

# CLOVER PAKISTAN LIMITED

## ANNUAL REPORT 2004

### Directors' Report

The Directors take pleasure in presenting the Annual Report together with the Company's audited accounts for the year ended June 30, 2004.

### FINANCIAL HIGHLIGHTS

(Rupees in million)

The profit and appropriations for the year are as follows:

Net profit before tax for the year	96.233
Provision for taxation	31.214
Profit after tax	65.019
Unappropriated profit brought forward	324
Profit available for appropriation	65.343
Proposed cash dividend @ 45%	24.57
Transfer to general reserves	40
Unappropriated profit carried forward	0.773

### OPERATING RESULTS

The Company has managed to post stable sales this year despite the entry of a number of new powder beverages in the market and competition from existing brands. Gross sales grew by 7% to Rs.654.200 million from Rs.609.899 million last year.

This growth in revenue was achieved by giving increased discounts to the trade which was necessary to match those offered by competition. Selling and distribution costs increased 24% mainly due to higher expenditure on advertising, sales promotion and also on improving and streamlining the sales network.

Spending on advertising and sales promotion has been the key factor that has continued to help us build sales. This has increased to Rs 64.209 million from Rs.44.513 million, an increase of 44%. Along with this we have also been re-organising and expanding our warehousing capabilities throughout the country and increasing the number of personnel in our sales force and field staff.

During the year the Company introduced two new variants of Tang in the market. These included the launch of Tang Plus, with added vitamins A, C and Iron. Initial demand suggests that both these mixed fruit flavours have been well received by the consumer.

Despite increased sales, profit before tax declined to Rs.96.233 million from Rs. 102.734 million for the previous year, registering a drop of 6%. This was due to reasons explained above. Profit after tax was Rs.65.019 million which also declined by 6%.

### Notes:

1. The share transfer books of the Company will remain closed from October 16, 2004 to October 26, 2004 (both days inclusive). Transfers received in order at the Company's registered office situated at Lakson Square, Building No.2, Sarwar Shaheed Road, Karachi upto October 15, 2004 will be considered in time to be eligible for payment of the dividend to the transferees.
2. A member who has deposited his/her shares into Central Depository Company of Pakistan Limited, must bring his/her participant's ID number and account/sub-account number alongwith original Computerised National Identity Card (CNIC) or original Passport at the time of attending the meeting.
3. A member entitled to attend and vote at the Annual General Meeting may appoint another member as his/her proxy to attend, speak and vote instead of him/her.
4. Forms of proxy to be valid must be received by the Company at its registered office not later than 48 hours before the time of the meeting.
5. Members are requested to notify the Company promptly of any change in their addresses.
6. Members who have not yet submitted photocopy of their Computerized National Identity Cards to the Company are requested to send the same at the earliest.
7. A form of proxy is enclosed herewith.

#### **STATEMENT UNDER SECTION 160 OF THE COMPANIES ORDINANCE. 1984**

The Securities and Exchange Commission of Pakistan (SECP) has allowed the listed companies vide its Circular No.19 of 2004 CLD/D-II/51/2003 dated April 14, 2004 to place their quarterly accounts on their websites which will be treated compliance of the provisions of Section 245 of the Companies Ordinance, 1984 subject to fulfillment of the certain conditions including seeking the consent of its shareholders in general meeting as mentioned in the above referred circular.

In order to avoid cumbersome exercise and save the cost of printing and despatching of periodical accounts, the Board of Directors has recommended to the members of the Company for placement of quarterly accounts on its website [www.clover.com.pk](http://www.clover.com.pk) instead of circulating the same by post to the shareholders, subject to approval from the SECP.

In the event the quarterly accounts are transmitted through the Company's website, the Company shall supply printed copies of the quarterly accounts to the shareholders on demand, within one week of such demand.

The Directors are not interested in this business except as shareholders of the Company.

The system of internal control is sound in design. The system is being continuously monitored by Internal Audit and through other such monitoring procedures. The process of monitoring internal controls will continue as an ongoing process with the objective to further strengthen the controls and

bring improvements in the system.

There are no doubts upon the Company's ability to continue as a going concern.

There has been no material departure from the best practices of corporate governance, as detailed in the Listing Regulations.

The summary of key operating and financial data of the Company of last six years is annexed in this report.

Information about taxes and levies is given in the notes to the accounts.

The value of investments made by the staff retirement benefit funds based on their respective audited accounts as at June 30, 2004 is as follows:

<b>Name of Directors</b>	<b>No. of Meetings Attended</b>
Mr. Iqbal Ali Lakhani	3
Mr. Zulfiqar Ali Lakhani	5
Mr. Amin Mohammed Lakhani	2
Mr. Tasleemuddin Ahmed Batlay	4
Mr. Aziz Ebrahim	5
Mr. Ramzan Ali Halani	5
Mr. M. A. Qadir	5

## **PATTERN OF SHAREHOLDING**

A statement of the pattern of shareholding of the Company and additional information as at June 30 2004 is included in this report on page 42.

The Directors, CEO, CFO, Company Secretary and their spouses and minor children did not carry out any transaction in the shares of the Company during the year.

## **AUDIT COMMITTEE**

The Audit Committee consisting of four members, three of whom are non-executive directors including the Chairman has been in existence since implementation of the Code of Corporate Governance. The Board of Directors has set out Terms of Reference for the Audit Committee.

## **FINANCIALS**

The stable rupee and stable interest rates have contributed in maintaining our net profit for the year. The Company is now financially sound. However with the recent fall in the value of the Rupee against the U.S. \$ pressure on our profit margins cannot be ruled out.

