

## BERGER

### ANNUAL REPORT 2003

The Directors take pleasure in submitting their Report together with the Audited Accounts of the Company for the year ended June 30, 2003.

	2003	2002
	(Rupees in thousand)	
Profit before tax for the year		38,051
Less : Taxation		
Current - for the year	16,374	16,794
- for the prior year	-5,260	21,257
	11,114	23,504
Deferred - for the year	5,680	44,761
Profit after tax		
Add : Unappropriated profit brought forward Transfer from surplus on revaluation of fixed assets	1,122	22,382
Amount available for appropriation		
APPROPRIATIONS		
The Directors recommend the payment of dividend at the rate of 40 percent equivalent to Rs 4.00 per share of Rs. 1 0 each		
		1 2,334
Transfer to General Reserve		30,000
		42,334
Unappropriated profit carried forward to next year		2,427

#### BOARD OF DIRECTORS

Zahid Zaheer

Dr. Mahmood Ahmad

Maqbool H.H. Rahimtoola

Sikander Dada

Muhammad Abdul Samad

Bashir Ahmed

Christopher H. Clover

(Alternate Mr. Javed Shakoor)

William Alfred Morley

(Alternate Mr. Khalid Mansoor)

Replaced Mr. Syed Mohammad with effect from April 22, 2003.

Replaced Mr. Saeed M. Shiekh with effect from April 22, 2003.

This statement is being presented to comply with the Code of Corporate Governance as contained in Regulation No. 37 of the listing regulations of the Karachi Stock Exchange 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, at present the Board has five independent non-executive directors.
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. None of them is a member of a stock exchange.
4. No casual vacancy occurred during the year ended June 30, 2003.
5. The Company has prepared a 'Statement of Ethics and Business Practices', which has been signed by the directors and employees of the Company.
6. The Board has developed a vision and mission statement, overall corporate strategy and significant policies of the company. A complete record of particulars of significant policies alongwith date 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 Chief Executive Officer (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 once in every quarter during the year ended June 30, 2003. Written notices of the Board meetings, alongwith agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.

9. The company has ensured that its directors are fully appraised of their duties and responsibilities.

10. The Board has approved appointment of Chief Financial Officer (CFO) and the Head of Internal Audit, including their remuneration and terms and condition of employment, as determined by the Chief Executive Officer.

1 1. The Directors' Report for the year ended June 30, 2003 has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.

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

#### HOLDING COMPANY

The holding company of Berger Paints Pakistan Limited is Slotrapid Limited which is incorporated in the United Kingdom.

#### AUDITORS

The present auditors M/s A. F. Ferguson & Co., Chartered Accountants have given their consent to be auditors for the year ending June 30, 2004. However, the Board in order to comply with the requirements of Code of Corporate Governance has recommended changing the auditors.

#### CORPORATE GOVERNANCE

Statement of Corporate and Financial Reporting Framework

i. 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.

ii. Proper books of account have been maintained by the Company.

iii. Appropriate accounting policies have been consistently applied, except for the changes stated in note 3 to the accounts, in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.

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

v. The system of internal control is sound in design and has been effectively implemented and monitored.

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

vii. There has been no material departure from the best practices of Corporate Governance, as detailed in the Listing Regulations.

viii. Key operating and financial data of the last six years is summarised on page 9.

ix. A brief description of outstanding statutory payments on account of taxes, duties, levies is given in note 1 4 to the accounts.

x. The directors, CEO, CFO, Company Secretary and their spouses and minor children did not carry out any trade in the shares of the company.

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 Berger Paints Paistan Limited to comply with the Listing Regulation No. 37 of the Karachi Stock Exchange and Chapter XI of the Listing Regulations of the Islamabad Stock Exchange 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 or Compliance reflects the status of the company's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquires 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 status of 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, 2003.

#### DEAR SHAREHOLDERS

It gives me great pleasure to welcome you to the fifty-third Annual General Meeting of the Company, and to present a review of the operations and financial results of your Company for the year ended June 30, 2003.

#### BUSINESS CLIMATE

During the year 2002-03 there was a marked improvement in macro economic indicators of the country's economy, and improved economic growth. There has been a decline in fiscal deficit of the Government inflation and interest rates.

The external accounts balances have improved. The recently announced economic assistance package of \$ 3 Billion from the USA should help to further improve foreign exchange reserves. This augurs well for the future. Government spending in the PSDP should increase stimulating further growth.

#### OPERATING PREFORMANCE

Your Company's operating results showed improvement during the year under review. Sales volume increased by 15% and in terms of value, sales for the year were 12.9% higher than the previous year. There was also an increase of 16.7% in the profit before tax. Apart from the substantial increase in sales, another factors contributing to improved profitability was a reduction of Rs.20 million in Financial Charges, as a result of declining interest rates during the year.

To support the Company's ongoing drive to improve its brand presence and marketing and sales strategy, expenditure on advertising and sales promotion was increased. Salaries, wages and benefits have also increased as a result of necessary additions in the sales force. The increased manning levels have already contributed to the improved sales performance during the year, and will be instrumental in the achievement of even better market penetration in the future.

Trade receivables have improved from 95 days sales to 70 days sales and further efforts by your Company's management to improve collections will continue.

#### INCOME TAX

At the year end an income tax refund of Rs.32.119 million was due from the Income Tax Authorities. A sum of Rs.21.40 million has been received subsequent to the year end.

#### MARKETING INITIATIVES

In line with trends in the market, the Company successfully repositioned its All Rounder Matt Enamel. The product is being positioned as 'Highly Washable and Extremely Durable' and there is focus on Berger Robbialac as the parent brand.

To cater for the increased demand in the market for cheaper alternatives to premium and more expensive brands of paint, the Company has adopted a marketing strategy which aims to maximize profits by further improving sales of non-premium and less expensive products like SPD, Economy Emulsion and Eazy Clean.

	Note	2003	2002
(Rupees in thousand)			
<b>SHARE CAPITAL AND RESERVES</b>			
Share capital			
Authorised			
5,000,000 (2002: 5,000,000) ordinary shares of Rs 1 0 each		50,000	50,000
Issued, subscribed and paid - up	4	30,834	30,834
General reserves	5	205,000	1 75,000
Unappropriated profit		2,427	1,122
		238,261	206,956
SURPLUS ON REVALUATION OF FIXED ASSETS (NET)	6	1 8,576	43,779
LONG-TERM FINANCES	7	-	21,500
<b>LIABILITIES AGAINST ASSETS SUBJECT TO</b>			
FINANCE LEASES	8	361	12,359
DEFERRED TAXATION	10	6,390	-
DEFERRED INCOME	15.5	600	1,224
<b>CURRENT LIABILITIES</b>			
Current maturity of long-term finances	7	20,000	21,000
Current maturity of liabilities against			
assets subject to finance leases	8	1 1 ,968	11,129
Short-term finances	11	150,000	148,000

Running finance under mark-up arrangements		12	5,855
other liabilities	13	1 73,978	1 78,906
Unclaimed dividends		1,110	836
Proposed dividend		1 2,334	10,792
		375,245	420,441
CONTINGENCIES	14	639,433	706,259

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

	Year Ended June 30,					
	2003	2002	2001	2000	1999	1998
	( Rupees in Thousand)					
<b>NET ASSETS</b>						
Fixed Assets (Net)	118,505	1 1 3,845	1 1 9,957	115,537	85,726	84,761
Long Term Investment	17,947	17,947	1 7,947	7,550	2,550	3,500
Long Term Loans & Deposits	11,931	1 1 ,501	9,601	11,001	9,201	7,818
Deferred Taxation	-	2,111	2,203	-	-	-
Net Current Assets	115,805	140,414	160,576	110,781	134,609	165,514
Total	264,188	285,818	310,284	244,869	232,086	261,593
<b>FINANCED BY</b>						
Share Capital	30,834	30,834	30,834	30,834	30,834	30,834
Reserves	207,427	176,122	169,126	151,837	134,172	124,981
Surplus on Revaluation of Fixed Assets	18,576	43,779	43,779	43,779	43,779	43,779
Long Term & Deferred Liabilities	256,837	250,735	243,739	226,450	208,785	1 99,594
Total	264,188	285,818	310,284	244,869	232,086	261,593
<b>TURNOVER &amp; PROFITS</b>						
Turnover	987,452	874,582	861 ,508	746,829	713,893	732,687
Profit before tax	38,051	32,585	28,240	48,658	28,241	53,827
Taxation	16,794	14,797	-1,383	15,576	11,341	10,054
Profit after tax	21,257	17,788	29,623	33,082	1 6,900	43,773
Dividend	12,334	10,792	12,334	15,417	7,709	7,709
Transfer to General Reserve	30,000	10,000	20,000	20,000	10,000	30,000
Earnings & Dividend						
Earnings per Rs. 10 share Rs.	6.89	5.77	9.61	10.73	5.48	14.2
Dividend per share -Cash Rs.	4	3.5	4	5	2.5	2.5

	Note	2003	2002
		(Rupees in thousand)	
Sales	25	987,452	874,582
Cost of goods sold	26	729,753	656,148
		257,699	218,434
Selling and administration expenses	27	199,981	1 45,740
		57,718	72,694
Other income	28	8,392	7,764
		66,110	80,458
Financial charges	29	25,336	45,413
Other charges	30	2,723	2,460
		28,059	47,873
Profit before taxation		38,051	32,585
Taxation	31	16,794	14,797
Profit after taxation		21,257	1 7,788
Unappropriated profit brought forward		1,122	4,126
		22,379	21,914
Appropriations			

Transfer to general reserve		-30,000	-10,000
Transfer from surplus on revaluation of fixed assets to unappropriated profit for			
- prior years		21,799	-
- current year (net of deferred taxation)		583	-
Proposed dividend - Rs 4.0 per share (2002: Rs 3.5 per share)		-12,334	-10,792
		-19,952	-20,792
Unappropriated proj		2,427	1,122
Basic and diluted earnings per share	32	Rs 6.89	Rs 5.77

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

	Note	2003 (Rupees in thousand)	2002
Cash flow from operating activities			
Cash generated from operations	33	1 35,295	105,022
Financial charges paid		-30,336	-48,871
Taxes (paid) / refunded		-17,052	21,477
Long-term loans and advances (net)		50	-1,985
Long-term deposits (net)		-480	85
Net cash inflow from operating activities		87,477	75,728
Cash flow from investing activities			
Fixed capital expenditure		-20,620	-7,001
Sale proceeds on disposal of fixed assets		739	1,081
Dividend received		274	-
Net cash (outflow) from investing activities		-19,607	-5,920
Cash flow from financing activities			
Long-term finances less repayments		-22,500	-1,000
Repayments of liabilities under finance leases (net)		-11,159	-9,606
Short-term finances (net)		2,000	101,369
Dividends paid		-10,518	-12,002
Net cash (outflow) / inflow from financing activities		-42,177	78,761
Net increase in cash and cash equivalents		25,693	148,569
Cash and cash equivalents at the beginning of the year		1 1 ,227	-137,342
Cash and cash equivalents at the end of the year	34	36,920	11,227

13. The directors, CEO and executives do not hold any interest in the shares of the company, other than that disclosed in the pattern of shareholding.

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

15. The Board has formed an Audit Committee. It comprises of three members, of whom two are non-executive directors including the chairman of the committee.

