

Merit Packaging Limited

Annual Report 2001

CONTENTS

Company Information
Notice of Meeting
Directors' Report
Auditors' Report
Balance Sheet
Profit & Loss Account
Cash Flow Statement
Statement of Changes in Equity
Notes to the Accounts
Pattern of holding of Shares

Company Information

BOARD OF DIRECTORS

IQBALALI LAKHANI	Chairman
ZULFIQAR ALI LAKHANI	
AMIN MOHAMMED LAKHANI	
TASLEEMUDDIN AHMED BATLAY	
AZIZ EBRAHIM	
FAROOQ HASAN	
MUHAMMAD ASIF	
MOHAMMAD SHAHID	Chief Executive

ADVISOR

SULTANALI LAKHANI

COMPANY SECRETARY

M. K. NAWAZ

AUDITORS

FORD, RHODES, ROBSON, MORROW
Chartered Accountants

BANKERS

AMERICAN EXPRESS BANK LTD
HABIB BANK LTD
OMAN INTERNATIONAL BANK

REGISTERED OFFICE

LAKSON SQUARE, BUILDING NO. 2
SARWAR SHAHEED ROAD
KARACHI-74200

FACTORY

17-B, SECTOR 29
KORANGI INDUSTRIAL TOWNSHIP
KARACHI

Notice of Meeting

NOTICE IS HEREBY GIVEN that the 21st Annual General Meeting of Merit Packaging Limited will be held on Tuesday November 27, 2001 at 10.00 a.m. at Avari Towers Hotel, Fatima Jinnah Road, Karachi to transact the following business:

1. To receive, consider and adopt the audited Balance Sheet, Profit and Loss account for the year ended June 30, 2001 together with the Directors' and Auditors' Reports thereon.
2. To declare final dividend @ 20% as recommended by the Board of Directors.
3. To consider to appoint auditors and fix their remuneration.

By Order of the Board

M. K. NAWAZ
Company Secretary

Karachi: October 15, 2001

NOTES:

1. The share transfer books of the Company will remain closed from November 16, 2001 to November 27, 2001, both days inclusive. Transfers received in order at the company's registered office situated at Lakson Square, Building No. 2, Sarwar Shaheed Road, Karachi upto November 15, 2001 will be considered in time to be eligible for payment of the final dividend to the transferees.
2. A member who has deposited his/her shares into Central Depository Company of Pakistan Limited, must bring his/her participant's ID number and account/sub-account number alongwith original National Identity Card (NIC) or original Passport at the time of attending the meeting.
3. A member entitled to attend and vote at the general meeting may appoint another member as his/her proxy to attend, speak and vote instead of him/her.
4. If a proxy is granted by a member who has deposited his/her shares in Central Depository Company of Pakistan Limited, the proxy must be accompanied with participant's ID number and account/sub-account number alongwith attested photocopies of the NIC or the Passport of the beneficial owner. Representatives of corporate members should bring the usual documents required for such purpose.
5. Forms of proxy to be valid must be received at the Company's Registered Office not later than 48 hours before the time of the meeting.
6. Members are requested to notify the Company promptly of any change in their addresses.
7. Form of proxy is enclosed herewith.

Directors' Report

The directors of your company are pleased to present the audited annual accounts of the company for the year ended June 30, 2001.

Rupees

Profit after taxation	10,236,931
Unappropriated profit brought forward	18,917

Profit available for appropriation	10,255,848

APPROPRIATIONS:

Proposed cash dividend Rs. 2.00 per share (20%)	5,498,954
Transfer to general reserve	4,700,000

	10,198,954

Unappropriated profit carried forward

56,894
=====

OPERATING RESULTS

The year under review saw improved production, sales and profit despite adverse business environment. The sales turnover increased to Rs. 264.474 million for the year ended June 30, 2001 as compared to Rs. 207.270 million for the year ended June 30, 2000. The gross profit for the year was Rs. 36.904 million as compared to Rs. 22,183 million for the same period last year. Increased profitability was mainly due to improved efficiency, better product mix and stricter cost control. Moreover, the replacement of some old equipment with advanced version reduced lead and delivery times and Simultaneously increased our ability to respond quickly to customer needs. This ensured consistent inflow of orders.

ISO CERTIFICATION

The company obtained ISO-9002 certification in the year 1999. It is now in the process of obtaining the latest version of ISO-9001:2000 certificate. This will help not only in improving the overall performance of the company but also in enhancing company's image and winning greater confidence of customers, suppliers and financial institutions alike.

CONTRIBUTION TO THE NATIONAL ECONOMY

We are pleased to state that during the year under review the company contributed Rs. 29.149 million to the national economy by way of duties and taxes.

FUTURE OUTLOOK

The surplus capacity in the printing industry has led to intense competition, pressurising selling rates and business share. To combat the situation, we are further streamlining and fine-tuning our operational processes and cost controls to improve the quality of our products and services. Accordingly, we are confident that the company's market share will be maintained.

GRATITUDE

The directors are grateful to all shareholders, customers, bankers and vendors for their continued cooperation, understanding and support.

The directors also place on record their appreciation for the sincere and dedicated services rendered by all employees during the year under review.

AUDITORS

The present Auditors Ford, Rhodes, Robson, Morrow retire and being eligible, offer themselves for re-appointment.

PATTERN OF SHARE HOLDING

The pattern of share holding in the prescribed form is included in this report.

