

# PAKISTAN PAPER PRODUCTS LIMITED

## ANNUAL REPORT 2004

### DIRECTORS' REPORT

The Directors of your Company take pleasure in presenting their report together with the

Audited Accounts and Auditors' Report thereon for the year ended 30<sup>th</sup> June, 2004.

#### Operating Results

During the year under review your Company showed good progress with Net Sales growing by 7.32% to Rs. 136.29 million compared to Rs. 126.99 million in the previous year. All sections of the Company showed good growth levels with the Pro Label section growing by 16.87%, and the Sensitised and Plain Paper Copier Section growing by 19.07%. This was achieved by gearing up our marketing and production resources to meet the increased demand. The sales of the Exercise Book Section declined slightly due to the loss of a few major orders, but these have now been captured again so it is hoped that sales next year will again grow by a satisfactory level.

#### Financial Results

By the grace of Allah, your Company was able to earn a Net Profit after tax of Rs. 18.71 million compared to Rs. 16.42 million in the previous year. This increase was made possible through proper resource management, production efficiency, and cost economy. The total profit available for appropriation is Rs. 18.71 million. Your Directors recommend a final dividend of 40%, which amounts to Rs. 10 million, while Rs. 4 million will be transferred to general reserve, and Rs. 4.71 million will be carried forward as un-appropriated profit. The summary of the accounts for the year ended 30<sup>th</sup> June 2004 is given below:

	June. 2004	June. 2003
Profit before taxation	26,723,630	25,268,949
Taxation	-8,015,926	-8,844,132
Profit after taxation	18,707,704	16,424,817
Un-appropriated profit brought forward	8,684	267,277
Transfer from surplus on Revaluation of Fixed Assets	-	316,590
Available for appropriation	18,716,388	17,008,684
Appropriation		
Proposed Cash Dividend	-10,000,000	-10,000,000
Transfer to General Reserve	-4,000,000	-7,000,000
Un-appropriated Profit Carried forward	4,716,388	8,684

#### Board of Directors

The Board comprises of two executive and five non-executive Directors including one independent Director. All the Directors keenly take interest in the proper stewardship of the company's affair. The non-executive Directors are independent of management.

#### Statement of Business Ethics & Practices

The Board has adopted the statement of Business Ethics and Practices. All employees are informed of this statement.

#### Audit Committee

Comprises of three members from the Board, including two non-executive directors. The Board of Directors has set out terms of reference for the audit committee. The audit committee reviews the annual and quarterly financial statements, internal audit reports and holds its meeting prior to the Board meeting. The committee manages adequately the system of internal control through Internal audit department and review effectiveness of operational and financial control.

#### Material Changes

There have been no material changes and the company has not entered into any commitment that will affect its financial position.

#### Earning Per Share

Earning per share comes to Rs.7.48 per share (2003:Rs. 6.57 per share)

#### Dividend

Directors propose cash dividend at the rate of Rs.4.00 per share i.e. 40%.

## Operating and Financial Data

Operating and Financial data and key ratios of the Company for last six years are annexed.

## Code of Business Principles

As a leading Paper Converting Company, reputation for high ethical standards is central to business success. Code of Business Principles has been developed and is now being communicated and acknowledged by each Director and employee of the Company.

## Communication

Communication with the shareholders is given a high priority. Annual and Quarterly Reports are distributed to them within the time specified in the Code. There is also an opportunity for individual shareholders to attend and ask questions at the Annual General Meeting.

## SUMMARIZED STATEMENT OF KEY OPERATING AND FINANCIAL DATA OF SIX YEARS Years at a Glance

	Rupees in Thousand					
	2004	2003	2002	2001	2000	1999
Sales-Net	136,295	126,994	111,918	83,980	72,104	69,469
Other Income/ (Loss)	287	-7	382	201	88	43
Profit before Taxation	26,724	25,269	17,293	11,650	6,540	4,691
Taxation	-8,016	-8,844	-4,065	-5,102	-2,165	-1,559
Profit after Taxation	18,708	16,425	13,228	6,547	4,375	3,132
Cash Dividend (%)	40%	40%	25%	25%	25%	20%
Bonus Shares (%)	-	-	• 25%	33.33%	-	50%
Earning per Share(Rs.)	7.48	6.57	5.29	4.36	2.93	3.14
Paid up Capital	25,000	25,000	20,000	15,000	15,000	10,000
Shareholder Equity	66,116	57,409	50,667	42,439	39,642	34,017
Total Assets	98,043	95,586	78,067	66,846	55,542	54,885
Working Capital	39,009	32,647	29,723	24,867	27,172	22,759
Number of Employees	82	84	88	96	99	94
Production						
Exercise Books (Gross)	40,432	41,006	47,761	36,641	38,199	34,096
Ammonia Paper (Rolls 10 yds)	99,177	90,204	89,127	103,982	119,926	109,981
Pro-Labels (Sq. Meters)	966,409	772,382	516,134	242,000	125,200	158,538

## STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED JUNE 30, 2004

1) The Company encourages representation of independent non-executive directors. At present the board includes five independent non-executive directors including one director nominated by the N.I.T.

2) The directors have confirmed that none of them is serving as a director in more than ten listed companies including this company.

