ANNUAL Report 2011

Packaging Solution
Under One Roof

Merit Packaging Limited

(ISO-9001/22000/HACCP Certified)

A Lakson Group Company

Contents

Corporate Information

Board of Directors

Iqbal Ali Lakhani	Chairman
Mohammad Shahid	Chief Executive Officer
Zulfiqar Ali Lakhani	
Amin Mohammed Lakhani	
Tasleemuddin Ahmed Batlay	
Shahid Ahmed Khan	
Muhammad Asif (upto December 13, 2010)	Nominee Director (NIT)
Kaleem Uddeen Ahmad (upto September 21, 2010)	Nominee Director (NIT)
Muhammad Yousuf Memon (from December 13, 2010)	Nominee Director (NIT)
Sheikh Asim Rafiq (from September 21, 2010)	Nominee Director (NIT)

Advisor

Sultan Ali Lakhani

Audit Committee

Iqbal Ali Lakhani	Chairman
Zulfiqar Ali Lakhani	
Tasleemuddin Ahmed Batlay	

Company Secretary

Mansoor Ahmed

Auditors

BDO Ebrahim & Co.
Chartered Accountants

Bankers

Askari Bank Limited
Habib Bank Limited
HSBC Bank Middle East Limited
JS Bank Limited
Oman International Bank S. A. O. G.
Soneri Bank Limited

Shares Registrar

FAMCO Associates (Pvt) Ltd
State Life Building No. 1-A, 1st Floor,
Off I.I. Chundrigar Road, Karachi-74000

Registered Office

Lakson Square, Building No. 2,
Sarwar Shaheed Road, Karachi-74200
Phone: 021-35698000
Faxes: 021-35683410, 35684336

Factory

17-B, Sector 29, Korangi Industrial Township, Karachi-75180
Phones: 021-35017164, 35015544
Faxes: 021-35017161, 35015739

Web Presence

www.meritpack.com

Notice of Meeting

NOTICE IS HEREBY GIVEN that the 31st Annual General Meeting of MERIT PACKAGING LIMITED will be held on Tuesday September 27, 2011 at 10:00 a.m. at Avari Towers Hotel, Fatima Jinnah Road, Karachi to transact the following business:

ORDINARY BUSINESS

1. To receive, consider and adopt the audited financial statements for the year ended June 30, 2011 with the Directors' and Auditors' reports thereon.

2. To appoint auditors and fix their remuneration.

SPECIAL BUSINESS

3. To consider to increase the Authorized Capital of the Company from Rs.80,000,000 to Rs.300,000,000 divided into 30,000,000 ordinary shares of Rs.10/- each and if thought fit to pass a special resolution in the matter.

A statement under section 160 of the Companies Ordinance, 1984 in the above matter including draft of the special resolution to be passed pertaining to item No.3 is annexed.

By Order of the Board

(MANSOOR AHMED)
Company Secretary

Dated: August 18, 2011

NOTES:

1. The share transfer books of the Company will remain closed from September 21, 2011 to September 27, 2011 both days inclusive. Transfers received in order by the Shares Registrar of the Company M/s. FAMCO Associates (Private) Limited, State Life Building No.1-A, 1st Floor, I.I.Chundrigar Road, Karachi upto September 20, 2011 will be treated in time for the purpose of attendance of Annual General Meeting.

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 CDC account/sub-account number alongwith original Computerized National Identity Card (CNIC) or original Passport at the time of attending the meeting.

3. A member entitled to attend and vote at the Annual General Meeting may appoint another member as his/her proxy to attend, speak and vote instead of him/her.

4. Forms of proxy to be valid must be properly filled-in/executed and received by the Company at its registered office at Lakson Square, Building No.2, Sarwar Shaheed Road, Karachi not later than forty-eight hours before the time of the meeting.

5. Members are requested to notify the Shares Registrar of the Company promptly of any change in their addresses.

6. Members who have not yet submitted photocopy of their Computerized National Identity Cards (CNIC) are requested to send the same to our Shares Registrar at the earliest.

7. Form of proxy is enclosed herewith.

STATEMENT UNDER SECTION 160 OF THE COMPANIES ORDINANCE, 1984

PERTAINING TO ITEM NO. 3

At present the Authorized Capital of the Company is Rs.80,000,000 and the Paid-up Capital is Rs.47,428,470. The Board of Directors recommends to increase the Authorized Capital to Rs.300,000,000 in order to facilitate increase in the Paid-up Capital as and when required to do so, and if thought fit by the members to pass the following resolution as a Special Resolution:

> "RESOLVED that the Authorized Share Capital of the Company be and is hereby increased to Rs.300,000,000 divided into 30,000,000 ordinary shares of Rs.10/- each and that Clause V of the Memorandum of Association and Articles 3 of the Articles of Association of the Company be and are hereby amended accordingly."

The Directors are interested in this business only to the extent of their entitlement of dividends as ordinary shareholders in the Company.

Directors' Report

The Directors are pleased to present the 31st Annual Report together with the audited financial statements of Merit Packaging Limited (the Company) for the year ended June 30, 2011.

THE INDUSTRY

Printing and packaging industry could not present an attractive outlook due to weak economic situation and a steep increase in industrial input prices and general overheads. Surplus capacity in hte country triggered intense competition which in turn made it difficult to transfer incremental costs to customers.

FINANCIAL PERFORMANCE

- **Results for the year**

	2011	2010
	Rs. in 000's	Rs. in 000's
Sales - net	1,753,881	1,076,104
Gross profit	164,425	91,597
Gross profit %	9.37	8.51
Operating profit	111,817	48,217
Operating profit %	6.37	4.48
Financial charges	95,195	76,997
Profit / (loss) before taxation	16,622	(28,780)
Profit / (loss) after taxation	10,275	(18,692)
Earnings / (loss) per share	Rs.2.17	Rs. (3.94)

Despite reasons given above, the Company by the Grace of Allah, was able to attain highest ever sales amounting to Rs 1.8 billion during the year under review as compared to Rs 1.07 billion in the last financial year. This represents an increase of 63%. Continuous efforts to expand our customer base and market share alongwith optimum capacity utilization have helped to attain better financial results. In comparison to pre-tax loss of Rs 28.78 million last year the Company has achieved a pre-tax profit of Rs 16.62 million during the year ended June 30, 2011.

APPROPRIATIONS

Due to significant increase in sales volume the present cash flow position is tight. Further in view of the initial stage of the recovery of financial health of the Company the Directors propose a Nil dividend for the year ended June 30, 2011 (2010:Dividend – Nil).

CONTRIBUTION TO NATIONAL ECONOMY

In the year under review the Company has paid Rs 124.04 million to the National exchequer in the form of customs duty, income tax, sales tax and other levies as compared to Rs 58.31 million in the last year. The Company strongly believes in full tax compliance, transparency and strict adherence to all taxation rules and regulations.

COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

As required under the code of corporate governance, the Directors are pleased to state as follows:

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

Directors' Report

- Proper books of accounts of the Company have been maintained by the Company.
- Accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- International Financial Reporting Standards, as applicable in Pakistan, have been followed in preparation of financial statements.
- The system of internal control is sound in design and has been effectively implemented. It is being continuously monitored and reviewed by the Internal Audit function.
- There are no doubts upon the Company's ability to continue as a going concern.
- There has been no material departure from the Best Practices of Corporate Governance as detailed in the Listing Regulations.
- The summary of financial data for the last six years of the Company is annexed.

SAFETY, SECURITY, HEALTH AND ENVIRONMENT (SSHE)

At the Company we provide our employees a safe and secure working environment. To ensure health and safety of employees a medical camp was arranged where all employees were provided free checkups. The employees are also given environmental, health and safety training on a regular basis enabling them to carry out their duties in a risk free manner.

CORPORATE SOCIAL RESPONSIBILITY

As social responsible corporate citizens, we have committed ourselves to the uplift of society. We recognize that we cannot have a growing business unless the communities we serve are healthy and sustainable. To achieve this goal our Company extended support to the Pakistan Flood Relief operations in the year 2010 in the form of food and clothing.

Directors' Report

HUMAN RESOURCE DEVELOPMENT

Comprehensive training programmes are drawn out every year to develop and improve skills of our employees through in-house, external and foreign training. The Company is, thus investing both in human capital as well as working environment to help achieve competitive advantage that is so essential to survive.

AUDITORS

The present Auditors Messrs BDO Ebrahim & Co., Chartered Accountants retire and being eligible, offer themselves for re-appointment. The Board of Directors endorses the recommendation of Audit Committee for their re-appointment as auditors of the Company for the financial year ending June 30, 2012.

MATERIAL CHANGES

There have been no material changes since June 30, 2011. The Company has not entered into any commitment, which would affect its financial position at the date except for those mentioned in the audited financial statements for the year June 30, 2011.

PATTERN OF SHAREHOLDING

A statement showing the pattern of shareholding of the Company and such other information as at June 30, 2011, is annexed to this report.

The Directors, Chief Executive Officer, Chief Financial Officer, Company Secretary, their spouses and minor children did not carry out any transaction in the shares of the Company during the year.

STATEMENT OF ETHICS AND BUSINESS PRACTICES

The Board of Directors of the Company has adopted the Statement of Ethics and Business Practices to establish standards of conduct. All the employees have been made aware of this and are required to observe these rules of conduct, while performing their duties.

STAFF RETIREMENT BENEFIT FUNDS

Value of investment made by staff retirement benefit funds operated by the Company based on their respective audited accounts as at December 31, 2010 and June 30, 2011 respectively are as follows:

	Rs. in 000's
Provident Fund	74,209
Gratuity Fund	27,637

BOARD OF DIRECTORS

- **Changes in composition**

During the year under review Mr. Kaleem Uddeen Ahmad, nominee of National Investment Trust Limited, resigned on September 21, 2010 and Mr. Sheikh Asim Rafiq was nominated by National Investment Trust Limited on the Board of Directors of the Company in his place. Mr. Muhammad Asif, nominee of National Investment Trust Limited, resigned on December 13, 2010 and Mr. Muhammad Yousuf Memon was nominated by National Investment Trust Limited on the Board of Directors of the Company in his place.

Directors' Report

The Board wishes to place on record the valuable contributions made by the outgoing Directors Mr. Kaleem Uddeen Ahmad and Mr. Muhammad Asif and welcomes the new Directors Mr. Sheikh Asim Rafiq and Muhammad Yousuf Memon on the Board of the Company.

- **Meetings of Board of Directors**

In 2010-11, the Board of Directors held four (4) meetings on a quarterly basis to review its complete cycle of activities. The attendance record of the Directors is as follows:

	No. of meetings attended
Mr. Iqbal Ali Lakhani – (Chairman)	2
Mr. Zulfiq Ali Lakhani	3
Mr. Amin Mohammed Lakhani	3
Mr. Tasleemuddin Ahmed Batlay	4
Mr. Shahid Ahmed Khan	3
Mr. Kaleem Uddeen Ahmad (Nominee of National Investment Trust Limited- upto September 21, 2010)	1
Mr. Sheikh Asim Rafiq (Nominee of National Investment Trust Limited- from September 21, 2010)	2
Mr. Muhammad Asif (Nominee of National Investment Trust Limited- upto December 13, 2010)	1
Mr. Muhammad Yousuf Memon (Nominee of National Investment Trust Limited- from December 13, 2010)	2
Mr. Mohammad Shahid	4

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

BUSINESS RISKS AND CHALLENGES

The Management of the Company continues to take appropriate measures to thwart business risks by adopting modern business methods, technology and product diversification.

FUTURE OUTLOOK

The future outlook appears optimistic as we gear up to meet customer product quality and service expectations to sustain our competitive edge. Stringent quality control measures have been taken to ensure efficient production and maximum capacity utilization. We are also focusing on proper utilization of working capital facilities by rationalizing stock levels and trade debts to minimize financial costs. Also, continuous revamping and streamlining of operational synergies are well in place.

AUDIT COMMITTEE

Audit Committee comprises of three non-executive directors (including its Chairman). Terms of reference of the Committee have been determined by Board of Directors in accordance with the guidelines provided in Listing Regulations and advised to the Committee for compliance. During the year, four Audit Committee meetings were held.

Directors' Report

The accounts of the company and relevant public announcements were reviewed by the Audit Committee before approval by the Board.

QUALITY MANAGEMENT

The Company is now ISO 9001:2008, ISO 22000:2005 and HACCP certified company. Our quality & HACCP policies emphasize focus on the customer satisfaction and implementation of best business practices for quality management system & food safety management. We are a proud recipient of Global Food Safety Award for **"Excellence in Food Packaging"** for the year 2011.

GRATITUDE

The Directors recognize and record their appreciation for the sincere efforts put in by all our employees, as well as the customers and shareholders. We extend gratitude to financial institutions and stakeholders who play vital role for the overall success of the Company.

