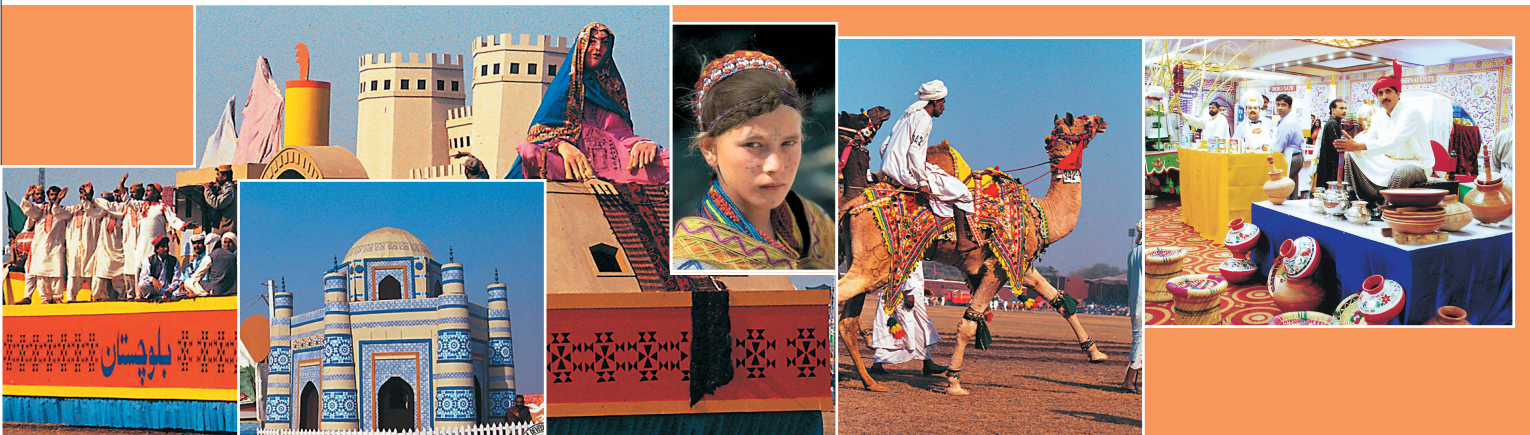


Financial Report
Nestlé Pakistan Limited
for the year ended 31 December 2007



Two decades of performance

Annual Financial Statements of Nestlé Pakistan Ltd.

- 03 Auditors' report to the members
- 04 Balance sheet
- 06 Profit and loss account
- 07 Cash flow statement
- 08 Statement of changes in equity
- 08 Statement of recognized income and expenses
- 09 Notes to the financial statements

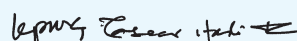
Auditors' Report to the Members

We have audited the annexed balance sheet of Nestlé Pakistan Limited ("the Company") as at 31 December 2007 and the related profit and loss account, cash flow statement and statement of changes in equity, together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

- a) in our opinion, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;
- b) in our opinion:
 - i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;
 - ii) the expenditure incurred during the year was for the purpose of the Company's business; and
 - iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;
- c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at 31 December 2007 and of the profit, its cash flows and changes in equity for the year then ended; and
- d) in our opinion Zakat deductible at source under the Zakat and Ushr Ordinance, 1980, was deducted by the Company and deposited in the Central Zakat Fund established under section 7 of that Ordinance.



KPMG Taseer Hadi & Co
Chartered Accountants

Lahore: 07 February 2008

Balance Sheet

as at 31 December 2007

	Note	2007 (Rupees in '000)	2006
EQUITY AND LIABILITIES			
Share capital and reserves			
Authorized capital 75,000,000 (2006: 75,000,000) ordinary shares of Rs. 10 each		750,000	750,000
Issued, subscribed and paid up capital	3	453,496	453,496
Share premium	4	249,527	249,527
General reserve		280,000	280,000
Accumulated profit		3,128,682	1,548,057
		4,111,705	2,531,080
Non current liabilities			
Long term finances	5	4,028,700	3,963,700
Deferred taxation	6	1,371,675	942,858
Retirement benefits	7	238,370	234,305
Liabilities against assets subject to finance lease	8	119,602	31,471
		5,758,347	5,172,334
Current liabilities			
Current portion of:			
Long term finances	5	–	300,000
Liabilities against assets subject to finance lease	8	29,863	8,392
Short term borrowings - secured	9	1,035,000	700,000
Short term running finance under mark-up arrangements - secured	10	1,637,799	1,817,711
Customer security deposits - interest free		124,572	102,307
Trade and other payables	11	3,062,027	2,197,529
Interest and mark-up accrued	12	89,261	98,549
		5,978,522	5,224,488
Contingencies and commitments	13		
		15,848,574	12,927,902

The annexed notes 1 to 41 form an integral part of these financial statements.


Balance Sheet

as at 31 December 2007

	Note	2007 (Rupees in '000)	2006
ASSETS			
Tangible fixed assets			
Property, plant and equipment	14	9,074,428	6,986,049
Capital work-in-progress	15	971,183	1,107,052
		10,045,611	8,093,101
Intangible assets	16	92,382	135,020
Long term loans and advances	17	80,670	66,008
Long term security deposits		6,088	6,088
Current assets			
Stores and spares	18	436,573	329,346
Stock in trade	19	2,393,306	1,907,300
Trade debts	20	344,053	238,291
Current portion of long term loans and advances	17	21,279	8,771
Advances, deposits, prepayments and other receivables	21	2,022,387	2,109,314
Cash and bank balances	22	406,225	34,663
		5,623,823	4,627,685
		15,848,574	12,927,902



RAYMOND FRANKE
Head of Finance and Control



CLAYTON TREVOR
Chief Executive



SYED YAWAR ALI
Chairman

Profit and Loss Account

For the year ended 31 December 2007

	Note	2007 (Rupees in '000)	2006
Sales - net	23	28,235,393	22,030,958
Cost of goods sold	24	(20,291,270)	(15,778,330)
Gross profit		7,944,123	6,252,628
Distribution and selling expenses	25	(3,538,669)	(2,925,118)
Administration expenses	26	(894,309)	(687,092)
Operating profit		3,511,145	2,640,418
Finance cost	27	(584,434)	(447,774)
Other operating expenses	28	(442,914)	(245,150)
		(1,027,348)	(692,924)
Other operating income	29	65,959	57,961
Profit before taxation		2,549,756	2,005,455
Taxation	30	(744,544)	(642,165)
Profit after taxation		1,805,212	1,363,290
Earnings per share - basic and diluted (Rupees)	31	39.81	30.06

Appropriations have been reflected in the statement of changes in equity.

The annexed notes 1 to 41 form an integral part of these financial statements.



RAYMOND FRANKE
Head of Finance and Control



CLAYTON TREVOR
Chief Executive



SYED YAWAR ALI
Chairman

Cash Flow Statement

For the year ended 31 December 2007

	Note	2007 (Rupees in '000)	2006
Cash flow from operating activities			
Cash generated from operations	33	4,534,010	1,619,014
(Increase) in long term security deposits		-	(750)
(Increase) in long term loans and advances		(27,170)	(23,464)
Retirement benefits paid		(74,690)	(69,295)
Finance cost paid		(593,722)	(394,483)
Taxes paid		(234,803)	(484,975)
Net cash generated from operating activities		3,603,625	646,047
Cash flow from investing activities			
Fixed capital expenditure		(2,909,391)	(3,584,428)
Sale proceeds of property, plant and equipment		67,321	63,512
Net cash used in investing activities		(2,842,070)	(3,520,916)
Cash flow from financing activities			
Receipt of long term finances		-	3,066,850
Repayment of long term finances		(300,000)	(1,150,000)
Net movement in short term borrowings - secured		335,000	575,000
Payment of finance lease liabilities		(18,333)	(5,213)
Dividend paid		(226,748)	(1,132,770)
Net cash (used in)/generated from financing activities		(210,081)	1,353,867
Net increase/(decrease) in cash and cash equivalents		551,474	(1,521,002)
Cash and cash equivalents at beginning of the year		(1,783,048)	(262,046)
Cash and cash equivalents at end of the year	34	(1,231,574)	(1,783,048)

The annexed notes 1 to 41 form an integral part of these financial statements.



