

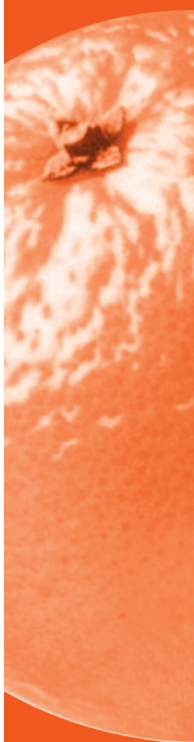


ANNUAL REPORT 2002



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COMPANY INFORMATION

BOARD OF DIRECTORS

Mr. A. Majeed	:	Chairman
Mr. Abrar Hasan	:	Managing Director / Chief Executive
Mr. Waqar Hasan	:	Director
Mr. Khawar M. Butt	:	Director
Mr. Zahid Majeed	:	Director
Mr. Ebrahim Qassim	:	Director
Ms. Jamila Waqar	:	Director
Mr. Firasat Ali	:	Director (N.I.T. Nominee)
Mr. Habib A. Ismail Khairani	:	Company Secretary

AUDITORS

: Riaz Ahmad, Saqib, Gohar & Company,
Chartered Accountants,
5-Nasim Co-operative Housing Society Ltd.
Major Nazir Bhatti Road,
Off Shaheed-e-Millat Road, Karachi.
Phones : 4945427 - 4946112 Fax : 4932629

REGISTRAR

: Noble Computer Services (Pvt.) Limited
14-Banglore Town Housing Society,
Sharea-e-Faisal, Karachi-75350.
Phones : 4546978-4520121 Fax : (92-21) 4314962

BANKERS

: **Bank Al-Habib Limited**
Mackinnons Building, I. I. Chundrigar Road, Karachi.
Phones : 2412986 (10 lines) Fax : 2419752

S.I.T.E. Branch,
Plot # B/76 S.S. Chambers S.I.T.E., Karachi.
Phones : 2571710-11 (92-21) 2571522

Garden Town Branch
Lahore City.
Phones: 5869366-8

United Bank Limited
Corporate Branch, State Life Building, 1-C,
I.I. Chundrigar Road, Karachi.
Phones : 111-825-111, 2417100 (10 lines)

Citi Bank NA,
State Life Building No. 1, I. I. Chundrigar Road, Karachi.
Phones : 2412641-50 Fax: 2426773

Muslim Commercial Bank Limited,
Clifton Corporate Branch, Kulsom Court, Clifton, Karachi.
Phones : 5872286 - 5831835 Fax: 5872058

Wahdat Road Branch, Lahore.
Phone : 5865149

Habib Bank Limited
Hub River Road Branch, Karachi.
Phone : 2572197

REGISTERED OFFICE : 12/CL-6, Claremont Road, Civil Lines, Karachi-75530.
P.O. Box No. 15509
Phones : 5662687, 5670540, 5670585, 5670646,
5670793 & 5672268 Fax No: 5684870

AUDIT COMMITTEE

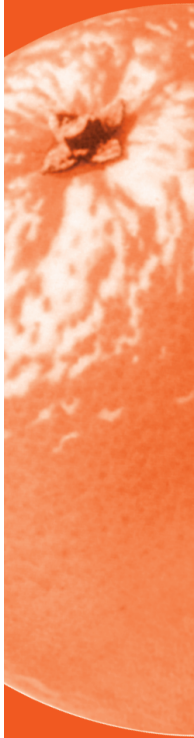
Mr. Waqar Hasan : Chairman
Mr. Ebrahim Qassim : Member
Mr. Khawar M. Butt : Member

CHIEF FINANCIAL OFFICER

Mr. Abdul Rahim

COMPANY MANAGEMENT

Mr. Abrar Hasan : Chief Executive
Mr. Habib A. Ismail Khairani : General Manager Corporate Finance
Mr. Abdul Rahim : General Manager Finance
Mr. Mohammad Tarique : General Manager Trade Marketing
Mr. Shaikh Irfan Aziz : Exec. Manager Human Resource
Mr. Abdul Razzaq Kodvavi : Exec. Manager Inventory & Logistics
Mr. S.M.H. Wasti : Exec. Manager Procurement
Mr. Nasir Hameed : Exec. Manager Engineering & Dev.
Mr. M. Azhar Ali : Manager Production & Process Dev.



OUR VISION

Vision Statement

- To be an INNOVATIVE, MARKETING and RESEARCH oriented company
- To be a leader and take advantage of our leadership position in all product categories
- To develop products with market potential through the means of indigenous technology and Research & Development
- To market our products globally
- To target new, emerging segments of the food market
- To become a global brand

Company Mission

- To deliver consistent quality to our customers using pure ingredients, authentic recipes and the best available technology
- Dedicated to continuous improvement through active alliances with international companies by expanding technological and product horizons
- To maintain close and direct contact with our customers through consumer insights and dedicated service
- To provide external and internal customer service by excelling in functional management
- To promote professionalism at all levels through education, training and development of human resources
- To deliver a fair return to our valued investors and shareholders, annually, in line with industry norms and economic conditions

SIX YEARS AT A GLANCE

	1997	1998	1999	2000	2001	2002
PROFIT AND LOSS STATEMENT						
Sales	395,094	503,645	644,352	765,675	915,136	994,637
Cost of Sales	315,280	390,437	513,323	578,472	675,226	742,469
Gross Profit	79,814	113,208	131,029	187,203	239,910	252,168
Administration & Selling Expenses	61,992	89,430	103,998	148,338	189,975	212,021
Financial Charges	8,193	8,042	12,776	12,614	14,149	15,949
Other Charges	807	947	939	1,667	2,257	1,470
Other Income	1,672	815	1,277	994	2,157	2,200
Profit before Tax	10,494	15,604	14,593	25,578	35,686	24,928
Taxation	2,030	6,100	3,150	7,075	8,459	3,514
Profit after taxation	8,464	9,504	11,443	18,503	27,227	21,414
BALANCE SHEET						
Share Capital	32,854	36,961	42,505	42,505	42,505	42,505
Reserves	33,411	38,808	38,757	48,121	62,597	73,384
Shareholders' Equity	66,265	75,769	81,262	90,626	105,102	115,889
Long Term Obligations	3,055	5,995	7,583	14,209	13,811	8,697
Current Liabilities & Provisions	101,401	122,087	167,134	199,714	201,240	234,754
TOTAL	170,721	203,851	255,979	304,549	320,153	359,340
Fixed Assets - Tangible	64,911	75,128	78,299	84,938	109,210	138,996
Long Term Security Deposits	3,624	1,825	1,266	3,511	1,592	2,113
Current Assets	102,186	126,898	176,414	216,100	209,351	218,231
TOTAL	170,721	203,851	255,979	304,549	320,153	359,340

FINANCIAL RATIOS

	1997	1998	1999	2000	2001	2002
PERFORMANCE MEASURES						
Return on Shareholders' Equity	12.77%	12.54%	14.08%	20.42%	25.91%	18.48%
Operating Return	6.15%	7.65%	5.70%	8.40%	11.15%	6.94%
PROFITABILITY MEASURES						
Gross Profit Margin	20.20%	22.48%	20.34%	24.45%	26.22%	25.35%
Profit Margin	2.14%	1.89%	1.78%	2.42%	2.98%	2.15%
Earning per share (Rs.)	2.58	2.57	2.69	4.35	6.41	5.04
TESTS OF INVESTMENT UTILISATION						
Asset turnover (Times)	2.37	2.69	2.80	2.73	2.93	2.93
Receivables (Days)	15.34	13.51	10.69	10.34	11.31	14.34
Days' Inventory	87.82	78.55	83.55	100.10	88.98	76.74
Receivable turnover	23.79	27.02	34.13	35.30	32.26	25.45
Inventory Turnover (Times)	4.16	4.65	4.38	3.65	4.10	4.76
TESTS OF FINANCIAL CONDITION						
Current Ratio	1.01	1.04	1.06	1.08	1.04	0.93
Acid-test Ratio	0.28	0.26	0.22	0.19	0.29	0.25
Debt/Equity Ratio	4.61%	7.91%	9.33%	15.68%	13.14%	7.50%
Time Interest Earned	2.28	2.94	2.14	3.03	3.52	2.56
Book value per share	20.17	20.50	19.12	21.32	24.73	27.26
Return on assets	5.08%	5.07%	4.98%	6.60%	8.72%	6.30%

NOTICE OF MEETING

Notice is hereby given that the 31st 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 Wednesday the 30th October 2002, at 10:00 a.m., to transact the following business:

Ordinary Business:

1. To confirm the minutes of the 30th annual general meeting held on 10th November 2001.
2. To receive, consider and approve the audited accounts for the year ended 30th June 2002.
3. To approve payment of cash dividend @ 25% (Rs. 2.50 per share of Rs. 10 each) as recommended by the directors.
4. To appoint auditors for the year 2002-2003 and to fix their remuneration. The retiring auditors Messrs. Riaz Ahmad, Saqib, Gohar & Company, Chartered Accountants being eligible, have offered themselves for re-appointment as auditors.
5. To transact any other business with the permission of the Chairman.

By order of the Chairman

Karachi: October 07, 2002.

(HABIB A. ISMAIL KHAIRANI)
Company Secretary

NOTES :

1. The share transfer books of the Company will remain closed from October 21, 2002 to October 30, 2002 (Both days inclusive).
2. All members are entitled to attend and vote at the meeting
3. A member entitled to attend and vote at the meeting may appoint a proxy to attend, speak and vote for him/her. A proxy must be a member of the Company.
4. In order to be valid, an instrument of 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.
5. Shareholders are requested to notify immediately any change in their registered address.

REPORT OF DIRECTORS TO THE SHAREHOLDERS

On behalf of the executive Board of Directors of National Foods Limited, it gives me great pleasure to put before you the audited accounts and financial results of the company for the year ending 30th June 2002.

Financial Performance

The Board of Directors of National Foods Limited is pleased to announce an appropriation of profits of Rs. 10,626,345/- to be paid in the form of Cash Dividend.

