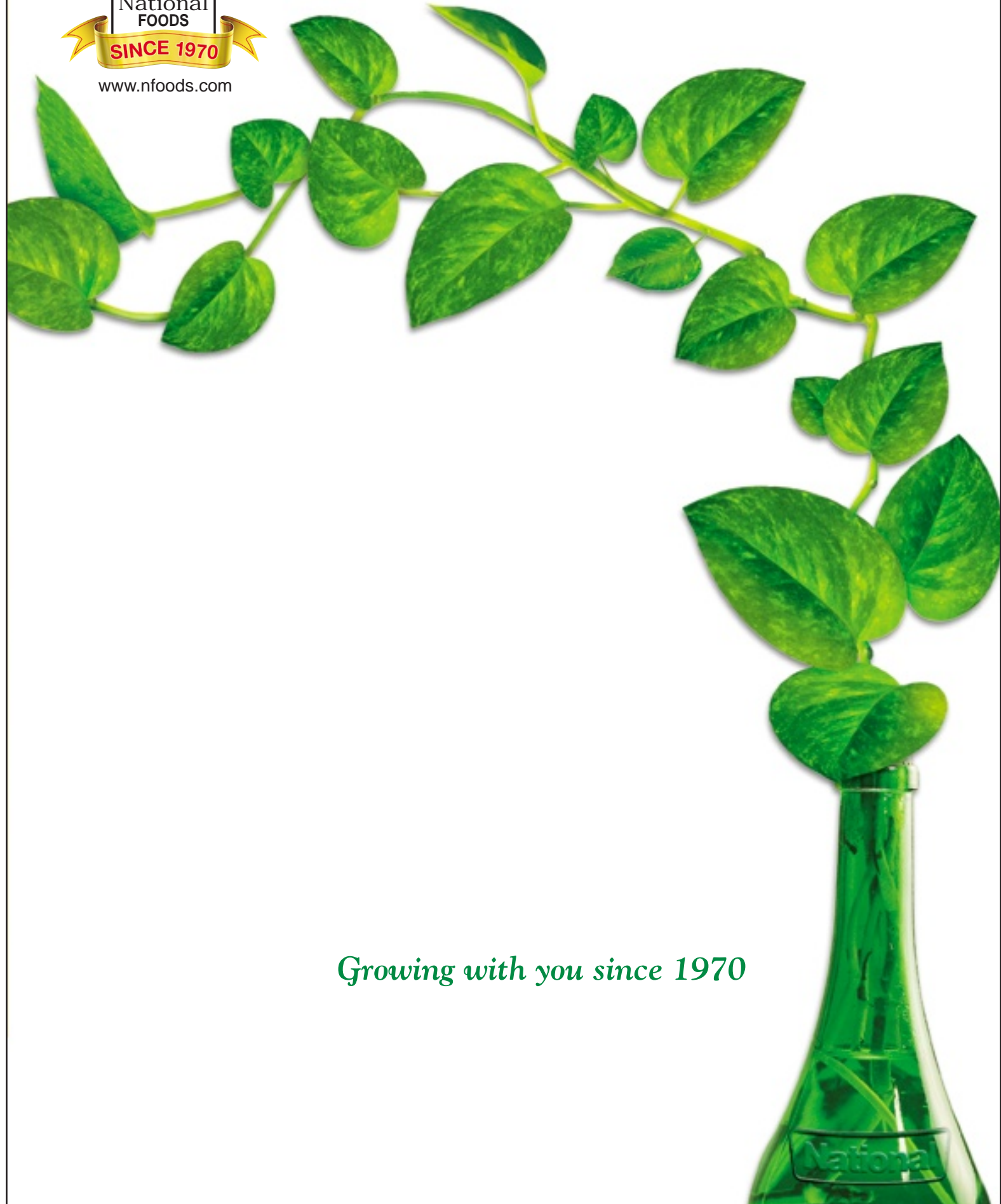




Annual Report 2004



Growing with you since 1970

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Company Information

BOARD OF DIRECTORS

Mr. A. Majeed
Mr. Abrar Hasan
Mr. Waqar Hasan
Mr. Khawar M. Butt
Mr. Zahid Majeed
Mr. Ebrahim Qassim
Mr. Jawaid Iqbal
Mr. Habib A. Ismail Khairani

Chairman
Managing Director/Chief Executive
Director
Director
Director
Director
Director
Company Secretary

AUDIT COMMITTEE

Mr. Waqar Hasan
Mr. Khawar M. Butt
Mr. Ebrahim Qassim
Mr. Habib A. Ismail Khairani

Chairman
Member
Member
Secretary

INTERNAL AUDITORS

Mr. Haider Ali Talpur

CHIEF FINANCIAL OFFICER

Mr. Shakaib Arif

COMPANY MANAGEMENT

Mr. Abrar Hasan
Mr. Zahid Majeed
Mr. Habib A. Ismail Khairani
Mr. Nasir Hameed
Mr. S.M.H. Wasti
Mr. Shaikh Irfan Aziz
Mr. Noman-ur-Rehman
Mr. Tanzeem Ahmed
Mr. Shakaib Arif
Mr. Shoaib Siddiqi
Mr. Zaheer Ahmed

Chief Executive
Corporate Director
General Manager Corporate Finance
General Manager Operations
General Manager Material Management
General Manager Human Resource
Head of System & Process Development
Head of Information Technology
Head of Finance
Head of Strategic Marketing
Head of Trade Marketing



AUDITORS

Riaz Ahmad, Saqib, Gohar & Company
Chartered Accountants,
5-Nasim Co-operative Housing Society Ltd.
Major Nazir Bhatti Road,
Off Shaheed-e-Millat Road, Karachi.
Phone: 4945427 - 4946112 Fax: 4932629

REGISTRAR

Noble Computer Services (Pvt.) Limited
2nd Floor, Sohni Centre, BS 5 & 6, Karimabad,
Block-4, Federal B. Area, Karachi-75950.
Phone: 6801880 - 82 (3 Lines)
Fax: 6801129
E-mail: ncs1@noble-computers.com

BANKERS

Bank Al-Habib Limited
Mackinnons Building, I.I. Chundrigar Road, Karachi.
Phones: 2412986 (10 Lines) Fax : 2419752

S.I.T.E., Branch.
Plot # B/76 S.S. Chambers S.I.T.E., Karachi.
Phone: 2571710-11 Fax : 2571522

New Garden Town Branch
Awami Complex, I-4 Usman Block
Front Block, Lahore City.
Phone: 5869366-8

ABN Amro Bank
Abdullah Haroon Road, P.O. Box: 4096
Karachi-74000. Pakistan
Phone: 111-11-22-33, 5687580 Fax: 5693781

Muslim Commercial Bank Limited
Clifton Corporate Branch, Kulsom Court,
Clifton, Karachi.
Phone: 5872286 - 5831835 Fax: 5872058

Habib Bank Limited
Hub River Road Branch, Karachi.
Phone: 2572197

REGISTERED OFFICE

12/CL-6, Claremont Road, Civil Lines,
Karachi - 75530 P.O. Box No. 15509
Phone: 5662687, 5670540, 5670585,
5670646, 5670793 & 5672268
Fax: 5684870

Our Vision

- To be an INNOVATIVE, MARKETING and RESEARCH oriented company
- To be a leader and take advantage of our leadership position in all product categories
- To develop products with market potential through the means of indigenous technology and Research & Development
- To market our products globally
- To target new, emerging segments of the food market
- To become a global brand

Our Mission

- To deliver consistent quality to our customers using pure ingredients, authentic recipes and the best available technology
- Dedicated to continuous improvement through active alliance with international companies by expanding technological and product horizons
- To maintain close and direct contact with our customers through consumer insights and dedicated service
- To provide external and internal customer service by excelling in functional management
- To promote professionalism at all levels through education, training and development of human resources
- To deliver a fair return to our valued investors and shareholders, annually, in line with industry norms and economic conditions

Chief Executive's outlook

TO ALL OUR CUSTOMERS, SHAREHOLDERS, PARTNERS & EMPLOYEES:

All of you have made National Foods one of the most successful food companies in the country. A company that has been growing rapidly ever since its revolutionary inception in 1970. This growth is firmly grounded in all the hard work that goes into making NFL the most well known Pakistani food company in the international arena.

This passion and desire has been a key driver of NFL's strong results, plus the solid, unshakable trust we have built in the hearts and minds of the millions of people who use our products. And as our list of products grow, so do the number of our customers. After all, we've always been about growth.

Already we are focused on increasing our overall product range and supply chain efficiency, utilizing innovative technology and creative new ways to manage the complex global business that we envision.

The realization of this dream is already in the process of being realized into a sparkling reality. The financial data in this annual report confirms our success. It also describes our many achievements and our strong optimism about our potential to keep on growing at the rate we have been in the past so many years.

Ahmed



Social Welfare

National Foods has always been at the forefront in social and welfare related activities. The primary objective of our social initiative is to improve the quality of life in the country and help people realize their hopes and dreams. This is achieved by helping them to help themselves.

Assisting them in acquiring the skills to live healthy lives and providing a range of services that help them, their families and communities to reach their full potential.



National Foods is passionate about its commitment in this area. It is highly sensitive to the need of improving people's lives and to maximize the well-being and academic functioning of their children. That's why National Foods has patronized numerous institutions that encourage the underprivileged in becoming better members of the society. Whether it is the education sector, community welfare or a minority affair, National Foods has been a major contributor

in the cause of social welfare.

In order to support and strengthen the values of society, National Foods also supports the minorities by actively participating (through free products and sponsorship) in their religious and festive events.

National Foods has proved to be an organisation that is constantly striving to support the education sector as well. It endeavours to educate people for the eradication of illiteracy and dutifully encourages underprivileged students by offering them scholarships and awarding them gold medals on their achievements.



The company has also been equipping food labs of various schools and colleges with latest machinery, providing microwaves, fridges and water filters.

It has also presented "Talking Watches" to the Pakistan Blind Association and arranged cooking classes for orphans. In fact, a heavy quantity of National Foods' products continue to be donated to orphanages and charities on a regular basis.



Corporate Activities

Satisfying consumers with the finest food products is the prime prerogative of the management of National Foods. We achieve this by inspiring our employees with a congenial environment and the best opportunities to grow.

We invest a lot of efforts for the overall betterment of the workers and encourage them by acknowledging their services for the company.

Umra & Hajj Scheme

National Foods sponsors two employees every year to perform Umra and one to perform Hajj, bearing the full expenses including airfare, boarding and lodging and subsistence allowance for eight days of stay.



Adult Literacy Program

Adult Literacy programs are arranged for the workers in order to educate them. In these programs of three months duration, the workers are taught English & Urdu so that they may read various instructions and other related material. On successful completion of the courses, their progress is evaluated through tests and they are awarded with prizes and badges to motivate them further and to inspire other workers to go ahead with the same spirit.

Independence Day Celebrations

Independence Day is celebrated with the true spirit of patriotism and enthusiasm. Workers are encouraged to participate in the event. It brings them closer to the management to share the passion for the development



and growth of the nation. Prizes are also distributed through a lucky draw to acknowledge the part played by workers in arranging such vibrant and colourful events.

National Foods also issues its own newsletter quarterly. It welcomes views of administrative staff as well as of the workers to make them realize that they are a vital part and partners of the growing company.

“All About Eve”

National Foods has always tried to come into direct contact with females that constitute 90% of our consumers. In this connection National Foods holds a series of programmes under the title “All About Eve.” The main objective of conducting such programmes is to focus on the lifestyles of today’s women who must balance multiple roles. The programme includes workshops on various areas which interest women, such as, Food & Nutrition, Beauty & Grooming and Interiors & Lifestyles.



At the Factory



Spice girls:
Packaging famous NFL masalas.



At the NFL Lab:
Sampling for the finest ingredients.



Stored for your pleasure:
The spacious NFL godowns.



Halt for salt:
Readying it for departure.