RAYMOND FRANKE
Head of Finance and Control



CLAYTON TREVOR
Chief Executive



SYED YAWAR ALI
Chairman

Statement of Changes in Equity

For the year ended 31 December 2007

	Capital reserve		Revenue reserve		Total
	Share capital	Share premium	General reserve	Accumulated profit	
(Rupees in '000)					
Balance as at 31 December 2005	453,496	249,527	280,000	880,359	1,863,382
Final dividend for the year ended 31 December 2005 (Rs. 15 per share)	–	–	–	(680,244)	(680,244)
Total recognized income and expense for the year	–	–	–	1,347,942	1,347,942
Balance as at 31 December 2006	453,496	249,527	280,000	1,548,057	2,531,080
Final dividend for the year ended 31 December 2006 (Rs. 5 per share)	–	–	–	(226,748)	(226,748)
Total recognized income and expense for the year	–	–	–	1,807,373	1,807,373
Balance as at 31 December 2007	453,496	249,527	280,000	3,128,682	4,111,705

Statement of Recognized Income and Expenses

For the year ended 31 December 2007

	Note	2007 (Rupees in '000)	2006
Actuarial gains/(losses) recognized directly in the equity		3,325	(23,612)
Tax on actuarial gains/(losses) recognized directly in the equity		(1,164)	8,264
Net profit for the year		1,805,212	1,363,290
Total recognized income and expense for the year		1,807,373	1,347,942

The annexed notes 1 to 41 form an integral part of these financial statements.



RAYMOND FRANKE
Head of Finance and Control



CLAYTON TREVOR
Chief Executive



SYED YAWAR ALI
Chairman

Notes to the Financial Statement

For the year ended 31 December 2007

1 Legal status and nature of business

Nestlé Pakistan Limited ("the Company") is a public limited company incorporated in Pakistan and its shares are quoted on the Karachi and Lahore Stock Exchanges. The principal activity of the Company is manufacturing, processing and sale of food products (dairy, confectionery, culinary, coffee, beverages, infant nutrition and drinking water). Registered office of the Company is situated at Babar Ali Foundation Building, 308-Upper Mall, Lahore.

2 Summary of significant accounting policies

The significant accounting policies adopted in preparation of financial statements are set out below.

2.1 Basis of preparation and statement of compliance

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984. In case requirements differ, the provisions or directives of the Companies Ordinance, 1984 shall prevail.

2.2 Accounting convention

These financial statements have been prepared under the historical cost convention, except for recognition of certain employee benefits at present value and recognition of certain property, plant and equipment at recoverable amount.

The preparation of financial statements in conformity with approved accounting standards requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions and judgments are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the result of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognized in the period in which the estimate is revised if the revision effects only that period, or in the period of revision and future periods if the revision affects both current and future periods. The areas where various assumptions and estimates are significant to Company's financial statements or where judgments were exercised in application of accounting policies are as follows:

- Useful life of depreciable assets
- Staff retirement benefits
- Taxation
- Provisions and contingencies

2.3 Taxation

Income tax on the profit or loss for the year comprises current and deferred tax.

Current

Provision of current tax is based on the taxable income for the year determined in accordance with the prevailing law for taxation of income. The charge for current tax is calculated using prevailing tax rates or tax rates expected to apply to the profit for the year if enacted after taking into account tax credits, rebates and exemptions, if any. The charge for current tax also includes adjustments, where considered necessary, to provision for tax made in previous years arising from assessments framed during the year for such years.

Notes to the Financial Statement

For the year ended 31 December 2007

Deferred

Deferred tax is provided using the balance sheet liability method in respect of all temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of the taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilized.

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

Deferred tax assets and liabilities are calculated at the rates that are expected to apply to the period when the asset is realized or the liability is settled, based on the tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited in the income statement, except in the case of items credited or charged to equity in which case it is included in equity.

2.4 Retirement benefits

Defined benefit plan

The Company operates an approved funded defined benefit pension plan for its management staff, excluding expatriates, and an approved funded defined benefit gratuity plan for all employees, excluding expatriates, having a service period of more than one year. Provisions are made in the financial statements to cover obligations on the basis of actuarial valuations carried out annually under the projected unit credit method.

Defined contribution plan

The Company operates a recognized provident fund for all its regular employees, excluding expatriates. Equal monthly contributions are made to the fund both by the Company and the employees at the rate of 12% of the basic salary plus cost of living allowance. Obligation for contributions to defined contribution plan is recognized as an expense in the profit and loss account as and when incurred.

2.5 Fixed capital expenditure and depreciation/amortization

Property, plant and equipment

Property, plant and equipment, except freehold land, are stated at cost less accumulated depreciation and any identified impairment loss. Freehold land is stated at cost less any identified impairment loss. Cost in relation to self constructed assets includes direct cost of material, labour and applicable manufacturing overheads.

Depreciation is charged to income, unless it is included in the carrying amount of another asset, on straight line method whereby cost of an asset is written off over its estimated useful life at the rates given in note 14.

Residual value and the useful life of an asset are reviewed at least at each financial year-end.

Depreciation on additions is charged on a pro-rata basis from the month of use, while for disposals depreciation is charged up to the month of disposal to profit and loss. Where an impairment loss is recognized, the depreciation charge is adjusted in the future periods to allocate the assets revised carrying amount over its estimated useful life.

Maintenance and repairs are charged to income as and when incurred. Major renewals and improvements are capitalized and the assets so replaced, if any, are retired. Gains and losses on disposals of assets are included in income.

Notes to the Financial Statement

For the year ended 31 December 2007

Capital work-in-progress

Capital work-in-progress is stated at cost less any identified impairment loss.

Intangible assets

Intangible assets are stated at cost less accumulated amortization and any identified impairment loss. These are amortized using the straight line method at the rates given in note 16. Amortization on additions is charged on a pro-rata basis from the month of use, while for disposals amortization is charged upto the month of disposal.

Subsequent expenditure on intangible assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditures are charged to income as and when incurred.

2.6 Leases

Operating leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight line basis over the period of the lease.

Finance leases

Leases in terms of which the Company has substantially all the risks and rewards of ownership are classified as finance leases. Assets subject to finance lease are stated at the lower of present value of minimum lease payments under the lease agreements and the fair value of the assets, less accumulated depreciation and any identified impairment loss.

The related rental obligations, net of finance costs are classified as current and long term depending upon the timing of the payment.

Each lease payment is allocated between the liability and finance costs so as to achieve a constant rate on the balance outstanding. The interest element of the rental is charged to income over the lease term.

Assets acquired under a finance lease are depreciated over the estimated useful life of the asset on a straight line method at the rates given in note 14. Depreciation of leased assets is charged to income.

Residual value and the useful life of an asset are reviewed at least at each financial year-end.

Depreciation on additions to leased assets is charged from the month in which an asset is acquired, while no depreciation is charged for the month in which the asset is disposed off.

2.7 Impairment losses

Financial assets

A financial asset is considered to be impaired if objective evidence indicate that one or more events had a negative effect on the estimated future cash flow of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as a difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

Notes to the Financial Statement

For the year ended 31 December 2007

Individually significant financial assets are tested for impairment on a individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

Non financial assets

The carrying amounts of the Company's non-financial assets, other than biological assets, investment property, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

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

Impairment losses are recognized in profit and loss. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets of the unit on a pro-rata basis.

2.8 Financial liabilities

Financial liabilities are classified according to substance of contractual arrangements entered into. Significant financial liabilities include short and long term borrowings, trade and other payables.

Interest bearing borrowings

Interest bearing borrowings are recognized initially at fair value less attributable transaction cost. Subsequent to initial recognition, these are stated at amortized cost with any difference between cost and redemption value being recognized in the profit and loss over the period of the borrowings on an effective interest basis.

Other financial liabilities

All other financial liabilities are initially recognized at fair value plus directly attributable cost, if any, and subsequently at amortized cost using effective interest rate method.

2.9 Trade and other payables

Trade and other payables are initially recognized at fair value and subsequently at amortized cost using effective interest rate methods.

2.10 Provisions

Provisions are recognized in the balance sheet when the Company has a legal or constructive obligation as a result of past events and it is probable that outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made. However, provisions are reviewed at each balance sheet date and adjusted to reflect current best estimate.

2.11 Dividend

Dividend distribution to the Company's shareholders is recognized as a liability in the Company's financial statements in the period in which the dividends are approved.

2.12 Inventories

Inventories, except for stock in transit, are stated at lower of cost and net realizable value. Cost is determined as follows:

Notes to the Financial Statement

For the year ended 31 December 2007

Store and spares

Useable stores and spares are valued principally at moving average cost, while items considered obsolete are carried at nil value. Items in transit are valued at cost comprising invoice value plus other charges paid thereon.

Stock in trade

Cost of finished goods, both manufactured and purchased, is determined on weighted average basis. Cost in relation to work-in-process and finished goods includes an appropriate portion of production overheads.

Stock in transit is valued at cost comprising invoice value plus other charges paid thereon.

Net realizable value is the estimated selling price in ordinary course of business less estimated costs of completion and selling expenses.

Raw and packing material

Cost in relation to raw and packing materials is arrived at on FIFO basis.

2.13 Trade debts and other receivables

Trade debts and other receivables are carried at original invoice amount less an estimate made for doubtful debts based on a review of all outstanding amounts at the year end. Bad debts are written off when identified.

2.14 Revenue recognition

Revenue represents the fair value of the consideration received or receivable for goods sold, net of discounts and sales tax. Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the Company and the amount of revenue, and the associated cost incurred, or to be incurred, can be measured reliably.

