

PAKISTAN PAPERSACK CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2005

1. THE COMPANY AND ITS OPERATIONS

Pakistan Papersack Corporation Limited (the company) was incorporated in Pakistan in 1973. Its shares are quoted on the Stock Exchanges of Karachi and Lahore. The registered office of the company is situated at 5th Floor, Siddiqsons Tower, 3-Jinnah Cooperative Housing Society, Sharah-e-Faisal, Karachi. The principal business activities of the two divisions (Stepped-end and Baluchistan Laminates) of the company are manufacture of papersack and formite sheets and laminates respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan and the requirements of the Companies Ordinance, 1984. Approved accounting standards comprise of such International Accounting Standards (IAS) as notified under the provisions of the Companies Ordinance, 1984. Wherever the requirements of the Companies Ordinance, 1984 or directives issued by the Securities and Exchange Commission of Pakistan (SEC) differ with the requirements of these standards, the requirements of the Companies Ordinance, 1984 or the requirements of the said directives take precedence.

2.2 Accounting convention

These financial statements have been prepared under the historical cost convention, except for certain available for sale investments other than investment in subsidiary and associates, which are stated at fair values.

2.3 Change in accounting policy

During the year, the SEC substituted the Fourth Schedule to the Companies Ordinance, 1984, effective from the financial year ending on or after July 5, 2004. This has resulted in the change in accounting policy pertaining to the recognition of dividends and other appropriations declared subsequent to the year end. Dividends and other appropriations to general reserve are now recognised in the period in which these are declared. Up until the previous year, dividends declared and appropriations made after the balance sheet date but before the financial statements were authorised for issue, were recognised as of the balance sheet date. The change in accounting policy has been accounted for retrospectively and comparative information has been restated in accordance with the benchmark treatment specified in IAS - 8 "Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies". Had there been no change in accounting policy, the unappropriated profit brought forward would have been lower by Rs. 65.547 million (2004: Rs. 79.496 million) and the liability for proposed dividend and general reserve would have been higher by Rs. 13.799 million (2004: Rs. 31.047 million) and Rs. 45.000 million

(2004: Rs. 34.5 million) respectively. The effect of change in accounting policy has been reflected in the comparative balance sheet and the statement of changes in equity. The change in accounting policy has not resulted in any change in the profit for the current year.

2.4 Property, plant and equipment

Owned

These are stated at cost less accumulated depreciation and impairment losses, if any, except freehold land which is stated at cost.

Depreciation is charged to the profit and loss account applying the reducing balance method. The rates used are stated in note 3.1 to the financial statements. A full year's depreciation is charged on additions while no depreciation is charged in the year of disposal.

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

Gain or loss on disposal of property, plant and equipment are taken to the profit and loss account currently.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amounts.

2.5 Impairment

The company assesses at each balance sheet date whether there is any indication that assets excluding inventory 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 recoverable amount, assets are written down to the recoverable amount and the difference is charged to the profit and loss account.

2.6 Investments

Related parties

Investment in shares of the company's subsidiary and associates is stated at cost. No adjustment is made for market value/break-up value as on the balance sheet date. Provision is made however, for permanent impairment in the value of investment.

Others

These are investments which are intended to be held for an indefinite period but may be sold in response to the need for liquidity, and are therefore classified as available for sale.

All investments are initially recognised at cost, being the fair value of the consideration given including transaction costs associated with the investment.

After initial recognition, investments, classified as available for sale are remeasured to fair value. Unrealised gains and losses are recognised in equity until the investment is sold, collected or otherwise disposed off, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in income.

2.7 Stores and spares

Stores and spares, except for those in transit, are valued at lower of cost, and net realisable value. For the Stepped-end division, cost is determined on a first-in-first out (FIFO) basis, whereas for the Baluchistan Laminates division, it is determined using the weighted average cost basis.

Stock in transit is valued at cost accumulated to the balance sheet date.

2.8 Stock-in-trade

Stock-in-trade, except for stock in transit are valued at lower of cost and net realisable value.

The cost in relation to raw material and finished goods is determined on the basis of weighted average cost.

Stock in transit is valued at cost comprising invoice value plus other charges thereon.

Work in process is valued at material cost, labour cost, together with appropriate production overheads.

Net realisable value is determined on the basis of estimated selling price of the product in the ordinary course of business less estimated costs of completion and the estimated costs that would necessarily be incurred for its sale.

2.9 Trade debts and other receivables

Trade debts originated by the company are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written-off as incurred.

Other receivables are recognised and carried at cost.

2.10 Trade and other payables

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

2.11 Compensated absences

Accrual is made for employees compensated absences on the basis of accumulated leave and the last drawn pay.

2.12 Staff retirement benefits

The company contributes to a provident fund scheme which covers all permanent employees. Equal contributions are made by the company and the employees on a monthly basis.

2.13 Taxation**Current**

Provision for current taxation is based on taxable income at the current rates of taxation after taking into account tax credits and rebates available, if any, or one-half of one percent of turnover, whichever is higher.

Deferred

Deferred tax is provided using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry-forward of unused tax assets and unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

2.14 Operating leases

Operating leases are recognised as an expense in the profit and loss account on a straight-line basis over the respective lease term.

2.15 Provisions

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

2.16 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. Financial assets are derecognised at the time when the company loses control of the contractual rights that comprise the financial assets. Financial liabilities are derecognised at the time when they are extinguished, that is, when the obligation specified in the contract is discharged, cancelled, or expires. Any gains or losses on derecognition of the financial assets and financial liabilities are taken to the profit and loss account currently.