Assuring quality:
Inspection of Jam & Ketchup bottles
at paste plant



Ketchup:
Ready for delivery



The final countdown:
Packaging of pickles in its final stage

Six Years at a Glance

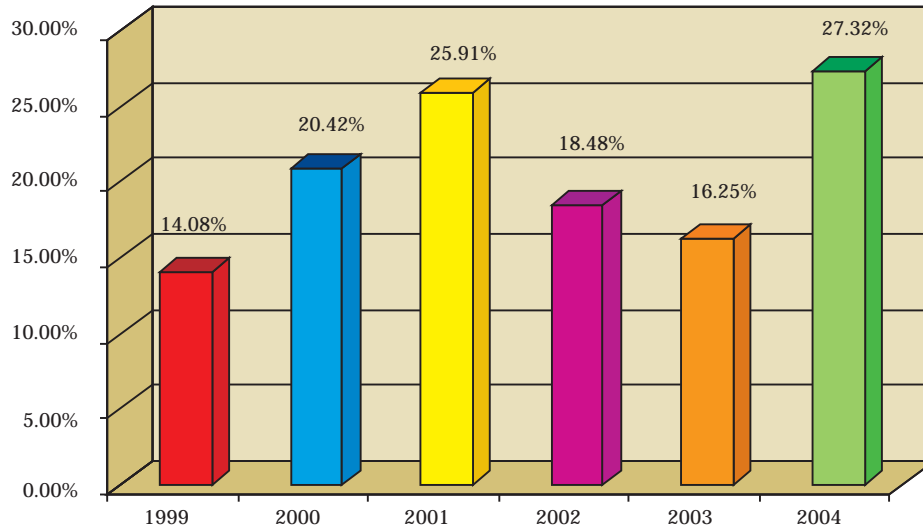
	1999	2000	2001	2002	2003	2004
Profit and Loss Statement						
Sales	644,352	765,675	915,136	994,637	1,135,642	1,303,515
Cost of Sales	513,323	578,472	675,226	741,555	825,454	919,295
Gross Profit	131,029	187,203	239,910	253,082	310,188	384,220
Administration & Selling Expenses	103,998	148,338	189,975	212,021	264,186	301,427
Financial Charges	12,776	12,614	14,149	16,518	18,843	11,640
Other Charges	939	1,667	2,257	1,470	1,982	4,756
Other Income	1,277	994	2,157	1,854	4,850	1,958
Profit before Tax	14,593	25,578	35,686	24,927	30,027	68,355
Taxation	3,150	7,075	8,459	3,514	10,014	22,055
Profit after taxation	11,443	18,503	27,227	21,413	20,013	46,300
Balance Sheet						
Share Capital	42,505	42,505	42,505	42,505	42,505	42,505
Reserves	<u>38,757</u>	<u>48,121</u>	<u>62,597</u>	<u>73,384</u>	<u>80,646</u>	<u>109,943</u>
Shareholders' Equity	81,262	90,626	105,102	115,890	123,151	152,448
Long Term Obligations	7,583	14,209	13,811	8,697	54,713	33,500
Current Liabilities & Provisions	167,134	199,714	201,240	241,849	299,027	378,819
Total equity and liabilities	255,979	304,549	320,153	366,436	476,891	564,767
Fixed Assets & CWIP	78,299	84,938	109,210	138,996	187,564	182,936
Long Term Security Deposits	1,266	3,511	1,592	1,693	1,959	1,941
Current Assets	176,414	216,100	209,351	225,747	287,368	379,890
Total assets	255,979	304,549	320,153	366,436	476,891	564,767

Financial Ratios

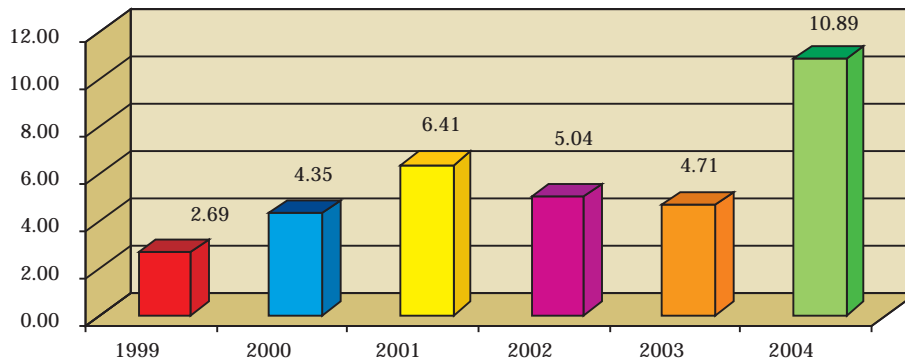
	1999	2000	2001	2002	2003	2004
Performance Measures						
Return on Shareholders' Equity	14.08%	20.42%	25.91%	18.48%	16.25%	27.32%
Operating Return	5.70%	8.40%	11.15%	6.80%	6.30%	12.10%
Profitability Measures						
Gross Profit Margin	20.34%	24.45%	26.22%	25.44%	27.31%	29.48%
Profit Margin	1.78%	2.42%	2.98%	2.15%	1.76%	3.55%
Earnings per share (Rs)	2.69	4.35	6.41	5.04	4.71	10.89
Test of Investment Utilization						
Asset Turnover (Times)	2.80	2.73	2.93	2.90	2.69	2.50
Receivables (Days')	10.69	10.34	11.31	14.34	14.81	14.15
Days' Inventory	83.35	100.10	88.98	76.84	81.29	95.53
Receivable Turnover (Times)	34.13	35.30	32.26	25.45	24.64	25.80
Inventory Turnover (Times)	4.38	3.65	4.10	4.75	4.49	3.81
Test of Financial Condition						
Current Ratio	1.06	1.08	1.04	0.93	0.96	1.00
Acid-test Ratio	0.15	0.16	0.24	0.20	0.17	0.15
Debt/Equity Ratio	9.33%	15.68%	13.14%	7.50%	44.43%	19.77%
Interest Cover	2.14	3.03	3.52	2.51	2.59	6.87
Book value per share	19.12	21.32	24.73	27.27	28.97	39.87
Return on assets	4.98%	6.60%	8.72%	6.24%	4.75%	8.89%

Performance at a glance

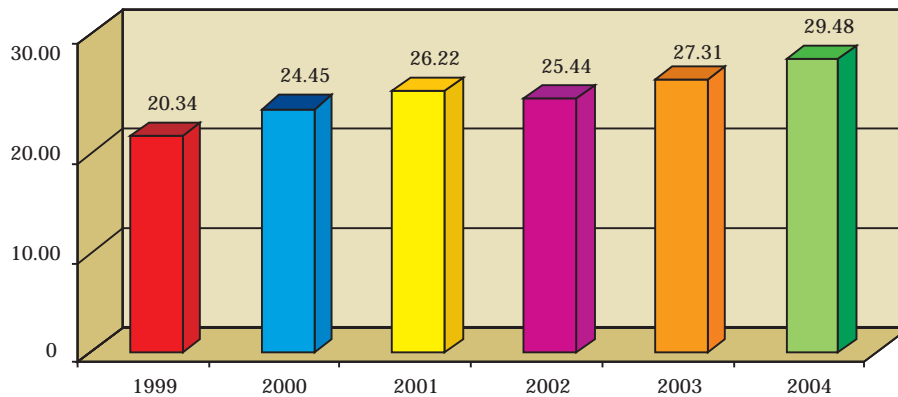
Return on Shareholders' Equity



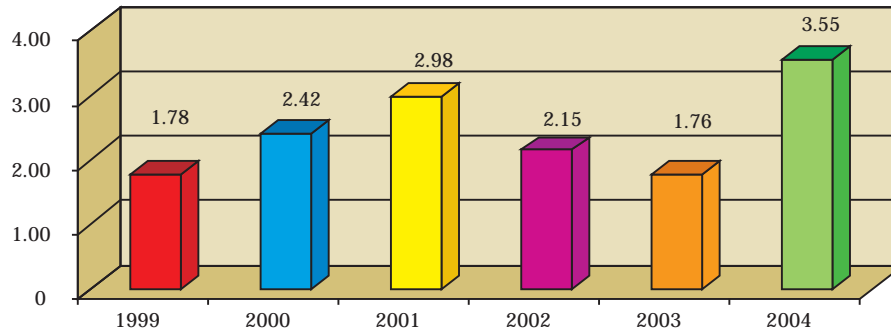
Earnings per share (Rs)



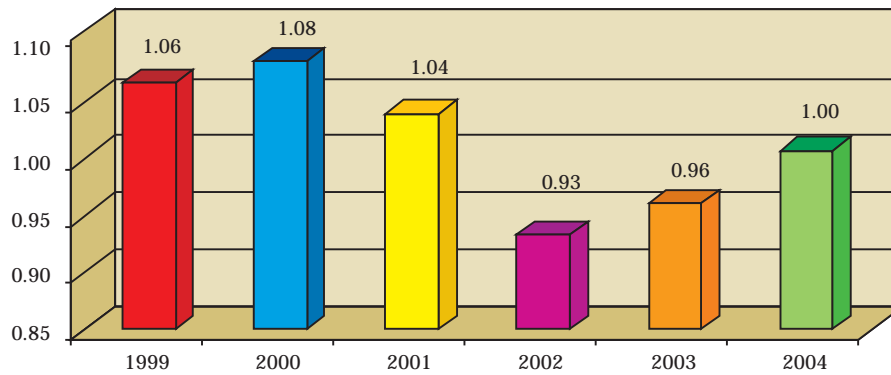
Gross Profit Margin



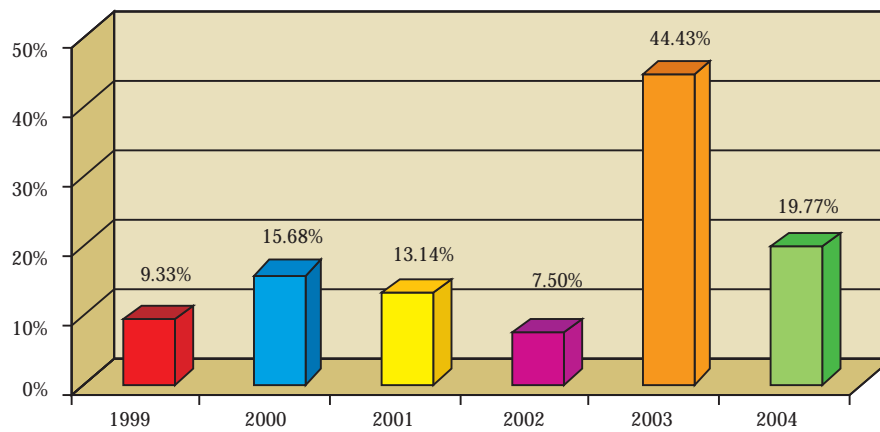
Profit Margin



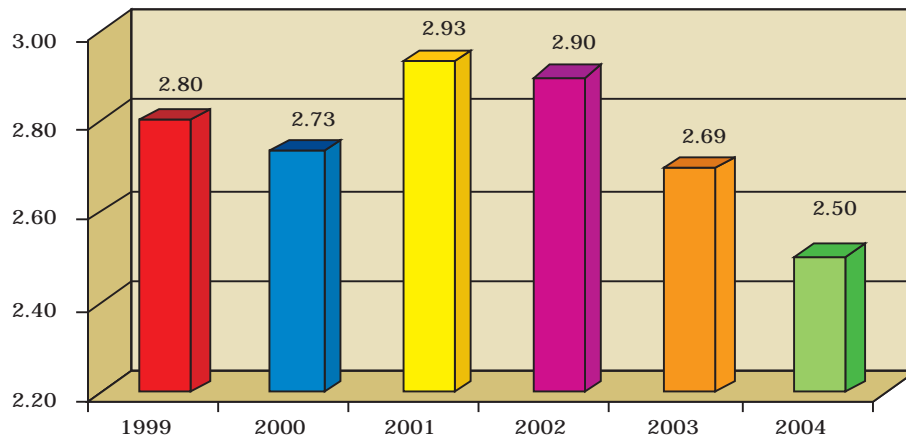
Current Ratio



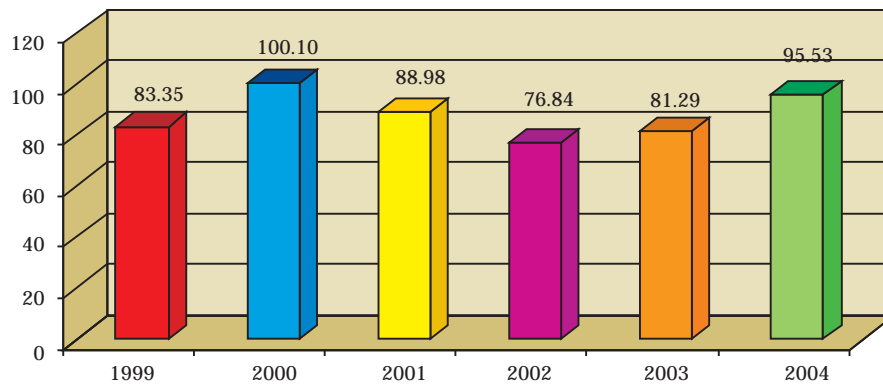
Debt/Equity Ratio



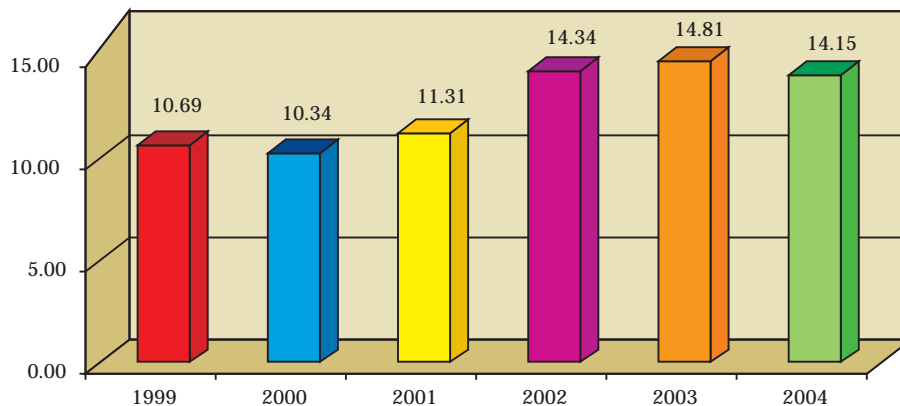
Asset Turnover (Times)



Inventory (Days)



Receivables (Days)





Notice of Meeting

Notice is hereby given that the 33rd annual general meeting of National Foods Limited will be held at the registered office situated at 12/CL-6, Claremont Road, Civil Lines Karachi, on Saturday, October 30, 2004, at 9:00 a.m., to transact the following business:

Ordinary Business:

1. To confirm the minutes of the 32nd Annual General Meeting held on October 31, 2003.
2. To receive, consider and approve the audited accounts for the year ended June 30, 2004.
3. To approve payment of cash dividend @ 40% (Rs.4.00 per share of Rs.10 each) as recommended by the directors.
4. To appoint auditors for the year 2004-2005 and to fix their remuneration.