Sales of products and services are recorded when the risks and rewards are transferred i.e. on dispatch of goods/products to customers or performance of services.

Interest income is accrued on a time proportion basis by reference to the principal outstanding and the applicable rate of return.

2.15 Foreign currencies

All monetary assets and liabilities in foreign currencies are translated into rupees at exchange rates prevailing at the balance sheet date. Transactions in foreign currencies are translated into rupees at exchange rates prevailing at the date of transaction. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into rupees at exchange rates prevailing at the date of transaction. Non-monetary assets and liabilities denominated in foreign currency that are stated at fair value are translated into rupees at exchange rates prevailing at the date when fair values are determined. Exchange gains and losses are included in the income currently.

2.16 Finance cost

Mark-up, interest and other charges are recognized as an expense in the period in which they are incurred.

2.17 Segment

A segment is a distinguishable component of the Company that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risk and rewards that are different from other segments.

Notes to the Financial Statement

For the year ended 31 December 2007

2.18 Financial instruments

All financial assets and liabilities are recognized at the time when the Company becomes a party to the contractual provisions of the instrument. Financial assets are de-recognized when the Company loses control of the contractual right that comprise the financial assets. Financial liabilities are de-recognized when they are extinguished i.e. when the obligation specified in the contract is discharged, cancelled or expired. Any gain or loss on de-recognizing of the financial assets and financial liabilities is taken to profit and loss account currently. The particular measurement methods adopted are disclosed in the individual policy statements associated with each item.

2.19 Offsetting of financial assets and financial liabilities

A financial asset and a financial liability is offset and the net amount is reported in the balance sheet if the Company has a legally enforceable right to set-off the recognized amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

2.20 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. Cash and cash equivalents comprise cash in hand and demand deposits. Running finances that are repayable on demand are included as component of cash and cash equivalents for the purpose of cash flow statement.

2.21 Related party transactions

The Company enters into transactions with related parties on an arm's length basis. Prices for transactions with related parties are determined using admissible valuation methods, except in extremely rare circumstances where, subject to approval of the Board of Directors, it is in the interest of the Company to do so.

2.22 Initial application of a standard or an interpretation

Standards, amendments and interpretation effective in 2007

Amendments to IAS1 - "Presentation of Financial Statements - Capital Disclosures" introduces new disclosures about the level of an entity's capital and how it manages capital. Adoption of this amendment has only resulted in additional disclosures given in note 36.7 to the financial statements.

Standards and amendments to published approved International Financial Reporting Standards not yet effective.

A number of new standards and amendments to standards are not yet effective for the year ended 31 December 2007, and have not been applied in preparing these financial statements.

IFRS 8 "Operating Segments" introduces the "management approach" to segment reporting. IFRS 8, which becomes effective for the Company's accounting period beginning on 01 January 2009, will require the disclosure of segment information based on the internal reports regularly reviewed by the Board of the Company in order to assess each segment's performance and to allocate resources to them. Currently, the Company presents segment information in respect of its business segments (see note 38). Adoption of this new standard would impact the nature and extent of disclosures made in the future financial statements of the Company.

Revised IAS 23 "Borrowing Costs" removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised IAS 23 will become effective for the Company's accounting period beginning on 01 January 2009 and will constitute a change in accounting policy for the Company. In accordance with the transitional provisions, the Company will apply the revised IAS 23 to qualifying assets for which capitalisation of borrowing costs commences on or after the effective date.

Notes to the Financial Statement

For the year ended 31 December 2007

	2007	2006
	(Rupees in '000)	
3. Issued, subscribed and paid up capital		
29,787,058 (2006: 29,787,058) ordinary shares of Rs. 10 each as fully paid in cash	297,870	297,870
15,476,867 (2006: 15,476,867) ordinary shares of Rs. 10 each as fully paid bonus shares	154,769	154,769
85,659 (2006: 85,659) ordinary shares of Rs. 10 each issued for consideration other than cash	857	857
	453,496	453,496

As at 31 December 2007, Nestlé S.A. Switzerland, the holding company, holds 26,778,229 (2006: 26,778,229) ordinary shares of the Company. In addition 9,169,217 (2006: 9,169,217) ordinary shares are held by the following related parties as at 31 December 2007:

	2007	2006
	(Numbers of shares)	
Name of related parties:		
Packages Limited	3,649,248	3,649,248
Percentage of equity held 8.0% (2006: 8.0%)		
International General Insurance Company of Pakistan Limited	4,304,797	4,304,797
Percentage of equity held 9.5% (2006: 9.5%)		
Zarai Taraqati Bank Limited	430,551	430,551
Percentage of equity held 1.0% (2006: 1.0%)		
Industrial Technical and Educational Institution	21,666	21,666
Percentage of equity held 0.05% (2006: 0.05%)		
Gurmani Foundation	762,955	762,955
Percentage of equity held 1.7% (2006: 1.7%)		
	9,169,217	9,169,217

4. Share premium

This reserve can be utilized by the Company only for the purposes specified in section 83(2) of the Companies Ordinance, 1984.

	Note	2007	2006
		(Rupees in '000)	
5. Long term finances			
Long term finances utilized under mark-up arrangements:			
Banking companies - Secured			
Finance 1	5.1	-	150,000
Finance 2	5.1	-	150,000
		-	300,000
Related party - Unsecured			
Associated company - Foreign currency	5.2	4,028,700	3,963,700
		4,028,700	4,263,700
Less: Current portion shown under current liabilities		-	(300,000)
		4,028,700	3,963,700

Notes to the Financial Statement

For the year ended 31 December 2007

Terms of repayment and securities

5.1 Finance 1 and 2

These finances have been repaid during the year.

5.2 Associated company - Foreign currency

This represents US\$ 65 million loan from Nestlé Treasury Centre MiddleEast and Africa Limited, Dubai. US\$ 15 million is due in December 2010 and US\$ 50 million is due in May 2011. Mark-up is payable semi annually at six months average LIBOR plus 150 basis points.

	Note	2007 (Rupees in '000)	2006
6. Deferred taxation			
This is composed of:			
Liability for deferred taxation comprising			
temporary differences related to:			
Accelerated tax depreciation		1,373,541	1,191,055
Others		(1,866)	(248,197)
		1,371,675	942,858

7. Retirement benefits

Pension fund	7.1	104,761	99,965
Gratuity fund	7.1	133,609	134,340
		238,370	234,305

7.1 Present value of funded obligations

	Gratuity		Pension	
	2007 (Rupees in '000)	2006	2007 (Rupees in '000)	2006
Amounts recognized in the balance sheet are as follows:				
Present value of defined benefit obligation	349,287	286,258	474,019	377,539
Fair value of plan assets	(215,678)	(151,918)	(369,258)	(277,574)
Total employee benefit obligation	133,609	134,340	104,761	99,965

7.2 Movement in net obligation

Net liability as at 01 January	134,340	88,119	99,965	127,765
Charge to profit and loss account	46,003	31,634	36,077	25,187
Actuarial (gains)/losses recognized in equity	(4,956)	48,224	1,631	(24,612)
Contribution made by the employees	-	-	14,435	11,405
Contribution made by the Company	(41,778)	(33,637)	(47,347)	(39,780)
	133,609	134,340	104,761	99,965

Notes to the Financial Statement

For the year ended 31 December 2007

	Gratuity		Pension	
	2007	2006	2007	2006
	(Rupees in '000)		(Rupees in '000)	
7.3 Movement in the liability for funded defined benefit obligations				
Liability for defined benefit obligations as at 01 January	286,258	227,662	377,539	349,904
Benefits paid by the plan	(15,423)	(10,313)	(7,874)	(7,471)
Current service costs	28,626	30,680	46,067	36,200
Interest cost	35,607	20,490	37,754	31,491
Actuarial losses/(gains) recognized in equity	14,219	17,739	20,533	(32,585)
Liability for defined benefit obligations as at 31 December	349,287	286,258	474,019	377,539
7.4 Movement in fair value of plan assets				
Fair value of plan assets as at 01 January	151,918	139,543	277,574	222,139
Contributions paid into the plan	41,778	33,637	47,347	39,780
Benefits paid by the plan	(15,423)	(10,313)	(7,874)	(7,471)
Expected return on plan assets	18,230	19,536	33,309	31,099
Actuarial gains/(losses) recognized in equity	19,175	(30,485)	18,902	(7,973)
Fair value of plan assets as at 31 December	215,678	151,918	369,258	277,574
7.5 Plan assets consist of the following:				
Equity instruments	90,620	27,052	227,449	138,045
Debt instruments	65,938	79,260	76,202	113,580
Cash and other deposits	59,120	45,606	65,607	25,949
	215,678	151,918	369,258	277,574
7.6 Amount recognized in the profit and loss included in salaries, wages and amenities in respect of retirement benefits are as follows:				
	Gratuity		Pension	
	2007	2006	2007	2006
	(Rupees in '000)		(Rupees in '000)	
Interest cost for the year	35,607	20,490	37,754	31,491
Current service cost	28,626	30,680	46,067	36,200
Expected return on plan assets	(18,230)	(19,536)	(33,309)	(31,099)
Contribution made by the employees	–	–	(14,435)	(11,405)
	46,003	31,634	36,077	25,187

