	13,117	10,118

# NOTES TO THE FINANCIAL STATEMENT

FOR THE YEAR ENDED JUNE 30, 2011

	2011	2010
	(Rupees in thousand)	
9. OTHER RECEIVABLES		
Due from related parties:		
- Precision Rubber Products (Private) Limited	-	636
- Associated Textile Consultants (Private) Limited	266	-
Workers' Profits Participation Fund - note 16.1	-	2,533
Receivable from Sundar Industrial Estate, Lahore	-	17,368
Others	372	127
	<u>638</u>	<u>20,664</u>
10. CASH AND BANK BALANCES		
Cash in hand	1,035	1,122
Cash at bank		
current accounts		
- local currency	6,649	11,099
- foreign currency	6,541	1,880
	<u>13,190</u>	<u>12,979</u>
	<u>14,225</u>	<u>14,101</u>
11. SHARE CAPITAL		
Authorised share capital		
Number of shares		
2011	2010	
<u>75,000,000</u>	<u>75,000,000</u>	Rs 10 each
	<u>750,000</u>	<u>750,000</u>
Issued, subscribed and paid-up capital		
Ordinary shares of Rs 10 each		
Number of shares		
2011	2010	
1,255,990	1,255,990	for consideration paid in cash
40,186,753	40,186,753	as bonus shares
<u>41,442,743</u>	<u>41,442,743</u>	
	<u>12,560</u>	<u>12,560</u>
	<u>401,867</u>	<u>401,867</u>
	<u>414,427</u>	<u>414,427</u>

# NOTES TO THE FINANCIAL STATEMENT

FOR THE YEAR ENDED JUNE 30, 2011

	2011	2010
	(Number of shares)	
11.1 Reconciliation of number of ordinary shares outstanding		
At the beginning of the year	41,442,743	33,154,194
Issue of bonus shares: Nil (2010: 1 bonus share for every 4 shares held)	-	8,288,549
At the end of the year	<u>41,442,743</u>	<u>41,442,743</u>
12. LONG TERM FINANCING		
Meezan Bank Limited - note 12.1	144,000	-
Meezan Bank Limited - note 12.2	50,000	-
MCB Bank Limited - note 12.3	20,000	60,000
Less: Current maturity shown under current liabilities	(44,250)	(40,000)
	<u>169,750</u>	<u>20,000</u>
12.1 The facility is secured by way of equitable mortgage of Rs. 200 million over certain property of the company. Mark up is charged at the rate of three months KIBOR + 1% per annum. The loan is repayable in equal semiannual installments, uptill August 10, 2015.		
12.2 The facility is secured by way of First Pari Passu hypothecation charge of Rs. 67 million over fixed assets of SITE factory. Mark up is charged at the rate of three months KIBOR + 1% per annum. The loan is repayable in equal semiannual installments, uptill July 20, 2015.		
Ordinary shares of		
12.3 The facility is secured by way of equitable mortgage over land, buildings, plant and machinery installed or to be installed at SITE factory building. Mark up is charged at the rate of three months KIBOR + 1.25% (2010: three months KIBOR + 1.25%) per annum. The loan is repayable in equal quarterly installments, uptill October 13, 2011.		
13. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE		
Present value of minimum lease payments	2,343	12,498
Current maturity shown under current liabilities	(2,343)	(10,238)
	<u>-</u>	<u>2,260</u>
Minimum lease payments		
Not later than 1 year	2,413	11,156
Later than one year but not later than 5 years	-	2,355
	<u>2,413</u>	<u>13,511</u>
Future finance charges on finance lease	(70)	(1,013)
Present value of finance lease liabilities	<u>2,343</u>	<u>12,498</u>
Present value of finance lease liabilities		
Not later than 1 year	2,343	10,238
Later than one year but not later than 5 years	-	2,260
	<u>2,343</u>	<u>12,498</u>

# NOTES TO THE FINANCIAL STATEMENT

## FOR THE YEAR ENDED JUNE 30, 2011

13.1 Finance leases are entered into with various modarabas for acquisition of motor vehicles and computer equipments. The balance of liability is payable by June 2012 in monthly installments.

Monthly lease payments include finance charge ranging from six months KIBOR + 1.25% to six months KIBOR + 2.75% (2010: six months KIBOR + 1.25% to six months KIBOR + 2.75%) per annum which is used as discounting factor.

	2011	2010
	(Rupees in thousand)	
14. DEFERRED TAX		
(Debit) / credit balance arising in respect of:		
Accelerated tax depreciation / amortisation	94,225	87,191
Provision for stock obsolescence	(13,503)	(11,545)
Provision for doubtful trade debts	(1,188)	(1,188)
Provision for retirement benefits obligations	(1,414)	(3,257)
Liabilities against assets subject to finance lease	1,155	1,420
	<u>79,275</u>	<u>72,621</u>

14.1 Deferred tax liability is restricted to 86.86% (2010: 86.95%) of the total deferred tax liability based on the following assumptions:

- Export sales will continue to fall under Final Tax Regime.
- Historical trend of export and local sales ratio will continue to be the same in foreseeable future.

