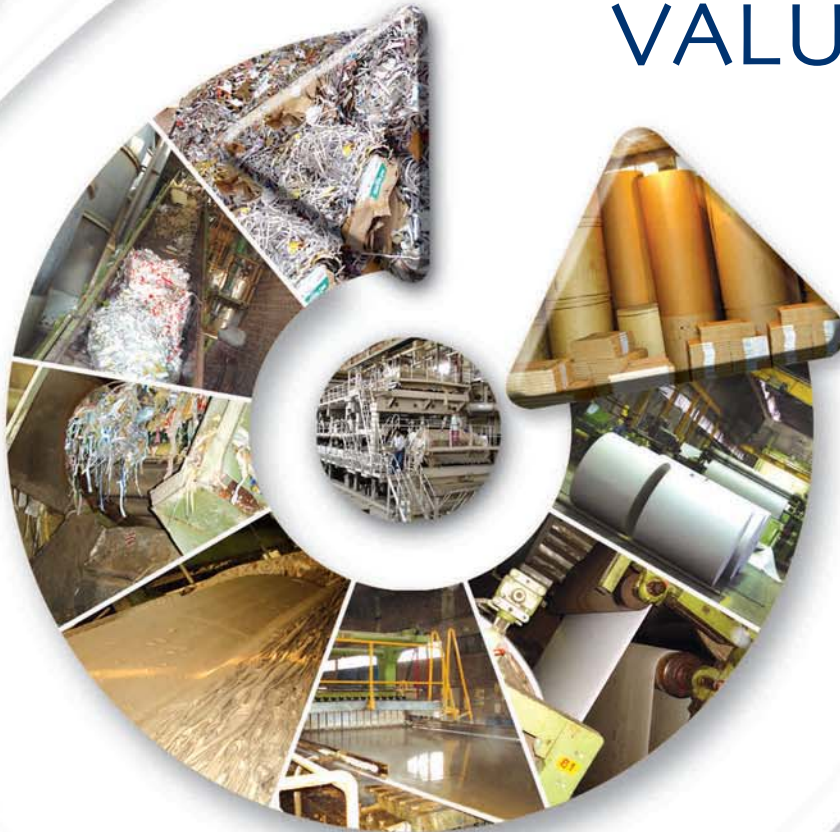




Century Paper & Board Mills Limited

# WASTE to VALUE



Annual Report 2007

Strive together for excellence





## WASTE to VALUE

In the year 105 AD first piece of Paper was produced by Ts'ai Luin in China from rags. Cellulose Fibre is the basic material required to produce paper which can be extracted from various sources such as wood, grasses, sugar cane, straw, cotton waste and recycling of waste paper etc.

In today's fast growing world mankind is overloading the limited capacity of eco-system.

As a result sustainability has become a burning issue of the day for our future generations.

Paper is the most thrown away material as waste all over the world. It may be in the form of text books, used computer stationery, newspapers, magazines, telephone directories, cardboard containers, packaging boxes etc.

All of the thrown away paper and board materials are fibrous waste and are readily convertible to useful paper products by its recycling.

Recycling of waste paper, not only solves its disposal problems, but also results in saving:

- Landfill Space
- Deforestation
- Water consumption
- Energy conservation

And above all mitigates the adverse effect on our eco-system.





## Core Values

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Integrity

Teamwork

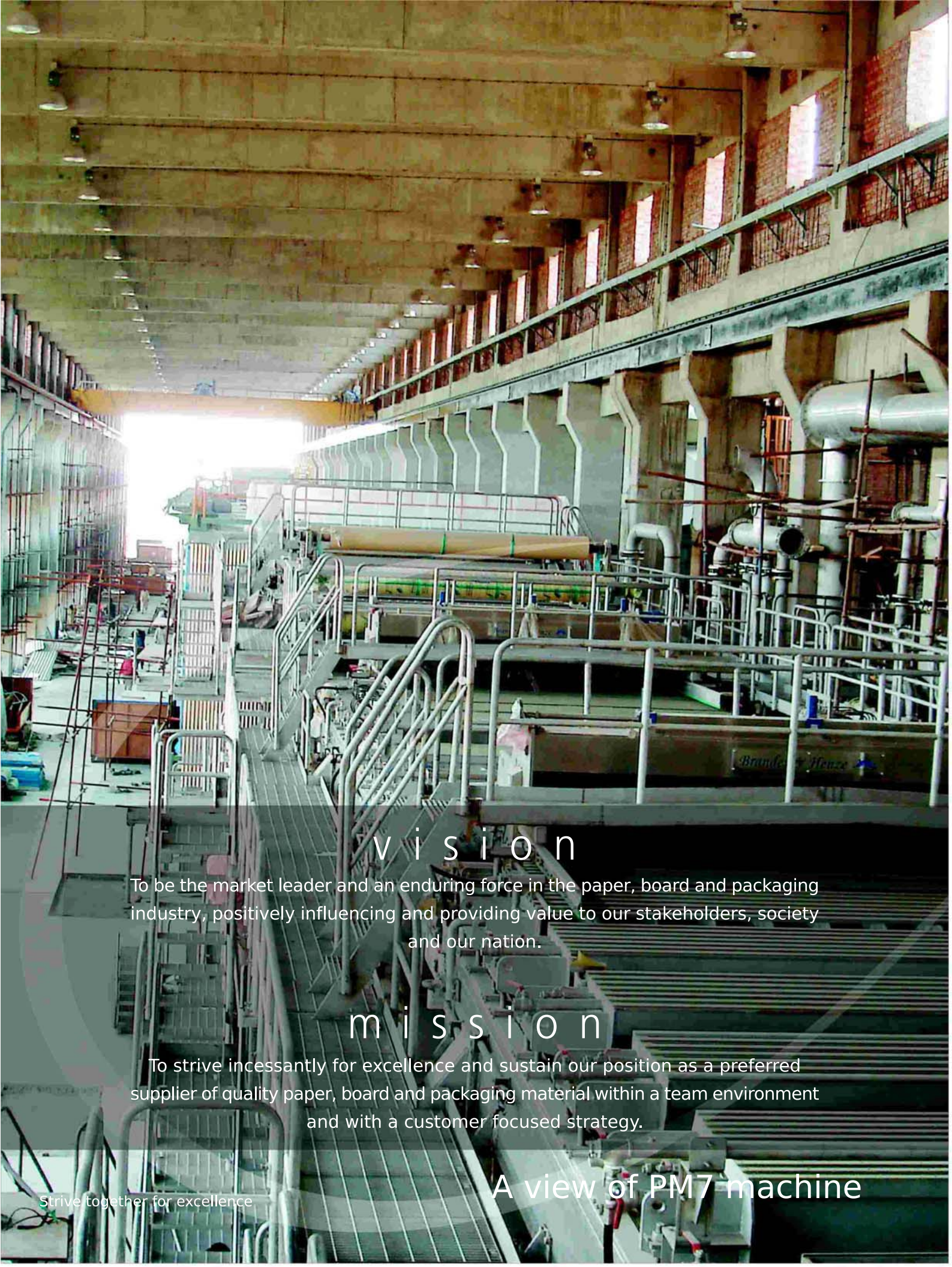
Excellence

Readiness to accept challenges

Professional culture

Customer focused approach

Continuous improvement



## vision

To be the market leader and an enduring force in the paper, board and packaging industry, positively influencing and providing value to our stakeholders, society and our nation.

## mission

To strive incessantly for excellence and sustain our position as a preferred supplier of quality paper, board and packaging material within a team environment and with a customer focused strategy.

Strive together for excellence

A view of PM7 machine



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Strive together for excellence

A view of PM7 machine

# Corporate Information

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## **Board of Directors**

Iqbal Ali Lakhani  
Chairman & Chief Executive

Zulfiqar Ali Lakhani  
Amin Mohammed Lakhani  
Tasleemuddin Ahmed Batlay  
Aftab Ahmad  
Zafar Iqbal Sobani  
Syed Shabahat Hussain  
Nominee Director (NIT)

## **Advisor**

Sultan Ali Lakhani

## **Audit Committee**

Zulfiqar Ali Lakhani  
Chairman

Amin Mohammed Lakhani  
Tasleemuddin Ahmed Batlay

## **Executive Committee**

Iqbal Ali Lakhani  
Chairman & Chief Executive

Aftab Ahmad  
Director Operations

Zafar Iqbal Sobani  
Chief Financial Officer

## **Company Secretary**

Mansoor Ahmed

## **Auditors**

BDO Ebrahim & Co.  
Chartered Accountants

## **Bankers**

ABN AMRO Bank N. V.  
Allied Bank Limited  
J.S. Bank Limited  
Askari Bank Limited  
Citibank N. A.  
Crescent Commercial Bank Limited  
Faysal Bank Limited  
Habib Bank Limited  
KASB Bank Limited  
MCB Bank Limited  
National Bank of Pakistan  
NIB Bank Limited  
Oman International Bank S. A. O. G  
Standard Chartered Bank (Pakistan) Limited  
The Hong Kong & Shanghai Banking Corp. Limited  
Deutsche Bank Limited  
United Bank Limited  
Saudi Pak Commercial Bank Limited

## **Head Office & Registered Office**

Lakson Square Building No.2,  
Sarwar Shaheed Road,  
Karachi-74200, Pakistan.  
Phones: (021) 5698000  
Fax: (021) 5681163, 5683410

## **Lahore Office**

41-K, Model Town, Lahore, Pakistan.  
Phones: (042) 5886801-4  
Fax: (042) 5830338

## **Mills**

67 KM, Lahore-Multan Highway-N-5,  
District Kasur, Pakistan.  
Phones (049) 4511464-5, 4510061-2  
Fax: (049) 4510063

Email: [Info@centurypaper.com.pk](mailto:Info@centurypaper.com.pk)

Website: [www.centurypaper.com.pk](http://www.centurypaper.com.pk)



CENTURY

## Our Products

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Century is producing & marketing following major categories of Paper and Paperboard:

- Packaging Boards
- Coated Boards
- Uncoated Boards
- Container Boards

Writing / Printing Papers

Machine Glazed Papers

Corrugated Boxes

By the grace of Almighty Allah, our products are greatly accepted in quality conscious markets & most of them are substituting imports from Far-East & Europe resulting in saving of valuable foreign exchange reserves.



## Year at a Glance

The Company's annual report for the year 2005 was selected for the "Best Corporate Award" in a competition organized jointly by the Institute of Chartered Accountants of Pakistan (ICAP) and Institute of Cost and Management Accountants of Pakistan (ICMAP).



This year the Company finalized Oracle e-Business Suite (ERP) to automate its business operations and also finalized the Implementation Partner.

## Key Figures

	<b>2007</b>	<b>2006</b>
	<b>(Rupees in Million)</b>	
Gross Sales	4,415	3,844
Net Sales	3,844	3,353
Profit before taxation	124	308
Taxation	41	104
Profit after taxation	83	204
Shareholders' equity	2,904	2,821
Total assets	9,637	4,439
Capital expenditure	5,211	1,489
Stock Dividend (%age)	10	-
Earnings per share (Rupees)	1.30	4.77
Number of employees	1,239	1,076





## Environmental Policy

Century Paper & Board Mills Limited is committed to:

- Ensure environment friendly operations, products and services.
- Mitigate environmental impacts through effective implementation of ISO 14001 in order to achieving conformance to applicable laws and regulations.
- Establish objectives & targets for continual improvement in resource conservation by waste control and safe operating practices.
- Promote environmental awareness to all employees and the community.

# Quality Policy

Century excels in manufacturing of quality Paper, Paperboard and Corrugated Boxes for packaging.

Century, a customer focused company, is always ready to accept challenges for achieving its mission.

Century's quality objectives are designed for enhancing customer satisfaction and operational efficiencies.

Century is committed to building Safe, Healthy and Environment friendly atmosphere.

Century, with its professional and dedicated team, ensures continual improvement in quality and productivity through effective implementation of Quality Management System.

Century values the social and economic well being of its partners and strives for a harmonious environment conducive to team performance.



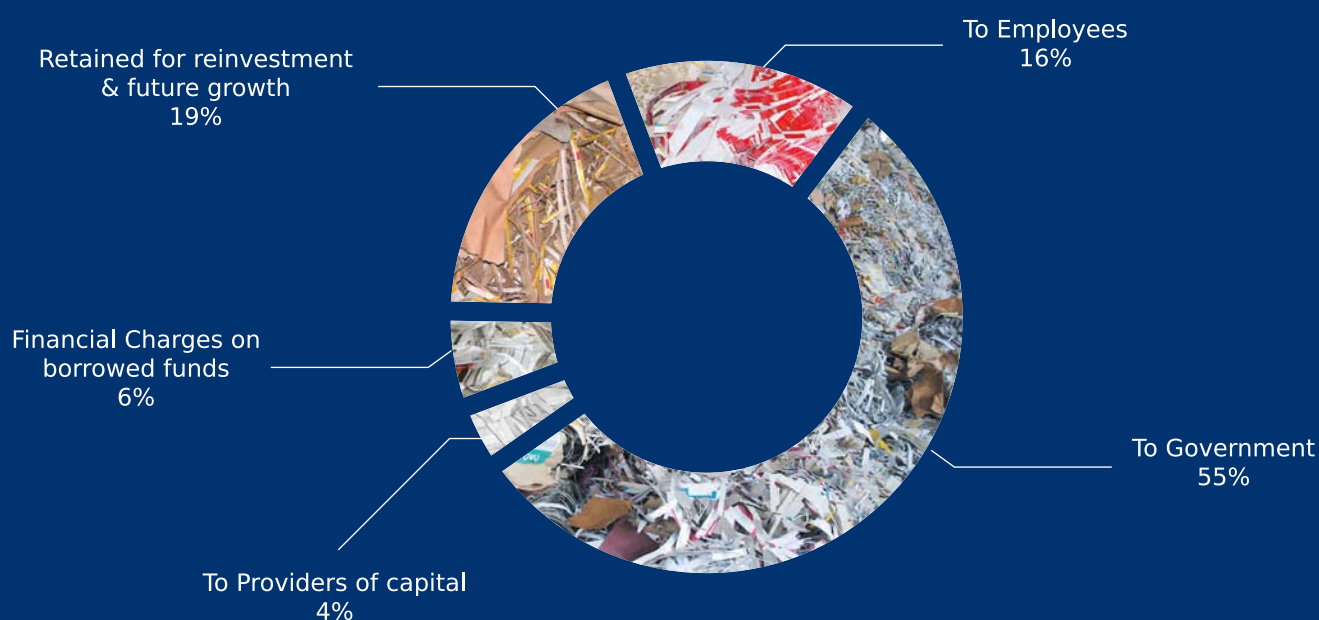
# A Glorious Past - A Promising future

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- 1990 The Company commenced commercial production with three machines having capacity of 30,000 tons.
- 1995 Issued Right shares for expansion in production capacity.
- 1996 The Company crossed Rs. 1 Billion Revenue mark.
- 1997 A new board machine (PM-IV) along with an Offline Coating Machine (CM-II) was added. Production capacity reached 50,000 tons.
- 1998 The Company was awarded ISO – 9002 – QMS Certification.
- 1999 Successful re-engineering of machines, increasing capacity up to 60,000 tons per year.
- 2000 The Company crossed Rs. 2 Billion Revenue mark.
- 2001 Coating Machine upgraded.
- 2002 Dissolved Air Flootation plant (DAF) installed, the first of its kind for treatment of effluent in Paper and Board Sector in Pakistan.
- 2003 New board machine was installed, enhancing total capacity to 80,000 tons per annum.
- Corrugated boxes manufacturing started production.
- 2004 Recognized by KSE as one of the Top 25 Companies for the first time, for the year 2002.
- The Company crossed Rs. 3 Billion Revenue mark.
- 2005 Power Generators converted to dual fired configuration from oil-fired Pulp mills. Expansion project completed for enhancing un-bleached and bleached pulp capacities.
- Merger of Century Power Generation Limited with the Company completed
- 2006 Foundation laid for new Coated Duplex Board Plant (PM-VII Project) with capacity of 130,000 Tons. Commencement of PM-VI as well as online coating, resulting in increased capacity to 100,000 tons.
- 2007 The Company crossed 4 Billion Revenue mark.
- Oracle e-business suite (R 12) launched to automate business operations.