2.17 Off-setting of financial assets and liabilities

A financial asset and a financial liability are off-set and the net amount is reported in the balance sheet if the company has a legally enforceable right to set-off the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

2.18 Segment reporting

A segment is a distinguishable component within a company that is engaged in providing products (Business Segments), which is subject to risk and rewards that are different from those of other segments.

2.19 Transactions with related parties

Transactions with related parties are based on the policy that all transactions between the company and the related parties are carried out at arm's length. These prices are determined in accordance with the methods prescribed in the Companies Ordinance, 1984.

2.20 Revenue recognition

- Sales are recorded on dispatch of goods to customers.
- Dividend income is recognised when the right to receive the dividend is established.
- Interest / mark-up and other income is recognised on an accrual basis.

2.21 Borrowing costs

Borrowing costs specific to a significant addition of project during its construction/erection period are capitalised. Other borrowing costs are charged to the profit and loss account as and when incurred.

2.22 Foreign currency translation

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. Gains and losses on translation are taken to income currently.

2.23 Cash and cash equivalents

Cash in hand and at banks are carried at cost. For the purpose of cash flow statement, cash and cash equivalents consist of cash in hand and at banks, net of short-term running finances and short-term loans. The cash and cash equivalents are subject to insignificant risk of changes in value.

3. PROPERTY, PLANT AND EQUIPMENT

	Note	2005 Rupees in thousands	2004 Rupees in thousands
Operating property, plant and equipment	3.1	53,097	53,288
Capital work-in-progress	3.4	160	-
		<u>53,257</u>	<u>53,288</u>

3.1 Statement of operating property, plant and equipment:

	COST				Rate %	DEPRECIATION			Written down value as at June 30, 2005	
	As at July 1, 2004	Additions	Disposals	As at June 30, 2005		As at July 1, 2004	Charge for the year	On Disposals		As at June 30, 2005
	Rupees in thousands					Rupees in thousands				
Freehold land	1,905	-	-	1,905	-	-	-	-	1,905	
Factory building on freehold land	26,594	-	-	26,594	10	19,899	670	20,569	6,025	
Plant and machinery	109,397	8,649	224	117,822	10-30	78,144	8,138	86,083	31,739	
Office equipment	3,585	449	66	3,968	10-20	2,105	215	2,294	1,674	
Factory equipment	2,614	16	223	2,407	10-30	1,630	174	1,587	820	
Computers	4,414	1,118	1,221	4,311	30	3,308	586	2,940	1,371	
Furniture and fixtures	1,052	18	57	1,013	10	728	42	726	287	
Motor vehicles	22,937	3,033	3,301	22,669	20	13,396	2,318	13,393	9,276	
2005	172,498	13,283	5,092	180,689		119,210	12,143	127,592	53,097	
2004	158,985	18,876	5,363	172,498		111,894	11,821	119,210	53,288	

3.2 Depreciation charge for the year has been allocated as under:

	Note	Stepped-end Division	Baluchistan Laminates Division	Total 2005	Total 2004
Cost of sales	19	1,289	8,205	9,494	8,881
Selling and distribution costs	20	233	110	343	373
Administrative expenses	21	2,120	186	2,306	2,567
		<u>3,642</u>	<u>8,501</u>	<u>12,143</u>	<u>11,821</u>

3.3 Details of property, plant and equipment disposed off during the year:

	Cost	Accumulated depreciation	Written down value	Sale Proceeds	Gain / (Loss)	Mode of disposal	Particulars of buyers
	Rupees in thousands						
<u>Motor Vehicles</u>							
Suzuki Mehran	270	234	36	59	23	Company Scheme	Mr. Mohd. Bashir Khan-Employee
Toyota Lucida	1,616	1,277	339	430	91	Company Scheme	Mr. S.Z.Kazmi-Employee
Suzuki Khyber	304	275	29	32	3	Company Scheme	Mr. Saeed Akbar-Employee
Toyota Corolla	655	236	419	610	191	Tender	Mr. Peer Buksh Saheto, Flat No.3, Shahjahan House, Nishat Road, Karachi
Mitsubishi Pajero	35	33	2	450	448	Negotiation	Mr. Syed Tariq Sultan , B-9 Al-Hilal Society, Main University Road, Karachi
Mitsubishi Lancer	42	40	2	168	166	Negotiation	Mr. Waseem Mirza, House # A-32, Block 10-A, Gulshan e Iqbal, Karachi
Toyota	368	217	151	625	474	Negotiation	Mr. Sher Bilal Khan , Tehsil Bannu
Suzuki Swift	10	10	-	100	100	Company Scheme	Mr. Niazmin Shah - Employee
Computer	839	667	172	778	606	Insurance Claim	Habib Insurance Company Limited - Related party
Computer	17	13	4	4	-	Negotiation	Software Technology - C-1/2, Block 2, Clifton, Karachi
Computer	152	129	23	1	(22)	Negotiation	Mr. Malik Sher Naz Plaza Karachi
Computer	49	25	24	10	(14)	Negotiation	Invent Tech. Suit # 44 1st Floor, Sasi Arcade, Clifton, Karachi
Office Equipment	49	10	39	45	6	Insurance Claim	Habib Insurance Company Limited - Related party
Various Items	686	595	91	93	2	Negotiation	Mr. Mohd. Haneef, Mehmoodabad Corp. Gate, House # H-15, Karachi
2005	5,092	3,761	1,331	3,405	2,074		
2004	5,363	4,505	858	1,750	892		