On behalf of the Board of Directors

IQBALALI LAKHANI
Chairman

Karachi: October 09, 2001

Auditors' Report

We have audited the annexed balance sheet of **MERIT PACKAGING LIMITED** as at June 30, 2001 and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the

amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

(a) in our opinion, proper books of accounts have been kept by the company as required by the Companies Ordinance, 1984;

(b) in our opinion:

(i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984 and are in agreement with the books of 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 with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the company's affairs as at June 30, 2001 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.

FORD, RHODES, ROBSON, MORROW
Chartered Accountants

Karachi: October 09, 2001

BALANCE SHEET AS AT JUNE 30, 2001

	<i>Note</i>	<i>2001</i> <i>Rupees</i>	<i>2000</i> <i>Rupees</i>
ASSETS			
NON-CURRENT ASSETS			
Tangible fixed assets	3	40,327,511	47,040,961
Long term deposits		2,677,324	2,701,365
		-----	-----
		43,004,835	49,742,326
CURRENT ASSETS			
Stores and spares	4	14,382,541	13,933,284
Stock-in-trade	5	29,773,323	36,775,117
Trade debts	6	14,663,192	12,788,406
Advances, deposits and other receivables	7	14,425,846	11,683,592
Prepayments		453,170	588,189
Cash and bank balances	8	283,780	109,928
		-----	-----
		73,981,852	75,878,516
		-----	-----
TOTAL ASSETS		116,986,687	125,620,842
		=====	=====
EQUITY AND LIABILITIES			
SHARE CAPITAL AND RESERVES			
Authorised capital			

8,000,000 ordinary shares of Rs. 10 each		80,000,000	80,000,000
Issued, subscribed and paid-up capital	9	27,494,770	27,494,770
Reserves		20,656,894	15,918,917
		48,151,664	43,413,687
NON-CURRENT LIABILITIES			
Liabilities against assets subject to finance lease	10	15,518,401	11,857,563
Deferred liabilities	11	3,998,894	3,077,903
		19,517,295	14,935,466
CURRENT LIABILITIES			
Current portion of liabilities against assets subject to finance lease	10	3,660,838	4,049,955
Short term running finances	12	28,044,926	39,640,309
Creditors, accrued and other liabilities	13	16,694,839	16,250,119
Proposed final dividend		5,498,954	2,749,477
		53,899,557	62,689,860
CONTINGENCY AND COMMITMENTS	14		
TOTAL EQUITY AND LIABILITIES		116,986,687	125,620,842

The annexed notes form an integral part of these accounts.

IQBALALI LAKHANI
Chairman

MOHAMMAD SHAHID
Chief Executive

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2001**

	<i>Note</i>	<i>2001 Rupees</i>	<i>2000 Rupees</i>
Net sales	15	264,474,068	207,270,420
Cost of goods sold	16	(227,570,111)	(185,087,655)
Gross profit		36,903,957	22,182,765
Other income	17	528,604	1,360,610
		37,432,561	23,543,375
Administrative expenses	18	(8,406,077)	(7,581,334)
Selling and distribution expenses	19	(2,182,529)	(2,542,164)
Other charges	20	(4,321,102)	(649,565)
		(14,909,708)	(10,773,063)
Operating profit		22,522,853	12,770,312
Financial charges	21	(8,088,340)	(7,960,082)
Profit before taxation		14,434,513	4,810,230
Taxation	22	(4,197,582)	(2,486,000)
Profit after taxation		10,236,931	2,324,230
Unappropriated profit brought forward		18,917	44,164

Transfer from general reserve		--	400,000
Profit available for appropriation		10,255,848	2,768,394
Appropriations:			
Proposed final dividend Rs. 2.00 (20%) per share [2000: Re. 1.00 (10%) per share]		(5,498,954)	(2,749,477)
Transfer to general reserve		(4,700,000)	--
		(10,198,954)	(2,749,477)
Unappropriated profit carried forward		56,894	18,917
Basic earnings per share	26	3.72	0.85

The annexed notes form an integral part of these accounts.

IQBALALI LAKHANI
Chairman

MOHAMMAD SHAHID
Chief Executive

**CASH FLOW STATEMENT
FOR THE YEAR ENDED JUNE 30, 2001**

	<i>Note</i>	<i>2001 Rupees</i>	<i>2000 Rupees</i>
CASH FLOW FROM OPERATING ACTIVITIES			
Cash generated from operations	23	32,993,794	9,058,612
Tax paid		(6,970,844)	469,854
Financial charges on short term finances paid		(4,800,176)	(5,135,957)
Long term deposits		24,041	(1,945,949)
Payment of gratuity		(44,174)	(45,739)
Net cash inflow from operating activities		21,202,641	2,400,821
CASH FLOW FROM INVESTING ACTIVITIES			
Capital expenditure		(1,023,041)	(29,327,536)
Proceeds from sale of assets	3.3	1,367,057	1,540,440
Net cash inflow/(outflow) from investing activities		344,016	(27,787,096)
CASH FLOW FROM FINANCING ACTIVITIES			
Obligations under finance lease		--	21,792,452
Repayment of finance lease		(7,030,967)	(6,769,155)
Term finance		--	(20,000,000)
Payment of dividend		(2,746,455)	(4,122,073)
Net cash (outflow) from financing activities		(9,777,422)	(9,098,776)
Net increase/(decrease) in cash and cash equivalents		11,769,235	(34,485,051)
Cash and cash equivalents at the beginning of the year		(39,530,381)	(5,045,330)
Cash and cash equivalents at the end of the year		(27,761,146)	(39,530,381)
CASH AND CASH EQUIVALENTS COMPRISE OF:			
Cash and bank balances	8	283,780	109,928

Running finance utilised under mark-up arrangement	12	(28,044,926)	(39,640,309)
		-----	-----
		(27,761,146)	(39,530,381)
		=====	=====

The annexed notes form an integral part of these accounts.