In compliance of Code of Corporate Governance, the existing auditors Messrs. Riaz Ahmad, Saqib, Gohar & Co., Chartered Accountants, who have been auditors of the Company for more than five years, will require to be changed at the Annual General Meeting.

The retiring auditors Messrs. Riaz Ahmad, Saqib, Gohar & Co., Chartered Accountants have also given their consent to continue as auditors should the Securities and Exchange Commission of Pakistan (SECP) relax the rules prior to the Annual General Meeting.

The Board on the recommendation of the Audit Committee, proposes the appointment of Messrs. A.F. Ferguson & Co., Chartered Accountants as the auditors until the 34th Annual General Meeting.

Special Business:

5. To consider to place the quarterly accounts of the Company on its website instead of sending the same by post to the shareholders, subject to compliance of the Securities and Exchange Commission of Pakistan's Circular No. 19 of 2004 dated April 14, 2004.

The statement under section 160 of the Companies Ordinance, 1984, in the above matter is annexed.

By order of the Chairman

(HABIB A. ISMAIL KHAIRANI)
Company Secretary

Karachi: October 9, 2004.

Notes:

1. The share transfer books of the Company will remain closed from October 21, 2004 to October 30, 2004 (both days inclusive).
2. All members are entitled to attend and vote at the meeting.
3. A member entitled to attend and vote at the meeting may appoint a proxy to attend, speak and vote for him/her. A proxy must be a member of the Company.
4. In order to be valid, an instrument proxy and the power of attorney or other authority under which it is signed, or a notarially certified copy of such power of authority, must be deposited at the registered office of the Company not less than 48 hours before the time of the meeting.
5. A member who has deposited his/her shares into Central Depository Company of Pakistan Limited, must bring his/her participant's ID number and account/sub-account number along with original Computerised National Identity Card or original Passport at the time of attending the meeting.
6. Shareholders are requested to notify immediately any change in their registered address.
7. Members who have not yet submitted photocopy of their Computerised National Identity Cards to the Company are requested to send the same at the earliest.

Statement under section 160 of the Companies Ordinance, 1984

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

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

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

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

Report of Directors to the shareholders

On behalf of the executive Board of Directors of National Foods Limited, the audited accounts of the company for the year 2003-04 are presented as follows:

Financial Performance

The Board of Directors of National Foods Limited are pleased to announce an appropriation of profits of Rs. 17,002,152/- to be paid in the form of cash dividend.

Year	2003 - 04	2002 - 03
Operating Profit	82,792,755	46,001,549
Add: Other income	<u>1,957,908</u>	<u>4,849,833</u>
	84,750,663	50,851,382
Less: Financial and other charges	<u>(16,395,790)</u>	<u>(20,824,539)</u>
Profit before taxation	68,354,873	30,026,843
Less: Taxation	<u>(22,055,488)</u>	<u>(10,013,531)</u>
Profit after taxation	46,299,385	20,013,312
Add: Un-appropriated profit brought forward	<u>74,544,067</u>	<u>67,282,369</u>
Profit available for appropriation	120,843,452	87,295,681

Appropriations

Proposed final dividend @ Rs.4/- (2003: Rs.3/-) per ordinary share of Rs.10/- each	<u>(17,002,152)</u>	<u>(12,751,614)</u>
Un-appropriated profit carried forward	<u>103,841,300</u>	<u>74,544,067</u>

Management Summary

In line with the 3 quarterly reports published earlier, the company has performed very well for the entire 12 months. There has been a major increase in profits compared to previous years as restructuring along key functions has aligned the company towards healthier margins.

Investments made in previous years have also started to contribute positively thus improving the efficiency and overall operations of the company. Of note are the reduction in financial and selling and distribution expense which have contributed positively on the bottom line.

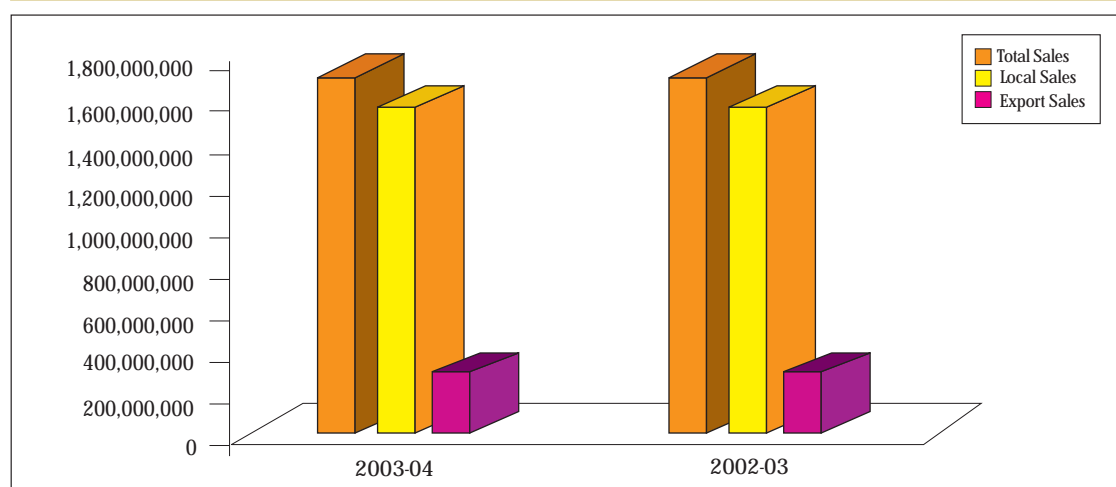
Further expansion at Bin Qasim has been approved to address the current capacity limitations in pickle manufacturing and also modernization of existing processes to meet future demand.

Operational Analysis

The company has finished with the following key *Business Performance Indices*.

Sales Analysis

Gross Sales	2003 - 04	2002 - 03	Growth
Total Sales	1,742,383,742	1,511,112,722	15.30%
Local Sales	1,554,885,687	1,366,015,556	13.83%
Export Sales	187,498,055	145,097,166	29.22%



Net Sales	2003 - 04	2002 - 03	Growth
Total Sales	1,303,515,123	1,135,641,771	14.78%
Local Sales	1,135,449,751	1,002,596,110	13.25%
Export Sales	168,065,372	133,045,661	26.32%

The budgeted growth has been met in both Domestic and International Sales. Of note is the high growth rate achieved in International Sales.

Profitability Analysis

	2003 - 04	2002 - 03	Growth
Operating Profit	82,792,755	46,001,549	79.98%
Other Income	1,957,908	4,849,833	(59.63%)
Pre-Tax Profit	68,354,873	30,026,843	127.65%
Net Profit	46,299,385	20,013,312	131.34%

Profitability and Performance Measures

	2003 - 04	2002 - 03	
Gross Profit Margin	29.48%	27.31%	
Net Profit Margin	3.55%	1.76%	
Earnings Per Share	10.89		4.71
Operating Returns	12.10%	6.30%	

Due to efficient Material Management and reduction in manufacturing costs, GP has improved considerably compared to previous years. This has created significant leverage for the company. Further, pruning of the product mix has also yielded better GP as certain non performing SKU's have been discontinued.

Investments Analysis

	2003 - 04	2002 - 03
Asset Turnover (Times)	2.50	2.69
Receivables (Days)	14.15	14.81
Days' Inventory	95.91	81.29
Receivable Turnover (Times)	25.80	24.64
Inventory Turnover (Times)	3.81	4.49
Return on Shareholders Equity	27.32%	16.25%

No significant new investments were made in the year; instead a steady return has been generated from the investments made last year.

Due to seasonality, investment in inventory has increased to plan for the Ramadan season and will be offset against seasonal sales in the present year.

Financial Analysis

	2003 - 04	2002 - 03
Current Ratio	1.00	0.96
Acid-test Ratio	0.15	0.17
Debt/Equity Ratio	19.77%	44.43%
Book value per share	39.87	28.97
Return on Assets	8.89%	4.75%

Better profits from the investments were used to pay off a large portion of the principal value under an option of early payment for the term finance loan. Reduction of principal value was then used to revalue the outstanding loan at a much lower rate.

Management and Achievements

The management has taken the task to restructure the company's operations very positively. All functions have contributed in line with the theme set last year of "winning through teamwork", thus synergizing the efforts. Following achievements were accomplished during the year:

- Rationalization of Product Mix
- Introduction of a new costing system in line with ERP
- Business Intelligence through Data Warehousing Deployed
- Approval of Rs. 245 million investment by the Board for further expansion at Bin Qasim
- All benefits are restructured now from Gross Salary to Basic Salary
- Profits increased from restructuring
- High growth rate achieved in International Sales
- Highest ever Domestic Sale recorded in the month of October 2003 of Rs. 218.67 million
- Domestic Sales has crossed the Rs. 1.5 billion mark
- Production, Planning, Inventory, Logistics, Engineering and Quality Control functions assimilated under the function of Operations
- Study on Supply Chain Management is under process

Future Outlook

The current development shows an inflationary trend setting in. All treasury rates are on the rise and the rate of financing is expected to follow suit. The current inflation index is also on the rise and it is expected that further rise in oil prices will push this up even further. All these factors will force the material prices up as well.

Post January 2005, WTO trade laws will be in effect. Pakistan has already complied with its trade policy in line with the WTO requirements as duties and taxes have been rationalized.

Further, opportunities will be created for this region through the SAFTA agreement which has already been signed and is in effect. As trade with neighboring countries now looking a greater possibility, the company has already started marketing its products through trade fairs in India and other SAARC countries.

Liberalization of trade policies will also offer the possibility to source newer technology at a significantly lower cost and a wider variety of supply chain from the region thus rationalizing product costs for better product competitiveness globally.

The effects of these opportunities are still under study and the company will develop its strategic policies accordingly.

Social Commitment

The company is committed towards the development of Human resources. Currently it is actively pursuing the "adult literacy program", with its objective of having a 100% literate workforce. This program was personally initiated by company Chairman, Mr. A. Majeed and was first implemented in National Foods. This program has now been adopted by other companies as well.

The company has now achieved a literacy rate of 98%. An educated workforce is a better workforce, thus producing better quality products; is the firm belief of the entire management of National Foods, who are committed behind this project.



Taking Human Resource Development one step further, the company is also currently undergoing compliance towards "Investors in People" program. This program certifies and recognizes the efforts of a company to develop and create opportunities for its Human resources in line with internationally recognized standards.

Corporate Governance

Compliance of Corporate Governance is attached.

Board of Directors Meetings

The number of Board meetings and attendance thereto is annexed.

Pattern of Shareholding

The pattern of shareholding of the company is annexed.

Auditors

The present Auditors M/s. Riaz Ahmad, Saqib, Gohar & Company, retire and have offered themselves for re-appointment subject to the approval of the SECP. However, in line with the requirement of the Code the Board, on the recommendation of the Audit Committee, has proposed M/s. A. F. Ferguson & Co. Chartered Accountants as the auditors for the year ending June 30, 2005. The Board wishes to record its sincere gratitude to the retiring auditors for their professional services offered in last many years of association.

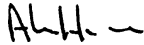
Transfer Pricing

The Company is in compliance with the best practices of transfer pricing as stated in listing regulations of the respective stock exchanges.

