# Packages Annual Report 2007

## HEAD OFFICE & WORKS

Shahrah-e-Roomi,
P.O. Amer Sidhu,
Lahore - 54760, Pakistan
PABX: (042) 5811541-46
(042) 5811191-94
Fax : (042) 5811195
(042) 5820147

**Kasur Factory**

**Bulleh Shah Paper mills (bspm)**
10-km Kasur Kot Radhakishan Road
District Kasur, Pakistan
Tel: (049) 2017051, 2018201,
(049) 2008666

**Karachi Factory**
Plot No. 6 & 6/1 Sector 28
Korangi Industrial Area,
Karachi -74900, Pakistan
Tel : (021) 5045320, 5045310
Fax : (021) 5045330

**Registered Office & Regional Sales Office**
4th Floor, The Forum
Suite No. 416 -422, G-20, Block 9,
Khayaban-e-Jami, Clifton,
Karachi -75600, Pakistan
PABX : (021) 5874047-49
(021) 5378650-52
(021) 5831618, 5833011
Fax : (021) 5860251

**Regional Sales Office**
2nd Floor, GD, Arcade
73-F, Fazal-ul-Haq Road, Blue Area,
Islamabad - 44000, Pakistan
PABX : (051) 2276765, 2276768, 2278632
Fax: (051) 2829411

**Zonal Sales Offices**
C-2, Hassan Arcade Nusrat Road,
Multan Cantt. 60000, Pakistan
Tel. & Fax (061) 4784401-2

2nd Floor, Sitara Tower, Bilal Chowk,
Civil Lines, Faisalabad -38000, Pakistan
Tel. & Fax: (041) 2629417

**Uzair Enterprises**
Teer Chowk Bhuta Road,
Sukkur- 65200, Pakistan
Tel. & Fax: (071) 5616138

**M. Hamza Traders**
15-D Gul Plaza, Opp: Charsadda Bus Stand,
Peshawar-25000, Pakistan
Cell: 0301-8650486
Tel: 091-2043719

**Allied Agencies**
Tehsil Road, Jhelum - 49600, Pakistan
Cell: 0321-5332095 & 0333-5179706

**Shares Registrar**
Ferguson Associates (Pvt.) Limited
4th Floor, State Life Buliding No 2-A
I.I. Chundrigar Road Karachi - 74000
Pakistan

**WEB Presence**
www.packages.com.pk

## → HIGHLIGHTS

| | | Year to December 31, 2007 | Year to December 31, 2006 |
|---|---|---|---|
| Invoiced Sales | - million rupees | 10,540 | 9,028 |
| Profit before tax | - million rupees | 4,633 | 6,348 |
| Profit after tax | - million rupees | 4,326 | 6,101 |
| Cash dividend | - % of paid up capital | - | 60 |
| Stock dividend | - % of paid up capital | 15 | 05 |
| Shareholders' equity | - million rupees | 18,171 | 13,673 |
| Total assets | - million rupees | 33,438 | 22,673 |
| Net assets employed | - million rupees | 31,473 | 20,361 |
| Earnings per share | - rupees | 58.96 | 83.15 |
| Price Earnings ratio | | 6.17 | 2.41 |
| Return on capital employed | ( % ) | *6.28 | *13.81 |
| Return on shareholder's equity | ( % ) | *6.50 | *14.80 |
| Return on invested capital | ( % ) | *3.17 | *7.17 |
| Paper and Paperboard produced | - tonnes | 114,993 | 100,999 |
| Paper and Paperboard converted | - tonnes | 92,499 | 86,447 |
| Plastic all sorts converted | - tonnes | 10,300 | 8,418 |
| Number of shareholders | | 3,764 | 3,349 |
| Number of shares | | 73,373,482 | 69,879,507 |
| Number of employees | | 3,450 | 3,162 |

* Excludes net effect of Capital Gain for Comparison.

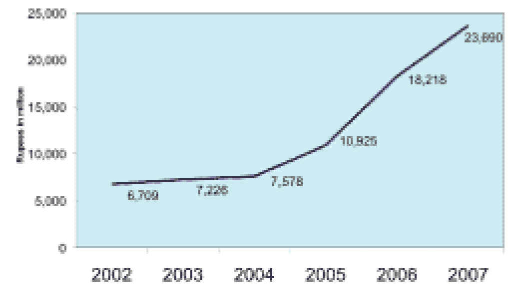
# TEN YEAR SUMMARY

| Ten year Summary (Rupees in Thousand) | Year to December, 31 2007 | Year to December, 31 2006 | Year to December, 31 2005 | Year to December, 31 2004 |
|---|---|---|---|---|
| **ASSETS EMPLOYED** | | | | |
| Fixed Assets at Cost | 15,889,743 | 8,074,313 | 7,659,184 | 7,248,264 |
| Accumulated Depreciation/Amortization | 5,502,070 | 4,984,342 | 4,633,101 | 4,277,204 |
| **Net Fixed Assets** | **10,387,673** | **3,089,971** | **3,026,083** | **2,971,060** |
| Capital work-in-Progress | 7,800,683 | 10,143,195 | 3,265,517 | 329,867 |
| Net Current & Other Assets | 13,284,706 | 7,128,086 | 2,992,975 | 1,424,674 |
| **Net Assets Employed** | **31,473,062** | **20,361,252** | **9,284,575** | **4,725,601** |
| **FINANCED BY:** | | | | |
| Paid up capital | 733,735 | 698,795 | 698,795 | 475,371 |
| Reserves | 17,437,037 | 12,974,002 | 7,037,461 | 3,716,489 |
| **Shareholder's Equity** | **18,170,772** | **13,672,797** | **7,736,256** | **4,191,860** |
| **Long - Term & Deferred Liabilities** | **13,302,290** | **6,688,455** | **1,548,319** | **533,741** |
| **Total Funds Invested** | **31,473,062** | **20,361,252** | **9,284,575** | **4,725,601** |
| Invoiced Sales | 10,539,995 | 9,027,907 | 8,163,084 | 6,892,985 |
| Materials Consumed | 5,108,396 | 4,246,956 | 3,520,643 | 2,710,306 |
| Gross Profit | 1,199,273 | 1,294,604 | 1,352,979 | 1,308,602 |
| Employees Remuneration | 834,623 | 758,192 | 650,753 | 576,159 |
| Profit from Operations | 587,598 | 757,613 | 902,407 | 788,710 |
| Profit before Tax | 4,632,948 | 6,347,840 | 1,329,925 | 1,192,321 |
| Profit after Tax | 4,325,948 | 6,100,780 | 1,015,364 | 963,202 |
| Cash dividend | - | 419,277 | 419,277 | 404,065 |
| Cash dividend % | - | 60.00 | 60.00 | 85.00 |
| Stock dividend | 110,060 | 34,940 | - | - |
| Stock dividend % | 15.00 | 5.00 | - | - |
| Earning per Share - rupees | 58.96 | 87.30 | 16.24 | 19.68 |
| Taxes, duties and levies | 2,140,813 | 1,926,284 | 1,765,461 | 1,472,410 |
| Market Value per Share-KSE 100 Index-Rs. | 363.80 | 210.00 | 202.00 | 198.85 |
| Break-up value per share - Rs. | 247.65 | 195.66 | 110.71 | 88.18 |
| No.of Shares | 73,373,482 | 69,879,507 | 69,879,507 | 47,537,080 |
| **KEY RATIOS:** | | | | |
| Debt: Equity Ratio | 40:60 | 30:70 | 11:89 | 00:100 |
| Current Ratio | 2.46 | 1.48 | 1.95 | 1.38 |
| Inventory Turnover Ratio | 4.06 | 4.69 | 5.13 | 4.83 |
| Gross Profit Ratio (%) | 11.38 | 14.34 | 16.57 | 18.98 |
| Profit before Tax Ratio (%) | 43.96 | 70.31 | 16.29 | 17.30 |
| Return on Capital Employed (%) | *6.28 | *13.81 | 21.63 | 27.22 |
| Interest Cover Ratio | 13.61 | 81.45 | 8.17 | 9.58 |
| Total Assets Turnover Ratio | 0.32 | 0.40 | 0.70 | 1.06 |
| Price - Earning Ratio | 6.17 | 2.41 | 12.44 | 10.10 |
| Debtor Turnover Ratio | 8.18 | 10.99 | 10.40 | 10.76 |
| Cash Dividend Yield (%) | 0.00 | 2.86 | 2.97 | 4.27 |

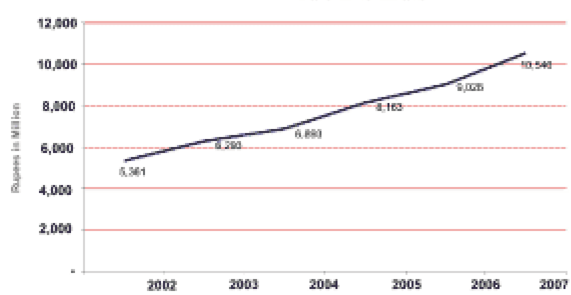
** Excludes net effect of Capital Gain for comparison.*

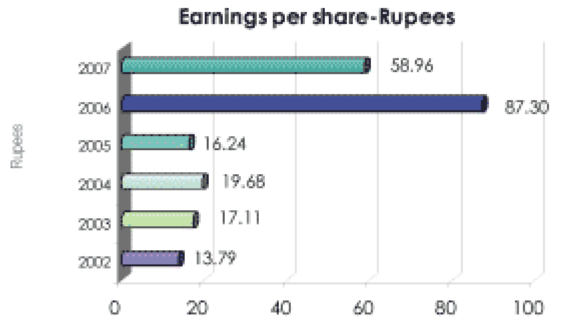
| Year to December, 31 2003 | Year to December, 31 2002 | Year to December, 31 2001 | Six months to December, 31 2000 | Year to June, 30 2000 | Year to June, 30 1999 |
|---|---|---|---|---|---|
| 6,881,590 | 6,512,007 | 5,773,725 | 5,360,950 | 5,323,073 | 4,640,648 |
| 3,927,588 | 3,546,508 | 3,130,521 | 2,748,913 | 2,568,522 | 2,240,099 |
| **2,954,002** | **2,965,499** | **2,643,204** | **2,612,037** | **2,754,551** | **2,400,549** |
| 344,747 | 196,902 | 445,143 | 257,381 | 79,696 | 351,722 |
| 1,757,227 | 1,088,165 | 1,023,154 | 855,630 | 1,063,658 | 1,221,874 |
| **5,055,976** | **4,250,566** | **4,111,501** | **3,725,048** | **3,897,905** | **3,974,145** |
| 475,371 | 475,371 | 475,371 | 452,734 | 411,577 | 411,577 |
| 3,157,352 | 2,343,839 | 2,021,227 | 1,832,902 | 1,771,365 | 1,515,524 |
| **3,632,723** | **2,819,210** | **2,496,598** | **2,285,636** | **2,182,942** | **1,927,101** |
| **1,423,253** | **1,431,356** | **1,614,903** | **1,439,412** | **1,714,963** | **2,047,044** |
| **5,055,976** | **4,250,566** | **4,111,501** | **3,725,048** | **3,897,905** | **3,974,145** |
| 6,293,219 | 5,360,884 | 5,157,816 | 22,380,330 | 4,165,603 | 3,925,696 |
| 2,263,462 | 1,925,656 | 1,911,866 | 858,044 | 1,353,832 | 1,206,286 |
| 1,193,713 | 949,559 | 891,383 | 354,276 | 790,385 | 941,472 |
| 550,566 | 506,552 | 471,220 | 218,009 | 384,556 | 389,069 |
| 718,306 | 474,370 | 474,221 | 222,374 | 632,887 | 787,713 |
| 1,036,905 | 797,225 | 514,441 | 241,927 | 551,224 | 512,389 |
| 813,512 | 655,372 | 424,879 | 193,241 | 428,703 | 384,154 |
| 404,065 | 332,760 | 213,917 | 90,547 | 172,862 | 153,662 |
| 85.00 | 70.00 | 45.00 | 20.00 | 42.00 | 37.34 |
| - | - | - | 22,637 | 41,158 | - |
| - | - | - | 5.00 | 10.00 | - |
| 17.11 | 13.79 | 8.94 | 4.07 | 9.47 | 9.33 |
| 1,426,321 | 1,286,246 | 1,213,008 | 499,232 | 948,344 | 809,483 |
| 167.90 | 88.50 | 60.50 | 66.00 | 60.00 | 41.00 |
| 76.42 | 59.31 | 52.52 | 50.49 | 53.04 | 46.82 |
| 47,537,080 | 47,537,080 | 47,537,080 | 45,273,410 | 41,157,646 | 41,157,646 |
| 21.79 | 25.75 | 30.70 | 28.72 | 35.65 | 45.55 |
| 1.98 | 1.29 | 1.24 | 1.01 | 1.05 | 1.00 |
| 4.93 | 4.48 | 5.10 | 2.68 | 6.40 | 7.17 |
| 18.97 | 17.71 | 17.28 | 15.83 | 18.97 | 23.98 |
| 16.48 | 14.87 | 9.97 | 10.81 | 13.23 | 13.05 |
| 21.96 | 19.13 | 14.51 | 7.48 | 15.57 | 16.77 |
| 8.06 | 5.58 | 2.95 | 2.97 | 2.85 | 2.16 |
| 1.02 | 0.90 | 0.84 | 0.38 | 0.70 | 0.62 |
| 9.81 | 6.42 | 6.77 | 16.22 | 6.34 | 4.39 |
| 10.90 | 9.87 | 8.65 | 9.65 | 9.02 | 8.71 |
| 5.06 | 7.91 | 7.44 | 3.03 | 7.00 | 9.11 |

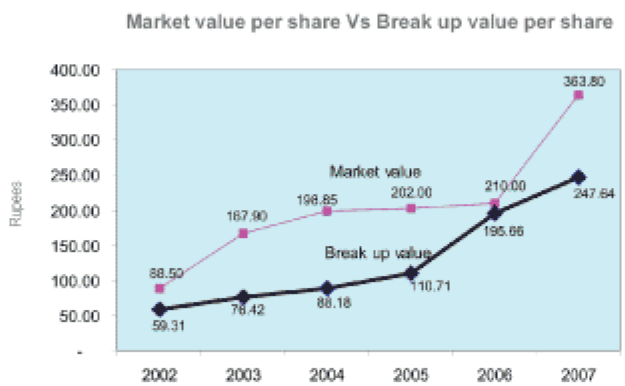
**Fixed Assets and Capital Work-in- Progress at cost**



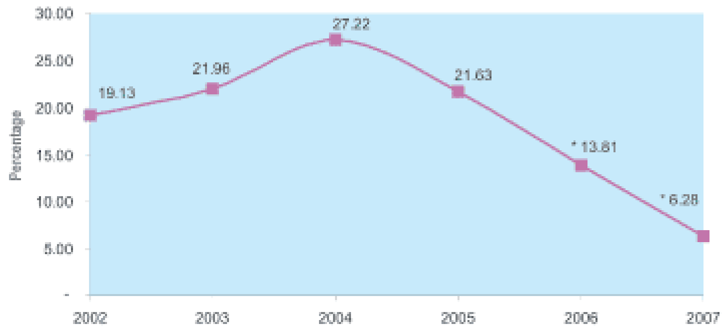

**Invoiced Sales**




Earnings per share-Rupees
Rupees
2007
2006
2005
2004
2003
2002
58.96
87.30
16.24
19.68
17.11
13.79
0
20
40
60
80
100

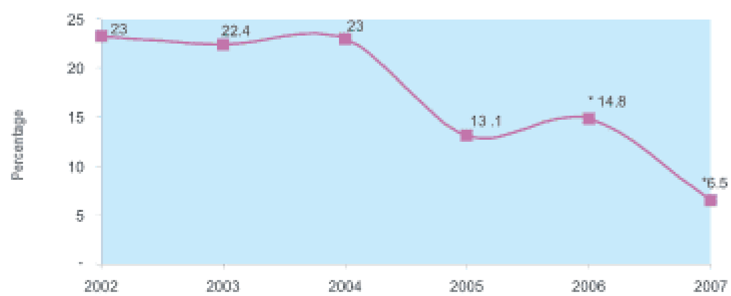

Market value per share Vs Break up value per share
Rupees
400.00
350.00
300.00
250.00
200.00
150.00
100.00
50.00
-
Market value
Break up value
88.50
167.90
198.85
202.00
210.00
363.80
59.31
78.42
88.18
110.71
195.66
247.64
2002
2003
2004
2005
2006
2007

Return on Capital Employed




Return on Capital Employed for the Years 2006 & 2007 excludes net effect of Capital Gain for comparison.

Return on Shareholders' Equity

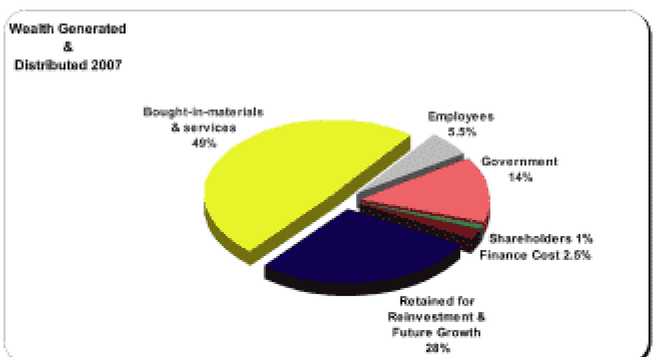



Return on Shareholders' equity for the Years 2006 & 2007 excludes net effect of Capital Gain for comparison.

## → VALUE ADDED AND ITS DISTRIBUTION

The Statement below shows value added by the operations of the company and its distribution to the shareholders

| Wealth Generated | 2007 | | 2006 | |
|---|---|---|---|---|
| | Rupees in thousand | | | |
| Sales | 10,539,995 | | 9,027,907 | |
| Dividend Income | 646,650 | | 786,498 | |
| other Income | 3,888,263 | | 5,134,643 | |
| | 15,074,908 | 100% | 14,949,048 | 100% |
| **Wealth Distributed** | | | | |
| **Bought in Materials & Services** | 7,406,146 | 49% | 6,084,883 | 41% |
| **To Employees** | | | | |
| Remuneration, benefits & facilities | 834,623 | 5.5% | 758,192 | 5% |
| **To Government** | | | | |
| Income Tax, Sales Tax, Custom & Excise Duties, WPPF, WWF, EOBI, Professional & Local Taxes | 2,140,813 | 14% | 1,926,284 | 13% |
| **To Providers of Capital** | | | | |
| Cash Dividend & bonus Shares to the shareholders | 110,060 | 1% | 454,217 | 3% |
| **Mark up & Finance Cost** | 367,378 | 2.5% | 78,909 | 0.5% |
| **Retained for Reinvestment & Future Growth** | | | | |
| For expansion programme & operations transferred to general reserve | 4,215,888 | 28% | 5,646,563 | 37.5% |
| | 15,074,908 | 100% | 14,949,048 | 100% |



## MISSION STATEMENT

To be a leader in the markets we serve by providing quality products and superior service to our customers, while learning from their feed back to set even higher standards for our products. To be a company that continuously enhances its superior technological competence to provide innovative solutions to customer needs. To be a company that attracts and retains outstanding people by creating a culture that fosters openness and innovation, promotes individual growth and rewards initiative and performance. To be a company which combines its people, technology, management systems and market opportunities to achieve profitable growth while providing fair returns to its investors. To be a company that endeavors to set the highest standards in corporate ethics in serving the society

## STRATEGIC VISION & OBJECTIVES

To position ourselves to be a regional supplier of quality packaging and tissue products. To improve on contemporary measures such as cost, quality, service, speed of delivery and mobilization. Keep investing in technology, systems and human resources to effectively meet the challenges every new dawn brings. Develop relationships with all our stakeholders based on sustainable co-operation, upholding ethical values, which the shareholders, management and employees represent and continuously strive for.

## ENVIRONMENT, HEALTH AND SAFETY POLICY

The Management of Packages Limited realizes that we live in a world where resources are finite and the eco-system has a limited capacity to absorb the load mankind is placing on it. That is why it is our belief that we must do everything practically possible to lessen the load we place on the environment and make every effort so that sustainable development becomes a reality. Packages Limited has formulated its environment, health and safety (EH&S) policy to address these issues in a more effective way. It is very clear to us that these objectives cannot be realized by the efforts of the Management alone. While the general directions are to be provided by the Management, the help of all the employees will be required to transform these ambitions into reality. It is expected that all employees will do their best to implement the policy in its true spirit.

ENVIRONMENT, HEALTH AND SAFETY POLICY STATEMENT

Packages Limited shall:

1. Minimize its environmental impact, as is economically and practically possible.

2. Save raw materials including energy, water and avoid waste.

3. Ensure that all its present and future activities are conducted safely, without endangering the health of its employees, its customers and the public.

4. Develop plans and procedures and provide resources to successfully implement this policy and for dealing effectively with any emergency.

5. Provide environmental, health and safety training to all employees and other relevant persons to enable them to carry out their duties safely without causing harm to themselves, to other individuals and to the environment.

6. Ensure that all its activities comply with national environmental, health and safety regulations.

This policy shall be reviewed as and when required for the betterment of the same.

50 YEARS OF EXCELENCE

Packages Limited has been there for the last 50 years & the next 50 will be far more challenging

STRATEGIC VISION & OBEJECTIVES

It is the basic principle of Packages Limited to obey the law of the land and comply with its legal system. Accordingly every director and employee of the company shall obey the law. Any director and employee guilty of violation will be liable to disciplinary consequences because of the violation of his / her duties.

Employees must avoid conflicts of interest between their private financial activities and conduct of company business.

All business transactions on behalf of Packages Limited must be reflected accordingly in the accounts of the company.

The image and reputation of Packages Limited is determined by the way each and every one of us acts and conducts himself / herself at all times.
We are an equal opportunity employer. Our employees are entitled to a safe and healthy workplace.

Every manager and supervisor shall be responsible to see that there is no violation of laws within his / her area of responsibility which proper supervision could have prevented. The manager and supervisor shall still be responsible if he / she delegates particular tasks

QUALITY POLICY

We at Packages Limited are committed to producing quality products which conform to our customers' requirements and strengthen our position as a quality-managed company. Our pledge is to provide the market with the best quality products at competitive prices through a customer- driven and service-oriented, dynamic management team. To meet this obligation, the company will continue updating of employee skills by training, acquisition of new technology and regular re-evaluation of its quality control and assurance systems. Appropriate resources of the company will be directed towards achieving the quality goals through employees' participation.

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 53rd Annual General Meeting of Packages Limited will be held
at the Beach Luxury Hotel, Moulvi Tamizuddin Khan Road, Karachi on Tuesday March 18, 2008 at 10.30 a.m. to transact the following business:-

Ordinary Business:

1. To confirm the minutes of the Extraordinary General Meeting held on October 5, 2007.

2. To receive, consider and adopt the audited financial statements of the company together with the Directors' and Auditors' Reports thereon for the year ended December 31, 2007.

3. To elect ten directors as fixed by the Board under section 178(1) of the Companies Ordinance, 1984 in accordance with the provisions of the said Ordinance for a period of three years commencing May 26, 2008. The names of the retiring directors are Mr. Asadullah Khawaja, Mr. Kamal Afsar, Mr. Khalid Yacob, Mr. Makku Juha Pentikainen, Mr. Mujeeb Rashid,Syed Aslam Mehdi, Mr. Shamim Ahmad Khan, Syed Hyder Ali, Syed Shahid Ali and Mr. Tariq Iqbal Khan.

4. To appoint Auditors for the ensuing year, and to fix their remuneration. (Messrs A. F. Ferguson & Co., Chartered Accountants, retires and has offered themselves for re-appointment).

B. SPECIAL BUSINESS:

5. To approve the issue of bonus shares in the ratio of 15 new shares for every 100 existing ordinary shares held i.e. 15% on the existing issued, subscribed and paid up share capital of the company.

6. To consider, and if thought fit , to approve the renumeration payable to the full time working directors of the company, including the chief executive .

By Order of the Board

| | |
|---|---|
| Karachi | Adi J. Cawasji |
| Feburary 14, 2008 | Company Secretary |

Notes:

1. Any person who seeks to contest the election of directors shall file with the company at its registered office not

later than fourteen days before the day of the above said meeting his/her intention to offer himself/herself for the election of directors in terms of section 178(3) of the Companies Ordinance, 1984 together with (a) consent in form 28, (b) a declaration with consent to act as director in the perscribed form under clause (ii) of the code of corporate governance to the effect that he /she is aware of duties and powers of directors under the Companies Ordinance, 1984, the Memorandum and Articles of Association of the Company and the listing regulations of the Karachi, Lahore and Islamabad Stock Exchanges and has read the relevant provisions contained therein, (c) a declaration in terms of clause (iii) and (iv) of the code of corporate governance to the effect that he / she is not serving as a director of more than ten listed companies, that his/her name is borne on the register of national tax payers (except where he / she is a non-resident), that he/she has not been convicted by a court of competent jurisdiction as defaulter in payment of any loan to a banking company, a development financial institution or a non-banking financial institution.

2. The Share Transfer Books of the company will remain closed from March 10, 2008 to March 18, 2008 (both days inclusive). Transfers received in order by our Shares Registrar, Ferguson Associates (Pvt.) Limited, 4th floor, State Life Building No.2-A, I. I. Chundrigar Road, Karachi-74000 by the close of business on March 08, 2008 will be considered in time for entitlement of bonus shares.

3. A member entitled to attend and vote at the meeting may appoint a proxy in writing to attend the meeting and vote on the member's behalf.

4. Duly completed forms of proxy must be deposited with the Company Secretary at the Registered Office of the company at 4th Floor, The Forum, Suite # 416-422, G-20, Block 9, Khayaban-e-Jami, Clifton, Karachi-75600 not later than 48 hours before the time appointed for the meeting.

5. Shareholders are requested to notify any change in their addresses immediately.

6. Members who have not yet submitted photocopy of their computerized national identity cards to the company are requested to send the same at the earliest.

7. CDC account holders will further have to follow the under mentioned guidelines as laid down in Circular No.1 dated January 26, 2000 issued by the Securities and Exchange Commission of Pakistan.

A. FOR ATTENDING THE MEETING:

(i) In case of individuals, the account holder or sub account holder and/or the person whose securities are in group account and their registration details are uploaded as per the Regulations, shall authenticate identity by showing his/her original national identity card (NIC) or original passport at the time of attending the meeting.

(ii) 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.

(B) FOR APPOINTING PROXIES:

(i) In case of individuals, the account holder or sub-account holder and / or the person whose securities are in group account and their registration details are uploaded as per the Regulations, shall submit the proxy form as per the above requirement.

(ii) Attested copies of NIC or the 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) along with proxy form to the company.

8. Pursuant to rule 6 (iii) of The Companies ( Issue of Capital ) Rules, 1996, the Auditors have certified that the free

reserves and surpluses retained after the issue of bonus shares will not be less than twenty five percent of the increased capital.

9. Form of proxy is attached in the Annual Report.

STATEMENT UNDER SECTION 160 OF THE COMPANIES ORDINANCE, 1984 REGARDING SPECIAL BUSSINESS:

ITEM NO.5 OF THE NOTICE

The Directors have recommended the issue of 11,006,022 bonus shares by capitalization of a part of the Free Reserves of the company. After the issue, the total paid up capital will increase to Rs. 843,795,040. None of the Directors are interested in this business except to the extent of their entitlement to bonus shares as shareholders. The Directors recommend considering and, if thought fit, passing with or without modification the following Resolutions as Ordinary Resolutions:

a) RESOLVED that a sum of Rs. 110,060,220 out of the Free Reserves of the company be capitalized and applied to the issue of 11,006,022 ordinary shares of Rs. 10 each and allotted as fully paid up bonus shares to the members of the company who are registered in the books of the company on March 18, 2008 in the proportion of 15 such new shares for every 100 existing ordinary shares held and that such new shares shall rank pari passu with the existing ordinary shares of the company.

b) RESOLVED that in the event of any member holding shares which are not an exact multiple of one, the Directors be and are hereby authorized to sell in the stock market such fractional entitlement and to pay the proceeds of sale when realized to a charitable institution approved under section 61 (1) of the Income Tax Ordinance, 2001.

c) RESOLVED that for the purpose of giving effect to the foregoing, the Directors be and are hereby authorized to give such directions as may be necessary and as they deem fit to settle any question or any difficulties that may arise in the distribution of the said new shares or in the payment of the sale proceeds of the fractions.

TEM NO.6 OF THE NOTICE

The shareholders' approval will be sought for the payment of remuneration and the provision of certain facilities to the chief executive /managing director and full time working directors in accordance with their terms and conditions of service with the company.

For this purpose, the following Ordinary Resolution which sets out the terms of appointment of chief executive/managing director and full time working directors is proposed to be moved at the meeting:-

"RESOLVED that consent be and is hereby given for payment as remuneration to Syed Hyder Ali, Mr. Mujeeb Rashid, Mr. Khalid Yacob and Syed Aslam Mehdi full time working directors, of the sums not exeeding Rs.13 million each per year effective January 1, 2008 and for the provision to them of house maintenance, transport, medical and leave fare facilities and other benefits incidental or relating to their office in accordance with company's rules from time to time in force."

Syed Hyder Ali, Mr. Mujeeb Rashid, Mr. Khalid Yacob and Syed Aslam Mehdi are interested in this bussiness to the extent of their respective remunerations.

DIRECTORS' REPORT TO THE SHAREHOLDERS

بسم الله الرحمن الرحيم

The Board of Directors are pleased to present their Annual Report together with the company's audited financial statements for the year ended December 31, 2007.

The year under review has been a landmark year, as your company completed 50 years of its operational existence and also marked the beginning of commercial production of its first phase of the Bulleh Shah Paper Mills Project in Kasur.

50 YEARS OF OPERATIONS

Reflecting back through the years, your company has come a long way from the producer of folding cartons primarily for the tobacco industry in 1957, commissioning its 24,000 tonnes Paperboard Mills in 1968 to the present status as the country's major solution provider of all types of packaging materials. Packages Ltd, is a key producer of quality paper and paper board and quality tissue paper consumer products in the country. The company continues to create value by investing in state of the art technology, plant & equipment, training of human resource, investing in related businesses and creating synergy with its core business.

Your Directors take this opportunity to thank the customers, shareholders and other stakeholders who showed their confidence and supported the company during the past 50 years as well as its past and present employees, who with their dedication and efforts have made the company what it is today.

The last 50 years have been good but the future poses new challenges and we pledge to go forward with the confidence that every new challenge would bring in new opportunities to position the company as an important player in the local and regional markets.

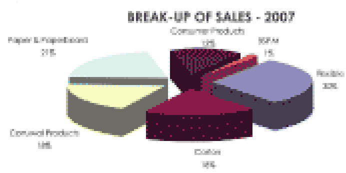
GENERAL OVERVIEW

The company's gross sales during the year increased by Rs. 1.5 billion, an increase of 17% from the previous year. This increase has also helped the government in collecting more revenue in the form of sales tax. Imposition of 1% special excise duty on all of company's products as well as increase in sales tax rate on flexible packaging products which include plastics, foils, films and polyethylene from 15% to 20% and from July 2007 has also increased the contribution of company to the government revenue by 28% from last year.

The company's net sales grew by 15% during the year. Its packaging materials registered a growth of 12% during the year. Food and cigarette industries witnessed the highest growth for flexible and rigid packaging businesses. Despite the decline in corrugated cartons for the textile industry (due to low cotton production and weak export demand) our corrugated boxes business has registered a 16% increase in sales by regaining lost business, and an increase in demand of boxes for food.

For paperboard products, the start-up of PM-6 production from August 2007 enabled additional capacities to become available to produce writing paper in Lahore and brown board in Kasur. During the year under review we supplied for the first time liner and fluting paper to the local converters of corrugated boxes as well as various papers including printing, writing, photo copier, computer paper and paper to the book printers in the local market. The paper supplied to the market was well received because of its higher quality compared to the locally available paper and hopefully, it would substitute imported paper in future.

The company's tissue product business has registered a 14% growth. "Rose Petal", our flag ship brand in consumer products, dominated the market in year 2007 by delivering quality to the valued customers in both consumer and institutional business. Our key focus on enhancing tissue paper usage by providing innovative solutions to customer needs has shown considerable success.




COMPANY'S RESULTS

Although the total gross revenue of the company increased by 17%, at the same time input costs also increased due to un-precedented increase in petroleum prices which escalated the freight charges for all imported materials. Similarly cost of petroleum based raw materials used in flexible packaging products continued to increase throughout the year. In the category of plastics, major price increases were observed in the LLDPE (Linear Low Density Polyethylene) and LDPE (Low Density Polyethylene) during 2007. Net price increase in LDPE was about 24% and in LLDPE about 11% during the year. This price escalation coupled with increase in freight charges and foreign currency exchange rates had resulted in raw material prices going up by more than 10%. At the same time increase in oil prices and limited supply of wood chips has contributed to the upward price trend of pulps, which has increased the paper and tissue raw material costs.

The increases in costs were partially compensated by price rationalization, increased productivity and introduction of new technologically efficient products. Accordingly gross margin percentages were under pressure for most of the year despite sales showing a healthy growth in the packaging business. We however, continue our sustained efforts to improve the margins.

Another factor affecting the financial results for the year was depreciation and financial expenses of Phase-I of the Bulleh Shah Paper Mills for five months which were not commensurate with the revenue due to lower start up capacity utilization in its initial stage.

