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# Introduction

Packages Limited was established in 1957 as a joint venture between the Ali Group of Pakistan and Akeund & Rausing of Sweden, to convert paper and paperboard into packaging for consumer industry.

Over the years, the company continued to enhance its facilities to meet the growing demand of packaging products. Additional capital was raised from sponsors, International Finance Corporation and from the public in 1965.

Packages commissioned its own paper mill in 1968 having production capacity of 24,000 tonnes of paper and paperboard based on waste paper and agricultural by-products i.e. wheat straw and ñver grass. The capacity has been increased eventually at 110,000 tonnes per year.

Since 1982, Packages Limited has a joint venture with Tetra Pak International in Tetra Pak Pakistan Limited to manufacture paperboard for liquid food packaging and to market Tetra Pak packaging equipment. In July, 1994, DIC Pakistan Limited, in which Packages Limited has 55% ownership, commenced production and sale of printing inks.

In 1995, Tn-Pack Films Limited, a joint venture between Packages Limited & Mitsubishi Corporation of Japan, was established. Packages Limited owns 33% of Tn-Pack Films Limited.

In 1996, a joint venture agreement was signed with Printcare (Ceylon) Limited for the production of flexible packaging materials in Sri Lanka. This project Packages Lanka (Pnvate) Limited commenced production in 1998. Packages Limited now owns 79% of this company.

In 2003, Packages Limited entered into an agreement with VimpeX of Austria to provide management and technical assistance to help in the operation, production optimization and capacity expansion of a paperboard mill in Syna. A team from Packages Limited is providing such services there.

Packages Limited is producing packaging material and tissue range of products mainly from its factory in Lahore with conversion capacities of 97,000 tonnes of paper and paperboard and 11,000 tonnes of plastics all sorts for packaging. It is also producing corrugated boxes from its plant in Karachi since 2002.

Packages Limited is presently working on shifting its paper and paperboard division to a new site 70-km from the present site near Kasur. The enhanced capacity of paper and paperboard will be 300,000 tonnes per year. The packaging operation shall continue at its Lahore Site.

<p><b>Company Information</b></p> <p><b>Board of Directors</b>  Asadullah Khawaja  (Chairman)  Kamal Afsar  Khalid Yacob  Kirsten Rausing  Markku Juha Pentikainen  Mujeeb Rashid  ShamimAhmad Khan  Syed HyderAli  (Managing Director &amp; Chief Executive)  Syed Shahid Ali  Tariq Iqbal Khan</p> <p><b>Advisor</b>  Syed BabarAli</p> <p><b>Company Secretary</b>  Adi J. Cawasji</p> <p><b>Executive Committee</b>  Syed HyderAli -Chairman  Mujeeb Rashid -Member  Khalid Yacob -Member</p> <p><b>Audit Committee</b>  ShamimAhmad Khan -Chairman  (Non-Executive Director)  Tariq Iqbal Khan -Member  (Non-Executive Director)  Syed Shahid Ali -Member  (Non-Executive Director)  Mujeeb Rashid -Member  (Director &amp; General Manager)  Syed Aslam Mehdi -Member  (Deputy General Manager &amp; Alternate  Director to Ms. Kirsten Rausing)  Adi J. Cawasji -Secretary</p> <p><b>Business Strategy Committee</b>  Syed HyderAli -Chairman  Mujeeb Rashid -Member  Syed Aslam Mehdi -Member  Khalid Yacob -Member</p>	<p><b>System and Technology Committee</b>  Mujeeb Rashid -Chairman  Khalid Yacob -Member  Suleman Javed -Member</p> <p><b>Rating Agency: PACRA</b>  <b>Company Rating: AA</b></p> <p><b>Auditors</b>  A.F. Ferguson &amp; Co.  Chartered Accountants</p> <p><b>Legal Advisors</b>  Hassan &amp; Hassan - Lahore  Orr, Dignam &amp; Co. - Karachi</p> <p><b>Bankers</b>  ABN Amro Bank  Allied Bank Limited  Askari Commercial Bank Limited  Bank Al-Habib Limited  Citi Bank N.A  Crescent Commercial Bank Limited  Deutsche BankAG  Faysal Bank Limited  Habib Bank Limited  Habib Metropolitan Bank Limited  MCB Bank Limited  NIB Bank Limited  Oman International Bank, S.A.O.G.  PICIC Commercial Bank Limited  Saudi Pak Commercial Bank Limited  Standard Chartered Bank (Pakistan) Limited  The Bank of Tokyo-Mitsubishi UFJ, Limited  United Bank Limited</p>
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**Head Office & Works**

Shahrah-e-Roomi,  
P.O. Amer Sidhu,  
Lahore .54760, Pakistan  
PABX : (042) 5811541 -46  
(042) 5811191-94  
Fax (042) 5811195  
(042) 5820147

**Karachi Factory**

Plot No.6 & 6/I, Sector 28  
Korangi Industrial Area,  
Karachi .74900, Pakistan  
Tel. (021) 5045320, 5045310  
Fax (021) 5045330

**Registered Office &  
Regional Sales Office**

4th Floor, The Forum  
Suite No. 416 -422, G-20, Block 9,  
Khayaban-e-Jami, Clifton,  
Karachi .75600, Pakistan  
PABX : (021) 5874047-49  
(021) 5378650-52  
(021) 5831618, 5833011  
Fax (021) 5860251

**Regional Sales Office**

2nd Floor, G.D. Arcade  
73-E, Fazal-ul-Haq Road, Blue Area,  
Islamabad .44000, Pakistan  
PABX : (051) 2276765  
(051) 2276768  
(051) 2278632  
Fax (051) 2829411

**Zonal Sales Offices**

C-2, Hassan Arcade Nusrat Road, Multan Cantt. .  
60000, Pakistan Tel. & Fax (061) 4784401 -2

**Uzair Enterprises**

Teer Chowk Bhuta Road,  
Sukkur .65200, Pakistan  
Tel. & Fax (071) 5616138

2nd Floor, Sitara Tower, Bilal Chowk, Civil Lines,  
Faisalabad .38000, Pakistan  
Tel. & Fax (041) 2629417

**H. Hamza Traders**

15-D Gul Plaza, Opp: Charsadda Bus Stand,  
Peshawar-25000  
Cell: 0301-8650486  
Tel: 091-2043719

**Star Enterprises-I**

A/99-2928, Tilak Incline,  
Hyderabad-71 000  
Cell: 0300-9387454  
Tel: 022-2615562

**Shares Registrar**

Ferguson Associates (Pvt.) Limited  
State Life Building No. 1-A  
Off I. I. Chundrigar Road,  
Karachi .74000, Pakistan

**Web Presence**

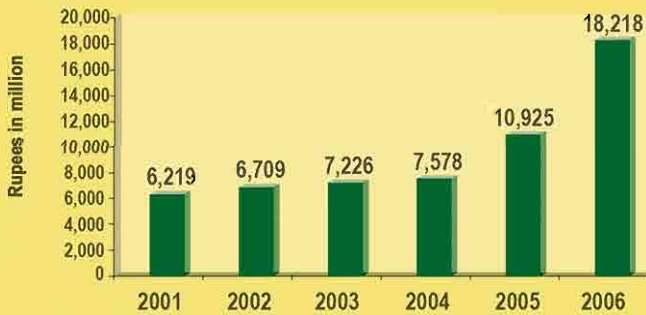
[www.packages.com.pk](http://www.packages.com.pk)

**Highlights****Year to  
December 31,  
2006**      **Year to  
December 31,  
2005**

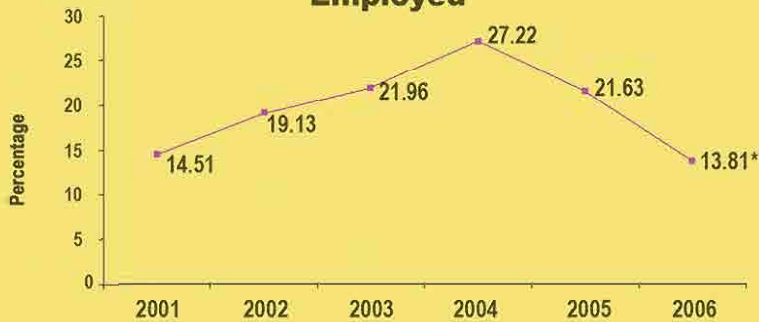
Invoiced Sales	.million rupees	9,028	8,163
Profit before tax	.million rupees	6,348	1,330
Profit after tax	.million rupees	6,101	1,015
Cash dividend	·% of paid up capital	60	60
Stock dividend	·% of paid up capital	05	-----
Shareholders' equity	.million rupees	13,673	7,736
Total assets	.million rupees	22,673	11,620
Net assets employed	.million rupees	20,361	9,285
Earnings per share	.rupees	87.30	16.24
Price— Earnings Ratio		241	12.44
Return on capital employed	(%)	*13.81	21.63
Return on shareholders' equity	(%)	*14.8	13.12
Return on invested capital	(%)	*7.17	10.02
Paper and paper board produced	.tonnes	100,999	104,542
Paper and paper board converted	.tonnes	86,447	85,219
Plastics all sorts converted	.tonnes	8,418	7,360
Number of shareholders		3,349	3,603
Number of shares		69,879,507	69,879,507
Numberof employees		3,162	3,115

·Excludes net effect of Capital Gain for comparison.

## Fixed Assets and Capital Work-in-Progress at cost

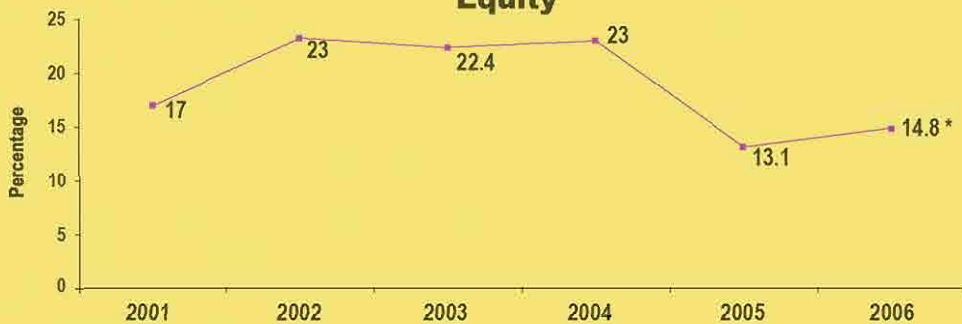


## Return on Capital Employed



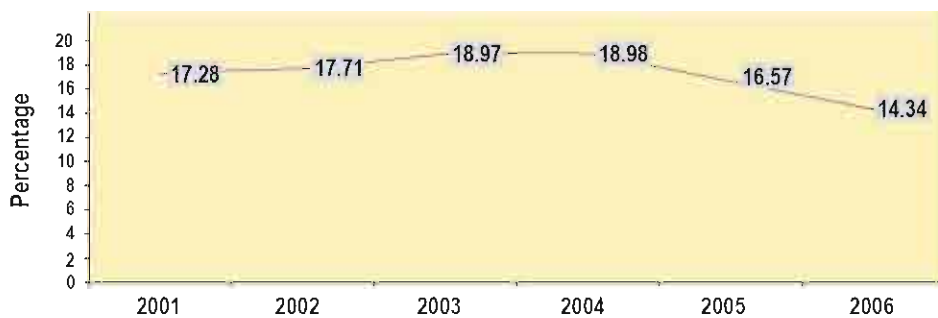
\* Return on Capital Employed for the year 2006 excludes net effect of Capital Gain for Comparison

## Return on Shareholder's Equity

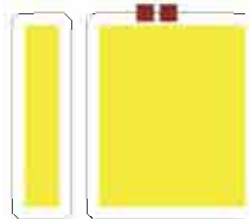
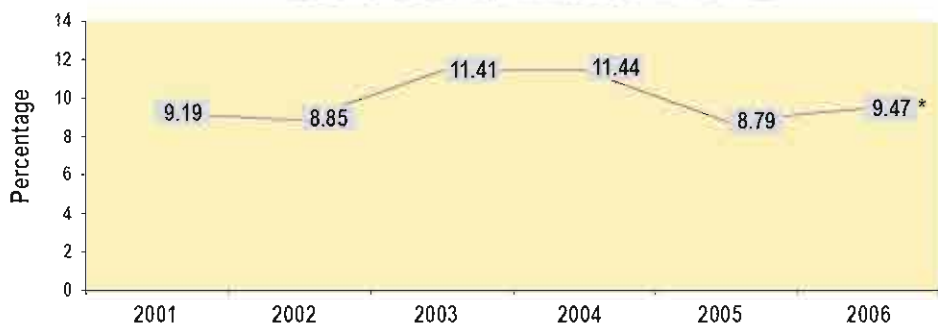


\* Return on Shareholder's equity for the year 2006 excludes net effect of Capital Gain for Comparison

### Gross Profit to Sales

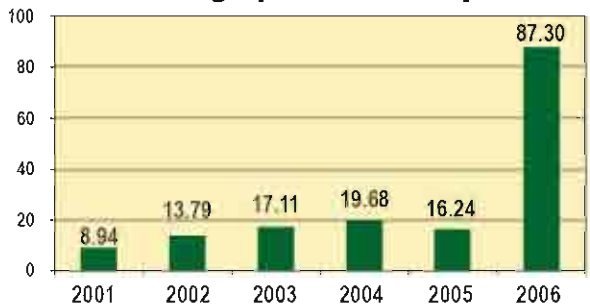


### Profit from operations to Sales

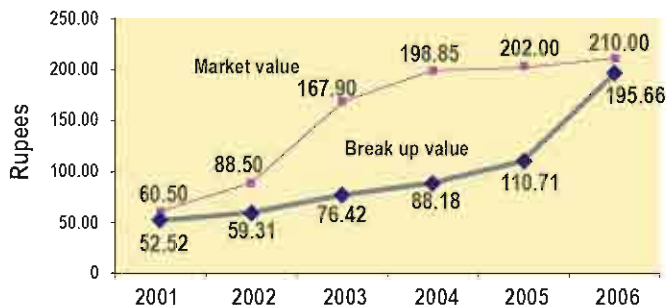


\*Profit from operations to Sales for the Year 2006 excludes net effect of Capital Gain for comparison.

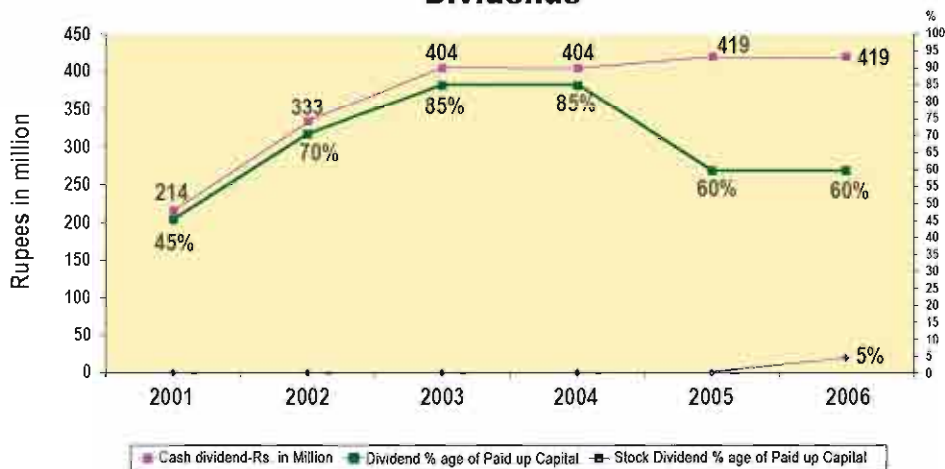
### Earnings per share-Rupees



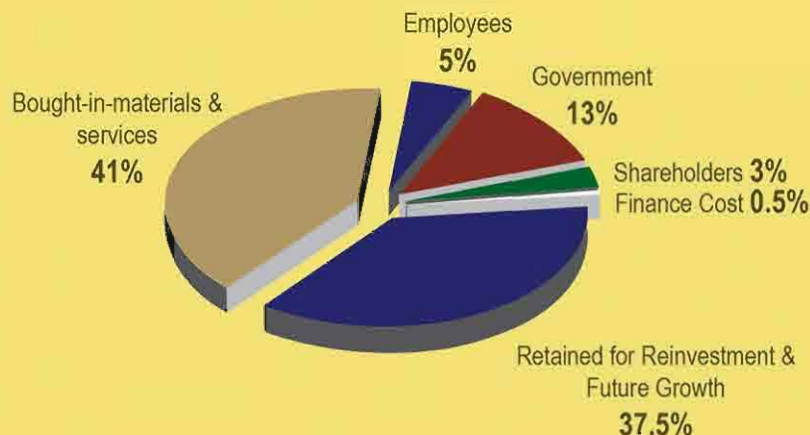
### Market Value per Share Vs Break up value per Share



### Dividends



## Wealth Generated & Distributed 2006



### Value Added and its Distribution

The statement below shows value added by the operations of the company and its distribution to the stakeholders

<b>Wealth Generated</b>	<b>2006</b>		<b>2005</b>	
	<b>(Rupees in Thousands)</b>			
Sales	9,027,907		8,163,084	
Dividend Income	786,498		612,754	
Other Income	5,134,643		184,974	
	<u>14,949,048</u>	100%	<u>8,960,812</u>	100%
 <b>Wealth Distributed</b>				
<b>Bought-in-materials &amp; Services</b>	6,084,883	41%	5,343,705	60%
<b>To Employees</b>				
Remuneration, benefits and facilities	758,192	5%	650,753	7%
<b>To Government</b>				
Income Tax, Sales Tax, Custom & Excise Duties, WPPF, WWF, EOBI, Social Security, Professional & Local Taxes	1,926,284	13%	1,765,461	20%
<b>To Providers of Capital</b>				
Cash dividend & bonus shares to the shareholders	454,217	3%	419,277	5%
<b>Mark up &amp; finance cost</b>	78,909	0.5%	185,529	2%
<b>Retained for Reinvestment &amp; Future Growth</b>				
For expansion programme & operations transferred to general reserve	5,646,563	37.5%	596,0873	7%
	<u>14,949,048</u>	100%	<u>8,960,812</u>	100%



## Ten year Summary

(Rupees in Thousand)

	Year to December, 31 2006	Year to December, 31 2005	Year to December, 31 2004	Year to December, 31 2003
<b>ASSETS EMPLOYED:</b>				
Fixed Assets at Cost	8,074,313	7,659,184	7,248,264	6,881,590
Accumulated Depreciation / Amortization	4,984,342	4,633,101	4,277,204	3,927,588
<b>Net Fixed Assets</b>	<b>3,089,971</b>	<b>3,026,083</b>	<b>2,971,060</b>	<b>2,954,002</b>
Capital Work - in - Progress	10,143,195	3,265,517	329,867	344,747
Net Current and Other Assets	7,128,086	2,992,975	1,424,674	1,757,227
<b>Net Assets Employed</b>	<b>20,361,252</b>	<b>9,284,575</b>	<b>4,725,601</b>	<b>5,055,976</b>
<b>FINANCED BY:</b>				
Paid up Capital	698,795	698,795	475,371	475,371
Reserves	12,974,002	7,037,461	3,716,489	3,157,352
<b>Shareholder's Equity</b>	<b>13,672,797</b>	<b>7,736,256</b>	<b>4,191,860</b>	<b>3,632,723</b>
<b>Long-Term &amp; Deferred Liabilities</b>	<b>6,688,455</b>	<b>1,548,319</b>	<b>533,741</b>	<b>1,423,253</b>
<b>Total Funds Invested</b>	<b>20,361,252</b>	<b>9,284,575</b>	<b>4,725,601</b>	<b>5,055,976</b>
Invoiced Sales	9,027,907	8,163,084	6,892,985	6,293,219
Materials Consumed	4,246,956	3,520,643	2,710,306	2,263,462
Gross Profit	1,294,604	1,352,979	1,308,602	1,193,713
Employees Remuneration	758,192	650,753	576,159	550,566
Profit from Operations	757,613	902,407	788,710	718,306
Profit before Tax	6,347,840	1,329,925	1,192,321	1,036,905
Profit after Tax	6,100,780	1,015,364	963,202	813,512
Cash dividend	419,277	419,277	404,065	404,065
Cash dividend %	60.00	60.00	85.00	85.00
Stock dividend	34,940	-	-	-
Stock dividend %	5.00	-	-	-
Earning per Share - rupees	87.30	16.24	19.68	17.11
Taxes, duties and levies	1,926,284	1,765,461	1,472,410	1,426,321
Market Value per Share - KSE 100 Index	210.00	202.00	198.85	167.90
Break-up value per share	195.66	110.71	88.18	76.42
No. of Shares	69,879,507	69,879,507	47,537,080	47,537,080
<b>KEY RATIOS:</b>				
Debt : Equity Ratio	30:70	11:89	00:100	21:79
Current Ratio	1.48	1.95	1.38	1.98
Inventory Turnover Ratio	4.69	5.13	4.83	4.93
Gross Profit Ratio (%)	14.34	16.57	18.98	18.97
Profit before Tax Ratio (%)	70.31	16.29	17.30	16.48
Return on Capital Employed (%)	*13.81	21.63	27.22	21.96
Interest Cover Ratio	81.45	8.17	9.58	8.06
Total Assets Turnover Ratio	0.40	0.70	1.06	1.02
Price - Earning Ratio	2.41	12.44	10.10	9.81
Debtor Turnover Ratio	10.99	10.40	10.76	10.90
Cash Dividend Yield (%)	2.86	2.97	4.27	5.06

\* Excludes net effect of Capital Gain for comparison

	Year to December, 31 2002	Year to December, 31 2001	Six months to December, 31 2000	Year to June, 30 2000	Year to June, 30 1999	Year to June, 30 1998
	6,512,007	5,773,725	5,360,950	5,323,073	4,640,648	4,535,229
	3,546,508	3,130,521	2,748,913	2,568,522	2,240,099	1,922,308
	<b>2,965,499</b>	<b>2,643,204</b>	<b>2,612,037</b>	<b>2,754,551</b>	<b>2,400,549</b>	<b>2,612,921</b>
	196,902	445,143	257,381	79,696	351,722	7,183
	1,088,165	1,023,154	855,630	1,063,658	1,221,874	1,461,465
	<b>4,250,566</b>	<b>4,111,501</b>	<b>3,725,048</b>	<b>3,897,905</b>	<b>3,974,145</b>	<b>4,081,569</b>
	475,371	475,371	452,734	411,577	411,577	357,893
	2,343,839	2,021,227	1,832,902	1,771,365	1,515,524	1,338,716
	<b>2,819,210</b>	<b>2,496,598</b>	<b>2,285,636</b>	<b>2,182,942</b>	<b>1,927,101</b>	<b>1,696,609</b>
	<b>1,431,356</b>	<b>1,614,903</b>	<b>1,439,412</b>	<b>1,714,963</b>	<b>2,047,044</b>	<b>2,384,960</b>
	<b>4,250,566</b>	<b>4,111,501</b>	<b>3,725,048</b>	<b>3,897,905</b>	<b>3,974,145</b>	<b>4,081,569</b>
	5,360,884	5,157,816	2,238,033	4,165,603	3,925,696	3,512,272
	1,925,656	1,911,866	858,044	1,353,832	1,206,286	1,074,792
	949,559	891,383	354,276	790,385	941,472	627,269
	506,552	471,220	218,009	384,556	389,069	332,943
	474,370	474,221	222,374	632,887	787,713	597,208
	797,225	514,441	241,927	551,224	512,389	162,753
	655,372	424,879	193,241	428,703	384,154	220,079
	332,760	213,917	90,547	172,862	153,662	35,789
	70.00	45.00	20.00	42.00	37.34	10.00
	-	-	22,637	41,158	-	53,684
	-	-	5.00	10.00	-	15.00
	13.79	8.94	4.07	9.47	9.33	6.15
	1,286,246	1,213,008	499,232	948,344	809,483	624,974
	88.50	60.50	66.00	60.00	41.00	36.00
	59.31	52.52	50.49	53.04	46.82	47.41
	47,537,080	47,537,080	45,273,410	41,157,646	41,157,646	35,789,258
	25:75	30:70	28:72	35:65	45:55	55:45
	1.29	1.24	1.01	1.05	1.00	1.00
	4.48	5.10	2.68	6.40	7.17	8.15
	17.71	17.28	15.83	18.97	23.98	17.86
	14.87	9.97	10.81	13.23	13.05	4.63
	19.13	14.51	7.48	15.57	16.77	12.81
	5.58	2.95	2.97	2.85	2.16	1.31
	0.90	0.84	0.38	0.70	0.62	0.56
	6.42	6.77	16.22	6.34	4.39	5.85
	9.87	8.65	9.65	9.02	8.71	8.18
	7.91	7.44	3.03	7.00	9.11	2.78

**Mission Statement**

To be a leader in the markets we serve by providing quality products and superior service to our customers, while learning from their feed back to set even higher standards for our products. To be a company that continuously enhances its superior technological competence to provide innovative solutions to customer needs. To be a company that attracts and retains outstanding people by creating a culture that fosters openness and innovation, promotes individual growth and rewards initiative and performance. To be a company which combines its people, technology, management systems and market opportunities to achieve profitable growth while providing fair returns to its investors. To be a company that endeavors to set the highest standards in corporate ethics in serving the society.

## **Strategic Vision & Objectives**

To position ourselves to be a regional supplier of quality packaging and tissue products. To improve on contemporary measures such as cost, quality, service, speed of delivery and mobilization. Keep investing in technology, systems and human resources to effectively meet the challenges every new dawn brings. Develop relationships with all our stakeholders based on sustainable co-operation, upholding ethical values, which the shareholders, management and employees represent and continuously strive for.

## **Environment, Health and Safety Policy**

The Management of Packages Limited realizes that we live in a world where resources are finite and the eco-system has a limited capacity to absorb the load mankind is placing on it. That is why it is our belief that we must do everything practically possible to lessen the load we place on the environment and make every effort so that sustainable development becomes a reality. Packages Limited has formulated its environment, health and safety (EH&S) policy to address these issues in a more effective way. It is very clear to us that these objectives cannot be realized by the efforts of the Management alone. While the general directions are to be provided by the Management, the help of all the employees will be required to transform these ambitions into reality. It is expected that all employees will do their best to implement the policy in its true spirit.

### **Environment, Health and Safety Policy Statement**

Packages Limited shall:

- 1.** Minimize its environmental impact, as is economically and practically possible.
- 2.** Save raw materials including energy, water and avoid waste.
- 3.** Ensure that all its present and future activities are conducted safely, without endangering the health of its employees, its customers and the public.
- 4.** Develop plans and procedures and provide resources to successfully implement this policy and for dealing effectively with any emergency.
- 5.** Provide environmental, health and safety training to all employees and other relevant persons to enable them to carry out their duties safely without causing harm to themselves, to other individuals and to the environment.
- 6.** Ensure that all its activities comply with national environmental, health and safety regulations.

This policy shall be reviewed as and when required for the betterment of the same.

## **Statement of Ethical Practices**

- It is the basic principle of Packages Limited to obey the law of the land and comply with its legal system. Accordingly every director and employee of the company shall obey the law. Any director and employee guilty of violation will be liable to disciplinary consequences because of the violation of his / her duties.
- Employees must avoid conflicts of interest between their private financial activities and conduct of company business.
- All business transactions on behalf of Packages Limited must be reflected accordingly in the accounts of the company.
- The image and reputation of Packages Limited is determined by the way each and every one of us acts and conducts himself / herself at all times.
- We are an equal opportunity employer. Our employees are entitled to a safe and healthy workplace.
- Every manager and supervisor shall be responsible to see that there is no violation of laws within his / her area of responsibility which proper supervision could have prevented. The manager and supervisor shall still be responsible if he / she delegates particular tasks.

## **Quality Policy**

We at Packages Limited are committed to producing quality products which conform to our customers' requirements and strengthen our position as a quality-managed company. Our pledge is to provide the market with the best quality products at competitive prices through a customerdriven and service-oriented, dynamic management team. To meet this obligation, the company will continue updating of employee skills by training, acquisition of new technology and regular re-evaluation of its quality control and assurance systems. Appropriate resources of the company will be directed towards achieving the quality goals through employees' participation.

## **Notice of Annual General Meeting**

Notice is hereby given that the 52<sup>nd</sup> Annual General Meeting of Packages Limited will be held at the Beach Luxury Hotel, Moulvi Tamizuddin Khan Road, Karachi on Tuesday, April 17, 2007 at 11.30 am. to transact the following business :-

### **Ordinary Business:**

- 1.** To confirm the minutes of the Extraordinary General Meeting held on December 6, 2006.
- 2.** To receive, consider and adopt the audited accounts of the company together with the Directors' and Auditors' Reports thereon for the year ended December 31, 2006.
- 3.** To declare a final dividend of Rs. 6.00 per ordinary share of Rs. 10/- each for the year ended December 31, 2006 as recommended by the Board of Directors.
- 4.** To appoint Auditors for the ensuing year, and to fix their remuneration. (Messrs A. F. Ferguson & Co., Chartered Accountants, retire and have offered themselves for re-appointment).

### **Special Business:**

- 5.** To approve the issue of bonus shares in the ratio of one new share for every twenty existing ordinary shares held i.e. 5% on the existing issued, subscribed and paid up share capital of the company.
- 6.** To increase the authorised capital of the company from Rs. 1 billion to Rs. 1.5 billion.