## **CONTRIBUTION TO THE NATIONAL ECONOMY**

The Company's contribution to the national economy continues to increase year after year, during the current year this contribution amounted to Rs. 106.650 million. The contribution for the last year was Rs. 89.908 million. There was an increase of 19%.

In addition we have been providing employment opportunities throughout the country.

## AUDITORS

In compliance of the Code of Corporate Governance, the existing auditors M/s Ebrahim & Co. who have been auditors of the Company for more than five years, will require to be changed at the Annual General Meeting. They have given their consent to continue as auditors until the next Annual General Meeting, if legally eligible.

A notice under section 253 of the Companies Ordinance 1984, has been received for the appointment of M/s. Ford Rhodes Sidat Hyder & Co. as auditors for the year ending June 30, 2005. Their consent to act has also been received.

The Board recommends the appointment of M/s. Ford Rhodes Sidat Hyder & Co. as auditors for the year ending June 30, 2005.

## CORPORATE AND FINANCIAL REPORTING FRAMEWORK

The directors are pleased to state that all the necessary steps have been taken to comply with requirements of the Code of Corporate Governance as required by Securities & Exchange Commission of Pakistan (SECP).

Following are the Statements on Corporate and Financial Reporting frame work:

The financial statements prepared by the management of the Company, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.

Proper books of accounts have been maintained by the Company.

Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgement.

In preparation of these financial statements International Accounting Standards, as applicable in Pakistan; have been followed.

	<b>2004</b>	<b>2003</b>
	<b>Rupees</b>	<b>Rupees</b>
Wealth Generated		
Total revenue	608,374,569	576,669,357
Bought-in-material & services	347,754,765	317,219,442
	260,619,804	259,449,915
Wealth Distributed		
To Employees	26,992,623	21,163,654

To Government		
Excise duty, income tax, sales tax,		
To Government	161,574,687	162,700,360
To providers of Capital		
Dividend to shareholders		
To share holders	24,570,000	27,300,000
Mark-up/interest Expenses on		
Interest expenses on borrowed funds	1,124,730	1,706,311
Retained for reinvestment & future growth		
Depreciation & retained profit	46,357,764	46,579,590
Retained for future growth	260,619,804	259,449,915

### Statement of Compliance with the Code of Corporate Governance

The statement is being presented to comply with the Code of Corporate Governance contained in the listing regulations of Karachi and Lahore 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 Board comprises seven directors, including CEO. The Company encourages representation of independent non-executive directors and director representing minority interests on its Board. At present the Board of Directors includes five non-executive directors, one of whom is the chairman.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including this Company.
3. All the resident directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DPI or an NBF1 or, being a member of a stock exchange, has been declared as defaulter by that Stock Exchange.
4. No casual vacancy occurred in the Board during the current year.
5. The Company has prepared a 'Statement of Ethics and Business Practices', which has been signed by all the directors and employees of the Company.
6. The Board has developed a vision/mission statement. Overall corporate strategy and significant policies of the Company. A complete record of particulars of significant policies alongwith the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO

have been taken by the Board.

8. The meetings of the Board were presided over by the Chairman and in his absence by a director elected by the Board for this purpose. The Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.

9. The Board arranged one orientation course for its directors during the year to apprise them of their duties and responsibilities, and briefed them regarding amendments in the Companies Ordinance/Corporate Laws.

### **Auditors' Review Statement of Compliance with 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 CLOVER PAKISTAN LIMITED to comply with Listing Regulation No.37 of the Karachi Stock Exchange (Guarantee) Limited and Chapter XIII of the Lahore Stock Exchange (Guarantee) Limited where the Company is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Company's compliance with the 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 the financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We 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 as applicable to the Company for the year ended June 30, 2004.

The Chief Financial Officer and the Company Secretary were appointed prior to the implementation of the Code of Corporate Governance. Remuneration, terms and conditions in case of future appointments on these positions will be approved by the Board. However, the appointment of Head of Internal Audit and his remuneration, terms and conditions have been approved by the Board.

The directors' report has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.

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

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.

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

The Board has formed an audit committee. It comprises of four members and a secretary, of whom three are non-executive directors including the Chairman of the committee.

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

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

The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review programme of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the Institute of Chartered Accountants of Pakistan.

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.

### **Auditors' Report to the Members**

We have audited the annexed balance sheet of CLOVER PAKISTAN LIMITED as at June 30, 2004 and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the

accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of 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 June 30, 2004 and of the profit, its cash flows and changes in equity for the year then ended; and

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

#### **Profit & Loss Account for the year ended June 30, 2004**

	<b>Note</b>	<b>2004</b>	<b>2003</b>
		<b>Rupees</b>	<b>Rupees</b>
Gross sales		654,200,385	609,898,873
Less: Sales tax		89,366,109	82,155,439
Trade discounts		48,701,190	36,941,084
		138,067,299	119,096,523
Add: Export rebate		1,495,617	2,459,126
Net sales		517,628,703	493,261,476
Cost of sales	19	286,589,795	282,434,515
Gross profit		231,038,908	210,826,961
Other income	20	1,379,756	1,252,442
		232,418,664	212,079,403
Administrative and selling expenses	21	127,813,363	100,278,610



