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This was long before the phrase 'Corporate Mission' had even been invented. However, our philosophy remains unchanged over time.

Founders' Philosophy

National Foods must focus on customer's needs and serve them with quality products at affordable prices at their doorsteps.

Our products must be pure conforming to international standards.

Our research must produce continuously new adventurous products scientifically tested, hygienically produced in safe and attractive packages.

We must create an environment in our offices and factories where talents are groomed and have opportunity to advance in their careers.

We must prove to be recognized as good corporate citizens, support good causes-charity and bear fair share of taxes.

Reserves must be built, new factories created, sound profit made and fair dividend paid to our stock holders.

Through building a reliable brand, National Foods Limited must get itself recognized as Leader in Pakistan and abroad.

With the help of Almighty God, the Company can achieve its targets in years to come.

Statement expounded in 1972



Core Values

Passion
act with intense positive energy and are not afraid to take risks. challenge ourselves continuously and have pride for what we do.

People-centric
put our people first. Treat them with respect and actively contribute towards their development.

Customer Focus
see the world through the eyes of our customers. We do everything possible that makes them happy.

Partnership
are part of the solution...never the problem. We act like owners and have a positive influence on others.

Teamwork
roles are defined, not our responsibilities. We believe in going the extra mile to accomplish our goals. We coach and support each other ensuring everyone wins. We have a WE versus I mindset.

Integrity
don't run our business at the cost of human or ethical values.

Excellence in Execution
say...we do...we deliver. We talk with our actions. We strive for nothing but the best. Execution is the key to winning!

Accountability
see, we act. We take full responsibility for our actions and results. don't blame others for our mistakes; we analyze them and correct them.

Vision & Mission

To be a
Rs.50 billion
food company by the year **2020**

in the convenience food segment by launching products and services in the domestic and international markets to enhance lifestyle and create value for our customers through management excellence at all levels.



Company Information

Board Of Directors

Mr. A. Majeed
Chairman

Mr. Abrar Hasan
Managing Director / Chief Executive

Mr. Waqar Hasan
Director

Mr. Khawar M. Butt
Director

Mr. Zahid Majeed
Director

Mr. Ebrahim Qasim
Director

Mr. Jawaid Iqbal
Director

Audit Committee

Mr. Waqar Hasan
Chairman

Mr. Khawar M. Butt
Member

Mr. Ebrahim Qasim
Member

Company Secretary

Mr. Muhammad Kashif Iqbal

Chief Financial Officer

Mr. Shakaib Arif

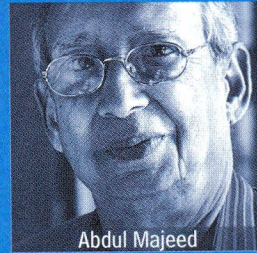
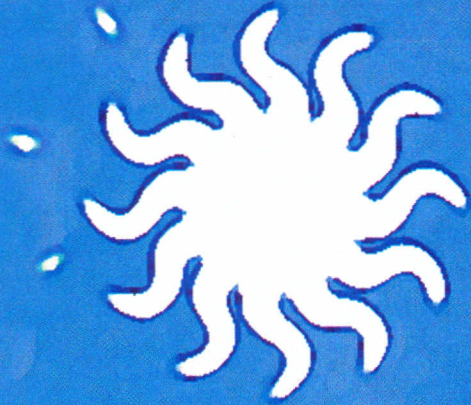
Internal Auditor

Ford Rhodes Sidat Hyder & Co.
Chartered Accountants

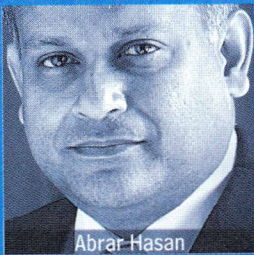
Auditors

A. F. Ferguson & Co.
Chartered Accountants.

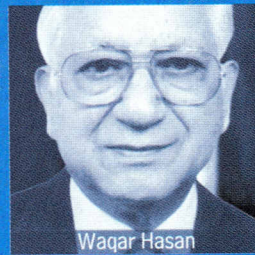
Board of Directors



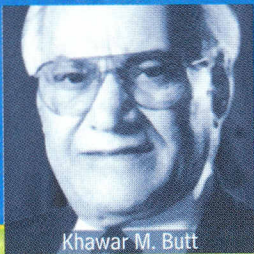
Abdul Majeed



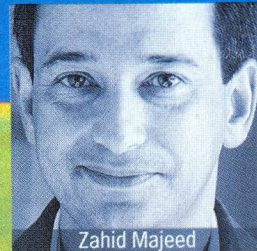
Abrar Hasan



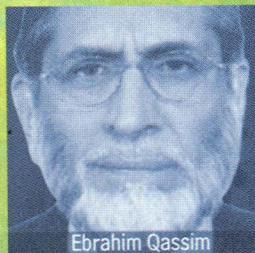
Waqar Hasan



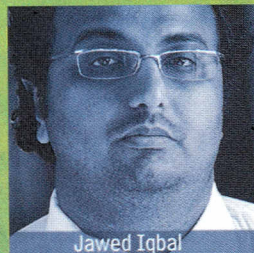
Khawar M. Butt



Zahid Majeed



Ebrahim Qassim



Jawed Iqbal

Company Information

Company Management

Mr. Abrar Hasan
Chief Executive

Mr. Waqas Abrar Khan
General Manager Human Resource

Mr. Syed Ahmed Iqbal
Sales and Marketing Manager - Family Foods Division

Mr. Zaheer Ahmed
Sales and Marketing Manager - Kitchen Foods Division

Mr. M. Azher Ali
Business Unit Manager - PQ Plant

Mr. Saleem Khilji
Business Unit Manager - SITE Plant

Mr. Muhammad Iqbal
Manager Logistics

Mr. Sohail Ahmed
Manager Material Management

Mr. Shakaib Arif
Head of Finance

Dr. Syed Asad Sayeed
Head of Research & Development

Mr. Arif Shaikh
Manager Quality Control

Share Registrar Office

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: nctl@noble-computers.com

Bankers

Bank Al-Habib Limited

I.I. Chundrigar Road Branch, Karachi
S.I.T.E Branch, Karachi; New Garden Town Branch, Lahore

ABN AMRO Bank

Abdullah Haroon Road, Karachi

Muslim Commercial Bank

Clifton Corporate Branch, Karachi
Shaheen Complex Branch, Karachi

Habib Bank Limited

Hub River Road Branch, Karachi

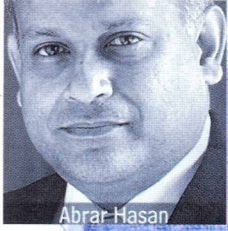
CitiBank Limited

SITE Branch, Karachi

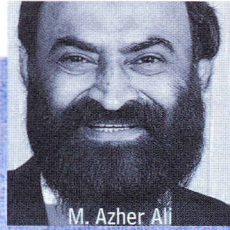
Registered Office

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

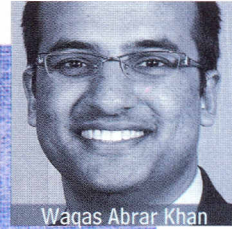
Company Management



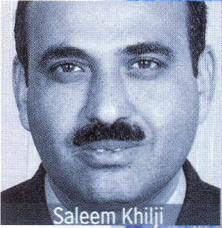
Abrar Hasan



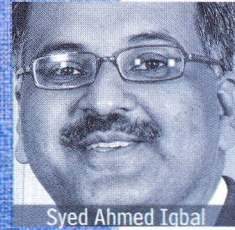
M. Azher Ali



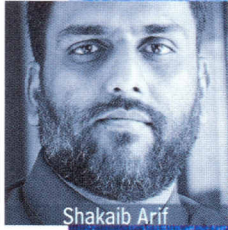
Waqas Abrar Khan



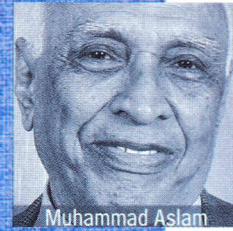
Saleem Khilji



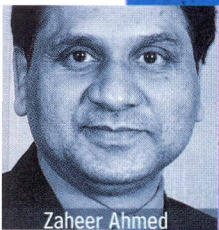
Syed Ahmed Iqbal



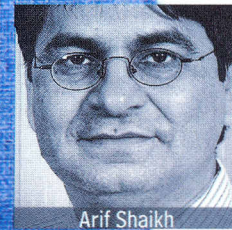
Shakaib Arif



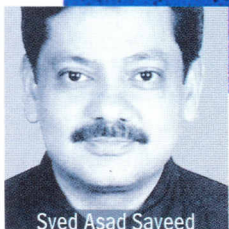
Muhammad Aslam



Zaheer Ahmed



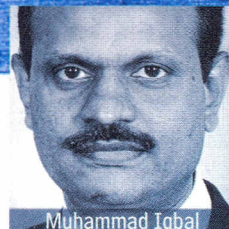
Arif Shaikh



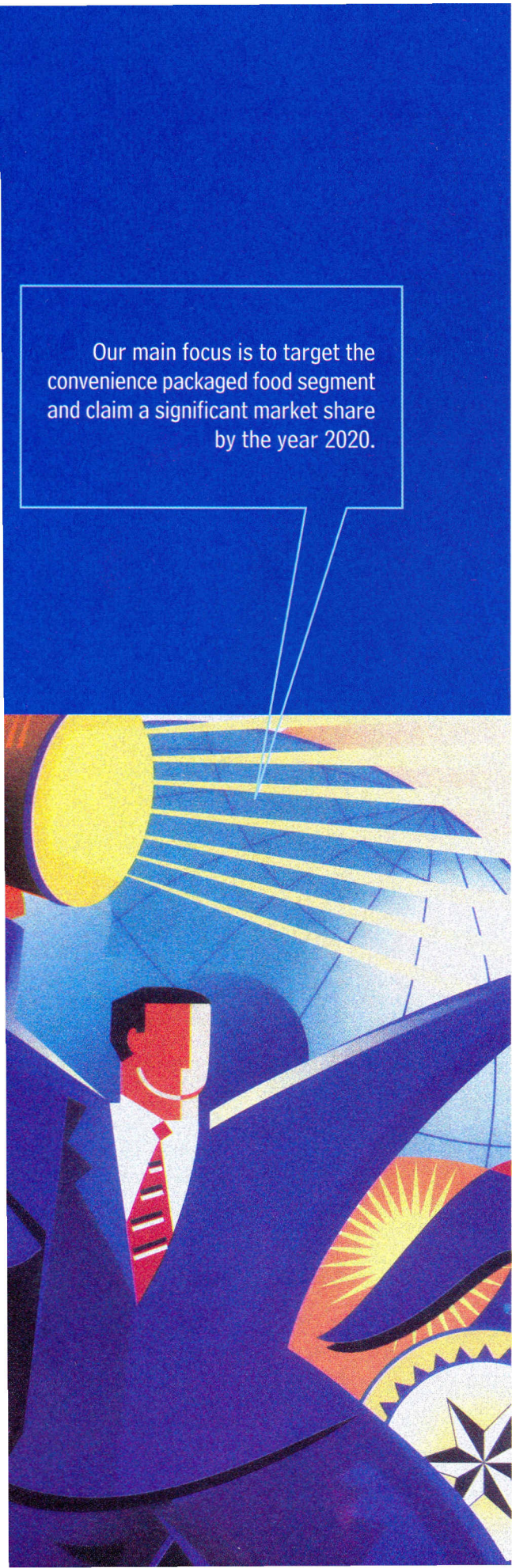
Syed Asad Sayeed



Sohail Ahmed



Muhammad Iqbal



Our main focus is to target the convenience packaged food segment and claim a significant market share by the year 2020.