IQBALALI LAKHANI
Chairman

MOHAMMAD SHAHID
Chief Executive

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2001**

	<i>Issued, sub- scribed and paid-up capital Rupees</i>	<i>Revenue reserves Rupees</i>	<i>Unappro- priated profit Rupees</i>	<i>Total Rupees</i>
Balance as at July 1, 1999	27,494,770	16,300,000	44,164	43,838,934
Profit after taxation	--	--	2,324,230	2,324,230
Transfer from general reserve during the year	--	(400,000)	400,000	--
Proposed dividend	--	--	(2,749,477)	(2,749,477)
	-----	-----	-----	-----
Balance as at June 30, 2000	27,494,770	15,900,000	18,917	43,413,687
Profit after taxation	--	--	10,236,931	10,236,931
Transfer to general reserve during the year	--	4,700,000	(4,700,000)	--
Proposed final dividend	--	--	(5,498,954)	(5,498,954)
	-----	-----	-----	-----
Balance as at June 30, 2001	27,494,770	20,600,000	56,894	48,151,664
	=====	=====	=====	=====

The annexed notes form an integral part of these accounts.

IQBALALI LAKHANI
Chairman

MOHAMMAD SHAHID
Chief Executive

**NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2001**

1. THE COMPANY AND ITS OPERATIONS

The company was incorporated on January 28, 1980 in Pakistan as a public limited company and is listed on the Karachi Stock Exchange. The company is mainly engaged in the manufacture and sale of printing and packaging materials.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Accounting Convention

These accounts have been prepared under the historical cost convention.

2.2 Tangible fixed assets and depreciation

These are stated at cost less accumulated depreciation except leasehold land and capital work-in-progress which are stated at cost.

Depreciation charge on operating fixed assets is based on reducing balance method except for imported dies which are depreciated on a straight line basis over its estimated useful life. A full year's depreciation is charged in the year of addition whereas no depreciation is charged in the year of

disposal.

Rates of depreciation which are disclosed in note 3.1 are designed to write off the cost over the estimated useful lives of the assets.

Maintenance costs and normal repairs are charged to profit and loss account as and when incurred. Major renewals and improvements are capitalised.

Gains and losses on disposal of fixed assets are taken to the profit and loss account.

2.3 Leased assets

Assets held under finance leases are stated at cost less accumulated depreciation.

The outstanding obligations under the lease less finance charges allocated to future periods are shown as a liability.

The financial charges are allocated to accounting periods in a manner so as to provide a constant periodic rate of charge on the outstanding liability.

Depreciation is charged at the same rates as company owned assets.

Lease rentals payable on assets held under operating leases are charged to the profit and loss account.

2.4 Stores and spares

Stores and spares are stated at cost which is determined by the moving average method except those in transit and in bond which are valued at actual cost. Provision is made for slow moving and obsolete items.

2.5 Stock-in-trade

Raw materials, work-in-process and finished goods are stated at the lower of cost and estimated net realisable value. Cost is arrived at by using the moving average basis except for goods in transit and in bond which are valued at actual cost. Cost of work-in-process and finished goods include an appropriate portion of production overheads.

Net realisable value signifies the estimated selling price in the ordinary course of business less cost necessary to be incurred to make the sale.

2.6 Trade debts

Debts considered irrecoverable are written off and provision is made for debts considered doubtful.

2.7 Taxation

Current

Provision for current taxation is based on taxable income at the current rates of taxation taking into account tax credits and rebates available, if any.

Deferred

Deferred tax is provided using the balance sheet liability method, providing for temporary difference between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

2.8 Staff retirement benefits

a) Provident fund

The company operates a recognised provident fund scheme effective from November 1, 1984, covering all workers and staff. Equal contributions are made to the fund by the company and the employees in accordance with the rules of the scheme.

b) Gratuity

Gratuity payable to workers and staff employed prior to the introduction of provident fund scheme has been fully provided.

2.9 Foreign currency translation

Foreign currency transactions are translated into rupees at the rate of exchange ruling at the date of transaction. All assets and liabilities held in foreign currencies at the balance sheet date are translated at the rate of exchange prevailing at that date. Exchange differences are included in income currently.

2.10 Revenue recognition

Sales are recorded on despatch of goods to customers.