Other charges	22	7,247,112	7,360,502
		135,060,475	107,639,112
Operating profit		97,358,189	104,440,291
Financial charges	23	1,124,730	1,706,313
Net profit for the year		96,233,459	102,733,978
Taxation	24	31,214,107	33,604,347
Profit after taxation		65,019,352	69,129,631
Unappropriated profit brought forward		323,959	3,494,328
Profit available for appropriation		65,343,311	72,623,959
Appropriation:			
Proposed final dividend at Rs. 4.50 per share (2003: Rs. 3.00 per share)		24,570,000	11,700,000
Transfer to capital reserve for issue of bonus shares		-	15,600,000
Transfer to general reserves		40,000,000	45,000,000
		64,570,000	72,300,000
Unappropriated profit carried forward		773,311	323,959
Basic and diluted earnings per share	25	Rs. 11.91	Rs. 12.66

### Balance Sheet as at June 30, 2004

	Note	2004 Rupees	2003 Rupees
<b>ASSETS</b>			
NON CURRENT ASSETS			
Tangible fixed asset	3	48,509,740	41,620,218
Long term loans	4	1,129,066	859,058
Long term security deposits		814,376	980,775
		50,453,182	43,460,051
<b>CURRENT ASSETS</b>			
Stores		176,645	—
Stock in trade	5	86,916,095	72,295,565
Trade debts	6	21,042,337	24,781,124
Loans and advances	7	4,459,685	2,663,896
Deposits, prepayments and other receivables	8	5,079,158	5,249,682
Cash and bank balances	9	122,871,080	87,027,153
		240,545,000	192,017,420
<b>TOTAL ASSETS</b>		290,998,182	235,477,471
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Authorized share capital			
10,000,000 (2003: 5,000,000) ordinary shares of Rs. 10/-each		100,000,000	50,000,000
Issued, subscribed and paid up capital	10	54,600,000	39,000,000

Capital reserve for issue of bonus shares	-	15,600,000
General reserves	85,000,000	45,000,000
Unappropriated profit	773,311	323,959
	140,373,311	99,923,959

**NON CURRENT LIABILITIES**

Liabilities against assets subject to finance leases	11	704,544	1,811,301
Deferred liability	12	2,500,000	-
Long term deposits	13	1,664,500	1,262,000
		4,869,044	3,073,301

**CURRENT LIABILITIES**

Current portion of long term liabilities	11	814,882	926,694
Short term finances	14	-	—
Creditors, accrued and other liabilities	15	113,249,067	103,663,924
Dividends	16	24,812,949	11,914,486
Taxation	17	6,878,929	15,975,107
		145,755,827	132,480,211

**CONTINGENCIES AND COMMITMENTS**

	18		
TOTAL EQUITY AND LIABILITIES		290,998,182	235,477,471

**Statement of Changes in Equity for the year ended June 30, 2004**

	Issued, subscribed and paid up capital	Capital reserve	General reserves	Unappropriated profit	Total
	Rupees				
Balance as at July 1, 2002	39,000,000	-	-	3,494,328	42,494,328
Profit after taxation	-	-	-	69,129,631	69,129,631
Proposed dividend	-	-	-	-11,700,000	-11,700,000
Transfer to capital reserve for issue of bonus shares	-	15,600,000	-	-15,600,000	—
Transfer to general reserves	-	-	45,000,000	-45,000,000	-
Balance as at June 30, 2003	39,000,000	15,600,000	45,000,000	323,959	99,923,959
Issue of bonus shares	15,600,000	-15,600,000	-	-	-
Profit after taxation	-	-	-	65,019,352	65,019,352
Proposed dividend	-	-	-	-24,570,000	-24,570,000
Transfer to general reserves	-	-	40,000,000	-40,000,000	-
Balance as at June 30, 2004	54,600,000	-	85,000,000	773,311	140,373,311

**Cash Flow Statement for the year ended June 30, 2004**

Note	2004 Rupees	2003 Rupees
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Cash flows from operating activities			
Cash generated from operations	26	100,312,485	130,659,479
Financial charges paid		-1,280,714	-2,104,268
Taxes paid		-37,810,285	-21,501,833
Long term loans		-270,008	-231,237
Net cash from operating activities		60,951,478	106,822,141
Cash flows from investing activities			
Additions to tangible fixed assets		-12,836,344	-18,605,742
Proceeds from disposal of tangible fixed assets		50,000	-
Long term deposits		166,399	-56,175
Net cash used in investing activities		-12,619,945	-18,661,917
Cash flows from financing activities			
Repayment of liabilities against assets subject to finance leases		-1,218,569	-737,150
Long term deposits		402,500	370,000
Short term running finances		-	-5,091,071
Dividends paid		-11,671,537	-12,609,776
Net cash used in financing activities		-12,487,606	-18,067,997
Net increase in cash and cash equivalents		35,843,927	70,092,227
Cash and cash equivalents at beginning of the year	9	87,027,153	16,934,926
Cash and cash equivalents at end of the year	9	122,871,080	87,027,153

## Notes to the Accounts

For the year ended June 30, 2004

### 1. NATURE AND STATUS OF BUSINESS

The Company was incorporated in Pakistan on September 30, 1986 as a public limited company under the Companies Ordinance, 1984 and is quoted on Karachi and Lahore Stock Exchanges. The registered office of the Company is situated at Lakson Square Building No. 2, Sarwar Shaheed Road, Karachi. The principal business of the Company is manufacture and sale of food and plastic products and trading in food and personal care products.

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### 2.1 Statement of compliance

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

## **2.2 Cost convention**

These financial statements have been prepared under the historical cost convention without any adjustments for the effect of inflation or current values and for financial assets and liabilities, if any, in accordance with recognition and measurement criteria as laid down in IAS - 39 "Financial instruments: Recognition and Measurement".

