

Directors' Report

The Board of Directors of Century Paper & Board Mills Limited takes pleasure in presenting the Annual Report and Audited Financial Statements of the Company together with Auditors' Report for the year ended June 30, 2004.

THE ECONOMY

Pakistan economy during the financial year 2003-2004 remained robust in terms of key economic indicators and met major economic targets. The country GDP growth rate of 6.4% is by no means a small achievement, foreign exchange reserves are inching up and the effective lending rate throughout the year was lowest in the history of the country.

In the manufacturing sector specially the large scale industry showed double digit growth of 17% and the service industry also performed very well. Higher credit intake and increased consumer goods demand is contributing to capacity expansion and BMR program in major industrial sectors specially textile.

PAPER & PAPERBOARD INDUSTRY

Paper and Paperboard Industry of Pakistan in the current year under review, has shown improvement. The trend over the last few years of good growth has been maintained.

This improvement is attributed to high GDP growth, improved literacy as a result of government's initiatives, increasing quality consciousness and health awareness leading towards the use of branded and packaged commodities.

It is expected that the present growth trend in the industry shall continue due to government policies and change in packaging trends. The changes in the region are also paving way for more opportunities.

OUR OPERATIONS

The year under review was a challenging year as a new board machine and the box plant became available to us after their completion at the end of last year. With greater

acceptance and a positive increase in the demand for our products, we made concentrated efforts to run all the machines including the new board machine at their highest capacity, despite fibre constraints and teething problems of the new machine. The production for the year under review increased by 18% over the last year.

Our Box business progress was according to expectations and the sales volume improved as the year progressed. As this was the first full year of production, the activities were focused on providing product samples to potential customers and we are happy to report that we were able to get orders from reputed FMCGs. For the first time in Pakistan, we developed special types of boxes for import substitution and this was accepted by our customers.

FINANCIAL RESULTS

The Company's sales for the year under review increased by 13% over the last year but the increase in volume could not be translated in the bottom line.

The major reasons for lower profit for the year under review as compared to last year is increase in cost of imported raw material specially pulp and higher fixed cost on recently installed resources. Our selling prices also could not be increased to pass on some of the incremental cost due to availability of imported paper and board in abundance at a lower price regime.

Financial cost during the year under review was Rs. 22.59 million as compared to last year of Rs. 31.19 million i.e. lower by 28% in spite of increase in average utilization of borrowed funds by 64% over last year. This was due to repricing of long term loans in view of prevailing interest scenario and efficient treasury management taking full advantage of company's strength.

The Company carried out capex of Rs. 323 million relating to project investments and other capex during the year. Other major outflows were dividend payment

of Rs. 95 million, debt servicing of Rs. 62 million and funding of increase in working capital of Rs. 109 million. The inflow from banks for long term loan amounted to Rs. 60 million in aggregate. This resulted in overall negative cash flow of Rs. 55 million during the year under review as compared to net inflow of Rs. 96 million last year.

The PBT for the year under review is Rs. 357 million as compared to Rs. 406 million which is lower by 12% over last year. However, due to positive tax credit relating to prior years, the PAT for the year under review is Rs. 256 million as compared to Rs. 271 million which remained low by 6%.

The Directors recommend a final dividend of Rs. 4.50 i.e. 45%.

APPROPRIATION OF PROFIT

Profit for the year has been appropriated as follows:

	(Rupees in thousands)
Profit before taxation	357,310
Taxation	(101,689)
Profit after taxation	255,621
Unappropriated profit brought forward	506
Profit available for appropriation	256,127
The directors now recommend payment of final dividend at Rs. 4.50 per share.	(141,396)
Transfer to general reserve	(114,000)
	(255,396)
Unappropriated profit carried forward	731
Earnings per share - Rupees	8.14

CONTRIBUTION TO NATIONAL ECONOMY

The Company contributes to national economy in terms of taxes and duties and the contribution is increasing as the Company grows. In the year under review the Company contributed Rs. 480 million. During the last ten years your Company has made consolidated contribution of Rs. 3.7 billion towards the national economy.