# NOTES TO THE FINANCIAL STATEMENT

## FOR THE YEAR ENDED JUNE 30, 2011

15. RETIREMENT BENEFITS OBLIGATIONS

15.1 The disclosures made in notes 15.2 to 15.11 are based on the information included in the actuarial valuation as of June 30, 2011.

	Pension Plan		Pensioners' Medical Plan	
	2011	2010	2011	2010
	(Rupees in thousand)			
15.2 Balance Sheet Reconciliation				
Fair value of plan assets	10,211	-	1,003	-
Present value of defined benefit obligations	22,963	20,045	1,255	1,082
Deficit	<u>12,752</u>	<u>20,045</u>	<u>252</u>	<u>1,082</u>
Unrecognised past service cost	(9,248)	(10,089)	(266)	(290)
Unrecognised actuarial gain/ (loss)	938	(207)	199	166
Recognised liability	<u>4,442</u>	<u>9,749</u>	<u>185</u>	<u>958</u>
15.3 Movement in the net liability recognised in the balance sheet				
Opening balance	9,749	5,994	958	786
Charge for the year	4,442	3,755	185	172
Payments during the year	-	-	-	-
Contribution made	(9,749)	-	(958)	-
Closing balance	<u>4,442</u>	<u>9,749</u>	<u>185</u>	<u>958</u>
15.4 Cost				
Current service cost	983	839	25	23
Interest cost	2,618	2,075	140	126
Amortisation of non - vested portion of past service liability	841	841	24	23
Amortisation of gain	-	-	(4)	-
Cost for the year	<u>4,442</u>	<u>3,755</u>	<u>185</u>	<u>172</u>
15.5 Movement in the present value of defined benefit obligations				
Obligation as at July 1	20,045	16,870	1,082	1,040
Current service cost	983	839	25	23
Interest cost	2,618	2,075	140	126
Benefits paid	-	-	-	-
Actuarial loss / (gain)	(683)	261	8	(107)
Obligation as at June 30	<u>22,963</u>	<u>20,045</u>	<u>1,255</u>	<u>1,082</u>
15.6 Movement in the fair value of plan assets				
Plan Assets as at July 1	-	-	-	-
Expected return on plan assets	-	-	-	-
Contribution made	9,749	-	958	-
Benefits paid	-	-	-	-
Actuarial gain	462	-	45	-
Plan Assets as at June 30	<u>10,211</u>	<u>-</u>	<u>1,003</u>	<u>-</u>

# NOTES TO THE FINANCIAL STATEMENT

## FOR THE YEAR ENDED JUNE 30, 2011

	2011	2010
	(Percent per annum)	
15.7 Principal actuarial assumptions		
Expected rate of increase in salaries	14.5	12.75
Expected rate of increase in pension	8.5	6.75
Expected rate of increase in medical benefits	8.5	6.75
Discount factor used	14.5	12.75

15.8 The effects of a 1% movement in the assumed medical cost trend rate are as follows:

	Increase	Decrease
	(Rupees in thousand)	
Effect on the aggregate of interest costs	39	31
Effect on the defined benefit obligations	212	172

15.9 The actuary conducts separate valuations for calculating contribution rates and the company contributes to the pension plan according to the actuary's advice. Expense of the defined benefit plan is calculated by the actuary.

15.10 Expected charge for the year ending June 30, 2012 works out to be Rs. 3.92 million and Rs. 0.10 million for Pension plan and Pensioners' Medical Plan respectively.

15.11 During the year, the company contributed Rs 11.85 million (2010: Rs.10.64 million) to the provident fund.

	2011	2010
	(Rupees in thousand)	
16. TRADE AND OTHER PAYABLES		
Creditors	414,039	210,763
Accrued liabilities	292,809	255,847
Workers' Profits Participation Fund - note 16.1	1,611	-
Workers' Welfare Fund	11,679	6,436
Advances from customers	52,700	23,173
Payable to provident fund	2,818	1,364
Security deposits from customers	4,285	4,238
Tax deducted at source	4,946	2,488
Due to related parties - directors	6	76
- others - note 16.2	364	243
Advances from employees against sale of vehicles	26,166	18,931
Unclaimed dividend	1,005	752
Other liabilities	3,601	5,752
	<u>816,029</u>	<u>530,063</u>
16.1 Workers' Profits Participation Fund		
Balance as at July 1	(2,533)	520
Allocation for the year	19,449	8,558
Interest on funds utilised in the company's business	-	46
	<u>16,916</u>	<u>9,124</u>
Amount paid during the year	(15,305)	(11,657)
Balance as at June 30	<u>1,611</u>	<u>(2,533)</u>

# NOTES TO THE FINANCIAL STATEMENT

## FOR THE YEAR ENDED JUNE 30, 2011

	2011	2010
	(Rupees in thousand)	
16.2 Due to related parties - others		
Associated Textile Consultants (Private) Limited	-	243
Precision Rubber Products (Private) Limited	364	-
	<u>364</u>	<u>243</u>
17. ACCRUED INTEREST / MARK UP		
- on short term borrowings	22,160	26,583
- on long term financing	3,557	1,736
	<u>25,717</u>	<u>28,319</u>
18. SHORT TERM BORROWINGS		
Running finance under mark up arrangements	321,675	634,989
Murabaha loan	106,265	264,780
Export re-finance	300,000	240,000
Short term loan	-	50,000
	<u>727,940</u>	<u>1,189,769</u>

18.1 The facilities available from various banks amount to Rs 1.76 billion (2010: Rs 1.53 billion). The arrangements are secured by way of pari-passu charge against hypothecation of company's stock in trade, movables and trade debts. The facilities expiring within one year are annual facilities subject to review at various dates during 2011 and 2012.