However, if we segregate the company's financial results into its existing operations at Lahore and the Bulleh Shah operations, the existing operations have made Rs.76 million more profit as against the previous year.

The financial results of the company are as follows:-

| | TOTAL YEAR 2007 | BSPM 2007 | EXISITING OPERATIONS 2007 | TOTAL YEAR 2006 |
|---|---|---|---|---|
| | ( Rupees in Million ) | | | |
| GROSS SALES | 10,540 | 139 | 10,401 | 9,028 |
| NET SALES | 9,029 | 122 | 8,907 | 7,847 |
| GROSS PROFIT | 1,199 | (243) | 1,442 | 1,295 |
| PROFIT FROM OPERATIONS | 588 | (246) | 834 | 758 |
| FINANCE COSTS | (367) | (268) | (99) | (79) |
| INVESTMENT INCOME | 4,413 | 0 | 4,413 | 5,669 |
| PROFIT BEFORE TAX | 4,633 | (515) | 5,148 | 6,348 |
| PROFIT AFTER TAX | 4,326 | (515) | 4,841 | 6,101 |
| EARNINGS PER SHARE - RS. | 58.96 | | | 83.15 |

During the year the company has carried out an exercise of revaluing its existing investments in the shares of certain listed associated companies. By carrying out the above exercise the company has registered fair value of such investments on its balance sheet and a capital gain of Rs.3.8 billion.

BULLEH SHAH PAPER MILLS PROJECT (BSPM)

We are happy to announce that the company has completed the first phase of Bulleh Shah Paper Mill situated near Kasur, and 70 km from the existing location, at the cost of Rs. 6.8 billion. The new plant has a more efficient layout and is capable of producing board of international quality. Presently Paper Machine (PM) 6 along-with high yield straw pulping & OCC plants and its back processes like 11 MW power house, gas turbine and primary effluent treatment-sedimentation and sludge dewatering are fully operational. The paper and board manufactured on PM-6 is of higher quality, stronger and more consistent because of the state of the art equipment. The PM-6 start up capacity utilization during the five months is better than its projected optimization curve and is delivering the desired quality product. With the completion of first phase the company has increased its capacity of brown board to 100,000 tonnes and its combined capacity to 200,000 tonnes. We are also pleased to mention that the quality of the paperboard manufactured on PM-6 has been very well received and the company has started exports to the Middle East, Sri Lanka and Africa.

Work on its second phase which includes erection of Paper Machine (PM) 7, Coating machine, Deinking plant, 41 MW power house steam turbine, and secondary effluent treatment is going in full swing. So far Rs. 6.9 billion has been spent on this phase and we are confident that the coating machine, deinking plant would come into operation during the 2nd quarter of 2008. Paper Machine (PM-7) and 41 MW power house would be completed during the third quarter 2008.The company has incurred an aggregate cost of Rs.13.7 billion on the project until the end of December 2007 and a further cost of Rs.1.3 billion.

is expected to be incurred until the completion of PM - 7. Our initial estimates were based on discussions and quotations from the vendors of the main machinery suppliers. The project also envisaged use of refurbished secondhand equipment necessarily resulting in estimations. Accordingly during the course of the project, necessary and qualitative changes in the scope of the project were made which increased the project cost. Furthermore, there has been the impact due to increases in prices of metals, civil work materials and other costs. The management fully recognizes the impact and has taken steps to ensure the availability of necessary financial and human resources for the completion of the project.

The project has been funded through the issue of right shares, internal cash generation and long-term loans from local banking consortium and International Finance Corporation.

To facilitate the movement of raw and finished materials to and from Kasur, we have entered into an agreement with Pakistan Railways, whereby we have built a platform and installed stackers on leased land at the Kot Radha Kishan railway station to transport material through train. The Packages Container Terminal was inaugurated in January 2008. This shall significantly reduce the freight costs of incoming raw materials as well as finished products to Karachi.

## OTHER CAPITAL INVESTMENTS

A Corrugator and Flexo Folder Gluer have also been installed in the new site at Kasur with an annual capacity of 55,000 tonnes. The plant is expected to bring in economies of scale and operational efficiency in manufacturing of shipping boxes. It is using the board manufactured by PM-6 which is superior to what they were using before.

The existing tissue machine PM - 4 at Lahore has reached its maximum capacity and to cater to the increasing demand of tissue products a new Tissue Machine with an annual capacity of 33,000 tonnes was ordered. The erection of the machine has commenced and it is expected to be in commercial production during the second quarter of 2008.

## CONTINUOUS IMPROVEMENT

To ensure complete satisfaction of our customers we recertified our Quality Management System to ISO 9001:2000 standards. During the year ISO 14001 certification was carried out for the Packaging Division, which has resulted in improvement in effluent quality and better resource and waste management. By adhering to the ISO 14001 EMS the continuous improvement cycle will be ensured in the future, Business Unit Flexible received HACCP certification which means that all flexible packaging products would now comply with the requirements of food safety packaging.

In the field of energy conservation steps are being taken to further reduce our energy usage as it not only helps to reduce the green house gas emissions but also helps to reduce our demand for gas and furnace oil.

## FUTURE OUTLOOK

The prospects of rising inflation, higher interest rates, rupee/foreign currency exchange rates, and increasing fuel charges are increasing cost of production for businesses in Pakistan. This will be especially true in 2008 for packaging materials because the trend of rising prices in plastics and pulps is continuously persisting in 2008. Under these circumstances, maintaining good margins would be challenging and these can only be achieved by bringing in price rationalization, production efficiencies and improvement in operations and raw material sourcing.

On the paperboard front, demand for writing printing paper would continue to grow in the domestic market at approximately 5-7%. Presently about 25-30% of the country's paper and board needs are being met from imports

## APPROPRIATION

As mentioned above the Bulleh Shah Paper Mills investment is at its peak and capacity utilization is gradually increasing. Accordingly the Directors are of the view that a prudent approach may be followed for the long term growth of the company and accordingly the Directors recommend issue of fifteen bonus shares for every one hundred shares held on the existing issued, subscribed and paid up capital of the company.

Accordingly the following appropriations have been made:-

| | (Rupees in thousand) |
|---|---|
| The Company made an after tax profit of | 4,325,948 |
| Adding thereto the un-appropriated profit at December 31, 2006 | 849 |
| Makes available for appropriation a sum of | 4,326,797 |
| From the sum the Directors recommend transfer to reserve | 4,326,797 |
| And propose to carry forward to 2008 the balance of | Nil |

## AUDITORS

The present auditors M/s A.F. Ferguson & Co., Chartered Accountants retire and offer themselves for reappointment. As suggested by the Audit Committee, the Board of Directors has recommended their reappointment as auditors of the company for the year ending December 31, 2008, at a fee to be mutually agreed.

## Compliance with the Code of Corporate Governance

The requirements of the Code of Corporate Governance set out by the Karachi, Lahore and Islamabad Stock Exchanges in their Listing Regulations, relevant for the year ended December 31, 2007 have been adopted by the company and have
been duly complied with. A statement to this effect is annexed to the report.

With PM-7 coming online in the third quarter of next year we hope to upgrade the quality of white paper in the local paper market and fill the demand supply gap with PM-7 paper to substitute imports. Similarly with our new tissue machine starting production during the second quarter of next year we hope to make an entry into the international markets with our tissue paper in a big way. For the domestic consumers we would continue to aim at ensuring availability and accessibility of tissue products to enhance market penetration and achieving better

## STATEMENT OF ETHICS AND BUSINESS PRACTICES

The Board has adopted the statement of Ethics and Business Practices. All employees are informed of this statement and are required to observe these rules of conduct in relation to customers, suppliers and regulations.

## MATERIAL CHANGES

There have been no material changes since December 31, 2007 and the company has not entered into any commitment, which would affect its financial position at the date.

## BOARD OF DIRECTORS

Syed Aslam Mehdi was appointed Director on the Board on August 23, 2007 in place of Ms. Kirsten Rausing who resigned on August 23, 2007. The Board wishes to record the valuable contribution made by Ms. Kirsten Rausing and welcomes Syed Aslam Mehdi on the Board.

In the year 2007, four board meetings were held and the number of meetings attended by each Director is given hereunder:-

| S. NO. | NAME OF DIRECTORS | NO. OF MEETINGS ATTENDED |
|---|---|---|
| 1. | Mr. Asadullah Khawaja<br>(Chairman) | 4 |
| 2. | Syed Hyder Ali<br>(Chief Executive & Managing Director ) | 4 |
| 3. | Mr. Tariq Iqbal Khan<br>(Nominee of National Investment Trust Limited) | 3 |
| 4. | Mr. Kamal Afsar<br>(Nominee of State Life Insurance Corporation of Pakistan) | 1 |
| 5. | Mr. Shamim Ahmad Khan | 4 |
| 6. | Syed Shahid Ali | 1 |
| 7. | Mr. Mujeeb Rashid | 3 |
| 8. | Mr. Khalid Yacob | 4 |
| 9. | Ms. Kirsten Rausing<br>(Resigned on August 23, 2007) | - |
| 10. | Mr. Markku Juha Pentikainen | - |
| 11. | Syed Aslam Mehdi<br>(Appointed on August 23, 2007 ) | 2 |
| 12. | Syed Aslam Mehdi<br>(Alternate to Ms. Kirsten Rausing) | 2 |
| 13. | Mr. Matti Naakka<br>(Alternate to Mr. Markku Juha Pentikainen) | 3 |

Leave of absence was granted to the Directors who could not attend the Board Meetings.

## AUDIT COMMITTEE

An Audit Committee of the Board has been in existence since the enforcement of the Code of Corporate Governance, which comprises of three non-executive directors (including its Chairman) and two executive directors. During the year four meetings of the Audit Committee were held. The Audit Committee has its terms of reference which were determined by the Board of Directors in accordance with the guidelines provided in the Listing Regulations.

## CORPORATE AND FINANCIAL REPORTING FRAMEWORK

The financial statements together with the notes thereon have been drawn up by the management in conformity with the Companies Ordinance, 1984. These Statements present fairly the Company’s state of affairs, the results of its operations, cash flow and changes in equity.

Proper books of account have been maintained by the company.

Appropriate accounting policies have been consistently applied in the preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.

The International Accounting Standards, as applicable in Pakistan, have been followed in the preparation of financial statements.

The system of internal control is sound in design and has been effectively implemented and monitored.

There are no doubts upon the company’s ability to continue as a going concern.

There has been no departure from the best practices of Corporate Governance, as detailed in the listing regulations.

There has been no departure from the best practices of transfer pricing.

The key operating and financial data for the last ten years is annexed.

The value of investments of provident, gratuity and pension funds based on their audited accounts as on December 31, 2007 were the following:

| | |
|---|---|
| Provident Fund | Rs. 617.063 million |
| Gratuity Fund | Rs. 262.782 million |
| Pension Fund | Rs. 484.828 million |

The value of investment includes accrued interest.

Trading of Shares by Chief Executive, Directors, Chief Financial Officer, Company Secretary, their spouses and minor children:

| PURCHASE OF SHARES | NO. OF SHARES |
|---|---|
| Chief Executive Officer | Nil |
| Directors | Nil |
| Chief Financial Officer | Nil |
| Company Secretary | Nil |
| Spouses | Nil |
| **SALE OF SHARES:** | |
| Syed Shahid Ali ( Director) | 2,500 |

PATTERN OF SHAREHOLDINGS

A Statement of the pattern of shareholding of certain class of shareholders as at December 31, 2007, whose disclosure is required under the reporting framework, is included in the annexed shareholder's information. The Directors, CEO, CFO, Company Secretary and their spouses or minor children did not carry out any trade in shares of the company during the year, except as noted above.

Syed Hyder Ali

Syed Hyder Ali
Chief Executive & Managing Director
Karachi, February 14, 2008

## SHAREHOLDERS' INFORMATION

### Registered Office
4th Floor, The Forum
Suite # 416-422, G-20, Block 9
Khayaban-e-Jami, Clifton,
Karachi- 75600
Tel : 92-21-5831618, 5831664, 5833011
Fax : 92-21-5860251

### Shares Registrar
Ferguson Associates (Pvt.) Ltd.
4th Floor, State Life Building No. 2-A
I.I. Chundrigar Road,
Karachi-74000
Tel. : 92-21-2425467, 2426597,2427012,
92-2475266.
Fax : 92-21-2426752

### Listing on Stock Exchanges
Packages equity shares are listed on Karachi, Lahore and Islamabad Stock Exchanges.

### Listing Fees
The annual listing fee for the financial year 2007-08 has been paid to all the three stock exchanges within the prescribed time limit.

### Stock Code
The stock code for dealing in equity shares of Packages at KSE, LSE and ISE is PKGS.

### Shares Registrar
Packages' shares department is operated by Ferguson Associates (Pvt.) Ltd. and services over 3,764 shareholders. It is managed by a well experienced team of professionals and is equipped with the necessary infrastructure in terms of computer facilities and comprehensive set of systems and procedures for conducting the Registration function.

The essential and outstanding ingredient of the Registration services is the involvement of Chartered Accountants in the quality control aspect of Registration activities.

The Shares Registrar has online connectivity with Central Depository Company of Pakistan Limited (CDC). It undertakes activities pertaining to dematerialization of shares, share transfers, transmissions, issue of duplicate / re-validated dividend warrants, issue of duplicate / replaced share certificates, change of address and other related matters.

For assistance, shareholders may contact either the Registered Office or the Shares Registrar.

Contact Persons:

Mr. Rafique Khatri
Tel : 92-21-5831618,5831664,5833011
Fax : 92-21-5860251

Mr. Ovais Khan
Tel. : 92-21-2425467, 2426597,2427012
92-21-2475266
Fax : 92-21-2426752

Service Standards
Packages has always endeavored to provide investors with prompt services. Listed below are various investor services and the maximum time limits set for their execution:

Well qualified personnel of the Shares Registrar have been entrusted with the responsibility of ensuring that services are rendered within the set time limits.

| | For request received through post | Over the counter |
|---|---|---|
| Transfer of shares | 30 days after receipt | 30 days after receipt |
| Transmission of shares | 30 days after receipt | 30 days after receipt |
| Issue of duplicate share certificate | 30 days after receipt | 30 days after receipt |
| Issue of duplicate dividend warrants | 05 days after receipt | 05 days after receipt |
| Issue of re-validated dividend warrants | 05 days after receipt | 05 days after receipt |
| Change of address | 02 days after receipt | 15 minutes |

Statutory Compliance

During the year the company has complied with all applicable provisions, filed all returns / forms and furnished all the relevant particulars as required under the Companies Ordinance, 1984 and allied rules, the Securities and Exchange

Commission of Pakistan (SECP) Regulations and the Listing requirements.

## Dematerialization of Shares

The equity shares of the company are under the dematerialization category. As of date 70.81% of the equity shares of the company have been dematerialized by the shareholders.

## Dividend Announcement

The Bulleh Shah Paper Mills investment is at its peak and capacity utilization is gradually increasing. Accordingly the Directors are of the view that a prudent approach may be followed for the long term growth of the company and accordingly the Directors have proposed a nil cash dividend for the financial year ended December 31, 2007. However, the Board of Directors have recommended to allot to the members of the company fully paid up bonus shares in the proportion of 15 such new shares for every 100 exsiting ordinary shares held. The aforesaid bonus shares are subject to approval by the sharesholders of the company at the Annual [2006: 60% cash dividend (Rs. 6.00 per sahre of Rs. 10.00) Bonus shares: 5%].

## Book Closure Dates

The Register of Members and Share Transfer Books of the company will remain closed from March 10, 2008 to March 18, 2008 both days inclusive.

## Investors' Grievances

To date none of the investors or shareholders have filed any letter of complaints against any service provided by the company to its shareholders.

## Legal Proceedings

No case has ever been flied by shareholders against the company for non-receipt of shares refund.

# SHAREHOLDERS’ INFORMATION

## General Meetings & Voting Rights

Pursuant to Section 158 of The Companies Ordinance, 1984, Packages holds a General Meeting of shareholders at least once a year. Every shareholder has a right to attend the General Meeting. The notice of such meeting is sent to all the shareholders at least 21 days before the meeting and also advertised in at least one English and one Urdu newspaper having circulation in Karachi, Lahore and Islamabad.

Shareholders having holding of at least 10% of voting rights may also apply to the board of directors to call for meeting of shareholders, and if board does not take action on such application within 21 days, the shareholders may themselves call the meeting.

All shares issued by the company carry equal voting rights. Generally, matters at the general meetings are decided by a show of hands in the first instance. Voting by show of hands operates on the principle of “One Member-One Vote”. If majority of shareholders raise their hands in favor of a particular resolution, it is taken as passed, unless a poll is demanded.

Since the fundamental voting principle in a company is “One Share-One Vote”, voting takes place by a poll, if demanded. On a poll being taken, the decision arrived by poll is final, overruling any decision taken on a show of hands.

## Proxies

Pursuant to Section 161 of The Companies Ordinance, 1984 and according to the Memorandum and Articles of Association of the company, every shareholder of the company who is entitled to attend and vote at a general meeting of the company can appoint another person as his / her proxy to attend and vote instead of him / her. Every notice calling a general meeting of the company contains a statement that a shareholder entitled to attend and vote is entitled to appoint a proxy, who ought to be a member of the company.

The instrument appointing a proxy (duly signed by the shareholder appointing that proxy) should be deposited at the office of the company not less then forty-eight hours before the meeting.

Web Presence

Updated information regarding the company can be accessed at Packages website, www.packages.com.pk. The website contains the latest financial results of the company together with company's profile, the corporate philosophy and major products.

‘SHAREHOLDING PATTERN

The shareholding pattern of the equity share capital of the company as at December 31, 2007 is as follows:

| SHAREHOLDING FROM | TO | NUMBER OF SHAREHOLDERS | TOTAL SHARES HELD |
|---|---|---|---|
| 01 | 100 | 1,767 | 39,265 |
| 101 | 500 | 707 | 199,242 |
| 501 | 1000 | 334 | 263,813 |
| 1001 | 5000 | 528 | 1,257,430 |
| 5001 | 10000 | 136 | 983,062 |
| 10001 | 15000 | 51 | 629,389 |
| 15001 | 20000 | 34 | 594,145 |
| 20001 | 25000 | 31 | 708,162 |
| 25001 | 30000 | 17 | 457,596 |
| 30001 | 35000 | 11 | 353,713 |
| 35001 | 40000 | 11 | 417,814 |
| 40001 | 45000 | 9 | 382,939 |
| 45001 | 50000 | 11 | 530,362 |
| 50001 | 55000 | 5 | 263,454 |
| 55001 | 60000 | 7 | 401,839 |
| 60001 | 65000 | 4 | 245,686 |
| 65001 | 70000 | 2 | 132,498 |
| 70001 | 75000 | 3 | 218,386 |
| 75001 | 80000 | 5 | 388,766 |
| 80001 | 85000 | 3 | 246,863 |
| 85001 | 90000 | 5 | 436,240 |
| 90001 | 95000 | 4 | 370,958 |
| 95001 | 100000 | 3 | 293,937 |
| 100001 | 105000 | 4 | 408,440 |
| 105001 | 110000 | 4 | 437,812 |
| 110001 | 115000 | 2 | 226,001 |
| 115001 | 120000 | 2 | 233,230 |
| 120001 | 125000 | 2 | 245,330 |
| 125001 | 130000 | 1 | 125,773 |
| 130001 | 135000 | 2 | 263,436 |
| 135001 | 140000 | 2 | 276,608 |
| 145001 | 150000 | 1 | 149,026 |
| 150001 | 155000 | 1 | 151,987 |
| 155001 | 160000 | 2 | 316,712 |
| 160001 | 165000 | 1 | 164,789 |
| 175001 | 180000 | 3 | 532,660 |
| 180001 | 185000 | 1 | 182,608 |

| SHAREHOLDING FROM | TO | NUMBER OF SHAREHOLDERS | TOTAL SHARES HELD |
|---|---|---|---|
| 190001 | 195000 | 3 | 577,474 |
| 195001 | 200000 | 3 | 596,226 |
| 210001 | 215000 | 1 | 213,975 |
| 215001 | 220000 | 2 | 433,368 |
| 240001 | 245000 | 2 | 483,326 |
| 255001 | 260000 | 2 | 516,200 |
| 260001 | 265000 | 1 | 264,973 |
| 265001 | 270000 | 1 | 267,670 |
| 275001 | 280000 | 1 | 278,800 |
| 285001 | 290000 | 1 | 288,715 |
| 300001 | 305000 | 2 | 608,551 |
| 345001 | 350000 | 1 | 346,994 |
| 380001 | 385000 | 1 | 383,310 |
| 420001 | 425000 | 1 | 425,000 |
| 425001 | 430000 | 1 | 425,025 |
| 450001 | 455000 | 1 | 452,250 |
| 460001 | 465000 | 1 | 464,220 |
| 495001 | 500000 | 1 | 496,200 |
| 620001 | 625000 | 1 | 622,630 |
| 630001 | 635000 | 1 | 633,310 |
| 735001 | 740000 | 1 | 736,050 |
| 765001 | 770000 | 1 | 767,853 |
| 810001 | 815000 | 1 | 812,484 |
| 850001 | 855000 | 1 | 850,040 |
| 860001 | 865000 | 1 | 861,427 |
| 870001 | 875000 | 1 | 874,345 |
| 940001 | 945000 | 1 | 944,140 |
| 1020001 | 1025000 | 1 | 1,021,369 |
| 1035001 | 1040000 | 1 | 1,037,400 |
| 1040001 | 1045000 | 2 | 2,087,163 |
| 1555001 | 1560000 | 1 | 1,557,530 |
| 1900001 | 1905000 | 1 | 1,901,367 |
| 2690001 | 2695000 | 1 | 2,693,070 |
| 2825001 | 2830000 | 1 | 2,827,731 |
| 3395001 | 3400000 | 1 | 3,395,830 |
| 3945001 | 3950000 | 1 | 3,948,918 |
| 3975001 | 3980000 | 1 | 3,977,329 |
| 4250001 | 4255000 | 1 | 4,250,131 |
| 16520001 | 16525000 | 1 | 16, 521,117 |
| | | 3,764 | 73,373,482 |

## → INFORMATION AS REQUIRED UNDER THE CODE OF CORPORATE GOVERNANCE

| Shareholders' Category | Number of shareholders | Number of shares held |
|---|---|---|
| **ASSOCIATED COMPANIES, UNDERTAKINGS AND RELATED PARTIES** | | |
| GURMANI FOUNDATION | 1 | 1,042,320 |
| IGI INSURANCE LIMITED | 1 | 16,521,117 |
| LOADS LIMITED | 1 | 65,598 |
| M/S BABAR ALI FOUNDATION | 1 | 2,693,070 |
| PACKAGES LIMITED EMPLOYEES PROVIDENT FUND | 2 | 1,798,169 |
| PACKAGES LIMITED MANAGEMENT STAFF PENSION FUND | 2 | 573,945 |
| TREET CORPORATION LIMITED | 1 | 767,853 |
| TRUSTEES PACKAGES LIMITED EMPLOYEES GRATUITY FUND | 2 | 90,865 |
| **NIT AND ICP** | | |
| INVESTMENT CORPORATION OF PAKISTAN | 1 | 2,108 |
| NATIONAL BANK OF PAKISTAN, TRUSTEE DEPTT.(NIT) | 2 | 7,926,247 |
| **DIRECTORS** | | |
| MR. ASADULLAH KHAWAJA / MS.LUBNA KHAWAJA | 1 | 525 |
| MR. KHALID YACOB | 1 | 890 |
| MR. MUJEEB RASHID | 1 | 61,425 |
| MR. SHAMIM AHMAD KHAN | 1 | 525 |
| SYED ASLAM MEHDI | 1 | 4,158 |
| SYED HYDER ALI | 2 | 1,901,892 |
| SYED SHAHID ALI | 2 | 1,008,710 |
| Directors spouses and minor children | NIL | NIL |
| CEO's spouse and minor children | NIL | NIL |
| **EXECUTIVES** | 13 | 4,677,169 |
| Public Sector Companies and Corporations | 06 | 4,156,625 |
| Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance Companies, Modaraba and Mutual Funds | 93 | 12,408,246 |
| **SHAREHOLDERS HOLDING 10% OR MORE VOTING INTEREST** | | |
| IGI INSURANCE LIMITED (FORMERLY INTERNATIONAL GENERAL INSURANCE COMPANY OF PAKISTAN LIMITED) | 1 | 16,521,117 |
| NATIONAL BANK OF PAKISTAN, TRUSTEE DEPTT.(NIT) | 1 | 7,926,247 |

| S. No. | Shareholders' category | No. of Shareholders | No. of Shares | % |
|---|---|---|---|---|
| 1 | Associated Companies, Undertakings and Related Parties | 11 | 23,552,937 | 32.10 |
| 2 | NIT and ICP | 3 | 7,928,355 | 10.81 |
| 3 | Directors, CEO and their Spouses | 9 | 2,978,125 | 4.06 |
| 4 | Executives | 13 | 4,667,169 | 6.37 |
| 5 | Public Sector Companies & Corporations | 6 | 4,156,625 | 5.67 |
| 6 | Banks, Development Finance Institutions, Non Banking Finance Institutions, Insurance Companies, Modaraba and Mutual Funds | 93 | 12,408,246 | 16.91 |
| 7 | Others | 119 | 7,171,611 | 9.77 |
| 8 | Individuals | 3,510 | 10,500,414 | 14.31 |
| | | 3,764 | 73,373,482 | 100.00 |

## → SHARE PRICE/VOLUME

The monthly high and low prices and the volume of shares traded on the Karachi Stock Exchange (KSE) during the financial year 2007 are as under:

| Month | Share Prices on the KSE (Rs.) | | Volume of shares traded |
|---|---|---|---|
| | Highest | Lowest | |
| January | 210.00 | 203.50 | 371,100 |
| February | 224.95 | 207.00 | 832,700 |
| March | 224.00 | 216.00 | 259,600 |
| April | 241.50 | 219.05 | 2,093,500 |
| May | 283.90 | 228.00 | 11,207,500 |
| June | 334.00 | 266.40 | 19,014,800 |
| July | 327.05 | 286.80 | 7,983,300 |
| August | 313.25 | 262.00 | 7,548,300 |
| September | 354.10 | 262.40 | 11,966,300 |
| October | 416.20 | 348.80 | 20,518,300 |
| November | 384.60 | 345.00 | 20,026,100 |
| December | 398.00 | 363.80 | 12,252,700 |

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

This statement is being presented to comply with the Code of Corporate Governance contained in the listing regulations of Karachi, Lahore and Islamabad stock exchanges for the purpose of establishing a framework of good governance.

The company has applied the principles contained in the Code in the following manner:

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 six independent non-executive directors and none representing minority interests as no minority shareholder offered himself/herself for election.

2. The directors of the company have confirmed that none of them is serving as a director in more than ten listed companies, including this company, except for Mr. Tariq Iqbal Khan who has been specifically exempted by the Securities and Exchange Commission of Pakistan for holding directorship in more than ten listed companies.

3. All the directors have given declaration that they are aware of their duties and powers under the relevant laws and the company's Memorandum and Articles of Association and the listing regulations of the stock exchanges of Pakistan.

4. 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 NBFI or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.

5. Mr. Khalid Yacob is an Executive Director of Packages Limited and he also holds the position of Director in IGI Investment Bank Limited which is the holding company of IGI Finex Securities Limited, a company engaged in the business of stock brokerage. However, Mr. Khalid Yacob undertakes that neither he nor his spouse is personally engaged in the business of stock brokerage.

6. A casual vacancy occurred in the Board on August 23, 2007 which was filled up by the directors on the same day.

7. The company has issued a 'Statement of Ethics and Business Practices', which has been signed by all the directors and employees of the company.

8. 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.

9. All the powers of the Board have been duly exercised and decisions on material transactions have been taken by the Board including appointment, determination of remuneration and terms and conditions of employment of an Executive Director appointed during the year.

10. The meetings of the Board were presided over by Mr. Asadullah Khawaja and the Board met at least once in every quarter during the year. 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.

11. The Board ensures arrangement of orientation courses for its directors to apprise them of their duties and responsibilities and to keep them informed of the enforcement of new laws, rules and regulations and amendments thereof.

12. All material information as required under the relevant rules, has been provided to the stock exchanges and to the Securities and Exchange Commission of Pakistan within the prescribed time limit.

13. The Board has approved the appointment of the Head of Internal Audit, including his remuneration and terms and conditions of employment. There was no new appointment of CFO or Company Secretary during the year.

14. 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.

15. The financial statements of the company were duly endorsed by CEO and CFO before approval of the Board.

16. 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.

17. The company has complied with all the corporate and financial reporting requirements of the Code.

18. The Board has formed an Audit Committee. It comprises of five members, of whom three are non-executive directors including the chairman of the committee.

19. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the company as required by the code. The terms of reference of the committee have been formed and advised to the committee for compliance.

20. The Board has set-up an effective internal audit function manned by suitably qualified and experienced personnel who are conversant with the policies and procedures of the company and are involved in the Internal Audit function on a full time basis.

21. 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.

22. 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.

23. We confirm that all other material principles contained in the code have been complied with.

Asadullah Khawaja
Chairman
February 14, 2008

# 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 Packages Limited to comply with the Listing Regulation No. 37 of the Karachi Stock Exchange, Chapter XIII of the Lahore Stock Exchange and Chapter Xl of the Islamabad Stock Exchange, 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.

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 December 31, 2007.

A.F. FERGUSON & CO.
Chartered Accountants
Lahore, Feburary 14, 2008

## AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of Packages Limited as at December 31, 2007 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 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;

(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 wfth 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 December 31, 2007 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
Lahore, Feburary 14, 2008

## → BALANCE SHEET AS AT DECEMBER 31, 2007

| | Note | 2007 | 2006 |
|---|---|---|---|
| | | (Rupees in thousand) | |
| **EQUITY AND LIABILITIES** | | | |
| **CAPITAL AND RESERVES** | | | |
| Authorised capital | | | |
| 150,000,000 (2006: 100,000,000) ordinary shares of Rs. 10 each | | 1,500,000 | 1,000,000 |
| Issued, subscribed and paid up capital | | | |
| 73,373,482 (2006: 69,879,507) ordinary shares of Rs. 10 each | 5 | 733,735 | 698,795 |
| Reserves | 6 | 13,110,240 | 6,872,336 |
| Unappropriated profit | | 4,326,797 | 6,101,666 |
| | | 18,170,772 | 13,672,797 |
| **NON-CURRENT LIABILITIES** | | | |
| Long-term finances - secured | 7 | 12,346,500 | 6,000,000 |
| Deferred liabilities | 8 | 955,790 | 688,455 |
| | | 13,302,290 | 6,688,455 |
| **CURRENT LIABILITIES** | | | |
| Current portion of liabilities against assets subject to finance lease | | - | 851 |
| Finances under mark up arrangements - secured | 9 | 401,019 | 1,280,857 |
| Trade and other payables | 10 | 1,564,362 | 1,030,516 |
| | | 1,965,381 | 2,312,224 |
| **CONTINGENCIES AND COMMITMENTS** | 11 | - | - |
| | | 33,438,443 | 22,673,476 |

| | Note | 2007 | 2006 |
|---|---|---|---|
| | | (Rupees in thousand) | |
| **ASSETS** | | | |
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 12 | 10,361,253 | 3,071,115 |
| Intangible assets | 13 | 363 | 2,532 |
| Investment property | 14 | 26,055 | 14,423 |
| Assets subject to finance lease | 15 | - | 1,901 |
| Capital work-in-progress | 16 | 7,800,683 | 10,143,195 |
| Investments | 17 | 10,080,259 | 5,775,665 |
| Long-term loans and deposits | 18 | 244,166 | 180,618 |
| Retirement benefits | 19 | 88,262 | 69,805 |
| | | 28,601,041 | 19,259,254 |
| **CURRENT ASSETS** | | | |
| Stores and spares | 20 | 715,840 | 485,665 |
| Stock-in-trade | 21 | 2,206,191 | 1,647,173 |
| Trade debts | 22 | 1,288,928 | 821,160 |
| Loans, advances, deposits, prepayments and other receivables | 23 | 525,421 | 353,521 |
| Cash and bank balances | 24 | 101,022 | 106,703 |
| | | 4,837,402 | 3,414,222 |
| | | 33,438,443 | 22,673,476 |

The annexed notes 1 to 45 form an integral part of these financial statements.

| Asadullah Khawaja | Syed Hyder Ali | Mujeeb Rashid |
|---|---|---|
| Chairman | Chief Executive & Managing Director | Director |

## → PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED DECEMBER 31, 2007

| | | Note | 2007 | 2006 |
|---|---|---|---|---|
| | | | (Rupees in thousand) | |
| Local sales | | | 10,365,224 | 8,869,087 |
| Export sales | | | 174,771 | 158,820 |
| | | | 10,539,995 | 9,027,907 |
| Less: Sales tax and excise duty | | | 1,501,230 | 1,172,430 |
| Commission | | | 10,130 | 8,878 |
| | | | 1,511,360 | 1,181,308 |
| | | | 9,028,635 | 7,846,599 |
| Cost of sales | | 25 | (7,829,362) | (6,551,995) |
| **GROSS PROFIT** | | | 1,199,273 | 1,294,604 |
| Administrative expenses | | 26 | (348,064) | (349,934) |
| Distribution and marketing costs | | 27 | (240,357) | (225,587) |
| Other operating expenses | | 28 | (145,439) | (213,475) |
| Other operating income | | 29 | 122,185 | 252,005 |
| **PROFIT FROM OPERATIONS** | | | 587,598 | 757,613 |
| Finance costs | | 30 | (367,378) | (78,909) |
| Investment income | | 31 | 4,412,728 | 5,669,136 |
| **PROFIT BEFORE TAX** | | | 4,632,948 | 6,347,840 |
| Taxation | | 32 | (307,000) | (247,060) |
| **PROFIT FOR THE YEAR** | | | 4,325,948 | 6,100,780 |
| Earnings per share | Rupees | 41 | 58.96 | 83.15 |

Appropriations have been reflected in the statement of changes in equity.

