

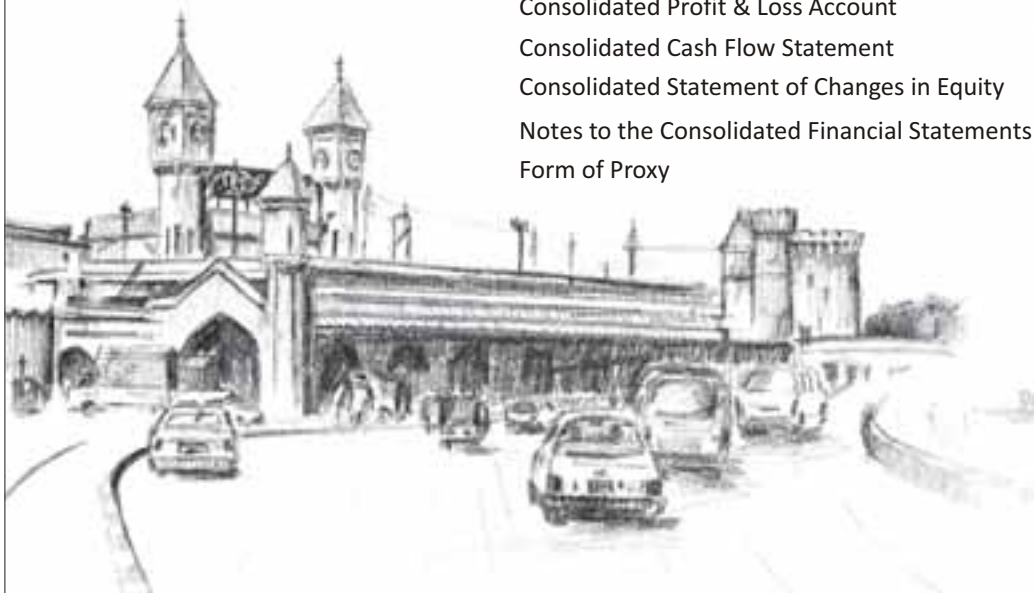
Annual Report 2007



HIGHNOON LABORATORIES LIMITED

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Lahore Railway Station
built in 1862



Lahore Museum
built in 1894

Company Information

Board of Directors

Mr. Jawaid Tariq Khan
(Chairman)

Mr. Tausif Ahmad Khan
(Vice Chairman)

Mr. Anees Ahmad Khan
(Vice Chairman)

Mr. Aslam Hafiz
(Chief Executive Officer)

Mr. Ghulam Hussain Khan
Mian Muhammad Ashraf
Mrs. Nosheen Riaz Khan
Mrs. Zainub Abbas

Chief Financial Officer

Mr. Javed Hussain
Tel: +92 (42) 7511953
Email: javed@highnoon.com.pk

Company Secretary

Mr. Khadim Hussain Mirza
Tel: +92 (42) 7510036
Email: khadim@highnoon.com.pk

Bankers

Habib Bank Limited
United Bank Limited
Faysal Bank Limited
National Bank of Pakistan
J.S. Bank Limited
Allied Bank Limited

Registered, Head Office & Plant

17.5 Kilometer Multan Road,
Lahore -53700, Pakistan.
Tel: +92 (42) 7510023-27
(5 Lines)
UAN: 111 000 465
Fax: +92 (42) 7510037
E-mail: info@highnoon.com.pk
URL: www.highnoon-labs.com

Legal Advisors

Raja Mohammad Akram & Company

Tax Advisors

Yousuf Islam & Associates

Auditors

KPMG Taseer Hadi & Company
Chartered Accountants

Shares Registrar

Corplink (Pvt) Ltd.
Wings Arcade,
1-K Commercial,
Model Town, Lahore.
Ph: +92 (42) 5839182, 5887262
Fax: +92 (42) 5869637

Board of Directors



Jawaid Tariq Khan
Chairman



Tausif Ahmad Khan
Vice Chairman



Anees Ahmad Khan
Vice Chairman



Aslam Hafiz
Chief Executive Officer



Ghulam Hussain Khan
Director



Mian Muhammad Ashraf
Director



Nosheen Riaz Khan
Director



Zainub Abbas
Director



Javed Hussain
Chief Financial Officer



Khadim Hussain Mirza
Company Secretary

Committees

AUDIT COMMITTEE



- | | | |
|----|--------------------------|-----------|
| 1. | Mr. Jawaid Tariq Khan | Chairman |
| 2. | Mian Muhammad Ashraf | Member |
| 3. | Mr. Ghulam Hussain Khan | Member |
| 4. | Mr. Khadim Hussain Mirza | Secretary |

EXECUTIVE COMMITTEE



- | | | |
|---|--|-----------------------|
| 1 | Mr. Aslam Hafiz
CEO / MD | Chairman |
| 2 | Mr. Javed Hussain
EDF / CFO | Member |
| 3 | Mr. Baqar Hasan
ED (Supply Chain, Legal & RA) | Member /
Secretary |
| 4 | Dr. Ahmad Atif Mirza
ED (Medical, R&D) | Member |
| 5 | Dr. M. Ajmal Nasir
ED (Technical) | Member |
| 6 | Mr. Nadeem ud din Rehmani
GM (Marketing) | Member |
| 7 | Dr. Adeel Abbas
GM (Marketing) | Member |

I. T. STEERING COMMITTEE



- | | | |
|---|--------------------------------------|-----------------------|
| 1 | Mr. Aslam Hafiz
CEO / MD | Chairman |
| 2 | Mr. Javed Hussain
EDF / CFO | Member |
| 3 | Mr. Baqar Hasan
ED (SC, L&RA) | Member |
| 4 | Dr. M. Ajmal Nasir
ED (Technical) | Member |
| 5 | Mr. Muhammad Ilyas
SM (I.T) | Member /
Secretary |

Executive Committee

Aslam Hafiz
Chief Executive Officer /
Managing Director



Dr. Ahmad Atif Mirza
Executive Director
(Medical, R&D)

Javed Hussain
Executive Director Finance /
Chief Financial Officer

Baqar Hasan
Executive Director
(Supply Chain, Legal & RA)

Dr. Adeel Abbas
General Manager (Marketing)

Nadeem ud din Rehmani
General Manager (Marketing)

Dr. M. Ajmal Nasir
Executive Director
(Technical)



University of the Punjab - Old Campus
built in 1905

Notice of Annual General Meeting

NOTICE is hereby given that 25th Annual General Meeting of Highnoon Laboratories Limited will be held on Thursday, March 27, 2008 at 10.30 a.m. at Registered Office, 17.5 Kilometer, Multan Road, Lahore to transact the following business:

1. To confirm minutes of last Annual General Meeting held on April 26, 2007.
2. To receive, consider and adopt the audited financial statements of the Company for the year ended December 31, 2007 together with Directors' and Auditors' reports thereon.
3. To consider and approve payment of Cash Dividend at the rate of twenty five percent which includes ten percent interim dividend already paid and issue of Bonus Shares at the rate of ten percent to the shareholders as recommended by the Board of Directors.
4. To appoint Auditors and fix their remuneration for the year ending December 31, 2008. The present Auditors, KPMG Taseer Hadi & Company, Chartered Accountants retire and being eligible offer themselves for re-appointment. The Board of Directors on recommendation of the Audit Committee has proposed appointment of KPMG Taseer Hadi & Company, Chartered Accountants.
5. To discuss any other business with the permission of the Chair.

Lahore
March 04, 2008

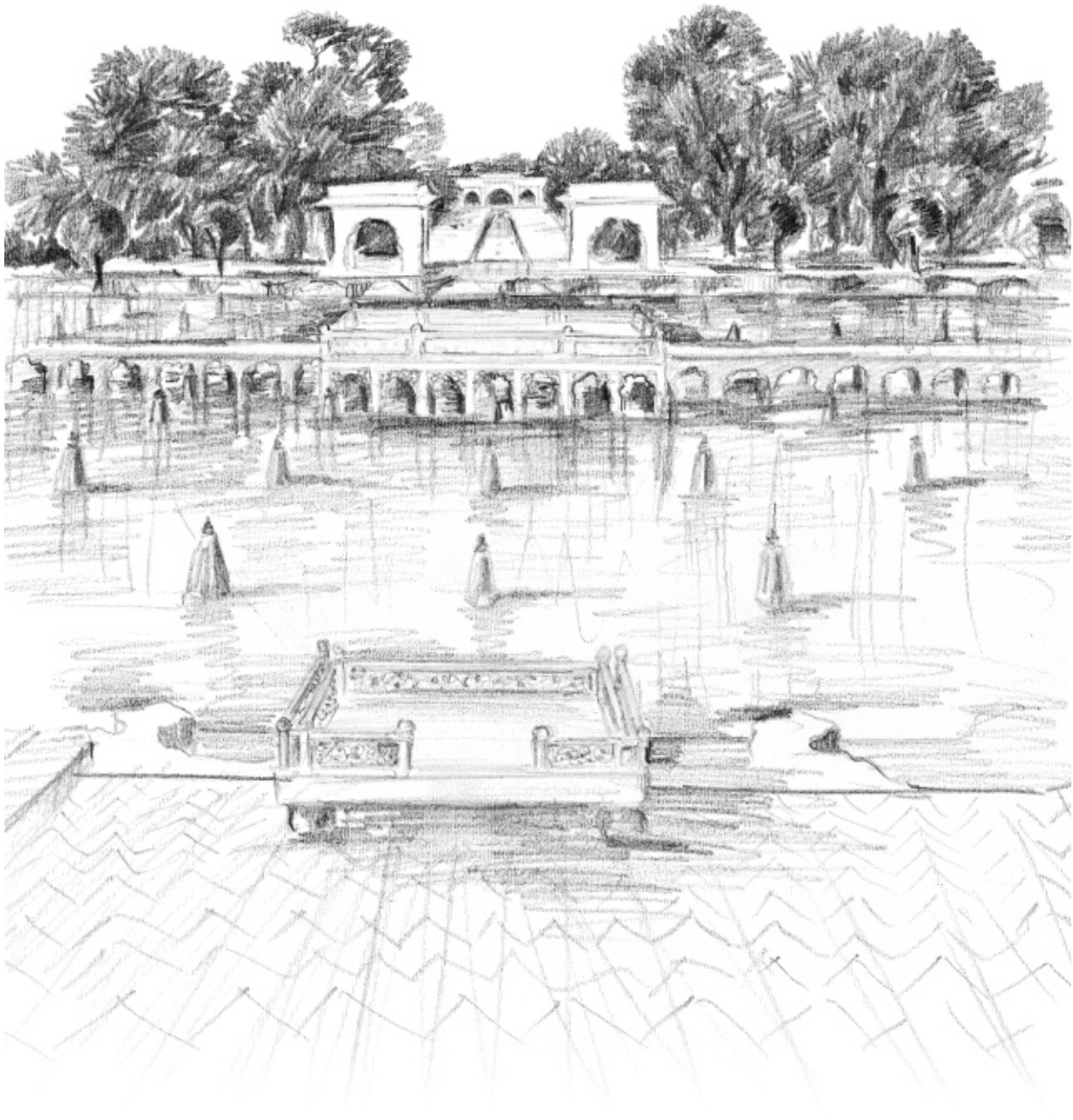
By order of the Board

KHADIM HUSSAIN MIRZA
Company Secretary

Notes:

1. Share transfer books of the Company will remain closed from March 22, 2008 to March 31, 2008 (both days inclusive). Transfer received at Corplink (Pvt) Limited, Wings Arcade, 1-K Commercial, Model Town, Lahore, the Registrar of the Company by the close of business on March 21, 2008 will be treated in time for the entitlement of payout.
2. A member entitled to attend and vote at this meeting may appoint another member as proxy to attend and vote instead of him. The instrument of proxy must be received at the Registered Office of the Company, 17.5 K.M. Multan Road, Lahore not less than 48 hours before the time of holding the meeting.
3. The shareholders are requested to immediately notify the change in address, if any and provide a photocopy of their CNICs to complete the shareholders data as per requirement of the Securities & Exchange Commission of Pakistan, if not yet provided .
4. CDC shareholders are requested to bring with them their CNICs, Participants' ID numbers and their account numbers at the time of attending the Annual General Meeting in order to facilitate identification. In case of corporate entity, a certified copy of the resolution passed by the Board of Directors / valid Power of Attorney with specimen signatures of the nominee be produced at the time of meeting.

Vision Mission & Core Values



Shalimar Gardens
built in 1641

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.

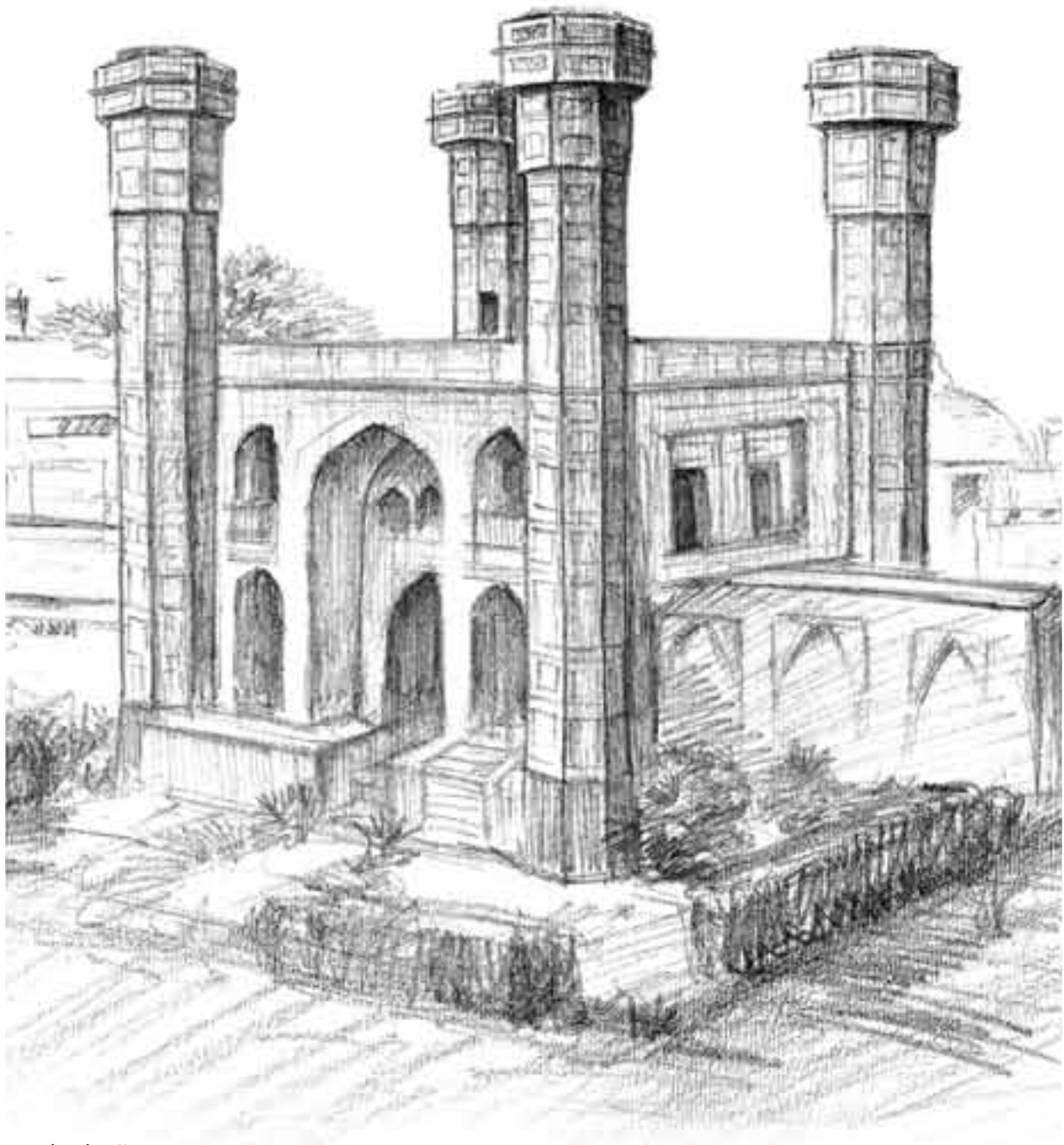
“Highnoon for a Healthier Nation”



General Post Office
built in 1887

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.



Chauburji
built in 1646

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 decisions 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.



Wazir Khan Mosque
built in 1635

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 To The Shareholders

The Directors feel 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 2007.

Financial Highlights of the Company	2007	2006
	(Rupees in Thousands)	
Profit before tax	122,265	100,487
Taxation	(21,341)	(24,762)
Profit after tax	100,924	75,725
Un-appropriated profit brought forward	131,126	80,472
Transfer from surplus on revaluation of fixed assets	8,112	9,013
Profit available for appropriation	240,161	165,210
Appropriations:		
Final dividend for financial year 2006 @ Rs. 1.5 per share (2005: @ Rs. 1.5 per share)	(19,599)	(17,042)
Bonus Shares for financial year 2006 @ 15% (2005: 15%)	(19,598)	(17,042)
Interim cash dividend @ Rs. 1.0 per share for the financial year 2007 (2006: NIL)	(15,025)	-
	185,940	131,126
 Financial highlights of the Group		
Profit before tax	97,022	99,909
Taxation	(29,892)	(31,839)
Profit after tax	67,130	68,070
Un-appropriated profit brought forward	89,418	46,418
Transfer from surplus on revaluation of fixed assets	8,112	9,013
Profit available for appropriation	164,660	123,501
Appropriations:		
Final dividend for financial year 2006 @ Rs. 1.5 per share (2005: @ Rs. 1.5 per share)	(19,599)	(17,042)
Bonus Shares for financial year 2006 @ 15% (2005: 15%)	(19,598)	(17,042)
Interim cash dividend @ Rs. 1.0 per share for the financial year 2007 (2006: NIL)	(15,025)	-
	110,438	89,417

EARNINGS PER SHARE

Based on net profit for the year ended 31 December 2007, the earnings per share (EPS) was Rs. 6.72 depicting an increase of 33.28 percent as compared to the last year, however, on the basis of consolidated results EPS stands at Rs. 4.47.

DIVIDEND ANNOUNCEMENT

The Board of Directors of the Company has recommended cash dividend of Rs. 2.5 per share (2006: Rs. 1.5 per share) and bonus share at the rate of 10 percent (2006: fifteen percent) for the financial year ended 31 December 2007 for consideration and approval by the shareholders in the Annual General Meeting. This includes interim cash dividend of Rs. 1.00 per share already paid.

PATTERN OF SHAREHOLDING

The pattern of shareholding along with categories of shareholders as at 31 December 2007 as required under Section 236 of the Companies Ordinance 1984 and listing regulations has been presented on Page 34 of the Annual Report 2007.

BOARD OF DIRECTORS AND THEIR ATTENDANCE AT MEETINGS

The Board comprises of eight directors consisting of five non-executive and three executive directors. There is no change in the Board of Directors except Mian Muhammad Ashraf who has been appointed by the Board in a meeting held on 11 February 2008 against the casual vacancy occurring due to the demise of Agha Fasih-ud-din Khan.

Agha Fasih-ud-din Khan an ex-President of Habib Bank Limited was an institution in himself. His association with Highnoon started five years ago when he joined the Board of Directors of Highnoon. His contribution towards deliberations of meetings of the Board were of great wisdom & benefits to the Company. The Board appreciates the services rendered by Agha Fasih-ud-din Khan and prays that Almighty Allah may rest the departed soul in eternal peace and grant courage and patience to the bereaved family to bear this irreparable loss.

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

S.No.	M E M B E R S	ATTENDANCE
1.	Mr. Jawaid Tariq Khan	04
2.	Mr. Tausif Ahmad Khan	04
3.	Mr. Anees Ahmad Khan	04
4.	Mr. Aslam Hafiz	04
5.	Mr. Ghulam Hussain Khan	04
6.	Agha Fasih Ud Din Khan	03
7.	Mrs. Nosheen Riaz Khan	04
8.	Mrs. Zainub Abbas	04

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

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.

AUDIT COMMITTEE

An Audit Committee has been in existence since enforcement of the Code of Corporate Governance. It comprises of three members including the Chairman. All the members are non-executive directors. On 11 February 2008, the Board of Directors nominated Mian Muhammad Ashraf, as Member in place of Agha Fasih-ud-din Khan.

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, Mr. G.H. Khan, director of the Company gifted =25,000= shares to his son for adjustment of family holding.

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 they have offered their services as auditor of the Company for the financial year 2008. 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 statutory 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 2007 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 three 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 / DFIs 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 2007 was Rs. 80.202 million as compared to audited figures as at 31 December 2006 of Rs. 70.163 million.
13. Key financial data for the last six periods as an investors' guide is annexed to the Directors' Report.

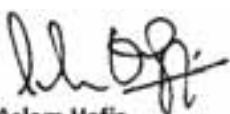
WEB PRESENCE

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 forms part of the Directors' Report.

