

Statement of Compliance with the Best Practices of the Code of Corporate Governance

The Statement is being presented to comply with the Code of Corporate Governance contained in the Listing Regulations of Karachi, Lahore and Islamabad Stock Exchanges for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of Corporate 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 and directors representing minority interest on its Board of Directors. At present the Board includes 4 non-executive directors, of which one is an independent non-executive director and 4 executive directors.
- 2 The directors have confirmed that none of them is serving as a director in more than ten listed companies, including Highnoon Laboratories Limited.
- 3 All the resident 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 NBFIs or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
- 4 No casual vacancy occurred in the Board during 2005.
- 5 The Company has prepared 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 along with 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, including appointment, determination of remuneration and terms and conditions of employment of the CEO have been taken by the Board.
- 8 The meetings of the Board were presided over by the Chairman, and in his absence, by a director elected by the Board and the Board met at least once in every quarter. 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.
- 9 The Board arranged an orientation course for its directors to remind them of their duties and responsibilities.
- 10 The officers having positions of CFO and Company Secretary were appointed prior to the implementation of the Code of Corporate Governance. The appointment of Head of Internal Audit, his remuneration and other terms and conditions have been approved by the Board of Directors as determined by the CEO.
- 11 The directors' report for the year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
- 12 The financial statements of the Company were duly endorsed by CEO and CFO before approval of the Board.
- 13 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.
- 14 The Company has complied with all the corporate and financial reporting requirements of the Code.

- 15 The Board has formed an Audit Committee. It comprises of three members, of which two are non-executive directors.
- 16 The meetings of the Audit Committee were held at least once every quarter prior to approval of interim and final results of the Company and as required by the Code. The terms of reference of the committee were formed and fully complied with.
- 17 The Board has set-up an effective internal audit function and the internal auditors of the Company are fully conversant with the policies and procedures of the Company, working on a full time basis.
- 18 The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review programme of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that 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.

- 19 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.
- 20 We confirm that all other material principles contained in the Code have been complied with.

For and on behalf
of the Board



Lahore
22 March 2006

Anees Ahmad Khan
Chief Executive Officer

Review Report to the Members on Statement of Compliance with Best Practices of the 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 Highnoon Laboratories Limited (the Company) to comply with the Listing Regulations of the respective Stock Exchanges, 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 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 have not carried out any special

review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

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.

KPMG Taseer Hadi & Co.

KPMG Taseer Hadi & Co.
Chartered Accountants

Lahore
22 March 2006

FINANCIAL STATEMENTS



HIGHNOON LABORATORIES LIMITED

2005

The background of the page features a close-up, slightly blurred image of a hand holding a pen, poised to write on a document. The document has some numbers visible, including '5,986.35' and '53.98'. The overall color palette is muted, with greys, blues, and browns.

GROUP FINANCIAL STATEMENTS

Highnoon Laboratories Limited

and its Wholly Owned Subsidiary Company

Dynalog Services (Private) Limited

2005

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of **Highnoon Laboratories Limited** ("the Company") as at 31 December 2005 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 accounting policies consistently applied except for the change in accounting policy as explained Note 4.10 with which we concur;
 - 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 31 December 2005 and of the profit, its cash flows and changes in equity for the year then ended; and
- d) in our opinion Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Company and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

KPMG Taseer Hadi & Co.

KPMG Taseer Hadi & Co.
Chartered Accountants

LAHORE: 22 March 2006

BALANCE SHEET

	Note	2005 Rupees	2004 Rupees
EQUITY AND LIABILITIES			
Share capital	5	113,612,260	101,439,520
Reserves	6	194,472,208	161,301,747
		308,084,468	262,741,267
Surplus on revaluation of assets	7	157,463,253	167,477,929
NON CURRENT LIABILITIES			
Long term liability - secured Liabilities against assets	8	-	18,988,235
Subject to finance lease	9	31,527,383	52,401,434
Long term advances	10	12,406,851	8,087,612
Deferred liabilities	11	131,086,400	128,108,240
Deferred gain	12	9,469,738	14,591,246
CURRENT LIABILITIES			
Trade and other payables	13	89,609,429	70,283,816
Mark-up payable on secured loans	14	6,488,020	2,494,512
Short term bank borrowings - secured	15	279,981,665	249,910,368
Current portion of long term liabilities	16	51,751,085	54,475,686
		427,830,199	377,164,382
CONTINGENCIES AND COMMITMENTS	17	1,077,868,292	1,029,560,345
		1,077,868,292	1,029,560,345

The annexed notes from 1 to 45 form an integral part of these financial statements.




MIAN AHSON FAROOQ
DIRECTOR



AS AT 31 DECEMBER 2005

	Note	2005 Rupees	2004 Rupees
NON CURRENT ASSETS			
Property, plant and equipment	18	511,097,156	522,359,198
Intangible assets	19	41,992,254	46,701,666
		<hr/>	<hr/>
Investment	20	553,089,410 20,000,000	569,060,864 20,000,000
Long term deposits		358,765	358,765
CURRENT ASSETS			
Store, spares and loose tools	21	295,960	4,767,637
Stock in trade	22	281,657,969	267,841,487
Trade debts	23	68,898,841	43,224,387
Advances, deposits and prepayments	24	24,270,338	31,447,210
Other receivables	25	85,156,178	47,076,300
Income tax - net		30,637,142	32,469,659
Cash and bank balances	26	13,503,689	13,314,036
		504,420,117	440,140,716
		<hr/>	<hr/>
		1,077,868,292	1,029,560,345
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ANEES AHMAD KHAN
 CHIEF EXECUTIVE OFFICER

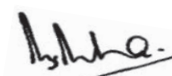
**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2005**

	Note	2005 Rupees	2004 Rupees
Sales - net	27	1,248,717,021	1,050,086,582
Cost of sales	28	797,662,545	665,776,691
Gross profit		451,054,476	384,309,891
Operating expenses			
Administrative and general	29	107,846,898	98,718,562
Distribution, selling and promotional	30	238,051,242	188,487,030
Finance cost	31	33,314,649	21,948,898
Research and development	32	6,429,620	3,505,831
		385,642,409	312,660,321
Operating profit		65,412,067	71,649,570
Other operating income	33	14,787,162	10,046,143
		80,199,229	81,695,713
Other operating charges	34	5,999,099	8,773,845
Profit before taxation		74,200,130	72,921,868
Taxation	35	23,655,676	33,600,377
Profit after taxation		50,544,454	39,321,491
Earnings per share - basic and diluted	36	4.45	3.46

The annexed notes from 1 to 45 form an integral part of these financial statements.



MIAN AHSON FAROOQ
DIRECTOR



ANEES AHMAD KHAN
CHIEF EXECUTIVE OFFICER

**CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2005**

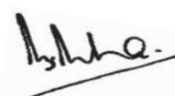
	2005	2004
	Rupees	Rupees
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	74,200,130	72,921,867
Add/(less): Adjustments for non-cash charges and other items		
Depreciation	52,697,262	46,223,151
Amortization of intangible assets	4,709,412	392,451
Gain on sale of property, plant and equipment	(4,774,824)	(2,982,026)
Exchange (gain)/loss	(3,007,461)	379,488
Provision for defined benefit obligation	14,499,804	12,605,588
Provision for slow moving items	(632,966)	632,966
Finance cost	33,314,649	21,948,898
Diminution in value of investments	-	(2,648)
Amortization of deferred gain	(5,121,508)	(4,099,536)
	91,684,368	75,098,332
Profit before working capital changes	165,884,498	148,020,199
Working capital changes		
(Increase)/decrease in current assets:		
Stores, spares and loose tools	5,104,643	(753,446)
Stock in trade	(13,816,482)	(31,973,201)
Trade debts	(25,670,520)	(20,498,414)
Advances, deposits and prepayments	7,176,872	(5,389,266)
Other receivables	(38,079,879)	2,116,272
Increase/(decrease) in current liabilities:		
Trade and other payables	19,221,803	1,642,194
	(46,063,563)	(54,855,861)
Cash generated from operations	119,820,935	93,164,338
Add/(less):		
Taxes paid	(26,122,848)	(25,846,468)
Gratuity paid	(7,221,955)	(3,733,351)
Finance cost paid	(21,206,968)	(14,357,016)
Security deposit	-	50,000
Long term advances - net	4,295,191	1,753,805
Net cash from operating activities	69,564,355	51,031,308

	Note	2005 Rupees	2004 Rupees
CASH FLOWS FROM INVESTING ACTIVITIES			
Fixed capital expenditure		(31,408,972)	(27,182,968)
Investment-subsiary company		-	(20,000,000)
Sale of other investments		-	30,148
Sale proceeds of fixed assets		16,098,175	27,925,429
<i>Net cash from Investing activities</i>		(15,310,797)	(19,227,391)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of long term loan		-	(4,913,059)
Repayment of long term liabilities		(13,482,353)	(14,208,235)
Proceeds / (Repayment) of lease finance liabilities - net		(55,540,731)	(58,180,579)
Short term bank borrowings		30,071,297	61,963,024
Dividend paid		(15,112,118)	(26,862,462)
<i>Net cash from financing activities</i>		(54,063,905)	(42,201,311)
Net (decrease)/increase in cash and cash equivalents		189,653	(10,397,394)
Cash and cash equivalents at beginning of the year		13,314,036	23,711,429
<i>Cash and cash equivalents at end of the year</i>	26	13,503,689	13,314,035

The annexed notes from 1 to 45 form an integral part of these financial statements.



MIAN AHSON FAROOQ
DIRECTOR



ANEES AHMAD KHAN
CHIEF EXECUTIVE OFFICER

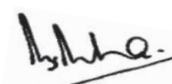
**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2005**

	SHARE CAPITAL	REVENUE RESERVES			TOTAL
		GENERAL	UNAPPROP- RIATED PROFIT	SUB- TOTAL	
..... Rupees					
Balance as at 01 January 2004	101,439,520	114,000,000	404,642	114,404,642	215,844,162
Current year incremental depreciation - net of tax	-	-	7,575,614	7,575,614	7,575,614
Profit for the year after taxation	-	-	39,321,491	39,321,491	39,321,491
Balance as at 31 December 2004	101,439,520	114,000,000	47,301,746	161,301,746	262,741,267
Final dividend for the year ended 31 December 2004 @ Rs. 1.5 per share	-	-	(15,215,928)	(15,215,928)	(15,215,928)
Issuance of bonus shares @ 12%	12,172,740	-	(12,172,740)	(12,172,740)	-
Current year incremental depreciation - net of tax	-	-	10,014,676	10,014,676	10,014,676
Profit for the year after taxation	-	-	50,544,454	50,544,454	50,544,454
Balance as at 31 December 2005	113,612,260	114,000,000	80,472,207	194,472,208	308,084,468

The annexed notes from 1 to 45 form an integral part of these financial statements.



MIAN AHSON FAROOQ
DIRECTOR



ANEES AHMAD KHAN
CHIEF EXECUTIVE OFFICER

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

1. THE COMPANY, OPERATIONS AND REGISTERED OFFICE

Highnoon Laboratories Limited ('the Company') was incorporated as a private limited company in Pakistan in the year 1984 and converted into an unquoted public limited company in the year 1985. Its shares are quoted on all stock exchanges in Pakistan since November 1994. The Company is principally engaged in the manufacture, import and marketing of pharmaceutical and allied consumer products. The registered office of the Company is situated at 17.5 Km, Multan Road, Lahore.

2. STATEMENT OF COMPLIANCE

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

3. BASIS OF MEASUREMENT

These financial statements have been prepared under the historical cost convention modified by adjustment of revaluation of certain assets as referred to in Note 18.1.3 and adjustment of exchange differences as referred to in Note 4.2 to the financial statements. In these financial statements, except for the cash flow statement, all the transactions have been accounted for on accrual basis.

4. SIGNIFICANT ACCOUNTING POLICIES

4.1 Staff retirement benefits

Defined benefit plan

The Company operates an unfunded gratuity scheme for all of its permanent employees, under which benefits are paid on cessation of employment subject to a minimum qualifying period of service.

Qualified actuaries carried out the valuation as at 31 December 2005. The Projected Unit Credit Method with the following significant assumptions was used for the valuation of this scheme:

- Discount rate	9% per annum
- Expected rate of increase in salary	8% per annum
- Expected average remaining working life time	14 years
- Number of years used to amortize gains / losses	5 years

The Company's policy with regard to actuarial gains/losses is to follow minimum recommended approach under IAS 19 "Employees Benefits" by which actuarial gains/losses exceeding 10 % of present value of benefit obligation are amortized over average remaining working lives of the employees.

Defined contribution plan

The Company also operates a recognized provident fund scheme for all of its permanent employees in accordance with the trust deed and rules made there under. Equal monthly contributions are made to the fund by the Company and employees at the rate of 8.33% of basic salary.

Compensated leave absences

Provision for compensated absences is made to the extent of value of accumulated accrued leaves/leave fare assistance of the employees at the balance sheet date as per entitlement on the basis of last drawn salary.

4.2 Foreign currency translation and hedging

Assets and liabilities in foreign currency are translated at the rates of exchange prevailing on the balance sheet date, while foreign currency transactions are converted into Pak rupees at exchange rates prevailing on the date of transaction. All exchange gains/losses are taken to profit and loss account. Currently the Company has not entered into any forward foreign exchange contract to hedge the foreign currency exposure, however, the risk is mitigated by matching the maturities of foreign currency assets and liabilities.

4.3 Trade and other payables

These are stated at their nominal value. Exchange gain and losses are arising in respect of liabilities in foreign currencies are added to the carrying amount of respective liability.

4.4 Property, Plant and Equipment

Property, Plant and equipment are stated at cost or revalued amount less accumulated depreciation except for freehold land, which is stated at revalued amount. Revaluation is carried out every five years unless earlier revaluation is necessitated.

Depreciation is charged on reducing balance method at the rates mentioned in note 18.1 to write off the cost/revalued amount of an asset over its estimated useful life. The asset's residual value and useful lives are reviewed at each financial year end and adjusted, if its impact on depreciation is significant. Full month's depreciation is charged on additions, while no depreciation is charged in the month of disposal or deletion or transfer of assets. Surplus on revaluation of fixed assets relating to incremental depreciation is directly charged to equity.

Gains and losses on disposal of fixed assets are included in income currently, except that the related surplus on revaluation of fixed assets (net of deferred taxation) is transferred directly to unappropriated profits.

Normal repairs and maintenance is charged to revenue as and when incurred, while major renewals and replacements are capitalized and assets so replaced, if any, are retired.

4.5 Leasehold assets

Leases where all the risks and rewards incidental to ownership of the leased assets have been transferred to the Company are classified as finance leases. Assets subject to finance lease are stated at the lower of present value of minimum lease payments under the lease agreements and the fair value of the leased assets.

The related rental obligations, net of finance charges, are included in liabilities against assets subject to finance lease as referred to in Note 9. The liabilities are classified as current and long term depending upon the timing of the payment.

Each lease payment is allocated between the liability and finance charges so as to produce a constant periodic rate of interest on the balance outstanding. The interest element of the rental is charged to income over the lease term.

Assets acquired under a finance lease are depreciated over the useful life of assets on reducing balance method at the rates given in note 18.1. The asset's residual value and useful lives are reviewed at each financial year end and adjusted, if its impact on depreciation is significant. Depreciation of leased assets is charged to profit and loss account. Depreciation on additions in leased assets is charged from the month in which an asset is acquired while no depreciation is charged for the month in which the asset is disposed off/transferred to freehold.

4.6 Capital work in progress

Capital work in progress is stated at cost and includes the expenditures on material, labor and appropriate overheads directly relating to the project. These costs are transferred to fixed assets as and when assets are available for intended use.

4.7 Intangible assets and amortization

Intangible assets (Intellectual Property, Rights and Trademarks), which are non-monetary assets without physical substance are recognized at cost, which comprises its purchase price, non-refundable purchase taxes and any directly attributable expenditures.

After initial recognition an intangible asset is carried at its cost less accumulated amortization and impairment losses. Amortization is charged to the income on monthly basis following the straight line basis for a maximum period of ten years.

At each financial year and the Company reviews the recoverable amounts of intangible assets to assess impairment loss. If any such indication exists, impairment losses are recognized as expense.

Subsequent expenditures on intangible assets after its purchase are recognized as an expense, when it is incurred unless the expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance.

4.8 Deferred gain

Deferred gain arising on sale and lease back of assets is amortized on straight line basis over the lease term.

4.9 Borrowing costs

Financial cost on long term liabilities / lease liabilities which are specifically obtained for the acquisition of qualifying assets i.e. assets that take a substantial period of time to get ready for their intended use, are capitalized up to the date of commissioning of respective asset. All other interest, mark-up and expenses are charged to income currently.