The annexed notes 1 to 45 form an integral part of these financial statements.

| Asadullah Khawaja<br>Chairman | Syed Hyder Ali<br>Chief Executive & Managing Director | Mujeeb Rashid<br>Director |
|---|---|---|

## → CASH FLOW STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2007

| | Note | 2007 | 2006 |
|---|---|---|---|
| | | (Rupees in thousand) | |
| **CASH FLOW FROM OPERATING ACTIVITIES:** | | | |
| Cash generated from operations | 39 | 326,117 | 774,099 |
| Finance cost paid | | (377,704) | (38,270) |
| Taxes paid | | (139,191) | (194,335) |
| Payments for accumulating compensated absences | | (6,783) | (7,299) |
| Retirement benefits paid | | (30,339) | (27,384) |
| **NET CASH (USED IN) / FROM OPERATING ACTIVITIES** | | (227,900) | 506,811 |
| **CASH FLOW FROM INVESTING ACTIVITIES:** | | | |
| Purchase of property, plant and equipment | | (5,515,426) | (7,325,683) |
| Net increase in long-term loans and deposits | | (63,548) | (164,418) |
| Proceeds from sale of property, plant and equipment | | 48,401 | 12,493 |
| Dividends received | | 646,650 | 822,990 |
| Procedes from sale of Investments | | 71,428 | 12,554 |
| Purchase of Investments | | (12,903) | (33,058) |
| **NET CASH USED IN INVESTING ACTIVITIES** | | (4,825,398) | (6,675,122) |
| **CASH FLOW FROM FINANCING ACTIVITIES:** | | | |
| Proceeds from long-term finances | | 6,346,500 | 5,000,000 |
| Payment of finance lease liabilities | | (851) | (5,159) |
| Dividend paid | | (418,194) | (417,914) |
| **NET CASH FROM FINANCING ACTIVITIES** | | 5,927,455 | 4,576,927 |
| **NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS** | | 874,157 | (1,591,384) |
| Cash and cash equivalents at the beginning of the year | | (1,174,154) | 417,230 |
| Cash and cash equivalents at the end of the year | 40 | (299,997) | (1,174,154) |

The annexed notes 1 to 45 form an integral part of these financial statements.

| Asadullah Khawaja<br>Chairman | Syed Hyder Ali<br>Chief Executive & Managing Director | Mujeeb Rashid<br>Director |
|---|---|---|

## → STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2007

| | Share capital | Share premium | Fair value reserve | Hedging reserve | General reserve | Unappro-priated profit | Total |
|---|---|---|---|---|---|---|---|
| | ( R u p e e s | | i n | | t h o u | s a n d s ) | |
| **BALANCE AS ON DECEMBER 31, 2005** | 698,795 | 2,986,953 | 19,500 | (76,092) | 3,090,936 | 1,016,163 | 7,736,255 |
| Final dividend for the year ended December 31, 2005 Rs. 6.00 per share | - | - | - | - | - | (419,277) | (419,277) |
| Transferred from profit and loss account | - | - | - | - | 596,000 | (596,000) | - |
| Fair value gain during the year | - | - | 178,250 | - | - | - | 178,250 |
| Transferred to profit and loss account on disposal of shares in The Resource Group (TRG) Pakistan Limited | - | - | 697 | - | - | - | 697 |
| Gain arising on foreign currency forward options entered into as part of cash flow hedge for the purchase of plant and machinery | - | - | - | 1,905 | - | - | 1,905 |
| Transferred to CWIP on expiry of foreign currency forward options | - | - | - | 74,187 | - | - | 74,187 |
| Profit for the year | - | - | - | - | - | 6,100,780 | 6,100,780 |
| **BALANCE AS ON DECEMBER 31, 2006** | 698,795 | 2,986,953 | 198,447 | - | 3,686,936 | 6,101,666 | 13,672,797 |
| Final dividend for the year ended December 31, 2006 Rs. 6.00 per share | - | - | - | - | - | (419,277) | (419,277) |
| Transferred from profit and loss account | - | - | - | - | 5,646,600 | (5,646,600) | - |
| Issue of 3,493,975 ordinary shares of Rs.10 each as fully paid bonus shares | 34,940 | - | - | - | - | (34,940) | - |
| Fair value gain during the year | - | - | 2,476,829 | - | - | - | 2,476,829 |
| Transferred to profit and loss account on disposal of shares in The Resource Group (TRG) Pakistan Limited and Nestle Pakistan Limited | - | - | (1,885,525) | - | - | - | (1,885,525) |
| Profit for the year | - | - | - | - | - | 4,325,948 | 4,325,948 |
| **BALANCE AS ON DECEMBER 31, 2007** | 733,735 | 2,986,953 | 789,751 | - | 9,333,536 | 4,326,797 | 18,170,772 |

The annexed notes 1 to 45 form an integral part of these financial statements.

| | | |
|---|---|---|
| Asadullah Khawaja | Syed Hyder Ali | Mujeeb Rashid |
| Chairman | Chief Executive & Managing Director | Director |

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2007

1. Legal status and nature of business

Packages Limited ('The Company') is a public limited company incorporated in Pakistan and is listed on Karachi, Lahore and Islamabad Stock Exchanges. It is principally engaged in the manufacture and sale of paper, paperboard, packaging materials and tissue products.

2. Basis of preparation

2.1 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.

2.2 Standards, interpretations and amendments to published approved accounting standards

The following amendments to existing standards have been published that are applicable to the Company's financial statements covering annual periods, beginning on or after the following dates:

2.2.1 Amendments to published standards effective in current year

Amendments to IAS 1 'Presentation of financial statements' - Capital Disclosure is mandatory for the company's accounting period beginning on January 01, 2007. It's adoption by the company only impacts the format and extent of disclosures presented in the financial statements.

2.2.2 Amendments to published standards not yet effective

Certain amendments to IAS 23 'Borrowing costs' have been published that are applicable to the company's financial statements covering annual periods, beginning on or after January 01, 2009. Adoption of these amendments would require the company to capitalise the borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing these borrowing costs will be removed. Its adoption will not have any impact on the company's financial statements.

3. Basis of measurement

3.1 These financial statements have been prepared under the historical cost convention except for revaluation of certain financial instruments at fair value and recognition of certain employee retirement benefits at present value. The company's significant accounting policies are stated in note 4. Not all of these significant policies require the management to make difficult, subjective or complex judgments or estimates. The following is intended to provide an understanding of the policies the management considers critical because of their complexity, judgment of estimation involved in their application and their impact on these financial statements. Estimates and judgments are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances. These judgments involve assumptions or estimates in respect of future events and the actual results may differ from these estimates. The areas involving a higher degree of judgments or complexity or areas where assumptions and estimates are significant to the financial statements are as follows:

A) Employee retirement benefits

The company uses the valuation performed by an independent actuary as the present value of its retirement benefit obligations. The valuation is based on assumptions as mentioned in note 4.8

B) Provision for taxation

The company takes into account the current income tax law and the decisions taken by appellate authorities. Instances where the Company's view differs from the view taken by the income tax department at the assessment stage and where the company considers that its views on items of material nature is in accordance with law, the amounts are shown as contingent liabilities.

C) Useful life and residual values of property, plant and equipment

The company reviews the useful lives of property, plant and equipment on regular basis. Any change in estimates in future years might affect the carrying amounts of the respective items of property, plant and equipment with a corresponding effect on the depreciation charge and impairment.

4. Significant accounting policies

The significant accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

4.1 Taxation

CURRENT

Provision of current tax is based on the taxable income for the year determined in accordance with the prevailing law for taxation of income. The charge for current tax is calculated using prevailing tax rates or tax rates expected to apply to the profit for the year if enacted. The charge for current tax also includes adjustments, where considered necessary, to provision for tax made in previous years arising from assessments framed during the year for such years.

DEFERRED

Deferred tax is accounted for using the balance sheet liability method in respect of all temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of the taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilised.

Deferred tax is calculated at the rates that are expected to apply to the period when the differences reverse based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited in the income statement, except in the case of items credited or charged to equity in which case it is included in equity.

## 4.2 Property, plant and equipment

Property, plant and equipment except freehold land are stated at cost less accumulated depreciation and any identified impairment loss. Freehold land is stated at cost less any identified impairment loss. Cost in relation to certain plant and machinery signifies historical cost, gains and losses transferred from equity on qualifying cash flow hedges as referred to in note 4.17 and borrowing costs as referred to in note 4.20.

Depreciation on all property, plant and equipment is charged to profit on the straight-line method so as to write off the depreciable amount of an asset over its estimated useful life at the following annual rates:

| | |
|---|---|
| Plant and machinery | 6.25% to 20% |
| Buildings | 2.5% to 10% |
| Other equipments | 10% to 33.33% |
| Furniture and fixtures | 10% to 20% |
| Vehicles | 20% |

The assets' residual values and useful lives are reviewed, at each financial year end, and adjusted if impact on depreciation is significant. The Company's estimate of the residual value of its property, plant and equipment as at December 31, 2007 has not required any adjustment as its impact is considered insignificant.

Depreciation on additions to property, plant and equipment is charged from the month in which an asset is acquired or capitalised while no depreciation is charged for the month in which the asset is disposed off.

The company assesses at each balance sheet date whether there is any indication that property, plant and equipment may be impaired. If such indication exists, the carrying amounts of such assets are reviewed to assess whether they are recorded in excess of their recoverable amount. Where carrying values exceed the respective recoverable amount, assets are written down to their recoverable amounts and the resulting impairment loss is recognised in profit and loss accont for the year. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Where an impairment loss is recognised, the depreciation charge is adjusted in the future periods to allocate the asset's revised carrying amount over its estimated useful life.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. All other repair and maintenance costs are charged to profit and loss account during the period in which they are incurred.

The gain or loss on disposal or retirement of an asset represented by the difference between the sale proceeds and the carrying amount of the asset is recognised as an income or expense.

4.3 Intangible assets

Expenditure incurred to acquire computer software and SAP Enterprise Resource Planning System (ERP) are capitalised as intangible assets and stated at cost less accumulated amortisation and any identified impairment loss. Intangible assets are amortised using the straight-line method over a period of three years.

Amortisation on additions to intangible assets is charged from the month in which an asset is acquired or capitalised while no amortisation is charged for the month in which the asset is disposed off.

The company assesses at each balance sheet date whether there is any indication that intangible may be impaired. If such indication exists, the carrying amount of such assets is reviewed to assess whether they are recorded in excess of their recoverable amount. Where carrying values exceed the respective recoverable amount, assets are written down to their recoverable amounts and the resulting impairment loss is recognised in profit and loss account for the year. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Where an impairment loss is recognised, the amortisation charge is adjusted in the future periods to allocate the asset's revised carrying amount over its estimated useful life.

### 4.4 Capital work-in-progress

Capital work-in-progress is stated at cost less any identified impairment loss.

### 4.5 Investment property

Property not held for own use or for sale in the ordinary course of business is classified as investment property. The investment property of the company comprises land and buildings and is valued using the cost method i.e. at cost less any accumulated depreciation and any identified impairment loss.

Depreciation on buildings is charged to profit on the straight-line method so as to write off the depreciable amount of building over its estimated useful life at the rates ranging from 3.33% to 6.67% per annum. Depreciation on additions to investment property is charged from the month in which a property is acquired or capitalised while no depreciation is charged for the month in which the property is disposed off.

The assets' residual values and useful lives are reviewed, at each financial year end, and adjusted if impact on depreciation is significant. The company's estimate of the residual value of its investment property as at December 31, 2007 has not required any adjustment as its impact is considered insignificant.

The company assesses at each balance sheet date whether there is any indication that investment property may be impaired. If such indication exists, the carrying amounts of such assets are reviewed to assess whether they are recorded in excess of their recoverable amount. Where carrying values exceed the respective recoverable amount, assets are written down to their recoverable amounts and the resulting impairment loss is recognised in profit and loss account for the year. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Where an impairment loss is recognised, the depreciation charge is adjusted in the future periods to allocate the asset's revised carrying amount over its estimated useful life.

The gain or loss on disposal or retirement of an asset represented by the difference between the sale proceeds and the carrying amount of the asset is recognised as an income or expense.

4.6 Leases
(1) The Company is the lessee:

Finance leases

Leases where the company has substantially all the risks and rewards of ownership are classified as finance leases. Asset subject to finance lease are initially recognised at the lower of present value of minimum lease payments under the lease agreements and the fair value of the assets. Subsequently these assets are stated at cost less accumulated depreciation and any identified impairment loss.

The related rental obligations, net of finance charges, are included in liabilities against assets subject to finance lease. The liabilities are classified as current and long-term depending upon the timing of the payment.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the balance outstanding. The interest element of the rental is charged to profit over the lease term.

Assets acquired under a finance lease are depreciated over the useful life of the asset on a straight-line method at the rates given in note 4.2. Depreciation of leased assets is charged to profit and loss account.

Depreciation on additions to leased assets is charged from the month in which an asset is acquired while no depreciation is charged for the month in which the asset is disposed off.

Operating leases
Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit on a straight-line basis over the lease term.

(2) The Company is the lessor:

Operating leases

Assets leased out under operating leases are included in investment property as referred to in note 14. They are depreciated over their expected useful lives on a basis consistent with similar owned property, plant and equipment. Rental income (net of any incentives given to lessees) is recognised on a straight-line basis over the lease term.

## 4.7 Investments

Investments intended to be held for less than twelve months from the balance sheet date or to be sold to raise operating capital, are included in current assets, all other investments are classified as non-current. Management determines the appropriate classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis.

INVESTMENTS IN EQUITY INSTRUMENTS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

Investment in subsidiaries and associates where the company has significant influence are measured at cost in the company's financial statements. Cost in relation to investments made in foreign currency is determined by translating the consideration paid in foreign currency into rupees at exchange rates prevailing on the date of transactions.

The company is required to issue consolidated financial statements along with its separate financial statements, in accordance with the requirements of IAS 27 'Consolidated and Separate Financial Statements'. Investments in associated undertakings, in the consolidated financial statements, are being accounted for using the equity method.

OTHER INVESTMENTS

The other investments made by the company are classified for the purpose of measurement into the following categories:

HELD TO MATURITY

Investments with fixed maturity that the management has the intent and ability to hold to maturity are classified as held to maturity and are initially measured at cost and at subsequent reporting dates measured at amortised cost using the effective yield method.

AVAILABLE FOR SALE

The financial assets including investments in associated undertakings where the company does not have significant influence that are intended to be held for an indefinite period of time or may be sold in response to the need for liquidity are classified as available for sale.

Investments classified as available for sale are initially measured at cost, being the fair value of consideration given. At subsequent reporting dates, these investments are remeasured at fair value (quoted market price), unless fair value cannot be reliably measured.

All purchases and sales of investments are recognised on the trade date which is the date that the company commits to purchase or sell the investment. Cost of purchase includes transaction cost.

At each balance sheet date, the company reviews the carrying amounts of the investments to assess whether there is any indication that such investments have suffered an impairment loss. If any such indication exists, the recoverable amount is estimated in order to determine the extent of the impairment loss, if any. Impairment losses are recognized as expense. In respect of 'available for sale' financial assets, cumulative impairment loss less any impairment loss on that financial asset previously recognized in profit and loss account, is removed from equity and recognized in the profit and loss account. Impairment losses recognized in the profit and loss account on equity instruments are not reversed through the profit and loss account.

4.8 Employee retirement benefits

The main features of the schemes operated by the company for its employees are as follows:

4.8.1 Defined benefit plans

(a) All the executive staff participates in an approved funded defined benefit pension plan. In addition, there is an approved funded defined benefit gratuity plan for all employees. Monthly contributions are made to these funds on the basis of actuarial recommendation at the rate of 20 percent per annum of basic salaries for pension and 4.50 percent per annum of basic salaries for gratuity. The latest actuarial valuation for the pension and gratuity schemes was carried out as at December 31, 2007. The actual returns on plan assets during the year were Rs. 162.474 million and Rs. 49.916 million for the pension and gratuity funds respectively. The actual returns on plan assets represent the difference between the fair value of plan assets at beginning of the year and end of the year after adjustments for contributions made by the company as reduced by benefits paid during the year.

The future contribution rates of these plans include allowances for deficit and surplus. Projected unit credit method, using the following significant assumptions, is used for valuation of these schemes:
Discount rate 11 percent per annum.
Expected rate of increase in salary level 8.89 percent per annum.
Expected rate of return 11 percent per annum.

Plan assets include long-term Government bonds, equity instruments of listed companies and term deposits with banks. Return on Government bonds and debt is at fixed rates, however, due to increased volatility of share prices in recent months, there is no clear indication of return on equity shares, therefore, it has been assumed that the yield on equity shares would match the return on debt.

The company is expected to contribute Rs. 25 million to the pension fund and Rs. 8 million to the gratuity fund in the next financial year.

The company's policy with regard to actuarial gains/losses is to follow minimum recommended approach under IAS 19 'Employee Benefits'.

(b) Accumulating compensated absences
Provisions are made annually to cover the obligation for accumulating compensated absences and are charged to profit.

4.8.2 Defined contribution plan

There is an approved contributory provident fund for all employees. Equal monthly contributions are made by the company and the employees to the fund.

Retirement benefits are payable to staff on completion of prescribed qualifying period of service under these schemes.

4.9 Stores and spares

Stores and spares are valued at moving average cost, while items considered obsolete are carried at nil value. Items in transit are valued at cost comprising invoice value plus other charges paid thereon.

Provision is made in the financial statements for obsolete and slow moving stores and spares based on management estimate.

4.10 Stock-in-trade

Stock of raw materials, except for those in transit, work-in-process and finished goods are valued principally at the lower of weighted average cost and net realizable value. Cost of work-in-process and finished goods comprises cost of direct materials, labour and appropriate manufacturing overheads.

Materials in transit are stated at cost comprising invoice value plus other charges paid thereon.

Net realisable value signifies the estimated selling price in the ordinary course of business less costs necessarily to be incurred to make the sale. Provision is made in the financial statements for obsolete and slow moving stock in trade based on management estimate.

4.11 Financial instruments

Financial assets and financial liabilities are recognised at the time when the company becomes a party to the contractual provisions of the instrument and derecognised when the company loses control of contractual rights that comprise the financial assets and in the case of financial liabilities when the obligation specified in the contract is discharged, cancelled or expired. Any gain or loss on derecognition of financial assets and financial liabilities is included in the profit and loss account for the year.

Financial instruments carried on the balance sheet include loans, investments, trade and other debts, cash and bank balances, borrowings, liabilities against assets subject to finance leases, derivative financial instruments, trade and other payables, accrued expenses and unclaimed dividends. All financial assets and liabilities are initially measured at cost, which is the fair value of consideration given and received respectively. These financial assets and liabilities are subsequently measured at fair value or cost as the case may be. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

4.12 Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and the net amount is reported in the financial statements only when there is a legally enforceable right to set off the recognised amount and the company intends either to settle on a net basis or to realise the assets and to settle the liabilities simultaneously.

4.13 Trade debts

Trade debts are carried at original invoice amount less an estimate made for doubtful debts based on a review of all outstanding amounts at the year end. Bad debts are written off when identified.

4.14 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 cash in hand, demand deposits, other short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value and finances under mark up arrangements. In the balance sheet, finances under mark up arrangements are included in current liabilities.

4.15 Borrowings

Borrowings are initially recorded at the proceeds received. In subsequent periods, borrowings are stated at amortised cost using the effective yield method. Finance costs are accounted for on an accrual basis and are included in trade and other payables to the extent of the amount remaining unpaid.

4.16 Trade and Other Payables

Liabilities for creditors and other amounts payable are carried at cost which is the fair value of the consideration to be paid in the future for the goods and / or services received, whether or not billed to the company.

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

4.17 Derivative financial instruments

These are initially recorded at cost on the date a derivative contract is entered into and are remeasured to fair value at subsequent reporting dates. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The company designates certain derivatives as cash flow hedges.

The company documents at the inception of the transaction the relationship between the hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flow of hedged items.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the profit and loss account.

Amounts accumulated in equity are recognised in profit and loss account in the periods when the hedged item will effect profit or loss. The gain or loss relating to the effective portion of cross currency swap hedging variable rate borrowings is recognized in the profit and loss account within 'finance costs'. The gain or loss relating to the ineffective portion is recognized in the profit and loss account within 'other operating income/expenses'.

### 4.18 Revenue recognition

Revenue is recognised on despatch of goods or on the performance of services except for management fee, which is recognised on receipt.

Return on deposits is accrued on a time proportion basis by reference to the principal outstanding and the applicable rate of return.

Dividend income and entitlement of bonus shares are recognised when right to receive such dividend and bonus shares is established.

### 4.19 Foreign currency transactions and translation

Foreign currency transactions are translated into Pak Rupees using the exchange rates prevailing at the dates of the transactions. All monetary assets and liabilities in foreign currencies are translated into Pak Rupees at the rates of exchange prevailing at the balance sheet date. Foreign exchange gains and losses on translation are recognized in the profit and loss account. All non-monetary items are translated into rupees at exchange rates prevailing on the date of transaction or on the date when fair values are determined.

The financial statements are presented in Pak Rupees, which is the company’s functional and presentation currency.

### 4.20 Borrowing costs

Mark up, interest and other charges on borrowings are capitalised upto the date of commissioning of the related property, plant and equipment, acquired out of the proceeds of such borrowings. All other mark up, interest and other charges are charged to profit and loss account.

### 4.21 Dividend

Dividend distribution to the company's shareholders is recognised as a liability in the period in which the dividends are approved.

## 5. ISSUED, SUBSCRIBED AND PAID UP CAPITAL

| 2007 | 2006 | | 2007 | 2006 |
|---|---|---|---|---|
| (Number of shares) | | | (Rupees in thousand) | |
| 33,603,295 | 33,603,295 | Ordinary shares of Rs 10 each fully paid in cash | 336,033 | 336,033 |
| 148,780 | 148,780 | Ordinary shares of Rs 10 each issued as fully paid for consideration other than cash | 1,488 | 1,488 |
| 39,621,407 | 36,127,432 | Ordinary shares of Rs 10 each issued as fully paid bonus shares | 396,214 | 361,274 |
| 73,373,482 | 69,879,507 | | 733,735 | 698,795 |

16,521,117 (2006: 15,559,336) ordinary shares of the company are held by IGI Insurance Limited (Formely International General Insurance Company of Pakistan Limited), an associated undertaking.

## 6. RESERVES

Movement in and composition of reserves is as follows:

| | | 2007 | 2006 |
|---|---|---|---|
| | | (Rupees in thousand) | |
| **CAPITAL** | | | |
| **SHARE PREMIUM** | - note 6.1 | 2,986,953 | 2,986,953 |
| Fair value reserve | | | |
| At the beginning of the year | | 198,447 | 19,500 |
| Fair value gain during the year | | 2,476,829 | 178,250 |
| Transferred to profit and loss account | | (1,885,525) | 697 |
| | - note 6.2 | 789,751 | 198,447 |
| **HEDGING RESERVE** | | | |
| At the beginning of the year | | - | (76,092) |
| Gain during the year | | - | 1,905 |
| Transfer to capital work-in-progress | | - | 74,187 |
| | | - | - |
| | - note 6.3 | 3,776,704 | 3,185,400 |
| **REVENUE** | | | |
| **GENERAL RESERVE** | | | |
| At the beginning of the year | | 3,686,936 | 3,090,936 |
| Transfer from profit and loss account | | 5,646,600 | 596,000 |
| | | 9,333,536 | 3,686,936 |
| | | 13,110,240 | 6,872,336 |

**6.1** This reserve can be utilised by the company only for the purposes specified in section 83(2) of the Companies Ordinance, 1984.

**6.2** As referred to in note 4.7 this represents the unrealised gain on remeasurement of investments at fair value and is not available for distribution. This will be transferred to profit and loss account on derecognition of investments.

**6.3** This represents the effective portion of the loss arising on foreign currency forward options transferred to CWIP on expiry of foreign currency forward options.

7.1 Local currency loan

7.1.1 Consortium Loan

This loan has been obtained from a consortium of commercial banks led by MCB Bank Limited. It is secured by a first ranking exclusive hypothecation / equitable mortgage charge over all present and future fixed assets of the company amounting to Rs. 13,200 million in favor of MCB bank limited being security trustee on behalf of consortium. It carries mark up at six month Karachi Inter Bank Offered Rate (KIBOR) plus 1.35 per cent per annum and is payable semi annually. The effective mark up charged during the year ranges from 11.31% to 11.94% per annum. Of the aggregate facility of Rs. 9,900 million, the amount availed as at December 31, 2007 is Rs 9,900 million (2006: Rs. 6,000 million), repayable in 14 equal semi annual instalments commencing June 06, 2009, December 06, 2009 and December 06, 2010 for Rs. 1,000 million, Rs. 5,700 million and Rs. 3,200 million respectively.

7.1.2 Others

This loan has been obtained from Citibank. It is secured by a first ranking exclusive hypothecation / equitable mortgage charge over all present and future fixed assets of the Company amounting to Rs. 800 million in favor of MCB Bank Limited being security trustee on behalf of Citibank. It carries mark up at six month KIBOR plus 0.90 per cent per annum and is payable semi annually. The effective mark up charged during the year ranges from 10.86% to 11.49% per annum. Of the aggregate facility of Rs. 600 million, the amount availed as at December 31, 2007 is Rs. 600 million (2006:Nil), repayable in 7 semi annual instalments divided into 6 semi annual installments of Rs. 75 million and last installment of Rs. 150 million commencing June 06, 2010.

| | | 2007 | 2006 |
|---|---|---|---|
| | | (Rupees in thousand) | |
| 7. LONG-TERM FINANCES - SECURED | | | |
| These are composed of: | | | |
| Local currency loans | - note 7.1 | 10,500,000 | 6,000,000 |
| Foreign currency loan | - note 7.2 | 1,846,500 | - |
| | | 12,346,500 | 6,000,000 |

7.1.3 Derivative cross currency swap

The company has entered into a derivative cross currency swap of Rs. 1,000 million for its local currency loan to hedge the possible adverse movements in interest rates. Under the terms of the cross currency swap arrangement, the company pays London Interbank Offered Rate (LIBOR) plus bank spread to the arranging bank on the local currency loan denominated in USD for the purposes of the cross currency swap, and receives KIBOR from the arranging bank. There has been no transfer of liability under this arrangement, only the nature of the interest payments has changed. As this hedging relationship is ineffective and does not meet the criteria of cash flow hedge, this arrangement does not qualify for special hedge accounting specified in IAS 39 'Financial instruments: Recognition and Measurement'.

7.2 Foreign currency loan

The loan has been obtained from International Finance Corporation (IFC). It is secured by a first ranking exclusive hypothecation / equitable mortgage charge over all present and future fixed assets of the company amounting to USD 40 million. It carries mark up at six month LIBOR plus 1.85% per annum and is payable semi annually. The effective mark up charged during the year was 7.554% per annum. Of the aggregate facility of USD 30 million, the amount availed as at December 31, 2007 is USD 30 million (2006: Nil), repayable in 14 equal semi annual installments commencing July 15, 2010.

| | | 2007 | 2006 |
|---|---|---|---|
| | | (Rupees in thousand) | |
| **8. DEFERRED LIABILITIES** | | | |
| Deferred taxation | - note 8.1 | 862,000 | 601,000 |
| Accumulating compensated absences | - note 8.2 | 93,790 | 87,455 |
| | | 955,790 | 688,455 |
| **8.1 DEFERRED TAXATION** | | | |
| The liability for deferred taxation comprises temporary differences relating to: | | | |
| Accelerated tax depreciation | | 2,259,159 | 647,839 |
| Unused tax Losses | | (1,302,102) | - |
| Minimum tax available for carry forward | | (46,000) | - |
| Provision for accumulating compensated absences | | (32,827) | (30,609) |
| Impairment loss in value of investments | | (16,230) | (16,230) |
| | | 862,000 | 601,000 |
| **8.2 ACCUMULATING COMPENSATED ABSENCES** | | | |
| Opening balance | | 87,455 | 77,468 |
| Provision for the year | | 13,118 | 17,286 |
| | | 100,573 | 94,754 |
| Less: Payments made during the year | | 6,783 | 7,299 |
| Closing balance | | 93,790 | 87,455 |
| **9. FINANCES UNDER MARK UP ARRANGEMENTS -SECURED** | | | |
| Running finances | - note 9.1 | 401,019 | 700,857 |
| Term finance | - note 9.2 | - | 580,000 |
| | | 401,019 | 1,280,857 |

### 9.1 Running finances

Short-term running finances available from a consortium of commercial banks under mark up arrangements amount to Rs. 5,632.000 million (2006: Rs. 3,095.000 million). The rates of mark up range from Re. 0.2600 to Re. 0.3589 per Rs. 1,000 per diem or part thereof on the balances outstanding. In the event, the company fails to pay the balances on the expiry of the quarter, year or earlier demand, mark up is to be computed at the rates ranging from Re. 0.3120 to Re. 0.6027 per Rs. 1,000 per diem or part thereof on the balances unpaid. The aggregate running finances are secured by hypothecation of stores, spares, stock-in-trade and trade debts.

### 9.2 Term finance

Term finance available from a commercial bank under mark up arrangement amount to Nil (2006: Rs. 580.000 million).

Of the aggregate facility of Rs. 10,741.945 million (2006: Rs. 13,653.462 million) for opening letters of credit and Rs. 1,444.000 million (2006: Rs. 504.000 million) for guarantees, the amount utilised as at December 31, 2007 was Rs. 1,231.091 million (2006: Rs. 2,194.177 million) and Rs. 654.769 million (2006: Rs. 219.593 million) respectively. Of the facility for guarantees, Rs. 1,444.000 million (2006: Rs. 322.500 million) is secured by second hypothecation charge over stores, spares, stock-in-trade and trade debts.

## 10. TRADE AND OTHER PAYABLES

| | | 2007 | 2006 |
|---|---|---|---|
| | | (Rupees in thousand) | |
| Trade creditors | - note 10.1 | 300,952 | 190,119 |
| Accrued liabilities | - note 10.2 | 651,286 | 470,514 |
| Sales tax payable | | 32,371 | - |
| Excise duty payable | | 5,621 | - |
| Customers' balances | | 107,847 | 34,451 |
| Deposits - interest free repayable on demand | | 5,846 | 6,071 |
| Mark up accrued on: | | | |
| Long-term finances - secured | | 122,318 | 49,750 |
| Finances under mark up arrangements- secured | | 13,854 | 24,170 |
| Workers' profit participation fund | - note 10.3 | 50,601 | 83,894 |
| Workers' welfare fund | | 218,719 | 129,654 |
| Derivative cross currency swap | - note 10.4 | 11,111 | - |
| TFCs payable | | 1,405 | 1,415 |
| Unclaimed dividends | | 9,975 | 8,892 |
| Others | | 32,456 | 31,586 |
| | | 1,564,362 | 1,030,516 |

10.1 Trade creditors include amount due to related party Rs. 43.691 million (2006: Rs. 23.525 million).

10.2 Accrued liabilities include amount due to related party Rs. 5.737 million (2006: Nil).

### 10.3 WORKERS' PROFIT PARTICIPATION FUND

| | | 2007 | 2006 |
|---|---|---|---|
| | | (Rupees in thousand) | |
| Opening balance | | 83,894 | 70,824 |
| Provision for the year | - note 28 | 50,601 | 83,894 |
| | | 134,495 | 154,718 |
| Less: Payments made during the year | | 83,894 | 70,824 |
| Closing balance | | 50,601 | 83,894 |

10.4 During the year 2006, the company entered into a derivative cross swap arrangement to hedge for the possible adverse movements in interest rates arising on the interest payments due on its local currency loan as mentioned in note 7.1.3. The derivative cross currency swap outstanding as at December 31, 2007 has been marked to market and the resulting loss of Rs. 11.111 million has been recognized in profit and loss account as this hedging relationship does not meet the criteria of cash flow hedge and does not qualify for special hedge accounting specified in IAS 39 'Financial Instruments: Recognition and Measurement'.

11 Contingencies and commitments

11.1 Contingencies

(i) Claims against the company not acknowledged as debts Rs. 12.766 million (2006: Rs. 11.247 million).

(ii) Against a sales tax refund aggregating Rs. 12.827 million determined by the Sales Tax Officer (STO) on the basis of the orders of the Appellate Assistant Commissioner (AAC) for the assessment years 1977-78 through 1980-81 and recognised in the financial statements in 1985, the STO filed an appeal in 1986 with the Income Tax Appellate Tribunal (ITAT) against the Orders of the AAC for these years. The Orders of the AAC were based on a decision already given by the ITAT on the company's appeal for application of a lower rate of sales tax on self consumed material for earlier years. Pending the outcome of the appeal filed by STO no adjustment has been made for the refunds recognised in the financial statements as the management is of the view that the appeal of the STO will not be upheld by the ITAT.

(iii) Post dated cheque not provided in these financial statements has been furnished by the company in favour of Collector of Customs against custom levies aggregated to Rs. 8.339 million (2006: Nil) in respect of goods imported.