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

4) No casual vacancy had occurred in the Board during the period under review.

5) The company has prepared a "Statement of Ethics and Business Practices" which has been signed by all the directors and employees of the company.

6) The Board has developed a Vision & Mission Statements, overall corporate strategy and significant policies of the company. A complete record of particulars of significant policies along with the date on which they were approved or amended has been maintained.

7) All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of

employment of the Chief Executive Officer (CEO) and other executive directors, have been taken by the Board.

8) The meetings of the Board were presided over by the Chairman and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.

9) The Board arranged an orientation course for its directors during the year to apprise them of their duties and responsibilities.

10) No new appointments of CFO, Company Secretary or Head of Internal Audit have been made after the application of the Code of Corporate Governance and up to June 30, 2004. However in case of new appointment in future their remuneration and terms and conditions of employment, will be approved by the Board.

11) The directors' report for the period ended June 30, 2004 has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.

12) The Financial Statements of the company were duly endorsed by the CEO and the CFO before approval of the Board

#### Statements of Directors' Responsibilities

The Board regularly reviews the Company's strategic direction. Annual plans and performance targets for business are set by the Chief Executive and are reviewed in total by the Board in the light of the Company's overall objectives. The Board is committed to maintain the high standards of good corporate governance.

#### Corporate Governance

- We are pleased to report that your company has taken necessary steps to comply with the provisions of the Code of Corporate Governance as incorporated in the listing regulations of the Karachi Stock Exchange.
- We give below statements on corporate and financial reporting framework.
- The financial statements, prepared by the management of the company, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
- There are no significant doubts upon the company's ability to continue as a going concern.
- The system of internal control, which was in place, is being continuously reviewed by internal audit and other such procedures. The process of review will continue with the objective to further improve.
- Proper books of account of the company have been maintained.
- Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgments.
- During the year five (5) meetings of the Board of Directors were held. Attendance by each Director was as follows:

Name of Directors	Meetings Attended
Mr. Hashim B. Saveed	5
Mr. Abbas Sayeed	2
Dr. Asadullah Sayeed	5
Mr. Abid Sayeed	5
Mrs. Muleika Sayeed	4
Mr. Mohammed Ali Sayeed	2
Mr. Mansoor Mukhtar Shah	3

#### 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 Pakistan Paper Products Limited to comply with the Listing Regulation No.37 of the Karachi Stock Exchange (Guarantee) Limited 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 the 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 Jun 30, 2004 .

### Safety & Environment

The Company strictly complies with the standard and follows the safety rules & regulations. The Company has held various sessions on safety awareness and no accident occurred.

### Auditors

The present Auditors M/s Haider Shamsi & Co., retire and being eligible, offer themselves for reappointment and as required by the code, the Audit Committee has recommended appointment of M/s. Haider Shamsi & Co., Chartered Accountants, as auditors of the company for the financial year 2004-2005.

### Pattern of Shareholding

A statement of the pattern of shareholding of certain class of shareholders as at June 30, 2004 whose disclosure is required under the reporting framework is included in the report.

The Directors, CEO, CFO, Company Secretary and their spouse and minor children have made no transactions of Company's shares during the year. However, Mr. Hashim B.Sayeed and Mrs. Muleika Sayeed have made a gift of 100,000 shares each to Mr. Abid Sayeed. None of the other Directors have made any transactions of the Company's shares.

### Future outlook

We are fully geared up with the economic scenario of this country and the expected shape of things in future in spite of impending pressures on business. Initiatives of the Government to improve the tax collection system based on the principles of equity and reasonableness are essential to bring improvement in investors' confidence.

### Acknowledgments

The Directors would like to thank the staff and workers for their hard work and cooperation during the year. We assure the shareholders that the management would do its best to maintain the progress and keep them well informed with the developments.

## BALANCE SHEET

	Notes	2004 Rupees	2003 Rupees
<b>SHARE CAPITAL AND RESERVES</b>			
Share Capital			
Authorised 4,000,000 (2003: 4,000,000)			
Ordinary Shares of Rs.10 each		40,000,000	40,000,000
Issued, Subscribed and Paid-up capital	3	25,000,000	25,000,000
Revenue Reserves	4	36,400,000	32,400,000
Un-Appropriated Profit		4,716,388	8,684

		66,116,388	57,408,684
Surplus on Revaluation of Fixed Assets	5	-	-
Obligation under Finance Lease	6	3,444,712	6,434,980
Deferred gain under sales & lease back arrangement	7	451,219	697,339
<b>DEFERRED LIABILITIES</b>			
Deferred Taxation	8	3,387,274	2,976,735
Provision for Gratuity	9	969,525	800,172
		4,356,799	3,776,907
<b>CURRENT LIABILITIES</b>			
Current maturity of Finance Lease		2,990,268	6,286,725
Creditors, Accrued and Other Liabilities	10	10,683,878	10,981,471
Proposed Dividend	34	10,000,000	10,000,000
		23,674,146	27,268,196
<b>CONTINGENCIES &amp; COMMITMENTS</b>			
	11	-	-
		98,043,264	95,586,106

13) The Directors, the CEO and the Executive do not hold any interest in the shares of the company other than that disclosed in the pattern of shareholding.