Chief Executive's Outlook

National Foods has performed well this year, reflected in the top and bottom line growths. Good results have mainly been possible through restructuring the company's product mix portfolio and optimization of operations across the board. This was made possible through operational efficiencies that were achieved by investing in various R&D projects and technological improvements.

The first phase of the Port Qasim project is now operational and is going through a series of trial productions at the moment.

This report also puts forth our new direction for National Foods Limited in the form of a brand new 'VISION 20/20'. Our main focus is to target the convenience-packaged food segment and claim a significant market share by the year 2020.

Last year, we as a nation were faced by a major catastrophe in the form of an earthquake that shook the very foundations of the livelihood of a large population in northern Pakistan. Millions of people lost their lives, families and homes.

National Foods stood firm in its commitment to the social cause and appeared in the forefront of providing help whether it be financial assistance, food or shelter through the help of various relief organizations operating in the country.

Our commitment to the social development of Pakistan in terms of promoting education and literacy in the country also continues unabated.

This year the company also participated in World Nutrition Month and held various seminars in schools and colleges promoting nutrition among the younger generation.

The outlook of the company remains positive; however the rampant increase in inflation remains a cause for concern towards the purchasing power of our consumers and control of operational costs.

Abrar Hasan
Managing Director / Chief Executive

Mr. Abrar Hasan
Managing Director / Chief Executive



Land Marks of a Glorious Past

National Foods began its journey in 1970 as a Spice company, with a revolutionary product that popularized the concept of having clean, healthy food. National foods' initiatives were, to make food that is hygienic, reduce time spent in the kitchen by women, foster health and contribute towards personal attractiveness, so that people who use our products would be able to experience a more rewarding life-style.

The Idea

Till 1970, the spice industry although flourishing locally was not structured, and spices were basically unbranded, loosely sold. It all started with the idea of introducing branded, packaged spices: a revolution in the Pakistani food market. Red chili, turmeric and other spices were introduced in a clean, attractively packed form to the consumers, and despite the predominance of loose spices, people quickly converted to National Foods.

Even if the notion of only women doing the housework – have become outdated, in this age of rapidly changing lifestyles, fuelled by the rampant development of technology; consumers are compelled to alter their eating habits. National Foods responds to this challenge of developing innovative food products based on convenience and quick preparation in line with modern lifestyles and yet retains traditional values through its diverse collection of food products.

First Decade

The Company began its life in a rented warehouse in Dinar Chambers with initial sales of only Rs. 16,487 in its first year. Our origins were humble but our vision and aims were always high, witnessed by the purchase of a new spice mill and packaging plant in 1978 as a step towards being a progressive company.

Second Decade

In 1981, the company launched its Salt products which proved to be a lucrative venture for the company.

In 1986, the new factory complex was constructed, where most of our manufacturing facilities still reside.

In 1988, National Foods became the certified vendor of McCormick, USA, as part of their Supplier Certification Program. The certification was awarded on the basis of excellent production and quality credentials. In the same year, National Foods, became a public listed company on the Stock Exchange.

Third Decade

From the beginning, National Foods had a clear vision to be a 'complete food' company. We realized that in order to accomplish this, we need to make constant value additions.

Guided by our founding principles of quality and purity (which remain intact), we enjoyed great success in our pioneering venture, which allowed us to steadily expand into other categories.

In 1991, we diversified our products portfolio with the launch of the Pickle range.

In 1992, as an effort towards contribution for social welfare and responsibility, National Foods joined hands with UNICEF, in order to propagate the use of iodized salt, to fight diseases like goiters.

In 1997, we added two more categories to our range of products, i.e. Ketchups and Jams.

In 1998, National Foods became an ISO Certified Company, that helped us in our pursuit of excellence.

New Millenium

In 2000, mainstream products were launched in Australia to offer ethnic food to non-Asian consumers.

In 2005, the Company was assigned a credit rating of A+ by JCR-VIS.

In 2006 new recipe brand by the name RONAQ launched across the country.

Challenging Future Ahead

It has been 36 years since National Foods was formed. Today, it is well established, in fact a household name. National Foods still believes that success means acting with 'the highest standards of corporate behavior towards our employees, consumers and the societies and world in which we live'. Our products are sold not only in domestic markets, but also in far-flung corners of the globe. Despite these successes, National Foods has not reached the end of its growth path. There are still many horizons to conquer, and National Foods will continue to progress, continuously offering quality to our customers. The company's focal point still remains on customer's needs through product development in line with the changing market trends.

Kitchen Foods Division

The face of the market for the spices and receipies categories is changing fast. There is an immense untapped potential in terms of coverage, product offerings, packaging and meal solutions which we are striving to cover.

A crucial step linked with this strategy was the launch of RONAQ. The purpose was to cater to a special segment of consumers who prefer to dine out and seek the distinct 'restaurant' taste. Initially we introduced six new variants and after witnessing their phenomenal success, our R&D team developed three more irresistible additions that were launched recently.

The Eid-ul-Azha campaign on sachets has greatly facilitated the growth in household penetration, as it has been widely accepted by the consumers.



The future of our recipe category holds many surprises and investment opportunities. We have faith in our brands to be the leading contributors to National Foods' 20/20 Vision.

Family Foods Division

In Pakistan, the number of modern trade outlets, also called key accounts, are increasing in number and have a great influence on consumer lifestyle. In 2005-06, we started focusing on these



self service super stores by establishing dedicated field force, giving special POS, and launching store specific consumer promotions.

National Foods has planned to revamp its ketchup category with the launch of an innovative upside-down squeezable bottle with sub brand name 'Squeezy' and a major re-launch of its entire range. We proudly assert that we're the first amongst all Pakistani companies to come up with an upside-down squeezable bottle in the Ketchup category.

A new SKU for pickles, the 200g pouch was launched this year with the objective of providing a hygienic, economical and convenient option to the consumers who have limited needs and so opt for unbranded pickle. This was also aimed at increasing the over all household penetration of the brand and ultimately increasing the market share.



Global Market Development

Our early research revealed that globally and specially in Gulf countries there has been a phenomenal increase in the mass grocery retail sector which includes mainly Hyper Markets, Super Markets and Convenience Stores. The retail sector is set to flourish over the next five years due to investment from major operators and due to increasing demand from modern retail experience within these countries. Accordingly, the Company is in the process of getting listed with almost all the leading players of this sector.

National Foods management has a clear vision for the International market development. In the first stage of this planning we have successfully appointed strong distribution partners in the Gulf region; Dubai, Kuwait and Saudi Arabia.

Besides strengthening the existing markets, we strive to develop new but emerging markets to grow business at a faster pace. Exhibitions have proved to be most effective and economical tool for this very purpose. Like every year NFL successfully participated in the following exhibitions:

- ANUGA 2005, Germany
- AAHAR 2006, India
- IFE 2005, India
- FHC 2006, China
- IITF 2006, India

The existing markets are to be supported with continuous product innovation so that the appropriate category growth is achieved. Last year we have added more than 20 products to our range through new product launches. The new continental recipes include Vegetarian, BBQ, Curry, Fish and Biryani ranges.

Human Resource

National Foods is driven towards gearing itself for the challenges of tomorrow. We took a lot of initiatives in the previous year which resulted in the positive bottom line growth. While these initiatives were responsible for a turnaround in profitability last year, we recognize that in order to continue, we need a disciplined and focused approach to run our business. An approach that focuses on results as well as mindset. We are instilling those systems and executing those strategies that will make success an on-going process.

Redefining Vision and Core Values

As a first step we defined Vision 2020. A statement... a philosophy which will act as our guiding light until the year 2020. We also redefined our core values as a team. These values are behaviors that will be modeled by each individual of our team. They will be an integral part of our screening as well as performance management process because we feel that unless the words are put into action nothing tangible can be derived out of them.



We are developing a mechanism to ensure that our vision and values are cascaded down to every individual of our organization. We plan on creating an organizational culture that truly sizzles and is uniquely National Foods.

Having tackled the soft side of business, we have set very clear goals and KPIs (key performance indicators) for our Team. They will integrate into a Balanced Scorecard which will measure our key business drivers and generate a tremendous focus towards being a results-driven organization.

People Excellence is critical to realize sustainable Financial and Customer Excellence. Hence, our key focus this year is in developing leaders, teamwork and achieving organizational synergy.

Our philosophy is very simple; "What gets measured gets done... what gets rewarded gets repeated!"

NFL @ Play:

National Foods also organized exhilarating series of matches of the First KISKA KUP? Cricket Tournament featuring, teams from all work units.

KISKA KUP? was planned and organized by the management of National Foods in the spirit of camaraderie, bringing together all the employees and their families from various domains, on one common platform.



Field Coaching Workshops:

National Food believes in continuous professional grooming of their employees, therefore a series of workshops are conducted at all levels.

The Heads of Sales & Marketing Department arranged the Field Coaching workshop. This workshop aimed at helping Senior Sales Managers understand the coaching process, its significance in improving performance and how to be an effective coach.



Social Responsibility and Community Welfare

National Foods has been a major contributor in the cause of social welfare by supporting numerous institutions and events that encourage the underprivileged in becoming better members of the society.

Certificate Distribution Ceremony @ Bhittaiabad:

In collaboration with the Citizen Foundation and Literate Pakistan Foundation, National Foods expanding on its commitment to give back to the community brought the light of education to Bhittaiabad with the ever-expanding Adult Literacy Program, a program which was started with the aim to eradicate illiteracy from the nation once and for all. To celebrate this achievement National Foods organized a Certificate Distribution Ceremony of Adult Literacy Program at Bhittaiabad held in December 2005.



Adult Literacy Project @ Cattle Colony:

National Foods has recently launched the second project of Adult Literacy Programme (ALP) in Cattle Colony, Karachi as part of its continuous commitment to increase the literacy rate in adults of Pakistan.



Academic Excellence Awards:

National Foods endeavors to educate people for the eradication of illiteracy and dutifully encourages students by offering them scholarships and awarding them gold medals on their achievements. This year also National Foods gave scholarships and gold medals to many students.



Turning Strides into Schools:

National Foods Limited participated in the annual walk 'ILMATHON' in March 2006, held to create awareness and raise funds for providing quality education to the less privileged in the katchi abadis & rural areas all over Pakistan.

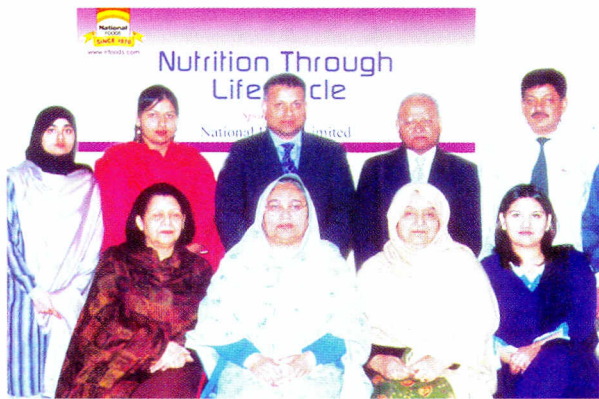


Corporate Events Health and Nutrition

National Foods' aim is to provide the highest possible quality of products to its customers to help them in their quest for a healthy and productive life. National Foods has taken this one step further by supporting various health and nutrition programs in various colleges around Pakistan.

Nutrition Month March-April 2006:

National Foods Limited as a leading spice and food company not only cares for its consumers health through its products but also strives to promote a healthy life style for our people. The month of March is celebrated as Nutrition Month Worldwide. National Foods Limited conducted various seminars on "Nutrition through Life Cycle" all over the country.



Focusing New Generation

Expo Junior April 2006:

For the first time an exhibition for children was held with the name 'Expo Junior'. National Foods participated in this exhibition from the platform of its renowned Funkids Club. It offered and promoted the core essence of National Jams, which is health, nutrition and fun, by engaging the younger lot in exciting, nutritious and health based activities.