# Statement of Value Added for the year ended June, 30 2007

	2007	%	2006	%
	Rupees in thousand			
<b>Wealth Generated</b>				
Total revenue	4,452,529		3,893,390	
Bought-in-material and services	(2,916,301)		(2,474,092)	
	1,536,228	100	1,419,298	100
<b>Wealth Distributed</b>				
<b>To Employees</b>				
Salaries, benefits and related costs	250,043	16	225,580	16
<b>To Government</b>				
Income tax, Sales Tax, Import Duty and Workers' Welfare Fund	846,947	55	665,016	46
<b>To providers of Capital</b>				
Bonus shares to the shareholders	64,258	4	-	
Financial Charges on borrowed funds	89,768	6	78,071	6
<b>Retained for reinvestment &amp; future growth</b>				
Depreciation, amortisation & retained profit	285,212	19	450,631	32
	1,536,228	100	1,419,298	100



# Shareholders' Information

## Annual General Meeting

The annual shareholder's meeting will be held on August 31, 2007 at 10:00 a.m. at Avari Renaissance Towers Hotel, Karachi. Shareholders of the Company are encouraged to participate.

Any shareholder may appoint a proxy to vote on his or her behalf. Proxies should be filed with the Company at least 48 hours before the meeting. CDC shareholders or their proxies are requested to bring with them copies of their Computerized National Identity Card (CNIC) or passport along with the participant's ID number and their account number at the time of attending the Annual General Meeting in order to facilitate their identification.

## Ownership

On June 30, 2007 the Company has 1,107 shareholders.

Karachi Stock Exchange  
Share price and Volumes 2006-2007



Waste paper collected from streets.



Waste paper generated from presses.

Period	Price in Rupees		Daily Average Volume
	High	Low	
1st Quarter (Jul-Sep 06)	48.30	41.00	3,286
2nd Quarter (Oct-Dec 06)	43.00	39.00	1,178
3rd Quarter (Jan-Mar 07)	53.40	38.20	5,149
4th Quarter (Apr-Jun 07)	63.50	48.30	19,767
Full Year (Jul-Jun 07)	63.50	38.20	7,323

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## Financial Results

The tentative dates of approval of the financial results for the year 2007-08 in the Board of Directors meetings are as follows:

1st quarter	19 October, 2007
2nd quarter	28 January, 2008
3rd quarter	18 April, 2008
4th quarter	25 July, 2008

## Web Presence

Annual/Quarterly reports are regularly placed at the Company's web site, [www.centurypaper.com.pk](http://www.centurypaper.com.pk)

## Change of Address

All the registered shareholders should send information on changes of address to:

The Corporate Department, Century Paper & Board Mills Limited, Lakson Square, Building No. 2, Sarwar Shaheed Road, Karachi-74200, Pakistan.



*Waste Paper arrives at the Godowns.*



*Bailing of waste paper at bailing press.*



# Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the 24th Annual General Meeting of Century Paper & Board Mills Limited will be held on Friday August 31, 2007 at 10:00 a.m. at Avari Renaissance Towers Hotel, Fatima Jinnah Road, Karachi to transact the following businesses:

## ORDINARY BUSINESS

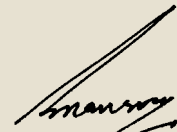
1. To receive, consider and adopt the audited financial statements for the year ended June 30, 2007 with the Directors' and Auditors' reports thereon.
2. To declare a dividend by way of issue of bonus shares @ 10% i.e. in the proportion of one share for every ten existing shares held by the members as recommended by the Board of Directors.
3. To appoint auditors and fix their remuneration.

## SPECIAL BUSINESS

4. To consider, subject to declaration of dividend as above, to capitalize a sum of Rs.64,257,660 by way of issue of 6,425,766 fully paid bonus shares of Rs.10/- each and if thought fit to pass an ordinary resolution in the matter.
5. To consider to increase the authorized capital of the Company from Rs.650,000,000 to Rs.1,000,000,000 divided into 100,000,000 ordinary shares of Rs.10/- each and if thought fit to pass an ordinary resolution in the matter.

The statement under section 160 of the Companies Ordinance, 1984 and draft of the ordinary resolutions to be passed in the above matter are annexed.

By Order of the Board



(MANSOOR AHMED)  
Company Secretary

Dated : July 30, 2007



*Loading of bales for the transportation to mills.*



*Un-loading of imported waste paper from the container.*



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## NOTES:

1. The share transfer books of the Company will remain closed from August 18, 2007 to August 31, 2007 both days inclusive. Transfers received in order at the registered office of the Company situated at Lakson Square, Building No.2, Sarwar Shaheed Road, Karachi upto August 17, 2007 will be considered in time for entitlement of the bonus shares.
2. A member who has deposited his/her shares into Central Depository Company of Pakistan Limited, must bring his/her participant's ID number and CDC account/sub-account number alongwith original Computerized National Identity Card (CNIC) or original Passport at the time of attending the meeting.
3. A member entitled to attend and vote at the Annual General Meeting may appoint another member as his/her proxy to attend, speak and vote instead of him/her.
4. Forms of proxy to be valid must be properly filed-in/executed and received by the Company not later than forty-eight hours before the time of the meeting.
5. Members are requested to notify the Company promptly of any change in their addresses.
6. Members who have not yet submitted photocopy of their Computerized National Identity Cards (CNIC) to the Company are requested to send the same at the earliest.
7. Form of proxy is enclosed herewith.



*Storage of waste paper at mills.*



*Loose waste paper ready for feeding to conveyer at mills.*



# Statement Under Section 160 Of The Companies Ordinance, 1984

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1. The Board of Directors has recommended to the members of the Company to declare a dividend @ 10% by way of issue of 6,425,766 fully paid bonus shares of Rs.10/- each and thereby capitalize a sum of Rs.64,257,660 which has been transferred to 'reserve for issue of bonus shares' from shares premium (capital reserve). Subject to approval of the Board of Directors' recommendation as above, the resolution as under will be considered to be passed by the members as an ordinary resolution:

“RESOLVED THAT:

- i) a sum of Rs.64,257,660 out of the 'reserve for issue of bonus shares' be capitalized and applied in making payment in full of 6,425,766 ordinary shares of Rs.10/- each and that the said shares be allotted as fully paid up bonus shares to those members of the Company whose names appear in the Register of members on August 31, 2007 @ 10% i.e. in the proportion of ONE share for every TEN existing shares held and that such new shares shall rank pari passu as regards future dividends and in all other respects with the existing ordinary shares of the Company;
  - ii) in the event of any member holding less than TEN shares or a number of shares which is not an exact multiple of TEN, the fractional entitlements of shares of such members shall be consolidated into whole new shares and the Directors of the Company be and are hereby authorized to arrange sale of the shares constituted thereby in such manner as they may think fit and to pay the proceeds of the sale to such of the members according to their entitlement;
  - iii) for the purpose of giving effect to the above matter, the Directors be and are hereby authorized to give such directions as may be necessary and to settle any question or difficulties that may arise in regard to the distribution of the said new shares as they think fit.”
2. At present the authorized capital of the Company is Rs.650,000,000 and the paid-up capital is Rs.642,576,600. The Board of Directors recommends to increase the authorized capital to Rs.1,000,000,000 in order to facilitate increase in the paid-up capital as and when required to do so, and if thought fit by the members to pass the following resolution as an ordinary resolution:

“RESOLVED THAT the authorized capital of the Company be and is hereby increased to Rs.1,000,000,000 by creation of 35,000,000 new ordinary shares of Rs.10/- each and that clause V of the Memorandum of Association and Article 3 of Articles of Association of the Company be and are hereby amended to read as under:

The authorized capital of the Company is Rs.1,000,000,000 (Rupees one billion only) divided into 100,000,000 shares of Rs.10/- each.”

3. The Directors are interested in the business to the extent of their entitlement of bonus shares as shareholders only.



A view of PM7 machine



## Business Ethics and Practices

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Our core business is to manufacture Paper, Paperboard and Packaging products to provide local businesses and individuals quality products with efficient services. We feel that Ethics and Practices play a vital role in advancement and betterment of the Company and we endeavor to follow them.

### Corporate Governance

We as a responsible corporate citizen strongly adhere to Corporate Governance principles and comply with regulatory obligations enforced by regulatory agencies for improving corporate performance. We believe in uprightness of performance and expect it to be a fundamental responsibility of our employees to act in the Company's best interest while holding confidential information. We expect our employees to neither solicit internal information from others nor disclose company's figures, data or any material information to any unauthorized persons/body.

### Human Resource Development

We believe in individual respect and growth. Our employment and HR policies develop individuals without race, religion, gender or any other discriminative factors. We provide equal opportunities with a team based management style employing incessant training and

development programs for employees. These continuous improvement policies enhance efficiencies and knowledge and create a constructive and affirmative environment.

### Transparent Financial Policies

We develop fair and transparent financial policies for conducting business. We ensure transparency and integrity and follow the principles of accounting and finance as approved by regulations and contemporary accounting codes. Any unsupportive or false entry, infringement of accounts for individual or company gain is strongly incoherent with our business codes and ethics.

### Marketing and Industry Practices

We believe in free and fair business practices and open competitive markets. Developing any association within the segment, industry or with competitors to distort the pricing and availability is contradictory to our business code of conduct. Any anti-trust activity such as price fixing, monopolization, forming cartel of suppliers is prohibited. Our marketing policies are customer focused, placing high values in satisfying their requirements with emphasis on quality, service and product development. As a long term marketing strategy we vision



*Company's budget and future plans being discussed at mills.*

to diversify and add value to our products while maintaining close liaisons with markets, customers and their needs.

### **Business Risk Management**

Our Risk Management policies are geared to enhance shareholders worth, improve credit worthiness and minimize credit risk while diversifying income, supplier and customer bases and maintaining relationships with financial institutions.

### **Social and Community Commitments**

We believe in community development without political affiliations with any person or group of persons working for gains. We contribute our resources for better environment with an unprejudiced approach. Our Safety, Health and Environment (SHE) policies are geared towards unbiased employee's betterment. Our positive contribution towards Community Related Services

especially in health and education adds to economic development.

### **Environmental Management System - EMS**

We invest in environmental projects with environment friendly policies to improve health and safety standards of employees, communities and surroundings. Our EMS continuously improves in light of advancement in technology and new understandings in Safety, Health and Environmental science. We are driving towards zero waste generation at the source and materials will be reused and recycled to minimize the need for treatment or disposal and to conserve resources and environment. We are working for the conservation of natural resources, energy and bio-diversity by continuously improving our processes, practices and products.





*Waste paper on to the conveyor to pulper*



*Waste paper feeding into the pulper*

## Continuous Improvement: Beyond the Numbers

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Continuous Improvement is one of our key philosophies and below is a detail of how this is being pursued in every facet of our organization. This is an embodiment of our belief that our Company has to maintain best practices and be socially responsible, and profitability will follow automatically.

### Business Structure

Our operations are currently organized into three main locations – Karachi, Lahore and Mills (Multan Road, District Kasur). These locations are strictly administrative and logistic. In addition, there are various peripheral locations whose main purpose is to procure and store raw materials, positioned to take advantage of proximity to the source.

### Management's responsibility for financial reporting

The Company has attained success through the character of its people. That character is reflected in our business practices. High quality financial reporting is one of our responsibilities, which is characterized by accuracy, objectivity and transparency. Management is responsible for maintaining an effective system of internal controls over financial reporting to deliver those characteristics in all material respects. The Board of Directors, through its Audit Committee, provides oversight.

Our commitment to providing timely, accurate and understandable information to investors encompasses:

### Maintaining a strong internal control system

Our system of internal controls includes policies and procedures, segregation of duties and the careful selection and development of employees. The system is designed

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to provide reasonable assurance that transactions are executed as authorized and appropriately recorded, that assets are safeguarded and that accounting records are sufficiently reliable to permit the preparation of financial statements that confirm in all material respects with accounting principles. Our framework of controls is defined in the form of Accounting, Information Technology and Human Resource manuals, and we monitor these internal controls through control self assessments by departmental heads and on going program of internal audits.

### Executing financial stewardship

We maintain specific programs and activities to ensure that employees understand their fiduciary responsibilities to shareholders. This ongoing effort encompasses financial discipline in our strategic and daily business decisions and brings particular focus to maintaining accurate financial reporting and effective controls through process improvement, skill development and oversight.

### Exerting rigorous oversight of the business

We continuously review our business results and strategic choices. Our senior management is actively involved in strategies and reviewing key initiatives, financial performance and control assessments. The intent is to ensure that we remain objective in our assessments, constructively challenge the approach to business opportunities, identify potential issues and ensure that reward and recognition systems are appropriately aligned with results.

### Information Technology

For many years we placed heavy reliance on legacy systems developed in obsolete technologies. Increased scope of work and future projects created a demand of an ERP (Enterprise Resource Planning).

This year the company has decided to implement ERP software - Oracle e Business Suite throughout the organization. Besides, we also make full use of IT resources available. We have a robust, swift and efficient internal communication system based on email and instant messaging.

We are also using computerized technology extensively to design our products as well as drive innovation in our manufacturing operations.

### Competitiveness

We operate in comparatively rarified industry. Our corporate history has been characterized by a proactive rather than reactive approach to market innovation and expansion. Our main philosophy is that it is our quality as well as level of service that matters to our customers the most, as ultimately it affects their output as well. Consequently, our main priority is to maintain the quality and timeliness of our input in the face of rapidly fluctuating raw material market conditions.

We aim to compete and give value to our consumers, customers and shareholders in the following ways:

- By continually developing new and improved products; and
- By striving to lower the cost of our sourcing, manufacturing and distribution processes while still maintaining, and improving, the quality of our products.

### Human Resource

Our people's creativity, energy and passion drive our business, making them our most important asset. This is most evident during periods of change and under challenging trading conditions.

We believe in providing individual respect and continuous growth to our employees. We acknowledge the value of our employees in terms of their dedication and accumulated expertise. We employ and develop individuals without regard to race, religion, gender or any other discrimination.

We profess team based management in our organization and endeavor to maintain a professional working environment that is also very open, giving all employees access to top management.

We strive to ensure employee satisfaction by freely inviting feedback and carrying out studies and surveys to gauge the effectiveness of various departments. We encourage open discussion and suggestions for improvements in order to continuously drive the Company, and its employees, forward. We have embarked on a comprehensive training program for our employees and ensured that knowledge thus gathered is freely shared.



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## Shareholder connection

Relations with shareholders and other investors.

We believe it is important both to explain the business developments and financial results to investors and to understand their objectives.

The Senior Management has lead responsibility for investor relations. They are supported by a Corporate Department which ensures compliance with corporate legislation. Our quarterly and annual results are generally accessible via the internet.

## Communications with shareholders

The Company communicates with its shareholders through the Annual General Meeting as well as responding their questions and enquiries during the course of the year. At the Annual General Meetings, the Chairman gives a full account of the progress of the business over the last year and a review of current issues.

## Corporate governance and best practices

**Board Responsibility:** Our Board has ultimate responsibility for the management, general affairs, direction and performance of the business as a whole. The responsibility of the Directors is collective, taking into account their respective roles as Executive Directors and Non Executive Directors.