For and on behalf of the Board



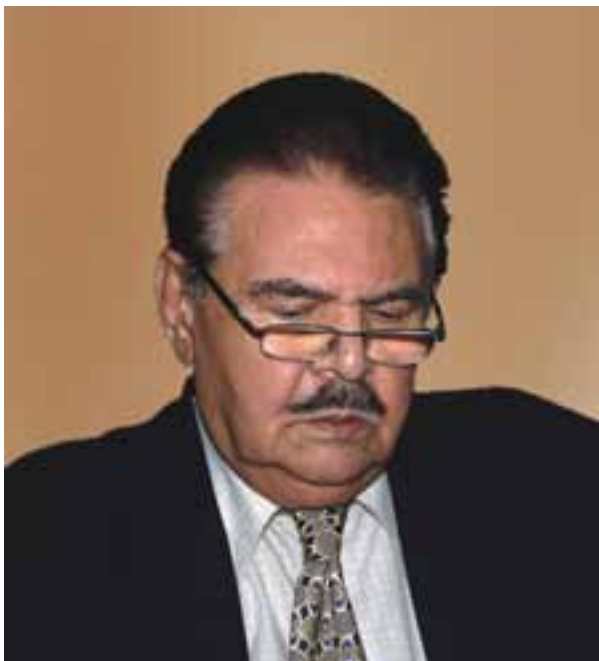
Aslam Hafiz
Chief Executive Officer

Lahore: 28 February 2008



Govt. College University
built in 1864

Chairman's Review

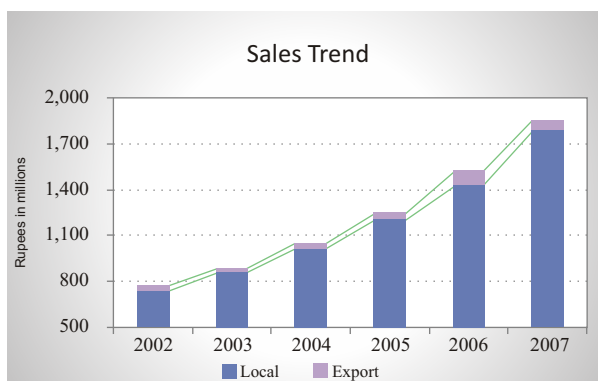


Ladies and Gentlemen,

It is a pleasure for me to present the Annual Performance Review of the Company along with the Audited Financial Statements and Auditors' Report for the year ended December 31, 2007.

Performance Overview

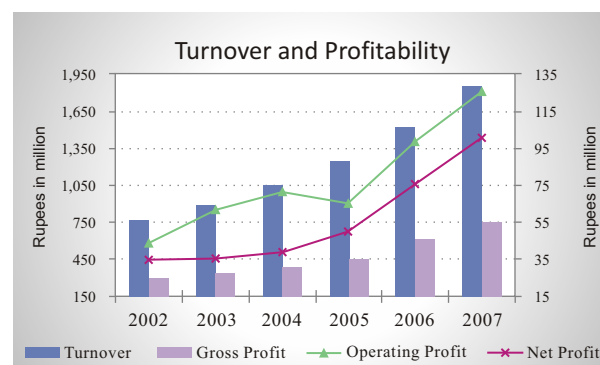
I am delighted to report that the year 2007 was yet again a year of handsome growth for your Company. Despite an uncertain politico-economic environment and disturbed law and order situation, especially during the later half of the year, we recorded a growth of 21.36% in sales revenue (2006: 22.18%) to reach a turnover of Rs.1.852 billion (2006: Rs. 1.526 billion). More



importantly, the growth in net profit far exceeded sales growth to reach Rs. 100.92 million (2006: Rs. 75.72 million). Given the unprecedented inflationary pressure and weakness of Pak Rupee against major currencies of the world witnessed during the year and no price increase allowed by the Government, this achievement speaks volumes about the efficiency and effectiveness of the overall operation of the Company.

During 2007, your Company's sales growth once again outpaced the overall pharmaceutical industry growth, propelling Highnoon to become the 12th largest pharmaceutical company in Pakistan (14th in 2006).

I take this opportunity to congratulate every member of the Highnoon family for making this outstanding achievement.



Products & Marketing

Persistent emphasis on rapid growth of sales enabled your Company to improve its market share to 1.97% (2006: 1.85%). Significantly, this growth was as much an outcome of effective life-cycle management of the older product portfolio, as it was of the aggressive marketing of the newer brands.

During the course of the year, two of our leading older brands, namely Duphalac and Tres Orix Forte, moved into the ranks of top 100 pharmaceutical brands of Pakistan. At the same time, two of our recently launched brands, namely Neupentin and Pidogrel, were ranked among the 10 most successful launches of the industry.

The Company reinforced its position in diabetes and the broader Cardio-Metabolic Syndrome market by introducing two new products i.e. Pycotos, an oral

anti-diabetic agent, and Fabecal, an anti-obesity drug. Launch of these new products as also the introduction of line extensions of the already established brands has placed Highnoon in a unique position of having the most complete product range in this category, ranging from human insulin (Dongsulin) to oral anti-diabetics (Nelizig,



Nelizamet, and Pycetos) to cholesterol lowering agent (Lipirex) and anti-obesity drug (Fabecal). The Company continues to look at this segment as its most important growth driver and will continue to allocate major resources to its development.

Antibiotics was the other major area in which new products were introduced by the Company during 2007. First among these was the launch of Prepenem, an injectable antibiotic especially suited for difficult to treat post surgical infections. This was followed by the introduction of Oxaquin, a new oral fluoro-quinolone for the treatment of upper and lower respiratory tract infections.



The year 2007 was also significant in that the Company took the initiative to utilize state-of-the-art information technology for Planning, Managing and Control of its field sales operation. First phase of this initiative comprising of systems analysis and evaluation of available technologies has been completed and we expect implementation of the selected Electronic Territory Management System (ETMS) to get completed during 2008. With this implementation, Highnoon will become the first national pharmaceutical company in Pakistan to equip its sales force to use information technology for improving effectiveness and productivity.

Business Development & Regulatory Approvals

Since our founding in 1984, we have pursued a multi-layered growth strategy that is fueled by a combination of internal product development, strategic alliances and collaborations, and synergistic acquisitions of products. We made advances on all of these strategic fronts this year, most notably by concluding the acquisition of trade mark for SKILAX from Almirall Prodesfarma, Spain.



In the area of forming alliances, the Company in 2006 acquired manufacturing and marketing technologies of a whole range of anti-asthma products utilizing a novel drug delivery system from a world leader in this area, Cipla. After intensive spade work during 2007, we are on the threshold of launching this range by the end of first quarter of 2008. Needless to add, this launch will enable Highnoon to enter yet another new market segment.



We have set ambitious goals for our product development capabilities because we believe this is one of the cornerstones for growing our overall business in the long-term. We remain solidly on track in building a focused and strategic portfolio of products and I am pleased to report that in 2007, the company obtained regulatory approvals of following products in diversified therapeutic groups. Most of these are planned to be launched in year 2008:

- Hitecxin ACT, Hisunate 100 and Artecxin for treatment of malaria particularly for resistant falciparum malaria
- Hilin, a new approach for the management of neurological disorder
- Pycetomet (Pioglitazone + metformine HCl) - combination oral hypoglycemic therapy for the management of diabetes
- Rosulin (Rosuvastatin) , Lipirex Z (Ezetimibe + Atorvastatine) and Preveze S (Ezetimibe + simvastatine) for management of hyper lipidaemia
- Anti migraine Zoltryp (Zolmitriptan).

Manufacturing & Technology

Implementation was initiated on the expansion and cGMP improvement plan which was finalized in 2006. Major steps taken so far include:

- Acquisition and commissioning of 2 new fully automatic labeling machines of US origin.



- Acquisition of 2 new German blister packing machines and four cartonating machines of Italian origin which now await commissioning.



- Complete revamping of solid dosage form packaging area, now nearing completion. This includes installation of internationally accepted Modular Partitioning System in the area and up-gradation of HVAC.
- Acquisition and commissioning of most modern HPLCs and Dissolution Apparatus to enhance QC capabilities.



- Completion and commissioning of Industrial High Tension Panel to cater to the growing electrical power needs of the Company.



Other elements of the expansion plan including upgrading of Water System and HVAC improvement in solids manufacturing area are expected to get completed by the end of first half of 2008.

Recognizing the ever growing need for strengthening the Quality Systems, your Company has decided to build a completely separate block to house its Quality Operation function. This step will enable the Company to cater to increasing space requirement for:

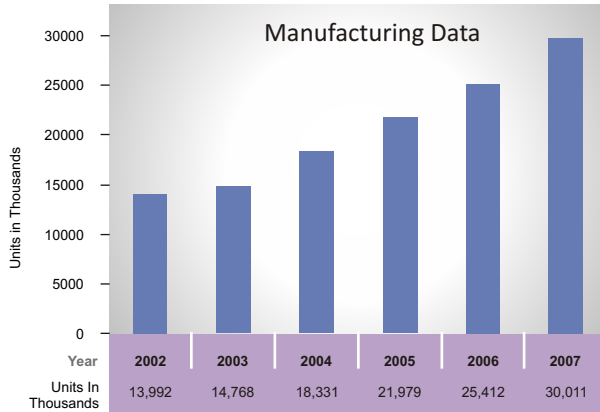
- Quality Control Laboratories;
- Stability testing facilities; and
- Product Development Laboratories.

Ground breaking of this new block is expected to take place by the middle of 2008, and its completion will enable Highnoon to meet internationally recognized standards of quality operations.

We continued to work on productivity and yield improvement in our manufacturing operation enabling us to successfully meet the increasing market demand. During 2007, our production volume increased by 18% to reach 30.01 million units. With the aim of improving productivity and reducing manufacturing cost, we enhanced the batch sizes of 20 of our fast moving products, thus enabling us to significantly cut down on idle change-over time and attain economies of scale.

Another achievement in our manufacturing area was signing of a toll manufacturing agreement with OBS

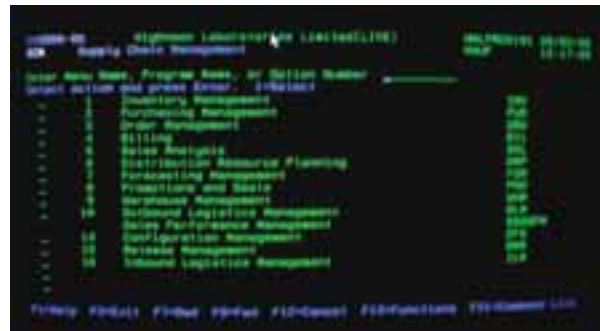
Health Care (formerly Organon) for contract manufacturing of one of their products. This, no doubt, is another indicator of the esteem at which the industry



places our manufacturing capability.

Supply Chain Management

The Company, being fully cognizant of the significance of effective Supply Chain Management, embarked on plan to integrate the various elements of supply chain into a single function. Today, I am pleased to inform you that Production Planning, Purchasing (Local &



Imported) and (logistics) Ware Houses Management have been fully integrated under one head. Restructuring of the Supply Chain Function coupled with effective utilization of our ERP System is already paying rich dividends in the shape of optimizing inventory turns and more efficient utilization of available capacities.

Human Resource Development

Highnoon always considers its Human Resource as its biggest asset. Be it the workers at the shop floor or its strong field force or its capable supervisors and managers, all are aligned to play their respective roles

to bring success to Highnoon. We believe in investing on Human Capital, so vital for the continued growth



and development of the Company.

In line with business objectives of fast track growth in Sales and profitability, it becomes even more important to keep the team motivated and geared for excellence. To achieve this end the company announced 'Tigers of Highnoon'. Twenty Star Performers of the sales team were declared as Tigers of Highnoon. They were given Cars as recognition of their consistent efforts in company growth. Later in the year a comprehensive Assessment Centre was conducted to identify the development needs of 'Tigers of Highnoon'. The Assessment Centre was a joint effort of Human Resource, Sales Training and Marketing departments. Case studies, group discussions



and presentations were used as assessment tools. Human Resource Department also started 'Accolade of the Month' program for sales force. Accolade of the month is a forum for communication and recognition. Eight Top Sales Representatives from all over the country are invited to the Head Office every month, where they apprise top management of their achievements and give their suggestions on improving

business. At the same time, the senior management briefs them about company's current performance and future plans, thus creating an environment of greater involvement and high level of motivation for the field force.



Corporate Awards

Highnoon Laboratories Limited has been awarded best Achievement Award in Pharmaceutical sector for the year 2006 by the Lahore Chamber of Commerce and Industry. Prime Minister of Pakistan, Mr. Shaukat Aziz gave away the award to Mr. Anees Ahmad Khan, Vice Chairman of the Company.

A joint evaluation committee of Institute of Chartered



Accountants of Pakistan and Institute of Cost and Management Accountants of Pakistan declared Annual Report of the Company for the year ended 31 December, 2006 as 5th best Corporate Report among listed companies in the Chemical & Fertilizer sector. Highnoon is the proud recipient of the award for third consecutive time and is the only company in the pharmaceutical sector to receive the award in 2007.



Corporate Social Responsibility

We maintain our twin commitment of being responsive and a socially responsible organization.

Highnoon remains dedicated to act in a socially responsible way and has demonstrated this by actively participating in social development initiatives and philanthropic activities.



The company supports Punjab Institute of Cardiology (PIC), Fatimid Foundation, Care Foundation, Government College University Endowment Trust, University of the Punjab (College of Pharmacy) Lahore University of Management Sciences (LUMS), Lahore Zoological Gardens and numerous other institutions in whatever small way it can.

In addition Highnoon family members are also aspiring blood donors for Children suffering from thalassaemia and other blood related disorders.



Environment, Health & Safety

Efficient and effective management of environment, health and safety is a multi-faceted challenge that spans products, services and activities. Environment, Health & Safety considerations are integral elements of any informed business decision and they contribute to our competitiveness and reputation with our employees, our customers and other stakeholders.



Future Outlook

Politico-economic uncertainties coupled with disturbed law and order situation in the country seriously affected the business activity during most of 2007. Unfortunately, we have started the new year in same circumstances and one hopes that the impending formation of the new Government will usher stability in the country and put back our economy on the path of growth.

Being part of the pharmaceutical industry, our business in terms of growth as well as profitability is affected more severely compared to any other sector during unstable economic environment for a number of reasons:

- We are almost entirely dependent on imported raw material. Hence, falling value of Pak Rupee against major currencies, as is the case right now, directly impact our gross profits.
- Being strictly regulated to maintain international standards of quality and cGMP, we have to continually invest on extremely expensive modern technologies, as Highnoon is doing right now. This, once again gets built into our production cost, hence impacts gross profits.
- Operating in a price control environment, we are unable to adjust our selling prices to lessen the burden of inflation and cost escalation.

In this background, it is important to note that the last price increase allowed by the Government was way back in December 2001, and this too was in the range of 3% to 4%. Since then, the cost of inputs has increased manifolds without the industry getting any relief.

Up to now, Highnoon has been able to maintain its profitability through bringing in economies of scale, productivity improvement, more efficient and cost effective operation and steady introduction of new products. Some relaxation on price control on the part of the Government is, however, necessary if we are to sustain growth and profitability. We, on our part will continue to use every possible forum to convince the Authorities for allowing price revision of pharmaceuticals.

Notwithstanding the above, Highnoon will continue to maintain a positive and optimistic outlook for the future which is evident from our on-going investment plans and growth projections. For the year 2008, we are once again targeting double digit growth in both sales and profits, and I am confident that every member of the Highnoon family will do his or her utmost to turn this objective into reality.

Acknowledgments

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**

**Jawaid Tariq Khan
Chairman**

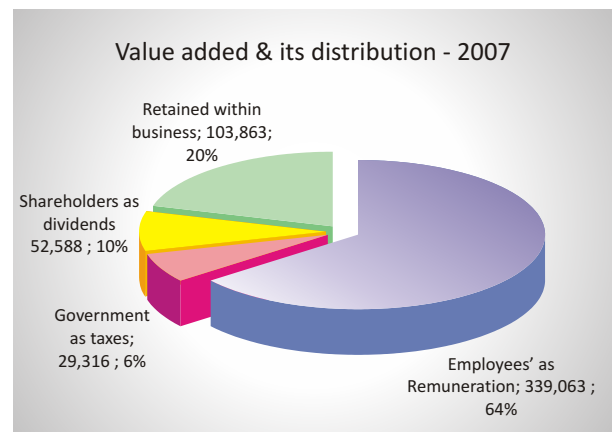
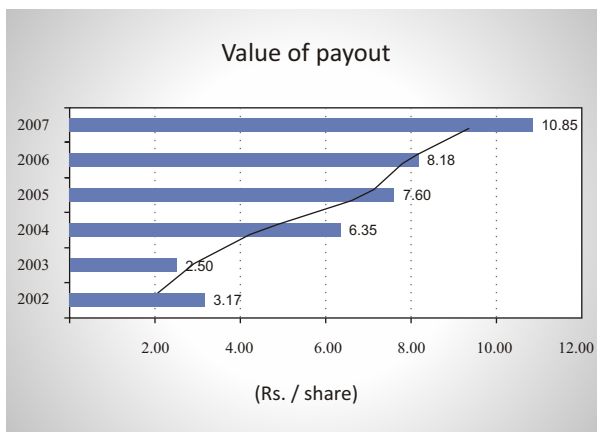
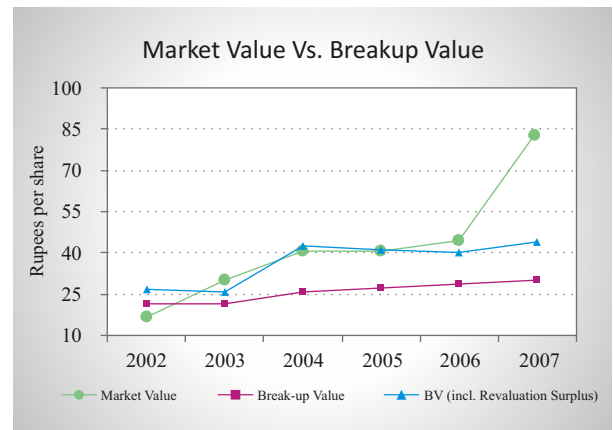
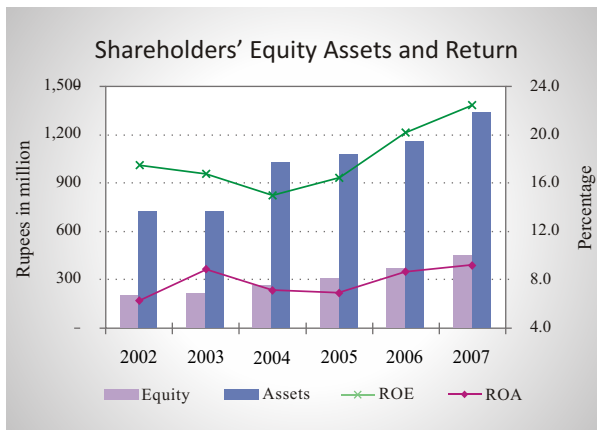
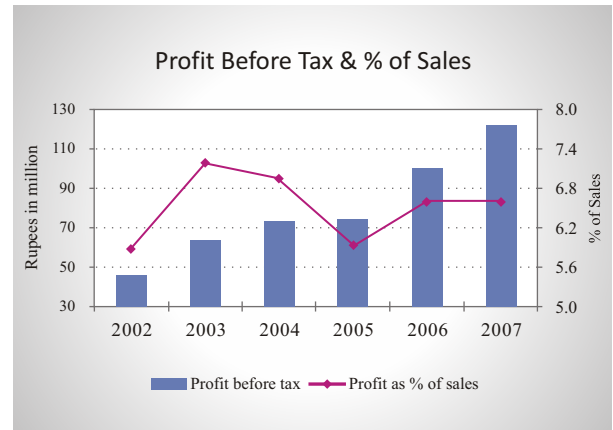
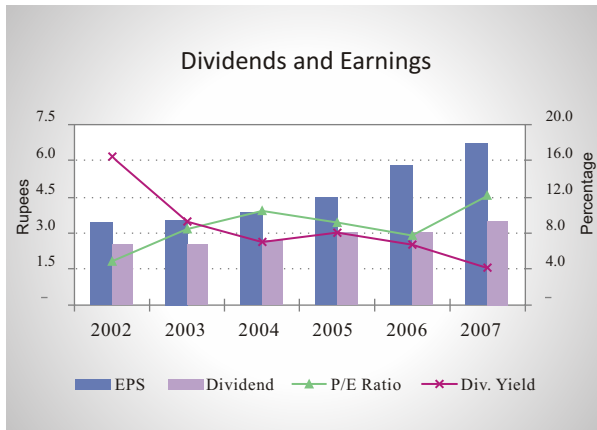
Lahore: 28 February 2008

Six Years at a Glance

		2007	2006	2005	2004	2003	2002
Rupees in '000							
Trading Results							
Sales - Net		1,851,718	1,525,692	1,248,717	1,050,087	885,175	776,527
Gross Profit		755,409	616,506	451,054	384,310	338,363	298,752
Operating Profit		125,675	99,014	65,412	71,650	62,102	44,013
Profit before Tax		122,265	100,487	74,200	72,922	63,517	45,666
Net profit after Tax		100,924	75,725	50,544	39,321	36,052	34,877
Balance Sheet							
Share Capital		150,252	130,654	113,612	101,440	101,440	92,218
Reserves		299,940	245,127	194,472	161,205	114,405	107,629
Operating Fixed Assets		564,711	500,804	507,876	515,227	323,630	312,138
Non Current Assets		119,384	76,421	65,573	74,193	2,757	518
Net Working Capital		192,212	137,181	76,590	62,976	58,162	44,278
Long Term Liabilities		86,182	40,881	31,527	71,390	38,643	47,047
Deferred Liabilities		131,672	149,295	131,086	128,108	65,923	56,512
Investor Information							
Sales Growth	%	21.36	22.18	18.92	18.63	13.99	12.97
Gross Profit Growth	%	22.53	36.68	17.37	13.58	13.26	25.49
Pre Tax Profit Growth	%	21.67	35.43	1.75	14.81	39.09	39.60
Net Profit After Tax Growth	%	33.28	49.82	28.54	9.07	3.37	63.60
Gross Profit Ratio	%	40.80	40.41	36.12	36.60	38.23	38.47
Operating Profit Ratio	%	6.79	6.49	5.24	6.82	7.02	5.67
Profit before Tax Ratio	%	6.60	6.59	5.94	6.94	7.18	5.88
Profit after Tax Ratio	%	5.45	4.96	4.05	3.74	4.07	4.49
Return on Equity	%	22.42	20.15	16.41	14.97	16.70	17.45
Return on Capital Employed	%	18.82	18.17	14.88	11.77	14.17	14.13
Inventory Turnover	Days	130	129	126	138	150	156
Assets Turnover	Times	1.38	1.32	1.16	1.02	1.23	1.07
Fixed Assets Turnover	Times	2.79	2.75	2.26	1.78	2.72	2.49
Return on Assets	%	9.13	8.69	6.88	7.08	8.86	6.29
Long term debt : Equity Ratio		16:84	10:90	09:91	21:79	15:85	19:81
Current Ratio		1.42	1.31	1.18	1.17	1.18	1.12
Financial Charges Coverage	Times	3.86	3.62	3.22	4.32	2.99	2.02
Dividend	Rs./Share	2.50 *	1.50 *	1.50 *	1.50 *	2.50	1.50
Bonus	%	10.00 *	15.00 *	15.00 *	12.00 *	-	10.00
Payout Ratio (after tax)	%	52.11	51.76	67.43	69.65	70.34	66.10
Dividend Yield	%	4.19	6.74	7.95	6.99	9.24	16.50
Earnings Per Share (after tax)	Rs./Share	6.72	5.80	4.45	3.88	3.55	3.44
Price Earning Ratio		12.43	7.67	9.13	10.41	8.48	4.85
Break-up Value	Rs./Share	29.96	28.76	27.12	25.89	21.28	21.67
Market Price - Year End	Rs./Share	83.50	44.50	40.65	40.40	30.10	16.70
Market Price - High	Rs./Share	94.55	52.20	46.45	46.75	39.30	18.30
Market Price - Low	Rs./Share	49.50	37.90	29.00	30.50	14.80	12.00
Market Price - Average	Rs./Share	75.54	45.05	37.73	38.63	27.05	15.15