3. TANGIBLE FIXED ASSETS

3.1 The following is a statement of tangible fixed assets:

Description	Cost	Additions	Disposals/ adjustments*	Cost	Accumulated	Depreciation	Depreciation	Accumulated	Written	Depreciation
	as at July 01, 2000			as at June 30, 2001	depreciation as at July 01, 2000	for the year	on disposals/ adjustments*	as at June 30, 2001	down value as at June 30, 2001	
	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	%
Leasehold land	608,737	--	--	608,737	--	--	--	--	608,737	--
Building on leasehold land	11,748,898	--	--	11,748,898	9,126,021	262,287	--	9,388,308	2,360,590	10
Plant and machinery	29,810,078	933,041	(5,411,188) 2,900,000*	28,231,931	17,136,233	1,647,191	(3,314,874) 997,310*	16,465,860	11,766,071	10-33
Furniture and fixtures	230,223	--	--	230,223	179,927	5,030	--	184,957	45,266	10
Vehicles	2,198,670	--	(795,770)	1,402,900	1,305,258	124,006	(522,388)	906,876	496,024	20
Office equipment	1,287,308	18,000	--	1,305,308	590,216	71,509	--	661,725	643,583	10
Computer equipment	2,122,245	43,000	(670,577)	1,494,668	728,416	344,047	(380,571)	691,892	802,776	30
Factory tools and equipment	10,327,873	29,000	--	10,356,873	3,742,897	661,398	--	4,404,295	5,952,578	10
	58,334,032	1,023,041	(6,877,535) 2,900,000*	55,379,538	32,808,968	3,115,468	(4,217,833) 997,310*	32,703,913	22,675,625	
Asset held under finance lease										
Plant and machinery	24,692,452	--	(2,900,000)*	21,792,452	3,176,555	1,961,321	(997,310)*	4,140,566	17,651,886	10
	83,026,484	1,023,041	(6,877,535)	77,171,990	35,985,523	5,076,789	(4,217,833)	36,844,479	40,327,511	
2000	58,259,390	29,528,178	(4,761,084)	83,026,484	33,588,064	5,580,591	(3,183,132)	35,985,523	47,040,961	

Note: The rate of depreciation of computer equipment has been changed during the year to 30% from 10% which has resulted in additional depreciation of Rs. 229,365 during the year.

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

	Note	2001 Rupees	2000 Rupees
Cost of goods sold	16	4,532,197	5,119,324
Administrative expenses	18	544,592	461,267
		5,076,789	5,580,591

3.3 The following assets were disposed off during the year:

<i>Description</i>	<i>Cost Rupees</i>	<i>Accumulated depreciation Rupees</i>	<i>Written down value Rupees</i>	<i>Sale proceeds Rupees</i>	<i>Profit/(loss) on sale Rupees</i>	<i>Mode of disposal</i>	Particulars of buyer
Plant and machinery	2,646,758	1,509,168	1,137,590	430,000	(707,590)	Negotiation	Awais Company - Lahore
	1,204,101	441,091	763,010	300,000	(463,010)	Negotiation	Tabassum Art Press - Karachi
	588,150	517,137	71,013	250,000	178,987	Negotiation	Al Wahid Container - Karachi
	972,179	847,478	124,701	34,000	(90,701)	Negotiation	Mr. Abdul Qayoom - Karachi
	-----	-----	-----	-----	-----	-----	
	5,411,188	3,314,874	2,096,314	1,014,000	(1,082,314)		
Vehicles	50,000	35,254	14,746	16,440	1,694	Negotiation	Mr. Azmat Khan - an employee
	50,000	35,254	14,746	16,440	1,694	Negotiation	Mr. Muhammad Asad - an employee
	47,000	35,911	11,089	15,400	4,311	Negotiation	Mr. Ali Raza - an employee
	47,000	35,911	11,089	15,400	4,311	Negotiation	Mr. S.M. Uzair - an employee
	50,000	35,254	14,746	16,440	1,694	Negotiation	Mr. Abdul Malik - an employee
	50,000	35,254	14,746	16,440	1,694	Negotiation	Mr. Abdul Hameed - an employee
	40,923	31,268	9,655	13,409	3,754	Negotiation	Mr. Tariq Mehmood - an employee
	29,600	26,024	3,576	9,699	6,123	Negotiation	Mr. S.A. Qadri - an employee
	56,000	37,650	18,350	18,360	10	Negotiation	Mr. Mohammad Siddiq -an employee
	40,500	30,945	9,555	13,260	3,705	Negotiation	Mr. Ghaffar Gatta an employee
	40,923	31,268	9,655	13,409	3,754	Negotiation	Mr. Azeem Qureshi - an ex-employee
	56,000	37,650	18,350	18,360	10	Negotiation	Mr. Mohammad Latif - an ex-employee
	57,624	20,745	36,879	30,000	(6,879)	Negotiation	Mr. Asghar Ali - Karachi
	59,200	34,952	24,248	40,000	15,752	Negotiation	Syed Arshad Hussain - Karachi
	60,500	29,524	30,976	45,000	14,024	Negotiation	Mr. Wasimullah - Karachi
	60,500	29,524	30,976	55,000	24,024	Insurance claim	Century Insurance Co. Ltd., Karachi (an associated company)
		-----	-----	-----	-----	-----	
	795,770	522,388	273,382	353,057	79,675		
Computer equipment	670,577	380,571	290,006	--	(290,006)	Written off	
	-----	-----	-----	-----	-----		
	6,877,535	4,217,833	2,659,702	1,367,057	(1,292,645)		
	=====	=====	=====	=====	=====		
2000	4,761,084	3,183,132	1,577,952	1,540,440	(37,512)		
	=====	=====	=====	=====	=====		

Note

2001
Rupees

2000
Rupees

4. STORES AND SPARES

Stores			
In hand		3,383,760	3,968,878
In transit		1,000	--
		-----	-----
		3,384,760	3,968,878
Spares			
In hand		12,691,110	9,964,406
In transit		1,000	--
		-----	-----
		12,692,110	9,964,406
		-----	-----
		16,076,870	13,933,284
Less: Provision for slow moving and obsolete stores and spares		(1,694,329)	--
		-----	-----

14,382,541	13,933,284
=====	=====

5. STOCK-IN-TRADE

Raw materials			
In hand	16.1	23,447,659	25,986,615
In bonded warehouse		--	4,520,798
In transit		5,820	943,573
		-----	-----
		23,453,479	31,450,986
Work-in-process	16	4,506,223	4,745,763
Finished goods	16	1,813,621	578,368
		-----	-----
		29,773,323	36,775,117
		=====	=====

6. TRADE DEBTS

Unsecured, considered good	6.1	14,663,192	12,788,406
		=====	=====

6.1 Amounts due from associated undertakings at the end of the year aggregated to Rs. 14,023,203 (2000: Rs. 11,006,910). The maximum amount due from associated undertakings at the end of any month during the year was Rs. 21,992,038 (2000: Rs. 21,018,538).