14) The Company has complied with all the corporate and financial reporting requirements of the Code.

15) The Board has formed an Audit Committee. It comprises three members, of whom two are non-executive directors including the Chairman of the Audit Committee.

16) The meetings of the Audit Committee were held at least once every quarter prior to approval of interim and final results of the Company and as required by the Code. The terms of references of the committee have already been formed and advised to the committee for compliance.

17) The Board has set up an effective internal audit function and our head of internal audit is well conversant with the policies and procedures of the company and is involved in the internal audit function on a full time basis.

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

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

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

#### PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30<sup>TH</sup> JUNE, 2004

	NOTE	2004 Rupees	2003 Rupees
TURNOVER		158,422,881	147,717,676
Sales Tax, Discounts, commission & sales return		-22,127,960	-20,723,407
SALES	20	136,294,921	126,994,269
Cost of Goods Sold	21	-97,412,698	-90,120,135
GROSS PROFIT		38,882,223	36,874,134
<b>OPERATING EXPENSES</b>			
Administrative	22	7,159,135	6,968,727

Selling and Distribution	23	2,143,478	1,709,739
Financial	24	1,240,210	1,057,932
Workers' Profit Participation Fund		1,416,970	1,356,887
Workers' Welfare Fund		485,396	505,379
		-12,445,189	-11,598,664
OPERATING PROFIT		26,437,034	25,275,470
Other Income/ (Loss)	25	286,596	-6,521
NET PROFIT BEFORE TAXATION		26,723,630	25,268,949
Taxation	26	-8,015,926	-8,844,132
NET PROFIT AFTER TAXATION		18,707,704	16,424,817
Unappropriated Profit Brought Forward		8,684	267,277
PROFIT AVAILABLE FOR APPROPRIATION		18,716,388	16,692,094
APPROPRIATIONS			
Transferred to Revenue Reserve		-4,000,000	-7,000,000
Proposed Dividend @ 40 % ( 2003: 40% )		-10,000,000	-10,000.00
Transferred from revaluation surplus		-	316.59
		-14,000,000	-16,683,410
Unappropriated profit carried forward		4,716,388	8,684
EARNING PER SHARE			
- Basic	31	7.48	6.57
- Diluted	31	7.48	6.57

#### AUDITORS' REPORT TO THE MEMBERS

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

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

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

We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

- a) In our opinion, proper books of accounts have been kept by the company as required by the Companies Ordinance, 1984;
- b) In our opinion:
  - (i) The balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of 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 June 30, 2004 and of the profit, its cash flows and changes in equity for the year then ended; and
- d) In our opinion, zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XYIII of 1980), was deducted by the company and deposited in the Central Zakat Fund established under section 7 of the Ordinance.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30<sup>TM</sup> JUNE, 2004

	Share Capital	Reserve for Issue of Bonus shares	Revenue Reserve	Unappropri- ated profit	Total
			( Rupees )		
Balance as at June 30, 2002	20,000,000	5,000,000	25,400,000	267,277	50,667,277
Transfer to share capital	5,000,000	-5,000,000	.	.	.
Transferred from surplus on Revaluation of fixed assets	-	-	-	316,590	316,590
Net profit for the year Ended June 30, 2003	-	-	-	16,424,817	16,424,817
	25,000,000	-	25,400,000	17,008,684	67,408,684
Appropriation:					
Transfer to revenue reserve	-	-	7,000,000	-7,000,000	-
Proposed final dividend @ 40%	-	-	-	-10,000,000	-10,000,000
	-	-	7,000,000	-17,000,000	-10,000,000
Balance as at June 30, 2003	25,000,000	-	32,400,000	8,684	57,408,684
Net profit for the year ended June 30, 2003	-	-	-	18,707,704	18,707,704
	25,000,000	-	32,400,000	18,716,388	76,116,388
Appropriation:					
Transfer to revenue reserve	-	-	4,000,000	-4,000,000	-
Proposed final dividend @ 40%	-	-	-	-10,000,000	-10,000,000
	-	-	4,000,000	-14,000,000	-10,000,000
Balance as at June' 30, 2004	25,000,000	-	36,400,000	4,716,388	66,116,388

## Notes

	Notes	2004 Rupees	2003 Rupees
PROPERTY AND ASSETS			
TANGIBLE FIXED ASSETS	12	34,297,063	34,671,341
LONG TERM DEPOSITS (LEASES)	13	1,062,772	1,062,772
CURRENT ASSETS			
Store and Spares	14	1,068,405	1,187,118
Stock-in-Trade	15	30,307,751	29,136,559
Trade Debtors (Unsecured but considered good)	16	15,730,983	16,802,724
Advances and Others Receivables	17	629,647	1,423,561
Deposits and Prepayments	18	1,059,660	1,579,363
Cash and Bank Balances	19	13,886,983	9,722,668
		62,683,429	59,851,993

computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilized.

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.

#### 2.4 Staff retirement benefits

a) The company operates an approved Provident Fund (defined contribution) scheme applicable to all employees. Monthly contributions are made by the company and the employees equally in accordance with the fund's rules. During the year Rs. 333,801 (2003: Rs. 328,486) has been recognized as an expense by the company.

b) The company also operates an unfunded gratuity scheme covering all eligible employees which provides for benefits dependent on the length of service of the employee on terminal date, subject to a minimum qualifying period of service.