Year	2001-02	2000-01
Operating profit	40,147,353	49,935,535
Add: Other income	2,200,039	2,156,953
	<u>42,347,392</u>	<u>52,092,488</u>
Less: Financial and other charges	(17,419,581)	(16,405,820)
Profit before taxation	<u>24,927,811</u>	<u>35,686,668</u>
Less: Taxation	(3,514,124)	(8,458,820)
Profit after taxation	<u>21,413,687</u>	<u>27,227,848</u>
Add: Un-appropriated profit brought forward	(56,495,027)	(42,018,793)
Profit available for appropriation	<u>77,908,714</u>	<u>69,246,641</u>
APPROPRIATIONS:		
Proposed final dividend @ 25 % (2001: 30%)	<u>10,626,345</u>	<u>12,751,614</u>
Un-appropriated profit carried forward	<u>67,282,369</u>	<u>56,495,027</u>

Management Summary

Following important factors have made a significant impact on the financial results of the company. These factors were also highlighted in the half yearly and the 3rd quarter report to the shareholders.

1. Lower sales growth due to slump in the 3rd quarter affecting the export sales.
2. Revaluation of the Rupee against US Dollar thus reducing the monetary sales growth of exports.
3. Abolishment of Gratuity and merging of the outstanding amount to the Provident Fund. This has led to a reduction of pre-tax profit from a figure of Rs. 35.687 million to Rs. 24.928 million for this year.

All these factors have been explained in detail below. Despite the tough economic and operational conditions, the Board of Directors has announced an appropriation of Rs.10,626,345 in the form of a Cash Dividend of 25%.

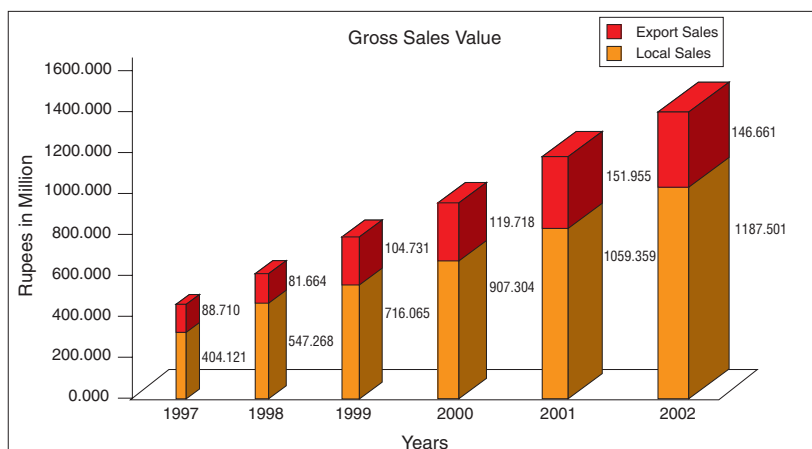
These appropriations are made in line with the confidence the directors have in the company and also expect a favorable outcome from the key investments made and deployed this year for future years to come.

Operational Analysis

The company has finished with the following key Business Performance Indices.

Sales Analysis

	2001-02	2000-01	Variance
Gross Sales Corporate	1,334,161,610	1,211,313,519	10.14%
Gross Local Sales	1,187,500,635	1,059,358,411	12.10%
Gross Export Sales	146,660,975	151,955,108	-3.48%



The fluctuation in sales becomes further apparent in the cumulative quarterly performance mentioned below:

	Jul-Jun 02	Jul-Mar 02	Jul-Dec 01
Corporate Growth	10.1 %	6.8 %	8.8 %
Local Sales Growth	12.1 %	10.4 %	9.6 %
Export Sales Growth	- 3.5%	-18.9 %	3.2 %

Profitability

	2001-02	2000-01	Variance
Profit After Tax	21,413,687	27,227,848	-21.35 %

	Jul-Jun 02	Jul-Mar 02	Jul-Dec 01
Profit After Tax	21,413,687	18,988,389	15,039,043

The bottom line has registered a negative growth as compared to last year. In order to give proper perspective to the results the following factors have to be taken into consideration.

Economic Outlook

As reported in the quarterly results of Mar 2002, the slump in sales came in the 3rd quarter, post September 11th, and the impact of socio-political and economic changes were felt at most where the export sales declined to a cumulative sales growth of -18.9% for 9 months. It was further reported that the last quarter saw a revival and the orders in hand bridged the gap to a closing cumulative sales figure of -3.5 %. This negative performance also remained in pressure due to the devaluation of Dollar against the Rupee. The average revaluation of the Rupee incidentally was to the tune of 3.5 % as the growth in Tonnage for the exports came to a growth of 0.02 % exactly.

On the other hand the local sales met with their budgeted sales objective and finished with a sales growth figure of 12.1 %.

Profitability and Performance Measures

	2001-02	2000-01	1999-00
Gross Profit Margin	25.35 %	26.22 %	24.45 %
Profit Margin	2.15 %	2.98 %	2.42 %
Earning per Share	5.04	6.41	4.35
Return on Shareholder's Equity	18.48 %	25.91 %	20.42 %
Operating Return	6.94 %	11.15 %	8.40 %

The Gross Profit remained under pressure due to substantially higher prices of Raw and Packaging Materials, also due to reduced sales growth, the fixed costs remained on the higher side resulting in lower Profit Margins.

Investments

The following key investments were made during the year:

1. Construction of Warehouses at Bin Qasim Industrial Unit
2. Procurement and Deployment of new Hardware and ERP software package
3. Placement of Order for New Plant and Equipment for expansion and Modernization

For Items 1 and 2, they appear in the capitalization work in process of the Balance Sheet and have been accounted for by company's own funds. Item 3 has been negotiated on a long term loan finalized through a financial institution and will be capitalized after delivery of equipment in the next financial year.

The investments in these three key categories open up new possibilities for the company in line with future growth objectives.

The company in its first phase of expansion has built 40,000 square feet of central warehousing at Bin Qasim from the 10 acres of land procured. This will consolidate costs in terms of logistical operations and has paved way for future expansion and development for export oriented projects.

The company is in its final stages of deployment of the new ERP software. This software will deliver efficiencies in operations and cash flow management by optimizing resources. It has also now created the possibility for the company to physically link up different manufacturing units and regional offices throughout the country so that efficient and quick decision making can take place.

The procurement of the new plant is in line with the phase 1 of expansion at Bin Qasim. This unit will be deployed at the existing manufacturing units and would hopefully be in production by early January 2003. This new wet based processing plant opens up the possibilities of tapping into innovative value added food segments in the export market.

The company hopes to gain substantially from these investments to meet its growth objectives for the future.

Based on these investments the Financial Condition and Investment Utilization ratios are presented as follows:

	2001-02	2000-01	1999-00
Current Ratio	0.93	1.04	1.08
Acid Test Ratio	0.25	0.29	0.19
Debt / Equity Ratio	7.50 %	13.14 %	15.68 %
Asset Turnover	2.93	2.93	2.73
Receivables (Days)	14.34	11.31	10.34
Day's Inventory	76.74	88.98	100.10

Human Resources

In order to facilitate the benefit of employees and to counter the actuaries evaluation of Gratuity Expense, the Board of Directors has decided to abolish the Gratuity and merge the outstanding balances with the Provident Fund of the employees. By making this decision the company has conscientiously taken the extra burden of Rs. 8.471 million charged as an expense to its current years profit figure. This is an important decision which would very positively affect the future results of the company in terms of increased profitability over a subsequent period of years without harming the welfare of the employees. The reflectance of this move has subsequently reduced the profitability of the company from a pre-tax figure of Rs. 33.399 million to Rs. 24.928 million for this year.

Due to this move the Current Ratio has also significantly deteriorated without affecting the cash flow of the company. The other ratios displayed above in relation to the Acid Test ratio provide confidence in the going concern and the financial liquidity of the company.

In addition to the welfare of the employees, the Chairman of National Foods is actively pursuing the Adult Literacy Program within the company and by now has successfully achieved a success rate of 96% Adult Literacy levels. This is part of our commitment to the resources employed within and also socially to the country to impart knowledge and improve the basic literacy levels thus improving the qualitative value of work and basic needs in life.

The company has also successfully restructured its sales and marketing operations. The top management under the guidance of the Chairman has been actively involved in successfully consolidating the huge product range of 134 products. These products have been re-categorized and further divisionalized for better and focused distribution.

The sales team has been given the tool of a newly designed product manual and training along the lines of product knowledge through these manuals has already started. This would improve the selling skills of the sales team considerably and service that is more efficient would be provided to the distributors and the retailers.

The company has also formally inducted a separate organization of service merchandisers which would further complement the selling efforts of the sales team.

Government Policy

The company has been facing problems in its sales due to the following policies of the government:

The food laws that exist are old and outdated and not in line with the international standards practiced and followed by the company to meet the quality requirements of the advanced food markets in Europe, America and the Far East. The existing food laws do not recognize or adapt to the modern food processing techniques and laws. The company is now actively involved in recommending the updated and modern food laws to further the progress of this sector in line with International standards.

Sales of Plain spices are continuously on the decline. This is due to the imposition of a government SRO that clearly discriminates between branded and unbranded goods. The unbranded goods are exempt from sales tax. This gives rise to a difference in price of more than 15% from the branded goods. Further, this policy is promoting the unorganized sector which is unregulated and deprives the economy of the due taxes and creates a health hazard by producing substandard goods. The company is actively taking up this matter with the government and hopes to resolve this anomaly in its favour.

Management and Outlook

This has been a very tough year, with a lot of unpredictable swings in the global economy. Despite all these hindrances, the company has returned a solid performance and also made investments for the future sustenance and growth of the company. The company plans to target innovative food categories which are now possible based on the investments made.

Our commitment to move forward with a modern, progressive and professional management has been realized by the dynamic performance of the company. The operational expenses were kept in control by the management thus enabling National Foods to once again value its shareholders confidence by paying out a cash dividend of Rs. 10,626,345.

The management is to be congratulated for their hard work and effort to keep the vision alive and to impart results as per the mission and objectives of the company.

Auditors' Observation

As pointed out by the auditors in their report and as described in note 12.1 of the accounts, an inadvertent violation of section 208 of the Companies Ordinance 1984, for non-passing of special resolution to make the transaction, was made. These loans were granted for a very short period, to enable the associated company to meet its working capital requirements. Since the mark-up rate is above the borrowing cost of the company therefore, the company has not suffered any financial loss.