### 11.2 COMMITMENTS IN RESPECT OF

(i) Contracts for capital expenditure Rs. 1,103.199 million (2006: Rs. 2,849.840 million).

(ii) Letters of credit other than for capital expenditure Rs. 717.981 million (2006: Rs. 329.418 million).

(iii) Issue of privately placed commerical paper under Securities and Exchange Commission of Pakistan (SECP ) Guidelines for issue of Commercial Papers dated October 28, 2002 and BPD Circular No. 28 dated August 23,2003 issued by the State Bank of Pakistan, amounting to Rs. 300 million (2006: Nil) with IGI Investment Bank, a related party as an arranger and advisor.

(iv) The amount of future payments under operating leases and the period in which these payments will become due are as follows:

| | 2007 | 2006 |
|---|---|---|
| | (Rupees in thousand) | |
| Not later than one year | 1,304 | 5,466 |
| Later than one year and not later than five years | 6,849 | 6,749 |
| Later than five years | 1,412 | 1,883 |
| | 9,565 | 14,098 |

## 12. PROPERTY, PLANT AND EQUIPMENT

| | Cost as at December 31, 2006 | Transfer in / (out) | Additions/ (deletions) | Cost as at December 31, 2007 | Accumulated depreciation as at December 31, 2006 | Depreciation charge/ (deletions) for the year | Transfer in / (out) | Accumulated depreciation as at December 31, 2007 | Book value as at December 31, 2007 |
|---|---|---|---|---|---|---|---|---|---|
| | (Rupees in thousand) | | | | | | | | |
| Freehold land | 276,355 | (8,594) | 20,087 | 287,848 | - | - | - | - | 287,848 |
| Buildings on freehold land | 251,701 | (6,296) | 1,138,093 | 1,383,499 | 74,419 | 30,247 | (2,265) | 102,401 | 1,281,098 |
| Buildings on leasehold land | 184,086 | - | - | 184,086 | 49,057 | 6,950 | - | 56,007 | 128,079 |
| Plant and machinery | 6,705,133 | - | 6,622,351<br>(17,834) | 13,309,650 | 4,407,790 | 461,744<br>(6,500) | - | 4,863,034 | 8,446,616 |
| Other equipments | 288,754 | - | 26,358<br>(13,040) | 303,072 | 203,425 | 23,381<br>(7,924) | - | 218,882 | 84,190 |
| Furniture and fixtures | 14,085 | - | 1,401<br>(311) | 15,175 | 7,584 | 2,040<br>(203) | - | 9,421 | 5,754 |
| Vehicles | 198,645 | 1,697 | 82,528<br>(41,829) | 241,041 | 106,369 | 28,876<br>(21,882) | - | 113,363 | 127,678 |
| 2007 | 7,919,759 | (13,192) | 7,890,818<br>(73,014) | 15,724,371 | 4,848,644 | 553,248<br>(36,509) | (2,265) | 5,363,118 | 10,361,253 |
| 2006 | 7,494,787 | 4,145 | 448,005<br>(27,178) | 7,919,758 | 4,497,966 | 372,915<br>(22,237) | - | 4,848,644 | 3,071,115 |

Property, plant and equipment include mark up capitalised of Rs.437.716 million (2006 :Nil)

Property, plant and equipment include assets amounting to Rs. 12.041 million (2006: Rs. 12.071 million) of the company which are not in operation.

The cost of fully depreciated assets which are still in use as at December 31, 2007 is Rs. 3,095.851 million (2006: Rs. 2,625.172 million).

## 12.1 DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT

Detail of property, plant and equipment disposed off during the year is as follows:

| Particular of assets | Sold to | Cost | Accumulated depreciation | Book value | Sales proceeds | Mode of disposal |
|---|---|---|---|---|---|---|
| | | (Rupees in thousand) | | | | |
| **Vehicles** | **Employees** | | | | | |
| | Dr. Baber Ali | 849 | 495 | 354 | 645 | Company Policy |
| | Mr. Abdur Rahman | 530 | 203 | 327 | 413 | Company Policy |
| | Adnan Saud Sharif | 399 | 286 | 113 | 202 | Company Policy |
| | Ahsan Feroze | 416 | 270 | 146 | 273 | Company Policy |
| | Ahsan Manzoor | 409 | 164 | 245 | 303 | Company Policy |
| | Mohammad Khalid | 560 | 495 | 65 | 335 | Negotiation |
| | Bilal A. Qureshi | 603 | 221 | 382 | 479 | Company Policy |
| | Chaudhry Jawad Saqlain | 609 | 69 | 540 | 522 | Company Policy |
| | Faisal Akram | 608 | 46 | 562 | 553 | Company Policy |
| | Fiaz Ahmed | 600 | 45 | 555 | 557 | Company Policy |
| | Humayun Kabir | 899 | 202 | 697 | 725 | Company Policy |
| | Imran Majeed | 380 | 95 | 285 | 277 | Company Policy |
| | Muhammad Iqbal Ansari | 841 | 533 | 308 | 624 | Company Policy |
| | Jawaid Maqbool | 563 | 56 | 507 | 479 | Company Policy |
| | Khawaja Muhammad Arshad | 350 | 192 | 158 | 202 | Company Policy |
| | Khuram Rashid | 370 | 117 | 253 | 268 | Company Policy |
| | Khushi Muhammad | 371 | 124 | 247 | 312 | Negotiation |
| | Luqman Khalid | 750 | 512 | 238 | 546 | Company Policy |
| | Mohammad Shafique Shakir | 692 | 346 | 346 | 285 | Negotiation |
| | Muhammad Asad | 331 | 281 | 50 | 164 | Company Policy |
| | Muhammad Mansha | 464 | 104 | 360 | 404 | Company Policy |
| | Mustansar Bashir | 781 | 716 | 65 | 533 | Company Policy |
| | Shaukat Ali | 564 | 498 | 66 | 400 | Negotiation |
| | Sharif Hussain | 609 | 315 | 294 | 446 | Company Policy |
| | Umar Rafique | 534 | 151 | 383 | 420 | Company Policy |
| | Waseem Ahmed | 359 | 32 | 327 | 327 | Company Policy |
| | Ms. Samina Jamil | 504 | 160 | 344 | 394 | Company Policy |
| | Syed Ali Hassan | 327 | 239 | 88 | 197 | Company Policy |
| | Syed Muhammad Kazmi | 509 | 38 | 471 | 509 | Company Policy |
| | **Outsiders** | | | | | |
| | Mr. Sheikh Sohail Majeed | 711 | 249 | 462 | 1,050 | Negotiation |
| | Muhammad Amin | 356 | 190 | 166 | 272 | Negotiation |
| | M/s IGI Insurance Limited (Formely International General Insurance Company of Pakistan Limited) - Related Party | 1,222 | 570 | 652 | 975 | Insurance Claim |
| | DIC Pakistan Limited - Related Party | 831 | 374 | 457 | 650 | Company Policy |
| **Heavy Vehicles** | **Outsiders** | | | | | |
| | Syedanwala Agricultural Farm - Related Party | 660 | 253 | 407 | 418 | Negotiation |
| | Packages Construction [Pvt.] Limited - Related Party | 9,425 | 471 | 8,954 | 8,954 | Negotiation |
| **Plant and Machinery** | **Outsiders** | | | | | |
| | Packages Construction [Pvt.] Limited - Related Party | 11,930 | 596 | 11,334 | 11,334 | Negotiation |
| **Other equipment** | **Outsiders** | | | | | |
| | Syedanwala Agricultural Farm - Related Party | 7,973 | 3,012 | 4,961 | 5,094 | Negotiation |
| | IGI Insurance Limited (Formerly International General Insurance Company of Pakistan Limited) - Related Party | 106 | 3 | 103 | 80 | Insurance Claim |
| **Other assets with book value less than Rs. 50,000** | | 24,019 | 23,786 | 233 | 7,780 | |
| | | 73,014 | 36,509 | 36,505 | 48,401 | |

## 13. INTANGIBLE ASSETS

| | Cost as at December 31, 2006 | Additions | Cost as at December 31, 2007 | Accumulated amortisation as at December 31, 2006 | Amortisation charge for the year | Accumulated amortisation as at December 31, 2007 | Book value as at December 31, 2007 |
|---|---|---|---|---|---|---|---|
| | (Rupees in thousand) | | | | | | |
| Computer software and ERP system | 124,075 | - | 124,075 | 121,543 | 2,169 | 123,712 | 363 |
| **2007** | 124,075 | - | 124,075 | 121,543 | 2,169 | 123,712 | 363 |
| 2006 | 124,075 | - | 124,075 | 118,775 | 2,768 | 121,543 | 2,532 |

The cost of fully amortised assets which are still in use as at December 31, 2007 is Rs. 122.644 million (2006: Rs. 115.875 million).

### 13.1 The depreciation/amortisation charge for the year has been allocated as follows:

| | | Depreciation | Amortisation | Total 2007 | Total 2006 |
|---|---|---|---|---|---|
| | | (Rupees in thousands) | | | |
| Cost of sales | - note 25 | 527,611 | 1,932 | 529,543 | 347,514 |
| Administrative expenses | - note 26 | 21,040 | 237 | 21,277 | 22,554 |
| Distribution and marketing costs | - note 27 | 4,597 | - | 4,597 | 5,615 |
| | | 553,248 | 2,169 | 555,417 | 375,683 |

## 14. INVESTMENT PROPERTY

| | Cost as at December 31, 2006 | Transfer in / (out) | Additions | Cost as at December 31, 2007 | Accumulated depreciation as at December 31, 2006 | Depreciation charge for the year | Transfer in / (out) | Accumulated depreciation as at December 31, 2007 | Book value as at December 31, 2007 |
|---|---|---|---|---|---|---|---|---|---|
| | (Rupees in thousand) | | | | | | | | |
| Land | - | 8,594 | - | 8,594 | - | - | - | - | 8,594 |
| Buildings on freehold land | - | 6,295 | - | 6,295 | | 35 | 2,265 | 2,300 | 3,995 |
| Buildings on leasehold land | 26,406 | - | - | 26,406 | 11,983 | 957 | - | 12,940 | 13,466 |
| **2007** | 26,406 | 14,889 | - | 41,295 | 11,983 | 992 | 2,265 | 15,240 | 26,055 |
| 2006 | 26,406 | - | - | 26,406 | 11,025 | 958 | - | 11,983 | 14,423 |

Depreciation charge for the year has been allocated to administrative expenses.
Fair value of the investment property, based on the valuation carried out by an independent valuer, as at December 31, 2007 is Rs. 93.252 million (2006: Rs 33.058 million)

## 15. ASSETS SUBJECT TO FINANCE LEASE

| | Cost as at December 31, 2006 | Additions/ (Deletions) | Cost as at December 31, 2007 | Accumulated depreciation as at December 31, 2006 | Depreciation charge/ (deletions) for the year | Accumulated depreciation as at December 31, 2007 | Book value as at December 31, 2007 |
|---|---|---|---|---|---|---|---|
| | (Rupees in thousand) | | | | | | |
| Vehicles | 4,073 | - | - | 2,172 | 204 | - | - |
| | | (4,073) | | | (2,376) | | |
| **2007** | 4,073 | - | - | 2,172 | 204 | - | - |
| | | (4,073) | | | (2,376) | | |
| 2006 | 13,917 | - | 4,073 | 5,336 | 2,535 | 2,172 | 1,901 |
| | | (9,844) | | | (5,699) | | |

Deletion represents the asset transferred to property, plant and equipment on completion of lease term.

### 15.1 The depreciation charge for the year has been allocated as follows:

| | | 2007 | 2006 |
|---|---|---|---|
| | | (Rupees in thousand) | |
| Cost of sales | - note 25 | 15 | 659 |
| Administrative expenses | - note 26 | 110 | 1,718 |
| Distribution and marketing costs | - note 27 | 79 | 158 |
| | | 204 | 2,535 |

| | | 2007 | 2006 |
|---|---|---|---|
| | | (Rupees in thousand) | |

## 16. CAPITAL WORK-IN-PROGRESS

| | | 2007 | 2006 |
|---|---|---|---|
| Civil works | | 91,505 | 28,136 |
| Plant and machinery [including in transit Rs. 155.767 million (2006: Rs. Nil)] | | 765,696 | 790,655 |
| Others | | 1,412 | 48 |
| Expansion project : | | | |
| Civil works | | 868,503 | 1,129,342 |
| Plant and machinery [including in transit Rs. 70.789 million (2006: Rs. 87.817 million)] | | 5,208,386 | 6,881,200 |
| Advances | - note 16.1 | 40,769 | 491,050 |
| Unallocated expenditure | - note 16.2 | 824,412 | 822,764 |
| | | 6,942,070 | 9,324,356 |
| | | 7,800,683 | 10,143,195 |

## 16.1 ADVANCES

| | | 2007 | 2006 |
|---|---|---|---|
| Civil works | | 16,572 | 72,313 |
| Plant and machinery | - note 16.1.1 | 24,197 | 397,360 |
| Others | | - | 21,377 |
| | | 40,769 | 491,050 |

**16.1.1** It includes an amount of Rs. 16.336 million (2006: Rs. 10.901 million) given to Siemens Pakistan Engineering Company, a related party, for development of electrical infrastructure.

## 16.2 UNALLOCATED EXPENDITURE

| | 2007 | 2006 |
|---|---|---|
| | (Rupees in thousand) | |
| Foreign consultancy services | 14,597 | 196,784 |
| Technical and other staff salaries | 65,290 | 128,620 |
| Finance costs | 703,012 | 365,626 |
| Others | 41,513 | 131,734 |
| | 824,412 | 822,764 |

## 17. INVESTMENTS

These represent the long-term investments in:

| | | 2007 | 2006 |
|---|---|---|---|
| Related parties | - note 17.1 | 10,080,234 | 5,735,337 |
| Others | - note 17.2 | 25 | 40,328 |
| | | 10,080,259 | 5,775,665 |

## 17.1 RELATED PARTIES

**SUBSIDIARIES - UNQUOTED**

| | 2007 | 2006 |
|---|---|---|
| **DIC PAKISTAN LIMITED** | | |
| 3,377,248 (2006: 3,377,248) fully paid ordinary shares of Rs. 10 each | | |
| Equity held 54.98% (2006: 54.98%) | 15,010 | 15,010 |
| **PACKAGES CONSTRUCTION (PRIVATE) LIMITED** | | |
| 2,500,000 (2006: 2,500,000) fully paid ordinary shares of Rs. 10 each | | |
| Equity held 99.99% (2006: 99.99%) | 25,000 | 25,000 |
| **PACKAGES LANKA (PRIVATE) LIMITED** | | |
| 64,779,884 (2006: 64,779,884) shares of SL Rupees 10 each | | |
| Equity held 79.07% (2006: 79.07%) | 442,938 | 442,938 |
| Less: Impairment loss | (46,371) | (46,371) |
| | 396,567 | 396,567 |
| Carried Forward | 436,577 | 436,577 |

| | 2007 | 2006 |
|---|---|---|
| | (Rupees in thousand) | |
| Brought Forward | 436,577 | 436,577 |
| **ASSOCIATED COMPANIES** | | |
| **QUOTED** | | |
| **NESTLE PAKISTAN LIMITED** | | |
| 3,649,248 (2006: 3,649,248) fully paid ordinary shares of Rs. 10 each<br>Equity held 8.05% (2006: 8.05%)<br>Market Value - Rs. 6,568.646 million (2006: Rs. 3,813.282 million) | 6,568,646 | 3,813,282 |
| **IGI INSURANCE LIMITED (FORMERLY INTERNATIONAL GENERAL INSURANCE COMPANY OF PAKISTAN LIMITED)** | | |
| 3,389,020 (2006: 2,118,138) fully paid ordinary shares of Rs. 10 each<br>Equity held 10.61 % (2006: 10.61%)<br>Market Value - Rs. 1,403.224 million (2006: Rs.845.137 million) | 878,378 | 878,378 |
| **TRI-PACK FILMS LIMITED** | | |
| 10,000,000 (2006: 10,000,000) fully paid ordinary shares of Rs. 10 each<br>Equity held 33.33 % (2006: 33.33%)<br>Market Value - Rs. 2,033.000 million (2006: Rs.538.500 million) | 2,141,233 | 551,700 |
| **IGI INVESTMENT BANK LIMITED** | | |
| 4,610,915 (2006: 4,610,915) fully paid ordinary shares of Rs. 10 each<br>Equity held 4.99 % (2006: 9.99 %)<br>Market value - Rs. 68.011 million (2006: Rs. 59.941 million) | 35,000 | 35,000 |
| | 9,623,257 | 5,278,360 |
| **UNQUOTED** | | |
| **Tetra Pak Pakistan Limited** | | |
| 30,800,000 (2006: 30,800,000) fully paid ordinary shares of Rs. 10 each<br>Equity held 44 % (2006: 44%) | 15,400 | 15,400 |
| **COCA-COLA BEVERAGES PAKISTAN LIMITED** | | |
| 500,000 (2006: 500,000) fully paid ordinary shares of Rs. 10 each<br>Equity held 0.14 % (2006: 0.14%) | 5,000 | 5,000 |
| | 20,400 | 20,400 |
| | 9,643,657 | 5,298,760 |
| | 10,080,234 | 5,735,337 |

Nestle Pakistan Limited and Coca-Cola Beverages Pakistan Limited are associated undertakings as per the Companies Ordinance, 1984, however, for the purpose of measurement, these have been classified as available for sale and measured at fair value as referred to in note 4.7.

The Company's investment in IGI Insurance Limited (Formerly International General Insurance Company of Pakistan Limited) and IGI Investment Bank is less than 20% but they are considered to be associates as per the requirement of IAS 28 'Investments in Associates' because the company has significant influence over the financial and operating policies of these companies.

| | | 2007 | 2006 |
|---|---|---|---|
| | | (Rupees in thousand) | |
| **17.2 OTHERS** | | | |
| QUOTED | | | |
| THE RESOURCE GROUP (TRG) PAKISTAN LIMITED | | | |
| Nil (2006: 6,000,000) fully paid ordinary shares of Rs. 10 each | | | |
| Equity held Nil (2006: 1.61%) | | - | 40,303 |
| UNQUOTED | | | |
| PAKISTAN TOURISM DEVELOPMENT CORPORATION LIMITED | | | |
| 2,500 (2006: 2,500) fully paid ordinary shares of Rs. 10 each | | 25 | 25 |
| ORIENT MATCH COMPANY LIMITED | | | |
| 1,900 (2006: 1,900) fully paid ordinary shares of Rs. 10 each | | - | - |
| | | 25 | 40,328 |

For the purpose of measurement, investments in others have been classified as available for sale investments.

## 18. Long-term loans and deposits

| | | 2007 | 2006 |
|---|---|---|---|
| Loans to employees - considered good | - note 18.1 | 2,132 | 1,962 |
| Loan to SNGPL | - note 18.2 | 147,600 | 164,000 |
| Sales tax recoverable | - note 18.3 | 72,039 | - |
| Security deposits | | 22,768 | 15,021 |
| | | 244,539 | 180,983 |
| Less: Receivable within one year | | | |
| Loans to employees - considered good | | 373 | 365 |
| | | 244,166 | 180,618 |

18.1 These represent interest free loan to employees for purchase of cycles and motor cycles and are repayable in monthly installments over a period of 47 to 159 months.

Loans to employees aggregating Rs. 0.398 million (2006: Rs. 0.371 million) are secured by joint registration of motor cycles in the name of employees and the company. The remaining loans are unsecured.

18.2 This represents an unsecured loan given to Sui Northern Gas Pipelines Limited for the development of the infrastructure for the supply of natural gas to the plants at Bulleh Shah Paper Mill (Expansion Project). Mark up is charged at the rate of 1.5% per annum and in received annually. This amount is receivable in 10 annual installments commencing from December 26, 2008.

18.3 This represents sales tax recoverable on capitalised assets in twelve equal installments after the commencement of commercial production of such assets.

## 19. RETIREMENT BENEFITS

| | 2007 | 2006 |
|---|---|---|
| | (Rupees in thousand) | |
| Pension fund | (1,481) | (10,646) |
| Gratuity fund | 89,743 | 80,451 |
| | 88,262 | 69,805 |

| | Pension Fund | | Gratuity Fund | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| | (Rupees in thousand) | | | |
| The amounts recognised in the balance sheet are as follows: | | | | |
| Fair value of plan assets | 644,296 | 483,965 | 296,469 | 257,356 |
| Present value of defined benefit obligation | (547,041) | (496,792) | (178,979) | (167,073) |
| Non vested past service cost to be recognised in later periods | 6,046 | 9,067 | | - |
| Unrecognised actuarial (gains) | (104,782) | (6,886) | (27,747) | (9,832) |
| (Liability) / assets as at December 31 | (1,481) | (10,646) | 89,743 | 80,451 |
| Net (liability) / asset as at January 1 | (10,646) | (14,083) | 80,451 | 74,374 |
| Charge to profit and loss account | (13,568) | (16,755) | 1,686 | (1,115) |
| Contribution by the company | 22,733 | 20,192 | 7,606 | 7,192 |
| (Liability) / assets as at December 31 | (1,481) | (10,646) | 89,743 | 80,451 |
| The movement in the present value of defined benefit obligation is as follows: | | | | |
| Present value of defined benefit obligation | 496,792 | 474,774 | 167,073 | 150,527 |
| Service cost | 16,297 | 14,588 | 9,345 | 8,613 |
| Interest cost | 53,041 | 49,835 | 17,392 | 15,385 |
| Benefits paid | (29,991) | (26,575) | (18,409) | (16,028) |
| Past service cost | - | - | - | 4,469 |
| Experience loss / (gain) | 10,902 | (15,830) | 3,578 | 4,107 |
| Present value of defined benefit obligation | 547,041 | 496,792 | 178,979 | 167,073 |
| The movement in fair value of plan assets is as follows: | | | | |
| Fair value as at January 1 | 483,965 | 437,180 | 257,356 | 243,427 |
| Expected return on plan assets | 53,121 | 47,082 | 27,730 | 25,777 |
| Company contributions | 22,733 | 20,192 | 7,606 | 7,192 |
| Employee contributions | 5,115 | 4,543 | - | - |
| Benefits paid | (29,991) | (26,575) | (18,409) | (16,028) |
| Experience gain / (loss) | 109,353 | 1,543 | 22,186 | (3,012) |
| Fair value as at December 31 | 644,296 | 483,965 | 296,469 | 257,356 |
| Plan assets are comprised as follows: | | | | |
| Debt | 79,458 | 335,132 | 34,136 | 105,747 |
| Equity | 252,026 | 145,253 | 33,738 | 19,472 |
| Mixed Funds | 292,865 | 28,315 | 205,474 | 226 |
| Cash | 19,947 | (24,735) | 23,121 | 131,911 |
| | 644,296 | 483,965 | 296,469 | 257,356 |

The present value of defined benefit obligation, the fair value of plan assets and the surplus or deficit of pension fund is as follows:

| | 2007 | 2006 | 2005 | 2004 | 2003 |
|---|---|---|---|---|---|
| | (Rupees in thousand) | | | | |
| **As at December 31** | | | | | |
| Present value of defined benefit obligation | 547,041 | 496,792 | 474,774 | 435,580 | 386,314 |
| Fair value of plan assets | 644,296 | 483,965 | 437,180 | 366,448 | 347,977 |
| Surplus / (loss) | 97,255 | (12,827) | (37,594) | (69,132) | (38,337) |
| Experience adjustment on obligation | 2% | -3% | 2% | 5% | 1% |
| Experience adjustment on plan assets | 17% | 0% | 8% | -3% | 5% |

Fair value of plan assets include ordinary shares of the company, whose fair value as at December 31, 2007 is Rs. 204 million (2006: Rs. 114.789 million).

The present value of defined benefit obligation, the fair value of plan assets and the surplus or deficit of gratuity fund is as follows:

| | 2007 | 2006 | 2005 | 2004 | 2003 |
|---|---|---|---|---|---|
| | (Rupees in thousand) | | | | |
| **As at December 31** | | | | | |
| Present value of defined benefit obligation | 178,979 | 167,073 | 150,527 | 147,984 | 151,673 |
| Fair value of plan assets | 296,469 | 257,356 | 243,427 | 236,801 | 248,973 |
| Surplus | 117,490 | 90,283 | 92,900 | 88,817 | 97,300 |
| Experience adjustment on obligation | 2% | 2% | 3% | 5% | 6% |
| Experience adjustment on plan assets | 7% | -1% | 0% | -3% | 1% |

Fair value of plan assets include ordinary shares of the company, whose fair value as at December 31, 2007 is Rs. 32 million (2006: Rs. 18.173 million).

## 20. STORES AND SPARES

| | 2007 | 2006 |
|---|---|---|
| | (Rupees in thousand) | |
| Stores [including in transit Rs. 29.291 million (2006: Rs. 7.064 million)] | 299,909 | 186,712 |
| Spares [including in transit Rs. 32.619 million (2006: Rs. 12.994 million)] | 415,931 | 298,953 |
| | 715,840 | 485,665 |

Stores and spares include items which may result in fixed capital expenditure but are not distinguishable .

## 21. STOCK-IN-TRADE

| | 2007 | 2006 |
|---|---|---|
| | (Rupees in thousand) | |
| Raw materials [including in transit Rs. 577.582 million (2006: Rs. 234.658 million)] | 1,461,641 | 1,023,695 |
| Work-in-process | 117,400 | 97,561 |
| Finished goods | 627,150 | 525,917 |
| | 2,206,191 | 1,647,173 |

Finished goods of Rs. 171.406 million (2006: Rs. 140.095 million) are being carried at net realisable value and an amount of Rs. 16.859 million (2006: Rs. 12.649 million) has been charged to cost of sales, being the cost of inventory written down during the year.

## 22. TRADE DEBTS

| | | 2007 | 2006 |
|---|---|---|---|
| | | (Rupees in thousand) | |
| Considered good | | | |
| Related parties - unsecured | - note 22.1 | 372,757 | 217,970 |
| Others | - note 22.2 | 916,171 | 603,190 |
| | | 1,288,928 | 821,160 |

### 22.1 RELATED PARTIES - UNSECURED

| | 2007 | 2006 |
|---|---|---|
| **SUBSIDIARIES** | | |
| DIC Pakistan Limited | 684 | 718 |
| **ASSOCIATED UNDERTAKINGS** | | |
| Treet Corporation | 845 | 414 |
| Nestle Pakistan Limited | 157,078 | 79,171 |
| Tetrapak Pakistan Limited | 94,599 | 52,996 |
| Tri-Pack Films Limited | 4,968 | 7,233 |
| Coca-Cola Beverages Pakistan Limited | 2,288 | 1,291 |
| **OTHER RELATED PARTIES** | | |
| Unilever Pakistan Limited | 94,834 | 66,715 |
| Mitchell's Fruit Farms Limited | 17,212 | 9,432 |
| Others | 249 | - |
| | 372,757 | 217,970 |

These are in the normal course of business and are interest free.

22.2 Others include secured debts of Rs. 8.049 million (2006: Rs. 4.891 million).

| | | | 2007 | 2006 |
|---|---|---|---|---|
| | | | (Rupees in thousand) | |
| **23.** | **LOANS, ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES** | | | |
| | Loans to employees - considered good | | 373 | 365 |
| | Current portion of loan receivable from SNGPL | | 16,400 | - |
| | Advances - considered good | | | |
| | To employees | - note 23.1 | 8,530 | 3,642 |
| | To suppliers | | 42,782 | 32,342 |
| | | | 51,312 | 35,984 |
| | Due from related parties - unsecured | - note 23.2 | 41,754 | 121,974 |
| | Trade deposits | | 142,431 | 66,113 |
| | Prepayments | | 14,465 | 13,880 |
| | Balances with statutory authorities | | | |
| | Excise duty | | - | 35 |
| | Customs duty | | 16,512 | 593 |
| | | | 16,512 | 628 |
| | Claims recoverable from Government | | | |
| | Sales tax | | 5,310 | 4,596 |
| | Income tax refundable | | 153,689 | 60,498 |
| | Income tax recoverable | - note 23.3 | 36,013 | 36,013 |
| | | | 195,012 | 101,107 |
| | Interest receivable on loan to SNGPL | | 2,588 | 2,500 |
| | Derivative cross currency swap | | - | 4,245 |
| | Other receivables | | 44,574 | 6,725 |
| | | | 525,421 | 353,521 |

23.1 Included in advances to employees are amounts due from Chief Executive and Executives of Nil and Rs. 1.882 million respectively (2006: Chief Executive Rs. 0.092 million and Executives Rs. 0.585 million).

| | | 2007 | 2006 |
|---|---|---|---|
| | | (Rupees in thousand) | |
| **23.2** | **DUE FROM RELATED PARTIES - UNSECURED** | | |
| | **SUBSIDIARIES** | | |
| | DIC Pakistan Limited | 4,070 | 3,528 |
| | Packages Lanka (Private) Limited | 123 | 105 |
| | **ASSOCIATED UNDERTAKINGS** | | |
| | Tetra Pak (Pakistan) Limited | 7,318 | 11,940 |
| | Tri-Pack Films Limited | 64 | 157 |
| | IGI Insurance Limited (Formerly International General Insurance Company of Pakistan Limited) | 942 | 94,297 |
| | IGI Investment Bank Limited. | - | 142 |
| | BOC Pakistan | 175 | - |
| | **POST EMPLOYMENT BENEFIT PLANS** | | |
| | Packages Limited Employees Provident Fund | - | 57 |
| | **OTHER RELATED PARTIES** | | |
| | Loads Limited | - | 104 |
| | Siemens Pakistan Limited | 28,805 | 8,013 |
| | IGI Finex Securities Limited | - | 3,631 |
| | Others | 257 | - |
| | | 41,754 | 121,974 |

These relate to normal business of the company and are interest free.

In 1987, the Income Tax Officer (ITO) re-opened the company's assessments for the accounting years ended December 31, 1983 and 1984 disallowing primarily tax credit given to the company under section 107 of the Income Tax Ordinance, 1979. The tax credit amounting to Rs. 36.013 million on its capital expenditure for these years was refused on the grounds that such expenditure represented an extension of the company's undertaking which did not qualify for tax credit under this section in view of the company's location. The assessments for these years were revised by the ITO on these grounds and taxes reassessed were adjusted against certain sales tax refunds and the tax credits previously determined by the ITO and set off against the assessments framed for these years.

The company had filed an appeal against the revised orders of the ITO before the Commissioner of Income Tax (Appeals) [CIT(A)], Karachi. The Commissioner has, in his order issued in 1988, held the assessments reframed by the ITO for the years 1983 and 1984 presently to be void and of no legal effect. The Income Tax Officer has filed an appeal against the Commissioner's order with the Income Tax Appellate Tribunal (ITAT). The ITAT has in its order issued in 1996 maintained the order of CIT (A). The assessing officer after the receipt of the appellate order passed by CIT (A), has issued notices under section 65 of the Income Tax Ordinance, 1979 and the company has filed a writ petition against the aforesaid notices with the High Court of Sindh, the outcome of which is still pending.

The amount recoverable Rs. 36.013 million represents the additional taxes paid as a result of the disallowance of the tax credits on reframing of the assessments.

| | | 2007 | 2006 |
|---|---|---|---|
| | | (Rupees in thousand) | |

## 24. CASH AND BANK BALANCES

| | | 2007 | 2006 |
|---|---|---|---|
| At banks | | | |
| On saving accounts [including Nil (2006: US $ 89,571)] | - note 24.1 | 18 | 5,458 |
| On current accounts | - note 24.2 | 88,024 | 94,178 |
| | | 88,042 | 99,636 |
| In hand | | 12,980 | 7,067 |
| | | 101,022 | 106,703 |

**24.1** The balances in saving accounts bear mark up which ranges from 0.25% to 8.85% per annum.

**24.2** Included in these are total restricted funds of Rs. 1.349 million (2006: Rs. 1.359 million) held as payable to TFC holders as referred to in note 10.

## 25. COST OF SALES

| | | 2007 | 2006 |
|---|---|---|---|
| | | (Rupees in thousand) | |
| Opening work-in-process | | 97,561 | 80,980 |
| Materials consumed | | 5,108,396 | 4,246,956 |
| Salaries, wages and amenities | - note 25.1 | 533,893 | 475,477 |
| Fuel and power | | 1,069,317 | 939,709 |
| Production supplies | | 235,487 | 218,423 |
| Excise duty and sales tax | | 1,768 | 180 |
| Rent, rates and taxes | | 2,589 | 2,506 |
| Insurance | | 36,959 | 36,254 |
| Repairs and maintenance | | 254,503 | 252,314 |
| Packing expenses | | 50,817 | 59,230 |
| Depreciation on property, plant and equipment | | 527,611 | 344,983 |
| Amortisation on intangible assets | | 1,932 | 2,531 |
| Depreciation on assets subject to finance lease | | 15 | 659 |
| Technical fee and royalty | | 5,616 | 14,109 |
| Other expenses | | 121,531 | 85,189 |
| | | 8,047,995 | 6,759,500 |
| Less: Closing work-in-process | | 117,400 | 97,561 |
| Cost of goods produced | | 7,930,595 | 6,661,939 |
| Opening stock of finished goods | | 525,917 | 415,973 |
| | | 8,456,512 | 7,077,912 |
| Less: Closing stock of finished goods | | 627,150 | 525,917 |
| | | 7,829,362 | 6,551,995 |

Cost of goods produced includes Rs. 840.483 million (2006: Rs. 814.397 million) for stores and spares consumed, Rs. 2.488 million (2006: Rs. 2.336 million) and Rs. 1.425 million (2006: Rs. 0.188 million) for raw materials and stores and spares written off respectively.