	Note	2005 Rupees in thousands	2004
7. STOCK-IN-TRADE			
Raw material - in stock		173,576	135,322
- in transit		31,988	3,888
Work-in-process		9,529	11,132
Finished goods		28,524	22,579
Trading stock		3,407	4,903
		<u>247,024</u>	<u>177,824</u>
Carrying value of inventories under hypothecation at the banks was Rs. 203.333 million (2004: Rs. 136.579 million).			
8. TRADE DEBTS - Unsecured			
Considered good			
Due from related parties	8.1	1,644	515
Others		<u>182,939</u>	<u>129,284</u>
		<u>184,583</u>	<u>129,799</u>
Considered doubtful		<u>6,005</u>	<u>6,101</u>
Less : Provision for doubtful debts	8.2	<u>(6,005)</u>	<u>(6,101)</u>
		<u>-</u>	<u>-</u>
		<u>184,583</u>	<u>129,799</u>
8.1 Related parties:			
Dynea Pakistan Limited		1,068	-
Thal Limited		24	-
Shabbir Tiles and Ceramics Limited		<u>552</u>	<u>515</u>
		<u>1,644</u>	<u>515</u>
The maximum aggregate amount due from related parties at the end of any month during the year was Rs.1.624 million (2004 : Rs. 0.704 million).			
8.2	The movement in provision for doubtful debts during the year is as follows:		
Balance at the beginning of the year		6,101	6,101
Written-off during the year		(96)	-
Balance at the end of the year		<u>6,005</u>	<u>6,101</u>
9. LOANS AND ADVANCES - Unsecured			
Loans - considered good			
Current portion of long-term loans	5	524	371
Advances - considered good			
Employees		<u>1,682</u>	<u>907</u>
Suppliers and contractors		<u>7,084</u>	<u>5,795</u>
		<u>8,766</u>	<u>6,702</u>
		<u>9,290</u>	<u>7,073</u>
10. TRADE DEPOSITS AND SHORT-TERM PREPAYMENTS			
Security deposits		1,416	688
Short-term prepayments		<u>1,362</u>	<u>1,095</u>
		<u>2,778</u>	<u>1,783</u>

	Note	2005 Rupees in thousands	2004
11. OTHER RECEIVABLES			
Duty drawback		4,370	4,104
Profit receivable on deposit accounts		-	158
Insurance premium claim	11.1	-	255
Octroi refundable		105	395
Sales tax - net		4,963	17,630
Others		621	1,715
		<u>10,059</u>	<u>24,257</u>

11.1 This amount is receivable from M/s. Habib Insurance Company Limited, a related party. Maximum aggregate amount due at the end of any month from any related party during the year was Rs. 0.284 million (2004: Rs. 0.255 million).

12. CASH AND BANK BALANCES

With banks in :

Deposit accounts

- local currency
- foreign currency

	5,211	102,411
	18	33
12.1	5,229	102,444

Current accounts

- local currency
- foreign currency

	21,267	3,699
	2	2
	21,269	3,701

Cash in hand

	42	128
	<u>26,540</u>	<u>106,273</u>

12.1 Rate of interest during the year ranged between 1% to 1.75% (2004: 1.75% to 2.5%).

13. ISSUED, SUBSCRIBED AND PAID-UP CAPITAL

2005	2004			
Number of ordinary shares of Rs. 5/- each				
1,240,000	1,240,000	Fully paid in cash	6,200	6,200
650,000	650,000	Issued as fully paid-up for consideration other than cash	3,250	3,250
11,908,512	11,908,512	Issued as fully paid bonus shares	59,543	59,543
<u>13,798,512</u>	<u>13,798,512</u>		<u>68,993</u>	<u>68,993</u>

Ordinary shares held by related parties at year end were 399,110 (2004: 399,110) of Rs. 5/- each.

	Note	2005 Rupees in thousands	2004
14. DEFERRED LIABILITIES			
Deferred taxation	14.1	<u>4,400</u>	<u>5,200</u>
14.1 Deferred taxation			
Deferred tax credits arising from:			
- accelerated tax depreciation allowances		5,750	6,700
Deferred tax debits arising from:			
- provision for compensated absences		(1,350)	(1,500)
		<u>4,400</u>	<u>5,200</u>
15. TRADE AND OTHER PAYABLES			
Creditors			
Due to related parties		10,958	4,951
Others		53,912	41,653
Custom duty payable		13,820	9,166
Accrued expenses		10,972	6,829
Advances from customers		1,677	1,654
Employees compensated absences		3,843	4,516
Workers' Profit Participation Fund	15.1	4,208	4,427
Workers' Welfare Fund		1,655	2,605
Unclaimed dividend		3,138	2,892
Mark-up accrued on short-term running finance		916	316
Other liabilities		5,195	4,732
		<u>110,294</u>	<u>83,741</u>
15.1 Workers' Profit Participation Fund:			
Balance at the beginning of the year		4,427	5,810
Interest on funds utilised in company's business		110	146
Allocation for the year		4,098	4,261
		<u>8,635</u>	<u>10,217</u>
Less: Amount paid during the year		1,528	1,452
Deposited with Government		2,899	4,338
		<u>4,427</u>	<u>5,790</u>
		<u>4,208</u>	<u>4,427</u>

	Note	2005 Rupees in thousands	2004 Rupees in thousands
16. SHORT-TERM BORROWINGS - secured			
Short-term loans			
-from banking companies		-	25,000
Short-term running finance	16.1	15,615	19,997
		<u>15,615</u>	<u>44,997</u>

16.1 The facilities for short-term running finance available from various commercial banks amounted to Rs. 354 million (2004: Rs. 354 million). The unavailed credit facility in respect of short-term running finance amounted to Rs. 338.385 million (2004: Rs. 334.003 million).

