

PAKISTAN PAPERSACK CORPORATION LIMITED

ANNUAL REPORT 2004

BOARD OF DIRECTORS

Rafiq M. Habib	Chairman
S. Z. Kazmi	Chief Executive
All S. Habib	
Kersi D. Kapadia	
Mohamedali R. Habib	
Anis Wahab Zuberi	NIT Nominee
Mansoob A. Akhtar	NIT Nominee

AUDIT COMMITTEE

Ali S. Habib	Chairman
Kersi D. Kapadia	Member
Mohamedali R. Habib	Member

CHIEF FINANCIAL OFFICER & COMPANY SECRETARY AUDITORS

Raj Kanwar Batra
Hyder Bhimji & Co.
Chartered Accountants

LEGAL ADVISER

Nadeem Ahmed
Advocate

BANKERS

Habib Bank AG Zurich
Habib Bank Limited
Hongkong & Shanghai Banking Corporation
Metropolitan Bank Limited
National Bank of Pakistan

FACTORIES

Stepped-end Division,
Hub Chowki, Balochistan.
Balochistan Laminates Division,
Hub Chowki, Balochistan.

REGISTERED OFFICE

5th Floor, Siddiqsons Towers,
3-Jinnah Cooperative Housing Society,
Sharea Faisal, Karachi, Pakistan.

Tel : 4312030-34
Fax : 92-21 -4312198
E-Mail : ppcl@cyber.net.pk

REGIONAL SALES OFFICE

1st Floor, E-83/A, Super Town,
Walton Road,
Lahore Cantt.

Tel : 6664571
Noble Computer Services (Pvt.) Limited

Sohni Centre, 2nd Floor, BS 5-6,
Block 4, Main Karimabad,
Karachi.
Tel : 6801880-2

DIRECTORS' REPORT TO THE SHAREHOLDERS FOR THE YEAR ENDED JUNE 30, 2004.

	2004	2003
	Rs. in '000	
Profit before Taxation	80,316	105,384
Provision for Taxation	14,420	26,359
Profit after Taxation	65,896	79,025
Un-appropriated Profit <i>B/F</i>	82	553
	65,978	79,578
Appropriations :		
Proposed Cash Dividend @ 45%	31,047	34,496
Transferred to General Reserve	34,500	45,000
Un-appropriated Profit <i>C/F</i>	431	82
	65,978	79,578

PAPERBACK OPERATIONS :

During the year under review sales of papersacks declined to Rs. 355.6 million showing a decrease of 18% as compared to last year's sales of Rs. 433.9 million, while operating profit showed a decline from Rs. 69.4 million to Rs. 38.9 million - a decrease of 44%. The decline is due to dumping of papersacks by international competitors in Pakistan at below normal prices and increased use of PP bags especially for packaging of cement for export and in the northern region in Pakistan. Further, smaller Papersack units which had earlier closed down have resumed their operations exerting pressure on the selling prices.

Exports : During the year under review, export sales remained stagnant at Rs. 5.9 million the same figure as last year. The export market remained lukewarm in the face of dumping of papersacks by international suppliers. Your Company is making plans to enter into export market aggressively and is exploring new markets.

FUTURE OUTLOOK:

The cement sector is showing strong growth and the production and consumption of cement can be expected to increase during this year and beyond. This should result in the increased market for cement bags in Pakistan. However, a substantial chunk of the market in the northern regions and the export market to Afghanistan has been taken by PP bags which are environment unfriendly. In addition, the increased competition in the market, increase in paper prices and continuing decline in selling prices, is expected to squeeze margins for the Company. The expected entry of a major international competitor in Pakistan market by the end of the next financial year is

expected to further increase pressure on the existing Papersack manufacturers in the Country.

The Government of Pakistan had earlier in the budget reduced the rate of custom duty on sack kraft paper-our industrial raw material for packaging of cement to 10%. This decision was taken after public hearing conducted by National Tariff Commission to give relief to Papersack industry in the face of growing imports. However, recently the Government has increased the duty to 15% thus taking away the level playing field available to manufacturers of papersack and PP bags and increasing the prospect of the import of Papersacks into the country.

Your Company's management is monitoring all these factors and taking necessary steps including taking up our case with Government authorities, and exploring new markets and is hopeful of meeting the challenges of the future with your support and encouragement.

LAMINATES OPERATIONS :

During the year under review sales amounted to Rs. 484.3 million as against previous year's sales of Rs. 463.2 million, which is an increase of 4.5%. Operating profit decreased from Rs. 29.2 million to Rs. 8.3 million during the year. The cost of raw material consumed during the period increased from Rs. 346.4 million to Rs. 382.5 million during the year under review, an increase of 10.4 %. The increase is mainly due to high prices of Phenol Crystal in the international market, appreciation of Euro against Pak Rupees and increase in cost of other inputs. Intense competition has made it difficult to pass on this impact to the customers.