## **2.3 Tangible fixed assets**

These are stated at cost less accumulated depreciation and impairment (if any) except freehold and leasehold land, which are stated at cost.

Depreciation is charged using the reducing balance method by applying rates specified in relevant note.

Depreciation on additions is charged from the month in which the asset is put to use and on disposals, upto the month the respective asset was in use (Note: 3.2).

Maintenance and normal repairs are charged to income as and when incurred while cost of major replacements and improvements, if any, are capitalised.

Gains and losses on disposal of fixed assets are included in the profit and loss account.

## **2.4 Impairment**

The Company assesses at each balance sheet date whether there is any indication that assets excluding inventory may be impaired. If such indication exists, the carrying amounts of such assets are reviewed to assess whether they are recorded in excess of their recoverable amount. Where carrying value exceed recoverable amount, assets are written down to the recoverable amount and the difference is charged to profit and loss account.

## **2.10 Cash and cash equivalents**

For the purposes of cash flow statement, cash and cash equivalents consist of cash in hand and balances with banks net of borrowings not considered to be in the nature of financing activities.

## **2.11 Cash and bank balances**

Cash and bank balances are carried at cost.

## **2.12 Foreign currency translation**

Transactions in foreign currencies are translated into rupees at the rates of exchange approximating those prevailing at the date of transaction. Monetary assets and liabilities in foreign currencies are translated into rupees at exchange rate prevailing on the balance sheet date except those covered by forward exchange contracts. Exchange differences on translations during the year are taken to profit and loss account.

## **2.13 Staff retirement benefits**

### **a. Defined benefit plan**

During the current year Company has established an approved defined funded gratuity scheme for all its permanent employees who have attained retirement age and have served for the minimum qualification period for entitlement to gratuity. Contributions to the fund are made based on actuarial recommendations in accordance with IAS - 19 "Employee Benefits" and in line with the provisions of the Income Tax Ordinance, 2001. The most recent actuarial valuation was carried out effective June 30, 2004 using the Projected Unit Credit Method. The Company's policy with regard to actuarial gains/ losses is to follow minimum recommended approach under IAS - 19 "Employee Benefits".

### **b. Defined contribution plan**

A recognised provident fund scheme is in operation, which covers all permanent employees. The Company and the employees make equal contributions.

### **2.14 Compensated absences**

These employee benefits are accounted for in the period in which the absences are earned.

### **2.15 Taxation**

#### **Current**

Provision for current taxation is the higher of the amount computed on taxable income at the current tax rate after taking into account tax credits/rebates, if any, and the minimum tax computed at the prescribed rate on sales.

#### **Deferred**

Deferred tax is computed using the balance sheet liability method providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the liability is settled based on tax rates that have been enacted or subsequently enacted at the balance sheet date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profit will be available and the credits can be utilised.

### **2.16 Trade creditors, accrued and other liabilities**

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

### **2.17 Provisions**

Provisions are recognised when the Company has the present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made.

## 2.18 Financial Instruments

All the financial assets and financial liabilities are recognised at the time when the Company becomes a party to the contractual provisions of the instrument. Any gain or loss on de-recognition of the financial assets and financial liabilities is taken to profit and loss account currently.

## 2.19 Offsetting of financial assets and financial liabilities

A financial asset and a financial liability is offset and the net amount is reported in the balance sheet if the Company has legally enforceable right to setoff the recognised amount and intend either to settle on a net basis or to realise the asset and settle the liability simultaneously.

## 2.20 Revenue recognition

Sales are recorded on despatch of goods to customers. Interest income and export rebate are accounted for on accrual basis. Insurance commission income is accounted for as and when received.

## 2.21 Transaction with related parties

Transactions with related parties are based on the policy that all transactions between the Company and the related parties are carried out at arm's length. These prices are determined in accordance with the methods prescribed in the Companies Ordinance, 1984.

	Note	2004 Rupees	2003 Rupees
3.4 Depreciation for the year has been allocated as follows:			
Cost of sales	19	3,383,151	3,732,806
Administrative and selling expenses	21	2,525,261	1,017,154
		5,908,412	4,749,960
<b>4. LONG TERM LOANS</b>			
Loans to staff	4.1		
Secured - considered good			
Executives	4.2	1,002,950	1,173,590
Others		464,828	49,324
		1,467,778	1,222,914
Less: Current portion shown under current assets	7	338,712	363,856
	4.3	1,129,066	859,058
<b>STOCK IN TRADE</b>			
Raw material	5.1	32,730,113	12,399,060
Packing material	5.2	19,053,685	15,724,666
Promotional material		-	470,772
Work in process		794,302	2,123,959

Finished goods	5.3	19,606,490	19,454,313
Trading goods	5.4	14,731,505	22,122,795
		86,916,095	72,295,565

<b>Note</b>	<b>2004</b>	<b>2003</b>
	<b>Rupees</b>	<b>Rupees</b>

**TRADE DEBTS**

Unsecured			
Considered good		21,042,337	24,781,124
Considered doubtful		1,417,681	2,523,252
		22,460,018	27,304,376
Less: Provision for doubtful debts	6.1	1,417,681	2,523,252
		21,042,337	24,781,124

6.1 Movement of provision for doubtful debts is as follows:

Opening balance		2,523,252	2,240,582
Adjustment on account of:			
Reversal for doubtful debts written off		-816,394	-
Reversal for amount of doubtful debts realised		-289,177	-
Provision for doubtful debts for the year		-	282,670
Net adjustment		-1,105,571	282,670
Closing balance		1,417,681	2,523,252