College Programme:

National Foods conducts cooking demonstrations throughout the year at various educational institutes that includes school, colleges & universities all over the country. Not only demonstrations but competitions are also conducted where participants are awarded and given prizes for their efforts and talent.



Romancing the RIVALS!

The Food, Drink and Hospitality Industry Exhibition was held in Delhi in August 2005. This exhibition had a targeted audience from mainly the Food and Drink Industry from hotels, restaurants and other leading food chains in India. Chairman/Owner of MDH Masala, Mr. Mahashay Dharampalji visited the National Foods stall. He appreciated NFL's product categories specially the Recipe mixes, which are MDH's core business.



All About Eve

Meethi Eid Meetha Muqabla Oct-Nov 2005:

On the occasion of Eid-ul-Fitr, National Foods offered its consumers a chance to win some fabulous prizes. All consumers had to send in an innovative and unique recipe to win prizes such as refrigerators, microwaves, vacuum cleaners, televisions & sandwich makers. Large number of entries was received from all over Pakistan.



Cooking Competition:

National Foods conducts cooking competitions on a regular basis to give women an outlet for expressing their talent and culinary skills and rewarding them for the most creative ones. This year also a number of programs were held for the same purpose.



Recipe Contest in Food Magazines Aug 2005:

National Foods announces recipe contest in food magazines where the winners are awarded with great prizes. This year also prizes including microwave ovens were presented to the winners of the recipe contest announced in Kitchen Magazine.



Cooking Classes:

Continuing with teaching women to cook delicious meals for their families, National Foods conducted cooking classes at different locations including Technical training centers, schools, colleges, hotels, clubs and other places.



Participation in Meena Bazar:

National Foods participates in different exhibitions throughout the country. This year National Foods participated in the Meena Bazar organized by the Government Girls Degree College Sukkur where the city Nazim appreciated National Foods products and efforts of the team to promote its products.



Directors' Report to the Shareholders

We take great pleasure in presenting before you the Annual Report along with the audited financial statements and management accomplishments for the year ended June 30, 2006.

Key Financials

A brief financial analysis is presented as follows:

	2006	2005
	(Rupees in thousand)	
Sales	1,847,700	1,533,879
Gross profit	571,263	397,152
Profit from operations	131,321	58,277
Profit before tax	106,471	42,271
Profit after tax	70,364	30,653
Earning Per Share	16.55	7.21

Business Overview

Recent financial years were the years of change and investment in the business. The priority was to restore competitiveness and to grow our top line with significant improvement in the bottom line as well. We made good progress on both, stabilising our market shares and improving growth through the years. We have refocused and simplified the organisation, and increased investment behind our growth priorities. NFL performance was remarkable and impressive, despite the economic complications caused by high oil prices, growing global and regional competition both for investment and trade and the fiscal consequences of the earthquake that rocked north-Pakistan on October 8, 2005.

Good results have mainly been possible through restructuring the company's product mix portfolio and optimization of operations across the board. This has been possible through operational efficiencies which have been achieved by investing in various R&D projects and technological improvements. We have invested in automation of production processes. Our cost saving programmes are delivering well and have been successful in containing the impact of increasing input costs. The manner in which we ended the year 2006 gives us confidence as we enter in the year 2007.

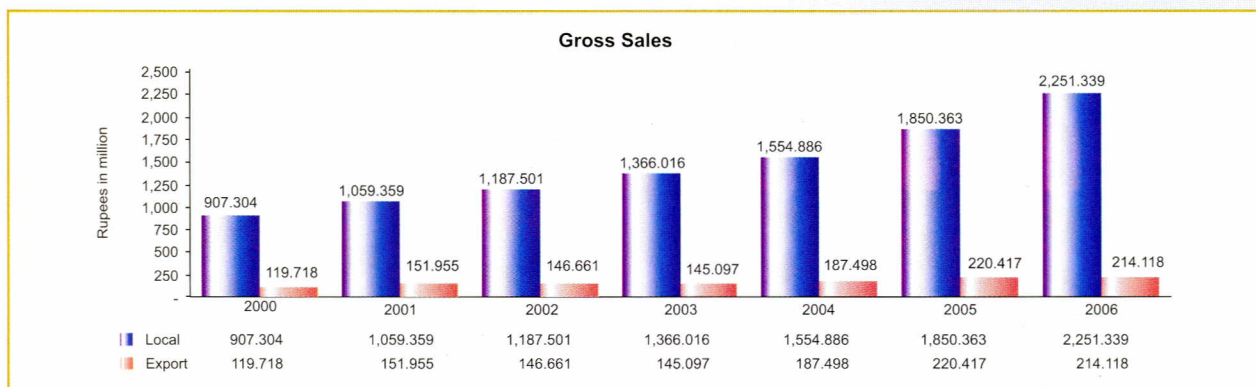
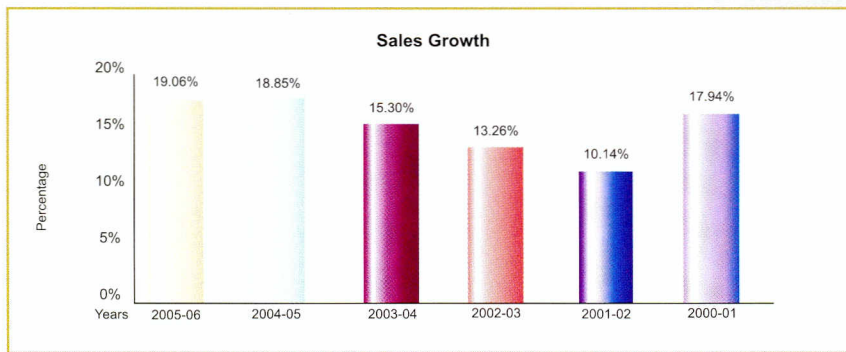
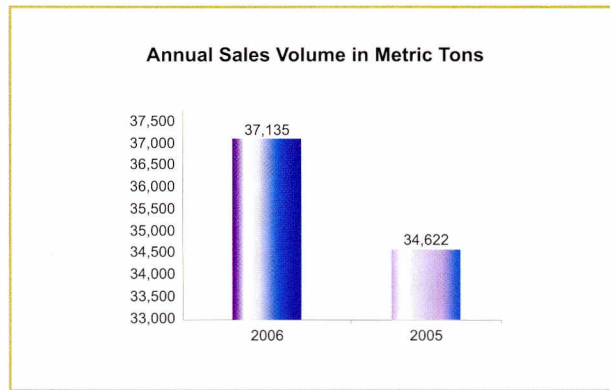
Financial Performance

The financial performance of the company has shown a significant improvement specially in the gross and net margins. A detail analysis of the key financial figures is as under:

	Jul 2005 to June 2006	Jul 2004 to June 2005	Growth	% of Net Sales		Variance (+ / -)
				2006	2005	
Top Line Growth						
Corporate sales						
Gross Sales	2,465,457	2,070,780	19.06%			
Net Sales	1,847,700	1,533,879	20.46%			
Local Sales						
Gross sales	2,251,339	1,850,363	21.67%			
Net sales	1,634,154	1,316,345	24.14%			
Export sales						
Gross sales	214,118	220,417	(2.86%)			
Net sales	213,546	217,534	(1.83%)			
Gross Profit	571,263	397,152	43.84%	30.92%	25.89%	5.03%
Bottom Line Growth						
Profit from operations	131,321	58,277	125.34%	7.11%	3.80%	3.31%
Other operating income	6,681	4,498	48.53%	0.36%	0.29%	0.07%
Pre-tax profit	106,471	42,271	151.88%	5.76%	2.76%	3.00%
Net profit	70,364	30,653	129.55%	3.81%	2.00%	1.81%
Expense Control						
Distribution Cost	364,758	288,289	26.53%	19.74%	18.79%	0.95%
Administrative Expenses	73,112	51,842	41.03%	3.96%	3.38%	0.58%
Other Operating Expenses	8,753	3,242	169.99%	0.47%	0.21%	0.26%
Financial Expenses	24,850	16,006	55.25%	1.34%	1.04%	0.30%

Top Line Performance

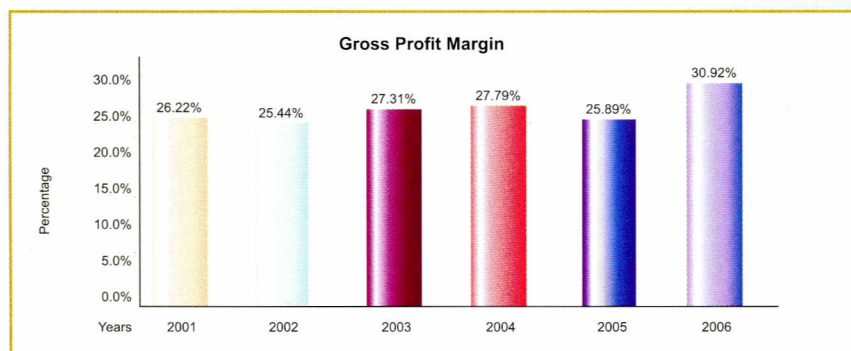
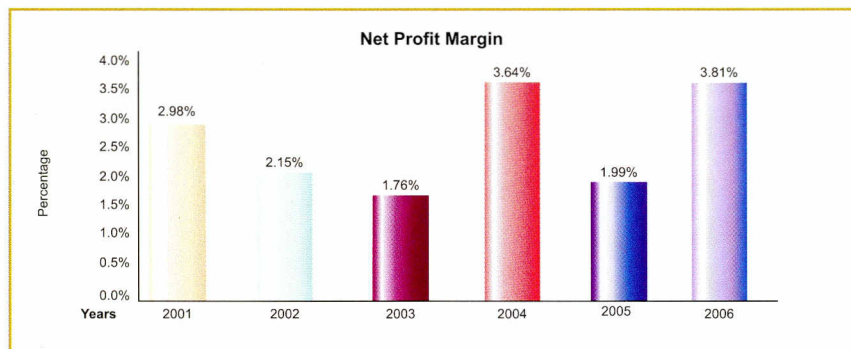
Approaching to an overall turnover landmark of 2.5 billion, the Company, in the financial year 2005-06, registered a satisfactory volume growth of around 13.1% whereas a significant growth of around 19% is gained in terms of value. More importantly, the Company has continued to register double digit growth as it did for the last many years.



Despite distributional problems through out the year in Middle East and Gulf region, which is one of the greater markets for our products, our international division has achieved the same level of sales as of last year. After continuous efforts in the evaluation process for having effective and efficient distributional arrangements, the Company successfully able to finalize certain arrangements in the region and hopefully the related benefits will be accounted for in the years to come.

Margin Analysis

The growth in the top line has efficiently and effectively transformed into improved profits both at GP as well PBT levels.



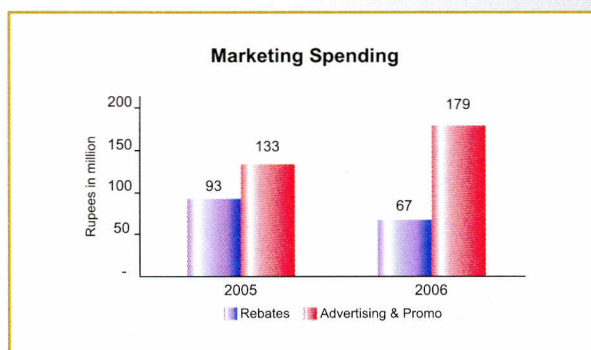
The key drivers to this are product price rationalization, focused growth in high margin products, discontinuance of low margin products and SKUs and rationalization in distribution cost. Availability of quality crop of red chili and some other basic raw materials also played their part in all time best profits for the Company.