Exports : During the year under review, the Company's efforts to explore new markets bore fruit and exports of Decorative and Industrial Laminates increased from Rs. 50.9 million to Rs. 59.9 million an increase of 17.68%. Efforts are being made to enter into USA market.

FUTURE OUTLOOK:

The prices of the Phenol Crystal have increased by almost 100% in the international market. The profitability of the division is very sensitive to the changes in the price of the raw materials particularly Phenol Crystal. In the budget the Government has reduced the import duty on paper from 20-25% to 5% which is a welcome development. However, the chances of reduction in the prices of Phenol Crystal in the near future are very slim. These factors are expected to put pressure on the profitability of the Company. Your Company is making efforts to pass on some of the impact to the customers, to improve the situation.

CEASATION OF FOOD TRADING ACTIVITIES :

A decision has been taken to cease food trading activities as these did not fit in with the core business of the Company and the management is negotiating with prospective buyers for the sale of related goodwill and brand.

CORPORATE GOVERNANCE :

The Directors of your Company confirm compliance with the Corporate and Financial Reporting Framework of the

Securities and Exchange Commission of Pakistan's Code of Corporate Governance for the following :-

- a) The financial statements prepared by the management of the Company present fairly the Company's state of affairs, the results of its operations, cash flows and changes in equity.
- b) Proper books of accounts of the Company have been maintained.
- c) Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- d) International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and any departure there-from has been adequately disclosed.
- e) The system of internal control is sound in design and has been effectively implemented & monitored.
- f) There are no significant doubts upon the Company's ability to continue as a going concern.
- g) There has been no material departure from the best practices of Corporate Governance, as detailed in the listing regulations.
- h) Information about taxes and levies is given in the notes to the accounts.
- i) Value of investments in provident fund based on un-audited accounts for the year ended June 30, 2004 amounted to Rs. 53.6 million (Audited 2002 : Rs. 23.35 million).
- j) There has been no trading in the shares of Company carried out by its Directors, CE and CFO, Company Secretary and their spouses and minor children during the year ended June 30, 2004.
- k) Key financial data for the last six years and pattern of shareholding is annexed.
- l) During the year under review, four meetings of the Board of Directors were held:

Directors	Attended
Mr. Rafiq M. Habib	3
Mr. S. Z. Kazmi	4
Mr. Kersi D. Kapadia	3
Mr. Mohamedali R. Habib	4
Mr. Ali S. Habib	4
Mr. Shamsuddin Khan	3NIT Nominee
Mr. Mansoob A. Akhtar	4NIT Nominee

Six Years At A Glance

2004

2003

2002

2001

2000

1999

Rs. in '000

Financial Position						
Shareholders Equity	451,226	389,480	334,945	310,871	301,171	279,060
Total Assets	610,521	530,938	454,228	497,432	512,790	603,123
Operating Position						
Sales (Net)	839,930	897,234	805,598	731,616	698,883	766,001
Profit before Taxation	80,316	105,384	81,437	25,298	55,361	70,729
Taxation	14,420	26,359	26,215	5,249	16,002	22,500
Profit after Taxation	65,896	79,025	55,222	20,049	39,359	48,229
Duties & Taxes paid	225,287	256,420	239,359	223,296	234,051	251,522
Earning per Share Rs.	4.78	5.73	4	1.45	2.85	3.5
Cash Dividend (%)	45	50	45	15	25	35

COMBINED PATTERN OF CDC &**NORMAL SHAREHOLDINGS AS AT 30.6.2004**

NUMBER OF SHAREHOLDERS	SHAREHOLDINGS RS. 5/- EACH		TOTAL SHARES HELD
632	1	100	23,181
585	101	500	158,439
172	501	1000	136,539
296	1001	5000	680,114
35	5001	10000	249,031
15	10001	15000	196,028
3	15001	20000	50,163
15	20001	25000	339,045
8	25001	30000	224,127
4	30001	35000	123,521
1	35001	40000	39,000
2	40001	45000	89,500
1	45001	50000	47,451
1	55001	60000	57,000
1	65001	70000	69,100
2	75001	80000	152,743
1	95001	100000	96,000
1	115001	120000	118,292
1	120001	125000	120,500
1	130001	135000	131,414
8	145001	150000	1,183,402
1	185001	190000	189,678
2	195001	200000	395,177

4	205001	210000	830,480
6	240001	245000	1,469,667
1	255001	260000	259,500
1	265001	270000	267,696
2	285001	290000	573,908
1	290001	295000	290,708
1	350001	355000	351,674
2	365001	370000	736,300
1	445001	450000	448,300
1	625001	630000	628,180
1	3070001	3075000	3,072,654
1,809			13,798,512