16. The meetings of the Audit Committee were held at least once every quarter prior to approval of interim and final results of the company and as required by the Code. The terms of reference of the committee have been framed, approved by the Board and advised to the committee for compliance.

17. The Company has setup an effective internal audit function for the company.

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

19. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.

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

#### Defined contribution plan

The company also operates a recognised provident fund scheme for its employees. Equal monthly contributions are made, both by the company and the employees, to the fund at the rate of 8.33 percent of basic pay and cost of living allowance for unionised staff and 10 percent of basic salary for non-

executive staff and executives.

#### 2.4 Taxation

##### Current

Provision for current taxation is based on taxable income at the current rates of taxation after taking into account tax credits and tax rebates available, if any, or minimum tax at 0.5 percent of turnover, whichever is higher.

##### Deferred

Consistent with prior years deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax base of assets and liabilities and their carrying amounts in the financial statements.

Tax rates enacted or substantially enacted by the balance sheet date are used to determine deferred income tax.

Deferred tax assets are recognised to the extent it is probable that future taxable profits will be available against which the temporary differences can be utilised.

#### 2.5 Tangible fixed assets and depreciation

Leasehold land, buildings thereon and plant and machinery as at March 31, 1988 have been revalued by an independent valuer as of that date and are shown at net revalued amounts. Additions subsequent to that date and all other operating assets are stated at cost less accumulated depreciation. Capital work-in-progress is stated at cost.

Depreciation is charged to income applying the straight line method whereby the cost of an asset is written off over its estimated useful life. A full year's depreciation is charged on additions, while no depreciation is charged on items disposed of during the year. Freehold land is stated at cost. Leasehold land is amortised over the period of the lease.

Where the carrying amount of an asset is greater than its estimated recoverable amount it is written down immediately to its recoverable amount.

Maintenance and normal repairs are charged to income as and when incurred. Major renewals and improvements are capitalised and the assets so replaced, if any, are retired. Profit or loss on disposal of fixed assets is recognised in income currently.

We have audited the annexed balance sheet of Berger Paints Pakistan Limited as at June 30, 2003 and the related profit and loss account, statement of changes in equity and cash flow statement together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit. It is the responsibility of the company's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

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

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

(b) in our opinion-

(i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied except for the change as stated in note 3 to the financial statements with which we concur;

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

(iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the company;

(c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of changes in equity and cash flow statement 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, 2003 and of the profit, its changes in equity and cash flows 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.

Investments in subsidiaries and associates are stated at cost. Impairment losses are recognised whenever the carrying amount of investment exceeds its recoverable amount. An impairment loss is recognised in income directly.

#### 2.12 Foreign currencies

Transactions in foreign currencies are recorded in Pakistan rupees at the rates of exchange approximating those prevalent on the date of transactions except if such transactions are covered through forward foreign exchange contracts in which case they are recorded at the contracted rate. Monetary assets and liabilities in foreign currencies are reported in Pakistan rupees at the rates of exchange approximating those prevailing on the balance sheet date except those liabilities covered under forward foreign exchange contracts which are reported at the contractual rates. Exchange gains and losses are included in income currently.

#### 2.13 Revenue recognition

Sales are recorded when goods are dispatched and invoiced.

Dividend income is recognised when the company's right to receive payment is established.

#### REASON AND EFFECT OF CHANGE IN AN ACCOUNTING POLICY

During the year, certain amendments in the Companies Ordinance, 1984 were promulgated. One of these amendments relates to section 235 of the Companies Ordinance, 1984, as a consequence of which the incremental depreciation on revalued amounts of fixed assets can now be adjusted against the amount of surplus.

Before this amendment, the surplus could only be reversed at the time of disposal of the fixed asset: or to set off a deficit arising on any subsequent revaluation of fixed assets.

As a result of the aforementioned amendment and as required by the International Accounting Standard No. 16 'Property, Plant and Equipment', the surplus on revaluation of fixed assets to the extent of the incremental depreciation charged on the related assets is now transferred by the company to unappropriated profit.

The revised International Accounting Standard No. 12 'Income Taxes' (revised 2000) has become applicable on financial statements covering periods beginning on or after January 1, 2002. As a result of this IAS, the company now recognises deferred tax liability on surplus on revaluation of fixed assets: which is adjusted against the related surplus.

Accordingly and as also clarified by the Securities and Exchange Commission of Pakistan (SECP) an amount equal to incremental depreciation charged on these assets upto June 30, 2002 has been transferred from the surplus on revaluation of fixed assets to unappropriated profit or July 1, 2002 (note 6).

	Note	2003	2002
TANGIBLE FIXED ASSETS		(Rupees in thousand)	
Operating fixed assets	15	117,272	113,530
Capital work-in-progress	16	1,233	315
		118,505	113,845
LONG-TERM INVESTMENTS	17	17,947	17,947
LONG-TERM LOANS AND ADVANCES	18	6,137	6,187
LONG-TERM DEPOSITS		5,794	5,314.00
DEFERRED TAXATION	10	-	2,111
CURRENT ASSETS			
Stores [including items in transit Rs Nil			
(2002: Rs 0.433 million)		3,017	3,328
Stocks	19	178,433	197,001

Trade debts	20	1 87,633	226,923
Loans and advances	21	6,776	4,577
Trade deposits and short - term prepayments	22	6,632	4,019
Other receivables	23	25,872	30,028
Taxation		39,912	33,974
Cash and bank balances	24	42,775	61,005
		491,050	560,855
		639,433	706,259

2003                      2002  
(Rupees in thousand)

#### 6. SURPLUS ON REVALUATION OF FIXED ASSETS (NET)

This represents surplus over book values resulting from the revaluation of fixed assets.

Surplus on revaluation of fixed assets as at July 1 , 2002 / 2001	43,779	43,779
Surplus relating to incremental depreciation charged upto June 30, 2002 - transferred to unappropriated profit	-21,799	-
	21,980	43,779
Transfer to unappropriated profit in respect of incremental depreciation charged during the current period - net of deferred tax	-583	-
Related deferred tax liability (excluding on incremental depreciation relating to leasehold land of Rs 0.252 million)	-178	-
	-761	-
Surplus on revaluation of fixed assets (gross) as at June 30	21,219	43,779

2003                      2002  
(Rupees in thousand)

#### DEFERRED TAXATION

Credit/(debit) balance arising in respect of :

- Provision for doubtful debts	-6,545	-3,326
- Accelerated tax depreciation	7,139	217
- Finance leases	3,153	998
- Surplus on revaluation of fixed assets	2,643	
	6,390	-2,111

#### SHORT-TERM FINANCES

##### Secured

The company has arranged facilities aggregating Rs 255 million (2002: Rs 213 million) under short term finance from various banks and a financial institution. Under these arrangements the company had obtained finances aggregating Rs 150 million (2002: Rs 148 million). These facilities are secured against first pari passu charge on stocks and trade debts of the company. The rate of markup on these facilities ranges from 4.00 to 4.50 percent (2002: 11.75 to 15.50 percent) per annum. These facilities are expiring between July 25 to September 28, 2003.

#### 1. INTRODUCTION

The company was incorporated in Pakistan on March 25, 1950 as a limited company and was subsequently converted into a public limited company. The company's shares are quoted on the Karachi and Islamabad stock exchanges. The company is engaged in manufacturing of paints, varnishes and other related items.

#### 2. SIGNIFICANT ACCOUNTING POLICIES

##### 2.1 Basis of preparation

These financial statements have been prepared under the historical cost convention and in accordance with the requirements of the Companies Ordinance, 1984 (the Ordinance), and the International Accounting Standards (IAS). However, the requirements of the Ordinance have been followed in case where its requirements are not consistent with the requirements of IAS's and the interpretations.

##### 2.2 Accounting convention

These financial statements have been prepared under the historical cost convention except that certain



fixed assets and investments have been included at revalued amounts.

### 2.3 Staff retirement benefits

#### Defined benefit plans

The company operates a funded gratuity scheme in respect of all permanent employees and payments to the fund are made in accordance with the recommendations of the actuary.

In addition the company has established a pension fund scheme for all executives. Payments to the fund are made by the company in accordance with the recommendations of the actuary..

The actuarial valuations for pension and gratuity schemes are based on the 'projected unit credit method' which uses the following significant assumptions:

- discount rate 11.00 percent per annum
- expected rate of increase in salaries 8.89 percent per annum
- expected rate of interest on investments 11.00 percent per annum

The last actuarial valuation was conducted as at June 30, 2002. Actuarial gains and losses arising during the year are included in income currently. As at June 30, 2003 an aggregate amount of Rs. 12.625 million (2002: Rs.12.552 million) is receivable on account of staff retirement benefits (note 9).

	2003	2002
	(Rupees in thousand)	
13.1 Workers' profits participation fund		
Balance at July 1	2,745	2,947
Allocation for the year	2,054	1,252
	4,799	4,732
Interest on fund utilised in the company's business	301	661
	5,100	5,393
Less: Amount paid to:		
- Workers on behalf of the fund	1,426	1,978
- The Government (workers' welfare fund)	985	670
	2,411	2,648
Balance at June 30	2,689	2,745

### CONTINGENCIES AND COMMITMENTS

The Inspecting Additional Commissioner of Income Tax (IAC) while reassessing the income for the year ended June 30, 2000 (assessment year 2000-2001) has through an order under section 66A of the Income Tax Ordinance, 1979 dated June 28, 2002 demanded income tax of Rs 13.606 million by levying tax on the amount of reserves exceeding 50 percent of paid-up capital under section 12(9A) of the Ordinance. The company has filed an appeal before the Income Tax Appellate Tribunal against the Order. The management of the company, based on the advice of its tax consultant, is confident that the demand is likely to be deleted in appeal. Accordingly, no provision has been made in these accounts for the aforementioned amount.

The Collectorate of Customs, Sales Tax and Central Excise has through its order dated April 23, 2001 demanded sales tax amounting to Rs 0.654 million and a penalty of Rs 0.213 million in respect of sales tax not charged by the company on sales of fixed assets. The company has filed an appeal with the Customs, Central Excise and Sales Tax Appellate Tribunal against the order and is confident that the matter will be decided in its favour. Accordingly, no provision has been made in these accounts for the aforementioned amounts.

On termination of a distribution agreement, a suit against an ex-distributor for recovery of Rs 8.8 million is pending with the High Court of Sindh. The distributor has also filed a counter claim of Rs 78.2 million against the company in the High Court of Sindh on account of damages/compensation. No provision has been made in respect of the above as the company and its lawyers are confident that the ultimate decision will be in favour of the company.

Commitments in respect of capital expenditure contracted for as at June 30, 2003 amounted to Rs 1.233 million (2002: Rs 0.315 million).

**Fixed assets acquired on finance leases**

The company accounts for fixed assets acquired under finance leases by recording the asset and the related liability. These amounts are determined on the basis of discounted value of minimum lease payments. Financial charges in respect of leases entered into on or after July 1, 1999 are allocated by using the sum of year digit method. Depreciation is charged to income applying the straight line method at the rates stated in note 15.1 below.

**Stores**

Stores are valued at actual cost. Items in transit are stated at cost comprising invoice value plus other charges paid thereon to the balance sheet date.

**Stocks**

Stocks of raw and packing materials, except those in-transit, and semi-processed and finished goods are valued at the lower or moving average cost and net realisable value. Average cost in relation to items in-transit are stated at cost comprising invoice values plus other charges paid thereon to the balance sheet date.