By Order of the Board

Karachi  
February 28, 2007

Adi J. Cawasji  
Company Secretary

**Notes:**

1. The Share Transfer Books of the company will remain closed from April 7, 2007 to April 17, 2007 (both days inclusive). Transfers received in order by our Shares Registrar, Ferguson Associates (Pvt.) Limited, State Life Building No.1-A, I. I. Chundrigar Road, Karachi-74000 by the close of business on April 6, 2007 will be considered in time for entitlement of dividend/bonus. The bonus shares shall not be entitled to cash dividend for the year ended December 31, 2006.

2. A member entitled to attend and vote at the meeting may appoint a proxy in writing to attend the meeting and vote on the member's behalf.

3. Duly completed forms of proxy must be deposited with the Company Secretary at the Registered Office of the Company at 4th Floor, The Forum, Suite # 416-422, G-20, Block 9, Khayaban-e-Jami, Clifton, Karachi-75600 not later than 48 hours before the time appointed for the meeting.

4. Shareholders are requested to notify any change in their addresses immediately.

5. Members who have not yet submitted photocopy of their computerized national identity cards to the company are requested to send the same at the earliest.

6. CDC account holders will further have to follow the undermentioned guidelines as laid down in Circular No.1 dated January 26, 2000 issued by the Securities and Exchange Commission of Pakistan.

**A. For attending the meeting:**

(i) In case of individuals, the account holder or sub account holder and/or the person whose securities

are in group account and their registration details are uploaded as per the Regulations, shall authenticate identity by showing his/her original national identity card (NIC) or original passport at the time of attending the meeting.

(ii) In case of corporate entity, the Board of Directors' resolution / power of attorney with specimen signature of the nominee shall be produced (unless it has been provided earlier) at the time of the meeting.

**B. For appointing proxies:**

(i) In case of individuals, the account holder or sub-account holder and / or the person whose securities are in group account and their registration details are uploaded as per the Regulations, shall submit the proxy form as per the above requirement.

(ii) Attested copies of NIC or the passport of the beneficial owners and the proxy shall be furnished with the Proxy Form.

(iii) The proxy shall produce his / her original NIC or original passport at the time of the meeting.

(iv) In case of corporate entity, the Board of Directors' resolution / power of attorney with specimen signature shall be submitted (unless it has been provided earlier) along with proxy form to the company.

7. Form of proxy is attached in the Annual Report.



**Statement Under Section 160 of the Companies Ordinance, 1984 Regarding Special Business:**

**Item No.5 of the Notice**

The Directors have recommended the issue of 3,493,975 bonus shares by capitalisation of a part of the Free Reserves of the company. After the issue, the total paid up capital will increase to Rs. 733,734,820. None of the Directors are interested in this business except to the extent of their entitlement to bonus shares as shareholders. The Directors recommend to consider and, if thought fit, pass with or without modification the following Resolutions as Ordinary Resolutions:

**a) RESOLVED** that a sum of Rs. 34,939,750 out of the Free Reserves of the company be capitalised and applied to the issue of 3,493,975 ordinary shares of Rs. 10 each and allotted as fully paid up bonus shares to the members of the company who are registered in the books of the company on April 17, 2007 in the proportion of one such new share for every twenty existing ordinary shares held and that such new shares shall rank *par passu* with the existing ordinary shares of the company but shall not be eligible for dividend for the year ended December 31, 2006.

**b) RESOLVED** that in the event of any member holding shares which are not an exact multiple of one, the Directors be and are hereby authorised to sell in the stock market such fractional entitlement and to pay the proceeds of sale when realised to a charitable institution approved under section 47 (1) of the Income Tax Ordinance, 1979.

**c) RESOLVED** that for the purpose of giving effect to the foregoing, the Directors be and are hereby authorised to give such directions as may be necessary and as they deem fit to settle any question or any difficulties that may arise in the distribution of the said new shares or in the payment of the sale proceeds of the fractions.

**Item No.6 of the Notice**

It is proposed to increase the Authorised Capital of the company from Rs. 1 billion to Rs. 1.5 billion by the creation of 50,000,000 new ordinary shares of Rs.10 each to facilitate further issue of capital from time to time according to the requirements of the company. In this connection, it is intended to propose that the following Resolutions be passed as Special Resolutions, with or without modification :-

**a) RESOLVED** that the Authorised Share Capital of the company be increased from Rs. 1,000,000,000 to Rs. 1,500,000,000 by the creation of 50,000,000 new ordinary shares of Rs. 10 each.

**b) RESOLVED** that the Memorandum of Association of the company be altered by substituting for the figures “1,000,000,000” (Rupees one billion only) and “100,000,000” (one hundred million) appearing in Clause V, the figures “1,500,000,000” (Rupees one billion five hundred million only) and “150,000,000” (one hundred fifty million) respectively.

**c) RESOLVED** that the Articles of Association of the company be altered by substituting for the figures “1,000,000,000” (Rupees one billion only) and “100,000,000” (one hundred million) appearing in Article 4, the figures “1,500,000,000” (Rupees one billion five hundred million only) and “150,000,000” (one hundred fifty million) respectively.

The Directors of the company have no interest in the above resolutions that would need a further disclosure.

## Directors' Report to the Shareholders

The Directors are pleased to present their Annual Report together with the company's audited financial statements for the year ended December 31, 2006.

### General Overview

The year 2006 has been a mixed year. On the macro level Pakistan's GDP growth remained over 6.5% with its real per capita income increasing thus leading to improvement in living standards and an increase in consumer spending. The exchange rate has remained more or less stable but inflation touching 8% and rising interest rates remain a concern. In this backdrop the company successfully crossed the Rs. 9 billion mark in sales.

Sales during the year maintained a consistent momentum due to growing consumer demand in the country. However, input prices of basic raw materials have shown an upward trend during the year due to following reasons:

- 1 Prices of wheat straw have increased due to increase in the collective demand as well as increase in its transportation costs.
2. Canada is a major source of pulp for us and fluctuations in Canadian/USA dollar exchange rate have adversely affected the pulp prices.
3. Ethylene, the basic raw material in poly products, remained in short supply therefore, prices of polyethylene products remained high.
4. Effect of petroleum prices which peaked in July-August, 2006 was visible in its derivatives which are used by us as raw materials.
5. The production capacity of petro based products has not increased in the same proportion as the collective demand in the international market where US, the EU countries and China are major buyers of these products

### Company Results

The financial results of the company are as follow:

	<b>2006</b>	<b>2005</b>
	<b>(Rupees in million)</b>	
Invoiced sales	9,027	8,163
Gross profit	1,295	1,353
Profit from operations	758	902
Finance cost	79	186
Investment income	5,669	613
Profit before tax	6,348	1,330
Profit after tax	6,101	1,015
Earnings per share - Rs.	87.30	16.24

There was a decline in gross profit from last year due to higher raw material prices as explained above and increase in natural gas and furnace oil prices used for power generation. These increases in the input costs could be passed on partially in the price rationalization of our end products. The company did not think it prudent to pass further costs onwards in view of the risk of losing market share to imports/local competitors. However, the company continued to make productivity gains thus reducing the total impact of the above mentioned input cost increases. The gap in cost of sales was also mitigated by increase in other income and decrease in financial costs of the company.

During the year the company has successfully carried out an exercise of revaluing its existing investments in the shares of certain listed associated companies. By carrying out the above exercise the company has registered fair value of such investments on its balance sheet

## Directors' Report to the Shareholders

### Bulleh Shah Paper Mill (BSPM) Project

The work on the BSPM phase I has entered into the final stages. Erection phase of PM 6 was completed by the end of 2006. The focus in the last quarter of 2006 remained on completing construction of various buildings and installation of equipment. Piping, electrical & instrumentation installation completion has reached a stage which will allow commencement of PM 6 commissioning in early 2007. Other buildings to accommodate Phase II equipment that include PM7 (writing and printing machine), coating plant, and pulp DIP (Deinked Pulp) are at an advanced stage.

<b>Production Overview</b>	<b>2006</b>	<b>2005</b>
	<b>Tonnes</b>	
Paper and paperboard produced	100,999	104,542
Paper and paperboard converted	86,447	85,219
Plastics all sorts converted	8,418	7,360

On the production side the company produced 3% less paper & paperboard due to the product mix and on conversion side 1.5% more paper & paperboard was converted. Conversion of plastics was also more by 14% over last year.

#### **Enhanced Capacity**

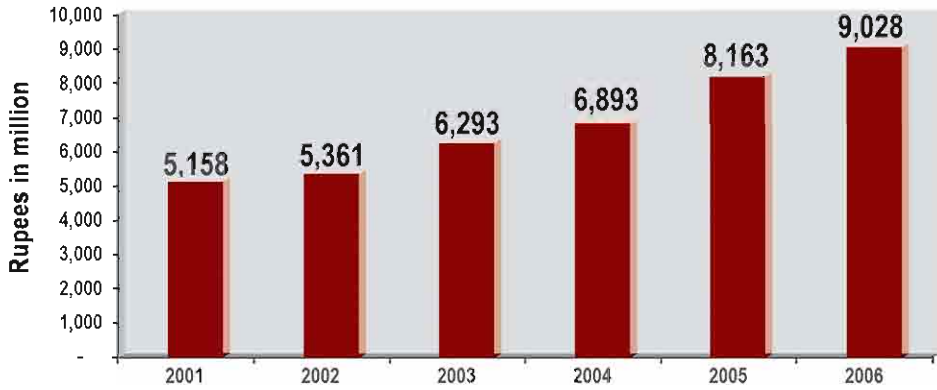
The company has invested in increasing its capacity in the conversion division and has added a new 3 layer Co-extruder, increasing the extrusion capacity by 50% in flexible packaging and a hot foil stamping machine which will optimize foil usage in the rigid carton packing. A new Lemanic press for Carton line and a new Corrugator plant has arrived at site with erection work starting in 2007. A new Tissue machine and its auxiliary equipment has been ordered, which is expected to arrive by end 2007.

#### **Marketing**

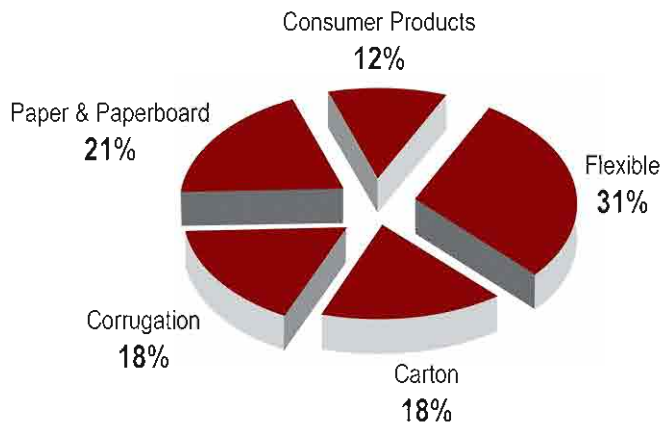
All business lines have contributed positively to the growth in sales with a collective increase of 10.4% over last year. The company is gradually expanding and diversifying its customer base in the packaging materials business. The highest growth in packaging materials was seen in the food and beverage industry in all types of packing.

The tissue products business has crossed the Rs.1 billion mark in sales. In the retail market, tissue product range of facial and toilet tissues selling under the brand names of Rose Petal, Tulip and Double Horse have increased by 14%. There has been considerable growth in export of tissue products to Afghanistan during the year.

## Invoiced Sales



## Breakup of Sales 2006



## Directors' Report to the shareholders

### Environmental Impact

Packages Limited is committed to minimize its environmental impact as much as practically possible. Paper and Board Mill Operations are known for their environmentally challenging conditions all over the industry. Your company has completed ISO 14001 Environment Management Systems Certification for its Paper and Board Mill Operations during the year 2006, implementing ISO 14001 EMS was really a huge task. This was made possible by careful planning, organization and team work of all involved departments. Now it plans to extend this certification to the Packaging Division also.

The company now has a continually improving Environmental Management System. There is now a system of regular internal audits along with corrective and preventive actions. Departments have set targets for their significant environmental aspects that are regularly monitored and actions are taken to keep them under control. Significant efforts have been carried out to reduce fresh water consumption. Water savings are mainly carried out by maximum recycling and through better maintenance.

An energy audit of the company was conducted through technical experts of external consultants. As a result energy conservation projects are now being implemented in the company.

### Business Risk and challenges

Packaging is a fast growing business where barrier to entry is not very high for local players. Industrial customers now demand world-class quality, swift and accurate deliveries at very competitive prices, customers have choices available to them with opening up of borders for trade and suppliers available in the Middle East and China. Accordingly maintaining good margins at competitive prices is a challenge especially for corrugated and offset cartons businesses. Business expansion can be achieved by bringing in production efficiencies and improvement in operations. The company is building on its strength of experience in quality printing, track record of timely deliveries and providing solutions to customer requirements.

### contribution to economy

Your company has entered into its fiftieth year of existence in 2007. Throughout these years the company has acted as a responsible corporate citizen. It has helped in creating employment in the country, introduced new machines and technology, and has always discharged its full tax obligations. Your company comes in the large tax payers of the country category and was awarded Excellence Award 2006 as one of the top 5 tax paying companies in paper board sector by the Lahore LTU.

The on-going project of Bulleh Shah Paper Mill will help in uplifting the areas surrounding the mill. Presently about 3000 people are involved in the implementation of the project.

### Human Resource

The company values its employees as partners in progress and believes that the members of Packages family have always made a difference through their hard work, commitment and fresh ideas. An environment of learning is created so people can work in teams and come up with ideas for improvement. Following the Japanese concept of Kaizen, quality circles are formed within production units to highlight problems, study them and come up with workable solutions to continuously improve the operations in the company. Out of the 43 quality teams working during the year, 10 teams were rewarded for their outstanding achievements.

### Future Outlook

The year 2007 is viewed with optimism by the company in view of the availability of additional capacities for paper and paperboard from Bulleh Shah Paper Mill.

### Appropriation

The Directors have recommended a payment of cash dividend of 60 percent (Rs.6.00 per share) and issue of one bonus share for every twenty shares held on the existing issued, subscribed and paid up capital of the company.

<p><b>Appropriation</b> Accordingly the following appropriations have been made:</p> <p style="text-align: right;"><b>(Rupee in thousand)</b></p> <p>The Company made an after tax profit of <span style="float: right;">6,100,780</span></p> <p>Adding thereto the un-appropriated profit at December 31, 2005 <span style="float: right;"><u>886</u></span></p> <p>Makes available for appropriation a sum of <span style="float: right;">6,101,666</span> From the sum the Directors recommend payment</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">of a cash dividend of Rs.6.00 per share</td> <td style="text-align: right;">419,277</td> </tr> <tr> <td>And transfer to reserve</td> <td style="text-align: right;"><u>5,681,540</u></td> </tr> <tr> <td></td> <td style="text-align: right;"><u>6,100,817</u></td> </tr> </table> <p>And propose to carry forward to 2007 the balance of <span style="float: right;"><u>849</u></span></p>	of a cash dividend of Rs.6.00 per share	419,277	And transfer to reserve	<u>5,681,540</u>		<u>6,100,817</u>	<p><b>Compliance with the Code of Corporate Governance</b> The requirements of the Code of Corporate Governance set out by the Karachi, Lahore and Islamabad Stock Exchanges in their Listing Regulations, relevant for the year ended December 31, 2006 have been adopted by the company and have been duly complied with. A statement to this effect is annexed to the report.</p> <p><b>Statement of Ethics and Business Practices</b> The Board has adopted the statement of Ethics and Business Practices. All employees are informed of this statement and are required to observe these rules of conduct in relation to customers, suppliers and regulations.</p> <p><b>Material Changes</b> There have been no material changes since December 31, 2006 and the company has not entered into any commitment, which would affect its financial position at the date.</p>
of a cash dividend of Rs.6.00 per share	419,277						
And transfer to reserve	<u>5,681,540</u>						
	<u>6,100,817</u>						
<p><b>Auditors</b></p> <p>The present auditors Mis A.F. Ferguson &amp; Co., Chartered Accountants retire and offer themselves for reappointment. As suggested by the Audit Committee, the Board of Directors has recommended their reappointment as auditors of the company for the year ending December 31, 2007, at a fee to be mutually agreed.</p>							

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## **Directors' Report to the Shareholders**

### **Board of Directors**

There has been no change in the Board of Directors during the year.

In the year 2006, six board meetings were held and the number of meetings attended by each Director is given here under :

<b>S No.</b>	<b>Name of Directors</b>	<b>No. of meetings attended</b>
<b>1.</b>	Mr. Asadullah Khawaja (Chairman)	<b>6</b>
<b>2.</b>	Syed Hyder Ali (Managing Director & Chief Executive)	<b>5</b>
<b>3.</b>	Mr. Tariq Iqbal Khan (Nominee of National Investment Trust Limited)	<b>5</b>
<b>4.</b>	Mr. Kamal Afsar (Nominee of State Life Insurance Corporation of Pakistan)	<b>3</b>
<b>5.</b>	Mr. Shamim Ahmad Khan	<b>5</b>
<b>6.</b>	Syed Shahid Ali	<b>1</b>
<b>7.</b>	Mr. Mujeeb Rashid	<b>6</b>
<b>8.</b>	Mr. Khalid Yacob	<b>6</b>
<b>9.</b>	Ms. Kirsten Rausing	-
<b>10.</b>	Mr. Markku Juha Pentikainen	-
<b>11.</b>	Syed Aslam Mehdi (Alternate to Ms. Kirsten Rausing)	<b>4</b>
<b>12.</b>	Mr. Matti Naakka (Alternate to Mr. Markku Juha Pentikainen)	<b>1</b>

Leave of absence was granted to the Directors who could not attend the Board Meetings.

<p><b>Audit Committee</b></p> <p>An Audit Committee of the Board has been in existence since the enforcement of the Code of Corporate Governance, which comprises of three non-executive director (including its Chairman) and two executive During the year four meetings of the Committee were held. The Committee has its terms of reference which were determined by the Board of Directors in accordance with the guidelines provided in the Listing Regulations.</p> <p>During the year, Syed Aslam Mehdi (Deputy General Manager and Alternate Director to Ms. Kirsten Rausing) was appointed a member of the Audit Committee in addition to four other members.</p> <p><b>Corporate and Financial Reporting Framework</b></p> <ul style="list-style-type: none"> <li>•The financial statements together with the notes thereon have been drawn up by the management in conformity with the companies Ordinance, 1984. These Statements present fairly the company's state of affairs, the results of its operations, cash flow and changes in equity.</li> <li>• Proper books of account have been maintained by the company.</li> <li>• Appropriate accounting policies have been consistently applied in the preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.</li> <li>• The International Accounting Standards, as applicable in Pakistan, have been followed in the preparation of financial statements.</li> <li>• The system of internal control is sound in design and has been effectively implemented and monitored.</li> </ul>	<ul style="list-style-type: none"> <li>•There are no doubts upon the company's ability to continue as a going concern.</li> <li>•There has been no departure from the best practices of Corporate Governance, as detailed in the listing regulations.</li> <li>•There has been no departure from the best practices of transfer pricing.</li> <li>•The key operating and financial data for the last ten years is annexed.</li> <li>•The value of investments of provident, gratuity and pension funds based on their audited accounts as on December31, 2006 were the following:</li> </ul> <table data-bbox="824 846 1395 947"> <tr> <td>Provident Fund</td> <td><b>Rs. 61 5.400 million</b></td> </tr> <tr> <td>Gratuity Fund</td> <td><b>Rs. 224.877 million</b></td> </tr> <tr> <td>Pension Fund</td> <td><b>Rs. 425.227 million</b></td> </tr> </table> <p>The value of investment includes accrued interest.</p> <ul style="list-style-type: none"> <li>•Trading of Shares by Chief Executive, Directors, Chief Financial Officer, Company Secretary, their spouses and minor children</li> </ul> <table data-bbox="824 1171 1395 1388"> <thead> <tr> <th><b>Purchase of Shares :</b></th> <th><b>No. of shares</b></th> </tr> </thead> <tbody> <tr> <td>Chief Executive Officer</td> <td>Nil</td> </tr> <tr> <td>Directors</td> <td>2,940</td> </tr> <tr> <td>Chief Financial Officer</td> <td>Nil</td> </tr> <tr> <td>Company Secretary</td> <td>Nil</td> </tr> <tr> <td>Spouses</td> <td>Nil</td> </tr> </tbody> </table> <table data-bbox="824 1423 1395 1451"> <tr> <td>Sale of Shares:</td> <td>Nil</td> </tr> </table>	Provident Fund	<b>Rs. 61 5.400 million</b>	Gratuity Fund	<b>Rs. 224.877 million</b>	Pension Fund	<b>Rs. 425.227 million</b>	<b>Purchase of Shares :</b>	<b>No. of shares</b>	Chief Executive Officer	Nil	Directors	2,940	Chief Financial Officer	Nil	Company Secretary	Nil	Spouses	Nil	Sale of Shares:	Nil
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Directors	2,940																				
Chief Financial Officer	Nil																				
Company Secretary	Nil																				
Spouses	Nil																				
Sale of Shares:	Nil																				



## **Pattern of Shareholdings**

A statement of the pattern of shareholding of certain class of shareholders as at December 31, 2006, whose disclosure is required under the reporting framework, is included in the annexed shareholders' information.

The Directors, CEO, CFO, Company Secretary and their spouses or minor children did not carry out any trade in the shares of the company during the year except as noted above.



(Syed Hyder Ali)  
Managing Director & Chief Executive  
Kasur, February 06,2007

## Shareholders' Information

<p><b>Registered Office</b></p> <p>4th Floor, The Forum Suite#416-422, G-20, Block 9 Khayaban-e-Jami, Clifton, Karachi-75600 Tel : 92-21 -5831 61 8, 5831664, 5833011 Fax : 92-21 -5860251</p> <p><b>Listing on Stock Exchanges</b></p> <p>Packages equity shares are listed on Karachi, Lahore and Islamabad Stock Exchanges.</p> <p><b>Listing Fees</b></p> <p>The annual listing fee for the financial year 2006-07 has been paid to all the three stock exchanges within the prescribed time limit.</p> <p><b>Stock Code</b></p> <p>The stock code for dealing in equity shares of Packages at KSE, LSE and ISE is PKGS.</p> <p><b>Shares Registrar</b></p> <p>Packages' shares department is operated by Ferguson Associates (Pvt.) Ltd. and services over 3,349 shareholders. It is managed by a well experienced team of professionals and is equipped with the necessary infrastructure in terms of computer facilities and comprehensive set of systems and procedures for conducting the Registration function. The essential and outstanding ingredient of the Registration services is the involvement of Chartered Accountants in the quality control aspect of Registration activities.</p>	<p><b>Shares Registrar</b></p> <p>Ferguson Associates (Pvt.) Ltd. Ground Floor, State Life Building No.1-A Off: II. Chundrigar Road, Karachi-74000 Tel. : 92-21-2425467, 2423650, 2426597 Fax: 92-21-2428310</p> <p>The Shares Registrar has online connectivity with Central Depository Company of Pakistan Limited (CDC). It undertakes activities pertaining to dematerialization of shares, share transfers, transmissions, issue of duplicate / re-validated dividend warrants, issue of duplicate / replaced share certificates, change of address and other related matters. For assistance, shareholders may contact either the Registered Office or the Shares Registrar.</p> <p><b>Contact Persons:</b></p> <p>Mr. Rafique Khatri Tel : 92-21-5831618, 5831664, 5833011 Fax: 92-21-5860251 Mr. Ovais Khan Tel. : 92-21-2425467, 2423650, 2426597 Fax: 92-21-2428310</p> <p><b>Service Standards</b></p> <p>Packages has always endeavored to provide investors with prompt services. Listed below are various investor services and the maximum time limits set for their execution:</p>
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	For request received through post	Over the counter
Transfer of shares	30 days after receipt	30 days after receipt
Transmission of shares	30 days after receipt	30 days after receipt
Issue of duplicate share certificates	30 days after receipt	30 days after receipt
Issue of duplicate dividend warrants	5 days after receipt	5 days after receipt
Issue of re-validated dividend warrants	5 days after receipt	5 days after receipt
Change of address	2 days after receipt	15 minutes

Well qualified personnel of the Shares Registrar have been entrusted with the responsibility of ensuring that services are rendered within the set time limits.

### **Statutory Compliance**

During the year the company has complied with all applicable provisions, filed all returns! forms and furnished all the relevant particulars as required under the Companies Ordinance, 1984 and allied rules, the Securities and Exchange Commission of Pakistan (SECP) Regulations and the listing requirements.

### **Dematerialization of Shares**

The equity shares of the company are under the dematerialization category. As of date 69.06% of the equity shares of the company have been dematerialized by the shareholders.

### **Dividend Announcement**

The board of directors of the company has proposed for the financial year ended December 31, 2006 a cash dividend of 60% (Rs. 6.00 per share of Rs. 10). Additionally, the board of directors have recommended to allot to the members of the company fully paid up bonus shares in the proportion of one such new share for every twenty existing ordinary shares held. The aforesaid cash dividend and bonus shares are subject to approval by the shareholders of the company at the Annual General Meeting [2005 : 60% cash dividend (Rs. 6.00 per share of Rs. 10) Bonus shares: Nil

### **Book Closure Dates**

The Register of Members and Share Transfer Books of the company will remain closed from April 07, 2007 to April 17, 2007 both days inclusive.

### **Dividend Remittance / Dispatch of Bonus Shares**

Dividend / bonus shares declared and approved at the Annual General Meeting will be paid / dispatched well before the statutory time limit of 45 days:

(i) For shares held In physical form: to shareholders whose names appear in the Register of Members of the company after entertaining all requests for transfer of shares lodged with the company on or before the book closure date.

(ii) For shares held in electronic form: to shareholders whose names appear in the statement of beneficial ownership furnished by CDC as at end of business on book closure date.

### **Withholding of Tax & Zakat on Dividend**

Tax is deductible at source at the applicable rate on the amount of dividend paid under section 5 of The Income Tax Ordinance, 2001. Zakat is also deductible at source from the dividend at the rate of 2.5% of the face value of the share, other than corporate holders or individuals who have provided an undertaking for non-deduction.

### **Dividend Warrants**

Cash Dividends are paid through dividend warrants addressed to the shareholders whose names appear in the Register of Shareholders at the date of book closure. Shareholders are requested to deposit those warrants into their bank accounts, at their earliest, thus helping the company to clear the unclaimed dividend account.

### **Investors' Grievances**

To date none of the investors or shareholders have filed any letter of complaints against any service provided by the company to its shareholders.