## 25.1 SALARIES, WAGES AND AMENITIES

| | 2007 | 2006 |
|---|---|---|
| | (Rupees in thousand) | |
| Salaries, wages and amenities include following in respect of retirement benefits: | | |
| **PENSION** | | |
| Current service cost | 10,023 | 8,190 |
| Interest cost for the year | 34,596 | 27,975 |
| Expected return on plan assets | (34,645) | (26,430) |
| Contribution made by the employees | (3,146) | (2,550) |
| Recognition of past service cost | 1,858 | 1,696 |
| Recognition of (gain) / loss | (341) | 525 |
| | 8,345 | 9,406 |
| **GRATUITY** | | |
| Current service cost | 6,867 | 6,101 |
| Interest cost for the year | 14,229 | 10,897 |
| Expected return on plan assets | (21,826) | (18,257) |
| Recognition of past service cost | - | 3,165 |
| Recognition of gain | (508) | (1,115) |
| | (1,238) | 791 |

In addition to above, salaries, wages and amenities include Rs. 13.049 million (2006: Rs. 11.768 million) and Rs.7.608 million (2006: Rs. 12.374 million) in respect of provident fund contribution by the company and accumulating compensated absences respectively.

| | | 2007 | 2006 |
|---|---|---|---|
| | | (Rupees in thousand) | |

## 26. ADMINISTRATIVE EXPENSES

| | | 2007 | 2006 |
|---|---|---|---|
| Salaries, wages and amenities | - note 26.1 | 134,700 | 148,638 |
| Travelling | | 30,943 | 31,525 |
| Rent, rates and taxes | - note 26.2 | 21,668 | 18,812 |
| Insurance | | 4,548 | 4,011 |
| Printing, stationery and periodicals | | 13,841 | 16,466 |
| Postage, telephone and telex | | 14,857 | 20,216 |
| Motor vehicles running | | 10,355 | 11,019 |
| Computer charges | | 10,370 | 9,621 |
| Professional services | - note 33 | 9,089 | 9,870 |
| Repairs and maintenance | | 13,373 | 14,438 |
| Depreciation on property, plant and equipment | | 21,040 | 22,317 |
| Amortisation on intangible assets | | 237 | 237 |
| Depreciation on assets subject to finance lease | | 110 | 1,718 |
| Depreciation on investment property | | 992 | 958 |
| Advances written off | | 9,823 | - |
| Other expenses | | 52,118 | 40,088 |
| | | 348,064 | 349,934 |

Administrative expenses include Rs. 27.827 million (2006: Rs. 24.215 million) for stores and spares consumed.

## 26.1 SALARIES, WAGES AND AMENITIES

Salaries, wages and amenities include following in respect of retirement benefits:

### PENSION

| | 2007 | 2006 |
|---|---|---|
| Current service cost | 4,653 | 5,026 |
| Interest cost for the year | 16,060 | 17,172 |
| Expected return on plan assets | (16,083) | (16,222) |
| Contribution made by the employees | (1,460) | (1,566) |
| Recognition of past service cost | 862 | 1,041 |
| Recognition of (gain) / loss | (158) | 323 |
| | 3,874 | 5,774 |

### GRATUITY

| | 2007 | 2006 |
|---|---|---|
| Current service cost | 1,838 | 1,973 |
| Interest cost for the year | 3,809 | 3,525 |
| Expected return on plan assets | (5,843) | (5,906) |
| Recognition of past service cost | - | 1,024 |
| Recognition of gain | (136) | (361) |
| | (332) | 255 |

In addition to above, salaries, wages and amenities include Rs. 3.293 million (2006: Rs. 3.702 million) and Rs. 3.962 million (2006: Rs. 4.250 million) in respect of provident fund contribution by the company and accumulating compensated absences repectively.

**26.2** Rent, rates and taxes include operating lease rentals amounting to Rs. 11.558 million (2006: Rs. 9.565 million).

| | | 2007 | 2006 |
|---|---|---|---|
| | | (Rupees in thousand) | |

## 27. DISTRIBUTION AND MARKETING COSTS

| | | | |
|---|---|---|---|
| Salaries, wages and amenities | - note 27.1 | 46,954 | 41,111 |
| Travelling | | 9,489 | 6,175 |
| Rent, rates and taxes | - note 27.2 | 2,826 | 2,516 |
| Freight and distribution | | 105,041 | 95,730 |
| Insurance | | 805 | 973 |
| Advertising | | 50,940 | 56,218 |
| Depreciation on property, plant and equipment | | 4,597 | 5,615 |
| Depreciation on assets subject to finance lease | | 79 | 158 |
| Other expenses | | 19,626 | 17,091 |
| | | 240,357 | 225,587 |

Distribution and marketing costs include Rs. 3.862 million (2006: Rs. 4.885 million) for stores and spares consumed.

## 27.1 SALARIES, WAGES AND AMENITIES

Salaries, wages and amenities include following in respect of retirement benefits:

| | 2007 | 2006 |
|---|---|---|
| **PENSION** | | |
| Current service cost | 1,621 | 1,373 |
| Interest cost for the year | 5,597 | 4,687 |
| Expected return on plan assets | (5,605) | (4,430) |
| Contribution made by the employees | (509) | (427) |
| Recognition of past service cost | 301 | 284 |
| Recognition of (gain) / loss | (55) | 88 |
| | 1,350 | 1,575 |
| **GRATUITY** | | |
| Current service cost | 640 | 539 |
| Interest cost for the year | 1,326 | 964 |
| Expected return on plan assets | (2,034) | (1,614) |
| Recognition of past service cost | - | 280 |
| Recognition of gain | (47) | (99) |
| | (115) | 70 |

In addition to above, salaries, wages and amenities include Rs. 1.148 million (2006: Rs. 1.030 million) and Rs. 1.548 million (2006: Rs. 0.660 million) in respect of provident fund contribution by the comapny and accumulating compensated absences respectively.

**27.2** Rent, rates and taxes include operating lease rentals amounting to Rs. 2.826 million (2006: Rs. 2.516 million).

| | | 2007 | 2006 |
|---|---|---|---|
| | | (Rupees in thousand) | |

## 28. OTHER OPERATING EXPENSES

| | | | |
|---|---|---|---|
| Workers' profit participation fund | | 50,601 | 83,894 |
| Workers' welfare fund | | 94,550 | 128,789 |
| Donations | - note 34 | 288 | 792 |
| | | 145,439 | 213,475 |

Other operating expenses include the provision for Workers' profit participation fund and Workers' welfare fund of Rs. 32.332 million (2006: Rs. 39.325 million) and Rs. 88.254 million (2006: Rs. 113.383 million) respectively on account of investment income as disclosed in note 31.

| | 2007 | 2006 |
|---|---|---|
| | (Rupees in thousand) | |

## 29. OTHER OPERATING INCOME

| | 2007 | 2006 |
|---|---|---|
| **INCOME FROM FINANCIAL ASSETS** | | |
| Income on bank deposits | 4,684 | 5,602 |
| Interest on loan to SNGPL | 2,548 | 2,500 |
| | 7,232 | 8,102 |
| **INCOME FROM NON-FINANCIAL ASSETS** | | |
| Management and technical fee [including Rs.4.905 million (2006:Nil) from related party] | 20,052 | 14,321 |
| Insurance commission from related party | 3,661 | 5,313 |
| Rental income from investment property including Rs. 31.947 million (2006: Rs. 26.143 million) from related parties | 32,227 | 26,384 |
| Profit on disposal of property, plant and equipment | 11,896 | 7,552 |
| Scrap sales | 2,537 | 458 |
| Provisions and unclaimed balances written back | 22,008 | 9,686 |
| Agricultural income | - | 54 |
| Profit on outside jobs including Rs. 1.033 million (2006: Rs. 0.822 million) from related parties | 1,056 | 1,573 |
| Gain on foreign currency forward option | - | 14,867 |
| Gain on cross currency swap | 18,701 | 4,245 |
| Capital gain from related party. | - | 72,972 |
| Mark up on delayed tax refunds | - | 72,537 |
| Others | 2,815 | 13,941 |
| | 114,953 | 243,903 |
| | 122,185 | 252,005 |

## 30. FINANCE COSTS

| | 2007 | 2006 |
|---|---|---|
| Interest and mark up including commitment charges on | | |
| Long - term finances | 234,747 | - |
| Finances under mark up arrangements | 87,433 | 60,757 |
| Finance lease | 8 | 191 |
| Loan handling charges | 9,765 | 8,103 |
| Exchange loss | 28,930 | 3,253 |
| Bank charges | 6,495 | 6,605 |
| | 367,378 | 78,909 |

## 31. INVESTMENT INCOME

| | | 2007 | 2006 |
|---|---|---|---|
| Dividend income from related parties | - note 31.1 | 646,650 | 786,498 |
| Gain on sale of long-term investments | - note 31.2 | 3,766,078 | 4,882,638 |
| | | 4,412,728 | 5,669,136 |

## 31.1 DIVIDEND INCOME FROM RELATED PARTIES

| | 2007 | 2006 |
|---|---|---|
| **SUBSIDIARIES** | | |
| DIC Pakistan Limited | 50,659 | 13,509 |
| **ASSOCIATED UNDERTAKINGS** | | |
| Tetra Pak (Pakistan) Limited | 470,800 | 686,733 |
| IGI Insurance Limited (Formerly International General Insurance Company of Pakistan Limited) | 16,945 | 6,517 |
| Nestle Pakistan Limited | 18,246 | 54,739 |
| Tri-Pack Films Limited | 90,000 | 25,000 |
| | 646,650 | 786,498 |

**31.2** This represents the net capital gain realised on sale of shares in Nestle Pakistan Limited, Tri-pack Films Limited and The Resource Group (TRG) Pakistan Limited.

## 32. TAXATION

| | 2007 | 2006 |
|---|---|---|
| | (Rupees in thousand) | |
| For the year | | |
| Current | 46,000 | 145,000 |
| Deferred | 274,000 | 133,000 |
| | 320,000 | 278,000 |
| Prior years | | |
| Current | - | (28,940) |
| Deferred | (13,000) | (2,000) |
| | (13,000) | (30,940) |
| | 307,000 | 247,060 |

In view of the available tax losses, the current tax provision represents the minimum tax on turnover for the year due under section 113 of the Income Tax Ordinance, 2001, which is available for set off against normal tax liability that may arise in five succeeding years.

For the purpose of current taxation, the tax losses available for carry forward as at December 31, 2007 are estimated approximately at Rs. 3.720 million (2006: Nil).

## 32.1 TAX CHARGE RECONCILIATION

| | 2007 % age | 2006 % age |
|---|---|---|
| Numerical reconciliation between the average effective tax rate and the applicable tax rate | | |
| Applicable tax rate | 35.00 | 35.00 |
| Tax effect of amounts that are: | | |
| Not deductible for tax purposes | 0.24 | 0.09 |
| Exempt for tax purposes | (28.60) | (27.00) |
| Chargeable to tax at different rates | (0.27) | (3.74) |
| Effect of change in prior years' tax | (0.28) | (0.49) |
| Tax effect under presumptive tax regime and others | 0.54 | 0.03 |
| | (28.37) | (31.11) |
| Average effective tax rate | 6.63 | 3.89 |

## 33. PROFESSIONAL SERVICES

| | 2007 | 2006 |
|---|---|---|
| | (Rupees in thousand) | |
| The charges for professional services include the following in respect of auditors' services for: | | |
| Statutory audit | 950 | 700 |
| Half yearly review | 325 | 275 |
| Tax services | 2,479 | 4,538 |
| Workers' profit participation fund audit, management staff pension and gratuity fund audit, special reports and certificates for lending agencies and sundry services | 230 | 150 |
| Out of pocket expenses | 270 | 173 |
| | 4,254 | 5,836 |

34. DONATIONS

None of the directors and their spouses had any interest in any of the donees during the year.

35. Remuneration of Chief Executive, Directors and Executives

35.1 The aggregate amount charged in the financial statements for the year for remuneration, including certain benefits, to the
Chief Executive, full time working Directors including alternate directors and Executives of the company are as follows:

| | Chief Executive | | Directors and alternate Directors | | Executives | |
|---|---|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| **Number of persons** | 1 | 1 | 4 | 4 | 32 | 32 |
| | (Rupees in thousand) | | | | | |
| **Short-term employee benefits** | | | | | | |
| Managerial remuneration | 3,590 | 3,286 | 8,983 | 7,887 | 62,962 | 51,856 |
| Housing | 2,160 | 2,027 | 4,375 | 3,381 | 16,998 | 14,939 |
| Utilities | 781 | 544 | 896 | 787 | 3,901 | 5,644 |
| Bonus | 1,045 | 410 | 2,446 | 912 | 7,941 | 3,210 |
| Leave passage | 299 | 273 | 698 | 607 | 1,541 | 1,530 |
| Medical expenses | 467 | 461 | 234 | 175 | 3,796 | 4,205 |
| Club expenses | 54 | 51 | 204 | 180 | 84 | 129 |
| Others | - | - | - | - | 1,062 | 151 |
| | 8,396 | 7,052 | 17,836 | 13,929 | 98,285 | 81,664 |
| **Post employment benefits** | | | | | | |
| Contribution to provident, gratuity and pension funds | 1,237 | 1,132 | 2,427 | 2,088 | 5,608 | 5,269 |
| **Other long-term benefits** | | | | | | |
| Accumulating compensated absences | 2,083 | 1,910 | 5,623 | 4,421 | 13,490 | 11,950 |
| | 11,716 | 10,094 | 25,886 | 20,438 | 117,383 | 98,883 |

The company also provides the Chief Executive and some of the Directors and Executives with freed transport and residential telephones.

35.2 Remuneration to other directors

Aggregate amount charged in the financial statements for the year for fee to directors (2006: 4 directors) in Rs. 90,000 (2006: Rs. 110,000)

36. Transactions with related parties

The related parties comprise subsidiaries, associated undertakings, other related group companies, key management personnel and post employment benefit plans. The company in the normal course of business carries out transactions with various related parties. Amounts due from and to related parties are shown under receivables and payables, amounts due from directors and key management personnel are shown under receivables and remuneration of directors and key management personnel is disclosed in note 35. Other significant transactions with related parties are as follows:

| RELATIONSHIP WITH THE COMPANY | NATURE OF TRANSACTIONS | 2007 | 2006 |
|---|---|---|---|
| | | (Rupees in thousand) | |
| I. SUBSIDIARIES | Purchase of goods and services | 404,638 | 381,199 |
| | Sale of goods and services | 12,368 | 10,259 |
| | Sale of property, plant and equipment | 20,662 | 229 |
| | Purchase of property, plant and equipment | - | 21,355 |
| | Dividend income | 50,659 | 13,509 |
| | Rental income | 6,929 | 4,253 |
| | Management and technical fee | 4,905 | - |
| II. ASSOCIATED UNDERTAKINGS | | | |
| | Purchase of goods and services | 235,100 | 233,518 |
| | Sale of goods and services | 2,176,500 | 1,753,664 |
| | Sale of property, plant and equipment | 5,511 | - |
| | Purchase of property, plant and equipment | 680 | - |
| | Insurance claims | 1,055 | 940 |
| | Capital gain | 5,737 | 72,972 |
| | Dividend income | 595,991 | 772,989 |
| | Rental income | 25,019 | 21,890 |
| III. OTHER RELATED PARTIES | | | |
| | Purchase of goods and services | 56,926 | 102,445 |
| | Sale of goods & services | 1,019,073 | 957,785 |
| | Purchase of equity shares | 7,920,129 | 5,039,156 |
| | Sale of equity shares | 7,978,654 | 5,044,663 |
| | Rental payment | 2,393 | 5,502 |
| | Commission paid | 8,370 | 455 |
| IV. POST EMPLOYMENT BENEFIT PLANS | | | |
| | Expense charged in respect of retirement benefit plans | 48,809 | 44,889 |

All transactions with related parties have been carried out on commercial terms and conditions.

## 37. CAPACITY AND PRODUCTION - TONNES

| | Capacity | | Actual production | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| Paper and paperboard produced | 143,283 | 111,300 | 114,993 | 100,999 |
| Paper and paperboard converted | 119,633 | 97,000 | 92,499 | 86,447 |
| Plastics all sorts converted | 12,000 | 11,000 | 10,300 | 8,418 |

The variance of actual production from capacity is on account of the product mix.

## 38. RATES OF EXCHANGE

Liabilities in foreign currencies have been translated into PAK Rupees at USD 1.6247 (2006: USD 1.6399), EURO 1.1017 (2006: EURO 1.2424), SFR 1.8245 (2006: SFR 1.9976), SEK 10.3734 (2006: SEK 11.2360), GBP 0.8131 (2006: GBP 0.8376), SGD 2.3425 (2006: SGD 2.5145) and YEN 181.9174 (2006: YEN 195.2362) equal to Rs. 100.

## 39. CASH GENERATED FROM OPERATIONS

| | 2007 | 2006 |
|---|---|---|
| | (Rupees in thousand) | |
| Profit before tax | 4,632,948 | 6,347,840 |
| Adjustments for: | | |
| Depreciation on property, plant and equipment | 553,248 | 372,915 |
| Amortisation on intangible assets | 2,169 | 2,768 |
| Depreciation on investment property | 992 | 958 |
| Depreciation on assets subject to finance lease | 204 | 2,535 |
| Provision for accumulating compensated absences | 13,118 | 17,286 |
| Retirement benefits accrued | 11,882 | 17,870 |
| Gain on sale of long-term investment | (3,766,078) | (4,882,638) |
| Gain on foreign currency forward option | - | (14,867) |
| Net profit on disposal of property, plant and equipment | (11,896) | (7,552) |
| Finance cost | 367,378 | 78,909 |
| Dividend income | (646,650) | (786,498) |
| Profit before working capital changes | 1,157,315 | 1,149,526 |
| Effect on cash flow due to working capital changes | | |
| Increase in stores and spares | (230,175) | (78,226) |
| Increase in stock-in-trade | (559,018) | (503,130) |
| Increase in trade debts | (467,768) | (36,522) |
| Increase in loans, advances, deposits, prepayments and other receivables | (78,709) | (126,848) |
| Increase in creditors, accrued and other liabilities | 504,472 | 369,299 |
| | (831,198) | (375,427) |
| | 326,117 | 774,099 |

## 40. CASH AND CASH EQUIVALENTS

| | 2007 | 2006 |
|---|---|---|
| | (Rupees in thousand) | |
| Cash and bank balances | 101,022 | 106,703 |
| Finances under mark up arrangements | (401,019) | (1,280,857) |
| | (299,997) | (1,174,154) |

## 41. EARNINGS PER SHARE

### 41.1 BASIC EARNINGS PER SHARE

| | | 2007 | 2006 |
|---|---|---|---|
| Net profit for the year | **Rupees in thousand** | 4,325,948 | 6,100,780 |
| Weighted average number of ordinary shares | **Numbers** | 73,373,482 | 73,373,482 |
| Earnings per share | **Rupees** | 58.96 | 83.15 |

### 41.2 DILUTED EARNINGS PER SHARE

A diluted earnings per share has not been presented as the company does not have any convertible instruments in issue as at December 31, 2007 and December 31, 2006 which would have any effect on the earnings per share if the option to convert is exercised.

## 42. FINANCIAL ASSETS AND LIABILITIES

| | Interest / mark up bearing | | | | Non interest bearing | | | | Total | | Credit risk | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Maturity upto one year | Maturity after one year but within five years | Maturity after five years | Subtotal | Maturity upto one year | Maturity after one year but within five years | Maturity after five years | Subtotal | 2007 | 2006 | 2007 | 2006 |
| | ( Rupees in Thousand ) | | | | | | | | | | | |
| **Financial assets** | | | | | | | | | | | | |
| **On balance sheet** | | | | | | | | | | | | |
| Investments | - | - | - | - | - | 6,568,671 | - | 6,568,671 | 6,568,671 | 3,853,610 | 6,568,671 | 3,853,610 |
| Loans to employees | - | - | - | - | 373 | 1,759 | - | 2,132 | 2,132 | 1,962 | 2,132 | 1,962 |
| Long-term security deposits | - | - | 147,600 | 147,600 | - | 22,768 | - | 22,768 | 170,368 | 179,021 | 170,368 | 179,021 |
| Trade debts | - | - | - | - | 1,288,928 | - | - | 1,288,928 | 1,288,928 | 821,160 | 1,288,928 | 821,160 |
| Loans, advances, deposits, prepayments and other receivables | | | | | | | | | | | | |
| Trade deposits | - | - | - | - | 142,431 | - | - | 142,431 | 142,431 | 66,113 | 142,431 | 66,113 |
| Interest receivable on loan to SNGPL | - | - | - | - | 2,588 | - | - | 2,588 | 2,588 | 2,500 | 2,588 | 2,500 |
| Derivative cross currency swap | - | - | - | - | - | - | - | - | - | 4,245 | - | 4,245 |
| Others | - | - | - | - | 85,343 | - | - | 85,343 | 85,343 | 125,541 | 85,343 | 125,541 |
| Cash and bank balances | 18 | - | - | 18 | 101,004 | - | - | 101,004 | 101,022 | 106,703 | 88,042 | 99,836 |
| | 18 | - | 147,600 | 147,618 | 1,620,687 | 6,593,198 | - | 8,213,885 | 8,361,483 | 5,160,855 | 8,348,503 | 5,153,788 |
| **Off balance sheet** | - | - | - | - | - | - | - | - | - | - | - | - |
| **Total** | 18 | - | 147,600 | 147,618 | 1,620,687 | 6,593,198 | - | 8,213,885 | 8,361,483 | 5,160,855 | 8,348,503 | 5,153,788 |
| **Financial liabilities** | | | | | | | | | | | | |
| **On balance sheet** | | | | | | | | | | | | |
| Long-term finances - secured | - | 5,066,607 | 7,279,893 | 12,346,500 | - | - | - | - | 12,346,500 | 6,800,000 | | |
| Liabilities against assets subject to finance lease | - | - | - | - | - | - | - | - | - | 651 | | |
| Finances under mark up arrangements - secured | 401,019 | - | - | 401,019 | - | - | - | - | 401,019 | 1,280,657 | | |
| Trade and other payables | - | - | - | - | 1,107,381 | - | - | 1,107,381 | 1,107,381 | 753,770 | | |
| | 401,019 | 5,066,607 | 7,279,893 | 12,747,519 | 1,107,381 | - | - | 1,107,381 | 13,854,900 | 8,835,478 | | |
| **Off balance sheet** | | | | | | | | | | | | |
| Contracts for capital expenditure | - | - | - | - | 1,103,199 | - | - | 1,103,199 | 1,103,199 | 2,849,840 | | |
| Letters of credit other than for capital expenditure | - | - | - | - | 717,981 | - | - | 717,981 | 717,981 | 329,418 | | |
| Future payments under operating leases | - | - | - | - | 1,304 | 6,849 | 1,412 | 9,565 | 9,565 | 14,098 | | |
| | - | - | - | - | 1,822,484 | 6,849 | 1,412 | 1,830,745 | 1,830,745 | 3,193,356 | | |
| **Total** | 401,019 | 5,066,607 | 7,279,893 | 12,747,519 | 2,929,865 | 6,849 | 1,412 | 2,938,126 | 15,685,645 | 11,228,834 | | |
| **On balance sheet gap** | (401,001) | (5,066,607) | (7,132,293) | (12,599,901) | 513,286 | 6,593,198 | - | 7,106,484 | (5,493,417) | (2,874,623) | | |
| **Off balance sheet gap** | - | - | - | - | (1,822,484) | (6,849) | (1,412) | (1,830,745) | (1,830,745) | (3,193,356) | | |

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

## 42.1 Financial risk management objectives

The company's activities expose it to a variety of financial risks, including the effects of changes in foreign exchange rates, market interest rates such as KIBOR and Treasury bills rate, credit and liquidity risk associated with various financial assets and liabilities respectively as referred to in note 42 and cash flow risk associated with accrued interests in respect of borrowings as referred to in note 7.

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

Taken as a whole, risk arising from the company's financial instruments is limited as there is no significant exposure to market risk in respect of such instruments.

### (a) CONCENTRATION OF CREDIT RISK

Credit risk represents the accounting loss that would be recognised at the reporting date if counter parties failed completely to perform as contracted. The company's credit risk is primarily attributable to its trade debts and its balances at banks. The credit risk on liquid funds is limited because the counter parties are banks with reasonably high credit ratings. The company has no significant concentration of credit risk as exposure is spread over a large number of counter parties in the case of trade debts. Out of the total financial assets of Rs 8,361.483 million ( 2006: Rs. 5,160.855 million) financial assets which are subject to credit risk amount to Rs. 8,348.503 million (2006: Rs. 5,153.778 million). To manage exposure to credit risk, the company applies credit limits to its customers and also obtains collaterals, where considered necessary.

### (b) CURRENCY RISK

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Currency risk arises mainly where receivables and payables exist due to transactions with foreign buyers and suppliers. Payables exposed to foreign currency risks are covered partially through forward foreign exchange contracts and foreign currency forward options.

(c) INTEREST RATE RISK

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The company borrows at fixed and market based rates and as such the risk is minimized. Significant interest rate risk exposures are primarily managed by a mix of borrowings at fixed and variable interest rates and contracting floor and cap of interest rates as referred to in note 7. Furthermore, the company has entered into an interest rate swap arrangement for its syndicate term loan to hedge the possible adverse movements in interest rates as referred to in note 7.1.3.

(d) Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. The company follows an effective cash management and planning policy to ensure availability of funds. The company also aims at maintaining flexibility in funding by keeping committed credit lines available.

42.1.2 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 benefits for other stakeholders and to maintain and optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the company may adjust the amount of dividends paid to shareholders, return capital to shareholders through repurchase of shares, issue new shares or sell assets to reduce debt. Consistent with others in the industry and the requirements of the lenders the company monitors the capital structure on the basis of gearing ratio. This ratio is calculated as borrowing divided by total capital employed. Borrowings represent long-term loan obtained by the company as referred to in note 7. Total capital employed includes equity as shown in the balance sheet plus borrowings. The company strategy, which was unchanged from last year, was to maintain a gearing ratio of 60% debt and 40% equity. The gearing ratio as at year ended December 31, 2007 and December 31, 2006 are as follows:

| | | December 31, 2007 | December 31, 2006 |
|---|---|---|---|
| Borrowings | Rupees | 12,346,500 | 6,000,000 |
| Total equity | Rupees | 18,170,772 | 13,672,797 |
| Gearing ratio | Percentage | 40 | 30 |

42.2 Fair value of financial assets and liabilities

The carrying values of all financial assets and liabilities reflected in the financial statements approximate their fair values except for investments which are stated at cost. Fair value is determined on the basis of objective evidence at each reporting date.

43 Date of authorization for issue

These financial statements were authorised for issue on February 14, 2008 by the Board of Directors of the company.

44 Events after the balance sheet date

The Board of Directors have proposed a final dividend for the year ended December 31, 2007 of Nil (2006: Rs. 6.00) per share, amounting to Nil (2006: Rs. 419.277 million) and a bonus share issue of 15% (2006: 5%) i.e. fifteen bonus shares for every one hundred shares held on the existing issued, subscribed and paid up capital of the company at their meeting held on February 14, 2008 for approval of the members at the Annual General Meeting to be held on March 18, 2008. The Board has also recommended to transfer Rs. 4,216.373 million (2006: Rs. 5,646.600 million) to general reserve from unappropriated profit.

45 Corresponding figures

Corresponding figures have been re-arranged, wherever necessary, for the purpose of comparison. Significant reclassifications for better presentation include the reclassification of expenses relating to contractual hired labour amounting to Rs. 5.797 million from "Other expenses" to "Salaries, wages and amenities" included in "Cost of Sales".

| | Note | 2007 | 2006 |
|---|---|---|---|
| | | (Rupees in thousand) | |
| **EQUITY AND LIABILITIES** | | | |
| **CAPITAL AND RESERVES** | | | |
| Authorised capital | | | |
| 150,000,000 (2006: 100,000,000) ordinary shares of Rs. 10 each | | 1,500,000 | 1,000,000 |
| **EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT** | | | |
| Issued, subscribed and paid up capital | | | |
| 73,373,482 (2006: 69,879,507) ordinary shares of Rs. 10 each | 5 | 733,735 | 698,795 |
| Reserves | 6 | 13,077,991 | 6,840,764 |
| Unappropriated profit | | 4,830,239 | 6,324,878 |
| | | 18,641,965 | 13,864,437 |
| **MINORITY INTEREST** | | 129,365 | 123,643 |
| | | 18,771,330 | 13,988,080 |
| **NON-CURRENT LIABILITIES** | | | |
| Long-term finances - secured | 7 | 12,346,500 | 6,015,427 |
| Liabilities against assets subject to finance lease | 8 | - | 107 |
| Deferred liabilities | 9 | 1,181,761 | 761,804 |
| | | 13,528,261 | 6,777,338 |
| **CURRENT LIABILITIES** | | | |
| Current portion of long-term liabilities | 10 | 15,452 | 18,866 |
| Finances under mark up arrangements - secured | 11 | 717,667 | 1,485,452 |
| Trade and other payables | 12 | 1,614,220 | 1,058,183 |
| Provision for taxation | | - | 3,092 |
| | | 2,347,339 | 2,565,593 |
| **CONTINGENCIES AND COMMITMENTS** | 13 | - | - |
| | | 34,646,930 | 23,331,011 |

| | Note | 2007 | 2006 |
|---|---|---|---|
| | | (Rupees in thousand) | |
| **ASSETS** | | | |
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 14 | 10,636,868 | 3,324,361 |
| Intangible assets | 15 | 363 | 2,602 |
| Investment property | 16 | 7,388 | 7,988 |
| Assets subject to finance lease | 17 | 1,286 | 3,828 |
| Capital work-in-progress | 18 | 7,806,978 | 10,153,889 |
| Goodwill | 19 | - | 26,504 |
| Investments | 20 | 10,483,095 | 5,734,512 |
| Long-term loans and deposits | 21 | 244,582 | 181,197 |
| Retirement benefits | 22 | 88,262 | 69,805 |
| | | 29,268,822 | 19,504,686 |
| **CURRENT ASSETS** | | | |
| Stores and spares | 23 | 731,176 | 499,983 |
| Stock-in-trade | 24 | 2,509,728 | 1,875,769 |
| Trade debts | 25 | 1,447,219 | 976,274 |
| Loans, advances, deposits, prepayments and other receivables | 26 | 546,051 | 360,751 |
| Cash and bank balances | 27 | 143,934 | 113,548 |
| | | 5,378,108 | 3,826,325 |
| | | 34,646,930 | 23,331,011 |

The annexed notes 1 to 49 form an integral part of these financial statements.

| Asadullah Khawaja<br>Chairman | Syed Hyder Ali<br>Chief Executive & Managing Director | Mujeeb Rashid<br>Director |
|---|---|---|

| | | Note | 2007 | 2006 |
|---|---|---|---|---|
| | | | (Rupees in thousand) | |
| Local sales | | | 11,494,329 | 9,816,767 |
| Export sales | | | 192,085 | 181,792 |
| | | | 11,686,414 | 9,998,559 |
| Less: | Sales tax and excise duty | | 1,592,627 | 1,249,077 |
| | Commission | | 14,148 | 13,277 |
| | | | 1,606,775 | 1,262,354 |
| | | | 10,079,639 | 8,736,205 |
| Cost of sales | | 28 | (8,573,800) | (7,166,587) |
| **GROSS PROFIT** | | | 1,505,839 | 1,569,618 |
| Administrative expenses | | 29 | (420,390) | (400,415) |
| Distribution and marketing costs | | 30 | (276,131) | (255,347) |
| Other operating expenses | | 31 | (156,247) | (224,264) |
| Other operating income | | 32 | 114,215 | 253,286 |
| **PROFIT FROM OPERATIONS** | | | 767,286 | 942,878 |
| Finance costs | | 33 | (413,266) | (116,924) |
| Investment income | | 34 | 3,760,981 | 3,566,371 |
| Share of profit of associates | | | 1,422,974 | 1,776,692 |
| **PROFIT BEFORE TAX** | | | 5,537,975 | 6,169,017 |
| Taxation | | | | |
| Group | | 35 | (506,520) | (321,917) |
| Associates | | | (377,897) | (319,070) |
| | | | (884,417) | (640,987) |
| **PROFIT FOR THE YEAR** | | | 4,653,558 | 5,528,030 |
| Attributable to: | | | | |
| Equity holders of the parent | | | 4,606,178 | 5,482,834 |
| Minority interest | | | 47,380 | 45,196 |
| | | | 4,653,558 | 5,528,030 |
| Combined earnings per share | Rupees | 44 | 62.78 | 74.73 |

Appropriations have been reflected in the statement of changes in equity.

The annexed notes 1 to 49 form an integral part of these financial statements.