The Company has also incurred a significant amount in legal and professional charges in order to strengthen its internal controls and to safeguard its rights in the best possible manner.

Brand Promotion Spending

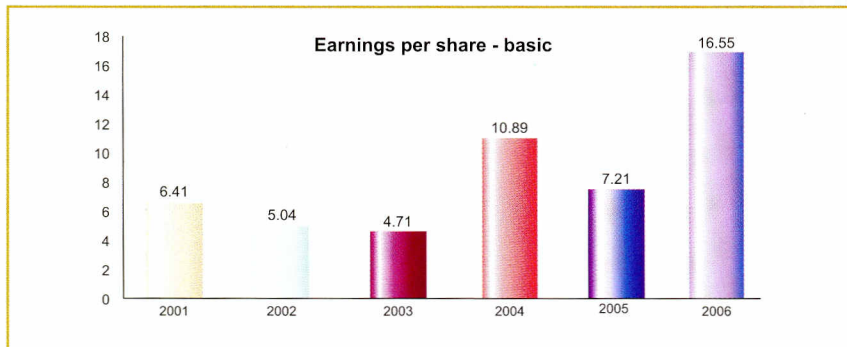
The composition of marketing spending has objectively been changed with increased emphasis on brand building and customer demand pull strategy. Accordingly, company's total marketing and promotional spending increased from Rs. 133.2 million in 2004-05 to Rs. 179.3 million in 2005-06, an increase of 34.6%. On the contrary, the trade offers and rebates came down from 92.7 million in 2004-05 to 67.2 million in the year 2005-06.

The Company has also divisionalized its sales and marketing functions in order to bring focus in our trade and marketing campaigns and for better service to our customers at all levels. Similarly, the Company has also identified potential geographical areas and accordingly strengthens the sales force, wherever needed.



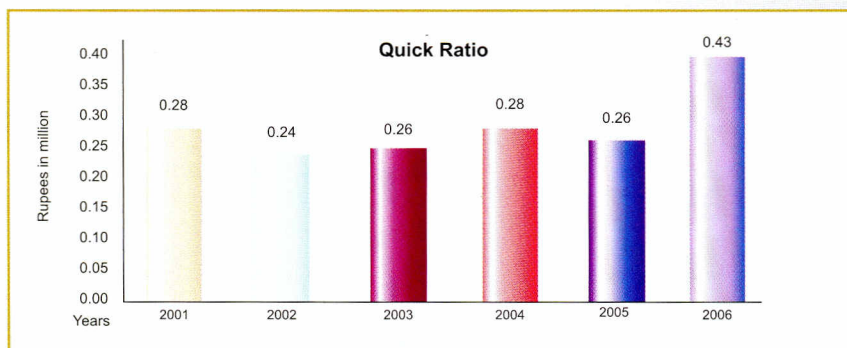
Earnings per share

It is worth noting that this year we have been able to achieve highest ever earnings per share of Rs.16.55 per share in the history of National Foods.



Cash Flows

As the profits of the Company improved a lot the cash generation from the operating activities is even better with a cash generation of more than Rs.221.6 million as against a cash deficit of Rs.8 million in the comparable period. This also have its positive impact on liquidity ratios.



Dividend

Your directors have recommended final cash dividend of Rs. 2.00 (2005: Rs.1.50) per share of Rs.10 each for the approval by the shareholders.

Credit Rating

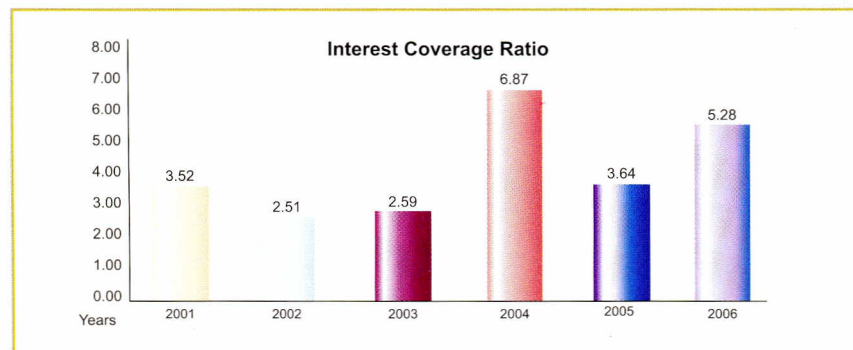
JCR-VIS has maintained the medium to long-term and short-term entity ratings of A+ (Single A Plus) and A-2 (A Two) respectively.

Investment Projects – Port Qasim

This year the total capital expenditure, including investments in Port Qasim Project is the highest recorded in the history of the Company. These investments are part of the long-term infrastructure development plan required to support Company's future growth. Port Qasim project is designed to bring innovation in processing food products and material movement with state of the art technology.

The Port Qasim project cost is mainly financed by term loan of Rs.200 million which has already been disbursed as per the agreed schedule. Out of the total project cost of Rs.265 million, a substantial part has already been incurred and as a matter of fact the first phase of the project is already completed and at present in testing phase.

On completion of the Port Qasim project we expect not only to achieve savings in production cost but also to reduce extra operational cost incurred due to the existing set up of operations being handled at multiple locations. Though the leverage for the bank financing is decreased, the interest coverage ratio, on the contrary, has been improved through bottom line improvement.



Future Outlook

The outlook of the company remains positive; however the rampant increase in inflation remains a cause for concern towards the purchase power of our consumers and control of operational costs. The economy is set to grow at around 7% in 2007. Growth prospects for Pakistan are fairly promising. In agriculture, it is worth mentioning that disruptions in crops are inevitable given the uncertain weather conditions as well as low yields. We have taken all such economic facets into account while formulating budgets and forecasts for 2007. Despite all these things we have a clear focus on our consumer and commercial client needs with no compromise on our product quality.

For next year our priorities are to sustain our top-line growth and to increase further the profitability growth. We expect a sustained flow of saving from our current operational plans and supply chain management. We will continue to invest on the brand and are confident to achieve our goals stated in the vision 2020 even before the year 2020.

Contribution to National Exchequer

NFL is one of the largest tax payers in Pakistan. During the year the company paid over Rs.300 million (26% increase over last year) to the government and its various agencies on account of various government levies including custom duty, sales tax and income tax. Moreover, foreign exchange of Rs.200 million was also generated through export of products, further reflecting our participation in the national economy.

Compliance with Code of Corporate Governance

The stock exchange have included in their listing rules the Code of Corporate Governance (Code) issued by Securities & Exchange Commission of Pakistan. The Company has adopted the Code and is implementing the same in letter and spirit.

Audit Committee

The Board has constituted an Audit Committee consisting of three members 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.

Pattern of shareholding

The pattern of shareholding of the company is annexed.

Apart from following transactions, the Chief Executive, Directors, Chief Financial Officer, Company Secretary and their spouses and minor children did not carry out any transaction in the shares of the Company during the year:

S. No.	Name	Shares gifted
1.	Mr. Waqar Hasan	22,981
2.	Mrs. Jamila Waqar w/o Mr. Waqar Hasan	22,980

All statutory returns in this connection were filled.

External Auditors

The present auditors Messrs. A. F. Ferguson & Co., Chartered Accountants, retire and being eligible, offer themselves for re-appointment. The Board of Directors on the recommendation of the Audit Committee, proposes the appointment of Messrs. A. F. Ferguson & Co., Chartered Accountants as the auditor until the next Annual General Meeting.

Internal Auditors

On the recommendation of the Audit Committee, the Board of Directors in its meeting held on September 1, 2005, has outsourced the internal audit function to Messrs. Ford Rhodes Sidat Hyder & Co., Chartered Accountants.

Corporate and financial reporting framework

- The financial statements, present fairly the state of affairs of the Company, the results of its operations, cash flows and changes in equity.
- Proper books of account 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 and prudent judgment.
- International Accounting Standards have been followed in preparation of financial statements and any departure there from has been adequately disclosed.
- 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 outstanding duties, statutory charges and taxes, if any, have been duly disclosed in the financial statements.
- A statement regarding key financial data for the last six years is annexed to this report.
- The value of investments of Provident Fund based on respective audited accounts was Rs.25,000,000/-
- During the last business year four meetings of the Board of Directors were held. Attendance by each Director was as follows:

Name of Director	No. of meetings attended
1. Mr. Abdul Majeed	3
2. Mr. Abrar Hasan	4
3. Mr. Waqar Hasan	3
4. Mr. Khawar M. Butt	3
5. Mr. Zahid Majeed	2
6. Mr. Ebrahim Qasim	3
7. Mr. Jawaid Iqbal	1

Leave of absences was granted to Directors who could not attend the Board Meeting.

On behalf of the Board of Directors



Abrar Hasan
Chief Executive

Karachi: September 7, 2006

Annexure

Combined pattern of CDC & physical share holdings as at June 30, 2006

Category No.	Category of shareholders	Number of shares held	Category-Wise No. of Folios/CDC Accounts	Category-wise shares held	Percentage %
1	Individuals		1,141	780,632	18.37%
2	Investment Companies		-	-	-
3	Joint Stock Companies		6	3,14	0.07%
4	Directors, Chief Executive Officer and their spouses and minor children Mr. Abdul Majeed Mr. Waqar Hasan Mr. Khawar M. Butt Mrs. Jamila Waqar Mr. Abrar Hasan Mr. Zahid Majeed Mr. Ebrahim Qassim Mr. Jawaid Iqbal Mrs. M.E.Majeed Mrs. Kulsum Banoo	324,872 181,029 465,983 99,342 139,210 85,379 72,352 635,739 16,787 30,647	15	2,051,340	48.26%
5	Executives		2	385	0.01
6	NIT/ICP		-	-	-
7	Associated companies, undertakings and related parties Associated Textile Consultants (Pvt.) Limited	1,409,548	1	1,409,548	33.16
8	Public Sector Companies and Corporations		-	-	-
9	Banks, DFIs, NBFIs, Insurance Companies, Modarabas & Mutual Funds		1	238	0.01
10	Foreign Investors		-	-	-
11	Co-operative Societies		-	-	-
12	Charitable Trusts		1	3,861	0.09
13	Others		2	1,400	0.03
	Totals		1,170	4,250,538	100.00

Share-holders holding ten percent 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 425,053 Shares

Name(s) of shareholder(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.) Limited	Falls in Category # 7	1,409,548	33.16%
	Totals	2,511,270	59.08%

Annexure

Number of Share Holders	Share Holding		Total Share Held
	From	To	
762	1	100	22,691
249	101	500	58,311
48	501	1,000	36,731
80	1,001	5,000	176,499
5	5,001	10,000	39,673
2	10,001	15,000	27,678
2	15,001	20,000	33,087
2	20,001	25,000	50,000
5	25,001	30,000	137,167
1	30,001	35,000	31,861
1	35,001	40,000	37,014
1	45,001	50,000	50,000
1	60,001	65,000	63,500
3	70,001	75,000	216,985
1	85,001	90,000	85,379
1	95,001	100,000	99,342
1	135,001	140,000	139,210
1	180,001	185,000	181,029
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