Notes to the Financial Statement

For the year ended 31 December 2007

	Gratuity		Pension	
	2007	2006	2007	2006
	(Rupees in '000)		(Rupees in '000)	
7.7 Actual return on plan assets	37,405	10,949	52,211	23,126
7.8 Actuarial gains and losses recognized directly in the equity				
Cumulative amount as at 01 January	(118,250)	(70,026)	(55,937)	(80,549)
Gains/(losses) recognized during the year	4,956	(48,224)	(1,631)	24,612
Cumulative amount as at 31 December	(113,294)	(118,250)	(57,568)	(55,937)

7.9 Historical Information for Gratuity plan

	2007	2006	2005	2004	2003
	(Rupees in '000)				
Present value of defined benefit obligation	349,287	286,258	227,662	173,099	142,049
Fair value of the plan assets	(215,678)	(151,918)	(139,543)	(104,008)	(85,374)
Deficit in the plan	133,609	134,340	88,119	69,091	56,675
Experience adjustment arising on plan liabilities	(14,219)	(17,739)	(29,261)	(12,760)	(7,662)
Experience adjustments arising on plan assets	19,175	(30,485)	2,877	1,013	2,868

The Company expects to pay Rs. 48.456 million in contributions to gratuity fund in 2008.

7.10 Historical Information for Pension plan

	2007	2006	2005	2004	2003
	(Rupees in '000)				
Present value of defined benefit obligation	474,019	377,539	349,904	300,347	246,177
Fair value of the plan assets	(369,258)	(277,574)	(222,139)	(167,893)	(133,404)
Deficit in the plan	104,761	99,965	127,765	132,454	112,773
Experience adjustment arising on plan liabilities	(20,533)	(14,782)	(36,869)	(14,641)	(10,155)
Experience adjustments arising on plan assets	18,902	(7,973)	8,721	6,375	9,410

The Company expects to pay Rs. 41.981 million in contributions to pension fund in 2008.

Notes to the Financial Statement

For the year ended 31 December 2007

7.11 Significant actuarial assumptions used for valuation of these plans are as follows:

	2007		2006	
	Gratuity fund per annum	Pension fund per annum	Gratuity fund per annum	Pension fund per annum
Discount Rate	10%	10%	10%	10%
Expected rates of salary increase	10%	10%	10%	10%
Expected rates of return on plan assets	12%	12%	14%	14%
Average expected remaining working life	13	13	12	12

	Note	2007 (Rupees in '000)	2006 (Rupees in '000)
8. Liabilities against assets subject to finance lease			
Present value of minimum lease payments		149,465	39,863
Less: Current portion shown under current liabilities		(29,863)	(8,392)
		119,602	31,471

The lease has been obtained under Kissan Dost Livestock Development Scheme. As per the terms of agreement, the finance cost will be paid by Pakistan Dairy Development Company (PDDC). The interest rate ranges from average 6 months to 1 year KIBOR plus 100 to 200 basis points with a floor of 10% per annum.

The amount of future payments of the lease and the period in which these payments will become due are as follows:

Years	2007			2006		
	Minimum lease payments	Finance cost	Principal	Minimum lease payment	Finance cost	Principal
	(Rupees in '000)			(Rupees in '000)		
Not later than one year	29,863	-	29,863	8,392	-	8,392
Later than one year but not later than five years	119,602	-	119,602	31,471	-	31,471
	149,465	-	149,465	39,863	-	39,863

Notes to the Financial Statement

For the year ended 31 December 2007

9. Short term borrowings - secured

This represents money market loans obtained from various commercial banks, which carry mark-up ranging from 9.71% to 10.03% per annum (2006: 9.81% to 10.18% per annum). These loans are obtained for a period of 30 days (2006: 30 days) and are secured against pari passu hypothecation charge over current assets of the Company.

10. Short term running finance under mark-up arrangements - secured

Short term running finances available from commercial banks under mark-up arrangements amount to Rs. 4,300 million (2006 : Rs. 2,700 million). Mark-up is charged at rates ranging from 9.80% to 10.75% per annum (2006 : 7.50% to 11.28 % per annum).

These running finances under mark-up arrangements are secured by hypothecation charge over the fixed assets, stores, stocks and assignment of receivables.

	Note	2007 (Rupees in '000)	2006
11. Trade and other payables			
Trade creditors			
Related parties - associated companies		188,482	62,946
Others		728,897	516,258
		917,379	579,204
Accrued liabilities			
Related parties - associated companies		146,883	95,088
Others		1,599,758	1,184,435
		1,746,641	1,279,523
Excise duty payable		12,012	9,515
Advances from customers		61,474	56,525
Workers' profit participation fund	11.1	96,156	93,146
Workers' welfare fund		104,015	51,978
Royalty and technical assistance fee payable to holding company		59,008	49,415
Unclaimed dividend		2,777	2,949
Withholding tax payable		8,152	20,965
Others		54,413	54,309
		3,062,027	2,197,529
11.1 Workers' profit participation fund			
Opening balance		93,146	60,909
Provision for the year	28	136,936	107,703
Interest for the year	27	-	1,563
		230,082	170,175
Less: Payments during the year		(133,926)	(77,029)
Closing balance		96,156	93,146

Notes to the Financial Statement

For the year ended 31 December 2007

	2007	2006
	(Rupees in '000)	
12 Interest and mark-up accrued		
Short term borrowings	7,702	3,139
Short term running finances - secured	28,084	28,749
Long term finances - secured	-	11,867
Long term loan from associated company - unsecured	53,475	54,794
	89,261	98,549

13 Contingencies and commitments

13.1 In 2002, Shaheed Zulfiqar Ali Bhutto Institute of Science and Technology (SZABIST) filed a petition against the Government of Sindh challenging cancellation of its allotment of 300 acres of land in the Deh Chur allotted to it earlier and later made the Company a party to the suit, claiming that the land that the Company had acquired was a part of its cancelled land.

The Company contested the SZABIST claim on the grounds that land acquired by the Company could not be claimed by SZABIST since (a) SZABIST did not have the area demarcated as per regulations after it was allotted to it (b) it did not take official possession of the land, and (c) the land was cancelled by operation of law and hence it was only a dispute between SZABIST and the Government of Sindh. The Court agreed and directed the Government of Sindh to conduct a survey and set aside 300 acres of land for SZABIST in Deh Chur in case its claim is finally accepted by the Court. As such it is the management's view that the Company is likely to be discharged as a party to the suit as soon as the 300 acres are earmarked by Sindh Government in Deh Chur. Furthermore, the legal advisor of the Company is of the opinion that at present no liability is likely to arise subject to final adjudication of the SZABIST petition.

13.2 Claims against the Company not acknowledged as debts amount to Rs. 41.535 million (2006: Rs. 35.946 million).

	2007	2006
	(Rupees in '000)	
13.3 Guarantees		
Outstanding guarantees	242,068	219,933
Un-utilized portion	77,932	30,067
13.4 Commitments in respect of capital expenditure	222,329	347,289
13.5 Letters of credit		
Outstanding letters of credit in respect of capital expenditure	332,821	33,572
Other outstanding letters of credit	44,485	253,366
Un-utilized portion	1,029,694	1,703,062

13.6 In 2005, the Company had made a commitment to pay Rs. 250 million to Lahore University of Management Sciences to set up a School for Science and Engineering. The amount is to be paid over a period of six years. Upto 31 December 2007, Rs.100 million has been paid, while Rs. 40 million has been accounted for during the year.