Our Board meets on regular intervals to consider important corporate events and actions, such as:

- Agreement of quarterly results announcements;
- Approval of Annual Report and Accounts;
- Declaration of dividends;
- Nominations for Board appointments;
- Convening of shareholders' meeting;





- 
- Approval of corporate strategy;
  - Review of risks and controls;
  - Authorization of major transactions; and

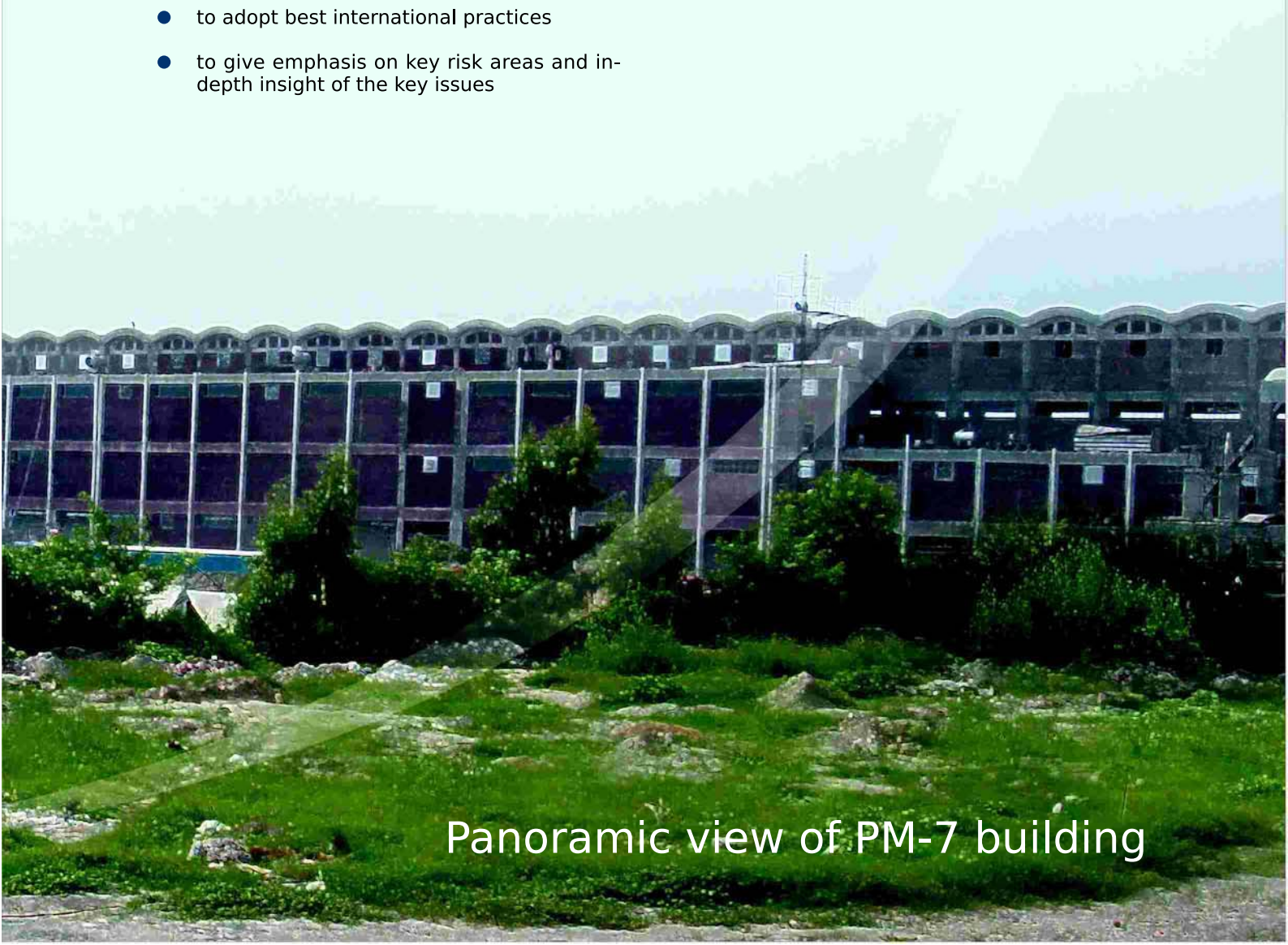
Our Directors have set out a number of areas of responsibility which are reserved to them and other areas for which matters are delegated to the management whose actions are regularly reported to and monitored by the Board.

**Corporate image:** Our Company has developed and succeeded in maintaining a benchmark corporate image which reflected in dealing with various stakeholders.

**Internal Audit:** The Company has outsourced the internal audit activities to one of the large reputed professional firm of Chartered Accountants. The outsourcing will benefit the Company.

- to adopt best international practices
- to give emphasis on key risk areas and in-depth insight of the key issues

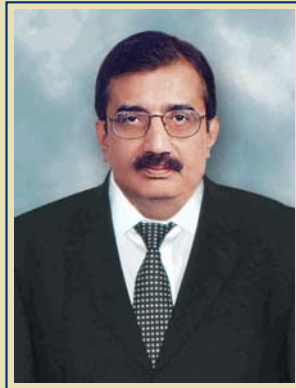
- to get acquainted with more objective observations in different areas and recommendations for improvement.
- availability of variety of expertise and competence at cheaper cost including IT audit.



Panoramic view of PM-7 building

# Board of Directors

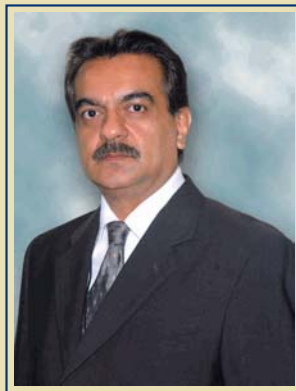
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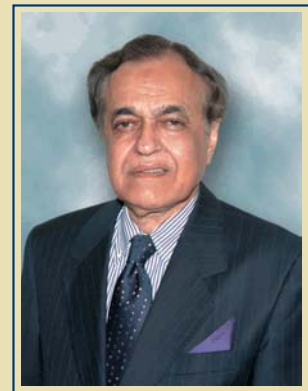
**Iqbal Ali Lakhani**  
Chairman & Chief Executive



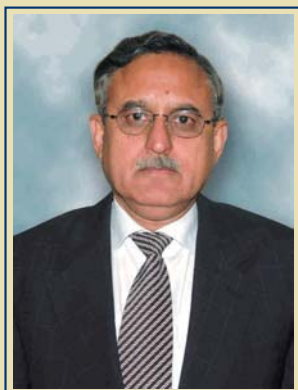
**Zulfiqar Ali Lakhani**



**Amin Mohammed Lakhani**



**Tasleemuddin Ahmed Batlay**



**Aftab Ahmad**  
Director Operations



**Zafar Iqbal Sobani**  
Chief Financial Officer



**Syed Shabahat Hussain**  
Nominee Director (NIT)

# Directors' Report

The Board of Directors of the Century Paper and Board Mills Limited takes pleasure in presenting the Annual Report together with the annual audited financial report of the Company for the year ended June 30, 2007.

## National Economy

Economy of the country displayed remarkable resilience as its key indicators showed marked improvement and met major economic targets. Significant progress has been witnessed in the macro economic environment of Pakistan. The growth momentum of the economy continued to accelerate in the financial year 06-07 with robust increase in GDP of 7.0%. The major growth drivers have been services, agriculture and manufacturing sector.

Foreign investors are also showing interest in doing business in Pakistan and highest Foreign Direct Investment in the country was made during the financial year 2006-07. This reflects the growth of economy and interest of the foreign investors in this growing economy. However, the inflation in the country continued to be on higher side, which resulted in continuity of a tight monetary policy in the country keeping interest rates on high side.

## Paper & Paperboard Industry

Paper and paperboard demand in Pakistan continued to witness strong growth in line with the overall improvement in the economy of the country resulting in widening of the gap between the demand and domestic supplies of various categories of paper and paperboard. This increasing gap is currently being met through imports. To meet this growing demand large investments are being made in this sector to enhance the domestic capacities of quality Paper & Paperboard. Your Company is one of the key players in this investment and its capacity will increase to more than double in first quarter of year 2008.

In addition to the investment by the manufacturers of paper and board, the down stream industries, which are printing, packaging and converting industries, are also upgrading their plants and equipments to meet the growing demand for quality printing & packaging in the country. A remarkable investment in these industries has been witnessed during the last couple of years. This trend has continued during the last year and is expected to continue in the coming years. Promising growth trend in GDP is encouraging investments in this sector.

Though the demand of paper and Paperboard remained strong through out the year yet the industry has faced a lot of challenges, which include increase in the cost of raw materials especially those which are sourced locally such as wheat straw and recycled waste paper etc. In addition to the increasing prices of such raw materials their supply constraints were another big impediment. Moreover, interruptions in supply of fuel and power to paper and paperboard industry in particular also resulted in increases in costs and loss of production.



*Fiber recovered from the waste paper on the Thickner.*



*Recovered Fiber in the Mixing Chest.*



## Directors' Report

These are the major cost drivers of the paper and board industry, which resulted in substantial increase in the cost of production of local producers coupled with continuous cost increase of human resources and interest rates.

The industry during the year was able to pass on some portion of this increase in input costs to its customers. Imported paper and paperboard from some countries was available at lower rates in Pakistan as compared to the prevailing prices in their own countries due to dumping practices etc. The overall impact of this has resulted into a negative impact on the industry.

We are taking up these issues with the concerned government authorities and are optimistic of remedial actions by the government to mitigate the impact of these factors.

### Company Operations

#### Production

During the year under review the overall production of paper and paperboard of your Company increased by 10% over last year. This increase is as a result of full year production of PM-6, a Paper Machine, which was added in the second half of the last financial year.

Production during the year was lower than that of the installed capacities due to outages during the year especially in the first half. These outages of production were due to intermittent supply of gas and power by the state owned utilities. Moreover supply from our own power engines which had undergone a major BMR last year for converting them to natural gas fuel was also not consistent. Some planned work was carried out to have desired level of efficiencies and output, which has now been achieved.

Capacity utilization of corrugated boxes, added in the year 2003, improved considerably and has shown a 29% increase in production over last year as a result of increase in the demand and production efficiencies. This production facility has capability of producing special type of boxes as well and market for such special boxes is being further explored for enriching the product mix.

#### Sales and Marketing

The sales value during the year showed an improvement of 15% over last year, and the increase in this top line has been contributed by paper products and corrugated boxes.

Sales of coated board, which is one of our main products, increased as compared to the last year. However, this was not sufficient to meet the growing demand of our regular customers due to our production capacity constraints and they managed to meet the rest of their demand through imports.

By the grace of ALLAH during the third quarter of financial year 2007-08 our expansion project of 130,000 Tons / Annum will be on line and this will enable us to comprehensively meet coated board demand of our existing customers and huge untapped market that we are unable to meet at this juncture.



*Wet paper web from head box to the wire.*



*Wet paper to the dryer section.*

Your Company continued to hold its position as the major local player in the country for the supply of paper & paperboard to the printing & packaging industry. This trust of customers is due to our better product quality as compared to other local players and the customer service which we are continuously trying to improve further.

Box business showed a robust growth of 30% during the year compared to the last year. This increase in volumes is a result of acceptability of our products' quality by a wide range of customers spread all over the country, which includes well known FMCG multinational and local companies.

## Financial Review

Gross sales of your Company, for the year under review amounted to Rs 4.42 Billion showing a 15% growth over last year. This healthy increase is a result of 10% volume increase, a favorable product mix and an improvement in the selling price during the year.

Gross profit for the year amounted to Rs. 306 Million, which was lower than last year. This was due to an increase in the raw material prices both local and imported and increase in the cost of fuel and power and short supplies. Due to high inflation prevailing in the country during the year all other cost components also increased. Human resource availability of technical people has now become a major issue in the country due to economic growth and your Company is also faced with this challenge and this has resulted in a higher increase in this segment. Incremental depreciation on the new resources added increased costs without full capacity utilization resulting in lower revenue returns.

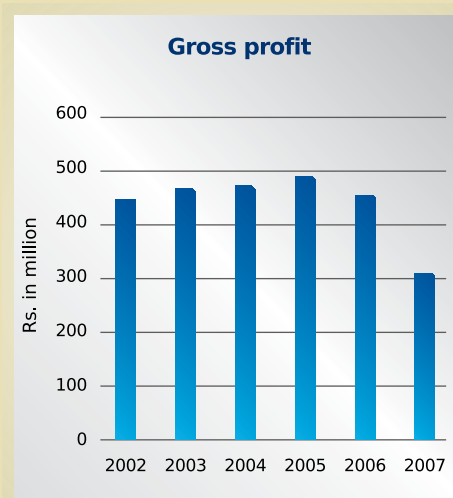
The Company raised selling prices during the year to cover up the incremental costs but the increase fell short of cost escalations resulting in a decline in gross profit over last year inspite of healthy increase in sales.

Financial charges during the year amounted to Rs. 90 Million, which were higher than the corresponding last year. This was due to general increase in interest rates, higher quantum of short term borrowings because of lower profitability and full interest charge this year on long term loan borrowed for capacity enhancement projects capitalized in the second half of the last financial year. You would be pleased to know that our effective interest cost on total borrowings is still less than 9% due to effective treasury management.

Profit before tax for the year under review is Rs. 124 Million and profit after tax of Rs 83 Million both lower than last year. This situation is expected to improve favorably as our expended capacity start yielding results in the forth coming year.

## Cash Flow & Capital Investment

The Company generated cash during the year of Rs. 386 Million (2006: Rs. 545 Million) from its operations, this is after adjustment of working capital which increased due to higher levels of debtors and stocks. Taxes net outflow after accounting for refunds for the year amounted to Rs. 54 Million (2006: Rs. 78 Million).



## Directors' Report

Capital expenditure for the year of Rs. 5,211 million (2006: Rs. 1,489 million ) was mainly incurred on PM-7 expansion project which is moving ahead well and is inline with plans and an amount of Rs. 132 Million was also incurred on items relating to plant reliability, expansion in some areas, efficiency improvements and on normal replacement of operating assets.

### Capital Structure & Finance

Shareholders' fund at the year end stood at Rs. 2,904 Million (2006: Rs.2,821 Million). This increase is largely due to retained profit.

The Long- term loan at the year end increased to Rs 5,515 Million (2006: Rs 773 Million) mainly on account of drawdown of Rs. 3.350 Million against the syndicated long-term financing amounted to Rs. 5,500 Million. We obtained Long-term financing from sponsors of the Company amounting to Rs. 1,575 Million arranged for PM-7 expansion project. The Company made repayment of long-term financing of Rs. 333 million.

### Appropriation

The Board is pleased to propose issue of bonus shares @10% i.e. in the proportion of one bonus share for every ten shares.

The appropriation has been approved by the Board of Directors are as follows:

#### (Rupees in thousands)

Profit after taxation	83,458
Add: Un-appropriated profit brought forward	204,852
Profit available for appropriation	288,310
Appropriations:	
Transfer to general reserves	(204,000)
Un-appropriated profit carried forward	84,310

### Subsequent Events

Proposed issue of bonus shares @ 10% i.e. in the proportion of one bonus share for every ten shares.

64,258/-

Transfer to general reserve.

84,000/-

Capital Reserve (share premium) will be utilized for issuing of bonus shares as allowed under section 83(2) of the Companies Ordinance, 1984.

### PM - 7 (Expansion Project)

We are pleased to report that the expansion project of 130,000 M.Tons per annum of Coated Duplex Board Plant is moving in accordance with the initial plans. Almost 90% of civil work has been completed, major part of the imported plant & machinery for Board Machine has already reached the project site and erection work is in full swing at the moment under the supervision of foreign vendors. Testing phase of the various individual components is expected to start soon.



Paper sheet in the dryer section.



Paper sheet at the size press.

Co-Generation power project and its entire ancillary component have also reached the project site and are being installed currently. Other local project activities linked with the start of power project are moving within the overall schedule of the completion of the project.

The total project cost incurred till June 30, 2007 stood at Rs. 6.5 Billion, which is around 75% of the total revised project cost of Rs 8.5 Billion. This increase in project cost is primarily due to change in scope of work and escalation in costs of construction, erection and services. This increase in project cost is expected to give long term benefits and hopefully will result in capacity utilization higher than that of the name plate capacity. Arrangement of funds for the balance project cost is adequately available.

We expect that milestone of commercial production will be achieved in the first quarter of 2008. We are fully gearing ourselves internally in all the functional areas for the necessary preparation of trial production and post commercial production activities.

### Other Investment Projects:

Apart from the above mega project for expansion, your Company is carrying out various projects on the existing plant to meet the future challenges and quality expectations of the market with the help and advice of foreign consultants. These projects are aimed to improve the quality of products to further improve and compete with the international market. Moreover, to meet the growing demand of corrugated boxes converting facilities are being enhanced and upgraded.

### Contribution To National Economy

The Company has contributed Rs. 850 million (2006: Rs. 630 million) to the National exchequer during the year in the form of duties, income tax and sales tax and other levies.

The Company strongly believes in full tax compliance, transparency, and abiding all rules and regulations.