Asadullah Khawaja
Chairman

Syed Hyder Ali
Chief Executive & Managing Director

Mujeeb Rashid
Director

| | Note | 2007 | 2006 |
|---|---|---|---|
| | | (Rupees in thousand) | |
| **CASH FLOW FROM OPERATING ACTIVITIES** | | | |
| Cash generated from operations | 42 | 413,509 | 1,023,086 |
| Finance cost paid | | (348,892) | (77,516) |
| Taxes paid | | (191,994) | (247,720) |
| Payments for accumulating compensated absences | | (6,859) | (7,299) |
| Retirement benefits paid | | (30,592) | (27,637) |
| **NET CASH (USED IN) / FROM OPERATING ACTIVITIES** | | (164,828) | 662,914 |
| **CASH FLOW FROM INVESTING ACTIVITIES** | | | |
| Purchase of property, plant and equipment | | (5,536,652) | (7,366,038) |
| Net increase in long-term loans and deposits | | (63,385) | (164,384) |
| Proceeds from sale of property, plant and equipment | | 28,132 | 33,986 |
| Dividends received | | 595,991 | 772,989 |
| Proceeds from sale of investments | | 71,428 | 12,548 |
| Purchase of investments | | (394) | (8,051) |
| **NET CASH USED IN INVESTING ACTIVITIES** | | (4,904,880) | (6,718,950) |
| **CASH FLOW FROM FINANCING ACTIVITIES** | | | |
| Proceeds from long-term finances | | 6,347,685 | 5,001,370 |
| Repayment of long-term finances | | (18,097) | (19,847) |
| Payment of finance lease liabilities | | (2,036) | (6,276) |
| Dividend paid | | (418,194) | (417,914) |
| Dividend paid to minority shareholders | | (41,479) | (11,061) |
| **NET CASH FROM FINANCING ACTIVITIES** | | 5,867,879 | 4,546,272 |
| **NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS** | | 798,171 | (1,509,764) |
| Cash and cash equivalents at the beginning of the year | | (1,371,904) | 137,860 |
| Cash and cash equivalents at the end of the year | 43 | (573,733) | (1,371,904) |

The annexed notes 1 to 49 form an integral part of these financial statements.

| Asadullah Khawaja | Syed Hyder Ali | Mujeeb Rashid |
|---|---|---|
| Chairman | Chief Executive & Managing Director | Director |

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2007

| | Attributable to equity holders of the parent | | | | | | | | Minority interest | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Share premium | Exchange difference on translation of foreign subsidiary | Fair value reserve | Hedging reserve | General reserve | Unappro-priated profit | Total | | |
| | (Rupees in thousand) | | | | | | | | | |
| **BALANCE AS ON DECEMBER 31, 2005** | 698,795 | 2,986,953 | (27,647) | 19,500 | (76,092) | 3,090,936 | 1,857,321 | 8,549,766 | 90,547 | 8,640,313 |
| Final dividend for the year ended December 31, 2005 Rs 6.00 per share | - | - | - | - | - | - | (419,277) | (419,277) | (11,061) | (430,338) |
| Transferred from profit and loss account | - | - | - | - | - | 596,000 | (596,000) | - | - | - |
| Fair value gain during the year | - | - | - | 178,250 | - | - | - | 178,250 | - | 178,250 |
| Transferred to profit and loss account on disposal of shares in The Resource Group (TRG) Pakistan Limited | - | - | - | 697 | - | - | - | 697 | - | 697 |
| Gain arising on foreign currency forward options entered into as part of cash flow hedge for the purchase of plant and machinery | - | - | - | - | 1,905 | - | - | 1,905 | - | 1,905 |
| Transferred to CWIP on expiry of foreign currency forward options | - | - | - | - | 74,187 | - | - | 74,187 | - | 74,187 |
| Profit for the year | - | - | | - | - | - | 5,482,834 | 5,482,834 | 45,196 | 5,528,030 |
| Exchange adjustments | - | - | (3,925) | - | - | - | - | (3,925) | (1,039) | (4,964) |
| **BALANCE AS ON DECEMBER 31, 2006** | 698,795 | 2,986,953 | (31,572) | 198,447 | - | 3,686,936 | 6,324,878 | 13,864,437 | 123,643 | 13,988,080 |
| Final dividend for the year ended December 31, 2006 Rs 6.00 per share | - | - | - | - | - | - | (419,277) | (419,277) | (41,479) | (460,756) |
| Transferred from profit and loss account | - | - | - | - | - | 5,646,600 | (5,646,600) | - | - | - |
| Issue of 3,493,975 ordinary shares of Rs. 10 each as fully paid bonus shares | 34,940 | - | - | - | - | - | (34,940) | - | - | - |
| Fair value gain during the year | - | - | - | 2,476,829 | - | - | - | 2,476,829 | - | 2,476,829 |
| Transferred to profit and loss account on disposal of shares in The Resource Group (TRG) Pakistan Limited and Nestle Pakistan Limited | | | | (1,885,525) | | | | (1,885,525) | - | (1,885,525) |
| Profit for the year | - | - | - | - | - | - | 4,606,178 | 4,606,178 | 47,380 | 4,653,558 |
| Exchange adjustments | - | - | (677) | - | - | - | - | (677) | (179) | (856) |
| **BALANCE AS ON DECEMBER 31, 2007** | 733,735 | 2,986,953 | (32,249) | 789,751 | - | 9,333,536 | 4,830,239 | 18,841,965 | 129,365 | 18,971,330 |

The annexed notes 1 to 49 form an integral part of these financial statements.

| | | |
|---|---|---|
| Asadullah Khawaja | Syed Hyder Ali | Mujeeb Rashid |
| Chairman | Chief Executive & Managing Director | Director |

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

1. Legal Status and nature of business

Packages Limited (the parent company) and its subsidiaries, DIC Pakistan Limited, Packages Lanka (Private) Limited and Packages Construction (Private) Limited (together, 'The Group') are engaged in the following businesses:

Packaging: Representing manufacture and sale of paper, paperboard, packaging materials and tissue products.

Inks: Representing manufacture and sale of finished and semi finished inks.

Construction: Representing all types of construction activities and development of real estate.

2. Basis of preparation

2.1 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.

2.2 Standards, interpretations and amendments to published approved accounting standards

The following amendments to existing standards have been published that are applicable to the Group's financial statements covering annual periods, beginning on or after the following dates:

2.21 Amendments to published standards effective in current year

IFRS 3 'Business Combinations' and certain amendments to IAS 1 'Presentation of Financial Statements' - Capital disclosure is mandatory for the Group's accounting period beginning on January 01, 2007. Adoption of IFRS 3 will result in change in the accounting policy for goodwill. As a result, goodwill would not be amortised, however, it will be tested annually for impairment. Adoption of amendments to IAS 1 will impact the nature and extent of disclosures presented in the financial statements of the Group.

2.22 Standards and amendments not yet effective

Certain amendments to IAS 23 'Borrowing Costs' have been published that are applicable to the Group's financial statements covering annual periods, beginning on or after January 01, 2009. Adoption of these amendments would require the Group to capitalise the borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing these borrowing costs will be removed. Its adoption will not have any impact on the Group's financial statements.

3. Basis of measurement

3.1 These financial statements have been prepared under the historical cost convention except for revaluation of certain financial instruments at fair value and recognition of certain employee retirement benefits at present value.

The Group's significant accounting policies are stated in note 4. Not all of these significant policies require the management to make difficult, subjective or complex judgments or estimates. The following is intended to provide an understanding of the policies the management considers critical because of their complexity, judgment of estimation involved in their application and their impact on these financial statements. Estimates and judgments are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances. These judgments involve assumptions or estimates in respect of future events and the actual results may differ from these estimates. The areas involving a higher degree of judgments or complexity or areas where assumptions and estimates are significant to the financial statements are as follows:

A) Employee retirement benefits

The Group uses the valuation performed by an independent actuary as the present value of its retirement benefit obligations. The valuation is based on assumptions as mentioned in note 4.10.

B) Provision for taxation

The Group takes into account the current income tax law and the decisions taken by appellate authorities. Instances where the Group's view differs from the view taken by the income tax department at the assessment stage and where the Group considers that its views on items of material nature is in accordance with law, the amounts are shown as contingent liabilities.

C) Useful life and residual values of property, plant and equipment

The Group reviews the useful lives of property, plant and equipment on regular basis. Any change in estimates in future years might affect the carrying amounts of the respective items of property, plant and equipment with a corresponding effect on the depreciation charge and impairment.

4. Significant accounting policies

The significant accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

4.1 Principles of consolidation

A) Subsidiaries

Subsidiaries are all entities over which the holding company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The consolidated financial statements include Packages Limited and all companies in which it directly or indirectly controls, beneficially owns or holds more than 50% of the voting securities or otherwise has power to elect and appoint more than 50% of its directors. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the profit and loss account. Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

B) Minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the group. Disposals to minority interests result in gains and losses for the Group that are recorded in the profit and loss account.

C) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The

Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

The Group's share of its associates' post-acquisition profits or losses is recognised in the profit and loss account, and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.
Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses arising in investments in associates are recognised in the profit and loss account.

4.2 Taxation

CURRENT
Provision of current tax is based on the taxable income for the year determined in accordance with the prevailing law for taxation of income. The charge for current tax is calculated using prevailing tax rates or tax rates expected to apply to the profit for the year if enacted. The charge for current tax also includes adjustments, where considered necessary, to provision for tax made in previous years arising from assessments framed during the year for such years.

DEFERRED

Deferred tax is accounted for using the balance sheet liability method in respect of all temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of the taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilised.

Deferred tax is calculated at the rates that are expected to apply to the period when the differences reverse based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited in the profit and loss account, except in the case of items credited or charged to equity in which case it is included in equity.

Provision is not made for taxation which would become payable if retained profits of subsidiaries were distributed to the parent company, as it is not the intention to distribute more than the dividends, the tax on which is included in the financial statements.

4.2 Property, plant and equipment

Property, plant and equipment except freehold land are stated at cost less accumulated depreciation and any identified impairment loss. Freehold land is stated at cost less any identified impairment loss. Cost in relation to certain plant and machinery signifies historical cost, gain and losses transferred from equity on qualifying cash flow hedges as referred in note 4.19 and borrowing costs as referred to in note 4.22.

Depreciation on all property, plant and equipment is charged to profit on the straight-line method so as to write off the depreciable amount of an asset over its estimated useful life at the following annual rates:

| | |
|---|---|
| Plant and machinery | 6.25% to 20% |
| Buildings | 2.5% to 10% |
| Other equipments | 10% to 33.33% |
| Furniture and fixtures | 10% to 33.33% |
| Vehicles | 20% |

The assets' residual values and useful lives are reviewed, at each financial year end, and adjusted if impact on depreciation is significant. The Group's estimate of the residual value of its property, plant and equipment as at December 31, 2007 has not required any adjustment as its impact is considered insignificant.

Depreciation on additions to property, plant and equipment is charged from the month in which an asset is acquired or capitalised while no depreciation is charged for the month in which the asset is disposed off.

The Group assesses at each balance sheet date whether there is any indication that property, plant and equipment may be impaired. If such indication exists, the carrying amounts of such assets are reviewed to assess whether they are recorded in excess of their recoverable amount. Where carrying values exceed the respective recoverable amount, assets are written down to their recoverable amounts and the resulting impairment loss is recognised in profit and loss account during the year. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Where an impairment loss is recognised, the depreciation charge is adjusted in the future periods to allocate the asset's revised carrying amount over its estimated useful life.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repair and maintenance costs are charged to profit and loss account during the period in which they are incurred.

The gain or loss on disposal or retirement of an asset represented by the difference between the sale proceeds and the carrying amount of the asset is recognised as an income or expense.

4.4 Intangible assets

Expenditure incurred to acquire computer software and SAP Enterprise Resource Planning System (ERP) are capitalised as intangible assets and stated at cost less accumulated amortisation and any identified impairment loss. Intangible assets are amortised using the straight line method over a period of three years.

Amortisation on additions to intangible assets is charged from the month in which an asset is acquired or capitalised while no amortisation is charged for the month in which the asset is disposed off.

The Group assesses at each balance sheet date whether there is any indication that intangible asset may be impaired. If such indication exists, the carrying amount of such assets are reviewed to assess whether they are recorded in excess of their recoverable amount. Where carrying values exceed the respective recoverable amount, assets are written down to their recoverable amounts and the resulting impairment loss is recognized in profit and loss account during the year. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Where an impairment loss is recognised, the amortisation charge is adjusted in the future periods to allocate the asset's revised carrying amount over its estimated useful life.

4.5 Capital work-in-progress

Capital work-in-progress is stated at cost less any identified impairment loss.

4.6 Investment property

Property not held for own use or for sale in the ordinary course of business is classified as investment property. The investment property of the Group comprises land and buildings and is valued using the cost method i.e. at cost less any accumulated depreciation and any identified impairment loss.

Depreciation on buildings is charged to profit on the straight line method so as to write off the depreciable amount of building over its estimated useful life at the rates ranging from 3.33% to 6.67% per annum. Depreciation on additions to investment property is charged from the month in which a property is acquired or capitalised while no depreciation is charged for the month in which the property is disposed off.

The assets' residual values and useful lives are reviewed, at each financial year end, and adjusted if impact on depreciation is significant. The Group's estimate of the residual value of its investment property as at December 31, 2007 has not required any adjustment as its impact is considered insignificant.

The Group assesses at each balance sheet date whether there is any indication that investment property may be impaired. If such indication exists, the carrying amounts of such assets are reviewed to assess whether they are recorded in excess of their recoverable amount. Where carrying values exceed the respective recoverable amount, assets are written down to their recoverable amounts and the resulting impairment loss is recognised in profit and loss account during the year. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Where an impairment loss is recognised, the depreciation charge is adjusted in the future periods to allocate the asset's revised carrying amount over its estimated useful life.

The gain or loss on disposal or retirement of an asset represented by the difference between the sale proceeds and the carrying amount of the asset is recognised as an income or expense.

4.7 Leases

(1) The Group is the lessee:

FINANCE LEASES

Leases where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Assets subject to finance lease are stated at the lower of present value of minimum lease payments under the lease agreements and the fair value of the assets.

The related rental obligations, net of finance charges, are included in liabilities against assets subject to finance lease as referred to in note 8. The liabilities are classified as current and long-term depending upon the timing of the payment.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the balance outstanding. The interest element of the rental is charged to profit over the lease term.

Assets acquired under a finance lease are depreciated over the useful life of the asset on a straight-line method at the rates given in note 4.3. Depreciation of leased assets is charged to profit and loss account.

Depreciation on additions to leased assets is charged from the month in which an asset is acquired while no depreciation is charged for the month in which the asset is disposed off.

Operating leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit on a straight-line basis over the lease term.

(2) The Group is the lessor:

Operating leases

Assets leased out under operating leases are included in investment property as referred to in note 16. These are depreciated over their expected useful lives on a basis consistent with similar owned property, plant and equipment. Rental income (net of any incentives given to lessees) is recognised on a straight-line basis over the lease term.

4.8 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary / associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'. Goodwill on acquisitions of associates is included in 'investments in associates' and is tested for impairment as part of the overall balance. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

### 4.9 Investments

Investments in equity instruments of associated companies

Associates are all entities over which the Group has significant influence but not control. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition. The Group's share of its associates' post-acquisition profits or losses is recognised in the profit and loss account, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Other investments

The other investments made by the Group are classified for the purpose of measurement into the following categories:

Held to maturity

Investments with fixed maturity that the management has the intent and ability to hold to maturity are classified as held to maturity and are initially measured at cost and at subsequent reporting dates measured at amortised cost using the effective yield method.

Available for sale

The financial assets including investments in associated undertakings where the Group does not have significant influence that are intended to be held for an indefinite period of time or may be sold in response to the need for liquidity are classified as available for sale.

Investments classified as available for sale are initially measured at cost, being the fair value of consideration given. At subsequent reporting dates, these investments are remeasured at fair value (quoted market price), unless fair value cannot be reliably measured. The investments for which a quoted market price is not available, are measured at cost as it is not possible to apply any other valuation methodology. Unrealised gains and losses arising from the changes in the fair value are included in fair value reserves in the period in which they arise.

All purchases and sales of investments are recognised on the trade date which is the date that the Group commits to purchase or sell the investment. Cost of purchase includes transaction cost.

At each balance sheet date, the Group reviews the carrying amounts of the investments to assess whether there is any indication that such investments have suffered an impairment loss. If any such indication exists, the recoverable amount is estimated in order to determine the extent of the impairment loss, if any. Impairment losses are recognized as expense. In respect of 'available for sale' financial assets, cumulative impairment loss less any impairment loss on that financial asset previously recognized in profit and loss account, is removed from equity and recognized in the profit and loss account. Impairment losses recognized in the profit and loss account on equity instruments are not reversed through the profit and loss account.

4.10 Employee retirement benefits

The main features of the schemes operated by the Group for its employees are as follows:

4.10.1 Defined benefit plans

(A) All the executive staff participates in an approved funded defined benefit pension plan. In addition, there is an approved funded defined benefit gratuity plan for all employees. Monthly contributions are made to these funds on the basis of actuarial recommendation at the rate of 20 percent per annum of basic salaries for pension and 4.50 percent per annum of basic salaries for gratuity. The latest actuarial valuation for the pension and gratuity schemes was carried out as at December 31, 2007. The actual returns on plan assets during the year were Rs. 162.474 million and Rs. 49.916 million for the pension and gratuity funds respectively. The actual returns on plan assets represent the difference between the fair value of plan assets at beginning of the year and end of the year after adjustments for contributions made by the Group as reduced by benefits paid during the year.

The future contribution rates of these plans include allowances for deficit and surplus. Projected unit credit method, using the following significant assumptions, is used for valuation of these schemes:

Discount rate 11 percent per annum.

Expected rate of increase in salary level 8.89 percent per annum.

Expected rate of return 11 percent per annum.
Plan assets include long-term Government bonds, equity instruments of listed companies and term deposits with banks. Return on Government bonds and debt is at fixed rates however, due to increased volatility of share prices in recent months, there is no clear indication of return on equity shares therefore it has been assumed that the yield on equity shares would match the return on debt.

The Group is expected to contribute Rs. 25 million to the pension fund and Rs. 8 million to the gratuity fund in the next financial year.

The Group's policy with regard to actuarial gains/losses is to follow minimum recommended approach under IAS 19 "Employee Benefits".

(B) Accumulating compensated absences

Provisions are made annually to cover the obligation for accumulating compensated absences and are charged to profit.

4.10.2 Defined contribution plan

There is an approved contributory provident fund for all employees. Equal monthly contributions are made by the Group and the employees to the fund.

Retirement benefits are payable to staff on completion of prescribed qualifying period of service under these schemes.

4.11 Stores and spares

Stores and spares are valued at moving average cost, while items considered obsolete are carried at nil value.

Items in transit are valued at cost comprising invoice value plus other charges paid thereon.

Provision is made in the financial statements for obsolete and slow moving stores and spares based on management estimate.

4.12 Stock-in-trade

Stock of raw materials, except for those in transit, work-in-process and finished goods are valued principally at the lower of weighted average cost and net realizable value. Cost of work-in-process and finished goods comprises cost of direct materials, labour and appropriate manufacturing overheads.

Materials in transit are stated at cost comprising invoice value plus other charges paid thereon.

Net realisable value signifies the estimated selling price in the ordinary course of business less costs necessarily to be incurred to make the sale. Provision is made in the financial statements for obsolete and slow moving stock in trade based on management estimate.

## 4.13 Financial instruments

Financial assets and financial liabilities are recognised at the time when the Group becomes a party to the contractual provisions of the instrument and derecognised when the Group loses control of contractual rights that comprise the financial assets and in the case of financial liabilities when the obligation specified in the contract is discharged, cancelled or expired. Any gain or loss on derecognition of financial assets and financial liabilities is included in the profit and loss account for the year.

Financial instruments carried on the balance sheet include loans, investments, trade and other debts, cash and bank balances, borrowings, liabilities against assets subject to finance leases, derivative financial instruments, trade and other payables, accrued expenses and unclaimed dividends. All financial assets and liabilities are initially measured at cost, which is the fair value of consideration given and received respectively. These financial assets and liabilities are subsequently measured at fair value or cost as the case may be. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

## 4.14 Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and the net amount is reported in the financial statements only when there is a legally enforceable right to set off the recognised amount and the Group intends either to settle on a net basis or to realise the assets and to settle the liabilities simultaneously.

## 4.15 Trade debts

Trade debts are carried at original invoice amount less an estimate made for doubtful debts based on a review of all outstanding amounts at the year end. Bad debts are written off when identified.

## 4.16 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 cash in hand, demand deposits, other short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value and finances under mark up arrangements. In the balance sheet, finances under mark up arrangements are included in current liabilities.

4.17 Borrowings

Borrowings are initially recorded at the proceeds received. In subsequent periods, borrowings are stated at amortised cost using the effective yield method. Finance costs are accounted for on an accrual basis and are included in trade and other payables to the extent of the amount remaining unpaid.

4.18 Trade and other payables

Liabilities for creditors and other amounts payable are carried at cost which is the fair value of the consideration to be paid in the future for the goods and / or services received, whether or not billed to the Group.

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and are reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

4.19 Derivative financial instruments

These are initially recorded at cost on the date a derivative contract is entered into and are remeasured to fair value at subsequent reporting dates. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as cash flow hedges.

The Group documents at the inception of the transaction the relationship between the hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flow of hedged items.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the profit and loss account.

Amounts accumulated in equity are recognised in profit and loss account in the periods when the hedged item will affect profit or loss. The gain or loss relating to the effective portion of cross currency swap hedging variable rate borrowings is recognized in the profit and loss account within 'finance costs'. The gain or loss relating to the ineffective portion is recognized in the profit and loss account within 'other operating income / expenses'.

4.20 Revenue recognition

Revenue is recognised on despatch of goods or on the performance of services except for management fee, which is recognised on receipt. It includes sales to associated companies but does not include sales by associated companies or sales between Group companies.

Return on deposits is accrued on a time proportion basis by reference to the principal outstanding and the applicable rate of return.

Dividend income and entitlement of bonus shares are recognised when right to receive such dividend and bonus shares is established.

4.21 Foreign currency transactions and translation

Foreign currency transactions are translated into Pak Rupees using the exchange rates prevailing at the dates of the transactions. All monetary assets and liabilities in foreign currencies are translated into Pak Rupees at the rates of exchange prevailing at the balance sheet date. Foreign exchange gains and losses on translation are recognized in the profit and loss account. All non-monetary items are translated into rupees at exchange rates prevailing on the date of transaction or on the date when fair values are determined.

The financial statements are presented in Pak Rupees, which is the Group's functional and presentation currency.

### 4.22 Borrowing costs

Mark up, interest and other charges on borrowings are capitalised up to the date of commissioning of the related property, plant and equipment, acquired out of the proceeds of such borrowings. All other mark up, interest and other charges are charged to profit and loss account during the year.

### 4.23 Dividend

Dividend distribution to the shareholders is recognised as a liability in the period in which the dividends are approved.

## 5. Issued, subscribed and paid up capital

| 2007 | 2006 | | 2007 | 2006 |
|---|---|---|---|---|
| (Number of shares) | | | (Rupees in thousand) | |
| 33,603,295 | 33,603,295 | Ordinary shares of Rs. 10 each fully paid in cash | 336,033 | 336,033 |
| 148,780 | 148,780 | Ordinary shares of Rs. 10 each issued as fully paid for consideration other than cash | 1,488 | 1,488 |
| 39,621,407 | 36,127,432 | Ordinary shares of Rs. 10 each issued as fully paid bonus shares | 396,214 | 361,274 |
| 73,373,482 | 69,879,507 | | 733,735 | 698,795 |

16,521,117 (2006: 15,559,336) ordinary shares of the holding company are held by IGI Insurance Limited (Formerly International General Insurance Company of Pakistan Limited), an associated undertaking.

## 6. RESERVES

Movement in and composition of reserves is as follows:

| | | 2007 | 2006 |
|---|---|---|---|
| | | (Rupees in thousand) | |
| **CAPITAL** | | | |
| Share premium | - note 6.1 | 2,986,953 | 2,986,953 |
| Exchange difference on translation of foreign subsidiary | | | |
| At the beginning of the year | | (31,572) | (27,647) |
| Exchange difference for the year | | (677) | (3,925) |
| | | (32,249) | (31,572) |
| Fair value reserve | | | |
| At the beginning of the year | | 198,447 | 19,500 |
| Fair value gain during the year | | 2,476,829 | 178,250 |
| Transfer to profit and loss account | | (1,885,525) | 697 |
| | - note 6.2 | 789,751 | 198,447 |
| Hedging reserve | | | |
| At the beginning of the year | | - | (76,092) |
| Gain during the year | | - | 1,905 |
| Transfer to capital work in progress | - note 6.3 | - | 74,187 |
| | | - | - |
| | | 3,744,455 | 3,153,828 |
| **REVENUE** | | | |
| General reserve | | | |
| At the beginning of the year | | 3,686,936 | 3,090,936 |
| Transfer from profit and loss account | | 5,646,600 | 596,000 |
| | | 9,333,536 | 3,686,936 |
| | | 13,077,991 | 6,840,764 |

6.1 This reserve can be utilised by the Group only for the purposes specified in section 83(2) of the Companies Ordinance, 1984.

6.2 As referred to in note 4.9 this represents the unrealised gain on remeasurement of investments at fair value and is not available for distribution. This will be transferred to profit and loss account on derecognition of investments.

6.3 This represents the effective portion of the loss arising on foreign currency forward options transferred to CWIP on expiry of foreign currency forward options.

7. Long-term finances - secured

**7. LONG-TERM FINANCES - SECURED**

| | | 2007 | 2006 |
|---|---|---|---|
| | | (Rupees in thousand) | |
| These are composed of: | | | |
| Local currency loans | - note 7.1 | 10,500,000 | 6,000,000 |
| Foreign currency loans | - note 7.2 | 1,861,845 | 32,257 |
| | | 12,361,845 | 6,032,257 |
| Less: Current portion shown under current liabilities | | | |
| Foreign currency loans | | 15,345 | 16,830 |
| | | 12,346,500 | 6,015,427 |

7.1 Local currency loans

7.1.1 Consortium Loan

This loan has been obtained from a consortium of commercial banks led by MCB Bank Limited. It is secured by a first ranking exclusive hypothecation / equitable mortgage charge over all present and future fixed assets of the Group amounting to Rs. 13,200 million in favour of MCB Bank Limited being security trusty on behalf of consortium. It carries mark up at six month Karachi Inter Bank Offered Rate (KIBOR) plus 1.35% per annum and is payable semi annually. The effective mark up charged during the year ranges from 11.31% to 11.94% per annum. Of the aggregate facility of Rs. 9,900 million, the amount availed as at December 31, 2007 is Rs. 9,900 million (2006: Rs. 6,000 million), repayable in 14 equal semi annual installments commencing June 06, 2009, December 06, 2009 and December 06, 2010 for Rs. 1,000 million, Rs. 5,700 million and Rs. 3,200 million respectively.

7.1.2 Others

This loan has been obtained from Citibank. It is secured by a first ranking exclusive hypothecation / equitable mortgage charge over all present and future fixed assets of the Group amounting to Rs. 800 million in favour of MCB Bank Limited being security trustee on behalf of City Bank. It carries mark up at six month KIBOR plus 0.90% per annum and is payable semi annually. The effective mark up charged during the year ranges from 10.86% to 11.49% per annum. Of the aggregate facility of Rs. 600 million, the amount availed as at December 31, 2007 is Rs. 600 million (2006: Nil), repayable in 7 semi annual installments divided into 6 semi annual installments of Rs. 75 million and last installment of Rs. 150 million commencing June 06, 2010.

7.1.3. Derivative cross currency swap

The Group has entered into a derivative cross currency swap of Rs. 1,000 million for its local currency loan to hedge the possible adverse movements in interest rates. Under the terms of the cross currency swap arrangement, the Group pays London Interbank Offered Rate (LIBOR) plus bank spread to the arranging bank on the local currency loan denominated in USD for the purposes of the cross currency swap, and receives KIBOR from the arranging bank. There has been no transfer of liability under this arrangement, only the nature of the interest payments has changed. As this hedging relationship is ineffective and does not meet the criteria of cash flow hedge, this arrangement does not qualify for special hedge accounting specified in IAS 39 'Financial instruments: Recognition and Measurement'.

### 7.2 FOREIGN CURRENCY LOANS

These are composed of:

| Lender | | Foreign currency balance 2007 | Foreign currency balance 2006 | Rupee equivalent 2007 | Rupee equivalent 2006 |
|---|---|---|---|---|---|
| | | (Foreign Currency in thousand) | | (Rupees in thousand) | |
| International Finance Corporation (USD) | -note 7.2.1 | 30,000 | - | 1,846,500 | - |
| MCB Bank Limited (SLR) | -note 7.2.2 | - | 56,991 | - | 32,257 |
| | | 30,000 | 56,991 | 1,846,500 | 32,257 |

7.2.1 The loan has been obtained from International Finance Corporation (IFC). It is secured by a first ranking exclusive hypothecation / equitable mortgage charge over all present and future fixed assets of the Group amounting to USD 40 million. It carries mark up at six month LIBOR plus 1.85% and is payable semi annually. The effective mark up charged during the year was 7.554% per annum. Of the aggregate facility of USD 30 million, the amount availed as at December 31, 2007 is USD 30 million (2006: Nil), repayable in 14 equal semi annual instalments commencing July 15, 2010.

7.2.2 The loan has been obtained by the foreign subsidiary of the Group. This carries mark up which ranges from 11% per annum to 17.5% per annum and is payable by the year 2008. It is secured by an equitable mortgage of land and building and a charge on machinery of the subsidiary.

## 8. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

| | 2007 | 2006 |
|---|---|---|
| | (Rupees in thousand) | |
| Present value of minimum lease payments | 107 | 2,143 |
| Less: Current portion shown under current liabilities | 107 | 2,036 |
| | - | 107 |

The present value of minimum lease payments have been discounted at implicit interest rate of 13.30% per annum to arrive at their present value. The lessee has the option to purchase the assets after expiry of the lease term.

Taxes, repairs, replacements and insurance costs are to be borne by the lessee.

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

| YEARS | Minimum lease payment | Future finance charge | Present value of lease liability 2007 | Present value of lease liability 2006 |
|---|---|---|---|---|
| | (Rupees in thousand) | | | |
| Not later than one year | 107 | - | 107 | 2,036 |
| Later than one year and not later than five years | - | - | - | 107 |
| | 107 | - | 107 | 2,143 |

## 9. DEFERRED LIABILITIES

| | | 2007 | 2006 |
|---|---|---|---|
| | | (Rupees in thousand) | |
| Deferred taxation | - note 9.1 | 1,079,700 | 667,450 |
| Accumulating compensated absences | - note 9.2 | 99,449 | 92,380 |
| Staff gratuity | - note 9.3 | 2,612 | 1,974 |
| | | 1,181,761 | 761,804 |

## 9.1 DEFERRED TAXATION

The liability for deferred taxation comprises timing differences relating to:

| | 2007 | 2006 |
|---|---|---|
| Accelerated tax depreciation | 2,272,350 | 659,837 |
| Unused tax losses | (1,302,102) | - |
| Minimum tax available for carry forward | (46,000) | - |
| Provision for accumulating compensated absences | (34,807) | (32,333) |
| Impairment loss in value of investments | (16,230) | (16,230) |
| Provision for doubtful debts | (547) | (3,298) |
| Provision for slow moving items | (2,437) | (352) |
| Provision for doubtful receivables | (527) | (624) |
| Investments in associated companies | 210,000 | 60,450 |
| | 1,079,700 | 667,450 |

## 9.2 ACCUMULATING COMPENSATED ABSENCES

| | 2007 | 2006 |
|---|---|---|
| | (Rupees in thousand) | |
| Opening balance | 92,380 | 81,391 |
| Provision for the year | 14,180 | 18,288 |
| | 106,560 | 99,679 |
| Less: Payments made during the year | 7,111 | 7,299 |
| Closing balance | 99,449 | 92,380 |

**9.3 STAFF GRATUITY FUND**

This represents staff gratuity of employees of Packages Lanka (Private) Limited and is unfunded.

| | | 2007 | 2006 |
|---|---|---|---|
| | | (Rupees in thousand) | |
| **10. CURRENT PORTION OF LONG-TERM LIABILITIES** | | | |
| Foreign currency loans - secured | - note 7 | 15,345 | 16,830 |
| Liabilities against assets subject to finance lease | - note 8 | 107 | 2,036 |
| | | 15,452 | 18,866 |
| **11. FINANCES UNDER MARK UP ARRANGEMENTS - SECURED** | | | |
| Running finances | - note 11.1 | 534,589 | 869,719 |
| Term finance | - note 11.2 | 183,078 | 615,733 |
| | | 717,667 | 1,485,452 |

11.1 Running finances

Short-term running finances available from a consortium of commercial banks under mark up arrangements amount to Rs. 6,288.600 million (2006: Rs. 3,511.410 million). The rates of mark up range from Re. 0.2600 to Re. 0.5340 per Rs. 1,000 per diem or part thereof on the balances outstanding. In the event, the Group fails to pay the balances on the expiry of the quarter, year or earlier demand, mark up is to be computed at the rates ranging from Re. 0.2820 to Re. 0.6027 per Rs.1000 per diem or part thereof on the balances unpaid. The aggregate running finances are secured by hypothecation of stores, spares, stock-in-trade and trade debts.