Statement of Directors' Responsibility

As required under the code of corporate governance, the board of directors states that:

- The financial statements present fairly the state of affairs of the company, the result of its operations, cash flow and changes in equity
- Proper books of accounts of the company have been maintained
- Accounting policies as stated in the notes to the financial statements have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable prudent judgment
- The system of internal control is sound in design and has been effectively implemented and monitored
- There has been no material departure from the best practices of corporate governance as detailed in the listing regulations
- There are no significant doubts upon the company's ability to continue as a going concern
- The principal value of investments based on audited accounts of provident fund is Rs.23,550,000/-
- An effective internal audit function has been in place which is duly approved by the Board of directors
- The outstanding taxes and levies, if any, are duly disclosed in the respective notes to the annexed audited accounts
- The Board has constituted an Audit Committee consisting of three member including Chairman of the Committee. The Committee regularly meets as per requirements of the Code. The Committee assists the board in reviewing internal audit manual and internal audit system


Abrar Hasan
Chief Executive

Annexures

ANNEXURE-I

Statement showing shares bought and sold by directors, CEO, CFO, Company Secretary
and the minor family members from July 1, 2003 to June 30, 2004

S.No.	Name	Designation	Shares Bought	Shares Sold
1	Mr. Abdul Majeed	Chairman	0	0
2	Mr. Abrar Hasan	Chief Executive	0	0
3	Mr. Waqar Hasan	Director	0	0
4	Mr. Khawar M. Butt	Director	0	0
5	Mr. Zahid Majeed	Director	0	0
6	Mr. Ebrahim Qassim	Director	0	0
7	Mr. Jawaid Iqbal	Director (Appointed on Oct. 31, 2003)	0	0
8	Mrs. Jamila Waqar	Director (Retired on Oct. 31, 2003)	0	0
9	Mrs. M.E.Majeed	Director (Retired on Oct. 31, 2003)	0	0
10	Mr. Habib A. Ismail Khairani	Company Secretary	0	0
11	Mr. Shakaib Arif	Chief Financial Officer	0	0
12	Minor Family Members		0	0

ANNEXURE-II

Statement showing attendance of board meetings from July 1, 2003 to June 30, 2004

S.No.	Name	Designation	Attended	Leave Granted
1	Mr. Abdul Majeed	Chairman	7	-
2	Mr. Abrar Hasan	Chief Executive	6	1
3	Mr. Waqar Hasan	Director	6	1
4	Mr. Khawar M. Butt	Director	5	2
5	Mr. Zahid Majeed	Director	5	2
6	Mr. Ebrahim Qassim	Director	5	2
7	Mr. Jawaid Iqbal	Director (Appointed on October 31, 2003)	5	-
8	Mrs. Jamila Waqar	Director (Retired on October 31, 2003)	2	-
9	Mrs. M.E.Majeed	Director (Retired on October 31, 2003)	2	-



ANNEXURE-III a

Combined pattern of CDC & normal share holdings as at June 30, 2004

Number of Share Holders	Share Holding		Total Shares Held
	From	To	
810	1	100	21,766
287	101	500	66,064
53	501	1,000	41,579
86	1,001	5,000	191,481
5	5,001	10,000	42,825
5	10,001	15,000	66,268
1	15,001	20,000	16,787
6	25,001	30,000	166,928
1	40,001	45,000	41,053
1	60,001	65,000	63,500
3	70,001	75,000	216,985
1	85,001	90,000	85,379
1	120,001	125,000	122,322
1	135,001	140,000	139,210
1	200,001	205,000	204,010
1	320,001	325,000	324,872
1	390,001	395,000	394,222
1	635,001	640,000	635,739
1	1,405,001	1,410,000	1,409,548
1,266			4,250,538

ANNEXURE-III b

Combined pattern of CDC & physical share holdings as at June 30, 2004

Category No.	Categories of Share holders	No. of Shares Held	Category Wise No. of Folios/CDC Accounts	Category Wise Shares Held	Percentage %
1	Individuals		1,228	728,165	17.13%
2	Investment Companies		-	-	-
3	Joint Stock Companies		15	9,756	0.23%
4	Directors, Chief Executive Officer and their spouse and minor children		16	2,097,801	49.35%
	1. Mr. Abdul Majeed	324,872			
	2. Mr. Abrar Hasan	139,210			
	3. Mr. Waqar Hasan	204,510			
	4. Mr. Khawar M. Butt	465,983			
	5. Mr. Zahid Majeed	85,379			
	6. Mr. Ebrahim Qassim	72,352			
	7. Mr. Jawaid Iqbal	635,739			
	8. Mrs. Jamila Waqar w/o Mr. Waqar Hassan	122,322			
	9. Mrs. M.E.Majeed w/o Mr. Abdul Majeed	16,787			
	10. Mrs. Kulsum Bano w/o Mr. Ebrahim Qassim	30,647			
5	Executives		2	412	0.01%
6	NIT/ICP Investment Corporation of Pakistan		1	582	0.01%
7	Associated Companies/Undertakings and Related Parties Associated Textile Consultants (Pvt.) Ltd.		1	1,409,548	33.16%
8	Public Sector Companies and Corporations		-	-	-
9	Banks, DFIs, NBFIs, Insurance Companies, Modarabas & Mutual Funds		2	413	0.01%
10	Foreign Investors		-	-	-
11	Co-operative Societies		-	-	-
12	Charitable Trusts		1	3,861	0.09%
13	Others		-	-	-
	Totals		1,266	4,250,538	100.00%

Shareholders holding 10% or more voting interest in the listed company

Total paid-up capital of the company 4,250,538 shares
10% of the paid-up capital of the company 425,054 shares

Name of Share holder(s)	Description	No. of Shares Held	Percentage %
Mr.Khawar M. Butt	Falls in category # 4	465,983	10.96%
Mr.Jawaid iqbal	Falls in category # 4	635,739	14.96%
Associated Textile Consultants (Pvt.) Ltd.	Falls in category # 7	1,409,548	33.16%
	Totals	2,511,270	59.08%



Statement of Compliance with best practices of code of corporate governance


This statement is being presented to comply with the Code of Corporate Governance (the Code) contained in the listing regulations of Karachi, Lahore and Islamabad Stock Exchanges for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with best practices of corporate governance.

The Company has applied the principles contained in the Code in the following manner:

1. The Board comprises of seven directors, including the CEO. The company encourages representation of independent non-executive directors on its Board of Directors. At present the Board include three (3) 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 taxpayer and none of them has defaulted in payment of any loan to a banking company, a DFI or and NBFIs, being a member of a stock exchange, has been declared as a defaulter by the stock exchange.
4. No casual vacancy occurred in the Board during the current year.
5. The Company has prepared a Statement of Ethics and Business Practices', which has been signed by all the directors and employees of the Company.
6. The board has developed a vision/ mission statement, overall corporate strategy and significant policies of the Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the power of the Board has been duly exercised and decision on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman. The Board met at least once in every quarter. Written notice of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. The board arranged orientation course for its directors to apprise them of their duties and responsibilities.
10. The Board has approved appointment of CFO and Internal Auditor, including the remuneration and terms and conditions as determined by the CEO. The Company Secretary was appointed prior to the implementation of the Code. Remuneration, terms and conditions, in case of future appointments on this position, will be approved by the Board.
11. The directors' report has been prepared in compliance with the requirements of the Code and fully describes the salient matter required to be disclosed.
12. The financial statements of the Company were duly endorsed by the CEO and CFO before approval of the Board.
13. The directors, CEO and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.
14. The Company has complied with all the corporate and financial reporting requirements of the Code.
15. The Board has formed an audit committee. It comprises of three members, two of whom are non- executive directors.
16. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Company and as required by the Code.

17. The Board has set up an effective internal audit functions.
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.

Karachi
Dated: September 29, 2004


Abrar Hassan
Chief Executive



Review Report to the members on statement of compliance with best practices of code of corporate governance

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of National Foods Limited to comply with the Listing Regulations No. 37 (Chapter XI), No. 43 (Chapter XIII) and No. 36 (Chapter XI) of the Karachi, Lahore and Islamabad Stock Exchanges respectively, where the Company is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Company's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Company personnel and review of various documents prepared by the Company to comply with the Code.

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control system sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

Based on our review nothing has come to our attention, which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance for the year ended June 30, 2004.

Karachi
Dated: September 29, 2004

Riaz Ahmad, Saqib, Gohar & Co.
Chartered Accountants

Auditors' Report to the members

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

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

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

- a) in our opinion, proper books of account have been kept by the company as required by the Companies Ordinance, 1984;
- b) in our opinion:
 - i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984 and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;
 - ii) the expenditure incurred during the year was for the purpose of the company's business; and
 - iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the company;
- c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit & loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the company's affairs as at June 30, 2004 and of the profit, its cash flows and changes in equity for the year then ended; and
- d) in our opinion zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the company and deposited in the Central Zakat Fund established under Section 7 of that Ordinance.

Karachi
Dated: September 29, 2004

Riaz Ahmad, Saqib, Gohar & Co.
Chartered Accountants

Balance Sheet as at June 30, 2004

		2004	2003
Assets	Note	Rupees	Rupees
Non-current Assets			
Operating fixed assets			
Tangible	3.1	173,307,336	173,770,309
Intangible	3.2	3,363,555	4,805,078
Capital work-in-progress	4	6,265,001	8,988,598
		<u>182,935,892</u>	<u>187,563,985</u>
Long term deposits		1,941,380	1,959,180
		<u>184,877,272</u>	<u>189,523,165</u>
Current Assets			
Stores and spares		1,921,246	1,695,234
Stock-in-trade	5	273,930,242	207,282,661
Trade debts - unsecured, considered good	6	54,169,279	46,895,754
Due from associated undertakings	7	-	4,904
Advances - unsecured, considered good	8	18,064,376	5,260,255
Deposits, prepayments and other receivables	9	4,456,744	3,880,438
Income tax refundable / adjustable		24,477,402	21,335,593
Cash and bank balances	10	2,871,106	1,013,204
		<u>379,890,395</u>	<u>287,368,043</u>
Total assets		564,767,667	476,891,208

Equity and Liabilities	Note	2004 Rupees	2003 Rupees
Share Capital and Reserves			
Authorised capital			
10,000,000 (2003: 5,000,000) ordinary shares of Rs.10 each		<u>100,000,000</u>	<u>50,000,000</u>
Issued, subscribed and paid-up capital	11	<u>42,505,380</u>	<u>42,505,380</u>
Reserves		<u>109,943,400</u>	<u>80,646,167</u>
		152,448,780	123,151,547
Non-current Liabilities			
Long term finance	12	<u>21,000,000</u>	<u>45,000,000</u>
Liabilities against assets subject to finance lease	13	<u>-</u>	<u>953,932</u>
Deferred taxation	14	<u>12,500,000</u>	<u>8,758,798</u>
		33,500,000	54,712,730
Current Liabilities			
Short term finances utilised under mark-up arrangements	15	<u>207,893,947</u>	<u>174,589,090</u>
Current portion of long term finance	12	<u>6,000,000</u>	<u>5,000,000</u>
Current portion of liabilities against assets subject to finance lease	13	<u>635,953</u>	<u>1,566,687</u>
Due to associated undertakings	16	<u>91,563</u>	<u>4,780</u>
Due to directors		<u>6,822</u>	<u>113,073</u>
Sales tax payable		<u>5,204,440</u>	<u>8,657,449</u>
Creditors, accrued and other liabilities	17	<u>123,484,010</u>	<u>88,322,909</u>
Provision for income tax		<u>18,500,000</u>	<u>8,021,329</u>
Proposed dividend		<u>17,002,152</u>	<u>12,751,614</u>
		378,818,887	299,026,931
Contingencies and Commitments	18	<u>-</u>	<u>-</u>
Total equity and liabilities		564,767,667	476,891,208

The annexed notes 1 to 36 form an integral part of these accounts.



Abrar Hasan
Chief Executive



Khawar M. Butt
Director

Profit and Loss Account for the year ended June 30, 2004

		2004	2003
	Note	Rupees	Rupees
Sales	19	1,303,515,123	1,135,641,771
Cost of goods sold	20	(919,295,099)	(825,454,118)
Gross profit		384,220,024	310,187,653
Operating Expenses			
Administrative expenses	21	40,725,627	30,234,300
Selling and distribution expenses	22	260,701,642	233,951,804
		(301,427,269)	(264,186,104)
Operating profit		82,792,755	46,001,549
Other income	23	1,957,908	4,849,833
		84,750,663	50,851,382
Financial charges	24	11,640,270	18,842,461
Other charges	25	4,755,520	1,982,078
		(16,395,790)	(20,824,539)
Profit before taxation		68,354,873	30,026,843
Taxation	26	(22,055,488)	(10,013,531)
Profit after taxation		46,299,385	20,013,312
Unappropriated profit brought forward		74,544,067	67,282,369
Profit available for appropriation		120,843,452	87,295,681
Appropriation:			
Proposed dividend Rs. 4.00 per share (2003: Rs.3.00 per share)		(17,002,152)	(12,751,614)
Unappropriated profit carried forward		103,841,300	74,544,067
Earnings per share - basic and diluted	27	10.89	4.71

The annexed notes 1 to 36 form an integral part of these accounts.



