Annual Report 2006

HIGHNOON LABORATORIES LIMITED

The Spirit of Lahore

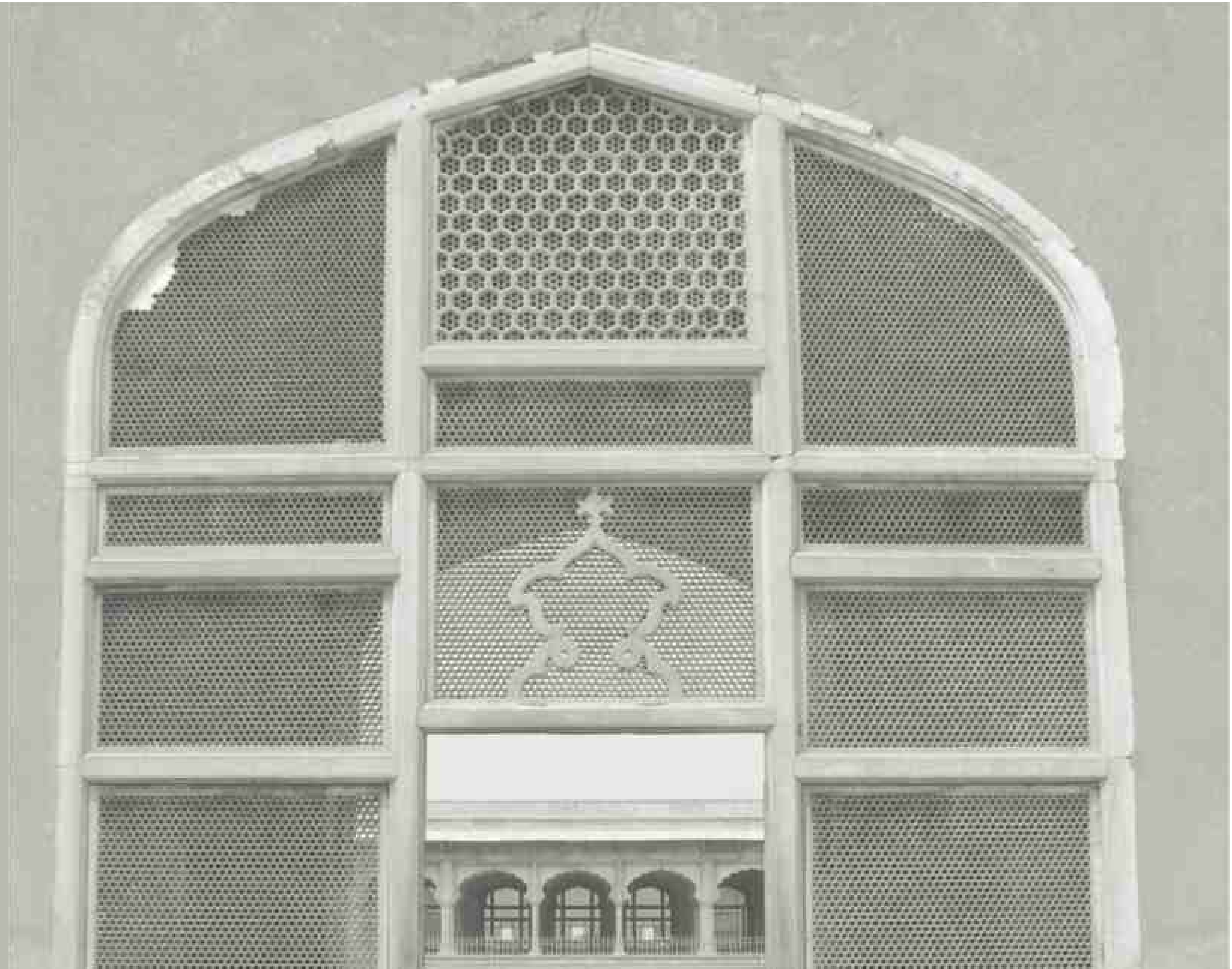
Lohawar or Lahore was Lor or Loh, is the birth place of Highnoon Laboratories Limited. Being the first town of importance that benefited by the establishment of Mughal monarchy in the Punjab, the great dynasty's presence has indelibly been stamped on the face of Lahore by its architecture and the beautiful gardens. The famous "Shahi Qila (Lahore Fort) " and " Shalimar Garden" are the finest examples of history of Mughal Architecture. Arches and column built in different buildings in old periods reflects the genius of the Mughals' architecture.

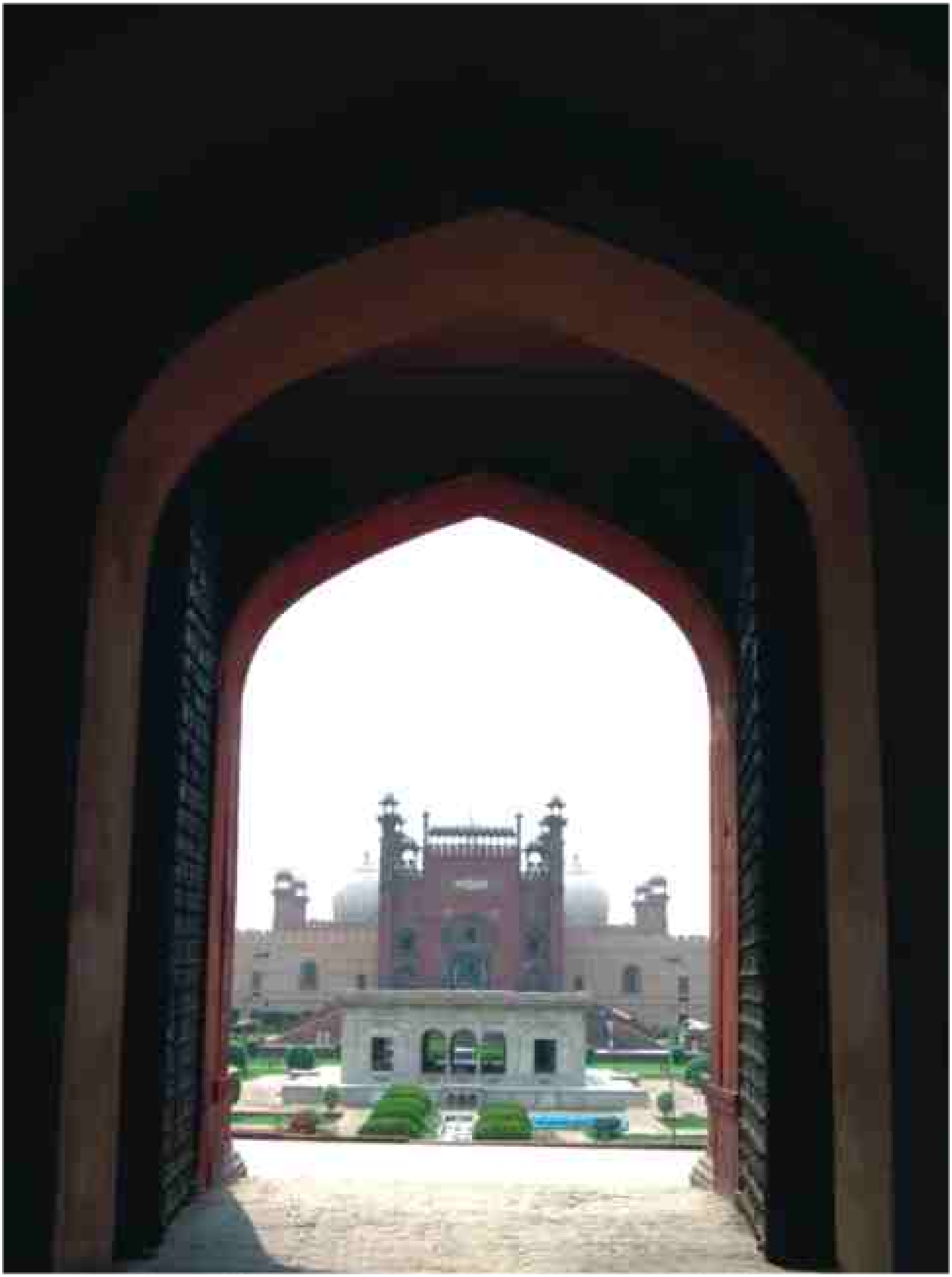
Lahore is not just about buildings and institutes but is a living pulsating city, rich with its own flavor of colorful festivals like Jashan-e-Baharan, Basant and religious & spiritual events like Urs Data Sahaib and Mela Chiraghan.

Alongsides monuments, eateries and old bazaars in the walled city, are the modern shopping malls and industrials estates. This makes Lahore not just the city of poets, artists, painters, musician and craftsmen but also that of modern professionals like architects, engineers, computer engineers, doctors and pharmacists etc. Despite their diversity; what makes Lahorites uniquely similar is their zest for life which has earned them the title of **Zinda dilan- e- Lahore.**

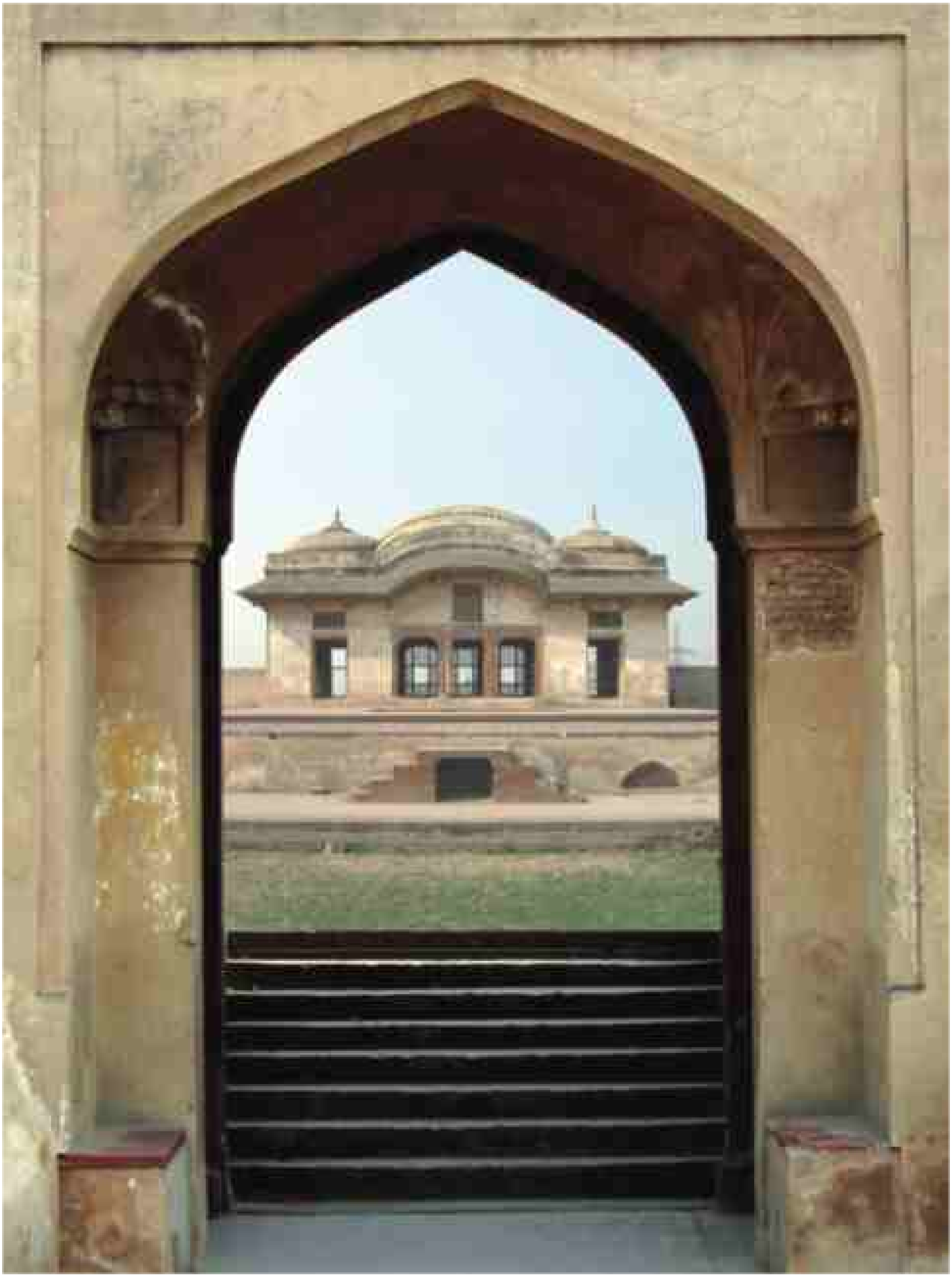
Through this report, HIGHNOON has endeavored to share the Spirit of Lahore with its stakeholders.

Highnoon for a Healthier Nation






Vision
Mission
and
Core Values



Our Vision

We at Highnoon Laboratories Limited understand the duties of being responsible corporate citizen and stand true to our conviction and promise to work for the betterment and prosperity of our people.

“Highnoon for a Healthier Nation”

Our Mission

We strive to maintain excellence in our business practices with the objective to benefit the medical community, consumers, stakeholders and employees; and to improve quality of life by providing quality products.

Statement of Ethics & Core Values

Shared Responsibility

The achievement and continuation of an ethical work environment is a shared responsibility among employees, seniors, officials and directors of the company, which will be treated as confidential.

Intellectual Honesty

Personal interaction among employees should be characterized by truthfulness, openness to new ideas, and consideration for the rights of others. Each member of the team should respect the right of others to freedom of thought, opinion, speech, and association.

Personal Conduct

At Highnoon each employee is responsible for avoiding real or apparent conflicts of interest, ensuring that authority is exercised within a framework of accountability and ensuring that information is managed in accordance with relevant statutes. Employees must ensure that the organization's interests are foremost in all business decision and shall remove themselves from decision making roles which involve the employee in any personal capacity or which involve friends or family members.

Research

Research carried out by our organization shall be characterized by the highest standards of integrity and ethical behavior. Every effort shall be made to ensure that all research data or results of projects or programs sponsored by or under the administrative supervision of organization are represented properly and accurately.

Corporate Objectives

Excel in meeting customer needs.

Maintain leadership in national pharmaceutical industry.

Gain confidence of Doctors, Pharmacists and Consumers who use our products.

Seek employee involvement, continuous improvement and enhanced performance goals.

Enhance export business.

Directors' Report

Directors' Report To The Shareholders

The Board of Directors take pleasure in presenting the annual audited financial statements of Highnoon Laboratories Limited along with consolidated financial statements with its wholly owned subsidiary for the year ended 31 December 2006.

Financial Highlights of the Company

	2006	2005
	(Rupees in Thousands)	
Profit before tax	100,487	74,200
Taxation	(24,762)	(23,656)
Profit after tax	75,725	50,544
Un-appropriated profit brought forward	80,472	47,302
Transfer from surplus on revaluation of fixed assets	9,013	10,015
Profit available for Appropriation	165,210	107,861
Appropriations:		
Final dividend for financial year 2005 @Rs.1.5 per share (2004 : @Rs.1.5 per share)	(17,042)	(15,216)
Bonus Shares for financial year 2005 @15% (2004 : 12%)	(17,042)	(12,173)
	131,126	80,472

Financial highlights of the Group

	2006	2005
Profit before tax	99,909	64,284
Taxation	(31,839)	(29,780)
Profit after tax	68,070	34,504
Un-appropriated profit brought forward	46,418	29,288
Transfer from surplus on revaluation of fixed assets	9,013	10,015
Profit available for Appropriation	123,501	73,807
Appropriations:		
Final dividend for financial year 2005 @Rs.1.5 per share (2004 : @1.5 per share)	(17,042)	(15,216)
Bonus Shares for financial year 2005 @15% (2004 : 12%)	(17,042)	(12,173)
	89,417	46,418

EARNINGS PER SHARE

Based on net profit for the year ended 31 December 2006, the earnings per share (EPS) was Rs. 5.80 denoting an increase of 49.87 percent as compared to last year, however, on the basis of consolidated results EPS stands at Rs. 5.21 which depicts an increase of 97.35 percent.

DIVIDEND ANNOUNCEMENT

The Board of Directors of the Company has recommended cash dividend of Rs 1.5 per share (2005: Rs. 1.5 per share) and bonus shares at the rate of 15 percent (2005: 15 percent) for the financial year ended 31 December 2006 for consideration and approval by the shareholders in the Annual General Meeting.

PATTERN OF SHAREHOLDING

The pattern of shareholding along with categories of shareholders as at 31 December 2006 as required under Section 236 of the Companies Ordinance and listing regulations has been presented on Page 40 of the Annual Report 2006.

BOARD OF DIRECTORS AND THEIR ATTENDANCE AT MEETINGS

The present Board of Directors was elected un-opposed from September 03, 2006 in an Extra-Ordinary General Meeting for a period of three years. Mr. Anees Ahmad Khan was appointed as Chief Executive Officer on September 08, 2006 who was later on promoted as Vice Chairman. Mr. Aslam Hafiz has been appointed as Chief Executive Officer with effect from January 01, 2007 against the position vacated by Mr. Anees Ahmad Khan.

During the year eight Board Meetings were held and the number of meetings attended by each Director is given there-against:

S.No.	MEMBERS	ATTENDANCE
1.	MR. JAWAID TARIQ KHAN	05
2.	MR. TAUSIF AHMAD KHAN	05
3.	MR. ANEES AHMAD KHAN	07
4.	MR. GHULAM HUSSAIN KHAN	07
5.	AGHA FASIH UD DIN KHAN	08
6.	MRS. NOSHEEN RIAZ KHAN	03
7.	MRS. ZAINUB ABBAS	04
8.	MIAN AHSON FAROOQ	05

The Directors who could not attend the meeting were granted leave of absence.

The Board comprises of four executive and four non-executive directors. All the directors are aware of their duties and powers under the Company's Memorandum and Articles of Association and the listing regulations of the stock exchanges and have filed declaration to the effect.

CHANGE OF CHIEF FINANCIAL OFFICER

Mian Ahson Farooq, Chief Financial Officer (CFO), on attaining the age of superannuation proceeded on retirement and the Board of Directors has appointed Mr. Javed Hussain as CFO. Mr. Hussain is a Chartered Accountant and fulfils all other requirements as mandated by the Code of Corporate Governance.

The board appreciates the services of Mian Ahson Farooq, who served the company as head of Finance Division for about sixteen years and played a vital role in the financial stability, development and growth of the Company. During his term of sixteen years he also remained on the board of the company as a Director for about nine years and benefited the Company with his worthy guidance.

TRADING OF SHARES BY DIRECTORS, CEO, CFO, COMPANY SECRETARY ETC.

Directors, CEO, CFO, Company Secretary, their spouses and minor children have not sold or purchased shares of the Company during the year. However, following transactions took place for adjustment of family holding:

- From Mr. Jawaid Tariq Khan to Mrs. Nosheen Riaz Khan	182,967
- From Mr. Tausif Ahmad Khan to Mrs. Nosheen Riaz Khan	50,344
- From Mr. Tauqir Ahmad Khan to Mrs. Nosheen Riaz Khan	273,122
- From Mrs. Siddiqa Begum to Mrs. Nosheen Riaz Khan	97,783

STATEMENT OF ETHICS AND BUSINESS PRACTICES

The Board has prepared and circulated the Statement of Ethics and Business Practices signed by every Director and employee of the Company as a token of acknowledgement of his/her understanding of the standards of conduct in relation to every body associated or dealing with the Company.

EXTERNAL AUDITORS

The external auditors of the Company KPMG Taseer Hadi & Co., Chartered Accountants shall retire on the conclusion of Annual General Meeting. Being eligible for re-appointment under the listing regulations, they have offered their services as auditor of the Company for the financial year 2007. The Audit Committee has recommended the appointment of KPMG Taseer Hadi & Co., Chartered Accountants as auditors of the Company and the Board agrees to the recommendation of the Audit Committee.

The auditors have conveyed that they have been assigned satisfactory rating under the Quality Control Review of Institute of Chartered Accountants of Pakistan and the firm is fully compliant with the code of ethics issued by International Federation of Accountants (IFAC). Further they are also not rendering any related services to the Company. The auditors have also confirmed that neither the firm nor any of their partners, their spouses or minor children at any time during the year held or traded in the shares of the Company.