<p><b>Legal Proceedings</b></p> <p>No case has ever been filed by shareholders against the company for non-receipt of shares / refund.</p> <p><b>General Meetings &amp; Voting Rights</b></p> <p>Pursuant to section 158 of The Companies Ordinance, 1984, Packages holds a General Meeting of shareholders at least once a year. Every shareholder has a right to attend the General Meeting. The notice of such meeting is sent to all the shareholders at least 21 days before the meeting and also advertised in at least one English and one Urdu newspaper having circulation in Karachi, Lahore and Islamabad.</p> <p>Shareholders having holding of at least 10% of voting rights may also apply to the board of directors to call for meeting of shareholders, and if board does not take action on such application within 21 days, the shareholders may themselves call the meeting.</p> <p>All shares issued by the company carry equal voting rights. Generally, matters at the general meetings are decided by a show of hands in the first instance. Voting by show of hands operates on the principle of “One Member-One Vote. If majority of shareholders raise their hands in favor of a particular resolution, it is taken as passed, unless a poll is demanded.</p> <p>Since the fundamental voting principle in a company is ‘One Share-One Vote’, voting takes place by a poll, if demanded. On a poll being taken, the decision arrived by poll is final, overruling any decision taken on a show of hands.</p>	<p><b>Proxies</b></p> <p>Pursuant to Section 161 of The Companies Ordinance, 1984 and according to the Memorandum and Articles of Association of the Company, every shareholder of the company who is entitled to attend and vote at a general meeting of the company can appoint another person as his/her proxy to attend and vote instead of him/her. Every notice calling a general meeting of the company contains a statement that a shareholder entitled to attend and vote is entitled to appoint a proxy, who ought to be a member of the company.</p> <p>The instrument appointing a proxy (duly signed by the shareholder appointing that proxy) should be deposited at the office of the company not less than forty-eight hours before the meeting.</p> <p><b>Web Presence</b></p> <p>Updated information regarding the company can be accessed at Packages website, <a href="http://www.packages.com.pk">www.packages.com.pk</a>. The website contains the latest financial results of the company together with company’s profile, the corporate philosophy and major products.</p>
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## Shareholding Pattern

The shareholding pattern of the equity share capital of the company as at December 31, 2006 is as follows:

<b>Shareholding From</b>	<b>To</b>	<b>Number of shareholders</b>	<b>Total shares held</b>
1	100	1,653	334,376
101	500	573	159,876
501	1000	286	225,053
1001	5000	462	1,135,478
5001	10000	128	925,777
10001	15000	46	562,334
15001	20000	25	434,292
20001	25000	29	634,870
25001	30000	14	384,718
30001	35000	9	286,756
35001	40000	10	373,549
40001	45000	9	382,679
45001	50000	4	186,630
50001	55000	10	534,439
55001	60000	2	115,334
60001	65000	1	62,475
65001	70000	2	136,559
70001	75000	3	219,958
75001	80000	2	154,197
80001	85000	1	82,320
85001	90000	3	259,545
90001	95000	4	372,481
95001	100000	4	387,739
100001	105000	1	104,500
105001	110000	3	325,016
110001	115000	1	114,600
115001	120000	1	119,784
120001	125000	1	122,800
125001	130000	2	250,892
130001	135000	4	529,576
140001	145000	1	144,750
145001	150000	2	298,950
160001	165000	3	487,279
165001	170000	1	168,167
170001	175000	2	344,832
180001	185000	2	365,682
185001	190000	1	188,824
205001	210000	1	205,248
210001	215001	2	425,642
215001	220000	1	217,578
220001	225000	1	220,600
225001	230000	1	229,180
250001	255000	2	507,280
255001	260000	1	259,042
285001	290000	2	578,009

<b>Shareholding</b>		<b>Number of</b>	<b>Total shares</b>
<b>From</b>	<b>To</b>	<b>shareholders</b>	<b>held</b>
300001	305000	1	302,439
325001	330000	1	328,457
360001	365000	1	364,637
385001	390000	1	386,200
415001	420000	1	415,504
440001	445000	1	442,115
460001	465000	1	462,933
470001	475000	1	474,500
475001	480000	1	475,876
555001	560000	1	559,286
560001	565000	1	562,640
590001	595000	1	592,981
595001	600000	1	595,200
680001	685000	1	682,613
715001	720000	1	716,405
730001	735000	1	731,289
770001	775000	1	773,795
820001	825000	1	820,407
880001	885000	1	882,381
960001	965000	1	964,464
970001	975000	1	972,733
985001	990000	1	988,000
990001	995000	2	1,983,486
1480001	1485000	1	1,483,362
1700001	1705000	1	1,704,900
1810001	1815000	1	1,810,826
2560001	2565000	1	2,564,829
2690001	2695000	1	2,693,078
3230001	3235000	1	3,234,115
4045001	4050000	1	4,047,744
7605001	7610000	1	7,605,950
14995001	15000000	1	14,996,696
		<b>3,349</b>	<b>69,879,507</b>

<b>S. No.</b>	<b>Shareholders category</b>	<b>Number of</b>	<b>No. of</b>	<b>%</b>
		<b>Shareholders</b>	<b>Shares</b>	
1	Associated Companies, Undertakings and Related Parties	12	22,256,311	31.85
2	NIT and ICP	3	7610,634	10.90
3	Directors, CEO and their Spouses	7	2,805,032	4.01
4	Executives	10	4,513,346	6.46
5	Public Sector Companies and Corporations	9	3,985,550	5.70
6	Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance Companies, Modaraba and Mutual Funds	61	12,872,185	18.42
7	Others	88	6,580,657	9.42
8	Individuals	3,159	9,255,792	13.24
		<b>3,349</b>	<b>69,879,507</b>	<b>100.00</b>

**Information as required under the Code of Corporate Governance**

<b>Shareholders' category</b>	<b>Number of Shareholders</b>	<b>Number of shares held</b>
<b>Associated Companies, Undertakings and Related Parties</b>		
GURMANI FOUNDATION	1	992,686
INTERNATIONAL GENERAL INSURANCE CO. OF PAKISTAN LTD.	2	15,559,336
LOADS LIMITED	1	62,475
BABAR ALI FOUNDATION	1	2,564,829
TRUSTEES PACKAGES LTD. EMPLOYEES PROVIDENT FUND	2	1,712,542
TRUSTEES PACKAGES LTD. MANAGEMENT STAFF PENSION FUND	2	546,615
TREET CORPORATION LTD.	1	731,289
TRUSTEES PACKAGES LTD. EMPLOYEES GRATUITY FUND	2	86,539
<b>NIT and ICP</b>		
INVESTMENT CORPORATION OF PAKISTAN	1	2,108
NATIONAL INVESTMENT TRUST LTD.	1	2,576
NATIONAL BANK OF PAKISTAN, TRUSTEE DEPTT. (NIT)	1	7,605,950
<b>Directors</b>		
MR. ASADULLAH KHAWAJA/ MS. LUBNA KHAWAJA	1	500
MR. KHALID YACOB	1	848
MR. MUJEEB RASH ID	1	58,500
MR. SHAMIM AHMAD KHAN	1	500
SYED HYDER ALI	1	1,810,826
SYED SHAHID ALI	2	933,858
Directors soouses and minor children	NIL	NIL
CEO's spouse and minor children	NIL	NIL
<b>Executives</b>	10	4,513,346
<b>Public Sector Companies and Corporations</b>	9	3,985,550
<b>Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance Companies Modaraba and Mutual Funds</b>		
	61	12,872,185
<b>Shareholders holding 10% or more voting interest</b>		
INTERNATIONAL GENERAL INSURANCE CO. OF PAKISTAN LTD.	2	15,559,336
NATIONAL BANK OF PAKISTAN, TRUSTEE DEPTT. (NIT)	1	7,605,950

### Share Price / Volume

The monthly high and low prices and the volume of shares traded on the Karachi Stock Exchange (KSE) during the financial year 2006 are as under:

Month	Share price on the KSE (Rs.)		Volume of shares traded
	Highest	Lowest	
January	226.00	206.00	867,200
February	219.95	207.10	1,219,200
March	215.00	193.80	829,500
April	218.00	209.00	1,553,000
May	216.90	205.00	589,500
June	220.30	195.00	567,600
July	213.85	205.00	800,900
August	217.20	202.00	211,400
September	212.00	200.00	126,600
October	202.50	194.00	72,600
November	214.00	185.15	19,483,300
December	210.00	198.00	4,620,600



## Statement of Compliance with the Code of Corporate Governance

This statement is being presented to comply with the Code of Corporate Governance contained in the listing regulations of Karachi, Lahore and Islamabad stock exchanges for the purpose of establishing a framework of good governance.

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

**1.** The company encourages representation of independent non-executive directors on its Board. At present the Board includes seven independent non-executive directors. The company encourages representation of minority on the Board, however, none of the minority shareholder offered himself for election.

**2.** The directors of the company have confirmed that none of them is serving as a director in more than ten listed companies, including this company, except for Mr. Tanq Iqbal Khan who has been specifically exempted by Securities and Exchange Commission of Pakistan for holding directorship in more than ten listed companies.

**3.** All the resident directors of the company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DEI or an NBFI or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.

**4.** Mr. Khalid Yacob is an Executive Director of Packages Limited and he also holds the position of Director in IGI Investment Bank Limited (formerly First International Investment Bank Limited)

which is the holding company of IGI Finex Securities Limited, a company engaged in the business of stock brokerage. However, Mr. Khalid Yacob undertakes that neither he nor his spouse are personally engaged in the business of stock brokerage.

**5.** Any casual vacancy that may occur in the Board is filled up by the Directors as per the provisions of Companies Ordinance, 1984 and relevant clauses of the Articles of Association of the company.

**6.** The company has issued a 'Statement of Ethics and Business Practices', which has been signed by all the directors and employees of the company.

**7.** The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.

**8.** All the powers of the Board have been duly exercised and decisions on material transactions have been taken by the Board including appointment, determination of remuneration and terms and conditions of Executive Directors and the Managing Director.

**9.** The meetings of the Board are presided over by Mr. Asadullah Khawaja, the Board met at least once in every quarter during the year. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.

**10.** The Board ensures arrangement of orientation courses for its directors to apprise them of their duties and responsibilities.

**11.** The Board approves the appointment, remuneration and terms and conditions of employment of Chief Financial Officer, Head of Internal Audit and the Company Secretary. There was, however, no new appointment during the year.

**12.** The directors' report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.

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

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

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

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


**17.** The meetings of the audit committee were held at least once every quarter prior to recommend the approval of interim and final results of the company as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.

**18.** The Board has set-up an effective internal audit function manned by suitably qualified and experienced personnel who are conversant with the policies and procedures of the company and are involved in the Internal Audit function on a full time basis.

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

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

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



**Asadullah Khawaja**

Chairman

February 06, 2007

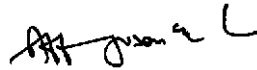
## Review Report to the Members on Statement of Compliance with Best Practices of Code of Corporate Governance

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of Packages Limited to comply with the Listing Regulation No. 37 of the Karachi Stock Exchange, Chapter XIII of the Lahore Stock Exchange and Chapter XI of the Islamabad Stock Exchange, where the company is listed.

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

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit

and develop an effective audit approach. We have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls. Based on our review nothing has come to our attention, which causes us to believe that the Statement of Compliance does not appropriately reflect the company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the company for the year ended December 31, 2006.



A.R FERGUSON & CO.  
Chartered Accountants  
Lahore, February 06, 2007.

## Auditors' Report to the Members

We have audited the annexed balance sheet of Packages Limited as at December 31, 2006 and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements.

An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

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

**(b)** in our opinion:

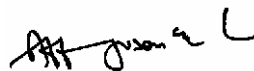
**(i)** the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;

**(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 December 31, 2006 and of the profit, its cash flows and changes in equity for the year then ended; and

**(d)** in our opinion zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the company, and deposited in the Central Zakat Fund established under section 7 of that Ordinance.




A. F. FERGUSON & CO.  
Chartered Accountants  
Lahore, February 06, 2007

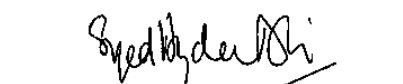
**Balance Sheet**  
as at December 31, 2006

	Note	2006 (Rupees in thousand)	2005 (Rupees in thousand)
<b>EQUITY AND LIABILITIES</b>			
<b>CAPITAL AND RESERVES</b>			
Authorised capital 100,000,000 (2005: 100,000,000) ordinary shares of Rs. 10 each		1,000,000	1,000,000
Issued, subscribed and paid up capital 69,879,507 (2005: 69,879,507) ordinary shares of Rs. 10 each	5	698,795	698,795
Reserves	6	6,872,336	6,021,297
Unappropriated profit		6,101,666	1,016,163
		<u>13,672,797</u>	<u>7,736,255</u>
<b>NON-CURRENT LIABILITIES</b>			
Long-term finances	7	6,000,000	1,000,000
Liabilities against assets subject to finance lease	8	-	851
Deferred liabilities	9	688,455	547,468
		<u>6,688,455</u>	<u>1,548,319</u>
<b>CURRENT LIABILITIES</b>			
Current portion of liabilities against assets subject to finance lease	8	851	5,159
Finances under mark up arrangements - secured	10	1,280,857	1,602,720
Derivative foreign currency forward options	11	-	90,959
Creditors, accrued and other liabilities	12	1,030,516	619,215
Provision for taxation		-	17,777
		<u>2,312,224</u>	<u>2,335,830</u>
<b>CONTINGENCIES AND COMMITMENTS</b>			
	13	-	-
		<u>22,673,476</u>	<u>11,620,404</u>

	Note	2006 (Rupees in thousand)	2005 (Rupees in thousand)
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	14	3,071,115	2,996,821
Intangible assets	15	2,532	5,300
Investment property	16	14,423	15,381
Assets subject to finance lease	17	1,901	8,581
Capital work-in-progress	18	10,143,195	3,265,517
Investments	19	5,775,665	693,576
Long-term loans and deposits	20	180,618	16,200
Retirement benefits	21	69,805	60,291
		<u>19,259,254</u>	<u>7,061,667</u>
<b>CURRENT ASSETS</b>			
Stores and spares	22	485,665	407,439
Stock-in-trade	23	1,647,173	1,144,043
Trade debts	24	821,160	784,638
Loans, advances, deposits, prepayments and other receivables	25	353,521	202,667
Cash and bank balances	26	106,703	2,019,950
		<u>3,414,222</u>	<u>4,558,737</u>
		<u>22,673,476</u>	<u>11,620,404</u>

The annexed notes 1 to 47 form an integral part of these financial statements.

  
Asadullah Khawaja  
Chairman

  
Syed Hyder Ali  
Managing Director & Chief Executive

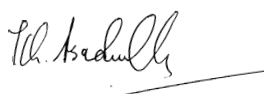
  
Mujeeb Rashid  
Director


**Profit and Loss Account**  
for the year ended December 31, 2006

	Note	2006 (Rupees in thousand)	2005
Local sales		8,869,087	8,061,945
Export sales		158,820	101,139
		<hr/>	<hr/>
		9,027,907	8,163,084
Less: Sales tax and excise duty		1,172,430	1,054,748
Commission		8,878	9,571
		<hr/>	<hr/>
		1,181,308	1,064,319
		<hr/>	<hr/>
		7,846,599	7,098,765
Cost of sales	27	(6,551,995)	(5,745,786)
		<hr/>	<hr/>
Gross profit		1,294,604	1,352,979
Administrative expenses	28	(349,934)	(346,565)
Distribution and marketing costs	29	(225,587)	(195,313)
Other operating expenses	30	(213,475)	(93,375)
Other operating income	31	252,005	184,681
		<hr/>	<hr/>
Profit from operations		757,613	902,407
Finance costs	32	(78,909)	(185,529)
Investment income	33	5,669,136	613,047
		<hr/>	<hr/>
Profit before tax		6,347,840	1,329,925
Taxation	34	(247,060)	(314,561)
		<hr/>	<hr/>
Profit for the year		6,100,780	1,015,364
		<hr/>	<hr/>
Earnings per share - basic and diluted	Rupees 43	87.30	16.24

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

The annexed notes 1 to 47 form an integral part of these financial statements.

  
Asadullah Khawaja  
Chairman

  
Syed Hyder Ali  
Managing Director & Chief Executive

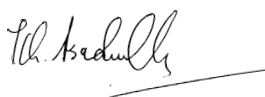
  
Mujeeb Rashid  
Director

## Cash Flow Statement

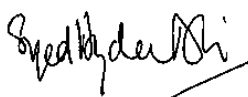
for the year ended December 31, 2006

	Note	2006 (Rupees in thousand)	2005
Cash flow from operating activities:			
Cash generated from operations	41	774,099	1,110,401
Finance cost paid		(38,270)	(163,273)
Taxes paid		(194,335)	(334,969)
Payments for accumulating compensated absences		(7,299)	(7,199)
Retirement benefits paid		(27,384)	(27,215)
Net cash from operating activities		506,811	577,745
Cash flow from investing activities:			
Purchase of property, plant and equipment		(7,325,683)	(3,408,463)
Net increase in long-term loans and deposits		(164,418)	(10,360)
Proceeds from sale of property, plant and equipment		12,493	17,376
Dividends received		822,990	576,262
Investments		(20,504)	9,360
Net cash used in investing activities		(6,675,122)	(2,815,825)
Cash flow from financing activities:			
Proceeds from long-term finances		5,000,000	1,600,000
Proceeds from issue of ordinary shares		-	3,006,788
Repayment of long-term finances		-	(1,454,870)
Payment of finance lease liabilities		(5,159)	(4,801)
Dividend paid		(417,914)	(402,496)
Net cash from financing activities		4,576,927	2,744,621
Net (decrease) / increase in cash and cash equivalents		(1,591,384)	506,541
Cash and cash equivalents at the beginning of the year		417,230	(89,311)
Cash and cash equivalents at the end of the year	42	(1,174,154)	417,230

The annexed notes 1 to 47 form an integral part of these financial statements.



Asadullah Khawaja  
Chairman



Syed Hyder Ali  
Managing Director & Chief Executive




Mujeeb Rashid  
Director


# Statement of Changes in Equity

for the year ended December 31, 2006

	Share capital	Share premium	Fair value reserve	Hedging reserve	General reserve	Unappropriated profit	Total
	( R u p e e s i n t h o u s a n d )						
Balance as on December 31, 2004	475,371	203,589	17,100	-	2,531,936	963,864	4,191,860
Final Dividend for the year ended December 31, 2004 Rs. 8.50 per share	-	-	-	-	-	(404,065)	(404,065)
Transferred from profit and loss account	-	-	-	-	559,000	(559,000)	-
Issue of 22,342,427 ordinary shares of Rs. 10 each fully paid in cash - net of issue costs	223,424	2,783,364	-	-	-	-	3,006,788
Fair value gain during the year	-	-	2,400	-	-	-	2,400
Loss arising on marking to market foreign currency forward options entered into as part of cash flow hedge for the purchase of plant and machinery (note 11)	-	-	-	(76,092)	-	-	(76,092)
Profit for the year	-	-	-	-	-	1,015,364	1,015,364
Balance as on December 31, 2005	698,795	2,986,953	19,500	(76,092)	3,090,936	1,016,163	7,736,255
Final Dividend for the year ended December 31, 2005 Rs. 6.00 per share	-	-	-	-	-	(419,277)	(419,277)
Transferred from profit and loss account	-	-	-	-	596,000	(596,000)	-
Fair value gain during the year	-	-	178,250	-	-	-	178,250
Transferred to profit and loss account on disposal of shares of The Resource Group (TRG) Pakistan Limited.	-	-	697	-	-	-	697
Gain arising on foreign currency forward options entered into as part of cash flow hedge for the purchase of plant and machinery	-	-	-	1,905	-	-	1,905
Transferred to CWIP on expiry of foreign currency forward options (note 11)	-	-	-	74,187	-	-	74,187
Profit for the year	-	-	-	-	-	6,100,780	6,100,780
Balance as on December 31, 2006	698,795	2,986,953	198,447	-	3,686,936	6,101,666	13,672,797

The annexed notes 1 to 47 form an integral part of these financial statements.

  
Asadullah Khawaja  
Chairman

  
Syed Hyder Ali  
Managing Director & Chief Executive

  
Mujeeb Rashid  
Director



# Notes to the Financial Statements

for the year ended December 31, 2006

## 1. Legal status and nature of business

Packages Limited ('The company') is a public limited company incorporated in Pakistan and is listed on Karachi, Lahore and Islamabad Stock Exchanges. It is principally engaged in the manufacture and sale of paper, paperboard, packaging materials and tissue products.

## 2. Statement of compliance

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

2.2 Standards, Interpretations and amendments to published approved accounting standards

2.2.1 Amendments to published standards effective in 2006

IAS 19 (Amendment) - 'Employees Benefits' is mandatory for company's accounting period beginning on January 01, 2006. Its adoption by the company only impacts the format and extent of disclosures presented in the financial statements.

2.2.2 Amendments to published standards not yet effective

Certain amendments to IAS 1 'Presentation of financial statements' - Capital Disclosures have been published that are applicable to the company's financial statements covering annual periods, beginning on or after January 01, 2007. Adoption of these amendments would impact the nature and extent of disclosures made in the future financial statements of the company.

## 3. Basis of measurement

3.1 These financial statements have been prepared under the historical cost convention except for revaluation of certain financial instruments at fair value and recognition of certain employee retirement benefits at present value.

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 judgment in the process of applying the company's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be

reasonable under the circumstances. The areas involving a higher degree of judgments or complexity or areas where assumptions and estimates are significant to the financial statements are as follows:

a) Retirement benefits - (note 21)

b) Provision for taxation - (note 34)

c) Useful life and residual values of property, plant and equipment - (note 4.2, note 14)

## 4. Significant accounting policies

The significant accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### 4.1 Taxation

#### 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. 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.

#### Deferred

Deferred tax is accounted for 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 recognised 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 utilised.

Deferred tax is calculated at the rates that are expected to apply to the period when the differences reverse based on tax rates 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.

### 4.2 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 certain plant and machinery signifies historical cost, gains and losses transferred from equity on qualifying cash flow hedges as referred to in note 4.17 and borrowing costs as referred to in note 4.20.

Depreciation on all property, plant and equipment is charged to profit on the straight-line method so as to write off the depreciable amount of an asset over its estimated useful life at the following annual rates:

Plant and machinery	6.25% to 20%
Buildings	2.5% to 10%
Other equipment	10% to 33.33%
Furniture and fixtures	10% to 20%
Vehicles	20%

The assets' residual values and useful lives are reviewed, at each financial year end, and adjusted if impact on depreciation is significant.

Depreciation on additions to property, plant and equipment is charged from the month in which an asset is acquired or capitalised while no depreciation is charged for the month in which the asset is disposed off.

The company assesses at each balance sheet date whether there is any indication that property, plant and equipment may be impaired. If such indication exists, the carrying amounts of such assets are reviewed to assess whether they are recorded in excess of their recoverable amount. Where carrying values exceed the respective recoverable amount, assets are written down to their recoverable amounts and the resulting impairment loss is recognised in income currently. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Where an impairment loss is recognised, the depreciation charge is adjusted in the future periods to allocate the asset's revised carrying amount over its estimated useful life.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. All other repair and maintenance costs are charged to income during the period in which they are incurred.

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

#### 4.3 Intangible assets

Expenditure incurred to acquire computer software and SAP Enterprise Resource Planning System (ERP) are capitalised as intangible assets and stated at cost less accumulated amortisation and any identified impairment loss. Intangible assets are amortised using the straight-line method over a period of three years.

Amortisation on additions to intangible assets is charged

from the month in which an asset is acquired or capitalised while no amortisation is charged for the month in which the asset is disposed off.

The company assesses at each balance sheet date whether there is any indication that intangible asset may be impaired. If such indication exists, the carrying amount of such assets are reviewed to assess whether they are recorded in excess of their recoverable amount. Where carrying values exceed the respective recoverable amount, assets are written down to their recoverable amounts and the resulting impairment loss is recognised in income currently. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Where an impairment loss is recognised, the amortisation charge is adjusted in the future periods to allocate the asset's revised carrying amount over its estimated useful life.

#### 4.4 Capital work-in-progress

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

#### 4.5 Investment property

Property not held for own use or for sale in the ordinary course of business is classified as investment property. The investment property of the company comprises buildings and is valued using the cost method i.e. at cost less any accumulated depreciation and any identified impairment loss.

Depreciation on buildings is charged to profit on the straight-line method so as to write off the depreciable amount of building over its estimated useful life at the rates ranging from 3.33% to 4% per annum. Depreciation on additions to investment property is charged from the month in which a property is acquired or capitalised while no depreciation is charged for the month in which the property is disposed off.

The assets' residual values and useful lives are reviewed, at each financial year end, and adjusted if impact on depreciation is significant.

The company assesses at each balance sheet date whether there is any indication that investment property may be impaired. If such indication exists, the carrying amounts of such assets are reviewed to assess whether they are recorded in excess of their recoverable amount. Where carrying values exceed the respective recoverable amount, assets are written down to their recoverable amounts and the resulting impairment loss is recognised in income currently. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Where an impairment loss is recognised, the depreciation charge is adjusted in the future periods to allocate the asset's revised carrying amount over its estimated useful life.

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

## 4.6 Leases

### (1) The company is the lessee:

#### Finance leases

Leases where the company has substantially all the risks and rewards of ownership are classified as finance leases. At inception finance leases are capitalised at the lower of present value of minimum lease payments under the lease agreements and the fair value of the assets.

The related rental obligations, net of finance charges, are included in liabilities against assets subject to finance lease as referred to in note 8. The liabilities are classified as current and long-term depending upon the timing of the payment.

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

Assets acquired under a finance lease are depreciated over the useful life of the asset on a straight-line method at the rates given in note 4.2. Depreciation of leased assets is charged to profit and loss account.

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.

#### 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 profit on a straight-line basis over the lease term.

### (2) The company is the lessor:

#### Operating leases

Assets leased out under operating leases are included in investment property as referred to in note 16. They are depreciated over their expected useful lives on a basis consistent with similar owned property, plant and equipment. Rental income (net of any incentives given to lessees) is recognised on a straight-line basis over the lease term.

## 4.7 Investments

Investments in equity instruments of subsidiaries and associated companies

Investment in subsidiaries and associates where the company has significant influence are measured at cost

in the company's financial statements. Cost in relation to investments made in foreign currency is determined by translating the consideration paid in foreign currency into rupees at exchange rates prevailing on the date of transactions.

During the year, the company reassessed its relationship with all associated undertakings and as a result, it no longer accounts for its investments in Nestle Pakistan Limited and Coca Cola Beverages Pakistan Limited at cost as these companies do not fall within the scope of the IAS 28 'Investments in Associates'. Consequently, in line with the company's accounting policy, such investments have now been designated as available for sale and measured at fair value from the date company ceased to have significant influence as per the requirements of IAS 28.

#### Other investments

The other investments made by the company are classified for the purpose of measurement into the following categories:

#### Held to maturity

Investments with fixed maturity that the management has the intent and ability to hold to maturity are classified as held to maturity and are initially measured at cost and at subsequent reporting dates measured at amortised cost using the effective yield method.

#### Available for sale

The financial assets including investments in associated undertakings where the company does not have significant influence that are intended to be held for an indefinite period of time or may be sold in response to the need for liquidity are classified as available for sale.

Investments classified as available for sale are initially measured at cost, being the fair value of consideration given. At subsequent reporting dates, these investments are remeasured at fair value (quoted market price), unless fair value cannot be reliably measured. The investments for which a quoted market price is not available, are measured at cost as it is not possible to apply any other valuation methodology. Unrealised gains and losses arising from the changes in the fair value are included in fair value reserves in the period in which they arise.

All purchases and sales of investments are recognised on the trade date which is the date that the company commits to purchase or sell the investment. Cost of purchase includes transaction cost.

At each reporting date, the company reviews the carrying amounts of the investments to assess whether there is any indication that such investments have suffered an impairment loss. If any such indication exists the recoverable amount is estimated in order to determine the extent of the impairment loss if any. Impairment

losses are recognised as expense. Where an impairment loss subsequently reverses, the carrying amount of the investment is increased to the revised recoverable amount but limited to the extent of initial cost of the investment. A reversal of the impairment loss is recognised in income. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

#### 4.8 Employee retirement benefits

The main features of the schemes operated by the company for its employees are as follows:

- (a) All the executive staff participates in an approved funded defined benefit pension plan. In addition, there is an approved funded defined benefit gratuity plan for all employees. Monthly contributions are made to these funds on the basis of actuarial recommendation at the rate of 20% per annum of basic salaries for pension and 4.50% per annum of basic salaries for gratuity. The latest actuarial valuation for the pension and gratuity schemes was carried out as at December 31, 2006. The actual returns on plan assets during the year were Rs. 48.625 million and Rs. 22.765 million for the pension and gratuity funds respectively. The actual returns on plan assets represent the difference between the fair value of plan assets at beginning of the year and end of the year after adjustments for contributions made by the company as reduced by benefits paid during the year.

The future contribution rates of these plans include allowances for deficit and surplus. Projected unit credit method, using the following significant assumptions, is used for valuation of these schemes:

Discount rate 11 percent per annum.

Expected rate of increase in salary level 8.89 percent per annum.

Expected rate of return 11 percent per annum.

Plan assets include long-term Government bonds, equity instruments of listed companies and term deposits with banks. Return on Government bonds and debt is at fixed rates, however, due to increased volatility of share prices in recent months, there is no clear indication of return on equity shares, therefore, it has been assumed that the yield on equity shares would match the return on debt.

The company is expected to contribute Rs. 21.3 million to the pension fund and Rs. 7.8 million to the gratuity fund in the next financial year.

The company's policy with regard to actuarial gains/losses is to follow minimum recommended approach under IAS 19 "Employee Benefits".

- (b) There is an approved contributory provident fund for all employees. Equal monthly contributions are

made by the company and the employees to the fund.

#### (c) Accumulating compensated absences

Provisions are made annually to cover the obligation for accumulating compensated absences and are charged to profit.

Retirement benefits are payable to staff on completion of prescribed qualifying period of service under these schemes.

#### 4.9 Stores and spares

Stores and spares are valued at the lower of moving average cost and net realisable value. Items in transit are valued at cost comprising invoice value plus other charges paid thereon.

Net realisable value signifies the estimated selling price in the ordinary course of business less costs necessarily to be incurred to make the sale. Provision is made in the financial statements for obsolete and slow moving stores and spares based on management estimate.

#### 4.10 Stock-in-trade

Stock of raw materials, except for those in transit, work-in-process and finished goods are valued principally at the lower of weighted average cost and net realisable value. Cost of work-in-process and finished goods comprises cost of direct materials, labour and appropriate manufacturing overheads.

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

Net realisable value signifies the estimated selling price in the ordinary course of business less costs necessarily to be incurred to make a sale. Provision is made in the financial statements for obsolete and slow moving stock-in-trade based on management estimate.

#### 4.11 Financial instruments

Financial assets and financial liabilities are recognised at the time when the company becomes a party to the contractual provisions of the instrument and derecognised when the company loses control of contractual rights that comprise the financial assets and in the case of financial liabilities when the obligation specified in the contract is discharged, cancelled or expired. Any gain or loss on derecognition of financial assets and financial liabilities is included in the profit and loss account currently.

Financial instruments carried on the balance sheet include loans, investments, trade and other debts, cash and bank balances, borrowings, liabilities against assets subject to finance lease, derivative financial instruments, trade and other payables, accrued expenses and unclaimed dividends. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

#### 4.12 Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and the net amount is reported in the financial statements only when there is a legally enforceable right to set off the recognised amount and the company intends either to settle on a net basis or to realise the assets and to settle the liabilities simultaneously.

#### 4.13 Trade debts

Trade debts 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.

#### 4.14 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of cash flow statement cash and cash equivalents comprise cash in hand, demand deposits, other short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value and finances under mark up arrangements. In the balance sheet, finances under mark up arrangements are included in current liabilities.