Notes to the Financial Statement

For the year ended 31 December 2007

14. Property, plant and equipment

	Owned assets					Leased assets					Total
	Freehold Land	Lease hold Land	Building on freehold land	Building on lease hold land	Plant and machinery	Furniture and fixtures	Vehicles	Office equipment	Plant and machinery	Vehicles	
(Rupees in '000)											
Cost											
Balance as at 01 January 2006	21,650	32,347	694,821	219,273	5,026,204	85,359	302,252	13,006	-	569	6,395,481
Reclassification	-	-	-	-	61	(1,622)	2,152	(591)	-	-	-
Additions during the year	34,037	-	671,191	-	3,505,383	17,623	37,617	-	45,045	-	4,310,896
Disposals	-	-	-	-	(153,951)	(2,498)	(40,959)	(206)	-	-	(197,614)
Transfers	-	-	-	-	-	-	569	-	-	(569)	-
Balance as at 31 December 2006	55,687	32,347	1,366,012	219,273	8,377,697	98,862	301,631	12,209	45,045	-	10,508,763
Balance as at 01 January 2007	55,687	32,347	1,366,012	219,273	8,377,697	98,862	301,631	12,209	45,045	-	10,508,763
Reclassification	-	-	-	-	5,960	-	-	(5,960)	-	-	-
Additions during the year	430,673	-	544,625	-	1,965,975	29,117	74,870	-	127,935	-	3,173,195
Disposals	-	-	(1,659)	-	(369,270)	(4,017)	(43,665)	(255)	-	-	(418,866)
Balance as at 31 December 2007	486,360	32,347	1,908,978	219,273	9,980,362	123,962	332,836	5,994	172,980	-	13,263,092
Depreciation and impairment losses											
Balance as at 01 January 2006	-	1,658	204,186	125,403	2,532,615	42,350	181,497	8,323	-	549	3,096,581
Reclassification	-	2	-	-	(11,002)	10,834	441	(275)	-	-	-
Depreciation charge for the year	-	366	28,577	4,387	487,493	12,239	44,948	1,505	328	-	579,843
Depreciation on disposals	-	-	-	-	(113,591)	(2,421)	(37,501)	(197)	-	-	(153,710)
Transfers/ adjustments	-	-	-	-	-	-	549	-	-	(549)	-
Balance as at 31 December 2006	-	2,026	232,763	129,790	2,895,515	63,002	189,934	9,356	328	-	3,522,714
Balance as at 01 January 2007	-	2,026	232,763	129,790	2,895,515	63,002	189,934	9,356	328	-	3,522,714
Reclassification	-	-	-	-	4,720	-	-	(4,720)	-	-	-
Depreciation charge for the year	-	360	63,825	4,266	810,306	14,162	48,551	654	11,689	-	953,813
Depreciation on disposals	-	-	(1,020)	-	(281,456)	(3,566)	(40,968)	(250)	-	-	(327,260)
Impairment charge	-	-	-	-	39,340	51	-	6	-	-	39,397
Balance as at 31 December 2007	-	2,386	295,568	134,056	3,468,425	73,649	197,517	5,046	12,017	-	4,188,664
Net book value as at 31 December 2006	55,687	30,321	1,133,249	89,483	5,482,182	35,860	111,697	2,853	44,717	-	6,986,049
Net book value as at 31 December 2007	486,360	29,961	1,613,410	85,217	6,511,937	50,313	135,319	948	160,963	-	9,074,428
Rate of depreciation in %	-	1-6.67	2-4	2-4	6.67-33	10	20	20	6.67-20	20	-

14.1 Reclassification

Reclassifications represent adjustments made during the year after an extensive review of plant and equipment classifications carried out by the management.

14.2 Depreciation charge for the year has been allocated as follows:

	Notes	2007 (Rupees in '000)	2006
Cost of goods sold	24	796,349	451,734
Distribution and selling expenses	25	104,078	90,567
Administration expenses	26	52,941	37,217
Capitalized during the year		445	325
		953,813	579,843

Notes to the Financial Statement

For the year ended 31 December 2007

14.3 Detail of certain property, plant and equipment sold during the year is as follows:

Description	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal	Sold to
(Rupees in '000)						
Building						
	70	10	60	-	Scrapped	JF-Enterprises
	668	89	579	-	Scrapped	JF-Enterprises
Plant and machinery						
	428	323	105	-	Scrapped	Perwaiz Ahmed
	13,207	12,836	371	-	Scrapped	JF-Enterprises
	16,006	15,556	450	-	Scrapped	JF-Enterprises
	5,392	5,241	151	-	Scrapped	JF-Enterprises
	3,244	3,059	185	-	Scrapped	JF-Enterprises
	576	486	90	-	Scrapped	JF-Enterprises
	3,719	3,506	213	-	Scrapped	JF-Enterprises
	1,725	1,612	113	-	Scrapped	JF-Enterprises
	2,264	2,109	155	134	Sale	Mughal Plastic
	15,605	14,623	982	852	Sale	Mughal Plastic
	822	768	54	46	Sale	Mughal Plastic
	3,078	2,888	190	164	Sale	Mughal Plastic
	10,014	9,391	623	541	Sale	Mughal Plastic
	4,464	4,132	332	288	Sale	Mughal Plastic
	118	34	84	-	Scrapped	JF-Enterprises
	1,743	1,685	58	-	Scrapped	JF-Enterprises
	9,761	9,642	119	220	Sale	Raymond Travel Machinery Limited
	1,125	416	709	-	Scrapped	JF-Enterprises
	9,445	6,650	2,795	-	scrapped	JF-Enterprises
	13,735	13,422	313	-	Scrapped	JF-Enterprises
	9,973	9,746	227	190	Scrapped	Nestlé Manufacturing, Malaysia
	9,629	9,409	220	-	Scrapped	JF-Enterprises
	433	327	106	27	Sale	Ghulam Dastgir & Sons
	490	131	359	150	Sale	Khalid Eng. Works
	80	23	57	-	Scrapped	JF-Enterprises
	443	214	229	-	Scrapped	JF-Enterprises
	189	47	142	-	Scrapped	M/S Quality General Impex
	1,079	480	599	-	Scrapped	M/S Quality General Impex
	563	235	328	-	Scrapped	M/S Quality General Impex
	563	219	344	-	Scrapped	M/S Quality General Impex
	563	203	360	-	Scrapped	M/S Quality General Impex
	751	229	522	-	Scrapped	M/S Quality General Impex
	2,130	592	1,538	-	Scrapped	M/S Quality General Impex
	751	167	584	-	Scrapped	M/S Quality General Impex
	587	114	473	-	Scrapped	M/S Quality General Impex
	120	50	70	-	Scrapped	JF-Enterprises
	2,770	1,713	1,057	-	Scrapped	JF-Enterprises
	1,687	871	816	-	Scrapped	JF-Enterprises
	32,324	2,424	29,900	20,204	Sale	ENGRO Foods Limited
	1,113	83	1,030	696	Sale	ENGRO Foods Limited
	474	132	342	-	Scrapped	M/S Quality General Impex
	1,297	396	901	-	Scrapped	M/S Quality General Impex
	558	155	403	-	Scrapped	M/S Quality General Impex
	1,127	188	939	-	Scrapped	M/S Quality General Impex

Notes to the Financial Statement

For the year ended 31 December 2007

Description	Note	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal	Sold to
(Rupees in '000)							
		1,130	628	502	-	Scrapped	M/S Quality General Impex
		2,827	1,492	1,335	-	Scrapped	M/S Quality General Impex
		1,130	565	565	-	Scrapped	M/S Quality General Impex
		2,815	1,329	1,486	-	Scrapped	M/S Quality General Impex
		453	50	403	-	Scrapped	M/S Quality General Impex
		219	123	96	-	Scrapped	JF-Enterprises
		219	123	96	-	Scrapped	JF-Enterprises
		229	119	110	-	Scrapped	JF-Enterprises
		575	217	358	-	Scrapped	JF-Enterprises
		532	272	260	-	Scrapped	JF-Enterprises
		256	107	149	-	Scrapped	JF-Enterprises
		230	98	132	-	Scrapped	JF-Enterprises
		230	98	132	-	Scrapped	JF-Enterprises
		6,670	2,630	4,040	-	Scrapped	JF-Enterprises
		1,020	394	626	-	Scrapped	JF-Enterprises
		900	203	697	-	Scrapped	JF-Enterprises
	14.4	26,387	-	26,387	21,546	Sale and lease back	Bank Alfalah Limited
Vehicles							
		1,110	788	322	750	Insurance claim	International General Insurance Co. of Pakistan Limited
		351	279	72	216	Sale	Employee (Saera Bukhari)
		938	698	240	480	Sale	Employee (Zafar Hussain Shah)
		560	177	383	505	Sale	Employee (Fawad Khurshid)
		555	157	398	461	Sale	Employee (Sabir Mahmood)
		997	415	582	580	Sale	Employee (Salman Nazir)
		360	42	318	360	Insurance claim	International General Insurance Co. of Pakistan Limited
		236	43	193	60	Sale	Employee (Imran Sajid)
Assets with book value less than Rs. 50,000		181,035	179,589	1,446	18,851		
Total		418,867	327,262	91,605	67,321		

14.4 Rs. 4.841 million of loss on sale and lease back transaction will be amortised over the period of lease term. During the year, amortisation of Rs. 0.565 million has been charged to the income.

Notes to the Financial Statement

For the year ended 31 December 2007

	Note	2007 (Rupees in '000)	2006
15. Capital work-in-progress			
Civil works		66,373	376,738
Plant and machinery	15.1	879,601	625,333
Others		25,209	104,981
		971,183	1,107,052

15.1 There was no plant and machinery in transit at the year end (2006: Rs. 20.160 million).

16. Intangible assets

Cost

Balance as at 01 January/ 31 December 213,189 213,189

Amortization

Balance as at 01 January 78,169 35,531

Charge for the year 42,638 42,638

Accumulated amortization as at 31 December 120,807 78,169

Net book value as at 31 December 92,382 135,020

Amortization rate 20% 20%

17. Long term loans and advances

To employees - secured and considered good

Executives 17.1 26,514 10,109

Other employees 14,230 38,089

40,744 48,198

To suppliers - unsecured and considered good 17.2 61,205 26,581

101,949 74,779

Less: current portion shown under current assets (21,279) (8,771)

80,670 66,008

17.1 These represent long term interest free loans to employees for the purchase of cars and motor cycles as per the Company policy and are repayable within a period of 5 years. Loans are secured by registration of vehicles in the name of the Company. None of the loans are outstanding for period exceeding three years.