CORPORATE GOVERNANCE

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

Corporate Governance as contained in the listing regulations for the followings:

1. The financial statements together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984. These Statements, prepared by the Management present fairly the Company's state of affairs, the results of its operations, Cash flows and changes in equity.
2. Proper Books of accounts have been maintained.
3. Accounting estimates are based on prudent judgments and there are no outstanding statutary payments on account of Government taxes, duties, levies and charges except for those which have been disclosed in note 13 and note 17 to the financial statements.
4. Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
5. There have been no material changes since 31 December 2006 and the Company has not entered into any commitment, which would affect the financial position at that date.
6. An Audit Committee of the Board has been in existence since the enforcement of the Code of Corporate Governance, which comprises of one executive and two non-executive directors including its Chairman. The Committee has its own terms of reference, which were determined by the Board of Directors in accordance with the guidelines provided in the Code of Corporate Governance.
7. International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements.
8. The System of internal controls is sound in design and has been effectively implemented and monitored.
9. There are no significant doubts upon the Company's ability to continue as a going concern.
10. None of the Directors have been convicted as a defaulter in payment of any loans of Banks / DFI's nor they or their spouses are engaged in the business of stock brokerage. The Board has separately appended "Statement of Compliance with Best Practices of Corporate Governance" and auditors have given clean review report thereon.
11. There has been no material departure from the Best Practices of Corporate Governance, as detailed in the listing regulations.
12. The value of investment of the Provident Fund based on un-audited figure as on 31 December 2006 was Rs. 70.163 million as compared to audited figures as at 31 December 2005 of Rs. 60,819 million.
13. Key financial data for the last six periods as an investors' guide is annexed to the Directors' Report.

WEB PRESENCE

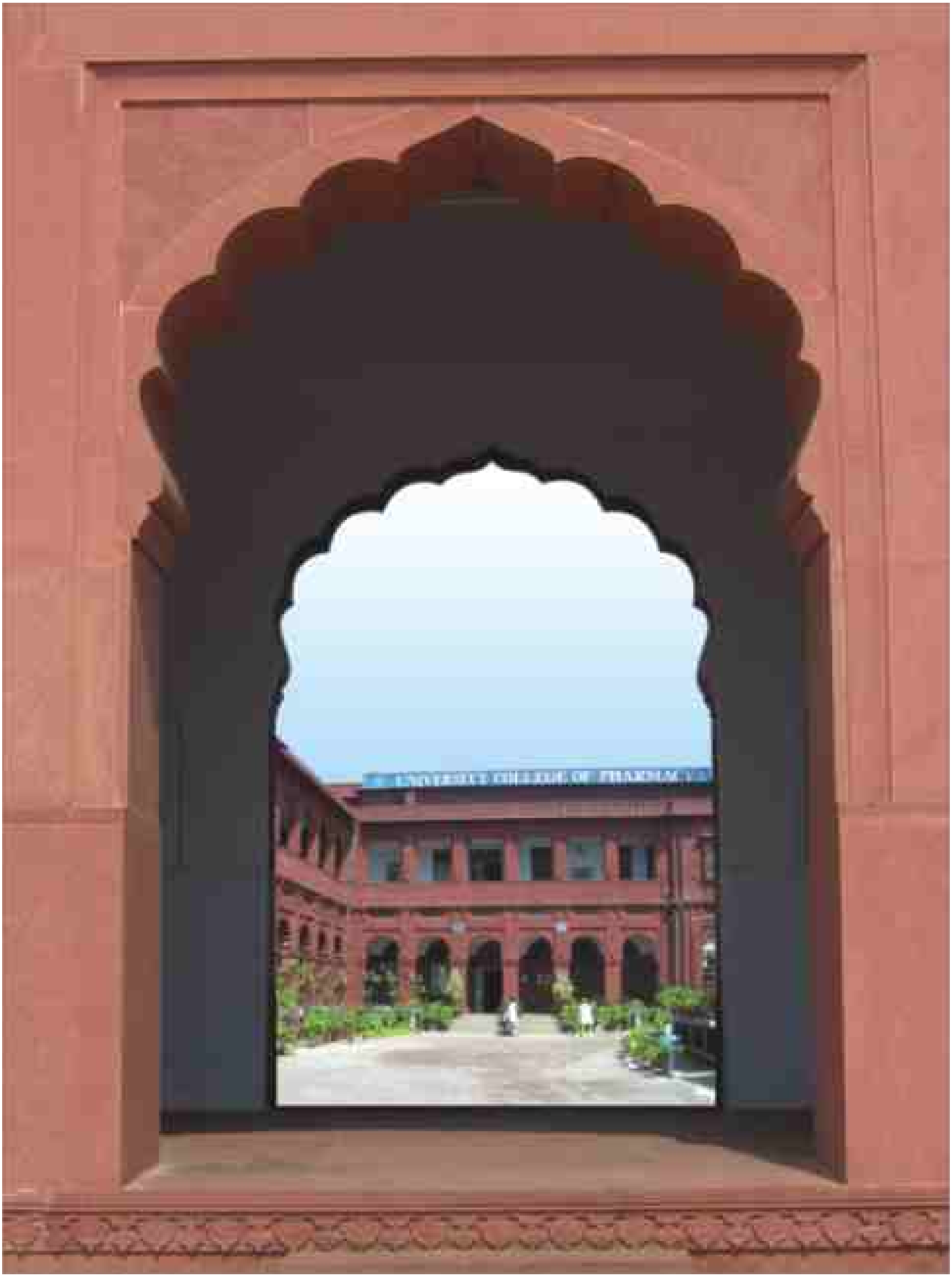
Company's all periodic financial statements including annual reports are available on the Company's web site www.highnoon-labs.com for information of the investors.

CHAIRMAN'S REVIEW

The Directors endorse the contents of the Chairman's Review, which form the part of the Directors' Report. The Board authorizes the Chief Executive Officer to sign the Directors' Report on behalf of the Board.

For and on behalf of the Board

Aslam Hafiz



Chairman's Review

I am delighted to welcome you to the 24th Annual General Meeting of the company to present the company's annual performance review along with the audited financial statements and the auditor's report for the year ended 31 December 2006.

Industry Development

Pharmaceutical industry in Pakistan continued to maintain strong growth in 2006 as well. For the fifth year in a row, the industry witnessed double digit growth of 11.7% (2005: 13.4%)*, enabling it to cross Rs.81 billion in sale (2005: Rs.73 billion). Impetus for growth was primarily a function of volume increase that registered a growth of 10.3%* compared to 2005.

Performance Review

Persistent emphasis on rapid top-line improvement enabled your Company to register net sales growth which was nearly twice as high as that of the industry. With the 22.18% increase over 2005, the sale reached a handsome Rs.1,525.7 million propelling Highnoon to become 14th* largest pharmaceutical company in Pakistan, from 17th in 2005.

(*IMS Q4 2006)

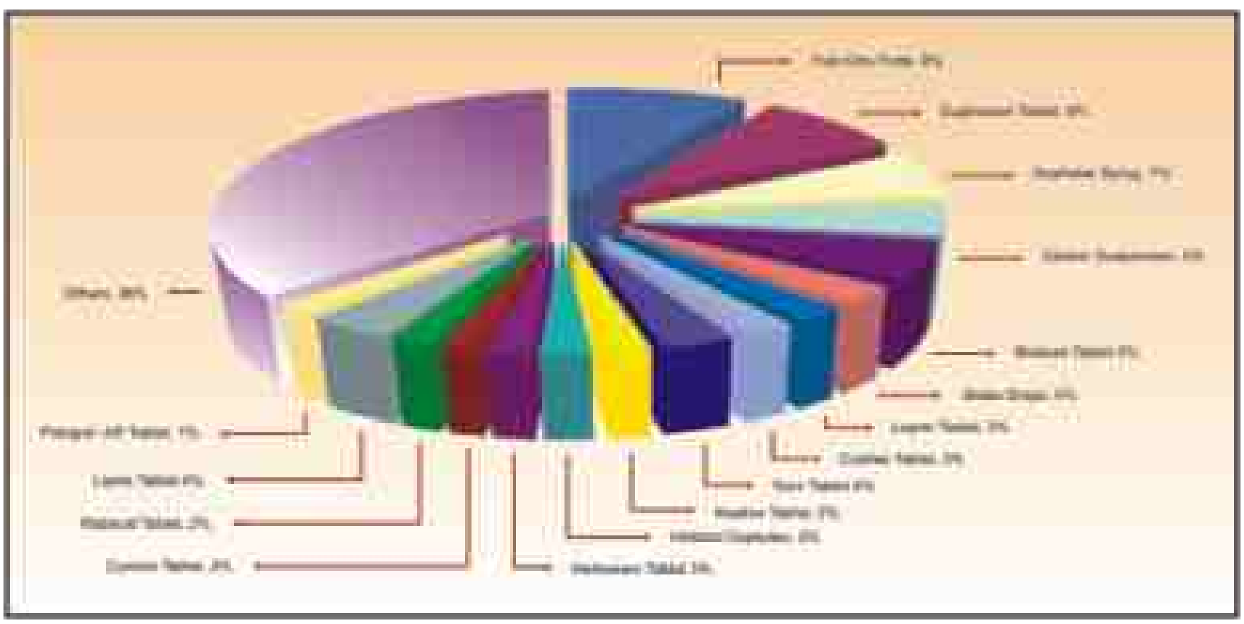
Exports registered a growth of 98.4% to reach Rs.91.1 million, making a contribution of 6% to the gross sales. The Company continued to register more and more products in existing markets as well as exploring new export markets with the objective to rapidly increase the contribution of exports to its total turnover. Notable in this endeavour was registration of many of the Company's products in countries such as Kenya, Sudan, Cambodia and Azerbaijan.

Overall net profit of your Company grew by 49.82% to reach Rs.75.7 million, improving the return on sale to 4.96%. This was mainly due to improved gross margin as a result of improved product mix and a significantly improved raw materials sourcing strategy.

Products and Marketing

The year under review was the year of consolidation wherein your Company concentrated on ensuring that the new products (especially those launched during the last quarter of 2005) were nurtured effectively, for them to start contributing significantly to the Company's top line. Critical to this effort was the consolidation of our diabetes portfolio, comprising of Dongsulin (human insulin) and Pyctos (oral anti-diabetic agent), into a dedicated sales team.

Similarly, the other new products launched during the last quarter of 2005, namely Pidogrel (anti platelet aggregation agent), Neupentin (anti convulsant) and Nelizig (oral anti-diabetic agent)



became star performers in their respective markets despite stiff competition.

At the same time, a number of line extensions were launched with a view to strengthen the franchise of already existing brands. These included Pidogrel AP 150mg Tablets, Evacef Drops and Evacef 1gm Tablets, Cyrocin 750mg Tablets, Termibex BD Tablets and Fendina D Capsules.

From the older portfolio of the Company, two more products, namely Duphalac and Duphaston, joined Rs.100 million sales club, making total members in this club to reach four. Other products

that contributed significantly to the Company's growth included Cyrocin, Rabecid, Lipirex and Kestine.

The year 2006 was significant in Highnoon's history because it saw our first full year of presence in the diabetes market, with human insulin, Dongsulin, as

well as our first oral anti-diabetic agent, Nelizig. Launched under the banner of "Highnoon Diabetes", both these products received good acceptance from the medical community in the country.

Right from the launch of its diabetes initiative, Highnoon laid emphasis on undertaking activities aimed at mass awareness about prevention and management of this disease which, if left untreated, can become deadly. Significant among these activities was a series of widely publicized mass awareness seminars organized in collaboration with Mir Khalil-ur-Rehman Foundation, in various towns. Leading diabetologists of the country gathered at these seminars to give lectures to the general public on prevention and management of diabetes. The

Company also organized hundreds of diabetes camps where thousands of patients were provided with free blood sugar testing facility. These and other similar patient and physician awareness and education activities have placed Highnoon as one of the leading players in diabetes management market.

Production & Technology

Increasing demand for the Company's products continued to put pressure on its manufacturing facility to efficiently meet the increased sales requirement. While the production continued to run second shift throughout the year, concerted efforts were made to improve productivity through better production planning. This was greatly aided by the Company's newly implemented ERP, BPCS (Business Planning & Control System), which significantly improved Master Production Scheduling (MPS) and Materials Resource Planning

(MRP). Utilization of these sophisticated materials and production planning tools enabled the plant to increase its output by a staggering 25%, enabling it to service the market needs.

At this point, it is a pleasure for me to inform you that entire operations of Highnoon are today fully

integrated through its IBM AS 400 based BPCS, making Highnoon one of the very few companies where this complex, sophisticated system is fully implemented. Highnoon also can today boast of the fact that it is one of the very few companies in the country whose entire IT framework is based 100% on licensed software.

Recognizing the urgent need to enhance and upgrade its production capacity for meeting rapid sales growth, the Company has finalized expansion and GMP improvement plan comprising of the following:

- Enhancement of blister and Alu/Alu packaging capacity by addition of two new German blister packing machines.

- Addition of four Italian automatic cartonating machines to improve productivity and efficiency of our packaging operation.

- Addition of two new Japanese HPLC instruments and a new dissolution apparatus of US origin to augment quality control operations.

- Addition of two automatic self-adhesive labeling machines of US origin to automate our liquid packing lines thus improving their efficiency and productivity.

- Upgrading and capacity enhancement of the water system.

- Upgrading of HVAC system for improving air handling in critical production areas.

- Enhancement of power load and upkeep of Generators as alternate arrangements made available to meet the growing energy requirements.

- Area and materials flow modifications and rationalization for improving cGMP compliance.

Quality System Certification

Highnoon Laboratories Limited quality system was re-certified by the world renowned certification agency SGS through surveillance audit for ISO 9001 : 2000 Quality System. This re-certification confirms the integrity of the system and commitment of the management for the quality.

Implementation of this project will entail investment exceeding Rs.120 million spread over the next 12 months. The Company is engaging international consultants to ensure that this investment results in tuning Highnoon's manufacturing facility into a highly efficient and productive operation and at the same time enables Highnoon to obtain international level cGMP compliance, thus opening the doors of major export markets to its products.

Regulatory Approvals

During the course of 2006, the Company received regulatory approvals for the following significant products, most of which are going to be launched in 2007:

Products related to the management of allergy and asthma:

- Novel dry powder inhaler range comprising of three brands, namely Aerotec, Betatec and Ipratec.
- Airvin Tablets for prophylaxis of allergy and asthma.

For the management of cardio-metabolic syndrome:

- Fabecal Capsules, an anti-obesity agent.
- Preveze Tablets, for the management of hyper-lipidaemia.

Anti-infective agents:

- Oxaquin Tablets, for treating respiratory and urinary tract infections.
- Valacloz Tablets, an anti-viral agent.

In addition, the Company also received registration of Feripro Capsules for the management of iron overload in thalessimia.

Human Resource

To optimize its strategic position and initiatives, Highnoon realizes that the most precious asset is its “Human Capital”. Highnoon has always taken a lead to invest in its human capital and to enhance their managerial and analytical capacity by introducing “Pay for Performance” based compensation environment.

With the objectives to groom its Sales & Marketing teams and equip them with current management development tools, Highnoon launched Sales Organization Development initiative as an external training program. This extensive program was spread over six months and was attended by all the marketing and field force managers throughout the country. This program focused on evolving vision, mission and values statements, effective sales management and developing star performers.

Induction Programs come as a foundation for a

Sales Force representative when one joins an organization. In 2006 nine induction programs were held with coverage of around 150 strong sales promotion officers.

Yet another milestone in the training & development sphere of Highnoon's history was

launching of “On Line Quiz Service” targeting the sales force spreading all over the country with an objective to enhance their knowledge on basics. This facility is available to the sales force at www.highnoonquiz.com.

Highnoon Employees Welfare Trust

Conceived after the tragedy of earthquake,in which many of the Highnoon's family members suffered on personal and financial causes, Highnoon Employees Welfare Trust has been helping the employees in need with the contributions of all its family members.

Healthy Work Environment

The company is also providing a clinic at its premises manned by a qualified medical doctor. An exercise set up is also catered for health conscious managers.
To promote healthier work environment, Highnoon declared its offices and plant area as strictly ‘No

Smoking Zones'.

Social Responsibility

Highnoon has always been a socially active

member of Corporate Society. Like previous years, Highnoon contribution for social causes, education, health and sports activities continues. Fatimid Foundation, Care Foundation, Lahore Business Association for rehabilitation of Disabled, GCU Welfare Society, sponsorship for Pharmacy Scholarship to University College of Pharmacy, Old Ravian Union, Khoj Society Dispensary, Lahore High Court Bar Association Dispensary, District Hockey Association are few of the recipients of Highnoon's donations as a corporate citizen.

Keeping the human values alive, Highnoon Family members were also aspiring Blood donors at a camp held at Highnoon for children suffering from thalessimia.

Committees of BOD & Management

Audit Committee

The Audit Committee comprises of one Executive Director and two Non-Executive Directors including the Chairman, who are members of the Board. Audit Committee meets at least once every quarter of the financial year prior to approval of interim results of the Company by its Board of Directors. Meetings were also held before and after completion of external audit in accordance with the guidelines provided in the Code of Corporate Governance.

The Audit Committee is responsible for reviewing the financial results, audit scope and extent of internal audit; ensuring that the internal audit function has enough resource and is appropriately placed; determination of appropriate measures to safe guard the assets of the Company; ascertaining that the internal control system including financial and operational controls, accounting systems and reporting structure are adequate and effective.

Executive Committee

The Executive Committee consists of all divisional heads and meets under the Chairmanship of CEO/MD for appropriate planning and effective co-ordination. This committee plays an active participative role in all activities of business and monitors Company's performance to ensure

smooth working to achieve objectives in a very systemized and ethical manner. Issues of significance are discussed in the meetings and are forwarded to the Board of Directors for approval.

IT Steering Committee

IT Steering Committee has been established to align IT strategies with overall organizational mission; facilitate the achievement of optimal information management; combine the business system and organization strategies, goals, resources and achieve competitive advantage through IT. This committee will also chalk out a IT disaster recovery plan and will manage to redress all the IT related problems.

Corporate Awards

- Highnoon Laboratories Limited has been awarded Best Achievement Award in Pharmaceutical sector for the year 2005 by the Lahore Chamber of Commerce & Industry. Acting President of Pakistan Mohammedmian Soomro gave away award to Mr. Anees Ahmad Khan-Vice Chairman.

- A Joint evaluation committee of Institute of Chartered Accountants of Pakistan and the Institute of Cost and Management Accountants of Pakistan declared Annual Report of the company for the year ended 31 December 2005 as 5th best Corporate Report amongst listed companies in the Chemical & Fertilizer sector.

- South Asian Federation of Accountants (SAFA), an apex body of SAARC, awarded merit certificate to your company in the category "Hospitality, Health, Transport, Shipping etc." in the competition of "Best Presented Accounts 2005" held in Colombo, Sri-Lanka.

Future Outlook

I have highlighted different achievements of your company. I am very much hopeful and confident that the tangible and intangible investments that we made during the year will bring profits in the future. We are committed to achieve another landmark of 2 billion sales by the year 2007 and will continue to add value to our shareholders' investment.

Acknowledgements

On behalf of the company, I would like to express my sincere gratitude to the shareholders, doctors, pharmacists, consumers, business partners and bankers for their patronage and business and to the employees and management for their continued, dedicated, untiring efforts, outstanding support, leadership and hard work.

For and on behalf
of the Board

Glimpses of Annual Sales Conference
& Dinner 2006, Lahore

Statement of Compliance with best practices of the Code of Corporate Governance

This 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. The present Board consists of four executive directors and four non-executive directors of which one is an independent director.

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 tax payers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFI 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 the year.

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 and determination of remuneration and terms and conditions of employment of the CEO and other executive directors 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, along with 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 Company Secretary was appointed prior to the implementation of the Code of Corporate Governance. The new Chief Financial Officer has been appointed in place of retiring CFO who fulfils the requirements as mandated by the Code of Corporate Goverance. 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 the approval of interim and final results of the Company and as required by the Code. The terms of reference of the Committee have been 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 and 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 program 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

Aslam Hafiz
Chief Executive Officer

Lahore: 02 April 2007

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 provision 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.