Gratuity is also based on last drawn salary. Provisions are made to cover obligation in accordance with the terms of the scheme.

## 2.5 Provisions

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

## 2.6 Tangible fixed assets and depreciation

### a) Operating assets

Operating fixed assets except leasehold land and capital work-in-process are stated at cost or revalued amount (as appropriate) less accumulated depreciation and impairment losses (if any). Leasehold land and capital work-in-process are stated at cost. Depreciation is charged to income applying the reducing balance method, using the rates specified in Note 12. The depreciation for assets acquired or disposed of during the year is charged from the date of acquisition or upto the date of disposal of such assets respectively.

## CASH FLOW STATEMENT FOR THE YEAR ENDED 30<sup>TH</sup> JUNE, 2004

	Notes	2004 Rupees	2003 Rupees
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Cash generated from operations	27	35,424,575	22,593,399
Income taxes paid		-11,079,520	-7,347,637
Gain under sale and lease back arrangement		-	738,359
Gratuity paid		-44,278	-96,377
Financial charges paid		-352,891	-114,542
Net cash from operating activities		23,947,886	15,773,202
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Acquisition of fixed assets		-3,933,840	-2,405,442
Disposal of fixed assets		87,870	1,458,461
Income from investment & deposit account		59,084	155,020
Lease deposit		-	-1,000,000
Net cash used in investing activities		-3,786,886	-1,791,961
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Finance lease		-6,223,735	-5,305,448
Dividend paid		-9,772,950	-4,866,872
Net cash used in financing activities		-15,996,685	-10,172,320
Net increase/ (decrease) in cash		4,164,315	3,808,921
Cash and cash equivalent-beginning of year		9,722,668	5,913,747
Cash and cash equivalent-end of year		13,886,983	9,722,668

Net realizable value signifies the estimated selling price in the ordinary course of business less cost of completion and cost necessary to be incurred in order to make it sale.

## 2.11 Revenue recognition

Revenue from sales is recognized upon passage of title to the customers which generally coincides with physical delivery.

## 2.12 Impairment of assets

In accordance with IAS 36, assets are reviewed for impairment whenever want or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. Whenever, the carrying amount of these assets exceed their recoverable amount an impairment loss is recognized in the statement of profit and loss.



	2004 Rupees	2003 Rupees
<b>3. ISSUED, SUBSCRIBED AND PAID-UP</b>		
578,000 Ordinary shares of Rs. 10/- each Fully paid in cash	5,780,000	5,780,000
1 72,000 Ordinary shares of Rs. 1 0/- each issued for consideration other than cash	1,720,000	1,720,000
1 ,750,000 Ordinary shares of Rs. 1 0/- each issued as fully paid bonus shares	17,500,000	17,500,000
2,500,000	25,000,000	25,000,000
<b>4. RESERVES</b>		
Reserve for Issue of Bonus Shares:		
Opening balance	-	5,000,000
Transfer from profit and loss account	-	-
Utilized during the year	-	-5,000,000
Revenue Reserve:		
Opening balance	32,400,000	25,400,000
Transferred from/ (to) Profit and loss account	4,000,000	7,000,000
	36,400,000	32,400,000
	36,400,000	32,400,000

#### NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE, 2004

##### 1. THE COMPANY AND ITS OPERATIONS

The Pakistan Paper Products Limited was incorporated in Pakistan as a private limited company in July 1962. It was converted into public company and listed on the Karachi Stock Exchange in July 1964. The registered office of the company is situated at D-58, SITE, Estate Avenue, Karachi 75700. The main business activity of the Company is the production and sale of sensitized papers, pro-labels and exercise books.

##### 2. SIGNIFICANT ACCOUNTING POLICIES

###### 2.1 Basis for preparation of the financial statements

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

###### 2.2 Overall valuation policy

These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets in 1964 and for financial assets and financial liabilities, if any, in accordance with the recognition and measurement criteria as laid down in IAS-39 (Financial Instruments: Recognition and measurement).

###### 2.3 Taxation

###### Current

Provision for 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

	NOTE	2004 Rupees	2003 Rupees
<b>7. DEFERRED GAIN UNDER SALE AND LEASE BACK ARRANGEMENT</b>			
Deferred gain at start of the year		697,339	
Sale Proceeds			10,000,000
Cost of Assets		-	-9,261,641
Accumulated Depreciation		-	-
Written Down Value		-	-9,261,641
Deferred gain on Disposal of Fixed Assets		-	738,359
Less: Amortization of gain on Disposal of fixed assets Under Sale & Leaseback arrangements	25	-246,120	-41,020
		451,219	697,339
<b>DEFERRED TAXATION</b>			
These comprise of temporary differences due to:			
Accelerated depreciation		3,993,630	3,616,524
Employees retirement benefits		-339,334	-280,060
Others		-267,022	-359,729
		3,387,274	2,976,735
<b>PROVISION FOR GRATUITY</b>			
Opening balance		800,172	713,860
Expense recognized		213,631	182,689
		1,013,803	896,549
Less: Payments during the year		-44,278	-96,377
		969,525	800,172

The company has accounted for the gratuity on liability method. However as required by IAS-19 the liability has not been determined on actuarial valuation basis as the management feels that the existing provision is adequate to cover the obligation.