7. ADVANCES, DEPOSITS AND OTHER RECEIVABLES

Advances - unsecured, considered good			
Suppliers		500,000	5,014
Employees - for expenses		89,000	8,677
		-----	-----
		589,000	13,691
Advance income tax - net of provision	7.1	13,466,780	11,643,518
Sales tax (net)		195,781	(286,601)
Deposits		95,750	233,295
Other receivables	7.2	78,535	79,689
		-----	-----
		14,425,846	11,683,592
		=====	=====

7.1 This includes income tax deducted at source amounting to Rs. 11,166,188 and advance tax amounting to Rs. 4,036,261 for which credit has not been given by the Deputy Commissioner of Income Tax, while passing the assessment orders for the assessment years 1999-00 and 2000-01. Rectification applications have therefore been filed by the company which are pending. Out of the above amount a tax liability of Rs. 1,735,669 has been adjusted by the company against the above amount.

The income tax assessments of the company have been finalised by the Income Tax Department upto assessment year 2000-01 (accounting year ended June 30, 2000).

7.2 Amounts due from associated undertaking at the end of the year aggregated to Rs. 58,154 (2000: Rs. 60,048). The maximum amount due from associated undertaking at the end of any month during the year was Rs. 159,427 (2000: Rs. 1,202,219).

8. CASH AND BANK BALANCES

At banks in current accounts		247,958	109,928
Cash in hand		35,822	--
		-----	-----
		283,780	109,928
		=====	=====

9. ISSUED, SUBSCRIBED AND PAID-UP CAPITAL

	<i>Ordinary shares of Rs. 10 each fully paid in cash</i>	<i>Ordinary shares of Rs. 10 each issued as fully paid bonus shares</i>	<i>Total 2001</i>	<i>2000</i>
Number of shares	1,890,000	859,477	2,749,477	2,749,477
	=====	=====	=====	=====
	Rupees	Rupees	Rupees	Rupees
Balance as at June 30	18,900,000	8,594,770	27,494,770	27,494,770
	=====	=====	=====	=====

10. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

Future minimum lease payments under finance lease together with the present value of the net minimum lease payments are as follows:

	<i>2001</i>		<i>2000</i>	
	<i>Minimum Lease payments</i>	<i>Present value</i>	<i>Minimum Lease payments</i>	<i>Present value</i>
	<i>Rupees</i>	<i>Rupees</i>	<i>Rupees</i>	<i>Rupees</i>
Within one year	5,914,352	3,660,838	6,885,967	4,049,955
After one year but not more than fi	14,007,949	11,857,563	20,067,301	15,518,401
	-----	-----	-----	-----
Total minimum lease payments	19,922,301	15,518,401	26,953,268	19,568,356
Less: Amounts representing financ	4,403,900	--	7,384,912	--
	-----	-----	-----	-----
Present value of minimum lease pa	15,518,401	15,518,401	19,568,356	19,568,356
Less: Current portion	3,660,838	3,660,838	4,049,955	4,049,955
	-----	-----	-----	-----
	11,857,563	11,857,563	15,518,401	15,518,401
	=====	=====	=====	=====

This represent finance lease entered into with a leasing company for plant and machinery. Rate of financial charge of 18.75% (2000: 18.75% to 22%) per annum is used as a discounting factor. At the end of lease period the ownership of asset shall transfer to the company on payment of residual value of Rs. 2,179,245 (2000: Rs. 2,324,245). This facility is secured by demand promissory note and security deposit, equal to the residual value of the leased asset.

	<i>Note</i>	<i>2001 Rupees</i>	<i>2000 Rupees</i>
11. DEFERRED LIABILITIES			
Gratuity payable		681,903	652,894
Deferred taxation	11.1	2,396,000	3,346,000
		-----	-----
		3,077,903	3,998,894
		=====	=====

11.1 Deferred taxation is composed of:

Deferred tax liabilities:			
Differences in depreciation		2,242,300	2,639,000
Difference in tax and accounting bases of leased assets		746,700	707,000
		-----	-----

Gross deferred tax liabilities		2,989,000	3,346,000
Deferred tax asset:			
Provision for slow moving and obsolete stores and spares		(593,000)	--
		-----	-----
		2,396,000	3,346,000
		=====	=====

12. SHORT TERM RUNNING FINANCES

Running finance utilised under mark-up arrangement	12.1	28,044,926	39,640,309
		=====	=====

12.1 The company has aggregate short term running finance facilities amounting to Rs. 55,000,000 (2000: Rs. 55,000,000) from commercial banks on mark-up basis at rates ranging from 13.50% to 15.00% (2000: 13.50% to 16.50%) per annum. The unutilised balance at the end of the year was Rs. 26,955,074 (2000: Rs. 15,359,691).