#### 4.15 Borrowings

Borrowings are initially recorded at the proceeds received. In subsequent periods, borrowings are stated at amortised cost using the effective yield method. Finance costs are accounted for on an accrual basis and are included in creditors, accrued and other liabilities to the extent of the amount remaining unpaid.

#### 4.16 Creditors, accruals and provisions

Liabilities for creditors and other amounts payable are carried at cost which is the fair value of the consideration to be paid in the future for the goods and / or services received, whether or not billed to the company.

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

#### 4.17 Derivative financial instruments

These are initially recorded at cost on the date a derivative contract is entered into and are remeasured to fair value at subsequent reporting dates. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The company designates certain derivatives as cash flow hedges.

The company documents at the inception of the

transaction the relationship between the hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flow of hedged items.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the profit and loss account.

Amounts accumulated in equity are recognised in profit and loss account in the periods when the hedged item will effect profit or loss. However, when the forecast hedged transaction results in the recognition of a non-financial asset or a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

#### 4.18 Revenue recognition

Revenue is recognised on despatch of goods or on the performance of services except for management fee, which is recognised on receipt.

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

Dividend income and entitlement of bonus shares are recognised when right to receive such dividend and bonus shares is established.

#### 4.19 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 the spot rate. All non-monetary items are translated into rupees at exchange rates prevailing on the date of transaction or on the date when fair values are determined.

Exchange differences are included in income currently.

#### 4.20 Borrowing costs

Mark up, interest and other charges on borrowings are capitalised upto the date of commissioning of the related property, plant and equipment, acquired out of the proceeds of such borrowings. All other mark up, interest and other charges are charged to income.

#### 4.21 Dividend

Dividend distribution to the company's shareholders is recognised as a liability in the period in which the dividends are approved.

5. Issued, subscribed and paid up capital

2006 (Number of shares)	2005		2006 (Rupees in thousand)	2005
33,603,295	33,603,295	Ordinary shares of Rs. 10 each fully paid in cash	336,033	336,033
148,780	148,780	Ordinary shares of Rs. 10 each issued as fully paid for consideration other than cash	1,488	1,488
36,127,432	36,127,432	Ordinary shares of Rs. 10 each issued as fully paid bonus shares	361,274	361,274
<u>69,879,507</u>	<u>69,879,507</u>		<u>698,795</u>	<u>698,795</u>

Ordinary shares of the company held by associated undertakings as at year end are as follows:

	2006 (Number of shares)	2005
International General Insurance Company of Pakistan Limited	15,559,336	15,424,636
IGI Investment Bank Limited (Formerly First International Investment Bank Limited)	-	124,400
Loads Limited	62,475	62,475
Treet Corporation Limited	731,289	731,289
	<u>16,353,100</u>	<u>16,342,800</u>

6. Reserves

	Note	2006 (Rupees in thousand)	2005
Movement in and composition of reserves is as follows:			
Capital			
Share premium			
At the beginning of the year		2,986,953	203,589
Premium on issue of ordinary shares -net of issue costs		-	2,783,364
	6.1	2,986,953	2,986,953
Fair value reserve			
At the beginning of the year		19,500	17,100
Fair value gain during the year		178,250	2,400
Transferred to profit and loss account		697	-
	6.2	198,447	19,500
Hedging reserve			
At the beginning of the year		(76,092)	-
Gain / (Loss) during the year		1,905	(76,092)
Transfer to capital work-in-progress		74,187	-
	6.3	-	(76,092)
		<u>3,185,400</u>	<u>2,930,361</u>
Revenue			
General reserve			
At the beginning of the year		3,090,936	2,531,936
Transfer from profit and loss account		596,000	559,000
		<u>3,686,936</u>	<u>3,090,936</u>
		<u>6,872,336</u>	<u>6,021,297</u>

- 6.1 This reserve can be utilised by the company only for the purposes specified in section 83(2) of the Companies Ordinance, 1984.
- 6.2 As referred to in note 4.7 this represents the unrealised gain on remeasurement of investments at fair value and is not available for distribution. This will be transferred to profit and loss account on derecognition of investments.
- 6.3 As referred to in note 11 this represents the effective portion of the loss arising on foreign currency forward options transferred to CWIP on expiry of foreign currency forward options.

7. Long-term finances

	Note	2006 (Rupees in thousand)	2005
These are composed of:			
Long-term loan - secured	7.1	<u>6,000,000</u>	<u>1,000,000</u>

7.1 Long-term loan - secured

This loan has been obtained from a consortium of commercial banks led by MCB Bank Limited. It is secured by a first ranking exclusive hypothecation / equitable mortgage charge over all present and future fixed assets of the company amounting to Rs. 14,000 million. It carries mark up at six month "Karachi Inter Bank Offered Rate (KIBOR) plus 1.35 per cent per annum" and is payable semi annually. The effective mark up charged during the year ranges from 10.53% to 11.94%. Of the aggregate facility of Rs. 10,500 million, the amount availed as at December 31, 2006 is Rs. 6,000 million (2005: Rs. 1,000 million), repayable in 14 equal semi annual installments commencing June 06, 2009 and December 06, 2009 for Rs. 1,000 million and Rs. 5,000 million respectively.

8. Liabilities against assets subject to finance lease

	2006 (Rupees in thousand)	2005
Present value of minimum lease payments	851	6,010
Less: Current portion shown under current liabilities	851	5,159
	<u>-</u>	<u>851</u>

The present value of minimum lease payments have been discounted at an implicit interest rate of 7.25% to arrive at their present value. The lessee has the option to purchase the assets after expiry of the lease term.

Taxes, repairs, replacements and insurance costs are to be borne by the lessee.

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

Years	Minimum lease payment	Future finance charge	Present value of lease liability	
	( R u p e e s i n t h o u s a n d )			
			2006	2005
Not later than one year	859	8	851	5,159
Later than one year and not later than five years	-	-	-	851
	<u>859</u>	<u>8</u>	<u>851</u>	<u>6,010</u>

9. Deferred liabilities

	Note	2006 (Rupees in thousand)	2005
Deferred taxation	9.1	601,000	470,000
Accumulating compensated absences	9.2	87,455	77,468
		<u>688,455</u>	<u>547,468</u>

9.1 Deferred taxation

	Note	2006 (Rupees in thousand)	2005
The liability for deferred taxation comprises temporary differences relating to:			
Accelerated tax depreciation		647,839	513,344
Provision for accumulating compensated absences		(30,609)	(27,114)
Impairment loss in value of investments		(16,230)	(16,230)
		<u>601,000</u>	<u>470,000</u>

9.2 Accumulating compensated absences

Opening balance		77,468	73,390
Provision for the year		17,286	11,277
		<u>94,754</u>	<u>84,667</u>
Less: Payments made during the year		7,299	7,199
Closing balance		<u>87,455</u>	<u>77,468</u>

10. Finances under mark up arrangements - secured

Running finances	10.1	700,857	1,202,720
Term finance	10.2	580,000	400,000
		<u>1,280,857</u>	<u>1,602,720</u>

10.1 Running finances - secured

Short-term running finances available from a consortium of commercial banks under mark up arrangements amount to Rs. 3,095.000 million (2005: Rs. 2,975.000 million). The rates of mark up range from Re. 0.2411 to Re. 0.3501 per Rs. 1,000 per diem or part thereof on the balances outstanding. In the event, the company fails to pay the balances on the expiry of the quarter, year or earlier demand, mark up is to be computed at the rates ranging from Re. 0.2893 to Re. 0.4201 per Rs. 1,000 per diem or part thereof on the balances unpaid. The aggregate running finances are secured by hypothecation of stores, spares, stock-in-trade and trade debts.

10.2 Term finance - secured

Term finance available from commercial banks under mark up arrangement amount to Rs. 580 million (2005: Rs. 400 million). It carries mark up at the rate of Re. 0.2668 to Re. 0.2740 per Rs. 1,000 per diem or part thereof. It is secured by hypothecation of stores, stock-in-trade and trade debts.

Of the aggregate facility of Rs. 13,653.462 million (2005: Rs. 11,140.062 million) for opening letters of credit and Rs. 504.000 million (2005: Rs. 312.584 million) for guarantees, the amount utilised at December 31, 2006 was Rs. 2,194.177 million (2005: Rs. 345.700 million) and Rs. 219.593 million (2005: Rs. 138.562 million) respectively. Of the facility for guarantees, Rs. 322.500 million (2005: Rs. 322.500 million) is secured by second hypothecation charge over stores, spares, stock-in-trade and trade debts.

11. Derivative foreign currency forward options

The company had entered into foreign currency forward options to hedge the possible adverse movements in exchange rates (exchange rate risk) arising on foreign currency payments required to be made for the purchase of new plant. As the hedging relationship was effective and met the criteria of cash flow hedge, this arrangement qualified for special hedge accounting specified in IAS 39 'Financial instruments: Recognition and Measurement'.

No foreign currency forward options are outstanding as at December 31, 2006. Effective portion of loss arising on foreign currency forward options recognised in the hedging reserve has been transferred to capital work-in-progress on expiry of the foreign currency forward options. The ineffective portion of Rs. 14.867 million has been recognised in profit and loss account during the year.



12. Creditors, accrued and other liabilities

	Note	2006 (Rupees in thousand)	2005
Trade creditors	12.1	190,119	94,040
Accrued liabilities	12.2	470,514	320,171
Sales tax payable		-	22,345
Excise duty payable		-	42
Customers' balances		34,451	22,514
Deposits - interest free repayable on demand		6,071	4,349
Mark up accrued on:			
Long-term finances - secured		49,750	7,575
Finances under mark up arrangements- secured		24,170	25,701
Workers' profit participation fund	12.3	83,894	70,824
Workers' welfare fund		129,654	15,843
TFCs payable		1,415	1,420
Unclaimed dividends		8,892	7,529
Others		31,586	26,862
		<u>1,030,516</u>	<u>619,215</u>

12.1 Trade creditors include amount due to related parties Rs. 34.342 million (2005: Rs. 42.995 million).

12.2 Accrued liabilities include amount due to related parties Rs. 10.817 million (2005: Rs. 5.821 million).

12.3 Workers' profit participation fund

	Note	2006 (Rupees in thousand)	2005
Opening balance		70,824	63,732
Provision for the year	30	83,894	70,824
		<u>154,718</u>	<u>134,556</u>
Less: Payments made during the year		70,824	63,732
Closing balance		<u>83,894</u>	<u>70,824</u>

13. Contingencies and commitments

13.1 Contingencies

(i) Claims against the company not acknowledged as debts Rs. 11.247 million (2005: Rs. 10.362 million).

(ii) Against a sales tax refund aggregating Rs. 12.827 million determined by the Sales Tax Officer (STO) on the basis of the orders of the Appellate Assistant Commissioner (AAC) for the assessment years 1977-78 through 1980-81 and recognised in the financial statements in 1985, the STO filed an appeal in 1986 with the Income Tax Appellate Tribunal (ITAT) against the Orders of the AAC for these years. The orders of the AAC were based on a decision already given by the ITAT on the company's appeal for application of a lower rate of sales tax on self consumed material for earlier years. Pending the outcome of the appeal filed by STO no adjustment has been made for the refunds recognised in the financial statements as the management is of the view that the appeal of the STO will not be upheld by the ITAT.

13.2 Commitments in respect of

(i) Contracts for capital expenditure Rs. 2,849.840 million (2005: Rs. 3,105.869 million).

(ii) Letters of credit other than for capital expenditure Rs. 329.418 million (2005: Rs. 246.589 million).

(iii) The amount of future payments under operating leases and the period in which these payments will become due are as follows:

	2006 (Rupees in thousand)	2005
Not later than one year	5,466	7,747
Later than one year and not later than five years	6,749	8,947
Later than five years	1,883	2,364
	<u>14,098</u>	<u>19,058</u>

14. Property, plant and equipment

	Cost as at December 31, 2005	Transfer	Additions/ (deletions)	Cost as at December 31, 2006	Accumulated depreciation as at December 31, 2005	Depreciation charge/ (deletions) for the year	Accumulated depreciation as at December 31, 2006	Book value as at December 31, 2006
	( R u p e e s i n t h o u s a n d )							
Freehold land	117,571	-	158,784	276,355	-	-	-	276,355
Buildings on freehold land	251,601	-	100	251,701	64,048	10,371	74,419	177,282
Buildings on leasehold land	184,086	-	-	184,086	42,107	6,950	49,057	135,029
Plant and machinery	6,484,924	-	226,645 (6,436)	6,705,133	4,108,869	305,356 (6,435)	4,407,790	2,297,343
Other equipment	275,036	-	15,519 (801)	289,754	179,102	25,092 (769)	203,425	86,329
Furniture and fixtures	14,178	-	138 (231)	14,085	5,691	2,053 (160)	7,584	6,501
Vehicles	167,391	4,145	46,819 (19,710)	198,645	98,149	23,093 (14,873)	106,369	92,276
2006	7,494,787	4,145	448,005 (27,178)	7,919,759	4,497,966	372,915 (22,237)	4,848,644	3,071,115
2005	7,085,687	737	469,914 (61,551)	7,494,787	4,148,031	399,462 (49,527)	4,497,966	2,996,821

Property, plant and equipment include assets amounting to Rs. 12.071 million (2005: Rs. 12.101 million) of the company which are not in operation.

The cost of fully depreciated assets which are still in use as at December 31, 2006 is Rs. 2,825.172 million (2005: Rs. 2,016.940 million).

14.1 Disposal of property, plant and equipment

Detail of property, plant and equipment disposed off during the year is as follows:

Particulars of assets	Sold to	Cost	Accumulated depreciation	Book value	Sales proceeds	Mode of Disposal
		( R u p e e s i n t h o u s a n d )				
Vehicles						
	Employees					
Mr.	Akram Naeem	765	370	395	542	Company Policy
	Haseeb Farid Ansari	561	122	439	477	Company Policy
	Imran Ali	745	174	571	628	Company Policy
	Mohammad Irshad Ali	544	480	64	274	Company Policy
	Muhammad Nabeel Arif	1,038	225	813	921	Company Policy
	Muhammad Shakeel H. Ansari	368	264	104	193	Company Policy
	Suleman Javed	288	211	77	149	Company Policy
	Usman Mansoor	430	158	272	309	Company Policy
	Usman Naeem	439	117	322	339	Company Policy
	Syed Adnan Qamar Jafri	349	198	151	190	Company Policy
	Syed Imran Moonis	559	140	419	448	Company Policy
	Syed Rehan-ul-Haq	349	134	215	237	Company Policy
Ms.	Uzma Nasir	384	326	58	170	Company Policy
	Outsiders					
Mr.	Ameer Aman Ullah Khan	1,559	1,143	416	615	Negotiation
M/s	DIC Pakistan Limited - Related Party	377	214	163	262	Company Policy
	International General Insurance Company of Pakistan Limited - Related Party	356	83	273	340	Insurance Claim
Other assets with book value less than Rs.50,000		18,067	17,878	189	6,399	-
		27,178	22,237	4,941	12,493	

15. Intangible assets

	Cost as at December 31, 2005	Additions	Cost as at December 31, 2006	Accumulated amortisation as at December 31, 2005	Amortisation charge for the year	Accumulated amortisation as at December 31, 2006	Book value as at December 31, 2006
	( Rupees in thousand )						
Computer software and ERP system	124,075	-	124,075	118,775	2,768	121,543	2,532
2006	124,075	-	124,075	118,775	2,768	121,543	2,532
2005	122,644	1,431	124,075	116,259	2,516	118,775	5,300

The cost of fully amortised assets which are still in use as at December 31, 2006 is Rs. 115.875 million (2005: Rs. 115.437 million).

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

	Note	Depreciation	Amortisation	Total	
		( Rupees in thousand )			
		2006	2005	2006	2005
Cost of sales	27	344,983	2,531	347,514	374,724
Administrative expenses	28	22,317	237	22,554	21,412
Distribution and marketing costs	29	5,615	-	5,615	5,842
		372,915	2,768	375,683	401,978

16. Investment property

	Cost as at December 31, 2005	Additions	Cost as at December 31, 2006	Accumulated depreciation as at December 31, 2005	Depreciation charge for the year	Accumulated depreciation as at December 31, 2006	Book value as at December 31, 2006
	( Rupees in thousand )						
Buildings on leasehold land	26,406	-	26,406	11,025	958	11,983	14,423
2006	26,406	-	26,406	11,025	958	11,983	14,423
2005	24,938	1,468	26,406	10,073	952	11,025	15,381

Depreciation charge for the year has been allocated to administrative expenses.

Fair value of the investment property, based on the valuation carried out by an independent valuer, as at December 31, 2006 is Rs. 33.058 million (2005: Rs. 34.930 million).

17. Assets subject to finance lease

	Cost as at December 31, 2005	Additions/ (deletions)	Cost as at December 31, 2006	Accumulated depreciation as at December 31, 2005	Depreciation charge/ (deletions) for the year	Accumulated depreciation as at December 31, 2006	Book value as at December 31, 2006
	( Rupees in thousand )						
Vehicles	13,917	- (9,844)	4,073	5,336	2,535 (5,699)	2,172	1,901
2006	13,917	- (9,844)	4,073	5,336	2,535 (5,699)	2,172	1,901
2005	14,995	- (1,078)	13,917	2,840	2,837 (341)	5,336	8,581

Deletion represents the asset transferred to property, plant and equipment on completion of lease term.

17.1 The depreciation charge for the year has been allocated as follows:

	Note	2006 (Rupees in thousand)	2005
Cost of sales	27	659	849
Administrative expenses	28	1,718	1,830
Distribution and marketing costs	29	158	158
		2,535	2,837

18. Capital work-in-progress

	Note	2006 (Rupees in thousand)	2005
Civil works		28,136	1,318
Plant and machinery [including in transit Rs. Nil (2005: Rs. 0.576 million)]		790,655	35,917
Others		48	802
Expansion project:			
Civil works		1,129,342	412,257
Plant and machinery [including in transit Rs. 87.817 million (2005: Rs. 803.932 million)]		6,881,200	1,761,944
Advances	18.1	491,050	762,195
Unallocated expenditure	18.2	822,764	291,084
		9,324,356	3,227,480
		<u>10,143,195</u>	<u>3,265,517</u>

18.1 Advances

Civil works		72,313	99,326
Plant and machinery	18.1.1	397,360	659,705
Others		21,377	3,164
		<u>491,050</u>	<u>762,195</u>

18.1.1 It includes an amount of Rs. 10.901 million (2005: Rs. 21.452 million) given to Siemens Pakistan Engineering Company, a related party, for development of electrical infrastructure.

18.2 Unallocated expenditure

	Note	2006 (Rupees in thousand)	2005
Foreign consultancy services		196,784	176,103
Technical and other staff salaries		128,620	44,664
Finance costs		365,626	-
Others		131,734	70,317
		<u>822,764</u>	<u>291,084</u>

19. Investments

These represent the long-term investments in:

Related parties	19.1	5,735,337	614,051
Others	19.2	40,328	79,525
		<u>5,775,665</u>	<u>693,576</u>

## 19.1 Related parties

	Note	2006 (Rupees in thousand)	2005
<b>Subsidiaries - unquoted</b>			
DIC Pakistan Limited 3,377,248 (2005: 3,377,248) fully paid ordinary shares of Rs. 10 each Equity held 54.98% (2005: 54.98%)		15,010	15,010
Packages Construction (Private) Limited 2,500,000 fully paid ordinary shares of Rs. 10 each Equity held 99.99%		25,000	-
Packages Lanka (Private) Limited 64,779,884 (2005: 64,779,884) shares of SL Rupees 10 each Equity held 79.07% (2005: 79.07%) Less: Impairment loss		442,938 (46,371)	442,938 (46,371)
		396,567	396,567
		436,577	411,577
<b>Associated companies</b>			
<b>Quoted</b>			
Nestle Pakistan Limited 3,649,248 (2005: 3,649,248) fully paid ordinary shares of Rs. 10 each Equity held 8.05% (2005: 8.06%) Market value - Rs. 3,813.282 million (2005 Rs. 2,809.920 million)		3,813,282	24,555
International General Insurance Company of Pakistan Limited 2,118,138 (2005: 1,629,337) fully paid ordinary shares of Rs. 10 each Equity held 10.61% (2005: 10.61%) Market value - Rs. 845.137 million (2005 Rs. 441.550 million)		878,378	22,519
Tri-Pack Films Limited 10,000,000 (2005: 10,000,000) fully paid ordinary shares of Rs. 10 each Equity held 33.33% (2005: 33.33%) Market value - Rs. 538.500 million (2005 Rs. 589.500 million)		551,700	100,000
IGI Investment Bank Limited (Formerly First International Investment Bank Limited) 4,610,915 (2005: 4,191,741) fully paid ordinary shares of Rs. 10 each Equity held 9.99% (2005: 9.99 %) Market value - Rs. 59.941 million (2005 Rs. 52.606 million)		35,000	35,000
		5,278,360	182,074
<b>Unquoted</b>			
Tetra Pak Pakistan Limited 30,800,000 (2005: 30,800,000) fully paid ordinary shares of Rs. 10 each Equity held 44% (2005: 44%)		15,400	15,400
Coca-Cola Beverages Pakistan Limited 500,000 (2005: 500,000) fully paid ordinary shares of Rs. 10 each Equity held 0.14% (2005: 0.14%)		5,000	5,000
		20,400	20,400
		5,298,760	202,474
		5,735,337	614,051

Nestle Pakistan Limited and Coca-Cola Beverages Limited are associated undertakings as per the Companies Ordinance, 1984, however, for the purpose of measurement, these have been classified as available for sale and measured at fair value as referred to in note 4.7.

The company's investment in International General Insurance Company of Pakistan Limited and IGI Investment Bank Limited (Formerly First International Investment Bank Limited) is less than 20% but these are considered to be associates as per the requirement of IAS 28 'Investments in Associates' because the company has significant influence over the financial and operating policies of these companies.

## 19.2 Others

	2006 (Rupees in thousand)	2005
Quoted		
The Resource Group (TRG) Pakistan Limited 4,606,000 (2005: 6,000,000) fully paid ordinary shares of Rs. 10 each Equity held 1.61% (2005: 2.78%)	40,303	79,500
Unquoted		
Pakistan Tourism Development Corporation Limited 2,500 (2005: 2,500) fully paid ordinary shares of Rs. 10 each	25	25
Orient Match Company Limited 1,900 (2005: 1,900) fully paid ordinary shares of Rs. 100 each	-	-
	25	25
	<u>40,328</u>	<u>79,525</u>

The Resource Group (TRG) Pakistan Limited is an associated undertaking as per the Companies Ordinance, 1984.

For the purposes of measurement, investments in others have been classified as available for sale investments.

## 20. Long-term loans and deposits

	Note	2006 (Rupees in thousand)	2005
Loans to employees - considered good	20.1	1,962	1,852
Loan to SNGPL	20.2	164,000	-
Security deposits		15,021	14,701
		<u>180,983</u>	<u>16,553</u>
Less: Receivable within one year			
Loans to employees - considered good		365	353
		<u>180,618</u>	<u>16,200</u>

20.1 These represent interest free loans to employees for purchase of cycles and motor cycles and are repayable in monthly installments over a period of 40 to 158 months.

Loans to employees aggregating Rs. 0.371 million (2005: Rs. 0.411 million) are secured by joint registration of motor cycles in the name of employees and the company. The remaining loans are unsecured.

20.2 This represents an unsecured loan given to Sui Northern Gas Pipelines Limited for the development of the infrastructure for the supply of natural gas to the plants at Bulleh Shah Paper Mill (Expansion Project). Mark up is charged at the rate of 1.5% per annum and is received annually. This amount is receivable in 10 annual installments commencing from December 26, 2008.

## 21. Retirement benefits

	2006 (Rupees in thousand)	2005
Pension fund	(10,646)	(14,083)
Gratuity fund	80,451	74,374
	<u>69,805</u>	<u>60,291</u>

21.1 The amounts recognised in the balance sheet are as follows:

	Pension Fund		Gratuity Fund	
	2006	2005	2006	2005
	( R u p e e s i n t h o u s a n d )			
Fair value of plan assets	483,965	437,180	257,356	243,427
Present value of defined benefit obligation	(496,792)	(474,774)	(167,073)	(150,527)
Non vested past service cost to be recognised in later periods	9,067	12,088	-	-
Unrecognised actuarial (gains) / losses	(6,886)	11,423	(9,832)	(18,526)
<b>(Liability) / assets as at December 31</b>	<b>(10,646)</b>	<b>(14,083)</b>	<b>80,451</b>	<b>74,374</b>
Net (liability) / assets as at January 1	(14,083)	(13,377)	74,374	65,102
Charge to profit and loss account	(16,755)	(21,398)	(1,115)	2,749
Contribution by the company	20,192	20,692	7,192	6,523
<b>(Liability) / assets as at December 31</b>	<b>(10,646)</b>	<b>(14,083)</b>	<b>80,451</b>	<b>74,374</b>
The movement in the present value of defined benefit obligation is as follows:				
Present value of defined benefit obligation	474,774	435,580	150,527	147,984
Service cost	14,588	13,892	8,613	7,922
Interest cost	49,835	40,071	15,385	12,926
Benefits paid	(26,575)	(24,552)	(16,028)	(23,212)
Past service cost	-	-	4,469	-
Experience (gain) / loss	(15,830)	9,783	4,107	4,907
<b>Present value of defined benefit obligation</b>	<b>496,792</b>	<b>474,774</b>	<b>167,073</b>	<b>150,527</b>
The movement in fair value of plan assets is as follows:				
Fair value as at January 1	437,180	366,448	243,427	238,601
Expected return on plan assets	47,082	34,683	25,777	21,800
Company contributions	20,192	20,692	7,192	6,523
Employee contributions	4,543	4,235	-	-
Benefits paid	(26,575)	(24,552)	(16,028)	(23,212)
Experience (gain) / loss	1,543	35,674	(3,012)	(285)
<b>Fair value as at December 31</b>	<b>483,965</b>	<b>437,180</b>	<b>257,356</b>	<b>243,427</b>
Plan assets are comprised as follows:				
Debt	335,132	322,846	105,747	280,372
Equity	145,253	126,736	19,472	18,081
Mixed funds	28,315	28,867	226	436
Cash	(24,735)	(41,269)	131,911	(55,462)
	<b>483,965</b>	<b>437,180</b>	<b>257,356</b>	<b>243,427</b>

The present value of defined benefit obligation, the fair value of plan assets and the surplus or deficit of pension fund is as follows:

	2006	2005	2004	2003	2002
	( R u p e e s i n t h o u s a n d )				
As at December 31					
Present value of defined benefit obligation	496,792	474,774	435,580	386,314	358,145
Fair value of plan assets	483,965	437,180	366,448	347,977	299,969
Deficit	(12,827)	(37,594)	(69,132)	(38,337)	(58,176)
Experience adjustment on obligation	-3%	2%	5%	1%	2%
Experience adjustment on plan assets	0%	8%	-3%	5%	16%

Fair value of plan assets include ordinary shares of the company, whose fair value as at December 31, 2006 is Rs. 114.789 million (2005: Rs. 110.416 million).

The present value of defined benefit obligation, the fair value of plan assets and the surplus or deficit of gratuity fund is as follows:

	2006	2005	2004	2003	2002
	( R u p e e s i n t h o u s a n d )				
As at December 31					
Present value of defined benefit obligation	167,073	150,527	147,984	151,673	141,317
Fair value of plan assets	257,356	243,427	236,801	248,973	238,249
Surplus	90,283	92,900	88,817	97,300	96,932
Experience adjustment on obligation	2%	3%	5%	6%	1%
Experience adjustment on plan assets	-1%	0%	-3%	1%	0%

Fair value of plan assets include ordinary shares of the company, whose fair value as at December 31, 2006 is Rs. 18.173 million (2005: Rs. 17.481 million).

## 22. Stores and spares

	2006	2005
	(Rupees in thousand)	
Stores [including in transit Rs. 7.064 million (2005: Rs. 12.750 million)]	186,712	173,856
Spares [including in transit Rs. 12.994 million (2005: Rs. 9.102 million)]	298,953	233,583
	485,665	407,439

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

## 23. Stock-in-trade

Raw materials [including in transit Rs. 234.658 million (2005: Rs. 161.515 million)]	1,023,695	647,090
Work-in-process	97,561	80,980
Finished goods	525,917	415,973
	1,647,173	1,144,043

Finished goods of Rs. 140.095 million (2005: Rs. 26.340 million) are being carried at net realisable value and an amount of Rs. 12.649 million (2005: Rs. 4.265 million) has been charged to cost of sales, being the cost of inventory written down during the year.