The maximum amount of loans and advances to executives outstanding at the end of any month during the year was Rs. 26.514 million (2006 : Rs. 10.109 million).

Chief Executive and Directors have not taken any loans and advances from the Company (2006: Rs. Nil).

Notes to the Financial Statement

For the year ended 31 December 2007

	2007	2006
	(Rupees in '000)	
Reconciliation of carrying amount of loans to executives		
Opening balance	10,109	4,990
Disbursements during the year	2,560	3,250
Promotion of non - executive employees as executives	20,717	2,750
Loans recovered during the year	(6,872)	(881)
Closing balance	26,514	10,109

17.2 This includes an un-secured loan of Rs. 16.45 million (2006: Rs. 16.45 million) given to Sui Northern Gas Pipelines Limited for the development of infrastructure for supply of natural gas to the plant at Kabirwala. Mark-up is charged at the rate of 1.5% per annum (2006: 1.5% per annum) and is receivable annually. This amount is receivable in 10 equal annual installments commencing from 2008.

	Note	2007	2006
		(Rupees in '000)	
18. Stores and spares			
Stores		24,355	22,114
Spares, including in transit Rs. Nil (2006: Rs. 6.838 million)		412,218	309,462
		436,573	331,576
Less: Provision for obsolescence	18.2	-	(2,230)
		436,573	329,346

18.1 Stores and spares include items which may result in fixed capital expenditure but are not distinguishable.

	2007	2006
	(Rupees in '000)	
18.2 Provision for obsolescence		
Opening balance	2,230	-
Addition during the year	9,172	35,258
Less: write off during the year	(11,402)	(33,028)
Closing balance	-	2,230

	2007	2006
19. Stock in trade		
Raw and packing materials including in transit Rs.Nil (2006: Rs. 303.618 million)	1,157,125	1,253,755
Work-in-process	298,331	136,218
Finished goods	817,967	399,550
Goods purchased for resale including in transit Rs.Nil (2006: Rs. 9.963 million)	133,650	117,777
	2,407,073	1,907,300
Less: Provision for obsolescence	19.1	(13,767)
	2,393,306	1,907,300

Notes to the Financial Statement

For the year ended 31 December 2007

	Note	2007 (Rupees in '000)	2006
19.1 Provision for obsolescence			
Opening balance		-	-
Addition during the year		53,793	-
Less: write off during the year		(40,026)	-
Closing balance		13,767	-
20. Trade debts			
Considered good:			
Related parties - unsecured	20.1	-	2,695
Others - unsecured		344,053	235,596
Considered doubtful - others		1,749	848
		345,802	239,139
Less: Provision for doubtful debts	20.2	(1,749)	(848)
		344,053	238,291
20.1 Due from related parties			
Nestrade - associated company		-	2,695
These are in the normal course of business and are interest free.			
20.2 Provision for doubtful debts			
Opening balance		848	848
Addition during the year		901	80
Less: write off during the year		-	(80)
Closing balance		1,749	848
21. Advances, deposits, prepayments and other receivables			
Advances to employees - secured and considered good	21.1	3,014	9,503
Advances to suppliers - unsecured and considered good		453,474	762,899
Due from related parties - unsecured and considered good	21.2	69,112	227,238
Trade deposits and prepayments - considered good		102,815	45,245
Income tax recoverable		734,448	816,536
Sales tax refundable		410,654	186,777
Other receivables - considered good		248,870	61,116
		2,022,387	2,109,314

21.1 Chief Executive and Directors have not taken any advance from the Company (2006: Rs. Nil).

Notes to the Financial Statement

For the year ended 31 December 2007

	2007	2006
	(Rupees in '000)	
21.2 Due from related parties		
Foreign Associated Companies		
Nestrade	18,001	130,526
Nestlé Morocco S.A.	-	52
Nestlé Cote D'Ivoire	122	122
Nestlé China Limited	364	421
PT Nestlé Indonesia	7,741	11,222
Nestlé (Fiji) Limited	1,002	-
Nestlé Iran P.J.S.Co.	605	605
Nestlé Vietnam Limited	37	37
Nestlé UK Limited	200	1,821
Nestlé Dairy Cambodia Limited	-	575
Nestlé Middle East FZE	609	609
Nestlé Nederland B.V.	27,654	-
Nestlé Manufacturing Malaysia	-	416
Nestlé Tianjin Limited	8,974	2,961
Nestlé India Limited	-	33
Quality Coffee Products Limited	869	-
Nestec S.A.	85	-
Nestlé Australia Limited	-	562
Nestlé Philippines Inc.	460	-
Nestlé Turkiye Gida Sanayi A.S.	-	621
SBECM	70	-
Nestlé Espana S.A.	-	4,087
CPW Philippines	1,010	5,951
Nestlé South Africa Pty Limited	655	-
Nestlé Singapore Pte Limited	550	-
Nestlé Asean (Malaysia) Sdn Bhd	-	207
Nestlé Thai Limited	83	432
Saudi Food Industries Limited	21	-
Nestlé Chile S.A.	-	65,470
Societe De Bouchages Emballages	-	70
Perrier Vittel (Thailand) Limited	-	67
Nestlé Water Middle East	-	67
Epond	-	304
	69,112	227,238

These mainly represent sharing of expenses on behalf of each other in the normal course of business and are interest free.

	Note	2007	2006
		(Rupees in '000)	
22. Cash and bank balances			
Cash at bank - current accounts		404,922	820
		404,922	820
Cash and cheques in hand	22.1	1,303	33,843
		406,225	34,663

22.1 Cash in hand include Rs. Nil (2006: Rs. 9.162 million) in respect of cash imprest given to employees in the ordinary course of business.

Notes to the Financial Statement

For the year ended 31 December 2007

	Note	2007 (Rupees in '000)	2006
23. Sales - net			
Own manufactured			
Local		27,959,032	22,050,093
Export		1,902,751	1,355,324
		29,861,783	23,405,417
Goods purchased for resale		593,669	656,591
Less :			
Sales tax		(588,870)	(700,703)
Trade discounts		(1,631,189)	(1,330,347)
		28,235,393	22,030,958
24. Cost of goods sold			
Raw and packing materials consumed	24.1	16,006,343	11,676,369
Salaries, wages and amenities	24.2	1,027,603	832,743
Fuel and power		625,427	591,589
Insurance		20,777	15,418
Repairs, maintenance and stores consumption	24.3	776,654	442,731
Rent, rates and taxes		81,695	90,138
Depreciation	14.2	796,349	451,734
Amortization		6,128	17,152
Expenses on information technology		121,415	68,479
Stationery expenses		21,416	19,718
Communication		38,632	33,145
Quality assurance		90,417	77,629
Royalty and technical assistance fee		779,912	584,553
Others		165,881	112,747
		20,558,649	15,014,145
(Increase) in work-in-process		(162,113)	(5,658)
Cost of goods manufactured		20,396,536	15,008,487
(Increase)/decrease in finished goods		(418,417)	422,722
Cost of goods sold - own manufactured		19,978,119	15,431,209
Cost of goods sold - purchased for resale		313,151	347,121
		20,291,270	15,778,330

24.1 Included in raw and packing materials consumed is provision for obsolete stock of Rs. 13.767 million (2006: Rs. Nil). Also included in raw and packing materials consumed is stock written off of Rs. 40.026 million (2006: Rs. Nil).

24.2 Salaries, wages and amenities include Rs. 19.021 million (2006: Rs. 12.021 million) in respect of gratuity, Rs. 10.938 million (2006: Rs. 9.571 million) in respect of pension and Rs. 24.386 million (2006: Rs. 19.386 million) in respect of provident fund.

24.3 Included in repairs, maintenance and stores consumption is provision of Rs. Nil (2006: Rs. 2.23 million) and reversal of provision for obsolete stores of Rs. 2.23 million (2006: Rs. Nil). Also included in repairs, maintenance and stores consumed is stores and spares written off of Rs. 11.402 million (2006: Rs. 33.028 million).