Operating and Financial Highlights

	2001	2002	2003	2004	2005	2006
BALANCE SHEET						
Share Capital	42,505	42,505	42,505	42,505	42,505	42,505
Reserves	75,349	84,011	93,398	126,945	140,596	204,584
Shareholder's Equity	117,854	126,516	135,903	169,450	183,101	247,089
Long Term Obligations	13,811	8,697	54,713	33,500	90,139	206,161
Current Liabilities & Provisions	188,488	231,223	286,275	361,817	435,491	514,710
Total	320,153	366,436	476,891	564,767	708,731	967,960
Fixed Assets & CWIP	109,210	138,996	187,564	182,936	230,865	369,938
Long Term Security Deposit	1,592	1,693	1,959	1,941	2,139	2,504
Current Assets	209,351	225,747	287,368	379,890	475,727	595,518
Total	320,153	366,436	476,891	564,767	708,731	967,960
PROFIT & LOSS STATEMENT						
Sales	915,136	994,637	1,135,642	1,273,032	1,533,879	1,847,700
Cost of Sales	675,226	741,555	825,454	919,282	1,136,727	1,276,437
Gross Profit	239,910	253,082	310,188	353,750	397,152	571,263
Administration, Selling & Other Operating expenses	192,232	213,491	266,168	275,714	343,373	446,623
Financial Charges	14,149	16,518	18,843	11,640	16,006	24,850
Other Income	2,157	1,854	4,850	1,958	4,498	6,681
Profit before Tax	35,686	24,927	30,027	68,354	42,271	106,471
Taxation	8,459	3,514	10,014	22,055	11,618	36,107
Profit after Taxation	27,227	21,413	20,013	46,299	30,653	70,364

Key Financial Ratios

	2001	2002	2003	2004	2005	2006
Performance Measures						
Return on Shareholder's Equity	23.10%	16.93%	14.73%	27.32%	16.74%	28.48%
Operating Return on assets	15.91%	11.85%	11.59%	15.36%	9.15%	15.66%
Profitability Measures						
Gross Profit Margin	26.22%	25.44%	27.31%	27.79%	25.89%	30.92%
Profit Margin	2.98%	2.15%	1.76%	3.64%	1.99%	3.81%
Earnings per shares	6.41	5.04	4.71	10.89	7.21	16.55
Investment Utilization						
Assets Turnover (Times)	2.93	2.90	2.69	2.44	2.41	2.20
Receivables (Days)	11.31	14.34	14.81	14.49	15.47	17.56
Inventory Turnover (Days)	88.98	76.84	81.29	95.53	101.23	103.50
Receivables Turnover (Times)	32.26	25.45	24.64	25.19	23.59	20.78
Inventory Turnover (Times)	4.10	4.75	4.49	3.82	3.61	3.53
Financial Condition						
Current Ratio	1.11	0.98	1.00	1.05	1.09	1.16
Acid - test Ratio	0.28	0.24	0.26	0.28	0.26	0.43
Debt / Equity Ratio	6.25%	2.07%	33.81%	12.39%	42.78%	83.44%
Interest Cover	3.52	2.51	2.59	6.87	3.64	5.28
Book Value per share	27.73	29.76	31.97	39.87	43.08	58.12

Notice of Meeting

Notice is hereby given that the 35th 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 Tuesday, October 31, 2006 at 4:30 p.m., to transact the following business:

Ordinary Business:

1. To confirm the minutes of the 34th annual general meeting held on October 27, 2005.
2. To receive, consider and approve the audited accounts for the year ended June 30, 2006.
3. To approve final dividend on the ordinary shares of the company.

The directors have recommended a final cash dividend of Rs.2 per share of Rs.10.

4. To elect Directors for a period of 3 years. The Board of Directors has fixed number of Directors to be elected as 7. Following are the retiring directors who are also eligible to offer themselves for re-election:

- a. Mr. A. Majeed
- b. Mr. Abrar Hasan
- c. Mr. Waqar Hasan
- d. Mr. Zahid Majeed
- e. Mr. Khawar M. Butt
- f. Mr. Ebrahim Qassim
- g. Mr. Jawaid Iqbal

5. To appoint auditors for the year 2006-2007 and to fix their remuneration.

By order of the Board of Directors

Muhammad Kashif Iqbal
Company Secretary

Karachi, October 6, 2006

Statement under section 160(1) (c) of the Companies Ordinance, 1984

This statement sets out the material facts pertaining to the special business to be transacted at the Annual General Meeting of the Company to be held on October 31, 2006.

Item No. 4 of the Notice

Term of office of the present Directors of the Company will expire on October 30, 2006. The Board of Directors of the Company will be re-constituted for a fresh term of three years by electing seven directors.

The Directors are interested to the extent that they are eligible for re-election as Directors of the Company.

Compliance with relevant provisions of 'Code of Corporate Governance'

Any person, who seeks to contest an election to the office of Director, shall whether he is a retiring Director or otherwise file with the Company at its registered not later than fourteen days before the date of the meeting, a notice of his intention to offer himself for election as a Director. The consent should accompany the following declarations as required under the 'Code of Corporate Governance'.

1. I am aware of my duties and powers under the relevant laws and the company's Memorandum and Articles of Association and the listing regulations of Stock Exchanges in Pakistan.
2. I am not serving as a director of ten other listed companies.
3. My name is borne on the register of National Tax Payers and my National Tax Number is _____ / I am non-resident.
4. I have not been convicted by a court of competent jurisdiction as a defaulter in payment of any loan to a banking company, a Development Financial Institution or Non-Banking Financial Institution.
5. I am not a member of any Stock Exchange or if I am a member of any Stock Exchange, I have not been declared as a defaulter by such Stock Exchange.
6. I and/or my spouse are not engaged in the business of stock brokerage.

Notes:

1. The share transfer books of the Company will remain closed from October 22, 2006 to October 31, 2006 (both days inclusive).
2. All members are entitled to attend and vote at the meeting. A member may appoint a proxy to attend, speak and vote for him/her. A proxy must be a member of the Company.
3. 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.
4. Any change of address of Members should be notified immediately to the Company's Share Registrar, Noble Computer Services (Pvt.) Ltd., 2nd Floor, Sohni Center, BS 5 & 6, Karimabad, Block 4, Federal B. Area, Karachi.
5. A member who has deposited his/her shares into Central Depository Company of Pakistan Limited,
 - a. case of individuals, must bring his/her participant's ID number and account/sub-account number alongwith original Computerised National Identity Card or original Passport at the time of attending the meeting.
 - b. in case of corporate entity, the Board of Directors' resolution / power of attorney with specimen signature of the nominee shall be produced (unless it has been provided earlier) at the time of the meeting.
6. 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.

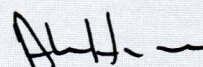
Statement of compliance with the code of corporate governance

For the year ended June 30, 2006

This statement is being presented to comply with the Code of Corporate Governance contained in Regulation No. 37 of listing regulations of Karachi Stock Exchange, Regulation XIII of Lahore Stock Exchange and Regulation XI of Islamabad Stock Exchange for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

1. The Company encourages representation of independent non-executive directors and directors representing minority interests on its Board of Directors. At present the Board includes four (04) independent non-executive directors.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including this Company.
3. All the resident directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFIs or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. No casual vacancy occurred in the Board during the year.
5. The Company has prepared a 'Code of Business Ethics', which has been signed by all the directors and employees of the Company.
6. The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO and other executive directors, have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. The Board arranged orientation course for its directors during the year to apprise them of their duties and responsibilities.
10. During the year the appointment of Internal Auditors was approved by the Board. There were no new appointments of Chief Financial Officer and Company Secretary during the year.
11. The directors' report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
12. The financial statements of the Company were duly endorsed by CEO and CFO before approval of the Board.
13. The directors, CEO and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.
14. The Company has complied with all the corporate and financial reporting requirements of the Code.
15. The Board has formed an audit committee. It comprises three (03) members, of whom two (02) 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. The terms of reference of the committee have been formed and advised to the committee for compliance.
17. The Company has an effective internal audit function.
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 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 7, 2006


Abrar Hasan
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 of the Karachi Stock Exchange, Chapter XIII of Lahore Stock Exchange and chapter XI of Islamabad Stock Exchange where the Company is listed.

The responsibility for compliance with the code of corporate Governance is that of the Board of directors of the company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement 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 systems sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal controls 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 practice contained in the Code of Corporate Governance as applicable to the Company for the year ended June 30, 2006.



A. F. Ferguson & Co.
Chartered Accountants

Karachi
Dated: September 7, 2006

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Karachi
Dated

Auditors' Report to the Members

We have audited the annexed balance sheet of National Foods Limited as at June 30, 2006 and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

- (a) in our opinion, proper books of accounts have been kept by the company as required by the Companies Ordinance, 1984;
- (b) in our opinion:
 - (i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of accounts and are further in accordance with accounting policies consistently applied;
 - (ii) the expenditure incurred during the year was for the purpose of the company's business; and
 - (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the company;
- (c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the company's affairs as at June 30, 2006 and of the profit, its cash flows and changes in equity for the year then ended; and
- (d) in our opinion Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980) was deducted by the company and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

Karachi
Dated: September 7, 2006




A. F. Ferguson & Co.
Chartered Accountants

Balance Sheet

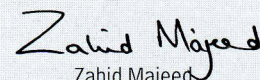
as at June 30, 2006

	Note	June 30, 2006 (Rupees in thousand)	June 30, 2005
Assets			
Non-Current Assets			
Property, plant and equipment	4	365,874	226,575
Intangibles	5	4,064	4,290
Long term deposits		2,504	2,139
		<u>372,442</u>	<u>233,004</u>
Current Assets			
Stores, spare parts and loose tools		3,463	3,299
Stock in trade	6	367,235	356,655
Trade debts	7	101,940	75,877
Advances	8	13,586	14,029
Trade deposits and prepayments	9	4,290	1,822
Accrued interest / mark up		1,637	-
Other receivables	10	1,063	913
Tax refunds due from / adjustable with the government	11	19,279	17,553
Cash and bank balances	12	83,025	5,579
		<u>595,518</u>	<u>475,727</u>
		<u>967,960</u>	<u>708,731</u>
Share Capital And Reserves			
Issued, subscribed and paid-up capital	13	42,505	42,505
Capital Reserve - Share premium		6,102	6,102
Unappropriated profit		198,482	134,494
		<u>247,089</u>	<u>183,101</u>
Non-current Liabilities			
Long term financing	14	189,000	76,000
Liabilities against assets subject to finance leases	15	5,694	2,331
Deferred tax	16	11,467	11,808
		<u>206,161</u>	<u>90,139</u>
Current Liabilities			
Trade and other payables	17	244,988	140,458
Accrued interest / mark up	18	8,491	4,688
Short term borrowings	19	195,925	270,718
Current maturity of:			
Long term financing	14	26,000	6,000
Liabilities against assets subject to finance leases	15	2,306	1,627
Provision for income tax		37,000	12,000
		<u>514,710</u>	<u>435,491</u>
Commitments	20	<u>967,960</u>	<u>708,731</u>

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



Abrar Hasan
Chief Executive



Zahid Majeed
Director

Profit

for the ye

Sales

Cost of sale

Gross profit

Distribution

Administra

Other oper

Other oper

Profit from

Finance co

Profit befo

Taxation

Profit afte

Earnings p

The annex

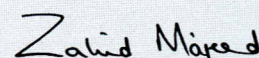
Profit and Loss Account

for the year ended June 30, 2006

	Note	2006 (Rupees in thousand)	2005
Sales	21	1,847,700	1,533,879
Cost of sales	22	<u>(1,276,437)</u>	<u>(1,136,727)</u>
Gross profit		571,263	397,152
Distribution cost	22	(364,758)	(288,289)
Administrative expenses	22	(73,112)	(51,842)
Other operating expenses	23	(8,753)	(3,242)
Other operating income	24	<u>6,681</u>	<u>4,498</u>
Profit from operations		131,321	58,277
Finance costs	25	<u>(24,850)</u>	<u>(16,006)</u>
Profit before taxation		106,471	42,271
Taxation	26	(36,107)	(11,618)
Profit after taxation		<u>70,364</u>	<u>30,653</u>
Earnings per share - basic and diluted - Rupees	27	<u>16.55</u>	<u>7.21</u>