24. Trade debts

	Note	2006 (Rupees in thousand)	2005
Considered good			
Related parties - unsecured	24.1	217,970	227,287
Others	24.2	603,190	557,351
		<u>821,160</u>	<u>784,638</u>
24.1 Related parties - unsecured			
Subsidiaries			
DIC Pakistan Limited		718	582
Associated Undertakings			
Treet Corporation		414	2,506
Nestle Pakistan Limited		79,171	85,382
Tetra Pak Pakistan Limited		52,996	45,370
Tri-Pack Films Limited		7,233	5,445
Coca-Cola Beverages Pakistan Limited		1,291	1,225
Other related parties			
Unilever Pakistan Limited		66,715	74,733
Mitchell's Fruit Farms Limited		9,432	12,028
Others		-	16
		<u>217,970</u>	<u>227,287</u>
These are in the normal course of business and are interest free.			
24.2 Others include secured debts of Rs. 4.891 million (2005: Rs. 17.749 million).			
25. Loans, advances, deposits, prepayments and other receivables			
Loans to employees - considered good		365	353
Advances - considered good			
To employees	25.1	3,642	7,454
To suppliers		32,342	38,353
		35,984	45,807
Due from related parties - unsecured	25.2	121,974	53,096
Trade deposits		66,113	22,973
Prepayments		13,880	18,037
Balances with statutory authorities			
Excise duty		35	-
Customs duty		593	1,388
		628	1,388
Profit receivable on bank deposits		-	16,203
Claims recoverable from Government			
Sales tax		4,596	4,949
Income tax refundable		60,498	-
Income tax recoverable	25.3	36,013	36,013
		101,107	40,962
Interest receivable on loan to SNGPL		2,500	-
Derivative cross currency swap	25.4	4,245	-
Other receivables		6,725	3,848
		<u>353,521</u>	<u>202,667</u>

25.1 Included in advances to employees are amounts due from Chief Executive, Directors and Executives of Rs. 0.092 million, Rs. Nil and Rs. 0.585 million respectively (2005: Chief Executive Rs. Nil, Directors Rs. Nil and Executives Rs. 0.346 million).

25.2 Due from related parties - unsecured

	2006	2005
	(Rupees in thousand)	
Subsidiaries		
DIC Pakistan Limited	3,528	6,393
Packages Lanka (Private) Limited	105	32
Associated Undertakings		
Tetra Pak Pakistan Limited	11,940	9,607
Tri-Pack Films Limited	157	29
International General Insurance Company of Pakistan Limited	94,297	316
IGI Investment Bank Limited (Formerly First International Investment Bank Limited)	142	7
Nestle Pakistan Limited	-	36,492
Post employment benefit plans		
Packages Limited Employees Provident Fund	57	-
Other related parties		
Loads Limited	104	104
Siemens Pakistan Limited	8,013	-
IGI Finex Securities Limited	3,631	-
Others	-	116
	121,974	53,096

These relate to normal business of the company and are interest free.

25.3 In 1987, the Income Tax Officer (ITO) reopened the company's assessments for the accounting years ended December 31, 1983 and 1984 disallowing primarily tax credit given to the company under section 107 of the Income Tax Ordinance, 1979. The tax credit amounting to Rs. 36.013 million on its capital expenditure for these years was refused on the grounds that such expenditure represented an extension of the company's undertaking which did not qualify for tax credit under this section in view of the company's location. The assessments for these years were revised by the ITO on these grounds and taxes reassessed were adjusted against certain sales tax refunds and the tax credits previously determined by the ITO and set off against the assessments framed for these years.

The company had filed an appeal against the revised orders of the ITO before the Commissioner of Income Tax (Appeals) [CIT(A)], Karachi. The Commissioner has, in his order issued in 1988, held the assessments reframed by the ITO for the years 1983 and 1984 presently to be void and of no legal effect. The Income Tax Officer has filed an appeal against the Commissioner's order with the Income Tax Appellate Tribunal (ITAT). The ITAT has in its order issued in 1996 maintained the order of CIT (A). The assessing officer

after the receipt of the appellate order passed by CIT (A), has issued notices under section 65 of the Income Tax Ordinance, 1979 and the company has filed a writ petition against the aforesaid notices with the High Court of Sindh, the outcome of which is still pending.

The amount recoverable Rs. 36.013 million represents the additional taxes paid as a result of the disallowance of the tax credits on reframing of the assessments.

25.4 During the year, the company entered into a derivative cross currency swap agreement to hedge for the possible adverse movements in interest rates arising on the first draw down of Rs. 1,000 million included in long-term finances of Rs. 6,000 million as referred to in note 7. As this hedging relationship is ineffective and does not meet the criteria of cash flow hedge, this arrangement does not qualify for special hedge accounting specified in IAS 39 'Financial Instruments: Recognition and Measurement'.

The derivative cross currency swaps that are outstanding as at December 31, 2006 have been marked to market and the ineffective unrealised gain amounting to Rs. 4.245 million has been recognised in the profit and loss account during the year as referred to in note 31.

26. Cash and bank balances

	Note	2006 (Rupees in thousand)	2005
At banks			
On saving accounts [including US \$ 89,571 (2005: US \$ 42,001)]	26.1	5,458	1,918,186
On current accounts	26.2	94,178	94,253
		<u>99,636</u>	<u>2,012,439</u>
In hand		7,067	7,511
		<u>106,703</u>	<u>2,019,950</u>

26.1 The balances in saving accounts bear mark up which ranges from 0.25 % to 12.25 % per annum.

26.2 Included in these are total restricted funds of Rs. 1.359 million (2005: Rs. 1.359 million) held as payable to TFC holders as referred to in note 12.

27. Cost of sales

	Note	2006 (Rupees in thousand)	2005
Opening work-in-process		80,980	77,127
Materials consumed		4,246,956	3,520,644
Salaries, wages and amenities	27.1	469,680	427,139
Fuel and power		939,709	818,973
Production supplies		218,423	203,369
Excise duty and sales tax		180	242
Rent, rates and taxes		2,506	2,796
Insurance		36,254	40,848
Repairs and maintenance		252,314	242,432
Packing expenses		59,230	44,205
Depreciation on property, plant and equipment		344,983	372,289
Amortisation on intangible assets		2,531	2,435
Depreciation on assets subject to finance lease		659	849
Technical fee and royalty		14,109	20,932
Other expenses		90,986	83,516
		<u>6,759,500</u>	<u>5,857,796</u>
Less: Closing work-in-process		97,561	80,980
		<u>6,661,939</u>	<u>5,776,816</u>
Cost of goods produced		6,661,939	5,776,816
Opening stock of finished goods		415,973	384,943
		<u>7,077,912</u>	<u>6,161,759</u>
Less: Closing stock of finished goods		525,917	415,973
		<u>6,551,995</u>	<u>5,745,786</u>

Cost of goods produced includes Rs. 814.397 million (2005: Rs. 789.955 million) for stores and spares consumed, Rs. 2.336 million (2005: Rs. 7.964 million) and Rs. 0.188 million (2005: Rs. 0.735 million) for raw materials and stores and spares written off respectively.

27.1 Salaries, wages and amenities

	2006 (Rupees in thousand)	2005
Salaries, wages and amenities include following in respect of retirement benefits:		
Pension		
Current service cost	8,190	7,704
Interest cost for the year	27,975	22,221
Expected return on plan assets	(26,430)	(19,233)
Contribution made by the employees	(2,550)	(2,348)
Recognition of past service cost	1,696	1,675
Recognition of loss	525	1,848
	9,406	11,867
Gratuity		
Current service cost	6,101	5,498
Interest cost for the year	10,897	8,969
Expected return on plan assets	(18,257)	(15,127)
Recognition of gain	(1,115)	(1,247)
Recognition of past service cost	3,165	-
	791	(1,907)

In addition to above, salaries, wages and amenities include Rs. 11.768 million (2005: Rs. 10.818 million) and Rs. 12.374 million (2005: Rs. 7.662 million) in respect of provident fund contribution by the company and accumulating compensated absences respectively.

28. Administrative expenses

	Note	2006 (Rupees in thousand)	2005
Salaries, wages and amenities	28.1	148,638	147,855
Travelling		31,525	48,337
Rent, rates and taxes	28.2	18,812	10,483
Insurance		4,011	4,074
Printing, stationery and periodicals		16,466	11,527
Postage, telephone and telex		20,216	18,153
Motor vehicles running		11,019	9,892
Computer charges		9,621	13,235
Professional services	35	9,870	9,634
Repairs and maintenance		14,438	11,335
Depreciation on property, plant and equipment		22,317	21,331
Amortisation on intangible assets		237	81
Depreciation on assets subject to finance lease		1,718	1,830
Depreciation on investment property		958	952
Other expenses		40,088	37,846
		349,934	346,565

Administrative expenses include Rs. 24.215 million (2005: Rs. 25.203 million) for stores and spares consumed.

## 28.1 Salaries, wages and amenities

	2006 (Rupees in thousand)	2005
Salaries, wages and amenities include following in respect of retirement benefits:		
Pension		
Current service cost	5,026	4,908
Interest cost for the year	17,172	14,157
Expected return on plan assets	(16,222)	(12,254)
Contribution made by the employees	(1,566)	(1,496)
Recognition of past service cost	1,041	1,067
Recognition of loss	323	1,177
	5,774	7,559
Gratuity		
Current service cost	1,973	1,923
Interest cost for the year	3,525	3,138
Expected return on plan assets	(5,906)	(5,293)
Recognition of gain	(361)	(436)
Recognition of past service cost	1,024	-
	255	(668)

In addition to above, salaries, wages and amenities include Rs. 3.702 million (2005: Rs. 3.745 million) and Rs. 4.252 million (2005: Rs. 2.682 million) in respect of provident fund contribution by the company and accumulating compensated absences respectively.

28.2 Rent, rates and taxes include operating lease rentals amounting to Rs. 9.565 million (2005: Rs. 7.738 million).

## 29. Distribution and marketing costs

	Note	2006 (Rupees in thousand)	2005
Salaries, wages and amenities	29.1	41,111	38,652
Travelling		6,175	6,974
Rent, rates and taxes	29.2	2,516	2,559
Freight and distribution		95,730	89,556
Insurance		973	1,363
Advertising		56,218	38,356
Depreciation on property, plant and equipment		5,615	5,842
Depreciation on assets subject to finance lease		158	158
Other expenses		17,091	11,853
		225,587	195,313

Distribution and marketing costs include Rs. 4.885 million (2005: Rs. 5.306 million) for stores and spares consumed.

29.1 Salaries, wages and amenities

	2006	2005
	(Rupees in thousand)	
Salaries, wages and amenities include following in respect of retirement benefits:		
Pension		
Current service cost	1,373	1,280
Interest cost for the year	4,687	3,693
Expected return on plan assets	(4,430)	(3,196)
Contribution made by the employees	(427)	(390)
Recognition of past service cost	284	278
Recognition of loss	88	307
	1,575	1,972
Gratuity		
Current service cost	539	502
Interest cost for the year	964	819
Expected return on plan assets	(1,614)	(1,381)
Recognition of gain	(99)	(114)
Recognition of past service cost	280	-
	70	(174)

In addition to above, salaries, wages and amenities include Rs. 1.030 million (2005: Rs. 0.979 million) and Rs. 0.660 million (2005: Rs. 0.933 million) in respect of provident fund contribution by the company and accumulating compensated absences respectively.

29.2 Rent, rates and taxes include operating lease rentals amounting to Rs. 2.516 million (2005: Rs. 2.294 million).

30. Other operating expenses

	2006	2005
	(Rupees in thousand)	
	Note	
Workers' profit participation fund	83,894	70,824
Workers' welfare fund	128,789	15,722
Donations	36 792	6,829
	213,475	93,375

Other operating expenses include the provision for Workers' profit participation fund and Workers' welfare fund of Rs. 39.325 million (2005: Rs. 30.652 million) and Rs. 113.383 million (2005: Rs. Nil) respectively on account of investment income as disclosed in note 33.

31. Other operating income

	2006	2005
	(Rupees in thousand)	
	Note	
Income from financial assets		
Income on bank deposits including Rs. Nil (2005: Rs. 1.344 million)		
from related party	5,602	83,385
Interest on loan to SNGPL	2,500	-
	8,102	83,385
Income from non-financial assets		
Management and technical fee	14,321	5,975
Insurance commission from related party	5,313	2,997
Rental income from investment property including Rs. 26.143 million (2005: Rs. 22.137 million) from related parties	26,384	22,479
Profit on disposal of property, plant and equipment	7,552	5,352
Scrap sales	458	351
Provisions and unclaimed balances written back	9,686	55,423
Agricultural income	54	2,298
Profit on outside jobs including Rs. 0.822 million (2005: Rs. 2.007 million) from related parties	1,573	2,537
Gain on foreign currency forward option	11 14,867	-
Unrealised gain on cross currency swap	4,245	-
Capital gain from related party	31.1 72,972	-
Mark up on delayed tax refunds	72,537	-
Others	13,941	3,884
	243,903	101,296
	252,005	184,681

31.1 It represents the tenderable gain earned by International General Insurance Company of Pakistan Limited through sale and purchase of Packages Limited's shares which have been transferred to the company in accordance with the requirements of section 224 of Companies Ordinance, 1984.

32. Finance costs

	Note	2006 (Rupees in thousand)	2005
Interest and mark up including commitment charges on			
Long-term finances		-	4,781
Short-term borrowings		-	26,455
Finances under mark up arrangements		60,757	69,042
Finance lease		191	512
Deferred import duties		-	58
Loss on foreign currency forward options		-	35,213
Loan handling charges		8,103	26,497
Exchange loss		3,253	13,802
Bank charges		6,605	9,169
		<u>78,909</u>	<u>185,529</u>

33. Investment income

Dividend income from related parties	33.1	786,498	612,754
Gain on sale of long-term investments	33.2	4,882,638	-
Gain on held to maturity investments		-	293
		<u>5,669,136</u>	<u>613,047</u>

33.1 Dividend income from related parties

Subsidiaries			
DIC Pakistan Limited		13,509	47,281
Associated Undertakings			
Tetra Pak Pakistan Limited		686,733	484,000
International General Insurance Company of Pakistan Limited		6,517	5,866
Nestle Pakistan Limited		54,739	54,739
Tri-Pack Films Limited		25,000	15,000
IGI Investment Bank Limited (Formerly First International Investment Bank Limited)		-	5,868
		<u>786,498</u>	<u>612,754</u>

33.2 This represents the net capital gain realised on sale of shares in Nestle Pakistan Limited, International General Insurance Company of Pakistan Limited, Tri-Pack Films Limited and The Resource Group (TRG) Pakistan Limited.

34. Taxation

	2006 (Rupees in thousand)	2005
For the year		
Current	145,000	307,000
Deferred	133,000	18,000
	<u>278,000</u>	<u>325,000</u>
Prior years		
Current	(28,940)	(8,439)
Deferred	(2,000)	(2,000)
	<u>(30,940)</u>	<u>(10,439)</u>
	<u>247,060</u>	<u>314,561</u>

	2006	2005
	%age	% age
34.1 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	0.09	3.34
Exempt for tax purposes	(27.00)	(0.16)
Chargeable to tax at different rates	(3.74)	(13.82)
Effect of change in prior years' tax	(0.49)	(0.78)
Tax effect under presumptive tax regime and others	0.03	0.07
	(31.11)	(11.35)
Average effective tax rate	3.89	23.65

	2006	2005
	(Rupees in thousand)	
35. Professional services		
The charges for professional services include the following in respect of auditors' services for:		
Statutory audit	700	600
Half yearly review	275	250
Tax services	4,538	3,693
Workers' profit participation fund audit, management staff pension and gratuity fund audit, special reports and certificates for lending agencies and sundry services	150	170
Out of pocket expenses	173	150
	5,836	4,863

36. Donations

None of the Directors and their spouses had any interest in any of the donees during the year.

37. Remuneration of Chief Executive, Directors and Executives

37.1 The aggregate amount charged in the financial statements for the year for remuneration, including certain benefits, to the Chief Executive, full time working Directors including Alternate Directors and Executives of the company are as follows:

	Chief Executive		Directors and alternate Directors		Executives	
	2006	2005	2006	2005	2006	2005
Number of persons	1	1	4	4	32	27
( R u p e e s i n t h o u s a n d )						
Short-term employee benefits						
Managerial remuneration	3,286	2,784	7,887	8,302	51,856	40,899
Housing	2,027	1,558	3,381	3,366	14,939	9,589
Utilities	544	600	787	827	5,644	4,446
Bonus	410	282	912	1,058	3,210	2,255
Leave passage	273	336	607	661	1,530	1,287
Medical expenses	461	805	175	438	4,205	2,659
Club expenses	51	39	180	138	129	159
Others	-	-	-	1,111	151	8,128
	7,052	6,404	13,929	15,901	81,664	69,422
Post employment benefits						
Contribution to provident, gratuity and pension funds	1,132	594	2,088	2,376	5,269	4,315
Other long-term benefits						
Accumulating compensated absences	1,910	1,721	4,421	2,827	11,950	9,702
	10,094	8,719	20,438	21,104	98,883	83,439

The company also provides the Chief Executive and some of the Directors and Executives with free transport and residential telephones.



### 37.2 Remuneration to other directors

Aggregate amount charged in the financial statements for the year for fee to 4 directors (2005: 5 directors) is Rs. 110,000 (2005: Rs. 125,000).

### 38. Transactions with related parties

The related parties comprise subsidiaries, associated undertakings, other related group companies, directors of the company, key management personnel and post employment benefit plans. 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 directors and key management personnel are shown under receivables and remuneration of directors and key management personnel is disclosed in note 37. Other significant transactions with related parties are as follows:

Relationship with the company	Nature of transactions	2006	2005
		(Rupees in thousand)	
i. Subsidiaries	Purchase of goods and services	381,199	354,781
	Sale of goods and services	10,259	11,739
	Sale of property, plant and equipment	229	402
	Purchase of property, plant and equipment	21,355	-
	Dividend income	13,509	47,281
	Rental income	4,253	3,809
ii. Associated Undertakings	Purchase of goods and services	233,518	205,831
	Sale of goods and services	1,753,664	1,471,536
	Sale of property, plant and equipment	-	300
	Purchase of property, plant and equipment	-	5,308
	Income on bank deposits	-	1,344
	Insurance claims	940	-
	Capital gain	72,972	-
	Dividend income	772,989	565,473
	Rental income	21,890	18,328
iii. Other related parties	Purchase of goods and services	102,445	14,606
	Sale of goods and services	957,785	547,607
	Purchase of equity shares	5,039,156	-
	Sale of equity shares	5,044,663	-
	Rental payment	5,502	-
	Commission paid	455	-
iv. Post employment benefit plans	Expense charged in respect of retirement benefit plans	44,889	34,191

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

### 39. Capacity and production - tonnes

	Capacity		Actual production	
	2006	2005	2006	2005
Paper and paperboard produced	111,300	111,300	100,999	104,542
Paper and paperboard converted	97,000	94,000	86,447	85,219
Plastics all sorts converted	11,000	8,000	8,418	7,360

The variance of actual production from capacity is on account of the product mix.

40. Rates of exchange

Liabilities in foreign currencies have been translated into Rupees at US \$ 1.6399 (2005: US \$ 1.6686), EURO 1.2424 (2005: EURO 1.4094), SFR 1.9976 (2005: SFR 2.1939), SEK 11.2360 (2005: SEK 13.2450), GBP 0.8376 (2005: GBP 0.9686), SGD 2.5145 (2005: SGD 2.7739) and YEN 195.2362 (2005: YEN 196.3865) equal to Rs. 100.

41. Cash generated from operations

	2006 (Rupees in thousand)	2005
Profit before tax	6,347,840	1,329,925
Adjustments for:		
Depreciation on property, plant and equipment	372,915	399,462
Amortisation on intangible assets	2,768	2,516
Depreciation on investment property	958	952
Depreciation on assets subject to finance lease	2,535	2,837
Provision for accumulating compensated absences	17,286	11,277
Retirement benefits accrued	17,870	18,649
Gain on sale of long-term investment	(4,882,638)	(293)
Gain on foreign currency forward option	(14,867)	-
Net profit on disposal of property, plant and equipment	(7,552)	(5,352)
Finance cost	78,909	185,529
Dividend income	(786,498)	(612,754)
Profit before working capital changes	1,149,526	1,332,748
Effect on cash flow due to working capital changes		
Increase in stores and spares	(78,226)	(26,883)
Increase in stock-in-trade	(503,130)	(49,714)
Increase in trade debts	(36,522)	(144,101)
Increase in loans, advances, deposits, prepayments and other receivables	(126,848)	(10,733)
Increase in creditors, accrued and other liabilities	369,299	9,084
	(375,427)	(222,347)
	774,099	1,110,401

42. Cash and cash equivalents

Cash and bank balances	106,703	2,019,950
Finances under mark up arrangements	(1,280,857)	(1,602,720)
	(1,174,154)	417,230

43. Earnings per share

43.1 Basic earnings per share

Net profit for the year	Rupees in thousand	6,100,780	1,015,364
Weighted average number of ordinary shares	Numbers	69,879,507	62,503,899
Earnings per share	Rupees	87.30	16.24

43.2 Diluted earnings per share

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

#### 44. Financial assets and liabilities

	Interest/mark up bearing				Non interest bearing				Total		Credit Risk						
	Maturity after Maturity one year but upto one year		Maturity after within five years	Maturity after five years	Sub total	Maturity after Maturity upto one year		Maturity after within five years	Maturity after five years	Sub total	2006	2005	2006	2005			
	(	R	u	p	e	e	s	i	n	t	h	o	u	s	a	n	d
Financial assets																	
On balance sheet																	
Investments	-	-	-	-	-	3,853,610	-	3,853,610	3,853,610	79,525	3,853,610	79,525					
Loans to employees	-	-	-	-	365	1,597	-	1,962	1,962	1,852	1,962	1,852					
Long-term security deposits	-	-	164,000	164,000	-	15,021	-	15,021	179,021	14,701	179,021	14,701					
Trade debts	-	-	-	-	821,160	-	-	821,160	821,160	784,638	821,160	784,638					
Loans, advances, deposits, prepayments and other receivables:																	
Trade deposits	-	-	-	-	66,113	-	-	66,113	66,113	22,973	66,113	22,973					
Profit receivable on bank deposits	-	-	-	-	-	-	-	-	-	16,203	-	16,203					
Interest receivable on loan to SNGPL	-	-	-	-	2,500	-	-	2,500	2,500	-	2,500	-					
Derivative cross currency swap	4,245	-	-	4,245	-	-	-	-	4,245	-	4,245	-					
Others	-	-	-	-	125,541	-	-	125,541	125,541	54,524	125,541	54,524					
Cash and bank balances	5,458	-	-	5,458	101,245	-	-	101,245	106,703	2,019,950	99,636	2,012,439					
	9,703	-	164,000	173,703	1,116,924	3,870,228	-	4,987,152	5,160,855	2,994,366	5,153,788	2,986,855					
Off balance sheet	-	-	-	-	-	-	-	-	-	-	-	-					
Total	9,703	-	164,000	173,703	1,116,924	3,870,228	-	4,987,152	5,160,855	2,994,366	5,153,788	2,986,855					
Financial liabilities																	
On balance sheet																	
Long-term loan - secured	-	2,214,250	3,785,750	6,000,000	-	-	-	-	6,000,000	1,000,000							
Liabilities against assets subject to finance lease	851	-	-	851	-	-	-	-	851	6,010							
Finances under mark up arrangements - secured	1,280,857	-	-	1,280,857	-	-	-	-	1,280,857	1,602,720							
Derivative foreign currency forward options	-	-	-	-	-	-	-	-	-	90,959							
Creditors, accrued and other liabilities	-	-	-	-	753,770	-	-	753,770	753,770	463,847							
	1,281,708	2,214,250	3,785,750	7,281,708	753,770	-	-	753,770	8,035,478	3,163,536							
Off balance sheet																	
Contracts for capital expenditure	-	-	-	-	2,849,840	-	-	2,849,840	2,849,840	3,105,869							
Letters of credit other than for capital expenditure	-	-	-	-	329,418	-	-	329,418	329,418	246,589							
Future payments under operating leases	-	-	-	-	5,466	6,749	1,883	14,098	14,098	19,058							
	-	-	-	-	3,184,724	6,749	1,883	3,193,356	3,193,356	3,371,516							
Total	1,281,708	2,214,250	3,785,750	7,281,708	3,938,494	6,749	1,883	3,947,126	11,228,834	6,535,052							
On balance sheet gap	(1,272,005)	(2,214,250)	(3,621,750)	(7,108,005)	363,154	3,870,228	-	4,233,382	(2,874,623)	(169,170)							
Off balance sheet gap	-	-	-	-	(3,184,724)	(6,749)	(1,883)	(3,193,356)	(3,193,356)	(3,371,516)							

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

#### 44.1 Financial risk management objectives

The company's activities expose it to a variety of financial risks, including the effects of changes in foreign exchange rates, market interest rates such as Karachi Inter-bank Offered Rate and Treasury bills rate, credit and liquidity risk associated with various financial assets and liabilities respectively as referred to in note 44 and cash flow risk associated with accrued interests in respect of borrowings as referred to in note 7.

The company finances its operations through equity, borrowings and management of working capital with a view to maintaining 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.

##### (a) Concentration of credit risk

Credit risk represents the accounting loss that would be recognised at the reporting date if counter parties failed completely to perform as contracted. The company's credit risk is primarily attributable to its trade debts and its balances at banks. The credit risk on liquid funds is limited because the counter parties are banks with reasonably high credit ratings. 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. Out of the total financial assets of Rs. 5,160.855 million (2005: Rs. 2,994.366 million) financial assets which are subject to credit risk amount to Rs. 5,153.788 million (2005: Rs. 2,986.855 million). To manage exposure to credit risk, the company applies credit limits to its customers and also obtains collaterals, where considered necessary.

##### (b) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Currency risk arises mainly where receivables and payables exist due to transactions with foreign buyers and suppliers. Payables exposed to foreign currency risks are covered partially through forward foreign exchange contracts and foreign currency forward options.

##### (c) Interest rate risk management

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The company usually borrows funds at fixed and market based rates and as such the risk is minimized.

##### (d) 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 to ensure availability of funds and to take appropriate measures for new requirements.

#### 44.2 Fair value of financial assets and liabilities

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

#### 45. Date of authorization for issue

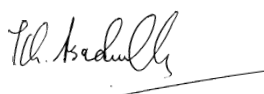
These financial statements were authorised for issue on February 06, 2007 by the Board of Directors of the company.


#### 46. Events after the balance sheet date

The Board of Directors have proposed a final dividend for the year ended December 31, 2006 of Rs. 6.00 (2005: Rs. 6.00) per share, amounting to Rs. 419.277 million (2005: Rs. 419.277 million) and a bonus share issue of 5% (2005: Nil) i.e. one bonus share for every twenty shares held on the existing issued, subscribed and paid up capital of company at their meeting held on February 06, 2007 for approval of the members at the Annual General Meeting to be held on April 17, 2007. The Board has also recommended to transfer Rs. 5,646.600 million (2005: Rs. 596.000 million) to general reserve from unappropriated profit. These financial statements do not reflect this dividend payable.

#### 47. Corresponding figures

Corresponding figures have been re-arranged, wherever necessary, for the purpose of comparison. However, no significant re-arrangements have been made.

  
Asadullah Khawaja  
Chairman

  
Syed Hyder Ali  
Managing Director & Chief Executive

  
Mujeeb Rashid  
Director

# Consolidated Financial Statements

## Directors' Report on the Consolidated Financial Statements

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

The Directors are pleased to present the audited consolidated accounts of the group for the year ended December 31, 2006.

### Group Results

It was a good year for the group where all the companies within the group posted double digit sales growth. However, profit from operations was lower mainly because of increase in input prices of the parent company and increase in natural gas and furnace oil prices used for power generation. These increases in the input costs could not be fully passed on through end product price rationalization.

The group financial results are as follows:

	2006	2005
	(Rupees in million)	
Gross sales	9,999	8,970
Gross profit	1,570	1,590
Profit from operations	943	1,058
Investment income	3,566	-
Income from associates	1,777	836
Profit before tax	6,169	1,672

The auditors' opinion on consolidated financial statements is based on un-audited accounts of associated companies as the audit of some of these companies were in progress as of the date of signing of this report.

### DIC Pakistan Limited

DIC Pakistan Limited has completed another successful year. Their sales for the year was 16% more than the previous year with its market amongst the small printers growing by more than 20%. The company has made special efforts during the year to control its imported raw material costs through developing substitute sources around the world thus ending the year with same corresponding increase in the profit before tax.

### Packages Lanka (Pvt.) Limited (PLL)

The company's sales grew by 19 % over last year while the production volumes increased by 15%, resulting in better utilization of the machine capacities. Also the company worked

in other areas to control overheads and expenses to keep costs under control, despite the high inflation rate prevailing in the market during the period. The rapid increase in the interest rate did not have an impact on the company which was possible due to the restructuring plans implemented in late 2005, the financing cost actually declined by 11% comparatively.

Accordingly the company has recorded a profit before tax of Pak Rs. 8.90 million (SLR 16.35 million) as against a loss of Pak Rs. 0.50 million (SLR 1.70 million) for the previous year.

PLL has moved a step forward by winning 2 Silver awards for Flexographic Paper and Film printing from Asian Flexographic Technical Association (AFTA), based in Singapore, in recognition of printing quality. Flexible Packaging companies from a number of Asian countries participated in the competition. In addition, local awards were also won for excellence in printing quality.

The market will continue to be fiercely competitive, as usual next year. Further, the conditions for the year 2007 are anticipated to be even more difficult due to the rapidly rising inflation and the uncertain peace situation in the North of Sri Lanka. The company, however, feels confident to continue on the growth path and is well placed to face these challenges.

### Packages Construction (Pvt.) Limited

During the year the company has completed importing its construction machinery & equipment.

### Pattern of Shareholding

The pattern of share holding is included in the parent company's shareholders information annexed to their Directors' report.