Maintenance and normal repairs are charged to income as and when incurred. Profits or losses on disposal of assets are included in current income.

b) Assets subject to finance lease

Leases of property, plant and equipment where the company has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest element of the finance cost is charged to the income statement over the lease period. Assets acquired under finance lease are depreciated over the useful life of the assets by applying reducing balance method on time proportionate basis considering the economic benefits derived from the use of such fixed assets during the period.

2.7 Financial assets

Financial assets are trade debts, advances, deposits, other receivables and cash and bank balances, which have been stated in accordance with the requirements of IAS 39 (Financial Instruments: Recognition and measurement). Financial assets are initially recognized at its cost which is the fair value of the consideration given for it and subsequent to initial recognition financial assets are carried at fair value.

2.8 Financial liabilities

Financial liabilities are classified according to the substance of the contractual agreements entered into. Significant financial liabilities are finance lease obligations, short term running finance under mark-up arrangement, creditors, accrued and other liabilities and unclaimed dividend,

All financial liabilities are initially recognized at cost, which is the fair value of the

consideration received at initial recognition. After initial recognition financial liabilities held for trading are carried at fair value and all other financial liabilities are measured at amortized cost, except for liabilities against asset subject to finance lease which are valued under IAS 17 as described above.

#### 2.9 Stores and spares

These are valued at lower of average cost and estimated net realizable value.

#### 2.10 Stock in trade

Stock in trade is valued at the lower of cost and estimated net realizable value. Cost signifies the weighted average cost.

### 5. SURPLUS ON REVALUATION OF FIXED ASSETS

Building on leasehold land and plant and machinery were revalued by J. B. Stevenson, ACII in June 1964 resulting an increase over book value of Rs. 99,690 and 216,900 respectively. No further revaluation have taken place since that date. The incremental depreciation charged on these assets has been transferred to accumulated profit in accordance with section 235 of the Companies Ordinance 1984.

	2004 Rupees	2003 Rupees
Surplus on revaluation of fixed assets as at July 01	-	316,590
Surplus relating to incremental depreciation charged on related assets in prior years — transferred to accumulated profit	-	-316,590
Surplus on revaluation of fixed assets as at June 30	-	-
<b>6. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE</b>	<b>12,721,705</b>	
Opening balance	-	7,530,597
Assets acquired during the year	12,721,705	10,000,000
	5,286,725	17,530,597
Payments	1,000,000	4,497,792
Deposit adjusted	6,286,725	311,100
	6,434,980	4,808,892
	2,990,268	12,721,705
Transferred to current maturity	3,444,712	6,286,725
		6,434,980

Lease rentals are payable in quarterly installments under the lease agreements. Overdue rental payments are subject to an additional charge of 3% per month. Taxes, repairs, replacement and insurance cost are to be borne by the company (lessee). Financing rates of approximately 10% per annum have been used as discounting factor. Purchase option can be exercised by the lessee, paying 10% of the assets amount. These are secured by demand promissory notes and security deposits.

	Minimum lease Payment	Finance Charge	2004 Present Value	2003 Present Value
Year ended 2004	-	-	-	6,286,725
Year ended 2005	3,423,940	433,672	2,990,268	2,990,268
Year ended 2006	3,567,955	123,243	3,444,712	3,444,712
	6,991,895	556,915	6,434,980	12,721,705

	2004 Rupees	2003 Rupees
<b>14. STORES AND SPARES</b>		
Stores	1,068,405	1,187,118
	1,068,405	1,187,118
<b>15. STOCK IN TRADE</b>		
Raw Materials	17,636,936	18,659,708

Work in Process	15.1	5,509,026	5,014,149
Finished Product		7,161,789	5,462,702
	15.2	30,307,751	29,136,559

15.1 These include material valued at their net realizable value Rs. 97,538 (2003: 107,177). The management considers that the cost assigned to the raw material and work in process inventories approximate their market value.

15.2 Finished goods include slow moving items which have been valued at their net realizable value Rs. 357,392 (2003: Rs. 510,560).

#### 16. TRADE DEBTS (Unsecured but considered good)

Due from Customers		15,140,742	16,050,930
Due from Associated Concerns	16.1	589,023	751,768
Due from Staff		1,218	26

15,730,983 16,802,724

16.1 The amounts due from associated concerns are as follows:

		580,050	287,592
H.B. Sayeed (Pvt) Ltd.		5,524	462,413
Sayeed Graphics		3,449	1,763
Sayeed International		589,023	751,768

#### ADVANCES AND OTHER RECEIVABLES

		60,905	85,160
Advances to Suppliers		-	821,300
Advances against Letter of Credit		80,319	43,701
Advance against Expenses		466,834	-
Advance Income Tax (Net of Tax Liability)		21,589	473,400
Others		629,647	1,423,561