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


Abrar Hasan
Chief Executive


Zahid Majeed
Director

Cash Flow Statement

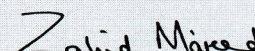
for the year ended June 30, 2006

	Note	2006 (Rupees in thousand)	2005 (Rupees in thousand)
Cash Flows from Operating Activities			
Cash generated from operations	32	221,598	(8,008)
Finance cost paid		(28,782)	(10,907)
Income tax paid		(13,174)	(10,886)
Net increase in long term deposits		(365)	(198)
Net cash from/(used in) operating activities		179,277	(29,999)
Cash Flows from Investing Activities			
Fixed capital expenditure		(156,571)	(69,943)
Sale proceeds of property, plant and equipment on disposal		4,193	4,126
Return received on term deposits		1,958	-
Net cash used in investing activities		(150,420)	(65,817)
Cash Flows from Financing Activities			
Long term financing - net		133,000	55,000
Liabilities against assets subject to finance leases - net		(2,964)	(2,450)
Dividend paid		(6,654)	(16,850)
Net cash from financing activities		123,382	35,700
Net increase / (decrease) in cash and cash equivalents		152,239	(60,116)
Cash and cash equivalents at the beginning of the year		(265,139)	(205,023)
Cash and cash equivalents at the end of the year	33	(112,900)	(265,139)

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



Abrar Hasan
Chief Executive



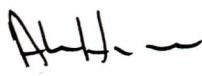
Zahid Majeed
Director

Statement of Changes in Equity

for the year ended June 30, 2006

	Issued subscribed and paid up capital	Capital reserve Share premium	Unappropriated profit	Total
	(Rupees in thousand)			
Balance as at June 30, 2004	42,505	6,102	120,843	169,450
Final dividend for the year ended June 30, 2004 (Rs 4 per share)	-	-	(17,002)	(17,002)
Profit for the year ended June 30, 2005	-	-	30,653	30,653
Balance as at June 30, 2005	42,505	6,102	134,494	183,101
Final dividend for the year ended June 30, 2005 (Rs 1.50 per share)	-	-	(6,376)	(6,376)
Profit for the year ended June 30, 2006	-	-	70,364	70,364
Balance as at June 30, 2006	42,505	6,102	198,482	247,089

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


Abrar Hasan
Chief Executive


Zahid Majeed
Director

Notes to the Financial Statements

For the year ended June 30, 2006

1. The Company and its Operations

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, ketchup, jams, jellies, sauces, cooking pastes and 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

The significant accounting policies adopted in the preparation of these financial statements are set out below:

2.1 Basis of Preparation

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

Standards, interpretations and amendments to published approved accounting standards as adopted in Pakistan that are not yet effective:

Following amendments to existing standards have been published that are mandatory for the Company's accounting periods beginning on the dates mentioned below:

- | | |
|---|--------------------------------|
| i) IAS 39 Financial Instruments: | |
| Recognition and Measurements –
Fair Value Option | effective from January 1, 2006 |
| ii) IAS 1 Presentation of Financial
Statements – Capital Disclosures | effective from January 1, 2007 |

Adoption of the above amendments may only impact the extent of disclosures presented in the financial statements.

2.2 Overall Valuation Policy

These financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below.

2.3 Property, Plant and Equipment

Property, plant and equipment is stated at cost less residual value if not insignificant and accumulated depreciation except capital work in progress, which is stated at cost.

Depreciation is charged to income applying the straight line method over the estimated useful lives of related assets.

During the year, the Company reviewed the expected pattern of consumption of the future economic benefits embodied in the assets of the Company and consequently changed the depreciation method from reducing balance method to straight line. Moreover, the Company reviewed the useful life of its assets and accordingly, adjusted the life of the assets wherever necessary. Had these changes not been made the depreciation charge for the year would have been lower by Rs. 3.45 million.

Maintenance and normal repairs are charged to income as and when incurred. Major renewals and improvements are capitalised and assets so replaced, if any, are retired.

Profit and loss on sale or retirement of property, plant and equipment is included in income currently.

2.4 Intangibles

These are 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.

During the year, the Company reviewed the expected pattern of consumption of the future economic benefits embodied in the assets of the Company and consequently changed the amortisation method from reducing balance method to straight line. Had this change not been made the amortisation charge for the year would have been lower by Rs. 143 thousand.

Amortisation charge is based on the straight line method whereby the cost of an asset is written-off over their estimated useful life of three years.

2.5 Taxation

i) Current

The provision for current taxation is based on taxable income at the current rates of taxation.

ii) Deferred

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

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

2.6 Employee Benefits

Retirement benefits - defined contribution plan

The Company operates an approved provident fund for all permanent employees. The Company and the employees make equal contributions to the fund.

Others - compensated absences

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

2.7 Stores, Spares and Loose Tools

These are valued at weighted average cost less provision for slow moving and obsolete stores, spares and loose tools, if any. Items in transit are valued at cost comprising invoice values plus other charges incurred thereon.

2.8 Stock in Trade

All stocks are stated at the lower of cost and estimated net realisable value. Cost is determined by average method except for those in transit where it represents invoice value and other charges paid thereon. Cost of work in process and finished goods includes direct cost of materials, direct cost of labour and production overheads. Net realisable value signifies the estimated selling price in the ordinary course of business less cost necessarily to be incurred in order to make the sale.

2.9 Trade and Other Debts

Trade and other debts are stated at original invoice amount. Debts considered irrecoverable are written off and provision is made against those considered doubtful of recovery.

2.10 Cash and Cash Equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand, with banks and short term borrowings.

2.11 Impairment Losses

The carrying amount of the Company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment loss. If such indication exist, the assets recoverable amount is estimated in order to determine the extent of impairment loss, if any. Impairment losses are recognised as expense in the profit and loss account.

2.12 Leases

Finance leases are capitalised at the inception of the lease at the 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.

2.13 Trade and Other Payables

Trade and other payables are carried at the fair value of the consideration to be paid for goods and services.

2.14 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 assets, if any, are capitalised as part of the cost of that asset.

2.15 Provisions

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

2.16 Financial Instruments

Financial instruments include trade and other debts, cash and bank balances, long term finance, liabilities against assets subject to finance leases, trade and other payables, accrued interest / mark up and short term borrowings. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

2.17 Foreign currency Transactions and Translation

These financial statements are prepared in Pak Rupees which is also the functional currency of the Company.

Foreign currency transactions are translated into Pak Rupees using the exchange rates approximating those prevailing at the dates of the transactions. All monetary assets and liabilities in foreign currencies are translated into Pak rupees at the rates of exchange approximating those prevailing at the balance sheet date. Exchange gain / loss on translation are included in income currently.

2.18 Revenue Recognition

- (a) Sales are recognised on despatch of goods to customers.
- (b) Income on bank deposits is recognised on accrual basis.

2.19 Research and Development

Research and development expenditure is charged to profit and loss account in the period in which it is incurred.

2.20 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. Critical Accounting Estimates and Judgements

The preparation of financial statements in conformity with approved accounting standards require the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The matters involving a higher degree of judgement or complexity, or area where assumptions and estimates are significant to the financial statement are disclosed in respective notes to the financial statements.

4. Property, Plant and Equipment

Operating assets - note 4.1

Capital work in progress - at cost - note 4.2

2006
(Rupees in thousand)**2005**

192,285	182,688
173,589	43,887
<u>365,874</u>	<u>226,575</u>

4.1 Operating Assets

Lease hold land	Building on leasehold land	Plant and machinery including generators	Furniture and fittings	Office and other equipments	Computers	Laboratory equipments	Vehicles owned	subject to finance lease	Total
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(Rupees in thousand)

Net carrying value basis
Year ended June 30, 2006

Opening net book value (NBV)	14,630	29,146	87,081	7,160	6,232	6,906	1,678	24,922	4,933	182,688
Additions / Transfers (at cost)	-	824	25,883	386	1,629	3,374	603	4,780	7,006	44,485
Disposals / Transfers (at NBV)	-	-	(93)	-	-	-	-	(2,818)	(641)	(3,552)
Depreciation charge	(374)	(2,921)	(12,860)	(1,470)	(1,124)	(3,162)	(182)	(5,128)	(1,403)	(28,624)
Write-offs (at NBV)	-	-	-	(2,476)	-	(225)	-	(11)	-	(2,712)
Closing net book value	<u>14,256</u>	<u>27,049</u>	<u>100,011</u>	<u>3,600</u>	<u>6,737</u>	<u>6,893</u>	<u>2,099</u>	<u>21,745</u>	<u>9,895</u>	<u>192,285</u>

Gross carrying value basis

At June 30, 2006

Cost	15,014	59,455	172,636	6,280	21,503	18,312	3,792	45,578	11,406	353,976
Accumulated depreciation	(758)	(32,406)	(72,625)	(2,680)	(14,766)	(11,419)	(1,693)	(23,833)	(1,511)	(161,691)

Net book value

<u>14,256</u>	<u>27,049</u>	<u>100,011</u>	<u>3,600</u>	<u>6,737</u>	<u>6,893</u>	<u>2,099</u>	<u>21,745</u>	<u>9,895</u>	<u>192,285</u>
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Net carrying value basis

Year ended June 30, 2005

Opening net book value (NBV)	13,014	29,790	84,325	6,807	6,965	6,570	1,795	23,197	844	173,307
Additions (at cost)	2,000	2,412	12,447	1,090	844	2,658	67	9,964	4,400	35,882
Reclassifications	-	-	558	-	(558)	-	-	-	-	-
Disposals (at NBV)	-	-	(906)	-	-	(51)	-	(2,420)	-	(3,377)
Depreciation charge	(384)	(3,056)	(9,343)	(737)	(1,019)	(2,271)	(184)	(5,819)	(311)	(23,124)
Closing net book value	<u>14,630</u>	<u>29,146</u>	<u>87,081</u>	<u>7,160</u>	<u>6,232</u>	<u>6,906</u>	<u>1,678</u>	<u>24,922</u>	<u>4,933</u>	<u>182,688</u>

Gross carrying value basis

At June 30, 2005

Cost	15,014	58,631	147,321	14,239	19,872	16,811	3,189	46,784	6,048	327,909
Accumulated depreciation	(384)	(29,485)	(60,240)	(7,079)	(13,640)	(9,905)	(1,511)	(21,862)	(1,115)	(145,221)
Net book value	<u>14,630</u>	<u>29,146</u>	<u>87,081</u>	<u>7,160</u>	<u>6,232</u>	<u>6,906</u>	<u>1,678</u>	<u>24,922</u>	<u>4,933</u>	<u>182,688</u>

Useful life (Years)

38-99	10-25	5-10	5	6-7	3	10	5	5
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2006
(Rupees in thousand)**2005****4.2 Capital Work in Progress**

Civil works

140,218

19,035

Plant and machinery

10,157

4,223

Advances to suppliers

10,309

18,807

Vehicles pending delivery

831

1,372

Borrowing costs - note 4.2.1

12,074

450

173,58943,887

4.2.1 Borrowing costs of Rs 11.62 million (2005: Rs 450 thousand) arising on financing specifically entered into for the construction of Bin Qasim project were capitalised during the year and are included in the cost. Capitalisation rates from 7.73% to 10.45% (2005: 7.73%) were used, representing the borrowing cost of the loan used to finance the project.