18.2 The facilities for opening letters of credit amount to Rs 563.8 million (2010: Rs 216.15 million) and for letters of guarantees amount to Rs 45.33 million (2010: Rs 15 million) as at June 30, 2011 of which the amount remaining unutilised at year end was Rs 550.44 million (2010: Rs 163.85 million) and Rs 24.91 million (2010: Rs 1.09 million) respectively.

18.3 The rates of mark up range from one month KIBOR + 0.35% to three months KIBOR + 1% per annum (2010: one month KIBOR + 0.35% to three months KIBOR + 2.66%) per annum.

	2011	2010
	(Rupees in thousand)	
19. DUE TO THE GOVERNMENT		
Sales tax	10,483	14,600
Special excise duty	3,215	1,431
	<u>13,698</u>	<u>16,031</u>
20. COMMITMENTS		

Aggregate commitments for capital expenditure as at June 30, 2011 amount to Rs 1.99 million (2010: Rs 18.27 million).

Aggregate commitments in respect of ujrah payments for ijarah financing of motor vehicles, plant and machinery and computer equipments bearing a mark up ranging from six months KIBOR + 0.75% to six months KIBOR + 1.95% (2010: three months KIBOR + 1.25% to six months KIBOR + 1.95%) per annum for rentals payable monthly as at June 30, 2011 amount to:

	2011	2010
	(Rupees in thousand)	
Not later than one year	19,852	13,959
Over one year to five years	40,675	25,092
	<u>60,527</u>	<u>39,051</u>

# NOTES TO THE FINANCIAL STATEMENT

FOR THE YEAR ENDED JUNE 30, 2011

	2011	2010
	(Rupees in thousand)	
<b>21. SALES</b>		
Manufactured goods		
Gross sales		
Local sales	6,751,167	5,395,503
Export sales	725,553	597,878
	<u>7,476,720</u>	<u>5,993,381</u>
Sales tax	(891,469)	(681,175)
Special excise duty	(61,426)	(35,005)
	<u>(952,895)</u>	<u>(716,180)</u>
	6,523,825	5,277,201
Less:		
Discount, rebates and allowances	876,913	680,034
Sales return	126,132	107,221
	<u>1,003,045</u>	<u>787,255</u>
	<u>5,520,780</u>	<u>4,489,946</u>
<b>21.1</b> Export sales comprise of sale made in the following regions:		
USA / Canada	227,710	190,715
Africa	111,868	138,118
Middle East Asia	189,564	114,875
Others	196,411	154,170
	<u>725,553</u>	<u>597,878</u>
<b>21.2</b> Sales to only one distributor exceed 10 percent of the net sales during the year, amounting to Rs 561.5 million (2010: Rs 467.55 million).		
<b>22. COST OF SALES</b>		
Raw material consumed	2,753,111	2,190,781
Packing material consumed	907,298	720,522
Salaries, wages and other benefits	309,203	242,740
Contribution to provident fund	4,725	3,981
Depreciation / amortisation	60,985	60,244
Ujrah payments	3,505	1,643
Fuel and power	75,936	71,274
Insurance	10,293	11,473
Laboratory, research and development	2,736	3,495
Postage and communications	1,460	1,631
Printing and stationery	371	59
Rent, rates and taxes	32,359	20,133
Travelling	41,703	39,682
Repairs and maintenance	46,777	52,165
Security charges	4,490	3,271
Others	755	998
	<u>4,255,707</u>	<u>3,424,092</u>
Opening work in process	352,756	235,844
Closing work in process	(495,421)	(352,756)
Cost of goods manufactured	<u>4,113,042</u>	<u>3,307,180</u>
Opening stock of finished goods	315,491	171,551
Closing stock of finished goods	(481,506)	(315,491)
Export rebate	(228)	(41)
	<u>3,946,799</u>	<u>3,163,199</u>

# NOTES TO THE FINANCIAL STATEMENT

FOR THE YEAR ENDED JUNE 30, 2011

	2011	2010
	(Rupees in thousand)	
<b>23. DISTRIBUTION COSTS</b>		
Salaries, wages and other benefits	171,145	183,930
Advertising and sales promotion	351,273	428,205
Outward freight and handling charges	233,669	182,376
Contribution to provident fund	4,361	2,862
Depreciation / amortisation	18,186	13,607
Ujrah payments	8,383	5,461
Fuel and power	933	680
Forwarding charges	8,182	7,159
Insurance	5,962	2,635
Laboratory, research and development	893	761
Legal and professional charges	55	74
Postage and communications	5,126	6,825
Printing and stationery	4,588	4,731
Rent, rates and taxes	11,412	14,967
Travelling	52,950	46,469
Repairs and maintenance	5,831	6,063
Provision for doubtful debts	694	-
Security charges	870	732
Others	1,593	2,281
	<u>886,106</u>	<u>909,818</u>
<b>24. ADMINISTRATIVE EXPENSES</b>		
Salaries, wages and other benefits - note 24.1	84,520	74,700
Contribution to provident fund	2,761	3,800
Depreciation / amortisation	19,787	20,044
Ujrah payments	10,760	4,954
Fuel and power	3,290	2,458
Insurance	912	2,477
Laboratory, research and development	18	94
Legal and professional charges	13,699	10,754
Postage and communications	4,220	4,246
Printing and stationery	2,672	1,826
Rent, rates and taxes	1,199	2,125
Travelling	12,978	15,903
Repairs and maintenance	10,358	13,037
Provision for doubtful advances and others	6,343	-
Advance written off	1,028	-
Security charges	47	226
Others	5,132	7,659
	<u>179,724</u>	<u>164,303</u>