Corporate Governance

Compliance of Corporate Governance is annexed.

Pattern of Shareholding

The pattern of shareholding of the company is annexed.

Auditors

The present Auditors Messrs. Riaz Ahmad, Saqib, Gohar & Company, retire and being eligible, offered themselves for re-appointment.

STATEMENT ON CORPORATE AND FINANCIAL REPORTING FRAMEWORK

Statement of Directors' responsibilities

- a. The Board regularly reviews the company's strategic direction. Annual plans and performance targets for business are set by the Chief Executive and are reviewed in total by the Board in the light of the Company's overall objectives. The Board is committed to maintain the high standards of good corporate governance. The company has been in compliance with the provisions set out by the Securities & Exchange Commission of Pakistan and accordingly amended listing rules of the Stock Exchanges.
- b. There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.
- c. The financial statements, prepared by the management of the company, fairly present its state of affairs, the results of its operations. Cash flows and changes in equity.
- d. Proper books of account of the Company have been maintained.
- e. Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- f. International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and any departure there from has been adequately disclosed.
- g. The system of internal control, is sound in design and has been effectively implemented and monitored.
- h. There are no significant doubts upon the company's ability to continue as a going concern.
- i. Key operating and financial data for the last six years in summarized form is annexed.
- j. The following is the value of investments based on respective audited accounts.
 - Provident Fund Rs. 7,450,000/-
 - Gratuity Fund Rs. 15,000,000/- (Merged with Provident Fund)
- k. Audit Committee
 - Audit Committee has been established by the Board of Directors in its meeting held on September 19, 2002, to assist the Board in discharging its responsibilities for Corporate Governance, Financial Reporting and Corporate Control.
 - The Board Audit Committee is responsible for reviewing reports of the company's financial results, audit and adherence to standards of the system of management controls. The Committee reviews the procedures for ensuring their independence with respect to the services performed for the company and make recommendations to the Board of Directors.
- l. Internal Auditor
 - The Board of Directors in its meeting held on September 19, 2002, has approved in principle to appoint an Internal Auditor and establish the Internal Audit Department as required under the Corporate Governance.
- m. Outstanding taxes and levies:

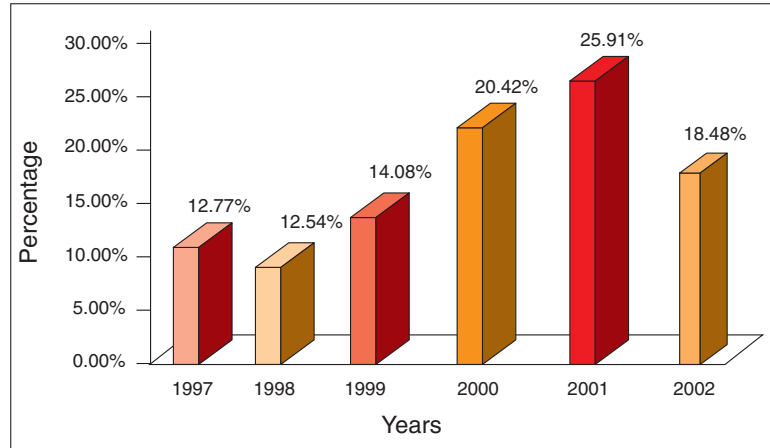
Please refer note 20 to the annexed audited accounts

On behalf of Board of Directors

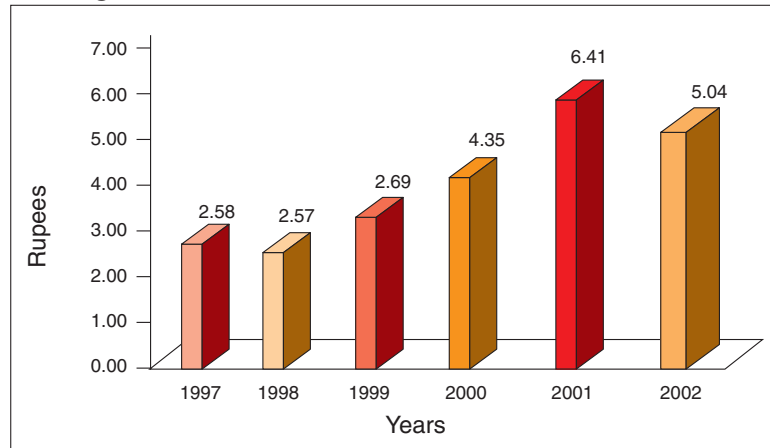
ABRAR HASAN
Chief Executive

PERFORMANCE AT A GLANCE

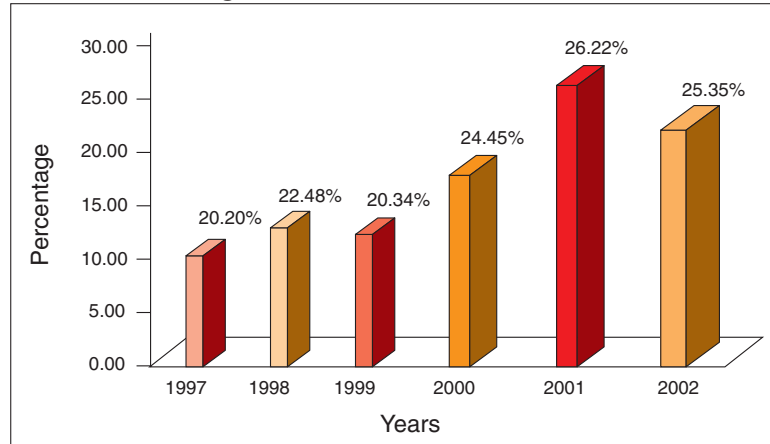
Return on Share Holders Equity



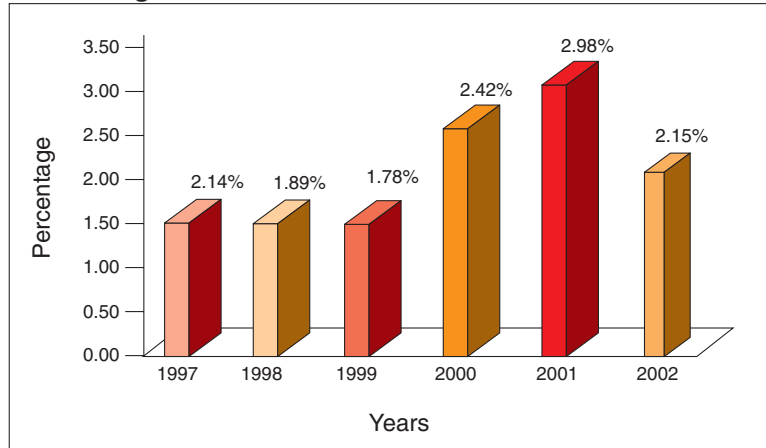
Earning Per Share



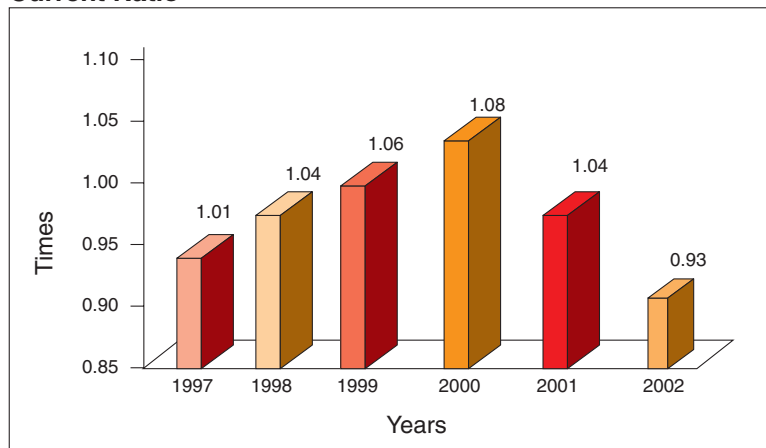
Gross Profit Margin



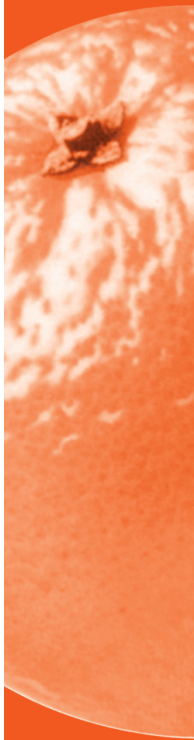
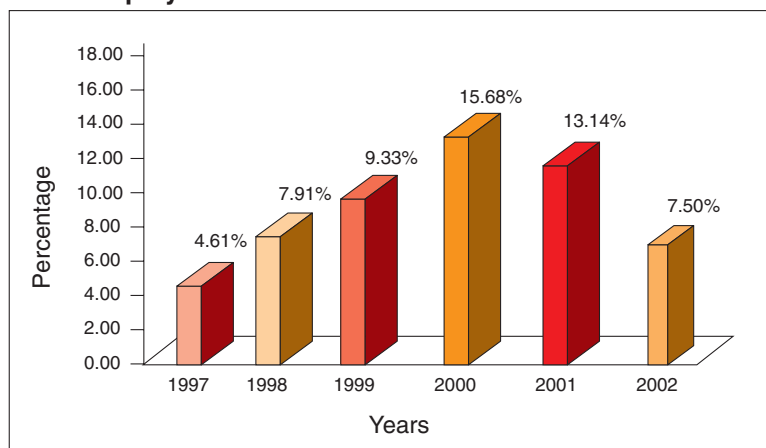
Profit Margin