Notes to the Financial Statement

For the year ended 31 December 2007

	Note	2007 (Rupees in '000)	2006
25. Distribution and selling expenses			
Salaries, wages and amenities	25.1	675,653	603,708
Training		23,455	24,145
Rent, rates and taxes		76,276	56,427
Insurance		5,560	5,829
Freight outward		915,165	751,444
Depreciation	14.2	104,078	90,567
Amortization		385	1,115
Sales promotion and advertisement		1,447,339	1,195,870
Legal and professional charges		7,478	5,474
Vehicle running and maintenance		13,623	18,050
Utilities		12,872	11,832
Repairs and maintenance		32,261	24,767
Subscription, stationery, printing and publication		11,946	8,044
Communications		13,947	12,914
Traveling, conveyance and vehicle running		95,921	80,119
Provision for doubtful debts		901	80
Expenses on information technology		24,888	4,312
Other expenses		76,921	30,421
		3,538,669	2,925,118

25.1 Salaries, wages and amenities include Rs. 14.115 million (2006: Rs. 14.235 million) in respect of gratuity, Rs. 11.272 million (2006: Rs. 11.334 million) in respect of pension and Rs. 25.681 million (2006: Rs. 23.391 million) in respect of provident fund.

	Note	2007 (Rupees in '000)	2006
26. Administration expenses			
Salaries, wages and amenities	26.1	368,943	290,798
Training		25,485	16,746
Rent, rates and taxes		66,363	39,113
Insurance		1,777	2,029
Depreciation	14.2	52,941	37,217
Amortization		36,125	24,371
Legal and professional charges	26.2	21,072	17,766
Vehicles running and maintenance		8,224	7,235
Utilities		10,847	10,489
Repairs and maintenance		15,605	9,294
Subscription, stationery, printing and publication		20,964	18,473
Communications		32,180	36,975
Traveling and conveyance		69,953	43,660
Expenses on information technology		119,351	103,196
Other expenses		44,479	29,730
		894,309	687,092

26.1 Salaries, wages and amenities include Rs. 12.678 million (2006: Rs. 5.378 million) in respect of gratuity, Rs. 13.698 million (2006: Rs. 4.282 million) in respect of pension and Rs. 14.033 million (2006: Rs. 8.941 million) in respect of provident fund.

Notes to the Financial Statement

For the year ended 31 December 2007

	Note	2007 (Rupees in '000)	2006
26.2			
Legal and professional charges include the following in respect of auditors' services for:			
Statutory audit		420	375
Half yearly review		125	125
Services in connection with review and reporting of accounts to parent company auditors		25	100
Audit of accounts of staff retirement benefits		50	36
Other sundry certificates		12	12
Out of pocket expenses		128	133
		760	781
27. Finance cost			
Mark-up on long term finances - secured		30,265	80,190
Mark-up on short term running finances - secured		135,670	130,527
Mark-up on short term borrowings - secured		114,255	28,689
Mark-up on loan from associated company		272,458	186,373
Finance cost on liability against assets subject to finance lease		-	1
Interest on Workers' Profit Participation Fund	11.1	-	1,563
Bank charges		31,786	20,431
		584,434	447,774
28. Other operating expenses			
Workers' Profit Participation Fund	11.1	136,936	107,703
Workers' Welfare Fund		52,036	40,927
Donations	28.1	88,436	54,050
Loss on disposal of property, plant and equipment		20,008	-
Impairment loss on property, plant and equipment		39,397	-
Exchange loss		105,670	36,579
Others		431	5,891
		442,914	245,150
28.1 Donations			
Name of donee in which a director or his spouse has an interest:			
Lahore University of Management Sciences (LUMS), Defence Housing Authority, Lahore (Syed Babar Ali, Director is also a Pro-Chancellor of LUMS)		40,000	50,000
		40,000	50,000

Notes to the Financial Statement

For the year ended 31 December 2007

	Note	2007 (Rupees in '000)	2006
29. Other operating income			
Income from financial assets			
Return on bank deposits		-	3,016
Income from non-financial assets			
Profit on disposal of property, plant and equipment		-	19,608
Sale of scrap		46,041	28,758
Others		19,918	6,579
		65,959	54,945
		65,959	57,961
30. Taxation			
Current year			
Current		315,728	110,724
Deferred		428,816	506,708
		744,544	617,432
Prior year			
Current		-	24,733
		744,544	642,165
		2007	2006
		%	%
30.1 Tax charge reconciliation			
Numerical reconciliation between the average effective tax rate and the applicable tax rate:			
Applicable tax rate		35.00	35.00
Tax effect of amounts that are:			
Not deductible for tax purposes		2.19	0.94
Allowable for tax purposes		(1.52)	(0.13)
Not allowable due to change in legislation		-	0.46
Effect of changes in prior years' tax/surcharge		-	1.23
Effect of prior year taxes related to items accounted for in equity		-	(0.41)
Tax effect under presumptive tax regime		(6.47)	(5.48)
		(5.80)	(3.39)
Average effective tax rate charged to profit and loss account		29.20	31.61

Average effective tax rate includes the tax impact of items directly recognized in equity.

Notes to the Financial Statement

For the year ended 31 December 2007

2007 2006

31. Earnings per share

31.1 Basic earnings per share

Profit after taxation available for distribution to ordinary shareholders	Rupees in '000	1,805,212	1,363,290
Weighted average number of ordinary shares	Number in '000	45,350	45,350
Basic earnings per share	Rupees	39.81	30.06

31.2 Diluted earnings per share

There is no dilution effect on the basic earnings per share of the Company as it has no such commitments.

32. Transactions with related parties

The related parties comprise associated undertakings, key management personnel and employees retirement benefit funds. The Company in the normal course of business carries out transactions with various related parties. Amounts due from and to related parties are shown under receivables and payables, amounts due from key management personnel are shown under receivables and remuneration of key management personnel is disclosed in note 35. Other significant transactions with related parties are as follows:

2007 2006
(Rupees in '000)

Associated companies

Royalty and technical assistance fee	742,416	584,447
Purchase of goods, services and rental	4,025,518	5,225,872
Sale of goods and services	34,994	64,875
Interest on foreign currency loan	272,458	186,373
Disposal of property, plant and equipment	–	34,240

Other related parties

Contribution to staff retirement benefit plans	74,690	69,295
--	--------	--------

All transactions with related parties have been carried out on commercial terms and conditions.

Notes to the Financial Statement

For the year ended 31 December 2007

	Note	2007 (Rupees in '000)	2006
33. Cash generated from operations			
Profit before taxation		2,549,756	2,005,455
Adjustment for non-cash charges and other items:			
Depreciation		953,813	579,843
Amortization		42,638	42,638
Impairment loss on property, plant and equipment		39,397	–
Loss/(profit) on disposal of property, plant and equipment		20,008	(19,608)
Exchange loss on long term foreign currency loan		65,000	–
Provision for obsolete stores and spares		–	2,230
Provision for obsolete stock		13,767	–
Stocks written off		40,026	–
Stores and spares written off		11,402	33,028
Provision for doubtful debts		901	80
Retirement benefits		82,080	56,821
Finance cost		584,434	447,774
Profit before working capital changes		4,403,222	3,148,261
Effect on cash flow due to working capital changes:			
(Increase) in stores and spares		(118,629)	(114,683)
(Increase) in stock in trade		(539,799)	(414,317)
(Increase) in trade debts		(106,663)	(191,073)
Decrease/(increase) in advances, deposits, prepayments and other receivables		9,116	(843,465)
Increase in trade and other payables		864,498	12,456
Increase in customer security deposits - interest free		22,265	21,835
		130,788	(1,529,247)
		4,534,010	1,619,014
34. Cash and cash equivalents			
Cash and bank balances	22	406,225	34,663
Short term running finance under mark-up arrangements - secured		(1,637,799)	(1,817,711)
		(1,231,574)	(1,783,048)

Notes to the Financial Statement

For the year ended 31 December 2007

35. Remuneration of chairman, chief executive and executives

The aggregate amounts charged in these financial statements during the year for remuneration, including certain benefits, to the chairman, chief executive and executives of the Company are as follows:

	Chairman		Chief Executive		Executives	
	2007 (Rupees in '000)	2006	2007 (Rupees in '000)	2006	2007 (Rupees in '000)	2006
Managerial	1,465	1,465	9,567	9,157	355,601	283,110
Bonus	–	–	2,993	2,721	81,034	72,773
Retirement benefits	–	–	–	–	56,444	42,209
Housing	–	–	2,706	2,460	9,824	7,179
Utilities	120	120	–	–	19,760	15,442
Reimbursable	539	539	3,127	2,983	55,735	46,445
	2,124	2,124	18,393	17,321	578,398	467,158
Number of persons	1	1	1	1	237	193

The chairman, chief executive and certain executives of the Company are provided with use of company maintained vehicles and residential telephones.

No meeting fee was paid to the directors during the year (2006: Rs. Nil).