24.1 Salaries, wages and other benefits include Rs. 4.63 million (2010: Rs. 3.93 million) in respect of retirement benefit plans.

# NOTES TO THE FINANCIAL STATEMENT

FOR THE YEAR ENDED JUNE 30, 2011

	2011	2010
	(Rupees in thousand)	
25. OTHER OPERATING EXPENSES		
Auditors' remuneration - note 25.1	3,010	2,314
Donations - note 25.2	2,528	3,000
Workers' Profits Participation Fund	19,449	8,558
Workers' Welfare Fund	7,780	3,423
	<u>32,767</u>	<u>17,295</u>
25.1 Auditors' remuneration		
Audit fee	1,050	1,000
Limited review, special reports and other certifications	699	265
Taxation services	1,000	800
Out of pocket expenses	261	249
	<u>3,010</u>	<u>2,314</u>

25.2 None of the Directors or their spouses had any interest in the donees.

	2011	2010
	(Rupees in thousand)	
26. OTHER OPERATING INCOME		
Income from financial assets		
Exchange gain - net	3,050	7,892
Return on late payments by trade debtors	-	824
Income from other than financial assets		
Profit on disposal of property, plant and equipment	6,806	4,267
Liabilities no longer payable written back	-	10,207
Insurance claim	-	24
Profit on termination of Ijarah agreements	2,207	-
	<u>12,063</u>	<u>23,214</u>

27. FINANCE COSTS

Mark up on long term finance	29,842	10,317
Mark up on running finance under mark up arrangements	58,797	54,135
Mark up on export re-finance	27,119	16,295
Mark up on short term loan	624	-
Mark up on finance lease	480	2,785
Interest on Workers' Profits Participation Fund	-	46
Bank charges	8,834	9,541
	<u>125,696</u>	<u>99,364</u>

28. TAXATION

Current	124,500	48,000
Deferred	6,654	12,622
	<u>131,154</u>	<u>60,622</u>
Prior years	-	12,000
	<u>131,154</u>	<u>72,622</u>

# NOTES TO THE FINANCIAL STATEMENT

FOR THE YEAR ENDED JUNE 30, 2011

	2011	2010
	(Rupees in thousand)	
28.1 Reconciliation between tax expense and accounting profit:		
Profit before taxation	361,751	159,181
Tax at applicable rate of 35%	126,613	55,713
Tax effect of permanent differences	1,794	372
Tax effect of final tax regime	(2,621)	532
Effect of tax credits	(6,041)	-
Tax surcharge	5,161	-
Others	6,248	4,005
Provision for prior year	-	12,000
	<u>131,154</u>	<u>72,622</u>
29. EARNINGS PER SHARE		
Profit after taxation attributable to ordinary shareholders	230,597	86,559
Weighted average number of shares in issue during the year (in thousand)	41,443	41,443
Earnings per share - (Rupees)	5.56	2.09

A diluted earnings per share has not been presented as the company did not have any convertible instruments in issue as at June 30, 2011 and 2010 which would have any effect on the earnings per share if the option to convert is exercised.

	2011	2010
	(Rupees in thousand)	
30. CASH GENERATED FROM / (USED IN) OPERATIONS		
Profit before taxation	361,751	159,181
Adjustments for non-cash charges and other items		
Depreciation	81,978	76,303
Amortisation	16,980	17,592
Profit on disposal of property, plant and equipment	(6,806)	(4,267)
Stocks written off	8,140	23,482
Finance costs	125,696	99,364
Retirement benefits expense	4,627	3,927
	<u>230,615</u>	<u>216,401</u>
Profit before working capital changes	592,366	375,582
EFFECT ON CASH FLOWS DUE TO WORKING CAPITAL CHANGES		
Increase in current assets		
Stores, spare parts and loose tools	147	72
Stock in trade	(238,318)	(678,737)
Trade debts	(34,692)	21,506
Advances	30,165	(14,823)
Trade deposits and prepayments	(2,999)	(3,458)
Other receivables	20,026	(18,032)
	<u>(225,671)</u>	<u>(693,472)</u>
Decrease in current liabilities		
Trade and other payables	285,713	69,452
Due to the government	(2,333)	1,388
	<u>283,380</u>	<u>70,840</u>
	<u>650,075</u>	<u>(247,050)</u>

# NOTES TO THE FINANCIAL STATEMENT

FOR THE YEAR ENDED JUNE 30, 2011

	2011	2010
	(Rupees in thousand)	
31. CASH AND CASH EQUIVALENTS		
Cash and bank balances	14,225	14,101
Short term borrowings	(727,940)	(1,189,769)
	<u>(713,715)</u>	<u>(1,175,668)</u>

32. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

32.1 The aggregate amounts charged in these financial statements in respect of remuneration including all benefits to chief executive, directors and executives of the company are as follows:

	Chief Executive		Directors		Executives	
	2011	2010	2011	2010	2011	2010
	(Rupees in thousand)					
Managerial remuneration and allowances	6,009	5,305	3,484	3,484	45,424	46,415
Utilities	601	530	348	348	4,542	4,656
Bonus / variable pay	6,465	588	871	435	23,504	5,692
Housing	2,704	2,387	1,568	1,568	20,441	20,739
Retirement benefits	4,585	3,793	643	665	4,383	4,764
Other expenses	1,977	957	1,705	1,110	22,962	21,349
	<u>22,341</u>	<u>13,560</u>	<u>8,619</u>	<u>7,610</u>	<u>121,256</u>	<u>103,615</u>
Number of persons	<u>1</u>	<u>1</u>	<u>2</u>	<u>2</u>	<u>45</u>	<u>43</u>

32.2 Fee to non-executive directors paid during the year amounted to Rs 19,000 (2010: Rs 16,000).

32.3 The Chief Executive, executive directors and certain executives of the company are also provided with company maintained cars and residential telephones.

33. RELATED PARTY DISCLOSURES

A. Related parties with whom the company had transactions

i) Associated Companies / Undertakings:	Associated Textile Consultants (Private) Limited Precision Rubber Products (Private) Limited Premier Agency Premier Distributor Shield Corporation Limited
ii) Defined Contribution Plan:	National Foods Limited Provident Fund

# NOTES TO THE FINANCIAL STATEMENT

FOR THE YEAR ENDED JUNE 30, 2011

B. Disclosure of transactions between the company and related parties

		2011	2010
		(Rupees in thousand)	
Relationship with the Company	Nature of transaction		
Associated Companies / Undertakings:	Sale of goods	696,242	664,279
	Reciprocal arrangements for sharing of services	1,483	2,941
	Purchase of goods	30,967	19,228
Staff retirement fund:	Expense charged for defined contribution plan	11,847	10,643
	Payments to retirement contribution plan	28,655	32,486
Key management personnel compensation:			
	Salaries and other short-term employee benefits	86,595	76,010
	Post-employment benefits	7,724	7,403

The related party status of outstanding balances as at June 30, 2011 is included in trade debts, other receivables and trade and other payables respectively. These outstanding balances are unsecured and are settled in the ordinary course of business.

34. PLANT CAPACITY AND PRODUCTION

	2011	2010
Actual production of plants in metric tons	<u>47,054</u>	<u>39,727</u>

34.1 The capacity and production of the company's plants are indeterminable as these are multi-product and involve varying processes of manufacture.

35. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

35.1 Financial risk factors

The company's activities expose it to variety of financial risks namely credit risk, liquidity risk and market risk (including foreign exchange risk and interest rate risk). The company's overall risk management programme focuses on having cost effective funding as well as manage financial risk to minimise earnings volatility and provide maximum return to shareholders.



# NOTES TO THE FINANCIAL STATEMENT

FOR THE YEAR ENDED JUNE 30, 2011

## 35.2 Financial assets and liabilities by category and their respective maturities

	Interest / Mark up bearing			Non-interest / Non-mark up bearing			Total
	Maturity up to one year	Maturity after one year	Sub-total	Maturity up to one year	Maturity after one year	Sub-total	
(Rupees in thousand)							
<b>FINANCIAL ASSETS</b>							
Trade debts	-	-	-	287,742	-	287,742	287,742
Deposits	-	-	-	4,475	4,380	8,855	8,855
Other receivables	-	-	-	638	-	638	638
Cash and bank balances	-	-	-	14,225	-	14,225	14,225
June 30, 2011	<u>-</u>	<u>-</u>	<u>-</u>	<u>307,080</u>	<u>4,380</u>	<u>311,460</u>	<u>311,460</u>
June 30, 2010	<u>-</u>	<u>-</u>	<u>-</u>	<u>292,520</u>	<u>4,509</u>	<u>297,029</u>	<u>297,029</u>
<b>FINANCIAL LIABILITIES</b>							
Long term financing	44,250	169,750	214,000	-	-	-	214,000
Liabilities against assets subject to finance lease	2,343	-	2,343	-	-	-	2,343
Trade and other payables	-	-	-	716,109	-	716,109	716,109
Accrued interest / mark up	-	-	-	25,717	-	25,717	25,717
Short term borrowings	727,940	-	727,940	-	-	-	727,940
June 30, 2011	<u>774,533</u>	<u>169,750</u>	<u>944,283</u>	<u>741,826</u>	<u>-</u>	<u>741,826</u>	<u>1,686,109</u>
June 30, 2010	<u>1,240,007</u>	<u>22,260</u>	<u>1,262,267</u>	<u>505,990</u>	<u>-</u>	<u>505,990</u>	<u>1,768,257</u>

### OFF BALANCE SHEET ITEMS

Letters of credit	13,361
June 30, 2010	<u>52,303</u>
Letters of guarantees	20,416
June 30, 2010	<u>13,911</u>

All the financial instruments of the company are designated as loans and receivables and hence measured at amortised cost.