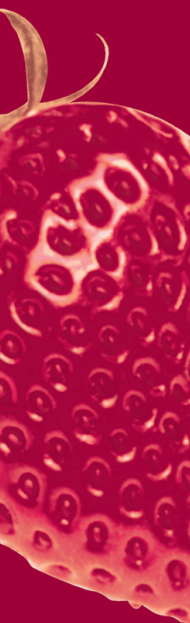


Current Ratio

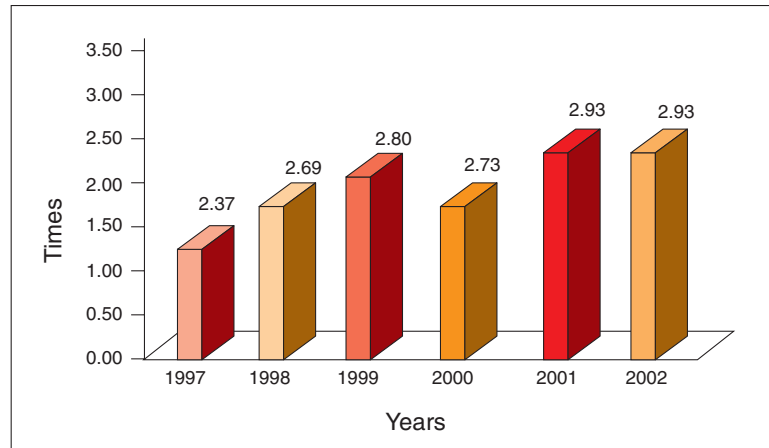


Debt / Equity Ratio

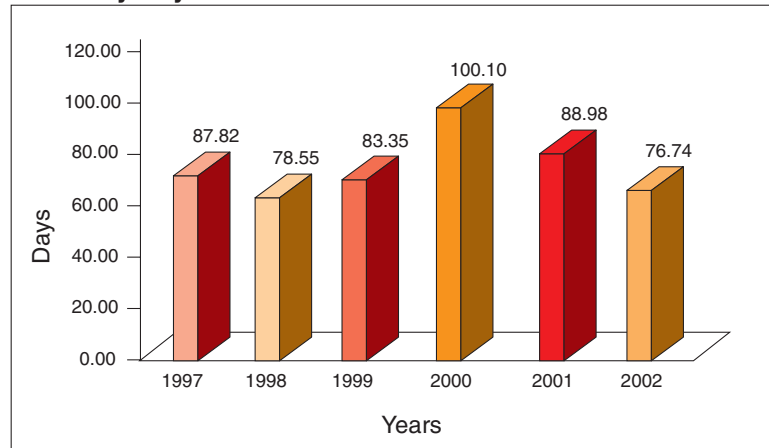




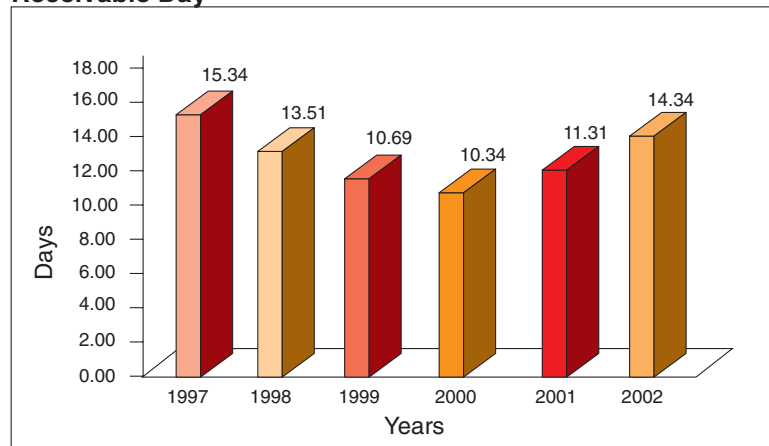
Assets Turnover



Inventory Days



Receivable Day



STATEMENT OF PURCHASE & SALE OF SHARES

(Annexure I)

Statement showing shares bought and sold by directors, CEO, CFO,
Company Secretary and the minor family members
from July 01, 2001 to June 30, 2002

S. No.	Name	Designation	Shares bought	Shares sold
1.	Mr. A. Majeed	Chairman	-	-
2.	Mr. Abrar Hasan	Chief Executive	-	-
3.	Mr. Waqar Hasan	Director	-	-
4.	Mr. Khawar M. Butt	Director	175,568	-
5.	Mr. Zahid Majeed	Director	-	-
6.	Mr. Ebrahim Qassim	Director	9,500	-
7.	Ms. Jamila Waqar	Director	-	-
8.	Mr. Firasat Ali	Director (NIT Nominee)	-	-
9.	Mr. Habib A. Ismail Khairani	Company Secretary	-	-
10.	Mr. A. Rahim	Chief Financial Officer	-	-
11.	Minor Family Members		-	-

(Annexure II)

Statement showing attendance of Board meetings
from July 01, 2001 to June 30, 2002

S. No.	Name	Designation	Attended	Leave Granted
1.	Mr. A. Majeed	Chairman	4	-
2.	Mr. Abrar Hasan	Chief Executive	3	1
3.	Mr. Waqar Hasan	Director	4	-
4.	Mr. Khawar M. Butt	Director	2	2
5.	Mr. Zahid Majeed	Director	1	3
6.	Mr. Ebrahim Qassim	Director	4	-
7.	Ms. Jamila Waqar	Director	3	1
8.	Mr. Firasat Ali	Director (NIT Nominee)	2	2

(Annexure III)

**Combined Pattern of CDC & Normal Share Holdings
as at June 30, 2002**

Number of Shareholders	From	Share Holding To	Total Shares Held
976	1	100	25,046
315	101	500	68,840
55	501	1,000	41,219
91	1,001	5,000	193,188
5	5,001	10,000	43,543
3	10,001	15,000	39,168
3	15,001	20,000	52,577
4	25,001	30,000	109,542
1	40,001	45,000	41,053
1	60,001	65,000	63,500
2	70,001	75,000	145,224
1	85,001	90,000	85,379
1	95,001	100,000	99,386
1	120,001	125,000	122,322
1	135,001	140,000	139,210
1	200,001	205,000	204,010
1	320,001	325,000	324,872
1	390,001	395,000	394,222
1	645,001	650,000	648,689
1	1,405,001	1,410,000	1,409,548
1,465			4,250,538

Combined Pattern of CDC & Physical Share Holdings
as at June 30, 2002

Category No.	Categories of Share Holders	No. of Shares Held	Category Wise No. of Folios/CDC Accounts	Category Wise Shares Held	Percentage %
1.	Individuals	677,707	1,433	677,707	15.94
2.	Investment Companies				
3.	Joint Stock Companies	1,588	8	1,588	0.04
4.	Directors, Chief Executive Officer and Their Spouse and Minor Children	1	15	1,489,687	35.06
	1. Mr. Abdul Majeed	324,872			
	2. Mr. Waqar Hasan	204,510			
	3. Mr. Khawar M. Butt	493,608			
	4. Mr. Abrar Hasan	139,210			
	5. Mr. Zahid Majeed	85,379			
	6. Mr. Ebrahim Qassim	72,352			
	7. Mr. Firasat Ali (Nominee NIT)				
	8. Mrs. Jamila Waqar w/o Mr. Waqar Hasan	122,322			
	9. Mrs. M. E. Majeed w/o Mr. Abdul Majeed	16,787			
	10. Mrs. Kulsum Banoo w/o Mr. Ebrahim Qassim	30,647			
5.	Executives	2,276	3	2,276	0.05
6.	NIT /ICP		2	664,479	15.63
	National Bank of Pakistan, Trustee Deptt.	648,689			
	Investment Corporation of Pakistan	15,790			
7.	Associated Companies, Undertakings and Related Parties		1	1,409,548	33.16
	Associated Textile Consultants (Pvt.) Ltd.	1,409,548			
8.	Public Sector Companies and Corporations				
9.	Banks, DFIs, NBFIs, Insurance Companies, Modarabas & Mutual Funds	1,392	2	1,392	0.03
10.	Foreign Investors				
11.	Co-Operative Societies				
12.	Charitable Trusts	3,861	1	3,861	0.09
13.	Others				
	Totals	4,250,538	1,465	4,250,538	100.00

Shareholders holding ten percent or more voting interest in the listed company

Total paid-up capital of the company 4,250,538 Shares
10% of the paid-up capital of the company 425,053 Shares

Name(s) of Shareholder(s)	Description	No. of Shares held	Percentage %
Mr. Khawar M. Butt	Falls in Category # 4	493,608	11.61
National Bank of Pakistan Trustee Deptt.	Falls in Category # 6	648,689	15.26
Associated Textile Consultants (Pvt.) Limited	Falls in Category # 7	1,409,548	33.16
	Total	2,551,845	60.03

STATEMENT OF COMPLIANCE WITH BEST PRACTICE OF CODE OF CORPORATE GOVERNANCE

The Company is in process of implementing all facets of the Code of Corporate Governance issued by the Karachi, Lahore and Islamabad Stock Exchanges and the Board feel pleasure in stating that provisions of the code, relevant for the year ended June 30, 2002, have been duly complied with.

REVIEW REPORT TO THE MEMBERS ON STATEMENT OF COMPLIANCE WITH BEST PRACTICE OF CODE OF CORPORATE GOVERNANCE

We have reviewed the Statement of Compliance with the best practice contained in the Code of Corporate Governance prepared by the Board of Directors of National Foods Limited to comply with the relevant Listing Regulation 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 control covers all controls and the effectiveness of such internal controls.

The Board, in its meeting held on September 19, 2002, has approved the establishment of internal Audit Department and the company is in the process of implementing the decision of the Board.

Based on our review except for the matters noted in the previous paragraph, 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 effective as at 30th June, 2002.

Karachi: September 19, 2002.

Riaz Ahmad, Saqib, Gohar & Co.
Chartered Accountants

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of National Foods Limited as at June 30, 2002 and the related profit & 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 account 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 account 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; except for the fact that the company has made loan as referred to in note no. 12.1 of the accounts contrary to provisions of the Companies Ordinance, 1984.
- c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit & 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, 2002 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.

Karachi: September 19, 2002.

