

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 September 30, 1986 as a public limited company under the Companies Ordinance, 1984 (the Ordinance) and is quoted on Karachi and Lahore Stock Exchanges. The registered office of the Company is situated at Lakson Square, Building No. 2, Sarwar Shaheed Road, Karachi.

The principal business of the Company is manufacture and sale of food and plastic products and trading in food and personal care products.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1. Statement of compliance

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

2.2. Basis of preparation

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

2.3. Significant accounting estimates and judgments

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgments in the process of applying the Company's accounting policies. Estimates and judgments are continually evaluated and are based on historic experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the process of applying the Company's accounting policies, management has made the following estimates and judgments which are significant to the financial statements:

Staff retirement benefits

Certain actuarial assumptions have been adopted as disclosed in note 17.4 to the financial statements for valuation of present value of defined benefit obligations and fair value of plan assets. Any changes in these assumptions in future years might affect unrecognized gains and losses in those years.

Property, plant and equipment

Estimates with respect to residual values and depreciable lives and pattern of flow of economic benefits are based on the recommendation of technical team of the Company. Further, the Company reviews the value of the assets for possible impairment on an annual basis. Any change in the estimates in future years might affect the carrying amounts of the respective items of property, plant and equipments with a corresponding affect on the depreciation charge and impairment.



Notes to the Financial Statements for the year ended June 30, 2006

Other areas where estimates and judgments involved are disclosed in respective notes to the financial statements.

2.4. Fixed assets and depreciation

Property, plant and equipment

Operating property, plant and equipment except for freehold and leasehold land are stated at cost less accumulated depreciation. Freehold land, leasehold land and capital work-in-progress are stated at cost.

Depreciation is charged using straight line method by applying rates specified in Note 3.1.

Depreciation on additions is charged from the month in which the asset is put to use and on disposals upto the month the respective asset was in use.

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

Gains and losses on disposal of property, plant and equipment are included in the profit and loss account.

The carrying values of property, plant and equipment are reviewed at each reporting date for indication that an asset may be impaired and carrying values may not be recovered. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash generating units are written down to their recoverable amount. The recoverable amount of property, plant and equipment is the greater of net selling price and value in use.

2.5. Stores

Stores are valued at lower of moving average cost and net realizable value.

2.6. Stock in trade

These are valued at lower of cost and net realizable value. Cost is determined as follows:

Raw, packing and promotional material	–	at moving average cost
Raw and packing material in bonded warehouse	–	at invoice value plus other charges paid thereon
Work-in-process and finished goods	–	at cost of material as above plus proportionate production overheads
Trading goods	–	at cost on first-in-first-out basis
Stock in transit	–	at invoice value plus other charges paid thereon

Net realizable value represents estimated selling prices in the ordinary course of business less cost necessary to be incurred to make the sale.

Notes to the Financial Statements for the year ended June 30, 2006



2.7. Trade debts and other receivables

Trade debts and other receivables are carried at original invoice amount less an estimate made for doubtful receivables based on review of outstanding amounts at each quarter end. Balances considered bad and irrecoverable are written off when identified.

2.8. Accounting for leases

2.8.1 Finance lease

Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are appropriated between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Depreciation is charged at rates used for similar assets, so as to depreciate the assets over their estimated useful life in view of ownership of the assets at the end of the lease term.

2.8.2 Operating lease

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the profit and loss account.

2.9. Cash and cash equivalents

For the purpose of cash flow statement, cash and cash equivalents consist of cash in hand and balances with banks, cheques in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

2.10 Staff retirement benefits

a) Defined benefit plan

The Company operates an approved defined funded gratuity scheme for all its permanent employees. Contributions to the fund are made based on actuarial recommendations. The most recent actuarial valuation was carried out effective June 30, 2006 using the Projected Unit Credit Method. Staff retirement benefits are payable to staff on completion of prescribed qualifying period of service under the schemes. Actuarial gains and losses are recognized as income or expense when the cumulative unrecognized actuarial gains or losses for each individual plan exceeds 10% of the higher of present value of defined benefit obligation and fair value of plan asset. These gains or losses are recognized over the future expected remaining lifetime of its employees.

b) Defined contribution plan

A recognized provident fund scheme is in operation, which covers all permanent employees. The Company and the employees make equal contributions. Contribution of the Company are charged to income for the year.



Notes to the Financial Statements for the year ended June 30, 2006

2.11. Compensated absences

The Company provides for its estimated liability towards leaves accumulated by employees on an accrual basis using current salary levels.

2.12. Taxation

Current

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

Deferred

Deferred tax is provided in full, using the liability method, on all temporary differences arising at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that the temporary differences will reverse in the future and taxable income will be available against which the temporary differences 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 profits will be available to allow all or part of the deferred tax asset to be recognized.

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

2.13. Trade and other payables

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

2.14. Provisions

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

2.15. Foreign currency translation

Foreign currency transactions are translated into Pak Rupees using the exchange rates prevailing at the date of transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translations at the year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the profit and loss account.

2.16. Financial instruments

Financial instruments carried on the balance sheet include loans to staff, deposits, trade debts, cash and cash equivalents, liabilities against assets subject to finance lease, trade and other payables and other commitments. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

Notes to the Financial Statements for the year ended June 30, 2006



All the financial assets and financial liabilities are recognized at the time when the Company becomes a party to the contractual provisions of the instrument and are derecognised in case of assets, when the contractual rights under the instrument are realised, expire or surrendered and in case of liability, when the obligation is discharged, cancelled or expired.