4.3 The details of property, plant and equipment sold, having net book value in excess of Rs. 50,000 are as follows:

	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal	Particulars of purchaser
	(Rupees in thousand)					
Plant and machinery and generators						
Store Cargo Lift	501	429	72	70	Negotiation	Mr. Bhagwan Dass 604, Chapal Plaza Hasrat Mohani Road, Karachi.
Motor vehicles						
Honda City Exi-S ADZ-803	824	498	326	465	Company policy	Mr. Sheikh Irfan Aziz House # 93 Overseas Society, Block 7/8 Ahmed Barrister Road, Karachi.
Suzuki Cultus AEJ-958	609	297	312	329	Company policy	Mrs. Subia Nadeem House # D-13 Gulshan-e-Iqbal, Block-9 Karachi.
Toyota Corolla AGY-711	939	78	861	850	Insurance claim	M/s. EFU General Insurance Ltd. 2nd Floor K.D.L.B. Building 58 WestWharf Road, Karachi.
Suzuki Alto VXR ADR-882	474	303	171	230	Company policy	Mr. Pervez Khan Quarter # 323/B, Ayub Colony Latifabad # 1, Hyderabad.
Suzuki Cultus ADB-534	540	390	150	265	Company policy	Mr. Shoukat Hussain House # A-98, Street No.7 Block- L, North Nazimabad Karachi.
Suzuki Cultus ADV-247	555	366	189	225	Company policy	Ms. Anjum Shafi House # 42/1, 25th Street, Khayaban-e-Mujahid, D.H.A Karachi.
Toyota Corolla AGB-799	982	479	503	543	Company policy	Mr. S. M. Wasti House # C-410 Ruffi Lake Drive Block # 18, Gulistan-e-Jouhar Karachi.

2006 **2005**
(Rupees in thousand)

5. Intangible

Net carrying value basis		
Opening net book value (NBV)	4,290	3,363
Additions (at cost)	1,316	2,212
Amortisation for the year	(1,542)	(1,285)
Closing net book value	<u>4,064</u>	<u>4,290</u>
Gross carrying value basis		
Cost		
- Computer software and ERP System	9,181	7,865
Accumulated amortisation	(5,117)	(3,575)
Net book value	<u>4,064</u>	<u>4,290</u>

6. Stock in Trade

Raw materials (including in transit Rs 17.84 million; 2005: Rs 8.08 million)	122,624	101,692
Provision for obsolescence	(13,278)	(10,030)
	<u>109,346</u>	<u>91,662</u>
Packing materials	71,553	76,458
Provision for obsolescence	(12,334)	(7,971)
	59,219	68,487
Work in process	102,927	119,740
Provision for obsolescence	(5,324)	-
	97,603	119,740
Finished goods	101,744	76,766
Provision for obsolescence	(677)	-
	101,067	76,766
	<u>367,235</u>	<u>356,655</u>

7. Trade Debts

Considered good		
Related parties - note 7.1	9,312	4,577
Others	92,628	71,300
	<u>101,940</u>	<u>75,877</u>

7.1 Due from Related Parties

Premier Distributor	9,222	3,389
Premier Agency	90	1,188
	<u>9,312</u>	<u>4,577</u>

8. Advances

Considered good		
Employees - against expenses	-	81
Suppliers	12,116	13,502
Others	1,470	446
	<u>13,586</u>	<u>14,029</u>

9. Trade Deposits and Prepayments

	2006 (Rupees in thousand)	2005
Margin deposits	114	114
Other deposits - note 9.1	2,646	80
Prepayments	1,530	1,628
	<u>4,290</u>	<u>1,822</u>

9.1 This includes Rs. 2.63 million (2005: Nil) deposited with Singapore High Court as security in respect of suit filed by the company against a supplier for supply of substandard raw material.

10. Other Receivables

Employees' Provident Fund	447	-
Export rebate	606	775
Others	10	138
	<u>1,063</u>	<u>913</u>

11. Tax Refunds Due From / Adjustable with the Government

Taxation - payments less provision	18,279	16,553
Sales tax refundable - paid under protest - note 11.1	1,000	1,000
	<u>19,279</u>	<u>17,553</u>

11.1 This represents sales tax paid under protest against arbitrary levy on table salt and other spices amounting to Rs 87.8 million. As a result of the appeal the matter was set aside by the Tribunal by accepting the appeal. However, the department 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. The said court dismissed the appeal and held that the appeals under consideration filed by the Superintendent (Law) are not competent and consequently are not maintainable in law. Subsequent to June 30, 2006 the Company received a notice from the legal counsel of the department intimating the filing of a civil petition for leave to appeal in the honourable Supreme Court of Pakistan.

12. Cash and Bank Balances

	2006 (Rupees in thousand)	2005
Cash in hand	697	482
Cash at bank		
term deposits - note 12.1	73,000	-
margin account	4,668	-
current accounts		
Local currency	3,682	3,034
Foreign currency	978	2,063
	4,660	5,097
	<u>83,025</u>	<u>5,579</u>

12.1 At June 30, 2006 the rates of mark up on term deposits range from 8% to 10.25% per annum. Maturity of term deposit range from 30 days to 90 days.

13. Share Capital

	2006 (Rupees in thousand)	2005 (Rupees in thousand)
Authorised share capital		
Number of shares		
<u>10,000,000</u> Ordinary shares of Rs 10 each	<u>100,000</u>	<u>100,000</u>
Issued, subscribed and paid up capital		
Ordinary shares of Rs 10 each		
Number of shares		
Shares allotted:		
1,255,990 for consideration paid in cash	12,560	12,560
2,994,548 as bonus shares	29,945	29,945
<u>4,250,538</u>	<u>42,505</u>	<u>42,505</u>

As at June 30, 2006 and 2005 number of ordinary shares held by associates were 2,511,270.

14. Long Term Financing

Bank Al-Habib Limited - note 14.1	15,000	21,000
Muslim Commercial Bank Limited - note 14.2	200,000	61,000
	<u>215,000</u>	<u>82,000</u>
Less: Current maturity shown under current liabilities	(26,000)	(6,000)
	<u>189,000</u>	<u>76,000</u>

- 14.1** The facility is secured by way of equitable mortgage over factory building. Mark up is charged at the rate of 8% per annum (2005: 6.5% to 8% per annum). The last installment of the facility is payable on December 24, 2008.
- 14.2** This represents a term finance facility of Rs 200 million. The facility is secured by way of equitable mortgage over land, buildings, plant and machinery installed or to be installed at factory buildings. Mark up is charged at the rate ranging from 7.73% to 10.45% (2005: 7.73%) per annum. The last installment of the facility is payable on October 13, 2011.

15. Liabilities Against Assets Subject to Finance Leases

	2006 (Rupees in thousand)	2005 (Rupees in thousand)
Present value of minimum lease payments	8,000	3,958
Current maturity shown under current liabilities	(2,306)	(1,627)
	<u>5,694</u>	<u>2,331</u>
Minimum lease payments		
Not later than 1 year	3,062	1,870
Later than one year but not later than 5 years	6,355	2,547
	<u>9,417</u>	<u>4,417</u>
Future finance charges on finance leases	(1,417)	(459)
Present value of finance lease liabilities	<u>8,000</u>	<u>3,958</u>
Present value of finance lease liabilities		
Not later than 1 year	2,306	1,627
Later than one year but not later than 5 years	5,694	2,331
	<u>8,000</u>	<u>3,958</u>

15.1 The above represents finance leases entered into with leasing companies for motor vehicles. The balance of liability is payable by May 2010 in monthly instalments.

Monthly lease payments include finance charge ranging from 6.26% to 12.7% (2005: 6.26% to 11.5%) per annum which are used as discounting factor.

16. Deferred Tax

	2006 (Rupees in thousand)	2005 (Rupees in thousand)
(Debit) / credit balance arising in respect of:		
Accelerated tax depreciation / amortisation	20,666	17,040
Provision for slow moving stock	(9,786)	(5,531)
Liabilities against assets subject to finance lease	587	299
	<u>11,467</u>	<u>11,808</u>

17. Trade and Other Payables

	2006	2005
	(Rupees in thousand)	
Creditors	103,719	75,624
Accrued liabilities	98,961	29,976
Workers' profits participation fund - note 17.1	5,718	2,263
Workers' welfare fund	1,983	550
Advances from customers	17,193	18,370
Payable to provident fund	-	591
Security deposits from customers	69	79
Tax deducted at source	853	956
Due to related parties - directors	11	46
- others - note 17.2	221	221
Advances from employees	9,085	8,835
Sales tax payable	4,471	1,121
Unclaimed dividend	675	953
Other liabilities	2,029	873
	<u>244,988</u>	<u>140,458</u>

17.1 Workers' profits participation fund

Balance as at July 1	2,263	3,655
Allocation for the year	5,718	2,263
Interest on fund utilised in the company's business	191	721
	<u>8,172</u>	<u>6,639</u>
Amount paid during the year	(2,454)	(4,376)
Balance as at June 30	<u>5,718</u>	<u>2,263</u>

17.2 Due to related parties - others

Associated Textile Consultants (Private) Limited	27	128
Precision Rubber Products (Private) Limited	161	-
Pakistan Card Clothing (Private) Limited	33	93
	<u>221</u>	<u>221</u>

18. Accrued Interest / Mark up

On

- short term borrowings
- long term financing

2006 **2005**
(Rupees in thousand)

	4,798	4,001
	3,693	687
	8,491	4,688

19. Short Term Borrowings

- Running finance under mark up arrangements
- Export re-finance
- Short term loans

	7,724	126,318
	96,700	79,400
	91,501	65,000
	195,925	270,718

19.1 The above facilities available from various banks amount to Rs 340 million (2005: Rs 305 million). The arrangements are secured by way of pari-passu charge against hypothecation of Company's stock in trade and trade debts. The facilities are payable by November 2006 and are renewable.

19.2 The facilities for opening letters of credit and guarantee as at June 30, 2006 amounted to Rs 63.22 million (2005: Rs 40.50 million) of which the amount remaining unutilised at year end was Rs 29.09 million (2005: Rs 16.20 million)

19.3 The rates of mark up range between 5.25% to 10.05% per annum as at June 30, 2006 (2005: 3.15% to 8.30%)

20. Commitments

Aggregate commitments for capital expenditure as at June 30, 2006 amounted to Rs 53.50 million (2005: Rs 122.98 million).

21. Sales

- Local sales
- Less: Sales tax

Export sales

- Less: Discount / Commission
- Rebates and allowances
- Sales returns

2006 **2005**
(Rupees in thousand)

	2,251,339	1,850,363
	244,513	203,693
	2,006,826	1,646,670
	214,118	220,417
	2,220,944	1,867,087
	264,954	205,059
	67,192	92,694
	41,098	35,455
	373,244	333,208
	1,847,700	1,533,879

22. Opera

22. Operating Costs

	Cost of Sales		Distribution Cost		Administrative Expenses		Total	
	2006	2005	2006	2005	2006	2005	2006	2005
	(Rupees in thousand)							
Raw materials consumed	702,063	688,238	-	-	-	-	702,063	688,238
Packing materials consumed	320,783	301,671	-	-	-	-	320,783	301,671
Provision for slow moving stock	13,612	6,105	-	-	-	-	13,612	6,105
Salaries, wages and other benefits	122,161	94,614	59,755	51,302	29,343	26,877	211,259	172,793
Contribution of provident fund	2,417	2,227	1,281	1,217	784	761	4,482	4,205
Advertising and sales promotion	-	-	179,325	133,260	886	-	180,211	133,260
Auditors' remuneration - note 22.1	-	-	-	-	461	344	461	344
Depreciation / Amortisation	19,894	16,350	4,331	4,105	5,941	3,954	30,166	24,409
Fuel and power	31,911	24,558	1,310	762	346	496	33,567	25,816
Outward freight	-	-	80,578	64,901	-	-	80,578	64,901
Forwarding charges	-	-	4,189	4,765	-	-	4,189	4,765
Insurance	2,714	2,776	1,536	1,491	972	673	5,222	4,940
Laboratory, research and development	1,559	1,027	222	354	13	44	1,794	1,425
Legal and professional charges	-	-	-	-	12,219	2,883	12,219	2,883
Postage and communications	364	437	5,508	4,586	2,327	2,324	8,199	7,347
Printing and stationery	2,428	2,044	1,648	1,289	1,407	1,149	5,483	4,482
Rent, rates and taxes	9,260	7,860	3,404	2,985	560	548	13,224	11,393
Repairs and maintenance	34,798	20,804	1,146	1,760	5,324	4,866	41,268	27,430
Travelling	10,019	7,871	18,547	15,202	9,178	6,270	37,744	29,343
Fixed Assets written off	-	-	-	-	2,712	-	2,712	-
Stock written off	5,576	-	-	-	-	-	5,576	-
Others	441	394	1,978	310	639	653	3,058	1,357
	<u>1,280,000</u>	<u>1,176,976</u>	<u>364,758</u>	<u>288,289</u>	<u>73,112</u>	<u>51,842</u>	<u>1,717,870</u>	<u>1,517,107</u>
Opening work in process	119,740	96,835						
Closing work in process	(97,603)	(119,740)						
Cost of goods manufactured	1,302,137	1,154,071						
Opening stock of finished goods	76,766	60,963						
Closing stock of finished goods	(101,067)	(76,766)						
Export rebate	(1,399)	(1,541)						
	<u>1,276,437</u>	<u>1,136,727</u>						