**LOANS AND ADVANCES**

Current portion of loans to employees	4	338,712	363,856
Advances (considered good)	7.1	3,809,196	1,938,089
To supplier		59,225	159,138
Against import		252,552	202,813
For expenses		4,120,973	2,300,040
		4,459,685	2,663,896

<b>Note</b>	<b>2004</b>	<b>2003</b>
	<b>Rupees</b>	<b>Rupees</b>

**DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES**

Deposits			
Security deposit		60,000	17,565
Container deposit		905,000	608,970
		965,000	626,535
Prepayments		507,680	224,948
Profit accrued on bank accounts		101,911	157,150
Other receivables (considered good)			
Claims receivable from Redrock Limited		-	2,858,263
Claims receivable from Kraft Foods Holdings Inc.	8.1	1,070,715	1,064,445
Receivable from Collector of Customs	8.2	236,170	236,170
Receivable from associated companies on			

account of reimbursement of expenses	8.3	1,173,913	-
Receivable from an ex- employee		422,000	-
Export rebate receivable		165,359	-
Sales tax claim		389,230	65,711
Others		47,180	16,460
		3,504,567	4,241,049
		5,079,158	5,249,682

The amount is receivable from the following:

Tetley Clover (Private) Limited		1,173,024	-
Lakson Tobbaco Company Limited		381	-
Siza Foods (Private) Limited		254	-
Century Paper and Board Mills Limited		254	-
		1,173,913	-

### CASH AND BANK BALANCES

Cash at banks		38,571,089	17,681,758
In current accounts	9.1	81,066,066	61,346,804
In saving accounts		127	1,389
In foreign currency current account		119,637,282	79,029,951
		135,865	191,797
Cash in hand		3,097,933	7,805,405
Cheques in hand		122,871,080	87,027,153

	Note	2004 Rupees	2003 Rupees
<b>ISSUED, SUBSCRIBED AND PAID UP CAPITAL</b>			
Fully paid ordinary shares of Rs. 10/- each		39,000,000	39,000,000
Numbers of shares		15,600,000	-
3,900,000 Issued for cash		54,600,000	39,000,000
1,560,000 Issued as bonus shares			

### LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASES

Secured		2,737,995	2,762,645
Balance as on July 1, 2003		-	712,500
Addition during the year		2,737,995	3,475,145
		1,218,569	737,150
Less: Payments during the year		1,519,426	2,737,995



Less: Payable within one year shown	814,882	926,694
under current liabilities	704,544	1,811,301

	<b>Upto one year</b>	<b>One to five years</b>	<b>Total 2004</b>	<b>Total 2003</b>
	(Rupees)			
Minimum lease payments outstanding	920,126	777,159	1,697,285	3,257,070
Less: Finance charges not due	105,244	72,615	177,859	519,075
Present value of minimum lease payments	814,882	704,544	1,519,426	2,737,995
Less: Current portion shown under current liabilities			814,882 704,544	926,694 1,811,301

The above liabilities represent the unpaid balance of the total minimum lease payments and the residual value payable at the end of lease, discounted at rates ranging from 8.09 % to 16.26 % per annum. In case of termination of agreement, the lessee is required to pay entire rent for unexpired period.

The Company intends to exercise its option to purchase these assets upon termination of the lease term. The cost of operating and maintaining the leased assets is borne by the Company.

	<b>Note</b>	<b>2004 Rupees</b>	<b>2003 Rupees</b>
<b>DEFERRED LIABILITY</b>			
Deferred taxation liability comprises as follows:			
Taxable temporary differences		3,024,051	-
Accelerated tax depreciation		101,066	-
Leased assets		3,125,117	—
Deductible temporary differences		-431,684	-
Provision for doubtful debts		-193,433	-
Provision for earned leave benefits		-625,117	-
		2,500,000	-
<b>LONG TERM DEPOSITS</b>			
Security deposits	13.1	1,664,500	1,262,000

**14.1** As at the balance sheet date aggregate sanction limit of running finance facilities is Rs. 145.000 million (2003: Rs. 65.000 million). These facilities are secured against hypothecation charge over stocks and book debts of the Company and carry markup at rates ranging from 3.75% to 8% per annum.

**14.2** Of the aggregate facility of Rs. 124.000 million (2003: Rs. 24.000 million) for opening letters of credit and Rs. 25.000 million (2003: Rs. 10.000 million) for guarantees, the amount utilised as at June 30, 2004 was Rs.. 38.101 million (2003: Rs. 21.542 million) and Rs. 5.692 million (2003: Rs. 1.354 million) respectively.

	<b>Note</b>	<b>2004 Rupees</b>	<b>2003 Rupees</b>
<b>15. CREDITORS, ACCRUED AND OTHER LIABILITIES</b>			
Trade creditors	15.1	32,908,567	32,358,643
Bills payable	15.2	42,465,394	27,507,077
Royalty payable		14,418,433	12,588,107
Accrued expenses		5,806,822	5,508,492
Amount due to distributors		3,795,034	3,365,970
Advance against export		3,278,873	6,673,233
Mark-up accrued on running finances		49,579	209,512
Mark-up accrued on lease finance		5,393	1,444
Workers' profit participation fund	15.3	5,168,115	5,499,157
Workers' welfare fund		1,960,742	1,750,000
Sales tax payable		3,389,225	6,944,820
Payable to Provident Fund Trust		-	13,726
Retention money		-	1,137,284
Others		2,890	106,459
		113,249,067	103,663,924
15.3 Workers' profit participation fund comprises as follows:			
Balance as at July 01, 2003		5,499,157	2,452,983
Add: Interest credited at prescribed rate	23	-	240,828
		5,499,157	2,693,811
Less: Amount paid to fund		5,499,157	2,693,811
Add: Current year allocation @ 5%	22	5,168,115	5,499,157
		5,168,115	5,499,157
<b>DIVIDENDS</b>			
Proposed		24,570,000	11,700,000
Unclaimed		242,949	214,486
		24,812,949	11,914,486
	<b>Note</b>	<b>2004 Rupees</b>	<b>2003 Rupees</b>
<b>TAXATION</b>			
Provision for taxation		32,000,000	34,200,000
Less: Advance income tax paid		25,121,071	18,224,893