(Syed Hyder Ali)  
Managing Director & Chief Executive  
Kasur, February 06, 2007

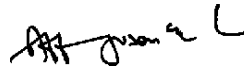
## Auditors' Report to the Members

We have audited the annexed consolidated financial statements comprising consolidated balance sheet of Packages Limited and its subsidiary companies as at December 31, 2006 and the related consolidated profit and loss account, consolidated cash flow statement and consolidated statement of changes in equity together with the notes forming part thereof, for the year then ended. We have also expressed separate opinions on the financial statements of Packages Limited and its subsidiary companies except for Packages Lanka (Private) Limited Which was audited by other firm of auditors, whose report has been furnished to us and our opinion in so far as it relates to the amounts included for such company, is based solely on the report of such other auditors. These financial statements are the responsibility of the Holding Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Our audit was conducted in accordance with the International Standards on Auditing and accordingly included such test of accounting records and such other auditing procedures as we considered necessary in the circumstances.

Group's share of income from associated companies of Rs. 1,776.692 million shown in the consolidated Profit and loss account and note 21.1 to the consolidated financial statements is based on unaudited financial statements of these associated companies.

Except for the effect, if any, of the matter referred to in the preceding paragraph, in our opinion the consolidated financial statements present fairly the financial position of Packages Limited and its subsidiary companies as at December 31, 2006 and the results of their operations for the year then ended.




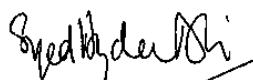
A. F. Ferguson & Co.  
Chartered Accountants  
Lahore, February 06, 2007

Consolidated Balance Sheet  
as at December 31, 2006

	Note	2006 (Rupees in thousand)	2005 (Rupees in thousand)		Note	2006 (Rupees in thousand)	2005 (Rupees in thousand)
<b>EQUITY AND LIABILITIES</b>				<b>ASSETS</b>			
<b>CAPITAL AND RESERVES</b>				<b>NON-CURRENT ASSETS</b>			
Authorised capital 100,000,000 (2005: 100,000,000) ordinary shares of Rs. 10 each		1,000,000	1,000,000	Property, plant and equipment	15	3,324,361	3,270,087
<b>EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT</b>				Intangible assets	16	2,602	5,440
Issued, subscribed and paid up capital 69,879,507 (2005: 69,879,507) ordinary shares of Rs. 10 each	5	698,795	698,795	Investment property	17	7,988	8,588
Reserves	6	6,840,764	5,993,650	Assets subject to finance lease	18	3,828	11,256
Unappropriated profit		6,324,878	1,857,321	Capital work-in-progress	19	10,153,889	3,267,194
		13,864,437	8,549,766	Goodwill	20	26,504	37,106
<b>MINORITY INTEREST</b>		123,643	90,547	Investments	21	5,734,512	1,309,058
		13,988,080	8,640,313	Long-term loans and deposits	22	181,197	16,813
<b>NON-CURRENT LIABILITIES</b>				Retirement benefits	23	69,805	60,291
Long-term finances	7	6,015,427	1,033,339			19,504,686	7,985,833
Liabilities against assets subject to finance lease	8	107	2,187	<b>CURRENT ASSETS</b>			
Deferred liabilities	9	761,804	597,551	Stores and spares	24	499,983	423,866
		6,777,338	1,633,077	Stock-in-trade	25	1,875,769	1,415,522
<b>CURRENT LIABILITIES</b>				Trade debts	26	976,274	916,576
Current portion of long-term liabilities	10	18,866	23,627	Loans, advances, deposits, prepayments and other receivables	27	360,751	203,797
Finances under mark up arrangements - secured	11	1,485,452	1,895,761	Cash and bank balances	28	113,548	2,033,621
Derivative foreign currency forward options	12	-	90,959			3,826,325	4,993,382
Creditors, accrued and other liabilities	13	1,058,183	674,666	<b>CURRENT LIABILITIES</b>			
Provision for taxation		3,092	20,812	Current portion of long-term liabilities	10	18,866	23,627
		2,565,593	2,705,825	Finances under mark up arrangements - secured	11	1,485,452	1,895,761
<b>CONTINGENCIES AND COMMITMENTS</b>				Derivative foreign currency forward options	12	-	90,959
	14	-	-	Creditors, accrued and other liabilities	13	1,058,183	674,666
		23,331,011	12,979,215	Provision for taxation		3,092	20,812
						2,565,593	2,705,825
				<b>CONTINGENCIES AND COMMITMENTS</b>			
					14	-	-
		23,331,011	12,979,215				

The annexed notes 1 to 50 form an integral part of these financial statements.

  
Asadullah Khawaja  
Chairman

  
Syed Hyder Ali  
Managing Director & Chief Executive

  
Mujeeb Rashid  
Director

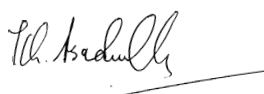



**Consolidated Profit and Loss Account**  
for the year ended December 31, 2006

	Note	2006 (Rupees in thousand)	2005
Local sales		9,816,767	8,855,304
Export sales		181,792	114,924
		<u>9,998,559</u>	<u>8,970,228</u>
Less: Sales tax and excise duty		1,249,077	1,119,257
Commission		13,277	13,009
		<u>1,262,354</u>	<u>1,132,266</u>
Cost of sales	29	8,736,205 (7,166,587)	7,837,962 (6,247,568)
Gross profit		<u>1,569,618</u>	<u>1,590,394</u>
Administrative expenses	30	(400,415)	(394,358)
Distribution and marketing costs	31	(255,347)	(219,322)
Other operating expenses	32	(224,264)	(101,888)
Other operating income	33	253,286	183,648
Profit from operations		<u>942,878</u>	<u>1,058,474</u>
Finance costs	34	(116,924)	(222,455)
Investment income	35	3,566,371	-
Share of profit of associates		1,776,692	836,208
Profit before tax		<u>6,169,017</u>	<u>1,672,227</u>
Taxation			
Group	36	(321,917)	(363,161)
Associates		(319,070)	(162,311)
		<u>(640,987)</u>	<u>(525,472)</u>
Profit for the year		<u>5,528,030</u>	<u>1,146,755</u>
Attributable to:			
Equity holders of the parent		5,482,834	1,111,770
Minority interest		45,196	34,985
		<u>5,528,030</u>	<u>1,146,755</u>
Combined earnings per share - basic and diluted	Rupees 45	<u>78.46</u>	<u>17.79</u>

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

The annexed notes 1 to 50 form an integral part of these financial statements.

  
Asadullah Khawaja  
Chairman

  
Syed Hyder Ali  
Managing Director & Chief Executive

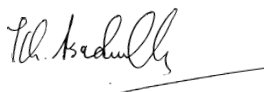
  
Mubeen Rashid  
Director

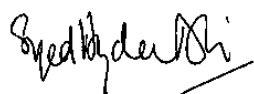
## Consolidated Cash Flow Statement


for the year ended December 31, 2006

	Note	2006 (Rupees in thousand)	2005
Cash flow from operating activities			
Cash generated from operations	43	1,023,086	1,279,922
Finance cost paid		(77,516)	(198,647)
Taxes paid		(247,720)	(362,315)
Payments for accumulating compensated absences		(7,299)	(7,199)
Retirement benefits paid		(27,637)	(27,215)
Net cash from operating activities		662,914	684,546
Cash flow from investing activities			
Purchase of property, plant and equipment		(7,366,038)	(3,427,668)
Net increase in long-term loans and deposits		(164,384)	(10,451)
Proceeds from sale of property, plant and equipment		33,986	18,192
Dividends received		772,989	528,981
Investments		4,497	9,360
Net cash used in investing activities		(6,718,950)	(2,881,586)
Cash flow from financing activities			
Proceeds from long-term finances		5,001,370	1,600,000
Proceeds from issue of ordinary shares		-	3,006,788
Repayment of long-term finances		(19,847)	(1,471,412)
Payment of finance lease liabilities		(6,276)	(2,392)
Dividend paid		(417,914)	(402,496)
Dividend paid to minority shareholders		(11,061)	(38,715)
Net cash from financing activities		4,546,272	2,691,773
Net (decrease) / increase in cash and cash equivalents		(1,509,764)	494,733
Cash and cash equivalents at the beginning of the year		137,860	(356,873)
Cash and cash equivalents at the end of the year	44	(1,371,904)	137,860

The annexed notes 1 to 50 form an integral part of these financial statements.

  
Asadullah Khawaja  
Chairman

  
Syed Hyder Ali  
Managing Director & Chief Executive


  
Mujeeb Rashid  
Director


# Consolidated Statement of Changes in Equity

for the year ended December 31, 2006

	Attributable to equity holders of the parent							Minority Interest	Total Equity	
	Share capital	Share premium	Exchange difference on translation of foreign subsidiary	Fair value reserve	Hedging reserve	General reserve	Unappropriated profit			Total
	( R	u p	e e	s	i n	t	h o	u s	a n	d )
Balance as on December 31, 2004	475,371	203,589	(30,967)	17,100	-	2,531,936	1,708,616	4,905,645	93,399	4,999,044
Final Dividend for the year ended December 31, 2004 Rs. 8.50 per share	-	-	-	-	-	-	(404,065)	(404,065)	(38,716)	(442,781)
Transferred from profit and loss account	-	-	-	-	-	559,000	(559,000)	-	-	-
Issue of 22,342,427 ordinary shares of Rs.10 each fully paid in cash - net of issue costs	223,424	2,783,364	-	-	-	-	-	3,006,788	-	3,006,788
Fair value gain during the year	-	-	-	2,400	-	-	-	2,400	-	2,400
Loss arising on marking to market foreign currency forward options entered into as part of cash flow hedge for the purchase of plant and machinery (note 12)	-	-	-	-	(76,092)	-	-	(76,092)	-	(76,092)
Profit for the year	-	-	-	-	-	-	1,111,770	1,111,770	34,985	1,146,755
Exchange adjustments	-	-	3,320	-	-	-	-	3,320	879	4,199
Balance as on December 31, 2005	698,795	2,986,953	(27,647)	19,500	(76,092)	3,090,936	1,857,321	8,549,766	90,547	8,640,313
Final Dividend for the year ended December 31, 2005 Rs. 6.00 per share	-	-	-	-	-	-	(419,277)	(419,277)	(11,061)	(430,338)
Transferred from profit and loss account	-	-	-	-	-	596,000	(596,000)	-	-	-
Fair value gain during the year	-	-	-	178,250	-	-	-	178,250	-	178,250
Transferred to profit and loss account on disposal of shares of The Resource Group (TRG) Pakistan Limited.	-	-	-	697	-	-	-	697	-	697
Gain arising on foreign currency forward options entered into as part of cash flow hedge for the purchase of plant and machinery	-	-	-	-	1,905	-	-	1,905	-	1,905
Transferred to CWIP on expiry of foreign currency forward options (note 12)	-	-	-	-	74,187	-	-	74,187	-	74,187
Profit for the year	-	-	-	-	-	-	5,482,834	5,482,834	45,196	5,528,030
Exchange adjustments	-	-	(3,925)	-	-	-	-	(3,925)	(1,039)	(4,964)
Balance as on December 31, 2006	698,795	2,986,953	(31,572)	198,447	-	3,686,936	6,324,878	13,864,437	123,643	13,988,080

The annexed notes 1 to 50 form an integral part of these financial statements.

  
Asadullah Khawaja  
Chairman

  
Syed Hyder Ali  
Managing Director & Chief Executive

  
Mujeeb Rashid  
Director

# Notes to the Consolidated Financial Statements

for the year ended December 31, 2006

## 1. Legal Status and nature of business

Packages Limited (the parent company) and its subsidiaries, DIC Pakistan Limited, Packages Lanka (Private) Limited and Packages Construction (Private) Limited (together, 'The group') are engaged in the following businesses:

**Packaging:** Representing manufacture and sale of paper, paperboard, packaging materials and tissue products.

**Inks:** Representing manufacture and sale of finished and semi finished inks.

**Construction:** Representing all types of construction activities and development of real estate.

## 2. Statement of compliance

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

2.2 Standards, interpretations and amendments to published approved accounting standards

2.2.1 Amendments to published standards effective in 2006 IAS 19 (Amendment) - 'Employees Benefits' is mandatory for group's accounting period beginning on January 01, 2006. Its adoption by the group only impacts the format and extent of disclosures presented in the financial statements.

2.2.2 Standards and amendments not yet effective

IFRS 3 'Business Combinations' and certain amendments to IAS 1 'Presentation of financial statements' - Capital Disclosure have been published that are applicable to the group's financial statements covering annual periods, beginning on or after January 01, 2007. Adoption of IFRS 3 will result in change in the accounting policy for goodwill. As a result, goodwill would not be amortised, however, it will be tested annually for impairment. Adoption of amendments to IAS 1 will impact the nature and extent of disclosures made in the future financial statements of the group.

## 3. Basis of measurement

3.1 These financial statements have been prepared under the historical cost convention except for revaluation of certain financial instruments at fair value and recognition

of certain employees retirement benefits at present value.

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 judgment in the process of applying the group's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The areas involving a higher degree of judgments or complexity or areas where assumptions and estimates are significant to the financial statements are as follows:

- a) Retirement benefits - (note 23)
- b) Provision for taxation - (note 36)
- c) Useful life and residual values of property, plant and equipment - (note 4.3, note 15)

## 4. Significant accounting policies

The significant accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### 4.1 Principles of consolidation

The consolidated financial statements include Packages Limited and all companies in which it directly or indirectly controls, beneficially owns or holds more than 50% of the voting securities or otherwise has power to elect and appoint more than 50% of its directors. Subsidiaries are consolidated as from the date of acquisition using the purchase method. Under this method, the cost of an acquisition is measured at the fair value of assets given, equity instruments issued and liabilities assumed at the date of the exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of cost of acquisition over the fair value of the group's share of the identifiable net assets is recorded as goodwill. If the cost of acquisition is less than the fair value of net assets of the subsidiary acquired, the difference is recognized directly in profit and loss account.

Intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated. Details of the subsidiaries are given in note 47. Investments in associated companies, where the group has significant influence, are accounted for by the equity method.

Minority interests are that part of the net results of operations and of net assets of subsidiaries attributable to interests which are not owned by the parent company.

## 4.2 Taxation

### 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. 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.

### Deferred

Deferred tax is accounted for 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 recognised 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 utilised.

Deferred tax is calculated at the rates that are expected to apply to the period when the differences reverse based on tax rates 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.

Provision is not made for taxation which would become payable if retained profits of subsidiaries were distributed to the parent company, as it is not the intention to distribute more than the dividends, the tax on which is included in the financial statements.

## 4.3 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 certain plant and machinery signifies historical cost, gain and losses transferred from equity on qualifying cash flow hedges as referred in note 4.19 and borrowing costs as referred to in note 4.22.

Depreciation on all property, plant and equipment is charged to profit on the straight-line method so as to write off the depreciable amount of an asset over its estimated useful life at the following annual rates:

Plant and machinery	6.25% to 20%
Buildings	2.5% to 10%
Other equipment	10% to 33.33%
Furniture and fixtures	10% to 33.33%
Vehicles	20%

The assets' residual values and useful lives are reviewed,

at each financial year end, and adjusted if impact on depreciation is significant.

Depreciation on additions to property, plant and equipment is charged from the month in which an asset is acquired or capitalised while no depreciation is charged for the month in which the asset is disposed off.

The group assesses at each balance sheet date whether there is any indication that property, plant and equipment may be impaired. If such indication exists, the carrying amounts of such assets are reviewed to assess whether they are recorded in excess of their recoverable amount. Where carrying values exceed the respective recoverable amount, assets are written down to their recoverable amounts and the resulting impairment loss is recognised in income currently. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Where an impairment loss is recognised, the depreciation charge is adjusted in the future periods to allocate the asset's revised carrying amount over its estimated useful life.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repair and maintenance costs are charged to income during the period in which they are incurred.

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

## 4.4 Intangible assets

Expenditure incurred to acquire computer software and SAP Enterprise Resource Planning System (ERP) are capitalised as intangible assets and stated at cost less accumulated amortisation and any identified impairment loss. Intangible assets are amortised using the straight line method over a period of three years.

Amortisation on additions to intangible assets is charged from the month in which an asset is acquired or capitalised while no amortisation is charged for the month in which the asset is disposed off.

The group assesses at each balance sheet date whether there is any indication that intangible asset may be impaired. If such indication exists, the carrying amount of such assets are reviewed to assess whether they are recorded in excess of their recoverable amount. Where carrying values exceed the respective recoverable amount, assets are written down to their recoverable amounts and the resulting impairment loss is recognized in income currently. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Where an impairment loss is recognised, the amortisation charge is adjusted in the future periods to allocate the asset's revised carrying amount over its estimated useful life.

#### 4.5 Capital work-in-progress

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

#### 4.6 Investment property

Property not held for own use or for sale in the ordinary course of business is classified as investment property. The investment property of the group comprises buildings and is valued using the cost method i.e. at cost less any accumulated depreciation and any identified impairment loss.

Depreciation on buildings is charged to profit on the straight line method so as to write off the depreciable amount of building over its estimated useful life at the rates ranging from 3.33% to 4% per annum. Depreciation on additions to investment property is charged from the month in which a property is acquired or capitalised while no depreciation is charged for the month in which the property is disposed off.

The assets' residual values and useful lives are reviewed, at each financial year end, and adjusted if impact on depreciation is significant.

The group assesses at each balance sheet date whether there is any indication that investment property may be impaired. If such indication exists, the carrying amounts of such assets are reviewed to assess whether they are recorded in excess of their recoverable amount. Where carrying values exceed the respective recoverable amount, assets are written down to their recoverable amounts and the resulting impairment loss is recognised in income currently. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Where an impairment loss is recognised, the depreciation charge is adjusted in the future periods to allocate the asset's revised carrying amount over its estimated useful life.

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

#### 4.7 Leases

##### (1) The group is the lessee:

##### Finance leases

Leases where the group 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.

The related rental obligations, net of finance charges, are included in liabilities against assets subject to finance lease as referred to in note 8. The liabilities are classified as current and long-term depending upon the timing of the payment.

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

Assets acquired under a finance lease are depreciated over the useful life of the asset on a straight-line method at the rates given in note 4.3. Depreciation of leased assets is charged to profit and loss account.

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.

##### 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 profit on a straight-line basis over the lease term.

##### (2) The group is the lessor:

##### Operating leases

Assets leased out under operating leases are included in investment property as referred to in note 17. These are depreciated over their expected useful lives on a basis consistent with similar owned property, plant and equipment. Rental income (net of any incentives given to lessees) is recognised on a straight-line basis over the lease term.

#### 4.8 Goodwill

Goodwill (being the difference between consideration paid for new interest in group companies and associated companies and the fair value of the group's share of their net assets at the date of acquisition) is capitalised and amortised over its estimated useful life at an annual rate of 10% on straight-line basis.

#### 4.9 Investments

Investments in equity instruments of associated companies

Associates are all entities over which the group has significant influence but not control. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition. The group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the group does not recognise further losses, unless it has incurred obligations or made payments

on behalf of the associate. Unrealised gains on transactions between the group and its associates are eliminated to the extent of the group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

During the year, the group re-assessed its relationship with all associated undertakings and as a result, it no longer accounts for its investments in Nestle Pakistan Limited and Coca Cola Beverages Pakistan Limited as equity as these companies do not fall within the scope of the IAS 28 'Investments in Associates'. Consequently, in line with the group's accounting policy, such investments have now been designated as available for sale and measured at fair value from the date group ceased to have significant influence as per the requirement of the IAS 28.

#### Other investments

The other investments made by the group are classified for the purpose of measurement into the following categories:

##### Held to maturity

Investments with fixed maturity that the management has the intent and ability to hold to maturity are classified as held to maturity and are initially measured at cost and at subsequent reporting dates measured at amortised cost using the effective yield method.

##### Available for sale

The financial assets including investments in associated undertakings where the group does not have significant influence that are intended to be held for an indefinite period of time or may be sold in response to the need for liquidity are classified as available for sale.

Investments classified as available for sale are initially measured at cost, being the fair value of consideration given. At subsequent reporting dates, these investments are remeasured at fair value (quoted market price), unless fair value can not be reliably measured. The investments for which a quoted market price is not available, are measured at cost as it is not possible to apply any other valuation methodology. Unrealised gains and losses arising from the changes in the fair value are included in fair value reserves in the period in which they arise.

All purchases and sales of investments are recognised on the trade date which is the date that the group commits to purchase or sell the investment. Cost of purchase includes transaction cost.

At each reporting date, the group reviews the carrying amounts of the investments to assess whether there is any indication that such investments have suffered an impairment loss. If any such indication exists the recoverable amount is estimated in order to determine the extent of the impairment loss if any. Impairment losses are recognised as expense. Where an impairment loss subsequently reverses, the carrying amount of the

investment is increased to the revised recoverable amount but limited to the extent of initial cost of the investment. A reversal of the impairment loss is recognised in income. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

#### 4.10 Employee retirement benefits

The main features of the schemes operated by the group for its employees are as follows:

- (a) All the executive staff participates in an approved funded defined benefit pension plan. In addition, there is an approved funded defined benefit gratuity plan for all employees. Monthly contributions are made to these funds on the basis of actuarial recommendation at the rate of 20 percent per annum of basic salaries for pension and 4.50 percent per annum of basic salaries for gratuity. The latest actuarial valuation for the pension and gratuity schemes was carried out as at December 31, 2006. The actual returns on plan assets during the year were Rs. 48.625 million and Rs. 22.765 million for the pension and gratuity funds respectively. The actual returns on plan assets represent the difference between the fair value of plan assets at beginning of the year and end of the year after adjustments for contributions made by the group as reduced by benefits paid during the year.

The future contribution rates of these plans include allowances for deficit and surplus. Projected unit credit method, using the following significant assumptions, is used for valuation of these schemes:

Discount rate 11 percent per annum.

Expected rate of increase in salary level 8.89 percent per annum.

Expected rate of return 11 percent per annum.

Plan assets include long-term Government bonds, equity instruments of listed companies and term deposits with banks. Return on Government bonds and debt is at fixed rates however, due to increased volatility of share prices in recent months, there is no clear indication of return on equity shares, therefore, it has been assumed that the yield on equity shares would match the return on debt.

The group is expected to contribute Rs. 21.3 million to the pension fund and Rs. 7.8 million to the gratuity fund in the next financial year.

The group's policy with regard to actuarial gains/losses is to follow minimum recommended approach under IAS 19 'Employee Benefits'.

- (b) There is an approved contributory provident fund for all employees. Equal monthly contributions are made by the group and the employees to the fund.
- (c) Accumulating compensated absences

Provisions are made annually to cover the obligation for accumulating compensated absences and are charged to profit.

Retirement benefits are payable to staff on completion of prescribed qualifying period of service under these schemes.

#### 4.11 Stores and spares

Stores and spares are valued at the lower of moving average cost and net realisable value. Items in transit are valued at cost comprising invoice value plus other charges paid thereon.

Net realisable value signifies the estimated selling price in the ordinary course of business less costs necessarily to be incurred to make the sale. Provision is made in the financial statements for obsolete and slow moving stores and spares based on management estimate.

#### 4.12 Stock-in-trade

Stock of raw materials, except for those in transit, work-in-process and finished goods are valued principally at the lower of weighted average cost and net realisable value. Cost of work-in-process and finished goods comprises cost of direct materials, labour and appropriate manufacturing overheads.

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

Net realisable value signifies the estimated selling price in the ordinary course of business less costs necessarily to be incurred to make the sale. Provision is made in the financial statements for obsolete and slow moving stock-in-trade based on management estimate.

#### 4.13 Financial instruments

Financial assets and liabilities are recognised when the group becomes a party to the contractual provisions of the instrument. All financial assets and liabilities are initially measured at cost, which is the fair value of the consideration given and received respectively. These financial assets and liabilities are subsequently measured at fair value, amortised cost or cost, as the case may be. The particular measurement methods adopted are disclosed in the individual policy statements associated with each item.

Financial instruments carried on the balance sheet include loans, investments, trade and other debts, cash and bank balances, borrowings, liabilities against assets subject to finance lease, derivative financial instruments, trade and other payables, accrued expenses and unclaimed dividends. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

#### 4.14 Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and the net amount is reported in the financial statements only when there is a legally enforceable right to set off the recognised amount and the group intends either to settle on a net basis or to realise the assets and to settle the liabilities simultaneously.

#### 4.15 Trade debts

Trade debts 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.

#### 4.16 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of cash flow statement, cash and cash equivalents comprise cash in hand, demand deposits, other short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value and finances under mark up arrangements. In the balance sheet, finances under mark up arrangements are included in current liabilities.

#### 4.17 Borrowings

Borrowings are initially recorded at the proceeds received. In subsequent periods, borrowings are stated at amortised cost using the effective yield method. Finance costs are accounted for on an accrual basis and are included in creditors, accrued and other liabilities to the extent of the amount remaining unpaid.

#### 4.18 Creditors, accruals and provisions

Liabilities for creditors and other amounts payable are carried at cost which is the fair value of the consideration to be paid in the future for the goods and / or services received, whether or not billed to the group.

Provisions are recognised when the group has a present legal or constructive obligation as a result of past events, 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. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

#### 4.19 Derivative financial instruments

These are initially recorded at cost on the date a derivative contract is entered into and are remeasured to fair value at subsequent reporting dates. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The group designates certain derivatives as cash flow hedges.

The group documents at the inception of the transaction the relationship between the hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flow of hedged items.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow



hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the profit and loss account.

Amounts accumulated in equity are recognised in profit and loss account in the periods when the hedged item will effect profit or loss. However, when the forecast hedged transaction results in the recognition of a non-financial asset or a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

#### 4.20 Revenue recognition

Revenue is recognised on despatch of goods or on the performance of services except for management fee, which is recognised on receipt. It includes sales to associated companies but does not include sales by associated companies or sales between group companies.

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

Dividend income and entitlement of bonus shares are

#### 5. Issued, subscribed and paid up capital

2006 (Number of shares)	2005 (Number of shares)		2006 (Rupees in thousand)	2005 (Rupees in thousand)
33,603,295	33,603,295	Ordinary shares of Rs. 10 each fully paid in cash	336,033	336,033
148,780	148,780	Ordinary shares of Rs. 10 each issued as fully paid for consideration other than cash	1,488	1,488
36,127,432	36,127,432	Ordinary shares of Rs. 10 each issued as fully paid bonus shares	361,274	361,274
<u>69,879,507</u>	<u>69,879,507</u>		<u>698,795</u>	<u>698,795</u>

Ordinary shares of the parent company held by associated undertakings as at year end are as follows:

	2006 (Number of shares)	2005 (Number of shares)
International General Insurance Company of Pakistan Limited	15,559,336	15,424,636
IGI Investment Bank Limited (Formerly First International Investment Bank Limited)	-	124,400
Loads Limited	62,475	62,475
Treet Corporation Limited	731,289	731,289
	<u>16,353,100</u>	<u>16,342,800</u>

recognised when right to receive such dividend and bonus shares is established.

#### 4.21 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 the spot rate. All non-monetary items are translated into rupees at exchange rates prevailing on the date of transaction or on the date when fair values are determined.

Exchange differences are included in income currently.

#### 4.22 Borrowing costs

Mark up, interest and other charges on borrowings are capitalised upto the date of commissioning of the related property, plant and equipment, acquired out of the proceeds of such borrowings. All other mark up, interest and other charges are charged to income.

#### 4.23 Dividend

Dividend distribution to the shareholders is recognised as a liability in the period in which the dividends are approved.

## 6. Reserves

	Note	2006 (Rupees in thousand)	2005
Movement in and composition of reserves is as follows:			
Capital			
Share premium			
At the beginning of the year		2,986,953	203,589
Premium on issue of ordinary shares -net of issue costs		-	2,783,364
	6.1	2,986,953	2,986,953
Exchange difference on translation of foreign subsidiary			
At the beginning of the year		(27,647)	(30,967)
Exchange difference for the year		(3,925)	3,320
		(31,572)	(27,647)
Fair value reserve			
At the beginning of the year		19,500	17,100
Fair value gain during the year		178,250	2,400
Transferred to profit & loss account		697	-
	6.2	198,447	19,500
Hedging reserve			
At the beginning of the year		(76,092)	-
Gain / (Loss) during the year		1,905	(76,092)
Transfer to capital work-in-progress		74,187	-
	6.3	-	(76,092)
		3,153,828	2,902,714
Revenue			
General reserve			
At the beginning of the year		3,090,936	2,531,936
Transfer from profit and loss account		596,000	559,000
		3,686,936	3,090,936
		6,840,764	5,993,650

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

6.2 As referred to in note 4.9 this represents the unrealised gain on remeasurement of investments at fair value and is not available for distribution. This will be transferred to profit and loss account on derecognition of investments.

6.3 As referred to in note 12 this represents the effective portion of the loss arising on foreign currency forward options transferred to CWIP on expiry of foreign currency forward options.