The rates of mark-up range between Re 0.14 and Re 0.22 (2004: Re 0.085 to Re 0.19) per thousand per day on the outstanding balance.

The purchase prices are payable on various dates by March 31, 2006, with a renewable option, and are secured by hypothecation charge over the imported raw material, stores and spares, finished goods and trade debts.

17. CONTINGENCIES AND COMMITMENTS

17.1 While finalising the assessments for the assessment years 1991-92 and 1992-93, the Income Tax Authorities cancelled the tax holiday period available to the Stepped-end division of the company which resulted in a tax liability of Rs. 25.473 million. Both the Commissioner of Income Tax (Appeals) and the Income Tax Appellate Tribunal have decided the case in favour of the company. The department preferred an appeal before the Honourable High Court of Sindh where the case is now pending. Management is confident that the matter will be decided in favour of the company, therefore, no provision has been made in these financial statements.

17.2 The company had filed an appeal before the Additional Collector Sales Tax against inadmissibility of input tax which was paid on imports amounting to Rs. 1.309 million pertaining to the year 1994-1996 along with additional tax of Rs. 0.5 million. The decision was in favour of the department. The company preferred an appeal under Section 45 of the Sale Tax Act to the Collector of Customs, Central Excise and Sales Tax against the decision of Additional Collector pertaining to input tax where the case is still pending. The company is confident of winning the case therefore no provision has been made in these financial statements.

17.3 Commitments for rentals under operating lease agreements in respect of vehicles and machinery amounted to Rs. 2.804 million (2004- Rs. 4.315 million). These are payable as follows:

<u>Year</u>	<u>Rupees in thousands</u>
2005 - 2006	1,311
2006 - 2007	1,048
2007 - 2008	445

17.4 Letters of credit outstanding amounted to Rs. 142.428 million (2004: Rs. 71.97). The extent of facility available is Rs. 325 million (2004: Rs. 325 million) out of which Rs. 182.572 million (2004: Rs. 253.03 million) remained unutilised.

17.5 Commitments for bank guarantees issued against the performance of sales agreements with various cement companies and to the Collector of Customs amounted to Rs. 15.985 million (2004: Rs. 17.388 million).

18. OPERATING RESULTS

Note	Stepped-end Division		Baluchistan Laminates Division		Total 2005	Total 2004
	2005	2004	2005	2004		
	----- Rupees in thousands -----					
Turnover						
Local sales	396,417	402,193	565,519	498,315	961,936	900,508
Export sales	6,033	5,994	75,704	59,935	81,737	65,929
	<u>402,450</u>	<u>408,187</u>	<u>641,223</u>	<u>558,250</u>	<u>1,043,673</u>	<u>966,437</u>
Less: Sales tax	51,670	52,556	73,676	73,501	125,346	126,057
Sales return and sales discount	858	-	139	443	997	443
Net sales	<u>349,922</u>	<u>355,631</u>	<u>567,408</u>	<u>484,306</u>	<u>917,330</u>	<u>839,937</u>
Cost of sales	19 281,949	271,659	489,346	437,768	771,295	709,427
Gross profit	67,973	83,972	78,062	46,538	146,035	130,510
Selling and distribution costs	20 14,604	11,686	35,803	23,462	50,407	35,148
Administrative expenses	21 36,101	33,377	15,021	14,808	51,122	48,185
Other income *	3,039	1,093	2,578	866	5,617	1,959
Profit on trading	308	941	1,009	540	1,317	1,481
Operating result	<u>20,615</u>	<u>40,943</u>	<u>30,825</u>	<u>9,674</u>	<u>51,440</u>	<u>50,617</u>
18.1 Segment assets	262,006	240,335	290,583	280,655	552,589	520,990
18.2 Unallocated assets					96,781	95,221
Total assets					<u>649,370</u>	<u>616,211</u>
18.3 Segment liabilities	46,460	30,770	79,449	97,968	125,909	128,738
18.4 Unallocated liabilities					4,400	5,200
Total liabilities					<u>130,309</u>	<u>133,938</u>
18.5 Depreciation	3,642	3,416	8,501	8,405	12,143	11,821
18.6 Capital expenditure	6,061	218	7,382	18,658	13,443	18,876

* Other income excludes dividend income, interest income and other item amounting in total to Rs. 34.716 million for the year ended June 30, 2005 (June 30, 2004: Rs. 37.283 million) as these relate to the entity as a whole and not to any segment of the company.