* Post Balance Sheet Event except for interim dividend

Performance Overview



VALUE ADDED AND ITS DISTRIBUTION

Employee as Remuneration
 Government as taxes
 Shareholders as dividend
 Retained within business

2007
 Rupees in `000

339,063
29,316
52,588
103,863

2006
 Rupees in `000

293,973
28,980
39,196
94,323

Pattern of Shareholding

No of shareholders	Shareholdings			Total shares held
	From		To	
1277	1	-	100	54515
921	101	-	500	235828
595	501	-	1000	443616
327	1001	-	5000	756299
78	5001	-	10000	562329
28	10001	-	15000	332528
10	15001	-	20000	169076
9	20001	-	25000	206619
7	25001	-	30000	192524
2	30001	-	35000	64475
3	35001	-	40000	107460
1	40001	-	45000	45000
2	45001	-	50000	95475
2	50001	-	60000	112150
1	60001	-	80000	74117
1	80001	-	95000	90938
3	95001	-	110000	301195
1	110001	-	120000	117965
2	120001	-	130000	252902
2	130001	-	150000	281456
2	150001	-	200000	318718
2	200001	-	250000	439100
1	250001	-	350000	311199
2	350001	-	400000	773910
2	400001	-	700000	1116444
1	700001	-	900000	858594
1	900001	-	1000000	931493
1	1000001	-	1300000	1252378
1	1300001	-	1400000	1317301
1	1400001	-	1600000	1502539
1	1600001	-	1800000	1707078
3287				15025221

Categories of shareholders	No. of shareholders	Shares held	Percentage
Directors, CEO and their spouse & minor children			
Mr. Jawaid Tariq Khan	1	931493	6.20
Mr. Tausif Ahmad Khan	1	1502539	10.00
Mr. Anees Ahmad Khan	1	311199	2.07
Mr. Ghulam Hussain Khan	1	507723	3.38
Agha Fasih ud din Khan	1	814	0.01
Mrs. Zainub Abbas	1	1135	0.01
Mrs. Nosheen Riaz Khan	1	858594	5.71
Mr. Tauqir Ahmad Khan	1	1707078	11.36
Mr. Taufiq Ahmad Khan	1	1317301	8.77
Mrs. Huma Hussain	1	118763	0.79
Associated Companies, undertakings and related parties	-	-	-
NIT and ICP			
National Bank of Pakistan (Trustee Deptt.)	1	773910	5.15
Banks, Development Financial Institutions, Non Banking Financial Institutions. Joint Stock Companies & Trusts	60	568377	3.78
Insurance Companies	4	622891	4.15
Modarabas and Mutual Funds	5	167195	1.11
Share holders holding 10%	-	-	-
Non-Resident Companies	2	1265128	8.42
General Public			
a. Local	3189	4183655	27.84
b. Foreign	16	187426	1.25
Others	-	-	-
	3287	15025221	100.00

Highnoon Laboratories Limited is listed on all the three Stock Exchanges of the country and its shares are being traded under Stock Code "HINOON". Summary of month wise share price (opening - closing - high - low - average) along with volume of shares traded during each month is given hereunder:

TRADING DURING THE YEAR 2007

Months	Opening	Closing	High	Low	Average	Total Turnover
Jan-07	51.50	55.75	56.80	49.50	53.15	658,500
Feb-07	55.75	54.70	58.55	54.30	56.43	298,000
Mar-07	54.70	54.00	57.50	52.80	55.15	204,500
Apr-07	54.00	64.05	66.85	50.80	58.70	1,149,500
May-07	64.05	75.80	78.00	60.50	69.25	833,000
Jun-07	75.80	85.00	89.70	71.00	80.35	1,198,000
Jul-07	85.00	78.00	85.00	70.70	77.85	331,900
Aug-07	78.00	68.40	77.95	64.60	71.28	185,600
Sep-07	68.40	73.40	74.00	65.00	69.50	119,900
Oct-07	73.40	76.65	80.50	71.40	75.95	674,100
Nov-07	76.65	86.90	94.55	73.30	83.93	3,164,200
Dec-07	86.90	83.50	94.25	83.50	88.88	952,100

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

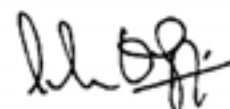
This Statement is being presented to comply with the Code of Corporate Governance contained in the listing regulations of Karachi, Lahore and Islamabad Stock Exchanges for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices 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 three executive directors and five 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 a NBFIs or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. The Company has prepared a 'Statement of Ethics and Business Practices', which has been signed by all the directors and employees of the Company.
5. 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.
6. 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.
7. 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.
8. The Board arranged an orientation course for its directors to remind them of their duties and responsibilities.
9. The Company Secretary was appointed prior to the implementation of the Code of Corporate Governance. Chief Financial Officer has been appointed in place of retiring CFO fulfils the requirements as mandated by the Code of Corporate Governance. The appointment of Head of Internal Audit, his remuneration and other terms and conditions have been approved by the Board of Directors as determined by the CEO.

10. 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.
11. The financial statements of the Company were duly endorsed by CEO and CFO before approval of the Board.
12. 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.
13. The Company has complied with all the corporate and financial reporting requirements of the Code.
14. The Board has formed an Audit Committee. It comprises of three members, of who are non-executive directors.
15. 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 as required by the Code. The terms of reference of the Committee have been fully complied with.
16. 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.
17. 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.
18. 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.
19. 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: 28 February 2008

Review Report to the Members on Statement of Compliance with Best Practices of the Code of Corporate Governance

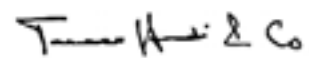
We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of Highnoon Laboratories Limited (the Company) to comply with the Listing Regulations of the respective Stock Exchanges, where the Company is listed.

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.

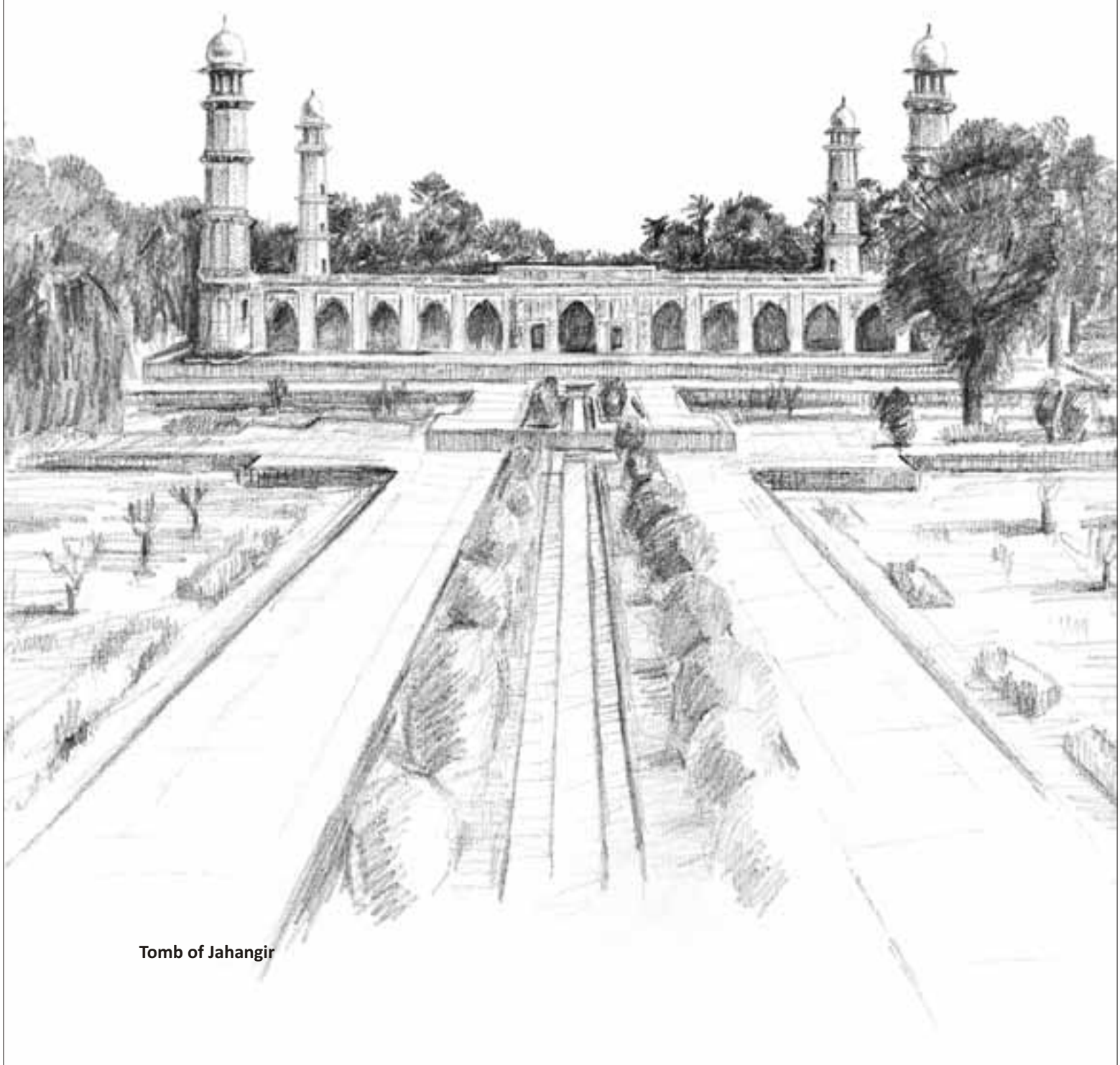
As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control system to enable us to express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

Lahore: 28 February 2008


KPMG
KPMG Taseer Hadi & Co.
Chartered Accountants

FINANCIAL STATEMENTS
HIGHNOON LABORATORIES LIMITED
2007



Tomb of Jahangir



Auditors' Report to the Members

We have audited the annexed balance sheet of Highnoon Laboratories Limited ("the Company") as at 31 December 2007 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 2007 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.

Lahore: 28 February 2008

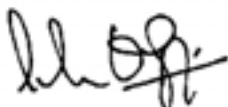
KPMG Taseer Hadi & Co.

KPMG Taseer Hadi & Co.
Chartered Accountants

BALANCE SHEET

	<i>Note</i>	2007 Rupees	2006 Rupees
EQUITY AND LIABILITIES			
Share capital	5	150,252,210	130,654,100
Reserves	6	299,940,216	245,126,591
		450,192,426	375,780,691
Surplus on revaluation of assets	7	208,260,158	148,450,045
NON CURRENT LIABILITIES			
Long term loan - secured	8	28,968,113	-
Liabilities against assets subject to finance lease	9	57,213,902	40,881,490
Long term advances	10	15,566,011	14,092,840
Deferred liabilities	11	115,083,696	130,853,029
Deferred gain	12	1,021,970	4,348,230
		217,853,692	190,175,589
CURRENT LIABILITIES			
Trade and other payables	13	152,282,357	119,150,978
Mark-up payable on secured loans	14	7,286,339	6,812,398
Short term bank borrowings - secured	15	255,396,844	281,508,946
Income tax - net		14,074,845	-
Current portion of long term liabilities	16	33,623,069	34,748,383
		462,663,454	442,220,705
CONTINGENCIES AND COMMITMENTS	17		
		1,338,969,730	1,156,627,030

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



ASLAM HAFIZ
CHIEF EXECUTIVE OFFICER

AS AT 31 DECEMBER 2007

	<i>Note</i>	2007 Rupees	2006 Rupees
NON CURRENT ASSETS			
Property, plant and equipment	18	618,701,930	515,255,058
Intangible assets	19	43,830,384	40,407,896
		662,532,314	555,662,954
Long term investment	20	20,000,000	20,000,000
Long term deposits		1,562,054	1,562,054
CURRENT ASSETS			
Stores, spares and loose tools		-	295,960
Stock in trade	21	418,422,577	359,568,516
Trade debts	22	187,340,942	125,546,966
Advances, deposits and prepayments	23	26,781,122	35,689,563
Other receivables	24	10,473,404	38,912,883
Income tax - net		-	3,823,390
Cash and bank balances	25	11,857,317	15,564,744
		654,875,362	579,402,022
		1,338,969,730	1,156,627,030



ANEES AHMAD KHAN
DIRECTOR

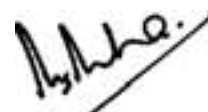
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2007

	<i>Note</i>	2007 Rupees	2006 Rupees
Sales - net	26	1,851,717,899	1,525,691,895
Cost of sales	27	1,096,308,716	909,185,499
GROSS PROFIT		755,409,183	616,506,396
Operating expenses			
Administrative and general	28	139,686,783	115,314,441
Distribution, selling and promotional	29	436,647,548	356,308,039
Finance cost	30	42,735,728	38,377,364
Research and development	31	10,663,578	7,492,402
		629,733,637	517,492,246
OPERATING PROFIT		125,675,546	99,014,150
Other operating income	32	10,258,646	11,957,250
		135,934,192	110,971,400
Other operating charges	33	13,668,929	10,484,672
PROFIT BEFORE TAXATION		122,265,263	100,486,728
Taxation	34	21,341,555	24,761,873
PROFIT AFTER TAXATION		100,923,708	75,724,855
Earnings per share - basic and diluted	35	6.72	5.04

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



ASLAM HAFIZ
CHIEF EXECUTIVE OFFICER



ANEES GHIMAD KHAN
DIRECTOR

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2007

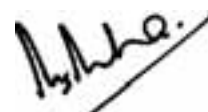
	2007 Rupees	2006 Rupees
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	122,265,263	100,486,728
Adjustments for non-cash charges and other items		
Depreciation	55,527,214	52,925,028
Amortization of intangible assets	5,541,457	4,868,883
Gain on sale of property, plant and equipment	(5,507,582)	(4,122,382)
Exchange loss	355,540	1,570,322
Provision for defined benefit obligation	21,973,988	19,524,389
Balances written back	-	(1,723,001)
Finance cost	42,380,188	38,377,364
Amortization of deferred gain	(3,326,260)	(5,121,508)
	116,944,545	106,299,095
<i>Profit before working capital changes</i>	239,209,808	206,785,823
WORKING CAPITAL CHANGES		
<i>(Increase) / decrease in current assets</i>		
Stores, spares and loose tools	295,960	-
Stock in trade	(58,854,061)	(77,910,547)
Trade debts	(61,755,522)	(56,595,324)
Advances, deposits and prepayments	8,908,441	(11,419,225)
Other receivables	28,439,479	46,243,295
<i>Increase in current liabilities</i>		
Trade and other payables	32,127,340	30,269,641
	(50,838,363)	(69,412,160)
Cash generated from operations	188,371,445	137,373,663
Taxes paid	(28,210,319)	(6,098,412)
Gratuity paid	(12,976,323)	(11,607,469)
Finance cost paid	(31,105,267)	(29,911,168)
Long term deposits	-	(1,203,289)
Long term advances - net	3,552,888	3,678,009
Net cash generated from operating activities	119,632,424	92,231,334

	<i>Note</i>	2007 Rupees	2006 Rupees
CASH FLOWS FROM INVESTING ACTIVITIES			
Fixed capital expenditure		(45,495,144)	(28,421,103)
Intangible assets acquired		(8,963,945)	(3,284,525)
Sale proceeds from disposal of property, plant and equipment		16,040,392	20,488,754
<i>Net cash used in investing activities</i>		(38,418,697)	(11,216,874)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of long term liabilities		-	(17,840,000)
Proceeds from long term loan		30,492,750	-
Repayment of finance lease liabilities		(55,287,987)	(46,067,103)
Short term bank borrowings - net		(26,112,102)	1,527,282
Dividend paid		(34,013,815)	(16,573,584)
<i>Net cash used in financing activities</i>		(84,921,154)	(78,953,405)
Net (decrease) / increase in cash and cash equivalents		(3,707,427)	2,061,055
Cash and cash equivalents at beginning of the year		15,564,744	13,503,689
Cash and cash equivalents at end of the year	25	11,857,317	15,564,744

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



ASLAM HAFIZ
CHIEF EXECUTIVE OFFICER



ANEES AHMAD KHAN
DIRECTOR

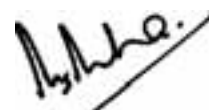
STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2007

	SHARE CAPITAL	REVENUE RESERVES			TOTAL
		GENERAL RESERVE	UN-APPROPRIATED PROFIT	SUB TOTAL	
..... Rupees					
Balance as at 01 January 2006	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)	-
	<u>130,654,100</u>	<u>114,000,000</u>	<u>46,388,528</u>	<u>160,388,528</u>	<u>291,042,628</u>
Current year incremental depreciation					
- net of tax	-	-	9,013,208	9,013,208	9,013,208
Profit for the year	-	-	75,724,855	75,724,855	75,724,855
Total recognised income and expense for the year	<u>-</u>	<u>-</u>	<u>84,738,063</u>	<u>84,738,063</u>	<u>84,738,063</u>
Balance as at 31 December 2006	130,654,100	114,000,000	131,126,591	245,126,591	375,780,691
Final dividend for the year ended					
31 December 2006 @ Rs. 1.5 per share	-	-	(19,598,639)	(19,598,639)	(19,598,639)
Issuance of bonus shares @ 15%	19,598,110	-	(19,598,110)	(19,598,110)	-
Interim dividend for the year ended					
31 December 2007 @ Re. 1 per share	-	-	(15,025,221)	(15,025,221)	(15,025,221)
	<u>150,252,210</u>	<u>114,000,000</u>	<u>76,904,621</u>	<u>190,904,621</u>	<u>341,156,831</u>
Current year incremental depreciation					
- net of tax	-	-	8,111,887	8,111,887	8,111,887
Profit for the year	-	-	100,923,708	100,923,708	100,923,708
Total recognised income and expense for the year	<u>-</u>	<u>-</u>	<u>109,035,595</u>	<u>109,035,595</u>	<u>109,035,595</u>
Balance as at 31 December 2007	150,252,210	114,000,000	185,940,216	299,940,216	450,192,426

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 2007

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 1985. Its shares are quoted on all stock exchanges in Pakistan since November 1994. The Company is principally engaged in the manufacture, import, sale 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. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984. In case requirements differ, the provisions or directives of the Companies Ordinance, 1984 shall prevail.

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 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.

The areas where various assumptions and estimates are significant to Company's financial statements or where judgments were exercised in application of accounting policies are as follows:

- defined benefit obligation
- revaluation of property, plant and equipment
- residual values and useful lives 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 2007. The projected unit credit method with the following significant assumptions was used for the valuation of this scheme:

	2007	2006
- Discount rate	10% per annum	10% per annum
- Expected rate of increase in salary	9% per annum	9% 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 amortized over a 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 currently.

4.3 Trade and other payables

Trade and other payables are initially carried at fair value 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 assets. 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 profit.

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 any identified impairment loss.

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 finance lease are depreciated over the useful lives 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 assets

Capital work in progress

Capital work in progress is stated at cost less any identified impairment loss less any identified loss 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 any identified impairment loss. Amortization is charged to the income on monthly basis following the straight line method over a maximum period of ten years. Amortization on additions is charged from the month of use, while for disposals, no amortization is charged in the month of disposal.

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 an 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 company is measured at cost as per the requirements 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.

4.9 Stores, spares and loose tools

These are valued at moving 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 amortized 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 previously recognised impairment losses. If any such indication exists, the recoverable amount of such asset is estimated.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups.

Where an impairment loss subsequently reverses, the carrying amount of such asset is increased to the extent that it does not exceeds 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, advances and deposits, others receivables and cash and bank balances. Significant financial liabilities include long term and short term 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 asset 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 currently. 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 offset 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 Initial Application of a standard or an Interpretation

Standards, amendments and interpretations effective in 2007

Amendment to IAS 1 - "Presentation of Financial Statements - Capital Disclosures", introduces new disclosures about the level of an entity's capital and how it manages capital. Adoption of this amendment has only resulted in additional disclosures given in note 38.6 to the financial statements.

Standards, interpretations and amendments to published approved accounting standards that are relevant but not yet effective.

Revised IAS 23 - "Borrowing Costs" removes the option to expense borrowing costs and requires that an entity capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The application of this revised standard is not likely to have any effect on Company's financial statements.