2004 2003  
Rupees Rupees

#### CREDITORS, ACCRUED AND OTHER LIABILITIES

Income Tax Payable (Tax Liability Minus Advance Tax)		-	3,007,299
Trade Creditors		426,372	1,370,182
Import Bill Payable		3,516,338	-
Debtors Credit Balance		2,112,421	1,785,064
Accrued Expenses		1,306,818	1,528,365
Due to Associated 10.1		-	708,630
Workers' Profit Par 10.2		1,044,871	1,399,700
Workers' Welfare Fund		533,510	505,379
Unclaimed Dividend		903,561	676,511
Sales Tax Payable		839,646	-
Others		341	341
		10,683,878	10,981,471

10.2 Workers' Profit Participation Fund		1,399,700	1,009,714
Balance at the beginning of the year		35,901	24,813
Interest on Fund utilized in company's business		1,435,601	1,034,527
		846,000	433,342
Amount paid to the Fund Trustees		961,700	558,372
Amount deposited with Government		1,807,700	991,714
		-372,099	42,813
		1,416,970	1,356,887
Allocation for the Year		1,044,871	1,399,700

	NOTE	2004 Rupees	2003 Rupees
<b>21. COST OF SALES</b>			
Raw Material Consumed		18,659,708	17,802,447
Opening Stock		77,535,863	73,627,912
Purchases		-17,636,936	-18,659,708
Closing Stock		78,558,635	72,770,651
		11,172,844	9,866,900
Salaries, Wages and Other Benefits		1,742,433	1,709,018
Fuel and Power		1,892,900	1,658,469
Spares and Stores Consumed	21.1	256,916	320,372
Insurance		1,469,827	2,600,075
Repairs and Maintenance		122,565	146,526
Rent, Rates and Taxes		162,757	197,650
Telephone and Trunk Calls		1,096,851	309,657
Other Manufacturing Expenses		3,130,934	2,285,687
Depreciation		99,606,662	91,865,005
Cost of Production		5,014,149	4,292,789
Work in Process — Opening		-5,509,026	-5,014,149
Work in Process — Closing		-494,877	-721,360
		99,111,785	91,143,645
Cost of Goods Manufactured		5,462,702	4,439,192
Finished Goods — Opening		-7,161,789	-5,462,702
Finished Goods — Closing		-1,699,087	-1,023,510
		97,412,698	90,120,135
<b>21.1 Stores and Spares Consumed</b>			
Opening Balance		1,187,118	1,299,864
Purchases		1,774,187	1,545,723
Closing Balance		-1,068,405	-1,187,118
		1,892,900	1,658,469

#### REVALUATION OF FIXED ASSETS

During June 1964, company's properties comprising building on leasehold land and plant and machinery were revalued by J.B. Stevenson. ACII (an independent valuer). These revaluations had resulted in surplus of Rs. 99,690 and 216,900 which was included in the book value of building on leasehold land and plant and machinery respectively and credited to a surplus on revaluation account. Consequent upon change in section 235 of the Companies Ordinance, 1984 the surplus on revaluation was transferred by the company during the year 2003 to the accumulated profit to the extent of incremental depreciation. Had the revaluation not been carried out, gross value of building on leasehold land and plant and machinery would have been Rs. 912,931 and Rs. 2,287,816 (2003: 912,931 and 21,089,392) respectively.

	Cost Rupees	Accumulated Depreciation Rupees	Book Value Rupees	Sale Proceeds Rupees	Particulars of Buyer
Plant and machinery By negotiation	85,000	58,326	26,674	26,674	M/s H.B. Sayeed (Pvt) Ltd.
Plant and machinery By negotiation	78,000	47,782	30,218	21,196	M/s Moin Workshop. Klii.
Factory and other Equipment By negotiation	88,485	11,838	76,647	40,000	M/s Qadri Electronic Works

Total 2004	251,485	117,946	133,539	87,870
Total 2003	2,216,050	519,287	1,696,763	1,458,461

	2004	2003
	Rupees	Rupees
<b>LONG TERM DEPOSITS</b>		
Long term deposits against leases	1,000,000	1,000,000
Utility deposits	62,772	62,772
	1,062,772	1,062,772
<b>13.1 Long Term Deposits against Leases</b>		
Opening Balance	2,000,000	1,311,100
Addition	-	1,000,000
Adjustment	-1,000,000	-311,100
	-1,000,000	2,000,000
Current portion	18	-1,000,000
	1,000,000	1,000,000

	2004	2003
	Rupees	Rupees
<b>24. FINANCIAL EXPENSES</b>		
Interest on Workers' Profit Participation Fund	35,901	24,813
Mark-up on Short Term Running Finance	143,479	34,506
Bank and Other Charges	184,232	55,223
Interest on Finance Lease	876,598	943,390
	1,240,210	1,057,932

	2004	2003
<b>25. OTHER INCOME</b>		
Interest on Deposit Account	59,084	155,020
Gain/ (Loss) on Disposal of Assets	25.1	-45,669
Amortization of Deferred Gain under Sale and Lease Back Arrangement	7	246,120
Other Income		41,020
		27,061
		35,741
		286,596
		-6,521