### Accounting Standards

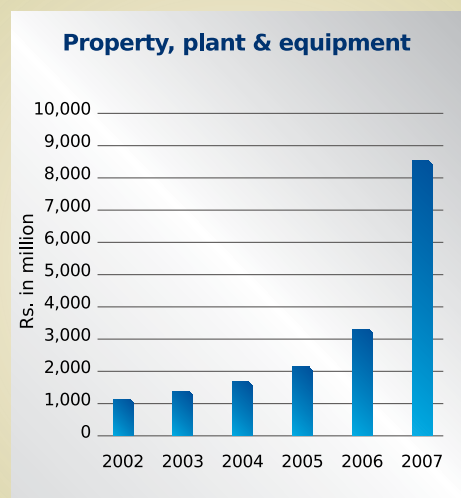
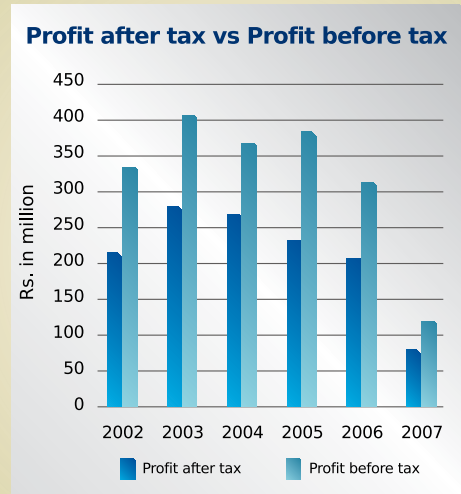
Our accounting policies fully reflect the requirements of the Companies Ordinance, 1984 and such approved International Accounting Standards and International Financial Reporting Standards as notified under this Ordinance and directives issued by the Securities and Exchange Commission of Pakistan.

### Best Corporate Report Award

Your Company was once again recognized as one of the best presented annual reports award for the year 2005 by the joint Committee of the Institute of Chartered Accountants of Pakistan and Institute of Cost and Management Accountants of Pakistan.

### Treasury Management

The purpose of our treasury function is to ensure that adequate cost-effective funding is available to the Company at all times and that exposure to financial risk is minimized. The risks



## Directors' Report

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managed by the Treasury function are funding risk, interest rate and currency risk. We use financial instruments such as interest rate swaps and forward currency contracts to manage both interest and currency rates on the underlying business activities.

### Management Information System (MIS)

Your Company understands the impact of technological development in business vis-à-vis the impact of Information Technology resources on the business management. Accordingly the Company has undertaken to implement an ERP to bring its systems and processes with the international levels of integration and efficiency.

Consequently the Company has finalized the implementation plans for ERP - Oracle e Business Suite throughout the organization. In this regard contract for the selected software has been finalized along with the implementation partner.

The ongoing process of ERP software implementation, realignment of organizational structure and business process re-engineering will improve planning, operational and reporting efficiencies and will eliminate non-value adding activities. Furthermore, the integration of various business systems and proper connectivity between locations will also be achieved during the implementation of ERP Software.

### Safety, Health, Environment And Quality (SHEQ)

#### Safety, Health & Environment (SHE)

The Company is committed to safety, health and environment, and being an environment friendly company, it takes great care of the community in which it operates. Environmental improvement and conservation of natural resources are parts of Company policies and operations.

- We have adopted Cleaner Production Technologies resulting in considerable reduction of fresh water consumption. Energy saving projects are in progress.
- We have reduced gaseous emission of boilers and power plant by conversion of furnace oil to natural gas and reduced SO<sub>2</sub> gas from stack of Sulphite by plant modifications.
- We have changed the bleaching process and made it Elemental Chlorine Free (ECF).
- Waste water from each plant is treated by a comprehensive waste water treatment facility called Dissolved Air Flotation (DAF).
- Our expansion project Board Machine (PM 7) is based on paper recycling concept and using De-inking technology. The process is free of chemical pulping which is the most critical part of traditional paper pulping from environmental viewpoint.



*Sized paper sheet off the size press.*



*Vital quality control measures utilizing nuclear sciences.*



- We have launched a program of workplace improvement to make neat & clean environment and maintain good practices of housekeeping. We are fully committed to preserving greenery and developing plantation.
- We have implemented an Environment Management System in compliance to ISO 14001:2004 standard requirements.

### Environmental Management System (EMS)

We have implemented Environmental Management Systems (EMS) through proper planning and collective efforts. We acquired ISO 14001:2004 EMS qualification during year 2006. A certified EMS has helped us to manage all of our activities to ensure compliance with our environmental policy. The Company is committed to mitigate environmental impacts through effective implementation of system.

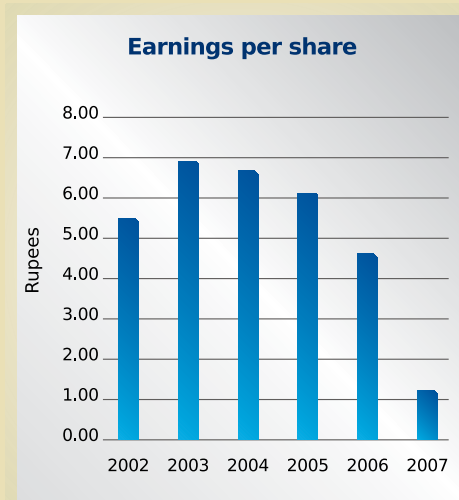
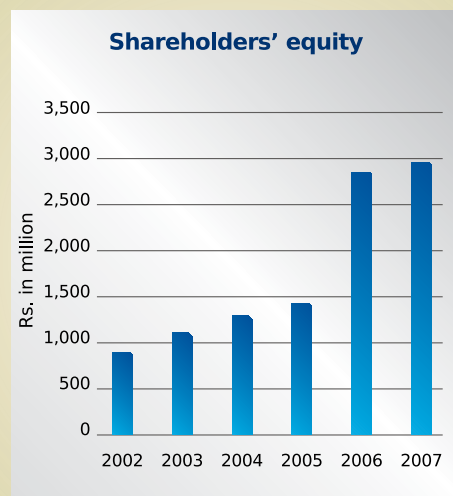
Our EMS continuously improved in light of advancement in technology and new understandings in Safety, Health and Environmental science. Periodic internal and external (third party) environmental audits are conducted for continual improvement of system. EMS Steering Committee reviews the Environmental Management System to ensure its continuing suitability, adequacy and effectiveness. We organize training to educate the employees and contractors on the need to maintain healthy environment. Trainings related to Emergency Response, Energy Conservation and Operational Control are on our regular agenda. Such activities demonstrate our commitment to better environment and safety.

### Quality Management System (QMS)

Your Company achieved ISO 9002:1994, Quality Assurance Certification in 1998 and certified for new version of standards ISO 9001:2000 in 2001 and re-certified in 2004. Every Surveillance Audit has been successfully completed and your company has been recommended for continued certification to ISO 9001. This documented QMS is intended to develop a better understanding of the customer's needs and effectively satisfying them. The system comprises of written procedures that are supported by records that provide an objective evidence of the existence and implementation of QMS. The processes are planned, executed and monitored as per the requirements.

### Occupational Health and Safety Assessment Series (OHSAS)

We are moving ahead with commitment to achieve further milestones like OHSAS 18001:1999 (Occupational Health & Safety Assessment Series) and have started working on the adoption of OHSAS standards. We are making objective based efforts for reducing unsafe and unhealthy work practices / conditions. Hazards identification and risk assessment are being undertaken, reviewed and all necessary preventive measures are taken to reduce accidents. We have also taken steps to impart comprehensive training to our employees in the area of OSH. Our organization aims to achieve high level of excellence by integrating the systems.



## Directors' Report

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### Human Resource

Our people remain our most valued asset. We encourage teamwork and realization of optimum potential to promote performance culture. Focus of our Human Resource strategy is therefore, to develop and align intellectual capital so as to achieve our business goals.

Our development strategy emphasis effective training program both in-house seminars by experts as well as training abroad.

Our hiring system encompasses diversity, skill needs and innovative aptitude and we encourage continuous improvement at all levels and facilitate opportunities for growth to employees without discrimination.

### Corporate Social Responsibility

We strongly believe that every business entity needs to contribute to the well-being of its surrounding communities for a better and prospering nation. Some highlights of our modest contribution in 2007 to this cause are given below:

- By inducting employees from surrounding community.
- Needy employee's children education needs are being met by the Company.
- A large number of students and institutions of Kasur and Okara district are provided with complementary copies, support and advisory input.
- Free Medical Camp for employees at plant.
- Continuous Internships/Apprenticeship opportunities provided to Technical Institutes.
- Large numbers of visits by students of local educational institutions

### Auditors

The auditors BDO Ebrahim & Co. retire and offer themselves for re-appointment. The Board Audit committee and the Board of Directors of the Company have endorsed their appointment for shareholders consideration at the forthcoming Annual General Meeting. The external auditors have been given satisfactory rating under the Quality Control Review Program of the Institute of Chartered Accountants of Pakistan.

### Corporate And Financial Reporting Framework

The management of the Company is committed to good Corporate Governance and complying with the requirements of the best practices of the Code of Corporate Governance as required by Securities & Exchange Commission of Pakistan (SECP). The Board acknowledges its responsibility in respect of the Corporate and Financial Reporting framework and thus states that.



*Jumbo reel formation at pop machine.*



*Formation of jumbo reel after coating.*

- The financial statements prepared by the management of the Company, present fairly its state of affairs, the result of the operations, cash flows and changes in equity.
- Proper books of accounts have been maintained by the Company
- Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment
- International Accounting Standards, as applicable in Pakistan have been followed in preparation of the financial statements and any departure there from have been adequately disclosed.
- The system of internal control is sound in design. The system is being continuously monitored by Internal Audit and through other such monitoring procedures. The process of monitoring internal controls will continue as an ongoing process with the objective to further strengthen the controls and bring improvements in the system.
- There are no doubts upon the Company's ability to continue as a going concern.
- 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.
- The value of investments made by the staff retirement benefit funds based on their respective audited accounts as at June 30, 2007 is as follows:

(Rupees in millions)

Provident Fund	179.00
Gratuity Fund	68.31

- During the year under review four meetings of the Board of Directors were held.

Attendance by each Director was as follows:

	No. of Meetings Attended
Mr. Iqbal Ali Lakhani	4
Mr. Zulfiqar Ali Lakhani	1
Mr. Amin Mohammed Lakhani	1
Mr. Tasleemuddin Ahmed Batlay	3
Mr. Aftab Ahmad	4
Mr. Zafar Iqbal Sobani	4
Mr. Syed Shabahat Hussain – Nominee Director(NIT)	4



*Jumbo reel cut into required size reels.*



*Standard size sheet cutting at the sheet cutter.*



## Directors' Report

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, 2007 whose disclosure is required under the reporting framework is included in the report.

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 below.

Sale / Gift of Shares	No. of Shares
Directors	345,930 (Gift)
Spouses	900,035 (Gift 314,884)
	<u>1,245,965</u>



Sorted and counted sheets prior to packing.

### Future Outlook And Challenges

We have an optimistic outlook for the year 2007 – 08 and expect the GDP of Pakistan to grow as it has done in the last 3 years. The Government of Pakistan has been making concerted efforts to achieve and sustain macro economic stability through market driven monetary and fiscal policies. Sustained growth in national economy will directly impact very positively on paper & paperboard industry in the next year.

Consumption of paper & paperboard in the country will continue to increase in line with overall economic development. In developing economies like ours the growth in consumption of paper & paperboard is always substantially higher than GDP growth rate. Your company is fully geared up to meet the growing demand of quality paper & paperboard. Successful completion of the projects mentioned in this report, will lead to reduction in imports saving the country's valuable foreign exchange.

Your Company is making all out efforts to improve the capacity utilization of its existing operations. We are also laying emphasizes on our internal efficiencies by rationalization of the process for improving quality, making all out efforts to reduce the cost of doing business especially cost related to post PM7 operations like interest cost etc.

Pakistan being signatory to WTO is continuously reducing protections to local industry in one way or the other. Keeping this in view your Company planned its projects and these will Inshallah enable your Company to face both national and international challenges successfully.

### 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.



Paper & board packet ready for despatch.

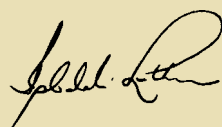
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Our thanks also go to the financial institutions and shareholders for their continued support which is a key to success of the Company.

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 25, 2007



*Packed reels ready for despatch.*



*Finished material loading for transportation to customers.*



# Financial Review of Six Years

Rupees in millions

## HISTORICAL TRENDS

### Trading results

	2007	2006	2005	2004	2003	2002
Sales - Gross	4,415	3,844	3,453	3,013	2,659	2,635
Sales - Net	3,844	3,353	3,010	2,620	2,309	2,290
Gross Profit	306	459	492	474	470	450
Operating profit	214	386	398	390	417	374
Profit before tax	124	308	376	367	406	339
Profit after tax	83	204	237	265	271	216

### Dividend

Cash dividend	%	-	-	45	45	40
Stock dividend	%	10	-	-	-	-
Dividend per share	Rs.	-	-	4.50	4.50	4.00
Dividend payout ratio	%	-	-	61	53	58

### Financial position

Total capital employed	8,811	3,958	2,420	2,103	1,799	1,272
Property, plant and equipment	8,590	3,377	2,111	1,728	1,420	1,053
Paid-up capital	643	643	321	314	314	314
Reserves	2,262	2,178	1,155	1,069	781	628
Shareholders' equity	2,904	2,821	1,477	1,383	1,095	942
Long-term and deferred liabilities	5,906	1,137	944	720	704	330

### Others

Employees - Nos. (at year end)	1,239	1076	953	974	914	902
Contribution to exchequer	851	634	592	528	618	567
Capital expenditure	5,211	1489	591	353	479	325

## KEY INDICATORS

### Operating

Gross profit	%	8	14	16	18	20	20
Operating profit	%	6	12	13	15	18	16
Profit before tax	%	3	9	13	14	18	15
Profit after tax	%	2	6	8	10	12	9

### Performance

Return on assets (excl. cwip)	%	2	6	10	12	14	16
Total assets turnover (excl. cwip)		1.15:1	0.97:1	1.26:1	1.20:1	1.21:1	1.67:1
Interest coverage ratio		2.38	4.95	18.10	17.12	14.10	10.68
Inventory turnover ratio		8.03:1	7.62:1	8.43:1	8.97:1	8.90:1	10.00:1
Collection period	Days	21	19	17	14	16	19
Return on equity	%	3	7	16	19	25	23
Return on capital employed	%	2	10	16	19	23	29

### Leverage

Leverage ratio		2.32:1	0.57:1	0.93:1	0.71:1	0.85:1	0.73:1
Debt:equity ratio		65:35	22:78	31:69	26:74	39:61	26:74
Current ratio		1.00:1	1.30:1	1.30:1	1.52:1	1.68:1	1.19:1
Quick ratio		0.29:1	0.50:1	0.38:1	0.46:1	0.41:1	0.34:1

### Valuation

Earnings per share (pre tax)	Note	Rs.	1.93	7.22	9.64	9.40	10.39	8.69
Earnings per share (after tax)	Note	Rs.	1.30	4.77	6.08	6.78	6.93	5.52
Breakup value per share	Note	Rs.	45.20	43.90	45.96	43.04	34.08	29.32
Market value per share		Rs.	62.55	47.80	82.95	94.00	62.70	31.80
Price earning ratio		Rs.	48.12	10.02	13.64	13.86	9.05	5.76

Note: Figures restated based on share issued on merger  
Year 2002 and 2003 does not reflect merger effect.

# Statement Of Compliance With the Code Of Corporate Governance

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This statement is being presented to comply with the Code of Corporate Governance contained in the listing regulations of Karachi and Lahore Stock Exchanges for the purpose of establishing a framework of good governance, whereby, a listed company is managed in compliance with the best practices of corporate governance.

The Company has applied the principles contained in the code in the following manner:

- 1) The Board comprises seven directors, including the CEO. The company encourages representation of independent non-executive directors on its Board including those representing minority interests. At present the Board includes four non-executive directors, including one director representing the National Investment Trust Limited (NIT).
- 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 DFI or an NBFIs or, being a member of a stock exchange has been declared as a defaulter by the stock exchange.
- 4) No casual vacancy occurred in the Board during the current year.
- 5) The Company has adopted and circulated 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 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.
- 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 CEO and other executive directors have been taken by the Board.
- 8) All 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 in time.
- 9) The Board arranged an orientation course for its directors during the year to apprise them of their duties and responsibilities and briefed them regarding amendments in the Companies Ordinance/Corporate laws.