	<i>Note</i>	2007 Rupees	2006 Rupees
5. SHARE CAPITAL			
Authorized			
20,000,000 (2006: 15,000,000) Ordinary shares of Rs. 10 each		200,000,000	150,000,000
Issued, subscribed and paid-up			
5,905,000 (2006: 5,905,000) Ordinary shares of Rs. 10 each fully paid in cash		59,050,000	59,050,000
95,000 (2006: 95,000) Ordinary shares of Rs.10 each issued for consideration other than cash	<i>5.1</i>	950,000	950,000
9,025,221 (2006: 7,065,410) as fully paid bonus shares of Rs. 10 each		90,252,210	70,654,100
		150,252,210	130,654,100

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

	2007 (Number of Shares)	2006
Opening balance	13,065,410	11,361,226
Issued fully paid bonus shares	1,959,811	1,704,184
	15,025,221	13,065,410

6. RESERVES

Revenue

	2007 Rupees	2006 Rupees
General reserve	114,000,000	114,000,000
Unappropriated profit	185,940,216	131,126,591
	299,940,216	245,126,591

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 the year 1995, 1999 and 2004 respectively. During 2007 the Company has revalued its freehold land. This has been adjusted by surplus realized on disposal of revalued assets and incremental depreciation arising due to revaluation net of deferred tax.

	<i>Note</i>	2007 Rupees	2006 Rupees
Surplus on revaluation of assets as at 01 January		192,129,438	205,995,912
Surplus arising on revaluation of assets during the period		67,922,000	-
Surplus relating to incremental depreciation charged on related assets - transferred to unappropriated profit			
Net of deferred tax		(8,111,887)	(9,013,208)
Related deferred tax liability		(4,367,939)	(4,853,266)
		(12,479,826)	(13,866,474)
Surplus on revaluation of assets as at 31 December		247,571,612	192,129,438
Less: Related deferred tax liability on			
Balance at the beginning of the year		43,679,393	48,532,659
Transferred to profit and loss account incremental depreciation charged during the year		(4,367,939)	(4,853,266)
	<i>11.1</i>	39,311,454	43,679,393
		208,260,158	148,450,045
8. LONG TERM LOAN - SECURED			
Habib Bank Limited	<i>8.1</i>	30,492,750	-
Less: Current portion shown under current liabilities	<i>16</i>	1,524,637	-
		28,968,113	-

8.1 This loan has been obtained for the purpose of expansion and carries mark-up at the rate of three months KIBOR plus 2.25% per annum. The effective mark-up charged during the year was 12 %. Of the aggregate facility of Rs. 150 million, the amount availed as at 31 December 2007 is Rs. 30.493 million (2006: Nil), repayable in 20 equal quarterly installments commencing from November 2008. This loan is secured by way of joint pari passu charge on the fixed assets of the Company.

9. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

The amount of future payments and period during which they fall due are :

Minimum lease payments due			
Not later than one year		36,311,140	39,097,590
Later than one year and not later than five years		67,539,777	48,396,765
		103,850,917	87,494,355
Less: future finance cost		19,285,296	14,531,478
Present value of minimum lease payments	<i>9.1</i>	84,565,621	72,962,877
Less: current portion shown under current liabilities	<i>16</i>	27,351,719	32,081,387
		57,213,902	40,881,490

	2007	2006
	Rupees	Rupees
9.1 Break-up of present value of minimum lease payments		
Not later than one year	27,351,719	32,081,387
Later than one year and not later than five years	57,213,902	40,881,490
	84,565,621	72,962,877

Depending on the terms of the agreement, lease payments bear pre-determined markup rates ranging from 7.5% to 14.94% (2006: 7.25% to 14.10%) or are repriced quarterly / semi annually at the rates equivalent to three months KIBOR to six months KIBOR plus 200 to 350 basis points (2006: six months KIBOR plus 240 to 350 basis points). These markup rates are used as discounting factor to determine the present value of minimum lease payments.

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

	<i>Note</i>	2007	2006
		Rupees	Rupees
10. LONG TERM ADVANCES			
Balance at the end of year		20,312,724	16,759,836
Less: current portion shown under current liabilities	<i>16</i>	4,746,713	2,666,996
		15,566,011	14,092,840

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

11. DEFERRED LIABILITIES

Taxation	<i>11.1</i>	47,073,208	71,840,206
Gratuity	<i>11.2</i>	68,010,488	59,012,823
		115,083,696	130,853,029
11.1 Taxable temporary differences arising in respect of			
Surplus on revaluation of assets	<i>7</i>	39,311,454	43,679,393
Accelerated tax depreciation		7,761,754	28,160,813
		47,073,208	71,840,206
11.2 The net value of defined benefit obligation as at valuation date is as follows:			
Present value of defined benefit obligation		90,159,674	78,007,892
Unrecognized actuarial losses		(22,512,586)	(20,222,181)
Benefits due but not paid		363,400	1,227,112
Net liability as at 31 December		68,010,488	59,012,823

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

	<i>Note</i>	2007 Rupees	2006 Rupees
Liability as at 01 January		59,012,823	51,095,903
Amount recognized during the year	11.2.3	21,973,988	19,524,389
Benefit payments made by the Company		(12,976,323)	(11,607,469)
Net liability as at 31 December		68,010,488	59,012,823

11.2.2 Movement in the liability for un - funded defined benefit obligations

Present value of defined benefit obligations as at 01 January	78,007,892	75,380,276
Current service costs	11,688,921	9,197,232
Interest cost	7,800,789	6,784,225
Benefits due but not paid	(363,400)	(1,227,112)
Benefits paid by the plan	(11,749,211)	(10,639,156)
Actuarial losses/(gains) recognized	4,774,683	(1,487,573)
Liability for defined benefit obligations as at 31 December	90,159,674	78,007,892

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

Current service cost	11,688,921	9,197,232
Interest cost	7,800,789	6,784,225
Actuarial losses - charge for the year	2,484,278	3,542,932
	21,973,988	19,524,389

11.2.4 Historical Information for Gratuity plan

	2007 Rupees	2006 Rupees	2005 Rupees	2004 Rupees	2003 Rupees
Present value of defined benefits obligations	90,159,674	78,007,892	75,380,276	56,671,886	50,439,927
Experience adjustment arising on plan liabilities	4,774,683	(1,487,573)	13,836,183	-	14,014,662

	<i>Note</i>	2007 Rupees	2006 Rupees
12. DEFERRED GAIN			
Balance as on 01 January		4,348,230	9,469,738
Less: amortization for the year	32	3,326,260	5,121,508
Balance as on 31 December		1,021,970	4,348,230
13. TRADE AND OTHER PAYABLES			
Trade creditors		45,633,551	38,763,805
Bills payable		42,422,515	28,582,090
Advances from customers		3,321,703	3,398,897
Accrued expenses		32,641,975	24,307,022
Income tax deducted at source		28,518	884,276
Workers' Profit Participation Fund	13.1	11,745,361	9,842,754
Workers' Welfare Fund		9,904,114	7,188,830
Payable to Central Research Fund		1,289,329	1,840,468
Payable to Provident Fund Trust		1,841,028	1,522,418
Un-claimed dividends		3,214,363	2,604,318
Payable to Employees Welfare Trust		239,900	216,100
		152,282,357	119,150,978
13.1 Workers' Profit Participation Fund			
Balance at the beginning of the year		9,842,754	6,642,191
Add: provision for the year	33	6,645,783	5,722,031
		16,488,537	12,364,222
Add: interest on funds utilized by the Company	30	1,353,876	1,494,493
		17,842,413	13,858,715
Less: Paid during the year to the trustees of the fund		5,316,971	1,062,000
Deposited with the Government Treasury		780,081	2,953,961
		6,097,052	4,015,961
		11,745,361	9,842,754

Mark-up @ 22.50% (2006: 22.50%) is being provided on the unpaid balance of the fund in accordance with the rules of the Fund.

	<i>Note</i>	2007 Rupees	2006 Rupees
14. MARKUP PAYABLE ON SECURED LOANS			
On cash finances		1,432,206	2,585,530
On other borrowings		5,854,133	4,226,868
		7,286,339	6,812,398
15. SHORT TERM BANK BORROWINGS - SECURED			
Running finance	<i>15.1</i>	147,430,481	175,099,898
Cash finance	<i>15.2</i>	41,773,063	88,328,604
Import credit	<i>15.3</i>	66,193,300	18,080,444
		255,396,844	281,508,946

15.1 Short term running finances are availed from various banks against aggregate sanctioned limit of Rs. 450 million (2006: Rs. 255 million). These facilities have various maturity dates upto 31st August 2008. These facilities carry mark-up rates ranging from one month KIBOR to three months KIBOR plus 150 to 200 basis points (2006: one month KIBOR to six months KIBOR plus 185 to 250 basis points) per annum. These finances are secured by way of joint pari passu and ranking hypothecation charge over present and future current and fixed assets of the Company.

15.2 These finances are availed from a bank against aggregate sanctioned limit of Rs. 130 million (2006: Rs. 255 million) and carry mark up equivalent to the rate of one month KIBOR plus 200 basis points (2006: one month KIBOR to six months KIBOR plus 185 to 250 basis points) per annum. These finances are secured by way of pledge of stocks and are due to expire by 31st August 2008.

15.3 Aggregate sanctioned import credit facilities negotiated with various banks amount to Rs. 245 million (2006: Rs. 45 million). These facilities carry mark-up rates ranging from one month KIBOR to six months KIBOR plus 150 to 200 basis points (2006: six months KIBOR plus 250 basis points) per annum. These facilities are secured by way of joint pari passu charge over the present and future current and fixed assets of the Company and have various maturity dates upto 31st August 2008.

	<i>Note</i>	2007 Rupees	2006 Rupees
16. CURRENT PORTION OF LONG TERM LIABILITIES			
Long term loan	<i>8</i>	1,524,637	-
Liabilities against assets subject to finance lease	<i>9</i>	27,351,719	32,081,387
Long term advances	<i>10</i>	4,746,713	2,666,996
		33,623,069	34,748,383

17. CONTINGENCIES AND COMMITMENTS

Contingencies

- Bank guarantees issued on behalf of the Company aggregate to Rs. 2.238 million (2006: Rs. 1.009 million).
- The Company has not acknowledged the demand relating to sales tax/central excise duty amounting to Rs. 16.641 million (2006: Rs. 20.798 million) as debt as the matter is pending adjudication. An amount of Rs. 6.981 million (2006: Rs. 1.9 million) has been deposited under protest and is shown under other receivables in note 24.

2007 2006
(Rupees in thousand)

Commitments

- Commitments against irrevocable letters of credit include:

Plant and machinery	36,286	31,670
Raw materials	75,631	84,910
Packing materials	4,602	960
Finished goods	11,789	6,622
- Facilities of letters of guarantee amounting to Rs. 9.209 million (2006: 18.991 million) are available to the Company under hypothecation of stocks and joint pari passu charge on present and future current assets and fixed assets of the Company.
- Counter corporate guarantee given in favour of wholly owned subsidiary company "Dyalog Services (Private) Limited" amounting to Rs. 40 million (2006: Rs. 40 million) against its working capital finance limits.

Note **2007** 2006
Rupees **Rupees**

18. PROPERTY, PLANT AND EQUIPMENT

Operating assets (owned)	<i>18.1</i>	450,306,319	360,121,719
Operating assets (leased)	<i>18.1</i>	114,404,581	140,681,894
Capital work-in-progress	<i>18.2</i>	53,991,030	14,451,445
		618,701,930	515,255,058

18.1 Operating assets

PARTICULARS	COST			DEPRECIATION			BOOK VALUE as at 31 December 2007	Rate %	
	As at 01 January 2007	DURING THE YEAR		As at 01 January 2007	For the year	Adjustment			As at 31 December 2007
		Additions/ revaluation	Deletions						
..... Rupees									
OWNED									
Land - Freehold	81,898,000	67,922,000	-	149,820,000	-	-	-	149,820,000	-
Building on freehold land	168,908,691	-	-	168,908,691	9,961,594	-	79,254,347	89,654,344	10
Plant and machinery	193,151,549	42,699,356	-	235,850,905	14,433,036	-	87,328,670	148,522,235	10
Laboratory equipment	6,163,063	-	-	6,163,063	428,105	-	2,310,121	3,852,942	10
Furniture and fixtures	10,776,099	449,507	-	11,225,606	618,680	-	5,525,323	5,700,283	10
Electric and gas appliances	19,933,206	1,535,389	-	21,468,595	1,153,828	-	10,287,437	11,181,158	10
Office equipment	22,419,339	4,801,057	(6,725)	27,213,671	1,530,428	(923)	11,341,666	15,872,005	10
Vehicles	27,942,128	23,495,427	(20,665,221)	30,772,334	4,080,790	(2,169,779)	5,162,870	25,609,464	20
Library books	52,806	-	-	52,806	648	-	46,970	5,836	10
Neon sign	105,000	-	-	105,000	7,079	-	41,287	63,713	10
Arms and ammunition	106,100	-	-	106,100	2,704	-	81,761	24,339	10
	531,455,981	140,902,736	(20,671,946)	651,686,771	32,216,892	(2,170,702)	201,380,452	450,306,319	
ASSETS SUBJECT TO FINANCE LEASE									
Plant and machinery	94,083,757	4,000,000	(70,122,134)	27,961,623	4,093,874	(32,386,238)	7,231,187	20,730,436	10
Office Equipment	20,028,330	-	-	20,028,330	1,545,330	-	6,120,363	13,907,967	10
Vehicles	93,415,086	52,089,751	(39,059,500)	106,445,337	17,671,118	(17,738,653)	26,679,159	79,766,178	20
	207,527,173	56,089,751	(109,181,634)	154,435,290	23,310,322	(50,124,891)	40,030,709	114,404,581	
	738,983,154	196,992,487	(129,853,580)	806,122,061	55,527,214	(52,295,593)	241,411,161	564,710,900	

PARTICULARS	COST			DEPRECIATION			BOOK VALUE as at 31 December 2006	Rate %	
	As at 01 January 2006	DURING THE YEAR		As at 31 December 2006	For the year	Adjustment			As at 31 December 2006
		Additions/ revaluation	Deletions						
OWNED									
Land - Freehold	81,898,000	-	-	81,898,000	-	-	-	81,898,000	-
Building on freehold land	168,908,691	-	-	168,908,691	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	13,363,277	(373,549)	72,895,634	120,255,915	10
Laboratory equipment	6,163,063	-	-	6,163,063	475,672	-	1,882,016	4,281,047	10
Furniture and fixtures	10,384,952	391,147	-	10,776,099	632,174	-	4,906,643	5,869,456	10
Electric and gas appliances	18,653,701	1,279,505	-	19,933,206	1,115,795	-	9,133,609	10,799,597	10
Office equipment	19,866,324	2,605,250	(52,235)	22,419,339	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	2,767,052	(1,752,752)	3,251,859	24,690,269	20
Library books	52,806	-	-	52,806	720	-	46,322	6,484	10
Neon sign	33,000	72,000	-	105,000	7,866	-	34,208	70,792	10
Arms and ammunition	106,100	-	-	106,100	3,005	-	79,057	27,043	10
	517,204,452	32,755,461	(18,503,932)	531,455,981	30,647,729	(2,137,559)	171,334,262	360,121,719	

Rupees

ASSETS SUBJECT TO FINANCE LEASE

Plant and machinery	84,246,757	9,837,000	-	94,083,757	6,324,523	-	35,523,551	58,560,206	10
Office Equipment	20,028,330	-	-	20,028,330	1,717,034	-	4,575,034	15,453,296	10
Vehicles	87,328,986	35,191,200	(29,105,100)	93,415,086	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	22,277,299	(13,540,783)	66,845,279	140,681,894	
	708,808,525	77,783,661	(47,609,032)	738,983,154	52,925,028	(15,678,342)	238,179,541	500,803,613	

18.1.1 Addition in freehold assets includes transfer of assets costing Rs. 109,181,634 (2006: Rs. 29,105,100) less accumulated depreciation of Rs. 50,124,891 (2006: Rs. 13,540,783) from leasehold assets. Whereas additions in leasehold include assets costing Rs. 8,103,492 (2006: Rs. 11,408,924) less accumulated depreciation of Rs. 135,058 (2006: Rs. 371,265) transferred from freehold assets under sale and leaseback arrangements.

	<i>Note</i>	2007	2006
		Rupees	Rupees
18.1.2	Depreciation charge has been allocated as under:		
Cost of sales	27	30,874,281	32,762,161
Administrative and general	28	13,341,941	11,321,414
Distribution, selling and promotional	29	11,310,992	8,841,453
		55,527,214	52,925,028

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. During the year revaluation of land has been carried out by an approved and independent valuer namely M/s Surval on 01 January 2007 resulting in revaluation surplus of Rs. 67,922,000.

	2007	2006
	Rupees	Rupees
18.1.4		
Had the assets not been revalued the carrying values would have been:		
Land - Freehold	14,566,828	14,566,828
Building on freehold land	46,748,378	51,942,644
Plant and machinery (Owned)	83,246,897	52,440,926
Plant and machinery (Leased)	16,593,300	46,659,472
	161,155,403	165,609,870

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							
	Muhammad Asghar	58,500	28,935	29,565	58,500	28,935	Company Policy
	Muhammad Ahsan	58,500	28,935	29,565	58,500	28,935	Company Policy
	Syed Ali Ahmar Abidi	58,500	28,935	29,565	58,500	28,935	Company Policy
	Muhammad Shahid	58,500	28,935	29,565	58,500	28,935	Company Policy
	Abdul Naveed	58,500	28,935	29,565	58,500	28,935	Company Policy
	Waqar Khan	58,500	28,935	29,565	58,500	28,935	Company Policy
	Sadiq Hussain	58,500	28,935	29,565	58,500	28,935	Company Policy
	Muhammad Tahir	58,500	28,935	29,565	58,500	28,935	Company Policy
	Muhammad Zahid	58,500	28,935	29,565	58,500	28,935	Company Policy
	Reliance Insurance Co. Limited	54,000	18,586	35,414	54,000	18,586	Insurance Claim
	Reliance Insurance Co. Limited	58,500	29,921	28,579	45,000	16,421	Insurance Claim
	Naseeb Ullah	58,500	30,317	28,183	40,896	12,713	Company Policy
	Siraj Ud Din	54,000	18,268	35,732	54,000	18,268	Company Policy
	Muhammad Sohail Ashraf	54,000	13,526	40,474	54,000	13,526	Company Policy
	Fawad Habib Ullah	54,000	17,469	36,531	54,000	17,469	Company Policy
	Ihsan Ullah Khattak	357,000	202,166	154,834	258,764	103,930	Company Policy
	Muhammad Tariq	1,350,000	831,470	518,530	700,000	181,470	Negotiation
	M. Haider Khurshid	357,000	214,649	142,351	255,193	112,842	Company Policy
	Muhammad Asim	373,000	279,238	93,762	240,731	146,969	Company Policy
	Shahid Najam Farooqi	58,500	30,415	28,085	37,962	9,877	Company Policy
	Rahat Ullah Siddiqui	343,500	199,659	143,841	250,058	106,217	Company Policy
	Rehmatullah	54,000	20,085	33,915	49,971	16,056	Company Policy
	Mian Ahson Farooq	1,084,000	647,502	436,498	-	(436,498)	Company Policy
	Dr. Yahya Jan	2,616,500	1,519,704	1,096,796	750,000	(346,796)	Negotiation
	Muhammad Hassan	54,000	21,536	32,464	54,000	21,536	Company Policy
	Kamran Hussain	54,000	19,358	34,642	54,000	19,358	Company Policy
	Fahad Saleem	54,000	19,358	34,642	54,000	19,358	Company Policy
	M. Moazzam Hassan Zeeshan	54,000	16,901	37,099	54,000	16,901	Company Policy
	Maqbool Ahmed	894,000	723,213	170,787	1,256,425	1,085,638	Negotiation
	Zeeshan Akbar Ch	352,000	197,040	154,960	230,000	75,040	Negotiation
	Muhammad Islam	367,000	295,685	71,315	250,000	178,685	Negotiation
	M. Khurram Yousuf	370,000	305,671	64,329	260,000	195,671	Negotiation
	M. Zafar Ullah Khan	58,500	33,608	24,892	40,896	16,004	Company Policy
	Muhammad Anwar	58,500	32,261	26,239	40,880	14,641	Company Policy
	Muhammad Mubashir Noor	54,000	23,186	30,814	52,654	21,840	Company Policy
	Intasar Hussain Syed	58,500	32,747	25,753	31,779	6,026	Company Policy
	Adnan Irshad	343,500	209,933	133,567	240,340	106,773	Company Policy
	Kashif Naseer	54,000	21,878	32,122	54,000	21,878	Company Policy
	Abdul Rauf	555,000	378,920	176,080	370,440	194,360	Company Policy
	Jawad Zafar	555,000	378,920	176,080	373,740	197,660	Company Policy
	Asim Munir	555,000	378,920	176,080	373,740	197,660	Company Policy
	Idrees Khalid	356,000	214,819	141,181	254,382	113,201	Company Policy
	Mansoor Akhtar Leghari	357,500	239,246	118,254	249,924	131,670	Company Policy
	Fazal H. Rizwan Peerzada	564,000	383,091	180,909	374,416	193,507	Company Policy
	Iram Naila	350,500	234,769	115,731	232,680	116,949	Company Policy
	Waseem Ahmad	58,500	34,355	24,145	45,252	21,107	Company Policy
	Bashir Ahmad Khan	58,500	28,434	30,066	58,500	28,434	Company Policy
	Muhammad Asim Ansari	58,500	28,935	29,565	58,500	28,935	Company Policy
	Syed Muzhair Raza Shah	58,500	28,434	30,066	58,500	28,434	Company Policy
	Shahzad Fareed	58,500	28,935	29,565	58,500	28,935	Company Policy
	Tahir Mehmood	58,500	28,935	29,565	58,500	28,935	Company Policy