The effective interest / mark up rates for the monetary financial assets and liabilities are mentioned in respective notes to the financial statements.

### i) Credit risk

Credit risk represents the accounting loss that would be recognised at the reporting date if counterparts failed to perform as contracted. Out of the total financial assets of Rs 311.46 million (2010: Rs 297.03 million) the financial assets exposed to the credit risk amount to Rs 310.43 million (2010: Rs 295.91 million).

For trade debts, internal risk assessment process determines the credit quality of the customers, taking into account their financial positions, past experiences and other factors. Individual risk limits are set based on internal or external credit worthiness ratings in accordance with limits set by the management. As of June 30, 2011 trade debts of Rs 102.24 million (2010: Rs 133.47 million) were past due but not impaired. The carrying amount of trade debts relates to number of individual customers for whom there is no recent history of default.

The bank balances represent low credit risk as they are placed with banks having good credit ratings assigned by credit rating agencies.

# NOTES TO THE FINANCIAL STATEMENT

FOR THE YEAR ENDED JUNE 30, 2011

The other financial assets are neither material to the financial statements nor exposed to any significant credit risk.

The management does not expect any losses from non-performance by these counterparties.

### ii) Liquidity risk

Liquidity risk reflects the company's inability in raising funds to meet commitments. The company manages liquidity risk by maintaining sufficient cash and bank balances and the availability of financing through banking arrangements. Management monitors rolling forecasts of the company's liquidity reserve which comprise of undrawn borrowing facility and cash and cash equivalents on the basis of expected cash flows.

### iii) Market Risks

#### a) Foreign exchange risk

Foreign exchange risk arises mainly where receivables and payables exist in foreign currency. As at June 30, 2011, financial assets of Rs 247.49 million (2010: Rs 150.99 million) were in foreign currency which were exposed to foreign currency risk.

As at June 30, 2011, if the Pak Rupee had weakened / strengthened by 7% against US Dollar with all other variables held constant, profit before tax for the year would have been lower / higher by Rs 17.80 million (2010: Rs 10.43 million), mainly as a result of foreign exchange losses / gains on translation of US Dollar denominated trade debts.

The sensitivity of foreign exchange rate looks at the outstanding foreign exchange balances of the company only as at the balance sheet date and assumes this is the position for a full twelve-month period. The volatility percentages for movement in foreign exchange rates have been used due to the fact that historically (five years) rates have moved on average basis by the mentioned percentages per annum.

#### b) Interest rate risk

The company's interest rate risk arises from borrowings as the company has no significant interest-bearing assets. Borrowings issued at variable rates expose the company to cash flow interest rate risk.

At June 30, 2011, the company had variable interest bearing financial liabilities of Rs 0.94 billion (2010: Rs 1.26 billion), and had the interest rates varied by 100 basis points (2010: 100 basis points) with all the other variables held constant, profit before tax for the year would have been lower / higher by approximately Rs 9.4 million (2010: Rs 12.6 million), mainly as a result of higher / lower interest expense on floating rate borrowings.

The sensitivity of 100 basis points (2010: 100 basis points) movement in interest rates has been used as historically (five years) floating interest rates have moved by an average of 100 basis points (2010: 100 basis points) per annum.

# NOTES TO THE FINANCIAL STATEMENT

FOR THE YEAR ENDED JUNE 30, 2011

## 35.3 Capital Risk Management

The company's objectives when managing capital are to safeguard the company's ability to continue as a going concern in order to provide returns for shareholders and benefit for other stake holders and to maintain an optimal capital structure to reduce the cost of capital.

During 2011 the company's strategy was to maintain leveraged gearing. The gearing ratio as at June 30, 2011 was as follows:

	2011	2010
	(Rupees in thousand)	
Total Borrowings	970,000	1,290,586
Cash and Bank	(14,225)	(14,101)
Net debt	955,775	1,276,485
Total equity	922,811	741,945
Total capital	1,878,586	2,018,430
Gearing ratio	51%	63%

The company finances its operations through equity, borrowings and management of working capital with a view to maintaining an appropriate mix between various sources of finance to minimise risk.

## 35.4 Fair values of financial assets and liabilities

The carrying values of all financial assets and liabilities reflected in the financial statements approximate their fair values.

## 36. EVENTS OCCURRING AFTER BALANCE SHEET DATE - PROPOSED DIVIDEND

The Board of Directors in its meeting held on September 16, 2011 proposed a cash dividend for the year ended June 30, 2011 of Rs. 2.50 per share amounting to Rs. 103.61 million (2010: cash dividend of Rs. 1.20 per share amounting to Rs. 49.73 million) subject to the approval of the company in the annual general meeting.

These financial statements do not reflect the proposed dividend as payable, which will be accounted for in the statement of changes in equity as an appropriation from the unappropriated profit in the year ending June 30, 2012.

## 37. DATE OF AUTHORISATION

These financial statements were authorised for issue by the Board of Directors of the company on September 16, 2011.