	2004	2003
	Rupees	Rupees
<b>25.1 Gain/ (Loss) on Disposal of Assets</b>		
Sale Proceeds	87,870	1,458,461
Cost of Assets	251,485	2,216,050
Less: Accumulated Depreciation	-117,946	-519,287
Net Book Value	133,539	1,696,763
	-45,669	-238,302

	2004	2003
<b>26. TAXATION</b>		
Current Year	7,762,964	7,999,666
Prior Year	-157,577 -	
Deferred	410,539	844,466
	8,015,926	8,844,132

	2004	2003
	%	%
<b>26.1 Tax Charge Reconciliation</b>		
Applicable tax rate as per Income tax laws	35	35
Tax effect of expenses that are not deductible for tax purpose	4	-
Tax effect of lease rentals that are deductible for tax purpose	-8	-
Effect of change in prior years' tax	-1	-
	30	35

	2004	2003
	Rupees	Rupees
<b>DEPOSITS AND PREPAYMENTS</b>		

Current Portion of Lease Deposit	13	-	1,000,000
Other Deposit		623,807	547,915
Prepayments		435,853	31,448
		1,059,660	1,579,363
CASH AND BANK BALANCES			
Cash at Banks (in Current Accounts)		692,002	1,244,951
Cash at Banks (in Deposit Accounts)		13,149,567	8,435,717
Factor) Imprest		30,000	30,000
Cash in Hand		15,414	12,000
		13,886,983	9,722,668

The company enjoys short term finance facilities from Habib Bank Limited comprising running finance up to Rs. 11.50 million (2003: 7.00 million), Letter of Guarantee for Rs. 1.350 million (2003: 1.350 million) at 10% cash margin and Letter of Credit for Rs. 4.3 million (2003: 5.0 million) at Nil margin. The finance is secured against hypothecation of stocks and account receivables of the company. The finance is further secured by personal securities and guarantees of the directors. The facility carries markup of 8% per annum. However, balance at the close of year under this account was Debit Rs. 494,945 (2003: Rs. 1,126,883) which is shown under cash and bank balances.

SALES			
Exercise Books		59,084,756	60,134,891
Ammonia Paper		14,303,405	12,654,077
Prolabels		61,615,402	52,587,076
Plain Paper		1,009,741	1,131,117
Printing Charges		26,404	59,335
Waste Paper		662,102	672,810
		136,701,810	127,239,306
Commission and Rebate		-406,889	-245,037
		136,294,921	126,994,269

Chief Executive of the company is provided with company maintained car.  
The Company has borne the telephone and utility charges of the Chief Executive's residence.  
Remuneration of Chief Executive does not include amounts paid or provided for, if any, by associated undertakings.

#### TRANSACTIONS WITH ASSOCIATED UNDERTAKINGS

The related parties and associated undertakings comprise local associated companies, staff retirement funds, directors and key management personnel. Transactions with related parties and associated undertakings, other than remuneration and benefits to key management personnel under the term of their employment are as follows:

	2004	2003
Sales	Rupees	Rupees
Purchases	10,024,682	9,755,559
Adjustment of expenses	854,078	1,313,727
Rent Paid	69,965	153,072
Fixed Assets sold		
Fixed Assets purchased		

	2004	2003	
	Rupees	Rupees	
ADMINISTRATIVE EXPENSES			
Directors' Fees	16,000	13,000	
Directors' Remuneration	2,233,648	2,242,464	
Staff Salaries and Benefits	2,500,589	2,541,740	
Rent, Rates and Taxes	53,598	100,768	

Insurance	139,747	36,402
Traveling and Conveyance	240,657	332,770
Postage and Telegrams	62,839	67,957
Telephone	57,736	68,365
Electric Charges	366,274	83,023
Stationery and Periodicals	74,744	63,108
Repairs and Renewals	248,491	308,914
Trade Subscriptions	68,720	117,917
Legal and Professional Fees	96,950	135,593
Auditors' Remuneration	90,000	80,500
General	157,718	166,689
Depreciation	751,424	609,517
	7,159,135	6,968,727

## 22.1 Auditors' Remuneration

Audit Fee	84,500	75,000
Provident Fund Audit Fee	3,000	3,000
Workers' Profit Participation Fund Audit	2,500	2,500
	90,000	80,500

## SELLING AND DISTRIBUTION EXPENSES

Staff Salaries and Benefits	983,939	744,985
Advertisement and Publicity	33,050	75,267
Cartage and Forwarding	151,770	248,213
Vehicle Expenses	403,693	188,202
Tender Fees	1,305	3,826
Sales Promotion	70,011	55,303
Insurance	97,453	73,194
Depreciation	292,221	152,379
Others	110,036	168,370
	2,143,478	1,709,739

## CAPACITY AND PRODUCTION

	2004	Capacity 2003	Production 2004	2003
a) Exercise Books (Gross)	58,632	58,632	40,432	41,006
b) Sensitised Paper (Rolls)	216,000	216,000	99,177	90,204
c) Pro-Labels (Sqr. Meter)	750,000	750,000	966,409	772,382