Net realisable value is determined on the basis of estimated selling price of the product in the ordinary course of business less costs necessarily to be incurred for its sale.

**Trade debts**

Trade debts are carried at original invoice amount less an estimate for doubtful receivables. Bad debts are written off when identified.

**Cash and cash equivalents**

Consistent with prior years cash and cash equivalents are carried in the balance sheet at cost. For cash flow statement, cash and cash equivalents comprise cash in hand, deposits held with banks and outstanding balance of running finance facilities availed by the company.

**Investments**

Long-term investments are stated at fair value and have been classified as available-for-sale investments. Realised and unrealised gains and losses arising from changes in the fair value of investments are recognised in income currently.

In accordance with the allowed alternative treatment prescribed in the International Accounting Standard No. 8, 'Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies', the effect of this change in accounting policy has been recognised in the current period. The proforma information relating to the change in policy has not been given as this change would not have any effect on the opening balance of unappropriated profit as at July 1, 2002.

Had there been no change in the accounting policy as set out above, the balance of unappropriated profit/(loss), surplus on revaluation of fixed assets and profit after taxation would have been a loss of Rs (19.955) million, Rs 43.779 million and Rs 21.079 million respectively and the deferred taxation (liability) as of June 30, 2003 would have been Rs 3.747 million.

	2003	2002
	(Rupees in thousand)	
<b>4. ISSUED, SUBSCRIBED AND PAID-UP SHARE CAPITAL</b>		
Ordinary shares of Rs 10 each		
887,028 Shares fully paid in cash	8,870	8,870
2,196,367 Shares issued as fully paid bonus shares	21,964	21,964
3,083,395 (2002: 3,083,395)	30,834	30,834
	2003	2002
	(Rupees in thousand)	
<b>GENERAL RESERVE</b>		
At the beginning of the year	175,000	165,000
Transfer from profit and loss account	30,000	10,000
	205,000	175,000
	2003	2002
	(Rupees in thousand)	

## 7. LONG-TERM FINANCES

Secured		2,500
From a bank	20,000	40,000
From a non-banking financial institution - note 7.1	20,000	42,000
Current maturity shown under current liabilities	20,000	21,500

The company has obtained a facility of Rs 40 million from a non-banking financial institution. The facility is secured by a first charge on stocks and book debts ranking *par passu* with other creditors. The rate of mark-up on the facility is State Bank of Pakistan's discount rate plus 2.5 percent per annum subject to a minimum rate of 11.5 percent per annum and maximum rate of 17 percent per annum.

## LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASES

The company has entered into finance lease agreements with leasing companies and an investment bank for plant and machinery, laboratory equipments and motor cars.

The periodic lease payments include built in rates of mark-up ranging between 13.91 to 19.5 (2002: 16.25 to 21.41) percent per annum which are used as discounting factors. Repairs and insurance costs are to be borne by the company. The company intends to exercise its option to purchase the leased assets at the expiry of the lease term.

The amounts of future payments for the leases and the period in which the lease payments will become due are as follows:

12.1 The company has arranged a running finance facility from a bank on mark-up basis to the extent of Rs 140 million (2002: Rs 197 million). Mark-up rate on such arrangement is 7.25 percent (2002: 12.50 to 14.50 percent) per annum and is payable on March 31, 2004.

This arrangement is secured by first hypothecation charge over the company's stocks, trade debts and movable assets.

12.2 The facility for opening of letters of credits and guarantees as at June 30, 2003 amounts to Rs 224.305 million (2002: Rs 331.300 million) of which the amount remaining un-utilised as at June 30, 2003 was Rs 136.524 million (2002: Rs 201.150 million).

	Note	2003	2002
		(Rupees in thousand)	
13. CREDITORS, ACCRUED EXPENSES AND OTHER LIABILITIES			
Creditors		80,344	74,829
Accrued liabilities		27,021	16,801
Bills payable		42,956	64,190
Mark-up on long-term finances		113,106	1,657,931
Mark-up on short-term finances		510	2,739
		1,687	6,327
Customers' credit balances		1,909	3,863
Sales tax payable		7,598	2,532
Workers' profits participation fund	13.1	2,689	2,745
Workers' welfare fund		1,708	1,411
Others		8,066	6,208
		173,978	178,906

15.3 The above represents values of fixed assets arising from revaluation on March 31, 1988 with additions thereafter stated at cost. Had there been no revaluation on that date the figures of fixed assets, after considering the reassessed useful lives of the revalued assets, would have been as follows:

17.1 The value of the company's holding in Canadian Metal Containers (Private) Limited (CMC) has been fully written off as CMC has ceased to operate since August 23, 1993. Mr. Iqbal Surti was the chief executive of CMC on August 23, 1993.

17.2 The investment in the shares of Buxly Paints Limited (BPL) has been classified as an available-for-sale financial asset. The management considers the carrying value of this investment to be its fair value as at June 30, 2003 for the following reasons:

- the market of the subject investment is inactive which is evidenced by infrequent and low volume trading of the shares of BPL in the stock exchange and therefore the management of the company does not consider the market value as at June 30, 2003 of the share of BPL to be an indicator of its fair value; and
- an assessment of the financial position of BPL carried out by the management of the company indicates that the present trend of improvement in the financial position of BPL is expected to continue in the future.

	2003	2002
	(Rupees in thousand)	
<b>LONG-TERM LOANS AND ADVANCES</b>		
Considered good		
• Due from executives	1,380	1,515
• Due from employees	4,757	4,672
	6,137	6,187
Outstanding for more than three years	701	92
Others	5,436	6,095
	6,137	6,187

Loans have been provided to employees of the company under a scheme to facilitate purchase of motor vehicles and are repayable over a period of three to eight years.

The maximum amount of loans and advances due from executives of the company at the end of any month during the year was Rs 2.497 million (2002: Rs 2.468 million).

The fair value adjustment on adoption of IAS 39 arising in respect of staff loans is not considered material and hence not recognised.

	Note	2003	2002
		(Rupees in thousand)	
<b>CAPITAL WORK-IN-PROGRESS</b>			
Advance against capital expenditure		1,233	315
<b>LONG-TERM INVESTMENTS</b>			
Unquoted			
• 382,500 (2002: 382,500) fully paid ordinary shares of Rs 1 0 each in Berger-DPI (Private) Limited, a subsidiary.		2,550	2,550
Break up value of the share at June 30, 2003 is Rs 16.85 (2002: Rs 10.23) per share. The company holds 51 percent (2002: 51 percent) shares of the investee's total equity.			
The name of the company's chief executive is Dr. Mahmood Ahmad			
• 625,000 (2002: 625,000) fully paid ordinary shares of Rs 1 0 each in Berdex Construction Chemicals (Private) Limited, an associate.		5,000	5,000
Break-up value of the share at June 30, 2003 is Rs 10.1 7 (2002:Rs 10.05 per share unaudited). The company holds 50 percent (2002: 50 percent) of the investee's total equity.			
The name of the company's chief executive is Dr. Mahmood Ahmad.			
• 46,550 (2002: 46,550) fully paid ordinary shares in Canadian Metal Containers ( 17.1		-	-

Break-up value of the share at June 30, 2003 is Rs Nil (2002: Rs Nil). The company holds 49 percent (2002: 49 percent) of the investee's total equity.

Available for sale

Quoted

273,600 (2002: 273,600) fully paid ordinary shares of Rs 1 0 each in Buxly Paints Limited.

Market value Rs 1 8 per share (2002: Rs 1 3 per share)

The company holds 1 9 percent (2002: 1 9 percent) shares of the investee's total equity.

17.2	10,397	10,397
	17,947	1 7,947

Note	2003	2002
	(Rupees in thousand)	

#### LOANS AND ADVANCES

Considered good

Loans to

- Executives
- Other employees

922	590
1,508	1,424
2,430	2,014

Advances to

- Executives
- Other employees
- Suppliers

21.1	301	706
	164	128
	3,881	1,729
	4,346	2,563
	6,776	4,577

Note	2003	2002
	(Rupees in thousand)	

#### TRADE DEPOSITS AND SHORT-TERM

PREPAYMENTS

Security deposits

Prepayments

3,809	2,921
2,823	1,098
6.632	4,019

#### OTHER RECEIVABLES

Considered good

Excise duty

Claims receivable

Due from associated undertakings

Others

	564	537
	220	731
23.1	6,442	1 1 ,907
23.2	1 8,646	16,853
	25,872	30,028

Note	2003	2002
	(Rupees in thousand)	

#### STOCKS

Raw and packing materials

including items in-transit Rs 37.916 million;

(2002: Rs 51. 923 million)]

Semi-processed goods

Finished goods

including items in-transit Rs 0.725 million

(2002: Rs 4. 106 million)

	82,089	105,855
	17,059	14,790
19.1	79,285	76,356
19.2		
	178,433	197,001

19.1 Included in finished goods are stocks held by third parties amounting to Rs 8.430 million (2002:

Rs 9.482 million).

19.2 Included in finished goods are items having a carrying value of Rs 4.587 million (2002: Rs 1.567 million) which are stated at their net realisable value.

	Note	2003		2002
		(Rupees in thousand)		
<b>20. TRADE DEBTS</b>				
Unsecured				
Considered good				
• Due from associated undertakings	20.1	971		5,066
• Due from others		186,66	S2	221,857
		1 87,6:	33	226,923
Considered doubtful				
• Due from others		18,701	1	10,388
		206,334		237,311
Less: Provision for doubtful debts		18,7(01		10,388
		1 87,6:	33	226,923

	Note	2003		2002
		(Rupees in thousand)		
<b>COST OF GOODS SOLD</b>				
Opening stock of semi-processed goods		14,790		13,125
Raw and packing materials				
Opening stock		105,855		87,183
Purchases		523,856		491,735
		629,71 1		578,918
Less: Closing stock		82,089		105,855
		547,622		473,063
Production expenses				
Consumable stores		7,099		7,399
Salaries, wages and benefits	26.1	37,140		33,280
Travelling and conveyance		3,921		2,429
Fuel, water and power		13,262	1 1 ,	360
Legal and professional		2,289		741
Rent, rates and taxes		672		319
Insurance		690		859
Repairs and maintenance		4,461		4,618
Depreciation		9,514		9,743
Printing and stationery		269		333
Communication		440		338
Other expenses		1,690		1,503
		81,447		72,922
Less: Closing stock of semi-processed goods		1 7,059		14,790
Cost of goods manufactured		626,800		544,320
Opening stock of finished goods		76,356		72,375
Purchases of finished goods		1 7,885		27,929
Excise duty		86,432		86,764
Sales tax		1,565		1,116
		809,038		732,504
Less: Closing stock of finished goods		79,285		76,356
		729,753		656,148

23.2 Others include Rs 10.851 million (2002: Rs 10.255 million) receivable from the staff pension fund and Rs 1.774 million (2002: Rs 2.297 million) receivable from the staff gratuity fund.

	Note	2003		2002
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(Rupees in thousand)

## 24. CASH AND BANK BALANCES

## With banks

• on local currency deposit account	24.1	304	304
• on foreign currency deposit account		2,066	2,144
• on current accounts	24.2	3,655	29,212
Cash and cheques in hand		33,832	26,355
Remittances in-transit		2,918	2,990
		42,775	61,005

This balance is under lien with a bank.