## 7. Long-term finances

	Note	2006 (Rupees in thousand)	2005
These are composed of:			
Long-term loan - secured	7.1	6,000,000	1,000,000
Foreign currency loans - secured	7.2	32,257	50,734
		6,032,257	1,050,734
Less: Current portion shown under current liabilities			
Foreign currency loans - secured		16,830	17,395
		6,015,427	1,033,339

## 7.1 Long-term loan - secured

This loan has been obtained from a consortium of commercial banks led by MCB Bank Limited. It is secured by a first ranking exclusive hypothecation / equitable mortgage charge over all present and future fixed assets of the company amounting to Rs. 14,000 million. It carries mark up at six month Karachi Inter Bank Offered Rate (KIBOR) plus 1.35 per cent per annum and is payable semi annually. The effective mark up charged during the year ranges from 10.53% to 11.94%. Of the aggregate facility of Rs. 10,500 million, the amount availed as at December 31, 2006 is Rs. 6,000 million (2005: Rs. 1,000 million), repayable in 14 equal semi annual installments commencing June 06, 2009 and December 06, 2009 for Rs. 1,000 million and Rs. 5,000 million respectively.

## 7.2 Foreign currency loans - secured

These are composed of:

Lender	Note	Foreign currency balance		Rupee equivalent	
		2006 (SLR in thousand)	2005	2006 (Rupees in thousand)	2005
MCB Bank Limited	7.2.1	56,991	86,725	32,257	50,734
		<u>56,991</u>	<u>86,725</u>	<u>32,257</u>	<u>50,734</u>

The above loan has been obtained by the foreign subsidiary of the group.

7.2.1 This carries mark up which ranges from 11% per annum to 17.5% per annum and is repayable monthly. The remaining portion of loan is repayable in 24 equal instalments ending 2008. It is secured by an equitable mortgage of land and building and a charge on machinery of the subsidiary.

## 8. Liabilities against assets subject to finance lease

	2006 (Rupees in thousand)	2005
Present value of minimum lease payments	2,143	8,419
Less: Current portion shown under current liabilities	2,036	6,232
	<u>107</u>	<u>2,187</u>

The present value of minimum lease payments have been discounted at implicit interest rate ranging from 7.25% to 13.30% to arrive at their present value. The lessee has the option to purchase the assets after expiry of the lease term.

Taxes, repairs, replacements and insurance costs are to be borne by the lessee.

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

Years	Minimum lease payment	Future finance charge	Present value of lease liability	
	( R u p e e s i n t h o u s a n d )			
	2006	2005	2006	2005
Not later than one year	2,138	102	2,036	6,232
Later than one year and not later than five years	107	-	107	2,187
	<u>2,245</u>	<u>102</u>	<u>2,143</u>	<u>8,419</u>

## 9. Deferred liabilities

	Note	2006 (Rupees in thousand)	2005
Deferred taxation	9.1	667,450	514,500
Accumulating compensated absences	9.2	92,380	81,391
Staff gratuity	9.3	1,974	1,660
		<u>761,804</u>	<u>597,551</u>

9.1 Deferred taxation

	Note	2006 (Rupees in thousand)	2005
The liability for deferred taxation comprises timing differences relating to:			
Accelerated tax depreciation		659,837	525,395
Provision for accumulating compensated absences		(32,333)	(28,487)
Provision for doubtful debts		(3,298)	(35)
Provision for slow moving items		(352)	(616)
Provision for doubtful receivables		(624)	(527)
Impairment loss in value of investments		(16,230)	(16,230)
Investments in associated companies		60,450	35,000
		<u>667,450</u>	<u>514,500</u>

9.2 Accumulating compensated absences

Opening balance		81,391	77,068
Provision for the year		18,288	11,522
		<u>99,679</u>	<u>88,590</u>
Less: Payments made during the year		7,299	7,199
Closing balance		<u>92,380</u>	<u>81,391</u>

9.3 Staff gratuity fund

This represents staff gratuity of employees of Packages Lanka (Private) Limited and is unfunded.

10. Current portion of long-term liabilities

Foreign currency loans - secured	7	16,830	17,395
Liabilities against assets subject to finance lease	8	2,036	6,232
		<u>18,866</u>	<u>23,627</u>

11. Finances under mark up arrangements - secured

Running finances - secured	11.1	869,719	1,374,435
Term finance - secured	11.2	615,733	521,326
		<u>1,485,452</u>	<u>1,895,761</u>

11.1 Running finances - secured

Short-term running finances available from a consortium of commercial banks under mark up arrangements amount to Rs. 3,511.410 million (2005: Rs. 3,317.000 million). The rates of mark up range from Re. 0.2411 to Re. 0.3835 per Rs. 1,000 per diem or part thereof on the balances outstanding. In the event, the group fails to pay the balances on the expiry of the quarter, year or earlier demand, mark up is to be computed at the rates ranging from Re. 0.2893 to Re. 0.8770 per 1,000 per diem or part thereof on the balances unpaid. The aggregate running finances are secured by hypothecation of stores, spares, stock-in-trade and trade debts.

11.2 Term finance - secured

Term finance available from a consortium of commercial banks under mark up arrangement amount to Rs. 650.750 million (2005: Rs. 521.326 million). The rates of mark up range from Re. 0.2668 to Re 0.4164 per Rs. 1,000 per diem or part thereof. It is secured by hypothecation of stores, stock-in-trade and trade debts.

Of the aggregate facility of Rs. 13,828.462 million (2005: Rs. 11,350.062 million) for opening letters of credit and Rs. 504.265 million (2005: Rs. 312.809 million) for guarantees, the amount utilised at December 31, 2006 was Rs. 2,218.412 million (2005: Rs. 374.800 million) and Rs. 219.858 million (2005: Rs.138.562 million) respectively. Of the facility for guarantees,

Rs. 322.500 million (2005: Rs. 322.500 million) is secured by second hypothecation charge over stores, spares, stock-in-trade and trade debts.

12. Derivative foreign currency forward options

The group had entered into foreign currency forward options to hedge the possible adverse movements in exchange rates (exchange rate risk) arising on foreign currency payments required to be made for the purchase of new plant. As the hedging relationship was effective and met the criteria of cash flow hedge, this arrangement

qualified for special hedge accounting specified in IAS 39 'Financial Instruments: Recognition and Measurement'.

No foreign currency forward options are outstanding as at December 31, 2006. Effective portion of loss arising on foreign currency forward options recognised in the hedging reserve has been transferred to capital work-in-progress on expiry of the foreign currency forward options. The ineffective portion of Rs. 14.867 million has been recognised in profit and loss account during the year.

13. Creditors, accrued and other liabilities

	Note	2006 (Rupees in thousand)	2005
Trade creditors	13.1	145,984	88,274
Accrued liabilities	13.2	505,964	352,657
Sales tax payable		5,701	28,370
Excise duty payable		-	42
Customers' balances		51,367	36,310
Deposits - interest free repayable on demand		6,071	4,349
Mark up accrued on:			
Long-term finances - secured		49,750	7,575
Finances under mark up arrangements- secured		26,472	29,239
Workers' profit participation fund	13.3	91,567	77,407
Workers' welfare fund		132,756	17,531
TFCs payable		1,415	1,420
Unclaimed dividends		8,892	7,529
Others		32,244	23,963
		1,058,183	674,666

13.1 Trade creditors include amount due to related parties Rs. 11.742 million (2005: Rs. 29.208 million).

13.2 Accrued liabilities include amount due to related parties Rs. 5.412 million (2005: Rs. 14.986 million).

13.3 Workers' profit participation fund

	Note	2006 (Rupees in thousand)	2005
Opening balance		77,407	69,572
Provision for the year	32	91,567	77,407
		168,974	146,979
Less: Payments made during the year		77,407	69,572
Closing balance		91,567	77,407

## 14. Contingencies and commitments

### 14.1 Contingencies

- (i) Claims against the group not acknowledged as debts Rs. 11.247 million (2005: Rs. 10.362 million).
- (ii) Against a sales tax refund aggregating Rs. 12.827 million determined by the Sales Tax Officer (STO) on the basis of the orders of the Appellate Assistant Commissioner (AAC) for the assessment years 1977-78 through 1980-81 and recognised in the financial statements in 1985, the STO filed an appeal in 1986 with the Income Tax Appellate Tribunal (ITAT) against the Orders of the AAC for these years. The orders of the AAC were based on a decision already given by the ITAT on the parent company's appeal for application of a lower rate of sales tax on self consumed material for earlier years. Pending the outcome of the appeal filed by STO no adjustment has been made for the refunds recognised in the financial statements as the management is of the view that the appeal of the STO will not be upheld by the ITAT.

### 14.2 Commitments in respect of

- (i) Contracts for capital expenditure Rs. 2,854.205 million (2005: Rs. 3,105.869 million).
- (ii) Letters of credit other than for capital expenditure Rs. 353.653 million (2005: Rs. 275.689 million).
- (iii) The amount of future payments under operating leases and the period in which these payments will become due are as follows:

Years	2006 (Rupees in thousand)	2005
Not later than one year	5,466	7,747
Later than one year and not later than five years	6,749	8,947
Later than five years	1,883	2,364
	14,098	19,058

## 15. Property, plant and equipment

	Cost as at December 31, 2005	Transfer in	Exchange adjustment on opening cost	Additions/ (deletions)	Cost as at December 31, 2006	Accumulated depreciation as at December 31, 2005	Exchange adjustment on opening accumulated depreciation	Depreciation charge/ (deletions) for the year	Accumulated depreciation as at December 31, 2006	Bookvalue as at December 31, 2006							
(	R	u	p	e	e	s	i	n	t	h	o	u	s	a	n	d	)
Freehold land	140,704	-	(751)	158,784	298,737	-	-	-	-	-	-	-	-	-	-	298,737	
Buildings on freehold land	290,024	-	(1,255)	543	289,312	77,722	(466)	12,270	89,526	199,786							
Buildings on leasehold land	194,516	-	-	-	194,516	45,446	-	7,308	52,754	141,762							
Plant and machinery	6,806,522	-	(7,383)	252,918 (27,244)	7,024,813	4,252,241	(3,437)	327,527 (6,839)	4,569,492	2,455,321							
Other equipment	373,829	-	(1,544)	20,597 (1,136)	391,746	246,031	(1,434)	29,304 (990)	272,911	118,835							
Furniture and fixtures	28,746	-	(89)	359 (280)	28,736	16,680	(68)	3,028 (209)	19,431	9,305							
Vehicles	180,188	4,145	(228)	53,178 (21,941)	215,342	106,322	(34)	25,437 (16,998)	114,727	100,615							
2006	8,014,529	4,145	(11,250)	486,380 (50,601)	8,443,203	4,744,442	(5,439)	404,874 (25,036)	5,118,841	3,324,361							
2005	7,581,891	737	10,445	485,730 (64,274)	8,014,529	4,359,664	4,671	431,965 (51,858)	4,744,442	3,270,087							

Property, plant and equipment include assets amounting to Rs. 12.071 million (2005: Rs. 12.101 million) of the group which are not in operation. The cost of fully depreciated assets which are still in use as at December 31, 2006 is Rs. 2,861.106 million (2005: Rs. 2,049.433 million).

## 15.1 Disposal of property, plant and equipment

Detail of property, plant and equipment disposed off during the year is as follows:

Particulars of assets	Sold to	Cost	Accumulated depreciation	Book value	Sales proceeds	Mode of Disposal
		( R u p e e s i n t h o u s a n d )				
Vehicles						
	Employees					
Mr. Akram Naeem		765	370	395	542	Group Policy
Haseeb Farid Ansari		561	122	439	477	Group Policy
Imran Ali		745	174	571	628	Group Policy
Mohsin Abbas Jaffery		351	252	99	152	Group Policy
Mohammad Irshad Ali		544	480	64	274	Group Policy
Mubashir Ahmed		377	214	163	262	Group Policy
Muhammad Nabeel Arif		1,038	225	813	921	Group Policy
Muhammad Shakeel H. Ansari		368	264	104	193	Group Policy
Rafiq Shahid		305	305	-	103	Group Policy
Shahzad Rafiq		351	345	6	124	Group Policy
Suleman Javed		288	211	77	149	Group Policy
Usman Mansoor		430	158	272	309	Group Policy
Usman Naeem		439	117	322	339	Group Policy
Syed Adnan Qamar Jafri		349	198	151	190	Group Policy
Syed Imran Moonis		559	140	419	448	Group Policy
Syed Rehan-ul-Haq		349	134	215	237	Group Policy
Ms. Uzma Nasir		384	326	58	170	Group Policy
	Outsiders					
Mr. Ameer Aman Ullah Khan		1,559	1,143	416	615	Negotiation
M/s International General Insurance Company of Pakistan Limited - Related Party		356	83	273	340	Insurance Claim
Plant and Machinery	Miscellaneous	20,808	404	20,404	21,355	Negotiation
Other assets with book value less than Rs. 50,000		19,675	19,371	304	6,158	Negotiation
		50,601	25,036	25,565	33,986	

## 16. Intangible assets

	Cost as at December 31, 2005	Additions/ (deletions)	Cost as at December 31, 2006	Accumulated amortisation as at December 31, 2005	Amortisation charge/ (deletions) for the year	Accumulated amortisation as at December 31, 2006	Book value as at December 31, 2006
	( R u p e e s i n t h o u s a n d )						
Computer software and ERP system	124,775	-	124,775	119,335	2,838	122,173	2,602
2006	124,775	-	124,775	119,335	2,838	122,173	2,602
2005	123,134	1,641	124,775	116,749	2,586	119,335	5,440

The cost of fully amortised assets which are still in use as at December 31, 2006 is Rs. 115.875 million (2005: Rs. 115.437 million).

## 16.1 The depreciation / amortisation charge for the year has been allocated as follows:

	Nte	Total			
		Depreciation	Amortisation	2006	2005
( R u p e e s i n t h o u s a n d )					
Cost of sales	29	374,658	2,531	377,189	404,529
Administrative expenses	30	24,268	307	24,575	23,523
Distribution and marketing costs	31	5,948	-	5,948	6,499
		404,874	2,838	407,712	434,551

## 17. Investment property

	Cost as at December 31, 2005	Transfers from fixed assets	Additions	Cost as at December 31, 2006	Accumulated depreciation as at December 31, 2005	Transfers from fixed assets	Depreciation charge for the year	Accumulated depreciation as at December 31, 2006	Bookvalue as at December 31, 2006							
	( R	u	p	e	e	s	i	n	t	h	o	u	s	a	n	d
Buildings on leasehold land	15,976	-	-	15,976	7,388	-	600	7,988	7,988							
2006	15,976	-	-	15,976	7,388	-	600	7,988	7,988							
2005	15,976	-	-	15,976	6,789	-	599	7,388	8,588							

Depreciation charge for the year has been allocated to administrative expenses.

Fair value of the investment property, based on the valuation carried out by an independent valuer, as at December 31, 2006 is Rs. 21.563 million (2005: Rs. 22.468 million).

## 18. Assets subject to finance lease

	Cost as at December 31, 2005	Exchange Adjustment	Additions/ (Deletions)	Cost to December 31, 2006	Accumulated Depreciation as at December 31, 2005	Exchange Adjustment	Depreciation charge/(deletion) for the year	Accumulated Depreciation as at December 31, 2006	Bookvalue as at December 31, 2006							
	( R	u	p	e	e	s	i	n	t	h	o	u	s	a	n	d
Plant and machinery	3,275	(106)	-	3,169	600	(30)	672	1,242	1,927							
Vehicles	13,917	-	-	4,073	5,336	-	2,535	2,172	1,901							
			(9,844)				(5,699)									
2006	17,192	(106)	-	7,242	5,936	(30)	3,207	3,414	3,828							
			(9,844)				(5,699)									
2005	14,995	(1,028)	3,225	17,192	2,840	9	3,428	5,936	11,256							
							(341)									

Deletion represents the asset transferred to property, plant and equipment on termination of lease during the year.

### 18.1 The depreciation charge for the year has been allocated as follows:

	Note	2006 (Rupees in thousand)	2005
Cost of sales	29	659	849
Administrative expenses	30	2,390	2,421
Distribution and marketing costs	31	158	158
		<u>3,207</u>	<u>3,428</u>

## 19. Capital work-in-progress

Civil works		28,136	2,413
Plant and machinery [including in transit Rs. Nil (2005: Rs. 0.576 million)]		801,349	36,499
Others		48	802
Expansion project :			
Civil works		1,129,342	412,257
Plant and machinery [including in transit Rs. 87.817 million (2005: Rs. 803.932 million)]		-	1,761,944
Advances	19.1	491,050	762,195
Unallocated expenditure	19.2	822,764	291,084
		<u>9,324,356</u>	<u>3,227,480</u>
		<u>10,153,889</u>	<u>3,267,194</u>



19.1 Advances

	Note	2006 (Rupees in thousand)	2005
Civil works		72,313	99,326
Plant and machinery	19.1.1	397,360	659,705
Others		21,377	3,164
		<u>491,050</u>	<u>762,195</u>

19.1.1 It includes an amount of Rs. 10.901 million (2005: Rs. 21.452 million) given to Siemens Pakistan Engineering Company, a related party, for development of electrical infrastructure.

19.2 Unallocated expenditure

	Note	2006 (Rupees in thousand)	2005
Foreign consultancy services		196,784	176,103
Technical and other staff salaries		128,620	44,664
Finance costs		365,626	-
Others		131,734	70,317
		<u>822,764</u>	<u>291,084</u>

20. Goodwill

Opening balance		37,106	47,708
Less: Amortised during the year		10,602	10,602
		<u>26,504</u>	<u>37,106</u>

21. Investments

These represent the long-term investments in:

Equity instruments of associated companies	21.1	1,876,196	1,229,533
Others	21.3	3,858,316	79,525
		<u>5,734,512</u>	<u>1,309,058</u>

21.1 In equity instruments of associated companies

Cost		202,474	202,474
Transferred during the year		1,430,078	-
		<u>1,632,552</u>	<u>202,474</u>
Post acquisition profit brought forward		1,027,059	913,635
		<u>2,659,611</u>	<u>1,116,109</u>
Profit for the year			
Before taxation		1,776,692	836,208
Provision for taxation		(319,070)	(157,311)
		<u>1,457,622</u>	<u>678,897</u>
		<u>4,117,233</u>	<u>1,795,006</u>
Less: Dividends received during the year		772,989	565,473
Disposed off during the year		1,468,048	-
		<u>2,241,037</u>	<u>565,473</u>
Balance as on December 31, 2006	21.2	<u>1,876,196</u>	<u>1,229,533</u>

## 21.2 In equity instruments of associated companies

	2006 (Rupees in thousand)	2005
<b>Quoted</b>		
Nestle Pakistan Limited Nil (2005: 3,649,248) fully paid ordinary shares of Rs. 10 each	-	162,154
International General Insurance Company of Pakistan Limited 2,118,138 (2005: 1,629,337) fully paid ordinary shares of Rs. 10 each Market value - Rs. 845.137 million (2005: Rs. 441.550 million)	891,170	117,705
Tri-Pack Films Limited 10,000,000 (2005: 10,000,000) fully paid ordinary shares of Rs. 10 each Market value - Rs. 538.500 million (2005: Rs. 589.500 million)	554,690	328,586
IGI Investment Bank Limited (Formerly First International Investment Bank Limited) 4,610,915 (2005: 4,191,741) fully paid ordinary shares of Rs. 10 each Market value - Rs. 59.941 million (2005: Rs. 52.606 million)	55,516	45,832
<b>Unquoted</b>		
Tetra Pak Pakistan Limited 30,800,000 (2005: 30,800,000) fully paid ordinary shares of Rs. 10 each	374,820	570,346
Coca-Cola Beverages Pakistan Limited Nil (2005: 500,000) fully paid ordinary shares of Rs. 10 each	-	4,910
	<u>1,876,196</u>	<u>1,229,533</u>

Investment in associated companies include goodwill of Rs. 21.241 million (2005: Nil).

The group's investment in International General Insurance Company of Pakistan Limited and IGI Investment Bank Limited (Formerly First International Investment Bank Limited) is less than 20% but these are considered to be associates as per requirement of IAS 28 'Investments in Associates' because the group has significant influence over the financial and operating policies of these companies.

The Group's share of the result of its associates, all of which are incorporated in Pakistan, and its share of the assets and liabilities in case of those associates whose financial information is available publicly, are as follows:

<u>Name</u>	<u>Percentage interest held</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Revenues</u>	<u>Profit/(loss)</u>
		( R u p e e s i n t h o u s a n d )			
<b>December 31, 2005</b>					
Nestle Pakistan Limited	8.06%	712,244	554,506	1,381,674	92,587
International General Insurance of Pakistan Limited	10.61%	313,838	183,467	34,644	30,742
Tri-pack Films Limited	33.33%	919,228	589,534	999,362	27,979
IGI Investment Bank Limited (Formerly First International Investment Bank Limited)	9.99%	508,995	445,309	41,978	6,247
		<u>2,454,305</u>	<u>1,772,816</u>	<u>2,457,658</u>	<u>157,555</u>
<b>September 30, 2006</b>					
International General Insurance of Pakistan Limited	10.61%	559,327	207,822	33,786	227,649
Tri-pack Films Limited	33.33%	943,415	604,876	912,165	33,842
IGI Investment Bank Limited (Formerly First International Investment Bank Limited)	9.99%	515,902	455,678	44,536	2,592
		<u>2,018,644</u>	<u>1,268,376</u>	<u>990,487</u>	<u>264,083</u>

### 21.3 Others

	2006 (Rupees in thousand)	2005
Quoted		
The Resource Group (TRG) Pakistan Limited 4,606,000 (2005: 6,000,000) fully paid ordinary shares of Rs. 10 each	40,303	79,500
Nestle Pakistan Limited 3,649,248 (2005: Nil) fully paid ordinary shares of Rs. 10 each	3,813,282	-
Unquoted		
Pakistan Tourism Development Corporation Limited 2,500 (2005: 2,500) fully paid ordinary shares of Rs. 10 each	25	25
Orient Match Company Limited 1,900 (2005: 1,900) fully paid ordinary shares of Rs. 100 each	-	-
Coca-Cola Beverages Pakistan Limited 500,000 (2005: Nil) fully paid ordinary shares of Rs. 10 each	4,706	-
	3,858,316	79,525

Nestle Pakistan Limited, The Resource Group (TRG) Pakistan Limited and Coca-Cola Beverages Pakistan Limited are associated undertakings as per the Companies Ordinance, 1984, however, for the purpose of measurement, these have been classified as available for sale and measured at fair value as referred to in note 4.9.

### 22. Long-term loans and deposits

	Note	2006 (Rupees in thousand)	2005
Loans to employees - considered good	22.1	2,247	2,159
Loan to SNGPL		164,000	-
Security deposits		15,401	15,081
		181,648	17,240
Less: Receivable within one year			
Loans to employees - considered good		451	427
		181,197	16,813

22.1 These represent interest free loans to employees for purchase of cycles and motor cycles and are repayable in monthly installments over a period of 40 to 158 months.

Loans to employees aggregating Rs. 0.570 million (2005: Rs. 0.644 million) are secured by joint registration of motor cycles in the name of employees and the group. The remaining loans are unsecured.

23. Retirement benefits

	2006	2005
	(Rupees in thousand)	
Pension fund	(10,646)	(14,083)
Gratuity fund	80,451	74,374
	<u>69,805</u>	<u>60,291</u>

The amounts recognised in the balance sheet are as follows:

	Pension Fund		Gratuity Fund	
	2006	2005	2006	2005
	( R u p e e s i n t h o u s a n d )			
Fair value of plan assets	483,965	437,180	257,356	243,427
Present value of defined benefit obligation	(496,792)	(474,774)	(167,073)	(150,527)
Non vested past service cost to be recognised in later periods	9,067	12,088	-	-
Unrecognised actuarial (gains) / losses	(6,886)	11,423	(9,832)	(18,526)
(Liability) / assets as at December 31	<u>(10,646)</u>	<u>(14,083)</u>	<u>80,451</u>	<u>74,374</u>
Net (liability) / asset as at January 1	(14,083)	(13,377)	74,374	65,102
Charge to profit and loss account	(16,755)	(21,398)	(1,115)	2,749
Contribution by the group	20,192	20,692	7,192	6,523
(Liability) / assets as at December 31	<u>(10,646)</u>	<u>(14,083)</u>	<u>80,451</u>	<u>74,374</u>

The movement in the present value of defined benefit obligation is as follows:

Present value of defined benefit obligation as at January 1	474,774	435,580	150,527	147,984
Service cost	14,588	13,892	8,613	7,922
Interest cost	49,835	40,071	15,385	12,926
Benefits paid	(26,575)	(24,552)	(16,028)	(23,212)
Past service cost	-	-	4,469	-
Experience (gain) / loss	(15,830)	9,783	4,107	4,907
Present value of defined benefit	<u>496,792</u>	<u>474,774</u>	<u>167,073</u>	<u>150,527</u>

The movement in fair value of plan assets is as follows:

	Pension Fund		Gratuity Fund	
	2006	2005	2006	2005
	( R u p e e s i n t h o u s a n d )			
Fair value as at January 1	437,180	366,448	243,427	238,601
Expected return on plan assets	47,082	34,683	25,777	21,800
Group contributions	20,192	20,692	7,192	6,523
Employees contributions	4,543	4,235	-	-
Benefits paid	(26,575)	(24,552)	(16,028)	(23,212)
Experience gain / (loss)	1,543	35,674	(3,012)	(285)
Fair value as at December 31	483,965	437,180	257,356	243,427

Plan assets are comprised as follows:

Debt	335,132	322,846	105,747	280,372
Equity	145,253	126,736	19,472	18,081
Mixed funds	28,315	28,867	226	436
Cash	(24,735)	(41,269)	131,911	(55,462)
	483,965	437,180	257,356	243,427

The present value of defined benefit obligation, the fair value of plan assets and the surplus or deficit of pension fund is as follows:

	2006	2005	2004	2003	2002
	( R u p e e s i n t h o u s a n d )				
Present value of defined benefit obligation	496,792	474,774	435,580	386,314	358,145
Fair value of plan assets	483,965	437,180	366,448	347,977	299,969
Deficit	(12,827)	(37,594)	(69,132)	(38,337)	(58,176)
Experience adjustment on obligation	-3%	2%	5%	1%	2%
Experience adjustment on plan assets	0%	8%	-3%	5%	16%

Fair value of plan assets include ordinary shares of the parent company, whose fair value as at December 31, 2006 is Rs. 114.789 million (2005: Rs. 110.416 million).

The present value of defined benefit obligation, the fair value of plan assets and the surplus or deficit of gratuity fund is as follows:

	2006	2005	2004	2003	2002
	( R u p e e s i n t h o u s a n d )				
Present value of defined benefit obligation	167,073	150,527	147,984	151,673	141,317
Fair value of plan assets	257,356	243,427	236,801	248,973	238,249
Surplus	90,283	92,900	88,817	97,300	96,932
Experience adjustment on obligation	2%	3%	5%	6%	1%
Experience adjustment on plan assets	-1%	0%	-3%	1%	0%

Fair value of plan assets include ordinary shares of the parent company, whose fair value as at December 31, 2006 is Rs. 18.173 million (2005: Rs. 17.481 million).

24. Stores and spares

	2006	2005
	(Rupees in thousand)	
Stores [including in transit Rs. 9.164 million (2005: Rs. 12.750 million)]	189,883	178,661
Spares [including in transit Rs. 12.994 million (2005: Rs. 9.102 million)]	310,100	245,205
	<u>499,983</u>	<u>423,866</u>

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

25. Stock-in-trade

Raw materials [including in transit Rs. 259.524 million (2005: Rs. 185.037 million)]	1,196,739	843,828
Work-in-process	140,258	132,210
Finished goods	548,194	441,245
	<u>1,885,191</u>	<u>1,417,283</u>
Less: Provision for slow moving items	9,422	1,761
	<u>1,875,769</u>	<u>1,415,522</u>

Finished goods of Rs. 140.095 million (2005: Rs. 26.340 million) are being carried at net realisable value and an amount of Rs. 12.649 million (2005: Rs. 4.265 million) has been charged to cost of sales, being the cost of inventory written down during the year.

26. Trade debts

	Note	2006	2005
		(Rupees in thousand)	
Considered good			
Related Parties - unsecured	26.1	240,641	241,547
Others	26.2	738,728	676,700
		979,369	918,247
Considered doubtful			
Related Parties		-	-
Others		1,004	100
		1,004	100
Less: Provision for doubtful debts		4,099	1,771
		<u>976,274</u>	<u>916,576</u>

26.1 Related parties - unsecured

Associated Undertakings

Treet Corporation	414	2,506
Nestle Pakistan Limited	79,171	85,382
Tetra Pak Pakistan Limited	61,581	50,109
Tri-Pack Films Limited	7,233	5,445
Coca-Cola Beverages Pakistan Limited	1,291	1,225

Other Related Parties

Unilever Pakistan Limited	66,715	74,733
Mitchell's Fruit Farms Limited	9,432	12,028
Ceylon Tea Services Limited	14,789	10,103
Print Care Ceylon Limited	15	-
Others	-	16
	<u>240,641</u>	<u>241,547</u>

These are in the normal course of business and are interest free.