2.17. Offsetting of financial assets and financial liabilities

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

2.18. Borrowings costs

Borrowing costs are recognized as an expense in the period in which they are incurred.

2.19. Revenue recognition

Sales are recorded on dispatch of goods to customers. Interest income is accounted for on accrual basis.

2.20. Dividend and appropriation to reserves

Dividend and appropriation to reserves are recognised in the financial statements in the period in which these are approved.

2.21. Transaction with related parties

All transactions with related parties are carried out by the company using the methods prescribed under the Ordinance.

	Note	2006 Rupees	2005 Rupees
3. FIXED ASSETS - Property, plant and equipment			
Operating property, plant and equipment	3.1	58,030,926	36,872,616
Capital work in progress	3.5	–	2,614,293
		<u>58,030,926</u>	<u>39,486,909</u>

3.1 Operating property plant and equipment

Description	Note	COST			Depreciation			Book Value at June 30, 2006	Dep. Rate % per annum
		July 01, 2005	Additions/ (disposals)/ *transfer	June 30, 2006	July 01, 2005	For the year (disposals)/ *transfer	June 30, 2006		
Owned									
Freehold land		1,636,307	-	1,636,307	-	-	-	1,636,307	-
Leasehold land	(3.3)	1,512,016	3,401,650	4,913,666	-	-	-	4,913,666	-
Building on leasehold land	(3.3)	16,874,064	3,228,761	20,102,825	10,263,089	911,839	11,174,928	8,927,897	5
Office premises		1,203,197	-	1,203,197	649,112	184,728	833,840	369,357	15
Plant and machinery	(3.2)	46,528,399	22,677,768 (5,913,253) *755,000	64,047,914	32,078,538	2,251,322 (1,900,098) *342,204	32,771,966	31,275,948	10
Furniture and fittings		4,979,161	165,670	5,144,831	3,717,896	378,608	4,096,504	1,048,327	15
Office equipment		1,091,039	334,155	1,425,194	660,606	210,061	870,667	554,527	15
Tools and equipment		913,286	121,500	1,034,786	853,765	30,452	884,217	150,569	15
Vehicles		13,759,542	4,227,700 (1,507,124)	16,480,118	5,241,557	3,753,172 (529,631)	8,465,098	8,015,020	20
Computer and data processing equipment		2,679,549	601,130 (103,505)	3,177,174	1,859,638	730,626 (34,157)	2,556,107	621,067	33
Total - Owned assets	3.2	91,176,560	34,758,334 (1,610,629) *755,000 (5,913,253)	119,166,012	55,324,201	8,450,808 (563,788) *342,204 (1,900,098)	61,653,327	57,512,685	
Leased assets									
Plant, machinery and others		1,631,500	- *(755,000)	876,500	611,243	89,220 *(342,204)	358,259	518,241	10
2006		92,808,060	34,758,334 (1,610,629) (5,913,253)	120,042,512	55,935,444	8,540,028 (563,788) (1,900,098)	62,011,586	58,030,926	
2005		89,805,857	3,945,815 (943,612)	92,808,060	41,787,117	14,354,592 (206,265)	55,935,444	36,872,616	

* Represent transfer from leased assets to owned assets.

Details of Property, plant and equipment sold is given in Note 34.

3.2. During the year, the company has changed its method in respect of moulds included in plant and machinery and has charged off all the moulds which are held by a third party for manufacturing certain packing materials for the Company costing Rs. 5.913 million and having a written down value of Rs. 4.013 million. The Company has accounted for this as a change in accounting estimate, as the pattern of economic consumption has changed in respect of these moulds. Accordingly, all the moulds purchased during the year and held previously are charged off to the profit and loss account.

3.3. The leasehold land and building thereon have been mortgaged as security against running finance facility from a bank.

Notes to the Financial Statements for the year ended June 30, 2006



	Note	2006 Rupees	2005 Rupees
3.4. Depreciation for the year has been allocated as follows:			
Cost of sales	20	3,330,558	9,738,363
Distribution and marketing expenses	21	3,725,477	3,067,982
Administrative expenses	22	1,483,993	1,548,247
		<u>8,540,028</u>	<u>14,354,592</u>

3.5. Capital work-in-progress

Civil works		<u>-</u>	<u>2,614,293</u>
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4. LONG-TERM LOANS

Loans to staff

Secured – considered good

Executives	4.2	757,315	15,295
Other employees		<u>2,151,538</u>	<u>1,477,649</u>
		<u>2,908,853</u>	<u>1,492,944</u>

Less: Due within one year shown under current portion of loans

- Executives	7	157,315	7,980
- Other employees	7	<u>691,717</u>	<u>370,472</u>
		<u>849,032</u>	<u>378,452</u>
		<u>2,059,821</u>	<u>1,114,492</u>

4.1. These are interest free loans to staff principally for purchase of vehicles and house building and are repayable in 5 years by equal monthly installments. In case of vehicle loans, these are secured by pledge of original registration documents of vehicles and demand promissory notes.

4.2. Reconciliation of carrying amount of loans to Executives

	Opening balance as at July 01, 2005	Disbursement	Repayment	Closing balance as at June 30, 2006
	(Rupees)			
Executives	<u>15,295</u>	<u>750,000</u>	<u>7,980</u>	<u>757,315</u>

4.3. The maximum aggregate amount due from executives at the end of any month during the year was Rs. 0.757 million (2005: Rs. 0.023 million).