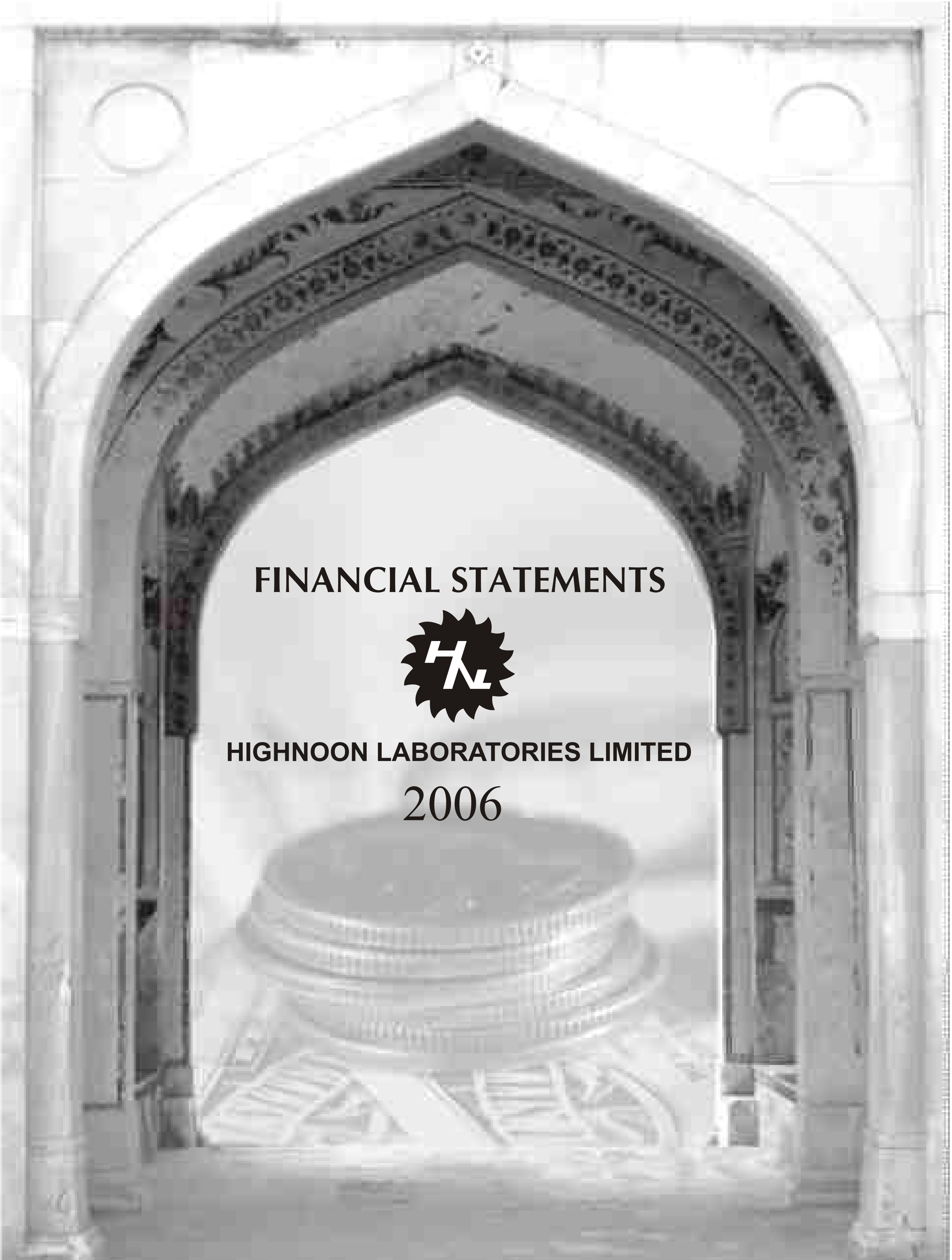
As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control system to enable us to express 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

Lahore: 02 April 2007

KPMG Taseer Hadi & Co.
Chartered Accountants



FINANCIAL STATEMENTS

HIGHNOON LABORATORIES LIMITED

2006

KPMG

Auditors' Report to the Members

We have audited the annexed balance sheet of Highnoon Laboratories Limited ("the Company") as at 31 December 2006 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 controls, 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;

   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 2006 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.

Lahore: 02 April 2007

KPMG Taseer Hadi & Co.
Chartered Accountants

BALANCE SHEET

	Note	2006 Rupees	2005 Rupees
EQUITY AND LIABILITIES			
Share capital	*5*	**130,654,100**	113,612,260
Reserves	*6*	**245,126,591**	194,472,208
		375,780,691	308,084,468
Surplus on revaluation of assets	*7*	**148,450,045**	157,463,253
NON CURRENT LIABILITIES			
Liabilities against assets subject to finance lease	*9*	**40,881,490**	31,527,383
Long term advances	*10*	**14,092,840**	12,406,851
Deferred liabilities	*11*	**130,853,029**	131,086,400
Deferred gain	*12*	**4,348,230**	9,469,738
		190,175,589	184,490,372
CURRENT LIABILITIES			
Trade and other payables	*13*	**119,150,978**	89,609,429
Mark-up payable on secured loans	*14*	**6,812,398**	6,488,020
Short term bank borrowings - secured	*15*	**281,508,946**	279,981,665
Current portion of long term liabilities	*16*	**34,748,383**	51,751,085
		442,220,705	427,830,199
CONTINGENCIES AND COMMITMENTS	*17*		
		1,156,627,030	1,077,868,292

The annexed notes from 1 to 43 form an integral part of these financial statements.

ASLAM HAFIZ
CHIEF EXECUTIVE OFFICER

AS AT 31 DECEMBER 2006

	Note	2006 Rupees	2005 Rupees
NON CURRENT ASSETS			
Property, plant and equipment	*18*	**515,255,058**	511,097,156
Intangible assets	*19*	**40,407,896**	41,992,254
		555,662,954	553,089,410
Long term investment	*20*	**20,000,000**	20,000,000
Long term deposits		**1,562,054**	358,765
CURRENT ASSETS			
Stores, spares and loose tools		**295,960**	295,960
Stock in trade	*21*	**359,568,516**	281,657,969
Trade debts	*22*	**125,546,966**	68,898,841
Advances, deposits and prepayments	*23*	**35,689,563**	24,270,338
Other receivables	*24*	**38,912,883**	85,156,178
Income tax - net		**3,823,390**	30,637,142
Cash and bank balances	*25*	**15,564,744**	13,503,689
		579,402,022	504,420,117
		1,156,627,030	1,077,868,292

ANEES AHMAD KHAN
DIRECTOR

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2006

	Note	2006 Rupees	2005 Rupees
Sales - net	*26*	**1,525,691,895**	1,248,717,021
Cost of sales	*27*	**909,185,499**	797,662,545
GROSS PROFIT		**616,506,396**	451,054,476
Operating expenses			
Administrative and general	*28*	**115,314,441**	107,846,898
Distribution, selling and promotional	*29*	**356,308,039**	238,051,242
Finance cost	*30*	**38,377,364**	33,314,649
Research and development	*31*	**7,492,402**	6,429,620
		517,492,246	385,642,409
OPERATING PROFIT		**99,014,150**	65,412,067
Other operating income	*32*	**11,957,250**	14,787,162
		110,971,400	80,199,229
Other operating charges	*33*	**10,484,672**	5,999,099
PROFIT BEFORE TAXATION		**100,486,728**	74,200,130
Taxation	*34*	**24,761,873**	23,655,676
PROFIT AFTER TAXATION		**75,724,855**	50,544,454
Earnings per share - basic and diluted	35	**5.80**	3.87

The annexed notes from 1 to 43 form an integral part of these financial statements.

ASLAM HAFIZ
CHIEF EXECUTIVE OFFICER

ANEES AHMAD KHAN
DIRECTOR

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2006

	2006 Rupees	2005 Rupees
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	**100,486,728**	74,200,130
Add/(less): Adjustments for non-cash charges and other items		
Depreciation	**52,925,028**	52,697,262
Amortization of intangible assets	**4,868,883**	4,709,412
Gain on sale of property, plant and equipment	**(4,122,382)**	(4,774,824)
Exchange (gain)/loss	**1,570,322**	(3,007,461)
Provision for defined benefit obligation	**19,524,389**	14,499,804
Liabilities no longer payable written back	**(1,723,001)**	(193,100)
Provision for slow moving items	**-**	(632,966)
Finance cost	**38,377,364**	33,314,649
Amortization of deferred gain	**(5,121,508)**	(5,121,508)
	106,299,095	91,491,268
Profit before working capital changes	**206,785,823**	165,691,398
WORKING CAPITAL CHANGES		
(Increase)/decrease in current assets:		
Stores, spares and loose tools	**-**	5,104,643
Stock in trade	**(77,910,547)**	(13,816,482)
Trade debts	**(56,595,324)**	(25,670,520)
Advances, deposits and prepayments	**(11,419,225)**	7,176,872
Other receivables	**46,243,295**	(38,079,879)
Increase in current liabilities:		
Trade and other payables	**30,269,641**	19,414,903
	(69,412,160)	(45,870,463)
Cash generated from operations	**137,373,663**	119,820,935
Add/(less):		
Taxes paid	**(6,098,412)**	(26,122,848)
Gratuity paid	**(11,607,469)**	(7,221,955)
Finance cost paid	**(29,911,168)**	(21,206,968)
Security deposit paid	**(1,203,289)**	-
Long term advances - net	**3,678,009**	4,295,191
Net cash from operating activities	**92,231,334**	69,564,355

	Note	2006 Rupees	2005 Rupees
CASH FLOWS FROM INVESTING ACTIVITIES			
Fixed capital expenditure		**(28,421,103)**	(31,408,972)
Intangible assets acquired		**(3,284,525)**	-
Sale proceeds of fixed assets		**20,488,754**	16,098,175
Net cash from Investing activities		**(11,216,874)**	(15,310,797)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of long term liabilities		**(17,840,000)**	(13,482,353)
Proceeds / (Repayment) of lease finance liabilities-net		**(46,067,103)**	(55,540,731)
Short term bank borrowings		**1,527,282**	30,071,297
Dividend paid		**(16,573,584)**	(15,112,118)
Net cash from financing activities		**(78,953,405)**	(54,063,905)
Net increase in cash and cash equivalents		**2,061,055**	189,653
Cash and cash equivalents at beginning of the year		**13,503,689**	13,314,036
Cash and cash equivalents at end of the year	25	**15,564,744**	13,503,689

The annexed notes from 1 to 43 form an integral part of these financial statements.

ASLAM HAFIZ
CHIEF EXECUTIVE OFFICER

ANEES AHMAD KHAN
DIRECTOR

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2006

	SHARE CAPITAL	REVENUE RESERVES			TOTAL
		GENERAL RESERVE	UN-APPROPRIATED PROFIT	SUB TOTAL	
	Rupees				
Balance as at 01 January 2005	101,439,520	114,000,000	47,301,746	161,301,746	262,741,266
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)	-
	113,612,260	114,000,000	19,913,078	133,913,078	247,525,338
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
Total recognised income and expense for the year	-	-	60,559,130	60,559,130	60,559,130
Balance as at 31 December 2005	**113,612,260**	**114,000,000**	**80,472,208**	**194,472,208**	**308,084,468**
Final dividend for the year ended 31 December 2005 @ Rs. 1.5 per share	-	-	(17,041,840)	(17,041,840)	(17,041,840)
Issuance of bonus shares @ 15%	17,041,840	-	(17,041,840)	(17,041,840)	-
	130,654,100	114,000,000	46,388,528	160,388,528	291,042,628
Current year incremental depreciation - net of tax	-	-	9,013,208	9,013,208	9,013,208
Profit for the year after taxation	-	-	75,724,855	75,724,855	75,724,855
Total recognised income and expense for the period	-	-	84,738,063	84,738,063	84,738,063
Balance as at 31 December 2006	**130,654,100**	**114,000,000**	**131,126,591**	**245,126,591**	**375,780,691**

The annexed notes from 1 to 43 form an integral part of these financial statements.

ASLAM HAFIZ
CHIEF EXECUTIVE OFFICER

ANEES AHMAD KHAN
DIRECTOR

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006

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

3.1 Accounting convention

These financial statements have been prepared under the historical cost convention, except for revaluation of certain assets as referred to in note 18.1.3 and certain financial assets at fair value and recognition of certain employees benefits at present value. In these financial statements, except for the cash flow statement, all the transactions have been accounted for on accrual basis.

3.2 Use of estimates and judgments

The preparation of financial statements in conformity with approved accounting standards requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions and judgments are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the result of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognised in the period in which the estimate is revised if revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of approved accounting standards that have significant effect on the financial statements and estimates with a significant risk of material adjustment in subsequent years are as follows:

- defined benefit obligation
- revaluation of property, plant and equipment
- useful life of assets
- impairment
- taxation
- provisions and contingencies

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 have carried out the valuation as at 31 December 2006. The Projected Unit Credit Method with the following significant assumptions was used for the valuation of this scheme:

		2006	2005
-	Discount rate	10% per annum	9% per annum
-	Expected rate of increase in salary	9% per annum	8% per annum
-	Expected average remaining working life time	14 years	14 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 recognised as income/expense in profit and loss over period of five years.

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

All monetary assets and liabilities in foreign currency are translated at the rates of exchange prevailing on the balance sheet date. Non-monetary assets and liabilities that are measured in terms of historical cost in foreign currency are translated into rupees at exchange rates prevailing at the date of transaction. Non-monetary assets and liabilities denominated in foreign currency that are stated at fair value are translated into rupees at exchange rates prevailing at the date when fair values are determined. Transactions in foreign currencies 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.

4.3 Trade and other payables

Trade and other payables are initially carried at cost which is the fair value of the consideration to be paid in the future for goods and services received and subsequently at amortized cost using effective interest rate method.

4.4 Property, plant and equipment and depreciation

Owned operating assets

These 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 asset. Surplus on revaluation of fixed assets relating to incremental depreciation (net of deferred taxation) is transferred directly to unappropriated profit.

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 if it is probable that the respective future economic benefits will flow to the Company and the cost of the item can be measured reliably, and assets so replaced, if any, are retired.

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 at the commencement of lease, less accumulated depreciation and impairment loss, if any.

The related rental obligations, net of finance costs, 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 costs 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.

Capital work in progress

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

4.5 Intangible assets and amortization

Intangible assets include Intellectual Property, Rights, Trademarks and software, which are non-monetary assets without physical substance. These 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 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.

4.6 Deferred gain

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

4.7 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 assets. All other interest, mark-up and expenses are charged to income in the period in which they are incurred.

4.8 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

Investment intended to be held for an unidentified period of time which may be sold in response to need for liquidity or changes to interest rates, exchange rates or equity prices are classified as 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.

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 or determined to be impaired.

All "regular way" purchases and sales of shares are recognised on the trade date, i.e. the date that the Company commits to purchase/sell the asset.

4.9 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.

4.10 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.

4.11 Trade debts

These are initially carried at original invoice amount, which is the fair value of consideration to be received in future and subsequently measure at amortised cost less impairment loss, if any. A provision for impairment of trade debts is established when there is an objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivable.

4.12 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. These are carried in balance sheet at cost.

4.13 Impairment

The carrying amount of the assets except for inventories are reviewed at each balance sheet date to identify the circumstances indicating 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 carrying amount of the asset is reduced to its recoverable amount 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 extent that it does not exceed the carrying amount that would have been determined, net of depreciation and amortization, if no impairment loss has been charged. A reversal of the impairment loss is recognized in income.

4.14 Revenue recognition

Revenue from local sales is recognized when risk and reward incidental 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.

Service income is recognised when the related services are rendered.

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

4.15 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.

4.16 Research and development cost

These costs are charged to revenue as and when incurred, except for any development costs which are recognised as intangible assets when it is probable that the development project will be a success and certain criteria, including commercial and technological feasibility have been met.

4.17 Taxation

Income tax on profit and loss for the year comprises current and deferred tax.

Current

The charge for current taxation is based on taxable income for the year determined in accordance with Income Tax Ordinance, 2001 and prevailing tax rates after taking into account applicable tax credits and rebates, if any. The charge for current tax also includes adjustments, where considered necessary, to provision for tax made in previous years arising from assessments framed during the year for such years.

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.

Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilized.

Carrying amount of deferred tax asset is reviewed at each balance sheet date and 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 and tax laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is charged or credited in the income except for 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".

4.18 Dividend

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

4.19 Financial instruments

These comprise financial assets and financial liabilities. Significant financial assets include trade debts, other receivables and cash and bank balances. Significant financial liabilities include bank borrowings, trade and other payables, liabilities in respect of leased assets and mark up payable on bank borrowings.

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. Any gain or loss on derecognition of the financial assets and financial liabilities is taken to profit and loss account in which it arises. The particular measurement methods adopted are disclosed in the individual policy statement associated with each item.

Offsetting financial assets and financial liabilities

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.

4.20 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.

4.21 Standards, interpretations and amendments to published approved accounting standards that are yet not effective

During the year International Accounting Standard Board has revised IAS-1, "Presentation of Financial Statements". The amendments impose additional requirements for Capital disclosures effective for financial period beginning on or after 01 January 2007.

Adoption of the above amendments would impact to the extent of disclosures only, presented in the future financial statements of the Company.

	Note	**2006** Rupees	2005 Rupees
5. SHARE CAPITAL			
Authorized			
15,000,000 (2005: 15,000,000) Ordinary shares of Rs. 10 each		**150,000,000**	150,000,000
Issued, subscribed and paid - up			
5,905,000 (2005: 5,905,000) Ordinary shares of Rs. 10 each fully paid in cash		**59,050,000**	59,050,000
95,000 (2005: 95,000) Ordinary shares of Rs.10 each issued for consideration other than cash	*5.1*	**950,000**	950,000
7,065,410 (2005: 5,361,226) as fully paid bonus shares of Rs. 10 each		**70,654,100**	53,612,260
		130,654,100	113,612,260

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

5.2 Reconciliation of Issued, subscribed and paid-up capital

	2006 (Number of Shares)	2005 (Number of Shares)
Opening balance	**11,361,226**	10,143,952
Issued fully paid bonus shares	**1,704,184**	1,217,274
	13,065,410	11,361,226

	Note	2006 Rupees	2005 Rupees

6. RESERVES

Revenue

	Note	2006 Rupees	2005 Rupees
General reserve		**114,000,000**	114,000,000
Unappropriated profit		**131,126,591**	80,472,208
		245,126,591	194,472,208

7. SURPLUS ON REVALUATION OF ASSETS

This represents 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.

	2006 Rupees	2005 Rupees
Surplus on revaluation of assets as at 01 January	**205,995,912**	221,403,106
Surplus relating to incremental depreciation charged on related assets-transferred to unappropriated profit:		
Net of deferred tax	**(9,013,208)**	(10,014,676)
Related deferred tax liability	**(4,853,266)**	(5,392,518)
	(13,866,474)	(15,407,194)
Surplus on revaluation of assets as at 31 December	**192,129,438**	205,995,912
Less: Related deferred tax liability on:		
Balance at the beginning of the year	**48,532,659**	53,925,177
Transferred to profit and loss account- incremental depreciation charged during the year	**(4,853,266)**	(5,392,518)
	43,679,393	48,532,659
	148,450,045	157,463,253

8. LONG TERM LIABILITY - SECURED

	Note	2006 Rupees	2005 Rupees
Outstanding balance of purchase consideration for trademark	*8.1*	**16,743,530**	33,229,412
Less: Paid during the year		**16,743,530**	13,482,353
		-	19,747,059
Exchange (gain) / loss due to revaluation		-	(3,003,529)
Total payable as at 31 December		-	16,743,530
Due within one year	*16*	-	16,743,530
		-	-

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 Almiral Prdoesfarma, Spain. The outstanding balance of € 200,000 (Rs. 16,743,530) at the beginning of the period net of taxes has been paid during the year.

9. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

The rate of interest used as discounting factor ranges from 0.6041% to 1.1754% (2005: 0.583% to 1.1125%) per month. The amount of future payments and periods during which they fall due are :

	Note	2006 Rupees	2005 Rupees
Minimum lease payments due:			
Not later than one year		**39,097,590**	39,252,491
Later than one year and not later than five years		**48,396,765**	33,841,223
		87,494,355	73,093,714
Less: Future financial costs		**14,531,478**	7,233,752
Present value of minimum lease payments	*9.1*	**72,962,877**	65,859,962
Less: Current portion	*16*	**32,081,387**	34,332,579
		40,881,490	31,527,383

9.1 Break-up of present value of minimum lease payments

Not later than one year		**32,081,387**	34,332,579
Later than one year and not later than five years		**40,881,490**	31,527,383
		72,962,877	65,859,962

Depending on the terms of the agreement, interest rate implicit in the lease is either fixed at the contract date (and remains fixed for lease term) or as in the case of 20 contracts (2005: one contract) worth Rs. 65,254,830 (2005: Rs.12,208,562) it is re-priced on a monthly / quarterly basis equivalent to the rate of 6-month KIBOR plus 2.4% to 3.5%.

The Company has an option to purchase the assets at the expiry of lease terms and the company intends to exercise this option.