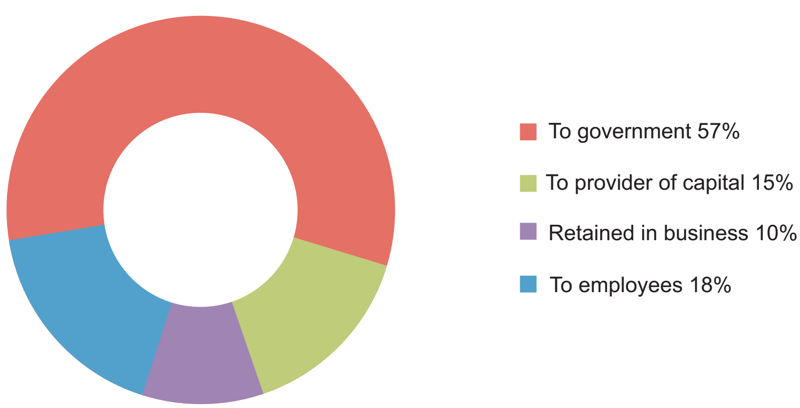
On behalf of the Board of Directors

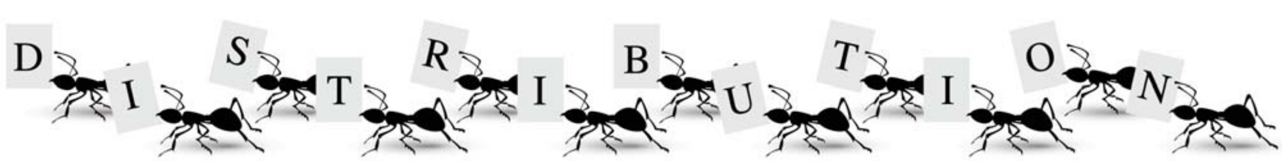
IQBAL ALI LAKHANI
Chairman

Karachi: August 18, 2011

Statement of Value Added and its Distribution

Particulars	2011 Rs. in 000's	%	2010 Rs. in 000's	%
Value added				
Gross Sales	2,107,592		1,270,466	
Material and services	(1,482,239)		(887,046)	
Other income	4,648		1,693	
	630,001	100	385,113	100
Distribution				
To employees				
Salaries, wages and other benefits	110,718		92,273	
Workers profit participation fund	893		-	
	111,611	18	92,273	24
To government				
Sales tax & Special Excise Duty	353,532		194,334	
Company taxation	6,347		(10,089)	
Workers welfare fund	339		-	
	360,218	57	184,245	48
To providers of capital				
Financial charges on borrowed fund	95,195	15	76,997	20
Retained in business				
Depreciation	51,719		49,309	
Amortisation of intagible assets	983		981	
Retained profit/(loss)	10,275		(18,692)	
	62,977	10	31,598	8
	630,001	100	385,113	100





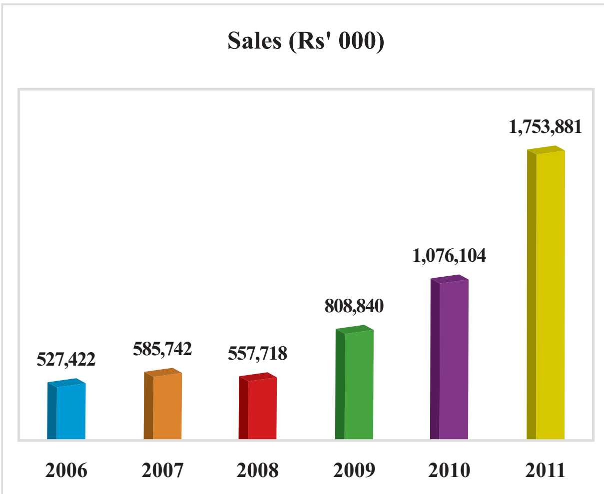
Six Years Key Operating and Financial Data

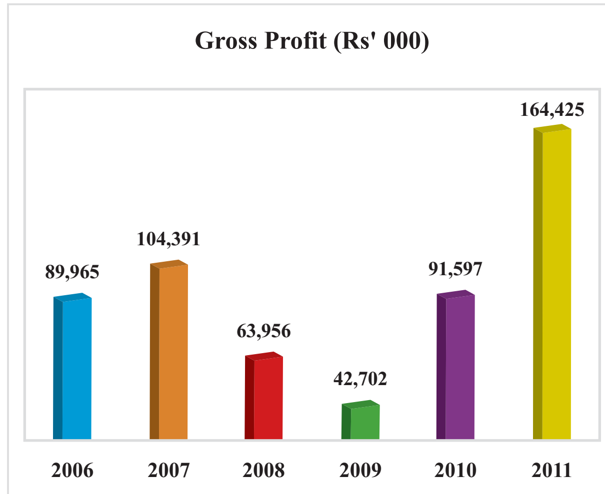
	Rupees in thousands					
	2011	2010	2009	2008	2007	2006
Trading results						
Sales	1,753,881	1,076,104	808,840	557,718	585,742	527,422
Gross profit	164,425	91,597	42,702	63,956	104,391	89,965
Profit/(loss) before taxation	16,622	(28,780)	(56,218)	10,806	45,248	43,042
Profit/(loss) after taxation	10,275	(18,692)	(37,346)	6,952	29,113	27,526
Dividend						
Cash	0%	0%	0%	0%	0%	35%
Stock	0%	0%	0%	15%	50%	0%
Payout ratio	0%	0%	0%	0%	0%	35%
Financial position						
Total capital employed	604,792	704,428	638,349	586,041	403,403	391,594
Property, plant and equipment	619,653	652,746	685,482	602,370	422,923	393,771
Shareholder equity	111,868	100,792	118,639	154,962	146,260	122,405
Long term liabilities	354,361	452,391	352,270	288,234	118,511	132,221
Deferred taxation	2,870	14,751	30,101	48,628	42,664	37,465
Others						
Number of employees (at year end)	275	274	274	223	201	201
Capital expenditure	20,386	19,248	84,456	218,740	70,789	71,390
Contribution to national exchequer	124,040	58,310	56,178	70,737	46,562	41,851
Ratios						
Gross profit	9.37%	8.51%	5.28%	11.47%	17.82%	17.06%
Profit/(loss) before taxation	0.95%	-2.67%	-6.95%	1.94%	7.72%	8.16%
Profit/(loss) after taxation	0.59%	-1.74%	-4.62%	1.25%	4.97%	5.22%
Return on equity	9.18%	-18.55%	-31.48%	4.49%	19.90%	22.49%
Return on capital employed	1.70%	-2.65%	-5.85%	1.19%	7.22%	7.03%
Current ratio	0.97 : 1	1.09 : 1	0.82 : 1	0.89 : 1	0.80 : 1	0.93 : 1
Debt / equity ratio	65 : 35	67 : 33	61 : 39	59 : 41	40 : 60	44 : 56
Inventory days	58	68	66	82	57	63
Receivable days	50	48	30	23	14	19
Others						
Earning per share - (Rs.)	2.17	(3.94)	(7.87)	1.47	6.14	5.80
Break-up value per share (Rs.)	23.59	21.25	25.01	37.57	53.20	44.52
Market Value (Rs.)	25.84	18.00	26.99	90.97	132.90	77.00
Price earning ratio	11.93	(3.43)	(3.43)	62.06	18.83	11.54

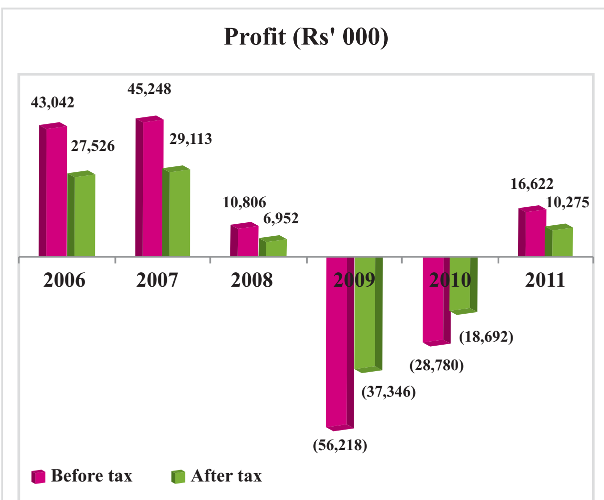
Vertical & Horizontal Analysis

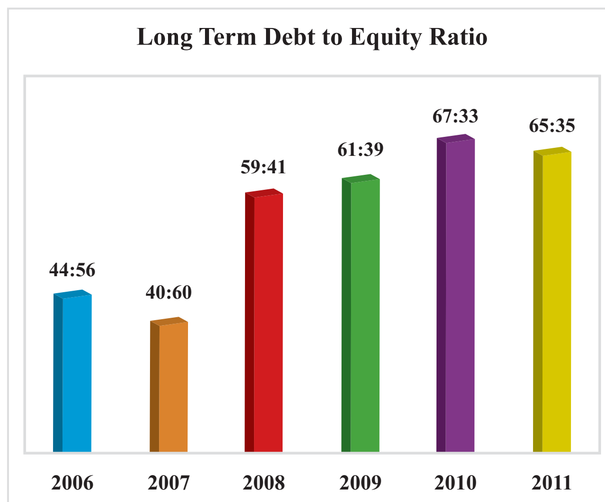
	2011		2010		2009		2008		2007		2006	
	Rs. '000	%	Rs. '000	%	Rs. '000	%	Rs. '000	%	Rs. '000	%	Rs. '000	%
VERTICAL ANALYSIS												
PROFIT & LOSS ACCOUNT												
Sales - net	1,753,881	100%	1,076,104	100%	808,840	100%	557,718	100%	585,742	100%	527,422	100%
Cost of sales	1,589,456	91%	984,507	91%	766,139	95%	493,762	89%	481,351	82%	437,457	83%
Gross profit	164,425	9%	91,597	9%	42,702	5%	63,956	11%	104,391	18%	89,965	17%
Operating expenses	52,608	3%	43,380	4%	31,314	4%	23,755	4%	33,181	6%	22,918	4%
Operating profit	111,817	6%	48,217	4%	11,387	1%	40,201	7%	71,210	12%	67,047	13%
Financial charges	95,195	5%	76,997	7%	67,605	8%	29,395	5%	25,962	4%	24,005	5%
Profit/(loss) before taxation	16,622	1%	(28,780)	-3%	(56,218)	-7%	10,806	2%	45,248	8%	43,042	8%
Profit/(loss) after taxation	10,275	1%	(18,692)	-2%	(37,346)	-5%	6,952	1%	29,113	5%	27,526	5%
BALANCE SHEET												
Assets												
Property, plant and equipment	619,653	48%	652,746	55%	685,482	70%	602,370	72%	422,923	77%	393,771	77%
Other non-current assets	7,632	1%	10,397	1%	14,379	1%	11,468	1%	8,609	2%	6,369	1%
Current Assets	645,852	51%	517,509	44%	282,561	29%	228,168	27%	114,175	21%	109,324	22%
Total Assets	1,273,137	100%	1,180,652	100%	982,422	100%	842,006	100%	545,707	100%	509,464	100%
Equity & Laibilities												
Share capital & reserves	111,868	9%	100,792	9%	118,639	12%	154,962	18%	146,260	27%	122,405	24%
Surplus on revaluation of fixed assets	135,693	11%	136,493	12%	137,338	14%	94,217	11%	95,968	17%	99,502	20%
Non-current liabilities	357,231	28%	467,142	39%	382,371	39%	336,862	40%	161,175	30%	169,686	33%
Current liabilities	668,345	52%	476,225	40%	344,074	35%	255,965	31%	142,304	26%	117,871	23%
Total equity and Liabilities	1,273,137	100%	1,180,652	100%	982,422	100%	842,006	100%	545,707	100%	509,464	100%
HORIZONTAL ANALYSIS												
PROFIT & LOSS ACCOUNT												
Sales - net	1,753,881	333%	1,076,104	204%	808,840	153%	557,718	106%	585,742	111%	527,422	100%
Cost of sales	1,589,456	363%	984,507	225%	766,139	175%	493,762	113%	481,351	110%	437,457	100%
Gross profit	164,425	183%	91,597	102%	42,702	47%	63,956	71%	104,391	116%	89,965	100%
Operating expenses	52,608	230%	43,380	189%	31,314	137%	23,755	104%	33,181	145%	22,918	100%
Operating profit	111,817	167%	48,217	72%	11,387	17%	40,201	60%	71,210	106%	67,047	100%
Financial charges	95,195	397%	76,997	321%	67,605	282%	29,395	122%	25,962	108%	24,005	100%
Profit/(loss) before taxation	16,622	39%	(28,780)	-67%	(56,218)	-131%	10,806	25%	45,248	105%	43,042	100%
Profit/(loss) after taxation	10,275	37%	(18,692)	-68%	(37,346)	-136%	6,952	25%	29,113	106%	27,526	100%
BALANCE SHEET												
Assets												
Property, plant and equipment	619,653	157%	652,746	166%	685,482	174%	602,370	153%	422,923	107%	393,771	100%
Other non-current assets	7,632	120%	10,397	163%	14,379	226%	11,468	180%	8,609	135%	6,369	100%
Current Assets	645,852	591%	517,509	473%	282,561	258%	228,168	209%	114,175	104%	109,324	100%
Total Assets	1,273,137	250%	1,180,652	232%	982,422	193%	842,006	165%	545,707	107%	509,464	100%
Equity & Laibilities												
Share capital & reserves	111,868	91%	100,792	82%	118,639	97%	154,962	127%	146,260	119%	122,405	100%
Surplus on revaluation of fixed assets	135,693	136%	136,493	137%	137,338	138%	94,217	95%	95,968	96%	99,502	100%
Non-current liabilities	357,231	211%	467,142	275%	382,371	225%	336,862	199%	161,175	95%	169,686	100%
Current liabilities	668,345	567%	476,225	404%	344,074	292%	255,965	217%	142,304	121%	117,871	100%
Total equity and Liabilities	1,273,137	250%	1,180,652	232%	982,422	193%	842,006	165%	545,707	107%	509,464	100%