	Note	2006 Rupees	2005 Rupees
5. STOCK-IN-TRADE			
Raw material	5.1	40,740,979	38,392,113
Packing material	5.2	28,760,017	15,652,312
Work in process		3,074,890	2,212,956
Finished goods		26,580,561	11,670,382
Trading goods		<u>6,596,641</u>	<u>4,471,790</u>
		<u>105,753,088</u>	<u>72,399,553</u>



Notes to the Financial Statements for the year ended June 30, 2006

5.1 This includes raw material in transit amounting to Rs. Nil (2005: Rs. 1.134 million).

5.2 This includes packaging material in transit amounting to Rs. Nil (2005: Rs. 0.256 million) and stock held by third parties in the normal course of business amounting to Rs. 2.113 million (2005: Rs. 2.824 million).

	Note	2006 Rupees	2005 Rupees
6. TRADE DEBTS			
Unsecured			
Considered good	6.1	35,667,812	15,009,508
Considered doubtful		<u>1,511,788</u>	<u>2,026,478</u>
		37,179,600	17,035,986
Less: Provision for doubtful debts	6.2	<u>1,511,788</u>	<u>2,026,478</u>
		<u>35,667,812</u>	<u>15,009,508</u>
6.1 The amount includes due from the following related parties:			
Siza Foods (Private) Limited		3,934	6,303
Siza Services (Private) Limited		5,036	2,521
Colgate Palmolive (Pakistan) Limited		34,852	21,836
Century Paper & Board Mills Limited		3,844	–
Tetley Clover (Private) Limited		<u>1,258</u>	<u>–</u>
		<u>48,924</u>	<u>30,660</u>
6.2 Movement of provision for doubtful debts			
Opening balance		2,026,478	1,417,681
Adjustment on account of:			
– Provision for doubtful debts		–	608,797
– Reversal of provision for doubtful debts		<u>(514,690)</u>	<u>–</u>
Closing balance		<u>1,511,788</u>	<u>2,026,478</u>
7. LOANS AND ADVANCES			
Considered good			
Current portion of long-term loans to staff - secured			
– Executives	4	157,315	7,980
– Other employees	4	<u>691,717</u>	<u>370,472</u>
		849,032	378,452
Advance against import		557,893	2,390,788
Advances to:			
Executives	7.1	<u>–</u>	<u>1,251</u>
Employees		94,125	265,981
Suppliers	7.2	<u>7,631,586</u>	<u>1,253,120</u>
		7,725,711	1,520,352
		<u>9,132,636</u>	<u>4,289,592</u>

7.1 The maximum aggregate balance of advances due from executives at the end of any month during the year was Rs. 0.011 million (2005: Rs. 0.005 million).

7.2 This includes Rs. 0.5 million (2005: Rs. 0.1 million) due from a related party Century Insurance Company Limited (an associated company). The maximum balance due from an associated company at the end of any month during the year was Rs. 0.5 million (2005: Rs. 0.1 million).

Notes to the Financial Statements for the year ended June 30, 2006



	Note	2006 Rupees	2005 Rupees
8. TRADE DEPOSITS AND SHORT TERM PREPAYMENTS			
Trade deposits			
Security deposits		137,615	175,140
Container deposits		1,470,000	2,050,000
		<u>1,607,615</u>	<u>2,225,140</u>
Short term prepayments		154,400	859,736
		<u>1,762,015</u>	<u>3,084,876</u>
9. OTHER RECEIVABLES			
Considered good			
Receivable from related parties	9.1	233,857	404,817
Receivable from Collector of Customs	9.2	236,170	236,170
Export rebate receivable		66,081	358,797
Others		4,668	1,679
		<u>540,776</u>	<u>1,001,463</u>
9.1 The amount due from related parties, comprises:			
Kraft Foods International		–	374,197
Tetley Clover (Private) Limited		98,407	–
Colgate Palmolive (Pakistan) Limited		135,450	–
Century Insurance Company Limited		–	30,620
		<u>233,857</u>	<u>404,817</u>
9.2 This represents amount of guarantees encashed by the Collector of Customs, issued on account of disputed amount of duties demanded by the Collectorate on certain imported goods. This amount has been recognized as refundable as the management expects a favourable resolution to the dispute.			
10. SHORT TERM INVESTMENT			
This represents investment in Musharika deposit with a Modaraba having maturity of one month with an option of roll forward and carrying mark-up @ 10% per annum (2005: 7.5%).			
11. CASH AND BANK BALANCES			
Cash at banks			
In current accounts		19,642,528	27,514,075
In saving accounts	11.1	200,135,245	110,418,526
In deposit account		–	30,000,000
		<u>219,777,773</u>	<u>167,932,601</u>
Cash in hand		141,081	70,833
Cheques in hand		10,719,509	4,618,287
		<u>230,638,363</u>	<u>172,621,721</u>

11.1 These balances carry profit rates ranging from 2% to 3.5% (2005: 2% to 3.5%) per annum.

11.2 As at the balance sheet date, aggregate unutilized sanctioned limit of running finance facilities was Rs. 185.0 million (2005: Rs. 145.0 million). These facilities are secured against mortgage of leasehold land, factory building and hypothecation charge over stocks and book debts of the Company and carry markup at rates ranging from 7.5% to 11.5% (2005: 4.79% to 9%) per annum.

Notes to the Financial Statements for the year ended June 30, 2006

11.3 Of the aggregate facility of Rs. 124.0 million (2005: Rs. 124.0 million) for opening letters of credit and Rs.10.0 million (2005: Rs. 25.0 million) for guarantees, the amount utilized as at June 30, 2006 was Rs.63.29 million (2005: Rs. 9.407 million) and Rs.1.354 million (2005: Rs. 1.354 million) respectively.