CATEGORIES OF SHAREHOLDERS

	NUMBER OF SHAREHOLDERS	SHARES HELD	PERCENTAGE %
Individuals	1,768	8,541,097	61.899
Investment Companies	2	226	0.002
Insurance Companies	6	732,234	5.307
Joint Stock Companies	22	332,109	2.407
Financial Institutions	1	3,072,654	22.268
Modaraba Companies	-	-	-
Foreign Investors	6	1,093,967	7.927
Co-operative Societies	2	1,827	0.013
Charitable Trusts	1	21,898	0.159
Others	1	2,500	0.018
	TOTAL	1,809	13,798,512

BALANCE SHEET AS AT JUNE 30, 2004

	Note	2004 Rs. in '000	2003
ASSETS			
Tangible Fixed Assets			
Operating Assets	4	53,288	47,091
Long Term Investments	5	77,988	50,891
Long Term Deposits		2,944	2,733
Current Assets			
		476,301	430,223
		610,521	530,938
EQUITY AND LIABILITIES			
Share Capital and Reserves Authorised Capital : 20,000,000 Ordinary Share		100,000	100,000

		451,226	389,480
Deferred Tax	16	5,200	5,800
Current Liabilities			
		154,095	135,658
Contingencies & Commitments	19		
		610,521	530,938

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed Balance Sheet of **Pakistan Papersack Corporation Limited** as at June 30, 2004 and the related Profit and Loss Account, Cash Flow Statement and Statement of Changes in Equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

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

b) in our opinion :

i) the Balance Sheet and Profit and Loss Account together with the Notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with the accounting policies consistently applied;

ii) the expenditure incurred during the year was for the purpose of the Company's business; and

iii) the business conducted, investments made and the expenditure incurred during the year

were in accordance with the objects of the Company;

c) in our opinion and to the best of our information and according to the explanations given to us, the Balance Sheet, Profit and Loss Account, Cash Flow Statement and Statement of Changes in Equity together with the Notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required, and respectively give a true and fair view of the state of the Company's affairs as at June 30, 2004 and of the profit, its cash flows and changes in equity for the year then ended; and

d) in our opinion, Zakat deductible at source under the Zakat and Ushr Ordinance, 1980, was deducted by the Company and deposited into the Central Zakat Fund established under Section 7 of that Ordinance.

CASH FLOW STATEMENT FOR THE YEAR ENDED JUNE 30, 2004

	2004	2003
	Rs. in '000	
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before Taxation	80,316	105,384
Adjustments for :		
Depreciation	11,821	10,421
Investment Income	-37,283	-18,585
Financial Expenses	2,678	2,998
Profit/(Loss) on sale of Fixed Assets	-892	477
	-23,676	-4,689
Operating Profit before Working Capital changes	56,640	100,695
Change in Working Capital (Increase)/decrease in current assets		
Stores and Spares	-1,263	-3,859
Stock-in-trade	44,023	-100,726
Trade Debts	-16,187	2,661
Loans and Advances	-5,593	1,970
Deposits and Prepayments	-455	-445
Other Receivables net of Tax	-10,358	-613
Increase/(decrease) in current liabilities	10,167	-101,012
Creditors, Accrued and other Liabilities excluding Dividend, Mark-up & Interest	-10,264	18,577
Short term and Running Finance	40,569	-8,411
	30,305	10,166
	40,472	-90,846

Cash generated from operations	97,112	9,849
Mark-up / Interest paid	-2,531	-3,000
Income Tax refund received	-	18,522
Income Tax paid	-41,129	-16,205
	-43,660	-683
Net cash generated from operations	53,452	9,166
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of Fixed Assets	-18,876	-16379
Investment Income	32,042	18,910
Sale proceeds of Fixed Assets	1,750	978
Investment made	-4,862-	
Investment sold	9,817-	
Net cash used in investing activities	19,871	3,509
	73,323	12,675
CASH FLOW FROM FINANCING ACTIVITIES		
Dividend paid	-34,187	-30,860
Long Term Loans and Deposits	-211	(1 ,029)
Net cash used in Financing Activities	-34,398	(31 ,889)
Net increase in cash and cash equivalents	38,925	-19,214
Cash and cash equivalents at the beginning	67,320	86,534
Cash and cash equivalents at the end of the year	106,245	67,320