Riaz Ahmad, Saqib, Gohar & Co.
Chartered Accountants

BALANCE SHEET

	<i>Notes</i>	2002 Rupees	2001 Rupees
CAPITAL AND RESERVES			
Capital			
Authorized Capital 5,000,000 (2001: 5,000,000)			
Ordinary shares of Rs. 10 each		<u>50,000,000</u>	<u>50,000,000</u>
Issued, subscribed & paid-up capital	3	42,505,380	42,505,380
Reserves			
Capital - share premium		6,102,100	6,102,100
Unappropriated profit		67,282,369	56,495,027
		<u>73,384,469</u>	<u>62,597,127</u>
		115,889,849	105,102,507
LONG TERM LIABILITIES			
Liabilities against assets subject to finance lease - secured	4	2,613,288	7,365,475
Deferred tax	5	6,083,679	6,445,060
		8,696,967	13,810,535
CURRENT LIABILITIES			
Current portion of liabilities against assets subject to finance lease	4	7,223,888	7,243,520
Finances utilized under mark-up arrangements - secured	6	130,185,116	92,988,783
Creditors, accrued expenses & other liabilities	7	86,718,216	88,256,153
Proposed dividend		10,626,345	12,751,614
		234,753,565	201,240,070
Contingencies & Commitments	8	-	-
		<u>359,340,381</u>	<u>320,153,112</u>

N.B. The annexed notes form an integral part of these accounts.
Auditors' report annexed.

AS AT 30 JUNE, 2002

	<i>Notes</i>	2002 Rupees	2001 Rupees
PROPERTY AND ASSETS			
Fixed Capital Expenditure			
Fixed assets	9	117,092,441	106,434,420
Capital work-in-progress	10	21,903,418	2,775,867
		138,995,859	109,210,287
Long term deposits		2,113,180	1,592,180
CURRENT ASSETS			
Stock-in-trade	11	160,415,449	151,802,580
Trade debts - unsecured - Considered good		45,271,758	32,882,300
Advances, deposits, prepayments and other receivables	12	11,529,098	20,058,373
Cash and bank balances	13	1,015,037	4,607,392
		218,231,342	209,350,645
		359,340,381	320,153,112

ABRAR HASAN
Chief Executive

ZAHID MAJEED
Director

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30 JUNE, 2002

	Note	2002 Rupees	2001 Rupees
Sales(net)	14	994,637,612	915,136,401
Less: Cost of sales	15	742,469,364	675,226,208
Gross profit		<u>252,168,248</u>	<u>239,910,193</u>
Operating Expenses			
Less: Administrative expenses	16	26,068,624	22,912,327
Selling and distribution expenses	17	185,952,271	167,062,331
		<u>212,020,895</u>	<u>189,974,658</u>
Operating profit		40,147,353	49,935,535
Add: Other income	18	2,200,039	2,156,953
		<u>42,347,392</u>	<u>52,092,488</u>
Less: Financial and other charges	19	(17,419,581)	(16,405,820)
Profit before taxation		24,927,811	35,686,668
Less: Taxation	20	(3,514,124)	(8,458,820)
Profit after taxation		21,413,687	27,227,848
Add: Unappropriated profit brought forward		56,495,027	42,018,793
Profit available for appropriation		<u>77,908,714</u>	<u>69,246,641</u>
APPROPRIATIONS:			
Proposed final dividend @ 25% (2001: 30%)		10,626,345	(12,751,614)
Unappropriated profit carried forward		<u>67,282,369</u>	<u>56,495,027</u>
Basic earnings per share	21	<u>5.04</u>	<u>6.41</u>

The annexed notes form an integral part of these accounts.

ABRAR HASAN
Chief Executive

ZAHID MAJEED
Director

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE, 2002

	Note	2002 Rupees	2001 Rupees
CASH FLOW FROM OPERATING ACTIVITIES:			
Profit before taxation		24,927,811	35,686,668
Adjustments for non cash charges and other items			
Depreciation		15,505,145	13,748,139
Amortization of deferred cost		-	2,100,000
Profit on sale of fixed assets		(664,463)	(819,147)
Financial and other charges		17,419,581	16,405,820
		<u>32,260,263</u>	<u>31,434,812</u>
Operating profit before working capital changes		57,188,074	67,121,480
(Increase)/decrease in current assets			
Stock in trade		(8,612,869)	25,610,083
Trade debts		(12,389,458)	(9,035,076)
Advances, deposits, prepayments and other receivables		9,902,617	(4,604,203)
		<u>(11,099,710)</u>	<u>11,970,804</u>
Increase in current liabilities			
Creditors, accrued and other liabilities		(2,339,780)	9,504,787
		<u>43,748,584</u>	<u>88,597,071</u>
Financial charges paid		(16,665,010)	(16,657,867)
Taxes paid		(5,248,847)	(8,834,100)
		<u>(21,913,857)</u>	<u>(25,491,967)</u>
Net cash from operating activities		<u>21,834,727</u>	<u>63,105,104</u>
CASH FLOW FROM INVESTING ACTIVITIES:			
Capital expenditure		(44,896,462)	(31,894,260)
Sale proceeds of fixed assets		2,741,908	2,413,539
Long term deposits		(521,000)	(181,199)
Finance Leased Assets		(2,471,700)	(7,720,916)
Net cash used in Investing activities		<u>(45,147,254)</u>	<u>(37,382,836)</u>
		<u>(23,312,527)</u>	<u>25,722,268</u>
CASH FLOW FROM FINANCING ACTIVITIES:			
Repayment of long term loan		(7,243,519)	(6,682,849)
Dividend paid		(12,704,342)	(5,014,668)
Proceed from finance lease		2,471,700	7,720,916
Net cash used in financing activities		<u>(17,476,161)</u>	<u>(3,976,601)</u>
Net decrease in cash & Cash equivalent		<u>(40,788,688)</u>	<u>21,745,667</u>
Cash & Cash equivalent at the beginning of the year		<u>(88,381,391)</u>	<u>(110,127,058)</u>
Cash & Cash equivalent at the end of the year		<u>(129,170,079)</u>	<u>(88,381,391)</u>
CASH & CASH EQUIVALENTS:			
Cash & bank balance		1,015,037	4,607,392
Finance utilized under mark-up arrangements		(130,185,116)	(92,988,783)
		<u>(129,170,079)</u>	<u>(88,381,391)</u>

ABRAR HASAN
Chief Executive

ZAHID MAJEED
Director



STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE, 2002

	Issued, Subscribed & Paid-up Capital	Capital Reserve- Shares premium	Unappropriated Profit	Total
As on June 30, 2000	42,505,380	6,102,100	42,018,793	90,626,273
Profit for the year	–	–	27,227,848	27,227,848
Proposed final dividend	–	–	(12,751,614)	(12,751,614)
As on 30 June, 2001	42,505,380	6,102,100	56,495,027	105,102,507
Profit for the year		–	21,413,687	21,413,687
Proposed dividend	–	–	(10,626,345)	(10,626,345)
As on 30 June, 2002	42,505,380	6,102,100	67,282,369	115,889,849

ABRAR HASAN
Chief Executive

ZAHID MAJEED
Director

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE, 2002

1 STATUS AND NATURE OF BUSINESS

The company was incorporated in Pakistan as a private limited company on 19 February, 1970 and subsequently converted into public limited company by special resolution passed in extra-ordinary general meeting held on 30 March, 1988. The Company is listed on the Karachi, Lahore and Islamabad stock exchanges. The company is principally engaged in the manufacture and sale of spices, pickles, pastes/ketchup and iodized salt.

2 ACCOUNTING POLICIES

The financial statements have been prepared in accordance with provisions of the Companies Ordinance, 1984, International Accounting Standards (IAS) and Interpretations of Standing Interpretation Committee (SIC) of Interpretation Accounting Standards Committee (IASC) as applicable in Pakistan.

2.1 Accounting Convention

These accounts have been prepared on historical cost convention without taking into account the effect of inflation or current cost.

2.2 Taxation.

Provision for current taxation is based on taxable income on current year rates of taxation after taking into account applicable tax credit. Export sales are covered under presumptive tax regime. Tax withheld at the time of realization of export proceeds are treated as full and final tax liability.

The company provides for deferred taxation, if any, using the balance sheet liability method in respect of temporary timing differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable income. Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled.

2.3 Staff Retirement Benefits

Previously, the company was operating a funded gratuity scheme which covered all permanent employees. Gratuity was calculated on the basis of 30 days of the last drawn salary and length of service of the employees. Provision was being made to cover this obligation on the basis of valuation carried out by actuaries.

However, w.e.f. July 01, 2002, the company has decided to discontinue the funded gratuity scheme by merging the Employees Gratuity Fund with Employees Provident Fund Trust. Hence, the gratuity amount appearing as payable against the respective employee is being credited to his/her account in the Employees Provident Fund Trust for which approval has been obtained from the Commissioner of Income Tax, Zone II, Karachi.

Due to discontinuance of funded gratuity scheme the company has provided gratuity amounting to Rs.8.471 million during the year to cover the liability up to June 30, 2002 and effective July 2002, monthly rate of contribution to the Provident fund scheme has been increased from 5% to 10% of the pay of all permanent employees.

2.4 Provisions

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

2.5 Cash and Cash Equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of cash flow statement, cash and cash equivalents comprise of cash and bank balances.

2.6 Financial Instruments

Financial assets

The company's principal financial assets are cash and bank balances, trade debtors advances and loans. Trade debtors are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts if any.

Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into. Significant financial liabilities include obligation under finance lease, short term loan, creditors, accrued expenses & other liabilities.

2.7 Fixed Assets and Depreciation

All fixed assets except lease hold lands and capital work-in-progress are stated at written down value which is arrived at by deducting accumulated depreciation from cost. Lease hold lands and capital work-in-progress are stated at cost. Cost in relation to certain fixed assets signifies historical cost and cost of borrowing during construction period in respect of loans taken for specific project.

Depreciation is charged on reducing balance method whereby the cost of an asset is written off over its expected useful life. Maintenance and normal repairs are charged to income. Major renewals and replacements are capitalized and the assets so replaced, if any, are retired. Full year's depreciation is charged on assets acquired during the year whereas no depreciation is charged on assets deleted. Gains and losses on disposal of assets are included in income currently.

2.8 Assets Subject to Finance Lease

Assets subject to finance lease are stated at the lower of present value of minimum lease payments under the lease agreement and the fair value of the assets. The related obligations of the lease are accounted for as liabilities. Assets acquired under finance lease are amortized over the useful life of the asset on a reducing balance method at the rates given in the relevant note. Amortization of leased assets is charged to current year's income.

2.9 Stock-in-Trade

Raw materials, work in progress and packing materials are valued at average cost whereas finished goods are valued at lower of average cost and net realizable value. Appropriate manufacturing overheads are included in the cost of finished goods. Goods in transit are stated at cost.