Abrar Hasan
Chief Executive

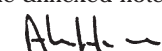


Khawar M. Butt
Director

Cash Flow Statement for the year ended June 30, 2004

		2004	2003
	Note	Rupees	Rupees
Cash Generated From/(Utilised In) Operations			
Profit before taxation		68,354,873	30,026,843
Adjustments for non-cash charges and other items			
Depreciation / amortisation	3.3	25,132,233	23,111,946
Financial and other charges	24 & 25	16,395,790	20,824,539
Gain on disposal of fixed assets	3.4	(1,221,891)	(996,344)
Provision for slow moving stock	5	11,895,788	-
		<u>52,201,920</u>	<u>42,940,141</u>
Operating profit before working capital changes		120,556,793	72,966,984
Net (increase) in current assets			
Stores and spares		(226,012)	(383,938)
Stock-in-trade		(78,543,369)	(48,178,508)
Trade debts		(7,273,525)	(1,623,996)
Due from associated undertakings		4,904	1,732,449
Advances		(12,804,121)	1,863,363
Deposits, prepayments and other receivables		(576,306)	(996,340)
		<u>(99,418,429)</u>	<u>(47,586,970)</u>
Net increase in current liabilities			
Due to associated undertakings and directors		(19,468)	108,569
Sales tax payable		(3,453,009)	686,354
Creditors, accrued and other liabilities		31,728,831	4,296,077
		<u>28,256,354</u>	<u>5,091,000</u>
Cash generated from operations		49,394,718	30,471,014
Financial and other charges paid		(12,491,332)	(22,647,645)
Income tax paid		(11,509,430)	(13,353,029)
		<u>(24,000,762)</u>	<u>(36,000,674)</u>
Net cash inflow / (outflow) from operating activities		25,393,956	(5,529,660)
Cash Flow From Investing Activities			
Capital expenditure		(24,272,736)	(74,500,516)
Proceeds from sale of fixed assets		4,990,488	3,816,788
Decrease / (increase) in long-term deposits		17,800	(266,000)
Net cash outflow from investing activities		<u>(19,264,448)</u>	<u>(70,949,728)</u>
Cash Flow From Financing Activities			
(Repayment of) / proceeds from term finance		(23,000,000)	50,000,000
Payment of finance lease liabilities		(1,884,666)	(7,316,557)
Dividend paid		(12,691,797)	(10,609,862)
Net cash (outflow) / inflow from financing activities		<u>(37,576,463)</u>	<u>32,073,581</u>
Net (decrease) in cash and cash equivalents		(31,446,955)	(44,405,807)
Cash and cash equivalents at beginning of the year		(173,575,886)	(129,170,079)
Cash and cash equivalents at end of the year	31	(205,022,841)	(173,575,886)

The annexed notes 1 to 36 form an integral part of these accounts.



Abrar Hasan
Chief Executive



Khawar M. Butt
Director

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

	Issued, subscribed and paid-up capital	Reserves		Sub-total	Total
		Capital Share premium	Revenue Unappropriated profit		
Rupees					
Balance as at July 01, 2002	42,505,380	6,102,100	67,282,369	73,384,469	115,889,849
Profit for the year	-	-	20,013,312	20,013,312	20,013,312
Proposed dividend	-	-	(12,751,614)	(12,751,614)	(12,751,614)
Balance as at June 30, 2003	42,505,380	6,102,100	74,544,067	80,646,167	123,151,547
Profit for the year	-	-	46,299,385	46,299,385	46,299,385
Proposed dividend	-	-	(17,002,152)	(17,002,152)	(17,002,152)
Balance as at June 30, 2004	42,505,380	6,102,100	103,841,300	109,943,400	152,448,780

The annexed notes 1 to 36 form an integral part of these accounts.



Abrar Hasan
Chief Executive



Khawar M. Butt
Director

Notes to the Accounts for the year ended June 30, 2004

1. Status and Nature of Business

The company was incorporated in Pakistan on February 19, 1970 as a private limited company under the Companies Act, 1913 and subsequently converted into a public limited company under the Companies Ordinance, 1984 by special resolution passed in the extra ordinary general meeting held on March 30, 1988. The company is principally engaged in the manufacture and sale of spices, pickles, pastes/ketchup and iodised salt. It is listed on Karachi, Lahore and Islamabad Stock Exchanges. The registered office of the company is situated at 12/CL - 6, Claremont Road, Civil Lines, Karachi.

2. Significant Accounting Policies

2.1 Basis of presentation

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

2.2 Basis of measurement

These accounts have been prepared on the basis of historical cost convention.

2.3 Fixed assets, capital work-in-progress, depreciation and amortisation

2.3.1 Owned

2.3.1.1 Tangible

These are stated at cost less accumulated depreciation and impairment, if any, except for leasehold land and capital work-in-progress which are stated at cost less any identified impairment loss. Cost in relation to certain fixed assets includes historical cost and cost of borrowing as referred to in note 2.8.

Depreciation is charged to income applying the reducing balance method over the estimated useful lives of related assets, at the rates specified in note 3.1 to the accounts. During the year the Company has revised its accounting estimate with respect to useful life of computers, and used depreciation rate of 30% instead of 15%, which was previously applicable for depreciation of such assets. If the Company would not have revised the depreciation rate, the resultant depreciation charge for the year would have been reduced and profit for the year would have been increased by Rs. 1,408,067. Full year's depreciation on fixed assets is charged in the year of acquisition, whereas no depreciation is charged in the year of disposal.

The company assesses at each balance sheet date whether there is any indication that a fixed asset may be impaired. If such indication exists, the carrying amounts of such assets are reviewed to assess whether they are recorded in excess of their recoverable amount. Where carrying amounts exceed the estimated recoverable amount, assets are written down to the recoverable amount.

2.3.1.2 Intangible

Computer software

An intangible asset is recognised if it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise and that the cost of such asset can also be measured reliably.



Intangible asset is stated at cost less accumulated amortisation and impairment, if any. Generally, cost associated with developing or maintaining computer software programmes are recognised as an expense as incurred. However, cost that are directly associated with identifiable software and have probable economic benefit exceeding the cost beyond one year, are recognised as intangible asset. Direct cost includes the purchase cost of software and related overhead cost.

Expenditure which enhances or extends the performance of computer software beyond its original specification and useful life is recognised as a capital improvement and added to the original cost of the software.

Amortisation charge is based on the reducing balance method whereby the cost of an asset is written-off over its estimated useful life using rates specified in note 3.2. During the year the Company has revised its accounting estimate with respect to useful life of intangible asset, and used amortisation rate of 30% for its intangible assets instead of 15%, which was previously applicable for amortisation of such assets. If the Company would not have revised the amortisation rate, the resultant amortisation charge for the year would have been reduced and profit for the year would have been increased by Rs. 720,762.

Major renewals and improvements for owned assets are capitalised and the assets so replaced, if any, are retired. Maintenance and normal repairs are charged to income. The gain or loss on disposal or retirement of an asset represented by the difference between the sale proceeds and the carrying amount of the asset is recognised as an income or expense.

2.3.2 Leased

Assets held under finance lease are accounted for by recording the asset and related liability at the amounts determined on the basis of lower of fair value of the asset and the present value of minimum lease payments. The outstanding obligation under the lease less finance charges allocated to future periods is shown as a liability. Financial charges are allocated to accounting periods in a manner so as to provide a constant periodic rate of charge on the outstanding liability.

Assets acquired under finance leases are amortised over the useful life of the assets and such amortisation included in depreciation is computed from the month in which the leased assets are put to use.

The gain or loss on disposal or retirement of an asset represented by the difference between the sale proceeds and the carrying amount of the asset is recognised as an income or expense.

2.4 Stores and spares

These are valued at weighted average cost except for items in transit, which are stated at cost comprising invoice value plus other charges paid thereon.

2.5 Stock-in-trade

Raw materials and packing materials except for those in transit are valued at lower of weighted average cost and net realisable value.

Work-in-process and finished goods are valued at lower of average cost and net realisable value. Cost of work-in-process and finished goods includes prime cost and an appropriate portion of manufacturing overheads.

Goods in transit are stated at cost comprising invoice value plus other charges paid thereon.

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

2.6 Trade debts

Trade debts originated by the company are recognised and carried at original invoice amount. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as and when incurred.

2.7 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of cash flow statement, cash and cash equivalent comprise cash in hand, balances with bank and finances under mark-up arrangements. In the balance sheet, finances under mark-up arrangements are included in current liabilities.

2.8 Borrowing costs

Borrowing costs are recognised as an expense in the period in which these are incurred except to the extent of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, if any, are capitalised as part of the cost of that asset.

2.9 Taxation

2.9.1 Current

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

2.9.2 Deferred

Deferred tax is calculated using the balance sheet liability method on all temporary differences arising between the tax bases of the assets and liabilities and their carrying amounts in the financial statements.

Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, un-absorbed tax losses to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future and significant taxable income will be available against which the deductible temporary differences or un-absorbed tax losses can be utilised.

The carrying amount of all deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on the tax rates (and tax laws) that have been enacted or subsequently enacted at the balance sheet date.

2.10 Employee benefits

2.10.1 Retirement benefits – defined contribution plan

The company operates an approved provident fund for all its employees who are eligible for the benefit. Equal monthly contributions @ 10% of salary are made by the company and its employees.

2.10.2 Others – compensated absences

The company accounts for these benefits in the period in which the absences are earned.

2.11 Provisions

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



2.12 Foreign currency translation

Foreign currency transactions are converted into rupees at the rates of exchange approximating to those ruling at the date of transaction. Assets and liabilities in foreign currencies have been translated into rupees at the rates of exchange approximating those ruling at the balance sheet date. Exchange gains or losses are included in income currently.

2.13 Revenue recognition

Sales are recognised on despatch of goods to customers. Sales return are booked as and when advised.

2.14 Transactions with related parties

The Company enters into transactions with related parties on an arm's length basis. Prices for transactions with related parties are determined as per the prescribed methods under the Companies Ordinance, 1984, duly approved by the Board of Directors.

2.15 Financial instruments

All the financial assets and liabilities are recognised at the time when the company becomes a party to the contractual provisions of the instrument. Any gain or loss on the recognition and derecognition of the financial assets and liabilities is included in the income currently.

2.16 Offsetting

Financial assets and liabilities are offset and the net amount is reported in the balance sheet where there is a legally enforceable right to set-off the recognised amounts and the company intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

3. Operating Fixed Assets

3.1 Tangible

Particulars	COST			Rate	DEPRECIATION			Written down value as at June 30, 2004
	As at July 01, 2003	Additions/ (Disposals)/ *Reclassification	As at June 30, 2004		As at July 01, 2003	Charge for the year/ (Disposals)/ *Reclassification	As at June 30, 2004	
	Rupees			%	Rupees			
Owned -								
Land - leasehold	13,014,235	-	13,014,235	-	-	-	-	13,014,235
Buildings - on leasehold land	56,218,748	-	56,218,748	10	23,119,525	3,309,923	26,429,448	29,789,300
Plant, machinery and generators	120,734,981	14,406,911	135,141,892	10	41,447,906	9,369,409	50,817,315	84,324,577
Furniture and Fixtures	13,100,636	48,075	13,148,711	10	5,585,698	756,291	6,341,989	6,806,722
Motor vehicles	39,131,713	8,777,468	43,930,119	20	17,221,833	5,799,349	20,732,805	23,197,314
		(6,779,842)				(3,655,159)		
		*2,800,780				*1,366,782		
Office and other equipments	19,676,542	769,609	20,446,151	15	12,251,286	1,229,255	13,480,541	6,965,610
Computers	11,809,941	2,580,271	14,307,312	30	4,920,372	2,816,108	7,736,480	6,570,832
		(82,900)						
Laboratory equipments	2,707,906	414,000	3,121,906	10	1,127,377	199,455	1,326,832	1,795,074
	276,394,702	26,996,334	299,329,074		105,673,997	23,479,790	126,865,410	172,463,664
		(6,862,742)				(3,655,159)		
		*2,800,780				*1,366,782		
Leased -								
Motor vehicles	5,338,336	(889,756)	1,647,800	20	2,288,732	210,920	804,128	843,672
						(328,742)		
		* (2,800,780)				* (1,366,782)		
2004	281,733,038	26,996,334	300,976,874		107,962,729	23,690,710	127,669,538	173,307,336
		(7,752,498)				(3,983,901)		
2003	206,849,335	81,762,303	281,733,038		89,756,894	22,263,991	107,962,729	173,770,309
		(6,878,600)				(4,058,156)		

3.2 Intangible

Particulars	Cost			Rate	Amortisation			Written down value as at June 30, 2004
	As at July 01, 2003	Additions/ (Disposals)	As at June 30, 2004		As at July 01, 2003	Charge for the year/ (Disposals)	As at June 30, 2004	
	Rupees			%	Rupees			
Computer software and ERP system	5,653,033	–	5,653,033	30	847,955	1,441,523	2,289,478	3,363,555
2003	–	5,653,033	5,653,033		–	847,955	847,955	4,805,078

	2004	2003
	Rupees	Rupees

3.3 The depreciation/amortisation for the year has been allocated as follows:

Cost of goods manufactured	17,428,239	16,564,246
Administrative expenses	3,613,133	2,741,547
Selling and distribution expenses	4,090,861	3,806,153
	<u>25,132,233</u>	<u>23,111,946</u>