The company also has a facility for opening letters of credit as at June 30, 2001 amounting to Rs. 30,000,000 (2000: Rs. 25,000,000) from commercial banks on mark-up basis. The unutilised balance at the end of the year was Rs. 28,152,409 (2000: Rs. 23,878,400).

These arrangements are secured by pari passu hypothecation charge on stores, stock-in-trade, trade debts, second charge by way of mortgage on fixed assets for Rs. 3.0 million and personal guarantee of the directors.

13. CREDITORS, ACCRUED AND OTHER LIABILITIES

Trade creditors	13.1	12,363,300	10,558,421
Accrued liabilities		1,733,443	2,175,330
Accrued mark-up on short term finances		1,007,278	783,818
Accrued finance charges on finance leases		--	27,385
Custom duty and related charges		--	1,716,059
Workers' profit participation fund	13.2	775,218	258,410
Workers' welfare fund		565,130	270,495
Customer's security deposit		55,000	55,000
Unclaimed dividend		49,248	46,226
Other liabilities		146,222	358,975
		-----	-----
		16,694,839	16,250,119
		=====	=====

13.1 Net amount due to associated undertakings at the end of the year aggregated to Rs. 8,501,378 (2000: Rs. 7,366,394).

13.2 Workers' profit participation fund

Balance at the beginning of the year		258,410	437,254
Allocation for the year	20	775,218	258,410
Interest on funds utilised in the company's business	21	23,275	37,185
		-----	-----
		1,056,903	732,849
Amount paid during the year		(281,685)	(474,439)
		-----	-----
Balance at the end of the year		775,218	258,410
		=====	=====

14. CONTINGENCY AND COMMITMENTS

14.1 Contingency

The company retrenched certain workers with effect from March 25, 2000. Some of these workers have filed a law suit against their retrenchment and have asked for their reinstatement.

The company is confident that no liability will arise in this respect and, therefore, no provision has been made in these financial statements.

14.2 Commitments

14.2.1 Commitments under letters of credit as at end of the year in respect of purchase of stores, spares and raw materials

659,025	1,121,600
=====	=====

14.2.2 Commitments under contractual obligations as at the end of the year in respect of purchase of stores, spares and raw materials

1,188,566	--
=====	=====

14.2.3 Commitments for rentals under operating lease agreements in respect of vehicles and office equipment are as follows:

Within one year	231,930	980,245
After one year but not more than five years	--	231,930
	-----	-----
	231,930	1,212,175
	=====	=====

15. NET SALES

Gross sales	304,184,576	238,672,594
Sales tax	(39,710,508)	(31,402,174)
	-----	-----
	264,474,068	207,270,420
	=====	=====

16. COST OF GOODS SOLD

Raw materials consumed	16.1	179,755,581	132,702,798
Salaries, wages and other benefits		20,818,177	24,319,168
Packing expenses		3,294,065	2,935,771
Stores and spares consumed		10,789,281	8,775,572
Power and fuel		4,429,551	4,024,173
Rent, rates and taxes		118,953	103,953
Repairs and maintenance		2,496,503	2,182,634
Vehicle running expenses		256,880	382,427
Insurance		915,850	868,821
Lease rentals		215,076	209,259
Printing and stationery		127,325	143,795
Telephone, postage and telegram		116,005	102,889
Travelling and conveyance		17,420	48,390
Fees and subscription		147,489	221,383
Depreciation	3.2	4,532,197	5,119,324
Advertisement		3,085	112,059
Computer software		376,000	--
Other expenses		156,386	310,521
		-----	-----
		228,565,824	182,562,937
Opening work-in-process		4,745,763	5,844,208
Closing work-in-process	5	(4,506,223)	(4,745,763)
		-----	-----
		239,540	1,098,445
Cost of goods manufactured		-----	-----
		228,805,364	183,661,382
Opening stock of finished goods		-----	-----
		578,368	2,004,641

Closing stock of finished goods	5	(1,813,621)	(578,368)
		-----	-----
		(1,235,253)	1,426,273
		-----	-----
		227,570,111	185,087,655
		=====	=====

16.1 Raw materials consumed:

Opening stock		25,986,615	18,637,626
Purchases		177,216,625	140,051,787
		-----	-----
		203,203,240	158,689,413
Closing Stock	5	(23,447,659)	(25,986,615)
		-----	-----
		179,755,581	132,702,798
		=====	=====

17. OTHER INCOME

Rental income		156,000	182,000
Commission on insurance premium		197,982	1,090,424
Miscellaneous		174,622	88,186
		-----	-----
		528,604	1,360,610
		=====	=====

18. ADMINISTRATIVE EXPENSES

Salaries, allowances and other benefits		5,825,582	4,972,184
Rent, rates and taxes		6,800	46,524
Repairs and maintenance		233,170	147,894
Vehicle running expenses		511,778	495,910
Insurance		195,490	218,649
Lease rentals		579,500	640,023
Printing and stationery		169,461	226,348
Telephone, postage and telegram		108,022	116,170
Travelling and conveyance		70,310	16,710
Fees and subscription		75,942	63,508
Depreciation	3.2	544,592	461,267
Advertisement		29,960	81,780
Other expenses		55,470	94,367
		-----	-----
		8,406,077	7,581,334
		=====	=====