2004                      2003  
Rupees                      Rupees

## CASH GENERATED FROM OPERATION

Profit before Taxation	26,723,630	25,268,949
Adjustment for non cash items and other adjustments:		
Depreciation	4,174,579	3,047,583
Gratuity Provision	213,631	182,689
Valuation of Inventory at Net Realizable Value	-	234,818
Provision for baddebts	-	146,468
Income from Investment	-59,084	-155,020
Amortization of Deferred Gain	-246,120	-41,020
Financial Expenses	1,240,210	1,057,932
Gain/ (Loss) on Disposal of Assets	45,669	238,302
	5,368,885	4,711,752
(Increase)/Decrease in Current Assets		
Store and Spares	118,713	112,746
Stock in Trade	-1,171,192	-2,836,949
Trade Debts	1,071,741	-2,672,786



Advances and Other Receivables	1,260,748	-99,275
Deposits and Prepayments	-480,297	-245,672
	799,713	-5,741,936
Increase/ (Decrease) in Current Liabilities		
Creditors, Accrued, and Other Liabilities	2,532,347	-1,645,366
	35,424,575	22,593,399

## REMUNERATION OF CHIEF EXECUTIVE AND DIRECTOR 2004

	Chief Executive Rs.	Directors Rs.	Executives Rs.	Chief Executive Rs.	Directors Rs.	Executives Rs.
Fees	-	16,000	-	-	13,000	-
	1	6	3	1	6	3
Managerial Remuneration & Allowances	600,000	480,000	381,949	600,000	480,000	371,268
Provident Fund	50,000	39,996	22,493	50,000	39,996	29,500
Medical Expenses	4,664	2,542	26,886	8,726	7,096	35,325
House Rent	270,000	216,000	138,357	270,000	216,000	141,599
Reimbursable Expenses	372,607	238,150	-	388,199	182,447	-
	1,297,271	976,688	569,685	1,316,925	925,539	577,692
Number of persons	1	1	3	1	1	3

DETAILS OF PATTERN OF SHAREHOLDING AS OF 30-06-2004  
(AS PER REQUIREMENTS OF CODE OF CORPORATE GOVERNANCE)

ASSOCIATED COMPANIES	SHARES HELD
M/s. Management & Enterprises (Pvt.) Limited	282,082
NIT & ICP	
National Bank of Pakistan, Trustee Wing (NIT)	392,941
Investment Corporation of Pakistan	9,122
DIRECTORS, CEO THEIR SPOUSE AND MINOR CHILDREN	
Mr. Hashim B.Sayeed Chairman & Chief Executive	201,201
Mrs. Muleika Sayeed Director	221,071
Mr. Muhammad Ali Sayeed Director	3,550
Mr. Abbas Sayeed Director	96,091
Mr. Asadullah Sayeed Director	140,011
Mr. Abid Sayeed Director	350,767
Mr. Abbas Sayeed & Mrs. Nusser Abbas Sayeed	4,000
Mrs. Nusser Abbas Sayeed W/o Mr. Abbas Sayeed	28,781
Mrs. Faiza Haswary W/o Asadullah Sayeed	43,000
Mrs. Nadia Sayeed W/o Abid Sayeed	12,679
Mrs. Nusser Abbas Sayeed A/c (Usman) — Minor	331
Mr. Khawaja Mansoor Mukhtar Shah - Nominee Director	-
EXECUTIVE	NIL
INDIVIDUALS	491,796
PUBLIC SECTOR COMPANIES AND CORPORATIONS	NIL
OTHER BANKS, DEVELOPMENT FINANCE INSTITUTIONS, NON-BANKING FINANCE INSTITUTIONS, INSURANCE COMPANIES, MODARABAS AND MUTUAL FUNDS ETC.	222,577
TOTAL NUMBER OF SHARES	2,500,000
SHAREHOLDERS HOLDING 10% OR MORE	
Management & Enterprises (Pvt) Limited.	282,082
National Bank of Pakistan, Trustee Wing (NIT)	392,941
Mr. Abid Sayeed	350,767

## 30.2 Credit Risk Exposure

Credit risk represents the accounting loss that would be recognized at the reporting date if parties failed completely to perform as contracted. The company controls its credit risk by ascertainment of credit worthiness of its customers, monitoring of debt on a continuous basis applying credit limits to its customers. The company does not believe that it is exposed to major concentration of credit risk.

### 30.3 Interest Rate Risk

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Interest rate risk arises from the possibility that changes in interest rate will affect value of financial instruments. The company is not exposed to interest rate risk.

### 30.4 Fair Value of Financial Instruments

The carrying value of all financial assets and liabilities reflected in the financial statement approximate their fair value.

	2004 Rupees	2003 Rupees
<b>31. EARNING PER SHARE</b>		
Net Profit after Taxation	18,707,704	16,424,817
Number of ordinary shares issued and Subscribed at start of the year	2,500,000	2,500,000
Basic earning per share	7.48	6.57
Diluted earning per share	7.48	6.57

### NUMBER OF EMPLOYEES

Number of employees as at year end 82 (2003: 84)

### DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on September 04, 2004 by the Board of Directors of the Company.

### PROPOSED DIVIDEND

In the current year the directors propose that a dividend at 40% per share will be paid to the shareholders. This dividend is subject to approval by the shareholders at the Annual General Meeting. The dividend has been included as a liability in these financial statements as required by the Companies Ordinance 1984.