10. LONG TERM ADVANCES

Balance at the end of year		**16,759,836**	13,081,827
Less: Current portion	*16*	**2,666,996**	674,976
		14,092,840	12,406,851

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

11. DEFERRED LIABILITIES

Taxation	*11.1*	**71,840,206**	79,990,497
Gratuity	*11.2*	**59,012,823**	51,095,903
		130,853,029	131,086,400

11.1 Taxable temporary differences arising in respect of:

Surplus on revaluation of assets		**43,679,393**	48,532,659
Accelerated tax depreciation		**28,160,813**	31,457,838
		71,840,206	79,990,497

	Note	2006 Rupees	2005 Rupees

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

	Note	2006 Rupees	2005 Rupees
Present value of defined benefit obligation		**78,007,892**	75,380,276
Unrecognized actuarial losses		**(20,222,181)**	(25,252,686)
Benefits due but not paid		**1,227,112**	968,313
Net liability as at 31 December	*11.2.1*	**59,012,823**	51,095,903

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

	Note	2006 Rupees	2005 Rupees
Liability as at 01 January		**51,095,903**	43,818,054
Amount recognized during the year	*11.2.2*	**19,524,389**	14,499,804
Benefit payments made by the Company		**(11,607,469)**	(7,221,955)
Net liability as at 31 December		**59,012,823**	51,095,903

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

	Note	2006 Rupees	2005 Rupees
Current service cost		**9,197,232**	8,528,724
Interest cost		**6,784,225**	4,533,751
Actuarial losses - charge for the year		**3,542,932**	1,437,329
Total included in staff cost		**19,524,389**	14,499,804

12. DEFERRED GAIN

	Note	2006 Rupees	2005 Rupees
Opening balance as on 01 January		**9,469,738**	14,591,246
Less: Amortization for the year	*32*	**5,121,508**	5,121,508
		4,348,230	9,469,738

13. TRADE AND OTHER PAYABLE

	Note	2006 Rupees	2005 Rupees
Trade creditors		**38,763,805**	52,797,286
Bills payable		**28,582,090**	-
Advances from customers		**3,398,897**	9,270,384
Accrued expenses		**24,307,022**	10,279,241
Income tax deducted at source		**884,276**	1,298,735
Workers' Profit Participation Fund	*13.1*	**9,842,754**	6,642,191
Workers' Welfare Fund		**7,188,830**	5,083,697
Payable to Central Research Fund		**1,840,468**	753,282
Payable to Provident Fund Trust		**1,522,418**	1,348,551
Un-claimed dividends		**2,604,318**	2,136,062
Payable to Employees Welfare Trust		**216,100**	-
		119,150,978	89,609,429

	Note	2006 Rupees	2005 Rupees
13.1 Workers' Profit Participation Fund			
Balance at the beginning of the year		**6,642,191**	6,255,653
Add: Current allocation for the year	*33*	**5,722,031**	4,009,961
		12,364,222	10,265,614
Add: Interest on funds utilized by the Company	*30*	**1,494,493**	1,266,770
		13,858,715	11,532,384
Less: Paid during the year to the trustees of the fund		**1,062,000**	1,596,764
Deposited with the Government Treasury		**2,953,961**	3,293,429
		4,015,961	4,890,193
		9,842,754	6,642,191

Mark-up @ 22.5% (2005: 20.25%) is being provided on the unpaid balance of the fund in accordance with the rules of the Fund.

14. MARKUP PAYABLE ON SECURED LOANS

	2006 Rupees	2005 Rupees
On cash finances	**2,585,530**	2,298,998
On other borrowings	**4,226,868**	4,189,022
	6,812,398	6,488,020

15. SHORT TERM BANK BORROWINGS- SECURED

	Note	2006 Rupees	2005 Rupees
Habib Bank Limited	*15.1*		
Cash finance		**59,660,205**	64,587,688
Running finance		**55,996,341**	29,430,839
L/C acceptance		**-**	3,490,905
Finance against imported merchandise		**15,269,150**	13,710,000
Faysal Bank Limited	*15.2*		
Morabaha LPO		**60,000,000**	60,000,000
Morabaha pledge		**-**	9,862,989
L/C acceptance		**-**	9,455,342
United Bank Limited	*15.3*		
Cash finance - hypothecation		**59,103,557**	71,783,807
Cash finance - pledge		**28,668,399**	17,660,095
Finance against imported merchandise		**2,811,294**	-
		281,508,946	279,981,665

15.1 These finances are availed against aggregate sanctioned limit of Rs. 350 million (2005: Rs. 280 million) and carry mark-up equivalent to the rate of one month average offered KIBOR of last day of previous month plus 1.8% to 2 % with floor of 10 % per annum (2005: One month average offered KIBOR of last day of preceding month plus 2% with floor of 8 % 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. 76.73 million (2005: Rs. 60.0 million);
- 10% (2005: 10%) margin on pledged stocks and 5% to 10% (2005: 5% to 10%) cash margin;
- joint pari passu equitable mortgage charge on property, plant and equipment of the Company to the extent of Rs. 161.54 million (2005: Rs. 140.0 million); and
- personal guarantees of all the directors of the Company.

15.2 These finances are availed against aggregate sanctioned limit of Rs. 105 million (2005: 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 plus 250 basis points per annum (2005: Ask yield of six months KIBOR as notified by Reuters on the drawn day plus 250 basis points). 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 million (2005: Rs. 67.5 million);
- Joint pari passu charge on the present and future current assets of the Company to the extent of Rs. 29.0 million (2005: Rs. 29.0 million);
- ranking charge on current assets of the company to the extent of Rs. 35 million (2005: 35 million);
- pledge of stocks; and
- personal guarantees of the sponsoring directors of the Company.

15.3 These finances are availed against aggregate sanctioned limit of Rs. 245 million (2005: Rs. 155 million) and carry mark-up equivalent to one month average offered KIBOR plus 1.85% per annum payable quarterly (2005: 3 months average offered KIBOR plus 1.5% per annum reset on monthly basis). These finances are secured by way of :

- hypothecation/pledge of stocks, stores and spares, receivables/book debts;
- Joint pari passu charge to the extent of Rs. 113.08 million (2005: Rs. 102.310 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. 48.50 million (2005: Rs. 45.0 million) on the present and future current assets of the Company; and
- promissory note and personal guarantees of all the directors of the Company.

	Note	**2006 Rupees**	2005 Rupees
16. CURRENT PORTION OF LONG TERM LIABILITIES			
Long term liability	*8*	**-**	16,743,530
Liabilities against assets subject to finance lease	*9*	**32,081,387**	34,332,579
Long term advances	*10*	**2,666,996**	674,976
		34,748,383	51,751,085

17. CONTINGENCIES AND COMMITMENTS

Contingencies

- Bank guarantees issued on behalf of the Company aggregating to Rs. 1.009 million (2005: Rs. 0.798 million).

- The Company has not acknowledged the demand relating to sales tax/central excise duty amounting to Rs. 20.798 million (2005: Rs. 20.798 million) as debt as the matter is pending adjudication. An amount of Rs. 1.9 million (2005: Rs. 1.9 million) has been deposited under protest and is shown under other receivables in note 24.

	2006	2005
	(Rupees in million)	

Commitments

- Commitments against irrevocable letters of credit include:

	2006	2005
Plant and machinery	**31.67**	-
Raw materials	**84.91**	72.52
Packing materials	**0.96**	0.45
Finished goods	**6.62**	0.45

- Facilities of letters of guarantee amounting to Rs. 18.991 million (2005: 19.202 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 favour of wholly owned subsidiary company "Dynalog Services (Pvt) Limited" amounting to Rs. 40 million (2005: Rs. 40 million) to Habib Bank Limited against their working capital finance limits.

- Out of the aggregate sanctioned limits, un-availed bank borrowing available from commercial banks amounted to Rs. 718.761 million (2005: Rs. 270.018 million). These facilities carry mark-up rate ranging from one to six months offered KIBOR plus margin of 1.85% to 3.0% (2005: one to six months offered KIBOR plus margin of 1.5% 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.

18. PROPERTY, PLANT AND EQUIPMENT

	Note	2006 Rupees	2005 Rupees
Operating assets (owned)	*18.1*	**360,121,719**	374,380,360
Operating assets (leased)	*18.1*	**140,681,894**	133,495,310
Capital work-in-progress	*18.2*	**14,451,445**	3,221,486
		515,255,058	511,097,156

18.1 Operating assets

PARTICULARS	COST				DEPRECIATION				BOOK VALUE as at 31 December 2006	Rate %
	As at 01 January 2006	DURING THE YEAR Additions	DURING THE YEAR Deletions	As at 31 December 2006	As at 01 January 2006	For the year	Adjustment	As at 31 December 2006		
	Rupees									
OWNED										
Land - Freehold	81,898,000	-	-	81,898,000	-	-	-	-	**81,898,000**	-
Building on freehold land	168,908,691	-	-	168,908,691	58,224,315	11,068,438	-	69,292,753	**99,615,938**	10
Plant and machinery	200,500,723	3,945,750	(11,294,924)	193,151,549	59,905,906	13,363,277	(373,549)	72,895,634	**120,255,915**	10
Laboratory equipment	6,163,063	-	-	6,163,063	1,406,344	475,672	-	1,882,016	**4,281,047**	10
Furniture and fixtures	10,384,952	391,147	-	10,776,099	4,274,469	632,174	-	4,906,643	**5,869,456**	10
Electric and gas appliances	18,653,701	1,279,505	-	19,933,206	8,017,814	1,115,795	-	9,133,609	**10,799,597**	10
Office equipment	19,866,324	2,605,250	(52,235)	22,419,339	8.609,689	1,213,730	(11,258)	9,812,161	**12,607,178**	10
Vehicles	10,637,092	24,461,809	(7,156,773)	27,942,128	2,237,559	2,767,052	(1,752,753)	3,251,859	**24,690,269**	20
Library books	52,806	-	-	52,806	45,602	720	-	46,322	**6,484**	10
Neon sign	33,000	72,000	-	105,000	26,342	7,866	-	34,208	**70,792**	10
Arms and ammunition	106,100	-	-	106,100	76,052	3,005	-	79,057	**27,043**	10
	517,204,452	**32,755,461**	**(18,503,932)**	**531,455,981**	**142,824,092**	**30,647,729**	**(2,137,560)**	**171,334,262**	**360,121,719**	
ASSETS SUBJECT TO FINANCE LEASE										
Plant and machinery	84,246,757	9,837,000	-	94,083,757	29,199,028	6,324,523	-	35,523,551	**58,560,206**	10
Office Equipment	20,028,330	-	-	20,028,330	2,858,000	1,717,034	-	4,575,034	**15,453,296**	10
Vehicles	87,328,986	35,191,200	(29,105,100)	93,415,086	26,051,735	14,235,742	(13,540,783)	26,746,694	**66,668,392**	20
	191,604,073	**45,028,200**	**(29,105,100)**	**207,527,173**	**58,108,763**	**22,277,299**	**(13,540,783)**	**66,845,279**	**140,681,894**	
2006	**708,808,525**	**77,783,661**	**(47,609,032)**	**738,983,154**	**200,932,855**	**52,925,028**	**(15,678,343)**	**238,179,541**	**500,803,613**	
2005	685,492,154	86,451,056	(63,134,685)	708,808,525	170,265,456	52,697,262	(22,029,864)	200,932,854	507,875,671	

18.1.1 Additions in freehold assets include transfer of assets costing Rs. 29,105,100 (2005: Rs. 49,681,644) less accumulated depreciation of Rs. 13,540,783 (2005: Rs. 19,900,174) from leasehold assets. Whereas addition in leasehold include assets costing Rs. 11,408,924 (2005: Rs. 2,580,600) less accumulated depreciation of Rs. 371,265 (2005: Rs.129,390) transferred from freehold assets under sale and leaseback arrangements.

	Note	2006 Rupees	2005 Rupees
18.1.2 Depreciation charge has been allocated as under:			
Cost of sales	*27*	**32,762,161**	32,672,385
Administrative and general	*28*	**11,321,414**	11,132,946
Distribution, selling and promotional	*29*	**8,841,453**	8,891,931
		52,925,028	52,697,262

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. 48,731,393. 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:

	2006	2005
Land - Freehold	**14,566,828**	14,566,828
Building on freehold land	**51,942,644**	57,714,048
Plant and machinery (Owned)	**52,440,926**	67,212,610
Plant and machinery (Leased)	**46,659,472**	42,735,525
	165,609,870	182,229,011

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							
	Reliance Insurance	334,000	184,146	149,854	250,000	100,146	Insurance Claim
	Auto Scan	574,700	384,290	190,410	501,786	311,376	Negotiation
	Abid Rasheed	370,000	251,701	118,299	322,000	203,701	Negotiation
	Prince Motors	974,000	834,285	139,715	665,000	525,285	Negotiation
	Dr. Azfar Abbas	343,500	162,498	181,002	271,564	90,562	Company Policy
	Tanvir Ahmed	354,000	209,515	144,485	248,744	104,259	Company Policy
	Khurram Yousuf	370,000	292,203	77,797	260,000	182,203	Negotiation
	S. Munir Ud Din	354,000	246,671	107,329	235,020	127,691	Company Policy
	Mr. Khalid	588,000	319,378	268,622	320,000	51,378	Negotiation
	Muhammad Amir Bashir	354,000	249,601	104,399	239,145	134,746	Company Policy
	Noor Ahmed Nasir	334,000	199,132	134,868	236,163	101,295	Company Policy
	Muhammad Saleem	341,020	303,481	37,539	225,000	187,461	Negotiation
	Wasiq Motors	1,260,500	899,176	361,324	680,000	318,676	Negotiation
	Muhammad Asad Ullah	354,000	250,574	103,426	235,020	131,594	Company Policy
	Nadeem Akhtar	354,000	250,574	103,426	239,145	135,719	Company Policy
	Khizar Hayat	68,500	41,864	26,636	45,000	18,364	Company Policy
	Qaiser Hanif	68,500	34,013	34,487	68,500	34,013	Company Policy
	Muhammad Imran Khan	68,500	34,013	34,487	68,500	34,013	Company Policy
	Muhammad Ilyas	68,500	34,013	34,487	68,500	34,013	Company Policy
	M. Ismail	58,500	22,911	35,589	33,000	(2,589)	Company Policy
	Syed Musharaf Ali	58,500	24,710	33,790	58,517	24,727	Company Policy
	Nasir Beg	343,500	165,674	177,826	262,251	84,425	Company Policy
	Aleem Ud din	68,500	33,629	34,871	68,500	33,629	Company Policy
	Muhammad Imran Sheikh	343,500	177,529	165,971	257,488	91,517	Company Policy
	Muhammad Nadeem	58,500	25,324	33,176	58,500	25,324	Company Policy
	Tufail Ahmed	58,500	23,465	35,035	58,500	23,465	Company Policy
	Waseem Abdul Qadir	58,500	26,489	32,011	58,500	26,489	Company Policy
	Hamad Hasan	58,500	24,102	34,398	58,500	24,102	Company Policy
	Shahzad Khaliq	58,500	25,927	32,573	58,500	25,927	Company Policy
	Muhammad Mehdi	58,500	25,927	32,573	58,500	25,927	Company Policy
	Haroon Hameed	54,500	17,912	36,588	54,000	17,412	Company Policy
	Kaleem Zeb Siddiqui	58,500	26,530	31,970	61,232	29,262	Company Policy
	Azhar Sohail	58,500	26,530	31,970	59,774	27,804	Company Policy
	Azeem Shahzad	54,500	18,603	35,897	54,000	18,103	Company Policy
	Amjad Ali	58,500	28,184	30,316	58,500	28,184	Company Policy
	Junaid Anwar	58,500	28,267	30,233	58,500	28,267	Company Policy
	Ali Zaman	58,500	28,267	30,233	58,500	28,267	Company Policy
	Shahid Mahmood	58,500	28,267	30,233	58,500	28,267	Company Policy
	Shafiq Ahmad Qureshi	58,500	28,267	30,233	58,500	28,267	Company Policy
	Sohail Iqbal	58,500	28,267	30,233	58,500	28,267	Company Policy
	Wasim Iqbal	58,500	28,267	30,233	58,500	28,267	Company Policy
	Muhammad Aftab	58,500	28,267	30,233	58,500	28,267	Company Policy
	Muhammad Aamir Ishaq	58,500	28,267	30,233	58,500	28,267	Company Policy
	Ali Madad	58,500	28,267	30,233	58,500	28,267	Company Policy
	Wasim Sarwar	385,000	158,107	226,893	310,396	83,503	Company Policy
	Niaz Ullah	362,000	137,319	224,681	299,716	75,035	Company Policy
	Jamal Muattar	351,000	156,078	194,922	309,589	114,667	Company Policy
	Mudassar Waqas	54,000	15,750	38,250	54,000	15,750	Company Policy
	Tauqeer ul Haq	54,000	15,750	38,250	54,000	15,750	Company Policy
	Reliance Insurance	362,000	132,733	229,267	320,000	90,733	Insurance Claim
	Abu Ashar	58,500	28,843	29,657	58,500	28,843	Company Policy
	Muhammad Kaleem Khan	58,500	28,843	29,657	58,500	28,843	Company Policy
	Muhammad Arshad	58,500	28,843	29,657	58,500	28,843	Company Policy
	Syed Asim Jehangir Jalali	58,500	28,843	29,657	58,500	28,843	Company Policy
	Atif Mushtaq	58,500	28,843	29,657	58,500	28,843	Company Policy
	Muhammad Kamran	58,500	28,843	29,657	58,500	28,843	Company Policy
	Arif Ali	58,500	28,843	29,657	58,500	28,843	Company Policy
	Muhammad Ibrahim	58,500	27,206	31,294	58,500	27,206	Company Policy
Office equipment							
	Universal Insurance	14,500	3,812	10,688	13,050	2,362	Insurance Claim
	Universal Insurance	15,000	875	14,125	10,000	(4,125)	Insurance Claim
	Universal Insurance	6,735	550	6,185	6,061	(124)	Insurance Claim
	Universal Insurance	16,000	6,021	9,979	2,430	(7,549)	Insurance Claim
Plant & machinery							
	Universal Insurance	680,000	22,667	657,333	580,000	(77,333)	Insurance Claim
	2006	**12,336,455**	**7,007,746**	**5,328,709**	**9,451,091**	**4,122,382**	
	2005	20,303,956	8,980,605	11,323,351	16,098,175	4,774,824	

	Note	2006 Rupees	2005 Rupees
18.2 CAPITAL WORK - IN - PROGRESS			
Plant and machinery- owned		**4,962,385**	-
Advance for vehicles purchase		**2,975,000**	-
ERP system implementation		**6,514,060**	3,221,486
	18.2.1	**14,451,445**	3,221,486

18.2.1 Movement in the account is as follows:

		2006 Rupees	2005 Rupees
Opening balance as at 01 January		**3,221,486**	7,132,500
Additions during the year:			
- Plant and machinery- owned		**6,786,735**	2,034,119
- Advance for vehicles purchase		**2,975,000**	-
- ERP system implementation		**3,292,574**	-
		13,054,309	2,034,119
Capitalized during the year			
- Plant and machinery- owned		**(1,824,350)**	(5,945,133)
Closing balance as at 31 December		**14,451,445**	3,221,486

19. INTANGIBLE ASSETS

	COST			AMORTISATION			BOOK VALUE as at 31 December 2006	Rate %
	As at 01 January 2006	Additions	As at 31 December 2006	As at 01 January 2006	For the year	As at 31 December 2006		
	Rupees							
Registration and trademark (Note 19.1)	47,094,117	-	47,094,117	5,101,863	4,709,412	9,811,275	37,282,842	10
Computer Software	-	3,284,525	3,284,525	-	159,471	159,471	3,125,054	10
2006	**47,094,117**	**3,284,525**	**50,378,642**	**5,101,863**	**4,868,883**	**9,970,746**	**40,407,896**	
2005	47,094,117	-	47,094,117	392,451	4,709,412	5,101,863	41,992,254	

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

	Note	2006 Rupees	2005 Rupees
Amortization charge has been allocated as under:			
Cost of sales	*27*	**4,709,412**	4,709,412
Distribution, selling and promotional	*29*	**159,471**	-
		4,868,883	4,709,412

	Note	2006 Rupees	2005 Rupees
20. INVESTMENT			
Related Party			
In subsidiary-unlisted company at cost			
Dynalog Services (Pvt) Limited			
2,000,000 (2005: 2,000,000) ordinary shares of Rs. 10 each			
Equity held: 100% (2005: 100%)		**20,000,000**	20,000,000
21. STOCK IN TRADE			
Raw materials			
In hand		**77,719,784**	41,141,699
In pledge		**83,523,419**	64,759,279
In transit		**25,756,547**	15,918,473
		186,999,750	121,819,451
Packing material			
In hand		**28,646,591**	31,414,386
In pledge		**4,416,104**	4,773,790
With third party		**2,229,932**	311,166
		35,292,627	36,499,342
Work in process		**18,296,869**	33,674,482
Finished goods			
In hand		**102,324,505**	53,987,635
In pledge		**16,654,765**	35,677,059
		118,979,270	89,664,694
		359,568,516	281,657,969
22. TRADE DEBTS - Considered good			
Secured - against letters of credit		**5,241,670**	773,553
Unsecured			
Due from related parties			
Subsidiary - Dynalog Services (Pvt.) Limited	*22.1*	**105,238,142**	54,570,170
Associated - Route - 2 Health (Pvt.) Limited (Formerly Rout - 2 (Pvt.) Limited)	*22.1*	**1,008,516**	466,930
		106,246,658	55,037,100
Others	*22.2*	**14,058,638**	13,088,188
		125,546,966	68,898,841

22.1 The amount due is in the normal course of business and interest free.

22.2 Included therein a balance of Rs. Nil (2005: Rs. 401,964) on which mark-up at the rate of Nil (2005: 12%) per annum is being charged due to late payment.