3.4 Particulars of disposal of operating assets

Particular	Original cost	Accumulated depreciation	Written down value	Sale proceeds	Gain/ (loss) on disposal	Mode of disposal	Particulars of buyer
	Rupees						
Motor Vehicles Toyota Carolla GII Reg. No. ABQ - 733	869,000	641,197	227,803	687,000	459,197	Company Policy	Mr Zafar Salman B126 Hussain Disalwa Town, Block "P", North Nazimabad, Karachi.
Toyota Carolla Reg. No. AAT - 008	310,500	208,755	101,745	170,006	68,261	Company Policy	Mr S.M Rizwan House # B-403, Block 11-A, North Karachi, Karachi.
Suzuki Margala Reg. No. AAJ - 595	490,975	388,010	102,965	325,000	222,035	Company Policy	Ms. Zareen Maqsood Ashyana-II, Flat No. A-201 Gulshan-e-Iqbal, Block 7, Karachi.
Balance carried forward	1,670,475	1,237,962	432,513	1,182,006	749,493		

Particular	Original cost	Accumulated depreciation	Written down value	Sale proceeds	Gain/ (loss) on disposal	Mode of disposal	Particulars of buyer
————— Rupees —————							
Balance brought forward	1,670,475	1,237,962	432,513	1,182,006	749,493		
Suzuki Cultus VXR Reg. No. ACW - 398	516,000	304,646	211,354	211,354	—	Company Policy	Mr. Zaheer Ahmed Flat # A-55 Sunny Castle Block 14, Gulistan-e-Johar, Karachi.
Suzuki Cultus VX Reg. No. ACW - 426	492,500	290,772	201,728	201,728	—	Company Policy	Mr. S. Anwar Ali S/o. Faqeer Mohammad House # R-106/1, ST 18, Sector 5-C-4, North Karachi, Karachi.
Suzuki Khyber Reg. No. ABU - 865	345,500	232,286	113,214	186,870	73,656	Company Policy	Mr. Abdul Muqem Ansari Savana City Flat # A-510, Block 1, Gulshan-e-Iqbal, 13/D/3, Karachi.
Honda City EXI-AT Reg. No. AEN-371	837,200	167,440	669,760	745,000	75,240	Negotiation	M/s. NDLC-IFIC Bank Ltd. 7th Floor Mohammadi House, I.I. Chundrigar Road, Karachi.
Honda City EXI MI Reg. No. ADZ - 802	823,900	296,604	527,296	527,296	—	Insurance Claim	M/s. EFU General Insurance Ltd. 2nd Floor K.D.L.B. Building 58 West Wharf Road, Karachi.
KIA Pride Reg. No. AAJ- 241	280,000	206,600	73,400	115,000	41,600	Insurance Claim	M/s. EFU General Insurance Ltd. 2nd Floor K.D.L.B. Building 58 West Wharf Road, Karachi.
Suzuki Cultus Reg. No. IR - 622	555,000	199,800	355,200	405,000	49,800	Insurance Claim	M/s. EFU General Insurance Ltd. 2nd Floor K.D.L.B. Building 58 West Wharf Road, Karachi.
Suzuki Mehran VXR Reg. No. AEF - 766	379,000	75,800	303,200	345,000	41,800	Insurance Claim	M/s. EFU General Insurance Ltd. 2nd Floor K.D.L.B. Building 58 West Wharf Road, Karachi.
Honda CD 125 Reg. No. KAR - 8747	72,000	48,407	23,593	46,738	23,145	Company Policy	Mr. Mohammad Irfan 5-E4/11, Paphos Nagar Nazimabad, Karachi.
Balance carried forward	5,971,575	3,060,317	2,911,258	3,965,992	1,054,734		

Particular	Original cost	Accumulated depreciation	Written down value	Sale proceeds	Gain/ (loss) on disposal	Mode of disposal	Particulars of buyer
————— Rupees —————							
Balance brought forward	5,971,575	3,060,317	2,911,258	3,965,992	1,054,734		
Honda CD 125 Reg. No. KAR - 8748	72,000	48,407	23,593	46,738	23,145	Company Policy	Mr. Fazal Mohammad H # KMC 2306, Bonier Mhallah, Zia Colony, Orangi Town, Karachi.
Honda CD 70 Reg. No. KAR - 2419	59,800	44,124	15,676	38,662	22,986	Company Policy	Mr. Nizar A-40, Anna Corner, Block 7, Ayesha Manzil, Karachi.
Honda CD 70 Reg. No. IXG-7424	58,200	42,944	15,256	19,497	4,241	Company Policy	Mr. Sultan Fayaz Malik House No. 19 A, Street No. 10, Gurumanget, Gulberg III, Lahore.
Honda CD 70 Reg. No. IDT - 4673	63,300	37,372	25,928	25,928	—	Company Policy	Mr. Asif Mehmood House # 722, G-10/A, Islamabad.
Honda CD 70 Reg. No. LXN - 1495	63,700	37,609	26,091	26,091	—	Company Policy	Mr. Mohammad Nadeem 8 Rahim Park, Near Sabzazar, Block B, Multan Road, Lahore.
Honda CD 70 Reg. No. QAK - 218	64,000	37,786	26,214	26,214	—	Company Policy	Mr. Saleem-ud-din House # 77, Street # 11, Area "J" Market Korangi # 5, Karachi.
Suzuki Shogun Reg. No. KAR - 8398	62,500	42,020	20,480	21,580	1,100	Company Policy	Mr. Maqbool Elahi R-117, Sector 11-L, New Karachi, Karachi.
Suzuki Shogun Reg. No. KAR - 5083	60,000	40,339	19,661	39,072	19,411	Company Policy	Mr. Siraj Ahmed 7/16 2-E Nazimabad, Karachi.
Suzuki Shogun Reg. No. KAP - 0331	62,500	42,020	20,480	41,485	21,005	Company Policy	Mr. Mohammad Saleem A-70, Shah Faisal Colony, Karachi.
Suzuki Shogun Reg. No. KAP - 3657	62,500	36,900	25,600	42,358	16,758	Company Policy	Mr. M Hussain House # A-13/15, Liqatatabad, Karachi.
Suzuki Shogun Reg. No. KAP - 7750	62,500	36,900	25,600	25,600	—	Company Policy	Mr. Maqbool Elahi House No. R-177, Sector 11-L North Karachi, Karachi.
Balance carried forward	6,662,575	3,506,738	3,155,837	4,319,217	1,163,380		

Particular	Original cost	Accumulated depreciation	Written down value	Sale proceeds	Gain/ (loss) on disposal	Mode of disposal	Particulars of buyer
Rupees							
Balance Brought Forward	6,662,575	3,506,738	3,155,837	4,319,217	1,163,380		
Suzuki Shogun Reg. No. SKG - 2373	63,000	37,195	25,805	25,805	-	Company Policy	Mr. Abdul Hafeez C/5 Barrage Colony, Sukkur.
Suzuki Shogun Reg. No. KAP - 1222	63,000	37,195	25,805	25,805	-	Company Policy	Mr. Syed Ubaid-ur-Rehman L-260 Sector 5A/2, North Karachi, Karachi.
Suzuki Shogun Reg. No. KAP - 1300	63,000	37,195	25,805	25,805	-	Company Policy	Mr. Syed Rashid Iqbal 4D-401, Memon Colony, New Saeedabad, Baldia Town, Karachi.
Suzuki SR-21 Reg. No. KAP - 7266	70,380	41,553	28,827	28,827	-	Company Policy	Mr. Mohammad Haroon 1728/28 Arab Mohallah, Baldia Town, Karachi.
Suzuki SR-21 Reg. No. KAP - 1158	69,000	46,390	22,610	28,640	6,030	Company Policy	Mr. Dilbar Khan House No. 338, Block 20-F Baldia Town Itihad Town, Karachi.
Honda CD 125 Reg. No. LRA - 1480	76,500	27,540	48,960	50,000	1,040	Insurance Claim	M/s. EFU General Insurance Ltd. 2nd Floor K.D.L.B. Building 58 West Wharf Road, Karachi.
Honda CG 125 Reg. No. KAY - 3347	76,500	15,300	61,200	73,000	11,800	Insurance Claim	M/s. EFU General Insurance Ltd. 2nd Floor K.D.L.B. Building 58 West Wharf Road, Karachi.
Honda CD 70 Reg. No. SKZ - 9003	67,200	13,440	53,760	64,000	10,240	Insurance Claim	M/s. EFU General Insurance Ltd. 2nd Floor K.D.L.B. Building 58 West Wharf Road, Karachi.
Honda CD 70 Reg. No. LXF - 9270	58,200	42,944	15,256	19,389	4,133	Insurance Claim	M/s. EFU General Insurance Ltd. 2nd Floor K.D.L.B. Building 58 West Wharf Road, Karachi.
Honda CD 70 Reg. No. KCT - 4945	69,000	33,672	35,328	55,000	19,672	Insurance Claim	M/s. EFU General Insurance Ltd. 2nd Floor K.D.L.B. Building 58 West Wharf Road, Karachi.
Balance carried forward	7,338,355	3,839,162	3,499,193	4,715,488	1,216,295		

Particular	Original cost	Accumulated depreciation	Written down value	Sale proceeds	Gain/ (loss) on disposal	Mode of disposal	Particulars of buyer
————— Rupees —————							
Balance brought forward	7,338,355	3,839,162	3,499,193	4,715,488	1,216,295		
Honda CD 70 Reg. No. IXY - 5467	67,300	32,842	34,458	45,000	10,542	Insurance Claim	M/s. EFU General Insurance Ltd. 2nd Floor K.D.L.B. Building 58 West Wharf Road, Karachi.
Suzuki Shogun Reg. No. KCT - 7244	66,000	32,208	33,792	35,000	1,208	Insurance Claim	M/s. EFU General Insurance Ltd. 2nd Floor K.D.L.B. Building 58 West Wharf Road, Karachi.
Suzuki Shogun Reg. No. KAV - 2070	66,000	23,760	42,240	35,000	(7,240)	Insurance Claim	M/s. EFU General Insurance Ltd. 2nd Floor K.D.L.B. Building 58 West Wharf Road, Karachi.
Suzuki shogun Reg. No. KAV - 4830	66,087	23,791	42,296	50,000	7,704	Insurance Claim	M/s. EFU General Insurance Ltd. 2nd Floor K.D.L.B. Building 58 West Wharf Road, Karachi.
Yamaha YB-100 Reg. No. KCT - 2838	65,856	32,138	33,718	50,000	16,282	Insurance Claim	M/s. EFU General Insurance Ltd. 2nd Floor K.D.L.B. Building 58 West Wharf Road, Karachi.
	7,669,598	3,983,901	3,685,697	4,930,488	1,244,791		
Computer							
Dell D-500	82,900	—	—	60,000	(22,900)	Insurance Claim	EFU General Insurance Ltd. 2nd Floor K.D.L.B. Bldg., 58, West Wharf Road, Karachi.
2004	7,752,498	3,983,901	3,685,697	4,990,488	1,221,891		
2003	6,878,600	4,058,156	2,820,444	3,816,788	996,344		

	2004	2003
Note	Rupees	Rupees

4. Capital Work-in-progress

Plant and machinery	4,559,931	7,449,848
Computer software and ERP system	1,705,070	1,538,750
	<u>6,265,001</u>	<u>8,988,598</u>

5. Stock-in-trade

Raw materials	112,276,723	68,321,182
Packing materials	51,050,647	47,356,269
Work-in-process	55,678,335	53,187,614
Finished goods	60,963,272	36,485,867
Goods in transit	5,857,053	1,931,729
	<u>285,826,030</u>	<u>207,282,661</u>
Less: Provision for slow moving and obsolete stocks	11,895,788	-
	<u>273,930,242</u>	<u>207,282,661</u>

6. Trade Debts – Unsecured, Considered Good

Associated undertakings	6.1	7,024,461	7,366,460
Others		47,144,818	39,529,294
		<u>54,169,279</u>	<u>46,895,754</u>
6.1 Due from associated undertakings			
Premier Distributor		6,628,128	4,252,904
Premier Agency		396,333	3,113,556
		<u>7,024,461</u>	<u>7,366,460</u>

These are in the normal course of the business and are interest free. The maximum aggregate amount due from associated undertakings at the end of any month during the year was Rs.13,621,334 (2003: Rs.9,572,073).

7. Due From Associated Undertakings – Unsecured

Majaz Corporation (Private) Limited	-	4,770
Pakistan Card Clothing Company (Private) Limited	-	134
	<u>-</u>	<u>4,904</u>

7.1 These are in the normal course of the business and are interest free. The maximum aggregate amount due from associated undertakings at the end of any month during the year was Rs.727,631 (2003: Rs.1,730,818).