19. COST OF SALES

Raw Material Consumed

Opening stock	52,796	97,667	82,526	71,179	135,322	168,846
Purchases	314,482	206,518	414,668	402,025	729,150	608,543
	<u>367,278</u>	<u>304,185</u>	<u>497,194</u>	<u>473,204</u>	<u>864,472</u>	<u>777,389</u>
Closing stock	(112,325)	(52,796)	(61,251)	(82,526)	(173,576)	(135,322)
	<u>254,953</u>	<u>251,389</u>	<u>435,943</u>	<u>390,678</u>	<u>690,896</u>	<u>642,067</u>
Duty drawback	-	-	(12,467)	(9,666)	(12,467)	(9,666)
	<u>254,953</u>	<u>251,389</u>	<u>423,476</u>	<u>381,012</u>	<u>678,429</u>	<u>632,401</u>
Salaries, wages and other benefits	19.1 15,657	15,191	22,293	21,872	37,950	37,063
Stores and spares consumed	2,056	2,187	6,600	6,445	8,656	8,632
Rent, rates and taxes	89	213	73	73	162	286
Electricity, gas and water	1,873	1,854	25,987	24,250	27,860	26,104
Insurance	885	928	540	546	1,425	1,474
Telephone and fax	215	226	523	541	738	767
Postage and telegram	12	10	3	1	15	11
Printing and stationery	56	73	324	482	380	555
Travelling and conveyance	214	120	490	630	704	750
Subscription	12	6	21	24	33	30
Entertainment	130	108	-	-	130	108
Research and development	-	11	-	47	-	58
Transportation, handling and storage	71	76	78	40	149	116
Vehicle running expenses	523	448	698	508	1,221	956
Repairs and maintenance	390	559	3,476	3,988	3,866	4,547
Legal and professional charges	-	-	29	4	29	4
Depreciation	3.2 1,289	911	8,205	7,970	9,494	8,881
Lease rentals	-	-	538	206	538	206
Contract baling and other manufacturing expenses	3,858	2,808	-	-	3,858	2,808
	<u>27,330</u>	<u>25,729</u>	<u>69,878</u>	<u>67,627</u>	<u>97,208</u>	<u>93,356</u>
Work-in-process opening	2,936	1,072	8,196	-	11,132	1,072
Work-in-process closing	(2,971)	(2,936)	(6,558)	(8,196)	(9,529)	(11,132)
	<u>(35)</u>	<u>(1,864)</u>	<u>1,638</u>	<u>(8,196)</u>	<u>1,603</u>	<u>(10,060)</u>
Cost of goods manufactured	<u>282,248</u>	<u>275,254</u>	<u>494,992</u>	<u>440,443</u>	<u>777,240</u>	<u>715,697</u>
Finished goods - opening	6,326	2,731	16,253	13,578	22,579	16,309
Finished goods - closing	(6,625)	(6,326)	(21,899)	(16,253)	(28,524)	(22,579)
	<u>(299)</u>	<u>(3,595)</u>	<u>(5,646)</u>	<u>(2,675)</u>	<u>(5,945)</u>	<u>(6,270)</u>
	<u>281,949</u>	<u>271,659</u>	<u>489,346</u>	<u>437,768</u>	<u>771,295</u>	<u>709,427</u>

19.1 Salaries, wages and other benefits includes Rs. 1.157 million (2004: Rs.1.074 million) in respect of staff retirement benefits.

20. SELLING AND DISTRIBUTION COSTS

	Note	Stepped-end		Baluchistan		Total 2005	Total 2004
		Division		Laminates			
		2005	2004	2005	2004		
----- Rupees in thousands -----							
Salaries, wages and other benefits	20.1	4,164	4,873	8,301	6,465	12,465	11,338
Electricity, gas and water		82	112	152	102	234	214
Rent, rates and taxes		158	156	74	435	232	591
Insurance		194	103	220	220	414	323
Cartage		7,712	4,101	21,429	11,833	29,141	15,934
Telephone and fax		433	547	592	427	1,025	974
Postage and telegram		40	48	211	294	251	342
Printing and stationery		31	66	104	109	135	175
Travelling and conveyance		590	820	856	759	1,446	1,579
Subscription		1	2	2	2	3	4
Entertainment		7	26	218	172	225	198
Vehicle running expenses		336	388	673	677	1,009	1,065
Repairs and maintenance		15	4	90	99	105	103
Legal and professional charges		-	-	40	-	40	-
Advertisement and publicity		142	19	2,289	1,394	2,431	1,413
Sales promotion expenses		31	138	-	-	31	138
Tender expenses		35	16	6	13	41	29
Depreciation	3.2	233	267	110	106	343	373
Research and development expense		400	-	-	-	400	-
Lease rentals		-	-	436	355	436	355
		<u>14,604</u>	<u>11,686</u>	<u>35,803</u>	<u>23,462</u>	<u>50,407</u>	<u>35,148</u>

20.1 Salaries, wages and other benefits includes Rs. 0.475 million (2004: Rs. 0.424 million) in respect of staff retirement benefits.