The Company's products are a true import substitution. The increase in volume of our value added products which are now recognized for consistency and dependability, contributes positively in the country's balance of trade.

SOCIAL RESPONSIBILITY

Your Company is fully aware of its responsibility towards society. We have focused our attention on education and health. We have been providing school copies to a few schools in the vicinity of our Mills for the last few years. In addition to the above we have also supplemented some of the school needs.

The construction of the Mini Hospital by Social Security Institution on the land donated by your Company in the vicinity of our Mills, is near completion. It will serve the industrial workers as well as their families.



Mini - Hospital construction in progress on land donated by Century Paper & Board Mills Limited

INFORMATION TECHNOLOGY

In the era of global competition the winners will be those who will exploit the benefits of

technology. We have taken a number of initiatives to strengthen the role of Information Technology so that it can play a pivotal role in doing business. The main aim is to ensure integration of various business systems and seamless connectivity between the locations. We are also using technology extensively for product improvement, machine designing and maintenance which has given good results.

ISO 9001:2000 CERTIFICATION

We continue to maintain our operations at standard quality management systems. The activities in respect of ISO Surveillance are ongoing and we feel that it will strengthen the confidence of our customers.

COMPANY'S RECOGNITION

The Directors are pleased to state that your Company has been chosen for the first time among the Top 25 Companies on the Karachi Stock Exchange for the year 2002.

Your Company was recognized for the third year in succession by the Joint Committee of the Institute of Chartered Accountants of Pakistan and Institute of Cost and Management Accountants of Pakistan for presentation of its Corporate Report for the year 2002.

SAFETY, HEALTH AND ENVIRONMENT (SHE)

Your Company realizes that our natural resources are limited and while we have to perform our business as a manufacturing concern, we also have a duty and responsibility to protect and preserve nature and the environment.

With this view in mind, your Company continues to take steps to improve the pollution prevention measures, maintain cleanliness, control accidents and spills, conserve water and reduce waste.

Our SHE policies have provided positive results during the year under review. We have been able

to reduce fresh water consumption by 8% and overall water consumption by 30%. The Dissolved Air Flootation (DAF) plant, which mitigates Total Suspended Solids (TSS) in effluent has been reduced by more than 90%, has been working in your Mills since 2002.



Emergency drill being conducted at Mills

Your Company annually consumes around 50,000 tons of recyclable waste paper and contributes to waste reduction in a big way. We also consume huge quantities of agricultural residue in the form of wheat straw which is being used for production of pulp.

Our boilers are gas fired thereby reducing gaseous emission and save the country's Foreign Exchange Reserves.

We are presently implementing an Environmental Management System at Century in compliance to ISO 14001 standard requirements and expect to get certification in the financial year 2004/2005. We are also working with various public organizations and research institutes to deal with local and industry related environmental concerns.

Our subsidiary company has also initiated a project during the year under review of switching over its power generation from furnace oil to natural gas which will have positive impacts on the environment.

HUMAN RESOURCE INITIATIVES

Human Capital is vital in any organization and more important is how these resources are developed to deliver results. Your Company firmly believes in investment in its human

resources. We have started a 'Competency Based System' to develop the needs of our work force and it is progressing satisfactorily. We have also alleviated the scope of our comprehensive training system which was started two years back.



Training session being held at our Mills

The training activities include specific training for developing skills of our human resource. We have undertaken comprehensive in-house training for our employees and have also sent employees for external training from leading specialized training institutions.

All these initiatives have started yielding results and it is expected that it will support the Company in its ongoing expansion plans and its goals as well.