	Note	2006 Rupees	2005 Rupees

23. ADVANCES, DEPOSITS AND PREPAYMENTS

	Note	2006 Rupees	2005 Rupees
Advances - considered good			
Staff against:			
Expenses		**5,084,978**	3,564,624
Salary		**286,378**	255,904
Suppliers		**19,086,328**	12,700,047
Letters of credit		**416,046**	925,470
Deposits			
Securities		**5,054,612**	4,944,169
Bank guarantee margin		**218,651**	117,236
Prepayments		**5,542,570**	1,762,888
		35,689,563	24,270,338

24. OTHER RECEIVABLES - considered good

	Note	2006 Rupees	2005 Rupees
Claims receivable		**861,022**	105,000
Freight subsidy receivable		**643,160**	1,258,646
Sales tax	*24.1*	**2,132,663**	2,109,442
Receivable from foreign principals		**34,591,408**	81,011,000
Others		**684,630**	672,090
		38,912,883	85,156,178

24.1 As referred to in note 17, this includes Rs. 1.9 million deposit for grant of stay against demand of sales tax/excise duty paid under protest to sales tax department.

25. CASH AND BANK BALANCES

	Note	2006 Rupees	2005 Rupees
Cash and Imprest		**2,898,856**	2,459,950
Balance with banks on current accounts:			
Local currency		**5,527,184**	10,956,124
In transit		**7,051,606**	-
Foreign currency		**87,098**	87,615
		12,665,888	11,043,739
		15,564,744	13,503,689

26. SALES - net

	2006 Rupees	2005 Rupees
Manufactured products		
Local	**1,498,742,041**	1,221,590,860
Export	**91,101,296**	45,914,920
	1,589,843,337	1,267,505,780
Purchased products - local	**45,155,102**	38,267,024
Sales Compensation	**3,000,000**	25,300,000
Third Party (toll manufacturing)	**28,248,227**	24,200,636
	1,666,246,666	1,355,273,440
Less: Discount	**139,528,705**	105,711,729
Sales tax	**1,026,066**	844,690
	140,554,771	106,556,419
	1,525,691,895	1,248,717,021

	Note	**2006** Rupees	2005 Rupees
27. COST OF SALES			
Raw and packing material consumed		**722,279,823**	645,796,841
Salaries, wages and benefits	*27.1*	**79,893,906**	60,782,681
Vehicle running and maintenance		**9,597,893**	7,454,781
Fuel and power		**15,165,706**	13,233,063
Stores consumed		**4,774,063**	5,928,815
Repair and maintenance		**13,089,609**	13,084,622
Insurance		**1,690,456**	2,005,984
Rent, rates and taxes		**1,057,000**	272,550
Fee and subscription		**163,420**	157,464
Printing and stationery		**1,972,869**	1,308,979
Other direct cost		**6,845,960**	6,376,075
Depreciation	*18.1.2*	**32,762,161**	32,672,385
Amortization of intangible assets	*19.2*	**4,709,412**	4,709,412
		894,002,278	793,783,652
Inventory effect of work in process			
Opening		**33,674,482**	33,292,170
Closing		**(18,296,869)**	(33,674,482)
		15,377,613	(382,312)
Cost of goods manufactured		**909,379,891**	793,401,340
Inventory effect of finished goods (excluding purchased products)			
Opening		**75,080,756**	58,174,693
Closing		**(101,718,849)**	(75,080,756)
		(26,638,093)	(16,906,063)
Cost of goods sold -Manufactured		**882,741,798**	776,495,277
Less: Freight subsidy		**958,321**	-
Cost of goods sold -Manufactured items		**881,783,477**	**776,495,277**
Cost of goods sold - Purchased products		**27,402,022**	21,167,268
Cost of goods sold		**909,185,499**	797,662,545

27.1 It includes the following staff retirement benefits:

	2006	2005
Defined benefit plan - Gratuity	**4,850,527**	3,870,820
Defined contribution plan - Provident Fund	**1,862,001**	1,661,031
Provision of compensated leave absences	**1,472,083**	1,386,376

	Note	2006 Rupees	2005 Rupees
28. ADMINISTRATIVE AND GENERAL			
Salaries and benefits	*28.1*	**63,811,435**	54,767,774
Telephone, postage and telex		**1,985,577**	2,381,170
Rent, rates and taxes		**2,916,112**	2,222,773
Electricity, gas and water		**176,658**	230,654
Printing and stationery		**3,227,482**	3,730,040
Repairs and maintenance		**3,956,606**	2,982,747
Vehicle running and maintenance		**13,017,507**	11,030,948
Travelling and conveyance		**4,437,497**	4,455,087
Newspapers and subscriptions		**1,919,696**	1,983,815
Entertainment		**267,490**	425,838
Insurance		**4,296,905**	4,037,734
Auditors' remuneration	*36*	**540,000**	468,000
Legal and professional		**1,289,742**	701,695
Advertisement, seminars and symposia		**199,072**	2,802,511
Donation	*28.2*	**718,331**	2,892,101
Depreciation	*18.1.2*	**11,321,414**	11,132,946
Others		**1,232,917**	1,601,065
		115,314,441	107,846,898

28.1 It includes the following staff retirement benefits:

	2006 Rupees	2005 Rupees
Defined benefit plan - Gratuity	**8,347,245**	3,260,221
Defined contribution plan - Provident Fund	**1,662,047**	1,627,195
Provision of compensated leave absences	**946,935**	979,037

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

	Note	2006 Rupees	2005 Rupees

29. DISTRIBUTION, SELLING AND PROMOTIONAL

	Note	2006 Rupees	2005 Rupees
Salaries and benefits	*29.1*	**140,113,652**	111,278,040
Advertisement		**1,662,960**	6,651,019
Electricity, gas and water		**-**	10,824
Rent, rates and taxes		**720,000**	720,210
Entertainment		**131,936**	151,306
Promotional expenses and samples		**95,382,021**	86,568,883
Printing and stationery		**3,780,728**	2,603,628
Travelling and conveyance		**53,865,700**	56,520,133
Telephone, postage and telegram		**2,351,676**	2,870,326
Insurance		**2,116,917**	2,037,344
Vehicle running and maintenance		**15,505,937**	11,495,849
Donation	*29.2*	**882,555**	665,255
Freight and octroi		**10,621,444**	8,127,746
Seminars, symposia and training		**22,800,183**	10,549,725
Depreciation	*18.1.2*	**8,841,453**	8,891,931
Amortization of intangible assets	*19.2*	**159,471**	-
Others		**6,371,406**	4,809,022
		365,308,039	313,951,242
Less: Reimbursement from foreign principals		**9,000,000**	75,900,000
		356,308,039	238,051,242

29.1 It includes the following staff retirement benefits:

	2006 Rupees	2005 Rupees
Defined benefit plan - Gratuity	**6,084,102**	7,068,530
Defined contribution plan - Provident Fund	**3,280,371**	2,752,974
Provision of compensated leave absences	**1,558,459**	2,782,242

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

30. FINANCE COST

	Note	2006 Rupees	2005 Rupees
Mark-up on short term bank borrowings		**26,632,904**	22,475,690
Lease finance cost		**8,141,818**	8,114,173
Interest on Workers' Profit Participation Fund	*13.1*	**1,494,493**	1,266,770
Bank charges		**2,108,149**	1,458,016
		38,377,364	33,314,649

	Note	**2006** Rupees	2005 Rupees
31. RESEARCH AND DEVELOPMENT			
Salaries and benefits	*31.1*	**4,432,309**	3,775,449
Expenses on clinical trials and product evaluation		**812,660**	395,490
Travelling		**993,455**	1,294,705
Insurance		**53,302**	45,693
Vehicle repair and maintenance		**465,277**	332,636
Printing and stationery		**106,950**	91,831
Office supplies		**2,171**	3,147
Repair and maintenance		**4,000**	4,560
Staff cost		**240,049**	173,646
Others		**382,229**	312,463
		7,492,402	6,429,620

31.1 It includes the following staff retirement benefits:

Defined benefit plan - Gratuity		**242,515**	300,233
Defined contribution plan - Provident Fund		**187,284**	157,544
Provision of compensated leave absences		**23,214**	23,214

	Note	2006	2005
32. OTHER OPERATING INCOME			
Income from financial assets			
Interest income		**-**	12,026
Exchange gain on currency fluctuations		**-**	3,007,461
Income from non-financial assets			
Gain on sale of property, plant and equipment		**4,122,382**	4,774,824
Amortization of deferred gain	*12*	**5,121,508**	5,121,508
Balances written back		**1,723,001**	193,100
Provision for slow moving items written back		**-**	632,966
Scrap Sales		**893,152**	907,931
Others		**97,207**	137,346
		11,957,250	14,787,162
33. OTHER OPERATING CHARGES			
Workers' Profit Participation Fund	*13.1*	**5,722,031**	4,009,961
Exchange loss on currency fluctuations		**1,570,322**	-
Workers' Welfare Fund		**2,105,133**	766,491
Central Research Fund			
Prior years		**-**	465,408
Current year		**1,087,186**	757,239
		1,087,186	1,222,647
		10,484,672	5,999,099

	2006 Rupees	2005 Rupees
34. TAXATION		
Current		
for the year	**37,912,164**	14,825,365
for prior years	**(5,000,000)**	13,130,000
	32,912,164	27,955,365
Deferred	**(8,150,291)**	(4,299,689)
	24,761,873	23,655,676

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:

	2006	2005
Applicable tax rate	**35.00%**	35.00%
Tax effect of amounts that are not deductible for tax purposes	**18.56%**	26.43%
Tax effect of amounts that are deductible for tax purposes	**-17.77%**	-34.29%
Tax effect of amounts relating to prior years	**-4.98%**	17.70%
Reversal of taxable temporary differences	**-8.11%**	-5.79%
Tax effect under presumptive tax regime	**1.94%**	-7.16%
	-10.36%	-3.12%
Average effective tax rate charged on income	**24.64%**	31.88%

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:

		2006	2005
Profit after taxation	Rupees	**75,724,855**	50,544,454
Weighted average number of ordinary shares	Numbers	**13,065,410**	13,065,410
Earnings per share	Rupees	**5.80**	3.87

	2006 Rupees	2005 Rupees
36. AUDITORS' REMUNERATION		
Statutory Audit	**325,000**	325,000
Fee for review of half year financial statements	**150,000**	125,000
Other services	**10,000**	10,000
Out of pocket	**55,000**	8,000
	540,000	468,000

37. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

	2006			2005		
	Chief Executive	**Directors**	**Executives**	Chief Executive	Directors	Executives
	Rupees					
Managerial remuneration	**3,832,200**	**8,246,400**	**20,442,592**	3,520,200	7,985,400	16,457,487
House allowance	**720,000**	**1,440,000**	**8,177,037**	720,000	1,440,000	6,582,995
Provident fund	**319,368**	**341,364**	**1,523,857**	293,388	319,620	1,328,952
Gratuity	**1,496,225**	**1,698,392**	**4,621,768**	1,287,834	1,546,533	3,682,231
Bonus	**638,700**	**1,374,400**	**3,181,700**	293,350	665,450	1,332,512
Utilities	**521,669**	**1,678,757**	**2,044,259**	537,232	1,463,392	1,645,749
Medical	**46,422**	**1,971,885**	**1,018,412**	128,846	1,757,778	2,073,439
Others	**22,331**	**241,655**	**7,900**	9,999	78,791	200,000
	7,596,915	**16,992,853**	**41,017,525**	6,790,849	15,256,964	33,303,365
Number	**1**	**2**	**17**	1	3	14

- The Chief Executive, Directors and 13 Executives (2005:12) have been provided with Company maintained cars while 04 Executives (2005: 02) 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. 4,000 (2005: Rs. 3,000) paid to an independent non-executive director for attending Board meetings.

38. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

	2006							
	Interest Bearing			Non-Interest Bearing			Sub-Total	Total
	Less than one year	One to five years	Sub-Total	Less than one year	One to five years	Over five years		
	Rupees							
Financial assets								
Long term deposits	-	-	-	-	-	1,562,054	1,562,054	**1,562,054**
Trade debts		-		125,546,966	-	-	125,546,966	**125,546,966**
Advances and deposits	-	-	-	5,273,263	-	-	5,273,263	**5,273,263**
Other receivables	-	-	-	36,137,060	-	-	36,137,060	**36,137,060**
Cash and bank balances	-	-	-	15,564,744	-	-	15,564,744	**15,564,744**
	-	**-**	**-**	**182,522,033**	**-**	**1,562,054**	**184,084,087**	**184,084,087**
Financial liabilities								
Long term liability	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	32,081,387	40,881,490	72,962,877	-	-	-	-	**72,962,877**
Trade and other payables	-	-	-	95,995,753	-	-	95,995,753	**95,995,753**
Markup payable on secured loans	-	-	-	6,812,398	-	-	6,812,398	**6,812,398**
Short term bank borrowings	281,508,946	-	281,508,946	-	-	-	-	**281,508,946**
	313,590,333	**40,881,490**	**354,471,823**	**102,808,151**	**-**	**-**	**102,808,151**	**457,279,974**
Excess of financial assets over financial liabilities	**(313,590,333)**	**(40,881,490)**	**(354,471,823)**	**79,713,882**	**-**	**1,562,054**	**81,275,936**	**(273,195,887)**
Off-balance sheet Items								
Bank guarantees	-	-	-	41,009,531	-	-	41,009,531	**41,009,531**
Irrevocable letters of credit	-	-	-	124,163,473	-	-	124,163,473	**124,163,473**
	-	**-**	**-**	**165,173,004**	**-**	**-**	**165,173,004**	**165,173,004**

	2005							
	Interest Bearing			Non-Interest Bearing				
	Less than one year	One to five years	Sub-Total	Less than one year	One to five years	Over five years	Sub-Total	Total
	Rupees							
Financial assets								
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**	**-**	**358,765**	**88,093,096**	**88,494,790**
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**	**89,792,689**	**-**	**-**	**89,792,689**	**435,634,316**
Excess of financial assets over financial liabilities	**(313,912,550)**	**(31,527,383)**	**(345,439,933)**	**(2,058,358)**	**-**	**358,765**	**(1,699,593)**	**(347,139,526)**
Off-balance sheet Items								
Bank guarantees	-	-	-	40,798,000	-	-	40,798,000	40,798,000
Irrevocable letters of credit	-	-	-	80,062,161	-	-	80,062,161	80,062,161
	-	-	-	**120,860,161**	-	-	**120,860,161**	**120,860,161**

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

38.1 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 risks associated with various financial assets and liabilities respectively as referred to in Note 38 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 limits 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 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.

38.2 Fair value of Financial Instruments.

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

39. Related Party Transactions

The related parties and associated undertakings comprise, subsidiary, 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.

		2006 **Rupees**	2005 Rupees
39.1	**Sales of goods**		
	Subsidiary	**1,310,495,356**	1,123,210,895
	Associate	**29,070,912**	7,059,994
39.2	**Contribution towards employees' benefits**		
	Staff provident fund	**18,017,718**	15,754,272
	Employees' welfare trust	**2,215,900**	1,485,772

39.3 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:

	2006		
Name of Related Party, Relationship	**Market Price**	**Transaction Value**	**Price Difference**
		Rupees	
Muhammad Asadullah, Manager	**220,000**	**235,020**	**(15,020)**

The favourable impact net of tax on profit, equity and cash flows was Rs. 9,763.

	2005		
	Market Price	Transaction Value	Price Difference
		Rupees	
Baqar Hasan, Executive Director (Human Resource & Legal)	850,000	750,000	100,000
Dr. Saleem Akhter, Chief Manager	600,000	216,196	383,804
	1,450,000	966,196	483,804

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

40. DIVIDENDS

The Board of Directors of the Company in its meeting held on 02 April 2007 have proposed dividend at the rate of Rs. 1.5 (2005: Rs. 1.5) per share and 15% (2005: 15%) bonus shares for the year ended 31 December 2006. These financial statements do not reflect these appropriations.

41. 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.

42. DATE OF AUTHORIZATION OF ISSUE

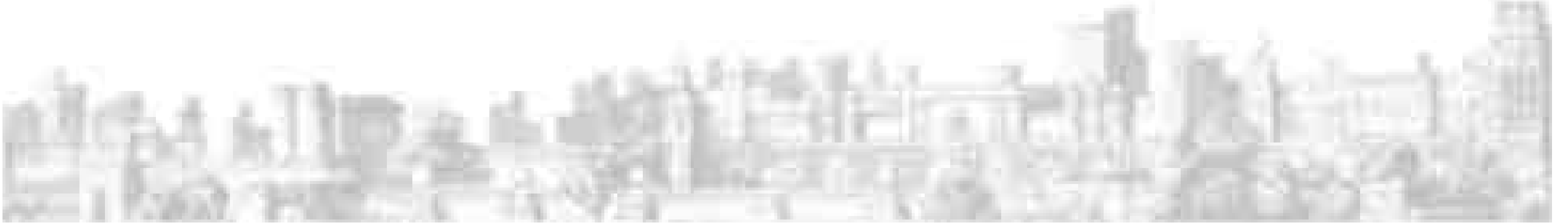
The Board of Directors of the Company authorized the financial statements for issuance on 02 April 2007.

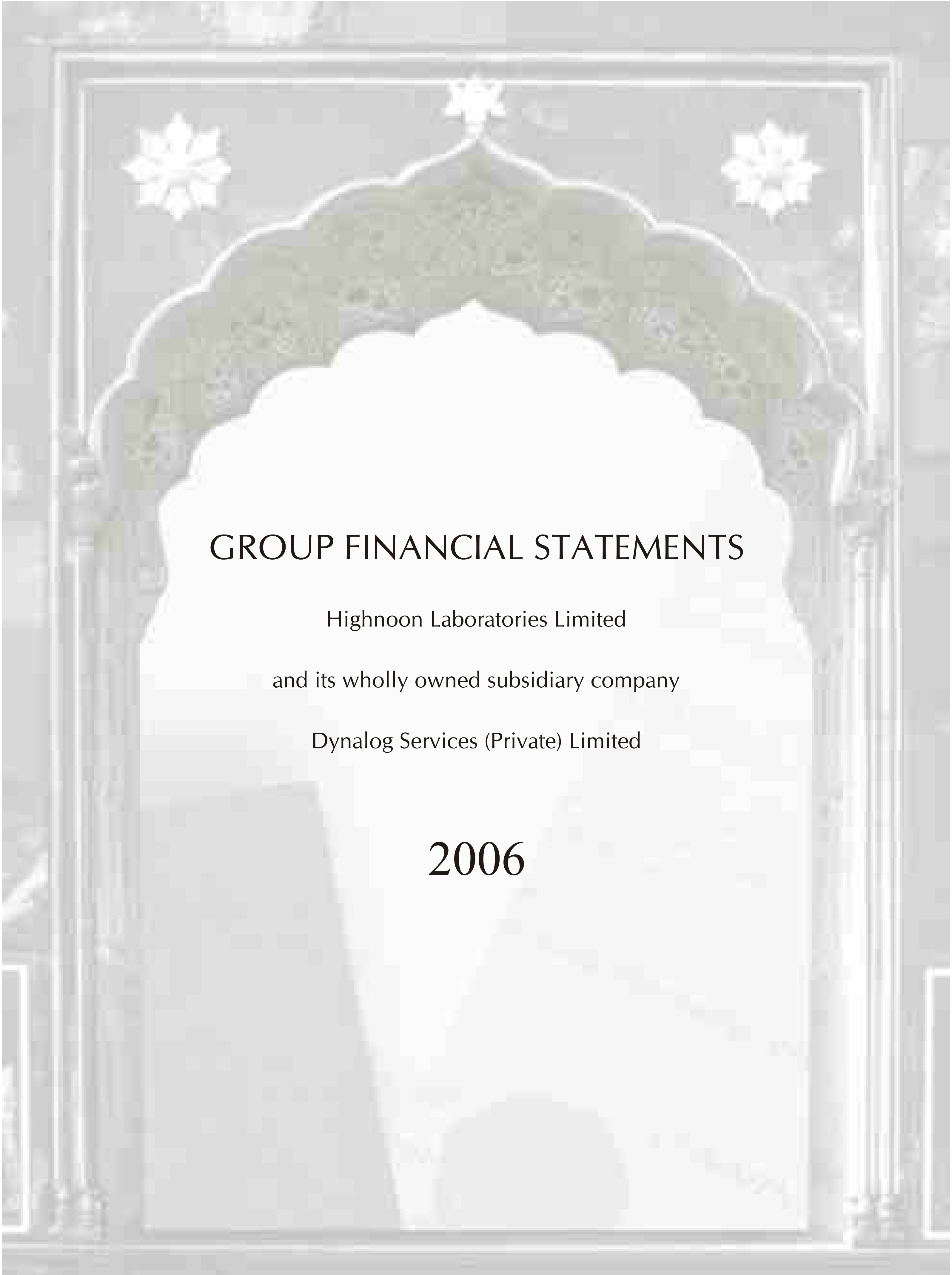
43. GENERAL

- Figures have been rounded off to the nearest rupee.
- Previous figures have been rearranged, where necessary for the purpose of comparison.
  Manpower training, previously shown as separate line items, has been now classified with Seminar, Symposia and training.
  No significant rearrangement or reclassification is made except as mentioned above.