21. ADMINISTRATIVE EXPENSES

	Note	Stepped-end		Baluchistan		Total 2005	Total 2004
		Division		Laminates			
		2005	2004	2005	2004		
----- Rupees in thousands -----							
Salaries, wages and other benefits	21.1	16,287	15,222	7,760	7,005	24,047	22,227
Electricity, gas and water		2,625	2,773	741	805	3,366	3,578
Rent, rates and taxes		1,116	1,354	541	520	1,657	1,874
Insurance		900	1,027	17	13	917	1,040
Telephone and fax		1,085	1,188	512	760	1,597	1,948
Postage and telegram		170	212	29	19	199	231
Printing and stationery		515	472	162	132	677	604
Travelling and conveyance		2,809	2,179	1,713	1,993	4,522	4,172
Subscription		416	491	78	101	494	592
Entertainment		521	750	-	-	521	750
Vehicle running expenses		2,102	2,128	906	814	3,008	2,942
Repairs and maintenance		1,947	463	850	599	2,797	1,062
Registrar / computer service charges		357	395	190	206	547	601
Advertisement and publicity		136	164	-	-	136	164
Donations	21.2	287	123	137	147	424	270
Auditors' remuneration	21.3	212	150	-	-	212	150
Legal and professional charges		2,045	1,795	1,083	952	3,128	2,747
Depreciation	3.2	2,120	2,238	186	329	2,306	2,567
Lease rentals		401	201	116	413	517	614
Directors' fee		50	52	-	-	50	52
		<u>36,101</u>	<u>33,377</u>	<u>15,021</u>	<u>14,808</u>	<u>51,122</u>	<u>48,185</u>

21.1 Salaries, wages and other benefits includes Rs. 0.883 million (2004: Rs. 0.902 million) in respect of staff retirement benefits.

21.2 Donations

This includes an amount of Rs. 0.320 million (2004: Rs. 0.120 million) donated to M/s Mohamedali Habib Welfare Trust, 2nd Floor, Siddiqsons Tower, 3-Jinnah Co-operative Housing Society, Shakra-e-faisal ,Karachi, in which two of the company's directors, Mr. Rafiq M. Habib and Mr. Ali S. Habib are trustees. None of the directors or their spouses have any interest in other donees.

	Note	2 0 0 5 Rupees in thousands	2 0 0 4
21.3 Auditors' remuneration			
Audit fee		100	100
Code of corporate governance review		25	-
Half-yearly review		50	35
Out of pocket expenses		37	15
		212	150

22. OTHER INCOME

Dividend income	22.1	31,214	30,824
Sale of scrap		1,467	1,067
Gain on disposal of property, plant and equipment	3.3	2,074	892
Capital gain on sale of listed company shares		315	5,154
Profit on bank accounts		688	1,305
Sale of goodwill and trademark of trading business		2,500	-
Exchange gain - net		1,137	-
Miscellaneous income		938	-
		40,333	39,242

22.1 Dividend income

From related parties:

Indus Motor Company Limited	29,340	29,340
Shabbir Tiles and Ceramics Limited	337	562
	29,677	29,902

From other quoted companies :

Agriauto Industries Limited	1,520	760
Oil and Gas Development Corporation Limited	17	162
	1,537	922
	31,214	30,824

23. PROFIT ON TRADING

Sales		11,547	10,948
Cost of sales:			
Opening stock		4,903	3,679
Purchases		7,260	8,041
Cold storage and other expenses		1,474	2,650
		13,637	14,370
Less: closing stock		(3,407)	(4,903)
		10,230	9,467
Profit on trading		1,317	1,481

23.1 Stock of jam and jelly imported for trading purposes has been written down by Rs. 0.439 million. The goodwill and trademark of the food trading business has been disposed off during the year for Rs. 2.5 million.

	Note	2005 Rupees in thousands	2004 Rupees in thousands
24. FINANCIAL CHARGES			
Mark-up on :			
Short-term running finance		2,878	905
Short-term loans		329	481
Interest on Workers' Profit Participation Fund		110	146
Bank charges and commission		979	1,146
Exchange loss - net		-	7
		<u>4,296</u>	<u>2,685</u>
25. TAXATION			
Current	25.1	17,233	14,000
Prior		1,048	1,020
Deferred		(800)	(600)
		<u>17,481</u>	<u>14,420</u>
25.1 Relationship between tax expense and accounting profit			
Profit before taxation		<u>76,910</u>	<u>80,316</u>
Tax at the applicable rate of 35%		26,919	28,111
Tax effect of expenses that are not allowable in determining taxable income		7,716	777
Tax effect of exempt income and expenses that are deductible from but not included in determining accounting profits		(8,039)	(5,641)
Tax effect of lower tax rate		(9,363)	(9,247)
Charge for current year		<u>17,233</u>	<u>14,000</u>
26. BASIC EARNINGS PER SHARE			
There is no dilutive effect on the basic earnings per share of the company, which are based on:			
Profit for the year after taxation		<u>59,429</u>	<u>65,896</u>
Number of shares in thousands			
Weighted average number of ordinary shares of Rs.5/- each		<u>13,799</u>	<u>13,799</u>
Rupees			
Basic earnings per share		<u>4.31</u>	<u>4.78</u>

27. REMUNERATION OF DIRECTORS, CHIEF EXECUTIVE AND EXECUTIVES

	2005				2004			
	Directors	Chief Executive	Executives	Total	Directors	Chief Executive	Executives	Total
	----- Rupees in thousands -----				----- Rupees in thousands -----			
Directors' fee	50	-	-	50	52	-	-	52
Managerial remuneration	-	910	5,927	6,837	-	886	6,311	7,197
House rent and utilities	-	410	2,869	3,279	-	399	2,863	3,262
Bonus	-	-	226	226	-	-	703	703
Staff retirement benefits	-	76	493	569	-	74	508	582
Medical Expenses	-	43	274	317	-	44	528	572
Others	-	132	715	847	-	91	744	835
	<u>50</u>	<u>1,571</u>	<u>10,504</u>	<u>12,125</u>	<u>52</u>	<u>1,494</u>	<u>11,657</u>	<u>13,203</u>
Number of persons	<u>5</u>	<u>1</u>	<u>8</u>	<u>14</u>	<u>5</u>	<u>1</u>	<u>9</u>	<u>15</u>

Two of the directors, the Chief Executive and executives entitled as per company rules are provided with the free use of company's maintained cars. The monetary impact of vehicle running expenses is not easily determinable.