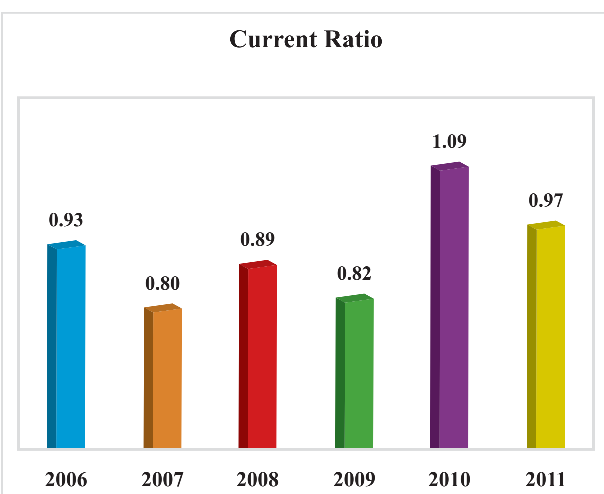
Graphs

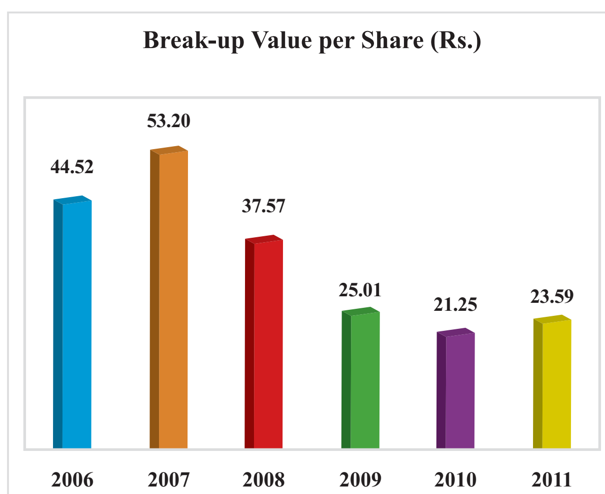

Sales (Rs' 000)
527,422
585,742
557,718
808,840
1,076,104
1,753,881
2006
2007
2008
2009
2010
2011


Gross Profit (Rs' 000)
89,965
104,391
63,956
42,702
91,597
164,425
2006
2007
2008
2009
2010
2011


Profit (Rs' 000)
43,042
27,526
45,248
29,113
10,806
6,952
(56,218)
(37,346)
(28,780)
(18,692)
16,622
10,275
2006
2007
2008
2009
2010
2011
Before tax
After tax


Long Term Debt to Equity Ratio
44:56
40:60
59:41
61:39
67:33
65:35
2006
2007
2008
2009
2010
2011


Current Ratio
0.93
0.80
0.89
0.82
1.09
0.97
2006
2007
2008
2009
2010
2011


Break-up Value per Share (Rs.)
44.52
53.20
37.57
25.01
21.25
23.59
2006
2007
2008
2009
2010
2011

BDO

Tel: +92 21 3568 3030
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www.bdo.com.pk

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Lakson Square
Building No. 1
Sarwar Shaheed Road
Karachi-74200
Pakistan

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

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of **MERIT PACKAGING LIMITED** to comply with the Listing Regulation No.37 (Chapter XI) of the Karachi Stock Exchange (Guarantee) Limited, where the Company is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Company's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Company personnel and review of various documents prepared by the Company to comply with the Code.

As part of our audit of the financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board's statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Company's corporate governance procedures and risks.

Further, Sub-regulation (xiii) of Listing Regulation 37 notified by The Karachi Stock Exchange (Guarantee) Limited vide Circular KSE/-269 dated January 19, 2009 requires the company to place before the Board of Directors for their consideration and approval, related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the Audit Committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the Audit Committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Company for the year ended June 30, 2011.

BDO Ebrahim & Co.

KARACHI

CHARTERED ACCOUNTANTS

DATED: August 18, 2011

Engagement Partner: Zulfikar Ali Causer

Statement of Compliance with the Code of Corporate Governance
for the year ended June 30, 2011

This statement is being presented to comply with the Code of Corporate Governance (Code) contained in listing regulations of Karachi Stock Exchange (Guarantee) Limited for the purpose of establishing a framework of good governance.

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

1. The Company encourages representation of independent non-executive directors on its Board of Directors including those representing minority interests. At present the Board comprises a total of eight directors, including two executive directors whilst two directors have been nominated by National Investment Trust Limited (NIT).

2. The directors of the Company have confirmed that none of them is serving as a director in more than ten listed companies, including this Company.

3. All the directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFI. None of the directors of the Company are members of a stock exchange.

4. During the current year two casual vacancies occurred in the Board of Directors which was filled up within 30 days.

5. The Company has adopted and circulated a 'Statement of Ethics and Business Practices', which has been signed by all the directors and employees of the Company.

6. The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the Company. A complete record of particulars of significant policies alongwith the dates on which they were approved or amended has been maintained.

7. All the powers of the Board have been duly exercised and decisions on material transactions have been taken by the Board including appointment, determination of remuneration and terms and conditions of employment of Chief Executive Officer (CEO).

8. The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose. During the year four meetings of the Board of Directors were held. Written notices of the Board meetings, alongwith agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated in time.

9. In compliance of the clause No. xiv of the Code of Corporate Governance of the amended Listing Regulations of the Stock Exchanges, this year one of the Director of the Company Mr. Tasleemuddin A. Batlay has participated in the Corporate Governance Leadership Skill Program-Part-I for the Certification of Directors under 'the Board Development Series' Program managed by the Pakistan Institute of Corporate Governance (PICG). The Board also arranged one orientation course for its directors during the year to apprise them of their duties and responsibilities and briefed them regarding amendments in the Companies Ordinance/Corporate Laws.

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

11. The directors' report for the year ended June 30, 2011 has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.

Statement of Compliance with the Code of Corporate Governance

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

13. All material information as required under the relevant rules has been provided to the Sock Exchange and to the Securities & Exchange Commission of Pakistan within the prescribed time limit.

14. The Directors, CEO and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.

15. The Company has complied with all the corporate and financial reporting requirements of the Code.

16. The Board has formed an audit committee. It comprises of three members, all of them are non-executive directors.

17. The meetings of the Audit Committee were held at least once every quarter prior to approval of interim and final results of the Company as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.

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

19. The statutory auditors of the Company have confirmed that:

i. They have been given a satisfactory rating under the quality control review programme of the Institute of Chartered Accountants of Pakistan.

ii. They or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and

iii. The firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of Ethics as adopted by Institute of Chartered Accountants of Pakistan.

20. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.

21. The related party transactions have been placed before the Audit Committee and approved by the Board of Directors with necessary justification for non arm's length transactions and pricing methods for transactions that were made on terms equivalent to those that prevail in the arm's length transactions only if such terms can be substantiated.

22. We confirm that all other material principles contained in the Code have been complied with.

Karachi: August 18, 2011	**IQBAL ALI LAKHANI** Chairman	**MOHAMMAD SHAHID** Chief Executive Officer

Pattern of Holding of Shares

held by the shareholders as at June 30, 2011

Incorporation No. K-206/5831/ CUIN No. 0007464

Number of shareholders	Shareholding From	To		Total number of shares held
182	1	100	shares	5,486
197	101	500	shares	55,128
91	501	1,000	shares	67,813
143	1,001	5,000	shares	303,566
23	5,001	10,000	shares	161,960
5	10,001	15,000	shares	62,158
8	15,001	20,000	shares	141,655
1	20,001	25,000	shares	21,337
5	25,001	30,000	shares	141,367
2	40,001	45,000	shares	86,100
1	65,001	70,000	shares	65,127
1	85,001	90,000	shares	90,000
1	310,001	315,000	shares	314,930
1	345,001	350,000	shares	349,615
1	530,001	535,000	shares	532,881
1	650,001	655,000	shares	654,214
1	680,001	685,000	shares	684,145
1	1,005,001	1,010,000	shares	1,005,365
665				4,742,847

Categories of shareholders	Shares held	Percentage
Directors, Chief Executive Officer,		
and their spouses and minor children	9,645	0.20
Associated Companies, undertakings and related parties	2,509,858	52.92
National Investment Trust Ltd. &		
National Bank of Pakistan - Trustee Deptt.	731,373	15.42
Banks, Development Financial Institutions,		
Non-Banking Financial Institutions.	414,742	8.74
Insurance Companies	NIL	–
Modarabas and Mutual Funds	NIL	–
Share holders holding 10%	2,876,605	60.65
General Public		
Local	1,077,229	22.71
Foreign	NIL	–

Note: Some of the shareholders are reflected in more than one category.

Mohammad Shahid
Chief Executive Officer

Details of Pattern of Shareholding as per requirements of Code of Corporate Governance

				Shares held
a)	**Associated Companies, Undertakings and Related Parties**			
	1.	SIZA (Private) Limited		314,930
	2.	SIZA Services (Pvt) Limited		654,214
	3.	SIZA Commodities (Pvt) Limited		532,881
	4.	Premier Fashions (Pvt) Limited		1,005,365
	5.	Mrs. Gulbanoo Lakhani		172
	6.	Mr. Sultan Ali Lakhani		241
	7.	Mrs. Shaista Sultan Ali Lakhani		334
	8.	Mr. Babar Ali Lakhani		859
	9.	Mr. Bilal Ali Lakhani		234
	10.	Mr. Danish Ali Lakhani		359
	11.	Miss Sanam Iqbal Lakhani		35
	12.	Miss Misha Lakhani		234
b)	**NIT**			
	1.	National Investment Trust Limited		47,228
	2.	National Bank of Pakistan, Trustee Deptt.		684,145
c)	**DIRECTORS, CEO AND THEIR SPOUSES AND MINOR CHILDREN**			
	1.	Mr. Iqbal Ali Lakhani	Director	2,840
	2.	Mr. Zulfiqar Ali Lakhani	Director	862
	3.	Mr. Amin Mohammed Lakhani	Director	2,992
	4.	Mr. Tasleemuddin Ahmed Batlay	Director	862
	5.	Mr. Shahid Ahmed Khan	Director	500
	6.	Mr. Mohammad Shahid	Director & Chief Executive	862
	7.	Mrs. Ronak Iqbal Lakhani W/o. Iqbal Ali Lakhani		179
	8.	Mrs. Fatima Lakhani W/o. Zulfiqar Ali Lakhani		272
	9.	Mrs. Saira Amin Lakhani W/o. Amin Mohammed Lakhani		276
	10.	Mr. Sheikh Asim Rafiq	Nominee of NIT	NIL
	11.	Mr. Muhammad Yousuf Memon	Nominee of NIT	NIL
d)	**Executives**			NIL
e)	**Public Sector Companies and Corporations**			NIL
f)	**BANKS, DEVELOPMENT FINANCIAL INSTITUTIONS, NON-BANKING FINANCIAL INSTITUTIONS, INSURANCE COMPANIES, MODARABAS AND MUTUAL FUNDS: [other than those reported at (b)]**			414,742
g)	**SHAREHOLDERS HOLDING 10% OR MORE [Other than those reported at a(2), a(3), a(4) and b(2)]**			NIL
h)	**INDIVIDUALS AND OTHER THAN THOSE MENTIONED ABOVE**			1,077,229
				4,742,847

BDO

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AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of **MERIT PACKAGING LIMITED** as at June 30, 2011 and the related profit and loss account, statement of comprehensive income, 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 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 accounts 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, statement of comprehensive income, 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, 2011 and of the profit, comprehensive income, its cash flows and changes in equity for the year then ended; and

d) in our opinion, no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980.

KARACHI

BDO Ebrahim & Co.
CHARTERED ACCOUNTANTS

DATED: August 18, 2011

Engagement Partner: Zulfikar Ali Causer

Balance Sheet
as at June 30, 2011

	Note	**2011 Rupees**	2010 Rupees
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment			
Operating fixed assets	5	619,653,478	649,865,351
Capital work-in-progress	6	-	2,880,433
		619,653,478	652,745,784
Intangible assets	7	2,994,477	3,842,890
Long-term loans and advances	8	652,662	47,926
Long-term deposits	9	3,984,107	6,507,122
		627,284,724	663,143,722
CURRENT ASSETS			
Stores and spares	10	52,653,184	36,008,726
Stock-in-trade	11	255,363,351	253,640,071
Trade debts	12	300,931,522	180,820,951
Loans and advances	13	758,838	639,505
Trade deposits and short-term prepayments	14	5,529,869	6,914,954
Other receivables	15	187,027	98,840
Tax refund due from government	16	23,570,358	29,230,890
Taxation - net	17	6,309,081	9,705,099
Cash and bank balances	18	548,796	449,691
		645,852,026	517,508,727
TOTAL ASSETS		1,273,136,750	1,180,652,449
EQUITY AND LIABILITIES			
SHARE CAPITAL AND RESERVES			
Authorised share capital			
8,000,000 (2010: 8,000,000) ordinary shares of Rs.10/- each		80,000,000	80,000,000
Issued, subscribed and paid-up capital	19	47,428,470	47,428,470
Reserves	20	64,439,805	53,364,000
		111,868,275	100,792,470
SURPLUS ON REVALUATION OF FIXED ASSETS	21	135,692,592	136,493,088
NON-CURRENT LIABILITIES			
Long-term financing	22	352,000,000	440,000,000
Liabilities against assets subject to finance leases	23	1,779,875	12,351,158
Long-term deposits		581,000	40,000
Deferred taxation	24	2,870,011	14,751,361
		357,230,886	467,142,519
CURRENT LIABILITIES			
Trade and other payables	25	148,648,211	146,244,350
Financial charges payable	26	7,484,918	7,774,429
Short-term financing	27	413,620,185	292,317,496
Current portion of long-term liabilities	28	98,591,683	29,888,097
		668,344,997	476,224,372
CONTINGENCIES AND COMMITMENTS	29		
TOTAL EQUITY AND LIABILITIES		1,273,136,750	1,180,652,449

Note: The annexed notes from 1 to 51 form an integral part of these financial statements.