6,878,929

15,975,107

## CONTINGENCIES AND COMMITMENTS

i) The Company has received a letter from the Assistant Controller of Customs Valuation, Karachi notifying that royalty paid to Kraft Foods Holdings Inc. USA on net sales of licensed products manufactured for the period from May 2001 to December 2001 is dutiable as per the provisions of the Custom Act, 1969 and therefore, duties and taxes thereon have been short paid by Rs. 2.263 million. The management is contesting this claim and has requested the custom authorities to provide basis for levied amount. In the event of adverse outcome in the disputed matter the Company would be faced with a charge against profit and an additional liability of Rs. 2.263 million.

ii) The Assistant Collector Customs Karachi had issued a demand cum show cause notice for recovery of Rs. 4.465 million (2003: Rs. 4.465 million) on account of duties on import of foodstuff under wrong Pakistan Customs Tariff Code. The Company has filed a detailed reply contesting the show cause notice. In the event of adverse outcome in the dispute the Company would be faced with a charge against profit and an additional liability of Rs. 4.465 million (2003: Rs. 4.465 million).

iii) There is contingency for loss in respect of matter referred in note 8.2 of the notes to the accounts, which in the opinion of the management shall not arise. In the event of adverse result in the disputed matter, the Company would be faced with a charge against profit amounting to Rs. 0.236 million (2003: Rs. 0.236 million).

### b. Guarantees

There is a contingent liability in respect of indemnities given to banks for guarantees issued by them in the normal course of business aggregating to Rs. 5.692 million (2003: Rs. 1.354 million).

## 18.2 Commitments

a. Commitments in respect of letters of credit amounted to Rs. 7.376 million (2003: Rs. 11.473 million).

b. The future minimum lease payments to which the Company is committed under the operating lease agreements in respect of vehicles and the periods in which they will become due are as follows:

Upto one year	One to five years	Total 2004	Total 2003
..... (Rupees) .....			
1,659,072	2,628,009	4,287,081	6,868,800
	<b>Note</b>	<b>2004 Rupees</b>	<b>2003 Rupees</b>

### COST OF SALES

Raw material consumed

131,914,854

130,197,437

Packing material consumed		90,800,405	85,910,861
Stores and spares consumed		60,474	38,030
Salaries, wages and other benefits	19.1	10,654,472	8,998,414
Power and fuel		3,541,637	4,076,168
Vehicle running expenses		521,768	507,296
Repairs and maintenance		1,096,198	1,567,364
Rent, rates and taxes		144,405	151,580
Travelling and conveyance		117,070	99,092
Insurance		809,069	541,698
Postage, telegrams and telephone		197,817	122,003
Laboratory expenses		112,383	86,858
Cartage		236,225	498,454
Information technology expenses		20,430	10,300
Printing and stationery		73,898	63,662
Depreciation	3.4	3,383,151	3,732,806
Other manufacturing expenses		19,973	175,437
		243,704,229	236,777,460
Work in process			
Opening stock		2,123,957	2,142,827
Closing stock		-794,302	-2,123,957
		1,329,655	18,870
Cost of goods manufactured		245,033,884	236,796,330
Finished goods (including trading goods)			
Opening stock		41,577,108	28,274,515
Purchase of trading goods		34,316,797	58,940,778
		75,893,905	87,215,293
Closing stock		-34,337,994	-41,577,108
		41,555,911	45,638,185
		286,589,795	282,434,515

**Note****2004  
Rupees****2003  
Rupees****OTHER INCOME**

Proceeds from sale of registered trade mark		.	118,000
Insurance commission		-	535,959
Profit on saving bank accounts		1,032,386	499,000
Scrap sales		-	61,928
Reversal of provision for doubtful debts	20.1	289,177	-
Others		58,193	37,555
		1,379,756	1,252,442

**ADMINISTRATIVE AND SELLING EXPENSES**

Directors remuneration		1,200,000	900,000
Salaries, allowances and other benefits	21.1	16,660,945	12,662,190

Traveling and conveyance		2,319,877	3,742,103
Repairs and maintenance		25,098	120,445
Vehicles running expenses		3,338,609	2,661,364
Advertisement		64,209,177	44,513,227
Postage, telegrams and telephone		1,546,150	1,637,537
Rent, rates and taxes		1,461,722	1,166,838
Printing and stationery		629,955	445,241
Subscription and membership		552,061	784,473
Legal and professional charges		381,573	483,000
Electricity		671,086	669,332
Insurance		1,000,078	866,477
Depreciation	3.4	2,525,261	1,017,154
Royalty		18,574,756	16,549,727
Provision for doubtful debts		-	282,670
Bad debts written off		10,345	33,639
Freight and octroi		7,453,237	7,378,459
Stock handling / Godown charges		960,849	1,811,867
Export expenses		1,559,882	1,498,402
Information technology expenses		2,727,286	1,047,815
Other expenses		5,416	6,650
		127,813,363	100,278,610