19. SELLING AND DISTRIBUTION EXPENSES

Salaries, wages and other benefits		1,313,089	1,366,749
Repairs and maintenance		51,672	101,628
Vehicle running expenses		102,722	151,316
Insurance		40,591	39,092
Lease rentals		101,091	138,529
Printing and stationery		12,558	68,969
Telephone, postage and telegram		60,645	67,003
Travelling and conveyance		1,742	22,955
Cartage outward		441,881	514,683
Bad debts written off		26,033	1,675
Other expenses		30,505	69,565
		-----	-----
		2,182,529	2,542,164
		=====	=====

20. OTHER CHARGES

Legal and professional fees		150,500	92,000
Auditors' remuneration			
Audit fee		75,000	99,000
Other services		5,000	32,500
Out of pocket expenses		19,590	29,775
		-----	-----
		161,275	99,590
Workers' profit participation fund	13.2	775,218	258,410
Workers' welfare fund		294,635	99,553
Provision for slow moving and obsolete stores and spares		1,694,329	--
Loss on disposal of tangible fixed assets	3.3	1,292,645	37,512
Donations	20.1	11,000	4,000
		-----	-----
		4,321,102	649,565
		=====	=====

20.1 Recipients of donations do not include any donee in whom a director or his spouse had an interest.

21. FINANCIAL CHARGES

Mark-up / interest on:			
Short term finances		5,023,637	4,960,687
Finance lease obligations		2,953,627	2,770,818
Workers' profit participation fund	13.2	23,275	37,185
		-----	-----
		8,000,539	7,768,690
Bank charges and commission		87,801	191,392
		-----	-----
		8,088,340	7,960,082
		=====	=====

22. TAXATION

Current - for the year		5,539,000	1,772,000
- for prior years		(391,418)	--
		-----	-----
		5,147,582	1,772,000
Deferred		(950,000)	714,000
		-----	-----
		4,197,582	2,486,000
		=====	=====

23. CASH GENERATED FROM OPERATIONS

Profit before taxation		14,434,513	4,810,230
Adjustment for non-cash charges and other items:			
Loss on disposal of tangible fixed assets		1,292,645	37,512
Mark-up on short term finances		5,023,637	4,960,687
Mark-up on finance leases		2,953,627	2,761,902
Depreciation		5,076,789	5,580,591
Provision for slow moving and obsolete stores and spares		1,694,329	--
Provision for gratuity		73,182	66,270
		-----	-----
		16,114,209	13,406,962
Profit before working capital changes		30,548,722	18,217,192
Working capital changes	23.1	2,445,072	(9,158,580)
		-----	-----
		32,993,794	9,058,612
		=====	=====

23.1 Working capital changes

Decrease/(increase) in current assets:

Stores and spares	(2,143,586)	(2,952,128)
Stock-in-trade	7,001,794	(4,914,044)
Trade debtors	(1,874,786)	(4,919,800)
Advances (excluding income tax)	(920,146)	782,164
Prepayments	135,019	212,814
Other receivables	1,154	724,133
	-----	-----
	2,199,449	(11,066,861)

(Decrease)/increase in current liabilities:

Creditors, accrued and other liabilities

(excluding unclaimed dividend)

	245,623	1,908,281
	-----	-----
	2,445,072	(9,158,580)
	=====	=====

24. REMUNERATION OF CHIEF EXECUTIVE AND EXECUTIVES

	2001			2000		
	<i>Chief Executive</i>	<i>Executives</i>	<i>Total</i>	<i>Chief Executive</i>	<i>Executives</i>	<i>Total</i>
	<i>Rupees</i>	<i>Rupees</i>	<i>Rupees</i>	<i>Rupees</i>	<i>Rupees</i>	<i>Rupees</i>
Managerial remuneration	714,012	3,445,182	4,159,194	604,488	2,907,360	3,511,848
Bonus	107,251	515,307	622,558	90,737	438,194	528,931
Retirement benefits	58,176	285,299	343,475	49,200	237,258	286,458
House rent	224,232	1,189,779	1,414,011	189,756	1,039,188	1,228,944
Medical allowance	--	73,494	73,494	--	78,252	78,252
Motor vehicle expenses	91,100	437,560	528,660	85,940	483,122	569,062
Conveyance allowance	--	21,581	21,581	--	--	--
Utilities	37,832	--	37,832	31,159	--	31,159
	-----	-----	-----	-----	-----	-----
Total	1,232,603	5,968,202	7,200,805	1,051,280	5,183,374	6,234,654
	=====	=====	=====	=====	=====	=====
Number of persons	1	15	16	1	13	14
	=====	=====	=====	=====	=====	=====

24.1 The chief executive and some executives are also provided with free use of company maintained vehicles.

24.2 Aggregate amount charged in these accounts in respect of director's fee is Rs. 1,000 (2000: Rs. 500).

2001	2000
Rupees	Rupees

25. TRANSACTIONS WITH ASSOCIATED UNDERTAKINGS

Sales of goods (gross)	280,093,543	217,921,337
Purchases of goods and services (gross)	171,974,905	117,722,215
Sales of tangible fixed assets	55,000	164,000
Rent and allied charges	1,874	62,617
Rental income	156,000	182,000
Commission income	197,982	1,090,424

The transactions with associated undertakings are in the normal course of business at contracted rates and

terms determined in accordance with market rates.

26. BASIC EARNINGS PER SHARE

There is no dilutive effect on the basic earnings per share of the company, which is based on:

Profit after taxation (Rupees)	10,236,931	2,324,230
	=====	=====
Weighted average number of ordinary shares	2,749,477	2,749,477
	=====	=====
Basic earnings per share (Rupees)	3.72	0.85
	=====	=====

27. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

27.1 Credit risk and concentration of credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The company attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties and continually assessing the creditworthiness of counterparties.