Chief Executive



Director

# PATTERN OF SHAREHOLDING

AS AT JUNE 30, 2011

CATEGORY NO.	CATEGORIES OF SHARE HOLDERS	NUMBER OF SHARES HELD	CATEGORY WISE NO. OF SHARE HOLDERS	CATEGORY WISE SHARES HELD	PERCENTAGE %
1	INDIVIDUALS		1,624	11,503,429	27.76
2	INVESTMENT COMPANIES		1	1,250	0.00
3	JOINT STOCK COMPANIES		24	27,453	0.07
4	DIRECTORS, CHIEF EXECUTIVE OFFICER AND THEIR SPOUSE AND MINOR CHILDREN		12	15,960,208	38.51
	MR. ABDUL MAJEED	1,583,990	1		
	MR. WAQAR HASAN	4,875	1		
	MRS. JAMILA WAQAR	4,875	1		
	MR. ABRAR HASAN	4,087,305	1		
	MR. ZAHID MAJEED	2,436,540	1		
	MR. EBRAHIM QASSIM	705,427	1		
	MR. IQBAL ALIMOHAMED	6,325,225	1		
	MRS. M.E.MAJEED W/O MR. ABDUL MAJEED	163,672	1		
	MRS. KULSUM BANOO W/O MR. EBRAHIM QASSIM	298,807	1		
	KHAWAJA MUNIR MASHOOQULLAH	69,650	1		
	MRS. ZEELAF MINIR W/O KHAWAJA MUNIR MASHOOQULLAH	275,842	1		
	MRS. NOREEN HASAN W/O MR. ABRAR HASAN	4,000	1		
5	EXECUTIVES		-	-	-
6	NIT / ICP		-	-	-
7	ASSOCIATED COMPANIES, UNDERTAKINGS AND RELATED PARTIES		1	13,743,090	33.16
	ASSOCIATED TEXTILE CONSULTANTS (PVT.) LIMITED	13,743,090	1		
8	PUBLIC SECTOR COMPANIES AND CORPORATIONS		-	-	-
9	BANKS, DFIs, NBFIs, INSURANCE COMPANIES, MODARABAS & MUTUAL FUNDS		3	176,171	0.43
10	FOREIGN INVESTORS		-	-	-
11	CO-OPERATIVE SOCIETIES		-	-	-
12	CHARITABLE TRUSTS		1	19,643	0.05
13	OTHERS		2	11,499	0.03
	TOTALS		1,668	41,442,743	100.00

SHARE-HOLDERS HOLDING TEN PERCENT OR MORE VOTING INTEREST IN THE LISTED COMPANY

TOTAL PAID-UP CAPITAL OF THE COMPANY 41,442,743 SHARES  
10% OF THE PAID-UP CAPITAL OF THE COMPANY 4,144,274 SHARES

NAME(S) OF SHARE-HOLDER(S)	DESCRIPTION	NUMBER OF SHARE HELD	PERCENTAGE %
ASSOCIATED TEXTILE CONSULTANTS (PVT.) LIMITED	FALLS IN CATEGORY # 7	13,743,090	33.16
MR. IQBAL ALI MOHAMMAD	FALLS IN CATEGORY # 4	6,325,225	15.26
MR. KHAWAR M. BUTT	FALLS IN CATEGORY # 1	5,091,782	12.29
TOTAL		25,160,097	60.71

# [ PATTERN OF SHAREHOLDING ]

AS AT JUNE 30, 2011

NUMBER OF SHARE HOLDERS	SHARE HOLDING		TOTAL SHARES HELD
	FROM	TO	
684	1	100	30,883
458	101	500	110,736
183	501	1,000	147,748
228	1,001	5,000	549,996
42	5,001	10,000	304,833
15	10,001	15,000	188,428
11	15,001	20,000	201,417
16	20,001	25,000	337,300
1	25,001	30,000	26,152
2	30,001	35,000	64,367
1	35,001	40,000	36,187
1	40,001	45,000	41,392
1	55,001	60,000	58,148
1	65,001	70,000	69,650
1	95,001	100,000	97,500
2	125,001	130,000	255,299
1	150,001	155,000	150,008
1	160,001	165,000	163,672
1	170,001	175,000	174,180
3	265,001	270,000	808,020
1	275,001	280,000	275,842
1	295,001	300,000	298,807
1	330,001	335,000	330,696
1	360,001	365,000	360,885
1	480,001	485,000	483,806
1	485,001	490,000	487,500
3	705,001	710,000	2,121,359
1	1,580,001	1,585,000	1,583,990
1	2,435,001	2,440,000	2,436,540
1	4,085,001	4,090,000	4,087,305
1	5,090,001	5,095,000	5,091,782
1	6,325,001	6,330,000	6,325,225
1	13,740,001	13,745,000	13,743,090
1,668			41,442,743

# [ NOTICE OF ANNUAL GENERAL MEETING ]

## Notice of Meeting

Notice is hereby given that the 40<sup>th</sup> annual general meeting of National Foods Limited will be held at the registered office situated at 12/CL-6, Claremont Road, Civil Lines Karachi, on Thursday, October 27, 2011 at 3:00 p.m., to transact the following business:

### Ordinary Business:

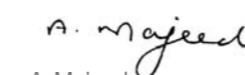
- To confirm the minutes of the 39<sup>th</sup> annual general meeting held on October 15, 2010.
- To receive, consider and approve the audited accounts for the year ended June 30, 2011.
- To approve final dividend on the ordinary shares of the company. The directors have recommended dividend of 25% (or Rs. 2.50 per share) on every ordinary shares held.
- To appoint auditors for the year 2011-2012 and to fix their remuneration.