- 
- 10) The Chief Financial Officer was appointed prior to the implementation of the Code of Corporate Governance. During the year the new Company Secretary was appointed in place of outgoing Company Secretary and appointment of the new Company Secretary and Head of Internal Audit including their remuneration and terms and condition have been approved by the Board as determined by the CEO.
  - 11) 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.
  - 12) The financial statements of the Company were duly endorsed by the CEO and CFO before approval of the Board.
  - 13) 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.
  - 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 of three members, all of whom are non-executive directors including the Chairman of the committee.
  - 16) The meetings of the audit committee were held once every quarter prior to 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.
  - 17) The Board has set-up an effective internal audit function.
  - 18) The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review program 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 the 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.



IQBAL ALI LAKHANI  
Chairman and Chief Executive

Karachi: July 25, 2007



ZAFAR IQBAL SOBANI  
Director





**BDO Ebrahim & Co.**  
Chartered Accountants

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Sardar Shaheed Road, Karachi 74200, Pakistan  
Telephone : +92 30 30 149 149 / 3491496, 3491497  
Telefax : +92 30 30 149 149  
Email : [info@bdoe.com.pk](mailto:info@bdoe.com.pk)  
Website : <http://www.bdoe.com.pk>

## **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 **CENTURY PAPER AND BOARD MILLS LIMITED** to comply with the Listing Regulation No.37 (Chapter XI) of the Karachi Stock Exchange (Guarantee) Limited and No. 43 (Chapter XIII) of the Lahore 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 June 30, 2007.

**KARACHI**  
**DATED: July 25, 2007**

**BDO EBRAHIM & CO.**  
**CHARTERED ACCOUNTANTS**



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## AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of **CENTURY PAPER & BOARD MILLS LIMITED** as at June 30, 2007 and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

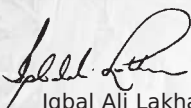
We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, 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 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 accounts 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, 2007 and of the profit, its cash flows and changes in equity for the year then ended; and
- d) in our opinion, no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980.

# Balance Sheet as at June 30, 2007

	Note	2 0 0 7 (Rupees in thousands)	2 0 0 6
<b>ASSETS</b>			
<b>NON CURRENT ASSETS</b>			
Property, plant and equipment			
Operating fixed assets	6	<b>2,293,373</b>	2,408,947
Capital work in progress	7	<b>6,296,510</b>	967,983
		<b>8,589,883</b>	3,376,930
Intangible assets	8	<b>6,490</b>	208
Long-term loans	9	<b>454</b>	136
Long-term deposits and other receivables	10	<b>3,757</b>	4,192
		<b>8,600,584</b>	3,381,466
<b>CURRENT ASSETS</b>			
Stores and spares	11	<b>230,591</b>	193,198
Stock-in-trade	12	<b>455,862</b>	424,940
Trade debts	13	<b>280,801</b>	216,038
Loans and advances	14	<b>5,808</b>	9,099
Trade deposits and short-term prepayments	15	<b>4,830</b>	1,870
Other receivables	16	<b>1,752</b>	4,961
Taxation - net	17	<b>35,264</b>	19,567
Short-term investment	18	-	165,595
Cash and bank balances	19	<b>21,806</b>	21,775
		<b>1,036,714</b>	1,057,043
		<b>9,637,298</b>	4,438,509
<b>TOTAL ASSETS</b>			
<b>EQUITY AND LIABILITIES</b>			
<b>SHARE CAPITAL AND RESERVES</b>			
Authorized share capital			
65,000,000 (2006: 65,000,000) ordinary shares of Rs. 10 each		<b>650,000</b>	650,000
Issued, subscribed and paid-up capital	20	<b>642,576</b>	642,576
Reserves	21	<b>2,261,895</b>	2,178,437
		<b>2,904,471</b>	2,821,013
<b>NON-CURRENT LIABILITIES</b>			
Long-term financing	22	<b>5,305,952</b>	440,476
Deferred taxation	23	<b>364,831</b>	362,345
Retention money payable	24	<b>26,010</b>	1,776
		<b>5,696,793</b>	804,597
<b>CURRENT LIABILITIES</b>			
Trade and other payables	25	<b>268,629</b>	235,130
Financial charges payable	26	<b>118,913</b>	3,419
Short-term borrowings	27	<b>298,924</b>	239,195
Retention money payable	24	<b>140,044</b>	2,554
Current portion of long-term financing	22	<b>209,524</b>	332,601
		<b>1,036,034</b>	812,899
<b>CONTINGENCIES AND COMMITMENTS</b>			
	28		
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>9,637,298</b>	4,438,509

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

  
Iqbal Ali Lakhani  
Chairman & Chief Executive

  
Zafar Iqbal Sobani  
Director

# Profit and Loss Account for the year ended June 30, 2007

	Note	2 0 0 7 (Rupees in thousands)	2 0 0 6 (Rupees in thousands)
Sales	29	<b>3,843,757</b>	3,352,662
Cost of sales	30	<b>(3,538,173)</b>	(2,894,047)
Gross profit		<b>305,584</b>	458,615
General and administrative expenses	31	<b>(86,589)</b>	(79,528)
Selling and distribution expenses	32	<b>(27,640)</b>	(19,898)
Other operating charges	33	<b>(14,467)</b>	(22,351)
Other operating income	34	<b>37,062</b>	49,455
Operating profit		<b>213,950</b>	386,293
Financial charges	35	<b>(89,768)</b>	(78,071)
Profit before taxation		<b>124,182</b>	308,222
Taxation	36	<b>(40,724)</b>	(104,363)
Profit after taxation		<b>83,458</b>	203,859
Earnings per share - basic and diluted (Rupees)	37	<b>1.30</b>	4.77

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

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

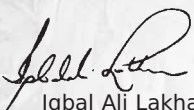
  
 Iqbal Ali Lakhani  
 Chairman & Chief Executive


  
 Zafar Iqbal Sobani  
 Director

# Cash Flow Statement for the year ended June 30, 2007

	Note	2 0 0 7 (Rupees in thousands)	2 0 0 6
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash generated from operations	40	<b>385,660</b>	545,015
Financial charges paid		<b>(86,890)</b>	(98,804)
Gratuity paid		<b>(197)</b>	(4,013)
Taxes paid		<b>(53,934)</b>	(77,992)
Long-term loans - net		<b>(318)</b>	(103)
Long-term deposits - net		<b>(1,677)</b>	302
Net cash generated from operating activities		<b>242,644</b>	364,405
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Capital expenditure		<b>(5,211,425)</b>	(1,489,162)
Profit received on investment and bank deposit accounts		<b>830</b>	1,850
Proceeds from sale of fixed assets		<b>259</b>	898
Net cash used in investing activities		<b>(5,210,336)</b>	(1,486,414)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of right shares		<b>-</b>	1,285,153
Proceeds from long-term financing		<b>5,075,000</b>	240,000
Repayment of long-term financing		<b>(332,601)</b>	(138,632)
Dividend paid		<b>-</b>	(144,486)
Net cash generated from financing activities		<b>4,742,399</b>	1,242,035
Net (decrease)/increase in cash and cash equivalents		<b>(225,293)</b>	120,026
Cash and cash equivalents at the beginning of the year		<b>(51,825)</b>	(171,851)
Cash and cash equivalents at the end of the year		<b>(277,118)</b>	(51,825)
<b>CASH AND CASH EQUIVALENTS COMPRISE:</b>			
Short-term investment	18	<b>-</b>	165,595
Cash and bank balances	19	<b>21,806</b>	21,775
Short-term borrowings	27	<b>(298,924)</b>	(239,195)
		<b>(277,118)</b>	(51,825)

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

  
Iqbal Ali Lakhani  
Chairman & Chief Executive

  
Zafar Iqbal Sobani  
Director

# Statement of Changes in Equity for the year ended June 30, 2007

	Issued, subscribed and paid-up Capital	Capital reserves			Revenue reserves			Sub total	Total
		Share premium	Merger reserve	Total	General	Unappropriated profit	Total		
(Rupees in thousands)									
<b>Balance as at July 1, 2005</b>	321,288	85,045	7,925	92,970	823,750	238,573	1,062,323	1,155,293	1,476,581
Final dividend for the year ended June 30, 2005	-	-	-	-	-	(144,580)	(144,580)	(144,580)	(144,580)
Issue of 32,128,830 Ordinary shares of Rs.10 each fully paid in cash	321,288	963,865	-	963,865	-	-	-	963,865	1,285,153
Net profit for the year	-	-	-	-	-	203,859	203,859	203,859	203,859
Transfer to general reserve	-	-	-	-	93,000	(93,000)	-	-	-
<b>Balance as at June 30, 2006</b>	642,576	1,048,910	7,925	1,056,835	916,750	204,852	1,121,602	2,178,437	2,821,013
Net profit for the year	-	-	-	-	-	83,458	83,458	83,458	83,458
Transfer to general reserve	-	-	-	-	204,000	(204,000)	-	-	-
<b>Balance as at June 30, 2007</b>	<b>642,576</b>	<b>1,048,910</b>	<b>7,925</b>	<b>1,056,835</b>	<b>1,120,750</b>	<b>84,310</b>	<b>1,205,060</b>	<b>2,261,895</b>	<b>2,904,471</b>

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

  
Iqbal Ali Lakhani  
Chairman & Chief Executive

  
Zafar Iqbal Sobani  
Director

# Notes to the Financial Statements for the year ended June 30, 2007

## 1. THE COMPANY AND ITS OPERATIONS

Century Paper and Board Mills Limited ("the Company") was incorporated in Pakistan as a public limited company on August 2, 1984 under the Companies Ordinance, 1984 and is quoted on Karachi and Lahore Stock Exchanges. The registered office of the Company is situated at Lakson Square Building No. 2, Sarwar Shaheed Road, Karachi, Pakistan. The Company's principal business is the production, sale and marketing of paper, board and related products.

## 2. STATEMENT OF COMPLIANCE

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 (IAS) / International Financial Reporting Standards (IFRSs) 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 Companies Ordinance, 1984 or the requirements of the said directives take precedence.

### **Standards, interpretations and amendments to published approved accounting standards that are not yet effective.**

Amendments to the following existing Standards have been published that are mandatory to the financial statements of the Company covering accounting periods beginning on or after January 1, 2007.

IAS 1 Presentation of Financial Statements  
- Capital Disclosures

Effective from January 1, 2007

Adoption of the above amendments may only impact the extent of disclosures presented in the future financial statements.

### **Standards, amendments and interpretations effective beginning on or after December 6, 2006 but not relevant for the Company.**

The new series of standards called "International Financial Reporting Standards" (IFRSs) have been introduced and seven IFRSs have been issued by IASB out of these, the following four IFRSs have been adopted by the SECP vide SRO 1228 (1) /2006 dated December 6, 2006.

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

In addition, IFRIC 8, 9, 10, 11 and 12 have been issued and the Company expects that these pronouncements stated will have no significant impact on the Company's financial statements in the period of initial application.

## 3. CHANGE IN ACCOUNTING ESTIMATE

The revised International Accounting Standard 16 "Property, Plant and Equipment" requires an enterprise to carry out a review of residual values of its assets, useful lives, and depreciation method at each financial year end. Accordingly the management of the Company has carried out a review of the residual values of operating fixed assets during the year and has decided to revise its estimates in respect of residual values of vehicles with effect from July 1, 2006. Previously the residual value of vehicles were considered as nil. Had the above accounting estimate not been revised the depreciation charge for the year would have been higher by Rs. 2.40 million and the profit before tax would have been lower by the same amount.

## 4. BASIS OF MEASUREMENT

These financial statements have been prepared under the historical cost convention, except for the measurement of derivative financial instruments at fair value and recognition of certain staff retirement benefits at present value.



# Notes to the Financial Statements for the year ended June 30, 2007

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## **5. SIGNIFICANT ACCOUNTING POLICIES**

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

### **5.1 Property, plant and equipment**

#### **a) Operating fixed assets**

These are stated at cost less accumulated depreciation and accumulated impairment losses, if any, except freehold land which is stated at cost.

Depreciation on operating fixed assets is provided on a straight line basis. Full month's depreciation is charged on addition, while no depreciation is charged in the month of disposal or deletion of assets. Rates of depreciation, which are disclosed in note 6, are determined to allocate the cost of an asset less estimated residual value, if not insignificant, over its useful life.

The assets' residual values and useful lives are reviewed, and adjusted if significant, at each balance sheet date. During the year the Company has revised its estimates in respect of residual value of the vehicles as explained in note 3 of these financial statements.

Disposal of assets is recognized when significant risks and reward incidental to the ownership have been transferred to buyers. Gain and losses on disposal of assets are included in income currently.

Normal repairs and maintenance costs are charged to the profit and loss account as and when incurred. Major renewals and improvements are capitalized and assets so replaced, if any, are retired.

#### **b) Capital work-in-progress**

Capital work-in-progress are stated at cost and consist of expenditure incurred, advances made and other directly attributable costs in respect of operating fixed assets in the course of their construction and installation. Transfers are made to relevant operating fixed assets category as and when assets are available for use.

### **5.2 Intangible**

These are stated at cost less accumulated amortization and impairment losses, if any. Amortization is provided on a straight line basis at the rates disclosed in note 8 to the financial statements.

### **5.3 Impairment**

The carrying amount of the Company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such indications exist, the assets recoverable amount is estimated in order to determine the extent of impairment loss, if any. Impairment losses are recognized as expense in the profit and loss account. The recoverable amount is the higher of an assets fair value less costs to sell and value in use.

### **5.4 Stores and spares**

Stores and spares are stated at cost less provision for slow moving and obsolete items. Cost is determined by using the moving average method. Items in transit are valued at cost comprising invoice value plus other charges incurred thereon.

Spare parts of capital nature which can be used only in connection with an item of property, plant and equipment are classified as tangible fixed assets under "Plant and Machinery" category and are depreciated over a time period not exceeding the useful life of the related assets.



# Notes to the Financial Statements for the year ended June 30, 2007

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## 5.5 Stock-in-trade

Stock-in-trade, except for stock-in-transit, are valued at the lower of cost and net realizable value. Cost in relation to raw material is determined by using the moving average method except for stock-in-transit.

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

Work-in-process and finished goods consist of the direct materials costs, labour costs and an appropriate proportion of manufacturing overheads.

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

## 5.6 Trade debts

Trade debts are recognized and carried at original invoiced amount which is fair value of the consideration to be received in future. An estimated provision for doubtful debt is made when collection of the full amount is no longer probable. Debts considered irrecoverable are written-off.

## 5.7 Other receivables

Other receivables are recognized at nominal amount which is fair value of the consideration to be received in future.

## 5.8 Taxation

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

### a) Current

Provision for current taxation is based on taxable income for the year determined in accordance with the prevailing law for taxation on income. The charge for current tax also includes prior year adjustments, where considered necessary, arising due to assessments finalized during the year.

### b) Deferred

Deferred tax is accounted for using the balance sheet liability method on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

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 profit will be available in future years against which the deductible temporary differences, unused tax losses and tax credits can be utilized.

Deferred tax is calculated based on tax rates that have been enacted or substantively enacted upto the balance sheet date and are expected to apply to the periods when the differences reverse. Deferred tax for the year is charged or credited to the profit and loss account.

## 5.9 Short-term investments

Investments which are acquired principally for the purpose of selling in the near term are classified as "Investments at fair value through profit or loss". These are stated at fair values at balance sheet date with any change in fair value recognized directly in the profit and loss account. The fair value of such investments are determined on the basis of prevailing market prices at balance sheet date.

## 5.10 Cash and bank balances

Cash in hand and at banks are carried at nominal amount.

# Notes to the Financial Statements for the year ended June 30, 2007

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## **5.11 Borrowings**

Loans and borrowings are recorded at the proceeds received. Financial charges are accounted for on accrual basis.

Borrowing cost on long term finances which are specifically obtained for the acquisition of qualifying assets (plant and machinery) are capitalized up to the date of commencement of commercial production on the respective asset. All other borrowing costs are charged to profit and loss account in the period in which these are incurred.