ASLAM HAFIZ
CHIEF EXECUTIVE OFFICER

ANEES AHMAD KHAN
DIRECTOR





GROUP FINANCIAL STATEMENTS

Highnoon Laboratories Limited

and its wholly owned subsidiary company

Dynalog Services (Private) Limited

2006

KPMG

Auditors' Report to the Members

We have audited the annexed consolidated financial statements comprising consolidated balance sheet of Highnoon Laboratories Limited as at 31 December 2006 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. The financial statements of the subsidiary Company Dynalog Services (Private) Limited were audited by another firm of chartered accounts, 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 Company's management. Our responsibility is to express an opinion on these financial 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.

In our opinion the consolidated financial statements present fairly the financial position of Highnoon Laboratories Limited as at 31 December 2006 and the results of its operations, its cash flows and changes in equity for the year then ended in accordance with the approved accounting standards as applicable in Pakistan.

Lahore: 02 April 2007

KPMG Taseer Hadi & Co.
Chartered Accountants

CONSOLIDATED BALANCE SHEET

	Note	**2006** **Rupees**	2005 Rupees
EQUITY AND LIABILITIES			
Share capital	*6*	**130,654,100**	113,612,260
Reserves	*7*	**203,417,853**	160,418,305
		334,071,953	274,030,565
Surplus on revaluation of assets	*8*	**148,450,045**	157,463,253
NON CURRENT LIABILITIES			
Liabilities against assets subject to finance lease	*10*	**43,063,568**	37,915,084
Long term advances	*11*	**14,092,840**	12,406,851
Deferred liabilities	*12*	**130,853,029**	131,086,400
Deferred gain	*13*	**4,348,230**	9,469,738
		192,357,667	190,878,073
CURRENT LIABILITIES			
Trade and other payables	*14*	**134,699,610**	98,659,007
Mark-up payable on secured loans	*15*	**6,853,445**	6,832,008
Short term bank borrowings - secured	*16*	**297,629,722**	307,780,907
Income tax-net		**2,133,204**	-
Current portion of long term liabilities	*17*	**39,464,794**	56,749,149
		480,780,775	470,021,071
CONTINGENCIES AND COMMITMENTS	*18*		
		1,155,660,440	1,092,392,962

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

ASLAM HAFIZ
CHIEF EXECUTIVE OFFICER

AS AT 31 DECEMBER 2006

	Note	2006 Rupees	2005 Rupees
NON CURRENT ASSETS			
Property, plant and equipment	*19*	**537,662,340**	530,499,316
Intangible assets	*20*	**40,407,896**	41,992,254
		578,070,236	572,491,570
Long term deposits		**2,939,054**	1,611,765
CURRENT ASSETS			
Stores, spares and loose tools	*21*	**336,457**	349,956
Stock in trade	*22*	**401,963,874**	310,161,033
Trade debts	*23*	**33,374,855**	34,643,950
Advances, deposits and prepayments	*24*	**57,438,065**	34,890,524
Other receivables	*25*	**48,333,582**	88,744,279
Income tax - net		**-**	24,922,966
Cash and bank balances	*26*	**33,204,317**	24,576,919
		574,651,150	518,289,627
		1,155,660,440	1,092,392,962

ANEES AHMAD KHAN
DIRECTOR

CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2006

	Note	2006 Rupees	2005 Rupees
Sales - net	*27*	**1,599,975,783**	1,274,515,159
Cost of sales	*28*	**935,745,317**	795,399,115
GROSS PROFIT		**664,230,466**	479,116,044
Operating expenses			
Administrative and general	*29*	**131,054,592**	119,529,743
Distribution, selling and promotional	*30*	**390,635,562**	265,097,634
Finance cost	*31*	**41,507,790**	35,111,698
Research and development	*32*	**7,492,402**	6,429,620
		570,690,346	426,168,695
OPERATING PROFIT		**93,540,120**	52,947,349
Other operating income	*33*	**16,853,904**	17,335,629
		110,394,024	70,282,978
Other operating charges	*34*	**10,484,672**	5,999,099
PROFIT BEFORE TAXATION		**99,909,352**	64,283,879
Taxation	*35*	**31,839,332**	29,779,966
PROFIT AFTER TAXATION		**68,070,020**	34,503,913
Earnings per share - basic and diluted	*36*	**5.21**	2.64

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

ASLAM HAFIZ
CHIEF EXECUTIVE OFFICER

ANEES AHMAD KHAN
DIRECTOR

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2006

	2006	2005
	Rupees	Rupees
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	**99,909,352**	64,283,879
Add/(less): Adjustments for non-cash charges and other items		
Depreciation	**56,270,529**	54,775,939
Amortization of intangible assets	**4,868,883**	4,709,412
Gain on sale of property, plant and equipment	**(4,122,382)**	(4,774,824)
Exchange loss/(gain)	**1,570,322**	(3,007,461)
Provision for defined benefit obligation	**19,524,389**	14,499,804
Liabilties no longer payable written back	**(1,723,001)**	(193,100)
Provision for slow moving items	**-**	(632,966)
Finance cost	**41,507,790**	35,111,698
Deterioration in Pallets	**13,499**	17,999
Amortization of deferred gain	**(5,121,508)**	(5,121,508)
	112,788,521	95,384,993
Profit before working capital changes	**212,697,873**	159,668,872
WORKING CAPITAL CHANGES		
(Increase)/decrease in current assets:		
Stores, spares and loose tools	**-**	5,058,493
Stock in trade	**(91,802,841)**	(26,956,670)
Trade debts	**1,321,896**	(12,008,909)
Advances, deposits and prepayments	**(22,547,541)**	(629,988)
Other receivables	**40,410,697**	(41,667,979)
Increase in current liabilities:		
Trade and other payables	**36,768,695**	17,801,254
	(35,849,094)	(58,403,799)
Cash generated from operations	**176,848,779**	101,265,073
Add/(less):		
Taxes paid	**(12,933,453)**	(27,052,122)
Gratuity paid	**(11,607,469)**	(7,221,955)
Finance cost paid	**(32,233,765)**	(21,894,032)
Security deposit paid	**(1,327,289)**	(584,000)
Long term advances - net	**3,678,009**	4,295,191
Net cash from operating activities	**122,424,812**	48,808,155

	Note	2006 Rupees	2005 Rupees
CASH FLOWS FROM INVESTING ACTIVITIES			
Fixed capital expenditure		**(33,723,395)**	(32,595,301)
Intangible assets acquired		**(3,284,525)**	-
Sale proceeds of fixed assets		**20,488,754**	16,098,175
Net cash from Investing activities		**(16,519,166)**	(16,497,126)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of long term liabilities		**(17,840,000)**	(13,482,353)
Proceeds/(Repayment) of lease finance liabilities-net		**(52,713,479)**	(62,647,227)
Short term bank borrowings		**(10,151,185)**	57,870,539
Dividend paid		**(16,573,584)**	(15,112,118)
Net cash from financing activities		**(97,278,248)**	(33,371,159)
Net increase /(decrease) in cash and cash equivalents		**8,627,398**	(1,060,130)
Cash and cash equivalents at beginning of the year		**24,576,919**	25,637,049
Cash and cash equivalents at end of the year	*26*	**33,204,317**	24,576,919

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

ASLAM HAFIZ
CHIEF EXECUTIVE OFFICER

ANEES AHMAD KHAN
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2006

	SHARE CAPITAL	REVENUE RESERVES			TOTAL
		GENERAL RESERVE	UN-APPROPRIATED PROFIT	SUB TOTAL	
	Rupees				
Balance as at 01 January 2005	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)	-
	113,612,260	114,000,000	1,899,716	115,899,716	229,511,976
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
Total recognised income and expense for the year	-	-	44,518,589	44,518,589	44,518,589
Balance as at 31 December 2005	**113,612,260**	**114,000,000**	**46,418,305**	**160,418,305**	**274,030,565**
Final dividend for the year ended 31 December 2005 @ Rs. 1.5 per share	-	-	(17,041,840)	(17,041,840)	(17,041,840)
Issuance of bonus shares @ 15%	17,041,840	-	(17,041,840)	(17,041,840)	-
	130,654,100	114,000,000	12,334,625	126,334,625	256,988,725
Current year incremental depreciation - net of tax	-	-	9,013,208	9,013,208	9,013,208
Profit for the year after taxation	-	-	68,070,020	68,070,020	68,070,020
Total recognised income and expense for the period	-	-	77,083,228	77,083,228	77,083,228
Balance as at 31 December 2006	**130,654,100**	**114,000,000**	**89,417,853**	**203,417,853**	**334,071,953**

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

ASLAM HAFIZ
CHIEF EXECUTIVE OFFICER

ANEES AHMAD KHAN
DIRECTOR

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006

1. LEGAL STATUS AND NATURE OF OPERATIONS

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

Highnoon Laboratories Limited 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.

Dynalog Services (Pvt.) Limited 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 consolidated 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

3.1 Accounting convention

These consolidated financial statements have been prepared under the historical cost convention, except for revaluation of certain assets as referred to in note 19.1.3 and certain financial assets at fair value and recognition of certain employees’ benefits at present value. In these financial statements, except for the cash flow statement, all the transactions have been accounted for on accrual basis.

3.2 Use of estimates and judgments

The preparation of consolidated financial statements in conformity with approved accounting standards requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions and judgments are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the result of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognised in the period in which the estimate is revised if revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of approved accounting standards that have significant effect on the financial statements and estimates with a significant risk of material adjustment in subsequent years are as follows:

- defined benefit obligation
- revaluation of property, plant and equipment
- useful life of assets
- impairment
- taxation
- provisions and contingencies

4. BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of Highnoon Laboratories Limited and its wholly owned subsidiary "Dynalog Services (Private) Limited".

The financial statements 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 statement. Intra-group balances, transactions, income and expenses have also been eliminated. Unrealised gains arising on intra-group transactions recognized in assets areeliminated. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

5. SIGNIFICANT ACCOUNTING POLICIES

5.1 Staff retirement benefits

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 as at 31 December 2006. The Projected Unit Credit Method, with the following significant assumptions was used for the valuation of this scheme:

	2006	2005
- Discount rate	10% per annum	9% per annum
- Expected rate of increase in salary	9% per annum	8% per annum
- Expected average remaining working life time	14 years	14 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 recognized as income/expense in profit and loss over a period of five years.

Defined contribution plan

The Group also operates a 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.

5.2 Foreign currency translation

All monetary assets and liabilities in foreign currency are translated at the rates of exchange prevailing on the balance sheet date. Non-monetary assets and liabilities that are measured in terms of historical cost in foreign currency are translated into rupees at exchange rates prevailing at the date of transaction. Non-monetary assets and liabilities denominated in foreign currency that are stated at fair value are translated into rupees at exchange rates prevailing at the date when fair values are determined. Transactions in foreign currencies 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.

5.3 Trade and other payables

Trade and other payables are initially carried at cost which is the fair value of the consideration to be paid in the future for goods and services received and subsequently at amortized cost using effective interest rate method.

5.4 Property, Plant and Equipment

Owned operating assets

These 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 no 19.1 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 asset. Surplus on revaluation of fixed assets relating to incremental depreciation (net of deferred taxation) is transferred directly to unappropriated profit.

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 if it is probable that the respective future economic benefits will flow to the Group and the cost of the item can be measured reliably, and assets so replaced, if any, are retired.

Leasehold assets

Leases where all the risks and rewards incidental to ownership of the leased assets have been transferred to the Group 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 at the commencement of lease, less accumulated depreciation and impairment loss, if any.

The related rental obligations, net of finance costs, are included in liabilities against assets subject to finance lease as referred to in note 10. 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 costs 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 19.1. 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.

Capital work in progress

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

5.5 Intangible assets and amortization

Intangible assets include Intellectual Property, Rights, Trademarks and software, which are non-monetary assets without physical substance. These 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, HNL 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.

5.6 Deferred gain

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

5.7 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 assets. All other interest, mark-up and expenses are charged to income in the period in which they are incurred.

5.8 Investments

Investments available for sale- Quoted securities

Investment intended to be held for an unidentified period of time which may be sold in response to need for liquidity or changes to interest rates, exchange rates or equity prices are classified as 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.

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 or determined to be impaired.

All "regular way" purchases and sales of shares are recognised on the trade date, i.e. the date that the Group commits to purchase/sell the asset.

5.9 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.

Pallets are subject to deterioration at the rate of 25% per annum using the straight line method from the month in which these are acquired.

5.10 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.

5.11 Trade debts

These are initially carried at original invoice amount, which is the fair value of consideration to be received in future and subsequently measure at amortised cost less impairment loss, if any. A provision for impairment of trade debts is established when there is an objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivable.

5.12 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. These are carried in balance sheet at cost.

5.13 Impairment

The carrying amount of the assets except for inventories are reviewed at each balance sheet date to identify the circumstances indicating 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 carrying amount of the asset is reduced to its recoverable amount 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 extent that it does not exceed the carrying amount that would have been determined, net of depreciation and amortization, if no impairment loss has been charged. A reversal of the impairment loss is recognized in income.

5.14 Revenue recognition

Revenue from sales is recognized when risk and reward incidental 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.

Service income is recognized when the related services are rendered.

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

5.15 Transactions with related parties and transfer pricing

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

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

5.16 Research and development Cost

These costs are charged to revenue as and when incurred, except for any development costs which are recognised as intangible assets when it is probable that the development project will be a success and certain criteria, including commercial and technological feasibility have been met.

5.17 Taxation

Income tax on profit and loss for the year comprises current and deferred tax.

Current

The charge for current taxation is based on taxable income for the year determined in accordance with Income Tax Ordinance, 2001 and prevailing tax rates after taking into account applicable tax credits and rebates, if any or the minimum tax, whichever is higher. The charge for current tax also includes adjustments, where considered necessary, to provision for tax made in previous years arising from assessments framed during the year for such years.

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.

Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilized.

Carrying amount of deferred tax asset is reviewed at each balance sheet date and 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 and tax laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is charged or credited in the income except for 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".

5.18 Dividends

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

5.19 Financial instruments

These comprise financial assets and financial liabilities. Significant financial assets include trade debts, other receivables and cash and bank balances. Significant financial liabilities include bank borrowings, trade and other payables, liabilities in respect of leased assets and mark up payable on bank borrowings.

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. Any gain or loss on derecognition of the financial assets and financial liabilities is taken to profit and loss account in which it arises. The particular measurement methods adopted are disclosed in the individual policy statement associated with each item.

Offsetting financial assets amd financial liabilities

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.

5.20 Provisions

A provision is recognized when the Group 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.

5.21 Standards, interpretations and amendments to published approved accounting standards that are yet not effective

During the year International Accounting Standard Board has revised IAS-1, “Presentation of Financial Statements”. The amendments impose additional requirements for Capital disclosures effective for financial period beginning on or after 01 January 2007.

Adoption of the above amendments would impact to the extent of disclosures only, presented in the future financial statement of the Group.

	Note	**2006** Rupees	2005 Rupees
6. SHARE CAPITAL			
Authorized			
15,000,000 (2005: 15,000,000) Ordinary shares of Rs. 10 each		**150,000,000**	150,000,000
Issued, subscribed and paid - up			
5,905,000 (2005: 5,905,000) Ordinary shares of Rs. 10 each fully paid in cash		**59,050,000**	59,050,000
95,000 (2005: 95,000) Ordinary shares of Rs.10 each issued for consideration other than cash	*6.1*	**950,000**	950,000
7,065,410 (2005: 5,361,226) as fully paid bonus shares of Rs. 10 each		**70,654,100**	53,612,260
		130,654,100	113,612,260

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

6.2 Reconciliation of Issued, subscribed and paid-up capital

	2006 (Number of Shares)	2005 (Number of Shares)
Opening balance	**11,361,226**	10,143,952
Issued fully paid bonus shares	**1,704,184**	1,217,274
	13,065,410	11,361,226

	Rupees	Rupees
7. RESERVES		
Revenue		
General reserve	**114,000,000**	114,000,000
Unappropriated profit	**89,417,853**	46,418,305
	203,417,853	160,418,305

8. SURPLUS ON REVALUATION OF ASSETS

This represents surplus arising on revaluation of HNL's 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.

	2006	2005
	Rupees	Rupees
Surplus on revaluation of assets as at 01 January	**205,995,912**	221,403,106
Surplus relating to incremental depreciation charged on related assets-transferred to unappropriated profit:		-
Net of deferred tax	**(9,013,208)**	(10,014,676)
Related deferred tax liability	**(4,853,266)**	(5,392,518)
	(13,866,474)	(15,407,194)
Surplus on revaluation of assets as at 31 December	**192,129,438**	205,995,912
Less: Related deferred tax liability on:		
Balance at the beginning of the year	**48,532,659**	53,925,177
Transferred to profit and loss account- incremental depreciation charged during the year	**(4,853,266)**	(5,392,518)
	43,679,393	48,532,659
	148,450,045	157,463,253

9. LONG TERM LIABILITY - Secured

		2006	2005
Outstanding balance of purchase consideration for trademark	*9.1*	**16,743,530**	33,229,412
Less: Paid during the year		**16,743,530**	13,482,353
		-	19,747,059
Exchange (gain) / Loss due to revaluation		-	(3,003,529)
Total payable as on 31 December		-	16,743,530
Due within one year	*17*	-	16,743,530
		-	-

9.1 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 Almiral Prdoesfarma, Spain. The outstanding balance of € 200,000 (Rs. 16,743,530) at the beginning of the year net of taxes has been paid during the year.

	Note	2006 Rupees	2005 Rupees

10. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

The rate of interest used as discounting factor ranges from 0.6041% to 2.634% (2005: 0.583% to 2.634%) per month. The amount of future payments and periods during which they fall due are:

	Note	2006 Rupees	2005 Rupees
Minimum lease payments due:			
Not later than one year		**44,371,698**	45,334,067
Later than one year and not later than five years		**50,714,076**	40,819,196
		95,085,774	86,153,263
Less: Future financial costs		**15,224,408**	8,907,536
Present value of minimum lease payments	*10.1*	**79,861,366**	77,245,727
Less: Current portion	*17*	**36,797,798**	39,330,643
		43,063,568	37,915,084

10.1 Break-up of present value of minimum lease payments:

	2006 Rupees	2005 Rupees
Not later than one year	**36,797,798**	39,330,643
Later than one year and not later than five years	**43,063,568**	37,915,084
	79,861,366	77,245,727

Depending on the terms of the agreement, Interest rate implicit in the lease is either fixed at the contract date (and remains fixed for lease term) or as in the case of 20 contracts (2005: one contract) worth Rs. 65,254,830 (2005: Rs. 12,208,562) it is re-priced on a monthly /quarterly basis equivalent to the rate of 6-month KIBOR plus 2.4% to 3.5%.