### Special Business:

- To increase the meeting attendance fee payable to the directors from Rs. 1,000/- to Rs.25,000/- per meeting and to amend accordingly the Article of Association of the Company by passing the following resolution as a special resolution, with or without modification.

"RESOLVED THAT the meeting attendance fee for the directors be and is hereby increased from Rs. 1,000/- to Rs. 25,000/- for attending every meeting and accordingly the figure of Rs.1,000 appearing in Article 62 of the existing Article of Association of the company be and is hereby amend to read as Rs. 25,000/- with immediate effect."

By Order of the Board of Directors



A. Majeed  
Chairman Karachi, October 05, 2011

### Notes:

- The share transfer books of the Company will remain closed from October 19, 2011 to October 27, 2011 (both days inclusive).
- All members are entitled to attend and vote at the meeting. A member may appoint a proxy to attend, speak and vote for him/her. A proxy must be a member of the Company.
- In order to be valid, an instrument proxy and the power of attorney or other authority under which it is signed, or a notarially certified copy of such power of authority, must be deposited at the registered office of the Company not less than 48 hours before the time of the meeting.
- Any change of address of Members should be notified immediately to the Company's Share Registrar, Noble Computer Services (Pvt.) Ltd., First Floor, House of Habib Building (Siddiqsons Tower), 3-Jinnah Cooperative Housing Society, Main Shahrah-e-Faisal, Karachi-75350, Pakistan.
- A member who has deposited his/her shares into Central Depository Company of Pakistan Limited,
  - in case of individuals, must bring his/her participant's ID number and account/sub-account number alongwith original Computerised National Identity Card or original Passport at the time of attending the meeting.
  - in case of corporate entity, the Board of Directors' resolution / power of attorney with specimen signature of the nominee shall be produced (unless it has been provided earlier) at the time of the meeting.
- Members who have not yet submitted photocopy of their Computerised National Identity Cards to the Company are requested to send the same at the earliest.

### STATEMENT UNDER SECTION 160(1) (b) OF THE COMPANIES ORDINANCE 1984

This statement sets out the material facts concerning the Special Business to be transacted at the Annual General Meeting and the proposed Resolutions related thereto item 5 of the Agenda - Increase in meeting attendance fee payable to directors.

The members of the Company in its 30<sup>th</sup> Annual General Meeting, held on November 10, 2001, passed a Resolution, whereby, it approved and authorized the payment of Rs.1,000/- as fees to directors for attending the meeting. Accordingly, in line with the said resolution the Company during the year ended June 30, 2011 has paid Rs.19,000 (2010 Rs.16,000) as fees to directors.

At present other than above, the Non-Executive directors are not reimbursed for any expenditure in relation with meetings. Attending Company's meeting regularly requires them to incur substantial cost on travel and other expenses, and due to significant cost inflation in last couple of years all such costs have increased significantly. It is therefore, proposed that meeting attendance fees for non-executive directors should be increased to Rs.25,000/-.

# [FORM OF PROXY]

## 40TH ANNUAL GENERAL MEETING

I/We \_\_\_\_\_ of  
\_\_\_\_\_ being a member of  
National Foods Limited holding \_\_\_\_\_ ordinary shares as per Registered  
Folio No./CDC A/C No. (for members who have shares in CDS) \_\_\_\_\_  
hereby appoint Mr./Mrs./Miss \_\_\_\_\_ of  
(full address) \_\_\_\_\_ or falling him/her  
Mr./Mrs./Miss \_\_\_\_\_ of  
(full address) \_\_\_\_\_

(being member of the Company) as my/our Proxy to attend, act and vote for me/us and behalf at the 40th Annual General Meeting of the Company to be held on October 27, 2011 and/or any adjournment there of.

As witness my/our hand seal this \_\_\_\_\_ day of \_\_\_\_\_ 2011.

Signed by \_\_\_\_\_ in the

Presence of (i) \_\_\_\_\_

(ii) \_\_\_\_\_

Signature on  
Rs. 5/-  
Revenue Stamp

(Signature must agree with the specimen signature registered with the company)

### Important:

1. This form of proxy, duly completed and signed, must be deposited at the office of the Company's Shares Registrar, not later than 48 hours before the meeting
2. This form should be signed by the Member or by his/her attorney duly authorized in writing. If the member is a Corporation, its common seal should be affixed to the instrument.
3. A Member entitled to attend and vote at the meeting may appoint any other Member as his/her proxy to attend and vote on his/her behalf except that a corporation may appoint a person who is a Member.

### For CDC Account Holders/Corporate Entities:

In addition to the above following requirements have to be met:

- i. The Proxy form shall be witness by two persons whose names, address and CNIC Numbers shall be mentioned on the form.
- ii. Attested copies of CNIC or Passport of the beneficial owners and proxy shall be furnished with the proxy form.
- iii. The proxy shall produce his/her original CNIC or original Passport at the time of the meeting.
- iv. In case of corporate entity, the Board of Directors' resolution/power of attorney with specimen signature shall be submitted (unless it has been provided earlier) alongwith proxy form.