4.10 Investments

Subsidiary Company

Investment in subsidiary is measured at cost as per requirement of IAS-27 "Consolidated and separate Financial Statements". However, at subsequent reporting dates, the Company reviews the carrying amounts of the investment and its recoverability to determine whether there is an indication that such investments have suffered an impairment loss. If any such indication exists the carrying amount of the investment is adjusted to the extent of impairment loss. Impairment losses are recognized as an expense.

Investments available for sale- Quoted securities

Investments classified as "available for sale" are initially measured at cost, being the fair value of consideration given. At subsequent reporting dates, these investments are measured at fair value (quoted market price), unless fair value cannot be reliably measured. The investments for which quoted price is not available, are measured at cost as it is not possible to apply any other valuation methodology.

Pursuant to revision in IAS -39 "Financial instruments : Recognition and Measurement", the company has changed its accounting policy for recognition of unrealized gains and losses arising from change in fair value of available for sale investments that were previously included in the net profit or loss for the period in which these arise. Now unrealized gains and losses arising from changes in fair value are



directly recognized in equity in the period in which these arise. Cumulative gains and losses arising from changes in fair value are included in the net profit and loss for the period in which an investment is derecognized. Such a change in accounting policy has been accounted for retrospectively. This change in accounting policy has however, no effect on the current and previous year's profit and loss account and retained earnings.

4.11 Stores, spares and loose tools

These are valued at moving weighted average cost except for items in transit, which are valued at invoice price and related expenses incurred up to the balance sheet date. For items which are slow moving, a provision is made for excess of book value over estimated realizable value.

4.12 Stock in trade

These are valued at lower of cost and net realizable value. Cost is determined using the following basis:-

Raw materials	-	on moving average
Work-in-process	-	at estimated manufacturing cost including appropriate overheads
Finished goods		
- Imported	-	on moving average
- Local	-	on annual average manufacturing cost including appropriate overheads
Merchandise in transit / pledged	-	at invoice value plus other charges incurred thereon

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

4.13 Trade debts

These are carried at original invoice amount less any estimate made for doubtful receivables based on review of all outstanding amounts at the year end. Bad debts are written off, when identified.

4.14 Cash and cash equivalents

For the purpose of cash flow statement, cash and cash equivalents comprise of cash in hand and balance with banks on current and deposit accounts.

4.15 Impairment

The carrying amount of the assets are reviewed at each balance sheet date to identify the circumstances indicated the occurrence of impairment loss or reversal of previous impairment losses. If any such indication exists, the recoverable amount of such asset is estimated and impairment loss is recognized in the profit and loss account. Where an impairment loss subsequently reverses, the carrying amount of such asset is increased to the revised recoverable amount. A reversal of the impairment loss is recognized in income.

4.16 Revenue recognition

Revenue from local sales is recognized when risk and reward incident to ownership are transferred i.e. on dispatch of goods to the customers. Export goods are considered dispatched when Bill of Lading is prepared for shipment to customers.

Return on bank deposits is accounted for on time proportion basis and other income is recognized on accrual basis.

4.17 Transactions with related parties and transfer pricing

The Company under the direction of Securities and Exchange Commission of Pakistan's Notification SRO 66(I)/ 2003 dated 22 January 2003 adopted the following policies of transfer pricing for the determination of arm's length prices with subsidiary Company/associated companies/related parties except for the assets sold to employees at written down value under the employee's car scheme as approved by the Board of Directors.

- | | |
|--|---------------------|
| - Subsidiary Company | Resale price method |
| - Associated companies / related parties | Cost plus method |

Parties are said to be related, if they are able to influence the operating and financial decisions of the Company and vice versa.

4.18 Research and development Cost

These costs are charged to revenue as and when incurred.

4.19 Taxation

Current

The charge for current taxation is based on taxable income at current rate of taxation of the Income Tax Ordinance, 2001 after taking into account applicable tax credits and rebates, if any.

Deferred

Deferred tax is recognized using the balance sheet liability method on all temporary differences between the amounts attributed to assets and liabilities for financial reporting purposes and amounts used for taxation purposes.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Deferred tax is calculated at the rates that are expected to apply to the period when differences reverse based on tax rates that have been enacted or substantively enacted by the balance sheet date.

The Company also recognizes deferred tax asset/ liability on deficit/ surplus on revaluation of fixed assets which is adjusted against the related surplus as per the requirements of revised IAS 12 "Income Taxes".

4.20 Dividends

Dividend to shareholders is recognized as a liability in the period in which it is approved.

4.21 Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument and assets and liabilities are stated at fair value. The company derecognizes the financial assets and liabilities when it ceases to be a party to such contractual provisions of the instruments.



a) Trade and other

Liability for trade and other amounts payable are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received.

b) Trade and other

Trade other receivables are recognized and carried at original invoice amount/cost less provision for uncollectible receivables, if any.

c) Cash and bank

Cash in hand and at banks are carried at cost.

4.22 Provisions

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

4.23 Offsetting

Financial assets and liabilities are offset and the net amount is reported in the balance sheet if the Company has legally enforceable right to setoff the recognized amounts and the Company intends to settle either on a net basis or realize the asset and settle the liability simultaneously.

	Note	2005 Rupees	2004 Rupees
5. SHARE CAPITAL			
Authorized 15,000,000 (2003: 15,000,000) Ordinary shares of Rs. 10 each		150,000,000	150,000,000
Issued, subscribed and paid - up 5,905,000 (2004: 5,905,000) Ordinary shares of Rs. 10 each fully paid in cash		59,050,000	59,050,000
95,000 (2004: 95,000) Ordinary shares of Rs.10 each issued for consideration other than cash	5.1	950,000	950,000
5,361,226 (2004: 4,143,952) as fully paid bonus shares of Rs. 10 each		53,612,260	41,439,520
		113,612,260	101,439,520

5.1 This represents the issuance of shares against the purchase of plant, machinery and other assets.

	2005 Rupees	2004 Rupees
6. RESERVES		
Revenue		
General reserve	114,000,000	114,000,000
Unappropriated profit	80,472,208	47,301,747
	<u>194,472,208</u>	<u>161,301,747</u>

7. SURPLUS ON REVALUATION OF ASSETS

This represent surplus arising on revaluation of freehold land, building on freehold land, Plant and Machinery both owned and leased carried out in 1995, 1999 and 2004 respectively. This has been adjusted by surplus realized on disposal of revalued assets and incremental depreciation arising due to revaluation net of deferred tax.

Surplus on revaluation of assets as at 01 January	221,403,106	64,584,693
Surplus arise on revaluation of assets during the year	-	168,473,204

Surplus relating to incremental depreciation charged on related assets-transferred to unappropriated profit

Net of deferred tax	(10,014,676)	(7,575,614)
Related deferred tax liability	(5,392,518)	(4,079,177)
	(15,407,194)	(11,654,791)

Surplus on revaluation of assets as at 31 December	205,995,912	221,403,106
--	-------------	-------------

Less: Related deferred tax liability on:

Balance at the beginning of the year	53,925,177	16,694,154
- Deferred tax arising during the period	-	41,310,200
Transferred to profit and loss account		
- Incremental depreciation charged during the year	(5,392,518)	(4,079,177)
	48,532,659	53,925,177
	<u>157,463,253</u>	<u>167,477,929</u>

	Note	2005 Rupees	2004 Rupees
8. LONG TERM LIABILITY - Secured			
Outstanding balance of purchase consideration for trademark	8.1	33,229,412	47,094,117
Less: Paid during the year		13,482,353	14,208,235
		19,747,059	32,885,882
Exchange (gain) / Loss due to revaluation		(3,003,529)	343,530
Total payable as on 31 December		16,743,530	33,229,412
Due within one year	16	16,743,530	14,241,177
		-	18,988,235

8.1 This represent the purchase consideration amounting to Euro 500,000 equivalent to Rs. 47,094,117 net of local taxes for Registration and Trademark of brand "Tres Orix Forte" for the territory of Pakistan and Kenya payable to M/s Almira Prdoesfarma, Spain. Of the outstanding balance of Euro 350,000 equivalent to Rs. 33,229,412 at the beginning of the year, an amount of Rs. 13,482,353 equivalent to Euro 150,000 net of local taxes has been paid during the year and remaining Euro 200,000 net of local taxes are payable on or before 31 May 2006.

The liability is secured against intangible assets and in case of default in payment of obligation within fifteen days of formal notice of the party, the agreement will be terminated upon which all the data and documents have to be returned and the Company's right to market the brand will cease.

9. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

The rate of interest used as discounting factor ranges from 0.583% to 1.1125% (2004: 0.583% to 1.4125%) per month. The amount of future payments and period during which they fall due are :-

Minimum lease payments due:

Not later than one year		39,252,491	45,571,597
Later than one year and not later than five years		33,841,223	56,335,734
		73,093,714	101,907,331
Less: Future financial charges		7,233,752	9,970,412
Present value of minimum lease payments	9.1	65,859,962	91,936,919
Less: Current portion	16	34,332,579	39,535,485
		31,527,383	52,401,434

9.1 Break-up of present value of minimum lease payments

Not later than one year		34,332,579	39,535,485
Later than one year and not later than five years		31,527,383	52,401,434
		65,859,962	91,936,919

Interest rate implicit in the lease are fixed at the contract date and remain fixed for the lease term except for one lease obligation of Rs. 12,208,562 (2004: 16,018,290) which is re-priced every month equivalent to rate of 6 month KIBOR plus 3.5%.

The rentals are payable in monthly equal installments. In case of default of any payment an additional charge at the rate ranging from Rs. 117 to Rs. 250/0.1 % (2004: Rs. 117 to 250/0.1%) per day on overdue payments shall be paid. The Company has an option to purchase the assets at the expiry of lease term and the company intend to exercise this option.

	Note	2005 Rupees	2004 Rupees
10. LONG TERM ADVANCES			
Balance at the end of year		13,081,827	8,786,636
Less: Current portion	16	674,976	699,024
		12,406,851	8,087,612

This represents advances taken from employees against future sale of vehicles as per Company's policy.

11. DEFERRED LIABILITIES

Taxation	11.1	79,990,497	84,290,186
Gratuity	11.2	51,095,903	43,818,054
		131,086,400	128,108,240

11.1 Taxable temporary differences arising in respect of:

Surplus on revaluation of assets		48,532,659	53,925,177
Accelerated tax depreciation		31,457,838	30,365,009
		79,990,497	84,290,186

11.2 The net value of defined benefit obligation as at valuation date was as follows:

Present value of defined benefit obligation		75,380,276	56,671,886
Unrecognized actuarial losses		(25,252,686)	(12,853,832)
Benefits due but not paid		968,313	-
Net liability as at 31 December		51,095,903	43,818,054

11.2.1 The following is the reconciliation of movement in the net recognized liability for gratuity:

Liability as at 01 January		43,818,054	34,945,817
Amount recognized during the year	11.2.2	14,499,804	12,605,588
Benefit payments made by the Company		(7,221,955)	(3,733,351)
Net liability as at 31 December		51,095,903	43,818,054

11.2.2 The following amounts have been charged to profit and loss account during the year in respect of gratuity scheme:

Current service cost		8,528,724	5,930,117
Interest cost		4,533,751	4,035,194
Past service cost - charge for the year		-	687,817
Actuarial losses - charge for the year		1,437,329	1,952,460
Total included in staff cost		14,499,804	12,605,588

	Note	2005 Rupees	2004 Rupees
12. DEFERRED GAIN			
Opening balance as on 01 January		14,591,246	10,515,015
Gain recognized during the year		-	8,175,767
		14,591,246	18,690,782
Less: amortization for the year	33	5,121,508	4,099,536
		9,469,738	14,591,246
13. TRADE AND OTHER PAYABLES			
Trade creditors		52,797,286	30,940,221
Advances from customers		9,270,384	13,096,066
Accrued expenses		10,279,241	10,670,886
Income tax deducted at source		1,298,735	1,096,739
Workers' Profit Participation Fund	13.1	6,642,191	6,255,653
Workers' Welfare Fund		5,083,697	4,317,206
Payable to Central Research Fund		753,282	640,300
Payable to provident fund trust		1,348,551	1,234,493
Un-claimed dividends		2,136,062	2,032,252
		89,609,429	70,283,816
13.1 Workers' Profit Participation Fund			
Balance at the beginning of the year		6,255,653	5,085,546
Add: Current allocation for the year	34	4,009,961	3,932,445
		10,265,614	9,017,991
Add: Interest on funds utilized by the Company	31	1,266,770	953,540
		11,532,384	9,971,531
Less: Paid during the year to the trustees of the fund		1,596,764	1,862,364
Deposited with the Government Treasury		3,293,429	1,853,514
		4,890,193	3,715,878
		6,642,191	6,255,653
- Mark-up @ 20.25% (2004: 18.75%) is being provided on the unpaid balance of the fund in accordance with the rules of the Fund.			
14. MARKUP PAYABLE ON SECURED LOANS			
On cash finances		2,298,998	1,184,160
On other borrowings		4,189,022	1,310,352
		6,488,020	2,494,512

	Note	2005 Rupees	2004 Rupees
15. SHORT TERM BANK BORROWINGS - Secured			
Habib Bank Limited	15.1		
Cash finance		64,587,688	81,581,817
Running finance		29,430,839	-
L/C acceptance		3,490,905	-
Finance against imported merchandise		13,710,000	7,986,000
Faysal Bank Limited	15.2		
Morabaha LPO		60,000,000	60,000,000
Morabaha pledge		9,862,989	4,042,380
L/C acceptance		9,455,342	-
United Bank Limited	15.3		
Cash finance - hypothecation		71,783,807	74,029,341
Cash finance - pledge		17,660,095	22,270,830
		279,981,665	249,910,368

15.1 These finances are availed against aggregate sanctioned limit of Rs. 280 million (2004: Rs. 245 million) and carry mark-up equivalent to the rate of one month average offered KIBOR of last day of previous month plus 2% with floor of 8 % per annum (2004: One month average offered KIBOR of last day of preceding month plus 2% with floor of 5 % per annum). These finances are secured by way of:

- hypothecation/pledge of stocks;
- Joint pari passu hypothecation charge on current assets to the extent of Rs. 60.0 million (2004: Rs. 55.4 million);
- joint pari passu equitable mortgage charge on property, plant and equipment of the Company to the extent of Rs. 140.0 million (2004: Rs. 129.2 million);
- personal guarantees of all the directors of the Company.

15.2 These finances are availed against aggregate sanctioned limit of Rs. 105 million (2004: Rs. 105 million) and carry mark up equivalent to the rate of Ask yield of six months KIBOR as notified by Reuters on the drawn day + 250 basis points per annum (2004: Ask yield of six months KIBOR as notified by Reuters on the drawn day + 250 basis points with floor of 5.5% per annum). These finances are secured by way of:

- joint pari passu charge on the present and future property, plant and equipment of the Company to the extent of Rs. 67.5 (2004: Rs. 40 million);
- joint pari passu charge on the present and future current assets of the Company to the extent of Rs. 29.0 million (2004: Rs. 57.0 million);
- ranking charge on the current assets of the Company to the extent of Rs. 35 million;
- pledge of stocks;
- personal guarantee of the sponsoring directors of the Company.

15.3 These finances are availed against aggregate sanctioned limit of Rs. 155 (2004: Rs. 155 million) and carry mark-up equivalent to 3 months average offered KIBOR plus 1.5% per annum reset on monthly basis (2004: 0.1369 paisa per thousand per day). These finance are secured by way of:

- hypothecation/pledge of stocks, stores and spares, receivables/book debts;
- joint pari passu charge to the extent of Rs. 102.310 (2004 Rs. 90.0 million) on the property, plant and equipment of the Company ranking parri passu with Habib Bank Limited and Faysal Bank Limited;
- joint pari passu charge to the extent of Rs. 45 million (2004: Rs. 110.0 million) on the present and future current assets of the Company;
- promissory note and personal guarantee of all the directors of the Company.



	Note	2005 Rupees	2004 Rupees
16. CURRENT PORTION OF LONG TERM LIABILITIES			
Long term liability	8	16,743,530	14,241,177
Liabilities against assets subject to finance lease	9	34,332,579	39,535,485
Long term advances	10	674,976	699,024
		51,751,085	54,475,686
17. CONTINGENCIES AND COMMITMENTS			

Contingencies

- Bank guarantees issued on behalf of the Company aggregating to Rs. 0.798 million (2004: Rs. 8.841 million).
- The Company has not acknowledged the demand relating to sales tax/central excise duty amounting to Rs. 20.798 million (2004: Rs. 18.137 million) as debt as the matter is pending adjudication. An amount of Rs. 1.900 million (2004: Rs. 1.693 million) has been deposited under protest and is shown under other receivables in note 25.