This includes US\$ 30 (2002: US\$ 380) being balance in a foreign currency current account as at June 30, 2003.

2003 2002  
(Rupees in thousand)

## 5. SALES

Local - Paints		921,514	831,633
Less: Discounts allowed		50,470	45,061
		871,044	786,572
Resin		26,820	31,432
Containers		6,041	4,993
Others		83,547	51,585
		987,452	874,582

Note 2003 2002  
(Rupees in thousand)

## Details of salaries, wages and benefits

Salaries, wages and benefits		50,950	43,336
Provident fund contributions		1,676	1,590
(Reversal) / provision for retirement benefits			
- pension	27.2	-430	-1,162
- gratuity	27.2	377	-1,159
		52,573	42,605

Donations were not made to any donee in whom a director or his spouse had any interest at any time during the year.

Note 2003 2002  
(Rupees in thousand)

Auditors' remuneration			
Audit fee		325	325
Taxation		96	73
Special reports and other services		417	215
Out of pocket expenses		64	80
		902	693
OTHER INCOME			
Sale of scrap		3,108	2,561
Profit on disposal of fixed assets	28.1	1,039	1,649
Insurance commission		-	425
Dividend income		274	-
Markup, rental income and other services charged to an associated undertaking		240	2,057
Toll manufacturing income		892	327
Liabilities written back		1,949	-
Others		890	745
		8,392	7,764

	Note	2003 (Rupees in thousand)	2002
Details of salaries, wages and benefits			
Salaries, wages and benefits		36,326	33,309
Provident fund contributions		834	867
(Reversal)/ provision for retirement benefits			
- pension	26.2	-166	-450
- gratuity	26.2	146	-446
		37,140	33,280

	Note	2003 (Rupees in thousand)	2002
SELLING AND ADMINISTRATION EXPENSES			
Salaries, wages and benefits	27.1	52,573	42,605
Travelling and conveyance		17,341	14,515
Rent, rates and taxes		3,686	1,814
Insurance		3,570	4,074
Donations	27.3	60	100
Auditors' remuneration	27.4	902	693
Fuel, water and power		2,157	2,112
Advertising and sales promotion		53,876	40,962
Technical services fee		3,422	2,678
Freight and handling		17,364	13,808
Repairs and maintenance		3,932	3,002
Depreciation		6,122	4,903
Provision for doubtful debts		9,166	3,024
Bad debts written off		12,640	-
Printing and stationery		1,604	1,245
Legal and professional		3,796	3,339
Communication		3,864	3,439
Other expenses		3,906	3,427
		199,981	145,740

	Note	2003 (Rupees in thousand)	2002
BASIC AND DILUTED EARNINGS PER SHARE			
Profit after taxation		21,257	17,788
Number of shares 3,083,395 (2002: 3,083,395)			
Basic and diluted earnings per share		Rs 6.89	Rs 5.77
CASH GENERATED FROM OPERATIONS			
Profit before taxation		38,051	32,585
Adjustments for non-cash charges and other items:			
Depreciation		15,636	14,646
Profit on disposal of fixed assets		-1,039	-1,649
Dividend income		-274	-
Financial charges		25,336	45,413
Working capital changes	33.1	57,585	14,027
		135,295	105,022
Working capital changes (Increase) / decrease in current assets			
Stores		311	1,421
Stocks		18,568	-24,318
Trade debts		39,290	9,756
Loans and advances		-2,199	3,419
Trade deposits and short-term prepayments		-2,613	1,158
Other receivables		4,156	-1,330
		57,513	-9,894



Increase in current liabilities		
Creditors, accrued expenses and other liabilities (net)	72	23,921
	57,585	14,027

This includes an amount of Rs 0.624 million (2002: Rs 0.624 million) being part of the deferred income arising upon sale and lease back transaction recognised during the current year (note 1 5.5).

2003 2002  
(Rupees in thousand)

FINANCIAL CHARGES

Interest on workers' profits participation fund	301	661
Mark-up on long-term finances	4,150	6,401
Mark-up on short-term finances	13,960	7,686
Mark-up on running finances	2,489	23,820
Mark-up on finance leases	3,095	5,110
Bank charges	1,341	1,735
	25,336	45,413

OTHER CHARGES

Workers' profits participation fund	2,054	1,785
Workers' welfare fund	669	675
	2,723	2,460

TAXATION

Current		
- for the year	16,374	14,705
- for prior years	-5,260	-
Deferred (net of deferred tax on incremental depreciation of Rs 0.178 million - note 6)	5,680	92
	16,794	14,797
Relationship between tax expense and accounting profit		
Profit before taxation	38,051	32,585
Tax at the applicable rate of 35% (2002: 35%)	13,318	11,405
Tax effect of expenses that are not allowable in determining taxable income	679	684
Tax credit under section 1 07 AA of the Income Tax Ordinance, 1 979	-	-131
Tax effect of dividend income taxable at a reduced rate	-82	
Tax effect of income taxable under presumptive regime	1,250	3,309
Deferred tax adjustment in respect of prior years Tax effect on revaluation of fixed assets	23,266	-470
	22,054	14,797
Tax charge for the year		
Current	16,374	14,705
Deferred	5,680	92
Tax charge for the year	22,054	14,797

2003 2002  
(Rupees in thousand)

TRANSACTIONS WITH ASSOCIATED UNDERTAKINGS

Sale of goods (inclusive of sales tax)	16,986	10,965
Mark up, rental income and other services charged to an associated undertaking	840	2,057
Purchase of raw materials from an associated undertaking	104	16
Expenses charged by a subsidiary	280	123

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise of the following items as included in the balance sheet.

	2003	2002
	(Rupees in thousand)	
Cash and bank balances	-42,775	-61,005
Running finance under mark-up arrangements	5,855	49,778
	36,920	11,227

#### REMUNERATION OF THE CHIEF EXECUTIVE, DIRECTORS AND OTHER EXECUTIVES

The aggregate amounts charged for remuneration including certain benefits to the chief executives and other executives of the company were as follows

	2003	2002	2003	2002
	— (Rupees in thousand) -			
	Chief Executives		Executives	
Managerial remuneration	1,620	1,469	1 7,267	1 5,670
Pension, gratuity and provident fund	194	312	1,851	4,045
Housing	609	566	7,531	5,413
Utilities	65	73	1,727	1,567
Medical expenses	168	76	1,548	850
Leave passage	226	184	1,970	1,722
Conservancy	40	40	-	-
Leave encashment	1,200	-	83	1,579
	4,122	2,720	31,977	30,846
	2	1	61	62

Number of Shareholders	Shareholding From	To	Total number of shares held
230	1	100	8,039
280	101	500	70,983
61	501	1000	44,251
69	1001	5000	142,056
6	5001	10000	39,924
2	10001	15000	24,428
2	15001	20000	36,676
1	25001	30000	25,600
1	30001	35001	32,423
1	55001	60000	58,715
	65001	70000	68,361
	70001	75000	71 ,395
3	75001	80000	232,847
	80001	85000	80,436
	85001	90000	87,206
	95001	100000	95,053
2	210001	215000	417,383
1	1545001	1550000	1,547,619
664			3,083,395

#### 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. Out of the total financial assets of Rs 265.581 million (2002: Rs 330.388 million), the financial assets which are subject to credit risk amount to Rs 214.779 million (2002: Rs 250.785 million). The company believes that it is not exposed to major concentration of credit risk. To manage exposure to credit risk, the company applies credit limits to its customers.

#### FOREIGN EXCHANGE RISK MANAGEMENT

Foreign currency risk arises mainly where receivables and payables exist due to transactions with foreign undertakings. Foreign currency risks relating to payables are covered through forward foreign exchange contracts if the company assesses that the exposure would have an unfavorable impact. As at the year

end the company had liabilities in foreign currencies aggregating Rs 57.426 million (2002: Rs 80.953 million).

#### FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The carrying values of all financial assets and liabilities reflected in the financial statements approximate their fair values. Further, staff loans are valued at their original cost less repayments.

#### PRODUCTION CAPACITY

	2003	2002
	Rupees in Thousand	
Actual production	8,433	8,184

The capacity of the plant is indeterminable because it is a multi-product plant involving varying processes of manufacturing.

#### AVERAGE NUMBER OF EMPLOYEES

	2003	2002
	(Number of employee)	
	230	248

#### DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on September 8, 2003 by the board of directors of the company.

NOTICE IS HEREBY GIVEN that the fifty-third (53rd) Annual General Meeting of Berger Paints Pakistan Limited will be held on Thursday, October 23, 2003 at 9:00 a.m. at the Overseas Investors Chamber of Commerce & Industries, Chamber of Commerce Building, Talpur Road, Karachi, to transact the following business:

#### ORDINARY BUSINESS

- To receive and adopt the Audited Accounts alongwith the Consolidated Financial Statements of the Company for the year ended June 30, 2003 and Directors' and Auditors' Reports thereon.
- To approve payment of cash dividend of Rs 4.00 per share (40%) for the year ended June 30, 2003.
- To appoint Auditors and fix their remuneration for the year ending June 30, 2004. The present auditors M/s. A.F. Ferguson & Co. have expressed their willingness to act as auditors for the year ending June 30, 2004. However, the Company has received, from a shareholder, a notice under Section 253 (1) of the Companies Ordinance, 1 984 proposing Ford Rhodes Sidat Hyder & Co. Chartered Accountants, for appointment as auditors of the Company in place of M/s A.F. Ferguson & Co. Chartered Accountants for the year ending June 30, 2004.
- To approve an amount of Rs 4.500 million as remuneration of the Chief Executive and Directors.

Shareholder's Category	Number of shareholders	Number of shares held
Parent Company		
Slotrapid Limited U. K.	1	1,547,619
ICP		
Investment Corp. of Pakistan Limited	1	2,228
Directors, CEO and their spouses		
Dr. Mahmood Ahmad and family	2	1,501
Mr. Maqbool H. H. Rahimtoola	1	500
Mr. Sikander Dada and family	1	112,123
Mr. C. H. Clover	1	1
Mr. William Alfred Morley	1	1
Executive	1	559
Public sector companies and corporation	1	212,960
Banks, Development Finance Institution, Non-banking Finance Institution, Insurance Companies, Modarabas and Mutual Funds	6	317,836

The Directors take pleasure in submitting their Report together with the Audited Accounts of the Company for the year ended June 30, 2003.

	2003	2002
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( Rupees in thousand)

Profit before tax for the year		6,789
Less : Taxation		
Current - for the year	1,950	
- for the prior year	-123	1,827
Profit after tax		4,962
Add : Unappropriated profit brought forward		131
Amount available for appropriation		5,093

#### HOLDING COMPANY

The Company's holding company is Berger Paints Pakistan Limited which alongwith its nominees held 382,500 shares of Rs. 10 each.

#### EARNINGS PER SHARE

The earnings per share for the year is Rs. 6.62 [2002: Rs. (4.07)].

#### AUDITORS

The present auditors M/s. A.F. Ferguson & Co. have given their consent to be auditors for the year ending June 30, 2004. However, the Board has recommended changing the auditors to make it inline with the holding company.