	2004	2003
Note	Rupees	Rupees

8. Advances - Unsecured, Considered Good

Employees - against expenses	254,880	30,500
Suppliers	17,527,501	3,839,452
Others	281,995	1,390,303
	18,064,376	5,260,255

9. Deposits, Prepayments and Other Receivables

Short term deposits		114,400	114,400
Prepayments		2,011,809	1,145,139
Other receivables - considered good	9.1	1,000,000	1,000,000
Sales tax refundable		350,065	696,934
Employees' Provident Fund		824,732	538,758
Rebate		95,320	114,763
Insurance claims		60,418	270,444
Others		2,330,535	2,620,899
		4,456,744	3,880,438

9.1 This represents sales tax paid under protest against arbitrary levy on table salt and other spices amounting to Rs.87.8 million (later reduced to Rs.30.7 million). As a result of the appeal the matter has been set aside by the Tribunal by accepting the appeal. However, the department has preferred an appeal against the order of the Tribunal and for the stay of refund claimed by the company before the High Court of Sindh.

	2004	2003
Note	Rupees	Rupees

10. Cash and Bank Balances

Cash in hand		468,616	502,913
Cash at banks - on current accounts			
Local currency	10.1	517,348	232,228
Foreign currency		1,885,142	278,063
		2,402,490	510,291
		2,871,106	1,013,204

10.1 This includes a separate account for deposits from dealers amounting to Rs.77,284 (2003: Rs.84,284).

	2004	2003
Note	Rupees	Rupees

11. Issued, Subscribed and Paid-up Capital

Ordinary shares of Rs. 10 each

Number of shares				
2004	2003		2004	2003
1,255,990	1,255,990	Fully paid in cash	12,559,900	12,559,900
2,994,548	2,994,548	Issued as fully paid bonus shares	29,945,480	29,945,480
<u>4,250,538</u>	<u>4,250,538</u>		<u>42,505,380</u>	<u>42,505,380</u>

12. Long Term Finance - Secured

Under mark-up arrangement	12.1	27,000,000	50,000,000
Current portion		<u>(6,000,000)</u>	<u>(5,000,000)</u>
		<u>21,000,000</u>	<u>45,000,000</u>

12.1 This facility has been obtained from a commercial bank and secured against equitable mortgage over factory buildings to the extent of Rs.117 million. Mark-up is charged at the rate ranging from 6.50% to 10.00% per annum (2003: 10% to 12% per annum). The last installment of the facility is payable on December 24, 2008.

13. Liabilities Against Assets Subject to Finance Lease

Future minimum lease payments under finance lease together with the present value of the net minimum lease payments are as follows:

	2 0 0 4		2 0 0 3	
	Minimum lease payments Rupees	Present value Rupees	Minimum lease payments Rupees	Present value Rupees
Within one year	699,772	635,953	1,829,558	1,566,687
After one year but not more than five years	-	-	1,049,659	953,932
Total minimum lease payments	<u>699,772</u>	<u>635,953</u>	2,879,217	2,520,619
Less: Amounts representing finance charges	63,819	-	358,598	-
Present value of minimum lease payments	<u>635,953</u>	<u>635,953</u>	2,520,619	2,520,619
Less: Current portion	<u>635,953</u>	<u>635,953</u>	1,566,687	1,566,687
	<u>-</u>	<u>-</u>	<u>953,932</u>	<u>953,932</u>

The above schedule represents finance lease agreements entered into with leasing companies. Financing rates of 14% to 19% per annum (2003: 14% to 19% per annum) approximately have been used as discounting factor. The company has an option to purchase the lease assets upon completion of the lease period at a price which is expected to be sufficiently lower than the fair value at the date the option become exercisable. The Company has intention to exercise such option.

		2004	2003
	Note	Rupees	Rupees
14. Deferred Tax Liability	14.1	12,500,000	8,758,798

14.1 Deferred tax liability comprises of deductible/(taxable) temporary differences in respect of the following:

Taxable temporary difference			
Accelerated tax depreciation allowance		16,503,687	8,782,838
Other adjustments		170,220	1,831,882
		<u>16,673,907</u>	<u>10,614,720</u>
Deductible temporary difference			
Provision for slow moving stock		3,626,712	-
Provision for compensated absences		-	989,767
Liabilities against assets subject to finance lease		193,885	778,821
Amortisation allowance		353,310	87,334
		<u>4,173,907</u>	<u>1,855,922</u>
		<u>12,500,000</u>	<u>8,758,798</u>

15. Short Term Finances Utilised Under Mark-up Arrangements - Secured

Short term running finance	15.1 & 15.4	8,893,947	60,589,090
Export re-finance	15.2 & 15.4	69,000,000	69,000,000
Money market advances	15.3 & 15.4	130,000,000	45,000,000
		<u>207,893,947</u>	<u>174,589,090</u>

15.1 The company has running finance facilities under mark-up arrangements in aggregate of Rs.35,000,000 (2003: Rs.115,000,000) from commercial banks having mark-up ranging from 5.00% to 7.50% per annum (2003: 7.50% to 12.00% per annum). The unutilised balance at the end of the year was Rs.26,106,053 (2003: Rs.54,410,910). The expiry dates of facilities ranges from August 16, 2004 to December 23, 2004 and are renewable.

15.2 The aggregate export refinance facility amounting to Rs.69,000,000 (2003: Rs.69,000,000) from a commercial bank having mark-up ranging from 2.25% to 2.75% per annum (2003: 7.00% to 7.25% per annum). The expiry date of facility is December 23, 2004 and is renewable.

15.3 The aggregate facilities amounting to Rs.130,000,000 (2003: Rs.45,000,000) has been obtained from commercial banks having mark-up ranging from 3.00% to 4.00% per annum (2003:3.00% per annum). The expiry dates of facilities ranges from June 30, 2004 to November 24, 2004 and are renewable.

15.4 These arrangements are secured by first pari passu hypothecation charge on stock-in-trade and book debts of the company.

	2004	2003
Note	Rupees	Rupees

16. Due to Associated Undertakings - Unsecured

Associated Textile Consultants (Private) Limited	85,188	931
Precision Rubber Products Limited	-	3,849
Pakistan Card Clothing (Private) Limited	6,375	-
	91,563	4,780

16.1 These are in the normal course of the business and are interest free. The maximum aggregate amount due to associated undertakings at the end of any month during the year was Rs.91,563 (2003: Rs.323,821).

17. Creditors, Accrued and Other Liabilities

Creditors		48,041,895	36,526,773
Accrued liabilities		44,328,831	38,246,331
Mark-up accrued on short term running finances utilised under mark-up arrangement		1,445,113	695,697
Workers' profit participation fund	17.1	3,655,489	1,600,446
Workers' welfare fund		1,100,000	532,006
Advances from customers	17.2	22,593,984	8,247,710
Security deposits from customers		70,500	77,500
Tax deducted at source		819,080	70,601
Unclaimed dividend		800,755	740,938
Other liabilities		628,363	1,584,907
		123,484,010	88,322,909

17.1 Workers' profit participation fund

Balance at beginning of the year		1,600,446	1,680,951
Allocation for the year	25	3,655,520	1,600,446
		5,255,966	3,281,397
Interest on fund utilised in the company's business	24	270,075	-
		5,526,041	3,281,397
Amount paid to the fund during the year		(1,870,552)	(1,680,951)
		3,655,489	1,600,446

17.2 Advances from customers include amount due from Premier Distributors – an associated undertaking Rs.4,202,380 (2003: Nil). This is in the normal course of the business and is interest free. The maximum aggregate amount due from associated undertakings at the end of any month during the year was Rs.4,202,380 (2003: Nil).

18. Contingencies And Commitments

Contingencies

18.1 Bank Al Habib Limited has issued guarantee on behalf of the Company in favour of Sui Southern Gas Company Limited for Rs.510,000 (2003: Nil).

Commitments

18.2 The Company has commitments against outstanding letters of credit established for import of goods amounting to Rs.14,014,226 (2003: Rs.14,365,822).

18.3 The Company has commitment against contract for import of goods amounting to Rs.3,266,688 (2003: Nil).

	2004	2003
Note	Rupees	Rupees

19. Sales

Local sales	19.1	1,135,449,751	1,002,596,110
Export sales	19.2	168,065,372	133,045,661
		<u>1,303,515,123</u>	<u>1,135,641,771</u>

19.1 Local sales

Gross sales		1,554,885,687	1,366,015,556
Return		27,412,285	18,482,208
Trade discount		173,359,461	154,810,817
Cartage/freight		34,838,345	28,360,683
Sales tax		183,825,845	161,765,738
		(419,435,936)	(363,419,446)
		<u>1,135,449,751</u>	<u>1,002,596,110</u>

19.2 Export sales

Gross sales		187,498,055	145,097,166
Return		165,352	-
Trade discount/commission		1,133,849	491,217
Freight		12,964,435	7,317,868
Forwarding charges		5,169,047	4,242,420
		(19,432,683)	(12,051,505)
		<u>168,065,372</u>	<u>133,045,661</u>

20. Cost of Goods Sold

Opening stock of finished goods		36,485,867	29,809,064
Cost of goods manufactured	20.1	944,756,879	832,372,005
		<u>981,242,746</u>	<u>862,181,069</u>
Closing stock of finished goods		(60,963,272)	(36,485,867)
		<u>920,279,474</u>	<u>825,695,202</u>
Export rebate		(984,375)	(241,084)
		<u>919,295,099</u>	<u>825,454,118</u>

		2004	2003
	Note	Rupees	Rupees

20.1 Cost of goods manufactured

Raw materials consumed	20.1.1	512,192,475	450,973,971
Packing materials consumed	20.1.2	259,734,351	234,741,500
Provision for slow moving stock		11,895,788	-
Salaries, wages and other benefits		50,344,962	50,871,667
Direct labour		26,608,844	26,998,274
Professional services		97,745	500,723
Staff retirement benefits		2,849,439	2,681,087
Bonus		11,395,838	10,173,322
Depreciation / amortisation of fixed assets	3.3	17,428,239	16,564,246
Repairs and maintenance		17,982,615	18,107,911
Rent, rates and taxes		4,337,484	3,555,115
Fuel and power		19,846,267	16,968,594
Insurance		2,427,921	1,820,501
Postage, telephone and telegram		627,467	522,972
Traveling and conveyance		7,136,385	6,293,849
Printing and stationery		1,303,170	654,498
Laboratory, research and development expenses		1,038,610	1,063,348
		<u>947,247,600</u>	<u>842,491,578</u>
Opening stock of work-in-process		53,187,614	43,068,041
Closing stock of work-in-process		(55,678,335)	(53,187,614)
		<u>944,756,879</u>	<u>832,372,005</u>

20.1.1 Raw materials consumed

Opening stock		68,321,182	51,098,350
Purchases		556,148,016	468,196,803
		<u>624,469,198</u>	<u>519,295,153</u>
Closing stock		(112,276,723)	(68,321,182)
		<u>512,192,475</u>	<u>450,973,971</u>

20.1.2 Packing materials consumed

Opening stock		47,356,269	33,591,289
Purchases		263,428,729	248,506,480
		<u>310,784,998</u>	<u>282,097,769</u>
Closing stock		(51,050,647)	(47,356,269)
		<u>259,734,351</u>	<u>234,741,500</u>

	2004	2003
Note	Rupees	Rupees

21. Administrative Expenses

Salaries, allowances and other benefits		19,241,231	15,219,547
Staff retirement benefits		956,699	877,656
Bonus		4,816,819	3,060,006
Depreciation / amortisation of fixed assets	3.3	3,613,133	2,741,547
Traveling, conveyance and vehicle running expenses		2,520,291	2,218,073
Rent, rates and taxes		569,044	472,159
Scholarship and donation	21.1	129,550	49,300
Utility charges		526,893	389,552
Postage, telephone and telegram		1,830,721	1,039,414
Repairs and maintenance		1,973,185	974,524
Insurance		775,032	448,748
Fee and subscription		325,153	310,541
Meeting expenses		241,784	84,229
Entertainment		287,898	350,807
Printing and stationery		1,380,009	1,044,997
Legal and professional charges		1,337,185	803,200
Auditors' remuneration	21.2	201,000	150,000
		40,725,627	30,234,300

21.1 The directors or their spouses did not have any interest in the donee's fund.

21.2 Auditors' remuneration

Audit fee	135,000	112,500
W.P.P.F. audit fee (3 years)	15,000	-
Others certifications/services	10,000	-
Out-of-pocket expenses	41,000	37,500
	201,000	150,000

		2004	2003
	Note	Rupees	Rupees

22. Selling and Distribution Expenses

Salaries, allowances and other benefits		36,645,235	35,014,713
Staff retirement benefits		1,193,073	1,193,087
Bonus		4,032,491	4,529,415
Depreciation / amortisation of fixed assets	3.3	4,090,861	3,806,153
Traveling, conveyance and vehicle running expenses		12,866,007	10,944,619
Rent, rates and taxes		371,974	186,140
Scholarship and course fee		48,226	333,101
Postage, telephone and telegram		4,673,719	3,557,545
Repairs, maintenance and utilities		1,108,839	1,270,127
Insurance		1,288,598	1,133,153
Fees and subscription		248,417	202,373
Entertainment		327,023	490,663
Printing and stationery		750,953	1,170,582
Legal, professional and trade mark registration		1,527,471	3,617,979
Advertising and sales promotion		191,528,755	166,502,154
		<u>260,701,642</u>	<u>233,951,804</u>