Commitments

- Commitments against irrevocable letters of credit include:

	(Rupees in Million)	
Plant and machinery	-	0.257
Raw materials	72.520	80.822
Packing materials	0.448	2.350
Finished goods	0.450	2.280

- Commitments in respect of lease rentals under lease arrangements are as follows:

(Rupees)

Plant and Machinery

- Not later than one year	9,598,848	13,468,698
- later than one year and not later than five years		
2007	4,405,054	4,405,054

Vehicles

- Not later than one year	23,949,539	27,383,527
- later than one year and not later than five years		
2007	14,942,790	8,660,985
2008	5,671,897	1,424,903
2009	447,875	326,300

Office equipment

- Not later than one year	5,704,104	4,719,372
- later than one year and not later than five years		
2007	5,704,104	4,719,372
2008	2,669,502	3,044,419

- Facilities of letters of guarantee amounting to Rs. 19.202 million (2004: 4.159 million) are available to the Company under hypothecation/pledge of stocks and on present and future current assets and property, plant and equipment of the Company.

- Counter corporate guarantee given in favor of wholly owned subsidiary company "Dynalog Services (Pvt) Limited" amounting to Rs. 40 million (2004: Rs. 40 million) to Habib Bank Limited against their working capital finance limits.
- Limits of un-availed short term bank borrowings are available from commercial banks amounting to Rs. 270.018 million (2004: Rs. 254.921 million). These facilities carry mark-up equivalents to rate ranging from one to six months offered KIBOR plus margin of 1.5 % to 2.5% (2004: fixed rate of 5% + floating rate of one/six months offered KIBOR plus 2.0% to 2.5%) and are secured against hypothecation/pledge of stocks and on present and future current assets and property, plant and equipment of the Company to the extent as referred to in respective notes.

	Note	2005 Rupees	2004 Rupees
18. PROPERTY, PLANT AND EQUIPMENT			
Operating assets (owned)	18.1	374,380,360	350,114,227
Operating assets (leased)	18.1	133,495,310	165,112,471
Capital work-in-progress	18.2	3,221,486	7,132,500
		<hr/> 511,097,156 <hr/>	<hr/> 522,359,198 <hr/>



18.1 OPERATING ASSETS

PARTICULARS	COST			DEPRECIATION			Book Value as at 31 December 2005	Rate %	
	As at 01 January 2005	DURING THE YEAR		As at 01 January 2005	For the year	Adjustment			As at 31 December 2005
		Additions / Revaluation	Deletions						
----- Rupees -----									
OWNED									
Land - freehold	81,898,000	-	-	81,898,000	-	-	-	81,898,000	
Building on freehold land	165,097,285	3,811,406	-	168,908,691	12,013,178	-	58,224,315	110,684,376	
Plant and machinery	163,768,968	36,731,755	-	200,500,723	13,116,221	-	59,905,906	140,594,817	
Laboratory equipment	2,384,481	3,778,582	-	6,163,063	178,656	-	1,406,344	4,756,719	
Furniture and fixtures	6,190,564	4,194,388	-	10,384,952	371,259	-	4,274,469	6,110,483	
Electric and gas appliances	15,522,132	3,131,569	-	18,653,701	1,015,187	-	8,017,814	10,635,887	
Office equipment	18,742,523	2,079,101	(955,300)	19,866,324	1,146,340	(28,852)	8,609,689	11,256,635	
Vehicles	11,760,178	11,374,655	(12,497,741)	10,637,092	1,666,251	(2,100,838)	2,237,559	8,399,533	
Library books	52,806	-	-	52,806	800	-	45,602	7,204	
Neon sign	33,000	-	-	33,000	740	-	26,342	6,658	
Arms and ammunition	106,100	-	-	106,100	3,339	-	76,052	30,048	
	465,556,037	65,101,456	(13,453,041)	517,204,452	29,511,971	(2,129,690)	142,824,092	374,380,360	
ASSETS SUBJECT TO FINANCE LEASE									
Plant and machinery	116,171,393	-	(31,924,636)	84,246,757	5,825,342	(12,724,821)	29,199,028	55,047,729	
Office Equipment	18,633,330	1,395,000	-	20,028,330	1,926,333	-	2,858,000	17,170,330	
Vehicles	85,131,394	19,954,600	(17,757,008)	87,328,986	15,433,616	(7,175,353)	26,051,735	61,277,251	
	219,936,117	21,349,600	(49,681,644)	191,604,073	23,185,291	(19,900,174)	58,108,763	133,495,310	
2005 (Rupees)	685,492,154	86,451,056	(63,134,685)	708,808,525	52,697,262	(22,029,864)	200,932,855	507,875,670	
2004 (Rupees)	458,538,595	96,846,834	(38,366,479)	685,492,154	46,223,151	(10,866,603)	170,265,456	515,226,698	
		168,473,204							

18.1.1 Addition in freehold assets includes transfer of assets costing Rs. 49,681,644 (2004: Rs. 19,768,654) less accumulated depreciation of Rs. 19,900,174 (2004: Rs. 9,036,414) from leasehold assets. Addition in leasehold office equipment and Vehicles represents transfer from freehold valuing Rs. 2,580,600 (2004: Rs. 18,633,330) less accumulated depreciation of Rs. 129,390 (2004: Rs. Nil) under sale and leaseback arrangements.

	Note	2005 Rupees	2004 Rupees
18.1.2 Depreciation charge has been allocated as under:			
Cost of sales	28	32,672,385	30,757,674
Administrative and general	29	11,132,946	8,375,161
Distribution, selling and promotional	30	8,891,931	7,090,316
		52,697,262	46,223,151

18.1.3 Land, building on freehold land and plant and machinery were first revalued on 30 June 1995, resulting in a surplus of Rs. 68,809,377. Subsequently land, building on freehold land and plant and machinery were revalued on 30 June 1999 resulting in a surplus of Rs. 116,264,331. Land, building on freehold land and plant and machinery were again revalued on 31 May 2004 and 31 December 2004 respectively by M/s Hamid Mukhtar & Co., and certified by Ford, Rhodes, Sidat Hyder & Co. Chartered Accountants, which resulted in a surplus of Rs. 168,473,204 over the net book value of assets.

18.1.4 Had the assets not been revalued the carrying values would have been:

Land - freehold	14,566,828	14,566,828
Building on freehold land	57,714,048	60,030,228
Plant and machinery (Owned)	67,212,610	39,282,693
Plant and machinery (Leased)	42,735,525	62,545,667
	182,229,011	176,425,416

18.1.5 Disposal of property, plant and equipment

Particulars	Sold to	Cost	Accumulated depreciation	Written down value	Sale proceeds	Gain/(loss)	Mode of sale
----- Rupees -----							
VEHICLES							
	Faysal Bank Limited	1,130,600	94,212	1,036,388	1,130,600	94,212	Negotiation
	Baqar Hassan - Executive	1,080,500	648,669	431,831	750,000	318,169	Company Policy
	Muhammad Tariq	988,808	359,926	628,882	875,000	246,118	Negotiation
	Muhammad Hassan	924,000	592,917	331,083	790,000	458,917	Negotiation
	Ch. Muhammad Akram	854,200	259,677	594,523	955,000	360,477	Negotiation
	Prince Motors	790,500	113,579	676,921	848,000	171,079	Negotiation
	M. Aasim Shahzad - Ex-Executive	780,500	399,415	381,085	387,771	6,686	Company Policy
	Dr. Saleem Akhtar - Executive	769,000	552,804	216,196	216,196	-	Company Policy
	Syed Naeem Haider Gilani	764,000	315,243	448,757	430,000	(18,757)	Negotiation
	Naeem Ahmed Khan	764,000	323,936	440,064	425,000	(15,064)	Negotiation
	Amir Bashir -Ex-Executive	739,000	494,574	244,426	244,426	-	Company Policy
	Ms Afifa F. Mahmood	657,354	389,647	267,707	700,000	432,293	Negotiation
	Maj (R) Ali Hasan	636,830	545,480	91,350	605,000	513,650	Negotiation
	Gohar Latif Malik - Ex-Employee	555,000	352,837	202,163	376,009	173,846	Company Policy
	Faysal Bank Limited	555,000	18,500	536,500	555,000	18,500	Negotiation
	Muhammad Usman - Ex-Employee	507,100	454,871	52,229	150,000	97,771	Company Policy
	Muhammad Usman - Ex-Employee	446,464	300,798	145,666	350,000	204,334	Company Policy
	Amira Fazl-e-Mahmood	415,000	158,180	256,820	350,000	93,180	Negotiation
	Khurram Yousuf	414,000	290,762	123,238	335,000	211,762	Negotiation
	Mohammad Azam -Ex-Employee	398,500	172,860	225,640	319,306	93,666	Company Policy
	Reliance Insurance Company Limited	389,000	74,018	314,982	325,000	10,018	Insurance claim
	Tariq Qureshi - Employee	386,000	121,804	264,196	327,456	63,260	Company Policy
	Reliance Insurance	384,000	68,480	315,520	360,000	44,480	Insurance claim
	Reliance Insurance Company Limited	374,000	76,670	297,330	367,000	69,670	Insurance claim
	Patras	367,000	224,193	142,807	290,000	147,193	Negotiation
	Nadeem Khalid -Employee	360,000	250,411	109,589	238,980	129,391	Company Policy
	Jawaid Akhtar -Ex-Employee	354,000	180,619	173,381	268,253	94,872	Company Policy
	Faraz Rashid - Ex-Employee	354,000	180,619	173,381	268,253	94,872	Company Policy
	Reliance Insurance Company Limited	352,000	72,160	279,840	325,000	45,160	Insurance claim
	Muhammad Nazir- Employee	317,900	276,655	41,245	130,000	88,755	Company Policy
	Muhammad Arshad - Employee	68,500	40,718	27,782	68,508	40,726	Company Policy
	Muhammad Ali - Employee	68,500	34,362	34,138	68,508	34,370	Company Policy
	Rehmatullah - Employee	68,500	34,362	34,138	68,508	34,370	Company Policy
	Tariq Khurshid - Employee	68,500	34,362	34,138	68,508	34,370	Company Policy
	Abdul Hafeez - Employee	68,500	33,629	34,871	68,508	33,637	Company Policy
	Shahid Najam Farooqi -Employee	68,500	33,629	34,871	68,508	33,637	Company Policy
	Shakeel Ahmad Khan Lodhi -Employee	68,500	27,583	40,917	68,500	27,583	Company Policy
	Imran Ijaz Butt - Ex-Employee	68,500	31,967	36,533	68,500	31,967	Company Policy
	Najm ul Sahar -Ex-Employee	68,500	31,236	37,264	68,500	31,236	Company Policy
	S. Khalid Hussain - Employee	68,500	26,121	42,379	68,508	26,129	Company Policy
	Raja Khan	58,500	17,745	40,755	42,000	1,245	Negotiation
	Muhammad Imran Khan - Ex-Employee	58,500	17,004	41,496	58,500	17,004	Company Policy
	Muhammad Panah - Ex-Employee	58,500	20,709	37,791	58,500	20,709	Company Policy
	Tariq Mehmood - Ex-Employee	58,500	14,768	43,732	58,517	14,785	Company Policy
	Amjad Ali - Ex-Employee	58,500	17,721	40,779	58,612	17,833	Company Policy
	Muhammad Yasir - Ex-Employee	58,500	7,590	50,910	58,500	7,590	Company Policy
	Ihsan Ali - Ex-Employee	58,500	10,562	47,938	58,500	10,562	Company Policy
	Faraz Ahmad Khan	58,500	10,562	47,938	58,500	10,562	Company Policy
	Shahzad Aslam Khan - Ex-Employee	58,500	10,562	47,938	58,500	10,562	Company Policy
	Muhammad Ajmal - Ex-Employee	58,500	9,750	48,750	58,500	9,750	Company Policy
	M.Ashfaq Raza - Ex-Employee	58,500	17,095	41,405	58,500	17,095	Company Policy
	Noman Mehmood - Ex-Employee	58,500	17,095	41,405	58,500	17,095	Company Policy
	Shakeel Ahmad - Ex-Employee	58,500	17,095	41,405	58,500	17,095	Company Policy
	Taya Gee Autos	55,000	34,349	20,651	32,000	11,349	Negotiation
	Shafique Awan - Employee	39,900	36,661	3,239	13,000	9,761	Company Policy
OFFICE EQUIPMENT							
	Orix Leasing Limited	895,000	16,673	878,327	895,000	16,673	Negotiations
	Universal Insurance Limited	60,300	12,179	48,121	36,740	(11,381)	Insurance Claim
	Rupees : 2005	20,303,956	8,980,605	11,323,351	16,098,175	4,774,824	
	Rupees : 2004	8,140,262	1,827,719	6,312,543	9,294,569	2,982,026	

	Note	2005 Rupees	2004 Rupees
18.2 CAPITAL WORK - IN - PROGRESS			
Civil works		-	3,102,396
Plant and machinery- owned		-	2,707,795
ERP system implementation		3,221,486	1,322,309
	18.2.1	3,221,486	7,132,500

18.2.1 Movement in the account is as follows:

Opening balance		7,132,500	2,320,510
Addition during the year		2,034,119	4,811,990
Capitalized during the year		5,945,133	-
Closing balance		3,221,486	7,132,500

19. INTANGIBLE ASSETS

Registration and trademark	19.1	47,094,117	47,094,117
Amortization as at 01 January		(392,451)	-
For the year	28	(4,709,412)	(392,451)
Amortization as at 31 December		(5,101,863)	(392,451)
		41,992,254	46,701,666

19.1 This represent the purchase of Registration and Trademark of brand "Tres Orix Forte" for the territory of Pakistan and Kenya from M/s Almira Prdoesfarma, Spain for consideration of 500,000 Euro net of local taxes as referred to in note 8.

20. INVESTMENT

Related Party

In subsidiary -unlisted company at cost		20,000,000	20,000,000
Dynalog Services (Pvt) Limited			
2,000,000 (2004: 2,000,000) ordinary shares of Rs. 10 each			
Equity held: 100% (2004: 100%)		20,000,000	20,000,000

21. STORES, SPARES AND LOOSE TOOLS

Stores		-	4,767,637
Spares		295,960	367,466
Loose tools		-	265,500
		295,960	5,400,603
Less: Provision for slow moving items	29	-	632,966
		295,960	4,767,637



	Note	2005 Rupees	2004 Rupees
22. STOCK IN TRADE			
Raw materials			
In hand		41,141,699	32,212,230
In pledge		64,759,279	105,391,234
In transit		15,918,473	-
		121,819,451	137,603,464
Packing material			
In hand		31,414,386	20,871,923
In pledge		4,773,790	4,127,907
With third party		311,166	500,593
		36,499,342	25,500,423
Work in process		33,674,482	33,292,170
Finished goods			
In hand		53,987,635	50,848,735
In pledge		35,677,059	20,596,695
		89,664,694	71,445,430
		281,657,969	267,841,487
23. TRADE DEBTS - Considered good			
Secured - against letters of credit		773,553	5,132,160
Unsecured			
Due from related parties			
Subsidiary - Dynalog Services (Private) Limited		54,570,170	21,653,666
Associated - Route 2 (Private) Limited		466,930	2,640,726
		55,037,100	24,294,392
Others	23.1	13,088,188	13,797,835
		68,898,841	43,224,387

23.1 Included therein a balance of Rs. 401,964 (2004: Rs. 3,648,493) on which mark-up at the rate of 12% (2004: 12%) per annum is being charged due to late payment.

23.2 The amount due is in the normal course of business and interest free. The maximum aggregate amount due from subsidiary company at the end of any month during the year was Rs. 54.570 million (2004: Rs. 31.194 million) and from associated undertaking was Rs. 2.977 million (2004: Rs. 2.641 million).