IQBAL ALI LAKHANI
Chairman

MOHAMMAD SHAHID
Chief Executive Officer

Profit and Loss Account
for the year ended June 30, 2011

	Note	2011 Rupees	2010 Rupees
Sales - net	30	1,753,880,843	1,076,103,992
Cost of sales	31	(1,589,456,196)	(984,507,390)
Gross profit		164,424,647	91,596,602
General and administrative expenses	32	(30,245,972)	(24,486,611)
Selling expenses	33	(23,115,913)	(17,856,194)
Other operating income	34	4,647,552	1,693,386
Other operating expenses	35	(3,893,230)	(2,730,501)
		(52,607,563)	(43,379,920)
Operating profit		111,817,084	48,216,682
Financial charges	36	(95,194,754)	(76,997,121)
Profit/(loss) before taxation		16,622,330	(28,780,439)
Taxation	37	(6,347,021)	10,088,710
Profit/(loss) for the year		10,275,309	(18,691,729)
Earnings/(loss) per share - basic and diluted	38	2.17	(3.94)

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

Note: The annexed notes from 1 to 51 form an integral part of these financial statements.

IQBAL ALI LAKHANI
Chairman

MOHAMMAD SHAHID
Chief Executive Officer

Statement of Comprehensive Income

for the year ended June 30, 2011

	Note	**2011** Rupees	2010 Rupees
Profit/(loss) for the year		10,275,309	(18,691,729)
Other comprehensive income		-	-
Total comprehensive income/(loss) for the year		10,275,309	(18,691,729)

Surplus arising on revaluation of assets has been reported in accordance with the requirements of the Companies Ordinance, 1984 in a separate account below equity.

Note: The annexed notes from 1 to 51 form an integral part of these financial statements.

IQBAL ALI LAKHANI
Chairman

MOHAMMAD SHAHID
Chief Executive Officer

Cash Flow Statement

for the year ended June 30, 2011

	Note	2011 Rupees	2010 Rupees
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from/(used in) operations	41	33,072,255	(48,195,505)
Taxes paid		(12,775,033)	(2,527,533)
Financial charges paid		(95,484,265)	(83,534,935)
Long-term loans and advances		(604,736)	128,016
Long-term deposits		3,064,015	2,911,531
Net cash (used in) operating activities		(72,727,764)	(131,218,426)
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditure		(20,385,742)	(19,247,905)
Intangible assets		(135,000)	-
Proceeds from sale of operating fixed assets	5.5	1,912,619	2,360,392
Net cash (used in) investing activities		(18,608,123)	(16,887,513)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from long term financing		-	130,000,000
Short term financing (excluding running finance)		100,000,000	90,000,000
Repayment of long-term financing		(15,000,000)	(30,000,000)
Repayment of liabilities against assets subject to finance leases		(14,867,697)	(16,164,254)
Repayment of short term financing (excluding running finance)		-	(80,000,000)
Net cash generated from financing activities		70,132,303	93,835,746
Net decrease in cash and cash equivalents		(21,203,584)	(54,270,193)
Cash and cash equivalents at beginning of the year		(201,867,805)	(147,597,612)
Cash and cash equivalents at end of the year		(223,071,389)	(201,867,805)
CASH AND CASH EQUIVALENTS COMPRISE:			
Cash and bank balances	18	548,796	449,691
Short-term financing	27	(223,620,185)	(202,317,496)
		(223,071,389)	(201,867,805)

Note: The annexed notes from 1 to 51 form an integral part of these financial statements.

IQBAL ALI LAKHANI
Chairman

MOHAMMAD SHAHID
Chief Executive Officer

Statement of Changes in Equity
for the year ended June 30, 2011

	Issued, subscribed and paid-up capital	Reserves			Total
		General reserve	Unappropriated loss	Total	
	Rupees	Rupees	Rupees	Rupees	Rupees
Balance as at June 30, 2009	47,428,470	106,800,000	(35,589,687)	71,210,313	118,638,783
Transfer from surplus on revaluation of fixed assets (note 21)	-	-	845,416	845,416	845,416
Comprehensive loss for the year ended June 30, 2010	-	-	(18,691,729)	(18,691,729)	(18,691,729)
Balance as at June 30, 2010	47,428,470	106,800,000	(53,436,000)	53,364,000	100,792,470
Transfer from surplus on revaluation of fixed assets (note 21)	-	-	800,496	800,496	800,496
Comprehensive income for the year ended June 30, 2011	-	-	10,275,309	10,275,309	10,275,309
Balance as at June 30, 2011	47,428,470	106,800,000	(42,360,195)	64,439,805	111,868,275

Note: The annexed notes from 1 to 51 form an integral part of these financial statements.

IQBAL ALI LAKHANI
Chairman

MOHAMMAD SHAHID
Chief Executive Officer

Notes to the Financial Statements
for the year ended June 30, 2011

1. NATURE AND STATUS OF THE COMPANY

Merit Packaging Limited ("the Company") was incorporated on January 28, 1980 in Pakistan as a public limited Company under the Companies Ordinance, 1984 and is listed on the Karachi Stock Exchange. The registered office of the Company is situated at Lakson Square Building No. 2, Sarwar Shaheed Road, Karachi. The Company is mainly engaged in the manufacture and sale of printing and packaging materials.

2. BASIS OF PREPARATION

2.1 Statement of compliance

These financial statements have been prepared in accordance with the requirements of the Companies Ordinance, 1984 (the Ordinance), directives issued by the Securities and Exchange Commission of Pakistan (SECP) and approved financial reporting standards as applicable in Pakistan. Approved financial reporting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the provisions of the Ordinance. Wherever, the requirements of the Ordinance or directives issued by the SECP differ with the requirements of these standards, the requirements of the Ordinance and of the said directives have been followed.

2.2 Basis of measurement

These financial statements have been prepared under the historical cost convention, except for revaluation of certain property, plant and equipment and recognition of certain employees retirement benefits at present value.

These financial statements are prepared following accrual basis of accounting except for cash flow information.

2.3 Functional and presentation currency

These financial statements are presented in Pak rupee, which is the functional and presentation currency for the Company and rounded off to the nearest rupee.

3. NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS TO PUBLISHED APPROVED ACCOUNTING STANDARDS

3.1 Amendments that are effective in current year but not relevant to the Company

The Company has adopted the amendments to the following accounting standards which became effective during the year:

		Effective date (annual periods beginning on or after)
IAS 32	Financial Instruments	February 01, 2010
IFRS 1	First time Adoption of International Financial Reporting Standards	January/July 01, 2010
IFRS 2	Share based Payment	January 01, 2010

In April 2009 and May 2010, International Accounting standards Board issued amendments to various accounting standards primarily with a view to removing inconsistencies and clarifying wording. These improvements are listed below:

Notes to the Financial Statements
for the year ended June 30, 2011

		Effective date (annual periods beginning on or after)
Issued in April 2009		
IAS 1	Presentation of Financial Statements	January 01, 2010
IAS 7	Cash flows statement	January 01, 2010
IAS 17	Leases	January 01, 2010
IAS 36	Impairment of assets	January 01, 2010
IAS 39	Financial Instruments: Recognition and Measurement	January 01, 2010
IFRS 5	"Non Current Assets Held for Sales and Discontinued Operation"	January 01, 2010
IFRS 8	Operating Segments	January 01, 2010
Issued in May 2010		
IAS 27	Consolidated and Separate Financial Statements	July 01, 2010
IFRS 3	Business Combination	July 01, 2010

3.2 Amendments not yet effective

The following amendments and interpretations with respect to the approved accounting standards as applicable in Pakistan would be effective from the dates mentioned below against the respective standard or interpretation:

IAS 1	Presentation of Financial Statements	July 01, 2012
IAS 12	Income Taxes	January 01, 2012
IAS 19	Employee Benefits	January 01, 2013
IAS 24	Related Party Disclosures	January 01, 2011
IAS 27	Consolidated and Separate Financial Statements	January 01, 2013
IAS 28	Investments in Associates	January 01, 2013
IFRS 1	First time Adoption of International Financial Reporting Standards	July 01, 2011
IFRS 7	Financial Instruments Disclosures	July 01, 2011
IFRS 9	Financial Instruments – Classification and Measuremen	January 01, 2013
IFRIC 14	The limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	January 01, 2011

The Company expects that the adoption of the above amendments and interpretations of the standards will not affect the Company's financial statements in the period of initial application.

In addition to the above, amendments to various standards have also been issued by the IASB. Such interpretations are generally effective for accounting periods beginning on or after January 01, 2011. The Company expects that such improvements to the standards will not have any material impact on the Company's financial statements in the period of initial application.

4. SIGNIFICANT ACCOUNTING POLICIES

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

4.1 Property, plant and equipment

4.1.1 Owned

These are stated at cost less accumulated depreciation and impairment losses, if any, except for leasehold

Notes to the Financial Statements
for the year ended June 30, 2011

land, building on leasehold land and plant and machinery which are stated at revalued amount less accumulated depreciation, if any.

Depreciation is charged using the straight line method, whereby the cost or revalued amount of an asset less estimated residual value, if not insignificant, is written off over its estimated useful life.

The asset's residual values and useful lives are reviewed at each financial year end and adjusted if impact on depreciation is significant. Full month's depreciation is charged on addition, while no depreciation is charged in the month of disposal or deletion of assets.

Incremental depreciation charged for the period on revalued assets is transferred from surplus on revaluation of fixed assets to unappropriated loss during the year.

Maintenance costs and normal repairs are charged to profit and loss account as and when incurred. Major renewals and improvements are capitalised when it is probable that respective future economic benefits will flow to the Company and the cost of the item can be measured reliably and the assets so replaced, if any, are retired.

Gains and losses on disposal of property, plant and equipment are taken to the profit and loss account, and the related surplus on revaluation is transferred directly to unappropriated loss.

4.1.2 Leased

Finance leases

Leases where the Company has substantially all the risk and reward of ownership are classified as finance leases. Assets subject to finance lease are stated at lower of present value of minimum lease payments under the lease agreement and the fair value of leased assets. The related obligation under the lease less financial charges allocated to future period are shown as liabilities.

Depreciation is charged on these assets by applying the straight line method at the rate given in note 5.1 to the financial statements.

Financial charges are calculated at the rate implicit in the lease.

Operating leases

Lease payments under operating leases (net of any incentives received from the lessor) are charged to profit and loss account on a straight line basis over the respective lease term.

4.1.3 Capital work-in-progress

Capital work-in-progress represents expenditure on property, plant and equipment which are in the course of construction and installation. Transfers are made to relevant property, plant and equipment category as and when assets are available for use. Capital work-in-progress is stated at cost less any identified impairment loss.

4.2 Intangible Assets

These are stated at cost less accumulated amortization and impairment loss, if any. Amortization is charged to profit and loss account over the useful life of the asset on a systematic basis applying the straight line method.

Notes to the Financial Statements
for the year ended June 30, 2011

Software development costs are only capitalized to the extent that future economic benefits are expected to be derived by the Company.

4.3 Stores and spares

Stores and spares are stated at cost which is determined by using weighted average method except for goods in transit and in bond which are valued at cost comprising invoice value plus other charges paid thereon. Adequate provision is made for slow moving and obsolete items.

Spare parts of capital nature which can be used only in connection with an item of property, plant and equipment are classified as operating fixed assets under "Plant and machinery" category and are depreciated over a time period not exceeding the useful life of the related assets.

4.4 Stock-in-trade

Stock-in-trade are stated at lower of weighted average cost and net realisable value, except for goods in transit and in bond which are stated at cost. Cost of work-in-process and finished goods comprises cost of direct material, labour and appropriate portion of manufacturing overheads. Adequate provision is made for slow moving and obsolete items.

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

4.5 Trade debts and other receivables

Trade debts and other receivables are carried at original invoice amount being the fair value of the consideration to be received in future. An estimated provision is made against debts considered doubtful of recovery whereas debts considered irrecoverable are written off.

4.6 Taxation

4.6.1 Current

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

4.6.2 Deferred

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

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

The Company recognizes deferred tax asset/liability on surplus/deficit on revaluation of fixed assets which is adjusted against the related surplus/deficit.

Notes to the Financial Statements
for the year ended June 30, 2011

4.7 Surplus on revaluation of fixed assets

Surplus arising on revaluation of fixed assets is transferred to "Surplus on Revaluation of Fixed Assets Account" and amount equal to incremental depreciation charged during the period net of deferred tax effect is transferred to profit and loss account. Impairment loss is adjusted against surplus carried for the impaired assets.

4.8 Borrowings and their cost

Borrowings are initially recorded at the proceeds received. In subsequent periods, borrowings are stated at amortized cost using the effective yield method.

Borrowing costs are recognised as an expense in the period in which these are incurred except to the extent of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. Such borrowing costs, if any, are capitalized as part of the cost of that asset.