Particulars	Sold to	Cost**	Accumulated Depreciation**	Written Down Value	Sale Proceeds	Gain / (Loss)	Mode of Sale
Rupees							
	Sarfaraz Warsi	58,500	28,935	29,565	58,500	28,935	Company Policy
	Abdul Khaliq	58,500	28,935	29,565	58,500	28,935	Company Policy
	Muhammad Qasim Munir	566,000	256,687	309,313	449,329	140,016	Company Policy
	Saqib Sajjad	567,000	233,755	333,245	450,122	116,877	Company Policy
	Omer Ali	357,000	158,222	198,778	293,176	94,398	Company Policy
	Zahid Abbas	54,000	15,024	38,976	54,941	15,965	Company Policy
	Reliance Insurance Co. Limited	560,000	91,933	468,067	525,000	56,933	Insurance Claim
	Reliance Insurance Co. Limited	54,000	8,865	45,135	50,000	4,865	Insurance Claim
	Reliance Insurance Co. Limited	365,000	60,833	304,167	355,000	50,833	Insurance Claim
	Kamran Ikram Ud din	555,000	209,255	345,745	550,650	204,905	Company Policy
	Dr. Arham Sajjad	629,000	272,063	356,937	514,674	157,737	Company Policy
	Jawad Naem	566,000	261,718	304,282	463,489	159,207	Company Policy
	Iftikhar Abbas	54,000	16,368	37,632	55,060	17,428	Company Policy
	Reliance Insurance Co. Limited	365,000	81,111	283,889	365,000	81,111	Insurance Claim
	Zaid Aziz Khan	58,500	29,937	28,563	58,500	29,937	Company Policy
	Nadeem Younus	58,500	30,438	28,062	59,973	31,911	Company Policy
	Inayat Khan	58,500	30,438	28,062	59,988	31,926	Company Policy
	Mukhtar Ali Shah	54,000	14,250	39,750	55,066	15,316	Company Policy
	Muhammad Arshad	54,500	7,875	46,625	58,032	11,407	Company Policy
	Shahid Mehmood	54,500	5,450	49,050	57,654	8,604	Company Policy
	Muhammad Shaharyar Ilyas	58,500	28,184	30,316	58,500	28,184	Company Policy
	Muhammad Kashif Khan	54,000	21,503	32,497	56,718	24,221	Company Policy
	Asif Naseem	54,000	20,952	33,048	54,000	20,952	Company Policy
	Syed Wasim Raza	54,500	18,486	36,014	58,968	22,954	Company Policy
	Muhammad Asif Malik	54,000	17,064	36,936	58,000	21,064	Company Policy
	Jawad Maqsood	54,000	15,120	38,880	54,000	15,120	Company Policy
	Ahmed Aziz	54,000	15,768	38,232	56,651	18,419	Company Policy
	Amjad Ali Mumtaz	58,500	28,184	30,316	54,000	23,684	Company Policy
	Mansoor Ul Hasan	54,000	18,295	35,705	59,359	23,654	Company Policy
	Nawaz Irfan	54,000	17,680	36,320	54,000	17,680	Company Policy
	Muhammad Saleem	54,500	24,678	29,822	50,000	20,178	Company Policy
	Anwar Saeed	629,000	303,933	325,067	503,198	178,131	Company Policy
	Baqar Hasan	790,500	381,970	408,530	500,000	91,470	Negotiation
	Kashif Iftikhar	357,000	184,269	172,731	281,561	108,830	Company Policy
	Syed Israr Hussain Zaidi	362,000	178,036	183,964	277,061	93,097	Company Policy
	Mohsin Khan	379,000	198,961	180,039	283,826	103,787	Company Policy
	Abdul Hafeez	54,500	20,589	33,911	52,597	18,686	Company Policy
	Babar Rasheed Khan	54,500	18,486	36,014	49,163	13,149	Company Policy
	Siraj ud Din Zafar	379,000	198,961	180,039	164,463	(15,576)	Company Policy
	Farhan Saeed	54,500	26,803	27,697	54,500	26,803	Company Policy
	Reliance Insurance Co. Limited	54,000	9,000	45,000	52,000	7,000	Insurance Claim
		22,788,500	12,261,492	10,527,008	16,036,342	5,509,334	
	OFFICE EQUIPMENT						
	Universal Insurance	6,725	923	5,802	4,050	(1,752)	Insurance Claim
	2007	22,795,225	12,262,415	10,532,810	16,040,392	5,507,582	
	2006	12,336,455	7,007,746	5,328,709	9,451,091	4,122,382	

** Cost represents the purchase price of the asset at the time of acquisition / lease. Accumulated depreciation also includes depreciation during the lease period. The above detail excludes assets which have been sold and leased back during the year.

	<i>Note</i>	2007 Rupees	2006 Rupees
18.2 CAPITAL WORK - IN - PROGRESS			
Civil works		1,060,914	-
Plant and machinery - owned		49,300,916	4,962,385
Advance for purchase of vehicles		2,829,200	2,975,000
ERP system implementation		800,000	6,514,060
	<i>18.2.1</i>	53,991,030	14,451,445
18.2.1 Movement in the account is as follows:			
Opening balance as at 01 January		14,451,445	3,221,486
Addition during the year			
- Civil works		1,060,914	-
- Plant and machinery - owned		44,338,531	6,786,735
- Advance for purchase of vehicles		2,829,200	2,975,000
- ERP system implementation		400,000	3,292,574
		48,628,645	13,054,309
Capitalized during the year			
- Plant and machinery - owned		-	(1,824,350)
- Advance for purchase of vehicles		(2,975,000)	-
- ERP system implementation		(6,114,060)	-
Closing balance as at 31 December		53,991,030	14,451,445

19. INTANGIBLE ASSETS

	COST		AMORTISATION			BOOK VALUE as at 31 December 2007	Rate %
	As at 01 January 2007	Additions	As at 31 December 2007	As at 01 January 2007	For the year		
Registration and trademark (Note 19.1)	47,094,117	-	47,094,117	9,811,275	4,709,412	14,520,687	10
Computer Software	3,284,525	8,963,945	12,248,470	159,471	832,045	991,516	10
	50,378,642	8,963,945	59,342,587	9,970,746	5,541,457	15,512,203	43,830,384
 Rupees						
	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		
Registration and trademark (Note 19.1)	47,094,117	-	47,094,117	5,101,863	4,709,412	9,811,275	10
Computer Software	-	3,284,525	3,284,525	-	159,471	159,471	10
	47,094,117	3,284,525	50,378,642	5,101,863	4,868,883	9,970,746	40,407,896
 Rupees						

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 Prodesfarma, Spain for consideration of 500,000 Euro net of local taxes.

	<i>Note</i>	2007 Rupees	2006 Rupees
19.2 Amortization charge has been allocated as under:			
Cost of sales	27	4,709,412	4,709,412
Distribution, selling and promotional	29	832,045	159,471
		5,541,457	4,868,883
20. LONG TERM INVESTMENT			
Subsidiary Company - Unlisted			
Dynalog Services (Pvt) Limited			
2,000,000 (2006: 2,000,000) ordinary shares of Rs. 10 each			
Equity held: 100% (2006: 100%)		20,000,000	20,000,000
21. STOCK IN TRADE			
Raw materials			
In hand		135,442,011	77,719,784
In pledge		60,930,157	83,523,419
In transit		39,000,362	25,756,547
		235,372,530	186,999,750
Packing material			
In hand		30,236,062	28,646,591
In pledge		-	4,416,104
In transit		1,875,540	-
With third party		49,031	2,229,932
		32,160,633	35,292,627
Work in process			
		40,336,092	18,296,869
Finished goods			
In hand		106,412,467	102,324,505
In pledge		-	16,654,765
In transit		4,140,855	-
		110,553,322	118,979,270
		418,422,577	359,568,516

	<i>Note</i>	2007 Rupees	2006 Rupees
22. TRADE DEBTS - Considered good			
Secured - against letters of credit		4,619,021	5,241,670
Unsecured			
Due from related parties			
Subsidiary - Dynalog Services (Pvt.) Limited		157,424,228	105,238,142
Associated - Route - 2 Health (Pvt.) Limited		463,898	1,008,516
	<i>22.1</i>	157,888,126	106,246,658
Others		24,833,795	14,058,638
		187,340,942	125,546,966

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

23. ADVANCES, DEPOSITS AND PREPAYMENTS

Advances - considered good			
Staff against:			
Expenses		6,135,087	5,084,978
Salary		570,662	286,378
Suppliers		10,401,897	19,086,328
Letters of credit		369,357	416,046
Deposits:			
Securities		5,465,189	5,054,612
Bank guarantee margin		1,446,811	218,651
Prepayments		2,392,119	5,542,570
		26,781,122	35,689,563

24. OTHER RECEIVABLES - considered good

Claims receivable		-	861,022
Freight subsidy receivable		113,679	643,160
Sales tax and excise duty	<i>24.1</i>	7,708,981	2,132,663
Receivable from foreign principals		1,966,114	34,591,408
Others		684,630	684,630
		10,473,404	38,912,883

24.1 As referred to in note 17, this includes Rs. 6.981 million (2006: 1.9 million) deposited for grant of stay against demand of sales tax / excise duty paid under protest to sales tax department.

	2007 Rupees	2006 Rupees
25. CASH AND BANK BALANCES		
Cash and Imprest	3,044,357	2,898,856
Balance with banks on current accounts		
Local currency	8,812,960	5,527,184
In transit	-	7,051,606
Foreign currency	-	87,098
	8,812,960	12,665,888
	11,857,317	15,564,744
26. SALES - net		
Manufactured products		
Local	1,841,478,216	1,498,742,041
Export	61,854,742	91,101,296
	1,903,332,958	1,589,843,337
Purchased products - local	88,689,259	45,155,102
Sales compensation	-	3,000,000
Third party (toll manufacturing)	35,202,026	28,248,227
	2,027,224,243	1,666,246,666
Less: Discount	174,199,172	139,528,705
Sales tax	1,307,172	1,026,066
	175,506,344	140,554,771
	1,851,717,899	1,525,691,895

	<i>Note</i>	2007 Rupees	2006 Rupees
27. COST OF SALES			
Raw and packing material consumed		842,189,409	722,279,823
Salaries, wages and benefits	27.1	98,700,001	79,893,906
Vehicle running and maintenance		12,859,821	9,597,893
Fuel and power		17,584,436	15,165,706
Stores consumed		4,885,809	4,774,063
Repair and maintenance		10,701,041	13,089,609
Insurance		2,047,325	1,690,456
Rent, rates and taxes		1,916,990	1,057,000
Fee and subscription		1,011,345	163,420
Printing and stationery		1,981,034	1,972,869
Traveling and conveyance		3,416,622	614,870
Consultancy and professional		3,125,637	697,430
Office supplies		2,803,668	2,806,492
Depreciation	18.1.2	30,874,281	32,762,161
Amortization of intangible assets	19.2	4,709,412	4,709,412
Others		5,253,410	2,727,168
		1,044,060,241	894,002,278
Inventory effect of work in process			
Opening		18,296,869	33,674,482
Closing		(40,336,092)	(18,296,869)
		(22,039,223)	15,377,613
Cost of goods Manufactured		1,022,021,018	909,379,891
Inventory effect of finished goods (excluding purchased products)			
Opening		101,718,849	75,080,756
Closing		(88,620,428)	(101,718,849)
		13,098,421	(26,638,093)
Cost of goods sold -Manufactured		1,035,119,439	882,741,798
Less: Freight subsidy		17,833	958,321
Cost of goods sold -Manufactured items		1,035,101,606	881,783,477
Cost of goods sold - Purchased products		61,207,110	27,402,022
Cost of goods sold		1,096,308,716	909,185,499
27.1 It includes the following staff retirement benefits:			
Defined benefit plan - Gratuity		6,877,488	4,850,527
Defined contribution plan - Provident Fund		2,500,021	1,862,001
Provision for compensated leave absences		519,375	1,472,083

	<i>Note</i>	2007 Rupees	2006 Rupees
28. ADMINISTRATIVE AND GENERAL			
	<i>28.1</i>		
Salaries and benefits		74,647,333	63,811,435
Telephone, postage and telex		3,614,259	1,985,577
Rent, rates and taxes		4,867,621	2,916,112
Electricity, gas and water		274,139	176,658
Printing and stationery		3,067,697	3,227,482
Repairs and maintenance		5,516,242	3,956,606
Vehicle running and maintenance		14,339,354	13,017,507
Traveling and conveyance		5,909,748	4,437,497
Newspapers and subscriptions		2,726,002	1,919,696
Entertainment		257,571	267,490
Insurance	<i>36</i>	4,272,962	4,296,905
Auditors' remuneration		675,000	540,000
Legal and professional		2,428,060	1,289,742
Advertisement, seminars and symposia	<i>28.2</i>	1,129,500	199,072
Donation	<i>18.1.2</i>	1,311,550	718,331
Depreciation		13,341,941	11,321,414
Others		1,307,804	1,232,917
		139,686,783	115,314,441
28.1 It includes the following staff retirement benefits:			
Defined benefit plan - Gratuity		7,030,587	8,347,245
Defined contribution plan - Provident Fund		1,746,129	1,662,047
Provision for compensated leave absences		358,738	946,935

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

	<i>Note</i>	2007 Rupees	2006 Rupees
29. DISTRIBUTION, SELLING AND PROMOTIONAL			
Salaries and benefits	29.1	152,391,563	140,113,652
Advertisement		5,064,698	1,662,960
Rent, rates and taxes		725,210	720,000
Entertainment		204,602	131,936
Promotional expenses and samples		136,577,305	95,382,021
Printing and stationery		3,493,045	3,780,728
Traveling and conveyance		63,924,634	53,865,700
Telephone, postage and telex		2,620,156	2,351,676
Insurance		2,976,925	2,116,917
Vehicle running and maintenance		20,330,460	15,505,937
Donation	29.2	3,221,783	882,555
Freight and octroi		11,420,239	10,621,444
Seminars, Symposia and training		27,008,171	22,800,183
Newspapers and subscriptions		6,199,165	4,525,750
Depreciation	18.1.2	11,310,992	8,841,453
Amortization of intangible assets	19.2	832,045	159,471
Others		4,638,840	1,845,656
		452,939,833	365,308,039
Less: Reimbursement from foreign principals		16,292,285	9,000,000
		436,647,548	356,308,039

29.1 It includes the following staff retirement benefits:

Defined benefit plan - Gratuity	8,005,700	6,084,102
Defined contribution plan - Provident Fund	3,698,228	3,280,371
Provision for compensated leave absences	1,075,961	1,558,459

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

30. FINANCE COST

Mark-up on long term loan - secured	1,392,759	-
Mark-up on short term borrowings - secured	27,150,279	26,632,904
Finance cost on liability against assets subject to finance lease	10,800,980	8,141,818
Interest on Workers' Profit Participation Fund	13.1	1,353,876
Bank charges	2,037,834	2,108,149
	42,735,728	38,377,364

	<i>Note</i>	2007 Rupees	2006 Rupees
31. RESEARCH AND DEVELOPMENT			
Salaries and benefits	<i>31.1</i>	6,678,037	4,432,309
Expenses on clinical trials and products evaluation		547,246	812,660
Traveling		1,659,818	993,455
Insurance		131,081	53,302
Vehicle repair and maintenance		1,141,866	465,277
Printing and stationery		75,810	106,950
Office supplies		110,847	2,171
Staff cost		213,192	240,049
Others		105,681	386,229
		10,663,578	7,492,402
31.1 It includes the following staff retirement benefits:			
Defined benefit plan - Gratuity		60,213	242,515
Defined contribution plan - Provident Fund		254,961	187,284
Provision for compensated leave absences		20,972	23,214
32. OTHER OPERATING INCOME			
Income from non-financial assets			
Gain on sale of property, plant and equipment		5,507,582	4,122,382
Amortization of deferred gain	<i>12</i>	3,326,260	5,121,508
Balances written back		-	1,723,001
Scrap Sales		1,017,635	893,152
Others		407,169	97,207
		10,258,646	11,957,250
33. OTHER OPERATING CHARGES			
Workers' Profit Participation Fund	<i>13.1</i>	6,645,783	5,722,031
Exchange loss		355,540	1,570,322
Workers' Welfare Fund		2,715,284	2,105,133
Central Research Fund		1,289,329	1,087,186
Others		2,662,993	-
		13,668,929	10,484,672

	2007	2006
	Rupees	Rupees
34. TAXATION		
Current		
- for the year	46,108,553	37,912,164
- for prior years	-	(5,000,000)
	46,108,553	32,912,164
Deferred	(24,766,998)	(8,150,291)
	21,341,555	24,761,873

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:

	2007	2006
Applicable tax rate	35.00%	35.00%
Tax effect of amounts that are not deductible for tax purposes	25.10%	18.56%
Tax effect of amounts that are deductible for tax purposes	-24.89%	-17.77%
Tax effect of amounts relating to prior years	-	-4.98%
Reversal of taxable temporary differences	-20.26%	-8.11%
Effect of tax charged under presumptive tax regime	2.51%	1.94%
	-17.54%	-10.36%
Average effective tax rate charged on income	17.46%	24.64%

35. EARNINGS PER SHARE - Basic and Diluted

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

Profit after taxation	Rupees	100,923,708	75,724,855
Effect of bonus shares issued in 2007	Numbers	1,959,811	1,959,811
Weighted average number of ordinary shares as at 31 December 2007	Numbers	15,025,221	15,025,221
Earnings per share	Rupees	6.72	5.04

Earnings per share

For the purpose of computing earnings per share, the number of shares of the previous year have been adjusted for the effect of bonus shares issued during the year.

	2007 Rupees	2006 Rupees
36. AUDITORS' REMUNERATION		
Statutory Audit	365,000	325,000
Fee for review of half year financial statements	160,000	150,000
Other certifications	100,000	10,000
Out of pocket expenses	50,000	55,000
	675,000	540,000

37. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

	2007			2006		
	Chief Executive	Directors	Executives	Chief Executive	Directors	Executives
 Rupees					
Managerial remuneration	3,194,800	13,288,200	23,827,130	3,832,200	8,246,400	20,442,592
House allowance	1,277,920	2,160,000	9,530,854	720,000	1,440,000	8,177,037
Provident fund	266,280	726,912	1,826,173	319,368	341,364	1,523,857
Gratuity	900,254	2,421,967	6,347,658	1,496,225	1,698,392	4,621,768
Bonus	356,917	1,610,625	2,431,392	638,700	1,374,400	3,181,700
Utilities	319,480	2,288,801	2,382,704	521,669	1,678,757	2,044,259
Medical	480,580	1,403,314	1,071,988	46,422	1,971,885	1,018,412
Others	-	132,011	-	22,331	241,655	7,900
	6,796,231	24,031,830	47,417,899	7,596,915	16,992,853	41,017,525
Number of persons	1	3	25	1	2	17

37.1 The Chief Executive, Directors and 15 executives (2006: 13) have been provided with Company maintained cars while 10 executives (2006: 04) have been provided with cars under self finance scheme with limited fuel and maintenance facility.

37.2 No fee has been paid to any director, except for Rs. 1,500 (2006: Rs. 4,000) paid to an independent non-executive director for attending Board meeting.

38. Financial instruments and related disclosures

	31 December 2007									
	Interest Bearing			Non-Interest Bearing						
	Upto one year	One to five years	More than five years	Sub-Total	Upto one year	One to five years	More than five years	Sub-Total	Total	
Financial assets										
Long term deposits	-	-	-	-	-	-	1,562,054	1,562,054		1,562,054
Trade debts	-	-	-	-	187,340,942	-	-	187,340,942		187,340,942
Advances and deposits	-	-	-	-	6,912,000	-	-	6,912,000		6,912,000
Other receivables	-	-	-	-	2,650,744	-	-	2,650,744		2,650,744
Cash and bank balances	-	-	-	-	11,857,317	-	-	11,857,317		11,857,317
	-	-	-	-	208,761,003	-	-	208,761,003		210,323,057
Financial liabilities										
Long term loan - secured	1,524,637	24,394,200	4,573,913	30,492,750	-	-	-	-		30,492,750
Liabilities against assets subject to finance lease	27,351,719	57,213,902	-	84,565,621	-	-	-	-		84,565,621
Trade and other payables	-	-	-	-	125,993,332	-	-	125,993,332		125,993,332
Markup payable on secured loans	-	-	-	-	7,286,339	-	-	7,286,339		7,286,339
Short term bank borrowings - secured	255,396,844	-	-	255,396,844	-	-	-	-		255,396,844
	284,273,200	81,608,102	4,573,913	370,455,215	133,279,671	-	-	133,279,671		503,734,886
Excess of financial assets over financial liabilities	(284,273,200)	(81,608,102)	(4,573,913)	(370,455,215)	75,481,332	-	-	75,481,332		(293,411,829)
On balance sheet Gap	(284,273,200)	(81,608,102)	(4,573,913)	(370,455,215)	75,481,332	-	-	75,481,332		(293,411,829)
Off-balance sheet Items										
Bank guarantees	-	-	-	-	42,237,711	-	-	42,237,711		42,237,711
Irrevocable letters of credit	-	-	-	-	128,280,009	-	-	128,280,009		128,280,009
	-	-	-	-	170,517,720	-	-	170,517,720		170,517,720

Rupees

31 December 2006						
	Interest Bearing		Non-Interest Bearing			Total
	Upto one year	One to five years	Sub-Total	Upto one year	One to five years	
Rupees						
Financial assets						
Long term deposits	-	-	-	-	1,562,054	1,562,054
Trade debts	-	-	-	125,546,966	-	125,546,966
Advances and deposits	-	-	-	5,273,263	-	5,273,263
Other receivables	-	-	-	36,137,060	-	36,137,060
Cash and bank balances	-	-	-	15,564,744	-	15,564,744
	-	-	-	182,522,033	-	184,084,087
Financial liabilities						
Long term loan	-	-	-	-	-	-
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
Markup payable on secured loans	-	-	-	6,812,398	-	6,812,398
Short term bank borrowings - secured	281,508,946	-	281,508,946	-	-	281,508,946
	313,590,333	40,881,490	354,471,823	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	(273,195,887)
On balance sheet Gap	(313,590,333)	(40,881,490)	(354,471,823)	79,713,882	1,562,054	(273,195,887)
Off-balance sheet Items						
Bank guarantees	-	-	-	41,009,531	-	41,009,531
Irrevocable letters of credit	-	-	-	124,163,473	-	124,163,473
	-	-	-	165,173,004	-	165,173,004

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 risk 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.