12. ISSUED, SUBSCRIBED AND PAID-UP CAPITAL

Fully paid ordinary shares of Rs. 10/- each

Number of shares			2006	2005
2006	2005		Rupees	Rupees
3,900,000	3,900,000	Issued for cash	39,000,000	39,000,000
1,560,000	1,560,000	Issued as bonus shares	15,600,000	15,600,000
<u>5,460,000</u>	<u>5,460,000</u>		<u>54,600,000</u>	<u>54,600,000</u>

12.1 Out of the total share capital of the Company, associated companies held 1,687,140 (2005: 1,687,140) ordinary shares of Rs. 10/- each at June 30, 2006.

12.2 As per the terms of Trademark License Agreement, licensor has the option to purchase 33% of the equity of the Company as increased by the issue of shares to the licensor in a manner and on terms and conditions to be ultimately determined and approved by the authorities of the Islamic Republic of Pakistan.

13. RESERVES

Revenue reserves		
- General reserves	121,000,000	85,000,000
- Unappropriated profit	80,709,929	71,550,906
	<u>201,709,929</u>	<u>156,550,906</u>

14. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

The future minimum lease payments to which the Company is committed under the lease agreement and the periods in which they will become due are as follows:

	Upto one year	One to five years	Total 2006	Total 2005
	(Rupees)			
Minimum lease payments outstanding	198,072	145,354	343,426	777,160
Less: Finance charges not due	20,312	3,544	23,856	71,250
Present value of minimum lease payments	<u>177,760</u>	<u>141,810</u>	<u>319,570</u>	<u>705,910</u>
Less: Current portion shown under current liabilities			<u>177,760</u>	<u>386,340</u>
			<u>141,810</u>	<u>319,570</u>

The Company entered into finance lease agreements with leasing companies and other financial institutions for machinery and other assets. The above liabilities represent unpaid balance of the total minimum lease payments and the residual value payable at the end of lease, discounted at the rates ranging from 8.09% to 10.75% per annum. In case of termination of agreement, the lessee is required to pay entire rent for unexpired period. The Company intends to exercise its option to purchase these assets. The above liabilities are secured against demand promissory notes.

Notes to the Financial Statements for the year ended June 30, 2006



15. LONG TERM DEPOSITS

This represents deposits received from distributors, which are interest free and are repayable on termination of distributorship.

	Note	2006 Rupees	2005 Rupees
16. DEFERRED TAXATION			
Deferred tax liability on taxable temporary differences:			
Tax depreciation allowance		4,718,798	1,017,617
Leased assets		69,535	110,022
		<u>4,788,333</u>	<u>1,127,639</u>
Deferred tax asset on deductible temporary differences:			
Provision for doubtful debts		(529,126)	(232,309)
Provision for employee compensated absences		(270,318)	(709,267)
Others		11,111	-
		<u>(788,333)</u>	<u>(941,576)</u>
		<u>4,000,000</u>	<u>186,063</u>

17. TRADE AND OTHER PAYABLES

Creditors			
Due to related parties	17.1	6,063,853	4,638,424
Others		53,607,995	42,278,319
		<u>59,671,848</u>	<u>46,916,743</u>
Bills payable		90,479,475	18,329,574
Royalty payable	17.2	19,813,699	16,073,324
Accrued expenses		7,396,957	3,295,234
Amount due to distributors		2,651,948	6,694,582
Advance against export		3,281,072	-
Workers' Profit Participation Fund	17.3	6,709,772	5,695,926
Workers' Welfare Fund		2,085,737	2,079,675
Payable to Gratuity Fund	17.4	-	910,000
Retention money		-	100,957
Unclaimed dividend		387,312	294,534
Provident Fund Trust		19,187	-
Others		259,875	34,368
		<u>192,756,882</u>	<u>100,424,917</u>

17.1 The amount due to related parties, comprises of :

Hasanali Karabhai Foundation	43,805	40,712
Reliance Chemicals (Private) Limited	31,129	-
Colgate Palmolive (Pakistan) Limited	906,305	772,513
Cyber Internet Services (Private) limited	554	94,983
Siza Foods (Private) Limited	-	33,690
Tetley Clover (Private) Limited	655,194	16,389
Century Insurance Company Limited	17,091	104,737
Century Paper & Board Mills Limited	800,775	-
Kraft Foods UK Limited	3,609,000	3,575,400
	<u>6,063,853</u>	<u>4,638,424</u>

17.2 Royalty is payable to a related party Kraft Foods Holding Inc. – trade mark licensor.

	Note	2006 Rupees	2005 Rupees
17.3 Workers' profit participation fund comprises as follows:			
Balance as at July 01		5,695,926	5,168,115
Add: Interest credited at prescribed rate	26	67,776	71,681
		<u>5,763,702</u>	<u>5,239,796</u>
Less: Amount paid to fund		<u>5,763,702</u>	<u>5,239,796</u>
		-	-
Add: Current year allocation @ 5%	24	<u>6,709,772</u>	<u>5,695,926</u>
Balance as at June 30		<u><u>6,709,772</u></u>	<u><u>5,695,926</u></u>

The Company retains the allocation to this fund for its business operations till the amounts are paid together with interest at prescribed rate under the Companies Profits (Workers' Participation) Act, 1968.

17.4 Defined Benefit Plan

As mentioned in note 2.10, the Company operates an approved funded gratuity scheme. The scheme provides for terminal benefits for all its permanent employees who qualify for the scheme at varying percentages of last drawn basic salary. The percentage depends on the number of service years with the Company.

Annual charge is based on actuarial valuation carried out as at June 30, 2006 using the Projected Unit Credit Method.