2.10 Foreign Currency Translation

Assets and liabilities in foreign currencies are translated at the rates of exchange prevailing on the balance sheet date. The resulting gains and losses are charged to current year's income.

2.11 Revenue Recognition

Revenue is recognised on the basis of sales which are recorded at the time of dispatch of goods. Returns are booked as and when advised. Goods are sold subject to reservation of title, as is customary in this trade.

	2002 Rupees	2001 Rupees
3 ISSUED, SUBSCRIBED AND PAID-UP CAPITAL		
1,255,990 (2001:1,255,990) Ordinary Shares of Rs.10 each fully paid in cash	12,559,900	12,559,900
2,994,548 (2001: 2,994,548) Ordinary Shares of Rs.10 each issued as fully paid bonus shares	29,945,480	29,945,480
	42,505,380	42,505,380
4 LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE		

The amount of future lease payments and the period in which these payments will become due are.

Year ending June 30

2002	-	9,234,880
2003	8,291,578	7,241,918
2004	1,929,747	880,087
2005	1,049,661	-
	11,270,986	17,356,885
Less: Financial charges allocated to future periods	1,433,810	2,747,890
	9,837,176	14,608,995
Less: Current portion shown under current obligation	7,223,888	7,243,520
	2,613,288	7,365,475

The implicit rate used as the discounting factor is in range between 14.77%-19.08% per annum. Rentals are payable in equal monthly / quarterly installments.

At the end of lease period the ownership of assets will be transferred to the company on payment of residual value.

These are secured by demand promissory notes and security deposits.

5 DEFERRED TAXATION

The liability for deferred taxation comprise of timing differences relating to

Deferred credit arising in respect of : Accelerated tax depreciation allowance Lease rentals	5,472,767 1,523,989 6,996,756	6,308,497 1,273,927 7,582,424
Deferred debit arising in respect of various provisions	(913,077)	(1,137,364)
	6,083,679	6,445,060

		Note	2002 Rupees	2001 Rupees
6	FINANCES UTILIZED UNDER MARK-UP ARRANGEMENTS - SECURED			
	Bank Al-Habib Limited			
	Export refinance	6.1	69,000,000	54,721,000
	Running finance	6.2	61,185,116	38,267,783
	Advance against trust receipt	6.3	–	–
			130,185,116	92,988,783
			130,185,116	92,988,783

	L I M I T	EXPIRY	RATE OF MARK-UP	S E C U R I T Y
6.1	Rs. 70,000,000 (2001: Rs. 54,721,000)	31 Oct 2002	8% – 9% per annum	The facility mentioned in note 6.1, 6.2, 6.3 and 6.4 are secured by:
6.2	Rs. 80,000,000 (2001: Rs. 70,000,000)	31 Oct 2002	14% to 15% per annum	i) Registered hypothecation over stocks & debtors to the extent of Rs. 185 million.
6.3	Rs. 5,000, 000 (2001: Rs. 3,000,000)	31 Oct 2002	17.5% per annum	
6.4	OTHER FACILITIES	<i>Note</i>	Expiry	2002 Rupees
	Letter of credit (Sight)		31 Oct.2002	58,728,000
	Letter of credit (Usance)		31 Oct.2002	10,000,000
	Term/project finance	6.4.1	31 Oct.2002	50,000,000
	Running Finance / FAPC	6.4.2		40,000,000
				2001 Rupees
				25,000,000
				1,000,000
				–
				–

6.4.1 The Company has arranged Term Finance facility amounting to Rs.50 million from Bank Al-Habib Limited for tomato paste project. The Term Finance facility is repayable in quarterly installments commencing from the 15th month of the issue date. It will carry mark-up rate with the floor of 12%p.a. and maximum being capped at 16% p.a. and it is secured against registered equitable mortgage over factory buildings to the extent of Rs.117 million.

6.4.2 The Company has also arranged Running Finance facility / FAPC facility from United Bank Limited amounting to Rs.40 million for working capital requirements to finance inventory and receivables. The facilities are repayable through cash generated from operations and realization of export proceeds. It carries mark-up rate of 12%p.a. payable quarterly on a calendar basis and it is secured against registered first pari passu hypothecation charge valuing Rs.54 million.

	Note	2002 Rupees	2001 Rupees
7 CREDITORS, ACCRUED AND OTHER LIABILITIES			
Creditors		24,676,387	32,502,029
Accrued expenses		13,218,513	10,676,403
Advance from customers		7,664,009	6,696,644
Security deposits		78,500	106,200
Mark-up accrued on secured loans		2,819,930	2,065,359
Unclaimed dividend		724,455	677,183
Due to associated undertakings		8,177	267,245
Due to directors		1,107	7,463
Due to employees gratuity fund trust		—	9,197,372
Payable to employees provident fund trust		12,344,084	3,394,394
Sales tax payable		7,971,095	6,051,658
Workers' profit participation fund	7.1	1,680,951	2,139,538
Workers' welfare fund	7.2	150,374	347,878
Other liabilities		15,380,634	14,126,787
		86,718,216	88,256,153
7.1 Workers' Profit Participation Fund			
Opening balance		2,139,538	1,268,000
Allocation for the year		1,319,904	1,908,704
		3,459,442	3,176,704
Interest on funds utilized in company's business		361,047	230,834
Payment to beneficiaries		(2,139,538)	(1,268,000)
		1,680,951	2,139,538
7.2 Workers' Welfare Fund			
Opening balance		347,878	1,051,568
Allocation for the year		150,374	347,878
		498,252	1,399,446
Payment/adjustments		(347,878)	(1,051,568)
		150,374	347,878

8 CONTINGENCIES AND COMMITMENTS

- 8.1** Company has commitments against outstanding letters of credit established for import of goods amounting to Rs.38,299,000 as on 30-06-2002 (2001: Rs.6,761,300).
- 8.2** Company's commitment with bank for payment against documents was Rs. Nil as on 30-06-2002 (2001: Rs.6,541,200).

9. FIXED ASSETS

Particulars	COST			R A T E	DEPRECIATION				Written Down value as on 30 June, 2002
	As on 1 July 2001	Additions/ (Disposals)/ Transfers During the Year	As on 30 June 2002		As on 1 July 2001	Additions/ (Disposals)/ Transfers During the Year	Charge for the year	As on 30 June 2002	
Owned assets	Rupees	Rupees	Rupees	%	Rupees	Rupees	Rupees	Rupees	Rupees
Leasehold Land	12,789,235	-	12,789,235	-	-	-	-	-	12,789,235
Buildings on leasehold Land	33,763,278	2,180,507	35,943,785	10	17,608,280	-	1,833,552	19,441,832	16,501,953
Plant, Machinery, Equipments & Generators	53,763,536	7,716,901	61,480,437	10	24,836,787	-	3,664,376	28,501,163	32,979,274
Office & Other Equipments	22,098,362	6,521,342	28,619,704	15	12,306,517	-	2,447,000	14,753,517	13,866,187
Laboratory Equipments	2,395,906	312,000	2,707,906	10	756,626	-	195,135	951,761	1,756,145
Motor Vehicles	26,608,528	7,228,747 (5,568,085)	28,269,190	20	12,958,153	-	3,760,334	13,227,847	15,041,343
Furniture & Fixtures	9,379,828	1,809,414	11,189,242	10	4,035,260	(3,490,640)	715,484	4,750,744	6,438,498
	160,798,673	25,768,911 (5,568,085)	180,999,499		72,501,623	- (3,490,640)	12,615,881	81,626,864	99,372,635
Leased assets									
Machinery	15,230,000	-	15,230,000	10	2,904,500	-	1,232,550	4,137,050	11,092,950
Motor vehicles	8,148,136	2,471,700	10,619,836	20	2,336,266	-	1,656,714	3,992,980	6,626,856
	23,378,136	2,471,700	25,849,836		5,240,766	-	2,889,264	8,130,030	17,719,806
TOTAL 2002:	184,176,809	28,240,611 (5,568,085)	206,849,335		77,742,389	(3,490,640)	15,505,145	89,756,894	117,092,441
TOTAL 2001:	150,527,991	39,035,278 (5,386,460)	184,176,809		66,048,318	(2,054,068)	13,748,139	77,742,389	106,434,420

9.1 Depreciation has been allocated as follows

	2002 Rupees	2001 Rupees
Cost of sales	9,381,350	9,249,133
Administrative expenses	2,452,809	1,778,075
Selling and distribution expenses	3,670,986	2,720,931
	15,505,145	13,748,139

9.2 Disposal of Fixed Assets

Particulars	Cost	Accumulated Depreciation	Book Value	Sold for	Profit/(Loss)	Mode of Disposal
	Rs.	Rs.	Rs.	Rs.	Rs.	
Motor Vehicles						
Honda Motorcycle CD-70 Reg. No. LXA - 2493 Mr. Mohammad Farhan House No. 1339, Paisa Akhbar Near Anarkali, Lahore.	56,800	38,187	18,613	22,820	4,207	Company Policy
Honda City 1300 cc Reg. No. ABG-936 Mr. Abdul Rahim Flat No. B-12, Hashoo Terrace Block-5, Clifton, Karachi.	634,950	374,875	260,075	275,100	15,025	Company Policy
Yamaha 100 cc Reg. No. MNT-8951 Mr. Ghulam Dastgir House No. 1217/8-11, Inside Bohar Gate, Multan.	58,300	39,196	19,104	23,745	4,641	Company Policy
Suzuki Mehran Reg. No. ABJ-799 Mr. Ashfaqe Muhammad Khan House No. 2 Ramsha Corner, BI-07 Gulshan-e-Iqbal, Karachi.	264,500	156,161	108,339	108,339	–	Company Policy
Honda City 1300 cc Reg. No. ABG-103 Shaikh Zahir-ud-Din 18 A-3, Golf Course Road No. 3 Phase IV, D.H.A., Karachi.	634,950	374,875	260,075	260,075	–	Company Policy
Suzuki Margala Plus Reg. No. ABF-080 Mrs. Shahida Shaikh 104, Jinnah Society, Tipu Sultan Road, Block 7 & 8 Karachi.	501,500	296,086	205,414	205,414	–	Company Policy
Suzuki Khyber Reg. No. LXE-6281 Mr. Mehmood Hussain House No. C-152, Rustam Park Nawa Kot, Lahore.	376,825	222,478	154,347	154,347	–	Company Policy
Suzuki Khyber Reg. No. LXE-6282 Mr. Imran Aziz House No. 81-B, New Shad Bagh Lahore.	376,825	222,478	154,347	154,347	–	Company Policy
Suzuki Khyber Reg. No. ABB-933 Mr. Mohammad Afzal H. No. 904, Nabi Buksh Line, Gharibabad, Kukkur.	376,825	222,478	154,347	154,347	–	Company Policy
Sub Total	3,281,475	1,946,814	1,334,661	1,358,534	23,873	