## **5.12 Operating leases**

Lease payments under operating leases are recognized as an expense in the profit and loss account on a straight line basis over the respective lease terms.

## **5.13 Trade and other payables**

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

## **5.14 Provisions**

A provision is recognized in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of obligation. Provisions are determined by discounting future cash flows at appropriate discount rate wherever required. Provisions are reviewed at each balance sheet date and adjusted to reflect current best estimate.

## **5.15 Financial instruments**

All the financial assets and financial liabilities are recognized at the time when the Company becomes a party to the contractual provisions of the instrument. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item. All financial liabilities are derecognized at the time when they are extinguished that is, when the obligation specified in the contract is discharged, cancelled, or expired. Any gain or loss on derecognition of the financial assets and financial liabilities is included in profit and loss account.

## **5.16 Offsetting**

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

## **5.17 Derivative financial instruments**

The Company enters into derivative financial instruments. The derivatives that do not qualify for hedge accounting are recognized in the balance sheet at fair value with corresponding effect to profit and loss account.

## **5.18 Foreign currency translation**

Transactions in foreign currencies are converted into Pak rupees at the rates of exchange prevailing on the dates of transactions. Monetary assets and liabilities in foreign currencies are translated into Pak rupees at the rates of exchange prevailing at the balance sheet date. Exchange gains and losses are included in the profit and loss account.



# Notes to the Financial Statements for the year ended June 30, 2007

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## **5.19 Functional and presentation currency**

These financial statements are presented in Pak Rupees, which is the Company's functional and presentation currency.

## **5.20 Staff retirement benefits**

### **a) Defined benefit plan**

The Company operates an approved defined gratuity fund for all its permanent employees who attain the minimum qualification period for entitlement to gratuity. Contributions to the fund are made based on actuarial recommendations and in line with the provisions of the Income Tax Ordinance, 2001. The most recent actuarial valuation is carried out at June 30, 2007 using the projected unit credit method (refer note 39). Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses for the plan at the end of previous reporting period exceed 10% of the higher of present value of defined benefit obligation and the fair value of plan assets at that date. The gains or losses in excess of amount determined as per above said criteria are recognized over the expected average remaining working lives of the employees participating in the plan.

### **b) Defined contribution plan**

The Company also operates an approved contributory provident fund for all its permanent employees to which equal monthly contributions are made, both by the Company and the employees, at the rate of 10% of the basic salary.

## **5.21 Compensated absences**

The Company accounts for compensated absences on the basis of unavailed leave balance of each employee at the balance sheet date.

## **5.22 Revenue recognition**

Revenue comprises of the fair value of the consideration received or receivable from the sale of goods and services in the ordinary course of the Company's activities. Revenue from sale of goods is shown net of sales tax.

Revenue is recognized when it is probable that the economic benefits associated with the transactions will flow to the Company and the amount of revenue can be measured reliably. The revenue arising from different activities of the Company is recognized on the following basis:

Sales are recorded on dispatch of goods to customers.

Scrap sales are recognized when delivery is made to customers.

Profit on bank deposits and commission on insurance premium is recognized on accrual basis.

## **5.23 Cash and cash equivalents**

Cash and cash equivalents comprise of cash in hand, balances with banks and short term investments. Short-term borrowing facilities which are payable on demand and form an integral part of the Company's cash management are included as part of cash and cash equivalents for the purpose of statement of cash flows.

## **5.24 Dividend and appropriation to reserves**

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

## **5.25 Related party transactions**

Transactions with related parties is based at arm's length at normal commercial rates on the same terms and conditions as third party transactions.

# Notes to the Financial Statements for the year ended June 30, 2007

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## **5.26 Significant accounting judgements and critical accounting estimates / assumptions**

The preparation of financial statements in conformity with approved accounting standards requires the management to:-

- exercise its judgement in process of applying the Company's accounting policies, and
- use of certain critical accounting estimates and assumptions concerning the future.

The management has exercised judgement in applying Company's accounting policies for classification of Post Employment Benefits as Defined Benefits Plan and Defined Contribution Plan (refer note 5.20 and note 39) that have the most significant effects on the amount recognized in the financial statements.

The areas involving critical accounting estimates and significant assumptions concerning the future are discussed below:-

### **a) Income taxes**

The Company takes into account relevant provisions of the prevailing income tax laws while providing for current and deferred taxes as explained in note 5.8 of these financial statements.

### **b) Defined Benefits Plan**

Certain actuarial assumptions have been adopted as disclosed in note 39 of these financial statements for valuation of present value of defined benefit obligation and fair value of plan assets. Any changes in these assumptions in future years might affect actuarial gains/losses recognized in those years with corresponding effect on carrying amount of defined benefit plan liability/asset.

### **c) Derivative instrument stated at fair value through profit and loss**

Management has determined fair value of interest rate swap on the basis of valuation information obtained from the bankers. These estimates are subjective in nature and involve some uncertainties and matters of judgement with respect to interest rate spreads, benchmark yield, etc. Any changes in these assumptions in future years may affect the fair value of the derivative instrument.

### **d) Property, plant and equipment**

Management has made estimates of residual values, useful lives and recoverable amounts of certain items of property, plant and equipment. Any change in these estimates in future years might affect the carrying amounts of the respective items of property, plant and equipment with corresponding effect on the depreciation charge and impairment loss.

### **e) Stores and spares**

Management has made estimates for realizable amount of slow moving and obsolete stores and spares items to determine provision for slow moving and obsolete items. Any future change in the estimated realizable amounts might affect carrying amount of stores and spares with corresponding affect on amounts recognized in profit and loss account as provision / reversal.



# Notes to the Financial Statements for the year ended June 30, 2007

## 6. OPERATING FIXED ASSETS

The following is the statement of operating fixed assets:

Description	Freehold land	Buildings on freehold land	Leasehold improvements	Plant and machinery (note 6.4)	Furniture and fixtures	Vehicles (note 6.5)	Office equipments	Computers	Total
(Rupees in thousands)									
<b>Net carrying value basis</b>									
<b>Year ended June 30, 2007</b>									
Opening net book value (NBV)	271,942	228,577	3,031	1,877,828	4,670	16,221	767	5,911	2,408,947
Additions (at cost)	-	46,627	-	79,801	4,059	17,360	82	3,103	151,032
Disposals (NBV)	-	-	-	-	(2)	(45)	-	-	(47)
Retirements (NBV) (Refer note 6.1)	-	-	-	(423)	-	-	-	(46)	(469)
Depreciation charge	-	(9,390)	(1,399)	(246,093)	(1,621)	(4,184)	(240)	(3,163)	(266,090)
<b>Closing net book value</b> <b>(Refer note 6.2)</b>	<b>271,942</b>	<b>265,814</b>	<b>1,632</b>	<b>1,711,113</b>	<b>7,106</b>	<b>29,352</b>	<b>609</b>	<b>5,805</b>	<b>2,293,373</b>
<b>Gross carrying value basis</b>									
<b>Year ended June 30, 2007</b>									
Cost	271,942	340,930	6,995	3,373,481	18,765	42,141	2,482	25,551	4,082,287
Accumulated depreciation / Impairment	-	(75,116)	(5,363)	(1,662,368)	(11,659)	(12,789)	(1,873)	(19,746)	(1,788,914)
<b>Net book value</b>	<b>271,942</b>	<b>265,814</b>	<b>1,632</b>	<b>1,711,113</b>	<b>7,106</b>	<b>29,352</b>	<b>609</b>	<b>5,805</b>	<b>2,293,373</b>
<b>Net carrying value basis</b>									
<b>Year ended June 30, 2006</b>									
Opening net book value (NBV)	33,914	201,972	4,430	1,395,052	5,774	13,631	1,033	5,720	1,661,526
Additions (at cost)	238,028	35,130	-	710,181	551	7,969	422	2,930	995,211
Disposals (NBV)	-	-	-	-	-	(934)	-	-	(934)
Retirements (NBV) (Refer note 6.1)	-	-	-	(22)	-	-	-	-	(22)
Adjustment	-	-	-	-	-	-	(489)	489	-
Depreciation charge	-	(8,525)	(1,399)	(227,033)	(1,655)	(4,445)	(199)	(3,228)	(246,484)
Impairment charge (Refer note 6.3)	-	-	-	(350)	-	-	-	-	(350)
<b>Closing net book value</b> <b>(Refer note 6.2)</b>	<b>271,942</b>	<b>228,577</b>	<b>3,031</b>	<b>1,877,828</b>	<b>4,670</b>	<b>16,221</b>	<b>767</b>	<b>5,911</b>	<b>2,408,947</b>
<b>Gross carrying value basis</b>									
<b>Year ended June 30, 2006</b>									
Cost	271,942	294,303	6,995	3,297,317	14,986	25,313	2,443	22,871	3,936,170
Accumulated depreciation/Impairment	-	(65,726)	(3,964)	(1,419,489)	(10,316)	(9,092)	(1,676)	(16,960)	(1,527,223)
<b>Net book value</b>	<b>271,942</b>	<b>228,577</b>	<b>3,031</b>	<b>1,877,828</b>	<b>4,670</b>	<b>16,221</b>	<b>767</b>	<b>5,911</b>	<b>2,408,947</b>
<b>Depreciation rate % per annum</b>	-	2.5 to 10	20	5 to 20	10 to 20	20	10 to 33	33	

**6.1** These represent items retired during the year and sold as bulk scrap. Consequently, it is not practicable to assign sale proceeds to these retired assets individually (see note 34.1).

**6.2** The cost of fully depreciated assets which are still in use as at June 30, 2007 is Rs. 636.12 million (2006: Rs. 480.18 million).

**6.3** The carrying value of assets which are impaired is Rs. Nil (2006: Rs. 0.85 million).

**6.4** Included in plant and machinery are some items with a cost of Rs. 16.87 million [N.B.V. Rs. 7.60 million (2006: Rs. 16.87 million (N.B.V. Rs. 9.14 million))] which have been installed outside the premises of the factory and which are not under the possession and control of the Company. However, the economic benefits associated with these assets are flowing to the Company.

**6.5** During the year the Company has changed its estimate of residual values of vehicles as stated in Note 3 to the financial statements.

# Notes to the Financial Statements for the year ended June 30, 2007

	Note	2 0 0 7 (Rupees in thousands)	2 0 0 6 (Rupees in thousands)
<b>6.6 The depreciation charge for the year has been allocated as follows:</b>			
Cost of sales	30	<b>255,189</b>	235,312
General and administrative expenses	31	<b>10,539</b>	11,051
Selling and distribution expenses	32	<b>76</b>	121
Capital work-in-progress	7.1	<b>286</b>	-
		<b>266,090</b>	246,484

## 6.7 The following operating fixed assets were disposed off during the year:

Description	Cost	Accumulated depreciation	Net Book value	Sale proceeds	Mode of disposal	Particulars of buyers
	(Rupees in thousands)					
<b>Plant and machinery</b>	105	105	-	58	Negotiation	Mr.Liaquat Ali Shah
<b>Furnitures and Fixtures</b>						
Items having book value upto Rs. fifty thousand	129	127	2	12	Negotiation	Various
<b>Vehicle</b>						
Items having book value upto Rs. fifty thousand	532	487	45	185	Negotiation	Various
<b>Computers</b>						
Items having book value upto Rs. fifty thousand	327	327	-	3	Negotiation	Various
<b>Office Equipments</b>						
Items having book value upto Rs. fifty thousand	43	43	-	1	Negotiation	Various
<b>Total - 2007</b>	<b>1,136</b>	<b>1,089</b>	<b>47</b>	<b>259</b>		
<b>Total - 2006</b>	2,197	1,263	934	898		

# Notes to the Financial Statements for the year ended June 30, 2007

	Note	2 0 0 7 (Rupees in thousands)	2 0 0 6
<b>7. CAPITAL WORK-IN-PROGRESS</b>			
This comprises of:			
<b>Existing projects</b>			
Civil works		<b>9,558</b>	4,539
Plant and machinery [including in transit of Rs. 4.19 million (2006: Rs. 0.06 million)]		<b>8,076</b>	28,500
Advances to suppliers		<b>25,671</b>	8,844
		<b>43,305</b>	41,883
<b>Expansion project</b>			
Civil works		<b>701,277</b>	149,647
Plant and machinery		<b>5,094,392</b>	9,234
Advances to suppliers - Civil works		<b>17,249</b>	71,259
- Plant and machinery		<b>114,576</b>	625,749
Arrangement and advisory fee for syndicated long-term financing		<b>55,000</b>	55,000
Financial charges		<b>194,396</b>	7,741
Insurance charges		<b>24,618</b>	-
Other directly attributable costs	7.1	<b>50,617</b>	6,307
Others assets		<b>1,080</b>	1,163
		<b>6,253,205</b>	926,100
	7.2	<b>6,296,510</b>	967,983

**7.1** This includes depreciation charge on assets relating to project PM-7 amounting to Rs. 0.29 million (Refer note 6.6).

**7.2** An amount of Rs.79.29 million (2006: Rs. 738.02 million) has been transferred to operating fixed assets during the year. It includes assets relating to project PM-7 amounting to Rs. 20.81 million.



# Notes to the Financial Statements for the year ended June 30, 2007

	Note	2 0 0 7 (Rupees in thousands)	2 0 0 6
<b>8. INTANGIBLE ASSETS</b>			
Computer software - In use	8.1	-	208
Software - Advance to vendor	8.2	6,490	-
		<u>6,490</u>	<u>208</u>
<b>8.1 Net carrying value basis</b>			
Opening net book value (NBV)		208	496
Amortization charge	31	(208)	(288)
Closing net book value		<u>-</u>	<u>208</u>
<b>Gross carrying value basis</b>			
Cost		1,344	1,344
Accumulated amortization		(1,344)	(1,136)
Net book value		<u>-</u>	<u>208</u>
<b>Amortization rate % per annum</b>			
		<b>33.33</b>	33.33
<b>8.2</b> It includes licencing expenditure incurred on acquiring and implementing Enterprise Resource Planning (ERP) software.			
<b>8.3</b> The cost of fully amortized intangible assets which are still in use as at June 30, 2007 is Rs.1.34 million (2006: Rs. 0.49 million).			
<b>9. LONG-TERM LOANS</b>			
(Unsecured-considered good)			
Due from executive	9.1	-	66
Due from employees	9.2	724	293
		<u>724</u>	<u>359</u>
Current portion shown under current assets			
Due from executive	14	-	36
Due from employees		270	187
		<u>(270)</u>	<u>(223)</u>
		<u>454</u>	<u>136</u>

# Notes to the Financial Statements for the year ended June 30, 2007

	Note	2007 (Rupees in thousands)	2006
<b>9.1 Reconciliation of the carrying amount of loans to executives:</b>			
Balance at the beginning of the year		66	-
Paid during the year		-	87
Received during the year		(66)	(21)
Balance at the end of the year		-	66

**9.1.1** The maximum amount due from the executives at the end of any month during the year was Rs. 0.06 million (2006: Rs. 0.09 million). The loans are repayable over a period of five years.

**9.2** These loans are granted principally for purchase of motor vehicles to employees of the Company which do not carry mark-up, in accordance with their terms of employment excluding those who have been provided with Company maintained cars.

## 10. LONG-TERM DEPOSITS AND OTHER RECEIVABLES

### Long-term deposits

Leases		398	692
Others		2,770	745
		3,168	1,437
Less: Current portion shown under current assets	15	199	145
		2,969	1,292

### Other receivables

Fair value of interest rate swap	10.1	2,255	4,500
Less: Current portion shown under current assets	16	1,467	1,600
		788	2,900
		3,757	4,192

**10.1** It is measured at "fair value through profit and loss" as per IAS 39, Financial Instruments: Recognition and Measurement.