38.2 Concentration of credit risk

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

Of the total financial assets of Rs. 210.323 million (2006: Rs. 184.084 million), financial assets which are subject to credit risk amount to Rs. 198.466 million (2006: Rs. 168.519 million). To manage exposure to credit risk, the Company applies credit limits to its customers and obtains advances from them.

38.3 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.

38.4 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 changes in gap position can be adjusted.

38.5 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.

38.6 Capital management

The Board's policy is to maintain an efficient capital base so as to maintain investors, creditors and market confidence and to sustain the future development of its business. The Board of Directors monitors the return on capital employed, which the Company defines as operating income divided by total capital employed. The Board of Directors also monitors the level of dividends to ordinary shareholders.

The Company's objectives when managing capital are:

- a) to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and
- b) to provide an adequate return to shareholders.

The Company manages the capital structure in the context of economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may, for example, adjust the amount of dividends paid to shareholders, issue new shares, or sell assets to reduce debt.

The Company monitors capital on the basis of the debt-to-equity ratio - calculated as a ratio of total debt to equity.

The debt-to-equity ratios as at 31 December 2007 and at 31 December 2006 were as follows:

	2007 Rupees	2006 Rupees
Total debt	370,455,215	354,471,823
Total equity and debt	820,647,641	730,252,514
Debt-to-equity ratio	45:55	49:51

The decrease in the debt-to-equity ratio in 2007 resulted primarily from retaining the profits for future projects.

Neither there were any changes in the Company's approach to capital management during the year nor the Company is subject to externally imposed capital requirements.

38.7 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 comprises subsidiary, associated companies, staff retirement funds, directors and key management personnel. Amounts due from and to related parties are shown under respective notes to the financial statements and remuneration of key management personnel is disclosed in note 37. Other significant transactions with related parties are as follows:

	2007 Rupees	2006 Rupees
39.1 Sales of goods		
Subsidiary	1,600,303,981	1,310,495,356
Associate	32,900,153	29,070,912

	2007 Rupees	2006 Rupees
39.2 Other related parties		
Contribution to Staff provident fund	10,422,264	9,008,859
Contribution to Employees' welfare trust	1,353,950	1,107,950

40. DIVIDENDS

The Board of Directors of the Company in their meeting held on 28th February 2008 have proposed final cash dividend at the rate of Rs. 1.5 (2006: Rs. 1.5) per share and 10% bonus shares (2006: 15%) per share for the year ended 31 December 2007, subject to the approval of shareholders in Annual General Meeting. 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 28th February 2008.

43. GENERAL

43.1 Corresponding figures


Previous year's figures have been rearranged, wherever necessary for the purpose of comparison. Material rearrangements are summarized below:

- Traveling and conveyance, Consultancy and professional and Office supplies expenses amounting to Rs. 614,870, Rs. 697,430 and Rs. 2,806,492 respectively, which were previously included in "Others" have now been reclassified and included as a separate line item under "Cost of sales" (note 27).
- Newspaper and subscription expenses amounting to Rs. 4,525,750 previously included in "Others" have now been reclassified and included as a separate line item under "Distribution, selling and promotional" (note 29).

43.2 Figures have been rounded off to the nearest rupee.



ASLAM HAFIZ
CHIEF EXECUTIVE OFFICER

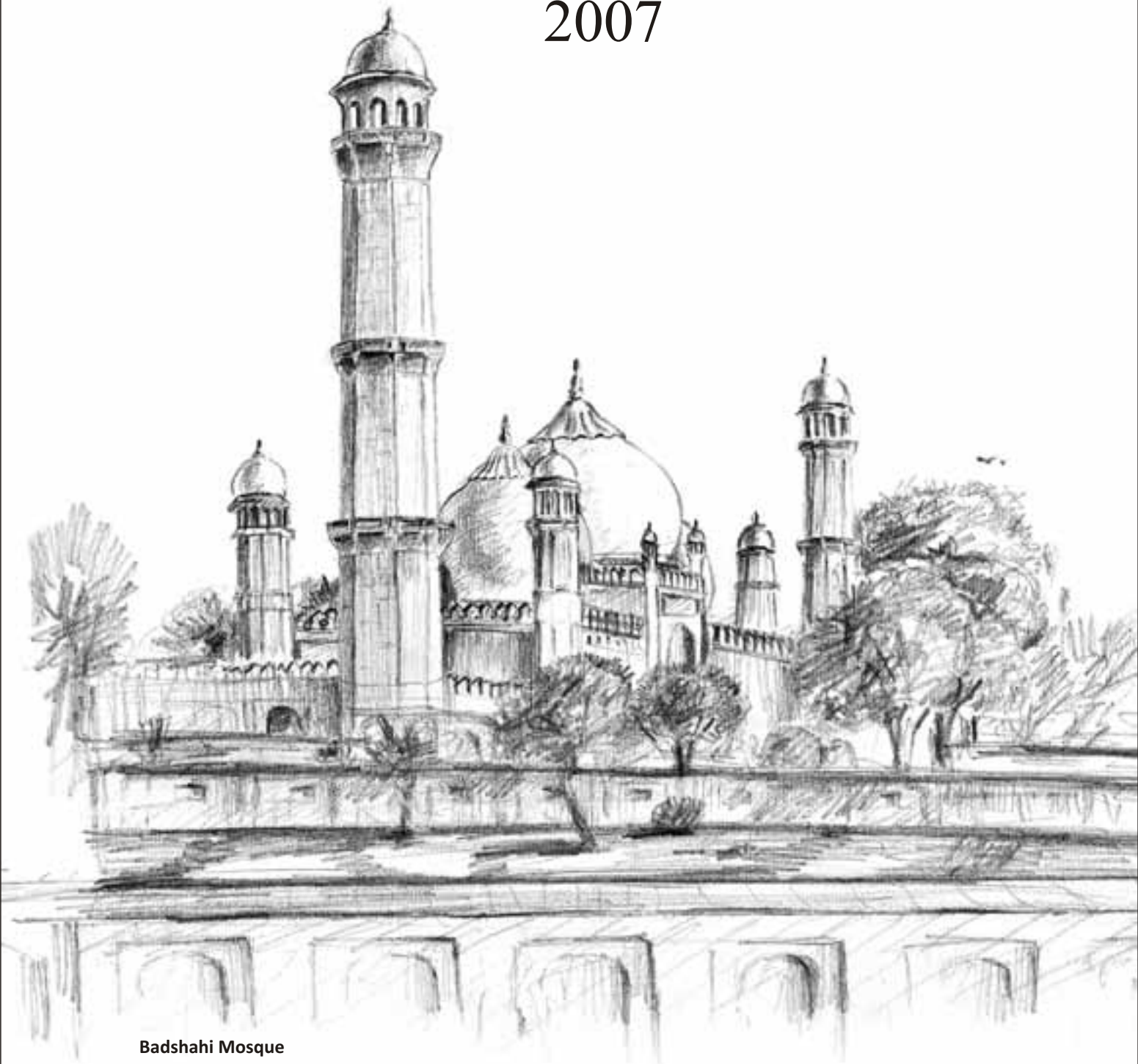


ANEE AHMAD KHAN
DIRECTOR

GROUP FINANCIAL STATEMENTS

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

2007



Badshahi Mosque



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 2007 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 2007 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.

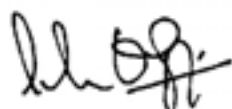
Lahore: 28 February 2008

KPMG Taseer Hadi & Co.
Chartered Accountants

CONSOLIDATED BALANCE SHEET

	<i>Note</i>	2007 Rupees	2006 Rupees
EQUITY AND LIABILITIES			
Share capital	6	150,252,210	130,654,100
Reserves	7	224,438,154	203,417,853
		374,690,364	334,071,953
Surplus on revaluation of assets	8	208,260,158	148,450,045
NON CURRENT LIABILITIES			
Long term loan - secured Liabilities against assets	9	28,968,113	-
subject to finance lease	10	58,978,534	43,063,568
Long term advances	11	15,566,011	14,092,840
Deferred liabilities	12	115,083,696	130,853,029
Deferred gain	13	1,021,970	4,348,230
		219,618,324	192,357,667
CURRENT LIABILITIES			
Trade and other payables	14	169,703,357	134,699,610
Mark-up payable on secured loans	15	8,133,461	6,853,445
Short term bank borrowings - secured	16	327,742,774	297,629,722
Income tax - net		22,135,517	2,133,204
Current portion of long term liabilities	17	36,696,493	39,464,794
		564,411,602	480,780,775
CONTINGENCIES AND COMMITMENTS	18	1,366,980,448	1,155,660,440

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 2007

	<i>Note</i>	2007 Rupees	2006 Rupees
NON CURRENT ASSETS			
Property, plant and equipment	19	642,316,430	537,662,340
Intangible assets	20	44,539,474	40,407,896
		686,855,904	578,070,236
Long term deposits		3,905,054	2,939,054
CURRENT ASSETS			
Stores, spares and loose tools	21	30,373	336,457
Stock in trade	22	528,917,064	401,963,874
Trade debts	23	62,119,683	33,374,855
Advances, deposits and prepayments	24	32,344,393	57,438,065
Other receivables	25	19,970,952	48,333,582
Cash and bank balances	26	32,837,025	33,204,317
		676,219,490	574,651,150
		1,366,980,448	1,155,660,440


ANEES AHMAD KILAN
 DIRECTOR

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2007

	<i>Note</i>	2007 Rupees	2006 Rupees
Sales - net	27	1,985,910,645	1,599,975,783
Cost of sales	28	1,186,320,867	935,745,317
GROSS PROFIT		799,589,778	664,230,466
Operating expenses			
Administrative and general	29	158,856,277	131,054,592
Distribution, selling and promotional	30	482,488,053	390,635,562
Finance cost	31	47,113,635	41,507,790
Research and development	32	10,663,578	7,492,402
		699,121,543	570,690,346
OPERATING PROFIT		100,468,235	93,540,120
Other operating income	33	13,512,728	16,853,904
		113,980,963	110,394,024
Other operating charges	34	16,958,901	10,484,672
PROFIT BEFORE TAXATION		97,022,062	99,909,352
Taxation	35	29,891,678	31,839,332
PROFIT AFTER TAXATION		67,130,384	68,070,020
Earnings per share - basic and diluted	36	4.47	4.53

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 2007

	2007 Rupees	2006 Rupees
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	97,022,062	99,909,352
Adjustments for non-cash charges and other items		
Depreciation	59,402,617	56,270,529
Amortization of intangible assets	5,588,616	4,868,883
Gain on sale of property, plant and equipment	(5,507,582)	(4,122,382)
Exchange loss	349,064	1,570,322
Provision for defined benefit obligation	21,973,988	19,524,389
Balances written back	-	(1,723,001)
Finance cost	47,113,635	41,507,790
Deterioration in Pallets	10,124	13,499
Amortization of deferred gain	(3,326,260)	(5,121,508)
	125,604,202	112,788,521
<i>Profit before working capital changes</i>	222,626,264	212,697,873
WORKING CAPITAL CHANGES		
<i>(Increase) / decrease in current assets</i>		
Stores, spares and loose tools	295,960	-
Stock in trade	(126,953,190)	(91,802,841)
Trade debts	(28,699,898)	1,321,896
Advances, deposits and prepayments	25,093,672	(22,547,541)
Other receivables	28,362,630	40,410,697
<i>Increase in current liabilities</i>		
Trade and other payables	33,999,708	36,768,695
	(67,901,118)	(35,849,094)
Cash generated from operations	154,725,146	176,848,779
Taxes paid	(34,656,363)	(12,933,453)
Gratuity paid	(12,976,323)	(11,607,469)
Finance cost paid	(34,217,490)	(32,233,765)
Long term deposits	(966,000)	(1,327,289)
Long term advances - net	3,552,888	3,678,009
<i>Net cash generated from operating activities</i>	75,461,858	122,424,812

	<i>Note</i>	2007 Rupees	2006 Rupees
CASH FLOWS FROM INVESTING ACTIVITIES			
Fixed capital expenditure		(46,968,766)	(33,723,395)
Intangible assets acquired		(9,720,194)	(3,284,525)
Sale proceeds from disposal of property, plant and equipment		16,040,392	20,488,754
<i>Net cash used in Investing activities</i>		(40,648,568)	(16,519,166)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of long term liabilities		-	(17,840,000)
Proceeds from long term loan		30,492,750	-
Repayment of finance lease liabilities		(61,772,569)	(52,713,479)
Short term bank borrowings - net		30,113,052	(10,151,185)
Dividend paid		(34,013,815)	(16,573,584)
<i>Net cash used in financing activities</i>		(35,180,582)	(97,278,248)
Net (decrease) / increase in cash and cash equivalents		(367,292)	8,627,398
Cash and cash equivalents at beginning of the year		33,204,317	24,576,919
Cash and cash equivalents at end of the year	26	32,837,025	33,204,317

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



ASLAM HAFIZ
CHIEF EXECUTIVE OFFICER




ANEES GHIMAD KHAN
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2007

	SHARE CAPITAL	REVENUE RESERVES			TOTAL
		GENERAL RESERVE	UN-APPROPRIATED PROFIT	SUB TOTAL	
..... Rupees					
Balance as at 01 January 2006	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)	-
	<u>130,654,100</u>	<u>114,000,000</u>	<u>12,334,625</u>	<u>126,334,625</u>	<u>256,988,725</u>
Current year incremental depreciation - net of tax	-	-	9,013,208	9,013,208	9,013,208
Profit for the year	-	-	68,070,020	68,070,020	68,070,020
Total recognised income and expense for the year	-	-	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
Final dividend for the year ended 31 December 2006 @ Rs. 1.5 per share	-	-	(19,598,639)	(19,598,639)	(19,598,639)
Issuance of bonus shares @ 15%	19,598,110	-	(19,598,110)	(19,598,110)	-
Interim dividend for the year ended 31 December 2007 @ Re. 1 per share	-	-	(15,025,221)	(15,025,221)	(15,025,221)
	<u>150,252,210</u>	<u>114,000,000</u>	<u>35,195,883</u>	<u>149,195,883</u>	<u>299,448,093</u>
Current year incremental depreciation - net of tax	-	-	8,111,887	8,111,887	8,111,887
Profit for the year after taxation	-	-	67,130,384	67,130,384	67,130,384
Total recognised income and expense for the year	-	-	75,242,271	75,242,271	75,242,271
Balance as at 31 December 2007	150,252,210	114,000,000	110,438,154	224,438,154	374,690,364

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



ASLAM HAFIZ
CHIEF EXECUTIVE OFFICER



ANEEES GHIMAD KHAN
DIRECTOR

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

1. STATUS AND NATURE OF BUSINESS

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

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

DSL was incorporated as a private limited company in Pakistan on 27 April 2004 under the Companies Ordinance, 1984 and become 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 House # 65, Street 13, Cavalry Ground, Lahore Cantt.

2. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board 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

Accounting Convention

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

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.

The areas where various assumptions and estimates are significant to group's financial statements or where judgments were exercised in application of accounting policies are as follows:

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

4. BASIS OF CONSOLIDATION

The consolidated financial statements includes 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 shareholders' equity in the consolidated financial statements. Intra-group balances, transactions, income and expenses have also been eliminated. Unrealised gains arising on intra-group transactions recognized in assets are also eliminated. 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 2007. The Projected Unit Credit Method, with the following significant assumptions, was used for the valuation of this scheme:

	2007	2006
- Discount rate	10% per annum	10% per annum
- Expected rate of increase in salary	9% per annum	9% 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 amortized over a period of 5 year.

Defined contribution plan

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

Compensated leave absences

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

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 currently.

5.3 Trade and other payables

Trade and other payables are initially carried at fair value 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 19.1 to write off the cost / revalued amount of an asset over its estimated useful life. The assets' residual values and useful lives are reviewed at each financial year end and adjusted, if its impact on depreciation is significant. Full month's depreciation is charged on additions, while no depreciation is charged in the month of disposal or deletion or transfer of assets. Surplus on revaluation of fixed assets relating to incremental depreciation (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 profit.

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 agreement and the fair value of the leased assets at the commencement of lease, less accumulated depreciation and any identified impairment loss.

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 finance lease are depreciated over the useful lives of assets on reducing balance method at the rates given in note 19.1. 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 assets

Capital work in progress

Capital work in progress is stated at cost less any identified impairment loss 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 includes 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 any identified impairment loss. Amortization is charged to the income on monthly basis following the straight line method over a maximum period of ten years. Amortization on additions is charged from the month of use, while for disposals, no amortization is charged in the month of disposal.

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

5.8 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.

5.9 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.

5.10 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 amortized 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.

5.11 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.

5.12 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 previously recognised impairment losses. If any such indication exists, the recoverable amount of such asset is estimated.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups.

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".

5.17 Dividends

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

5.18 Financial instruments

These comprise financial assets and financial liabilities. Significant financial assets include trade debts, advances and deposits, other receivables and cash and bank balances. Significant financial liabilities include long term and short term 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 asset 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 currently. 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 group has legally enforceable right to offset the recognized amounts and intends to settle either on a net basis or realize the asset and settle the liability simultaneously.

5.19 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.

5.20 Initial Application of a standard or an Interpretation

Standards, amendments and interpretations effective in 2007

Amendment to IAS 1 - "Presentation of Financial Statements - Capital Disclosures", introduces new disclosures about the level of an Groups' capital and how it manages capital. Adoption of this amendment has only resulted in additional disclosures given in note 39.6 to the financial statements.

Standards, interpretations and amendments to published approved accounting standards that are relevant but not yet effective.

Revised IAS 23 - Borrowing Costs removes the option to expense borrowing costs and requires that an entity capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The application of this revised standard is not likely to have any effect on groups' financial statements.

	<i>Note</i>	2007 Rupees	2006 Rupees
6 SHARE CAPITAL			
Authorized			
20,000,000 (2006: 15,000,000) Ordinary shares of Rs. 10 each		200,000,000	150,000,000
Issued, subscribed and paid-up			
5,905,000 (2006: 5,905,000) Ordinary shares of Rs. 10 each fully paid in cash		59,050,000	59,050,000
95,000 (2006: 95,000) Ordinary shares of Rs.10 each issued for consideration other than cash	6.1	950,000	950,000
9,025,221 (2006: 7,065,410) as fully paid bonus shares of Rs. 10 each		90,252,210	70,654,100
		150,252,210	130,654,100

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

	2007	2006
	(Number of Shares)	
Opening balance	13,065,410	11,361,226
Issued fully paid bonus shares	1,959,811	1,704,184
	<u>15,025,221</u>	<u>13,065,410</u>

	<i>Note</i>	2007	2006
		Rupees	Rupees
7. RESERVES			
<i>Revenue</i>			
General reserve		114,000,000	114,000,000
Unappropriated profit		110,438,154	89,417,853
		<u>224,438,154</u>	<u>203,417,853</u>

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. During 2007 the Group has revalued its freehold land. This has been adjusted by surplus realized on disposal of revalued assets and incremental depreciation arising due to revaluation net of deferred tax.

Surplus on revaluation of fixed assets as at 01 January	192,129,438	205,995,912
Surplus arising on revaluation of assets during the year	67,922,000	-
Surplus relating to incremental depreciation charged on related assets - transferred to unappropriated profit		
Net of deferred tax	(8,111,887)	(9,013,208)
Related deferred tax liability	(4,367,939)	(4,853,266)
	<u>(12,479,826)</u>	<u>(13,866,474)</u>
Surplus on revaluation of assets as at 31 December	247,571,612	192,129,438
Less: Related deferred tax liability on		
Balance at the beginning of the year	43,679,393	48,532,659
Transferred to profit and loss account incremental depreciation charged during the year	(4,367,939)	(4,853,266)
	<u>39,311,454</u>	<u>43,679,393</u>
	<u>208,260,158</u>	<u>148,450,045</u>

12.1

	<i>Note</i>	2007 Rupees	2006 Rupees
9. LONG TERM LOAN - SECURED			
Habib Bank Limited	<i>9.1</i>	30,492,750	-
Less: Current portion shown under current liabilities	<i>17</i>	1,524,637	-
		28,968,113	-

9.1 This loan has been obtained by HNL for the purpose of expansion and carries markup at the rate of three months KIBOR plus 2.25% per annum. The effective markup rate charged during the year was 12%. Of the aggregate facility of Rs. 150 million, the amount availed as at 31 December 2007 is Rs. 30.493 million (2006: Nil), repayable in 20 equal quarterly installments commencing from November 2008. The loan is secured by way of joint pari passu charge on the fixed assets of the Group.

10. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

The amount of future payments and period during which they fall due are :

Minimum lease payments due			
Not later than one year		39,832,864	44,371,698
Later than one year and not later than five years		69,485,744	50,714,076
		109,318,608	95,085,774
Less: future finance cost		19,914,931	15,224,408
Present value of minimum lease payments	<i>10.1</i>	89,403,677	79,861,366
Less: Current portion shown under current liabilities	<i>17</i>	30,425,143	36,797,798
		58,978,534	43,063,568
10.1 Break-up of present value of minimum lease payments			
Not later than one year		30,425,143	36,797,798
Later than one year and not later than five years		58,978,534	43,063,568
		89,403,677	79,861,366

Depending on the terms of the agreement, lease payments bear pre-determined markup rates ranging from 7.50% to 14.94% (2006: 7.25% to 14.10%) or are repriced quarterly /semi-annually at the rates equivalent to three months KIBOR to six months KIBOR plus 200 to 350 basis points (2006: six months KIBOR plus 240 to 350 basis points). These markup rates are used as discounting factors to determine the present value of minimum lease payments.

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

	<i>Note</i>	2007 Rupees	2006 Rupees
11. LONG TERM ADVANCES			
Balance at the end of year		20,312,724	16,759,836
Less: current portion shown under current liabilities	17	4,746,713	2,666,996
		15,566,011	14,092,840

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

12. DEFERRED LIABILITIES

Taxation	12.1	47,073,208	71,840,206
Gratuity	12.2	68,010,488	59,012,823
		115,083,696	130,853,029

12.1 Taxable temporary differences arising in respect of			
Surplus on revaluation of fixed assets	8	39,311,454	43,679,393
Accelerated tax depreciation		7,761,754	28,160,813
		47,073,208	71,840,206

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

Present value of defined benefit obligation		90,159,674	78,007,892
Unrecognized actuarial losses		(22,512,586)	(20,222,181)
Benefits due but not paid		363,400	1,227,112
Net liability as at 31 December		68,010,488	59,012,823

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

Liability as at 01 January		59,012,823	51,095,903
Amount recognized during the year	12.2.3	21,973,988	19,524,389
Benefit payments made by HNL		(12,976,323)	(11,607,469)
Net liability as at 31 December		68,010,488	59,012,823

	2007	2006
	Rupees	Rupees
12.2.2 Movement in the liability for un - funded defined benefit obligations		
Present value of defined benefit obligations as at 01 January	78,007,892	75,380,276
Current service costs	11,688,921	9,197,232
Interest cost	7,800,789	6,784,225
Benefits due but not paid	(363,400)	(1,227,112)
Benefits paid by the plan	(11,749,211)	(10,639,156)
Actuarial losses / (gains) recognized	4,774,683	(1,487,573)
Liability for defined benefit obligations as at 31 December	90,159,674	78,007,892

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

Current service costs	11,688,921	9,197,232
Interest cost	7,800,789	6,784,225
Actuarial losses - charge for the year	2,484,278	3,542,932
	21,973,988	19,524,389

12.2.4 Historical Information for Gratuity plan

	2007	2006	2005	2004	2003
	Rupees	Rupees	Rupees	Rupees	Rupees
Present value of defined benefits obligations	90,159,674	78,007,892	75,380,276	56,671,886	50,439,927
Experience adjustment arising on plan liabilities	4,774,683	(1,487,573)	13,836,183	-	14,014,662

	<i>Note</i>	2007 Rupees	2006 Rupees
13. DEFERRED GAIN			
Balance as on 01 January		4,348,230	9,469,738
Less: amortization for the year	33	3,326,260	5,121,508
Balance as on 31 December		1,021,970	4,348,230
14. TRADE AND OTHER PAYABLES			
Trade creditors		53,680,513	38,763,805
Bills payable		42,422,515	28,582,090
Advances from customers		9,798,406	13,892,713
Accrued expenses		35,186,752	26,106,645
Income tax deducted at source		281,694	1,491,519
Workers' Profit Participation Fund	14.1	11,745,361	9,842,754
Workers' Welfare Fund		9,904,114	7,188,830
Payable to Central Research Fund		1,289,329	1,840,468
Payable to Provident Fund Trust		1,940,410	4,170,368
Un-claimed dividends		3,214,363	2,604,318
Payable to Employees Welfare Trust		239,900	216,100
		169,703,357	134,699,610
14.1 Workers' Profit Participation Fund			
Balance at the beginning of the year		9,842,754	6,642,191
Add: provision for the year	34	6,645,783	5,722,031
		16,488,537	12,364,222
Add: interest on funds utilized by HNL	31	1,353,876	1,494,493
		17,842,413	13,858,715
Less: Paid during the year to the trustees of the fund		5,316,971	1,062,000
Deposited with the Government Treasury		780,081	2,953,961
		6,097,052	4,015,961
		11,745,361	9,842,754

Mark up @ 22.5% (2006: 22.50%) is being provided on the unpaid balance of the fund in accordance with the rules of the fund

	<i>Note</i>	2007 Rupees	2006 Rupees
15. MARKUP PAYABLE ON SECURED LOANS			
On cash finances		1,432,206	2,585,530
On other borrowings		6,701,255	4,267,915
		8,133,461	6,853,445
16. SHORT TERM BANK BORROWINGS - SECURED			
Running finance	<i>16.1</i>	219,776,411	191,220,674
Cash finance	<i>16.2</i>	41,773,063	88,328,604
Import credit	<i>16.3</i>	66,193,300	18,080,444
		327,742,774	297,629,722

16.1 Short term running finances are availed from various banks against aggregate sanctioned limit of Rs. 490 million (2006: Rs. 295 million). These facilities have various maturity dates upto 31st August 2008. These facilities carry mark-up rates ranging from one month KIBOR to three months KIBOR plus 150 to 250 basis points (2006: one month KIBOR to six months KIBOR plus 185 to 250 basis points) per annum. These finances are secured by way of joint pari passu and ranking hypothecation charge over present and future current and fixed assets of the group.

16.2 These finances are availed from various banks against aggregate sanctioned limit of Rs. 155 million (2006: Rs. 280 million) and carry mark up equivalent to the rate of one month KIBOR plus 200 to 250 basis points (2006: one month KIBOR to six months KIBOR plus 185 to 250 basis points) per annum. These finances are secured by way of pledge of stocks and have various maturity dates upto 31st August 2008.

16.3 Aggregate sanctioned import credit facilities negotiated with various banks amount to Rs. 270 million (2006: Rs. 70 million). These facilities carry mark-up rate ranging from one month KIBOR to six months KIBOR plus 150 - 250 basis points (2006: six month KIBOR plus 250 bps) per annum. These facilities are secured by way of joint pari passu charge over the present and future current and fixed assets of the group and have various maturity dates upto 31st August 2008.

	<i>Note</i>	2007 Rupees	2006 Rupees
17. CURRENT PORTION OF LONG TERM LIABILITIES			
Long term loan	9	1,524,637	-
Liabilities against assets subject to finance lease	10	30,425,143	36,797,798
Long term advances	11	4,746,713	2,666,996
		36,696,493	39,464,794

18. CONTINGENCIES AND COMMITMENTS

Contingencies

- Bank guarantees issued on behalf of HNL aggregating to Rs. 2.238 million (2006: Rs. 1.009 million).
- HNL has not acknowledged the demand relating to sales tax / central excise duty amounting to Rs. 16.641 million (2006: Rs. 20.798 million) as debt as the matter is pending adjudication. An amount of Rs. 6.981 million (2006: 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 amounts to Rs. 40 million (2006: Rs. 40 million) against its working capital finance limits.

	2007	2006
	(Rupees in thousand)	
Commitments		
- HNL's Commitments against irrevocable letters of credit include:		
Plant and machinery	36,286	31,670
Raw materials	75,631	84,910
Packing materials	4,602	960
Finished goods	11,789	6,622
- Facilities of letter of guarantee amounting to Rs. 9.209 million (2006: 18.991 million) are available to the Group under hypothecation of stocks and joint pari passu charge on present and future current and fixed assets of Group.		

	<i>Note</i>	2007 Rupees	2006 Rupees
19. PROPERTY, PLANT AND EQUIPMENT			
Operating assets (owned)	19.1	463,122,173	368,078,377
Operating assets (leased)	19.1	125,203,227	155,132,518
Capital work-in-progress	19.2	53,991,030	14,451,445
		642,316,430	537,662,340

19.1 Operating assets

PARTICULARS	COST			DEPRECIATION			BOOK VALUE as at 31 December 2007	Rate %	
	As at 01 January 2007	DURING THE YEAR		As at 31 December 2007	For the year	Adjustment			As at 31 December 2007
		Additions/ revaluation	Deletions						
..... Rupees									
OWNED									
Land - Freehold	81,898,000	67,922,000	-	149,820,000	-	-	-	-	
Building on freehold land	168,908,691	-	-	168,908,691	9,961,594	-	79,254,347	10	
Plant and machinery	193,151,549	42,699,356	-	235,850,905	14,433,036	-	87,328,670	10	
Laboratory equipment	6,163,063	-	-	6,163,063	428,105	-	2,310,121	10	
Furniture and fixtures	16,716,701	658,048	-	17,374,749	707,880	-	5,817,000	10	
Electric and gas appliances	19,933,206	1,535,389	-	21,468,595	1,153,828	-	10,287,437	10	
Office equipment	24,786,398	5,878,402	(6,725)	30,658,075	2,246,496	(923)	12,347,233	10	
Vehicles	28,146,828	28,181,523	(20,665,221)	35,663,130	4,388,308	(2,169,779)	5,534,115	20	
Library books	52,806	-	-	52,806	648	-	46,971	10	
Neon sign	105,000	-	-	105,000	7,079	-	41,287	10	
Arms and ammunition	106,100	-	-	106,100	2,704	-	81,761	10	
	539,968,342	146,874,718	(20,671,946)	666,171,114	33,329,678	(2,170,702)	203,048,941		
							463,122,173		
ASSETS SUBJECT TO FINANCE LEASE									
Plant and machinery	94,083,757	4,000,000	(70,122,134)	27,961,623	4,093,874	(32,386,238)	7,231,187	10	
Office Equipment	21,171,274	-	(565,944)	20,605,330	1,622,705	(150,430)	6,237,036	10	
Vehicles	111,840,656	55,698,751	(46,454,500)	121,084,907	20,356,560	(21,050,807)	30,980,410	20	
	227,095,687	59,698,751	(117,142,578)	169,651,860	26,072,939	(53,587,475)	44,448,633		
	767,064,029	206,573,469	(137,814,524)	835,822,974	59,402,617	(55,758,177)	247,497,574		
							588,325,400		

PARTICULARS	COST			DEPRECIATION			BOOK VALUE as at 31 December 2006	Rate %		
	As at 01 January 2006	DURING THE YEAR		As at 01 January 2006	For the year	Adjustment			As at 31 December 2006	
		Additions/ revaluation	Deletions							
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	
	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	

19.1.1 Addition in freehold assets includes transfer of assets costing Rs. 117,142,578 (2006: Rs. 30,162,450) less accumulated depreciation of Rs. 53,587,475 (2006: Rs. 13,735,428) from leasehold assets. Whereas addition in leasehold include assets costing Rs. 8,103,492 (2006: Rs. 11,408,924) less accumulated depreciation of Rs. 135,058 (2006: Rs. 371,265) transfer from freehold assets under sale and leaseback arrangements.

	<i>Note</i>	2007 Rupees	2006 Rupees
19.1.2 Depreciation charge has been allocated as under:			
Cost of sales	28	30,874,281	32,762,161
Administrative and general	29	13,729,481	11,655,964
Distribution, selling and promotional	30	14,798,855	11,852,404
		59,402,617	56,270,529

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. During the year revaluation of HNL's land has been carried out by an approved and independent valuer namely M/s Surval on 01 January 2007 resulting in revaluation surplus of Rs. 67,922,000.

	2007 Rupees	2006 Rupees
19.1.4 Had the assets not been revalued the carrying values would have been:		
Land - Freehold	14,566,828	14,566,828
Building on freehold land	46,748,378	51,942,644
Plant and machinery (Owned)	83,246,897	52,440,926
Plant and machinery (Leased)	16,593,300	46,659,472
	161,155,403	165,609,870

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							
	Muhammad Asghar	58,500	28,935	29,565	58,500	28,935	Company Policy
	Muhammad Ahsan	58,500	28,935	29,565	58,500	28,935	Company Policy
	Syed Ali Ahmar Abidi	58,500	28,935	29,565	58,500	28,935	Company Policy
	Muhammad Shahid	58,500	28,935	29,565	58,500	28,935	Company Policy
	Abdul Naveed	58,500	28,935	29,565	58,500	28,935	Company Policy
	Waqar Khan	58,500	28,935	29,565	58,500	28,935	Company Policy
	Sadiq Hussain	58,500	28,935	29,565	58,500	28,935	Company Policy
	Muhammad Tahir	58,500	28,935	29,565	58,500	28,935	Company Policy
	Muhammad Zahid	58,500	28,935	29,565	58,500	28,935	Company Policy
	Reliance Insurance Co. Limited	54,000	18,586	35,414	54,000	18,586	Insurance Claim
	Reliance Insurance Co. Limited	58,500	29,921	28,579	45,000	16,421	Insurance Claim
	Naseeb Ullah	58,500	30,317	28,183	40,896	12,713	Company Policy
	Siraj Ud Din	54,000	18,268	35,732	54,000	18,268	Company Policy
	Muhammad Sohail Ashraf	54,000	13,526	40,474	54,000	13,526	Company Policy
	Fawad Habib Ullah	54,000	17,469	36,531	54,000	17,469	Company Policy
	Ihsan Ullah Khattak	357,000	202,166	154,834	258,764	103,930	Company Policy
	Muhammad Tariq	1,350,000	831,470	518,530	700,000	181,470	Negotiation
	M. Haider Khurshid	357,000	214,649	142,351	255,193	112,842	Company Policy
	Muhammad Asim	373,000	279,238	93,762	240,731	146,969	Company Policy
	Shahid Najam Farooqi	58,500	30,415	28,085	37,962	9,877	Company Policy
	Rahat Ullah Siddiqui	343,500	199,659	143,841	250,058	106,217	Company Policy
	Rehmatullah	54,000	20,085	33,915	49,971	16,056	Company Policy
	Mian Ahson Farooq	1,084,000	647,502	436,498	-	(436,498)	Company Policy
	Dr. Yahya Jan	2,616,500	1,519,704	1,096,796	750,000	(346,796)	Negotiation
	Muhammad Hassan	54,000	21,536	32,464	54,000	21,536	Company Policy
	Kamran Hussain	54,000	19,358	34,642	54,000	19,358	Company Policy
	Fahad Saleem	54,000	19,358	34,642	54,000	19,358	Company Policy
	M. Moazzam Hassan Zeeshan	54,000	16,901	37,099	54,000	16,901	Company Policy
	Maqbool Ahmed	894,000	723,213	170,787	1,256,425	1,085,638	Negotiation
	Zeeshan Akbar Ch	352,000	197,040	154,960	230,000	75,040	Negotiation
	Muhammad Islam	367,000	295,685	71,315	250,000	178,685	Negotiation
	M. Khurram Yousuf	370,000	305,671	64,329	260,000	195,671	Negotiation
	M. Zafar Ullah Khan	58,500	33,608	24,892	40,896	16,004	Company Policy
	Muhammad Anwar	58,500	32,261	26,239	40,880	14,641	Company Policy
	Muhammad Mubashir Noor	54,000	23,186	30,814	52,654	21,840	Company Policy
	Intasar Hussain Syed	58,500	32,747	25,753	31,779	6,026	Company Policy
	Adnan Irshad	343,500	209,933	133,567	240,340	106,773	Company Policy
	Kashif Naseer	54,000	21,878	32,122	54,000	21,878	Company Policy
	Abdul Rauf	555,000	378,920	176,080	370,440	194,360	Company Policy
	Jawad Zafar	555,000	378,920	176,080	373,740	197,660	Company Policy
	Asim Munir	555,000	378,920	176,080	373,740	197,660	Company Policy
	Idrees Khalid	356,000	214,819	141,181	254,382	113,201	Company Policy
	Mansoor Akhtar Leghari	357,500	239,246	118,254	249,924	131,670	Company Policy
	Fazal H. Rizwan Peerzada	564,000	383,091	180,909	374,416	193,507	Company Policy
	Iram Naila	350,500	234,769	115,731	232,680	116,949	Company Policy
	Waseem Ahmad	58,500	34,355	24,145	45,252	21,107	Company Policy
	Bashir Ahmad Khan	58,500	28,434	30,066	58,500	28,434	Company Policy
	Muhammad Asim Ansari	58,500	28,935	29,565	58,500	28,935	Company Policy
	Syed Muzhair Raza Shah	58,500	28,434	30,066	58,500	28,434	Company Policy
	Shahzad Fareed	58,500	28,935	29,565	58,500	28,935	Company Policy
	Tahir Mehmood	58,500	28,935	29,565	58,500	28,935	Company Policy

Particulars	Sold to	Cost**	Accumulated Depreciation**	Written Down Value	Sale Proceeds	Gain / (Loss)	Mode of Sale
Rupees							
	Sarfaraz Warsi	58,500	28,935	29,565	58,500	28,935	Company Policy
	Abdul Khaliq	58,500	28,935	29,565	58,500	28,935	Company Policy
	Muhammad Qasim Munir	566,000	256,687	309,313	449,329	140,016	Company Policy
	Saqib Sajjad	567,000	233,755	333,245	450,122	116,877	Company Policy
	Omer Ali	357,000	158,222	198,778	293,176	94,398	Company Policy
	Zahid Abbas	54,000	15,024	38,976	54,941	15,965	Company Policy
	Reliance Insurance Co. Limited	560,000	91,933	468,067	525,000	56,933	Insurance Claim
	Reliance Insurance Co. Limited	54,000	8,865	45,135	50,000	4,865	Insurance Claim
	Reliance Insurance Co. Limited	365,000	60,833	304,167	355,000	50,833	Insurance Claim
	Kamran Ikram Ud din	555,000	209,255	345,745	550,650	204,905	Company Policy
	Dr. Arham Sajjad	629,000	272,063	356,937	514,674	157,737	Company Policy
	Jawad Naeem	566,000	261,718	304,282	463,489	159,207	Company Policy
	Iftikhar Abbas	54,000	16,368	37,632	55,060	17,428	Company Policy
	Reliance Insurance Co. Limited	365,000	81,111	283,889	365,000	81,111	Insurance Claim
	Zaid Aziz Khan	58,500	29,937	28,563	58,500	29,937	Company Policy
	Nadeem Younus	58,500	30,438	28,062	59,973	31,911	Company Policy
	Inayat Khan	58,500	30,438	28,062	59,988	31,926	Company Policy
	Mukhtar Ali Shah	54,000	14,250	39,750	55,066	15,316	Company Policy
	Muhammad Arshad	54,500	7,875	46,625	58,032	11,407	Company Policy
	Shahid Mehmood	54,500	5,450	49,050	57,654	8,604	Company Policy
	Muhammad Shaharyar Ilyas	58,500	28,184	30,316	58,500	28,184	Company Policy
	Muhammad Kashif Khan	54,000	21,503	32,497	56,718	24,221	Company Policy
	Asif Naseem	54,000	20,952	33,048	54,000	20,952	Company Policy
	Syed Wasim Raza	54,500	18,486	36,014	58,968	22,954	Company Policy
	Muhammad Asif Malik	54,000	17,064	36,936	58,000	21,064	Company Policy
	Jawad Maqsood	54,000	15,120	38,880	54,000	15,120	Company Policy
	Ahmed Aziz	54,000	15,768	38,232	56,651	18,419	Company Policy
	Amjad Ali Mumtaz	58,500	28,184	30,316	54,000	23,684	Company Policy
	Mansoor Ul Hasan	54,000	18,295	35,705	59,359	23,654	Company Policy
	Nawaz Irfan	54,000	17,680	36,320	54,000	17,680	Company Policy
	Muhammad Saleem	54,500	24,678	29,822	50,000	20,178	Company Policy
	Anwar Saeed	629,000	303,933	325,067	503,198	178,131	Company Policy
	Baqar Hasan	790,500	381,970	408,530	500,000	91,470	Negotiation
	Kashif Iftikhar	357,000	184,269	172,731	281,561	108,830	Company Policy
	Syed Israr Hussain Zaidi	362,000	178,036	183,964	277,061	93,097	Company Policy
	Mohsin Khan	379,000	198,961	180,039	283,826	103,787	Company Policy
	Abdul Hafeez	54,500	20,589	33,911	52,597	18,686	Company Policy
	Babar Rasheed Khan	54,500	18,486	36,014	49,163	13,149	Company Policy
	Siraj ud Din Zafar	379,000	198,961	180,039	164,463	(15,576)	Company Policy
	Farhan Saeed	54,500	26,803	27,697	54,500	26,803	Company Policy
	Reliance Insurance Co. Limited	54,000	9,000	45,000	52,000	7,000	Insurance Claim
		22,788,500	12,261,492	10,527,008	16,036,342	5,509,334	
	OFFICE EQUIPMENT						
	Universal Insurance	6,725	923	5,802	4,050	(1,752)	Insurance Claim
	2007	22,795,225	12,262,415	10,532,810	16,040,392	5,507,582	
	2006	12,336,455	7,007,746	5,328,709	9,451,091	4,122,382	

** Cost represents the purchase price of the asset at the time of acquisition / lease. Accumulated depreciation also includes depreciation during the lease period. The above detail excludes assets which have been sold and leased back during the year.