The Group has an option to purchase the assets at the expiry of lease term and the Group intends to exercise this option.

11. LONG TERM ADVANCES

	Note	2006 Rupees	2005 Rupees
Balance at the end of year		**16,759,836**	13,081,827
Less: Current portion	*17*	**2,666,996**	674,976
		14,092,840	12,406,851

This represents advances taken from employees against future sale of vehicles as per HNL policy.

	Note	2006 Rupees	2005 Rupees
12. DEFERRED LIABILITIES			
Taxation	*12.1*	**71,840,206**	79,990,497
Gratuity	*12.2*	**59,012,823**	51,095,903
		130,853,029	131,086,400

12.1 Taxable temporary differences arising in respect of:

		2006 Rupees	2005 Rupees
Surplus on revaluation of assets		**43,679,393**	48,532,659
Accelerated tax depreciation		**28,160,813**	31,457,838
		71,840,206	79,990,497

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

	Note	2006 Rupees	2005 Rupees
Present value of defined benefit obligation		**78,007,892**	75,380,276
Unrecognized actuarial losses		**(20,222,181)**	(25,252,686)
Benefits due but not paid		**1,227,112**	968,313
Net liability as at 31 December	*12.2.1*	**59,012,823**	51,095,903

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

	Note	2006 Rupees	2005 Rupees
Liability as at 01 January		**51,095,903**	43,818,054
Amount recognized during the year	*12.2.2*	**19,524,389**	14,499,804
Benefit payments made by HNL		**(11,607,469)**	(7,221,955)
Net liability as at 31 December		**59,012,823**	51,095,903

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

		2006 Rupees	2005 Rupees
Current service cost		**9,197,232**	8,528,724
Interest cost		**6,784,225**	4,533,751
Actuarial losses - charge for the year		**3,542,932**	1,437,329
Total included in staff cost		**19,524,389**	14,499,804

	Note	**2006 Rupees**	2005 Rupees
13. DEFERRED GAIN			
Opening balance as on 01 January		**9,469,738**	14,591,246
Less: Amortization for the year	*33*	**5,121,508**	5,121,508
		4,348,230	9,469,738
14. TRADE AND OTHER PAYABLES			
Trade creditors	*14.1*	**38,763,805**	58,989,174
Bills payable		**28,582,090**	-
Advances from customers		**13,892,713**	9,270,384
Accrued expenses		**26,106,645**	11,000,035
Income tax deducted at source		**1,491,519**	2,204,561
Workers' Profit Participation Fund	*14.2*	**9,842,754**	6,642,191
Workers' Welfare Fund		**7,188,830**	5,083,697
Payable to Central Research Fund		**1,840,468**	753,282
Payable to provident fund trust		**4,170,368**	2,579,621
Un-claimed dividends		**2,604,318**	2,136,062
Payable to Employees Welfare Trust		**216,100**	-
		134,699,610	98,659,007

14.1 This includes payable to a related party Rs. 0.038 million (2005: Rs. Nil) against purchase of goods.

14.2 Workers' Profit Participation Fund

	Note	2006 Rupees	2005 Rupees
Balance at the beginning of the year		**6,642,191**	6,255,653
Add: Current allocation for the year	*34*	**5,722,031**	4,009,961
		12,364,222	10,265,614
Add: Interest on funds utilized by HNL	*31*	**1,494,493**	1,266,770
		13,858,715	11,532,384
Less: Paid during the year to the trustees of the fund		**1,062,000**	1,596,764
Deposited with the Government Treasury		**2,953,961**	3,293,429
		4,015,961	4,890,193
		9,842,754	6,642,191

Mark-up @ 22.5% (2005: 20.25%) is being provided on the unpaid balance of the fund in accordance with the rules of the fund.

		2006 Rupees	2005 Rupees
15. MARKUP PAYABLE ON SECURED LOANS			
On cash finances		**2,585,530**	2,642,986
On other borrowings		**4,267,915**	4,189,022
		6,853,445	6,832,008

	Note	2006 Rupees	2005 Rupees
16. SHORT TERM BANK BORROWINGS- *secured*			
Habib Bank Limited	*16.1*		
Cash finance		**59,660,205**	64,587,688
Running finance		**72,117,117**	57,230,081
L/C acceptance		**-**	3,490,905
Finance against imported merchandise		**15,269,150**	13,710,000
Faysal Bank Limited	*16.2*		
Morabaha LPO		**60,000,000**	60,000,000
Morabaha pledge		**-**	9,862,989
L/C acceptance		**-**	9,455,342
United Bank Limited	*16.3*		
Cash finance - hypothecation		**59,103,557**	71,783,807
Cash finance - pledge		**28,668,399**	17,660,095
Finance against imported merchandise		**2,811,294**	-
		297,629,722	307,780,907

16.1 These finances are availed against aggregate sanctioned limit of Rs. 390 million (2005: Rs. 370 million) and carry mark-up equivalent to the rate of one month average offered KIBOR of last day of previous month plus 1.8% to 2.5% with floor of 9% to 10% per annum (2005: One month average offered KIBOR of last day of preceding month plus 2% with floor of 8 % 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. 76.73 million (2005: Rs. 60.0 million);
- 10% (2005: 10%) margin on pledged stocks of HNL and 5% to 10% (2005: 5% to 10%) cash margin;
- joint pari passu equitable mortgage charge on property, plant and equipment of HNL to the extent of Rs. 161.54 million (2005: Rs. 140.0 million); and
- personal guarantees of all the directors of HNL.

16.2 These finances are availed against aggregate sanctioned limit of Rs. 105 million (2005: 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 plus 250 basis points per annum (2005: Ask yield of six months KIBOR as notified by Reuters on the drawn day plus 250 basis points). 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 (2005: Rs. 67.5 million);
- joint pari passu charge on the present and future current assets of HNL to the extent of Rs. 29.0 million (2005: Rs. 29.0 million);
- ranking charge on current assets of HNL to the extent of Rs. 35 million (2005: 35 million);
- pledge of stocks of HNL; and
- personal guarantees of the sponsoring directors of HNL.

16.3 These finances are availed against aggregate sanctioned limit of Rs. 245 million (2005: Rs. 155 million) and carry mark-up equivalent to one month average offered KIBOR plus 1.85% per annum payable quarterly (2005: 3 months average offered KIBOR plus 1.5% per annum reset on monthly basis). These finances are secured by way of:

- hypothecation/pledge of stocks, stores and spares, receivables/book debts of HNL;
- joint pari passu charge to the extent of Rs. 113.08 million (2005: Rs. 102.31 million) on the property, plant and equipment of HNL ranking parri passu with Habib Bank Limited and Faysal Bank Limited;
- joint pari passu charge to the extent of Rs. 48.5 million (2005: Rs. 45 million) on the present and future current assets of HNL; and
- promissory note and personal guarantees of all the directors of HNL.

	Note	2006 Rupees	2005 Rupees
17. CURRENT PORTION OF LONG TERM LIABILITIES			
Long term liability	9	**-**	16,743,530
Liabilities against assets subject to finance lease	10	**36,797,798**	39,330,643
Long term advances	11	**2,666,996**	674,976
		39,464,794	56,749,149

18. CONTINGENCIES AND COMMITMENTS

Contingencies

- Bank guarantees issued on behalf of HNL aggregating to Rs. 1.009 million (2005: Rs. 0.798 million).

- HNL has not acknowledged the demand relating to sales tax/central excise duty amounting to Rs. 20.798 million (2005: Rs. 20.798 million) as debt as the matter is pending adjudication. An amount of Rs. 1.9 million (2005: Rs. 1.9 million) has been deposited under protest and is shown under other receivables in note 25.

- Counter corporate guarantee given by HNL in favour of DSL amounting to Rs. 40 million (2005: Rs. 40 million) to Habib Bank Limited against their working capital finance limits.

Commitments	**2006** (Rupees in Million)	2005
- Commitments against irrevocable letters of credit HNL include:		
Plant & machinery	***31.67***	-
Raw materials	***84.91***	*72.52*
Packing materials	***0.96***	*0.45*
Finished goods	***6.62***	*0.45*

- Facilities of letters of guarantee amounting to Rs. 18.991 million (2005: 19.202 million) are available to HNL under hypothecation/pledge of stocks and on present and future current assets and property, plant and equipment of HNL.

- Out of the aggregate sanctioned limits, un-availed bank borrowings available to the group from commercial banks amounted to Rs. 742.64 million (2005: Rs. 332.22 million). These facilities carry mark-up rate ranging from one to six months offered KIBOR plus margin of 1.85% to 3.0% (2005: one to six months offered KIBOR plus margin of 1.5% 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.

	Note	**2006** Rupees	2005 Rupees
19. PROPERTY, PLANT AND EQUIPMENT			
Operating assets (owned)	*19.1*	**368,078,377**	376,491,408
Operating assets (leased)	*19.1*	**155,132,518**	150,786,422
Capital work-in-progress	*19.2*	**14,451,445**	3,221,486
		537,662,340	530,499,316

19.1 Operating assets

PARTICULARS	COST				DEPRECIATION				BOOK VALUE as at 31 December 2006	Rate %
	As at 01 January 2006	DURING THE YEAR Additions	DURING THE YEAR Deletions	As at 31 December 2006	As at 01 January 2006	For the year	Adjustment	As at 31 December 2006		
	Rupees									
OWNED										
Land - freehold	81,898,000	-	-	81,898,000	-	-	-	-	**81,898,000**	-
Building on freehold land	168,908,691	-	-	168,908,691	58,224,315	11,068,438	-	69,292,753	**99,615,938**	10
Plant and machinery	200,500,723	3,945,750	(11,294,924)	193,151,549	59,905,906	13,363,277	(373,549)	72,895,634	**120,255,915**	10
Laboratory equipment	6,163,063	-	-	6,163,063	1,406,344	475,672	-	1,882,016	**4,281,047**	10
Furniture and fixtures	11,215,444	5,501,257	-	16,716,701	4,359,843	749,277	-	5,109,120	**11,607,581**	10
Electric and gas appliances	18,653,701	1,279,505	-	19,933,206	8,017,814	1,115,795	-	9,133,609	**10,799,597**	10
Office equipment	21,209,496	3,629,137	(52,235)	24,786,398	8,725,117	1,387,801	(11,258)	10,101,660	**14,684,738**	10
Vehicles	10,810,792	24,492,809	(7,156,773)	28,146,828	2,273,074	2,795,265	(1,752,753)	3,315,586	**24,831,242**	20
Library books	52,806	-	-	52,806	45,602	720	-	46,322	**6,484**	10
Neon sign	33,000	72,000	-	105,000	26,342	7,866	-	34,208	**70,792**	10
Arms and ammunition	106,100	-	-	106,100	76,052	3,005	-	79,057	**27,043**	10
	519,551,816	**38,920,458**	**(18,503,932)**	**539,968,342**	**143,060,409**	**30,967,116**	**(2,137,560)**	**171,889,965**	**368,078,377**	
ASSETS SUBJECT TO FINANCE LEASE										
Plant and machinery	84,246,757	9,837,000	-	94,083,757	29,199,028	6,324,523	-	35,523,551	**58,560,206**	10
Office Equipment	22,228,624	-	(1,057,350)	21,171,274	3,104,816	1,854,590	(194,645)	4,764,761	**16,406,513**	10
Vehicles	104,706,226	36,239,530	(29,105,100)	111,840,656	28,091,340	17,124,300	(13,540,783)	31,674,857	**80,165,799**	20
	211,181,607	**46,076,530**	**(30,162,450)**	**227,095,687**	**60,395,184**	**25,303,413**	**(13,735,428)**	71,963,169	**155,132,518**	
2006	**730,733,423**	**84,996,988**	**(48,666,382)**	**767,064,029**	**203,455,593**	**56,270,529**	**(15,872,988)**	**243,853,134**	**523,210,895**	
2005	695,628,013	98,240,095	(63,134,685)	730,733,423	170,709,518	54,775,939	(22,029,864)	203,455,593	527,277,830	

19.1.1 Additions in freehold assets include transfer of assets costing Rs. 30,162,450 (2005: Rs. 49,681,644) less accumulated depreciation of Rs. 13,735,428 (2005: Rs. 19,900,174) from leasehold assets. Whereas additions in leasehold include assets costing Rs. 11,408,924 (2005: Rs. 2,580,600) less accumulated depreciation of Rs. 371,265 (2005: Rs. 129,390) transferred from freehold assets under sale and leaseback arrangements.

	Note	**2006** Rupees	2005 Rupees
19.1.2 Depreciation charge has been allocated as under :			
Cost of sales	*28*	**32,762,161**	32,672,385
Administrative and general	*29*	**11,655,964**	11,340,814
Distribution, selling and promotional	*30*	**11,852,404**	10,762,740
		56,270,529	54,775,939

19.1.3 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. 48,731,393. 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.

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

	2006	2005
Land - Freehold	**14,566,828**	14,566,828
Building on freehold land	**51,942,644**	57,714,048
Plant and machinery (Owned)	**52,440,926**	67,212,610
Plant and machinery (Leased)	**46,659,472**	42,735,525
	165,609,870	182,229,011

19.1.5 Disposal of property, plant and equipment

Particulars	Sold to	Cost	Accumulated Depreciation	Written Down Value	Sale Proceeds	Gain / (Loss)	Mode of Sale
		Rupees					
Vehicles							
	Reliance Insurance	334,000	184,146	149,854	250,000	100,146	Insurance Claim
	Auto Scan	574,700	384,290	190,410	501,786	311,376	Negotiation
	Abid Rasheed	370,000	251,701	118,299	322,000	203,701	Negotiation
	Prince Motors	974,000	834,285	139,715	665,000	525,285	Negotiation
	Dr. Azfar Abbas	343,500	162,498	181,002	271,564	90,562	Group Policy
	Tanvir Ahmed	354,000	209,515	144,485	248,744	104,259	Group Policy
	Khurram Yousuf	370,000	292,203	77,797	260,000	182,203	Negotiation
	S. Munir Ud Din	354,000	246,671	107,329	235,020	127,691	Group Policy
	Khalid	588,000	319,378	268,622	320,000	51,378	Negotiation
	Muhammad Amir Bashir	354,000	249,601	104,399	239,145	134,746	Group Policy
	Noor Ahmed Nasir	334,000	199,132	134,868	236,163	101,295	Group Policy
	Muhammad Saleem	341,020	303,481	37,539	225,000	187,461	Negotiation
	Wasiq Motors	1,260,500	899,176	361,324	680,000	318,676	Negotiation
	Muhammad Asad Ullah	354,000	250,574	103,426	235,020	131,594	Group Policy
	Nadeem Akhtar	354,000	250,574	103,426	239,145	135,719	Group Policy
	Khizar Hayat	68,500	41,864	26,636	45,000	18,364	Group Policy
	Qaiser Hanif	68,500	34,013	34,487	68,500	34,013	Group Policy
	Muhammad Imran Khan	68,500	34,013	34,487	68,500	34,013	Group Policy
	Muhammad Ilyas	68,500	34,013	34,487	68,500	34,013	Group Policy
	M. Ismail	58,500	22,911	35,589	33,000	(2,589)	Group Policy
	Syed Musharaf Ali	58,500	24,710	33,790	58,517	24,727	Group Policy
	Nasir Beg	343,500	165,674	177,826	262,251	84,425	Group Policy
	Aleem Ud din	68,500	33,629	34,871	68,500	33,629	Group Policy
	Muhammad Imran Sheikh	343,500	177,529	165,971	257,488	91,517	Group Policy
	Muhammad Nadeem	58,500	25,324	33,176	58,500	25,324	Group Policy
	Tufail Ahmed	58,500	23,465	35,035	58,500	23,465	Group Policy
	Waseem Abdul Qadir	58,500	26,489	32,011	58,500	26,489	Group Policy
	Hamad Hasan	58,500	24,102	34,398	58,500	24,102	Group Policy
	Shahzad Khaliq	58,500	25,927	32,573	58,500	25,927	Group Policy
	Muhammad Mehdi	58,500	25,927	32,573	58,500	25,927	Group Policy
	Haroon Hameed	54,500	17,912	36,588	54,000	17,412	Group Policy
	Kaleem Zeb Siddiqui	58,500	26,530	31,970	61,232	29,262	Group Policy
	Azhar Sohail	58,500	26,530	31,970	59,774	27,804	Group Policy
	Azeem Shahzad	54,500	18,603	35,897	54,000	18,103	Group Policy
	Amjad Ali	58,500	28,184	30,316	58,500	28,184	Group Policy
	Junaid Anwar	58,500	28,267	30,233	58,500	28,267	Group Policy
	Ali Zaman	58,500	28,267	30,233	58,500	28,267	Group Policy
	Shahid Mahmood	58,500	28,267	30,233	58,500	28,267	Group Policy
	Shafiq Ahmad Qureshi	58,500	28,267	30,233	58,500	28,267	Group Policy
	Sohail Iqbal	58,500	28,267	30,233	58,500	28,267	Group Policy
	Wasim Iqbal	58,500	28,267	30,233	58,500	28,267	Group Policy
	Muhammad Aftab	58,500	28,267	30,233	58,500	28,267	Group Policy
	Muhammad Aamir Ishaq	58,500	28,267	30,233	58,500	28,267	Group Policy
	Ali Madad	58,500	28,267	30,233	58,500	28,267	Group Policy
	Wasim Sarwar	385,000	158,107	226,893	310,396	83,503	Group Policy
	Niaz Ullah	362,000	137,319	224,681	299,716	75,035	Group Policy
	Jamal Muattar	351,000	156,078	194,922	309,589	114,667	Group Policy
	Mudassar Waqas	54,000	15,750	38,250	54,000	15,750	Group Policy
	Tauqeer ul Haq	54,000	15,750	38,250	54,000	15,750	Group Policy
	Reliance Insurance	362,000	132,733	229,267	320,000	90,733	Insurance Claim
	Abu Ashar	58,500	28,843	29,657	58,500	28,843	Group Policy
	Muhammad Kaleem Khan	58,500	28,843	29,657	58,500	28,843	Group Policy
	Muhammad Arshad	58,500	28,843	29,657	58,500	28,843	Group Policy
	Syed Asim Jehangir Jalali	58,500	28,843	29,657	58,500	28,843	Group Policy
	Atif Mushtaq	58,500	28,843	29,657	58,500	28,843	Group Policy
	Muhammad Kamran	58,500	28,843	29,657	58,500	28,843	Group Policy
	Arif Ali	58,500	28,843	29,657	58,500	28,843	Group Policy
	Muhammad Ibrahim	58,500	27,206	31,294	58,500	27,206	Group Policy
Office equipment							
	Universal Insurance	14,500	3,812	10,688	13,050	2,362	Insurance Claim
	Universal Insurance	15,000	875	14,125	10,000	(4,125)	Insurance Claim
	Universal Insurance	6,735	550	6,185	6,061	(124)	Insurance Claim
	Universal Insurance	16,000	6,021	9,979	2,430	(7,549)	Insurance Claim
Plant & machinery							
	Universal Insurance	680,000	22,667	657,333	580,000	(77,333)	Insurance Claim
	2006	**12,336,455**	**7,007,746**	**5,328,709**	**9,451,091**	**4,122,382**	
	2005	20,303,956	8,980,605	11,323,351	16,098,175	4,774,824	

	Note	2006 Rupees	2005 Rupees
19.2 CAPITAL WORK - IN - PROGRESS			
Plant and machinery- owned		**4,962,385**	-
Advance for vehicles purchase		**2,975,000**	-
ERP system implementation		**6,514,060**	3,221,486
	19.2.1	**14,451,445**	3,221,486

19.2.1 Movement in the account is as follows:

	2006 Rupees	2005 Rupees
Opening balance as at 01 January	**3,221,486**	7,132,500
Addition during the year:		
- Plant and machinery- owned	**6,786,735**	2,034,119
- Advance for vehicles purchase	**2,975,000**	-
- ERP system implementation	**3,292,574**	-
	13,054,309	2,034,119
Capitalized during the year:		
- Plant and machinery- owned	**(1,824,350)**	(5,945,133)
Closing balance as at 31 December	**14,451,445**	3,221,486

20. INTANGIBLE ASSETS

	COST			AMORTIZATION			BOOK VALUE as at 31 December 2006	Rate %
	As at 01 January 2006	Additions	As at 31 December 2006	As at 01 January 2006	For the year	As at 31 December 2006		
	Rupees							
Registration and trademark (Note 20.1)	47,094,117	-	47,094,117	5,101,863	4,709,412	9,811,275	37,282,842	10
Computer Software	-	3,284,525	3,284,525	-	159,471	159,471	3,125,054	10
2006	**47,094,117**	**3,284,525**	**50,378,642**	**5,101,863**	**4,868,883**	**9,970,746**	**40,407,896**	
2005	47,094,117	-	47,094,117	392,451	4,709,412	5,101,863	41,992,254	

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

20.2 Amortization charge has been allocated as under:

	Note	2006 Rupees	2005 Rupees
Cost of sales	*28*	**4,709,412**	4,709,412
Distribution, selling and promotional	*30*	**159,471**	-
		4,868,883	4,709,412

	Note	2006 Rupees	2005 Rupees
21. STORES, SPARES AND LOOSE TOOLS			
Stores		**295,960**	295,960
Pallets		**53,996**	71,995
Less: Deterioration of pallets	*30*	**13,499**	17,999
		40,497	53,996
		336,457	349,956
22. STOCK IN TRADE			
Raw materials			
In hand		**77,719,784**	41,141,699
In pledge		**83,523,419**	64,759,279
In transit		**25,756,547**	15,918,473
		186,999,750	121,819,451
Packing material			
In hand		**28,646,591**	31,414,385
In pledge		**4,416,104**	4,773,790
With third party		**2,229,932**	311,166
		35,292,627	36,499,341
Work in process		**18,296,869**	33,674,482
Finished goods			
In hand		**140,671,882**	82,368,223
In pledge		**16,654,765**	35,677,059
In transit		**4,047,981**	122,477
		161,374,628	118,167,759
		401,963,874	310,161,033
23. TRADE DEBTS - Considered good			
Secured - against letters of credit		**5,241,670**	773,533
Unsecured			
Due from related parties			
Associated - Route - 2 Health (Pvt.) Limited (Formerly Route - 2 (Pvt.) Limited	*23.1*	**1,008,516**	466,930
Others	*23.2*	**27,124,669**	33,403,487
		33,374,855	34,643,950

23.1 The amount due is in the normal course of business and interest free.

23.2 Included therein a balance of Rs. Nil (2005: Rs. 401,964) on which mark-up at the rate of Nil (2005: 12%) per anum is being charged due to late payment.