CENTURY POWER GENERATION LIMITED

During the year under review profitability of the Subsidiary has improved substantially in comparison to last year in spite of 6% decrease in sales volume. PAT for the year is Rs. 44.14 million which is higher by 81% over last year. The increase profitability is due to favourable trend in furnace oil prices throughout the year being major input cost and better selling prices. The EPS comes to Rs. 3.84 per share. The Subsidiary has declared a dividend of 35% out of its profits.

The Subsidiary has embarked on its project for converting its existing three oil fired engines to dual fired engines which will enable it to run on natural gas. The agreement has been finalized with a renowned supplier and financial commitment has been met in

accordance with the agreement.

The profitability of the Subsidiary will be under pressure in future years due to reduction in tariff. However, the partial benefit of converted engines and expected increase in sales volume will mitigate the impact to some extent.

RESEARCH AND DEVELOPMENT

Our innovative product development and process optimization enable us to provide tailor made products which meet the needs and expectations of our valued customers.

Century's Product Development and Quality Assurance set-up ensures better customer satisfaction, economization of products, operational efficiencies and conservation of resources by continual research and development.

During the year under review we supported one of the major industrial segments by providing economical packaging solutions. We are on a continuous basis developing substitutes of imported paperboard and boxes and thus save valuable foreign exchange.

We are working to establish a state-of-the-art R&D facility at Century in order to explore areas of improvement and to reap maximum benefits on regular basis.

INVESTMENTS

Your Company has been investing on a continuous basis and during the year under review capex is Rs. 323 million and the aggregate capex for the last five years is around Rs. 1.4 billion. These investments over the last few years have enabled your Company to grow in size and become ready to face the challenges of the future and also grab opportunities which are expected to come with the global scenario.

Your Company launched another investment project in the year under review of approx. Rs. 560 million to install an additional paper machine and to carry out major Balancing,

- There has been no material departure from the best practices of corporate governance, as detailed in the Listing Regulations.
- The summary of key operating and financial data of the Company of last six years is annexed in this report.
- Information about taxes and levies is given in the notes to the accounts.
- As already mentioned in the Directors' Report, during the year under review the Company has launched new expansion projects of around Rs. 560 million which will provide more flexibility in production capacity and major BMR of existing board machine.
- The value of investments made by the staff retirement benefit funds based on their respective audited accounts as at June 30, 2004 is as follows:

(Rupees in million)

Provident Fund	130.05
Gratuity Fund	43.48

- During the year four (4) meetings of the Board of Directors were held. Attendance by each Director was as follows:

**No. of Meetings
Attended**

Mr. Iqbal Ali Lakhani	02
Mr. Zulfiqar Ali Lakhani	02
Mr. Amin Mohammed Lakhani	01
Mr. M. Rafi Chawla	03
Mr. Tasleemuddin Ahmed Batlay	03
Mr. Aziz Ebrahim	04
Mr. Syed Shabahat Hussain- Nominee Director (NIT)	04

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

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 spouses and minor children did not carry out any transactions in the shares of the Company during the year.

AUDIT COMMITTEE

The Audit Committee of the Board consisting of three members, all non executive directors including the Chairman have been in existence since implementation of the Code of Corporate Governance. The Board of Directors has set out Terms of Reference for the Audit Committee.

The Terms of Reference distinctly provides guidelines for establishing internal controls in the company. The Committee manages adequately the system of internal control through Internal Audit department and review effectiveness of operational & financial controls. The committee periodically reviews financials of the company & their compliance with the statutory and regulatory requirements, by virtue of the Terms of Reference. The Audit Committee is also responsible for the selection of the external auditors and reviews the procedure for ensuring their independence with respect to the services performed by them.

STATEMENT OF BUSINESS ETHICS & PRACTICES

The Board has adopted the statement of Business Ethics and Practices. All employees are informed of this statement and they are required to observe these rules of conduct effectively.

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated financial statements of the Company and its subsidiary Century Power Generation Limited are enclosed with this report.

MATERIAL CHANGES

There have been no material changes since June 30, 2004 and the Company has not entered into any commitment which would affect its financial position at that date.