	Note	2005 Rupees	2004 Rupees
24. ADVANCES, DEPOSITS AND PREPAYMENTS			
Advances - considered good			
Staff against:			
Expenses		3,564,624	2,773,681
Salary		255,904	100,538
Suppliers		12,700,047	11,552,720
Letters of credit		925,470	10,124,277
Deposits			
Securities		4,944,169	4,036,389
Bank guarantee margin		117,236	457,907
Prepayments		1,762,888	2,401,698
		24,270,338	31,447,210
25. OTHER RECEIVABLES - considered good			
Claim receivable		105,000	438,180
Freight subsidy receivable		1,258,646	593,250
Due from associated undertaking - Route 2 (Pvt) Limited	25.1	-	504,469
Sales tax	25.2	2,109,442	1,632,832
Receivable from foreign principals		81,011,000	42,986,000
Others	25.3	672,090	921,569
		85,156,178	47,076,300
25.1	The maximum aggregate amount of advance due from associated undertaking at the end of any month during the year was Rs. 0.504 (2004: Rs 0.504) million.		
25.2	This represents the amount deposited for grant of stay against demand of sales tax/excise duty paid under protest to sales tax department.		
26. CASH AND BANK BALANCES			
Cash and Imprest		2,459,950	1,871,908
Balance with banks on:			
Current accounts			
Local currency		10,956,124	11,354,065
Foreign currency		87,615	88,063
		11,043,739	11,442,128
		13,503,689	13,314,036



	2005 Rupees	2004 Rupees
27. SALES - net		
Manufactured products		
Local	1,221,590,860	1,025,967,914
Export	45,914,920	36,399,427
	1,267,505,780	1,062,367,341
Purchased products - Local	38,267,024	28,440,826
Sales compensation	25,300,000	20,557,800
Third Party (toll manufacturing)	24,200,636	21,359,414
	49,500,636	41,917,214
	1,355,273,440	1,132,725,381
Less: Discount	105,711,729	81,410,935
Sales tax	844,690	1,227,864
	106,556,419	82,638,799
	1,248,717,021	1,050,086,582

	Note	2005 Rupees	2004 Rupees
28. COST OF SALES			
Raw and packing material consumed		645,796,841	532,012,436
Salaries, wages and benefits	28.1	60,782,681	49,264,363
Vehicle running and maintenance		7,454,781	6,219,814
Fuel and power		13,233,063	11,144,561
Stores consumed		5,928,815	2,028,170
Repair and maintenance		13,084,622	7,182,770
Insurance		2,005,984	1,918,492
Rent, rates and taxes		272,550	488,830
Fee and subscription		157,464	1,423,797
Printing and stationery		1,308,979	1,034,505
Other direct cost		6,376,075	3,867,468
Depreciation	18.1.2	32,672,385	30,757,674
Amortization of intangible assets	19	4,709,412	392,451
Total cost incurred		793,783,652	647,735,331
Inventory effect of work in process			
Opening		33,292,170	37,232,046
Closing		(33,674,482)	(33,292,170)
		(382,312)	3,939,876
Cost of goods manufactured		793,401,340	651,675,207
Inventory effect of finished goods (excluding purchase products)			
Opening		58,174,693	56,905,593
Closing		(75,080,756)	(58,174,693)
		(16,906,063)	(1,269,100)
Cost of goods sold -manufactured		776,495,277	650,406,107
Less: Duty drawback		-	803,126
Cost of goods sold - manufactured items		776,495,277	649,602,981
Cost of goods sold - purchased products		21,167,268	16,173,710
Cost of goods sold		797,662,545	665,776,691
28.1 It includes the following staff retirement benefits:			
Defined benefit plans - gratuity		3,870,820	1,983,219
Defined contribution plans - provident fund		1,661,031	1,432,530
Provision of compensated leave absences		1,386,376	2,215,818

	Note	2005 Rupees	2004 Rupees
29. ADMINISTRATIVE AND GENERAL			
Salaries and benefits	29.1	54,767,774	53,860,771
Telephone, postage and telex		2,381,170	2,361,690
Rent, rates and taxes		2,222,773	2,883,062
Electricity, gas and water		230,654	165,723
Printing and stationery		3,730,040	2,208,940
Repairs and maintenance		2,982,747	3,936,249
Vehicle running and maintenance		11,030,948	8,637,193
Traveling and conveyance		4,455,087	6,146,604
Newspapers and subscriptions		1,983,815	4,291,795
Entertainment		425,838	413,118
Insurance		4,037,734	1,485,430
Auditors' remuneration	37	468,000	500,000
Legal and professional		701,695	836,476
Advertisement		2,802,511	679,799
Donation	29.2	2,892,101	733,300
Provision for slow moving store items	21	-	632,966
Depreciation	18.1.2	11,132,946	8,375,161
Others		1,601,065	570,285
		107,846,898	98,718,563
29.1	It includes the following staff retirement benefits:		
		3,260,221	5,992,681
		1,627,195	1,566,184
		979,037	2,201,497

29.2 None of the Directors or their spouses have any interest in the donee's fund except for Rs. 1,000,000 (2004: Nil) paid to Highnoon Employees Welfare Trust situated at 17.5Km, Multan Road, Lahore. Mian Ahson Farooq, Director of the Company is a member of the Board of Trustee.

	Note	2005 Rupees	2004 Rupees
30. DISTRIBUTION, SELLING AND PROMOTIONAL			
Salaries and benefits	30.1	111,278,040	91,291,688
Advertisement		6,651,019	517,746
Electricity, gas and water		10,824	6,340
Rent, rates and taxes		720,210	1,750,048
Entertainment		151,306	202,923
Promotional expenses and samples		86,568,883	71,363,767
Printing and stationery		2,603,628	2,386,597
Traveling and conveyance		56,520,133	50,178,666
Telephone, postage and telegram		2,870,326	2,876,887
Insurance		2,037,344	1,627,298
Vehicle running and maintenance		11,495,849	8,124,072
Donation	30.2	665,255	340,000
Freight and octroi		8,127,746	4,273,533
Seminars and symposia		8,434,343	3,328,481
Manpower training		2,115,382	2,802,930
Depreciation	18.1.2	8,891,931	7,090,316
Others		4,809,022	1,999,138
		313,951,242	250,160,430
Less: Reimbursement from foreign principals		75,900,000	61,673,400
		238,051,242	188,487,030
30.1 It includes the following staff retirement benefits:			
Defined benefit plans - gratuity		7,068,530	4,629,688
Defined contribution plans - provident fund		2,752,974	2,446,495
Provision of compensated leave absences		2,782,242	1,154,663

30.2 None of the Directors or their spouses have any interest in the donee's fund.

31. FINANCE COST

Mark-up on:			
Short term bank borrowings		22,475,690	10,239,362
Long term loan		-	564,878
Lease finance charges		8,114,173	8,147,719
Interest on workers' profit participation fund	13.1	1,266,770	953,540
Bank charges		1,458,016	2,043,399
		33,314,649	21,948,898



	Note	2005 Rupees	2004 Rupees
32. RESEARCH AND DEVELOPMENT			
Salaries and benefits	32.1	3,775,449	727,596
Expenses on clinical trials and products evaluation		395,490	1,039,169
Traveling		1,294,705	1,219,210
Insurance		45,693	2,616
Vehicle repair and maintenance		332,636	40,005
Printing and stationery		91,831	6,881
Office supplies		3,147	56,021
Repair and maintenance		4,560	13,833
Staff cost		173,646	280,100
Others		312,463	120,400
		6,429,620	3,505,831
32.1 It includes the following staff retirement benefits:			
Defined benefit plans - gratuity		300,233	86,115
Defined contribution plans - provident fund		157,544	147,840
Provision of compensated leave absences		23,214	6,500
33. OTHER OPERATING INCOME			
Income from financial assets			
Profit on sale of investments		-	2,648
Interest income		12,026	965,079
Exchange gain on currency fluctuations		3,007,461	-
Income from non-financial assets			
Gain on sale of property, plant and equipment		4,774,824	2,982,026
Amortization of deferred gain	12	5,121,508	4,099,536
Balances written back		193,100	1,631,860
Provision for slow moving items written back		632,966	-
Scrap Sales		907,931	364,994
Others		137,346	-
		14,787,162	10,046,143
34. OTHER OPERATING CHARGES			
Workers' profit participation fund	13.1	4,009,961	3,932,445
Exchange loss on currency fluctuations		-	379,488
Workers' welfare fund		766,491	1,154,281
Central research fund			
Prior years		465,408	2,667,331
Current year		757,239	640,300
		1,222,647	3,307,631
		5,999,099	8,773,845
35. TAXATION			
Current			
- for the year	35.1	14,825,365	21,597,335
- for prior years		13,130,000	-
		27,955,365	21,597,335
Deferred		(4,299,689)	12,003,042
		23,655,676	33,600,377

	2005 Rupees	2004 Rupees
35.1 Reconciliation of tax charge for the year		
Numerical reconciliation between the average effective tax rate and the applicable tax rate is as follows:		
Applicable tax rate	35.00%	35.00%
Tax effect of amounts that are not deductible for tax purposes	26.43%	24.66%
Tax effect of amounts that are deductible for tax purposes	-34.29%	-30.87%
Tax effect of amounts relating to prior years	17.70%	0.00%
Tax effect of rebates and tax credits	-5.79%	16.46%
Tax effect under presumptive tax regime	-7.16%	0.82%
	-3.12%	11.07%
Average effective tax rate charged on income	31.88%	46.07%

36. EARNINGS PER SHARE - Basic and Diluted

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

Profit after taxation	Rupees	50,544,454	39,321,490
Weighted average number of ordinary shares	Numbers	11,361,226	11,361,226
Earnings per share	Rupees	4.45	3.46

37. AUDITOR'S REMUNERATION

Statutory audit	325,000	325,000
Fee for review of half year financial statements	125,000	125,000
Other services (including certificates, audit of provident fund, workers' profit participation fund, etc.)	10,000	-
Out of pocket	8,000	50,000
	468,000	500,000

38. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

	Year Ended 31 December 2005 Rupees			Year Ended 31 December 2004 Rupees		
	Chief Executive	Directors	Executives	Chief Executive	Directors	Executives
Managerial remuneration	3,520,200	7,985,400	16,457,487	3,352,200	8,318,550	9,715,457
House allowance	720,000	1,440,000	6,582,995	-	-	1,626,343
Provident fund	293,388	319,620	1,328,952	279,384	304,380	810,036
Gratuity	1,287,834	1,546,533	3,682,231	1,165,650	1,404,725	1,753,207
Bonus	293,350	665,450	1,332,512	279,350	686,600	809,621
Utilities	537,232	1,463,392	1,645,749	625,738	1,437,817	763,200
Medical	128,846	1,757,778	2,073,439	381,723	1,100,475	513,895
Others	9,999	78,791	200,000	-	39,125	-
	6,790,849	15,256,964	33,303,365	6,084,045	13,291,672	15,991,759
Number	1	3	14	1	3	5



- The Chief Executive, Directors and 12 executives (2004: 5) have been provided with Company's maintained cars while 02 (2004: Nil) executives have been provided with cars under self finance scheme with limited fuel and maintenance facility.
- No Fee has been paid to any director except for Rs. 3000 (2004: Rs. 3000) paid to an independent non executive director for attending Board meetings.

39. NO. OF EMPLOYEES

No. of employees as on balance sheet date were 849 (2004: 863).

40. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

	Year Ended 31 December 2005						Total
	Interest Bearing			Non-Interest Bearing			
	Less than one year	One to five years	Sub-Total	Less than one year	One to five years	Sub-Total	
----- Rupees -----							
Financial assets:							
Investment	-	-	-	-	20,000,000	20,000,000	20,000,000
Long term deposits	-	-	-	-	358,765	358,765	358,765
Trade debts	401,694	-	401,694	68,497,147	-	68,497,147	68,898,841
Advances and deposits	-	-	-	5,061,405	-	5,061,405	5,061,405
Other receivables	-	-	-	672,090	-	672,090	672,090
Cash and bank balances	-	-	-	13,503,689	-	13,503,689	13,503,689
	401,694	-	401,694	87,734,331	20,358,765	108,093,096	108,494,790
Financial liabilities:							
Long term liability	-	-	-	16,743,530	-	16,743,530	16,743,530
Liabilities against assets subject to finance lease	34,332,579	31,527,383	65,859,962	-	-	-	65,859,962
Trade and other payables	-	-	-	66,561,139	-	66,561,139	66,561,139
Markup payable on secured loans	-	-	-	6,488,020	-	6,488,020	6,488,020
Short term bank borrowings	279,981,665	-	279,981,665	-	-	-	279,981,665
	314,314,244	31,527,383	345,841,627	89,792,690	-	89,792,690	435,634,316
Excess of financial assets over financial liabilities	(313,912,550)	(31,527,383)	(345,439,933)	(2,058,359)	20,358,765	18,300,406	(327,139,527)
Off-balance sheet Items							
Bank guarantees				798,000		798,000	798,000
Irrevocable letters of credit				80,062,161		80,062,161	80,062,161
	-	-	-	80,860,161	-	80,860,161	80,860,161

Year Ended 31 December 2004						
Interest Bearing			Non-Interest Bearing			Total
Less than one year	One to five years	Sub-Total	Less than one year	One to five years	Sub-Total	

-----Rupees-----

Financial assets:

Investment	-	-	-	-	20,000,000	20,000,000	20,000,000
Long term deposits	-	-	-	-	358,765	358,765	358,765
Trade debts	3,648,493	-	3,648,493	39,575,894	-	39,575,894	43,224,387
Advances and deposits	-	-	-	4,494,296	-	4,494,296	4,494,296
Other receivables	-	-	-	44,412,038	-	44,412,038	44,412,038
Cash and bank balances	-	-	-	13,314,036	-	13,314,036	13,314,036
	3,648,493	-	3,648,493	101,796,264	20,358,765	122,155,029	125,803,522

Financial liabilities:

Long term liability	-	-	-	14,241,177	18,988,235	33,229,412	33,229,412
Liabilities against assets subject to finance lease	39,535,485	52,401,434	91,936,919	-	-	-	91,936,919
Trade and other payables	-	-	-	44,877,852	-	44,877,852	44,877,852
Markup payable on secured loans	-	-	-	2,494,512	-	2,494,512	2,494,512
Short term bank borrowings	249,910,368	-	249,910,368	-	-	-	249,910,368
	289,445,853	52,401,434	341,847,287	61,613,541	18,988,235	80,601,776	422,449,063

Excess of financial assets over financial liabilities

	(285,797,360)	(52,401,434)	(338,198,794)	40,182,723	1,370,530	41,553,253	(296,645,541)
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Off-balance sheet Items

Bank guarantees				8,841,000		8,841,000	8,841,000
Irrevocable letters of credit				43,449,966		43,449,966	43,449,966
	-	-	-	52,290,966	-	52,290,966	52,290,966

Effective interest rates for the monetary financial assets and liabilities are mentioned in the respective notes to the financial statements.

40.1 Financial risk management objectives

The Company's activities expose it to a variety of financial risks, including the effects of changes in market rates, credit and liquidity risk associated with various financial assets and liabilities respectively as referred to in Note 40 and cash flow risk associated with accrued interests in respect of borrowings as referred to in Note 15.

The Company finances its operations through equity, borrowings and management of working capital with a view of maintaining a reasonable mix between the various sources of finances to minimize risk. Taken as a whole, risk arising from the Company's financial instruments is limited as there is no significant exposure to market risk in respect of such instruments.

(a) Concentration of Credit Risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counter parties failed completely to perform as contracted. The Company's credit risk is primarily attributable to its trade debts and its balances with banks. The credit risk on liquid funds is limited because the credit risk associated with trade debts of the Company are controlled through management of approved credit limit for all its customers and as such is not exposed to major concentration of credit risk.



(b) Currency Risk

Currency risk is the risk that the values of a financial instrument will fluctuate due to changes in foreign exchange rate. Currency risk arises mainly where receivables and payables exist due to transactions with foreign buyers and suppliers. The Company does not hedge the payables, however, the risk of exposure is mitigated by matching the maturity periods of foreign currency receivables and payables.

(c) Interest Rate Risk

Interest rate risk is the risk that the values of financial instruments will fluctuate due to changes in market interest rates. The Company usually manages miss-matches through risk management strategy where significant change in Gap position can be adjusted.

(d) Liquidity Risk

Liquidity risk reflects an enterprise's inability in raising funds to meet commitments. The Company follows an effective cash management and planning policy to ensure availability of funds and to take appropriate measures for new requirements.

40.2 Fair value of Financial Instruments.

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

41. RELATED PARTY TRANSACTIONS

The related parties and associated undertakings comprises, local associated companies, staff retirement funds, directors and key management personnel. Transactions with related parties and associated undertakings other than remuneration and benefits to key management personnel under the terms of employment are as follows. Amount due from and due to related parties are shown under respective notes to the financial statements.