26.2 Others include secured debts of Rs. 4.891 million (2005: Rs. 17.749 million).

27. Loans, advances, deposits, prepayments and other receivables

	Note	2006 (Rupees in thousand)	2005 (Rupees in thousand)
Loans to employees - considered good		451	427
Advances - considered good			
To employees	27.1	4,251	8,079
To suppliers		34,593	39,852
		38,844	47,931
Advances considered good		277	-
Due from related parties - unsecured	27.2	118,341	47,241
Trade deposits		67,953	22,973
Security deposits		39	704
Prepayments		16,537	19,636
Balances with statutory authorities			
Excise duty		35	-
Customs duty		593	1,388
		628	1,388
Profit receivable on bank deposits		-	16,203
Claims recoverable from Government			
Sales tax		4,596	4,949
Income tax refundable		61,033	-
Income tax recoverable	27.3	36,013	36,013
Octroi - considered doubtful		1,506	1,506
		103,148	42,468
Interest receivable on loans to SNGL		2,500	-
Derivative cross currency swap	27.4	4,245	-
Defence levy recoverable		239	247
Other receivables		9,332	6,085
		362,534	205,303
Less: Provision against doubtful advances		1,783	1,506
		360,751	203,797

27.1 Included in advances to employees are amounts due from Chief Executive, Directors and Executives of Rs. 0.092 million, Rs. Nil and Rs. 0.585 million respectively. (2005: Chief Executive Rs. Nil, Directors Rs. Nil and Executives Rs. 0.346 million).

27.2 Due from related parties - unsecured

	2006 (Rupees in thousand)	2005 (Rupees in thousand)
Associated Undertakings		
Tetra Pak Pakistan Limited	11,940	9,607
Tri-Pack Films Limited	157	29
International General Insurance Company of Pakistan Limited	94,297	886
IGI Investment Bank Limited (Formerly First International Investment Bank Limited)	142	7
Nestle Pakistan Limited	-	36,492
Post employment benefit plans		
Packages Limited Employees Provident Fund	57	-
Other related parties		
Loads Limited	104	104
Siemens Pakistan Limited	8,013	-
IGI Finex Limited	3,631	-
Others	-	116
	118,341	47,241

These relate to normal business of the group and are interest free.

27.3 In 1987, the Income Tax Officer (ITO) reopened the parent company's assessments for the accounting years ended December 31, 1983 and 1984 disallowing primarily tax credit given to the parent company under section 107 of the Income Tax Ordinance, 1979. The tax credit amounting to Rs. 36.013 million on its capital expenditure for these years was refused on the grounds that such expenditure represented an extension of the parent company's undertaking which did not qualify for tax credit under this section in view of the parent company's location. The assessments for these years were revised by the ITO on these grounds and taxes reassessed were adjusted against certain sales tax refunds and the tax credits previously determined by the ITO and set off against the assessments framed for these years.

The parent company had filed an appeal against the revised orders of the ITO before the Commissioner of Income Tax (Appeals) [CIT(A)], Karachi. The Commissioner has in his order issued in 1988 held the assessments reframed by the ITO for the years 1983 and 1984 presently to be void and of no legal effect. The Income Tax Officer has filed an appeal against the Commissioner's order with the Income Tax Appellate Tribunal (ITAT). The ITAT has in its order issued in 1996 maintained the order of CIT (A). The assessing officer

after the receipt of the appellate order passed by CIT (A), has issued notices under section 65 of the Income Tax Ordinance, 1979 and the parent company has filed a writ petition against the aforesaid notices with the High Court of Sindh, the outcome of which is still pending.

The amount recoverable Rs. 36.013 million represents the additional taxes paid as a result of the disallowance of the tax credits on reframing of the assessments.

27.4 During the year, the Group entered into a derivative cross currency swap agreement to hedge for the possible adverse movements in interest rates arising on the first draw down of Rs. 1,000 million included in long-term finances of Rs. 6,000 million as referred to in note 7. As this hedging relationship is ineffective and does not meet the criteria of cash flow hedge, this arrangement does not qualify for special hedge accounting specified in IAS 39 'Financial Instruments: Recognition and Measurement'.

The derivative cross currency swaps that are outstanding as at December 31, 2006 have been marked to market and the ineffective unrealised gain amounting to Rs. 4.245 million has been recognised in the profit and loss account during the year as referred to in note 33.

## 28. Cash and bank balances

	Note	2006 (Rupees in thousand)	2005
At banks			
On deposit accounts [including US \$ 2,197.33 (2005: US \$ 2,861)]		134	171
On saving accounts [including US \$ 89,571 (2005: US \$ 42,001)]	28.1	5,458	1,918,186
On current accounts [including US \$ 20,168.23 (2004: US \$ 19,329.03)]	28.2	100,745	107,580
		<hr/>	<hr/>
		106,337	2,025,937
In hand		7,211	7,684
		<hr/>	<hr/>
		113,548	2,033,621

28.1 The balances in saving accounts bear mark up which ranges from 0.25 % to 12.25 % per annum.

28.2 Included in these are total restricted funds of Rs. 1.359 million (2005: Rs. 1.359 million) held as payable to TFC holders as referred to in note 13.



29. Cost of sales

	Note	2006 (Rupees in thousand)	2005
Opening work-in-process		132,210	115,040
Materials consumed		4,669,844	3,878,383
Salaries, wages and amenities	29.1	511,349	462,545
Fuel and power		973,705	847,879
Production supplies		219,112	203,889
Excise duty and sales tax		180	242
Rent, rates and taxes		4,175	4,320
Insurance		37,806	41,855
Repairs and maintenance		271,529	257,536
Packing expenses		78,339	60,585
Depreciation on property, plant and equipment		374,658	402,094
Amortisation on intangible assets		2,531	2,435
Depreciation on assets subject to finance lease		659	849
Technical fee and royalty		34,527	38,268
Travelling and conveyance		2,785	1,816
Provision for slow moving items		7,661	-
Other expenses		93,256	86,437
		<u>7,414,326</u>	<u>6,404,173</u>
Less: Closing work-in-process		140,257	132,210
Cost of goods produced		<u>7,274,069</u>	<u>6,271,963</u>
Opening stock of finished goods		444,283	419,888
		<u>7,718,352</u>	<u>6,691,851</u>
Less: Closing stock of finished goods		551,765	444,283
		<u>7,166,587</u>	<u>6,247,568</u>

Cost of goods produced includes Rs. 817.117 million (2005: Rs. 792.067 million) for stores and spares consumed, Rs. 2.336 million (2005: Rs. 7.964 million) and Rs. 0.188 million (2005: Rs. 0.735 million) for raw materials and stores and spares written off respectively.

29.1 Salaries, wages and amenities

	2006 (Rupees in thousand)	2005
Salaries, wages and amenities include following in respect of retirement benefits:		
Pension		
Current service cost	8,190	7,704
Interest cost for the year	27,975	22,221
Expected return on plan assets	(26,430)	(19,233)
Contribution made by the employees	(2,550)	(2,348)
Recognition of past service cost	1,696	1,675
Recognition of loss	525	1,848
	<u>9,406</u>	<u>11,867</u>
Gratuity		
Current service cost	6,101	5,498
Interest cost for the year	10,897	8,969
Expected return on plan assets	(18,257)	(15,127)
Recognition of gain	(1,115)	(1,247)
Recognition of past service cost	3,165	-
	<u>791</u>	<u>(1,907)</u>

In addition to above, salaries, wages and amenities include Rs. 12.170 million (2005: Rs. 11.498 million) and Rs. 12.905 million (2005: Rs. 7.677 million) in respect of provident fund contribution and accumulating compensated absences respectively.

30. Administrative expenses

	Note	2006 (Rupees in thousand)	2005
Salaries, wages and amenities	30.1	170,494	167,408
Travelling		35,154	51,634
Rent, rates and taxes	30.2	19,729	11,350
Insurance		4,407	4,691
Printing, stationery and periodicals		18,236	13,158
Postage, telephone and telex		22,324	20,437
Motor vehicles running		11,450	10,322
Computer charges		9,621	13,235
Professional services	37	10,981	11,094
Repairs and maintenance		15,173	12,123
Depreciation on property, plant and equipment		24,268	23,372
Amortisation on intangible assets		307	151
Depreciation on investment property		600	599
Depreciation on assets subject to finance lease		2,390	2,421
Amortisation of goodwill		10,602	10,602
Provision for doubtful advances		1,277	100
Security services		1,204	1,005
Bad debts written off	30.3	59	337
Other expenses		42,139	40,319
		<u>400,415</u>	<u>394,358</u>

Administrative expenses include Rs. 24.215 million (2005: Rs. 25.203 million) for stores and spares consumed.

30.1 Salaries, wages and amenities

	2006 (Rupees in thousand)	2005
Salaries, wages and amenities include following in respect of retirement benefits:		
Pension		
Current service cost	5,026	4,908
Interest cost for the year	17,172	14,157
Expected return on plan assets	(16,222)	(12,254)
Contribution made by the employees	(1,566)	(1,496)
Recognition of past service cost	1,041	1,067
Recognition of loss	323	1,177
	<u>5,774</u>	<u>7,559</u>
Gratuity		
Current service cost	1,973	1,923
Interest cost for the year	3,525	3,138
Expected return on plan assets	(5,906)	(5,293)
Recognition of gain	(361)	(436)
Recognition of past service cost	1,024	-
	<u>255</u>	<u>(668)</u>

In addition to above, salaries, wages and amenities include Rs. 4.006 million (2005: Rs. 4.229 million) and Rs. 4.603 million (2005: Rs. 2.916 million) in respect of provident fund contribution and accumulating compensated absences respectively.

30.2 Rent, rates and taxes include operating lease rentals amounting to Rs. 9.565 million (2005: Rs. 7.738 million).

30.3 Bad debts written off include Rs. 0.039 million (2005: Rs. 0.111 million) against receivables and Rs. Nil (2005: Rs. 0.226) against advances.

31. Distribution and marketing costs

	Note	2006 (Rupees in thousand)	2005
Salaries, wages and amenities	31.1	48,980	45,455
Travelling		12,401	11,613
Rent, rates and taxes	31.2	2,686	2,712
Freight and distribution		95,945	94,429
Insurance		1,234	1,554
Printing, stationery and periodicals		174	210
Postage, telephone and telex		433	655
Advertising		57,049	39,545
Depreciation on property, plant and equipment		5,948	6,499
Depreciation on assets subject to finance lease		158	158
Repairs and maintenance		6,886	-
Bad debts written off		1,571	128
Other expenses		21,882	16,364
		<u>255,347</u>	<u>219,322</u>

Distribution and marketing costs include Rs. 4.885 million (2005: Rs. 5.306 million) for stores and spares consumed.

31.1 Salaries, wages and amenities

	2006 (Rupees in thousand)	2005
Salaries, wages and amenities include following in respect of retirement benefits:		
Pension		
Current service cost	1,373	1,280
Interest cost for the year	4,687	3,693
Expected return on plan assets	(4,430)	(3,196)
Contribution made by the employees	(427)	(390)
Recognition of past service cost	284	278
Recognition of loss	88	307
	<u>1,575</u>	<u>1,972</u>
Gratuity		
Current service cost	539	502
Interest cost for the year	964	819
Expected return on plan assets	(1,614)	(1,381)
Recognition of gain	(99)	(114)
Recognition of past service cost	280	-
	<u>70</u>	<u>(174)</u>

In addition to above, salaries, wages and amenities include Rs. 1.143 million (2005: Rs. 1.204 million) and Rs. 0.780 million (2005: Rs. 0.933 million) in respect of provident fund contribution and accumulating compensated absences respectively.

31.2 Rent, rates and taxes include operating lease rentals amounting to Rs. 2.516 million (2005: Rs. 2.294 million).

32. Other operating expenses

	Note	2006 (Rupees in thousand)	2005
Workers' profit participation fund		91,567	77,407
Workers' welfare fund		131,883	17,410
Donations	38	814	7,071
		<u>224,264</u>	<u>101,888</u>

33. Other operating income

	Note	2006 (Rupees in thousand)	2005
Income from financial assets			
Exchange gain		2,372	-
Income on bank deposits including Rs. Nil million (2005: Rs. 1.344 million) from related party		5,602	83,385
Interest on loan to SNGPL		2,500	-
		<u>10,474</u>	<u>83,385</u>
Income from non-financial assets			
Management and technical fee		14,321	5,975
Insurance commission from related party		5,941	3,558
Rental income from investment property including Rs. 26.143 million (2005: Rs. 22.137 million) from related parties		22,131	18,670
Profit on disposal of property, plant and equipment		8,421	5,776
Scrap sales		2,124	1,849
Provisions and unclaimed balances written back		9,686	55,423
Agricultural income		54	2,298
Profit on outside jobs including Rs. 0.822 million (2005: Rs. 2.007 million) from related parties		1,573	2,537
Gain on foreign currency forward option	12	14,867	-
Unrealised gain on cross currency swap		4,245	-
Capital gain from related party	33.1	72,972	-
Mark up on delayed tax refunds		72,537	-
Others		13,940	4,177
		<u>242,812</u>	<u>100,263</u>
		<u>253,286</u>	<u>183,648</u>

33.1 It represents the tenderable gain earned by International General Insurance Company of Pakistan Limited through sale and purchase of parent company's shares which have been transferred to the group in accordance with the requirements of section 224 of Companies Ordinance, 1984.

34. Finance costs

	2006 (Rupees in thousand)	2005
Interest and mark up including commitment charges on		
Long-term foreign currency loans	-	13,718
Long-term finaces	9,732	4,781
Short-term borrowings	-	26,455
Finances under mark up arrangements	87,276	91,011
Finance lease	191	512
Deferred import duties	-	58
Loss on foreign currency forward options	-	35,213
Loan handling charges	8,103	26,497
Exchange loss	3,358	14,005
Bank charges	8,264	10,205
	<u>116,924</u>	<u>222,455</u>

35. Investment income

Gain on sale of long-term investments	<u>3,566,371</u>	<u>-</u>
---------------------------------------	------------------	----------

This represents the net capital gain realised on sale of shares in Nestle Pakistan Limited, International General Insurance of Pakistan Limited, Tri-pack Films Limited and The Resource Group (TRG) Pakistan Limited.

36. Taxation

	2006 (Rupees in thousand)	2005
For the year		
Current	198,145	348,600
Deferred	154,950	18,031
	<u>353,095</u>	<u>366,631</u>
Prior years		
Current	(29,178)	(8,439)
Deferred	(2,000)	4,969
	<u>(31,178)</u>	<u>(3,470)</u>
	<u>321,917</u>	<u>363,161</u>

37. Professional services

The charges for professional services include the following in respect of auditors' services for:

Statutory audit	994	823
Half yearly review	275	250
Tax services	5,109	4,643
Workers' profit participation fund audit, management staff pension and gratuity fund audit, special reports and certificates for lending agencies and sundry services	295	286
Out of pocket expenses	221	190
	<u>6,894</u>	<u>6,192</u>

38. Donations

None of the directors and their spouses had any interest in any of the donees during the year.

39. Remuneration of Chief Executive, Directors and Executives

39.1 The aggregate amount charged in the financial statements for the year for remuneration, including certain benefits, to the Chief Executive, full time working Directors including alternate directors and Executives of the group is as follows:

	Chief Executive		Directors and alternate Directors		Executives	
	2006	2005	2006	2005	2006	2005
Number of persons	1	1	4	4	35	30
	( R u p e e s i n t h o u s a n d )					
Short-term employee benefits						
Managerial remuneration	3,286	2,784	7,887	8,302	58,090	42,299
Housing	2,027	1,558	3,381	3,366	16,550	9,825
Utilities	544	600	787	827	6,060	4,467
Bonus	410	282	912	1,058	3,210	2,255
Leave passage	273	336	607	661	1,707	1,333
Medical expenses	461	805	175	438	4,240	2,676
Club expenses	51	39	180	138	351	159
Overseas travels	-	-	-	-	343	-
Others	-	-	-	1,111	155	8,389
	<u>7,052</u>	<u>6,404</u>	<u>13,929</u>	<u>15,901</u>	<u>90,706</u>	<u>71,403</u>
Post employment benefits						
Contribution to provident, gratuity and pension funds	1,132	594	2,088	2,376	5,924	4,315
Other long-term benefits						
Accumulating compensated absences	1,910	1,721	4,421	2,827	11,950	9,702
	<u>10,094</u>	<u>8,719</u>	<u>20,438</u>	<u>21,104</u>	<u>108,580</u>	<u>85,420</u>

The group also provides the Chief Executive and some of the Directors and Executives with free transport and residential telephones.

### 39.2 Remuneration to other directors

Aggregate amount charged in the financial statements for the year for fee to 4 directors (2005: 5 directors) was Rs. 110,000 (2005: Rs. 125,000).

### 40. Transactions with related parties

The related parties comprise associated undertakings, other related group companies, directors of the parent company, key management personnel and post employment benefit plans. The group 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 directors and key management personnel are shown under receivables and remuneration of directors and key management personnel is disclosed in note 39. Other significant transactions with related parties are as follows:

Relationship with the company		Nature of transactions	
		2006	2005
		(Rupees in thousand)	
i. Associated Undertakings	Purchase of goods and services	233,518	215,613
	Sale of goods and services	1,753,664	1,471,536
	Sale of property, plant and equipment	-	300
	Purchase of property, plant and equipment	-	5,308
	Insurance claims	940	-
	Income on bank deposits	-	1,344
	Capital gain	72,972	-
	Dividend income	772,989	565,473
	Rental income	21,890	18,328
ii. Other related parties	Purchase of goods and services	144,492	33,298
	Sale of goods and services	1,141,248	690,824
	Purchase of equity shares	5,039,156	-
	Sale of equity shares	5,044,663	-
	Rental payments	5,502	-
	Commission paid	455	-
	Royalty and technical fee	20,417	17,336
iii. Post employment benefit plans	Expense charged in respect of retirement benefit plans	47,258	34,191

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

### 41. Capacity and production

	Capacity		Actual production	
	2006	2005	2006	2005
Paper and paperboard produced - tonnes	111,300	111,300	100,999	104,542
Paper and paperboard converted - tonnes	97,000	94,000	86,447	85,219
Plastics all sorts converted - tonnes	11,000	8,000	8,418	7,360
Inks produced - tonnes	3,765	3,765	3,477	2,985
Flexible packaging material - meters '000'	54,000	54,000	32,735	28,557

The variance of actual production from capacity is on account of the product mix.

### 42. Rates of exchange

Liabilities in foreign currencies have been translated into Rupees at US \$ 1.6399 (2005: US \$ 1.6686), EURO 1.2424 (2005: EURO 1.4094), SFR 1.9976 (2005: SFR 2.1939), SEK 11.2360 (2005: SEK 13.2450), GBP 0.8376 (2005: GBP 0.9686), SGD 2.5145 (2005: SGD 2.7739) and YEN 195.2362 (2005: YEN 196.3865) and SLR 176.68 (2005 : SLR 170.941) equal to Rs. 100.

43. Cash generated from operations

	2006	2005
	(Rupees in thousand)	
Profit before tax	6,169,017	1,672,227
Adjustments for:		
Depreciation on property, plant and equipment	403,649	431,965
Amortisation on intangible assets	2,838	2,586
Depreciation on investment property	600	599
Depreciation on assets subject to finance lease	3,207	3,428
Amortisation of goodwill	10,602	10,602
Provision for accumulating compensated absences and staff gratuity	18,855	11,915
Retirement benefits accrued	17,870	18,649
Exchange adjustments	(4,888)	(1,616)
Gain on held to maturity investments	-	(293)
Gain on sale of long-term investments	(3,566,371)	-
Net profit on disposal of property, plant and equipment	(8,421)	(5,776)
Gain on foreign currency forward option	(14,867)	-
Finance cost	116,924	222,455
Income from associated companies	(1,776,692)	(836,208)
	<hr/>	<hr/>
Profit before working capital changes	1,372,323	1,530,533
Effect on cash flow due to working capital changes		
Increase in stores and spares	(76,117)	(32,211)
Increase in stock-in-trade	(460,247)	(50,819)
Increase in trade debts	(59,698)	(181,343)
Increase in loans, advances, deposits, prepayments and other receivables	(95,921)	(3,851)
Increase in creditors, accrued and other liabilities	342,746	17,613
	<hr/>	<hr/>
	(349,237)	(250,611)
	<hr/>	<hr/>
	1,023,086	1,279,922

44. Cash and cash equivalents

Cash and bank balances	113,548	2,033,621
Finances under mark up arrangements - secured	(1,485,452)	(1,895,761)
	<hr/>	<hr/>
	(1,371,904)	137,860

45. Combined earnings per share

45.1 Combined basic earnings per share

Net profit for the year attributable to equity holders	Rupees in thousand	5,482,834	1,111,770
Weighted average number of ordinary shares	Numbers	69,879,507	62,503,899
Combined basic earnings per share	Rupees	78.46	17.79

45.2 Combined diluted earnings per share

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

## 46. Financial assets and liabilities

	Interest/mark up bearing				Non interest bearing				Total		Credit Risk					
	Maturity upto one year	Maturity after one year but within five years	Maturity after five years	Sub total	Maturity upto one year	Maturity after one year but within five years	Maturity after five years	Sub total	2006	2005	2006	2005				
	( R	u	p	e	e	s	i	n	t	h	o	u	s	a	n	d
Financial assets																
On balance sheet																
Investments	-	-	-	-	-	3,853,585	-	3,853,585	3,853,585	79,525	3,853,585	79,525				
Loans to employees	-	-	-	-	451	1,796	-	2,247	2,247	2,159	2,247	2,159				
Long-term security deposits	-	-	164,000	164,000	-	15,401	-	15,401	179,401	15,081	179,401	15,081				
Trade debts	-	-	-	-	976,274	-	-	976,274	976,274	916,576	976,274	916,576				
Loans, advances, deposits, prepayments and other receivables :																
Trade deposits	-	-	-	-	67,953	-	-	67,953	67,953	22,973	67,953	22,973				
Security deposits	-	-	-	-	39	-	-	39	39	704	39	704				
Profit receivable on bank deposits	-	-	-	-	-	-	-	-	-	16,203	-	16,203				
Interest receivable on loan to SNGPL	-	-	-	-	2,500	-	-	-	-	-	-	-				
Derivative cross currency swap	-	-	-	-	4,245	-	-	-	-	-	-	-				
Others	-	-	-	-	47,748	-	-	47,748	47,748	50,906	47,748	50,906				
Cash and bank balances	5,592	-	-	5,592	107,956	-	-	107,956	113,548	2,033,621	106,337	2,025,937				
	5,592	-	164,000	169,592	1,207,166	3,870,782	-	5,071,203	5,240,795	3,137,748	5,233,584	3,130,064				
Off balance sheet	-	-	-	-	-	-	-	-	-	-	-	-				
Total	5,592	-	164,000	169,592	1,207,166	3,870,782	-	5,071,203	5,240,795	3,137,748	5,233,584	3,130,064				
Financial liabilities																
On balance sheet																
Long-term finances - secured	16,830	2,229,677	3,785,750	6,032,257	-	-	-	-	6,032,257	1,050,734						
Liabilities against assets subject to finance lease	1,934	107	-	2,041	-	-	-	-	2,041	8,419						
Finances under mark up arrangements - secured	1,485,452	-	-	1,485,452	-	-	-	-	1,485,452	1,895,761						
Derivative foreign currency forward options	-	-	-	-	-	-	-	-	-	90,959						
Creditors, accrued and other liabilities	-	-	-	-	748,045	-	-	748,045	748,045	515,006						
	1,504,216	2,229,784	3,785,750	7,519,750	748,045	-	-	748,045	8,267,795	3,560,879						
Off balance sheet																
Contracts for capital expenditure	-	-	-	-	2,854,205	-	-	2,854,205	2,854,205	3,105,869						
Letters of credit other than for capital expenditure	-	-	-	-	353,653	-	-	353,653	353,653	275,689						
Future payments under operating leases	-	-	-	-	5,466	6,749	1,883	14,098	14,098	19,058						
	-	-	-	-	3,213,324	6,749	1,883	3,221,956	3,221,956	3,400,616						
Total	1,504,216	2,229,784	3,785,750	7,519,750	3,961,369	6,749	1,883	3,970,001	11,489,751	6,961,495						
On balance sheet gap	(1,498,624)	(2,229,784)	(3,621,750)	(7,350,158)	459,121	3,870,782	-	4,323,158	(3,027,000)	(423,131)						
Off balance sheet gap	-	-	-	-	(3,213,324)	(6,749)	(1,883)	(3,221,956)	(3,221,956)	(3,400,616)						

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



#### 46.1 Financial risk management objectives

The group's activities expose it to a variety of financial risks, including the effects of changes in foreign exchange rates, market interest rates such as Karachi Inter-bank Offered Rate and Treasury bills rate, credit and liquidity risk associated with various financial assets and liabilities respectively as referred to in note 46 and cash flow risk associated with accrued interests in respect of borrowings as referred to in note 7.

The group finances its operations through equity, borrowings and management of working capital with a view to maintaining a reasonable mix between the various sources of finance to minimize risk.

Taken as a whole, risk arising from the group's financial instruments is limited as there is no significant exposure to market risk in respect of such instruments.

##### (a) Concentration of credit risk

Credit risk represents the accounting loss that would be recognised at the reporting date if counter parties failed completely to perform as contracted. The group's credit risk is primarily attributable to its trade debts and its balances at banks. The credit risk on liquid funds is limited because the counter parties are banks with reasonably high credit ratings. The group has no significant concentration of credit risk as exposure is spread over a large number of counter parties in the case of trade debts. Out of the total financial assets of Rs. 5,240.795 million (2005: Rs. 3,137.748 million) financial assets which are subject to credit risk amount to Rs. 5233.584 million (2005: Rs. 3,130.064 million).

#### 47. Detail of subsidiaries

Name of the subsidiaries	Accounting year end	Percentage of holding	Country of incorporation
Packages Lanka (Private) Limited	31-12-2006	79.07%	Sri Lanka
DIC Pakistan Limited	31-12-2006	54.98%	Pakistan
Packages Construction (Private) Limited	31-12-2006	99.99%	Pakistan

#### 48. Date of authorization for issue

These financial statements were authorised for issue on February 06, 2007 by the Board of Directors.

#### 49. Events after the balance sheet date

The Board of Directors of parent company have proposed a final dividend for the year ended December 31, 2006 of Rs. 6.00 (2005: Rs. 6.00) per share, amounting to Rs. 419,277 million (2005: Rs. 419.277 million) and a bonus share issue of 5% (2005: Nil) i.e one bonus share for every twenty shares held on the existing issued, subscribed and paid up capital of company at

To manage exposure to credit risk, the group applies credit limits to its customers and also obtains collaterals, where considered necessary.

##### (b) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Currency risk arises mainly where receivables and payables exist due to transactions with foreign buyers and suppliers. Payables exposed to foreign currency risks are covered partially through forward foreign exchange contracts and foreign currency forward options.

##### (c) Interest rate risk management

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The group usually borrows funds at fixed and market based rates and as such the risk is minimized.

##### (d) Liquidity risk

Liquidity risk reflects an enterprise's inability in raising funds to meet commitments. The group follows an effective cash management and planning policy to ensure availability of funds and to take appropriate measures for new requirements.

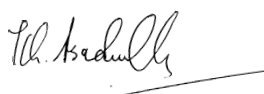
#### 46.2 Fair value of financial assets and liabilities


The carrying values of all financial assets and liabilities reflected in the financial statements approximate their fair values except for investments in associates which are stated at equity. Fair value is determined on the basis of objective evidence at each reporting date.

their meeting held on February 06, 2007 for approval of the members at the Annual General Meeting to be held on April 17, 2007. The Board has also recommended to transfer Rs. 5,646.600 million (2005: Rs. 596.000 million) to general reserve from unappropriated profit. These financial statements do not reflect this dividend payable.

#### 50. Corresponding figures

Corresponding figures have been re-arranged, wherever necessary, for the purposes of comparison. However, no significant re-arrangements have been made.

  
Asadullah Khawaja  
Chairman

  
Syed Hyder Ali  
Managing Director & Chief Executive

  
Mujeeb Rashid  
Director

# FORM OF PROXY

## 52<sup>nd</sup> Annual General Meeting



I/We \_\_\_\_\_  
of \_\_\_\_\_ being a member of Packages Limited and  
holder of \_\_\_\_\_ Ordinary Shares as per Share Register Folio No. \_\_\_\_\_  
(Number of Shares)  
and / or CDC Participant I.D. No. \_\_\_\_\_ and Sub Account No. \_\_\_\_\_  
hereby appoint \_\_\_\_\_ of \_\_\_\_\_ or failing him \_\_\_\_\_  
of \_\_\_\_\_ or failing him \_\_\_\_\_ of \_\_\_\_\_ as my proxy to vote for me  
and on my behalf at the Annual General Meeting of the company to be held on Tuesday, April 17, 2007 at 11.30 a.m. at Beach Luxury Hotel, Moulvi  
Tamizuddin Khan Road, Karachi and at any adjournment thereof.

Signed this \_\_\_\_\_ day of \_\_\_\_\_ 2007

### WITNESSES:

1. Signature: \_\_\_\_\_  
Name: \_\_\_\_\_  
Address: \_\_\_\_\_  
  
NIC or  
Passport No. \_\_\_\_\_
2. Signature: \_\_\_\_\_  
Name: \_\_\_\_\_  
Address: \_\_\_\_\_  
  
NIC or  
Passport No. \_\_\_\_\_

Signature

Please  
affix Rupees five  
revenue stamp

(Signatures should agree with the  
specimen signatures registered  
with the company)

**Note:** Proxies in order to be effective, must be received by the company not less than 48 hours before the meeting. A proxy need not be a member of the company.

CDC Shareholders and their Proxies are each requested to attach an attested photocopy of their National Identity Card or Passport with this proxy form before submission to the company.