## 11. STORES AND SPARES

Stores		38,096	38,642
Spares			
in hand		203,502	167,442
in transit		6,993	2,114
		210,495	169,556
		248,591	208,198
Provision for slow moving and obsolete items	11.1	(18,000)	(15,000)
		230,591	193,198

# Notes to the Financial Statements for the year ended June 30, 2007

	Note	2 0 0 7 (Rupees in thousands)	2 0 0 6
<b>11.1</b>			
Provision for slow moving and obsolete stores and spares			
Balance at beginning of the year		<b>15,000</b>	12,500
Provision for the year	30	<b>3,000</b>	2,500
Balance at end of the year		<b>18,000</b>	15,000
<b>11.2</b>			
Stores and spares also include items which may result in capital expenditure but are not distinguishable at the time of purchase.			
<b>12. STOCK-IN-TRADE</b>			
Raw materials			
in hand		<b>341,462</b>	312,066
in transit		<b>53,137</b>	50,482
		<b>394,599</b>	362,548
Work-in-process	30	<b>48,383</b>	50,019
Finished goods	30	<b>12,880</b>	12,373
		<b>455,862</b>	424,940
<b>13. TRADE DEBTS</b>			
Considered good			
Secured		<b>6,636</b>	7,485
Unsecured			
Due from associated undertakings	13.1	<b>38,947</b>	20,974
Others		<b>235,218</b>	187,579
		<b>274,165</b>	208,553
		<b>280,801</b>	216,038
<b>13.1</b>			
This comprises amounts receivable from:			
Colgate-Palmolive (Pakistan) Limited		<b>14,926</b>	8,291
Merit Packaging Limited		<b>23,084</b>	11,883
Clover Pakistan Limited.		<b>937</b>	800
		<b>38,947</b>	20,974

# Notes to the Financial Statements for the year ended June 30, 2007

	Note	2007 (Rupees in thousands)	2006
<b>14. LOANS AND ADVANCES</b>			
Loans - considered good			
Current portion of long-term loans	9		
Due from executive		-	36
Due from employees		270	187
		<b>270</b>	223
Advances - considered good			
to employees	14.1	1,127	644
to suppliers		2,603	7,907
Others		1,808	325
		<b>5,538</b>	8,876
		<b>5,808</b>	9,099
<b>14.1</b>			
The advances to employees are provided to meet business expenses and are settled as and when the expenses are incurred.			
<b>15. TRADE DEPOSITS AND SHORT TERM PREPAYMENTS</b>			
Current portion of long-term deposits	10	199	145
Deposit		3,929	980
Prepayments		702	745
		<b>4,830</b>	1,870
<b>16. OTHER RECEIVABLES</b>			
Current portion of fair value of interest rate swap	10	1,467	1,600
Due from associated undertakings	16.1	141	328
Due from employees gratuity fund		-	2,344
Others		144	689
		<b>1,752</b>	4,961
<b>16.1</b>			
This comprises of amounts receivable from:			
Century Insurance Company Limited		141	-
Tritex Cotton Mills Limited		-	328
		<b>141</b>	328
<b>17. TAXATION - NET</b>			

The income tax assessments of the Company have been finalized upto tax year 2006 (accounting year ended June 30, 2006) and adequate provisions have been made in these financial statements for the year ended June 30, 2007 (tax year 2007).

# Notes to the Financial Statements for the year ended June 30, 2007

	Note	2007 (Rupees in thousands)	2006
<b>18. SHORT-TERM INVESTMENT</b>			
Held for trading			
Money market funds		-	165,595
<b>19. CASH AND BANK BALANCES</b>			
At banks			
in current accounts	19.1	6,745	7,812
in deposit accounts	19.2	3,645	4,861
		<b>10,390</b>	12,673
In hand			
Cheques		6,195	8,106
Cash		5,221	996
		<b>21,806</b>	21,775

**19.1** Cash at banks in current accounts include US Dollars 1,008 (2006: US Dollars 2,684) held in foreign currency account.

**19.2** These deposit accounts carry return at approximately at 1.25% per annum (2006: 1.25% per annum).

## 20. ISSUED, SUBSCRIBED AND PAID-UP CAPITAL

Number of ordinary shares of Rs.10/- each				
2007	2006		2007	2006
<b>56,473,830</b>	56,473,830	Fully paid in cash	<b>564,738</b>	564,738
<b>7,076,280</b>	7,076,280	Issued as fully paid bonus shares	<b>70,763</b>	70,763
<b>63,550,110</b>	63,550,110		<b>635,501</b>	635,501
<b>707,550</b>	707,550	Issued under scheme of amalgamation	<b>7,075</b>	7,075
<b>64,257,660</b>	64,257,660		<b>642,576</b>	642,576
<b>34,334,032</b>	25,457,052	Shares held by associated companies	<b>343,340</b>	254,571

# Notes to the Financial Statements for the year ended June 30, 2007

	Note	2 0 0 7 (Rupees in thousands)	2 0 0 6
<b>21. RESERVES</b>			
Capital			
Share premium	21.1	<b>1,048,910</b>	1,048,910
Merger reserve	21.2	<b>7,925</b>	7,925
		<b>1,056,835</b>	1,056,835
Revenue			
General		<b>1,120,750</b>	916,750
Unappropriated profit		<b>84,310</b>	204,852
		<b>1,205,060</b>	1,121,602
		<b>2,261,895</b>	2,178,437
<b>21.1</b>	This includes an amount of Rs. 963.87 million being premium on right shares issued during the prior year.		
<b>21.2</b>	This represents amount arising under scheme of arrangement for amalgamation of former Century Power Generation Limited with the Company.		
<b>22. LONG-TERM FINANCING</b>			
From banking companies - secured			
Utilized under mark-up arrangements			
Financed by:			
Standard Chartered Bank (Syndicated)	22.1	-	123,077
United Bank Limited - 1	22.2	<b>333,333</b>	500,000
United Bank Limited - 2	22.3	<b>107,143</b>	150,000
Consortium of Banks (Syndicated)	22.4	<b>3,350,000</b>	-
		<b>3,790,476</b>	773,077
Current portion shown under current liabilities		<b>(209,524)</b>	(332,601)
		<b>3,580,952</b>	440,476
From Director and sponsors' - unsecured			
Sponsors' loan	22.5	<b>1,575,000</b>	-
Director's loan	22.6	<b>150,000</b>	-
		<b>1,725,000</b>	-
		<b>5,305,952</b>	440,476

# Notes to the Financial Statements for the year ended June 30, 2007

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**22.1** This facility has been fully paid during the year.

**22.2** This facility has been obtained from United Bank Limited amounting to Rs. 500 million specifically for expansion project.

The rate of mark-up on Rs. 260 million is 0.65% over the weighted average yield of State Bank of Pakistan's last three, 3 months T-Bills auction of preceding quarter. However, the Company has entered into an interest rate swap agreement with United Bank Limited for a notional amount of Rs. 260 million amortizing up to June 2009. Under swap arrangement, the Company would receive average of last three cut off yields of three months Government treasury bills from bank on notional amount and pay at 7.67 % per annum calculated on the outstanding notional amount over 365 days basis at quarterly settlement dates. The Company has the option of unwinding whole or part of the swap transaction at any quarterly settlement date with prior notice to the bank. The fair value of above swap is Rs. 2.255 million (2006: Rs. 4.500 million).

The rate of mark-up on balance amount of Rs. 240 million is 0.65% over three months KIBOR to be set at the beginning of each quarter. The rate of additional mark-up on default is 12% per annum. The tenor of financing is 5.25 years including twenty seven months grace period. The finance facility is repayable in twelve equal quarterly installments which commenced from September 2006. The purchase price of the facility is Rs. 609 million. The finance facility is secured by first exclusive hypothecation charge over the respective expansion project with 25% margin.

**22.3** A long-term finance facility has been obtained from United Bank Limited amounting to Rs.150 million specifically for conversion of power generators. The rate of mark-up is 0.65% over the weighted average rate of the State Bank of Pakistan's last three, 3 months T-Bills auction of preceding quarter. The rate of additional mark-up on default is 12% per annum. The tenor of financing is 5.25 years including eighteen months grace period. The finance facility is repayable in fourteen equal quarterly installments which commenced from September 2006. The purchase price of the facility is Rs. 180.39 million. The facility is secured by first exclusive hypothecation charge over the power generators with 25% margin for maximum secured amount of Rs. 200 million.

**22.4** This syndicated finance facility has been obtained from a consortium of banks amounting to Rs. 5,500 million specifically for PM-7 Expansion Project. The unutilized facility at the end of the year amounted to Rs. 2,150 million. The rate of mark-up is 2.10% over six months KIBOR prevailing on one Business Day prior to beginning of each installment period. The rate of additional mark-up on default is 20% per annum.

The tenor of financing is ten years including three years grace period. The finance facility is repayable in fourteen equal semi annual installments commencing from March 2010. The purchase price of the facility is Rs. 12,278 million. The finance facility is secured by way of mortgage of immovable properties of the Company and first exclusive hypothecation charge over all the present and future fixed assets (excluding land and building) related to the PM-7 Expansion Project with 25% margin.



# Notes to the Financial Statements for the year ended June 30, 2007

**22.5** The amount under this head represents loan obtained from sponsors to finance the escalations in the PM-7 Expansion Project cost. As per the terms existing as at the balance sheet date the sponsors' loans carry mark up at last three days average of three months KIBOR to be set at the beginning of each quarter and are repayable in five six monthly installments commencing from March 2010. The documentation with respect to this borrowing will be completed after finalization of the negotiations with the lenders.

**22.6** The long-term financing has been obtained from a Director of the Company for meeting working capital requirements. This finance is interest free and will be repaid after June 30, 2008.

	Note	2 0 0 7 (Rupees in thousands)	2 0 0 6
<b>23. DEFERRED TAXATION</b>			
Deferred taxation	23.1	<b>364,831</b>	362,345
<b>23.1</b> The net balance for deferred taxation is in respect of following temporary differences:			
<b>Deferred tax liabilities:</b>			
Accelerated tax depreciation allowance		<b>370,423</b>	383,420
Others		<b>708</b>	2,395
<b>Deferred tax assets:</b>			
Provision for slow moving and obsolete Stores and spares		<b>(6,300)</b>	(5,250)
Turnover tax and tax losses		-	(18,220)
		<b>364,831</b>	362,345
<b>24. RETENTION MONEY PAYABLE</b>			
Retention money payable		<b>166,054</b>	4,330
Current portion shown under current liabilities		<b>(140,044)</b>	(2,554)
	24.1	<b>26,010</b>	1,776

**24.1** This relates to retention money payable to the contractors of PM-7 Expansion Project.



# Notes to the Financial Statements for the year ended June 30, 2007

	Note	2 0 0 7 (Rupees in thousands)	2 0 0 6
<b>25. TRADE AND OTHER PAYABLES</b>			
Creditors	25.1	<b>139,415</b>	135,818
Accrued liabilities		<b>72,119</b>	56,940
Sales tax payable		<b>20,240</b>	9,341
Customers' balances		<b>15,351</b>	4,247
Bills payable		-	5,761
Gratuity payable	39.4	<b>231</b>	-
Electricity duty payable		<b>202</b>	251
Workers' profit participation fund	25.2	<b>7,847</b>	16,208
Workers' welfare fund		<b>3,198</b>	-
Unclaimed dividend		<b>736</b>	748
Other liabilities		<b>9,290</b>	5,816
		<b>268,629</b>	235,130

**25.1** The aggregate amount of the outstanding balance of associated undertakings as at June 30, 2007 is Rs 0.92 million (2006: Rs 0.97 million).

## 25.2 Workers' profit participation fund

Balance at July 01		<b>16,208</b>	20,205
Interest on fund utilized in Company's business	35	<b>1,144</b>	28
Allocation for the year	33	<b>6,703</b>	16,180
		<b>24,055</b>	36,413
Amount paid during the year		<b>(16,208)</b>	(20,205)
Balance at June 30		<b>7,847</b>	16,208

## 26. FINANCIAL CHARGES PAYABLE

Financial charges payable on:			
Long-term financing	26.1	<b>112,085</b>	1,073
Short-term borrowings		<b>5,488</b>	2,346
Commitment fee payable		<b>1,340</b>	-
		<b>118,913</b>	3,419

**26.1** This includes financial charges on syndicated Long-Term Financing of Rs. 5,500 million specifically arranged for PM-7 Expansion Project of Rs. 111.28 million (2006: Rs. Nil).

# Notes to the Financial Statements for the year ended June 30, 2007

	Note	2 0 0 7 (Rupees in thousands)	2 0 0 6
<b>27. SHORT TERM BORROWINGS</b>			
From banking companies - secured			
Running finances	27.1 & 27.3	<b>92,609</b>	97,463
Import credit finances	27.2 & 27.3	<b>206,315</b>	141,732
		<b>298,924</b>	239,195

**27.1** The Company has aggregate short term running finance facilities amounting to Rs. 1,080 million (2006: Rs. 553 million) from commercial banks on mark-up basis. Rates, net of the prompt payment rebate, are linked with KIBOR from one to six months plus spreads ranging from 0.60% to 1.50% per annum. The unutilized facility at the end of the year is Rs. 781 million (2006: Rs. 315 million). The purchase prices and mark-up amounts are payable by June 30, 2007.

**27.2** An amount of US\$ 3.42 million (2006: US\$ 2.35 million) from banks for settlement of import bills is outstanding as at balance sheet date. This facility is priced at one month LIBOR plus spread ranging between 0.60% to 0.80% per annum.

**27.3** Above arrangements are secured by way of pari passu hypothecation charge created on stock-in-trade, stores and spares and trade debts of the Company.

**27.4** Additionally, the Company has the facilities for opening of letters of credit and guarantees amounting to Rs 1,264 million (2006: Rs. 1,134 million) out of which Rs. 631.21 million (2006: Rs. 818.36 million) remained unutilized at the balance sheet date.

## 28. CONTINGENCIES AND COMMITMENTS

### 28.1 Contingencies

**a)** Post dated cheques amounting to Rs. 2.93 million has been issued to custom authorities for concessional rate of duties on some items of PM - 7 Expansion Project on the basis of SRO. 575 (1) 06 dated 05-06-06. In the event the management view of concessionary duties is not upheld these cheques will be encashable.

**b)** Guarantees have been issued by banks on behalf of the Company in the normal course of business aggregating to Rs. 276.55 million (2006: Rs. 137 million).

# Notes to the Financial Statements for the year ended June 30, 2007

## 28.2 Commitments

The Company's commitments as at balance sheet date are as follows:

- a) Letters of credit other than for capital expenditure at the end of the year amounted to Rs.263.63 million (2006: Rs. 157.36 million).
- b) Capital expenditure other than PM - 7 Expansion Project including letters of credit amounted to Rs. 96.77 million (2006: Rs. 15.66 million).
- c) License cost of ERP software amounted to Rs. 6.45 million (2006: Rs. Nil )
- d) Capital expenditure of PM - 7 Expansion Project including letters of credit are as follows:

	2 0 0 7 (Rupees in thousands)	2 0 0 6 (Rupees in thousands)
Civil works	<b>98,085</b>	598,330
Plant and machinery	<b>625,840</b>	3,868,041
Financial charges	<b>321,943</b>	-
	<b><u>1,045,868</u></b>	<u>4,466,371</u>

- e) Rentals under lease agreements in respect of vehicles are as follows:

Within one year	<b>555</b>	1,607
After one year but not more than five years	<b>56</b>	1,006
	<b><u>611</u></b>	<u>2,613</u>

## 29. SALES

Gross sales	<b>4,415,467</b>	3,843,935
Sales tax	<b>(571,710)</b>	(491,273)
	<b><u>3,843,757</u></b>	<u>3,352,662</u>

# Notes to the Financial Statements for the year ended June 30, 2007

	Note	2 0 0 7 (Rupees in thousands)	2 0 0 6
<b>30. COST OF SALES</b>			
Materials consumed		<b>2,177,299</b>	1,782,326
Fuel and power		<b>602,392</b>	472,621
Depreciation	6.6	<b>255,189</b>	235,312
Salaries, wages and other benefits	30.1	<b>187,502</b>	158,654
Repairs and maintenance	30.2	<b>216,585</b>	182,225
Packing expenses		<b>68,737</b>	57,892
Insurance		<b>19,496</b>	16,909
Security services charges		<b>3,540</b>	2,939
Provision for slow moving and obsolete stores & spares	11.1	<b>3,000</b>	2,500
Travelling and conveyance		<b>580</b>	636
Printing, stationery and periodicals		<b>1,685</b>	1,462
Lease rentals		<b>736</b>	847
Communication		<b>303</b>	484
		<b>3,537,044</b>	2,914,807
Work-in-process			
Opening Stock		<b>50,019</b>	34,368
Closing Stock	12	<b>(48,383)</b>	(50,019)
		<b>1,636</b>	(15,651)
Cost of goods manufactured		<b>3,538,680</b>	2,899,156
Finished goods			
Opening stock		<b>12,373</b>	7,264
Closing stock	12	<b>(12,880)</b>	(12,373)
		<b>(507)</b>	(5,109)
		<b>3,538,173</b>	2,894,047

**30.1** Salaries, wages and other benefits include Rs. 7.26 million (2006: Rs. 6.11 million) in respect of staff retirement benefits.