	2005	2004
	Rupees	Rupees
41.1 Dynalog Services (Private) Limited		
Sales - net	1,123,210,895	129,824,579
Payment received	1,085,425,647	96,420,307
41.2 Route 2 (Private) Limited - Associated Undertaking		
Sales - net	7,059,994	-
Payment received	9,861,960	-
41.3 Staff Provident Fund		
Payments to the fund	15,754,272	16,723,922
41.4 Highnoon Employees Welfare Trust		
Payments to the trust	1,485,772	-

- 41.5** Vehicles are sold to key employees at written down value as approved by the Board of Directors. Transactions during the year with those key employees are as follows:

Name of Related Party, Relationship	Year Ended 31 December 2005		
	Market Price Rupees	Transaction Value Rupees	Price Difference Rupees
Baqar Hassan, Executive Director (Human Resource & Legal Affairs)	850,000	750,000	100,000
Dr. Saleem Akhter, Chief Manager	600,000	216,196	383,804
	<u>1,450,000</u>	<u>966,196</u>	<u>483,804</u>

The impact net of tax on profit , equity and cash flows was Rs. 314,473

Name of Related Party, Relationship	Year Ended 31 December 2004		
	Market Price Rupees	Transaction Value Rupees	Price Difference Rupees
Aslam Hafiz, Executive Director (Marketing)	700,000	239,608	460,392

The impact net of tax on profit , equity and cash flows was Rs. 255,490.

42. DIVIDENDS

The Board of Directors of the Company in its meeting held on 22 Mach 2006 have proposed dividend at the rate of Rs. 1.5 (2004: Rs. 1.5) per share and 15% bonus shares (2004: 12%) for the year ended 31 December 2005.

43. PLANT CAPACITY AND PRODUCTION

The capacity and production of the Company's plant is indeterminable as it is a multi-product plant involving varying processes of manufacture.

44. DATE OF AUTHORIZATION OF ISSUE

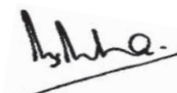
The Board of Directors of the Company authorized the financial statements for issuance on 22 March 2006 (2004: 22 March 2005).

45. GENERAL

- Figures have been rounded off to the nearest rupee.
- Corresponding figures have been rearranged or reclassified, wherever necessary, for the purpose of comparison, however, no significant reclassification has been made expect for Cost of samples in note 28 amounting to Rs. 21,729,332, which has been netted off from Raw and Packing material Consumed for comparison with current year's presentation.



MIAN AHSON FAROOQ
DIRECTOR



ANEES AHMAD KHAN
CHIEF EXECUTIVE OFFICER



GROUP FINANCIAL STATEMENTS

Highnoon Laboratories Limited
and its wholly owned subsidiary company
Dynalog Services (Private) Limited



AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed consolidated financial statements comprising consolidated balance sheet of Highnoon Laboratories Limited ("Holding Company") and its subsidiary company as at 31 December 2005 and the related consolidated profit and loss account, consolidated cash flow statement and consolidated statement of changes in equity together with the notes forming part thereof, for the year then ended. We have also expressed separate opinion on the financial statements of Highnoon Laboratories Limited. The financial statements of the subsidiary, Dynalog Services (Private) Limited were audited by other firm of auditors whose report has been furnished to us and our opinion, in so far as it relates to the amounts included for such company, is based solely on the report of such other auditors. 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 audit.

Our audit was conducted 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 present fairly the financial position of Highnoon Laboratories Limited and its subsidiary company as at 31 December 2005 and the results of their operations for the year then ended.

LAHORE: 22 March 2006

KPMG Taseer Hadi & Co.

KPMG Taseer Hadi & Co.
Chartered Accountants

CONSOLIDATED BALANCE SHEET

	Note	2005 Rupees	2004 Rupees
EQUITY AND LIABILITIES			
Share capital	5	113,612,260	101,439,520
Reserves	6	160,418,305	143,288,384
		274,030,565	244,727,904
Surplus on revaluation of assets	7	157,463,253	167,477,929
NON CURRENT LIABILITIES			
Long term liability - secured Liabilities against assets	8	-	18,988,235
Subject to finance lease	9	37,915,084	56,886,319
Long term advances	10	12,406,851	8,087,612
Deferred liabilities	11	131,086,400	128,108,240
Deferred gain	12	9,469,738	14,591,246
CURRENT LIABILITIES			
Trade and other Payables	13	98,659,007	80,947,043
Mark-up payable on secured loans	14	6,832,008	2,494,512
Short term bank borrowings - Secured	15	307,780,907	249,910,368
Current portion of long term liabilities	16	56,749,149	57,114,356
		470,021,071	390,466,279
CONTINGENCIES AND COMMITMENTS	17	1,092,392,962	1,029,333,764

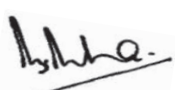
The annexed notes from 1 to 44 form an integral part of these consolidated financial statements.


MIAN AHSON FAROOQ
 DIRECTOR



AS AT 31 DECEMBER 2005

	Note	2005 Rupees	2004 Rupees
NON CURRENT ASSETS			
Property, plant and equipment	18	530,499,316	532,050,995
Intangible assets	19	41,992,254	46,701,666
		572,491,570	578,752,661
Long term deposits		1,611,765	1,027,765
CURRENT ASSETS			
Store, spares and loose tools	20	349,956	4,793,482
Stock in trade	21	310,161,033	283,204,363
Trade debts	22	34,643,950	22,631,108
Advances, deposits and prepayments	23	34,890,524	34,260,536
Other receivables	24	88,744,279	47,076,300
Income tax - net		24,922,966	31,950,500
Cash and bank balances	25	24,576,919	25,637,049
		518,289,627	449,553,338
		1,092,392,962	1,029,333,764


ANEES AHMAD KHAN
 CHIEF EXECUTIVE OFFICER

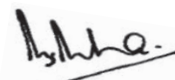
**CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2005**

	Note	2005 Rupees	2004 Rupees
Sales - net	26	1,274,515,159	1,025,153,883
Cost of sales	27	795,399,115	650,413,815
Gross profit		479,116,044	374,740,068
Operating expenses			
Administrative and general	28	119,529,743	101,978,244
Distribution, selling and promotional	29	265,097,634	192,987,872
Finance cost	30	35,111,698	22,107,455
Research and development	31	6,429,620	3,505,831
		426,168,695	320,579,402
Operating profit		52,947,349	54,160,666
Other operating income	32	17,335,629	10,046,143
Other operating charges	33	70,282,978	64,206,809
		5,999,099	8,773,845
Profit before taxation		64,283,879	55,432,964
Taxation	34	29,779,966	34,124,836
Profit after taxation		34,503,913	21,308,128
Earnings per share - basic and diluted	35	3.04	1.88

The annexed notes from 1 to 44 form an integral part of these consolidated financial statements.



MIAN AHSON FAROOQ
DIRECTOR



ANEES AHMAD KHAN
CHIEF EXECUTIVE OFFICER

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2005

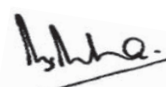
	2005 Rupees	2004 Rupees
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	64,283,879	55,432,964
Add/(less): Adjustments for non-cash charges and other items		
Depreciation	54,775,939	46,667,213
Amortization of intangible assets	4,709,412	392,451
Gain on sale of property, plant and equipment	(4,774,824)	(2,982,026)
Exchange (gain)/loss	(3,007,461)	379,488
Provision for defined benefit obligation	14,499,804	12,605,588
Provision for slow moving items	(632,966)	632,966
Finance cost	35,111,698	22,107,455
Deterioration in Pallets	17,999	3,005
Gain on sale of investments	-	(2,648)
Amortization of deferred gain	(5,121,508)	(4,099,536)
	95,578,093	75,703,956
Profit before working capital changes	159,861,972	131,136,920
Working capital changes		
(Increase)/decrease in current assets:		
Stores, spares and loose tools	5,058,493	(782,296)
Stock in trade	(26,956,670)	(47,336,077)
Trade debts	(12,008,909)	94,865
Advances, deposits and prepayments	(629,988)	(8,202,592)
Other receivables	(41,667,979)	2,116,272
Increase/(decrease) in current liabilities:		
Trade and other payables	17,608,154	12,305,422
	(58,596,899)	(41,804,406)
Cash generated from operations	101,265,073	89,332,514
Add/(less):		
Taxes paid	(27,052,122)	(25,851,768)
Gratuity paid	(7,221,955)	(3,733,351)
Finance cost paid	(21,894,032)	(14,392,037)
Security deposit	(584,000)	(619,000)
Long term advances - net	4,295,191	1,753,805
Net cash from operating activities	48,808,155	46,490,163

	Note	2005 Rupees	2004 Rupees
CASH FLOWS FROM INVESTING ACTIVITIES			
Fixed capital expenditure		(32,595,301)	(28,344,003)
Sale of other investments		-	30,148
Sale proceeds of fixed assets		16,098,175	27,925,429
Net cash from Investing activities		(16,497,126)	(388,426)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of long term loan		-	(4,913,059)
Repayment of long term liabilities		(13,482,353)	(14,208,235)
Proceeds/(Repayment) of lease finance liabilities - net		(62,647,227)	(60,155,384)
Short term bank borrowings		57,870,539	61,963,024
Dividend paid		(15,112,118)	(26,862,463)
<i>Net cash from financing activities</i>		(33,371,159)	(44,176,117)
Net (decrease)/increase in cash and cash equivalents		(1,060,130)	1,925,620
Cash and cash equivalents at beginning of the year		25,637,049	23,711,429
<i>Cash and cash equivalents at end of the year</i>	25	24,576,919	25,637,049

The annexed notes from 1 to 44 form an integral part of these consolidated financial statements.



MIAN AHSON FAROOQ
DIRECTOR



ANEES AHMAD KHAN
CHIEF EXECUTIVE OFFICER

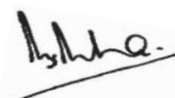
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2005**

	SHARE CAPITAL	REVENUE RESERVES			TOTAL
		GENERAL	UNAPPROP- RIATED PROFIT	SUB- TOTAL	
..... Rupees					
Balance as at 01 January 2004	101,439,520	114,000,000	404,642	114,404,642	215,844,162
Current year incremental depreciation - net of tax	-	-	7,575,614	7,575,614	7,575,614
Profit for the year after taxation	-	-	21,308,128	21,308,128	21,308,128
Balance as at 31 December 2004	101,439,520	114,000,000	29,288,384	143,288,384	244,727,904
Final dividend for the year ended 31 December 2004 @ Rs. 1.5 per share	-	-	(15,215,928)	(15,215,928)	(15,215,928)
Issuance of bonus shares @ 12%	12,172,740	-	(12,172,740)	(12,172,740)	-
Current year incremental depreciation - net of tax	-	-	10,014,676	10,014,676	10,014,676
Profit for the year after taxation	-	-	34,503,913	34,503,913	34,503,913
Balance as at 31 December 2005	113,612,260	114,000,000	46,418,305	160,418,305	274,030,565

The annexed notes from 1 to 44 form an integral part of these consolidated financial statements.



MIAN AHSON FAROOQ
DIRECTOR



ANEES AHMAD KHAN
CHIEF EXECUTIVE OFFICER

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

1. STATUS AND NATURE OF BUSINESS

The Highnoon Group comprises of Holding Company Highnoon Laboratories Limited ("HNL") and a wholly owned Subsidiary company Dynalog Services (Private) Limited ("DSL") .

HNL was incorporated as a private limited company in Pakistan in the year 1984 under the Companies Ordinance, 1984 and converted into an unquoted public limited Company in the year, 1985. Its shares are quoted on all stock exchanges in Pakistan since November 1994. HNL is principally engaged in the manufacture, import and marketing of pharmaceutical and allied consumer products. The Registered office of HNL is situated at 17.5 Km, Multan Road, Lahore.

DSL was incorporated as a private limited company in Pakistan on 27 April 2004 under the Companies Ordinance, 1984 and made a wholly owned subsidiary Company of HNL in September 2004. DSL is principally engaged in the business of trading and distribution of pharmaceutical and other products. The Registered office of DSL is situated at 31-Saint John's Park, Lahore.

2. STATEMENT OF COMPLIANCE

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

3. BASIS OF MEASUREMENT

These consolidated financial statements have been prepared under the historical cost convention modified by adjustment of revaluation of certain assets as referred to in note 18.1.3 and adjustment of exchange differences as referred to in note 4.3 to the financial statements. In these financial statements, except for the cash flow statement, all the transactions have been accounted for on accrual basis.

4. SIGNIFICANT ACCOUNTING POLICIES

4.1 The consolidated financial statements includes the financial statements of Highnoon Laboratories Limited and its wholly owned subsidiary "Dynalog Services (Private) Limited". The assets and liabilities of subsidiary company have been consolidated on line by line basis and carrying value of investment held by the parent company is eliminated against the subsidiary's shareholder's equity in the consolidated financial statements. Material intra-group balances and transactions have also been eliminated.

4.2 Staff retirement benefits

The main features of the scheme operated by HNL for its employees are as follows:

Defined benefit plan

HNL operates an unfunded gratuity scheme for all of its permanent employees, under which benefits are paid on cessation of employment subject to a minimum qualifying period of service.

Qualified actuaries have carried out the valuation on 31 December 2005. The Projected Unit Credit Method, with the following significant assumptions, was used for the valuation of this scheme:

- Discount rate	9% per annum
- Expected rate of increase in salary	8% per annum
- Expected average remaining working life time	14 years
- Number of years used to amortize gains / losses	5 years

HNL's policy with regard to actuarial gains/losses is to follow minimum recommended approach under IAS 19 "Employees Benefits" by which actuarial gains/losses exceeding 10% of present value of benefit obligation are amortized over average remaining working lives of the employees.

Defined contribution plan

The Group also operates a recognized provident fund scheme for all of its permanent employees in accordance with the trust deed and rules made there under. Equal monthly contributions are made to the fund by the Group and employees at the rate of 8.33% of basic salary.

Compensated leave absences

Provision for compensated absences is made to the extent of value of accumulated accrued leaves/leave fare assistance of the employees of HNL at the balance sheet date as per entitlement on the basis of last drawn salary.

4.3 Foreign currency translation and hedging

Assets and liabilities in foreign currency are translated at the rates of exchange prevailing on the balance sheet date, while foreign currency transactions are converted into Pak rupees at exchange rates prevailing on the date of transaction. All exchange gains/losses are taken to profit and loss account. Currently the Group has not entered into any forward foreign exchange contract to hedge the foreign currency exposure, however, the risk is mitigated by matching the maturities of foreign currency assets and liabilities.

4.4 Trade and other payables

These are stated at their nominal value. Exchange gain and losses are arising in respect of liabilities in foreign currencies are added to the carrying amount of respective liability.

4.5 Property, Plant and Equipment

Property, Plant and equipment are stated at cost or revalued amount less accumulated depreciation except for freehold land, which is stated at revalued amount. Revaluation is carried out every five years unless earlier revaluation is necessitated.

Depreciation is charged on reducing balance method at the rates mentioned in note 18.1 to write off the cost / revalued amount of an asset over its estimated useful life. The assets' residual values and useful lives are reviewed at each financial year end and adjusted, if its impact on depreciation is significant. Full month's depreciation is charged on additions, while no depreciation is charged in the month of disposal or deletion or transfer of assets. Surplus on revaluation of fixed assets relating to incremental depreciation is directly charged to equity.

Gains and losses on disposal of fixed assets are included in income currently, except that the related surplus on revaluation of fixed assets (net of deferred taxation) is transferred directly to unappropriated profits.

Normal repairs and maintenance is charged to revenue as and when incurred, while major renewals and replacements are capitalized and assets so replaced, if any, are retired.

4.6 Leasehold assets

Leases where all the risks and rewards incidental to ownership of the leased assets have been transferred to the Group is classified as finance leases. Assets subject to finance lease are stated at the lower of present value of minimum lease payments under the lease agreements and the fair value of the leased assets.

The related rental obligations, net of finance charges, are included in liabilities against assets subject to finance lease as referred to in note 9. The liabilities are classified as current and long term depending upon the timing of the payment.

Each lease payment is allocated between the liability and finance charges so as to produce a constant periodic rate of interest on the balance outstanding. The interest element of the rental is charged to income over the lease term.

Assets acquired under a finance lease are depreciated over the useful life of assets on reducing balance method at the rates given in note 18.1. The assets' residual values and useful lives are reviewed at each financial year end and adjusted, if its impact on depreciation is significant. Depreciation of leased assets is charged to profit and loss account. Depreciation on additions in leased assets is charged from the month in which an asset is acquired while no depreciation is charged for the month in which the asset is disposed off / transferred to freehold.

4.7 Capital work in progress

Capital work in progress is stated at cost and includes the expenditures on material, labor and appropriate overheads directly relating to the project. These costs are transferred to fixed assets as and when assets are available for intended use.