4.9 Trade and other payables

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

4.10 Provisions

A provision is recognized in the balance sheet when the Company has a present 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 can be made of the amount of obligation. Provisions are determined by discounting future cash flows at appropriate discount rate where ever required. Provisions are reviewed at each balance sheet date and adjusted to reflect current best estimate.

4.11 Cash and bank balances

Cash in hand and at bank are carried at nominal amount.

4.12 Impairment losses

The Company assesses at each balance sheet date whether there is any indication that assets other than stores and spares, stock in trade and deferred tax assets may be impaired. If such an indication exists, the recoverable amount of the assets is estimated in order to determine the extent of impairment loss, if any.

Where carrying values exceed the estimated recoverable amount, assets are written down to the recoverable amounts and the resulting impairment loss is recognized as expense in the profit and loss account, unless the asset is carried at revalued amount. Any impairment loss of a revalued asset is treated as a revaluation decrease.

4.13 Financial instruments

All the financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument. All the financial assets and financial liabilities are recognised initially measured at cost. which is the fair value of the consideration given or received respectively. In subsequent period, these are measured at fair value, amortised cost or cost, as the case may be. The particular measurement methods adopted are disclosed in the individual policy statement associated with each item. Any gain or loss on recognition / derecognition of the financial assets and financial liabilities is taken to profit and loss account currently.

Notes to the Financial Statements

for the year ended June 30, 2011

4.14 Offsetting of financial assets and financial liabilities

Financial asset and financial liability is offset 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.

4.15 Foreign currency translation

Transactions in foreign currencies are translated into Pak rupees at the exchange rates prevailing at the date of transactions. Monetary assets and liabilities in foreign currencies are translated into Pak rupees at the rates of exchange prevailing at the balance sheet date. Foreign exchange differences are recognised in the profit and loss account.

4.16 Employee retirement benefits

4.16.1 Defined benefit plan

The Company operates an approved funded gratuity scheme for all its permanent employees who have attained retirement age, died or resigned during service period and have served for the minimum qualification period. Contributions are made to the fund on the basis of actuarial recommendations. The actuarial valuation was carried out at June 30, 2011 using the Projected Unit Credit Method in accordance with IAS-19 "Employee Benefits". The Company's policy with regards to actuarial gains/losses is to follow minimum recommended approach under IAS-19 (note 40).

4.16.2 Defined contribution plan

The Company operates a recognised provident fund scheme covering all permanent employees. Equal contributions are made to the fund by the Company and the employees in accordance with the rules of the scheme.

4.16.3 Compensated absences

The liability in respect of compensated absences of employees is accounted for in the period in which the absences accrue.

4.17 Revenue recognition

Sales are recorded on dispatch of goods to customers.

Scrap sales are recognized when delivery is made to customers.

Profit on bank deposit and commission on insurance premium are recognised on accrual basis.

4.18 Cash and cash equivalents

For the purpose of cash flow statement, cash and cash equivalents comprise of cash in hand and balance with banks. Cash and cash equivalents also include bank overdrafts / short term financing that are repayable on demand and form an integral part of the Company's cash management.

4.19 Dividend and appropriation to reserves

Dividend and appropriation to reserves are recognized in the financial statements in the period in which these are approved.

Notes to the Financial Statements
for the year ended June 30, 2011

4.20 Share capital

Share capital is classified as equity and recognized at the face value. Incremental costs directly attributable to the issue of new shares are shown as a deduction in equity.

4.21 Earnings per share

The Company presents earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by weighted average number of ordinary shares outstanding during the period.

4.22 Related parties transactions

Transactions with related parties are based at an arm's length price method and the transfer price is determined in accordance with the comparable uncontrolled price method.

4.23 Significant accounting judgements and critical accounting estimates / assumptions

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The matters involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are as follows:

4.23.1 Defined Benefit Plan

Certain actuarial assumptions have been adopted by external professional valuer (as disclosed in note 40) for valuation of present value of defined benefit obligations and fair value of plan assets. Any changes in these assumptions in future years might affect unrecognized gains and losses in those years.

4.23.2 Provision for Taxation

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

4.23.3 Property, plant and equipment

The estimates for revalued amounts, if any, of different classes of property, plant and equipment, are based on valuation performed by external professional valuers and recommendation of technical teams of the Company. The said recommendations also include estimates with respect to residual values and depreciable lives. Further, the Company reviews the value of the assets for possible impairment on an annual basis. Any change in the estimates in future years might affect the carrying amounts of the respective items of property, plant and equipments with a corresponding affect on the depreciation charge and impairment.

4.23.4 Stores, spares and stock-in-trade

The Company has made estimates for realizable amount of slow moving and obsolete stores, spares and stock-in-trade to determine provision for slow moving and obsolete items. Any future change in estimated realizable amounts might affect carrying amount of stores, spares and stock-in-trade with corresponding affect on amounts recognized in profit and loss account as provision/reversal.

Notes to the Financial Statements
for the year ended June 30, 2011

5. OPERATING FIXED ASSETS

5.1 The following is the statement of operating fixed assets

Description	Leasehold land	Building/ improvements on leasehold land	Plant and machinery	Furniture and fixtures	Vehicles	Office equipment	Computer equipment	Factory tools and equipment	Electrical installation	Leased Plant and machinery	Total
	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees
Net carrying value basis year ended June 30, 2011											
Opening net book value	128,333,325	72,366,803	326,631,822	1,210,176	14,843,344	1,175,084	2,355,592	29,783,929	16,587,269	56,578,007	649,865,351
Addition (at cost)	-	5,734,651	8,739,076	1,595,551	3,051,000	990,847	307,865	2,551,819	-	295,366	23,266,175
Transfer	-	-	20,661,470	-	-	-	-	-	-	(20,661,470)	-
Disposal (NBV)	-	-	-	-	(1,731,425)	-	(27,148)	-	-	-	(1,758,573)
Depreciation charged	-	(4,177,919)	(32,994,679)	(458,526)	(2,250,313)	(542,985)	(1,150,113)	(5,543,281)	(784,649)	(3,817,010)	(51,719,475)
Closing net book value	128,333,325	73,923,535	323,037,689	2,347,201	13,912,606	1,622,946	1,486,196	26,792,467	15,802,620	32,394,893	619,653,478
Gross carrying value basis year ended June 30, 2011											
Cost / revaluation	128,333,325	105,022,823	506,182,169	3,745,997	19,730,660	3,845,504	6,108,324	51,498,894	20,377,532	48,063,687	892,908,915
Accumulated depreciation	-	(31,099,288)	(183,144,480)	(1,398,796)	(5,818,054)	(2,222,558)	(4,622,128)	(24,706,427)	(4,574,912)	(15,668,794)	(273,255,437)
Net book value	128,333,325	73,923,535	323,037,689	2,347,201	13,912,606	1,622,946	1,486,196	26,792,467	15,802,620	32,394,893	619,653,478
Depreciation rate (% per annum)	-	2.50% to 3.33%	2.50% to 20%	3.33% to 20%	3.33% to 25%	3.57% to 20%	5% to 33.33%	2.86% to 20%	3.33% to 4%	5% to 8.33%	
Net carrying value basis year ended June 30, 2010											
Opening net book value	128,333,325	74,682,769	353,271,500	752,003	10,670,056	1,153,780	2,166,204	35,570,576	17,117,852	59,196,667	682,914,732
Additions (at cost)	–	1,632,669	4,634,143	688,348	6,840,083	364,396	1,424,917	928,420	258,000	2,163,938	18,934,914
Disposals (NBV)	–	–	(120,937)	–	(983,672)	–	–	(1,561,104)	(9,437)	–	(2,675,150)
Depreciation charged	–	(3,948,635)	(31,152,884)	(230,175)	(1,683,123)	(343,092)	(1,235,529)	(5,153,963)	(779,146)	(4,782,598)	(49,309,145)
Closing net book value	128,333,325	72,366,803	326,631,822	1,210,176	14,843,344	1,175,084	2,355,592	29,783,929	16,587,269	56,578,007	649,865,351
Gross carrying value basis year ended June 30, 2010											
Cost / revaluation	128,333,325	99,288,172	467,708,788	2,150,447	18,683,460	2,854,657	7,874,328	48,947,075	20,377,532	77,502,626	873,720,410
Accumulated depreciation	–	(26,921,369)	(141,076,966)	(940,271)	(3,840,116)	(1,679,573)	(5,518,736)	(19,163,146)	(3,790,263)	(20,924,619)	(223,855,059)
Net book value	128,333,325	72,366,803	326,631,822	1,210,176	14,843,344	1,175,084	2,355,592	29,783,929	16,587,269	56,578,007	649,865,351
Depreciation rate (% per annum)	–	2.50% to 3.33%	2.50% to 20%	3.33% to 20%	3.33% to 25%	3.57% to 20%	5% to 33.33%	2.86% to 20%	3.33% to 4%	5% to 8.33%	

Notes to the Financial Statements
for the year ended June 30, 2011

		Note	2011 Rupees	2010 Rupees
5.2	The depreciation charge for the year has been allocated as follows:			
	Cost of sales	31	49,233,648	47,429,375
	General and administrative expenses	32	1,608,268	1,190,039
	Selling expenses	33	877,559	689,731
			51,719,475	49,309,145

5.3 The Company has revalued its leasehold land, building/improvement on leasehold land and plant and machinery on September 01, 2004 and on June 25, 2009 by an independent valuer M/s. Akbani and Javed Associates on the basis of market value. This revaluation resulted in net surplus aggregating to Rs.158.943 million. Revalued assets having revaluation surplus of Rs. 8.753 million (2010: Rs. 8.753 million) have been sold up to the balance sheet date.

The incremental value of the leasehold land, building/improvement on leasehold land and plant and machinery so revalued are being depreciated over the remaining useful lives of these assets at the date of revaluation.

Out of the revaluation surplus, an amount of Rs.139.983 million including land remains undepreciated as at June 30, 2011 (2010: Rs.141.215 million).

5.4 Had there been no revaluation, the net book value of the specific classes of property, plant and equipment would have been as follows:

	Net book value	
	2011 Rupees	2010 Rupees
Leasehold land	608,737	608,737
Building / Improvements on leasehold land	64,921,307	62,508,407
Plant and machinery	319,781,454	323,000,222
	385,311,498	386,117,366

5.5 The following operating assets were disposed off during the year:

Description	Cost/ revaluation Rupees	Accumulated depreciation Rupees	Book value Rupees	Sale proceeds Rupees	Mode of disposal	Particulars of buyer
Vehicle	1,259,000	56,430	1,202,570	1,336,678	Negotiation	Sheikh Shahabuddin - Karachi
	260,000	20,393	239,607	260,000	Negotiation	Moin Khusroo - An employee
	484,800	195,552	289,248	248,218	Company policy	Waseem Zaheer - An employee
	2,003,800	272,375	1,731,425	1,844,896		
Computer equipments	482,851	482,834	17	9,829	Negotiation	Rangeen Khan - Karachi
	1,536,818	1,536,787	31	17,094	Negotiation	Sohail Rana - Karachi
	54,200	27,100	27,100	40,800	Claim	Century Insurance Co. Ltd - Karachi
	2,073,869	2,046,721	27,148	67,723		(An Associated Company)
Total - 2011	4,077,669	2,319,096	1,758,573	1,912,619		
Total - 2010	10,822,140	8,146,990	2,675,150	2,360,392		

Notes to the Financial Statements
for the year ended June 30, 2011

6. CAPITAL WORK-IN-PROGRESS

Description	Cost: As at July 01, 2010	Additions during the year	Transferred to operating fixed assets	As at June 30, 2011
	Rupees	Rupees	Rupees	Rupees
Building / improvements on leasehold land	2,880,433	2,854,218	5,734,651	-
Plant and machinery	-	8,739,076	8,739,076	-
Total - 2011	2,880,433	11,593,294	14,473,727	-
Total - 2010	2,567,442	6,837,803	6,524,812	2,880,433

	Note	**2011 Rupees**	2010 Rupees
7. INTANGIBLE ASSETS			
Net carrying value basis			
Opening book value		3,842,890	4,824,053
Addition		135,000	-
		3,977,890	4,824,053
Amortisation charged	7.1	(983,413)	(981,163)
Closing net book value		2,994,477	3,842,890
Gross carrying value basis			
Cost		5,040,817	4,905,817
Accumulated amortisation		(2,046,340)	(1,062,927)
Closing net book value		2,994,477	3,842,890
Amortisation rate per annum		20%	20%

7.1 The amortisation charge for the year has been allocated as follows:

	Note	2011 Rupees	2010 Rupees
Cost of sales	31	431,712	245,291
General and administrative expenses	32	404,527	490,581
Selling expenses	33	147,174	245,291
		983,413	981,163

8. LONG-TERM LOANS AND ADVANCES

	Note	2011 Rupees	2010 Rupees
Loans			
(Secured - considered good)			
Due from employees	8.1	211,996	175,942
Current portion shown under current asset	13	(53,004)	(128,016)
		158,992	47,926
Advances			
(Secured - considered good)		493,670	-
		652,662	47,926

8.1 These represent interest free loans provided to employees for the purchase of motor vehicles in accordance with the terms of employment and are secured by original registration documents of vehicle and demand promissory notes. The loans are repayable over a period of five years in equal monthly installments.