23. Other Income

Gain on disposal of fixed assets	3.4	1,221,891	996,344
Sales tax refunded		-	3,509,605
Insurance claim		545,209	77,654
Miscellaneous		190,808	266,230
		<u>1,957,908</u>	<u>4,849,833</u>

24. Financial Charges

Bank charges		468,013	488,663
Mark-up on long term finance		3,829,082	3,134,356
Mark-up under finance leases		284,732	1,071,387
Mark-up on short term finances		6,788,368	14,148,055
Interest on Workers' profit participation fund		270,075	-
		<u>11,640,270</u>	<u>18,842,461</u>

25. Other Charges

Workers' profit participation fund	17.1	3,655,520	1,600,446
Workers' welfare fund		1,100,000	381,632
		<u>4,755,520</u>	<u>1,982,078</u>

	2004	2003
Note	Rupees	Rupees

26. Taxation

Current	18,500,000	8,021,329
Prior	(185,714)	(682,917)
Deferred	3,741,202	2,675,119
26.1	<u>22,055,488</u>	<u>10,013,531</u>

26.1 Relationship between tax expense and accounting profit

	2004	2003	2004	2003
	Effective tax rate %		Rupees	Rupees
Profit before taxation	-	-	68,354,873	30,026,843
Tax at the applicable rate	35.00	35.00	23,924,206	10,509,395
Tax effect of timing differences	5.47	8.91	3,741,202	2,675,119
Effect of change in prior years' tax	(0.27)	(2.27)	(185,714)	(682,917)
Tax effect of losses brought forward	(3.36)	-	(2,299,792)	-
Tax effect of expenses/income that are not allowable in determining taxable profits	6.81	(2.04)	4,657,148	(613,166)
Effect of final tax on exports	(11.38)	(6.25)	(7,781,562)	(1,874,900)
	<u>32.27</u>	<u>33.35</u>	<u>22,055,488</u>	<u>10,013,531</u>

	2004	2003
	Rupees	Rupees

27. Earnings Per Share

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

Profit after taxation	46,299,385	20,013,312
Weighted average number of ordinary shares	<u>4,250,538</u>	<u>4,250,538</u>
Earnings per share - basic and diluted	<u>10.89</u>	<u>4.71</u>

28. Transactions with Associated Undertakings and Related Parties

The related parties comprise associated companies, directors of the company, employees' provident fund and companies where directors also hold directorship. Transactions with related parties and associated undertakings, other than remuneration and benefits to key management personnel under the terms of employment disclosed elsewhere in these accounts, are as follows:

	2004	2003
Note	Rupees	Rupees

Description

Common expenses charged to associated companies	<u>4,293,743</u>	<u>7,552,860</u>
Sales of goods	<u>295,725,621</u>	<u>246,275,799</u>
Company's contributions to employees' provident fund	<u>4,999,211</u>	<u>4,751,830</u>

All transactions with related parties have been carried out by the company on arm's length prices using the cost plus method and comparable uncontrolled price method.

29. Remuneration of Chief Executive, Directors and Other Executives

	Chief Executive		Directors		Executives		Total	
	2004	2003	2004	2003	2004	2003	2004	2003
	Rupees							
Managerial remuneration	2,214,333	766,728	4,322,422	2,427,348	19,709,483	14,899,302	26,246,238	18,093,378
Housing	-	345,024	25,293	1,092,276	5,777,134	6,704,195	5,802,427	8,141,495
Bonus	660,955	429,150	1,481,783	1,320,625	8,719,592	8,183,617	10,862,330	9,933,392
Utilities	221,427	76,668	432,221	242,724	1,970,707	1,489,545	2,624,355	1,808,937
Others	-	-	-	-	6,063,637	3,397,223	6,063,637	3,397,223
	<u>3,096,715</u>	<u>1,617,570</u>	<u>6,261,719</u>	<u>5,082,973</u>	<u>42,240,553</u>	<u>34,673,882</u>	<u>51,598,987</u>	<u>41,374,425</u>
Number of persons	1	1	4	4	89	77	94	82

29.1 The chief executive and certain executives are also provided with free use of company owned and maintained cars and residential telephones.

29.2 Aggregate amount charged in these accounts in respect of fee to non-executive directors is Rs. 16,000 (2003: Rs. 11,000).

30. Plant Capacity and Actual Production (In Metric Tons)

	2004		2003	
	Installed	Utilised	Installed	Utilised
Spices	4,532	3,968	3,900	3,574
Pickles	5,256	4,383	3,000	4,252
Pastes	6,920	3,542	6,570	3,277
Salt	21,078	18,620	16,800	17,137

30.1 Installed capacities were mainly increased due to induction of new machinery and further due to application of new improved processes.

30.2 The actual production is based on consumer demand.

2004

2003

Rupees

Rupees

31. Cash and Cash Equivalents

Cash and bank balances	2,871,106	1,013,204
Short term finances utilised under mark-up arrangements	(207,893,947)	(174,589,090)
	<u>(205,022,841)</u>	<u>(173,575,886)</u>

32. Financial Instruments and Related Disclosures

32.1 Financial assets and liabilities As at June 30, 2004

	Mark-up bearing maturity			Non-mark-up bearing maturity			Total	
	Effective mark-up rate	Upto one year	Over one year	Sub-total	Upto one year	Over one year		Sub-total
	%	Rupees						
Financial assets								
Deposits	-	-	-	-	114,400	1,941,380	2,055,780	2,055,780
Trade debts	-	-	-	-	54,169,279	-	54,169,279	54,169,279
Advances and other receivables	-	-	-	-	505,803	-	505,803	505,803
Cash and bank balances	-	-	-	-	2,871,106	-	2,871,106	2,871,106
		<u>-</u>	<u>-</u>	<u>-</u>	<u>57,660,588</u>	<u>1,941,380</u>	<u>59,601,968</u>	<u>59,601,968</u>
Financial liabilities								
Long term finance	6.50 - 10.00	6,000,000	21,000,000	27,000,000	-	-	-	27,000,000
Liabilities against assets subject to finance lease	14.00-19.00	635,953	-	635,953	-	-	-	635,953
Short term finance	2.25 - 7.50	207,893,947	-	207,893,947	-	-	-	207,893,947
Due to associated undertakings	-	-	-	-	91,563	-	91,563	91,563
Due to directors	-	-	-	-	6,822	-	6,822	6,822
Creditors, accrued and other liabilities	-	-	-	-	95,315,457	-	95,315,457	95,315,457
Proposed dividend	-	-	-	-	17,002,152	-	17,002,152	17,002,152
		<u>214,529,900</u>	<u>21,000,000</u>	<u>235,529,900</u>	<u>112,415,994</u>	<u>-</u>	<u>112,415,994</u>	<u>347,945,894</u>

As at June 30, 2003

	Mark-up bearing maturity			Non-mark-up bearing maturity			Total	
	Effective mark-up rate	Upto one year	Over one year	Sub-total	Upto one year	Over one year		Sub-total
	%	Rupees						
Financial assets								
Deposits	-	-	-	-	114,400	1,959,180	2,073,580	2,073,580
Trade debts	-	-	-	-	46,895,754	-	46,895,754	46,895,754
Due from associated undertakings	-	-	-	-	4,904	-	4,904	4,904
Advances and other receivables	-	-	-	-	1,082,141	-	1,082,141	1,082,141
Cash and bank balances	-	-	-	-	1,013,204	-	1,013,204	1,013,204
		<u>-</u>	<u>-</u>	<u>-</u>	<u>49,110,403</u>	<u>1,959,180</u>	<u>51,069,583</u>	<u>51,069,583</u>
Financial liabilities								
Long term finance	10.00 - 12.00	5,000,000	45,000,000	50,000,000	-	-	-	50,000,000
Liabilities against assets subject to finance lease	14.00-19.00	1,566,687	953,932	2,520,619	-	-	-	2,520,619
Short term finance	3.00-12.00	174,589,090	-	174,589,090	-	-	-	174,589,090
Due to associated undertakings	-	-	-	-	4,780	-	4,780	4,780
Creditors, accrued and other liabilities	-	-	-	-	80,040,171	-	80,040,171	80,040,171
Proposed dividend	-	-	-	-	12,751,614	-	12,751,614	12,751,614
		<u>181,155,777</u>	<u>45,953,932</u>	<u>227,109,709</u>	<u>92,796,565</u>	<u>-</u>	<u>92,796,565</u>	<u>319,906,274</u>

32.2 Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. As indicated in note 32.1, the company is not materially exposed to interest rate risk as most of the financial instruments are either for a short term period or not exposed to interest rate risk.

32.3 Liquidity risk

Liquidity risk is the risk that an institution will be unable to meet its net funding requirements. To guard against this risk the company's assets are managed with liquidity in mind, maintaining a healthy balance of cash and cash equivalents. The maturity profile is monitored to ensure that adequate liquidity is maintained. The liquidity profile of the company is disclosed in note 32.1.

32.4 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The company is not exposed to credit risk as its customers are reputable local and foreign parties, who normally pay in advance.

32.5 Fair values of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The estimated fair values of all the financial assets and liabilities are not materially different from their book values as at the balance sheet date.

32.6 Foreign exchange risk

Foreign exchange risk arises mainly where receivables and payables exist in foreign currency. The Company exports its products to various countries and is exposed to movement in foreign exchange rates. As at June 30, 2004 the company's foreign exposure is as follows:

	Trade debts	Advances from Customers	Total
	Rupees equivalent		
US Dollar	34,321,244	(582,487)	33,738,757
2003	25,726,249	(798,846)	24,927,403

33. Number of Employees

The total number of permanent employees at the year end were 382 (2003: 391).

34. Date of Authorisation

These accounts were authorised for issue on September 29, 2004 by the Board of Directors of the company.

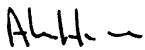
35. Corresponding Figures

Previous year's figures have been rearranged and reclassified wherever necessary for the purposes of comparison and better presentation in accordance with the prevailing requirements. Major changes made during the year were as follows:

Reclassification from		Reclassification to		Rupees
Note	Component	Note	Component	
5	Stock-in-trade		Stores and spares	1,695,234
7	Advances, deposits, prepayments and other receivables	8	Advances – unsecured, considered good	5,260,255
7	Advances, deposits, prepayments and other receivables		Income tax refundable/adjustable	21,335,593
7	Advances, deposits, prepayments and other receivables		Provision for income tax	8,021,329
16	Other liabilities		Sales tax payable	8,657,449
16	Other liabilities (miscellaneous)	17	Accrued liabilities	15,519,100
16	Other liabilities (miscellaneous)	17	Creditors	1,874,358

36. General

Figures in these accounts have been rounded off to the nearest rupee.



Abrar Hasan
Chief Executive



Khawar M. Butt
Director

The Secretary
National Foods Limited
12/CL-6, Claremont Road,
Civil Lines, Karachi-75530
P.O. Box No. 15509

Form of Proxy

33rd Annual General Meeting

I/We _____ of _____ being member(s) of National Foods Limited holding _____ ordinary shares as per Registered Folio No./CDC A/c No. (for members who have shares in CDS) _____ hereby appoint Mr./Mrs./Miss _____ of (full address) _____ or failing him/her Mr./Mrs./Miss _____ of (full address) _____ (being member of the Company) as my/our Proxy to attend, act and vote for me/us and on my/our behalf at the 33rd Annual General Meeting or the Company to be held on Saturday, October 30, 2004 and / or any adjournment thereof.

As witness my/our hand seal this _____ day of _____ 2004.

Signed by _____ in the

presence of (i) _____

(ii) _____

Signature on
Rs. 5/-
Revenue Stamp

(Signature must agree with the specimen signature registered with the Company)

Important:

1. This form of proxy, duly completed and signed, must be deposited at the Company's Registered Office not later than 48 hours before the meeting.
2. This form should be signed by the Member or by his/her attorney duly authorised in writing. If the member is a Corporation, its common seal should be affixed to the instrument.
3. A Member entitled to attend and vote at the meeting may appoint any other Member as his/her proxy to attend and vote on his/her behalf except that a corporation may appoint a person who is a Member.

For CDC Account Holders/Corporate Entities:

In addition to the above following requirements have to be met:

- (i) The Proxy form shall be witnessed by two persons whose names, address and NIC Numbers shall be mentioned on the form.
- (ii) Attested copies of NIC or Passport of the beneficial owners and the proxy shall be furnished with the proxy form.
- (iii) The proxy shall produce his/her original NIC or original Passport at the time of the meeting.
- (iv) In case of corporate entity, the Board of Directors' resolution/power of attorney with specimen signature shall be submitted (unless it has been provided earlier) alongwith proxy form to the Company.



and more...

National Foods Limited, 12/CL-6, Claremont Road, Civil Lines Karachi-75530, Pakistan. www.nfoods.com