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED JUNE 30, 2004

	Note	2004 Rs. in '000	2003
Sales	21	839,930	897,234
Cost of Sales	22	711,420	715,363
Gross Profit		128,510	181,871
Administrative Expenses	23	46,674	44,855
Selling & Distribution Expenses	24	34,666	38,499
		81,340	83,354
Operating Profit		47,170	98,517
Trading Profit	25	1,481	329
Other Income	26	39,242	18,354
		87,893	117,200
Financial Expenses	27	2,678	2,998
Other Charges	28	4,899	8,818
		7,577	11,816
Profit before Taxation		80,316	105,384
Provision for Taxation	29	14,420	26,359

Profit after Taxation		65,896		79,025
Un-appropriated Profit brought forward		82		553
Available for appropriation		65,978		79,578
APPROPRIATIONS				
Proposed Final Dividend at the rate of 45% i.e. Rs. 2.25 per share (2003 : 50% i.e. Rs. 2.50 per share)		31,047		34,496
Transferred to General Reserve		34,500		45,000
		65,547		79,496
Un-appropriated Profit carried forward		431		82
Earning per Share	30	Rs. 4.78		Rs. 5.73
Dividend per share		Rs. 2.25		Rs. 2.50

ACCOUNTING POLICIES

3.1 Accounting Convention

The Accounts of the Company are prepared on historical cost convention, except for certain "available for sale" investments other than investments in subsidiary/associated companies, which are stated at fair value as stated in Note No. 3.3.

3.2 Fixed Assets

These are stated at cost less accumulated depreciation except freehold land and capital work-in-progress which are stated at cost. Depreciation is provided on reducing balance method at the rate specified in Note No. 4. Depreciation is provided for whole year irrespective of date of purchase while no depreciation is charged on disposals/deletions during the year.

Maintenance and normal repairs are charged to income as and when incurred. Major renewals and improvements are capitalized and assets so replaced, if any are retired.

Profit or loss on disposal of Fixed Assets is included in income currently.

3.3 Investment

Investment in shares of Subsidiary/Associated undertaking

Investment in shares of Subsidiary/Associated undertaking is stated at cost. No adjustment is made for market value/break-up value as on Balance Sheet date. Provision is however, made for permanent impairment in value of investment.

Investment in shares of other undertaking

Investment in other quoted companies which are held for an indefinite period and which may be sold in response to the need for liquidity are classified as available - for sale. Appreciation/depreciation in market value is recognized in statement of changes in equity as unrealized gain/(loss) on investment

STATEMENT OF COMPLIANCE

These accounts have been prepared in accordance with the Accounting Standards as applicable in Pakistan and the requirements of the Companies Ordinance, 1984. Approved Standards comprise of such International Accounting Standards as are notified under the provisions of the Companies Ordinance, 1984. Where-ever the requirements of the Companies Ordinance, 1984 or directive issued by the Securities and Exchange Commission of Pakistan differ with the requirements of these standards, the requirements of the Companies Ordinance, 1984 or the requirements of the said directives take precedence.

COMPANY AND ITS BUSINESS

The Company was incorporated in Pakistan in the year 1973. Its shares are quoted on the Stock Exchanges of Karachi and Lahore. The Principal business activities of different divisions of the Company are as follows :

Statement of Changes in Equity

Assets and Liabilities in Foreign currency are translated into Pak Rupees at applicable exchange rate prevailing as on Balance Sheet date. Resultant exchange Gain / (Loss) is recognized to Income.

Employees Retirement Benefits

The Company operates a defined contribution plan i.e. Provident Fund for its eligible permanent employees. Monthly contribution towards the Provident Fund are made both by the Company and the employees @ 8.33% of basic pay.

Accounting for Leases

Leases rentals of assets acquired under operating lease arrangements are charged to Profit and Loss Account on a straight line basis over the lease term.

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 economic benefit will be required to settle that obligation and a reliable estimate of the amount can be made.

Financial Instruments

Financial instruments carried on the Balance Sheet include investment available-for-sale, receivables, cash and bank balances, creditors and other payables. The particular recognition methods adopted are disclosed in the individual policy statements associated with each financial instruments.

Segment Reporting

A segment is a distinguishable component with a Company that is engaged in providing products (Business Segment), which is subject to risk and rewards that are different from those by other segments.

Transfer Pricing

All transactions with related parties are at arm's length Prices determined in accordance with the prescribed pricing methods as approved by the Board of Directors.

The Company policy is to sell papersacks to its associated undertakings at arm's length prices (by using comparable uncontrollable price method) which stands approved by the Board of Directors.

The Company has secured various insurance covers from M/s. Habib Insurance Co. Ltd. at arm's length basis.

The Company obtains the services of the internal audit and share registrar services from M/s. Noble Computer Services (Pvt) Ltd., its subsidiary Company on Cost plus method.