4.8 Intangible assets and amortization

Intangible assets (Intellectual Property, Rights and Trademarks), which are non-monetary assets without physical substance are recognized at cost, which comprises its purchase price, non-refundable purchase taxes and any directly attributable expenditures.

After initial recognition an intangible asset is carried at its cost less accumulated amortization and impairment losses. Amortization is charged to the income on monthly basis following the straight line basis for a maximum period of ten years.

At each financial year end, the Group reviews the recoverable amounts of intangible assets to assess impairment loss. If any such indication exists, impairment losses are recognized as expense.

Subsequent expenditures on intangible assets after its purchase are recognized as an expense when it is incurred unless the expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance.

4.9 Deferred gain

Deferred gain arising on sale and lease back of assets is amortized on straight line basis over the lease term.

4.10 Borrowing costs

Finance cost on long term liabilities / lease liabilities which are specifically obtained for the acquisition of qualifying assets i.e. assets that take a substantial period of time to get ready for their intended use, are capitalized up to the date of commissioning of respective asset. All other interest, mark-up and expenses are charged to income currently.



4.11 Investments

Investments available for sale

Investments classified as "available for sale" are initially measured at cost, being the fair value of consideration given. At subsequent reporting dates, these investments are measured at fair value (quoted market price), unless fair value cannot be reliably measured. The investments for which quoted price is not available, are measured at cost as it is not possible to apply any other valuation methodology.

Pursuant to revision in IAS 39 "Financial Instruments: Recognition and Measurement", the Group has changed its accounting policy for recognition of unrealized gains and losses arising from changes in fair value of available for sale investments that were previously included in the net profit or loss for the period in which these arise. Now unrealized gains and losses arising from changes in fair value are directly recognized in equity in the period in which these arise. Cumulative gains and losses arising from changes in fair value are included in the net profit and loss for the period in which an investment is derecognized. Such a change in accounting policy has been accounted for retrospectively. This change in accounting policy has however, no effect on the current and previous year's profit and loss account and retained earnings.

4.12 Stores, spares and loose tools

These are valued at moving weighted average cost except for items in transit, which are valued at invoice price and related expenses incurred up to the balance sheet date. For items which are slow moving, a provision is made for excess of book value over estimated realizable value.

4.13 Stock in trade

These are valued at the lower of cost and net realizable value. Cost is determined using the following basis:-

Raw materials	-	on moving average
Work-in-process	-	at estimated manufacturing cost including appropriate overheads
Finished goods		
- Imported	-	on moving average
- Local	-	on annual average manufacturing cost including appropriate overheads
Merchandise in transit / pledged	-	at invoice value plus other charges incurred thereon

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

4.14 Trade debts

These are carried at original invoice amount less an estimate made for doubtful debts based on a review of all outstanding amounts at the year-end. Bad debts are written off when identified.

4.15 Cash and cash equivalents

For the purpose of cash flow statement, cash and cash equivalents comprise of cash in hand and balance with banks on current and deposit accounts.

4.21 Dividends

Dividend to shareholders is recognized as a liability in the period in which it is approved.

4.22 Financial instruments

Financial assets and financial liabilities are recognized when the Group becomes a party to the contractual provisions of the instrument and assets and liabilities are stated at fair value. The Group derecognizes the financial assets and liabilities when it ceases to be a party to such contractual provisions of the instruments.

a) Trade and other

Liability for trade and other amounts payable are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received.

b) Trade and other

Trade other receivables are recognized and carried at original invoice amount/cost less provision for uncollectible receivables, if any.

c) Cash and bank balances

Cash in hand and at banks are carried at cost.

4.23 Provisions

A provision is recognized when the Group companies has a present legal or constructive obligation as a result of past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation of which reliable estimate can be made.

4.24 Offsetting

Financial assets and liabilities are offset and the net amount is reported in the balance sheet if the Group has legally enforceable right to setoff the recognized amounts and the Group intends to settle either on a net basis or realize the asset and settle the liability simultaneously.

	Note	2005 Rupees	2004 Rupees
5. SHARE CAPITAL			
Authorized			
15,000,000 (2003: 15,000,000) Ordinary shares of Rs. 10 each		150,000,000	150,000,000
Issued, subscribed and paid - up			
5,905,000 (2004: 5,905,000) Ordinary shares of Rs. 10 each fully paid in cash		59,050,000	59,050,000
95,000 (2004: 95,000) Ordinary shares of Rs.10 each issued for consideration other than cash	5.1	950,000	950,000
5,361,226 (2004: 4,143,952) as fully paid bonus shares of Rs. 10 each		53,612,260	41,439,520
		113,612,260	101,439,520

5.1 This represents the issuance of shares against the purchase of plant, machinery and other assets.

	2005	2004
	Rupees	Rupees
6. RESERVES		
Revenue		
General reserve	114,000,000	114,000,000
Unappropriated profit	46,418,305	29,288,384
	160,418,305	143,288,384

7. SURPLUS ON REVALUATION OF ASSETS

This represent surplus arising on revaluation of freehold land, building on freehold land, Plant and Machinery both owned and leased of HNL carried out in 1995, 1999 and 2004 respectively. This has been adjusted by surplus realized on disposal of revalued assets and incremental depreciation arising due to revaluation net of deferred tax.

Surplus on revaluation of assets as at 01 January	221,403,106	64,584,693
Surplus arise on revaluation of assets during the year	-	168,473,204
Surplus relating to incremental depreciation charged on related assets-transferred to unappropriated profit		
Net of deferred tax	(10,014,676)	(7,575,614)
Related deferred tax liability	(5,392,518)	(4,079,177)
	(15,407,194)	(11,654,791)
Surplus on revaluation of assets as at 31 December	205,995,912	221,403,106
Less: Related deferred tax liability on:		
Balance at the beginning of the year	53,925,177	16,694,154
- Deferred tax arising during the period	-	41,310,200
Transferred to profit and loss account		
- Incremental depreciation charged during the year	(5,392,518)	(4,079,177)
	48,532,659	53,925,177
	157,463,253	167,477,929

	Note	2005 Rupees	2004 Rupees
8. LONG TERM LIABILITY - Secured			
Outstanding balance of purchase consideration for trademark	8.1	33,229,412	47,094,117
Less: Paid during the period		13,482,353	14,208,235
		19,747,059	32,885,882
Exchange (gain) / Loss due to revaluation		(3,003,529)	343,530
Total payable as on 31 December		16,743,530	33,229,412
Due within one year	16	16,743,530	14,241,177
		-	18,988,235

8.1 This represents the purchase consideration amounting to Euro 500,000 equivalent to Rs. 47,094,117 net of local taxes for Registration and Trademark of brand "Tres Orix Forte" for the territory of Pakistan and Kenya payable to M/s Almira Prdoesfarma, Spain. Of the outstanding balance of Euro 350,000 equivalent to Rs. 33,229,412, Euro 150,000 equivalent to Rs. 13,482,353 net of local taxes has been paid during the year and remaining Euro 200,000 net of local taxes is payable on or before 31 May 2006.

The liability is secured against intangible assets and in case of default in payment of obligation within fifteen days of formal notice of the party, the agreement will be terminated upon which all the data and documents have to be returned and the Company's right to market the brand will cease.

9. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

The rate of interest used as discounting factor ranges from 0.583% to 2.634% (2004: 0.583% to 1.4125%) per month. The amount of future payments and period during which they fall due are:-

Minimum lease payments due:

Not later than one year		45,334,067	48,679,309
Later than one year and not later than five years		40,819,196	61,139,561
		86,153,263	109,818,870
Less: Future financial charges		8,907,536	10,758,396
Present value of minimum lease payments	9.1	77,245,727	99,060,474
Less: Current portion	16	39,330,643	42,174,155
		37,915,084	56,886,319
9.1 Break-up of present value of minimum lease payments			
Not later than one year		39,330,643	42,174,155
Later than one year and not later than five years		37,915,084	56,886,319
		77,245,727	99,060,474

Interest rate implicit in the lease are fixed at the contract date and remain fixed for the lease term except for one lease obligation of Rs. 12,208,562 (2004: 16,018,290) which is re-priced every month equivalent to rate of 6 month KIBOR plus 3.5%.

The rentals are payable in monthly equal installments. In case of default of any payment an additional charge at the rate ranging from Rs. 117 to Rs. 250/0.1 % (2004: Rs. 117 to 250/0.1%) per day on overdue payments shall be paid. The Group has an option to purchase the assets at the expiry of lease term and the Group intend to exercise this option.

	Note	2005 Rupees	2004 Rupees
10. LONG TERM ADVANCES			
Balance at the end of year		13,081,827	8,786,636
Less: Current portion	16	674,976	699,024
		12,406,851	8,087,612

This represents advances taken from employees against future sale of vehicles as per Group's policy.

11. DEFERRED LIABILITIES

Taxation	11.1	79,990,497	84,290,186
Gratuity	11.2	51,095,903	43,818,054
		131,086,400	128,108,240

11.1 Taxable temporary differences arising in respect of:

Surplus on revaluation of assets		48,532,659	53,925,177
Accelerated tax depreciation		31,457,838	30,365,009
		79,990,497	84,290,186

11.2 The net value of defined benefit obligation as at valuation date was as follows:

Present value of defined benefit obligation		75,380,276	56,671,886
Unrecognized past service cost		-	-
Unrecognized actuarial (losses)		(25,252,686)	(12,853,832)
Benefits due but not paid		968,313	-
Net liability as at 31 December		51,095,903	43,818,054

11.2.1 The following is the reconciliation of movement in the net recognized liability for gratuity:

Liability as at 01 January		43,818,054	34,945,817
Amount recognized during the year	11.2.2	14,499,804	12,605,588
Benefit payments made by the Company		(7,221,955)	(3,733,351)
Net liability as at 31 December		51,095,903	43,818,054

11.2.2 The following amounts have been charged to profit and loss account during the year in respect of gratuity scheme:

Current service cost		8,528,724	5,930,117
Interest cost		4,533,751	4,035,194
Past service cost - charge for the year		-	687,817
Actuarial losses - charge for the year		1,437,329	1,952,460
Total included in staff cost		14,499,804	12,605,588

	Note	2005 Rupees	2004 Rupees
12. DEFERRED GAIN			
Opening balance as on 01 January		14,591,246	10,515,015
Gain recognized during the year		-	8,175,767
		14,591,246	18,690,782
Less: amortization for the year	32	5,121,508	4,099,536
		9,469,738	14,591,246
13. TRADE AND OTHER PAYABLES			
Trade creditors		58,989,174	30,940,221
Advances from customers		9,270,384	23,208,455
Accrued expenses		11,000,035	11,180,799
Income tax deducted at source		2,204,561	1,137,664
Workers' Profit Participation Fund	13.1	6,642,191	6,255,653
Workers' Welfare Fund		5,083,697	4,317,206
Payable to Central Research Fund		753,282	640,300
Payable to provident fund trust		2,579,621	1,234,493
Un-claimed dividends		2,136,062	2,032,252
		98,659,007	80,947,043
13.1 Workers' Profit Participation Fund			
Balance at the beginning of the year		6,255,653	5,085,546
Add: Current allocation for the year	33	4,009,961	3,932,445
		10,265,614	9,017,991
Add: Interest on funds utilized by the Group	30	1,266,770	953,540
		11,532,384	9,971,531
Less: Paid during the year to the trustees of the fund		1,596,764	1,862,364
Deposited with the Government Treasury		3,293,429	1,853,514
		4,890,193	3,715,878
	13.2	6,642,191	6,255,653
13.2 Mark up @ 20.25% (2004:18.75%) is being provided on the unpaid balance of the fund in accordance with the rules of the fund.			
14. MARKUP PAYABLE ON SECURED LOANS			
On cash finances		2,642,986	1,184,160
On other borrowings		4,189,022	1,310,352
		6,832,008	2,494,512

	Note	2005 Rupees	2004 Rupees
15. SHORT TERM BANK BORROWINGS- Secured			
Habib Bank Limited	15.1		
Cash finance		64,587,688	81,581,817
Running finance		57,230,081	-
L/C acceptance		3,490,905	-
Finance against imported merchandise		13,710,000	7,986,000
Faysal Bank Limited	15.2		
Morabaha LPO		60,000,000	60,000,000
Morabaha pledge		9,862,989	4,042,380
L/C acceptance		9,455,342	-
United Bank Limited	15.3		
Cash finance - hypothecation		71,783,807	74,029,341
Cash finance - pledge		17,660,095	22,270,830
		307,780,907	249,910,368

15.1 These finances are availed against aggregate sanctioned limit of Rs. 370 million (2004: Rs. 245 million) and carry mark-up equivalent to the rate of one month average offered KIBOR of last day of previous month plus 2% with floor of 8 % per annum (2004: One month average offered KIBOR of last day of preceding month plus 2% with floor of 5 % per annum). These finances are secured by way of:

- hypothecation/pledge of stocks;
- Joint pari passu hypothecation charge on current assets to the extent of Rs. 60.0 (2004: Rs. 55.4) million;
- joint pari passu equitable mortgage charge on property, plant and equipment of HNL to the extent of Rs. 140.0 (2004: Rs. 129.2) million;
- personal guarantees of all the directors of the HNL.

15.2 These finances are availed by HNL against aggregate sanctioned limit of Rs. 105 million (2004: Rs.105 million) and carry mark up equivalent to the rate of Ask yield of six months KIBOR as notified by Reuters on the drawn day + 250 basis points per annum (2004: Ask yield of six months KIBOR as notified by Reuters on the drawn day + 250 basis points with floor of 5.5% per annum). These finances are secured by way of:

- joint pari passu charge on the present and future property, plant and equipment of HNL to the extent of Rs. 67.5 million (2004: Rs. 40 million);
- joint pari passu charge on the present and future current assets of HNL to the extent of Rs. 29.0 million (2004: Rs. 57.0 million);
- pledge of stocks;
- ranking charge on current assets of HNL to the extent of Rs. 35 million (2004: Rs. 35 million);
- personal guarantee of the sponsoring directors of HNL.

15.3 These finances are availed by HNL against aggregate sanctioned limit of Rs. 155 million (2004: Rs. 155 million) and carry mark-up equivalent to 3 months average offered KIBOR plus 1.5% per annum reset on monthly basis (2004: 0.1369 paisa per thousand per day). These finance are secured by way of:

- hypothecation/pledge of stocks, stores and spares, receivables/book debts;
- joint pari passu charge to the extent of Rs. 102.310 million (2004: Rs. 90.0) million on the property, plant and equipment of HNL ranking pari passu with Habib Bank Limited and Faysal Bank Limited;
- joint pari passu charge to the extent of Rs. 45 million (2004: Rs. 110.0 million) on the present and future current assets of HNL;
- promissory note and personal guarantee of all the directors of HNL.

	2005	2004
	Rupees	Rupees
16. CURRENT PORTION OF LONG TERM LIABILITIES		
Long term liability	16,743,530	14,241,177
Liabilities against assets subject to finance lease	39,330,643	42,174,155
Long term advances	674,976	699,024
	56,749,149	57,114,356
17. CONTINGENCIES AND COMMITMENTS		

Contingencies

- Bank guarantees issued on behalf of the HNL aggregating to Rs. 0.798 million (2004: Rs. 8.841 million).
- HNL has not acknowledged the demand relating to sales tax/central excise duty amounting to Rs. 20.798 million (2004: Rs. 18.137 million) as debt as the matter is pending adjudication. An amount of Rs. 1.900 (2004: Rs. 1.693 million) has been deposited under protest and shown under other receivables in note 25.

Commitments

- Commitments against irrevocable letters of credit of HNL include:

(Rupees in Million)

Raw materials	72.520	32.738
Packing materials	0.448	1.846
Finished goods	0.450	3.694

- Commitments in respect of lease rentals under lease arrangements are as follows:

(Rupees)

Plant and Machinery

- Not later than one year	9,598,848	13,468,698
- later than one year and not later than five years		
2007	4,405,054	4,405,054

Vehicles

- Not later than one year	30,031,115	27,383,527
- later than one year and not later than five years		
2007	19,981,431	8,660,985
2008	7,611,229	1,424,903
2009	447,875	326,300

Office equipment

- Not later than one year	5,704,104	4,719,372
- later than one year and not later than five years		
2007	5,704,104	4,719,372
2008	2,669,503	3,044,419

- Facilities of letters of guarantee amounting to Rs. 19.202 million (2004: Rs.4.159 million) are available to HNL under hypothecation/pledge of stocks and on present and future current assets and property, plant and equipment of HNL.
- Limits of un-availed short term bank borrowings are available to the Group from commercial banks amounting to Rs.332.218 million (2004: Rs. 254.921 million). These facilities carry mark-up equivalents to rates ranging from one to six months offered KIBOR plus margin of 1.5% to 2.5% (2004: fixed rate of 5% +floating rate of one/six months offered KIBOR plus 2.0% to 2.5%) and are secured against hypothecation/pledge of stocks and on present and future current assets and property, plant and equipment of HNL to the extent as referred to in respective notes.