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the company's performance to developments affecting a particular industry.

Industry sector	2001		2000	
	Rupees	%	Rupees	%
Tobacco	13,415,673	91.49	10,396,649	81.30
Food and confectionery	784,798	5.35	1,461,194	11.43
Paper and forest products	462,721	3.16	370,459	2.90
Electrical and electric goods	--	--	56,673	0.44
Toiletries	--	--	503,431	3.93
	-----	-----	-----	-----
	14,663,192	100.00	12,788,406	100.00
	=====	=====	=====	=====

27.2 Market rate of return (MROR) risk

MROR risk arises from the possibility that changes in market rates of return will affect the value of financial instruments. The company is not materially exposed to MROR risk except in respect of liabilities against assets subject to finance lease which is at fixed interest rate.

	Exposed to MROR			Not exposed to MROR				
	Maturity upto one year	Maturity after one year	Sub total	Maturity upto one year	Maturity after one year	Sub total	Total 2001	Total 2000
	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees
Financial assets								
Long term deposits	--	--	--	--	2,677,324	2,677,324	2,677,324	2,701,365
Trade debts	--	--	--	14,663,192	--	14,663,192	14,663,192	12,788,406
Advances, deposits and other receivables								
Advances - unsecured considered goods	--	--	--	589,000	--	589,000	589,000	13,691

Deposits	--	--	--	95,750	--	95,750	95,750	233,295
Other receivables	--	--	--	78,535	--	78,535	78,535	79,689
Cash and bank balances	--	--	--	283,780	--	283,780	283,780	109,928
	-----	-----	-----					
	--	--	--	15,710,257	2,677,324	18,387,581	18,387,581	15,926,374
	=====	=====	=====					
Financial liabilities								
Liabilities against assets subject to finance lease	3,660,838	11,857,563	15,518,401	--	--	--	15,518,401	19,568,356
Short term running finances	28,044,926	--	28,044,926	--	--	--	28,044,926	39,640,309
Creditors, accrued and other liabilities	775,218	--	775,218	15,919,621	--	15,919,621	16,694,839	16,250,119
Proposed final dividend	--	--	--	5,498,954	--	5,498,954	5,498,954	2,749,477
	-----	-----	-----					
	32,480,982	11,857,563	44,338,545	21,418,575	--	21,418,575	65,757,120	78,208,261
	=====	=====	=====					
Average market rate of return	14.32%	18.75%						
	=====	=====						

27.3 Foreign exchange risk

The company is not materially exposed to foreign exchange risk.

27.4 Fair values of financial instruments

The estimated fair values of all the financial assets and liabilities are not materially different from their book values as at the balance sheet date.

28. CAPACITY AND PRODUCTION

Printing is a service industry involving the processing of printing material on a mix of different size machines having 1 to 5 color units. The paper and board used is dependent on the customer's requirement ranging from 38gsm to 450gsm of a large variety of products involving several processes during and post printing. Due to many variables and complexities involved, the capacity is not determinable.

29. STAFF RETIREMENT BENEFITS

Salaries, wages and benefits include Rs. 1,119,076 (2000: Rs. 1,181,279) in respect of staff retirement benefits.

30. NUMBER OF EMPLOYEES

The total number of permanent employees as at year end were 207 (2000: 227)

31. GENERAL

31.1 Corresponding figures have been re-arranged, wherever necessary, for the purpose of comparison.

31.2 Figures have been rounded off to the nearest rupee.

IQBALALI LAKHANI
Chairman

MOHAMMAD SHAHID
Chief Executive

**PATTERN OF HOLDING OF SHARES
HELD BY THE SHAREHOLDERS OF MERIT PACKAGING LIMITED
AS AT JUNE 30, 2001**

<i>NO. OF SHARE HOLDERS</i>	<i>FROM</i>	<i>SHAREHOLDING</i>	<i>TO</i>	<i>TOTAL SHARES HELD</i>
51	1	100	Shares	1,983
123	101	500	Shares	25,961
20	501	1,000	Shares	14,885

26	1,001	5,000	Shares	48,686
3	5,001	10,000	Shares	19,589
2	10,001	15,000	Shares	26,408
1	15,001	20,000	Shares	17,166
2	25,001	30,000	Shares	56,589
1	50,001	55,000	Shares	50,916
2	55,001	60,000	Shares	115,978
1	60,001	65,000	Shares	64,735
2	70,001	75,000	Shares	144,408
2	75,001	80,000	Shares	154,551
1	90,001	95,000	Shares	91,940
1	100,001	105,000	Shares	101,002
1	105,001	110,000	Shares	107,651
1	120,001	125,000	Shares	120,175
2	145,001	150,000	Shares	290,950
1	180,001	185,000	Shares	181,843
1	305,001	310,000	Shares	308,917
1	801,001	806,000	Shares	805,144
-----				-----
245				2,749,477
=====				=====

CATEGORIES OF SHAREHOLDERS

	NUMBER	SHARES HELD	PERCENTAGE
Individuals	231	957,007	34.81
Joint Stock Companies	8	697,258	25.36
Financial Institutions	5	975,037	35.46
Others - Foreign Companies	1	120,175	4.37
	-----	-----	-----
	245	2,749,477	100.00
	=====	=====	=====

IQBALALI LAKHANI
Chairman

MOHAMMAD SHAHID
Chief Executive