The Company purchases vehicles from M/s. Indus Motor Company Ltd. and formaldehyde from M/s. Dynea Pakistan Ltd. at arm's length prices (comparable uncontrollable) price method.

Impairment

The Carrying amounts of the Company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated and impairment loses are recognized in the profit and loss account.

Borrowing Cost

Borrowing costs specific to a significant addition of project during its construction/erection period are capitalized.

Notes to the Accounts for the year ended June 30, 2004

3.4 Stores, Spares and Stock-in-Trade

3.4.1 Stores and Spares

These, except items-in-transit, are valued at lower of cost, on FIFO basis by the Stepped-end Division and on average cost by the Balochistan Laminates Division, and net realizable value.

Items-in-transit are valued at cost accumulated to the Balance Sheet date.

3.4.2 Stock in Trade

Stock in Trade is valued at lower of cost and net realizable value. The cost which includes applicable purchase cost and manufacturing expenses is arrived at on an average basis for raw material and finished goods. The cost of work-in-process includes material and proportionate conversion costs. Items in transit are valued at cost.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

3.5 Trade Debts

Trade debts are carried at original invoice amount less provision made for doubtful debts, if any. Bad Debts are written off when identified.

3.6 Cash and Cash Equivalents

Cash comprises of cash on hand and demand deposits. Cash Equivalents are short term, highly liquid instruments that are readily convertible to known amount of cash and which are subject to an insignificant risk of change in value.

3.7 Employees' Compensated Leave Entitlement

Employees entitlement to annual leave is recognized when they accrue to employees. A provision is made for the estimated liability as a result of services rendered by employees up to the Balance Sheet date.

3.8 Taxation

3.8.1 Current

The charge for current taxation is computed in accordance with the provisions of the Income Tax Ordinance after considering admissible tax credits and rebates, if any or one half of one

percent of turnover, whichever is higher.

3.8.2 Deferred

Deferred tax is provided using liability method providing for all temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amount used for Taxation Purposes.

3.9 Revenue Recognition

- Sales are recorded on dispatch of goods to customers.
- Dividend income is recognized when the right to receive the same is established.
- Interest / Mark-up other income is recognized on accrual basis.

3.10 Foreign Currency Translation

Transactions denominated in foreign currencies are translated into Pak Rupees at exchange rate ruling at the date of transaction.

Notes to the Accounts for the year ended June 30, 2004

	2004	2003
	Rs. in '000	
TRADE DEBTS - Unsecured		
Considered good - Associated undertakings	515	1,439
Others	129,284	112,173
	129,799	113,612
Considered doubtful	6,101	6,101
Less : Provision thereagainst	-6,101	-6,101
	-	-
	129,799	113,612
8.1 Associated Undertakings :		
Dynea Pakistan Ltd.	-	1,255
Shabbir Tiles & Ceramics Ltd.	515	184
	515	1,439
LOANS AND ADVANCES - Unsecured-considered good		
Advances : Against expenses	1,351	765
To Suppliers/Contractors	5,941	1,082
Others	259	111
	7,551	1,958

DEPOSITS & PREPAYMENTS

Security Deposits	788	100
Prepayments	1,095	1,328
	1,883	1,428

OTHER RECEIVABLES

Export rebate/duty draw back	4,104	2,815
Profit accrued on bank deposits	158	71
Insurance premium claim receivable (11.1)	255	192
Octroi refundable	225	225
Income Tax less provision for Taxation	17,233	
Sales Tax	17,630	10,321
Other receivables	1,715	18
	41,320	13,642

CASH AND BANK BALANCES

Cash in Hand	128	71
With Banks - in Call Deposits/Fixed Deposits	94,562	36,183
Foreign Currency - PLS Account	33	41
- in Current Accounts :		
Local Currency Accounts	3,699	1,271
Foreign Currency Accounts	2	9
Cheques in transit	7,821	29,745
	106,245	67,320

Notes to the Accounts for the year ended June 30, 2004

	2004	2003
	Rs. in '000	
TAXATION		
Current	14,000	31,000
Prior years	1,020	-4,141
Deferred	-600	-500
	14,420	26,359
Current Taxation		
Relationship between tax expenses and accounting profit :		
Profit before taxation	80,316	105,384
Tax at the applicable rate of 35% (2003 - 35%)	28,111	36,884
	-14,111	-5,884
Income Tax provision	14,000	31,000

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed consolidated Financial Statements comprising consolidated Balance

Sheet of **Pakistan Papersack Corporation Limited** (the holding Company) and its subsidiary company Noble Computer Services (Private) Limited as at June 30, 2004 and the related consolidated Profit and Loss Account, Statement of Changes in Equity and the consolidated Cash Flow Statement together with the notes forming part thereof, for the year then ended. We have also expressed separate opinions on the Financial Statement of Pakistan Papersack Corporation Limited and Noble Computer Services (Private) Limited. These Financial Statements are the responsibility of the Holding Company's management. Our responsibility is to express an opinion on these Financial Statements based on our examination.