Significant actuarial assumptions

Following are significant actuarial assumptions used in the valuation:

Discount rate	10% per annum
Expected rate of increase in salary	10% per annum
Rate of return on plan assets	3% per annum

Reconciliation of payable to defined benefits plan

Present value of defined benefit obligation	6,492,000	4,462,000
Fair value of plan assets	<u>(2,217,000)</u>	<u>(234,000)</u>
	4,275,000	4,228,000
Unrecognised actuarial (losses) / gains	<u>(1,027,000)</u>	<u>73,000</u>
Unrecognised non-vested past service cost to be recognized in later periods	<u>(3,248,000)</u>	<u>(3,391,000)</u>
Liability recognized in balance sheet	<u><u>-</u></u>	<u><u>910,000</u></u>
Movement of the liability recognized in the balance sheet		
Balance as at July 01	910,000	-
Charge for the year	1,076,000	910,000
Contribution paid to the fund	<u>(1,986,000)</u>	<u>-</u>
Balance as at June 30	<u><u>-</u></u>	<u><u>910,000</u></u>
Charge for the year		
Current service cost	628,000	516,000
Interest cost	312,000	258,000
Expected return on plan assets	<u>(7,000)</u>	<u>(7,000)</u>
Past service cost	<u>143,000</u>	<u>143,000</u>
Charge for the year	<u><u>1,076,000</u></u>	<u><u>910,000</u></u>

Notes to the Financial Statements for the year ended June 30, 2006



18. CONTINGENCIES AND COMMITMENTS

18.1 Contingencies

a) Customs duties

- i) The Company had received a letter from the Assistant Controller of Customs Valuation, Karachi notifying that royalty paid to Kraft Foods Holding Inc. USA on net sales of licensed products manufactured for the period from May 2001 to December 2001 is dutiable as per the provisions of the Customs Act, 1969 and therefore, duties and taxes thereon were short paid by Rs. 2.263 million. The management is contesting this claim and has requested the custom authorities to provide basis for levied amount. The management, based on the opinion of its legal advisor and on the merit of the case, expects that the ultimate outcome of the case will be in Company's favour. In the event of adverse outcome in the disputed matter the Company would be faced with a charge against profit and a related liability of Rs. 2.263 million (2005: Rs. 2.263 million).
- ii) The Assistant Collector Customs Karachi had issued a demand cum show cause notice for recovery of Rs. 4.465 million (2005: Rs. 4.465 million) on account of duties on import of foodstuff misapplied under Pakistan Custom Tariff Code. The Company had filed a detailed reply in response to the show cause notice. The management is confident, based on the advise of its legal advisor that any liability in this respect has a remote possibility of crystalization. In the event of adverse outcome in the dispute the Company would be faced with a charge against profit and related liability of Rs. 4.465 million (2005: Rs. 4.465 million).
- iii) There is a contingency for loss in respect of matter referred in note 9.2 of the notes to the financial statements, which in the opinion of the management shall not arise. In the event of adverse result in the disputed matter, the Company would be faced with a charge against profit amounting to Rs.0.236 million (2005: Rs. 0.236 million).

b) Guarantees

There is a contingent liability in respect of indemnities given to banks for guarantees issued by them in the normal course of business aggregating to Rs. 1.354 million (2005: Rs. 1.354 million).

18.2 Commitments

- a) Commitments in respect of letters of credit amounted to Rs. 21.569 million (2005: Rs. 9.407 million).
- b) The future minimum lease payments to which the Company is committed under the operating lease agreements in respect of vehicles and the periods in which they will become due are as follows:

	Upto one year	One to five years	Total 2006	Total 2005
	(Rupees)			
Minimum lease payments outstanding	917,959	218,250	1,136,209	2,643,932



Notes to the Financial Statements for the year ended June 30, 2006

	Note	2006 Rupees	2005 Rupees
19. GROSS TURNOVER			
Local manufactured		841,052,460	668,757,215
Trading		98,764,413	61,820,312
		<u>939,816,873</u>	<u>730,577,527</u>
Export		3,280,391	14,097,585
		<u>943,097,264</u>	<u>744,675,112</u>
20. COST OF SALES			
Manufactured			
Raw material consumed:			
Opening stock		38,392,113	32,730,113
Purchases		226,082,696	164,116,031
		<u>264,474,809</u>	<u>196,846,144</u>
Less: Closing stock		40,740,979	38,392,113
		<u>223,733,830</u>	<u>158,454,031</u>
Less: Export rebate		31,232	1,109,251
		<u>223,702,598</u>	<u>157,344,780</u>
Packing material consumed		133,701,431	100,397,250
Stores and spares consumed		938,606	342,887
Salaries, wages and other benefits	20.1	15,979,752	11,343,054
Power and fuel		4,172,159	3,847,309
Vehicle running expenses		545,692	470,548
Repairs and maintenance	20.2	9,335,638	1,408,426
Rent, rates and taxes		187,525	144,591
Travelling and conveyance		148,660	62,160
Insurance		901,750	966,063
Postage, telegrams and telephone		344,885	282,307
Laboratory expenses		18,053	93,618
Cartage		364,976	574,738
Information technology expenses		257,974	146,831
Printing and stationery		69,295	64,982
Depreciation	3.4	3,330,558	9,738,363
Other manufacturing expenses		67,236	24,707
		<u>170,364,190</u>	<u>129,907,834</u>
		<u>394,066,788</u>	<u>287,252,614</u>
Work in process			
Opening stock		2,212,956	794,302
Closing stock		(3,074,890)	(2,212,956)
		<u>(861,934)</u>	<u>(1,418,654)</u>
Cost of goods manufactured		393,204,854	285,833,960
Finished goods			
Opening stock		11,670,382	19,606,490
Closing stock		(26,580,562)	(11,670,382)
		<u>(14,910,180)</u>	<u>7,936,108</u>
Trading goods			
Opening stock		4,471,790	14,731,505
Purchases		63,091,064	30,810,542
		67,562,854	45,542,047
Closing stock		(6,596,641)	(4,471,790)
		<u>60,966,213</u>	<u>41,070,257</u>
		<u>439,260,887</u>	<u>334,840,325</u>