Notes to the Financial Statements
for the year ended June 30, 2011

8.2 Chief Executive Officer and Directors have not taken any loans and advances from the Company.

	Note	**2011** **Rupees**	2010 Rupees
9. LONG-TERM DEPOSITS			
Deposits			
Security deposits			
Leases			
Long-term deposit under finance lease		3,905,874	6,755,874
Current portion shown under current assets	14	(3,137,069)	(2,850,000)
		768,805	3,905,874
Others		3,215,302	2,601,248
		3,984,107	6,507,122
10. STORES AND SPARES			
Stores			
In hand		29,163,470	18,098,195
In transit		1,168	584,690
		29,164,638	18,682,885
Spares			
In hand		26,113,417	20,482,099
In transit		1,250,451	238,382
		27,363,868	20,720,481
		56,528,506	39,403,366
Provision for slow moving and obsolete stores and spares	10.2	(3,875,322)	(3,394,640)
		52,653,184	36,008,726

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

10.2 Provision for slow moving and obsolete stores and spares comprises:

Balance at beginning of the year		3,394,640	3,328,548
Provision for the year		480,682	66,092
Balance at end of the year		3,875,322	3,394,640

	Note	2011 Rupees	2010 Rupees
11. STOCK-IN-TRADE			
Raw materials			
In hand		217,496,316	208,450,953
In transit		3,583,379	10,861,177
		221,079,695	219,312,130
Packing materials		1,913,361	1,973,409
		222,993,056	221,285,539
Provision for slow moving and obsolete stock in trade	11.1	(1,011,233)	(1,169,057)
		221,981,823	220,116,482
Work-in-process	31	21,418,839	20,038,371
Finished goods	31	11,962,689	13,485,218
		255,363,351	253,640,071

Notes to the Financial Statements

for the year ended June 30, 2011

		Note	2011 Rupees	2010 Rupees
11.1	Provision for slow moving and obsolete stock in trade comprises:			
	Balance at beginning of the year		1,169,057	1,128,877
	(Reversal) / provision for the year		(157,824)	40,180
	Balance at end of the year		1,011,233	1,169,057
12.	**TRADE DEBTS**			
	(Unsecured - considered good)			
	Due from associated undertakings	12.1	41,897,980	14,731,488
	Others		260,845,654	166,995,519
			302,743,634	181,727,007
	Provision for doubtful debts		(1,812,112)	(906,056)
			300,931,522	180,820,951
12.1	This comprises amount receivable from:			
	Century Paper & Board Mills Limited		2,845,177	1,005,651
	GAM Corporation (Private) Limited		298,800	254,736
	SIZA Foods (Private) Limited		205,425	173,142
	Tetley Clover (Private) Limited		22,035,451	6,627,817
	Colgate Palmolive Pakistan Limited		16,513,127	6,670,142
			41,897,980	14,731,488
13.	**LOANS AND ADVANCES**			
	Loans (secured-considered good)			
	Current portion of long-term loans	8	53,004	128,016
	Advances (unsecured-considered good)			
	To suppliers		705,834	511,489
			758,838	639,505
14.	**TRADE DEPOSITS AND SHORT TERM PREPAYMENTS**			
	Deposits			
	Current portion of long term deposits	9	3,137,069	2,850,000
	Others		2,143,000	3,897,654
			5,280,069	6,747,654
	Prepayments		249,800	167,300
			5,529,869	6,914,954
15.	**OTHER RECEIVABLES**			
	(Unsecured-considered good)			
	Due from associated undertakings	15.1	110,292	8,928
	Others		76,735	89,912
			187,027	98,840

15.1 This represents amount receivable from Century Insurance Company Limited, in respect of insurance agency commission.

Notes to the Financial Statements
for the year ended June 30, 2011

	2011 Rupees	2010 Rupees
16. TAX REFUNDS DUE FROM GOVERNMENT		
Sales tax and special excise duty receivable	12,131,142	15,734,353
Income tax refundable	11,439,216	13,496,537
	23,570,358	29,230,890

17. TAXATION - NET

The income tax assessments of the Company have been finalised by the Income Tax Department upto tax year 2010 (accounting year ended June 30, 2010) and adequate provisions have been made in these financial statements.

18. CASH AND BANK BALANCES

	2011 Rupees	2010 Rupees
Cash with banks in current accounts	171,257	157,113
Cash in hand	377,539	292,578
	548,796	449,691

19. ISSUED, SUBSCRIBED AND PAID-UP CAPITAL

Number of ordinary shares of Rs.10/- each **2011**	2010		2011 Rupees	2010 Rupees
1,890,000	1,890,000	Fully paid in cash	18,900,000	18,900,000
2,852,847	2,852,847	Issued as fully paid bonus shares	28,528,470	28,528,470
4,742,847	4,742,847		47,428,470	47,428,470
2,507,390	2,507,390	Shares held by associated undertakings	25,073,900	25,073,900

20. RESERVES

	2011 Rupees	2010 Rupees
Revenue		
General reserve	106,800,000	106,800,000
Unappropriated loss	(42,360,195)	(53,436,000)
	64,439,805	53,364,000

Notes to the Financial Statements
for the year ended June 30, 2011

	Note	2011 Rupees	2010 Rupees
21. SURPLUS ON REVALUATION OF FIXED ASSETS			
Gross surplus			
Balance as at July 01,		141,214,583	142,515,222
Transfer to unappropriated profit in respect of disposal of revalued property, plant and equipment during the year - (net of deferred tax)		–	(218)
Related deferred tax liability		–	(117)
		–	(335)
Transfer to unappropriated profit in respect of incremental depreciation charged during the year - (net of deferred tax)		(800,496)	(845,198)
Related deferred tax liability		(431,036)	(455,106)
		(1,231,532)	(1,300,304)
Surplus on revaluation of fixed assets as at June 30,		139,983,051	141,214,583
Related deferred tax effect:			
Balance as at July 01,		(4,721,495)	(5,176,718)
Transferred to unappropriated profit in respect of revalued property, plants and equipment disposed during the year		–	117
Incremental depreciation charge during the year		431,036	455,106
	24	(4,290,459)	(4,721,495)
		135,692,592	136,493,088

21.1 Under the requirements of the Companies Ordinance, 1984 the Company cannot use the surplus, except for setting off the losses arising out of the disposal of the revalued assets, losses arising out of the subsequent revaluation of assets and to set-off any incremental depreciation arising as a result of revaluation.

22. LONG TERM FINANCING

	Note	2011 Rupees	2010 Rupees
Secured			
From banking company - secured			
Morabaha financing		–	15,000,000
Current portion shown under current liabilities	28	–	(15,000,000)
		–	–
Unsecured			
From Sponsors	22.1	440,000,000	440,000,000
Current portion shown under current liabilities	28	(88,000,000)	–
		352,000,000	440,000,000
		352,000,000	440,000,000

22.1 This facility has been obtained from sponsors of the Company for the purpose of financing capital expenditure and working capital of the Company. The rate of mark-up is 10% per annum payable on quarterly basis (2010: 10% per annum). The amount is repayable in twenty equal quarterly installments commencing from July 2011.

Notes to the Financial Statements
for the year ended June 30, 2011

	Note	2011 Rupees	2010 Rupees
23. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASES			
Secured			
Balance as July 01		27,239,255	43,403,509
Payments during the year		(14,867,697)	(16,164,254)
		12,371,558	27,239,255
Payable within one year shown under current liabilities	28	(10,591,683)	(14,888,097)
		1,779,875	12,351,158

This represents finance leases entered into with financial institutions for plant and machinery. Financing rates ranging from 15.75% to 16.24% (2010: 14.38% to 15.90%) per annum have been used as a discounting factor. At the end of the lease period the ownership of assets shall be transferred to the Company on payment of residual value amounting to Rs.3.906 million (2010: Rs.6.756 million). These facilities are secured by demand promissory notes and security deposits, equal to the residual value of the leased assets.

The future minimum lease payments to which the Company is committed under the lease agreement and the periods in which they will become due are as follows:

	2011			2010		
	Upto one Year Rupees	One to five Years Rupees	Total Rupees	Upto one Year Rupees	One to five Years Rupees	Total Rupees
Minimum lease payments outstanding	11,428,056	1,820,012	13,248,068	17,237,450	13,151,659	30,389,109
Financial charges not due	(836,373)	(40,137)	(876,510)	(2,349,353)	(800,501)	(3,149,854)
Present value of minimum lease payments	10,591,683	1,779,875	12,371,558	14,888,097	12,351,158	27,239,255
Payable within one year shown under current liabilities	(10,591,683)	–	(10,591,683)	(14,888,097)	–	(14,888,097)
	–	1,779,875	1,779,875	–	12,351,158	12,351,158

	Note	2011 Rupees	2010 Rupees
24. DEFERRED TAXATION			
Deferred taxation comprises of:			
Taxable temporary differences:			
Surplus on revaluation of fixed assets	21	4,290,459	4,721,495
Other taxable temporary differences		105,764,702	106,623,999
Gross deferred tax liabilities		110,055,161	111,345,494
Deductible temporary differences:			
Carried forward tax losses		78,388,989	85,556,520
Turnover tax		25,569,239	8,170,133
Provision for slow moving and obsolete items		1,710,294	1,597,294
Provision for doubtful debts		634,239	317,120
Provision for compensated absences		882,389	953,066
Gross deferred tax assets		(107,185,150)	(96,594,133)
		2,870,011	14,751,361

Notes to the Financial Statements
for the year ended June 30, 2011

	Note	2011 Rupees	2010 Rupees
25. TRADE AND OTHER PAYABLES			
Creditors	25.1	123,555,916	134,113,404
Accrued liabilities		10,981,703	10,035,232
Payable to gratuity fund	40.2	41,861	130,477
Sales tax and special excise duty payable - net		10,382,715	–
Workers' welfare fund	35	339,231	–
Workers' profit participation fund	35	892,714	–
Advances from customers		553,968	681,777
Retention money payable		97,125	12,000
Short term deposits		5,000	5,000
Unclaimed dividend		129,143	129,143
Others		1,668,835	1,137,317
		148,648,211	146,244,350

25.1 This includes Rs. 2.654 million (2010: 1.123 million) payable in foreign currency equivalent to Pak Rupees. It includes amount payable to related parties amounting to Rs. 54.483 million (2010: Rs. 50.772 million).

	Note	2011 Rupees	2010 Rupees
26. FINANCIAL CHARGES PAYABLE			
Mark-up accrued on secured:			
Short-term financing		7,260,202	7,150,069
Liabilities against assets subject to finance leases		224,716	526,552
Long-term financing		-	97,808
		7,484,918	7,774,429
27. SHORT-TERM FINANCING			
From banking companies - secured			
Running finance	27.1	223,620,185	202,317,496
Term finance	27.2	90,000,000	90,000,000
		313,620,185	292,317,496
From sponsors - unsecured	27.3	100,000,000	-
		413,620,185	292,317,496

27.1 The Company has short term running finance facilities under mark-up arrangements aggregating to Rs.275.000 million (2010: Rs.255.000 million) from various commercial banks having mark-up at rates ranging from 14.71% to 15.62% (2010: 13.53% to 16.01%) per annum calculated on a daily product basis and payable quarterly. The unutilised balance at the end of the year was Rs.51.380 million (2010: Rs.52.683 million).

The Company has also a facility for opening letters of credit under mark-up arrangements as at June 30, 2011 amounting to Rs. 235.000 million (2010: Rs. 195.000 million) from various commercial banks. The unutilized balance at the end of the year was Rs. 235.000 million (2010: Rs. 195.000 million).

These arrangements are secured by pari passu hypothecation charge on stores and spares, stock-in-trade and trade debts.

Notes to the Financial Statements
for the year ended June 30, 2011

27.2 This finance has been obtained at interest rate of 14.78% (2010: 13.6%) per annum repayable in September, 2011. This finance is secured by way of pari passu hypothecation charge on stock-in-trade and trade debts.

27.3 This facility has been obtained from Sponsors of the Company for the purpose of working capital requirements of the Company. The rate of mark-up is 10% per annum.

	Note	2011 Rupees	2010 Rupees
28. CURRENT PORTION OF LONG-TERM LIABILITIES			
Long-term financing	22	88,000,000	15,000,000
Liabilities against assets subject to finance leases	23	10,591,683	14,888,097
		98,591,683	29,888,097

29. CONTINGENCIES AND COMMITMENTS

29.1 **Contingencies**

29.1.1 Post dated cheques amounting to Rs.4.104 million have been issued to customs authorities as security in respect of the differential amount of statutory duty and concessionary duties at the time of customs clearance of goods. In the event of withdrawal of concession, the utilization of goods shall be subject to statutory duties in which case cheques issued will be encashable.

29.2 **Commitments**

The Company was committed as at the balance sheet date as follows:

Stores, spares and raw materials under contractual obligation amounted to Rs.4.442 million (2010: Rs.1.518 million).