	Note	2006 Rupees	2005 Rupees

24. ADVANCES, DEPOSITS AND PREPAYMENTS

	Note	2006 Rupees	2005 Rupees
Advances - considered good			
Staff against:			
Expenses		**5,130,610**	3,732,328
Salary		**410,978**	255,904
Suppliers	*24.1*	**38,492,537**	21,277,442
Letters of credit		**416,046**	925,470
Deposits:			
Securities		**5,413,211**	4,944,169
Bank guarantee margin		**218,651**	117,236
Prepayments		**7,356,032**	3,637,975
		57,438,065	34,890,524

24.1 This includes an advance of Rs. Nil (2005: Rs.452,382) to associated undertaking Route 2 Health (Pvt.) Limited (Formerly Route - 2 (Pvt.) Limited) for purchase of goods.

25. OTHER RECEIVABLES - considered good

	Note	2006 Rupees	2005 Rupees
Claim receivable		**4,766,128**	3,479,297
Freight subsidy receivable		**643,160**	1,258,646
Sales tax	*25.1*	**2,163,144**	2,109,442
Receivable from foreign principals		**39,914,620**	81,011,000
Others		**846,530**	885,894
		48,333,582	88,744,279

25.1 As referred to in note 18 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.

26. CASH AND BANK BALANCES

	Note	2006 Rupees	2005 Rupees
Cash and Imprest		**5,494,988**	5,067,379
Balance with banks on current accounts:			
Local currency		**18,500,831**	19,421,925
In transit- Local currency		**7,051,606**	-
Foreign currency		**87,098**	87,615
		25,639,535	19,509,540
Cheques in hand		**2,069,794**	-
		33,204,317	24,576,919

	Note	**2006 Rupees**	2005 Rupees
27. SALES - net			
Manufactured products			
Local		**1,432,255,381**	1,151,680,246
Export		**91,101,296**	45,914,920
		1,523,356,677	1,197,595,166
Purchased products - Local		**85,884,887**	51,933,776
Sales compensation		**3,000,000**	25,300,000
Third Party (toll manufacturing)		**28,248,227**	24,200,636
		1,640,489,791	1,299,029,578
Less: Discount		**36,876,551**	22,230,153
Sales tax		**3,637,457**	2,284,266
		40,514,008	24,514,419
		1,599,975,783	1,274,515,159
28. COST OF SALES			
Raw and packing material consumed		**722,279,825**	650,211,079
Salaries, wages and benefits	*28.1*	**79,893,906**	60,782,681
Vehicle running and maintenance		**9,597,893**	7,454,781
Fuel and power		**15,165,706**	13,233,063
Stores consumed		**4,774,063**	5,928,815
Repair and maintenance		**13,089,609**	13,084,622
Insurance		**1,690,456**	2,005,984
Rent, rates and taxes		**1,057,000**	272,550
Fee and subscription		**163,420**	157,464
Printing and stationery		**1,972,869**	1,308,979
Other direct cost		**6,845,960**	6,376,076
Depreciation	*19.1.2*	**32,762,161**	32,672,385
Amortization of intangible assets	*20.2*	**4,709,412**	4,709,412
		894,002,280	798,197,891
Inventory effect of work in process			
Opening		**33,674,482**	33,292,170
Closing		**(18,296,869)**	(33,674,482)
		15,377,613	(382,312)
Cost of goods manufactured		**909,379,893**	797,815,579
Inventory effect of finished goods (excluding purchased products)			
Opening		**97,121,301**	73,537,569
Closing		**(132,574,651)**	(97,121,301)
		(35,453,350)	(23,583,732)
		873,926,543	774,231,847

	Note	**2006 Rupees**	2005 Rupees
Less: Freight subsidy		**958,321**	-
Cost of goods sold - Manufactured items		**872,968,222**	774,231,847
Cost of goods sold - Purchased products		**62,777,095**	21,167,268
Cost of goods sold		**935,745,317**	795,399,115

28.1 It includes the following staff retirement benefits:

Defined benefit plan - Gratuity		**4,850,527**	3,870,820
Defined contribution plan - Provident Fund		**1,862,001**	1,661,031
Provision of compensated leave absences		**1,472,083**	1,386,376

29. ADMINISTRATIVE AND GENERAL

	Note	2006 Rupees	2005 Rupees
Salaries and benefits	*29.1*	**74,445,180**	63,566,980
Telephone, postage and telex		**2,629,209**	2,811,948
Rent, rates and taxes		**3,423,612**	2,739,008
Electricity, gas and water		**176,658**	230,654
Printing and stationery		**3,734,498**	3,812,779
Repairs and maintenance		**4,258,958**	3,380,150
Vehicle running and maintenance		**13,482,879**	11,105,571
Travelling and conveyance		**5,622,078**	4,625,887
Newspapers and subscriptions		**1,966,866**	2,008,219
Entertainment		**708,925**	600,803
Insurance		**4,477,497**	4,068,564
Auditors' remuneration	*37*	**675,000**	583,000
Legal and professional		**1,403,491**	804,735
Advertisement, seminars and symposia		**273,280**	2,975,373
Donation	*29.2*	**718,331**	2,892,101
Depreciation	*19.1.2*	**11,655,964**	11,340,814
Others		**1,402,166**	1,983,157
		131,054,592	119,529,743

29.1 It includes the following staff retirement benefits:

Defined benefit plan - Gratuity		**8,347,245**	3,260,221
Defined contribution plan - Provident Fund		**1,662,047**	2,505,642
Provision of compensated leave absences		**946,935**	979,037

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

	Note	2006 Rupees	2005 Rupees

30. DISTRIBUTION, SELLING AND PROMOTIONAL

	Note	2006 Rupees	2005 Rupees
Salaries and benefits	*30.1*	**158,861,847**	124,288,547
Advertisement		**7,055,172**	6,651,019
Electricity, gas and water		**-**	10,824
Rent, rates and taxes		**7,050,126**	5,145,960
Entertainment		**487,288**	621,342
Promotional expenses and samples		**95,382,021**	78,094,540
Printing and stationery		**3,989,775**	3,348,279
Travelling and conveyance		**54,567,222**	58,367,734
Telephone, postage and telegram		**3,530,327**	4,202,270
Insurance		**3,011,207**	2,623,131
Vehicle running and maintenance		**16,643,771**	12,167,457
Donation	*30.2*	**882,555**	665,255
Freight and octroi		**11,586,093**	8,601,754
Seminars, symposia and training		**22,800,183**	19,024,067
Depreciation	*19.1.2*	**11,852,404**	10,762,740
Amortization of intangible assets	*20.2*	**159,471**	-
Others		**7,085,813**	6,404,716
Deterioration in Pallets	*21*	**13,499**	17,999
		404,958,774	340,997,634
Less: Reimbursement from foreign principals		**14,323,212**	75,900,000
		390,635,562	265,097,634

30.1 It includes the following staff retirement benefits:

Defined benefit plan - Gratuity		**6,084,102**	7,068,530
Defined contribution plan - Provident Fund		**3,280,371**	2,721,132
Provision of compensated leave absences		**1,558,459**	2,782,242

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

31. FINANCE COST

	Note	2006 Rupees	2005 Rupees
Mark-up on short term bank borrowings		**27,757,980**	23,106,578
Lease finance cost		**9,252,588**	8,880,170
Interest on Workers' Profit Participation Fund	*14.2*	**1,494,493**	1,266,770
Bank charges		**3,002,729**	1,858,180
		41,507,790	35,111,698

	Note	2006 Rupees	2005 Rupees
32. RESEARCH AND DEVELOPMENT			
Salaries and benefits	*32.1*	**4,432,309**	3,775,449
Expenses on clinical trials and products evaluation		**812,660**	395,490
Travelling		**993,455**	1,294,705
Insurance		**53,302**	45,693
Vehicle repair and maintenance		**465,277**	332,636
Printing and stationery		**106,950**	91,831
Office supplies		**2,171**	3,147
Repair and maintenance		**4,000**	4,560
Staff cost		**240,049**	173,646
Others		**382,229**	312,463
		7,492,402	6,429,620

32.1 It includes the following staff retirement benefits:

	2006 Rupees	2005 Rupees
Defined benefit plan - Gratuity	**242,515**	300,233
Defined contribution plan - Provident Fund	**187,284**	157,544
Provision of compensated leave absences	**23,214**	23,214

	Note	2006 Rupees	2005 Rupees
33. OTHER OPERATING INCOME			
Income from financial assets			
Interest income		**-**	12,026
Exchange gain on currency fluctuations		**-**	3,007,461
Income from non-financial assets			
Gain on sale of property, plant and equipment		**4,122,382**	4,774,824
Amortization of deferred gain	*13*	**5,121,508**	5,121,508
Balances written back		**1,723,001**	826,066
Provision for slow moving items written back		**-**	632,966
Scrap Sales		**893,152**	907,931
Others		**4,993,861**	2,052,847
		16,853,904	17,335,629
34. OTHER CHARGES			
Workers' Profit Participation Fund	*14.2*	**5,722,031**	4,009,961
Exchange loss on currency fluctuations		**1,570,322**	-
Workers' Welfare Fund		**2,105,133**	766,491
Central Research Fund			
Prior years		**-**	465,408
Current year		**1,087,186**	757,239
		1,087,186	1,222,647
		10,484,672	5,999,099

	2006 Rupees	2005 Rupees
35. TAXATION		
HNL		
Current		
for the year	**37,912,164**	14,825,366
for prior years	**(5,000,000)**	13,130,000
Deferred	**(8,150,291)**	(4,299,689)
DSL	**24,761,873**	23,655,677
Current		
for the year	**7,093,724**	6,124,289
for prior years	**(16,265)**	-
	7,077,459	6,124,289
	31,839,332	29,779,966

35.1 Reconciliation of tax charge for the year

Tax charge relating to DSL represents minimum turnover tax under the Income Tax Ordinance, 2001, hence consolidated numerical tax reconciliation has not been presented. Numerical reconciliation between the average effective tax rate and the applicable tax rate of HNL is as follows:

	2006	2005
Applicable tax rate	**35.00%**	35.00%
Tax effect of amounts that are not deductible for tax purposes	**18.56%**	26.43%
Tax effect of amounts that are deductible for tax purposes	**-17.77%**	-34.29%
Tax effect of amounts relating to prior years	**-4.98%**	17.70%
Tax effect of reversal of taxable temporary differences	**-8.11%**	-7.16%
Tax effect under presumptive tax regime	**1.94%**	-5.80%
	-10.36%	-3.12%
Average effective tax rate charged on income	**24.64%**	31.88%

36. EARNINGS PER SHARE - Basic and Diluted

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

		2006	2005
Profit after taxation	**Rupees**	**68,070,020**	34,503,913
Weighted average number of ordinary shares	**Numbers**	**13,065,410**	13,065,410
Earnings per share	**Rupees**	**5.21**	2.64

	2006 Rupees	2005 Rupees
37. AUDITORS' REMUNERATION		
Statutory audit	**450,000**	435,000
Fee for review of half year financial statements	**150,000**	125,000
Other services	**10,000**	10,000
Out of pocket	**65,000**	13,000
	675,000	583,000

37.1 Includes Rs. 135,000 (2005: Rs. 115,000) relating to Ford Rhodes Sidat Hyder & Co., Chartered Accountants, statutory auditors of subsidiary Company.

38. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

	2006			2005		
	Chief Executive	**Directors**	**Executives**	Chief Executive	Directors	Executives
	Rupees					
Managerial remuneration	**3,832,200**	**8,246,400**	**24,006,592**	3,520,200	7,985,400	19,563,647
House allowance	**720,000**	**1,440,000**	**9,602,637**	720,000	1,440,000	7,825,459
Provident fund	**319,368**	**341,364**	**1,818,524**	293,388	319,620	1,581,914
Gratuity	**1,496,225**	**1,698,392**	**4,621,768**	1,287,834	1,546,533	3,682,231
Bonus	**638,700**	**1,374,400**	**775,700**	293,350	665,450	1,602,932
Utilities	**521,669**	**1,678,757**	**2,400,659**	537,232	1,463,392	1,956,365
Medical	**46,422**	**1,971,885**	**1,018,412**	128,846	1,757,778	2,073,439
Others	**22,331**	**241,655**	**10,150**	9,999	78,791	203,800
	7,596,915	**16,992,853**	**44,254,442**	**6,790,849**	**15,256,964**	**38,489,787**
Number	**1**	**2**	**18**	**1**	**3**	**15**

- The Chief Executive, Directors and 13 Executives (2005: 13) have been provided with Company's maintained cars while 04 Executives (2005: 02) 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. 4,000 (2005: Rs. 3,000) paid to an independent non executive director for attending Board meetings.

39. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

	2006							
	Interest Bearing			Non-Interest Bearing			Sub-Total	Total
	Less than one year	One to five years	Sub-Total	Less than one year	One to five years	Over five years		
	Rupees							
Financial assets								
Long term deposits	-	-	-	-	-	2,939,054	2,939,054	**2,939,054**
Trade debts	-	-	-	33,374,855	-	-	33,374,855	**33,374,855**
Advances and deposits	-	-	-	5,631,862	-	-	5,631,862	**5,631,862**
Other receivables	-	-	-	45,527,278	-	-	45,527,278	**45,527,278**
Cash and bank balances	-	-	-	33,204,317	-	-	33,204,317	**33,204,317**
	-	**-**	**-**	**177,738,312**	**-**	**2,939,054**	**120,677,366**	**120,677,366**
Financial liabilities								
Long term liability	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	36,797,798	43,063,568	79,861,366	-	-	-	-	**79,861,366**
Trade and other payables	-	-	-	85,753,949	-	-	85,753,949	**85,753,949**
Markup payable on secured loans	-	-	-	6,853,445	-	-	6,853,445	**6,853,445**
Short term bank borrowings	297,629,722	-	297,629,722	-	-	-	-	**297,629,722**
	334,427,520	**43,063,568**	**377,491,088**	**92,607,394**	**-**	**-**	**92,607,394**	**470,098,482**
Excess of financial assets over financial liabilities	**(334,427,520)**	**(43,063,568)**	**(377,491,088)**	**25,130,918**	**-**	**2,939,054**	**28,069,972**	**(349,421,116)**
Off-balance sheet Items								
Bank guarantees	-	-	-	41,009,531	-	-	41,009,531	**41,009,531**
Irrevocable letters of credit	-	-	-	124,163,473	-	-	124,163,473	**124,163,473**
	-	**-**	**-**	**165,173,004**	**-**	**-**	**165,173,004**	**165,173,004**

	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	Over five years	Sub-Total	
	Rupees							
Financial assets:								
Long term deposits	-	-	-	483,316	-	1,128,449	1,611,765	1,611,765
Trade debts	401,694	-	401,694	34,242,256	-	-	34,242,256	34,643,950
Advances and deposits	-	-	-	5,061,405	-	-	5,061,405	5,061,405
Other receivables	-	-	-	85,376,191	-	-	85,376,191	85,376,191
Cash and bank balances	-	-	-	24,576,919	-	-	24,576,919	24,576,919
	401,694	**-**	**401,694**	**149,740,087**	**-**	**1,128,449**	**150,868,536**	**151,270,230**
Financial liabilities:								
Long term liability	-	-	-	16,743,530	-	-	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	74,704,892
Markup payable on secured loans	-	-	-	6,832,008	-	-	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**	**483,307,064**
Excess of financial assets over financial liabilities	**(346,709,856)**	**(37,915,084)**	**(384,624,940)**	**51,459,657**	**-**	**1,128,449**	**52,588,106**	**(332,036,834)**
Off-balance sheet Items								
Bank guarantees	-	-	-	40,798,000	-		40,798,000	40,798,000
Irrevocable letters of credit	-	-	-	80,062,161	-		80,062,161	80,062,161
	-	-	-	**120,860,161**	-		**120,860,161**	**120,860,161**

Effective interest rates for the monetary financial assets and liabilities are mentioned in the respective notes to the consolidated 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 39 and cash flow risk associated with accrued interests in respect of borrowings as referred to in Note 16.

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 minimise 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 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 are 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 all financial assets and liabilities reflected in the financial statements approximate their fair values.

40. RELATED PARTY TRANSACTIONS

The related parties and associated undertakings comprises associated companies, staff retirement funds, directors and key management personnel. Transactions with related parties and associated undertakings other then remuneration and benefits to key management personnel under the terms of employment are as follows. Amount

	2006 **Rupees**	2005 Rupees
40.1 Sale of goods		
Associate	**29,070,912**	7,059,994
40.2 Contribution towards employee benefits		
Staff provident fund	**18,017,718**	15,754,272
Employees' welfare trust	**2,215,900**	1,485,772

40.3 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:

	2006		
Name of Related Party, Relationship	**Market Price**	**Transaction Value**	**Price Difference**
	.... Rupees		
Muhammad Asadullah, Manager	**220,000**	**235,020**	**(15,020)**

The favorable impact net of tax on profit, equity and cash flows was Rs. 9,763.

	2005		
	Market Price	Transaction Value	Price Difference
	.... Rupees		
Baqar Hasan, Executive Director (Human Resource & Legal)	850,000	750,000	100,000
Dr. Saleem Akhter, Chief Manager	600,000	216,196	383,804
	1,450,000	966,196	483,804

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

41. DIVIDENDS

The Board of Directors of the Company in its meeting held on 02 April 2007 have proposed dividend at the rate of Rs.1.5 (2005: Rs. 1.5) per share and 15% bonus shares (2005: 15%) for the year ended 31 December 2006. These financial statements do not reflect these appropriation.

42. 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.

43. DATE OF AUTHORISATION OF ISSUE

The Board of Directors of HNL authorised the consolidated financial statements for issuance on 02 April 2007.

44. GENERAL

- Figures have been rounded off to the nearest rupee.
- Previous figures have been rearranged, where necessary for the purpose of comparison.
- Manpower training, previously shown as separate line items, has been now classified with Seminar, Symposia and training.
- No significant rearrangement or reclassification is made except as mentioned above.

ASLAM HAFIZ
CHIEF EXECUTIVE OFFICER

ANEES AHMAD KHAN
DIRECTOR

ANNUAL REPORT 2006 HIGHNOON LABORATORIES LIMITED

TRACK & TIE 7513000-3

HIGHNOON LABORATORIES LIMITED
17.5 Kilometer Multan Road, Lahore-53700, Pakistan
www.highnoon-labs.com