FUTURE OUTLOOK AND CHALLENGES

Pakistan is poised for fast track growth in the future. The fundamentals are bullish with increased public sector spending, huge investment in textile sector, construction industry on the rise and higher credit intake are all positive signs of a rising economy.

The professional culture in running financial affairs of the country is bearing fruits and it is expected that it will continue in future as there are still a lot of areas which need massive improvement.

Paper and Paperboard segment of the industry in Pakistan is poised to benefit from the improved economic conditions and the upsurge in demand in this industry is expected to continue in future.

We are fully geared to the new world scenario and are confident to face likely competition from local supplies and imported products by our quality products and improvement of services.

STAKEHOLDERS

Customers' satisfaction is vital for us to emerge as a stronger Company. We would like to express our thanks to our customers for their support and look forward to seeking their continued patronage.



Tree planted by Mr. Piero Celli of M/s. A. Celli with Managing Director and Director Operations at our Mills

Our thanks also go to the financial institutions and shareholders for their continued support which is key to the success of the Company.

Our employees have contributed significantly for delivering a strong performance and continue to remain committed. Our long term growth has been possible as a result of their enduring commitment which has ensured a sound base for the Company.

On behalf of the Directors we are pleased to record our appreciation.

On behalf of the Board of Directors

IQBAL ALI LAKHANI
Chairman

Karachi: July 23, 2004

Balance Sheet

as at June 30, 2004

	Note	2004 (Rupees in thousands)	2003
ASSETS			
NON-CURRENT ASSETS			
Tangible fixed assets			
Operating assets	5	1,429,312	1,307,828
Capital work-in-progress	6	162,417	112,522
		1,591,729	1,420,350
Intangible fixed assets	7	782	104
Long-term investment	8	100,000	100,000
Long-term loans	9	112	350
Long-term deposits	10	2,035	2,492
		1,694,658	1,523,296
CURRENT ASSETS			
Stores and spares	11	133,450	142,488
Stock-in-trade	12	262,360	204,634
Trade debts	13	133,802	104,910
Loans, advances and other receivables	14	16,105	6,410
Deposits and prepayments	15	951	5,582
Taxation - net	16	-	22,858
Cash and bank balances	17	24,592	16,990
		571,260	503,872
TOTAL ASSETS		2,265,918	2,027,168
EQUITY AND LIABILITIES			
SHARE CAPITAL AND RESERVES			
Share capital			
Authorised capital			
35,000,000 (2003: 35,000,000) ordinary shares of Rs.10 each		350,000	350,000
Issued, subscribed and paid-up capital			
31,421,280 (2003: 31,421,280) ordinary shares of Rs.10 each	18	314,213	314,213
Reserves		800,776	686,551
		1,114,989	1,000,764
NON-CURRENT LIABILITIES			
Long-term finances	19	321,710	412,052
Long-term and deferred liabilities	20	244,772	219,696
		566,482	631,748
CURRENT LIABILITIES			
Current portion of - long-term finances - liabilities against assets subject to finance lease	19	154,188	65,726
	21	-	6,001
Short-term finances	22	105,310	42,815
Creditors, accrued and other liabilities	23	163,382	185,850
Taxation - net	16	20,171	-
Proposed final dividend		141,396	94,264
		584,447	394,656
CONTINGENCIES AND COMMITMENTS	24		
TOTAL EQUITY AND LIABILITIES		2,265,918	2,027,168