Note	2005 Rupees	2004 Rupees
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18. PROPERTY, PLANT AND EQUIPMENT

Operating assets (owned)	18.1	376,491,408	351,228,325
Operating assets (leased)	18.1	150,786,422	173,690,170
Capital work-in-progress	18.2	3,221,486	7,132,500
		530,499,316	532,050,995

18.1 OPERATING ASSETS

PARTICULARS	COST			DEPRECIATION			Book Value as at 31 December 2005	Rate %	
	As at 01 January 2005	DURING THE YEAR		As at 01 January 2005	For the year	Adjustment			As at 31 December 2005
		Additions / Revaluation	Deletions						
----- Rupees -----									
OWNED									
Land - freehold	81,898,000	-	-	81,898,000	-	-	-	81,898,000	
Building on freehold land	165,097,285	3,811,406	-	168,908,691	12,013,178	-	58,224,315	110,684,376	
Plant and machinery	163,768,968	36,731,755	-	200,500,723	13,116,221	-	59,905,906	140,594,818	
Laboratory equipment	2,384,481	3,778,582	-	6,163,063	178,656	-	1,406,344	4,756,719	
Furniture and fixtures	6,767,998	4,447,446	-	11,215,444	434,358	-	4,359,843	6,855,601	
Electric and gas appliances	15,522,132	3,131,569	-	18,653,701	1,015,187	-	8,017,814	10,635,887	
Office equipment	19,287,424	2,877,372	(955,300)	21,209,496	1,240,976	(28,852)	8,725,117	12,484,379	
Vehicles	11,798,878	11,509,655	(12,497,741)	10,810,792	1,697,896	(2,100,838)	2,273,074	8,537,718	
Library books	52,806	-	-	52,806	800	-	45,602	7,204	
Neon sign	33,000	-	-	33,000	740	-	26,342	6,658	
Arms and ammunition	106,100	-	-	106,100	3,339	-	76,052	30,048	
	466,717,072	66,287,785	(13,453,041)	519,551,816	29,701,351	(2,129,690)	143,060,408	376,491,408	
ASSETS SUBJECT TO FINANCE LEASE									
Plant and machinery	116,171,393	-	(31,924,656)	84,246,737	5,825,342	(12,724,821)	29,199,028	55,047,729	
Office Equipment	20,256,624	1,972,000	-	22,228,624	2,081,076	-	3,104,816	19,123,807	
Vehicles	92,482,924	29,980,310	(17,757,008)	104,706,226	17,168,170	(7,175,353)	28,091,340	76,614,886	
	228,910,941	31,952,310	(49,681,664)	211,181,607	25,074,588	(19,900,174)	60,395,185	150,786,422	
2005 (Rupees)	695,628,013	98,240,095	(63,134,685)	730,733,423	54,775,939	(22,029,864)	203,455,594	527,277,830	
2004 (Rupees)	458,538,595	106,982,693	(38,366,479)	695,628,013	134,908,908	(10,866,603)	170,265,456	524,918,495	
		168,473,204							

18.1.1 Addition in freehold assets includes transfer of assets costing Rs.49,681,644 (2004: Rs. 19,768,654) less accumulated depreciation of Rs. 19,900,174 (2004: Rs. 9,036,414) from leasehold assets. Addition in leasehold office equipment and Vehicles represents transfer from freehold valuing Rs.2,580,600 (2004:Rs.18,633,330) less accumulated depreciation of Rs.129,390 (2004:Rs.Nil) under sale and leaseback arrangements.

	Note	2005 Rupees	2004 Rupees
18.1.2 Depreciation charge has been allocated as under:			
Cost of sales	27	32,672,385	30,757,674
Administrative and general	28	11,340,814	8,514,172
Distribution, selling and promotional	29	10,762,740	7,395,367
		54,775,939	46,667,213

18.1.3 Land, building on freehold land and plant and machinery of HNL were first revalued on 30 June 1995, resulting in a surplus of Rs. 68,809,377. Subsequently land, building on freehold land and plant and machinery were revalued on 30 June 1999 resulting in a surplus of Rs. 116,264,331. Recently land, building on freehold land and plant and machinery were again revalued on 31 May 2004 and 31 December 2004 respectively by M/s Hamid Mukhtar & Co., and certified by Ford, Rhodes, Sidat Hyder & Co. Chartered Accountants, which resulted in a surplus of Rs. 168,473,204 over the net book value of assets.

18.1.4 Had the assets not been revalued the carrying values would have been:

Land - freehold	14,566,828	14,566,828
Building on freehold land	57,714,048	60,030,228
Plant and machinery (Owned)	67,212,610	39,282,693
Plant and machinery (Leased)	42,735,525	62,545,667
	182,229,011	176,425,416

18.1.5 Disposal of property, plant and equipment

Particulars	Sold to	Cost	Accumulated depreciation	Written down value	Sale proceeds	Gain/ (loss)	Mode of sale
----- Rupees -----							
VEHICLES							
Faysal Bank Limited		1,130,600	94,212	1,036,388	1,130,600	94,212	Negotiation
Baqar Hassan - Executive		1,080,500	648,669	431,831	750,000	318,169	Group Policy
Muhammad Tariq		988,808	359,926	628,882	875,000	246,118	Negotiation
Muhammad Hassan		924,000	592,917	331,083	790,000	458,917	Negotiation
Ch. Muhammad Akram		854,200	259,677	594,523	955,000	360,477	Negotiation
Prince Motors		790,500	113,579	676,921	848,000	171,079	Negotiation
M. Aasim Shahzad - Ex-Executive		780,500	399,415	381,085	387,771	6,686	Group Policy
Dr. Saleem Akhtar -Executive		769,000	552,804	216,196	216,196	-	Group Policy
Syed Naeem Haider Gilani		764,000	315,243	448,757	430,000	(18,757)	Negotiation
Naeem Ahmed Khan		764,000	323,936	440,064	425,000	(15,064)	Negotiation
Amir Bashir -Ex-Executive		739,000	494,574	244,426	244,426	-	Group Policy
Ms Afifa F. Mahmood		657,354	389,647	267,707	700,000	432,293	Negotiation
Maj (R) Ali Hasan		636,830	545,480	91,350	605,000	513,650	Negotiation
Gohar Latif Malik - Ex-Employee		555,000	352,837	202,163	376,009	173,846	Group Policy
Faysal Bank Limited		555,000	18,500	536,500	555,000	18,500	Negotiation
Muhammad Usman - Ex-Employee		507,100	454,871	52,229	150,000	97,771	Group Policy
Muhammad Usman - Ex-Employee		446,464	300,798	145,666	350,000	204,334	Group Policy
Amira Fazl-e-Mahmood		415,000	158,180	256,820	350,000	93,180	Negotiation
Khurram Yousuf		414,000	290,762	123,238	335,000	211,762	Negotiation
Mohammad Azam -Ex-Employee		398,500	172,860	225,640	319,306	93,666	Group Policy
Reliance Insurance Company Limited		389,000	74,018	314,982	325,000	10,018	Insurance claim
Tariq Qureshi - Employee		386,000	121,804	264,196	327,456	63,260	Group Policy
Reliance Insurance		384,000	68,480	315,520	360,000	44,480	Insurance claim
Reliance Insurance Company Limited		374,000	76,670	297,330	367,000	69,670	Insurance claim
Patras		367,000	224,193	142,807	290,000	147,193	Negotiation
Nadeem Khalid -Employee		360,000	250,411	109,589	238,980	129,391	Group Policy
Jawaid Akhtar -Ex-Employee		354,000	180,619	173,381	268,253	94,872	Group Policy
Faraz Rashid - Ex-Employee		354,000	180,619	173,381	268,253	94,872	Group Policy
Reliance Insurance Company Limited		352,000	72,160	279,840	325,000	45,160	Insurance claim
Muhammad Nazir- Employee		317,900	276,655	41,245	130,000	88,755	Group Policy
Muhammad Arshad - Employee		68,500	40,718	27,782	68,508	40,726	Group Policy
Muhammad Ali - Employee		68,500	34,362	34,138	68,508	34,370	Group Policy
Rehmatullah - Employee		68,500	34,362	34,138	68,508	34,370	Group Policy
Tariq Khurshid - Employee		68,500	34,362	34,138	68,508	34,370	Group Policy
Abdul Hafeez - Employee		68,500	33,629	34,871	68,508	33,637	Group Policy
Shahid Najam Farooqi -Employee		68,500	33,629	34,871	68,508	33,637	Group Policy
Shakeel Ahmad Khan Lodhi -Employee		68,500	27,583	40,917	68,500	27,583	Group Policy
Imran Ijaz Butt - Ex-Employee		68,500	31,967	36,533	68,500	31,967	Group Policy
Najm ul Sahar -Ex-Employee		68,500	31,236	37,264	68,500	31,236	Group Policy
S. Khalid Hussain - Employee		68,500	26,121	42,379	68,508	26,129	Group Policy
Raja Khan		58,500	17,745	40,755	42,000	1,245	Negotiation
Muhammad Imran Khan - Ex-Employee		58,500	17,004	41,496	58,500	17,004	Group Policy
Muhammad Panah - Ex-Employee		58,500	20,709	37,791	58,500	20,709	Group Policy
Tariq Mehmood - Ex-Employee		58,500	14,768	43,732	58,517	14,785	Group Policy
Amjad Ali - Ex-Employee		58,500	17,721	40,779	58,612	17,833	Group Policy
Muhammad Yasir - Ex-Employee		58,500	7,590	50,910	58,500	7,590	Group Policy
Ihsan Ali - Ex-Employee		58,500	10,562	47,938	58,500	10,562	Group Policy
Faraz Ahmad Khan		58,500	10,562	47,938	58,500	10,562	Group Policy
Shahzad Aslam Khan - Ex-Employee		58,500	10,562	47,938	58,500	10,562	Group Policy
Muhammad Ajmal - Ex-Employee		58,500	9,750	48,750	58,500	9,750	Group Policy
M.Ashfaq Raza - Ex-Employee		58,500	17,095	41,405	58,500	17,095	Group Policy
Noman Mehmood - Ex-Employee		58,500	17,095	41,405	58,500	17,095	Group Policy
Shakeel Ahmad - Ex-Employee		58,500	17,095	41,405	58,500	17,095	Group Policy
Taya Gee Autos		55,000	34,349	20,651	32,000	11,349	Negotiation
Shafique Awan - Employee		39,900	36,661	3,239	13,000	9,761	Group Policy
OFFICE EQUIPMENT							
Orix Leasing Limited		895,000	16,673	878,327	895,000	16,673	Negotiations
Universal Insurance Limited		60,300	12,179	48,121	36,740	(11,381)	Insurance Claim
Rupees : 2005		20,303,956	8,980,605	11,323,351	16,098,175	4,774,824	
Rupees : 2004		8,140,262	1,827,719	6,312,543	9,294,569	2,982,026	

	Note	2005 Rupees	2004 Rupees
18.2 CAPITAL WORK - IN - PROGRESS			
Civil works		-	3,102,396
Plant and machinery- owned		-	2,707,795
ERP system implementation		3,221,486	1,322,309
	18.2.1	3,221,486	7,132,500

18.2.1 Movement in the account is as follows:

Opening balance		7,132,500	2,320,510
Addition during the year		2,034,119	4,811,990
Capitalized during the year		5,945,133	-
Closing balance		3,221,486	7,132,500

19. INTANGIBLE ASSETS

Registration and trademark	19.1	47,094,117	47,094,117
Amortization as at 01 January		(392,451)	-
For the year	27	(4,709,412)	(392,451)
Amortization as at 31 December		(5,101,863)	(392,451)
		41,992,254	46,701,666

19.1 This represent the purchase of Registration and Trademark of brand "Tres Orix Forte" for the territory of Pakistan and Kenya from M/s Almira Prdoesfarma, Spain for consideration of 500,000 Euro net of local taxes as referred to in note 8.

20. STORES, SPARES AND LOOSE TOOLS

Stores		295,960	4,767,637
Pallets		71,995	28,850
Less: Deterioration of pallets		17,999	3,005
		53,996	25,845
Spares		-	367,466
Loose tools		-	265,500
		349,956	5,426,448
Less: Provision for slow moving items	28	-	632,966
		349,956	4,793,482

	Note	2005 Rupees	2004 Rupees
21. STOCK IN TRADE			
Raw materials			
In hand		41,141,699	32,212,230
In pledge		64,759,279	105,391,234
In transit		15,918,473	-
		121,819,451	137,603,464
Packing and promotional material			
In hand		31,414,385	20,871,923
In pledge		4,773,790	4,127,907
With third party		311,166	500,593
		36,499,341	25,500,423
Work in process		33,674,482	33,292,170
Finished goods			
In hand		82,368,223	65,027,523
In pledge		35,677,059	20,596,695
In transit		122,477	1,184,088
		118,167,759	86,808,306
		310,161,033	283,204,363
22. TRADE DEBTS - Considered good			
Secured - against letters of credit		773,533	5,132,160
Unsecured			
Due from related parties			
Associated - Route 2 (Private) Limited		466,930	2,640,726
Others	22.1	33,403,487	14,858,222
		34,643,950	22,631,108

22.1 Included therein a balance of Rs. 401,964 (2004: Rs. 3,648,493) on which mark-up at the rate of 12% (2004: 12%) per annum is being charged due to late payment.

22.2 The amount due is in the normal course of business and interest fee. The maximum aggregate amount due from associated undertaking was Rs. 2.977 million (200: Rs. 2.641) million.

	Note	2005 Rupees	2004 Rupees
23. ADVANCES, DEPOSITS AND PREPAYMENTS			
Advances - considered good			
Staff against:			
Expenses		3,732,328	3,260,645
Salary		255,904	100,538
Suppliers	23.1	21,277,442	12,731,875
Letters of credit		925,470	10,124,277
Deposits			
Securities		4,944,169	4,036,389
Bank guarantee margin		117,236	457,907
Prepayments		3,637,975	3,548,905
		34,890,524	34,260,536

23.1 This includes an advance of Rs.452,382 (2004:Rs.80,710) to associated undertaking Route 2 (Private) Limited for purchase of goods. The maximum aggregate amount due from associated undertaking at end of any month during the year was Rs.452,382 (2004: Rs.80,710).

24. OTHER RECEIVABLES - considered good

Claim receivable		3,479,297	438,180
Duty draw back		1,258,646	593,250
Due from associated undertaking - Route 2 (Pvt) Limited	24.1	-	504,469
Sales tax	24.2	2,109,442	1,632,832
Receivable from foreign principals		81,011,000	42,986,000
Others		885,894	921,569
		88,744,279	47,076,300

24.1 The amount due is in the normal course of business and is interest free. The maximum aggregate amount of advance due from associated undertaking at the end of any month during the year was Rs. 0.504 (2004: Rs 0.504) million.

24.2 This includes Rs. 1.900 million deposited for grant of stay against demand of sales tax/excise duty paid under protest to sales tax department.

