

PAKISTAN PAPERSACK CORPORATION LIMITED
SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED DECEMBER 31, 2005
(UN-AUDITED)

1. THE GROUP AND ITS OPERATIONS

The Group consists of

Holding company

Pakistan Papersack Corporation Limited and

Subsidiary company

Noble Computers Services (Private) Limited.

Pakistan Papersack Corporation Limited (the holding company) was incorporated in Pakistan in 1973. Its shares are quoted on the Stock Exchanges of Karachi and Lahore.

Noble Computer Services (Private) Limited (the subsidiary) was incorporated in Pakistan as a private limited company and is a subsidiary of Pakistan Papersack Corporation Limited, which holds 99.85% shares in its equity.

The holding company's two divisions (Stepped-end and Balochistan Laminates) are engaged in manufacturing of papersacks and formite sheets and laminates respectively.

The subsidiary is engaged in providing share registrar and related accounting services, share floatation services, data entry services and internal audit services to group companies.

2. BASIS OF PREPARATION

These un-audited financial statements have been prepared in accordance with the requirements of the International Accounting Standard (IAS) 34 - "Interim Financial Reporting" as applicable in Pakistan and are being submitted to the shareholders as required under section 245 of the Companies Ordinance 1984.

3. ACCOUNTING POLICIES

The accounting policies and methods of computation followed for the preparation of these financial statements are the same as those applied in the preparation of the financial statements for the preceding year ended June 30, 2005.

4. PROPERTY, PLANT & EQUIPMENT

The following additions and deletions were made in property, plant and equipment during the period:

| | Half-Year Ended December 31, 2005 | | Half-Year Ended December 31, 2004 | |
|-----------------------------|--|---------------------------|--|---------------------------|
| | Additions (cost) | Deletions (book value) | Additions (cost) | Deletions (book value) |
| ----- Rs.000's ----- | | | | |
| Owned Assets | | | | |
| Factory Building | 1,443 | - | - | - |
| Plant and machinery | 1,727 | - | 3,730 | - |
| Office & Factory equipment | 126 | 28 | 363 | 45 |
| Computers | 348 | 23 | 1,019 | 193 |
| Furniture and fixtures | - | - | 2,981 | 4 |
| Vehicles | 520 | 354 | 3,175 | 4 |
| | 4,164 | 405 | 11,268 | 246 |
| Intangible Assets | 315 | | | |
| Capital work in progress | 20 | | | |
| | 4,499 | 405 | 11,268 | 246 |
| Leased Assets | | | | |
| Vehicles | 1,676 | - | - | - |
| | 6,175 | 405 | 11,268 | 246 |

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5. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

| | December 31 2005 | December 31 2004 |
|--------------------------------------|---------------------|---------------------|
| Assets acquired during the period | 1,676 | - |
| Less: Payment made during the period | 204 | - |
| | 1,472 | - |
| Less: Current maturity | 460 | - |
| | 1,012 | - |

6. CONTINGENCIES AND COMMITMENTS

6.1 Contingencies

The following changes have occurred in the contingent liabilities of the company since the last balance sheet date:

- (a) Bank guarantees issued against the performance of sales agreements with various companies Rs.9.097 million (June 30, 2005: Rs.15.985 million) were in issue against the performance of sales agreements to various companies
- (b) The case under section 122(5A) of the Income Tax Ordinance 2001 reopened by the Additional Commissioner of Income Tax Department for the Tax Year 2004 been decided in favor of the company. The additional tax liability amounted to Rs. 5.07 million has been deleted by the Commissioner of Income Tax (Appeals-1) Karachi.

6.2 Commitments

- (a) Commitments under lease agreements in respect of vehicles amounted to Rs.5.112 million (June 30, 2005: Rs.5.084 million).
- (b) Outstanding letter of credit amounted to Rs.89.548 million (June 2005: Rs. 142.428 million)

7. TRANSACTIONS WITH RELATED PARTIES

Aggregate transactions made by the company during the period with the related parties were as follows:

(Rs.000's)

| Nature of related party relationship | 2 0 0 5 | | | | | | | |
|--------------------------------------|---------------|-------------------|---------------------------|--------------------|-------------------|--------------------|--------------------------|-------------------|
| | Sale of goods | Purchase of goods | Purchase of motor vehicle | Financial Expenses | Interest Received | Insurance Expenses | Insurance claim received | Services provided |
| Associates | 6,723 | 34,249 | 459 | | | | | 7,421 |
| Common directorship | | | | 143 | 91 | 4,248 | 2 | 3,267 |
| | <u>6,723</u> | <u>34,249</u> | <u>459</u> | <u>143</u> | <u>91</u> | <u>4,248</u> | <u>2</u> | <u>10,688</u> |
| Nature of related party relationship | 2 0 0 4 | | | | | | | |
| | Sale of goods | Purchase of goods | Purchase of motor vehicle | Financial Expenses | Interest Received | Insurance Expenses | Insurance claim received | Services provided |
| Associates | 5,843 | 31,292 | 1,211 | | | | | 5,015 |
| Common directorship | | | | 72 | 677 | 4,188 | 6 | 2,528 |
| | <u>5,843</u> | <u>31,292</u> | <u>1,211</u> | <u>72</u> | <u>677</u> | <u>4,188</u> | <u>6</u> | <u>7,543</u> |

8. SUBSEQUENT EVENT

The scheme of merger between Pakistan Papersack Corporation Ltd., ("PPCL") and Khyber Papers (Private) Ltd., ("KPPL") and Thal Limited ("TL") has been approved by the Board of Directors at its meeting held on February 20, 2006 effective July 01, 2005 with the object to transfer the whole of the undertaking of PPCL and KPPL into TL subject to completion of legal formalities. Thal Limited shall allot and issue fully paid ordinary shares to the qualifying shareholders of PPCL and KPPL in the ratio of 1 share of TL for every 3.07 shares of PPCL and in the ratio of 1 share of TL for every 0.26 share of KPPL.

9. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on 20th February 2006 by the Board of Directors of the company.

10. GENERAL

- 10.1 Figures have been rounded off to the nearest thousand rupee.
- 10.2 Corresponding period's figures have been rearranged for the purpose of better presentation.

Mazhar Valjee
Chief Executive Officer

S. Z. Kazmi
Vice Chairman & Director