Notes to the Financial Statements for the year ended June 30, 2006



20.1 This amount includes Rs. 0.654 million (2005: Rs. 0.460 million) in respect of staff retirement benefits.

20.2 This includes an amount of Rs. 4.013 million in respect of moulds charged off as disclosed in note 3.2 to the financial statements.

	Note	2006 Rupees	2005 Rupees
21. DISTRIBUTION AND MARKETING EXPENSES			
Salaries, allowances and other benefits	21.1	12,612,928	11,417,174
Travelling and conveyance		1,305,631	1,441,003
Repairs and maintenance		232,784	8,025
Vehicles running expenses		2,951,952	2,508,251
Advertisement		95,087,995	67,275,745
Postage, telegrams and telephone		954,164	942,025
Rent, rates and taxes		2,257,930	1,086,395
Printing and stationery		189,123	183,381
Subscription and membership		74,913	71,200
Electricity		101,521	78,438
Insurance		1,174,967	1,415,268
Royalty		26,819,392	21,245,355
(Reversal of provision) / provision for doubtful debts		(514,690)	608,797
Bad debts written-off		-	831,078
Freight and octroi		17,687,293	9,443,778
Stock handling / godown charges		2,727,330	1,451,613
Export expenses		355,674	1,005,357
Depreciation	3.4	3,725,477	3,067,982
Information technology expenses		642,759	772,769
Other expenses	21.2	508,489	35,000
		<u>168,895,632</u>	<u>124,888,634</u>

21.1 This amount includes Rs 1.594 million (2005: Rs. 1.396 million) in respect of staff retirement benefits.

21.2 This includes donation of Rs. 0.505 million paid to the earthquake victims.

22. ADMINISTRATIVE EXPENSES

Director's remuneration		1,500,000	1,500,000
Salaries, allowances and other benefits	22.1	5,904,883	6,020,660
Travelling and conveyance		382,286	1,107,304
Repairs and maintenance		21,554	12,703
Vehicles running expenses		582,205	540,855
Advertisement		359,875	111,984
Postage, telegrams and telephone		236,765	285,844
Rent, rates and taxes		1,067,865	856,800
Printing and stationery		308,657	373,744
Subscription and membership		387,031	255,232
Legal and professional charges		731,260	379,180
Electricity		407,419	388,298
Insurance		318,756	210,934
Depreciation	3.4	1,483,993	1,548,247
Information technology expenses		502,340	656,709
Others		37,770	45,451
		<u>14,232,659</u>	<u>14,293,945</u>



Notes to the Financial Statements for the year ended June 30, 2006

22.1 This amount includes Rs. 0.228 million (2005: Rs. 0.206 million) in respect of staff retirement benefits.

	Note	2006 Rupees	2005 Rupees
23. OTHER OPERATING EXPENSES			
Workers' Profit Participation Fund	17.3	6,709,772	5,695,926
Workers' Welfare Fund		2,085,737	2,079,675
Auditors' remuneration	23.1	<u>218,735</u>	<u>183,321</u>
		<u>9,014,244</u>	<u>7,958,922</u>
23.1 Auditors' remuneration			
Audit fee		125,000	125,000
Half yearly review		40,000	40,000
Out of pocket expenses		<u>53,735</u>	<u>18,321</u>
		<u>218,735</u>	<u>183,321</u>
24. OTHER OPERATING INCOME			
Insurance commission		364,852	798,614
Profit on saving bank accounts		8,515,674	3,117,766
Gain on disposal of fixed assets		70,530	134,605
Others		<u>2,171</u>	<u>52,090</u>
		<u>8,953,227</u>	<u>4,103,075</u>
25. FINANCIAL COST			
Mark-up / interest on:			
Short-term running finances		757,118	682,410
Lease finances		47,395	101,217
Workers' Profit Participation Fund	17.3	<u>67,776</u>	<u>71,681</u>
		<u>872,289</u>	<u>855,308</u>
Bank charges and commission		403,789	294,021
Exchange loss-net		<u>300,802</u>	<u>306,289</u>
		<u>1,576,880</u>	<u>1,455,618</u>
26. TAXATION			
Current			
For the year		41,000,000	38,100,000
For prior year		<u>(127,408)</u>	<u>(492,428)</u>
		<u>40,872,592</u>	<u>37,607,572</u>
Deferred			
		<u>3,813,937</u>	<u>(2,313,937)</u>
		<u>44,686,529</u>	<u>35,293,635</u>
Tax charge reconciliation			
Applicable tax rate as per Income Tax Ordinance, 2001		35.00	35.00
Tax effect of amounts that are:			
Not deductible for tax purposes		7.05	2.77
Effect of deferred tax charge		(3.04)	(2.18)
Effect of change in prior years' tax		0.10	-
Tax effect under presumptive tax regime and others		<u>(3.46)</u>	<u>(2.32)</u>
		<u>0.65</u>	<u>(1.73)</u>
Average effective tax rate charged to profit and loss account		<u>35.65</u>	<u>33.27</u>

Notes to the Financial Statements for the year ended June 30, 2006



	2006 Rupees	2005 Rupees
27. EARNINGS PER SHARE		
Profit after taxation for the year	<u>80,649,023</u>	<u>70,777,595</u>
	Numbers of shares	
Weighted average issued ordinary shares	<u>5,460,000</u>	<u>5,460,000</u>
Earnings per share – basic and diluted	<u>Rs. 14.77</u>	<u>Rs. 12.96</u>

There is no dilutive effect on basic earnings per share of the Company.

28. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

The aggregate amount, charged in the financial statements for the year are as follows:

	<u>Chief Executive</u>		<u>Executives</u>		<u>Total</u>	
	2006	2005	2006	2005	2006	2005
	(Rupees)					
Remuneration	1,111,200	1,111,200	2,530,469	2,741,991	3,641,669	3,853,191
House rent	388,800	388,800	834,792	982,434	1,223,592	1,371,234
Bonus	-	-	701,862	491,331	701,862	491,331
Retirement benefits	-	-	229,259	248,833	229,259	248,833
Motor vehicle expenses	-	-	403,460	411,786	403,460	411,786
Utilities	-	-	253,050	274,197	253,050	274,197
Others	-	-	344,016	194,664	344,016	194,664
	<u>1,500,000</u>	<u>1,500,000</u>	<u>5,296,908</u>	<u>5,345,236</u>	<u>6,796,908</u>	<u>6,845,236</u>
Number of persons	<u>1</u>	<u>1</u>	<u>3</u>	<u>4</u>	<u>4</u>	<u>5</u>

Directors have waived their meeting fees for the year.

The Chief Executive and certain Executives are provided with free use of Company maintained cars.



Notes to the Financial Statements for the year ended June 30, 2006

29. RELATED PARTIES DISCLOSURES

The related parties include group companies, trade mark licensor, significant suppliers, staff retirement funds, companies where directors also hold directorship, directors and key management personnel. Transactions with related parties other than remuneration and benefits to key management personnel under the terms of their employment as disclosed in note 28, are as follows:

Relationship	Nature of transactions	2006 Rupees	2005 Rupees
Group companies	Sale of goods and services	2,002,376	2,520,688
	Purchase of goods and services	22,465,332	14,048,398
	Rent, utilities and allied services	3,139,856	3,114,392
	Insurance premium and commission	3,751,076	3,125,632
Licensor of product in respect of which the Company has exclusive trademark rights	Royalty on sale of licensed Products	26,819,392	21,245,355
Retirement benefit plans	Contribution to staff retirement benefit plans	2,476,992	2,063,192
Other related parties	Purchase of goods and services	103,134,038	80,928,291

30. CAPACITY AND PRODUCTION

	2006		2005	
	Capacity	Production	Capacity	Production
	(Kilograms)			
Food products	4,092,000	4,897,261	2,334,000	3,708,033
Plastic products	27,000	46,763	27,000	36,502
Number of shifts	Single		Single	

Capacity is based on single shift; however, demand for food products is seasonal. A second shift was operated during the year to meet increased demand.

	Note	2006 Rupees	2005 Rupees
31. CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		125,335,552	106,071,230
Adjustments for :			
Depreciation		8,540,028	14,354,592
Gain on disposal of fixed assets		(70,530)	(134,605)
Financial charges		1,889,802	1,455,618
		10,359,300	15,675,605
Working capital changes	31.1	33,529,869	20,331,686
		<u>169,224,721</u>	<u>142,078,521</u>

Notes to the Financial Statements for the year ended June 30, 2006



	Note	2006 Rupees	2005 Rupees
31.1 Working capital changes			
(Increase)/decrease in operating assets			
Stores		(89,019)	(45,733)
Stock-in-trade		(33,353,535)	14,516,542
Trade debtors		(20,658,304)	6,032,829
Loans and advances		(4,843,044)	170,093
Trade deposits and short-term prepayments		1,322,861	(1,612,196)
Other receivables		460,687	2,113,874
Profit accrued		328,026	(322,009)
		<u>(56,832,328)</u>	<u>20,853,400</u>
Increase/(decrease) in current liabilities			
Trade and other payables		92,331,965	(9,674,487)
Sales tax payable		(1,969,768)	9,152,773
		<u>90,362,197</u>	<u>(521,714)</u>
		<u>33,529,869</u>	<u>20,331,686</u>