11.2 Term finance

Term finance available from a consortium of commercial banks under mark up arrangement amount to Rs. 176.000 million (2006: Rs. 650.750 million). The rates of mark up range from Re. 0.2720 to Re. 0.5210 per Rs. 1,000 per diem or part thereof. It is secured by hypothecation of stores, stock-in-trade and trade debts.Of the aggregate facility of Rs. 11,111.945 million (2006: Rs. 13,828.462 million) for opening letters of credit and Rs. 1,524.000 million (2006: Rs. 504.265 million) for guarantees, the amount utilised as at December 31, 2007 was Rs. 1,274.570 million (2006: Rs. 2,218.412 million) and Rs. 655.323 million (2006: Rs. 219.858 million) respectively. Of the facility for guarantees, Rs. 1,444.000

million (2006:Rs. 322.500 million) is secured by second hypothecation charge over stores, spares, stock-in-trade and trade debts.

12. Trade and other payables

**12. TRADE AND OTHER PAYABLES**

| | | 2007 | 2006 |
|---|---|---|---|
| | | (Rupees in thousand) | |
| Trade creditors | - note 12.1 | 268,862 | 145,984 |
| Accrued liabilities | - note 12.2 | 693,867 | 505,964 |
| Sales tax payable | | 36,411 | 5,701 |
| Excise duty payable | | 5,621 | - |
| Customers' balances | | 126,609 | 51,367 |
| Deposits - interest free repayable on demand | | 5,846 | 6,071 |
| Mark up accrued on: | | | |
| Long-term finances - secured | | 122,318 | 49,750 |
| Finances under mark up arrangements - secured | | 18,278 | 26,472 |
| Workers' profit participation fund | - note 12.3 | 58,470 | 91,567 |
| Workers' welfare fund | | 221,748 | 132,756 |
| Derivative cross currency swap | - note 12.4 | 11,111 | - |
| TFCs payable | | 1,405 | 1,415 |
| Unclaimed dividends | | 9,975 | 8,892 |
| Others | | 33,699 | 32,244 |
| | | 1,614,220 | 1,058,183 |

12.1 Trade creditors include amount due to related party Rs. 22.560 million (2006: Rs. 11.742 million).

12.2 Accrued liabilities include amount due to related party Rs. 5.737 million (2006: Rs. 5.412 million).

**12.3 WORKERS' PROFIT PARTICIPATION FUND**

| | | 2007 | 2006 |
|---|---|---|---|
| | | (Rupees in thousand) | |
| Opening balance | | 91,567 | 77,407 |
| Provision for the year | - note 31 | 58,428 | 91,567 |
| | | 149,995 | 168,974 |
| Less: Payments made during the year | | 91,525 | 77,407 |
| Closing balance | | 58,470 | 91,567 |

12.4 During the year 2006, the Group entered into a derivative cross currency swap arrangement to hedge for the possible adverse movements in interest rates arising on the interest payments due on its local currency loan as mentioned in note 7.1.3. The derivative cross currency swap outstanding as at December 31, 2007 has been marked to market and the resulting loss of Rs. 11.111 million has been recognized in profit and loss account as this hedging relationship does not meet the criteria of cash flow hedge and does not qualify for special hedge accounting specified in IAS 39 'Financial Instruments: Recognition and Measurement'.

13. Contingencies and commitments

| | 2007 | 2006 |
|---|---|---|
| | (Rupees in thousand) | |
| Not later than one year | 1,304 | 5,466 |
| Later than one year and not later than five years | 6,849 | 6,749 |
| Later than five years | 1,412 | 1,883 |
| | 9,565 | 14,098 |

13.1 Contingencies

(I) Claims against the Group not acknowledged as debts Rs. 12.766 million (2006: Rs. 11.247 million).

(II) Against a sales tax refund aggregating Rs. 12.827 million determined by the Sales Tax Officer (STO) on the basis of the orders of the Appellate Assistant Commissioner (AAC) for the assessment years 1977-78 through 1980-81 and recognised in the financial statements in 1985, the STO filed an appeal in 1986 with the Income Tax Appellate Tribunal (ITAT) against the Orders of the AAC for these years. The orders of the AAC were based on a decision already given by the ITAT on the parent company's appeal for application of a lower rate of sales tax on self consumed material for earlier years. Pending the outcome of the appeal filed by STO, no adjustment has been made for the refunds recognised in the financial statements as the management is of the view that the appeal of the STO will not be upheld by the ITAT.

(III) Post dated cheques not provided in these financial statements have been furnished by the parent company in favour of Collector of Customs against custom levies aggregated to Rs. 8.339 million (2006: Nil) in respect of goods imported.

13.2 Commitments in respect of

(I) Contracts for capital expenditure Rs. 1,124.424 million (2006: Rs. 2,854.205 million).

(II) Letters of credit other than for capital expenditure Rs. 749.242 million (2006: Rs. 353.653 million).

(III) Issue of privately placed commercial paper under Securities and Exchange Commission of Pakistan (SECP) Guidelines for issue of Commercial Papers dated October 28, 2002 and BPD Circular No. 28 dated August 23, 2003 issued by State Bank of Pakistan, amounting to Rs. 300 million (2006: Nil) by the parent company with IGI Investment Bank, a related party as an arranger and advisor.

(IV) The amount of future payments under operating leases and the period in which these payments will become due are as follows:

## 14. PROPERTY, PLANT AND EQUIPMENT

| | Cost as at December 31, 2006 | Transfer in | Exchange adjustment on opening cost | Additions/ (deletions) | Cost as at December 31, 2007 | Accumulated depreciation as at December 31, 2006 | Exchange adjustment on opening accumulated depreciation | Depreciation charge/ (deletions) for the year | Accumulated depreciation as at December 31, 2007 | Book value as at December 31, 2007 |
|---|---|---|---|---|---|---|---|---|---|---|
| | ( R | u p | e | e s | i n | t h | o | u s | a n | d ) |
| Freehold land | 298,737 | - | (119) | 20,087 | 318,705 | - | - | - | - | 318,705 |
| | | | | | | | | - | | |
| Buildings on freehold land | 289,312 | - | (201) | 1,138,566 | 1,427,677 | 89,526 | (83) | 32,170 | 121,613 | 1,306,064 |
| | | | | | | | | - | | |
| Buildings on leasehold land | 194,516 | - | - | - | 194,516 | 52,754 | - | 7,307 | 60,061 | 134,455 |
| | | | | - | | | | - | | |
| Plant and machinery | 7,024,813 | - | (1,173) | 6,640,899 | 13,658,635 | 4,569,492 | (616) | 485,558 | 5,048,530 | 8,610,105 |
| | | | | (5,904) | | | | (5,904) | | |
| Other equipments | 391,746 | - | (248) | 30,185 | 408,643 | 272,911 | (232) | 29,686 | 294,441 | 114,202 |
| | | | | (13,040) | | | | (7,924) | | |
| Furniture and fixtures | 28,736 | - | (14) | 2,640 | 31,052 | 19,431 | (12) | 3,126 | 22,342 | 8,710 |
| | | | | (311) | | | | (203) | | |
| Vehicles | 215,342 | 1,697 | (10) | 84,862 | 269,423 | 114,727 | (5) | 31,568 | 124,795 | 144,629 |
| | | | | (32,468) | | | | (21,495) | | |
| **2007** | 8,443,203 | 1,697 | (1,765) | 7,917,259 | 16,308,651 | 5,118,841 | (949) | 589,417 | 5,671,783 | 10,636,868 |
| | | | | (51,743) | | | | (35,526) | | |
| 2006 | 8,014,529 | 4,145 | (11,250) | 486,380 | 8,443,203 | 4,744,442 | (5,439) | 404,674 | 5,118,841 | 3,324,361 |
| | | | | (50,601) | | | | (25,036) | | |

## 14. Property, plant and equipment

1. Property, plant and equipment include mark up capitalised of Rs. 437.716 million (2006: Nil).

2. Property, plant and equipment include assets amounting to Rs. 12.041 million (2006: Rs. 12.071 million) of the Group which are not in operation.

3. The cost of fully depreciated assets which are still in use as at December 31, 2007 is Rs. 3,136.591 million (2006: Rs. 2,861.106 million).

### 14.1 Disposal of property, plant and equipment

Detail of property, plant and equipment disposed off during the year is as follows:

## 14.1 DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT

Detail of property, plant and equipment disposed off during the year is as follows:

| Particular of assets | Sold to | Cost | Accumulated depreciation | Book value | Sales proceeds | Mode of disposal |
|---|---|---|---|---|---|---|
| | | (Rupees in thousand) | | | | |
| **Vehicles** | **Employees** | | | | | |
| | Dr. Baber Ali | 849 | 495 | 354 | 645 | Company Policy |
| | Mr. Abdur Rahmen | 530 | 203 | 327 | 413 | Company Policy |
| | Adnan Saud Sharif | 399 | 286 | 113 | 202 | Company Policy |
| | Ahsan Feroze | 416 | 270 | 146 | 273 | Company Policy |
| | Ahsan Manzoor | 409 | 164 | 245 | 303 | Company Policy |
| | Mohammad Khalid | 560 | 495 | 65 | 335 | Negotiation |
| | Bilal A. Qureshi | 603 | 221 | 382 | 479 | Company Policy |
| | Chaudhry Jawad Saqlain | 609 | 69 | 540 | 522 | Company Policy |
| | Faisal Akram | 608 | 46 | 562 | 553 | Company Policy |
| | Fiaz Ahmed | 600 | 45 | 555 | 557 | Company Policy |
| | Humayun Kabir | 899 | 202 | 697 | 725 | Company Policy |
| | Imran Majeed | 380 | 95 | 285 | 277 | Company Policy |
| | Muhammad Iqbal Ansari | 841 | 533 | 308 | 624 | Company Policy |
| | Javaid Maqbool | 563 | 56 | 507 | 479 | Company Policy |
| | Khawaja Muhammad Arshad | 350 | 192 | 158 | 202 | Company Policy |
| | Khuram Rashid | 370 | 117 | 253 | 268 | Company Policy |
| | Khushi Muhammad | 371 | 124 | 247 | 312 | Negotiation |
| | Luqman Khalid | 750 | 512 | 238 | 546 | Company Policy |
| | Mohammad Shafique Shakir | 692 | 346 | 346 | 285 | Negotiation |
| | Muhammad Asad | 331 | 281 | 50 | 164 | Company Policy |
| | Muhammad Mansha | 464 | 104 | 360 | 404 | Company Policy |
| | Mustansar Bashir | 781 | 716 | 65 | 533 | Company Policy |
| | Shaukat Ali | 564 | 498 | 66 | 400 | Negotiation |
| | Sharif Hussain | 609 | 315 | 294 | 446 | Company Policy |
| | Umar Rafique | 534 | 151 | 383 | 420 | Company Policy |
| | Waseem Ahmed | 359 | 32 | 327 | 327 | Company Policy |
| | Ms. Samina Jamil | 504 | 160 | 344 | 394 | Company Policy |
| | Syed Ali Hassan | 327 | 239 | 88 | 197 | Company Policy |
| | Syed Muhammad Kazmi | 509 | 38 | 471 | 509 | Company Policy |
| | **Outsiders** | | | | | |
| | Mr. Sheikh Sohail Majeed | 711 | 249 | 462 | 1,050 | Negotiation |
| | Muhammad Amin | 356 | 190 | 166 | 272 | Negotiation |
| | M/s IGI Insurance Limited (Formely International General Insurance Company of Pakistan Limited) - Related Party | 1,222 | 570 | 652 | 975 | Insurance Claim |
| **Heavy Vehicles** | **Outsiders** | | | | | |
| | Syedanwala Agricultural Farm - Related Party | 660 | 253 | 407 | 418 | Negotiation |
| **Other equipment** | **Outsiders** | | | | | |
| | Syedanwala Agricultural Farm - Related Party | 7,973 | 3,012 | 4,961 | 5,094 | Negotiation |
| | IGI Insurance Limited (Formerly International General Insurance Company of Pakistan Limited) - Related Party | 106 | 3 | 103 | 80 | Insurance Claim |
| Other assets with book value less than Rs.50,000 | | 24,934 | 24,244 | 690 | 8,449 | |
| | | 51,743 | 35,526 | 16,217 | 28,132 | |

## 15. INTANGIBLE ASSETS

| | Cost as at December 31, 2006 | Additions/ (deletions) | Cost as at December 31, 2007 | Accumulated amortisation December 31, 2006 | Amortisation charge/ (deletions) for the year | Accumulated amortisation December 31, 2007 | Book value as at December 31, 2007 |
|---|---|---|---|---|---|---|---|
| | (Rupees in thousand) | | | | | | |
| Computer software and ERP System | 124,775 | - | 124,775 | 122,173 | 2,239 | 124,412 | 363 |
| **2007** | 124,775 | - | 124,775 | 122,173 | 2,239 | 124,412 | 363 |
| 2006 | 124,775 | - | 124,775 | 119,335 | 2,838 | 122,173 | 2,602 |

The cost of fully amortised assets which are still in use as at December 31, 2007 is Rs. 122.622 million (2006: Rs. 115.437 million).

**15.1** The depreciation / amortisation charge for the year has been allocated as follows:

| | | Depreciation | Amortisation | Total 2007 | Total 2006 |
|---|---|---|---|---|---|
| | | (Rupees in thousand) | | | |
| Cost of sales | - note 28 | 559,597 | 1,932 | 561,529 | 377,189 |
| Administrative expenses | - note 29 | 24,426 | 307 | 24,733 | 24,575 |
| Distribution and marketing costs | - note 30 | 5,394 | - | 5,394 | 5,948 |
| | | 589,417 | 2,239 | 591,656 | 407,712 |

## 16. INVESTMENT PROPERTY

| | Cost as at December 31, 2006 | Transfers from fixed assets | Additions | Cost as at December 31, 2007 | Accumulated depreciation as at December 31, 2006 | Transfers from fixed assets | Depreciation charge for the year | Accumulated depreciation as at December 31, 2007 | Book value as at December 31, 2007 |
|---|---|---|---|---|---|---|---|---|---|
| | (Rupees in thousand) | | | | | | | | |
| Buildings on leasehold land | 15,976 | - | - | 15,976 | 7,988 | - | 600 | 8,588 | 7,388 |
| **2007** | 15,976 | - | - | 15,976 | 7,988 | - | 600 | 8,588 | 7,388 |
| 2006 | 15,976 | - | - | 15,976 | 7,388 | - | 600 | 7,988 | 7,988 |

Depreciation charge for the year has been allocated to administrative expenses.

Fair value of the investment property, based on the valuation carried out by an independent value, as at December 31, 2007 is Rs. 18.936 million
(2006: Rs. 21.563 million).

## 17. ASSETS SUBJECT TO FINANCE LEASE

| | Cost as at December 31, 2006 | Exchange Adjustment | Additions/ (deletions) | Cost as at December 31, 2007 | Accumulated Depreciation as at December 31, 2006 | Exchange Adjustment | Depreciation charge/(deletion) for the year | Accumulated Depreciation as at December 31, 2007 | Book value as at December 31, 2007 |
|---|---|---|---|---|---|---|---|---|---|
| | (Rupees in thousand) | | | | | | | | |
| Plant and machinery | 3,169 | (17) | - | 3,152 | 1,242 | (8) | 632 | 1,866 | 1,286 |
| Vehicles | 4,073 | - | (4,073) | - | 2,172 | - | 204<br>(2,376) | - | - |
| **2007** | 7,242 | (17) | -<br>(4,073) | 3,152 | 3,414 | (8) | 836<br>(2,376) | 1,866 | 1,286 |
| 2006 | 17,192 | (106) | -<br>(9,844) | 7,242 | 5,936 | (30) | 3,207<br>(5,699) | 3,414 | 3,828 |

Deletion represents the asset transferred to property, plant and equipment on termination of lease during the year.

**17.1** The depreciation charge for the year has been allocated as follows:

| | | 2007 | 2006 |
|---|---|---|---|
| | | (Rupees in thousand) | |
| Cost of sales | - note 28 | 15 | 659 |
| Administrative expenses | - note 29 | 742 | 2,390 |
| Distribution and marketing costs | - note 30 | 79 | 158 |
| | | 836 | 3,207 |

| | | 2007 | 2006 |
|---|---|---|---|
| | | (Rupees in thousand) | |
| **18. CAPITAL WORK-IN-PROGRESS** | | | |
| Civil works | | 91,505 | 28,136 |
| Plant and machinery [including in transit Rs.155.767 million (2006: Nil)] | | 773,005 | 801,349 |
| Others | | 1,412 | 48 |
| Expansion project: | | | |
| Civil works | | 867,489 | 1,129,342 |
| Plant and machinery [including in transit Rs. 70.789 million (2006: Rs. 87.817 million)] | | 5,208,386 | 6,881,200 |
| Advances | - note 18.1 | 40,769 | 491,050 |
| Unallocated expenditure | - note 18.2 | 824,412 | 822,764 |
| | | 6,941,056 | 9,324,356 |
| | | 7,806,978 | 10,153,889 |
| **18.1 ADVANCES** | | | |
| Civil works | | 16,572 | 72,313 |
| Plant and machinery | - note 18.1.1 | 24,197 | 397,360 |
| Others | | - | 21,377 |
| | | 40,769 | 491,050 |

**18.1.1** It includes an amount of Rs.16.336 million (2006: Rs.10.901 million) given to Siemens Pakistan Engineering Company, a related party, for development of electrical infrastructure.

### 18.2 UNALLOCATED EXPENDITURE

| | 2007 | 2006 |
|---|---|---|
| Foreign consultancy services | 14,597 | 196,784 |
| Technical and other staff salaries | 65,290 | 128,620 |
| Finance costs | 703,012 | 365,626 |
| Others | 41,513 | 131,734 |
| | 824,412 | 822,764 |

## 19. GOODWILL

| | 2007 | 2006 |
|---|---|---|
| Opening balance | 26,504 | 37,106 |
| Less: Amortised during the year | - | 10,602 |
| Impairment charged during the year | 26,504 | - |
| | - | 26,504 |

| | | 2007 | 2006 |
|---|---|---|---|
| | | (Rupees in thousand) | |
| **20. INVESTMENTS** | | | |
| These represent the long-term investments in: | | | |
| Equity instruments of associated companies | - note 20.1 | 3,909,718 | 1,876,196 |
| Others | - note 20.3 | 6,573,377 | 3,858,316 |
| | | 10,483,095 | 5,734,512 |
| **20.1 IN EQUITY INSTRUMENTS OF ASSOCIATED COMPANIES** | | | |
| Cost | | 1,632,552 | 202,474 |
| Transferred during the year | | 2,141,233 | 1,430,078 |
| | | 3,773,785 | 1,632,552 |
| Post acquisition profit brought forward | | 243,644 | 1,027,059 |
| | | 4,017,429 | 2,659,611 |
| Profit for the year | | | |
| Before taxation | - | 1,422,974 | 1,776,692 |
| Provision for taxation | | (377,897) | (319,070) |
| | | 1,045,077 | 1,457,622 |
| | | 5,062,506 | 4,117,233 |
| Less: Dividends received during the year | | 577,745 | 772,989 |
| Disposed off during the year | | 575,043 | 1,468,048 |
| | | 1,152,788 | 2,241,037 |
| Balance as on December 31 | - note 20.2 | 3,909,718 | 1,876,196 |
| **20.2 IN EQUITY INSTRUMENTS OF ASSOCIATED COMPANIES** | | | |
| **QUOTED** | | | |
| **IGI INSURANCE LIMITED**<br>(Formerly International General Insurance Company of Pakistan Limited)<br>3,389,020 (2006: 2,118,138) fully paid ordinary shares of Rs. 10 each<br>Market Value - Rs. 1,403.224 million (2006: Rs. 845.137 million) | | 1,187,667 | 891,170 |
| **TRI-PACK FILMS LIMITED**<br>10,000,000 (2006: 10,000,000) fully paid ordinary shares of Rs. 10 each<br>Market Value - Rs. 2,033.000 million (2006: Rs. 538.500 million) | | 2,177,923 | 554,690 |
| **IGI INVESTMENT BANK LIMITED**<br>4,610,915 (2006: 4,610,915) fully paid ordinary shares of Rs. 10 each<br>Market value - Rs. 68.011 million (2006: Rs. 59.941 million) | | 47,899 | 55,516 |
| **UNQUOTED** | | | |
| **TETRA PAK PAKISTAN LIMITED**<br>30,800,000 (2006: 30,800,000) fully paid ordinary shares of Rs. 10 each | | 496,229 | 374,820 |
| | | 3,909,718 | 1,876,196 |

Investment in associated companies include goodwill Nil (2006: Rs. 21.241).

The Group's investment in IGI Insurance Limited ( Formerly International General Insurance Company of Pakistan Limited ) and IGI Investment Bank Limited is less than 20% but these are considered to be associates as per requirement of IAS 28 'Investments in Associates' because the Group has significant influence over the financial and operating policies of these companies.

The Group's share of the result of its associates, all of which are incorporated in Pakistan, and its share of the assets and liabilities in case of those associates whose financial information is available publicly, are as follows:

| Name | Percentage interest held | Assets | Liabilities | Revenues | Profit/(loss) |
|---|---|---|---|---|---|
| | | ( Rupees in thousand ) | | | |
| **DECEMBER 31, 2006** | | | | | |
| IGI Insurance Limited (Formerly International General Insurance Company of Pakistan Limited) | 10.61% | 1,103,171 | 179,070 | 47,010 | 779,025 |
| Tri-pack Films Limited | 33.33% | 937,336 | 576,684 | 1,275,087 | 55,955 |
| IGI Investment Bank Limited | 9.99% | 609,920 | 552,769 | 57,544 | 1,748 |
| | | 2,650,427 | 1,308,523 | 1,379,641 | 836,729 |
| **SEPTEMBER 30, 2007** | | | | | |
| IGI Insurance Limited (Formerly International General Insurance Company of Pakistan Limited) | 10.61% | 1,212,497 | 284,480 | 48,359 | 42,074 |
| Tri-pack Films Limited | 33.33% | 953,783 | 560,447 | 1,121,069 | 106,143 |
| IGI Investment Bank Limited | 4.99% | 353,181 | 303,509 | 23,548 | (79,548) |
| | | 2,519,461 | 1,148,436 | 1,192,976 | 68,670 |

**20.3 Others**

| | 2007 | 2006 |
|---|---|---|
| | (Rupees in thousand) | |
| **QUOTED** | | |
| **THE RESOURCE GROUP (TRG) PAKISTAN LIMITED** | | |
| Nil (2006: 4,606,000) fully paid ordinary shares of Rs. 10 each | - | 40,303 |
| **NESTLE PAKISTAN LIMITED** | | |
| 3,649,248 (2006: 3,649,248) fully paid ordinary shares of Rs. 10 each | 6,568,646 | 3,813,282 |
| **UNQUOTED** | | |
| **PAKISTAN TOURISM DEVELOPMENT CORPORATION LIMITED** | | |
| 2,500 (2006: 2,500) fully paid ordinary shares of Rs. 10 each | 25 | 25 |
| **ORIENT MATCH COMPANY LIMITED** | | |
| 1,900 (2006: 1,900) fully paid ordinary shares of Rs. 100 each | - | - |
| **COCA-COLA BEVERAGES PAKISTAN LIMITED** | | |
| 500,000 (2006: 500,000) fully paid ordinary shares of Rs. 10 each | 4,706 | 4,706 |
| | 6,573,377 | 3,858,316 |

Nestle Pakistan Limited, The Resource Group (TRG) Pakistan Limited and Coca-Cola Beverages Pakistan Limited are associated undertakings as per the Companies Ordinance, 1984, however, for the purpose of measurement, these have been classified as available for sale and measured at fair value as referred to in note 4.9.

## 21. LONG-TERM LOANS AND DEPOSITS

| | | 2007 | 2006 |
|---|---|---|---|
| | | (Rupees in thousand) | |
| Loans to employees - considered good | - note 21.1 | 2,287 | 2,247 |
| Loan to SNGPL | - note 21.2 | 147,600 | 164,000 |
| Sales tax recoverable | - note 21.3 | 72,039 | - |
| Security deposits | | 23,029 | 15,401 |
| | | 244,955 | 181,648 |
| Less: Receivable within one year | | | |
| Loans to employees - considered good | | 373 | 451 |
| | | 244,582 | 181,197 |

21.1 These represent interest free loans to employees for purchase of cycles and motor cycles and are repayable in monthly installments over a period of 47 to 159 months.

Loans to employees aggregating Rs. 0.553 million (2006: Rs. 0.570 million) are secured by joint registration of motor cycles in the name of employees and the Group. The remaining loans are unsecured.

21.2 This represents an unsecured loan given to Sui Northern Gas Pipelines Limited (SNGPL) by parent company for the development of the infrastructure for the supply of natural gas to the plants at Bulleh Shah Paper Mill (Expansion project). Mark up is charged at the rate of 1.5% per annum and is received annually. This amount is receivable in 10 annual installments commencing December 26, 2008.

21.3 This represents sales tax recoverable on capitalised assets in twelve equal installments after the commencement of commercial production of such assets.

## 22. RETIREMENT BENEFITS

| | 2007 | 2006 |
|---|---|---|
| | (Rupees in thousand) | |
| Pension fund | (1,481) | (10,646) |
| Gratuity fund | 89,743 | 80,451 |
| | 88,262 | 69,805 |

| | Pension fund | | Gratuity fund | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| | ( R u p e e s i n t h o u s a n d ) | | | |
| The amounts recognised in the balance sheet are as follows: | | | | |
| Fair value of plan assets | 644,296 | 483,965 | 296,469 | 257,356 |
| Present value of defined benefit obligation | (547,041) | (496,792) | (178,979) | (167,073) |
| Non vested past service cost to be recognised in later periods | 6,046 | 9,067 | - | - |
| Unrecognised actuarial (gains) | (104,782) | (6,886) | (27,747) | (9,832) |
| (Liability) / assets as at December 31 | (1,481) | (10,646) | 89,743 | 80,451 |
| Net (liability) / asset as at January 1 | (10,646) | (14,083) | 80,451 | 74,374 |
| Charge to profit and loss account | (13,568) | (16,755) | 1,686 | (1,115) |
| Contribution by the Group | 22,733 | 20,192 | 7,606 | 7,192 |
| (Liability) / assets as at December 31 | (1,481) | (10,646) | 89,743 | 80,451 |

| | Pension fund | | Gratuity fund | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| | (Rupees in thousand) | | | |
| The movement in the present value of defined benefit obligation is as follows: | | | | |
| Present value of defined benefit obligation as at January 1 | 496,792 | 474,774 | 167,073 | 150,527 |
| Service cost | 16,297 | 14,588 | 9,345 | 8,613 |
| Interest cost | 53,041 | 49,835 | 17,392 | 15,385 |
| Benefits paid | (29,991) | (26,575) | (18,409) | (16,028) |
| Past service cost | - | - | - | 4,469 |
| Experience loss / (gain) | 10,902 | (15,830) | 3,578 | 4,107 |
| Present value of defined benefit obligation as at December 31 | 547,041 | 496,792 | 178,979 | 167,073 |
| The movement in fair value of plan assets is as follows: | | | | |
| Fair value as at January 1 | 483,965 | 437,180 | 257,356 | 243,427 |
| Expected return on plan assets | 53,121 | 47,082 | 27,730 | 25,777 |
| Group contributions | 22,733 | 20,192 | 7,606 | 7,192 |
| Employee contributions | 5,115 | 4,543 | - | - |
| Benefits paid | (29,991) | (26,575) | (18,409) | (16,028) |
| Experience gain / (loss) | 109,353 | 1,543 | 22,186 | (3,012) |
| Fair value as at December 31 | 644,296 | 483,965 | 296,469 | 257,356 |
| Plan assets are comprised as follows: | | | | |
| Debt | 79,458 | 335,132 | 34,136 | 105,747 |
| Equity | 252,026 | 145,253 | 33,738 | 19,472 |
| Mixed funds | 292,865 | 28,315 | 205,474 | 226 |
| Cash | 19,947 | (24,735) | 23,121 | 131,911 |
| | 644,296 | 483,965 | 296,469 | 257,356 |

The present value of defined benefit obligation, the fair value of plan assets and the surplus or deficit of pension fund is as follows:

| | 2007 | 2006 | 2005 | 2004 | 2003 |
|---|---|---|---|---|---|
| | (Rupees in thousand) | | | | |
| Present value of defined benefit obligation | 547,041 | 496,792 | 474,774 | 435,580 | 386,314 |
| Fair value of plan assets | 644,296 | 483,965 | 437,180 | 366,448 | 347,977 |
| Surplus / (loss) | 97,255 | (12,827) | (37,594) | (69,132) | (38,337) |
| Experience adjustment on obligation | 2% | -3% | 2% | 5% | 1% |
| Experience adjustment on plan assets | 17% | 0% | 8% | -3% | 5% |

Fair value of plan assets include ordinary shares of the present company, whose fair value as at December 31, 2007 is Rs. 204 million (2006: Rs. 114.789 million)

The present value of defined benefit obligation, the fair value of plan assets and the surplus or deficit of gratuity fund is as follows:

| | 2007 | 2006 | 2005 | 2004 | 2003 |
|---|---|---|---|---|---|
| | (Rupees in thousand) | | | | |
| Present value of defined benefit obligation | 178,979 | 167,073 | 150,527 | 147,984 | 151,673 |
| Fair value of plan assets | 296,469 | 257,356 | 243,427 | 236,801 | 248,973 |
| Surplus | 117,490 | 90,283 | 92,900 | 88,817 | 97,300 |
| Experience adjustment on obligation | 2% | 2% | 3% | 5% | 6% |
| Experience adjustment on plan assets | 7% | -1% | 0% | -3% | 1% |

Fair value of plan assets include ordinary shares of the parent company, whose fair value as at December 31, 2007 is Rs. 32.000 million (2006: Rs. 18.173 million).

## 23. STORES AND SPARES

| | 2007 | 2006 |
|---|---|---|
| | (Rupees in thousand) | |
| Stores [including in transit Rs. 29.291 million (2006: Rs. 9.164 million)] | 303,635 | 189,883 |
| Spares [including in transit Rs. 32.619 million (2006: Rs. 12.994 million)] | 427,541 | 310,100 |
| | 731,176 | 499,983 |

Stores and spares include items which may result in fixed capital expenditure but are not distinguishable .

## 24. STOCK-IN-TRADE

| | 2007 | 2006 |
|---|---|---|
| | (Rupees in thousand) | |
| Raw materials [including in transit Rs. 614.801 million (2006: Rs. 259.524 million)] | 1,688,289 | 1,196,739 |
| Work-in-process | 169,391 | 140,258 |
| Finished goods | 659,010 | 548,194 |
| | 2,516,690 | 1,885,191 |
| Less: Provision for slow moving items | 6,962 | 9,422 |
| | 2,509,728 | 1,875,769 |

Finished goods of Rs. 171.406 million (2006: Rs. 140.095 million) are being carried at net realisable value and an amount of Rs. 16.859 million (2006: Rs. 12.649 million) has been charged to cost of sales, being the cost of inventory written down during the year.

## 25. TRADE DEBTS

| | | 2007 | 2006 |
|---|---|---|---|
| | | (Rupees in thousand) | |
| Considered good | | | |
| Related Parties - unsecured | - note 25.1 | 383,616 | 240,641 |
| Others | - note 25.2 | 1,068,464 | 738,728 |
| | | 1,452,080 | 979,369 |
| Considered doubtful | | | |
| Others | | 1,563 | 1,004 |
| | | 1,453,643 | 980,373 |
| Less: Provision for doubtful debts | | 6,424 | 4,099 |
| | | 1,447,219 | 976,274 |

| | | 2007 | 2006 |
|---|---|---|---|
| | | (Rupees in thousand) | |
| **25.1 RELATED PARTIES - UNSECURED** | | | |
| **ASSOCIATED UNDERTAKINGS** | | | |
| Treet Corporation | | 845 | 414 |
| Nestle Pakistan Limited | | 157,078 | 79,171 |
| Tetra Pak Pakistan Limited | | 97,730 | 61,581 |
| Tri-Pack Films Limited | | 4,968 | 7,233 |
| Coca-Cola Beverages Pakistan Limited | | 2,288 | 1,291 |
| **OTHER RELATED PARTIES** | | | |
| Unilever Pakistan Limited | | 94,834 | 66,715 |
| Mitchell's Fruit Farms Limited | | 17,212 | 9,432 |
| Ceylon Tea Services Limited | | 8,412 | 14,789 |
| Print Care Ceylon Limited | | - | 15 |
| Others | | 249 | - |
| | | 383,616 | 240,641 |

These are in the normal course of business and are interest free.