Particulars	Cost	Accumulated Depreciation	Book Value	Sold for	Profit/(Loss)	Mode of Disposal
	Rs.	Rs.	Rs.	Rs.	Rs.	
Motor Vehicles						
Honda Motorcycle CD-70 Reg. No. LXE-6612 Mr. Mohammad Asif Javid C/o Arshad Javid Rawal Textile Mills H. No. Monoo House Montgomery Road, Lahore.	57,300	33,830	23,470	23,470	–	Company Policy
Honda Motorcycle CD-70 Reg. No. SKF-2555 Mr. Amir Jamal Badruddin House No. L-354, Sector-5 L North Karachi, Karachi.	59,500	40,003	19,497	23,745	4,248	Company Policy
Honda Motorcycle CD-70 Reg. No. LXA-8569 Mr. Asif Ali Sadiq Ali House No. 246/3, Karim Park, Lahore.	56,800	38,187	18,613	23,285	4,672	Company Policy
Honda Motorcycle CD-70 Reg. No. KCC-994 Mr. Nadeem Abdul Wahab House No. 245, Ratan Talab Road Gawali Lane, Karachi.	59,000	39,667	19,333	24,110	4,777	Company Policy
Honda Motorcycle CD-70 Reg. No. LXA-2907 Mr. Sultan Mahmood Mohd. Shafi H. No. 453-4-A, Town Ship, Lahore.	55,900	37,582	18,318	22,795	4,477	Company Policy
Honda Motorcycle CD-70 Reg. No. LXA-2903 Mr. Mohammad Adil Khan H.No. 49/1, Gulbahar-2, 400 Quarter, Khi.	55,900	37,582	18,318	18,318	–	Company Policy
Yamaha 100cc Reg. No. MNT-8952 Mr. Abdul Jabbar Abdul Razzak H. No. Mohallah Mehboobabad Near Iqra Mosque, Dolkha Gate, Multan.	58,300	39,196	19,104	23,730	4,626	Company Policy
Honda Motorcycle CD-70 Reg. No. RIV-1128 Mr. Akhtar Hussain Maqbool Khan H. No. B-W-1477, Mohallah Faisalabad Muslim Town, Rawalpindi.	56,300	37,851	18,449	22,494	4,045	Company Policy
Honda Motorcycle CD-70 Reg. No. SKF-1373 Mr. Mohammad Ali Mohd. Pervez H. No. T-83, Dastagir # 9, Shahbaz Nagar, Karachi.	55,500	40,951	14,549	27,230	12,681	Company Policy
Sub Total	514,500	344,849	169,651	209,177	39,526	

Particulars	Cost	Accumulated Depreciation	Book Value	Sold for	Profit/ (Loss)	Mode of Disposal
	Rs.	Rs.	Rs.	Rs.	Rs.	
Motor Vehicles						
Honda Motorcycle CD-70 Reg. No. KCV-7883 Mr. S. Raees Haider Zaidi H. No. 1-J, 22/1, Muslim League Quarter Nazimabad # 1, Karachi.	56,000	41,320	14,680	26,915	12,235	Company Policy
Honda Motorcycle CD-70 Reg. No. QAH-1720 Mr. Rasheed Ahmed Imran Buksh H. No. 100-A, Post Office Rajan Shah Tehsil Kroz District, Leiah.	50,000	36,893	13,107	24,120	11,013	Company Policy
Honda Motorcycle CD-70 Reg. No. KCV-2404 Mr. Mukhtar Ahmad H. No. A-344, Saddar Gali Nazimabad, Karachi.	50,800	40,146	10,654	33,375	22,721	Company Policy
Honda Motorcycle CD-70 Reg. No. KCV-2403 Mr. Kunwar Mohammad Mansoor H. No. A-519/1, Gulshan-e-Iqbal Karachi.	50,800	40,146	10,654	31,700	21,046	Company Policy
Diahatsu Coure Reg. No. Z-7016 Mr. Mohammad Ashraf H. No. R-677, Sector 15A/1, Buffer Zone North Karachi, Karachi.	225,000	166,018	58,982	141,991	83,009	Company Policy
Suzuki Margala Reg. No. Z-0546 Mr. Siraj Ahmed Mohd. Muqeem H. No. 7/16, 11-E, Nazimabad Karachi.	371,650	293,709	77,941	270,000	192,059	Negotiation
Suzuki Mehran Reg. No. W-8539 Mr. Muhammad Manzoor Ahmed H.No. 592, Gali # 13, Mustufa Colony Sector # 11, 1/2, Orangi Town, Karachi.	198,250	159,826	38,424	73,096	34,672	Negotiation
Suzuki Margala Reg. No. LOY-9046 Mr. Tanveer Ahmed Butt H. No. 38 Main Bazar Raj Garah, Lahore.	496,410	366,279	130,131	310,000	179,869	Negotiation
Sub Total	1,498,910	1,144,337	354,573	911,197	556,624	

Particulars	Cost	Accumulated Depreciation	Book Value	Sold for	Profit/(Loss)	Mode of Disposal
	Rs.	Rs.	Rs.	Rs.	Rs.	
Honda Motorcycle CD-70 Reg. No. KCT-6833 M/s. EFU General Insurance Limited 2nd Floor K.D.L.B. Building 58 West Wharf Road, Karachi.	68,300	13,660	54,640	65,000	10,360	Insurance Claim
Honda Motorcycle CD-70 Reg. No. KCT-7934 M/s. EFU General Insurance Limited 2nd Floor K.D.L.B. Building 58 West Wharf Road, Karachi.	68,300	13,660	54,640	69,000	14,360	Insurance Claim
Honda Motorcycle CD-70 Reg. No. KCT-6731 M/s. EFU General Insurance Limited 2nd Floor K.D.L.B. Building 58 West Wharf Road, Karachi.	68,300	13,660	54,640	60,000	5,360	Insurance Claim
Honda Motorcycle CD-70 Reg. No. KCT-6838 M/s. EFU General Insurance Limited 2nd Floor K.D.L.B. Building 58 West Wharf Road, Karachi.	68,300	13,660	54,640	69,000	14,360	Insurance Claim
Sub Total	273,200	54,640	218,560	263,000	44,440	
Total	5,568,085	3,490,640	2,077,445	2,741,908	664,463	

	<i>Notes</i>	2002 Rupees	2001 Rupees
10 CAPITAL WORK-IN-PROGRESS			
Building		16,627,987	2,710,194
Plant and machinery		5,275,431	65,673
		21,903,418	2,775,867
11 STOCK-IN-TRADE			
Raw material		51,098,350	44,389,818
Work-in-process		43,068,041	52,364,848
Finished goods		29,809,064	22,102,549
Packing material		33,591,289	29,602,500
Goods in transit		1,311,296	2,155,280
General material		1,537,409	1,187,585
		160,415,449	151,802,580
12 ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES			
Advances			
Staff - considered good		-	1,388,580
Income tax		7,299,647	5,926,305
Profit accrued on DSC Gratuity fund		-	9,587,091
Others - considered good		156,129	739,110
		7,455,776	17,641,086
Prepayments		826,478	362,335
Deposits		114,400	114,400
Export rebate receivable		395,091	867,601
Due from associated undertakings	<i>12.1</i>	1,737,353	72,951
Sales tax refundable	<i>12.2</i>	1,000,000	1,000,000
		11,529,098	20,058,373

12.1 Maximum aggregate balance due from associated undertakings at the end of any month during the year was Rs. 2,634,811 (2001: Rs.951,601).

The company has given loans to one of its associated companies during the year; maximum aggregate amounting to Rs. 2,500,000/- contrary to the provisions of section 208 of the Companies Ordinance, 1984 requiring authority of special resolution to advance such loans. However, mark-up @ 14% was charged on outstanding balance and the loan was also repaid during the year. As on June 30, 2002 balance in this associated company's account amounted to Rs. 38,820.

12.2 This represents sales tax paid under protest against arbitrary levy on table salt and other spices amounting to Rs. 87.8 million (later reduced to 30.7 million). As a result of appeal the matter has been set aside by the Tribunal by accepting the appeal. However, the department has preferred an appeal against the order of the Tribunal and for the stay of refund claimed by the company before the High Court.

13 CASH AND BANK BALANCES	Notes	2002 Rupees	2001 Rupees
In hand		411,499	306,473
With banks in current accounts		603,538	4,300,919
		<u>1,015,037</u>	<u>4,607,392</u>

13.1 Balances on current accounts include a separate account for deposits from dealers amounting to Rs. 84,284 (2001: Rs.112,034).