	Note	2005 Rupees	2004 Rupees
25. CASH AND BANK BALANCES			
Cash and Imprest		5,067,379	2,534,851
Balance with banks on Current accounts:			
Local currency		19,421,925	22,057,360
Foreign currency		87,615	88,063
		19,509,540	22,145,423
Cheques in hand		-	956,775
		24,576,919	25,637,049
26. SALES - net			
Manufactured products			
Local		1,251,183,671	1,001,035,215
Export		45,914,920	36,399,427
		1,297,098,591	1,037,434,642
Purchased products - Local		38,267,024	28,440,826
Sales compensation		25,300,000	20,557,800
Third Party (toll manufacturing)		24,200,636	21,359,414
		49,500,636	41,917,214
		1,384,866,251	1,107,792,682
Less: Discount		108,066,826	81,410,935
Sales tax		2,284,266	1,227,864
		110,351,092	82,638,799
		1,274,515,159	1,025,153,883

	Note	2005 Rupees	2004 Rupees
27. COST OF SALES			
Raw and packing material consumed		650,211,079	532,012,436
Salaries, wages and benefits	27.1	60,782,681	49,264,363
Vehicle running and maintenance		7,454,781	6,219,814
Fuel and power		13,233,063	11,144,561
Stores consumed		5,928,815	2,028,170
Repair and maintenance		13,084,622	7,182,770
Insurance		2,005,984	1,918,492
Deterioration in stores, spares and loose tools		-	-
Rent, rates and taxes		272,550	488,830
Fee and subscription		157,464	1,423,797
Printing and stationery		1,308,979	1,034,505
Other direct cost		6,376,076	3,867,468
Depreciation	18.1.2	32,672,385	30,757,674
Amortization of intangible assets	19	4,709,412	392,451
		798,197,891	647,735,331
Inventory effect of work in process			
Opening		33,292,170	37,232,046
Closing		(33,674,482)	(33,292,170)
		(382,312)	3,939,876
Cost of goods manufactured		797,815,579	651,675,207
Inventory effect of finished goods (excluding purchased products)			
Opening		73,537,569	56,905,593
Closing		(97,121,301)	(73,537,569)
		(23,583,732)	(16,631,976)
Cost of goods sold -manufactured		774,231,847	635,043,231
Less: Duty drawback		-	803,126
Cost of goods sold - manufactured items		774,231,847	634,240,105
Cost of goods sold - purchased products		21,167,268	16,173,710
Cost of goods sold		795,399,115	650,413,815
27.1 It includes the following staff retirement benefits:			
Defined benefit plans - gratuity		3,870,820	1,983,219
Defined contribution plans - provident fund		1,661,031	1,432,530
Provision of compensated leave absences		1,386,376	2,215,818

	Note	2005 Rupees	2004 Rupees
28. ADMINISTRATIVE AND GENERAL			
Salaries and benefits	28.1	63,566,980	55,172,459
Telephone, postage and telex		2,811,948	2,361,690
Rent, rates and taxes		2,739,008	3,165,012
Electricity, gas and water		230,654	459,478
Printing and stationery		3,812,779	2,472,644
Repairs and maintenance		3,380,150	4,149,001
Vehicle running and maintenance		11,105,571	8,637,193
Traveling and conveyance		4,625,887	6,146,604
Newspapers and subscriptions		2,008,219	4,295,045
Entertainment		600,803	506,456
Insurance		4,068,564	1,567,066
Auditors' remuneration	36	583,000	570,000
Legal and professional		804,735	864,846
Advertisement, seminars and symposia		2,975,373	679,799
Donation	28.2	2,892,101	733,300
Provision for slow moving store items	19	-	632,966
Depreciation	18.1.2	11,340,814	8,514,172
Others		1,983,157	1,050,513
		119,529,743	101,978,244
28.1 It includes the following staff retirement benefits:			
Defined benefit plans - gratuity		3,260,221	5,992,681
Defined contribution plans - provident fund		2,505,642	1,566,184
Provision of compensated leave absences		979,037	2,201,497

28.2 None of the Directors or their spouses have any interest in the donee's fund except for Rs. 1,000,000 (2004: Nil) paid to Highnoon Employees Welfare Trust situated at 17.5Km, Multan Road, Lahore. Mian Ahson Farooq, Director of the Company is also a member of the Board of Trustee.

	Note	2005 Rupees	2004 Rupees
29. DISTRIBUTION, SELLING AND PROMOTIONAL			
Salaries and benefits	29.1	124,288,547	93,478,588
Advertisement		6,651,019	517,746
Electricity, gas and water		10,824	124,677
Rent, rates and taxes		5,145,960	2,782,215
Entertainment		621,342	202,923
Promotional expenses and samples		78,094,540	71,363,767
Printing and stationery		3,348,279	2,452,523
Traveling and conveyance		58,367,734	50,774,645
Telephone, postage and telegram		4,202,270	3,015,992
Insurance		2,623,131	1,627,298
Vehicle running and maintenance		12,167,457	8,124,072
Donation	29.2	665,255	340,000
Freight and octroi		8,601,754	4,273,533
Seminars and symposia		8,434,343	3,328,481
Manpower training		10,589,724	2,802,930
Depreciation	18.1.2	10,762,740	7,395,367
Others		6,404,716	2,053,510
Deterioration in pallets		17,999	3,005
		340,997,634	254,661,272
Less: Reimbursement from foreign principals		75,900,000	61,673,400
		265,097,634	192,987,872
29.1 It includes the following staff retirement benefits:			
Defined benefit plans - gratuity		7,068,530	4,629,688
Defined contribution plans - provident fund		2,721,132	2,446,495
Provision of compensated leave absences		2,782,242	1,154,663

29.2 None of the Directors or their spouses have any interest in the donee's fund.

30. FINANCE COST

Mark-up on:			
Short term bank borrowings		23,106,578	10,239,362
Long term loan		-	564,878
Lease finance charges		8,880,170	8,271,255
Interest on workers' profit participation fund	13.1	1,266,770	953,540
Bank charges		1,858,180	2,078,420
		35,111,698	22,107,455

	Note	2005 Rupees	2004 Rupees
31. RESEARCH AND DEVELOPMENT			
Salaries and benefits		3,775,449	727,596
Expenses on clinical trials and products evaluation		395,490	1,039,169
Traveling		1,294,705	1,219,210
Insurance		45,693	2,616
Vehicle repair and maintenance		332,636	40,005
Printing and stationery		91,831	6,881
Office supplies		3,147	56,021
Repair and maintenance		4,560	13,833
Staff cost		173,646	280,100
Others		312,463	120,400
		6,429,620	3,505,831
31.1 It includes the following staff retirement benefits:			
Defined benefit plans - gratuity		300,233	86,115
Defined contribution plans - provident fund		157,544	147,840
Provision of compensated leave absences		23,214	6,500
32. OTHER OPERATING INCOME			
Income from financial assets			
Profit on sale of investments		-	2,648
Interest income		12,026	965,079
Exchange gain on currency fluctuations		3,007,461	-
Income from non-financial assets			
Gain on sale of property, plant and equipment		4,774,824	2,982,026
Amortization of deferred gain	12	5,121,508	4,099,536
Credit balances written back		826,066	1,631,860
Scrap Sales		907,931	364,994
Slow moving store written back		632,966	-
Others		2,052,847	-
		17,335,629	10,046,143
33. OTHER OPERATING CHARGES			
Workers' profit participation fund	13.1	4,009,961	3,932,445
Exchange loss on currency fluctuations		-	379,488
Workers' welfare fund		766,491	1,154,281
Central research fund			
Prior years		465,408	2,667,331
Current year		757,239	640,300
		1,222,647	3,307,631
		5,999,099	8,773,845

	Note	2005 Rupees	2004 Rupees
34. TAXATION			
HNL			
- for the year	34.1	14,825,365	21,597,335
- for prior years		13,130,000	-
DSL		6,124,289	524,549
		34,079,655	22,121,794
Deferred - HNL		(4,299,689)	12,003,042
		29,779,966	34,124,836

34.1 Reconciliation of tax charge for the year

Numerical reconciliation between the average effective tax rate and the applicable tax rate is as follows:

Applicable tax rate of HNL		35.00%	35.00%
Tax effect of amounts that are not deductible for tax purposes		26.43%	24.66%
Tax effect of amounts that are deductible for tax purposes		-34.29%	-30.87%
Tax effect of amounts relating to prior years		17.70%	0.00%
Tax effect of rebates and tax credits		-5.79%	16.46%
Tax effect under presumptive tax regime		-7.16%	0.82%
		-3.12%	11.07%
Average effective tax rate charged on income		31.88%	46.07%

Tax charge relating to DSL represents minimum turnover tax under the Income Tax Ordinance, 2001, hence numerical tax reconciliation has not been presented.

35. EARNINGS PER SHARE - Basic and Diluted

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

Profit after taxation	Rupees	34,503,913	21,308,128
Weighted average number of ordinary shares	Numbers	11,361,226	11,361,226
Earnings per share	Rupees	3.04	1.88

36. AUDITOR'S REMUNERATION

Statutory Audit		435,000	385,000
Fee for review of half year financial statements		125,000	125,000
Other services (including certificates, audit of provident fund, workers' profit participation fund, etc.)		10,000	-
Out of pocket		13,000	60,000
		583,000	570,000

37. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

	Year Ended 31 December 2005			Year Ended 31 December 2004		
	Rupees			Rupees		
	Chief Executive	Directors	Executives	Chief Executive	Directors	Executives
Managerial remuneration	3,520,200	7,985,400	19,563,647	3,352,200	8,318,550	9,715,457
House allowance	720,000	1,440,000	7,825,459	-	-	1,626,343
Provident fund	293,388	319,620	1,581,914	279,384	304,380	810,036
Gratuity	1,287,834	1,546,533	3,682,231	1,165,650	1,404,725	1,753,207
Bonus	293,350	665,450	1,602,932	279,350	686,600	809,621
Utilities	537,232	1,463,392	1,956,365	625,738	1,437,817	763,200
Medical	128,846	1,757,778	2,073,439	381,723	1,100,475	513,895
Others	9,999	78,791	203,800	-	39,125	-
	6,790,849	15,256,964	38,489,787	6,084,045	13,291,672	15,991,759
Number	1	3	15	1	3	5

- The Chief Executive, Directors and 13 executives (2004: 5) have been provided with Company's maintained cars while 02 (2004: Nil) executives have been provided with cars under self finance scheme with limited fuel and maintenance facility.
- No fee has been paid to any director except for Rs. 3000 (2004: Rs. 3000) paid to an independent non executive director for attending Board meetings.

38. NO. OF EMPLOYEES

No. of employees as on balance sheet date were 1,065 (2004: 976).

39. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

Year Ended 31 December 2005						
Interest Bearing			Non-Interest Bearing			Total
Less than one year	One to five years	Sub-Total	Less than one year	One to five years	Sub-Total	
-----Rupees-----						
Financial assets:						
Long term deposits	-	-	-	483,316	1,128,449	1,611,765
Trade debts	401,694	-	401,694	34,242,256	-	34,643,950
Advances and deposits	-	-	-	5,061,405	-	5,061,405
Other receivables	-	-	-	885,894	-	885,894
Cash and bank balances	-	-	-	24,576,919	-	24,576,919
	401,694	-	401,694	65,249,790	1,128,449	66,378,239
Financial liabilities:						
Long term liability	-	-	-	16,743,530	-	16,743,530
Liabilities against assets subject to finance lease	39,330,643	37,915,084	77,245,727	-	-	77,245,727
Trade and other payables	-	-	-	74,704,892	-	74,704,892
Markup payable on secured loans	-	-	-	6,832,008	-	6,832,008
Short term bank borrowings	307,780,907	-	307,780,907	-	-	307,780,907
	347,111,550	37,915,084	385,026,634	98,280,430	-	98,280,430
Excess of financial assets over financial liabilities	(346,709,856)	(37,915,084)	(384,624,940)	(33,030,640)	1,128,449	(31,902,191)
Off-balance sheet Items						
Bank guarantees				798,000		798,000
Irrevocable letters of credit				80,062,161		80,062,161
	-	-	-	80,860,161	-	80,860,161

Year Ended 31 December 2004						
Interest Bearing			Non-Interest Bearing			Total
Less than one year	One to five years	Sub-Total	Less than one year	One to five years	Sub-Total	
-----Rupees-----						
Financial assets:						
Long term deposits	-	-	-	1,027,765	1,027,765	1,027,765
Trade debts	3,648,493	-	3,648,493	18,982,615	-	22,631,108
Advances and deposits	-	-	-	4,494,296	-	4,494,296
Other receivables	-	-	-	44,412,038	-	44,412,038
Cash and bank balances	-	-	-	25,637,049	-	25,637,049
	3,648,493	-	3,648,493	93,525,998	1,027,765	94,553,763
						98,202,256
Financial liabilities:						
Long term liability	-	-	-	14,241,177	18,988,235	33,229,412
Liabilities against assets subject to finance lease	42,174,155	56,886,319	99,060,474	-	-	99,060,474
Trade and other payables	-	-	-	45,387,765	-	45,387,765
Markup payable on secured loans	-	-	-	2,494,512	-	2,494,512
Short term bank borrowings	249,910,368	-	249,910,368	-	-	249,910,368
	292,084,523	56,886,319	348,970,842	62,123,454	18,988,235	81,111,689
						430,082,531
Excess of financial assets over financial liabilities	(288,436,030)	(56,886,319)	(345,322,349)	31,402,544	(17,960,470)	13,442,074
						(331,880,275)
Off-balance sheet Items						
Bank guarantees				8,841,000		8,841,000
Irrevocable letters of credit				43,449,966		43,449,966
				52,290,966		52,290,966

Effective interest rates for the monetary financial assets and liabilities are mentioned in the respective notes to the financial statements.

39.1 Financial risk management objectives

The Group's activities expose it to a variety of financial risks, including the effects of changes in market rates, credit and liquidity risk associated with various financial assets and liabilities respectively as referred to in Note 40 and cash flow risk associated with accrued interests in respect of borrowings as referred to in Note 15.

The Group Companies finance their operations through equity, borrowings and management of working capital with a view of maintaining a reasonable mix between the various sources of finances to minimize risk. Taken as a whole, risk arising from the Group Companies financial instruments is limited as there is no significant exposure to market risk in respect of such instruments.

(a) Concentration of Credit Risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counter parties failed completely to perform as contracted. The Group's credit risk is primarily attributable to its trade debts and its balances with banks. The credit risk on liquid funds is limited because the credit risk associated with trade debts of the Group is controlled through management of approved credit limit for all its customers and as such is not exposed to major concentration of third party credit risk.

(b) Currency Risk

Currency risk is the risk that the values of a financial instrument will fluctuate due to changes in foreign exchange rate. Currency risk arises mainly where receivables and payables exist due to transactions with foreign buyers and suppliers. The Group does not hedge the payables, however, the risk of exposure is mitigated by matching the maturity periods of foreign currency receivables and payables.

(c) Interest Rate Risk

Interest rate risk is the risk that the values of financial instruments will fluctuate due to changes in market interest rates. The Group usually manages mis-matches through risk management strategy where significant change in Gap position can be adjusted.

(d) Liquidity Risk

Liquidity risk reflects an enterprise's inability in raising funds to meet commitments. The Group follows an effective cash management and planning policy to ensure availability of funds and to take appropriate measures for new requirements.

39.2 Fair value of Financial Instruments

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

40. RELATED PARTY TRANSACTIONS

Related parties comprise of directors, key management personnel and entities over which , the Group is able to exercise significant influence over the operating and financial decision making and employee's provident fund. Amount due from and due to related parties are shown under respective notes to the financial statements.

	2005	2004
	Rupees	Rupees
40.1 Route 2 (Private) Limited - Associated Undertaking		
Sales - net	7,059,994	-
Payment received	9,312,132	-
40.2 Staff Provident Fund		
Payments to the fund	15,754,272	16,723,922
40.3 Highnoon Employees Welfare Trust		
Payments to the trust	1,485,772	-

- 40.4** Vehicles are sold to key employees of HNL at written down value as approved by the Board of Directors. Transactions during the year with those key employees are as follows:

Name of Related Party, Relationship	Year Ended 31 December 2005		
	Market Price Rupees	Transaction Value Rupees	Price Difference Rupees
Baqar Hassan, Executive Director (Human Resource & Legal Affairs)	850,000	750,000	100,000
Dr. Saleem Akhter, Chief Manager	600,000	216,196	383,804
	<u>1,450,000</u>	<u>966,196</u>	<u>483,804</u>

The impact net of tax on profit , equity and cash flows was Rs. 314,473.

Name of Related Party, Relationship	Year Ended 31 December 2004		
	Market Price Rupees	Transaction Value Rupees	Price Difference Rupees
Aslam Hafiz, Executive Director (Marketing)	700,000	239,608	460,392

The impact net of tax on profit , equity and cash flows was Rs. 255,490.

41. DIVIDENDS

The Board of Directors of HNL in its meeting held on 22 Mach 2006 have proposed dividend at the rate of Rs. 1.5 (2004: Rs. 1.5) per share and 12 % bonus shares (2004: 12%) for the year ended 31 December 2005.

42. PLANT CAPACITY AND PRODUCTION

The capacity and production of HNL's plant is indeterminable as it is a multi-product plant involving varying processes of manufacture.

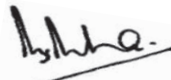
43. DATE OF AUTHORIZATION OF ISSUE

The Board of Directors of the Company authorized the financial statements for issuance on 22 March 2006 (2004: 22 March 2005).

44. GENERAL

- Figures have been rounded off to the nearest rupee.
- Corresponding figures have been rearranged or reclassified, wherever necessary, for the purpose of comparison, however, no significant reclassification has been made except for cost of samples in note 27 amounting to Rs. 21,729,332, which has been netted off from Raw and Packing material consumed for comparison with current year's presentation.


MIAN AHSON FAROOQ
 DIRECTOR


ANEES AHMAD KHAN
 CHIEF EXECUTIVE OFFICER