Our examination was made in accordance with the International Standards on Auditing and accordingly included such tests of accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion the consolidated Financial Statements examined by us present fairly the financial position of Pakistan Papersack Corporation Limited and its subsidiary company Noble Computer Services (Private) Limited as at June 30, 2004 and the results of their operations, changes in equity and cash flows for the year then ended.

CATEGORIES OF SHAREHOLDERS	NUMBER OF SHAREHOLDERS	SHARES HELD	PERCENTAGE %
Individuals	3	300	0.15
Investment Companies	-	-	-
Insurance Companies	-	-	-
Joint Stock Companies	1	199,700	99.85
Financial Institutions	-	-	-
Modaraba Companies	-	-	-
Foreign Investors	-	-	-
Co-operative Societies	-	-	-
Charitable Trusts	-	-	-
Others	-	-	-
TOTAL	4	200,000	100

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED JUNE 30, 2004.

	Note	2004 ----- Rs. in '000 -----	2003
Sales	24	871,141	914,979
Cost of Sales	25	711,420	715,363
Gross Profit		159,721	199,616
Administrative Expenses	26	74,431	61,179
Selling & Distribution Expenses	27	34,666	38,499

		109,097	99,678
Operating Profit		50,624	99,938
Trading Profit	28	1,481	329
Other Income	29	39,376	19,063
		91,481	119,330
Financial Expenses	30	2,687	3,001
Other Charges	31	4,899	8,818
		7,586	11,819
Profit before Taxation		83,895	107,511
Provision for Taxation	32	16,310	27,101
Profit after Taxation		67,585	80,410
Un-appropriated Profit brought forward		8,723	7,809
Available for appropriation		76,308	88,219
APPROPRIATIONS			
Proposed Final Dividend at the rate of 45% i.e.			
Rs. 2.25 per share (2003 : 50% i.e. Rs. 2.50 per share)		31,047	34,496
Transferred to General Reserve		34,500	45,000
		65,547	79,496
Un-appropriated Profit carried forward		10,761	8,723
Attributable to Parent		10,746	8,710
Attributable to Minority Interest		15	13
Earning per Share	33	Rs. 4.90	Rs. 5.83

CONSOLIDATED BALANCE SHEET AS AT JUNE 30, 2004

	Note	2004 Rs. in '000	2003
ASSETS			
Tangible Fixed Assets			
Operating Assets	5	55,213	48,360
Long Term Investments	6	77,699	50,602
Long Term Deposits		4,379	2,733
Current Assets			
Stores & Spares	7	17,224	15,961
Stock-in-Trade	8	172,279	216,302
Trade Debts	9	134,751	115,321
Loans & Advances	10	9,220	2,129
Deposits & Prepayments	11	3,091	1,824
Other Receivables	12	41,399	14,260
Short Term Investments	13-		6,700
Cash & Bank Balances	14	111,449	69,550
		489,413	442,047

		626,704	543,742
EQUITY AND LIABILITIES			
Share Capital and Reserves			
Authorised Capital :			
20,000,000 Ordinary Shares of Rs. 51- each		100,000	100,000
Issued, Subscribed & Paid-up Capital	15	68,993	68,993
Revenue Reserve	16	346,872	312,372
Unrealized gain on Long Term Investment	17	36,802	9,905
Un-appropriated Profit		10,746	8,710
		463,413	399,980
Minority Interest	18	19	17
Deferred Tax	19	5,412	5,818
Current Liabilities			
Short Term and Running Finance	20	44,969	4,400
Creditors, Accrued and Other Liabilities	21	81,844	89,997
Proposed Dividend		31,047	34,496
Provision for Taxation less Payments	-		9,034
		157,860	137,927
Contingencies & Commitments	22		
		626,704	543,742

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED JUNE 30, 2004

	2004	2003
	Rs. in '000	
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before Taxation	83,895	107,511
Adjustments for :		
Depreciation	12,813	11,017
Investment Income	-37,554	-19,294
Financial Expenses	2,687	2,998
Profit/(Loss) on Sale of Fixed Assets	-755	477
	-22,809	-4,802
Operating Profit before Working Capital changes	61,086	102,709
Change in Working Capital		
(Increase)/decrease in current assets		
Stores and Spares	-1,263	-3,859
Stock-in-trade	44,023	-100,726
Trade Debts	-19,430	1,666
Loans and Advances	-7,178	1,804