14 SALES

Local sales

Gross sales	1,187,500,635	1,059,358,411
Less: Discount	142,657,195	126,307,910
Cartage/freight	23,022,160	19,361,938
Sales tax	141,769,350	117,624,668
Sales returns	15,246,853	18,107,237
	<u>322,695,558</u>	<u>281,401,753</u>
	<u>864,805,077</u>	<u>777,956,658</u>

Export sales

Gross sales	146,660,975	151,955,108
Less: Freight	7,964,654	10,049,759
Forwarding charges	3,425,761	3,251,947
Sales return	4,928,100	-
Discount/commission	509,925	1,473,659
	<u>16,828,440</u>	<u>14,775,365</u>
	<u>129,832,535</u>	<u>137,179,743</u>
	<u>994,637,612</u>	<u>915,136,401</u>

	Notes	2002 Rupees	2001 Rupees
15 COST OF SALES			
Opening stock of work in process		52,364,848	56,686,745
Add: Material consumed	15.1	614,764,920	549,273,514
Direct wages		25,251,702	24,764,871
Factory overheads	15.2	100,862,450	85,279,837
		740,879,072	659,318,222
		793,243,920	716,004,967
Less: Closing stock of work in process		(43,068,041)	(52,364,848)
Cost of goods manufactured		750,175,879	663,640,119
Add: Opening stock of finished goods		22,102,549	33,688,638
Cost of goods available for sale		772,278,428	697,328,757
Less: Closing stock of finished goods		(29,809,064)	(22,102,549)
		742,469,364	675,226,208
15.1 Material Consumed			
Opening stock		73,992,318	80,962,996
Purchases during the year		625,462,241	542,302,836
Less: Closing stock		(84,689,639)	(73,992,318)
		614,764,920	549,273,514
15.2 Factory Overheads			
Salaries, allowances and benefits		41,860,673	36,891,770
Professional services		1,038,175	1,268,090
Bonus		7,137,302	5,909,653
Gratuity		4,775,339	-
Rent, rates and taxes		3,253,277	2,761,627
Insurance		1,674,684	1,331,726
Power, electricity, gas and water		14,256,621	13,521,247
Depreciation	9.1	9,381,350	9,249,133
Repairs, maintenance, cartage and conveyance		16,671,287	13,071,663
Laboratory expenses, research & development		813,742	1,274,928
		100,862,450	85,279,837

	Notes	2002 Rupees	2001 Rupees
16 ADMINISTRATIVE EXPENSES			
Salaries, allowances and benefits		10,741,921	10,237,823
Bonus		2,621,054	2,542,954
Gratuity		1,752,737	–
Scholarship and donations	16.1	78,000	152,500
Traveling		1,208,999	1,532,602
Rent, rates and taxes		464,409	311,402
Insurance		556,046	696,758
Depreciation	9.1	2,452,809	1,778,075
Entertainment		234,421	199,009
Legal and professional		832,225	663,185
Printing, stationery, books & periodicals		1,007,203	855,234
Postage, telephone & telegraph		873,035	668,973
Repairs and maintenance		935,570	783,411
Motor vehicles running		1,347,172	1,315,991
Electricity		352,691	458,437
Auditors' remuneration	16.2	100,000	78,750
Fee & subscriptions		334,042	273,826
Corporate services		129,041	242,523
Others		47,249	120,874
		26,068,624	22,912,327

16.1 The directors or their spouses did not have any interest in the donee's fund.

16.2 Auditors' Remuneration

Audit fee	75,000	50,000
Out of pocket expenses	25,000	28,750
	100,000	78,750

17 SELLING AND DISTRIBUTION EXPENSES

Salaries, allowances and benefits		25,338,623	16,732,156
Bonus		3,746,251	2,948,091
Gratuity		1,943,343	–
Traveling & daily allowances		7,145,387	6,794,340
Rent, rates and taxes		149,700	134,500
Insurance		1,194,598	1,054,649
Depreciation	9.1	3,670,986	2,720,931
Entertainment		490,070	243,383
Postage, telephone & telegraph		3,017,378	2,133,488
Printing, stationery, books & periodicals		1,805,950	961,730
Repairs and maintenance		968,886	281,981
Motor vehicles running		3,033,715	2,541,729
Sales promotion, meetings & conferences		6,086,969	6,384,619
Legal & professional, trademark and registration		1,737,670	2,938,143
		60,329,526	45,869,740
Advertisement and artwork		125,622,745	121,192,591
		185,952,271	167,062,331

	<i>Notes</i>	2002 Rupees	2001 Rupees
18 OTHER INCOME			
Export rebate		914,503	951,008
Profit on sale of fixed assets		664,463	819,147
Insurance claim		560,586	386,798
Others		60,487	-
		2,200,039	2,156,953
19 FINANCIAL AND OTHER CHARGES			
Mark-up and interest on long term obligations		1,991,361	2,813,004
Mark-up and interest on short term loans		13,752,066	11,186,541
Bank charges		205,876	149,693
Workers' profit participation fund		1,319,904	1,908,704
Workers' welfare fund		150,374	347,878
		17,419,581	16,405,820
20 TAXATION			
Current year	20.1	4,045,524	7,413,558
Prior year adjustments		(170,019)	-
Deferred		(361,381)	1,045,262
		3,514,124	8,458,820

20.1 Income tax assessments of the company upto assessment year 2001-2002 have been finalized.

21 BASIC EARNINGS PER SHARE

<u>Profit after taxation</u>	21,413,687	27,227,848
Number of ordinary shares	4,250,538	4,250,538
Basic earnings per share	5.04	6.41

There were no diluted potential shares as at the balance sheet date.

22 TRANSACTIONS WITH RELATED PARTIES

Loan provided to associated company	3,500,000	-
Interest received/receivable from associated companies	131,413	-
Common expenses charged to associated companies	4,302,786	2,179,210

23 REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND OTHER EXECUTIVES

	Chief Executive		Directors		Executive	
	2002 Rupees	2001 Rupees	2002 Rupees	2001 Rupees	2002 Rupees	2001 Rupees
Basic salary	765,960	603,556	2,203,608	1,761,189	11,101,801	6,751,291
House rent	344,676	271,639	991,572	791,478	4,995,187	3,040,145
Utilities	76,584	60,361	220,320	175,872	1,109,811	675,263
Bonus	374,128	272,970	1,090,081	760,535	5,363,763	3,089,274
Others	1,200	665	4,800	–	1,604,185	1,009,701
	1,562,548	1,209,191	4,510,381	3,489,074	24,174,747	14,565,674
Number of persons	1	1	4	4	55	28

23.1 In addition the Chief Executive and two Directors are provided with free use of the company cars and residential telephones. A few Executives are also provided with free use of motor vehicles.

23.2 Aggregate amount charged in these accounts in respect of non executive directors fee is Rs.7,500 (2001: Rs.2,500)

24 PLANT CAPACITY AND ACTUAL PRODUCTION (IN METRIC TONS)

	2002		2001	
	Installed	Utilized	Installed	Utilized
Spices	3,900	3,412	3,900	3,440
Pickles	1,800	3,663	1,800	3,025
Pastes	2,000	2,402	2,000	1,565
Salt	15,000	16,969	15,000	19,350

- Capacity of spices remained under utilized due to decline in sales of plain spices due to imposition of Sales tax @ 15%
- Capacity utilization of salt as compared to previous year also shows sizeable drop due to imposition of sales tax @ 15%
- Excess utilization of installed capacity in pickles, pastes and salt has been achieved with extra shifts / working hours.

25 FINANCIAL ASSETS & LIABILITIES

25.1 Interest / markup rate risk exposure

The company's exposure to interest / markup rate risk and the effective rates on its financial assets and liabilities as of 30 June, 2002 are summarized as follows:

	Interest / mark-up bearing	Non interest / mark-up bearing	Total
Financial assets			
Long term deposits	–	2,113,180	2,113,180
Trade debts	–	45,271,758	45,271,758
Advances, deposits, prepayments & other receivables	1,324,355	10,204,743	11,529,098
Cash and bank balances	–	1,015,037	1,015,037
Total 2002	1,324,355	58,604,718	59,929,073
Total 2001	–	59,140,245	59,140,245

Financial liabilities

Liabilities against assets subject to finance lease	9,837,176	–	9,837,176
Finance utilized under mark-up arrangements	130,185,116	–	130,185,116
Creditors, accrued expenses & other liabilities	–	86,718,216	86,718,216
Total 2002	140,022,292	86,718,216	226,740,508
Total 2001	107,597,778	88,256,153	195,853,931

Effective Interest Rates

	2002	2001
Obligation under finance lease	14.77% to 19.08%	14.77% to 19.08%
Finance utilized under mark up arrangements	8% to 17.5%	8% to 17.5%
Loan to associated undertaking	14%	–

25.2 Concentration of credit risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counter parties fail completely to perform as contracted. Out of the total financial assets of Rs 59,929,073/= (2001: 59,140,245/=) the financial assets which are subject to credit risk amounted to Rs.58,914,036/= (2001: 54,532,853/=). The company believes that it is not exposed to major concentration of credit risk. The substantial sales of the company are made on cash basis. The company attempts to control credit risk associated with the carrying amount of its receivable by monitoring credit exposures, limiting transactions with specific customers and continuing assessment of credit worthiness of customers.

25.3 Foreign Exchange Risk Management

Foreign currency risk arises mainly where payables exist due to transactions with foreign undertakings. Payables exposed to foreign currency risks are covered through forward foreign contracts.

25.4 Fair value of financial instruments

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

	2002 Rupees	2001 Rupees
26 TAXATION		
Relationship between tax expense and accounting profit		
Profit before tax	<u>24,927,811</u>	<u>35,686,668</u>
Tax at the applicable rate	8,724,734	11,776,600
Various inadmissible expenses	5,377,056	4,617,756
Various admissible expenses	(7,853,975)	(6,349,311)
Effect of difference in tax rates under normal assessment and presumptive tax	<u>(2,202,291)</u>	<u>(2,775,736)</u>
	<u>4,045,524</u>	<u>7,269,309</u>
27 NUMBER OF EMPLOYEES		
Total number of employees at June 30.	<u>387</u>	<u>365</u>

28 GENERAL

28.1 Previous year's figures have been rearranged and regrouped where deemed necessary for the purpose of comparison.

28.2 Figures have been rounded off to the nearest rupee.

ABRAR HASAN
Chief Executive

ZAHID MAJEED
Director

The Secretary
NATIONAL FOODS LIMITED
12/CL-6, Claremont Road,
Civil Lines, Karachi-75530.
P.O. Box No. 15509

Form of Proxy

31st Annual General Meeting

I/We _____ of _____ being member(s) 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 failing 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 on my/our behalf at the 31st Annual General Meeting of the Company to be held on 30th October 2002 and / or any adjournment thereof.

As witness my/our hand seal this _____ day of _____ 2002.
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 Company's Registered Office not later than 48 hours before the meeting.
2. This form should be signed by the Member or by his/her attorney duly authorised 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 witnessed by two persons whose names, addresses and NIC Numbers shall be mentioned on the form.
- (ii) Attested copies of NIC or Passport of the beneficial owners and the proxy shall be furnished with the proxy form.
- (iii) The proxy shall produce his/her original NIC 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 to the Company.