Due to amendment in Fourth Schedule of Companies Ordinance 1984, the number of executives and their remuneration in the corresponding figures, has changed from 67 to 9 and from Rs. 31.988 million to Rs. 11.657 million respectively.

28. TRANSACTIONS WITH RELATED PARTIES

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

Names of the related parties	2005								
	Sale of goods	Purchase of goods	Purchase of motor vehicle	Financial expenses	Interest received	Insurance expense	Insurance claim received	Services acquired	Services provided
	----- Rupees in thousands -----								
Dynea Pakistan Limited (Shareholding and common directorship)	4,170	67,141	-	-	-	-	-	-	-
Indus Motor Company Limited (Shareholding and common directorship)	-	-	1,214	-	-	-	-	-	-
Shabbir Tiles and Ceramics Limited (Shareholding and common directorship)	7,204	-	-	-	-	-	-	-	-
Thal Limited (Common directorship)	43	-	-	-	-	-	-	-	-
Metropolitan Bank Limited (Common directorship)	-	-	-	161	682	-	-	-	-
Habib Insurance Company Limited (Common directorship)	-	-	-	-	-	5,372	1,794	-	-
Noble Computer Services (Private) Limited (Subsidiary)	-	-	-	-	-	-	-	2,538	-
	<u>11,417</u>	<u>67,141</u>	<u>1,214</u>	<u>161</u>	<u>682</u>	<u>5,372</u>	<u>1,794</u>	<u>2,538</u>	<u>-</u>

Related parties with which the company did not have any transactions during the year are as follows:

- Rapid Limited (Common directorship)
- House of Habib (Private) Limited (Common directorship)
- Tableware Technology (Private) Limited (Common directorship)

Names of the related parties	2004								
	Sale of goods	Purchase of goods	Purchase of motor vehicle	Financial expenses	Interest received	Insurance expense	Insurance claim received	Services acquired	Services provided
	----- Rupees in thousands -----								
Dynea Pakistan Limited (Shareholding and common directorship)	41	58,006	-	-	-	-	-	-	-
Indus Motor Company Limited (Shareholding and common directorship)	-	-	-	-	-	-	-	-	456
Shabbir Tiles and Ceramics Limited (Shareholding and common directorship)	3,387	-	-	-	-	-	-	-	-
Habib Insurance Company Limited (Common directorship)	-	-	-	-	-	4,976	613	-	-
Noble Computer Services (Private) Limited (Subsidiary)	-	-	-	-	-	-	-	2,416	1,000
	<u>3,428</u>	<u>58,006</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,976</u>	<u>613</u>	<u>2,416</u>	<u>1,456</u>

**Paper Bags
(Million)**

2005 2004

29. PRODUCTION CAPACITY**Stepped-end Division**

Installed Production Capacity	100	100
Actual Production	38.93	36.01

Low production is due to depressed market conditions.

Baluchistan Laminates Division

The production capacity of Baluchistan Laminates Division cannot be determined as this depends on the relative proportion of various types of products.

30. LIQUIDITY RISK

Liquidity risk reflects the company's inability in raising funds to meet commitments. Management closely monitors the company's liquidity and cash flow position. This includes maintenance of balance sheet liquidity ratios, debtors and creditors concentration both in terms of the overall funding mix and avoidance of undue reliance on large individual customers.

31. YIELD / MARK-UP RATE RISK EXPOSURE

Yield / mark-up rate risk is the risk that the value of the financial instrument will fluctuate due to changes in the market yield / mark-up rates. Sensitivity to yield / mark-up rate risk arises from mismatches of financial assets and liabilities that mature or reprice in a given period. The company manages these mismatches through risk management strategies. The company is exposed to yield / mark-up rate risk in respect of the following:

Financial assets and liabilities

Note	Effective yield / mark-up rate %	Interest / mark-up bearing			Non-interest / mark-up bearing	Total June 30, 2005
		Maturity upto one year	Maturity one to five years	Maturity after five years		
----- Rupees in thousands -----						
June 30, 2005						
FINANCIAL ASSETS						
		-	-	-	86,194	86,194
		-	-	-	460	460
		-	-	-	2,927	2,927
		-	-	-	184,583	184,583
		-	-	-	524	524
		-	-	-	1,416	1,416
		-	-	-	5,096	5,096
	1.00-1.75	5,229	-	-	21,311	26,540
		<u>5,229</u>	<u>-</u>	<u>-</u>	<u>302,511</u>	<u>307,740</u>
FINANCIAL LIABILITIES						
	5.11-8.03	15,615	-	-	-	15,615
	31.1	4,208	-	-	106,086	110,294
		<u>19,823</u>	<u>-</u>	<u>-</u>	<u>106,086</u>	<u>125,909</u>
	Total yield / mark-up rate risk sensitivity gap	<u>(14,594)</u>	<u>-</u>	<u>-</u>		