	<i>Note</i>	2007 Rupees	2006 Rupees
19.2 CAPITAL WORK - IN - PROGRESS			
Civil works		1,060,914	-
Plant and machinery - owned		49,300,916	4,962,385
Advance for purchase of vehicles		2,829,200	2,975,000
ERP system implementation		800,000	6,514,060
	<i>19.2.1</i>	53,991,030	14,451,445
19.2.1 Movement in the account is as follows:			
Opening balance as at 01 January		14,451,445	3,221,486
Addition during the year			
- Civil works		1,060,914	-
- Plant and machinery - owned		44,338,531	6,786,735
- Advance for purchase of vehicles		2,829,200	2,975,000
- ERP system implementation		400,000	3,292,574
		48,628,645	13,054,309
Capitalized during the year			
- Plant and machinery - owned		-	(1,824,350)
- Advance for purchase of vehicles		(2,975,000)	-
- ERP system implementation		(6,114,060)	-
Closing balance as at 31 December		53,991,030	14,451,445

20. INTANGIBLE ASSETS

	COST		AMORTISATION			BOOK VALUE as at 31 December 2007	Rate %
	As at 01 January 2007	As at 31 December 2007	As at 01 January 2007	For the year	As at 31 December 2007		
Registration and trademark (Note 20.1)	47,094,117	47,094,117	9,811,275	4,709,412	14,520,687	32,573,430	10
Computer Software	3,284,525	13,004,719	159,471	879,204	1,038,675	11,966,044	10
	50,378,642	60,098,836	9,970,746	5,588,616	15,559,362	44,539,474	

Rupees

	COST		AMORTIZATION			BOOK VALUE as at 31 December 2006	Rate %
	As at 01 January 2006	As at 31 December 2006	As at 01 January 2006	For the year	As at 31 December 2006		
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	-	159,471	159,471	3,125,054	10
	47,094,117	50,378,642	5,101,863	4,868,883	9,970,746	40,407,896	

Rupees

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 Almira Prodesfarma, Spain for consideration of 500,000 Euro net of local taxes.

	<i>Note</i>	2007 Rupees	2006 Rupees
20.2 Amortization charge has been allocated as under			
Cost of sales	28	4,709,412	4,709,412
Distribution, selling and promotional	30	879,204	159,471
		5,588,616	4,868,883
21 STORES, SPARES AND LOOSE TOOLS			
Stores		-	295,960
Pallets		40,497	53,996
Less: Deterioration of pallets		10,124	13,499
		30,373	40,497
		30,373	336,457
22. STOCK IN TRADE			
Raw materials			
In hand		135,442,011	77,719,784
In pledge		60,930,157	83,523,419
In transit		39,000,362	25,756,547
		235,372,530	186,999,750
Packing material			
In hand		30,236,062	28,646,591
In pledge		-	4,416,104
In transit		1,875,540	-
With third party		49,031	2,229,932
		32,160,633	35,292,627
Work in process		40,336,092	18,296,869
Finished goods			
In hand		212,698,857	140,671,882
In pledge		-	16,654,765
In transit		8,348,952	4,047,981
		221,047,809	161,374,628
		528,917,064	401,963,874

	<i>Note</i>	2007 Rupees	2006 Rupees
23. TRADE DEBTS - Considered good			
Secured - against letters of credit		4,619,021	5,241,670
Unsecured			
Due from related parties			
Associated - Route - 2 Health (Pvt.) Limited	23.1	463,898	1,008,516
Others		57,036,764	27,124,669
		62,119,683	33,374,855

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

24. ADVANCES, DEPOSITS AND PREPAYMENTS

Advances - considered good			
Staff against:			
Expenses		6,167,119	5,130,610
Salary		1,104,978	410,978
Suppliers		12,169,567	38,492,537
Letters of credit		369,357	416,046
Deposits:			
Securities		5,823,788	5,413,211
Bank guarantee margin		1,446,811	218,651
Prepayments		5,262,773	7,356,032
		32,344,393	57,438,065

25. OTHER RECEIVABLES - considered good

Claims receivable		3,884,439	4,766,128
Freight subsidy receivable		113,679	643,160
Sales tax and excise duty	25.1	7,930,637	2,163,144
Receivable from foreign principals		1,966,114	39,914,620
Others		6,076,083	846,530
		19,970,952	48,333,582

25.1 As referred to in note 18, this includes Rs. 6.981 million (2006: Rs. 1.9 million) deposited for grant of stay against demand of sales tax / excise duty paid under protest to sales tax department.

	2007 Rupees	2006 Rupees
26. CASH AND BANK BALANCES		
Cash and Imprest	7,334,517	5,494,988
Balance with banks on current accounts		
Local currency-current accounts	17,408,685	18,500,831
In transit	-	7,051,606
Foreign currency	-	87,098
	17,408,685	25,639,535
Cheques in hand	8,093,823	2,069,794
	32,837,025	33,204,317
27. SALES - net		
Manufactured products		
Local	1,731,285,670	1,432,255,381
Export	61,854,742	91,101,296
	1,793,140,412	1,523,356,677
Purchased products - local	243,744,520	85,884,887
Sales compensation	-	3,000,000
Third party (toll manufacturing)	35,202,026	28,248,227
	2,072,086,958	1,640,489,791
Less: Discount	82,655,791	36,876,551
Sales tax	3,520,522	3,637,457
	86,176,313	40,514,008
	1,985,910,645	1,599,975,783

	<i>Note</i>	2007 Rupees	2006 Rupees
28. COST OF SALES			
Raw and packing material consumed		842,189,409	722,279,825
Salaries, wages and benefits	28.1	98,700,001	79,893,906
Vehicle running and maintenance		12,859,821	9,597,893
Fuel and power		17,584,436	15,165,706
Stores consumed		4,885,809	4,774,063
Repair and maintenance		10,701,041	13,089,609
Insurance		2,047,325	1,690,456
Rent, rates and taxes		1,916,990	1,057,000
Fee and subscription		1,011,345	163,420
Printing and stationery		1,981,034	1,972,869
Traveling and conveyance		3,416,622	614,870
Consultancy and professional		3,125,637	697,430
Office supplies		2,803,668	2,806,492
Depreciation	19.1.2	30,874,281	32,762,161
Amortization of intangible assets	20.2	4,709,412	4,709,412
Others		5,253,410	2,727,168
		1,044,060,241	894,002,280
Inventory effect of work in process			
Opening		18,296,869	33,674,482
Closing		(40,336,092)	(18,296,869)
		(22,039,223)	15,377,613
Cost of goods Manufactured		1,022,021,018	909,379,893
Inventory effect of finished goods (excluding purchased products)			
Opening		132,574,651	97,121,301
Closing		(171,804,644)	(132,574,651)
		(39,229,993)	(35,453,350)
Cost of goods sold -Manufactured		982,791,025	873,926,543
Less: Freight subsidy		17,833	958,321
Cost of goods sold -Manufactured items		982,773,192	872,968,222
Cost of goods sold - Purchased products		203,547,675	62,777,095
Cost of goods sold		1,186,320,867	935,745,317
28.1 It includes the following staff retirement benefits:			
Defined benefit plan - Gratuity		6,877,488	4,850,527
Defined contribution plan - Provident Fund		2,500,021	1,862,001
Provision for compensated leave absences		519,375	1,472,083

	<i>Note</i>	2007 Rupees	2006 Rupees
29. ADMINISTRATIVE AND GENERAL			
Salaries and benefits	29.1	87,397,247	74,445,180
Telephone, postage and telex		4,541,447	2,629,209
Rent, rates and taxes		5,707,621	3,423,612
Electricity, gas and water		274,139	176,658
Printing and stationery		4,252,451	3,734,498
Repairs and maintenance		5,670,260	4,258,958
Vehicle running and maintenance		14,638,851	13,482,879
Traveling and conveyance		7,144,090	5,622,078
Newspapers and subscriptions		2,877,908	1,966,866
Entertainment		691,909	708,925
Insurance		4,412,486	4,477,497
Auditors' remuneration	37	835,000	675,000
Legal and professional		2,590,685	1,403,491
Advertisement, seminars and symposia		1,129,500	273,280
Donation	29.2	1,311,550	718,331
Depreciation	19.1.2	13,729,481	11,655,964
Others		1,651,652	1,402,166
		158,856,277	131,054,592
29.1 It includes the following staff retirement benefits:			
Defined benefit plan - Gratuity		7,030,587	8,347,245
Defined contribution plan - Provident Fund		2,239,048	1,662,047
Provision for compensated leave absences		358,738	946,935

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

	<i>Note</i>	2007 Rupees	2006 Rupees
30. DISTRIBUTION, SELLING AND PROMOTIONAL			
Salaries and benefits	30.1	177,428,178	158,861,847
Advertisement		5,064,698	7,055,172
Rent, rates and taxes		8,075,329	7,050,126
Entertainment		677,086	487,288
Promotional expenses and samples		136,577,305	95,382,021
Printing and stationery		3,715,577	3,989,775
Traveling and conveyance		65,382,084	54,567,222
Telephone, postage and telegram		3,978,366	3,530,327
Insurance		4,232,638	3,011,207
Vehicle running and maintenance		23,171,400	16,643,771
Donation	30.2	3,221,783	882,555
Freight and octroi		12,706,941	11,586,093
Seminars and symposia and training		27,008,171	22,800,183
Newspaper & subscription		6,507,921	4,525,750
Depreciation	19.1.2	14,798,855	11,852,404
Amortization of intangible assets	20.2	879,204	159,471
Deterioration of pallets		10,124	13,499
Others		5,344,678	2,560,063
		498,780,338	404,958,774
Less: Reimbursement from foreign principals		16,292,285	14,323,212
		482,488,053	390,635,562
30.1 It includes the following staff retirement benefits:			
Defined benefit plan - Gratuity		8,005,700	6,084,102
Defined contribution plan - Provident Fund		4,293,357	3,280,371
Provision for compensated leave absences		1,075,961	1,558,459
30.2 None of the Directors or their spouses have any interest in the donee's fund.			
31. FINANCE COST			
Mark-up on long term loan - secured		1,392,759	-
Mark-up on short term borrowings - secured		29,367,399	27,757,980
Finance cost on liability against assets subject to finance lease		11,616,129	9,252,588
Interest on Workers' Profit Participation Fund	14.1	1,353,876	1,494,493
Bank charges		3,383,472	3,002,729
		47,113,635	41,507,790

	<i>Note</i>	2007 Rupees	2006 Rupees
32. RESEARCH AND DEVELOPMENT			
Salaries and benefits	32.1	6,678,037	4,432,309
Expenses on clinical trials and products evaluation		547,246	812,660
Traveling		1,659,818	993,455
Insurance		131,081	53,302
Vehicle repair and maintenance		1,141,866	465,277
Printing and stationery		75,810	106,950
Office supplies		110,847	2,171
Staff cost		213,192	240,049
Others		105,681	386,229
		10,663,578	7,492,402
32.1 It includes the following staff retirement benefits:			
Defined benefit plan - Gratuity		60,213	242,515
Defined contribution plan - Provident Fund		254,961	187,284
Provision for compensated leave absences		20,972	23,214
33. OTHER OPERATING INCOME			
Income from non-financial assets			
Gain on sale of property, plant and equipment		5,507,582	4,122,382
Amortization of deferred gain	13	3,326,260	5,121,508
Balance written back		-	1,723,001
Scrap Sales		1,017,635	893,152
Others		3,661,251	4,993,861
		13,512,728	16,853,904
34. OTHER OPERATING CHARGES			
Workers' Profit Participation Fund	14.1	6,645,783	5,722,031
Workers' Welfare Fund		2,715,284	2,105,133
Exchange loss on currency fluctuations		349,064	1,570,322
Claims write-off		3,296,448	-
Central Research Fund		1,289,329	1,087,186
Others		2,662,993	-
		16,958,901	10,484,672

	2007 Rupees	2006 Rupees
35. TAXATION		
HNL		
Current		
- for the year	46,108,553	37,912,164
- for prior years	-	(5,000,000)
Deferred	(24,766,998)	(8,150,291)
	21,341,555	24,761,873
DSL		
Current		
- for the year	8,720,214	7,093,724
- for prior years	(170,091)	(16,265)
	8,550,123	7,077,459
	29,891,678	31,839,332

35.1 Reconciliation of tax charge for the year

Tax charge relating to DSL represents minimum turnover tax @ 0.5% (2006: 0.5%) 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:

	2007	2006
Applicable tax rate	35.00%	35.00%
Tax effect of amounts that are not deductible for tax purposes	25.10%	18.56%
Tax effect of amounts that are deductible for tax purposes	-24.89%	-17.77%
Tax effect of amounts relating to prior years	-	-4.98%
Tax effect of reversal of taxable temporary differences	-20.26%	-8.11%
Effect of tax charged under presumptive tax regime	2.51%	1.94%
	-17.54%	-10.36%
Average effective tax rate charged on income	17.46%	24.64%

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:

Profit after taxation	Rupees	67,130,384	68,070,020
Effect of bonus shares issued in 2007	Numbers	1,959,811	1,959,811
Weighted average number of ordinary shares as at 31 December 2007	Numbers	15,025,221	15,025,221
Earnings per share	Rupees	4.47	4.53

Earnings per share

For the purpose of computing earnings per share, the number of shares of the previous year have been adjusted for the effect of bonus shares issued during the year.

2007
Rupees 2006
Rupees

37. AUDITORS' REMUNERATION

Statutory Audit	515,000	450,000
Fee for review of half yearly financial statements	160,000	150,000
Other certifications	100,000	10,000
Out of pocket expenses	60,000	65,000
	835,000	675,000

38. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

	2007			2006		
	Chief Executive	Directors	Executives	Chief Executive	Directors	Executives
	Rupees					
Managerial remuneration	3,194,800	13,288,200	27,825,926	3,832,200	8,246,400	24,006,592
House allowance	1,277,920	2,160,000	11,137,930	720,000	1,440,000	9,602,637
Provident fund	266,280	726,912	2,159,269	319,368	341,364	1,818,524
Gratuity	900,254	2,421,967	6,347,658	1,496,225	1,698,392	4,621,768
Bonus	356,917	1,610,625	2,764,625	638,700	1,374,400	775,700
Utilities	319,480	2,288,801	2,782,592	521,669	1,678,757	2,400,659
Medical	480,580	1,403,314	1,071,988	46,422	1,971,885	1,018,412
Others	-	132,011	1,800	22,331	241,655	10,150
	6,796,231	24,031,830	54,091,788	7,596,915	16,992,853	44,254,442
Number persons	1	3	26	1	2	18

38.1 The Chief Executive, Directors and 16 executives (2006: 13) have been provided with Group maintained cars while 10 (2006: 04) executives have been provided with cars under self finance scheme with limited fuel and maintenance facility.

38.2 No Fee has been paid to any director except for Rs. 1,500 (2006: Rs. 4,000) paid to an independent non executive director for attending Board meeting.

39. Financial instruments and related disclosures

	31 December 2007								
	Interest Bearing			Non-Interest Bearing					
	Upto one year	One to five years	More than five years	Sub-Total	Upto one year	One to five years	More than five years	Sub-Total	Total
	Rupees								
Financial assets									
Long term deposits	-	-	-	-	-	-	3,905,054	3,905,054	3,905,054
Trade debts	-	-	-	62,119,683	-	-	-	62,119,683	62,119,683
Advances and deposits	-	-	-	7,270,599	-	-	-	7,270,599	7,270,599
Other receivables	-	-	-	11,926,636	-	-	-	11,926,636	11,926,636
Cash and bank balances	-	-	-	32,837,025	-	-	-	32,837,025	32,837,025
	-	-	-	114,153,943	-	-	3,905,054	118,058,997	118,058,997
Financial liabilities									
Long term loan - secured	1,524,637	24,394,200	4,573,913	30,492,750	-	-	-	-	30,492,750
Liabilities against assets subject to finance lease	30,425,143	58,978,534	-	89,403,677	-	-	-	-	89,403,677
Trade and other payables	-	-	-	136,684,453	-	-	-	136,684,453	136,684,453
Markup payable on secured loans	-	-	-	8,133,461	-	-	-	8,133,461	8,133,461
Short term bank borrowings - secured	327,742,774	-	-	327,742,774	-	-	-	-	327,742,774
	359,692,554	83,372,734	4,573,913	447,639,201	144,817,914	-	-	144,817,914	592,457,115
Excess of financial assets over financial liabilities	(359,692,554)	(83,372,734)	(4,573,913)	(447,639,201)	(30,663,971)	-	3,905,054	(26,758,917)	(474,398,118)
On balance sheet Gap	(359,692,554)	(83,372,734)	(4,573,913)	(447,639,201)	(30,663,971)	-	3,905,054	(26,758,917)	(474,398,118)
Off-balance sheet Items									
Bank guarantees	-	-	-	-	42,237,711	-	-	42,237,711	42,237,711
Irrevocable letters of credit	-	-	-	-	128,280,009	-	-	128,280,009	128,280,009
	-	-	-	-	170,517,720	-	-	170,517,720	170,517,720

31 December 2006									
	Interest Bearing			Non-Interest Bearing			Total		
	Upto one year	One to five years	More than five years	Sub-Total	Upto one year	One to five years		More than five years	Sub-Total
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	33,374,855
Advances and deposits	-	-	-	5,631,862	-	-	5,631,862	5,631,862	5,631,862
Other receivables	-	-	-	45,527,278	-	-	45,527,278	45,527,278	45,527,278
Cash and bank balances	-	-	-	33,204,317	-	-	33,204,317	33,204,317	33,204,317
	-	-	-	117,738,312	-	-	2,939,054	120,677,366	120,677,366

Rupees

Financial liabilities									
Long term loan - secured	-	-	-	-	-	-	-	-	-
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 - secured	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)
On balance sheet Gap	(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

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

39.1 Financial risk management objectives

The group's activities expose it to a variety of financial risks, including the effects of changes in market rates, credit and liquidity risk associated with various financial assets and liabilities respectively as referred to in Note 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.

39.2 Concentration of credit risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counter parties fail completely to perform as contracted. The Groups' 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.

Of the total financial assets of Rs. 118.059 million (2006: Rs. 120.677 million), financial assets which are subject to credit risk amount to Rs. 85.221 million (2006: Rs. 87.473 million). To manage exposure to credit risk, the group applies credit limits to its customers and obtains advances from them.

39.3 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.

39.4 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 changes in gap position can be adjusted.

39.5 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.

39.6 Capital management

The Board's policy is to maintain an efficient capital base so as to maintain investors, creditors and market confidence and to sustain the future development of its business. The Board of Directors monitors the return on capital employed, which the group defines as operating income divided by total capital employed. The Board of Directors also monitors the level of dividends to ordinary shareholders.

The group's objectives when managing capital are:

- a) to safeguard the groups' ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and
- b) to provide an adequate return to shareholders.

The group manages the capital structure in the context of economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the group may, for example, adjust the amount of dividends paid to shareholders, issue new shares, or sell assets to reduce debt.

The group monitors capital on the basis of the debt-to-equity ratio - calculated as a ratio of total debt to equity.

The debt-to-equity ratios as at 31 December 2007 and at 31 December 2006 were as follows:

	2007 Rupees	2006 Rupees
Total debt	447,639,201	377,491,088
Total equity and debt	822,329,565	711,563,041
Debt-to-equity ratio	54:46	53:47

Neither there were any changes in the group's approach to capital management during the year nor the group is subject to externally imposed capital requirements.

39.7 Fair value of financial instruments

The carrying values of the 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 undertaking 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.

	2007 Rupees	2006 Rupees
40.1 Sales of goods - net		
Associate	32,900,153	29,070,912
40.2 Other related parties		
Contributions to staff provident fund	11,510,312	9,008,859
Contributions to employees' welfare trust	1,353,950	1,107,950

41. DIVIDENDS

The Board of Directors of the HNL in its meeting held on 28th February 2008 have proposed final cash dividend at the rate of Rs. 1.5 (2006: Rs. 1.5) per share and 10% bonus shares (2006: 15%) per share for the year ended 31 December 2007. These financial statements do not reflect these appropriations.

42. PLANT CAPACITY AND PRODUCTION

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

43. DATE OF AUTHORIZATION OF ISSUE

The Board of Directors of HNL authorised the consolidated financial statements for issuance on 28th February 2008.

44. GENERAL

44.1 Corresponding figures

Previous year's figures have been rearranged, wherever necessary for the purpose of comparison. Material rearrangements are summarized below:

- Traveling and conveyance, Consultancy and professional and Office supplies expenses amounting to Rs. 614,870, Rs. 697,430 and Rs. 2,806,492 respectively, which were previously included in "Others" have now been reclassified and included as a separate line
- Newspaper and subscription expenses amounting to Rs. 4,525,750 previously included in "Others" have now been reclassified and included as a separate line item under "Distribution, selling and promotional" (note 30).

44.2 Figures have been rounded off to the nearest rupee.



ASLAM HAFIZ
CHIEF EXECUTIVE OFFICER



ANEES AHMAD KHAN
DIRECTOR

FORM OF PROXY

FOLIO NO. /
CDC A/C NO. _____

I/We _____

of _____ District _____ being

a member of **HIGHNOON LABORATORIES LIMITED**

and holder of _____ ordinary shares, entitled to vote hereby appoint

_____ of _____

or _____ of _____ who is

also a member of the Company, as my/our proxy to attend and vote on my/our behalf at the Annual General Meeting of the Company to be held at Registered Office, 17.5 Kilometer, Multan Road, Lahore on March 27, 2008, at 10.30 a.m. and at any adjournment thereof.

As witness my/our hand(s) this _____ day of _____ 2008.

WITNESSES

1. _____

2. _____

(Member's Signature)

Affix Revenue
Stamp of Rs. 5/-

Note:

1. This form of Proxy, in order to be effective, must be deposited duly completed, at the Company's Registered Office at 17.5 Kilometer, Multan Road, Lahore not less than 48 hours before the time of holding the meeting.
2. Proxy must be a member of the Company. Signature should agree with the specimen registered with the Company.

AFFIX
CORRECT
POSTAGE

The Company Secretary
HIGHNOON LABORATORIES LIMITED
17.5 Kilometer, Multan Road,
Lahore-53700 PAKISTAN

2008

..... our journey continues
towards the Silver Jubilee year!

Highnoon for a Healthier Nation



HIGHNOON LABORATORIES LIMITED

17.5 Kilometer Multan Road, Lahore-53700, Pakistan
UAN: 111 000 465 Fax: +92 (42) 7510037

www.highnoon-labs.com