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


IQBAL ALI LAKHANI
 Chairman


M. RAFI CHAWLA
 Chief Executive

Profit and Loss Account

for the year ended June 30, 2004

	Note	2004 (Rupees in thousands)	2003
Sales	25	2,620,324	2,309,422
Cost of goods sold	26	(2,193,543)	(1,839,071)
Gross profit		426,781	470,351
Other income	27	21,075	35,405
Administrative, selling and distribution expenses	28	(76,166)	(61,733)
Other charges	29	(26,794)	(27,008)
Operating profit		344,896	417,015
Financial charges	30	(22,586)	(31,189)
Dividend income from subsidiary company		35,000	20,000
Profit before taxation		357,310	405,826
Taxation	31	(101,689)	(135,004)
Profit after taxation		255,621	270,822
Unappropriated profit brought forward		506	80
Profit available for appropriation		256,127	270,902
Appropriations:			
Interim dividend Rs Nil [2003: Rs 1.50 (15%) per share]		-	(47,132)
Proposed final dividend Rs 4.50 (45%) per share [2003: Rs 3.00 (30%) per share]		(141,396)	(94,264)
Transfer to general reserve		(114,000)	(129,000)
		(255,396)	(270,396)
Unappropriated profit carried forward		731	506
Basic earnings per share (Rupees)	32	8.14	8.62

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


IQBAL ALI LAKHANI
 Chairman


M. RAFI CHAWLA
 Chief Executive

Cash Flow Statement

for the year ended June 30, 2004

	Note	2004 (Rupees in thousands)	2003
CASH FLOW FROM OPERATING ACTIVITIES			
Cash generated from operations	34	405,071	527,977
Financial charges paid		(23,416)	(35,049)
Gratuity paid		(3,877)	(11,260)
Tax paid		(33,820)	(118,244)
Long-term and deferred liabilities		236	(2,271)
Long-term loans		238	126
Long-term deposits		457	1,845
Net cash generated from operating activities		344,889	363,124
CASH FLOW FROM INVESTING ACTIVITIES			
Capital expenditure		(322,739)	(478,569)
Dividend received		25,000	20,000
Proceeds from sale of fixed assets		866	595
Net cash used in investing activities		(296,873)	(457,974)
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from long-term finances		60,000	350,000
Repayment of long-term finances		(61,880)	(31,111)
Repayment of liabilities against assets subject to finance lease		(6,001)	(10,281)
Dividend paid		(95,028)	(117,486)
Net cash (used in)/generated from financing activities		(102,909)	191,122
Net (decrease)/increase in cash equivalents		(54,893)	96,272
Cash and cash equivalents at the beginning of the year		(25,825)	(122,097)
Cash and cash equivalents at the end of the year		(80,718)	(25,825)
CASH AND CASH EQUIVALENTS COMPRISE:			
Cash and bank balances	17	24,592	16,990
Short-term finances	22	(105,310)	(42,815)
		(80,718)	(25,825)

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


IQBAL ALI LAKHANI
 Chairman


M. RAFI CHAWLA
 Chief Executive

Statement of Changes in Equity

for the year ended June 30, 2004

	Issued, subscribed and paid-up capital	Capital Share premium	Reserves		Total	Sub-total	Total
			Revenue				
			General	Unappropriated profit			
----- (Rupees in thousands) -----							
Balance as at July 1, 2002	314,213	85,045	472,000	80	472,080	557,125	871,338
Profit after taxation	-	-	-	270,822	270,822	270,822	270,822
Interim dividend	-	-	-	(47,132)	(47,132)	(47,132)	(47,132)
Proposed final dividend	-	-	-	(94,264)	(94,264)	(94,264)	(94,264)
Transfer to general reserve during the year	-	-	129,000	(129,000)	-	-	-
Balance as at June 30, 2003	314,213	85,045	601,000	506	601,506	686,551	1,000,764
Profit after taxation	-	-	-	255,621	255,621	255,621	255,621
Proposed final dividend	-	-	-	(141,396)	(141,396)	(141,396)	(141,396)
Transfer to general reserve during the year	-	-	114,000	(114,000)	-	-	-
Balance as at June 30, 2004	314,213	85,045	715,000	731	715,731	800,776	1,114,989

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


IQBAL ALI LAKHANI
 Chairman


M. RAFI CHAWLA
 Chief Executive