22.1 Auditors' remuneration

Audit fee	200	150
Limited review, audit of staff funds and other certifications	165	160
Out of pocket expenses	96	34
	<u>461</u>	<u>344</u>

23. Other Operating Expenses

Bad debts	-	245
Donations - note 23.1	1,052	184
Workers' profits participation fund	5,718	2,263
Workers' welfare fund	1,983	550
	<u>8,753</u>	<u>3,242</u>

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

24. Other Income

Return on term deposits	3,595	-
Profit on disposal of property, plant and equipment	943	749
Sales tax refunded	222	580
Insurance claim	864	2,517
Scrap sales	241	-
Miscellaneous	816	652
	<u>6,681</u>	<u>4,498</u>

25. Finance Costs

Interest on workers' profits participation fund	191	721
Mark up on running finance under mark up arrangements	15,815	10,771
Mark up on finance lease	557	256
Mark up on long term finance	2,638	2,132
Mark up on other loans	1,760	-
Bank charges	3,889	2,126
	<u>24,850</u>	<u>16,006</u>

26. Taxation

Current - for the year	37,000	12,000
Deferred	(341)	(692)
	<u>36,659</u>	<u>11,308</u>
Prior	(552)	310
	<u>36,107</u>	<u>11,618</u>

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(Rupees in thousand)

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26.1 Reconciliation between tax expense and accounting profit:

	2006 (Rupees in thousand)	2005 (Rupees in thousand)
Profit before taxation	106,471	42,271
Tax at applicable tax rate of 35%	37,265	14,795
Expense not deductible for tax purposes	116	134
Effect of lower tax rate on export sales	(2,679)	(3,702)
Others	1,957	81
	<u>36,659</u>	<u>11,308</u>

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 attributable to ordinary shareholders	70,364	30,653
Weighted average number of shares in issue during the year (in thousand)	4,251	4,251
Earnings per share - basic (Rupees)	<u>16.55</u>	<u>7.21</u>

28. Related Party Disclosures**A. Related parties with whom the Company had transactions**

- i) Associated Companies / Undertakings:
- Associated Textile Consultants (Private) Limited
 - Pakistan Card Clothing Company (Private) Limited
 - Precision Rubber Products (Private) Limited
 - Premier Agency
 - Premier Distributor
 - Raj Masala Pty Limited, Australia
- ii) Employee Benefit Plan: National Foods Limited Provident Fund

B. Disclosure of transactions between the Company and related parties

Relationship with the Company	Nature of transaction	2006 (Rupees in thousand)	2005 (Rupees in thousand)
i) Associated Companies / Undertakings:	Sale of goods	400,295	327,039
	Compensation for use of trademark / marketing expense	886	626
	Reciprocal arrangements for sharing of services	1,931	5,433
Key management compensation:			
	Salaries and other short-term employee benefits	22,273	26,930
	Post-employment benefits	1,025	711
		<u>23,298</u>	<u>27,641</u>

The related party status of outstanding balances as at June 30, 2006 are included in trade debts, other receivables and trade and other payables respectively.

29. Remuneration Of Directors, Chief Executive And Executives

29.1 The aggregate amounts charged in the financial statements of the year for remuneration including all benefits to directors, chief executive and executives of the Company are as follows:

	Directors		Chief Executive		Executives	
	2006	2005	2006	2005	2006	2005
	(Rupees in thousand)					
Managerial remuneration and allowances	2,564	3,962	2,330	2,330	7,683	7,730
Utilities	256	396	233	233	768	773
Bonus	427	660	388	388	1,258	1,242
Housing	1,154	1,783	1,049	1,049	3,457	3,479
Other expenses	191	101	356	264	3,341	2,611
	<u>4,592</u>	<u>6,902</u>	<u>4,356</u>	<u>4,264</u>	<u>16,507</u>	<u>15,835</u>
Number of persons	<u>3</u>	<u>3</u>	<u>1</u>	<u>1</u>	<u>9</u>	<u>13</u>

29.2 Aggregate amount charged in these financial statements for the year for fee to non-executive directors was Rs Nil (2005: 11,000).

29.3 The Chief Executive, executive directors and certain executives of the Company are also provided with Company maintained cars and residential telephones.

30. Plant Capacity And Production

	2006		2005	
	Installed	Utilised	Installed	Utilised
	Metric Tons			
Spices	4,532	3,334	4,532	3,614
Pickles	5,256	5,264	5,256	5,020
Pastes	6,920	4,732	6,920	4,362
Salt	21,078	17,957	21,078	17,031

30.1 The actual production is based on consumer demand.

31. Financial Instrument

31.1 Financial assets and liabilities

	Interest / Mark up bearing			Non-interest / Non-mark up bearing			Total
	Maturity up to one year	Maturity after one year	Sub-total	Maturity up to one year	Maturity after one year	Sub-total	
	(Rupees in thousand)						
FINANCIAL ASSETS							
Trade debts	-	-	-	101,940	-	101,940	101,940
Deposits	-	-	-	2,760	2,504	5,264	5,264
Accrued mark up	-	-	-	1,637	-	1,637	1,637
Other receivables	-	-	-	616	-	616	616
Cash and bank balances	73,000	-	73,000	10,025	-	10,025	83,025
June 30, 2006	<u>73,000</u>	<u>-</u>	<u>73,000</u>	<u>116,978</u>	<u>2,504</u>	<u>119,482</u>	<u>192,482</u>
June 30, 2005	<u>-</u>	<u>-</u>	<u>-</u>	<u>81,650</u>	<u>2,139</u>	<u>83,789</u>	<u>83,789</u>
FINANCIAL LIABILITIES							
Long term financing	26,000	189,000	215,000	-	-	-	215,000
Liabilities against assets subject to finance leases	2,306	5,694	8,000	-	-	-	8,000
Trade and other payables	-	-	-	205,658	-	205,658	205,658
Accrued interest / mark up	-	-	-	8,491	-	8,491	8,491
Short term borrowings	195,925	-	195,925	-	-	-	195,925
June 30, 2006	<u>224,231</u>	<u>194,694</u>	<u>418,925</u>	<u>214,149</u>	<u>-</u>	<u>214,149</u>	<u>633,074</u>
June 30, 2005	<u>278,936</u>	<u>78,331</u>	<u>357,267</u>	<u>112,444</u>	<u>-</u>	<u>112,444</u>	<u>469,711</u>
OFF BALANCE SHEET ITEMS							
Letters of credit							30,372
June 30, 2005							<u>23,805</u>
Letter of guarantee							3,754
June 30, 2005							<u>500</u>

The effective interest / mark up rates for the monetary financial assets and liabilities are mentioned in respective notes to the financial statements.

31.2 Financial risk management objectives and policies

The Company finances its operations through equity, borrowings and management of working capital with a view to maintain an appropriate mix between various sources of finance to minimise risk.

Taken as a whole, risk arising from the Company's financial instruments is limited as there is no significant exposure to price and cash flow risk in respect of such instruments.

i) Concentration of credit risk

Credit risk represents the accounting loss that would be recognised at the reporting date if counter parties failed completely to perform as contracted. Out of total financial assets of Rs 192.48 million (2005: Rs 83.79 million), the financial assets which are subject to credit risk amounted to Rs 101.94 million (2005: Rs 75.88 million). Concentrations of credit risk may arise from exposure to a single debtor or to a group of debtors having similar characteristics such that their ability to meet their obligations is effected similarly by changes in economic or other conditions. Although the Company operates mainly in the consumer industry but the management believes that it is not exposed to significant concentrations of credit risk. The management limits its credit risk by an aggressive policy for approval of credit limits and by ensuring that sales are made to customers with an appropriate credit history.

ii) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit facilities. Company treasury aims at maintaining flexibility in funding by keeping committed credit lines available.

iii) Foreign exchange risk management

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. Financial assets of equivalent Rs 71.93 million (2005: Rs 57.84 million) were in foreign currency which were exposed to foreign currency risk. Also, short term loans include foreign currency import finance amounting to Rs 51.50 million, which was exposed to foreign currency risk.

31.3 Fair values of financial assets and liabilities

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

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32. Cash Generated from Operations

2006 **2005**
(Rupees in thousand)

Profit before taxation	106,471	42,271
Adjustments for non-cash charges and other items		
Depreciation on property, plant and equipment	28,624	23,124
Amortisation of intangibles	1,542	1,285
Fixed assets written-off	2,712	-
Profit on disposal of property, plant and equipment	(943)	(749)
Return on term deposits	(3,595)	-
Provision for slow moving stock	13,612	6,105
Stock written off	5,576	-
Finance cost	20,961	13,880
	<u>68,489</u>	<u>43,645</u>
Profit before working capital changes	174,960	85,916
EFFECT ON CASH FLOWS DUE TO WORKING CAPITAL CHANGES		
Decrease / (increase) in current assets		
Stores, spare parts and loose tools	(164)	(1,378)
Stock in trade	(29,768)	(88,830)
Trade debts	(26,063)	(21,708)
Advances	443	4,036
Trade deposits and prepayments	(2,468)	304
Other receivables	(150)	418
	<u>(58,170)</u>	<u>(107,158)</u>
Increase in current liabilities		
Trade and other payables	104,808	13,234
	<u>221,598</u>	<u>(8,008)</u>
33. Cash and Cash Equivalents		
Cash and bank balances	83,025	5,579
Short term borrowings	(195,925)	(270,718)
	<u>(112,900)</u>	<u>(265,139)</u>

34. Corresponding Figures

Prior year figures have been rearranged and reclassified wherever necessary for the purpose of comparison.

Changes made for better presentation during the year are as follows

Reclassification from		Reclassification to		Rupees in thousand
Note	Component	Note	Component	
4.2	Capital work in progress	4.2	Capital work in progress	
	- Civil works		- Advances to suppliers	18,807
6	Stock in trade	6	Stock in trade	
	- Work in process		- Raw material	68,821
			- Packing material	5,537
22	Operating cost	25	Finance cost	
	- Distribution cost		- Bank charges	1,568

35. Proposed Dividend

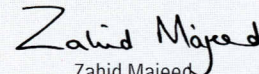
At the Board Meeting on September 7, 2006 a final dividend in respect of 2006 of Rs 2.00 per share amounting to a total dividend of Rs 8.501 million is proposed (2005: Rs 6.376 million).

These financial statements do not reflect the proposed final dividend as payable, which will be accounted for in the statement of changes in equity as an appropriation from the unappropriated profit in the year ending June 30, 2007.

36. Date of Authorisation

These financial statements were authorised for issue on September 7, 2006 by the Board of Directors of the Company.


Abrar Hasan
Chief Executive


Zahid Majeed
Director

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