Notes to the Financial Statement

For the year ended 31 December 2007

36 Financial assets and liabilities

	Interest / mark-up bearing				Non interest / mark-up bearing				Total	
	Maturity upto one year	Maturity from two to five years	Maturity from more than five years	Sub total	Maturity upto one year	Maturity from two to five years	Maturity from more than five years	Sub total	2007	2006
(Rupees in '000)										
Financial assets										
Long term loans and advances	1,645	6,580	8,225	16,450	19,634	65,865	-	85,499	101,949	74,779
Long term security deposits	-	-	-	-	-	-	6,088	6,088	6,088	6,088
Trade debts	-	-	-	-	344,053	-	-	344,053	344,053	238,291
Advances, deposits, prepayments and other receivables	-	-	-	-	317,982	-	-	317,982	317,982	288,354
Cash and bank balances	-	-	-	-	406,225	-	-	406,225	406,225	34,663
	1,645	6,580	8,225	16,450	1,087,894	65,865	6,088	1,159,847	1,176,297	642,175
Financial liabilities										
Long term finances - secured	-	4,028,700	-	4,028,700	-	-	-	-	4,028,700	4,263,700
Customer security deposits - interest free	-	-	-	-	124,572	-	-	124,572	124,572	102,307
Short term borrowings - secured	1,035,000	-	-	1,035,000	-	-	-	-	1,035,000	700,000
Short term running finance under mark-up arrangements - secured	1,637,799	-	-	1,637,799	-	-	-	-	1,637,799	1,817,711
Liabilities against assets subject to finance lease	-	-	-	-	29,863	119,602	-	149,465	149,465	39,863
Trade and other payables	-	-	-	-	2,780,218	-	-	2,780,218	2,780,218	1,965,400
Interest and mark up accrued	-	-	-	-	89,261	-	-	89,261	89,261	98,549
	2,672,799	4,028,700	-	6,701,499	3,023,914	119,602	-	3,143,516	9,845,015	8,987,530
Off balance sheet financial instruments										
Commitments									222,329	383,236
Guarantees									242,068	219,933
Letters of credit									377,306	286,938
									841,703	890,107

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

36.1 Financial risk management objectives

The Company finances its operations through equity, borrowings and management of working capital with a view to obtain a reasonable mix between the various sources of finance to minimize risk. Taken as a whole, risk arising from the Company's financial instruments is limited as there is no significant exposure to market risk in respect of such instruments.

36.2 Foreign exchange risk management

Foreign currency risk arises mainly where receivables and payables exist due to transactions entered into foreign currency. The Company is exposed to foreign currency risk on sales, purchases and borrowings that are entered in a currency other than Pak Rupees. The Company uses forward exchange contracts to hedge its foreign currency risk, when considered appropriate.

Notes to the Financial Statement

For the year ended 31 December 2007

36.3 Concentration of credit risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counter parties fails completely to perform as contracted. The Company's credit risk is primarily attributable to its trade debts and loans and advances. The Company has no significant concentration of credit risk as exposure is spread over a large number of counter parties in the case of trade debts. Of the total financial assets of Rs. 1,176 million (2006: Rs. 642.175 million) financial assets which are subject to credit risk amount to Rs. 770.072 million (2006: Rs. 607.512 million). To manage exposure to credit risk, the Company applies credit limits to its customers and obtains advances from them.

36.4 Fair values of financial assets and liabilities

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

36.5 Liquidity risk

Liquidity risk reflects an enterprise's inability in raising funds to meet commitments. The Company follows an effective cash management and planning policy and maintains flexibility in funding by keeping committed credit lines available.

36.6 Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Company has adopted appropriate policies to cover interest rate risk.

36.7 Capital management

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

The Company's objectives when managing capital are:

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

The Company manages the capital structure in the context of economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may, for example, adjust the amount of dividends paid to shareholders, issue new shares, or sell assets to reduce debt. The Company monitors capital on the basis of the debt-to-equity ratio - calculated as a ratio of total debt to equity.

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

Notes to the Financial Statement

For the year ended 31 December 2007

	2007 (Rupees in '000)	2006
Total debt	6,850,964	6,821,274
Total equity and debt	10,962,669	9,352,354
Debt-to-equity ratio	62:38	73:27

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

There were no changes in the Company's approach to capital management during the year and the Company is not subject to externally imposed capital requirements.

	Capacity		Production	
	2007	2006	2007	2006
37. Capacity and production				
Liquid products - liters ('000)	920,386	708,919	533,750	499,259
Non-liquid products - kgs ('000)	119,481	80,963	52,881	44,215

Under utilization of capacity was mainly due to seasonality impact of fresh milk and increase in capacity through new investment to meet future requirement.

38. Segment reporting

Segment information is presented in respect of the Company's business. The primary format, business segment, is based on the Company's management reporting structure.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated assets and liabilities include short term and long term borrowings, employees retirement benefits and other operating liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one year.

The Company's operations comprise of the following main business segments:

- Milk and nutrition products; and
- Beverages.

Notes to the Financial Statement

For the year ended 31 December 2007

Segment analysis for the year ended 31 December 2007

	Milk and Nutrition Products	Beverages	Other Operations	Total
	(Rupees in '000)			
Sales				
External sales	24,369,902	3,510,948	354,543	28,235,393
Inter-segment sales	–	–	–	–
Total revenue	24,369,902	3,510,948	354,543	28,235,393
Profit before tax and unallocated expenses	3,477,452	94,336	(94,753)	3,477,035
Unallocated corporate expenses				
Finance cost				(584,434)
Other operating expenses				(393,822)
Other operating income				50,977
Taxation				(744,544)
Profit after taxation				1,805,212
Segment assets	9,017,544	2,422,348	99,552	11,539,444
Unallocated assets				4,309,130
Consolidated total assets				15,848,574
Segment liabilities	2,930,341	529,592	40,873	3,500,806
Unallocated liabilities				8,236,063
Consolidated total liabilities				11,736,869
Segment capital expenditure	1,644,657	1,069,570	–	2,714,227
Unallocated capital expenditure				195,164
				2,909,391
Non-cash expenses other than depreciation and amortization				
Provision for bad debts	657	244	–	901
Impairment loss on property, plant and equipment	13,837	25,560	–	39,397
Depreciation and amortization	770,629	211,776	14,046	996,451

Notes to the Financial Statement

For the year ended 31 December 2007

Segment analysis for the year ended 31 December 2006

	Milk and Nutrition Products	Beverages	Other Operations	Total
	(Rupees in '000)			
Sales				
External sales	18,829,817	2,870,761	330,380	22,030,958
Inter-segment sales	–	–	–	–
Total revenue	18,829,817	2,870,761	330,380	22,030,958
Profit before tax and unallocated expenses	2,702,976	(31,719)	(30,839)	2,640,418
Unallocated corporate expenses				
Finance cost				(447,774)
Other operating expenses				(245,150)
Other operating income				57,961
Taxation				(642,165)
Profit after taxation				1,363,290
Segment assets and liabilities				
Segment assets	7,012,872	1,434,044	51,955	8,498,871
Unallocated assets				4,429,031
Consolidated total assets				12,927,902
Segment liabilities	1,506,802	315,178	517,811	2,339,791
Unallocated liabilities				8,057,031
Consolidated total liabilities				10,396,822
Segment capital expenditure	2,741,606	649,247	–	3,390,853
Unallocated capital expenditure				193,575
				3,584,428
Non-cash expenses other than depreciation and amortization				
Bad debts	80	–	–	80
Depreciation and amortization	442,512	167,170	12,799	622,481

Notes to the Financial Statement

For the year ended 31 December 2007

39 Date of authorization for issue

These financial statements were authorized for issue on 07 February 2008 by the Board of Directors.

40 Dividend

The Board of Directors in their meeting held on February 07, 2008 have proposed a final cash dividend for the year ended December 31, 2007 of Rs. 10 per share, amounting to Rs. 453.496 million (2006: Rs. 226.748 million) for approval of the members in the Annual General Meeting to be held on 31 March, 2008. These financial statements do not reflect this dividend.

41 General

41.1 Corresponding figures

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

- Assets subject to finance lease amounting to Rs. 44.717 million (NBV) previously appearing on the face of the balance sheet have now been reclassified and included in Property, plant and equipment (note 14).
- Communication expenses amounting to Rs. 15.613 million and Rs. 17.532 million previously included in "Expenses on information technology" and "Other expenses" respectively, have now been reclassified and included as a separate line item under "Cost of goods sold" (note 24).
- Exchange gain amounting to Rs. 18.771 million previously included in "Other operating income" have now been netted off with exchange loss appearing under "Other operating expenses" (note 28).

41.2 Figures have been rounded off to the nearest of thousand of rupee.



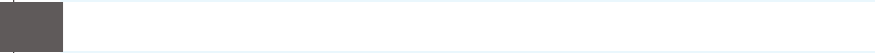
RAYMOND FRANKE
Head of Finance and Control



CLAYTON TREVOR
Chief Executive



SYED YAWAR ALI
Chairman



www.nestle.pk

Nestlé Pakistan Limited
308 Upper Mall, Lahore. Pakistan
Tel 92 42 5757082, Fax 92 42 5789303

Designed & Printed in Pakistan by **VANTAGE** Tel: 92 42 5765001-5