**Note****2004  
Rupees****2003  
Rupees****22. OTHER CHARGES**

Workers' profit participation fund	15.3	5,168,115	5,499,157
Workers' welfare fund		1,960,742	1,750,000
Auditor's remuneration			
Audit fee		85,000	75,000
Half yearly review		20,000	18,750
Out of pocket expenses		13,255	17,595
		118,255	111,345
		7,247,112	7,360,502

**23. FINANCIAL CHARGES**

Mark-up/interest on:			
Short term running finances		552,778	824,107
Lease finances		282,522	377,776
Workers' profit participation fund	15.3	-	240,828
		835,300	1,442,711
Bank charges and commission		289,430	241,433
Exchange loss		-	22,169
		1,124,730	1,706,313

**24. TAXATION**

Current		
For the year	32,000,000	34,200,000
For prior year	-3,285,893	-595,653
	28,714,107	33,604,347
Deferred	2,500,000	-
	31,214,107	33,604,347
24.1 Tax charge reconciliation		
Applicable tax rate as per Income Tax Ordinance, 2001	35	35
Tax effect of amounts that are:		
Not deductible for tax purposes	0.13	0.21
Effect of deferred tax charge	2.6	-
Effect of change in prior years' tax	-2.91	-0.58
Tax effect under presumptive tax regime and others	-2.33	-1.69
	-2.51	-2.06
Average effective tax rate charged to <b>profit and loss account</b>	32.49	32.94

	<b>Note</b>	<b>2004 Rupees</b>	<b>2003 Rupees</b>
<b>25. BASIC AND DILUTED EARNINGS PER SHARE</b>			
Profit after taxation for the year		65,019,352	69,129,631
		Numbers	of shares
Average issued ordinary shares		5,460,000	5,460,000
Basic and diluted earnings per share		Rs. 11.91	Rs. 12.66
<b>26. CASH GENERATED FROM OPERATIONS</b>			
Net profit before taxation		96,233,459	102,733,978
Adjustments for non cash charges and other items:			
— Depreciation on tangible fixed assets	3.2	5,908,412	4,749,960
Financial charges	23	1,124,730	1,706,313
Gain on disposal of fixed assets		-11,590	-
Working capital changes	26.1	-2,942,526	21,469,228
		100,312,485	130,659,479
26.1 Working capital changes			
(Increase)/ decrease in current assets			
Stores and spares		-176,645	38,030
Stock in trade		-14,620,530	-13,918,955
Trade debts		3,738,787	2,759,587
Loans and advances		-1,795,789	-857,088
Deposits, prepayments and other receivable;		170,524	-2,445,282
		-12,683,653	-14,423,708
Increase in current liabilities			
Creditors, accrued and other liabilities		9,741,127	35,892,936
		-2,942,526	21,469,228

## 27. DEFINED BENEFIT PLAN

### 27.1 General description

The scheme provides for terminal benefits for all its permanent employees who qualify for the scheme at varying percentages of last drawn basic salary. The percentage depends on the number of service years with the Company.

Annual charge is based on actuarial valuation carried out as at June 30, 2004 using the Projected Unit Credit Method.

### Significant actuarial assumptions

Following are significant actuarial assumptions used in the valuation:

Discount rate	7% per annum
Expected rate of increase in salary	7% per annum

	<b>2004</b> <b>Rupees</b> <b>thousands</b>
Reconciliation of payable to defined benefits plan	
Present value of obligation	3,688
Fair value of plan assets	-227
	3,461
Unrecognised actuarial gains	73
Unrecognised non-vested past service cost to be recognised in later periods	-3,534
Liability recognised in balance sheet	-
Movement of the liability recognised in the balance sheet:	
Charge for the year	227
Contribution paid to the fund	-227
Closing liability	-
Charge for the year	
Current service cost	128
Interest cost	63
Past service cost	36
Charge for the year	227

## FINANCIAL INSTRUMENTS RELATED DISCLOSURES

### 31.1 Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulties in raising funds to meet commitments associated with financial instruments. The Company believes that it is not exposed to any significant level of liquidity risk.

### 31.2 Concentration of credit risk

Credit risk represents the accounting loss that would be recognised at the reporting date if counter parties fail completely to perform as contracted. The Company manages this risk through having exposures only to those parties, which are considered to be credit worthy, and obtaining security deposit wherever applicable. All financial assets except cash and bank balances are subject to credit risk.

### 31.3 Currency risk

Foreign currency risk arises mainly where receivables and payables exist due to transactions in foreign currencies. In appropriate cases, the management takes out forward contracts to mitigate the risks.

### Interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to change in the interest rates. The Company manages this risk through risk management strategies. Interest rate risk of the Company's financial assets and financial liabilities can be evaluated from following schedule.

### Pattern of Holding of Shares

held by the shareholders as at June 30, 2004

Shareholders	No. of Shareholdings		Total shares held
	from	to	
26	1	100 Shares	1,810
119	101	500 Shares	30,570
67	501	1,000 Shares	49,300
53	1,001	5,000 Shares	100,160
5	5,001	10,000 Shares	38,100
1	15,001	20,000 Shares	16,800
2	25,001	30,000 Shares	54,880
2	35,001	40,000 Shares	74,200
1	50,001	55,000 Shares	50,120
1	75,001	80,000 Shares	76,300
1	80,001	85,000 Shares	84,000
1	90,001	95,000 Shares	92,400
1	155,001	160,000 Shares	159,460
1	180,001	185,000 Shares	183,400
1	205,001	210,000 Shares	207,200
1	215,001	220,000 Shares	215,600



1	225,001	230,000 Shares	229,320
1	230,001	235,000 Shares	234,220
1	390,001	395,000 Shares	393,960
1	415,001	420,000 Shares	420,000
1	1,065,001	1,070,000 Shares	1,068,200
1	1,675,001	1,680,000 Shares	1,680,000
289			5,460,000

### 31.5 Fair value of financial instruments

The carrying value of all the financial assets and financial liabilities reflected in the financial statements approximate their fair values. Fair value is determined on the basis of objective evidence at each reporting dates.