30. SALES - NET

	2011 Rupees	2010 Rupees
Gross sales	2,107,591,557	1,270,465,920
Sales tax	(327,182,190)	(183,638,363)
Special excise duty	(26,350,219)	(10,695,525)
Commission	(178,305)	(28,040)
	1,753,880,843	1,076,103,992

Notes to the Financial Statements
for the year ended June 30, 2011

		Note	2011 Rupees	2010 Rupees
31.	**COST OF SALES**			
	Materials consumed		1,342,573,628	786,327,510
	Salaries, wages and other benefits	31.1	80,632,077	68,057,167
	Packing material consumed		30,063,851	21,207,648
	Outsourced services		8,300,073	17,218,781
	Stores and spares consumed		31,503,082	26,373,449
	Power and fuel		27,331,706	19,059,689
	Depreciation	5.2	49,233,648	47,429,375
	Amortisation	7.1	431,712	245,291
	Rent, rates and taxes		4,691,987	2,625,152
	Repairs and maintenance		5,326,652	4,789,366
	Vehicle running expenses		820,759	832,010
	Insurance		4,406,030	4,623,783
	Printing and stationery		731,445	656,940
	Communication charges		1,120,763	749,097
	Traveling and conveyance		490,239	925,233
	Fees and subscription		253,400	236,212
	Software license fee		255,445	76,027
	Other expenses		1,147,638	801,407
	Manufacturing cost		1,589,314,135	1,002,234,137
	Opening work-in-process		20,038,371	9,853,488
	Closing work-in-process	11	(21,418,839)	(20,038,371)
			(1,380,468)	(10,184,883)
	Cost of goods manufactured		1,587,933,667	992,049,254
	Opening stock of finished goods		13,485,218	5,943,354
	Closing stock of finished goods	11	(11,962,689)	(13,485,218)
			1,522,529	(7,541,864)
			1,589,456,196	984,507,390

31.1 Salaries, wages and other benefits include Rs. 5.689 million (2010: Rs. 4.975 million) in respect of staff retirement benefits.

		Note	2011 Rupees	2010 Rupees
32.	**GENERAL AND ADMINISTRATIVE EXPENSES**			
	Salaries and other benefits	32.1	22,073,947	17,910,151
	Depreciation	5.2	1,608,268	1,190,039
	Amortisation	7.1	404,527	490,581
	Rent, rates and taxes		218,610	160,190
	Repairs and maintenance		407,719	247,370
	Vehicle running expenses		1,608,325	1,003,540
	Insurance		228,641	187,888
	Printing and stationery		364,478	363,143
	Communication charges		1,239,565	1,183,522
	Traveling and conveyance		1,053,991	610,836
	Fees and subscription		98,819	117,902
	Software license fee		244,733	266,797
	Service fee to associated undertakings		495,475	416,456
	Advertisement		34,820	71,790
	Electricity charges		43,000	41,759
	Others		121,054	224,647
			30,245,972	24,486,611

Notes to the Financial Statements
for the year ended June 30, 2011

32.1 Salaries, wages and other benefits include Rs. 2.096 million (2010: Rs. 2.007 million) in respect of staff retirement benefits.

	Note	2011 Rupees	2010 Rupees
33. SELLING EXPENSES			
Salaries and other benefits	33.1	8,011,803	6,305,671
Depreciation	5.2	877,559	689,731
Amortisation	7.1	147,174	245,291
Rent, rates and taxes		68,177	302,613
Repairs and maintenance		69,168	65,394
Vehicle running expenses		1,225,091	1,280,353
Insurance		172,074	125,648
Printing and stationery		14,835	16,082
Communication charges		726,909	564,690
Traveling and conveyance		1,296,093	681,294
Fees and subscription		5,594	53,650
Software license fee		85,168	107,421
Advertisement		298,549	1,218,626
Cartage outward		9,850,768	5,826,068
Others		266,951	373,662
		23,115,913	17,856,194

33.1 Salaries, wages and other benefits include Rs. 0.800 million (2010: Rs. 0.613 million) in respect of staff retirement benefits.

	Note	2011 Rupees	2010 Rupees
34. OTHER OPERATING INCOME			
Insurance agency commission from associated undertaking		739,728	682,401
Scrap sales		3,150,228	1,009,665
Gain on disposal of operating fixed assets		154,046	-
Foreign exchange gain		153,497	-
Others		450,053	1,320
		4,647,552	1,693,386

	Note	2011 Rupees	2010 Rupees
35. OTHER OPERATING EXPENSES			
Legal and professional		1,084,472	778,724
Auditors' remuneration:			
Statutory audit		250,000	202,000
Special reports and sundry services		116,000	116,000
Out-of-pocket expenses		40,000	35,000
		406,000	353,000
Commission on brokerage		150,000	111,111
Workers’ profit participation fund	25	892,714	-
Workers' Welfare Fund	25	339,231	-
Provision for doubtful debts	12	906,056	906,056
Bad debt expense written-off		108,757	-
Director fees		6,000	6,000
Loss on disposal of operating fixed assets		-	314,758
Foreign exchange loss		-	260,852
		3,893,230	2,730,501

Notes to the Financial Statements
for the year ended June 30, 2011

	Note	**2011** **Rupees**	2010 Rupees
36. FINANCIAL CHARGES			
Mark-up / interest on :			
Long-term financing		44,643,846	40,783,655
Lease finances		2,110,569	4,326,141
Short-term financing		47,298,287	31,352,178
		94,052,702	76,461,974
Bank charges and commission		1,142,052	535,147
		95,194,754	76,997,121
37. TAXATION			
Current		18,160,132	5,380,520
Prior		68,240	(119,384)
Deferred		(11,881,351)	(15,349,846)
	37.1	6,347,021	(10,088,710)

37.1 Relationship between tax expenses and accounting profit is as follows:

	Effective tax rate **2011** **Percentage**	2010 Percentage
Applicable tax rate	35.00	35.00
Tax effect of expenses that are not deductible in determining taxable profit	115.92	(67.13)
Tax effect of flood surcharge	3.06	-
Tax effect of expenses that are deductible in determining taxable profit	(107.24)	69.55
Tax effect of available tax losses	(42.13)	(38.25)
Tax effect of turnover tax	105.75	(18.46)
Tax effect under presumption tax regime	(1.11)	0.59
Tax effect of adjustments in respect of prior years	0.18	3.23
Net effect of deferred tax liability arising due to taxable temporary differences	(71.25)	50.52
	3.18	0.05
	38.18	35.05

	2011 **Rupees**	2010 Rupees
38. EARNINGS PER SHARE - BASIC AND DILUTED		
Profit/(loss) for the year	10,275,309	(18,691,729)
Weighted average number of ordinary shares outstanding	4,742,847	4,742,847
Earnings/(loss) per share - basic and diluted	2.17	(3.94)

Notes to the Financial Statements
for the year ended June 30, 2011

39. EVENTS AFTER THE BALANCE SHEET DATE

There were no appropriations declared by the Board of Directors in their meeting held on August 18, 2011.

40. DEFINED BENEFIT PLAN

40.1 General description

The scheme provides for terminal benefits for all its permanent employees who qualify for the scheme at varying percentages of last drawn basic salary. The percentage depends on the number of service years with the Company. Annual charge is based on actuarial valuation carried out as at June 30, 2011, using the Projected Unit Credit Method.

	Note	**2011 Rupees**	2010 Rupees
40.2 Liability recognised in balance sheet			
Fair value of plan assets	40.4	23,119,926	17,452,523
Present value of defined benefit obligation	40.5	(33,908,500)	(29,775,500)
		(10,788,574)	(12,322,977)
Actuarial gains to be recognised for the later period		4,604,613	4,514,400
Unrecognized non-vested past service cost to be recognised in the later period		6,142,100	7,678,100
Closing net liability	25	(41,861)	(130,477)
40.3 Movement of the liability recognized in the balance sheet			
Opening net liability		(130,477)	(781,000)
Charge for the year		(5,375,831)	(4,721,443)
Contribution to fund made during the year		5,464,447	5,371,966
Closing net liability		(41,861)	(130,477)
40.4 Movement in the fair value of plan assets			
Fair value as at July 01		17,452,523	15,427,000
Expected return on plan assets		2,411,486	2,456,523
Actuarial losses		(421,865)	(4,674,000)
Contribution by the employer		5,464,447	5,372,000
Benefits paid		(1,786,665)	(1,129,000)
Fair value as at June 30	40.2	23,119,926	17,452,523

Notes to the Financial Statements
for the year ended June 30, 2011

		2011	2010
		Rupees	Rupees
40.5 Movement in the defined benefit obligation			
Obligation as at July 01		(29,775,500)	(26,785,000)
Current service cost		(2,277,084)	(1,765,500)
Interest cost		(3,754,747)	(3,876,500)
Actuarial gain		112,166	1,523,000
Benefits paid		1,786,665	1,128,500
Obligation as at June 30	40.2	(33,908,500)	(29,775,500)
40.6 Expenses recognised in profit and loss account			
Current service cost		2,277,084	1,765,500
Interest cost		3,754,747	3,876,500
Expected return on plan assets		(2,411,486)	(2,456,557)
Actuarial gains recognised		219,486	-
Past service cost non-vested		1,536,000	1,536,000
		5,375,831	4,721,443
Actual return on plan assets		1,989,621	(2,217,734)

40.7 **Composition of the fair value of plan assets**

	2011		2010	
	Rupees	**Percentage**	Rupees	Percentage
Certificate of investment	-	0%	2,238,328	13%
Term Finance certificate	593,312	3%	562,474	3%
Mutual fund	20,375,320	88%	12,638,324	72%
Cash with banks	2,151,294	9%	2,013,397	12%
	23,119,926		17,452,523	

40.8 The expected contribution to funded gratuity scheme for the year ending June 30, 2012 is Rs. 5.072 million.

	2011	2010
	Percentage	Percentage
40.9 Principal actuarial assumptions		
Following were the significant actuarial assumptions used in the valuation:		
Discount rate per annum	14%	13%
Expected rate of return on plan assets per annum	14%	13%
Expected rate of increase in salary per annum	13%	12%

Notes to the Financial Statements
for the year ended June 30, 2011

	2011 Rupees	2010 Rupees	2009 Rupees	2008 Rupees	2007 Rupees
40.10 Comparison of five years					
As at June 30,					
Fair value of plan assets	23,119,926	17,452,523	15,427,000	12,087,000	10,716,000
Present value of defined benefit obligation	(33,908,500)	(29,775,500)	(26,785,000)	(20,677,000)	(18,400,000)
Deficit in the plan	(10,788,574)	(12,322,977)	(11,358,000)	(8,590,000)	(7,684,000)
Experience adjustments					
Actuarial (gain) / loss on plan assets	421,865	4,674,000	764,000	950,000	(388,000)
Actuarial (gain) / loss on plan liabilities	(112,166)	(1,523,000)	1,837,000	155,000	(1,099,000)

	Note	2011 Rupees	2010 Rupees
41. CASH GENERATED FROM OPERATIONS			
Profit/(loss) before taxation		16,622,330	(28,780,439)
Adjustment for non-cash charges and other items:			
(Gain)/loss on disposal of operating fixed assets		(154,046)	314,758
Financial charges		95,194,754	76,997,121
Depreciation		51,719,475	49,309,145
Amortisation		983,413	981,163
Provision for slow moving and obsolete items		322,858	106,272
Provision for doubtful debts		906,056	906,056
		148,972,510	128,614,515
Profit before working capital changes		165,594,840	99,834,076
Working capital changes	41.1	(132,522,585)	(148,029,581)
		33,072,255	(48,195,505)
41.1 Working capital changes			
(Increase) / decrease in current assets:			
Stores and spares		(17,125,140)	(7,173,461)
Stock-in-trade		(1,565,456)	(142,496,847)
Trade debts		(121,016,627)	(80,960,442)
Loans and advances		(119,332)	1,631,247
Trade deposits and short-term prepayments		1,385,085	(6,820,947)
Other receivables		(88,187)	649,753
Tax refunds due from Government		3,603,211	(3,655,350)
		(134,926,446)	(238,826,047)
Increase in current liabilities:			
Trade and other payables (excluding unclaimed dividend)		2,403,861	90,796,466
		(132,522,585)	(148,029,581)

Notes to the Financial Statements
for the year ended June 30, 2011

42. REMUNERATION OF CHIEF EXECUTIVE AND EXECUTIVES

The aggregate amounts charged in the financial statements for remuneration, including all benefits to Chief Executive, Director and executives of the Company were as follows:

	2011				2010		
	Chief Executive	**Director**	**Executives**	**Total**	Chief Executive	Executives	Total
	Rupees	**Rupees**	**Rupees**	**Rupees**	Rupees	Rupees	Rupees
Managerial remuneration	2,101,716	710,776	5,798,808	8,611,300	1,908,168	4,979,624	6,887,792
House rent	921,180	318,456	2,584,356	3,823,992	834,084	2,217,124	3,051,208
Bonus	341,651	–	960,018	1,301,669	309,393	684,391	993,784
Retirement benefits	964,715	63,860	1,777,743	2,806,318	847,937	1,565,525	2,413,462
Motor vehicle expenses	227,508	67,596	983,642	1,278,746	201,188	809,810	1,010,998
Medical Allowances	204,708	70,768	574,296	849,772	185,352	492,712	678,064
Utilities	10,227	–	–	10,227	30,624	–	30,624
Total	4,771,705	1,231,456	12,678,863	18,682,024	4,316,746	10,749,186	15,065,932
Number of persons	1	1	6	8	1	6	7

42.1 The Chief Executive and Executives are also provided with free use of Company maintained cars.

42.2 Aggregate amount charged during the year in these financial statements in respect of Directors' fee is Rs. 6,000 (2010: Rs. 6,000).