Note	Effective yield / mark-up rate %	Interest / mark-up bearing			Non-interest / mark-up bearing	Total June 30, 2004
		Maturity upto one year	Maturity one to five years	Maturity after five years		
----- Rupees in thousands -----						
June 30, 2004						
FINANCIAL ASSETS						
		-	-	-	77,988	77,988
		-	-	-	377	377
		-	-	-	3,086	3,086
		-	-	-	129,799	129,799
		-	-	-	371	371
		-	-	-	688	688
		-	-	-	6,627	6,627
	1.75-2.50	102,444	-	-	3,829	106,273
		<u>102,444</u>	<u>-</u>	<u>-</u>	<u>222,765</u>	<u>325,209</u>
FINANCIAL LIABILITIES						
	3.10-6.94	19,997	-	-	-	19,997
	3.10	25,000	-	-	-	25,000
	31.1	4,427	-	-	79,314	83,741
		<u>49,424</u>	<u>-</u>	<u>-</u>	<u>79,314</u>	<u>128,738</u>
	Total yield / mark-up rate risk sensitivity gap	<u>53,020</u>	<u>-</u>	<u>-</u>		

31.1 Interest is payable on these amounts as per the requirements of the Companies Profits (Workers' Participation) Act, 1968.

32. CREDIT RISK EXPOSURE

Credit risk represents the accounting loss that would be recognised at the reporting date if counter parties failed to perform as contracted. Out of the total financial assets of Rs. 307.740 million (2004: Rs. 325.209 million), the financial assets which are subject to credit risk amounted to Rs. 195.006 million (2004: Rs. 140.948 million). The company manages credit risk in trade receivables by limiting significant exposure to any individual customers by obtaining advance against sales.

The company is exposed to credit risk on loans, advances, deposits, trade debts and other receivables. The company seeks to minimise the credit risk exposure through dealing with customers considered credit worthy and obtaining securities where applicable.

33. FOREIGN EXCHANGE RISK MANAGEMENT

Foreign currency risk arises mainly where receivables and payables exist due to transactions with foreign undertakings. In appropriate cases, the management takes out forward contracts to mitigate the risk. As at June 30, 2005, the total foreign currency risk exposure was Rs. 44.931 million (2004: Rs. 32.832 million) in respect of bills payable.

34. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged or a liability settled, between knowledgeable willing parties in an arm's length transaction.

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

35. NUMBER OF EMPLOYEES

The total number of employees as at year end was 314 (2004: 312).

36. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on _____ by the Board of Directors of the company.

37. CORRESPONDING FIGURES

Due to certain changes made by the SEC in the Fourth Schedule to the Companies Ordinance, 1984 vide SRO 589(I)/2004 dated July 5, 2004, previous years figures have been rearranged or reclassified wherever necessary for the purpose of comparison. Significant reclassifications are as follows:

- i) Tangible fixed assets has been reclassified and shown as property, plant and equipment.
- ii) Loan, advances, trade deposits and prepayments within current assets has been bifurcated between loans and advances, and trade deposits and prepayments.
- iii) Creditors, accrued and other liabilities has been reclassified and shown as trade and other payables.
- iv) Short-term and running finance has been reclassified and shown as short-term borrowings.
- v) Remuneration of executives have been restated due to amendment in the definition of executive.

In addition to the above, comparative information has also been restated in order to comply with the change in accounting policy as explained in note 2.3.

Other material changes for better presentation are as follows:

Statement	Component	Reclassification from	Reclassification to	Rupees in thousands
Cash Flow Statement	Short-term and running finance	Cash generated from operations	Cash and cash equivalents	44,969
Cash Flow Statement	Cash flow from operating activities	Investment income	Gain on sale of investment	5,154
Cash Flow Statement	Cash flow from operating activities	Investment income	Profit on bank accounts	1,305
Cash Flow Statement	Cash flow from investing activities	Dividend received	Interest income received	1,218

Statement	Component	Reclassification from	Reclassification to	Rupees in thousands
Balance Sheet	Income tax	Other receivables	Income tax refunds due from the government	17,233
Balance Sheet	Cash and bank balances	Cheques in transit	Deposit accounts - local currency	7,821
Balance Sheet	Stock in trade	Stores	Trading stock	1,722
Balance Sheet	Stock in trade	Raw material - in stock	Work-in-progress	8,196
Balance Sheet	Stores and spares	Creditors-others	Spares in transit	1,728
Balance Sheet	Stock in trade	Creditors-others	Raw material in transit	3,823
Balance Sheet	Trade and other payables	Accrued expenses	Other liabilities	1,180
Balance Sheet	Trade and other payables	Accrued expenses	Advance from customers	1,496
Profit and Loss Account	Net sales	Turnover	Sales tax	126,057
Profit and Loss Account	Cost of sales	Manufacturing expenses - Depreciation	Administrative expenses - Depreciation	1,620

38. SUBSEQUENT EVENT

The Board of Directors has proposed a final dividend of Re. 1/- per share for the year ended June 30, 2005, amounting to Rs. 13.799 million at its meeting held on September 12, 2005 for approval of the members at the Annual General Meeting to be held on October 27, 2005. These financial statements do not reflect this dividend payable, as explained in note 2.3.

39. GENERAL

Figures in these financial statements have been rounded off to the nearest thousand of rupee.

Karachi: September 12, 2005

S.Z. KAZMI
Chief Executive

KERSI D. KAPADIA
Director