We have audited the annexed balance sheet of Berger DPI (Private) Limited as at June 30, 2003 and the related profit and loss account, statement of changes in equity and cash flow statement together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

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

(b) in our opinion-

(i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied except for the change as stated in note 3 to the financial statements with which we concur;

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

(iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the company;

(c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of changes in equity and cash flow statement 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, 2003 and of the profit, its changes in equity and cash flows for the year then ended; and

(d) in our opinion no zakat was deductible at source under the Zakat and Ushr Ordinance, 1 980.

	Note	2003	2002
		(Rupees in thousand)	
Turnover	13	39,001	1 5,404
Cost of turnover	14	21,484	12,235
Gross profit		17,517	3,169
Selling and administration expenses	15	10,557	4,423
		6,960	-1,254
Other income	16	309	123
		7,269	-1,131
Financial charges	17	123	1,435
Other charges	18	357	-
		480	1,435
Profit / (loss) before taxation		6,789	-2,566
Taxation			
Current - for the year		1,950	687
- for prior year		-123	-200
		1,827	487
Profit / (loss) after taxation		4,962	-3,053
Unappropriated profit brought forward		131	3,184
Unappropriated profit carried forward		5,093	131
Basic and diluted earnings / (loss) per share	19	Rs 6.62	(Rs 4.07)

	Note	2003	2002
		(Rupees in thousand)	
TANGIBLE FIXED ASSETS			
Operating fixed assets	7	3,140	3,521
LONG-TERM LOAN	8	-	35
CURRENT ASSETS			
Stocks		1,211	237
Trade debts	9	1 8,427	1 4,732
Deposits and short-term prepayments	10	275	363
Other receivables	11	1,570	1,658
Cash and bank balances	12	369	4,319
		21,852	21,309
		24,992	24,865

	Note	2003	2002
		(Rupees in thousand)	
Cash flow from operating activities			
Cash (utilised in) / generated from operations	20	-1,787	4,078
Financial charges paid		-123	-1,437
Taxes paid		-715	-1,489
Long-term loan		35	-35
Long-term deposits		-	47
Net cash (outflow) / inflow from operating activities		-2,590	1,164
Cash flow from investing activities			
Fixed capital expenditure		-675	-
Cash flow from financing activities			
Repayment of liabilities under finance leases		-685	-867
Net (decrease) / increase in cash and cash equivalents		-3,950	297
Cash and cash equivalents at the beginning of the year		4,319	4,022
Cash and cash equivalents at the end of the year	12	369	4,319

Issued, subscribed	Advance against	Unappr- opriated	Total
-----------------------	--------------------	---------------------	-------

	and paid-up share capital	issue of share capital	profit	
				(Rupees in Thousand)
Balance as at June 30, 2001	7,500	41	3,184	10,725
Loss for the year ended June 30, 2002-	-		-3,053	-3,053
Balance as at June 30, 2002	7,500	41	131	7,672
Profit for the year ended June 30, 2003	-		4,962	4,962
Balance as at June 30, 2003	7,500	41	5,093	1 2,634

## 2.5 Stocks

Stocks are valued at the lower of cost and net realisable value.

## 2.6 Cash and cash equivalents

Consistent with prior years cash and cash equivalents are carried in the balance sheet at cost. For cash flow statement, cash and cash equivalents comprise cash on hand and deposits held with banks.

## 2.7 Foreign currencies

Assets and liabilities in foreign currencies are reported in rupees at the rate of exchange prevailing at the balance sheet date. Exchange gains and losses are included in income currently.

## 2.8 Revenue recognition

For services rendered under contracts for application of road marking paints, revenue is recognised on the basis of percentage of completion, measured by reference to the percentage of the road surface covered for each contract.

	2003	2002
	(Rupees in thousand)	
ISSUED, SUBSCRIBED AND PAID-UP SHARE CAPITAL		
Ordinary shares of Rs 10 each		
500,000 Shares fully paid in cash	5,000	5,000
250,000 Shares issued as fully paid bonus shares	2,500	2,500
750,000 (2002: 750,000)	7,500	7,500
At June 30, 2003 Berger Paints Pakistan Limited and their nominees held ordinary shares of Rs 10 each.	382,500 (2002: 382,500)	2: 382,500)

	2003	2002
	(Rupees in thousand)	
ADVANCE AGAINST ISSUE OF SHARE CAPITAL		
Dynamic Progressive Industries, Malaysia	41	41

## INTRODUCTION

The Company was incorporated in Pakistan as a private limited company on December 9, 1997.

Previously the Company was also engaged in selling of road marking paints, however, effective from July 1, 2002 the company has changed the scope of its operations whereby it is now only engaged in executing contracts for application of road marking paints.

## SIGNIFICANT ACCOUNTING POLICIES

### Accounting convention

These financial statements have been prepared under the historical cost convention and in accordance with the requirements of the Companies Ordinance, 1 984 (the Ordinance), and the International Accounting Standards issued by the International Accounting Standards Committee (IASC) and interpretations issued by the Standing Interpretations Committee of the IASC (the Interpretations), as adopted in Pakistan. However, the requirements of the Ordinance have been followed in case where its requirements are not consistent with the requirements of IAS's and the interpretations.

### Taxation

#### Current

Provision for current taxation is based on taxable income at the current rates of taxation after taking into account tax credits and tax rebates available, if any.

#### Deferred

The company accounts for deferred taxation on all major temporary differences using the liability method.

Tangible fixed assets and depreciation

Operating fixed assets are stated at cost less accumulated depreciation. Depreciation is charged to income applying the straight-line method whereby the cost of an asset is written off over its estimated useful life. A full year's depreciation is charged on acquisitions, while no depreciation is charged on items disposed off during the year. Maintenance and normal repairs are charged to income as and when incurred.

Fixed assets acquired on finance leases

The company accounts for fixed assets acquired under finance leases by recording the asset and the related liability. These amounts are determined on the basis of discounted value of minimum lease payments. Financial charges in respect of leases entered into on or after July 1, 1999 are allocated in a manner so as to produce a constant periodic rate of charge on the outstanding liability. In respect of leases concluded before July 1, 1999, the financial charges are allocated to the accounting period, by using the sum of year digit method. Depreciation is charged to income applying the straight-line method at the rates stated in the note 7 below.

	2003	2002
	(Rupees in thousand)	
<b>OTHER RECEIVABLES</b>		
Retention money	1,532	1,527
Current maturity of a loan due from an employee	35	9
Others	3	122
	1,570	1,658
<b>CASH AND BANK BALANCES</b>		
With bank - on current accounts	352	4,218
- in a foreign currency current account	17	17
Cash in hand	-	84
	369	4,319
<b>TURNOVER</b>		
Revenue under contracts for application of road marking paints	39,001	9,537
Sale of finished goods	-	5,867
	39,001	15,404
<b>COST OF TURNOVER</b>		
Contracts for road marking services		
Opening stock	237	1,088
Add: Purchases	16,621	3,528
	16,858	4,616
Less: Closing stock	1,211	237
	15,647	4,379
Salaries, wages and benefits	1,625	1,111
Application charges	1,124	264
Fuel	369	194
Depreciation	928	982
Cartage and freight	136	68
Travelling and conveyance	78	75
Communication	36	15
Repairs and maintenance	270	611
Insurance	176	139
Others	1,095	518
	5,837	3,977
Cost of finished goods sold	-	3,879
	21,484	12,235

	2003	2002
	(Rupees in thousand)	
<b>Workers' profits participation fund</b>		
Balance at July 1	28	159

Allocation for the year	357	-	159
	385		26
Interest on funds utilised in the Company 's business	4		185
	389		
Less: Amount paid to :			
- Workers on behalf of the fund	26		63
- The Government (workers' welfare fund)	-		94
	26		157

#### LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASES

The company has entered into finance lease arrangements with leasing companies for vehicles. The periodic lease payments include built in rate of mark-up of 18.00% (2002 : 18.00% to 21.41%) per annum which are used as discounting factors. The company intends to exercise its option to purchase the leased assets upon completion of lease period.

	Note	2003 (Rupees in thousand)	2002
<b>CREDITORS, ACCRUED EXPENSES AND OTHER LIABILITIES</b>			
Creditors	6.1	5,660	15,685
Accrued liabilities		4,430	307
Advances from customers		387	32
Workers' profits participation fund	6.2	363	28
Others		47	97
		10,887	16,149

	Note	2003 (Rupees in thousand)	2002
<b>SELLING AND ADMINISTRATION EXPENSES</b>			
Salaries, wages and benefits		917	1,453
Rent		-	150
Service and distribution charges		-	578
Travelling and conveyance		644	441
Motor vehicles expenses		174	107
Cartage and freight		639	95
Handling charges		-	170
Printing and stationery		18	37
Communication		133	152
Advertising and sales promotion		1,130	317
Entertainment		23	18
Legal and professional		3,200	105
Repairs and maintenance		36	24
Depreciation		128	164
Provision for doubtful debts		2,702	477
Auditors' remuneration	15.1	92	95
Others		721	40
		10,557	4,423
Auditors' remuneration			
Audit fee		75	75
Out of pocket expenses		17	20
		92	95
<b>OTHER INCOME</b>			
Profit on current account with a bank		29	-
Expenses charged to Berger Paints Pakistan Limited		280	123
		309	123
<b>FINANCIAL CHARGES</b>			



Interest on workers' profits participation fund	4	26
Mark-up charged by Berger Paints Pakistan Limited	-	1,159
Mark-up on finance leases	97	220
Bank charges	21	29
Exchange loss	1	1
	123	1,435

	2003	2002
Note	(Rupees in thousand)	
<b>OTHER CHARGES</b>		
Workers' profits participation fund	357	-
<b>BASIC AND DILUTED EARNINGS / (LOSS) PER SHARE</b>		
Profit / (loss) for the year (after taxation)	4,962	-3,053
Number of ordinary shares 750,000 (2002: 750,000)		
Basic earnings / (loss) per share	Rs.6.62	(Rs 4.07)
<b>CASH (UTILISED IN) / GENERATED FROM OPERATIONS</b>		
Profit / (loss) before taxation	6,789	-2,566
Adjustment for non-cash charges and other items:		
Depreciation	1,056	1,146
Financial charges	123	1,435
	7,968	15
Working capital changes	20.1	-9,755
	-1787	4,063
		4,078
Working capital changes (Increase/decrease in current assets		
Stocks	-974	851
Trade debts	-3,695	3,875
Deposits and short-term prepayments	88	-33
Other receivables	88	-270
	-4,493	4,423
Decrease in creditors, accrued expenses and other liabilities	-5,262	-360
	-9,755	4,063

**REMUNERATION OF THE CHIEF EXECUTIVE, DIRECTORS AND OTHER EXECUTIVES**

The aggregate amounts charged for remuneration including certain benefits to the other executives of the Company were as follows:

	2003	2002
	[Rupees in thousand)	
	Executives	
Managerial remuneration	283	424
Housing	127	134
Utilities	28	42
Medical expenses	29	45
Others	54	173
	521	818
Number of persons	2	2

	2003	2002
	(Rupees in thousand)	
<b>TRANSACTIONS WITH ASSOCIATED UNDERTAKINGS</b>		
Purchase of goods	16,621	7,407
Mark up, rental income and other services charged by an		

associated undertaking	-	2,057
Expenses charged to an associated undertaking	280	123

### 23. FINANCIAL ASSETS AND LIABILITIES

	Maturity upto one year	Interest/mark-up bearing Maturity after one year	Sub-total	Maturity upto one year	Non-interest bearing Maturity after one year	Sub-total	2003 Total	2002 Total
Rupees in thousand								
Financial assets								
Trade debts	-	-	-	18,427	-	18,427	18,427	14732
Loan to an employ	-	-	-	-	-	-	-	35
Deposits	-	-	-	252	-	252	252	298
Other receivables	-	-	-	1,570	-	1,570	1,570	1 658
Cash and bank bal	369	-	369	-	-	-	369	4,319
2003	369	-	369	20,249	-	20,249	20,618	21,042
2002	-	-	-	21,007	35	21,042	21,042	
Financial liabilities								
Liabilities against assets subject to finance I	236	-	236	-	-	-	236	921
Creditors, accrued expenses and other liabilities	-	-	-	10,137	-	10,137	10,137	16,089
2003	236	-	236	10,137	-	10,137	10,373	17,010
2002	608	313	921	16,089	-	16,089	17,010	

### 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. Out of the total financial assets of Rs 20.618 million (2002: Rs 21.042 million) , the financial assets which are subject to credit risk amount to Rs 20.249 million (2001: Rs 16.688 million). The company believes that it is not exposed to major concentration of credit risk. To manage exposure to credit risk, the company applies credit limits to its customers.

### FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

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

### AVERAGE NUMBER OF EMPLOYEES

	2003	2002
	(Number of employees)	
	12	11

### DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on September 8, 2003 by the board of directors of the company.

The Directors of the holding company take pleasure in submitting their Report together with the Audited

Consolidated Financial Statements for the year ended June 30, 2003.	2003	2002
	(Rupees in thousand)	
Profit before tax for the year	1 8,324	45,368
Less : Taxation	-5,383	18,689
Current - for the year	12,941	26,679
- for the prior year	5,748	2,431

Deferred  
Profit after tax

Less: Minority interest  
Profit for the year

## FINANCIAL STATEMENTS

The Audited Accounts of the holding company and its subsidiary, Berger DPI (Private) Limited for the year ended June 30, 2003 are annexed.

## PATTERN OF SHAREHOLDING

Statement showing the pattern of shareholding of the holding company appears on page 48.

## HOLDING COMPANY

Slotrapid Limited which is incorporated in the United Kingdom is the holding company of Berger Paints Pakistan Limited.

## EARNINGS PER SHARE

The earnings per share is Rs. 7.86 for the year (2002: Rs. 5.27).

## AUDITORS

The present auditors M/s. A.F. Ferguson & Co. have given their consent to be auditors for the year ending June 30, 2004. However, the Board in order to comply with the requirements of Code of Corporate Governance has recommended changing the auditors.

We have examined the annexed consolidated financial statements comprising consolidated balance sheet of Berger Paints Pakistan Limited (the holding company) and its subsidiary company as at June 30, 2003 and the related consolidated profit and loss account, consolidated statement of changes in equity and consolidated cash flow statement together with the notes forming part thereof, for the year ended June 30, 2003. We have also expressed separate opinions on the financial statements of Berger Paints Pakistan Limited and Berger DPI (Private) Limited for the year ended June 30, 2003. These financial statements are the responsibility of the holding company's management. Our responsibility is to express an opinion on these financial statements based on our examination.

Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion the consolidated financial statements examined by us present fairly the financial position of Berger Paints Pakistan Limited and its subsidiary company as at June 30, 2003 and the results of their operations for the year then ended.

	Note	2003 (Rupees in thousand)	2002
<b>SHARE CAPITAL AND RESERVES</b>			
Share capital			
Authorised			
5,000,000 ordinary shares of Rs 1 0 each		50,000	50,000
Issued, subscribed and paid-up	4	30,834	30,834
Reserves	5	205,000	1 75,000
Unappropriated profit		7,565	3,269
		243,399	209,103
ADVANCE AGAINST ISSUE OF SHARE CAPITAL		41	41
SURPLUS ON REVALUATION OF FIXED ASSETS (NET)	6	1 8,576	43,779
MINORITY INTEREST		6,171	3,739
LONG-TERM FINANCES	7	-	21,500

LIABILITIES AGAINST ASSETS SUBJECT TO

FINANCE LEASES	8	361	1 2,672
DEFERRED TAXATION	10	6,458	-
DEFERRED INCOME	15.5	600	1,224
CURRENT LIABILITIES			
Current maturity of long-term finances	7	20,000	21,000
Current maturity of liabilities against assets subject to finance leases	8	1 2,204	1 1 ,737
Short-term finances	11	1 50,000	148,000
Running finance under mark-up arrangements	12	5,855	49,778
Creditors, accrued expenses and other liabilities	13	179,205	1 79,370
Unclaimed dividends		1,110	836
Proposed dividend		12,334	10,792
		380,708	421,513
CONTINGENCIES AND COMMITMENTS	14		
		656,314	713,571

	Note	2003 [Rupees in thousand)	2002
TANGIBLE FIXED ASSETS			
Operating fixed assets	15	120,412	117,051
Capital work-in-progress	16	1,233	315
		121,645	1 1 7,366
LONG-TERM INVESTMENT	17	16,754	16,207
LONG-TERM LOANS AND ADVANCES	18	6,137	6,222
LONG-TERM DEPOSITS		5,794	5,314
DEFERRED TAXATION	10	-	2,111
CURRENT ASSETS			
Stores [including items in transit Rs Nil (2002: Rs 0.336 million)]		3,017	3,328
Stocks	19	179,620	197,233
Trade debts	20	206,060	236,823
Loans and advanc	21	6,812	4,577
Trade deposits an	22	6,907	4,382
Other receivables	23	21,747	20,833
Taxation		38,677	33,851
Cash and bank bal	24	43,144	65,324
		505,984	566,351
		656,314	713,571

	Note	2003 (Rupees in thousand)	2002
Turnover	25	1 ,009,832	882,579
Cost of turnover	26	734,635	660,959
		275,197	221,620
Selling and admini expenses	27	210,258	149,142
		64,939	72,478
Other income	28	8,421	5,707
Income from investjn associate		547	-
		73,907	78,185
Financial charges	29	25,459	45,689
Other charges	30	3,080	2,460
		28,539	48,149
Profit before taxation		45,368	30,036
Taxation			
Current - for the year		1 8,324	15,392
- for prior years De ax on incremental		-5,383	-200

depreciation of Rs million)	5,748	92
	18,689	15,284
Profit after taxation	26,679	14,752
Minority interest	-2,431	1,496
Profit for the year	24,248	16,248
Unappropriated profit brought forward	3,269	7,813
	27,517	24,061
Appropriations Transfer to general reserve Transfer from surplus on revaluation of fixed assets to unappropriated r		
- prior years	21,799	
- current year (net of deferred taxation)	583	
Proposed dividend - Rs 4.0 per share (2002: Rs 3.5 per share)	-12,334	-10,792
	-19,952	-20,792
Unappropriated profit carried forward	7,565	3,269
Basic earnings per share	31	Rs 7.86
		Rs 5.27

The annexed notes form an integral part of these financial statements

The actuarial valuations for pension and gratuity schemes are based on the 'projected unit credit method' which uses the following significant assumptions :

- discount rate 11.00 percent per annum
- expected rate of increase in salaries 8.89 percent per annum
- expected rate of interest on investments 11.00 percent per annum

The last actuarial valuation was conducted as at June 30, 2002. Actuarial gains and losses arising during the year are included in income currently. As at June 30, 2003 an aggregate amount of Rs 12.625 million (2002: Rs 12.552 million) is receivable on account of staff retirement benefits (note 9).

Defined contribution plan

The company also operates a recognised provident fund scheme for its employees. Equal monthly contributions are made, both by the company and the employees, to the fund at the rate of 8.33 percent of basic pay and cost of living allowance for unionised staff and 10 percent of basic salary for non-executive staff and executives.

Taxation

Current

Provision for current taxation is based on taxable income at the current rates of taxation after taking into account tax credits and tax rebates available, if any, or minimum tax at 0.5 percent of turnover, whichever is higher.

Deferred

Consistent with the prior years deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax base of assets and liabilities and their carrying amounts in the financial statements.

Tax rates enacted or substantially enacted by the balance sheet date are used to determine deferred income tax.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary difference can be utilised.

Deferred income tax is provided on temporary differences arising on investments in associate, except where the timing of reversal of the temporary differences can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Tangible fixed assets and depreciation

Leasehold land, buildings thereon and plant and machinery as at March 31, 1988 have been revalued by an independent valuer as of that date and are shown at net revalued amounts. Additions subsequent to that date and all other operating assets are stated at cost less accumulated depreciation. Capital work-in-progress are stated at cost.

## INTRODUCTION

Berger Paints Pakistan Limited (the company) was incorporated in Pakistan on March 25, 1950 as a limited company and was subsequently converted into a public limited company. Berger DPI (Private)

Limited was incorporated in Pakistan as a private limited company on December 9, 1 997. Berger DPI (Private) Limited is a subsidiary of the company.

The company's shares are quoted on the Karachi and Islamabad stock exchanges. The subsidiary of the company is incorporated in Pakistan. The company and its subsidiary are primarily engaged in manufacturing of paints, varnishes and other related items and selling paints and executing contracts for application of road marking paints.

#### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### Basis of preparation

These financial statements have been prepared under the historical cost convention and in accordance with the requirements of the Companies Ordinance, 1 984 (the Ordinance), and the International Accounting Standards issued by the International Accounting Standards Committee (IASC) and interpretations issued by the Standing Interpretations Committee of the IASC (the Interpretations), as adopted in Pakistan. However, the requirements of the Ordinance have been followed in case where its requirements are not consistent with the requirements of IASs and the interpretations.

##### Accounting convention

These financial statements have been prepared under the historical cost convention except that certain fixed assets and investments have been included at revalued amounts.

##### Basis of consolidation

These are the consolidated financial statements of Berger Paints Pakistan Limited and its subsidiary, Berger DPI (Private) Limited.

The company holds 51% interest in Berger DPI (Private) Limited.

Inter-company transactions have been eliminated.

##### Staff retirement benefits

##### Defined benefit plans

The company operates a funded gratuity scheme in respect of all permanent employees and payments to the fund are made in accordance with the recommendations of actuary.

In addition the company has established a pension fund scheme for all executives. Payments to the funds are made by the company in accordance with the recommendations of the actuary.

##### Cash and cash equivalents

Consistent with prior years cash and cash equivalents are carried in the balance sheet at cost. For cash flow statement, cash and cash equivalents comprise cash on hand, deposits held with banks and outstanding balance of running finance facilities availed by the company.

##### Long-term Investments

Long-term investments are stated at fair value and have been classified as available-for-sale investments. Realised and unrealised gains and losses arising from changes in the fair value of investments are recognised in income currently.

Investments in associates are accounted for using the 'equity method' in accordance with the requirements of International Accounting Standard No. 28 'Accounting for investments in associates'.

Impairment losses are recognised whenever the carrying amount of investment exceeds its recoverable amount. An impairment loss is recognised in income directly.

##### Foreign currencies

Transactions in foreign currencies are recorded in Pakistan rupees at the rates of exchange approximating those prevalent on the date of transactions except if such transactions are covered through forward foreign exchange contracts in which case they are recorded at the contracted rate.