43. TRANSACTIONS WITH RELATED PARTIES

The related parties comprise of related group companies, local associated companies, staff retirement funds, directors and key management personnel. Transactions with related parties and remuneration and benefits to key management personnel under the term of their employment are as follows:

Notes to the Financial Statements
for the year ended June 30, 2011

Relation with the Company	Nature of transaction	Note	2011 Rupees	2010 Rupees
Associated companies	Sales of goods and services (including fixed assets)		267,674,642	139,853,063
	Purchases of goods and services (including fixed assets)		917,276,286	796,354,645
	Repayment of short term borrowing		–	80,000,000
	Markup on short term borrowing		–	454,795
	Rent and allied charges		281,482	606,699
	Insurance agency commission income		739,728	682,401
	Insurance claim received		160,431	357,000
Sponsors	Long term financing		–	130,000,000
	Markup on long term financing		43,999,998	36,346,305
	Short term borrowing obtained		210,000,000	190,000,000
	Repayment of short term borrowing		110,000,000	190,000,000
	Markup on short term borrowing		7,063,013	1,783,562
Retirement benefit plans	Contribution towards employees retirement benefits plans		8,541,625	7,222,023
Key management personnel	Compensation in respect of:			
	Short term employee benefits	43.2	14,481,416	11,431,300
	Retirement benefits		2,527,036	2,169,639

43.1 Year end balances

	2011 Rupees	2010 Rupees
Receivable from related parties	42,008,272	14,740,416
Payable to related parties	55,461,529	51,680,469
Long-term financing from sponsors	440,000,000	440,000,000
Short-term financing from sponsors	100,000,000	-

43.2 There are no transactions with key management personnel other than under their terms of employment.

44. CAPACITY AND PRODUCTION

Printing is a service industry involving the processing of printing material on a mix of different size machines having 1 to 6 colour units. The paper and board used is dependent on the customers' requirements ranging from 38 gsm to 450 gsm 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.

Notes to the Financial Statements
for the year ended June 30, 2011

45. FINANCIAL ASSETS AND LIABILITIES

	2 0 11					
		Exposed to yield/mark-up rate risk				Not exposed to yield/ mark-up rate risk
	Total	Maturity upto one year	Maturity over one year to five years	Maturity over five years	Sub-total	
	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees
Financial assets						
Long-term loans	211,996	–	–	–	–	211,996
Long-term deposits	3,984,107	–	–	–	–	3,984,107
Trade debts	300,931,522	–	–	–	–	300,931,522
Short-term deposits	5,280,069	–	–	–	–	5,280,069
Other receivables	187,027	–	–	–	–	187,207
Cash and bank balances	548,796	–	–	–	–	548,796
	311,143,517	–	–	–	–	311,143,517
Financial liabilities						
Long-term financing	440,000,000	88,000,000	352,000,000	–	440,000,000	–
Liabilities against assets subject to finance leases	12,371,558	10,591,683	1,779,875	–	12,371,558	–
Long-term deposits	581,000	–	–	–	–	581,000
Trade and other payables	138,265,496	892,714	–	–	892,714	137,372,782
Financial charges payable	7,484,918	7,484,918	–	–	7,484,918	–
Short-term financing	413,620,185	413,620,185	–	–	413,620,185	–
	(1,012,323,157)	(520,589,500)	(353,779,875)	–	(874,369,375)	(137,953,782)
On balance sheet gap	(701,179,640)	(520,589,500)	(353,779,875)	–	(874,369,375)	173,189,735
Off balance sheet items						
Financial commitments						
Stores, spares and raw material under contractual obligations	4,441,781	–	–	–	–	4,441,781
	(4,441,781)	–	–	–	–	(4,441,781)
Total gap	(705,621,421)	(520,589,500)	(353,779,875)	–	(874,369,375)	168,747,954

Notes to the Financial Statements
for the year ended June 30, 2011

	2 0 10					
		Exposed to yield/mark-up rate risk				Not exposed
	Total	Maturity upto one year	Maturity over one year to five years	Maturity over five years	Sub-total	to yield/ mark-up rate risk
	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees
Financial assets						
Long-term loans	175,942	–	–	–	–	175,942
Long-term deposits	6,507,122	–	–	–	–	6,507,122
Trade debts	180,820,951	–	–	–	–	180,820,951
Short-term deposits	6,747,654	–	–	–	–	6,747,654
Other receivables	98,840	–	–	–	–	98,840
Cash and bank balances	449,691	–	–	–	–	449,691
	194,800,200	–	–	–	–	194,800,200
Financial liabilities						
Long-term financing	455,000,000	15,000,000	352,000,000	88,000,000	455,000,000	–
Liabilities against assets subject to finance leases	27,239,255	14,888,097	12,351,158	–	27,239,255	–
Long-term deposits	40,000	–	–	–	–	40,000
Trade and other payables	146,244,350	–	–	–	–	146,244,350
Financial charges payable	7,774,429	7,774,429	–	–	7,774,429	–
Short-term financing	292,317,496	292,317,496	–	–	292,317,496	–
	(928,615,530)	(329,980,022)	(364,351,158)	(88,000,000)	(782,331,180)	(146,284,350)
On balance sheet gap	(733,815,330)	(329,980,022)	(364,351,158)	(88,000,000)	(782,331,180)	48,515,850
Off balance sheet items						
Financial commitments						
Stores, spares and raw material under contractual obligations	1,518,133	–	–	–	–	1,518,133
	(1,518,133)	–	–	–	–	(1,518,133)
Total gap	(735,333,463)	(329,980,022)	(364,351,158)	(88,000,000)	(782,331,180)	46,997,717

Notes to the Financial Statements
for the year ended June 30, 2011

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

46.1 **Risk management policies**

The Company's objective in managing risks is the creation and protection of share holders' value. Risk is inherent in the Company's activities, but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. The process of risk management is critical to the Company's continuing profitability. The Company is exposed to credit risk, liquidity risk and market risk (which includes interest rate risk and price risk) arising from the financial instruments it holds.

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

46.2 **Credit risk**

Credit risk represents the accounting loss that would be recognized at the reporting date if counter parties fail to perform as contracted and arises principally from trade and other receivables. The Company's policy is to enter into financial contracts with reputable counter parties in accordance with the internal guidelines and regulator requirements.

Exposure to credit risk

The carrying amounts of the financial assets represent the maximum credit exposures before any credit enhancements. The carrying amounts of financial assets exposed to credit risk at reporting date are as under:

	2011	2010
	(Rupees in thousands)	
Loans and deposits	9,476	13,430
Trade debts	300,932	180,821
Other receivables	187	99
Bank balances	171	157
	310,766	194,507
The aging of trade receivable at the reporting date is:		
Not past due	231,640	129,810
Past due 1-30 days	48,514	31,071
Past due 30-90 days	6,761	7,140
Past due 90 days	14,017	12,800
	300,932	180,821

All the trade debtors at balance sheet date are domestic parties.

To manage exposure to credit risk in respect of trade receivables, management performs credit reviews taking into account the customer's financial position, past experience and other factors. Where considered necessary, advance payments are obtained from certain parties.

The exposure to banks is managed by dealing with variety of major banks and monitoring exposure limits on continuous basis.

Notes to the Financial Statements
for the year ended June 30, 2011

Concentration of credit risk

Concentration of credit risk arises when a number of counter parties are engaged in similar business activities or have similar economic features that would cause their abilities to meet contractual obligation to be similarly affected by the changes in economic, political or other conditions. The Company believes that it is not exposed to major concentration of credit risk.

Impaired assets

During the year no assets have been impaired.

46.3 **Liquidity risk**

Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stress conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The following are the contractual maturities of financial liabilities, including interest payments and excluding the impact of netting agreements, if any:

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	Carrying Amount	Contractual Cash Flows	Six months or less	Six to Twelve months	One to Two years	Two to Five years	Over Five years
	(Rupees in thousands)						
Long term financing	452,372	558,332	63,862	74,184	119,535	300,751	–
Long term deposits	581	581	–	–	–	581	–
Trade and other payables	148,551	148,551	148,551	–	–	–	–
Financial charges payable	7,485	7,485	7,485	–	–	–	–
Retention money payable	97	97	97	–	–	–	–
Short term borrowings	413,620	413,620	413,620	–	–	–	–
	1,022,706	1,128,666	633,615	74,184	119,535	301,332	–

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	Carrying Amount	Contractual Cash Flows	Six months or less	Six to Twelve months	One to Two years	Two to Five years	Over Five years
	(Rupees in thousands)						
Long term financing	482,239	635,257	37,981	28,072	140,156	335,333	93,715
Long term deposits	40	40	–	–	–	40	–
Trade and other payables	146,232	146,232	146,232	–	–	–	–
Financial charges payable	7,774	7,774	7,774	–	–	–	–
Retention money payable	12	12	12	–	–	–	–
Short term borrowings	292,317	292,317	292,317	–	–	–	–
	928,614	1,081,632	484,316	28,072	140,156	335,373	93,715

Notes to the Financial Statements
for the year ended June 30, 2011

46.4 **Market risk**

Market risk is the risk that changes in market price, such as foreign exchange rates, interest rates and equity prices will effect the Company's income or the value of its holdings of financial instruments.

46.4.1 **Currency risk**

Foreign currency risk is the risk that the value of financial asset or a liability will fluctuate due to a change in foreign exchange rates. It arises mainly where receivables and payables exist due to transactions entered into in foreign currencies. The Company's exposure to foreign currency risk is as follows:

	2011	2010
	(Rupees in thousands)	
Foreign bills payable	2,654	1,123
Contractual obligations	4,442	1,518
Net exposure	7,096	2,641

The following significant exchange rates have been applied

	Average rate		**Reporting date rate**	
	2011	2010	**2011**	2010
	(Rupees)			
USD to PKR	85.73	84.17	86.05	85.60

At reporting date, if the PKR had strengthened by 10% against the US Dollar with all other variables held constant, post-tax loss / profit for the year would have been lower/higher by the amount shown below, mainly as a result of net foreign exchange gain on net foreign currency exposure at reporting date.

	Average rate		**Reporting date rate**	
	2011	2010	**2011**	2010
	(Rupees in thousands)			
Effect on (loss) or profit	710	264	710	264

The weakening of the PKR against US Dollar would have had an equal but opposite impact on the post tax loss / profits.

The sensitivity analysis prepared is not necessarily indicative of the effects on (loss) / profit for the year and assets / liabilities of the Company.

46.4.2 **Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Majority of the interest rate exposure arises from long term loans and short term borrowings. At the balance sheet date the interest rate profile of the Company's interest -bearing financial instruments is as follows:

Notes to the Financial Statements
for the year ended June 30, 2011

	2011	2010	2011	2010
	Effective rate		Carrying amount	
	(In percent)		(Rupees in thousands)	
Financial Liabilities				
Variable rate instruments				
Long term loans	15.26%	14.36%	12,372	42,239
Short term borrowings	14.41%	13.82%	223,620	202,317

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have decreased / (increased) loss for the year by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2010.

	Profit and loss	
	100 bp Increase	100 bp Decrease
As at June 30, 2011		
Cash flow sensitivity - Variable rate financial liabilities (Rs' 000)	(2,360)	2,360
As at June 30, 2010		
Cash flow sensitivity - Variable rate financial liabilities (Rs' 000)	(2,446)	2,446

The sensitivity analysis prepared is not necessarily indicative of the effects on (loss) / profit for the year and assets / liabilities of the Company.

47. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

48. CAPITAL MANAGEMENT

The Company's objectives when maintaining capital are to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders through the optimisation of the debt and equity balance.

The Company sets the amount of capital it requires in proportion to risk. The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares or adjust the amount of dividends paid to shareholders.

Notes to the Financial Statements
for the year ended June 30, 2011

The Company management believes on maintaining appropriate mix of debt and equity capital and monitors capital on the basis of the net debt to equity ratio. The net debt is defined as long and short term borrowings offset by cash and bank balances. The equity includes ordinary share capital and reserves.

The Company is not subject to any externally imposed capital requirements.

49. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorized for issue on August 18, 2011 by the Board of Directors of the Company.

50. CORRESPONDING FIGURES

Corresponding figures have been re-arranged and re-classified, wherever necessary, for the purpose of comparison, the effect of which is not significant.

51. GENERAL

Figures have been rounded off to the nearest rupee.

IQBAL ALI LAKHANI	**MOHAMMAD SHAHID**
Chairman	Chief Executive Officer

Form of Proxy

I/We ______________________________

of ______________________________

a member of **MERIT PACKAGING LIMITED** hereby appoint ______________________________

of ______________________________ or failing him

______________________________ of

____

who is/are also member/s of Merit Packaging Limited to act as my/our proxy and to vote for me/us and on my/our behalf at the **Annual General Meeting** of the Shareholders of the Company to be held on the 27th day of September 2011 and at any adjournment thereof.

Signed this ______________ day of ______________ 2011.

Folio No.	CDC Participant ID No.	CDC Account/ Sub-Account No.	No. of Shares Held

Signature over Revenue Stamp

Witness 1

Signature ______________________________

Name ______________________________

CNIC No. ______________________________

Address ______________________________

Witness 2

Signature ______________________________

Name ______________________________

CNIC No. ______________________________

Address ______________________________

Notes : -

1. The proxy must be a member of the Company.

2. The signature must tally with the specimen signature/s registered with the Company.

3. If a proxy is granted by a member who has deposited his/her shares into Central Depository Company of Pakistan Limited, the proxy must be accompanied with participant's ID number and CDC account/sub-account number alongwith attested photocopies of Computerized National Identity Card (CNIC) or the Passport of the beneficial owner. Representatives of corporate members should bring the usual documents required for such purpose.

4. The Instrument of Proxy properly completed should be deposited at the Registered Office of the Company not less than 48 hours before the time of the meeting.