**25.2** Others include secured debts of Rs. 8.049 million (2006: Rs. 4.891 million).

## 26. LOANS, ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

| | | 2007 | 2006 |
|---|---|---|---|
| Loans to employees - considered good | | 470 | 451 |
| Current portion of loan receivable from SNGPL | | 16,400 | - |
| Advances - considered good | | | |
| To employees | - note 26.1 | 9,410 | 4,251 |
| To suppliers | | 44,974 | 34,593 |
| | | 54,384 | 38,844 |
| Due from related parties - unsecured | - note 26.2 | 37,561 | 118,341 |
| Advances - considered doubtful | | - | 277 |
| Trade deposits | | 147,111 | 67,953 |
| Security Deposits | | 39 | 39 |
| Prepayments | | 16,364 | 16,537 |
| Balances with statutory authorities | | | |
| Excise duty | | - | 35 |
| Customs duty | | 16,512 | 593 |
| | | 16,512 | 628 |
| Claims recoverable from Government | | | |
| Sales tax | | 5,310 | 4,596 |
| Income tax refundable | | 153,689 | 61,033 |
| Income tax recoverable | - note 26.3 | 37,989 | 36,013 |
| Octroi - considered doubtful | | 1,506 | 1,506 |
| | | 198,494 | 103,148 |
| Interest receivable on loans to SNGPL | | 2,588 | 2,500 |
| Derivative cross currency swap | | - | 4,245 |
| Defence levy recoverable | | 238 | 239 |
| Other receivables | | 57,396 | 9,332 |
| | | 547,557 | 362,534 |
| Less: Provision against doubtful advances | | 1,506 | 1,783 |
| | | 546,051 | 360,751 |

26.1 Included in advances to employees are amounts due from Chief Executive and Executives of Rs. Nil and Rs. 1.882 million respectively. (2006: Chief Executive Rs. 0.092 and Executives Rs. 0.585 million).

| | 2007 | 2006 |
|---|---|---|
| | (Rupees in thousand) | |
| **26.2 DUE FROM RELATED PARTIES - UNSECURED** | | |
| **ASSOCIATED UNDERTAKINGS** | | |
| Tetra Pak Pakistan Limited | 7,318 | 11,940 |
| Tri-Pack Films Limited | 64 | 157 |
| IGI Insurance Limited (Formerly International General Insurance Company of Pakistan Limited) | 942 | 94,297 |
| IGI Investment Bank | - | 142 |
| BOC Pakistan | 175 | - |
| **POST EMPLOYMENT BENEFIT PLANS** | | |
| Packages Limited Employees Provident Fund | - | 57 |
| **OTHER RELATED PARTIES** | | |
| Loads Limited | - | 104 |
| Siemens Pakistan Limited | 28,805 | 8,013 |
| IGI Finex Limited | - | 3,631 |
| Others | 257 | - |
| | 37,561 | 118,341 |

These relate to normal business of the Group and are interest free.

26.3 In 1987, the Income Tax Officer (ITO) reopened the parent company's assessments for the accounting years ended December 31, 1983 and 1984 disallowing primarily tax credit given to the parent company under section 107 of the Income Tax Ordinance, 1979. The tax credit amounting to Rs. 36.013 million on its capital expenditure for these years was refused on the grounds that such expenditure represented an extension of the parent company's undertaking which did not qualify for tax credit under this section in view of the parent company's location. The assessments for these years were revised by the ITO on these grounds and taxes reassessed were adjusted against certain sales tax refunds and the tax credits previously determined by the ITO and set off against the assessments framed for these years.

The parent company had filed an appeal against the revised orders of the ITO before the Commissioner of Income Tax (Appeals) [CIT(A)], Karachi. The Commissioner has in his order issued in 1988 held the assessments reframed by the ITO for the years 1983 and 1984 presently to be void and of no legal effect. The Income Tax Officer has filed an appeal against the Commissioner's order with the Income Tax Appellate Tribunal (ITAT). The ITAT has in its order issued in 1996 maintained the order of CIT (A). The assessing officer after the receipt of the appellate order passed by CIT (A), has issued notices under section 65 of the Income Tax Ordinance, 1979 and the parent company has filed a writ petition against the aforesaid notices with the High Court of Sindh, the outcome of which is still pending.

The amount recoverable Rs. 36.013 million represents the additional taxes paid as a result of the disallowance of the tax credits on reframing of the assessments.

| | | 2007 | 2006 |
|---|---|---|---|
| **27. CASH AND BANK BALANCES** | | (Rupees in thousand) | |
| At banks | | | |
| On deposit accounts [including USD 3,969.89 (2006: USD 2,197.33)] | | 3,381 | 134 |
| On saving accounts [including USD Nil (2006: USD 89,571)] | - note 27.1 | 18 | 5,458 |
| On current accounts [including USD 89.71 (2006: USD 20,168.23)] | - note 27.2 | 127,315 | 100,745 |
| | | 130,714 | 106,337 |
| In hand | | 13,220 | 7,211 |
| | | 143,934 | 113,548 |

27.1 The balances in saving accounts bear mark up which ranges from 0.25 % to 8.85 % per annum.

27.2 Included in these are total restricted funds of Rs. 1.349 million (2006: Rs. 1.359 million) held as payable to TFC holders as referred to in note 12.

## 28. COST OF SALES

| | | 2007 | 2006 |
|---|---|---|---|
| | | (Rupees in thousand) | |
| Opening work-in-process | | 140,257 | 132,210 |
| Materials consumed | | 5,699,045 | 4,669,844 |
| Salaries, wages and amenities | - note 28.1 | 583,810 | 517,146 |
| Fuel and power | | 1,106,961 | 973,705 |
| Production supplies | | 236,181 | 219,112 |
| Excise duty and sales tax | | 1,768 | 180 |
| Rent, rates and taxes | | 3,200 | 4,175 |
| Insurance | | 38,313 | 37,806 |
| Repairs and maintenance | | 277,487 | 271,529 |
| Packing expenses | | 50,817 | 78,339 |
| Depreciation on property, plant and equipment | | 559,597 | 374,658 |
| Amortisation on intangible assets | | 1,932 | 2,531 |
| Depreciation on assets subject to finance lease | | 15 | 659 |
| Technical fee and royalty | | 28,227 | 34,527 |
| Travelling and conveyance | | 4,348 | 2,785 |
| Provision for slow moving items | | (2,460) | 7,661 |
| Other expenses | | 124,699 | 87,459 |
| | | 8,854,197 | 7,414,326 |
| Less: Closing work-in-process | | 169,391 | 140,257 |
| Cost of goods produced | | 8,684,806 | 7,274,069 |
| Opening stock of finished goods | | 551,765 | 444,283 |
| | | 9,236,571 | 7,718,352 |
| Less: Closing stock of finished goods | | 662,771 | 551,765 |
| | | 8,573,800 | 7,166,587 |

Cost of goods produced includes Rs. 844.803 million (2006: Rs. 817.117 million) for stores and spares consumed, Rs. 2.488 million (2006: Rs. 2.336 million) and Rs. 1.425 million (2006: Rs. 0.188 million) for raw materials and stores and spares written off respectively.

## 28.1 SALARIES, WAGES AND AMENITIES

| | 2007 | 2006 |
|---|---|---|
| | (Rupees in thousand) | |
| Salaries, wages and amenities include following in respect of retirement benefits: | | |
| **PENSION** | | |
| Current service cost | 10,023 | 8,190 |
| Interest cost for the year | 34,596 | 27,975 |
| Expected return on plan assets | (34,645) | (26,430) |
| Contribution made by the employees | (3,146) | (2,550) |
| Recognition of past service cost | 1,858 | 1,696 |
| Recognition of (gain) / loss | (341) | 525 |
| | 8,345 | 9,406 |
| **GRATUITY** | | |
| Current service cost | 6,867 | 6,101 |
| Interest cost for the year | 14,229 | 10,897 |
| Expected return on plan assets | (21,826) | (18,257) |
| Recognition of past service cost | - | 3165 |
| Recognition of gain | (508) | (1,115) |
| | (1,238) | 791 |

In addition to above, salaries, wages and amenities include Rs. 13.614 million (2006: Rs. 12.170 million) and Rs. 8.011 million (2006: Rs. 12.905 million) in respect of provident fund contribution and accumulating compensated absences respectively.

In addition to above, salaries, wages and amenities include Rs. 13.614 million (2006: Rs. 12.170 million) and Rs. 8.011 million (2006: Rs. 12.905 million) in respect of provident fund contribution and accumulating compensated absences respectively.

| | | 2007 | 2006 |
|---|---|---|---|
| | | (Rupees in thousand) | |

## 29. ADMINISTRATIVE EXPENSES

| | | 2007 | 2006 |
|---|---|---|---|
| Salaries, wages and amenities | - note 29.1 | 159,375 | 170,494 |
| Travelling | | 34,749 | 35,154 |
| Rent, rates and taxes | - note 29.2 | 22,615 | 19,729 |
| Insurance | | 5,219 | 4,407 |
| Printing, stationery and periodicals | | 16,080 | 18,236 |
| Postage, telephone and telex | | 17,464 | 22,324 |
| Motor vehicles running | | 10,879 | 11,450 |
| Computer charges | | 10,370 | 9,621 |
| Professional services | - note 36 | 10,476 | 10,981 |
| Repairs and maintenance | | 14,165 | 15,173 |
| Depreciation on property, plant and equipment | | 24,426 | 24,268 |
| Amortisation on intangible assets | | 307 | 307 |
| Depreciation on investment property | | 600 | 600 |
| Depreciation on assets subject to finance lease | | 742 | 2,390 |
| Amortisation of goodwill | | - | 10,602 |
| Impairment of goodwill | | 26,504 | - |
| Provision for doubtful advances | | 574 | 1,277 |
| Security services | | 1,403 | 1,204 |
| Advances written off | | 9,823 | - |
| Bad debts written off | - note 29.3 | 210 | 59 |
| Other expenses | | 54,409 | 42,139 |
| | | 420,390 | 400,415 |

Administrative expenses include Rs. 27.827 million (2006: Rs. 24.215 million) for stores and spares consumed.

## 29.1 SALARIES, WAGES AND AMENITIES

Salaries, wages and amenities include following in respect of retirement benefits:

| | 2007 | 2006 |
|---|---|---|
| | (Rupees in thousand) | |
| **PENSION** | | |
| Current service cost | 4,653 | 5,026 |
| Interest cost for the year | 16,060 | 17,172 |
| Expected return on plan assets | (16,083) | (16,222) |
| Contribution made by the employees | (1,460) | (1,566) |
| Recognition of past service cost | 862 | 1,041 |
| Recognition of (gain) / loss | (158) | 323 |
| | 3,874 | 5,774 |
| **GRATUITY** | | |
| Current service cost | 1,838 | 1,973 |
| Interest cost for the year | 3,809 | 3,525 |
| Expected return on plan assets | (5,843) | (5,906) |
| Recognition of past service cost | - | 1,024 |
| Recognition of gain | (136) | (361) |
| | (332) | 255 |

In addition to above, salaries, wages and amenities include Rs. 3.583 million (2006: Rs. 4.006 million) and Rs. 4.168 million (2006: Rs. 4.603 million) in respect of provident fund contribution and accumulating compensated absences respectively.

29.2 Rent, rates and taxes include operating lease rentals amounting to Rs. 11.558 million (2006: Rs. 9.565 million).

29.3 Bad debts written off include Rs. Nil (2006: Rs. 0.039 million) against receivables and Rs. 0.210 million (2006: Nil) against advances.

| | | 2007 | 2006 |
|---|---|---|---|
| | | (Rupees in thousand) | |

## 30. DISTRIBUTION AND MARKETING COSTS

| | | 2007 | 2006 |
|---|---|---|---|
| Salaries, wages and amenities | - note 30.1 | 57,529 | 48,980 |
| Travelling | | 17,241 | 12,401 |
| Rent, rates and taxes | - note 30.2 | 3,067 | 2,686 |
| Freight and distribution | | 112,953 | 95,945 |
| Insurance | | 1,022 | 1,234 |
| Printing, stationery and periodicals | | 233 | 174 |
| Postage, telephone and telex | | 357 | 433 |
| Advertising | | 52,965 | 57,049 |
| Depreciation on property, plant and equipment | | 5,394 | 5,948 |
| Depreciation on assets subject to finance lease | | 79 | 158 |
| Repairs and maintenance | | 245 | 6,886 |
| Bad debts written off | | 1,683 | 1,571 |
| Other expenses | | 23,363 | 21,882 |
| | | 276,131 | 255,347 |

Distribution and marketing costs include Rs. 3.862 million (2006: Rs. 4.885 million) for stores and spares consumed.

## 30.1 SALARIES, WAGES AND AMENITIES

Salaries, wages and amenities include following in respect of retirement benefits:

| | 2007 | 2006 |
|---|---|---|
| | (Rupees in thousand) | |
| **PENSION** | | |
| Current service cost | 1,621 | 1,373 |
| Interest cost for the year | 5,597 | 4,687 |
| Expected return on plan assets | (5,605) | (4,430) |
| Contribution made by the employees | (509) | (427) |
| Recognition of past service cost | 301 | 284 |
| Recognition of (gain) / loss | (55) | 88 |
| | 1,350 | 1,575 |
| **GRATUITY** | | |
| Current service cost | 640 | 539 |
| Interest cost for the year | 1,326 | 964 |
| Expected return on plan assets | (2,034) | (1,614) |
| Recognition of past service cost | - | 280 |
| Recognition of gain | (47) | (99) |
| | (115) | 70 |

In addition to above, salaries, wages and amenities include Rs. 1.357 million (2006: Rs. 1.143 million) and Rs. 1.673 million (2006: Rs. 0.780 million) in respect of provident fund contribution and accumulating compensated absences respectively.

30.2 Rent, rates and taxes include operating lease rentals amounting to Rs. 2.826 million (2006: Rs. 2.516 million).

| | | 2007 | 2006 |
|---|---|---|---|
| | | (Rupees in thousand) | |
| **31. OTHER OPERATING EXPENSES** | | | |
| Workers' profit participation fund | | 58,428 | 91,567 |
| Workers' welfare fund | | 97,524 | 131,883 |
| Donations | - note 37 | 295 | 814 |
| | | 156,247 | 224,264 |
| **32. OTHER OPERATING INCOME** | | | |
| **INCOME FROM FINANCIAL ASSETS** | | | |
| Exchange gain | | 98 | 2,372 |
| Income on bank deposits | | 4,835 | 5,602 |
| Interest on loan to SNGPL | | 2,548 | 2,500 |
| | | 7,481 | 10,474 |
| **INCOME FROM NON-FINANCIAL ASSETS** | | | |
| Management and technical fee | | 15,147 | 14,321 |
| Insurance commission from related party | | 4,533 | 5,941 |
| Rental income from investment property including Rs. 25.019 million (2006: Rs. 21.890 million) from related party | | 25,298 | 22,131 |
| Profit on disposal of property, plant and equipment | | 11,915 | 8,421 |
| Scrap sales | | 5,261 | 2,124 |
| Provisions and unclaimed balances written back | | 22,008 | 9,686 |
| Agricultural income | | - | 54 |
| Profit on outside jobs including Rs. 0.837 million (2006: Rs. 0.609 million) from related party | | 1,056 | 1,573 |
| Gain on foreign currency forward option | | - | 14,867 |
| Gain on cross currency swap | | 18,701 | 4,245 |
| Capital gain from related party | | - | 72,972 |
| Mark up on delayed tax refunds | | - | 72,537 |
| Others | | 2,815 | 13,940 |
| | | 106,734 | 242,812 |
| | | 114,215 | 253,286 |
| **33. FINANCE COSTS** | | | |
| Interest and mark up including commitment charges on | | | |
| Long-term finances | | 243,615 | 9,732 |
| Finances under mark up arrangements -secured | | 121,199 | 87,276 |
| Finance lease | | 8 | 191 |
| Loan handling charges | | 9,765 | 8,103 |
| Exchange loss | | 30,243 | 3,358 |
| Bank charges | | 8,436 | 8,264 |
| | | 413,266 | 116,924 |
| **34. INVESTMENT INCOME** | | | |
| Gain on sale of long-term investments | | 3,760,981 | 3,566,371 |

This represents the net capital gain realised on sale of shares in Nestle Pakistan Limited, Tri-pack Films Limited and The Resource Group (TRG) Pakistan Limited.

| | 2007 | 2006 |
|---|---|---|
| | (Rupees in thousand) | |
| **35. TAXATION** | | |
| For the year | | |
| Current | 94,800 | 198,145 |
| Deferred | 425,250 | 154,950 |
| | 520,050 | 353,095 |
| Prior years | | |
| Current | (530) | (29,178) |
| Deferred | (13,000) | (2,000) |
| | (13,530) | (31,178) |
| | 506,520 | 321,917 |

In view of the available tax losses of the parent company, the current tax provision of the parent company represents the minimum tax on turnover for the year due under section 113 of the Income Tax Ordinance, 2001, which is available for set off against normal tax liability that may arise in five succeeding years.

For the purposes of current taxation of parent company, the tax losses available for carry forward as at December 31, 2007 are estimated approximately at Rs. 3,720 million (2006: Nil).

| | 2007 | 2006 |
|---|---|---|
| | (Rupees in thousand) | |
| **36. PROFESSIONAL SERVICES** | | |
| The charges for professional services include the following in respect of auditors' services for: | | |
| Statutory audit | 1,320 | 994 |
| Half yearly review | 325 | 275 |
| Tax services | 3,033 | 5,109 |
| Workers' profit participation fund audit, management staff pension and gratuity fund audit, special reports and certificates for lending agencies and sundry services | 380 | 295 |
| Out of pocket expenses | 340 | 221 |
| | 5,398 | 6,894 |

37. Donations

None of the directors and their spouses had any interest in any of the donees during the year.

## 38. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

**38.1** The aggregate amount charged in the financial statements for the year for remuneration, including certain benefits, to the Chief Executive, full time working Directors including alternate directors and Executives of the Group is as follows:

| | Chief Executive | | Directors and alternate Directors | | Executives | |
|---|---|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| **NUMBER OF PERSONS** | 1 | 1 | 4 | 4 | 37 | 35 |
| | (Rupees in thousand) | | | | | |
| **SHORT-TERM EMPLOYEE BENEFITS** | | | | | | |
| Managerial remuneration | 3,590 | 3,286 | 8,983 | 7,887 | 71,468 | 58,090 |
| Housing | 2,160 | 2,027 | 4,375 | 3,381 | 19,407 | 16,550 |
| Utilities | 781 | 544 | 896 | 787 | 4,477 | 6,060 |
| Bonus | 1,045 | 410 | 2,446 | 912 | 7,941 | 3,210 |
| Leave passage | 299 | 273 | 698 | 607 | 1,782 | 1,707 |
| Medical expenses | 467 | 461 | 234 | 175 | 3,869 | 4,240 |
| Club expenses | 54 | 51 | 204 | 180 | 214 | 351 |
| Overseas travels | - | - | - | - | 482 | 343 |
| Others | - | - | - | - | 1,447 | 155 |
| | 8,396 | 7,052 | 17,836 | 13,929 | 111,087 | 90,706 |
| **POST EMPLOYMENT BENEFITS** | | | | | | |
| Contribution to provident, gratuity and pension funds | 1,237 | 1,132 | 2,427 | 2,088 | 6,609 | 5,924 |
| **OTHER LONG-TERM BENEFITS** | | | | | | |
| Accumulating compensated absences | 2,083 | 1,910 | 5,623 | 4,421 | 13,490 | 11,950 |
| | 11,716 | 10,094 | 25,886 | 20,438 | 131,186 | 108,580 |

The Group also provides the Chief Executive and some of the Directors and Executives with free transport and residential telephones.

38.2 Remuneration to other directors

Aggregate amount charged in the financial statements for the year for fee to 4 directors (2006: 4 directors) was Rs. 90,000 (2006: Rs. 110,000).

39. Transactions with related parties

The related parties comprise associated undertakings, other related group companies, directors of the parent company, key management personnel and post employment benefit plans. The Group in the normal course of business carries out transactions with various related parties. Amounts due from and to related parties are shown under receivables and payables, amounts due from directors and key management personnel are shown under receivables and remuneration of directors and key management personnel is disclosed in note 38. Other significant transactions with related parties are as follows:

| RELATIONSHIP WITH THE GROUP | NATURE OF TRANSACTIONS | 2007 | 2006 |
|---|---|---|---|
| | | (Rupees in thousand) | |
| I. ASSOCIATED UNDERTAKINGS | Purchase of goods and services | 265,895 | 233,518 |
| | Sale of goods and services | 2,270,678 | 1,753,664 |
| | Sale of property, plant and equipment | 6,566 | - |
| | Purchase of property, plant and equipment | 680 | - |
| | Insurance claims | 1,055 | 940 |
| | Capital gain | 5,737 | 72,972 |
| | Dividend income | 595,991 | 772,989 |
| | Rental income | 25,019 | 21,890 |
| II. OTHER RELATED PARTIES | Purchase of goods and services | 56,926 | 144,492 |
| | Sale of goods and services | 1,019,073 | 1,141,248 |
| | Purchase of equity shares | 7,920,129 | 5,039,156 |
| | Sale of equity shares | 7,978,654 | 5,044,663 |
| | Rental payments | 2,393 | 5,502 |
| | Commission paid | 8,370 | 455 |
| | Royalty and technical fee | 22,611 | 20,417 |
| III. POST EMPLOYMENT BENEFIT PLANS | Expense charged in respect of retirement benefit plans | 48,809 | 47,258 |

All transactions with related parties have been carried out on commercial terms and conditions.

## 40. CAPACITY AND PRODUCTION

| | Capacity | | Actual production | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| Paper and paperboard produced - tonnes | 143,283 | 111,300 | 114,993 | 100,999 |
| Paper and paperboard converted - tonnes | 119,633 | 97,000 | 92,499 | 86,447 |
| Plastics all sorts converted - tonnes | 12,000 | 11,000 | 10,300 | 8,418 |
| Inks produced - tonnes | 4,500 | 3,765 | 3,915 | 3,477 |
| Flexible packaging material - meters '000' | 54,000 | 54,000 | 40,868 | 32,735 |

The variance of actual production from capacity is on account of the product mix.

## 41. RATES OF EXCHANGE

Liabilities in foreign currencies have been translated into Pak Rupees at USD 1.6247 (2006: USD 1.6399), EURO 1.1017 (2006: EURO 1.2424) , SFR 1.8245 (2006: SFR 1.9976), SEK 10.3734 (2006: SEK 11.2360), GBP 0.8131 (2006: GBP 0.8376), SGD 2.3425 (2006: SGD 2.5145), YEN 181.9174 (2006: YEN 195.2362) and SLR 177.730 (2006: SLR 176.68) equal to Rs. 100.

| | 2007 | 2006 |
|---|---|---|
| | (Rupees in thousand) | |

## 42. CASH GENERATED FROM OPERATIONS

| | 2007 | 2006 |
|---|---|---|
| Profit before tax | 5,537,975 | 6,169,017 |
| Adjustments for: | | |
| Depreciation on property, plant and equipment | 589,417 | 403,649 |
| Amortisation on intangible assets | 2,239 | 2,838 |
| Depreciation on investment property | 600 | 600 |
| Depreciation on assets subject to finance lease | 836 | 3,207 |
| Amortisation of goodwill | - | 10,602 |
| Impairment of goodwill | 26,504 | - |
| Provision for accumulating compensated absences and staff gratuity | 14,819 | 18,855 |
| Retirement benefits accrued | 11,882 | 17,870 |
| Exchange adjustments | (847) | (4,888) |
| Gain on sale of long-term investments | (3,760,981) | (3,566,371) |
| Net profit on disposal of property, plant and equipment | (11,915) | (8,421) |
| Gain on foreign currency forward option | - | (14,867) |
| Finance cost | 413,266 | 116,924 |
| Dividend income from other investments | (18,246) | - |
| Income from associated companies | (1,422,974) | (1,776,692) |
| Profit before working capital changes | 1,382,575 | 1,372,323 |
| Effect on cash flow due to working capital changes | | |
| Increase in stores and spares | (231,193) | (76,117) |
| Increase in stock-in-trade | (633,959) | (460,247) |
| Increase in trade debts | (470,945) | (59,698) |
| Increase in loans, advances, deposits, prepayments and other receivables | (90,668) | (95,921) |
| Increase in trade and other payables | 457,699 | 342,746 |
| | (969,066) | (349,237) |
| | 413,509 | 1,023,086 |

## 43. CASH AND CASH EQUIVALENTS

| | 2007 | 2006 |
|---|---|---|
| Cash and bank balances | 143,934 | 113,548 |
| Finances under mark up arrangements - secured | (717,667) | (1,485,452) |
| | (573,733) | (1,371,904) |

## 44. COMBINED EARNINGS PER SHARE

### 44.1 COMBINED BASIC EARNINGS PER SHARE

| | | 2007 | 2006 |
|---|---|---|---|
| Net profit for the year attributable to equity holders | Rupees in thousand | 4,606,178 | 5,482,834 |
| Weighted average number of ordinary shares | Numbers | 73,373,482 | 73,373,482 |
| Combined basic earnings per share | Rupees | 62.78 | 74.73 |

### 44.2 COMBINED DILUTED EARNINGS PER SHARE

A diluted earnings per share has not been presented as the Group does not have any convertible instruments in issue as at December 31, 2007 and December 31, 2006 which would have any effect on the earnings per share if the option to convert is exercised.

## 45. FINANCIAL ASSETS AND LIABILITIES

| | Interest/mark up bearing | | | | Non interest bearing | | | | Total | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Maturity upto one year | Maturity after one year but within five years | Maturity after five years | Sub total | Maturity upto one year | Maturity after one year but within five years | Maturity after five years | Sub total | 2007 | 2006 | 2007 | 2006 |
| | ( R u p e e s | | | | i n t h o | | | | u s a n d ) | | | |
| **FINANCIAL ASSETS** | | | | | | | | | | | | |
| **ON BALANCE SHEET** | | | | | | | | | | | | |
| Investments | - | - | - | - | - | 6,568,646 | - | 6,568,646 | 6,568,646 | [illegible] | 6,568,646 | 3,853,610 |
| Loans to employees | - | - | - | - | 373 | 1,914 | - | 2,287 | 2,287 | 2,247 | 2,287 | 2,247 |
| Long term security deposits | - | - | 147,600 | 147,600 | - | 23,029 | - | 23,029 | 170,629 | 179,401 | 170,629 | 179,401 |
| Trade debts | - | - | - | - | 1,447,219 | - | - | 1,447,219 | 1,447,219 | 976,274 | 1,447,219 | 976,274 |
| Loans, advances, deposits, prepayments and other receivables | | | | | | | | | | | | |
| Trade deposits | - | - | - | - | 147,111 | - | - | 147,111 | 147,111 | 67,953 | 147,111 | 67,953 |
| Security deposits | - | - | - | - | 39 | - | - | 39 | 39 | 39 | 39 | 39 |
| Interest receivable on loan to SNGPL | - | - | - | - | 2,588 | - | - | 2,588 | 2,588 | - | 2,588 | - |
| Others | - | - | - | - | 94,957 | - | - | 94,957 | 94,957 | 47,748 | 94,957 | 47,748 |
| Cash and bank balances | 3,399 | - | - | 3,399 | 140,535 | - | - | 140,535 | 143,934 | [illegible] | 130,714 | 106,337 |
| | 3,399 | - | 147,600 | 150,999 | 1,832,822 | 6,593,589 | - | 8,426,411 | 8,577,410 | [illegible] | 8,564,198 | 5,233,594 |
| **OFF BALANCE SHEET** | - | - | - | - | - | - | - | - | - | - | - | - |
| Total | 3,399 | - | 147,600 | 150,999 | 1,832,822 | 6,593,589 | - | 8,426,411 | 8,577,410 | [illegible] | 8,564,198 | 5,233,594 |
| **FINANCIAL LIABILITIES** | | | | | | | | | | | | |
| **ON BALANCE SHEET** | | | | | | | | | | | | |
| Long term finances - secured | 15,345 | 4,080,750 | 8,285,858 | 12,381,953 | - | - | - | - | 12,381,953 | [illegible] | | |
| Liabilities against assets subject to finance lease | - | 107 | - | 107 | - | - | - | - | 107 | 2,041 | | |
| Finances under mark up arrangements - secured | 717,667 | - | - | 717,667 | - | - | - | - | 717,667 | [illegible] | | |
| Trade and other payables | - | - | - | - | 1,118,634 | - | - | 1,118,634 | 1,118,634 | 748,045 | | |
| | 733,012 | 4,080,857 | 8,285,858 | 13,099,727 | 1,118,634 | - | - | 1,118,634 | 14,198,361 | [illegible] | | |
| **Off balance sheet** | | | | | | | | | | | | |
| Contracts for capital expenditure | - | - | - | - | 1,124,424 | - | - | 1,124,424 | 1,124,424 | [illegible] | | |
| Letters of credit other than for capital expenditure | - | - | - | - | 748,687 | - | - | 748,687 | 748,687 | 353,653 | | |
| Future payments under operating leases | - | - | - | - | 1,304 | 6,749 | 1,883 | 9,936 | 9,936 | 14,098 | | |
| | - | - | - | - | 1,874,415 | 6,749 | 1,883 | 1,883,047 | 1,883,047 | [illegible] | | |
| Total | 733,012 | 4,080,857 | 8,285,858 | 13,099,727 | 2,993,049 | 6,749 | 1,883 | 3,001,681 | 16,081,408 | [illegible] | | |
| **ON BALANCE SHEET GAP** | (729,613) | (4,080,857) | (8,138,258) | (12,928,728) | 714,188 | 6,593,589 | - | 7,307,777 | (5,620,951) | [illegible] | | |
| **OFF BALANCE SHEET GAP** | - | - | - | - | (1,874,415) | (6,749) | (1,883) | (1,883,047) | (1,883,047) | [illegible] | | |

The effective intrest / mark up rates for the monetary financial assets and liabilites are mentioned in respective notes to the financial statments.

### 45.1 Financial risk management objectives

The Group's activities expose it to a variety of financial risks, including the effects of changes in foreign exchange rates, market interest rates such as Karachi Inter-bank Offered Rate and Treasury bills rate, credit and liquidity risk associated with various financial assets and liabilities respectively as referred to in note 45 and cash flow risk associated with accrued interests in respect of borrowings as referred to in note 7.

The Group finances its operations through equity, borrowings and management of working capital with a view to maintaining a reasonable mix between the various sources of finance to minimize risk.

Taken as a whole, risk arising from the Group's financial instruments is limited as there is no significant exposure to market risk in respect of such instruments.

(A) Concentration of credit risk

Credit risk represents the accounting loss that would be recognised at the reporting date if counter parties failed completely to perform as contracted. The Group's credit risk is primarily attributable to its trade debts and its balances at banks. The credit risk on liquid funds is limited because the counter parties are banks with reasonably high credit ratings. The Group has no significant concentration of credit risk as exposure is spread over a large number of counter parties in the case of trade debts. Out of the total financial assets of Rs. 8,577.410 million (2006: Rs. 5,240.795 million) financial assets which are subject to credit risk amount to Rs. 8,564.190 million (2006: Rs. 5, 233.584 million). To manage exposure to credit risk, the Group applies credit limits to its customers and also obtains collaterals, where considered necessary.

(B) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Currency risk arises mainly where receivables and payables exist due to transactions with foreign buyers and suppliers. Payables exposed to foreign currency risks are covered partially through forward foreign exchange contracts and foreign currency forward options.

(C) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Group borrows at fixed and market based rates and as such the risk is minimized. Significant interest rate risk exposures are primarily managed by a mix of borrowings at fixed and variable interest rates and contracting floor and cap of interest rates as referred to in note 7. Furthermore, the Group has entered into a cross currency swap arrangement for its syndicate term loan to hedge the possible adverse movements in interest rates as referred to in note 7.1.3.

(D) Liquidity risk

Liquidity risk reflects an enterprise's inability in raising funds to meet commitments. The Group follows an effective cash management and planning policy to ensure availability of funds and to take appropriate measures for new requirements.

45.1.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders through repurchase of shares, issue new shares or sell assets to reduce debt. Consistent with others in the industry and the requirements of the lenders the Group monitors the capital structure on the basis of gearing ratio. This ratio is calculated as borrowings divided by total capital employed. Borrowings represent long-term loan obtained by the Group as referred to in note 7. Total capital employed includes equity as shown in the balance sheet plus borrowings. The Group's strategy, which was unchanged from last year, was to maintain a gearing ratio of 60% debt and 40% equity. The gearing ratio as at year ended December 31, 2007 and December 31, 2006 are as follows:

| | | December 31, 2007 | December 31, 2006 |
|---|---|---|---|
| Borrowings | Rupees | 12,361,845 | 6,032,257 |
| Total equity | Rupees | 18,771,330 | 13,988,080 |
| Gearing ratio | Percentage | 40 | 30 |

45.2 Fair value of financial assets and liabilities

The carrying values of all financial assets and liabilities reflected in the financial statements approximate their fair values except for investments in associates which are stated at equity. Fair value is determined on the basis of objective evidence at each reporting date.

46. DETAIL OF SUBSIDIARIES

| Name of the subsidiaries | Accounting year end | Percentage of holding | Country of incorporation |
|---|---|---|---|
| Packages Lanka (Private) Limited | December 31, 2007 | 79.07% | Sri Lanka |
| DIC Pakistan Limited | December 31, 2007 | 54.98% | Pakistan |
| Packages Construction (Private) Limited | December 31, 2007 | 99.99% | Pakistan |

47. Date of authorization for issue

These financial statements were authorised for issue on February 14, 2008 by the Board of Directors.

48. Events after the balance sheet date

The Board of Directors of parent company have proposed a final dividend for the year ended December 31, 2007 of Nil (2006: Rs. 6.00) per share, amounting to Nil (2006: Rs. 419.277 million) and a bonus share issue of 15% (2006: 5%) i.e. fifteen bonus shares for every one hundred shares held on the existing issued, subscribed and paid up capital of the company at their meeting held on February 14, 2008 for approval of the members at the Annual General Meeting to be held on March 18, 2008. The Board has also recommended to transfer Rs. 4,216.373 million (2006: Rs. 5,646.600 million) to general reserve from unappropriated profit.

49. Corresponding figures

Corresponding figures have been re-arranged, wherever necessary, for the purpose of comparison. Significant reclassifications for better representation include the reclassification of expenses relating to contractual hired labour amounting to Rs. 5.797 million from "Other expenses" to Salaries , wages and amenities included in "Cost for Sales".

| | | |
|---|---|---|
| Asadullah Khawaja<br>Chairman | Syed Hyder Ali<br>Chief Executive & Managing Director | Mujeeb Rashid<br>Director |