Monetary assets and liabilities in foreign currencies are reported in Pakistan rupees at the rates of exchange approximating those prevailing on the balance sheet date except those liabilities covered under forward foreign exchange contracts which are reported at the contractual rates. Exchange gains and losses are included in income currently.

##### Revenue recognition

Sales are recorded when goods are despatched and invoiced.

For services rendered under contracts for application of road marking paints, revenue is recognised on the basis of percentage of completion, measured by reference to the percentage of the road surface covered for each contract.

Dividend income is recognised when the right to receive payment is established.

#### REASON AND EFFECT OF CHANGE IN AN ACCOUNTING POLICY

During the year, certain amendments in the Companies Ordinance, 1 984 were promulgated. One of these amendments relates to section 235 of the Companies Ordinance, 1 984, as a consequence of which the incremental depreciation on revalued amounts of fixed assets can now be adjusted against the amount of surplus.

Before this amendment, the surplus could only be reversed at the time of disposal of the fixed assets or to set off a deficit arising on any subsequent revaluation of fixed assets.

Depreciation is charged to income applying the straight line method whereby the cost of an asset is written off over its estimated useful life. A full year's depreciation is charged on additions, while no depreciation is charged on items disposed off during the year. Freehold land is stated at cost. Leasehold land is amortised over the period of the lease.

Where the carrying amount of an asset is greater than its estimated recoverable amount it is written down immediately to its recoverable amount.

Maintenance and normal repairs are charged to income as and when incurred. Major renewals and improvements are capitalised and the assets so replaced, if any, are retired. Profit or loss on disposal of fixed assets is recognised in income currently.

Fixed assets acquired on finance leases

The company accounts for fixed assets acquired under finance leases by recording the asset and the related liability. These amounts are determined on the basis of discounted value of minimum lease payments. Financial charges in respect of leases entered into on or after July 1 , 1 999 are allocated in a manner so as to produce a constant periodic rate of charge on the outstanding liability. In respect of leases concluded before July 1 , 1 999, the financial charges are allocated to the accounting period, by using the sum of year digit method. Depreciation is charged to income applying the straight line method at the rates stated in note 1 5.1 below.

Stores

Stores are valued at actual cost. Items in-transit are stated at cost comprising invoice values plus other charges paid thereon to the balance sheet.

Stocks

Stocks of raw and packing materials, except those in-transit, semi -processed and finished goods are valued at the lower of moving average cost and net realisable value.

Average cost in relation to finished goods represents prime cost and appropriate portion of manufacturing expenses and excise duty paid thereon. Semi-processed goods are valued at direct materials cost only.

Items in-transit are stated at cost comprising invoice values plus other charges paid thereon to the balance sheet.

Net realisable value is determined on the basis of estimated selling price of the product in the ordinary course of business less costs necessarily to be incurred for its sale.

Trade debts

Trade debts are carried at original invoice amount less an estimate for doubtful receivables. Bad debts are written off when identified.

#### SURPLUS ON REVALUATION OF FIXED ASSETS (NET)

This represents surplus over book values resulting from the revaluation of fixed assets.

	Note	2003	2002
		(Rupees in thousand)	
Surplus on revaluation of fixed assets as at July 1, 2002/ 2001		43,779	43,779
Surplus relating to incremental depreciation charged upto June 30, 2002 - transferred to unappropriated profit		21,980	-
Transfer to unappropriated profit in respect of incremental depreciation charged during the current period - net of deferred tax		-583	43,779
Related deferred tax liability (excluding on incremental depreciation relating to leasehold land of Rs 0.252 million)		-178	
		-761	
Surplus on revaluation of fixed assets (gross) as at June 30		21,219	43,779
Less:			
Deferred tax liability on revaluation of fixed assets as at July 1 , 2002 (excluding written down value of			

revaluation amount relating to leasehold land of Rs 13.920 million)		2,821
Reversal of deferred tax liability on account of incremental depreciation charged during the period - transferred to profit and loss account	-178 2,643	- -
	1 8,576	43,779
<b>LONG-TERM FINANCES</b>		
<b>Secured</b>		
From a bank	-	2,500
From a non-banking financial institution	7.1 20,000	40,000
	20,000	42,500
Current maturity shown under current liabilities	20,000	21,000
	-	21,500

As a result of the aforementioned amendment and as required by the International Accounting Standard No. 16 'Property, Plant and Equipment', the surplus on revaluation of fixed assets to the extent of the incremental depreciation charged on the related assets is now transferred by the company to unappropriated profit.

The revised International Accounting Standard No. 12 'Income Taxes' (revised 2000) has become applicable on financial statements covering periods beginning on or after January 1, 2002. As required by this IAS, the group now recognises deferred tax liability on surplus on revaluation of fixed assets which is adjusted against the related surplus.

Accordingly and as also clarified by the Securities and Exchange Commission of Pakistan (SECP), an amount equal to incremental depreciation charged on these assets upto June 30, 2002 has been transferred from the surplus on revaluation of fixed assets to unappropriated profit on July 1, 2002 (note 6).

In accordance with the allowed alternative treatment prescribed in the International Accounting Standard No. 8, 'Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies', the effect of this change in accounting policy has been recognised in the current period. The proforma information relating to the change in policy has not been given as this change would not have any effect on the opening balance of unappropriated profit as at July 1, 2002.

Had there been no change in the accounting policy as set out above, the balance of unappropriated profit/(loss), surplus on revaluation of fixed assets and profit after taxation would have been a loss of Rs (14.817) million, Rs 43.779 million and Rs 26.501 million respectively and the deferred taxation (liability) as of June 30, 2003 would have been Rs 3.905 million.

	2003	2002
	(Rupees in thousand)	
<b>GENERAL RESERVE</b>		
At the beginning of the year	175,000	1 65,000
Transfer from profit and loss account	30,000	10,000
	205,000	1 75,000

#### LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASES

The group has entered into finance lease agreements with leasing companies and an investment bank for plant and machinery, laboratory equipments and motor cars.

The periodic lease payments include built in rates of mark-up ranging between 13.91 to 19.50 (2002: 16.25 to 21.41) percent per annum which are used as discounting factors. Repairs and insurance costs are to be borne by the group. The group intends to exercise its option to purchase the leased assets at the expiry of the lease term.

Note	2003	2002
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(Rupees in thousand)

CREDITORS, ACCRUED EXPENSES  
AND OTHER LIABILITIES

Creditors		80,344	74,829
Accrued liabilities		31,451	17,108
Bills payable		42,956	64,190
Mark-up on long-term finances		113	1,657
Mark-up on short-term finances		1,064	1,931
Mark-up on running finances		510	2,739
		1,687	6,327
Customer's credit balances		2,296	3,895
Sales tax payable		7,598	2,532
Workers' profits participation fund	13.1	3,052	2,773
Workers' welfare fund		1,708	1,411
Others		8,113	6,305
		1 79,205	1 79,370
Workers' profits participation fund			
Balance at July 1		2,773	3,106
Allocation for the year		2,411	1,785
		5,184	4,891
Interest on fund utilised in the group's business		305	687
		5,489	5,578
Less: Amount paid to :			
- Workers on behalf of the fund		1,452	2,041
- The government (workers' welfare fund)		985	764
		2,437	2,805
Balance at June 30		3,052	2,773

## SHORT-TERM FINANCES

## Secured

The company has arranged facilities aggregating Rs 255 million (2002: Rs 213 million) under short term finance from various banks and a financial institution. Under these arrangements the company had obtained finances aggregating Rs 150 million (2002: Rs 148 million). These facilities are secured against first pari passu charge on stocks and trade debts of the company. The rate of markup on these facilities ranges from 4.00 to 4.50 percent (2002: 11.75 to 15.50 percent) per annum. These facilities are expiring between July 25, 2003 to September 28, 2003.

Note	2003	2002
------	------	------

(Rupees in thousand)

RUNNING FINANCE UNDER MARK-UP  
ARRANGEMENTS

Secured			
From banks	12.1	5,855	49,778

The company has arranged a running finance facility from a bank on mark-up basis to the extent of Rs 140 million (2002: Rs 1 97 million). Mark-up rate on such arrangement is 7.25 percent (2002: 1 2.50 to 14.50 percent) per annum and is payable as at March 31 , 2004.

This arrangement is secured by first hypothecation charge over the company's stocks, trade debts and movable assets.

The facility for opening of letters of credits and guarantees as at June 30, 2003 amounts to Rs 224.305 million (2002: Rs 331 .300 million) of which the amount remaining un-utilised as at June 30, 2003 was Rs 136.524 million (2002: Rs 201.150 million).

## CONTINGENCIES AND COMMITMENTS

The Inspecting Additional Commissioner of Income Tax (IAC) while reassessing the income of the company for the year ended June 30, 2000 (assessment year 2000-2001 ) has through an order under

section 66A of the Income Tax Ordinance, 1979 dated June 28, 2002 demanded income tax of Rs 13.606 million by levying tax on the amount of reserves exceeding 50 percent of paid-up capital under section 12(9A) of the Ordinance. The company has filed an appeal before the Income Tax Appellate Tribunal against the Order. The management of the company, based on the advice of its tax consultant, is confident that the demand is likely to be deleted in appeal. Accordingly, no provision has been made in these financial statements for the aforementioned amount.

The Collectorate of Customs, Sales Tax and Central Excise has through its order dated April 23, 2001 demanded sales tax amounting to Rs 0.654 million and a penalty of Rs 0.213 million in respect of sales tax not charged by the company on sales of fixed assets. The company has filed an appeal with the Customs, Central Excise and Sales Tax Appellate Tribunal against the order and is confident that the matter will be decided in its favour. Accordingly, no provision has been made in these financial statements for the aforementioned amounts.

On termination of a distribution agreement, a suit against an ex-distributor for recovery of Rs 8.8 million is pending with the High Court of Sindh. The distributor has also filed a counter claim of Rs 78.2 million against the company in the High Court of Sindh on account of damages/compensation. No provision has been made in respect of the above as the company and its lawyers are confident that the ultimate decision will be in favour of the company.

Commitments in respect of capital expenditure contracted for as at June 30, 2003 amounted to Rs 1.233 million (2002: Rs 0.315 million).

The above represents values of fixed assets arising from revaluation on March 31, 1988 with additions thereafter stated at cost. Had there been no revaluation on that date the figures of fixed assets, after considering the reassessed useful lives of the revalued assets, would have been as follows:

	Cost to June 30, 2003	Accumulated Depreciation as at June 30, 2003 #NAME?	Net book value as at June 30, 2003
Freehold land	2,405	—	2,405
Leasehold land	5,701	658	5,043
Building on freehold land	4,522	929	3,593
Buildings on leasehold land	40,276	14,509	25,767
Plant and machinery	60,445	37,905	22,540
Laboratory equipment	9,318	6,633	2,685
Electric fittings	12,023	6,287	5,736
Computers	10,939	9,692	1,247
Office machines	2,766	1,890	876
Furniture and fixtures	5,590	4,742	848
Delivery trucks	2,582	2,582	-
Motor cars	10,209	6,231	3,978
Assets held under finance leases:			
Plant and machinery	22,751	6,825	15,926
Laboratory equipment	1,149	345	804
Motor cars	12,182	7,575	4,607
	202,858	106,803	96,055
	Note	2003	2002
		(Rupees in thousand)	
<b>STOCKS</b>			
Raw and packing materials			
[including items in transit Rs 37.916 million;			
(2002: Rs 52.075 million)]		82,089	105,855
Semi-processed goods		17,059	14,790
Finished goods			
[including items in transit Rs 0.725 million			
(2002: Rs 4.106 million)]	19.1	80,472	76,588

19.2	1 79,620	197,233
------	----------	---------

Included in finished goods are stocks held by third parties amounting to Rs 8.430 million (2002: Rs 9.482 million).