32. FINANCIAL INSTRUMENTS RELATED DISCLOSURES

32.1 Interest rate risk

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

	Effective yield/ Markup rate %	Interest / markup bearing			Non-interest / markup bearing			Total
		Maturity upto one year	Maturity after one year	Sub Total	Maturity upto one year	Maturity after one year	Sub Total	
(Rupees)								
Financial Assets								
Loans to staff		-	-	-	849,032	2,059,821	2,908,853	2,908,853
Deposits		-	-	-	1,607,615	444,175	2,051,790	2,051,790
Trade debts (Net)		-	-	-	35,667,812	-	35,667,812	35,667,812
Interest accrued		95,894	-	95,894	-	-	-	95,894
Other receivables		-	-	-	238,525	-	238,525	238,525
Short term investment	10	25,000,000	-	25,000,000	-	-	-	25,000,000
Cash and bank balances	2-7.5	219,777,773	-	219,777,773	10,860,590	-	10,860,590	230,638,363
2006		<u>244,873,667</u>	<u>-</u>	<u>244,873,667</u>	<u>49,223,574</u>	<u>2,503,996</u>	<u>51,727,570</u>	<u>296,601,237</u>
2005		<u>110,418,526</u>	<u>-</u>	<u>110,418,526</u>	<u>77,591,155</u>	<u>1,761,367</u>	<u>79,352,522</u>	<u>189,771,048</u>
Financial liabilities								
Liability against assets								
Subject to finance lease	8.09-10.75	177,760	141,810	319,570	-	-	-	319,570
Long term deposits		-	-	-	-	2,132,000	2,132,000	2,132,000
Trade and other payables		-	-	-	180,660,936	-	180,660,936	180,660,936
2006		<u>177,760</u>	<u>141,810</u>	<u>319,570</u>	<u>180,660,936</u>	<u>2,132,000</u>	<u>182,792,936</u>	<u>183,112,506</u>
2005		<u>386,340</u>	<u>319,570</u>	<u>705,910</u>	<u>85,041,542</u>	<u>2,367,000</u>	<u>87,408,542</u>	<u>88,114,452</u>
Net financial assets/(liabilities)								
2006		<u>244,695,907</u>	<u>(141,810)</u>	<u>244,554,097</u>	<u>(131,437,362)</u>	<u>317,996</u>	<u>(131,065,366)</u>	<u>113,488,737</u>
2005		<u>110,032,186</u>	<u>(319,570)</u>	<u>109,712,616</u>	<u>(7,450,387)</u>	<u>(605,633)</u>	<u>(8,056,020)</u>	<u>101,656,596</u>
Off-balance sheet item Commitments								
2006		<u>-</u>	<u>-</u>	<u>-</u>	<u>63,293,267</u>	<u>-</u>	<u>63,293,267</u>	<u>63,293,267</u>
2005		<u>-</u>	<u>-</u>	<u>-</u>	<u>9,406,774</u>	<u>-</u>	<u>9,406,774</u>	<u>9,406,774</u>



Notes to the Financial Statements for the year ended June 30, 2006

32.2 Liquidity risk

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

32.3 Credit risk and concentration of credit risk

Credit risk is the risk which arises with the possibility that one party to a financial instrument will fail to discharge its obligation and cause the other party to incur a financial loss. The Company attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties and continually assessing the creditworthiness of counterparties.

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Company's performance to developments affecting a particular industry.

The Company is exposed to credit risk on trade debts, loans and advances and long-term deposits. The Company seeks to minimize the credit risk exposure through having exposures only to customers considered credit worthy and obtaining securities where applicable.

32.4 Currency risk

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

The Company's exposure denominated in foreign currency is given below:

Accounting year end	Bills payable	Commitments (Rupees)	Cash and bank balances
June 30, 2006	90,479,475	67,339,667	14,565
June 30, 2005	18,329,574	9,406,774	16,675

32.5 Fair value of financial instruments

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

33. RECENT ACCOUNTING DEVELOPMENTS

A new series of standards called "International Financial Reporting Standards (IFRSs)" have been introduced and seven IFRSs have been issued by IASB. Out of these following four IFRS have been adopted by Institute of Chartered Accountant of Pakistan (ICAP) however since these have not been adopted by SECP therefore, do not form part of the approved local financial reporting framework:

- IFRS-2 (Share based Payments);
- IFRS-3 (Business Combinations);
- IFRS-5 (Non-current Assets held for Sale and Discontinued Operations); and
- IFRS-6 (Exploration for and Evaluation of Mineral Resources).

Notes to the Financial Statements for the year ended June 30, 2006



The Company expects that the adoption of these pronouncements mentioned above will have no significant impact on the Company's financial statements in the period of initial application.

34. DETAILS OF PROPERTY, PLANT AND EQUIPMENT SOLD

The following assets were disposed-off during the year:

	Original cost	Accumulated depreciation	Book value	Disposal proceeds	Mode of disposal	Particulars of buyers
(Rupees)						
Vehicles						
Honda City	835,000	86,979	748,021	748,021	Negotiation	Tetley Clover (Pvt) Ltd.*
Honda City	632,124	429,098	203,026	275,000	Negotiation	Mr. Muhammad Aleem ur Rehman
Computer and data processing equipment						
Computer and data processing equipment	103,505	34,157	69,348	69,348	Negotiation	Tetley Clover (Pvt) Ltd.*
Aggregate of assets Disposed-off having book value below Rs. 50,000/- each						
Vehicle	40,000	13,554	26,444	25,000	Bid	Mr. Ahmed
Total Disposals	<u>1,610,629</u>	<u>563,788</u>	<u>1,046,839</u>	<u>1,117,369</u>		

*Group company

35. DATE OF AUTHORIZATION FOR ISSUE

The Board of Directors of the Company authorized these financial statements for issue on August 17, 2006.

36. DIVIDEND AND APPROPRIATIONS

Subsequent to the year ended June 30, 2006, the Board of Directors have proposed a final dividend of Rs. 6.00 per share, amounting to a total dividend of Rs. 32.760 million (2005: Rs. 6.50 per share, amounting to a total dividend of Rs. 35.490 million), bonus issue of 1.092 million shares (2005: Nil) at the rate of 1 share for every 5 shares held (2005: Nil) in their meeting held on August 17, 2006 for approval of the members at the Annual General Meeting. In addition, the Board has also approved appropriation to general reserve of Rs. 37 million (2005: Rs. 36 million).

37. GENERAL

37.1 Amounts have been rounded off to the nearest rupee unless otherwise stated.

37.2 Corresponding figures have been rearranged / reclassified wherever necessary.

Zulfiqar Ali Lakhani
Chief Executive

Tasleemuddin Ahmed Batlay
Director