Deposits and Prepayments	-1,267	-663
Other Receivables net of tax	-10,734	-346
Increase/(decrease) in current liabilities	4,151	-102,124
Creditors, Accrued and other Liabilities excluding		
Dividend, Mark-up & Interest	-7,607	18,948
Short term and Running Finance	40,569	-8,411
	32,962	10,537
	37,113	(91,587)
Cash generated from operations	98,199	11,122
Mark-up / Interest paid	-2,540	-3,000
Income Tax refund received	-	18,522
Income Tax paid	-42,984	-16,393
	-45,524	-871
Net cash generated from operations	52,675	10,251
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of Fixed Assets	-21,964	-17,339
Investment Income	32,313	19,619
Sale proceeds of Fixed Assets	3,053	1,038
Investment made	-4,862	-377
Investment Sold Long Term Prepayment	9,817 (1,435)	-
Net cash used in investing activities	16,922	2,941
	69,597	13,192
CASH FLOW FROM FINANCING ACTIVITIES		
Dividend paid	-34,187	-30,860
Long Term Loans and Deposits	-211	(1,029)
Net cash used in Financing activities	-34,398	(31,889)
Net increase in cash and cash equivalents	35,199	-18,697
Cash and cash equivalents at the beginning	76,250	94,947
Cash and cash equivalents at the end of the year	111,449	76,250

Notes to the Consolidated Accounts for the year ended June 30,2004

	2004	2003
	Rs. in '000	
9.1 Associated Undertakings :		
Dynea Pakistan Ltd.	-	1,494
Shabbir Tiles & Ceramics Ltd.	515	509
Thai Limited	197-	
	712	2,003

Maximum aggregate amount due from associated undertakings at the end of any month during the year was Rs. 3.340 million (2003 - Rs. 1.9 million).

LOANS AND ADVANCES - Unsecured-considered good

Advances : Against expenses	1,351	251
To Suppliers/Contractors	7,561	1,192
To Employees	49	575
Others	259	111
	9,220	2,129

DEPOSITS & PREPAYMENTS

Security deposits	1,081	358
Prepayments	2,010	1,466
	3,091	1,824

OTHER RECEIVABLES

Income Tax Refundable	484	484
Export Rebate/Duty drawback	4,104	2,815
Profit accrued on bank deposits	158	71
Insurance Premium/Claim receivable	765	192
Octroi refundable	225	225
Income Tax less provision for Taxation	17,318-	
Sales Tax	17,630	10,321
Other receivable	715	152
	41,399	14,260

Notes to the Consolidated Accounts for the year ended June 30,2004**20042003
Rs. in '000****25.1 RAW MATERIAL CONSUMED**

Opening Stock	168,846	89,583
Purchases	608,543	716,893
Total available	777,389	806,476
Closing Stock	-143,518	-168,846
	633,871	637,630

25.2 MANUFACTURING EXPENSES

Salaries and wages including bonus, contribution to Provident Fund and Staff Welfare expenses	37,063	33,188
Electricity, Gas and Water	26,104	24,084
Rent, Rates & Taxes	286	135
Insurance	1,474	1,526
Telephone & Fax	767	570
Postage and Telegram	11	23
Printing and Stationery	555	388
Travelling and Conveyance	750	634

Subscription	30	19
Entertainment	108	71
Research and Development	58	28
Handling, Storage & Transportation	116	121
Vehicle Running expenses	956	862
Repairs and Maintenance	4,547	5,408
Stores and Spares consumed	8,632	9,262
Legal and Professional charges	4	55
Contract baling and other manufacturing expenses	2,808	2,519
Depreciation	10,874	9,339
Lease Rentals	206	23
	95,349	88,255

ADMINISTRATIVE EXPENSES

Salaries and wages including bonus, contribution to Provident Fund and Staff Welfare expenses	44,104	33,625
Electricity, Gas and Water	4,617	3,718
Rent, Rates & Taxes	2,675	2,322
Insurance	1,243	1,217
Telephone & Fax	2,129	1,935
Postage and Telegram	231	156
Printing and Stationery	1,743	1,023
Travelling and Conveyance	4,284	4,029
Subscription	597	660
Entertainment	997	856
Vehicle running expenses	3,851	3,689
Repairs and Maintenance	2,088	1,354
Registrar/Computer service charges	537	773
Advertisement and Publicity	246	96
Donation	348	1,086
Auditors' remuneration	140	147
Legal and Professional charges	167	1,141
Depreciation	1,939	1,678
Other expenses	17	16
Vehicle lease rentals	1,385	1,203
Directors' fee	52	52
Computer supplies	1,041	403
	74,431	61,179
	423,21	65,23