### 32. NUMBER OF EMPLOYEES

Total number of employees at the year end was 117 (2003: 120).

### 33. DATE FOR AUTHORISATION FOR ISSUE

The Board of Directors of the Company authorised these financial statements for issue on September 17,2004

### 34. GENERAL

- i) Amounts have been rounded off to the nearest rupee unless otherwise stated,
- ii) Details, where comparative information has been rearranged are as follows:

#### Yearwise Financial Highlights

	2004	2003	2002	2001	2000	1999
<b>BALANCE SHEET</b>	----- Rupees in thousands ----- ; -----					
Tangible fixed assets	48,510	40,874	26,306	20,637	18,471	18,836
Long term advances, deposits & prepayments	1,943	1,840	1,552	903	514	644
Current assets	240,545	192,763	111,714	83,649	51,585	34,443
Current liabilities	145,756	132,480	94,115	61,143	33,488	18,708
	94,789	60,283	17,599	22,506	18,097	15,735
	145,242	102,997	45,457	44,046	37,082	35,215
Equity	140,373	99,924	42,494	25,716	20,629	18,787
Long term loans and deposits	1,664	1,262	892	15,742	16,453	16,428
Deferred liability	2,500	-	-	-	-	-
Liabilities against assets subject to finance lease	705	1,811	2,071	2,588	-	-
	145,242	102,997	45,457	44,046	37,082	35,215
<b>PROFIT AND LOSS ACCOUNTS</b>						
Gross sales	654,200	609,899	446,184	177,368	74,857	54,929
Less: Sales Tax	89,366	82,155	59,134	24,032	10,529	7,066
Trade Discount	48,701	36,941	28,372	5,445	3,801	4,229

	138,067	119,096	87,506	29,477	14,330	11,295
Add: Export rebate	1,496	2,459	-	-	-	-
	517,629	493,262	358,678	147,891	60,527	43,634
Service income	-	-	-	1,500	3,900	4,500
Net sales revenue	517,629	493,262	358,678	149,391	64,427	48,134
Cost of goods sold	286,590	282,435	229,979	103,688	50,528	37,985
Gross Profit	231,039	210,827	128,699	45,703	13,899	10,149
Administrative expenses	15,434	9,613	5,861	3,114	2,197	1,526
Selling expenses	112,379	90,666	65,474	22,396	2,336	780
	127,813	100,279	71,335	25,510	4,533	2,306
Operating Profit	103,226	110,548	57,364	20,193	9,366	7,843
Other income	1,380	1,252	95	369	12	337
	104,606	111,800	57,459	20,562	9,378	8,180
Financial charges	1,125	1,706	8,312	3,514	1,970	2,438
Other charges	7,247	7,360	3,189	893	370	287
	8,372	9,066	11,501	4,407	2,340	2,725
Net profit before tax	96,234	102,734	45,958	16,155	7,038	5,455
Taxation	31,214	33,604	16,504	5,219	322	247
Net profit after tax	65,020	69,130	29,454	10,936	6,716	5,208
Earnings per share - Rupees	11.91	12.66	7.55	2.8	1.72	1.34
Cash dividend	45%	30%	32.50%	15%	12.50%	10%
Bonus shares		40%				

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

#### CATEGORIES OF NO. OF SHARES HELD

##### a) ASSOCIATED COMPANIES

1. M/s. Siza (Private) Limited	1,068,200
2. M/s. Siza Services (Pvt) Limited	159,460
3. M/s. Siza Commodities (Pvt) Limited	26,880
4. M/s. Premier Fashions (Pvt) Limited	393,960
5. M/s. Century Insurance Company Limited	38,500

#### DIRECTORS, CEO, THEIR SPOUSE AND MINOR CHILDREN

1. Mr. Iqbal Ali Lakhani	Director	229,320
2. Mr. Zulfiqar Ali Lakhani	Director/CEO	207,200
3. Mr. Amin Mohammed Lakhani	Director	215,600
4. Mr. Tasleemuddin Ahmed Battlay	Director	700
5. Mr. Aziz Ebrahim	Director	700
6. Mr. Ramzan Ali Halani	Director	700
7. Mr. M.A. Qadir	Director	700
8. Mrs. Ronak Iqbal W/o Mr. Iqbal Ali Lakhani		76,300

9. Mrs. Fatima Zulfiqar W/o Mr. Zulfiqar Ali Lakhani	234,220
10. Mrs. Saira Amin W/o Mr. Amin Mohammed Lakhani	50,120
EXECUTIVES	7,000
PUBLIC SECTOR COMPANIES AND CORPORATIONS	NIL
BANKS, DEVELOPMENT FINANCE INSTITUTIONS, NON BANKING FINANCE INSTITUTIONS, INSURANCE COMPANIES, MODARABAS AND MUTUAL FUNDS	38,540
SHAREHOLDERS HOLDING 10% OR MORE	
1. M/s. Siza (Pvt) Limited	1,068,200
2. Mrs. Yasmin A. Fazalbhoy	1,680,000