Included in finished goods are items having a carrying value of Rs 4.587 million (2002: Rs 1.567 million) which are stated at their net realisable value.

Note	2003	2002
	(Rupees in thousand)	
<b>. TRADE DEBTS</b>		
Unsecured		
Considered good		
• Due from an associated undertaking	20.1	97
• Due from others		205,08
		206,06
		236,823
Considered doubtful		
• Due from others		21,91
		227,97
		247,725
Less: Provision for doubtful debts		21,91
		206,061
		236,823

Amounts incorporated in respect of investment in the associate are set forth below:

	2003	2002
	(Rupees in thousand)	
Company's share as at June 30	5,810	5,810
• Profit before taxation of the associate for the year	1,637	-
Less: Taxation	-1,090	-
	547	-
	6,357	5,810

The value of the company's holding in Canadian Metal Containers (Private) Limited (CMC) has been fully written off as CMC has ceased to operate since August 23, 1 993. Mr. Iqbal Surti was the chief executive of CMC on August 23, 1 993.

The investment in the shares of Buxly Paints Limited (BPL) has been classified as an available-for-sale financial asset. The management considers the carrying value of this investment to be its fair value as at June 30, 2003 for the following reasons:

- the market of the subject investment is inactive which is evidenced by infrequent and low volume trading of the shares of BPL in the stock exchange and therefore the management of the company does not consider the market value as at June 30, 2003 of the share of BPL to be an indicator of its fair value; and
- an assessment of the financial position of BPL carried out by the management of the company indicates that the present trend of improvement in the financial position of BPL is expected to continue in the future.

	2003	2002
	(Rupees in thousand)	
<b>LONG-TERM LOANS AND ADVANCES</b>		
Considered good		
• Due from executives	1,380	1,515
• Due from employees	4,757	4,707
	6,137	6,222
	701	101
Outstanding for more than three years	5,436	6,121
Others	6,137	6,222

Loans have been provided to employees of the company under a scheme to facilitate purchase of motor vehicles and are repayable over a period of three to eight years.

The maximum amount of loans and advances due from executives of the company at the end of any month during the year was Rs 2.497 million (2002: Rs 2.468 million).

Others include Rs 10.851 million (2002: Rs 10.255 million) receivable from staff pension fund and Rs 1.774 million (2002: Rs. 2.297 million) receivable from the staff gratuity fund.

	Note	2003	2002
		(Rupees in thousand)	
<b>CASH AND BANK BALANCES</b>			
With banks			
• on foreign currency deposit account	24.1	2,066	2,144
• on current and collection accounts	24.2	4,024	33,447
• on local currency and collection accounts		304	304
Cash and cheques in hand		33,832	26,439
Remittances in transit		2,918	2,990
		43,144	65,324

	Note	2003	2002
		(Rupees in thousand)	

#### • TURNOVER

Sales			
Paints		904,893	830,093
Less: Discounts allowed		50,470	45,061
		854,423	785,032
Resin		26,820	31,432
Containers		6,041	4,993
Revenue under contracts for application for road marking products Others	39,001	83,547	9,537 51,585
		1,009,832	882,579
	Note	2003	2002
		(Rupees in thousand)	

#### TRADE DEPOSITS AND SHORT-TERM

##### PREPAYMENTS

Security deposits		4,061	3,219
Prepayments		2,846	1,163
		6,907	4,382

##### OTHER RECEIVABLES

Considered good			
Excise duty		564	537
/ Claims receivable		220	731
Due from associated undertakings	23.1	782	1,054
Retention money		1,532	1,527
Others	23.2	18,649	16,984
		21,747	20,833~

	Note	2003	2002
		(Rupees in thousand)	

##### COST OF TURNOVER

Cost of goods manufactured	26.1	626,800	544,320
Cost of road marking services	26.2	4,882	4,811
Opening stock of finished goods		76,356	72,375
Purchases of finished goods		17,885	27,929
Excise duty		86,432	86,764
Sales tax		1,565	1,116

		813,920	737,315
Less: Closing stock of finished goods		79,285	76,356
		734,635	660,959
Cost of goods manufactured			
Opening stock of semi-processed goods		14,790	13,125
Raw and packing materials			
Opening stock		105,855	87,183
Purchases		523,856	491,735
		629,711	578,918
Less: Closing stock		82,089	105,855
		547,622	473,063
Production expenses			
Consumable stores		7,099	7,399
Salaries, wages and benefits	26.1.1	37,140	33,280
Travelling and conveyance		3,921	2,429
Fuel, water and power		13,262	11,360
Legal and professional		2,289	741
Rent, rates and taxes		672	319
Insurance		690	859
Repairs and maintenance		4,461	4,618
Depreciation		9,514	9,743
Printing and stationery		269	333
Communication		440	338
Other expenses		1,690	1,503
		81,447	72,922
Less: Closing stock of semi-processed goods		17,059	14,790
		626,800	544,320

Note 2003 2002  
(Rupees in thousand)

Details of salaries, wages and benefits			
Salaries, wages and benefits		51,867	44,789
Provident fund contributions		1,676	1,590
(Reversal/provision for retirement benefits			
- pension	27.1.1	-430	-1,162
- gratuity	27.1.1	377	-1,159
		53,490	44,058

Retirement benefits

	2003 (Rupees in thousand)		2002 (Rupees in thousand)	
	Pension	Gratuity	Pension	Gratuity
Current service cost	933	953	841	859
Interest cost	1,117	939	1,345	1,634
Expected return on plan assets	-2,271	-1,515	-2,562	-1,819
Net actuarial (gain)	-	-	-786	-1,833
Employees' contribution	-209	-	-	-
(Reversal) /provision for retirement benefits	-430	377	(U62)	-1,159

	2003	2002
	(Rupees in thousand)	
Auditors' remuneration		
Audit fee	400	400
Taxation	96	73
Special reports and other services	417	215
Out of pocket expenses	81	100
	994	788

	Note	2003 (Rupees in thousand)	2002
Contracts of road marking services			
Opening stocks		232	1,066
Less: Closing stocks		1,187	232
Cost of stocks consumed		-955	834
Salaries, wages and benefits		1,625	1,111
Application charges		1,124	264
Fuel, water and power		369	194
Depreciation		928	982
Cartage and freight		136	68
Travelling and conveyance		78	75
Communication		36	15
Repairs and maintenance		270	611
Insurance		176	139
Others		1,095	518
		5,837	3,977
		4,882	4,811
<b>SELLING AND ADMINISTRATION EXPENSES</b>			
Salaries, wages and benefits	27.1	53,490	44,058
Travelling and conveyance		17,985	14,833
Rent, rates and taxes		3,686	1,814
Insurance		3,570	4,074
Donation	27.2	60	100
Auditors' remuneration	27.3	994	788
Fuel, water and power		2,157	2,112
Advertising and sales promotion		55,006	41,279
Technical services fee		3,422	2,678
Freight, cartage and handling		17,723	13,903
Repairs and maintenance		3,968	3,026
Depreciation		6,250	5,067
Provision for doubtful debts		11,868	3,501
Bad debts written off		12,640	-
Printing and stationery		1,622	1,282
Legal and professional		6,996	3,444
Communication		3,997	3,591
Motor vehicles expenses		174	107
Entertainment		23	18
Other expenses		4,627	3,467
		210,258	149,142
	Note	2003	2002
		(Rupees in thousand)	
<b>CASH GENERATED FROM OPERATIONS</b>			
Profit before taxation		45,368	30,036
Adjustments for non-cash charges and other items:			
Depreciation		16,692	15,792
Profit on disposal of fixed assets		-1,039	-1,649
Income from investments		-274	
Financial charges		25,459	45,689
Income from investment in an associate		-547	-
Working capital changes	32.1	47,871	18,073
		133,530	107,941
Working capital changes			
(Increase/decrease in current assets)			
Stores		311	1,421
Stocks		17,613	-23,484

Trade debts	30,763	9,926
Loans and advances	-2,235	3,419
Trade deposits and short-term prepayments	-2,525	1,125
Other receivables	-914	2,145
	43,013	-5,448
Increase in current liabilities		
Creditors, accrued expenses and other liabilities (net)	4,858	23,521
	47,871	1 8,073

2003 2002  
(Rupees in thousand)

Cash and bank balances	43,144	65,324
Running finance under mark-up arrangements	-5,855	-49,778
	37,289	1 5,546

Note 2003 2002  
(Rupees in thousand)

#### OTHER INCOME

Sale of scrap		3,108	2,561
Profit on disposal of fixed assets	28.1	1,039	1,649
Insurance commission		-	425
Income from investments		274	-
Mark up, rental income and other services charged to an associated undertaking		240	-
Liabilities written back		1,949	327
Tall manufacturing income		892	-
Others		919	745
		8,421	5,707

2003 2002  
(Rupees in thousand)

#### FINANCIAL CHARGES

Interest on workers' profits participation fund		305	687
Mark-up on long-term finances		4,150	6,401
Mark-up on short-term finances		1 3,960	7,686
Mark-up on running finances		2,489	23,820
Mark-up on finance leases		3,192	5,330
Bank charges		1,362	1,764
Exchange loss		1	1
		25,459	45,689

#### OTHER CHARGES

Workers' profits participation fund		2,411	1,785
Workers' welfare fund		669	675
		3,080	2,460

#### BASIC AND DILUTED EARNINGS PER SHARE

Profit for the year	24,248	16,248
Number of shares	3,083,395 (2002: 3,083,395)	
Basic and diluted	Rs 7.86	Rs 5.27

2003 2002  
(Rupees in thousand)

#### TRANSACTIONS WITH ASSOCIATED UNDERTAKINGS

Sale of goods (inclusive of sales tax)	365	-
Mark up, rental income and other services charged to an		

associated undertaking	840	-
Purchase of raw materials from an associated undertaking	104	16

#### CONCENTRATION OF CREDIT RISK

Credit risk represents accounting loss that would be recognised at the reporting date if counter parties fail completely to perform as contracted. Out of the total financial assets of Rs 288.570 million (2002: Rs 347.133 million), the financial assets which are subject to credit risk amount to Rs 235.028 million (2002: Rs 263.176 million). The group believes that it is not exposed to major concentration of credit risk. To manage exposure to credit risk, the group applies credit limits to its customers.

#### FOREIGN EXCHANGE RISK MANAGEMENT

Foreign currency risk arises mainly where receivables and payables exist due to transactions with foreign undertakings. Foreign currency risks relating to payables are covered through forward foreign exchange contracts if the group assesses that the exposure would have an unfavorable impact. As at the year end the company had liabilities in foreign currencies aggregating Rs 57.426 million (2002: Rs 80.953 million).

#### FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The carrying values of all financial assets and liabilities reflected in the financial statements approximate their fair values. Further, staff loans are valued at their original cost less repayments.

#### DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on September 8, 2003 by the board of directors of the company.