Notes to the Consolidated Accounts for the year ended June 30,2004

2004

2003

----- Rs. in '000 -----

29. OTHER INCOME

Dividend Income (29.1)	30,824	14,187
Sale of Scrap and Waste	1,067	387
Profit/(Loss) on Sale of Fixed Assets	755	-477
Capital gain on Sale of Listed Shares	5,154	
Interest Income	1,576	5,085
Income on Foreign Currency Accounts	-	-119
	39,376	19,063

29.1 DIVIDEND INCOME

From Associated Undertakings :

Indus Motor Company Limited	29,340	13,040
Shabbir Tiles & Ceramics Limited	562	563
Dynea Pakistan Limited		204
	29,902	13,807
Oil & Gas Development Corp. Ltd.	162	-
	30,824	14,187

30. FINANCIAL EXPENSES

Mark-up on Short Term & Running Finance	1,386	1,941
Bank Charges and Commission	1,155	1,002
Interest on Workers' Profit Participation Fund	146	58
	2,687	3,001

31. OTHER CHARGES

Workers' Profit Participation Fund	4,261	5,694
Workers' Welfare Fund	638	3,124
	4,899	8,818

32. TAXATION

Current (32.1)	15,696	32,028
Prior years	1,020	-4,445
Deferred	-406	-482
	16,310	27,101

32.1 Current Taxation

Relationship between tax expenses and accounting profit :

Profit before taxation	83,895	107,511
Tax at the applicable rates	29,807	37,912
Add : Net effect of expenses that are inadmissible in determining taxable profit	777	-2
	-14,111	-5,884
Income Tax provision	15,696	32,028

Notes to the Consolidated Accounts for the year ended June 30,2004

	2004 ----- Rs. in '000 -----	2003
AUDITORS' REMUNERATION		
Audit fee	120	120
Out of Pocket Expenses	20	27
	140	147

FINANCIAL INSTRUMENTS AND RELATED DISCLOSURE

	Interest / Mark-up Bearing Maturity upto Maturity after Sub one year one year Total			Non Interest / Mark-up Bearing Maturity upto Maturity after Sub one year one year Total			TOTAL
2004							
Financial Assets							
Long Term Investments	-	710	-	76,989			77,699
Long Term Deposits	-	-	-	4,379			4,379
Trade Debts	-	-	134,751	134,751			134,751
Other Receivables	-	-	42,314	42,314			42,314
Deposits	-	-	1,081	1,081			1,081
Cash and Bank Balances	94,595	94,595	16,854	16,854			111,449
	94,595	710	195,000	276,368			371,673
Financial Liabilities							
Secured Short Term and running Finance	44,969	44,969	-	-			44,969
Creditors accrued and other Liabilities	-	-	82,844	82,844			82,844
Proposed Dividend	-	-	31,047	31,047			31,047
	44,969	44,969	113,891	113,891			158,860
2003							
Financial Assets							
Long Term Investments	-	710	-	49,892			50,602
Long Term Deposits	-	-	-	2,733			2,733
Trade Debts	-	-	115,321	115,321			115,321
Other Receivables	-	-	14,260	14,260			14,260
Deposits	-	-	358	358			358
Short Term Investments	6,700	6,700	-	-			6,700
Cash and Bank Balances	36,224	36,224	33,326	33,326			69,550
	42,924	43,634	163,265	215,890			259,524
Financial Liabilities							
Secured Short Term & running Finance	4,400	4,400	-	-			4,400
Creditors accrued & other Liabilities	-	-	89,997	89,997			89,997
Proposed Dividend	-	-	34,496	34,496			34,496
	4,400	4,400	124,493	124,493			128,893

REMUNERATION OF DIRECTORS, CHIEF EXECUTIVE AND EXECUTIVES

	2004			2003		
	Directors	Chief Executive	Executives	Directors	Chief Executive	Executives
No. of persons	5	1	79	5	1	67
Directors' Fee	52	-	-	52	-	-
Remuneration	-	886	24,434	-	828	21,293
Housing & Utilities	-	399	9,091	-	372	4,387
Bonus	-	-	2,328	-	-	2,074
Retirement Benefits	-	74	1,853	-	69	1,392
Medical Expenses	-	44	1,847	-	14	1,324
Other Benefits	-	91	2,107	-	64	443
	52	1,494	41,660	52	1,347	30,913
				2004	2003	
No. of Employees at the year end				368	335	

Fair Value of Financial Instruments

The management is of the view that carrying values of financial assets and liabilities approximate their fair value except investment in shares of associated undertakings which are stated at cost.

Price Risk

The Company is not exposed to any price risk as sales and purchases are made on the basis of valid sale/purchase agreements.

Liquidity Risk

The Company is not exposed to any liquidity risk as it has adequate liquid resources available to meet all short term liabilities.