**30.2** Repairs and maintenance includes Rs.181 million (2006: Rs. 152 million) in respect of stores and spares consumed.

# Notes to the Financial Statements for the year ended June 30, 2007

	Note	2 0 0 7 (Rupees in thousands)	2 0 0 6
<b>31. GENERAL AND ADMINISTRATIVE EXPENSES</b>			
Salaries and other benefits	31.1	<b>51,913</b>	46,756
Depreciation	6.6	<b>10,539</b>	11,051
Rent, rates and taxes		<b>5,897</b>	5,225
Communication		<b>5,496</b>	4,768
Insurance		<b>2,013</b>	2,068
Repairs and maintenance		<b>2,914</b>	1,844
Lease rentals		<b>258</b>	1,044
Electricity		<b>1,699</b>	1,495
Amortization of intangible assets	8.1	<b>208</b>	288
Fees and subscription		<b>827</b>	1,102
Advertisement and publicity		<b>166</b>	404
Travelling and conveyance		<b>1,542</b>	1,222
Security service charges		<b>482</b>	92
Printing, stationery and periodicals		<b>1,391</b>	1,222
Business promotion expenses		<b>917</b>	643
Others		<b>327</b>	304
		<b>86,589</b>	79,528

**31.1** Salaries and other benefits include Rs.2.61 million (2006: Rs. 2.41 million) in respect of staff retirement benefits.

## 32. SELLING AND DISTRIBUTION EXPENSES

Selling expenses:			
Salaries and other benefits	32.1	<b>9,512</b>	8,496
Insurance		<b>116</b>	144
Repairs and maintenance		<b>329</b>	196
Lease rentals		<b>283</b>	376
Electricity		<b>281</b>	294
Depreciation	6.6	<b>76</b>	121
Advertisement and publicity		<b>6</b>	270
Travelling and conveyance		<b>830</b>	537
Rent, rate and taxes		<b>282</b>	231
Printing, stationery and periodicals		<b>1</b>	3
Communication		<b>374</b>	317
		<b>12,090</b>	10,985
Distribution expenses:			
Outward freight		<b>15,550</b>	8,913
		<b>27,640</b>	19,898

# Notes to the Financial Statements for the year ended June 30, 2007

**32.1** Salaries and other benefits include Rs. 0.53 million (2006: Rs. 0.48 million) in respect of staff retirement benefits.

	Note	2007 (Rupees in thousands)	2006
<b>33. OTHER OPERATING CHARGES</b>			
Legal and professional charges		<b>1,754</b>	2,006
Loss on change in fair value of interest rate swap		<b>2,245</b>	-
Auditors' remuneration			
Statutory audit		<b>400</b>	400
Half yearly review		<b>70</b>	70
Fee for other services		<b>75</b>	40
Reimbursement of expenses		<b>43</b>	44
		<b>588</b>	554
Workers' profit participation fund	25.2	<b>6,703</b>	16,180
Workers' welfare fund		<b>3,177</b>	-
Net exchange loss		-	1,977
Impairment charge	6.3	-	350
Loss on sale of fixed assets - net		-	36
Donation		-	1,248
		<b>14,467</b>	<b>22,351</b>
<b>34. OTHER OPERATING INCOME</b>			
<b>Income from financial assets</b>			
Gain on sale of short term investment		<b>755</b>	1,776
Net exchange gain		<b>143</b>	-
Profit on bank deposit accounts		<b>75</b>	32
Unrealised gain on short term investment		-	1,820
Fair value gain of interest rate swap		-	4,500
		<b>973</b>	8,128
<b>Income from non-financial assets</b>			
Sale of scrap	34.1	<b>30,636</b>	23,436
Profit on sale of fixed assets - net		<b>210</b>	-
Insurance agency commission from associated company		<b>3,895</b>	3,424
Provision and unclaimed liabilities written back		<b>1,127</b>	5,229
Others		<b>221</b>	1,194
Claim received from supplier		-	5,638
Refund against custom duty		-	2,406
		<b>36,089</b>	41,327
		<b>37,062</b>	<b>49,455</b>

# Notes to the Financial Statements for the year ended June 30, 2007

**34.1** This is stated net of Rs. 0.47 million (2006: Rs. 0.02 million) being the written down value of fixed assets sold as bulk scrap during the year (refer note 6.1).

	Note	2 0 0 7 (Rupees in thousands)	2 0 0 6
<b>35. FINANCIAL CHARGES</b>			
Financial charges on:			
Long term financing		<b>60,668</b>	53,472
Short term borrowings		<b>25,783</b>	22,737
Workers' profit participation fund	25.2	<b>1,144</b>	28
		<b>87,595</b>	76,237
Bank charges and commission		<b>2,173</b>	1,834
		<b>89,768</b>	78,071
<b>36. TAXATION</b>			
For the year			
Current	36.1	<b>38,565</b>	17,091
Deferred		<b>2,487</b>	90,677
		<b>41,052</b>	107,768
Prior year		<b>(328)</b>	(3,405)
		<b>40,724</b>	104,363

**36.1** Corresponding figure represents minimum tax payable under Section 113 of the Income Tax Ordinance, 2001 at the rate of one-half of one percent of turnover of the Company.

**36.2** Numerical reconciliation between the applicable tax rate and average effective tax rate is as follows:

	2 0 0 7 %age	2 0 0 6 %age
Applicable tax rate	<b>35.00</b>	35.00
Tax effect of expenses that are not deductible in determining taxable profit (permanent differences)	<b>(1.26)</b>	0.20
Effect of final tax under presumptive tax regime	<b>(0.69)</b>	(0.24)
Effect of change in prior year tax	<b>(0.26)</b>	(1.10)
	<b>(2.21)</b>	(1.14)
Average effective tax rate	<b>32.79</b>	33.86

# Notes to the Financial Statements for the year ended June 30, 2007

## 37. EARNINGS PER SHARE - BASIC AND DILUTED

There is no dilutive effect on the basic earnings per share of the Company, which is based on:

	2 0 0 7 (Rupees in thousands)	2 0 0 6
Profit after taxation	<u>83,458</u>	<u>203,859</u>
Weighted average number of ordinary shares (in thousands)	<u>64,258</u>	<u>42,718</u>
Earnings per share (Rupees)	<u>1.30</u>	<u>4.77</u>

## 38. EVENTS AFTER THE BALANCE SHEET DATE

The Board of Directors in their meeting held on July 25, 2007 has proposed bonus shares issue at 10% (2006: Nil) i.e. in the proportion of one bonus share for every ten shares held and transfer to general reserve from un-appropriated profit of Rs. 84 million (2006: 204 million) subject to the approval of members at the Annual General Meeting to be held on August 31, 2007.

## 39. DEFINED BENEFIT PLAN

### 39.1 General description

The scheme provides for terminal benefits for all its permanent employees who attain the minimum qualifying period at varying percentages of last drawn basic salary. The percentage depends on the number of service years with the Company. Annual charge is based on actuarial valuation carried out as at June 30, 2007, using the Projected Unit Credit Method.

### 39.2 Principal actuarial assumptions

Following are a few important actuarial assumptions used in the valuation:

	2 0 0 7	2 0 0 6
Discount rate (%)	10	9
Expected rate of return on plan assets (%)	12	12
Expected rate of increase in salary (%)	10	9
Average expected remaining working life time of employees (years)	8	8



# Notes to the Financial Statements for the year ended June 30, 2007

	Note	2 0 0 7 (Rupees in thousands)	2 0 0 6		
<b>39.3 Reconciliation of due to/(from) defined benefit plan</b>					
Present value of defined benefit obligation		<b>70,175</b>	58,350		
Fair value of plan assets		<b>(70,074)</b>	(60,094)		
		<b>101</b>	(1,744)		
Net actuarial gain / (loss) to be recognized in later periods		<b>130</b>	(600)		
Closing net liability / (asset)		<b>231</b>	(2,344)		
<b>39.4 Movement of the liability/(asset) recognized in the balance sheet</b>					
Opening net asset		<b>(2,344)</b>	(494)		
Charge for the year	39.5	<b>2,772</b>	2,163		
Contribution to fund made during the year		<b>(197)</b>	(4,013)		
Closing net liability / (asset)	25	<b>231</b>	(2,344)		
<b>39.5 Charge for the year</b>					
Current service cost		<b>4,732</b>	4,084		
Interest cost		<b>5,251</b>	4,468		
Expected return on plan assets		<b>(7,211)</b>	(6,389)		
Charge for the year		<b>2,772</b>	2,163		
<b>39.6 Comparison for five years</b>					
	2006-07	2005-06	2004-05	2003-04	2002-03
<b>a) Present value of Defined Benefits Obligation and Fair Value of Plan Assets</b>					
Fair value of plan assets at year end	<b>70,074</b>	60,093	53,236	43,262	32,616
Present value of defined obligations at year end	<b>70,175</b>	58,350	49,645	41,431	36,367
	<b>(101)</b>	1,743	3,591	1,831	(3,751)
<b>b) Experience Adjustments</b>					
Experience adjustment arising on plan liabilities (gains)/losses	<b>6,044</b>	7,279	3,542	(791)	(3,583)
Experience adjustment arising on plan assets (gains)/losses	<b>6,511</b>	3,581	1,929	3,592	352
Actual return on plan assets	<b>13,986</b>	9,970			

# Notes to the Financial Statements for the year ended June 30, 2007

	Note	2 0 0 7 (Rupees in thousands)	2 0 0 6
<b>40. CASH GENERATED FROM OPERATIONS</b>			
Profit before taxation		<b>124,182</b>	308,222
Adjustment for non-cash charges and other items:			
Depreciation		<b>265,804</b>	246,484
Impairment loss		-	350
Amortization of intangible assets		<b>208</b>	288
Profit on sale of fixed assets		<b>(210)</b>	36
Fixed assets retired (net book value)		<b>469</b>	22
Provision for gratuity		<b>2,772</b>	2,163
Provision for slow moving / obsolete stores and spares		<b>3,000</b>	2,500
Profit on short term investment and bank deposit accounts		<b>(830)</b>	(1,808)
Fair value of interest rate swap		<b>2,245</b>	(4,500)
Financial charges	35	<b>89,768</b>	78,071
Working capital changes	40.1	<b>(101,748)</b>	(86,813)
		<b>385,660</b>	<b>545,015</b>
<b>40.1 Working capital changes</b>			
Decrease/(increase) in current assets:			
Stores and spares		<b>(40,393)</b>	(38,392)
Stock-in-trade		<b>(30,922)</b>	(89,813)
Trade debts		<b>(64,763)</b>	(35,896)
Loans and advances		<b>3,291</b>	(166)
Trade deposits and short-term prepayments		<b>(2,960)</b>	148
Other receivables		<b>3,076</b>	14,916
		<b>(132,671)</b>	(149,203)
Increase in current liabilities:			
Trade and other payables (excluding unclaimed dividend and gratuity payable)		<b>30,923</b>	62,390
		<b>(101,748)</b>	<b>(86,813)</b>

# Notes to the Financial Statements for the year ended June 30, 2007

## 41. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

The aggregate amount charged in the financial statements for remuneration, including all benefits to Chief Executive, Directors and Executives of the Company is as follows:

	2007				2006			
	Chief Executive	Directors	Executives	Total (Rupees in thousands)	Chief Executive	Directors	Executives	Total
Managerial remuneration	3,020	5,016	10,723	18,759	1,718	4,078	5,522	11,318
House rent	-	1,713	3,741	5,454	581	1,211	1,921	3,713
Bonus	-	817	1,322	2,139	520	811	772	2,103
Motor vehicle expenses	194	312	1,919	2,425	-	305	1,823	2,128
Staff retirement benefits	-	813	1,105	1,918	166	819	579	1,564
Medical	300	489	1,069	1,858	-	396	484	880
Utilities	327	261	821	1,409	166	396	549	1,111
Others	-	17	140	157	6	17	74	97
<b>Total</b>	<b>3,841</b>	<b>9,438</b>	<b>20,840</b>	<b>34,119</b>	<b>3,157</b>	<b>8,033</b>	<b>11,724</b>	<b>22,914</b>
Number of persons	1	2	17	20	1	2	9	12

- (a) Aggregate amount charged in these financial statements in respect of Directors' fee is Rs. 2000 (2006: Rs. 2,500).
- (b) The new Chief executive of the Company was appointed with effect from February 2006 and his remuneration is being charged to the Company with effect from March 1, 2007 as approved in the meeting of Board of Directors held on April 17, 2007.
- (c) The Directors and Executives are also provided with free use of Company maintained cars.

## 42. TRANSACTIONS WITH RELATED PARTIES

The related parties and associated undertakings comprise group companies, other associated companies, staff retirement funds, directors and key management personnel. Transactions with related parties and associated undertakings are as under:

		Note	2007 (Rupees in thousands)	2006 (Rupees in thousands)
<b>Relation with the Company</b>	<b>Nature of transaction</b>			
Associated companies	Sales of goods and services	42.1	509,804	427,232
	Purchase of goods and services	42.1	95,420	45,524
	Rent and other allied charges	42.1	3,492	4,466
	Insurance agency commission		3,895	3,424
	Dividends paid		-	57,157
	Shares issued		-	510,460
	Donations made		-	1,248
Sponsors and Directors	Long-term financing obtained from sponsors and directors		1,725,000	-
Retirement benefit plans	Contribution to staff retirement benefit plans		11,912	10,875
Key management personnel	Remuneration and other benefits		34,119	22,914

- 42.1 These include transactions with Lakson Tobacco Company Limited upto March 8, 2007. On this date the Company ceased to be an associated company.

There are no transactions with key management personnel other than under their terms of employment.

The related party status of outstanding balances as at June 30, 2007 are included in "Trade debts" (note 13), "Other receivables" (note 16) and "Trade and other payables" (note 25) respectively.

# Notes to the Financial Statements for the year ended June 30, 2007

## 43. CAPACITY AND PRODUCTION - TONNES

	2007		2006	
	Annual capacity on three shifts	Actual production	Annual capacity on three shifts	Actual production
Paper and paper board produced	<b>110,000</b>	<b>95,483</b>	100,000	87,196
Paper and paper board conversion	<b>15,000</b>	<b>12,373</b>	12,000	9,585

## 44. FINANCIAL ASSETS AND LIABILITIES

Note	Total	2007			Not interest/mark up bearing
		Interest/mark up bearing		Sub-total	
		Maturity upto one year	Maturity after one year		
(Rupees in thousands)					
<b>Financial assets</b>					
Long-term loans	<b>724</b>	-	-	-	<b>724</b>
Long-term deposits and other receivables	<b>3,757</b>	-	-	-	<b>3,757</b>
Trade debts	<b>280,801</b>	-	-	-	<b>280,801</b>
Other receivables	<b>1,752</b>	-	-	-	<b>1,752</b>
Cash and bank balances	<b>21,806</b>	<b>3,645</b>	-	<b>3,645</b>	<b>18,161</b>
	<b>308,840</b>	<b>3,645</b>	-	<b>3,645</b>	<b>305,195</b>
<b>Financial liabilities</b>					
Long-term financing	<b>5,515,476</b>	<b>209,524</b>	<b>5,155,952</b>	<b>5,365,476</b>	<b>150,000</b>
Trade and other payables	<b>220,971</b>	-	-	-	<b>220,971</b>
Financial charges payable	<b>118,913</b>	-	-	-	<b>118,913</b>
Retention money payable	<b>166,054</b>	-	-	-	<b>166,054</b>
Short-term borrowings	<b>298,924</b>	<b>298,924</b>	-	<b>298,924</b>	-
	<b>(6,320,338)</b>	<b>(508,448)</b>	<b>(5,155,952)</b>	<b>(5,664,400)</b>	<b>(655,938)</b>
<b>On balance sheet gap</b>	<b>(6,011,498)</b>	<b>(504,803)</b>	<b>(5,155,952)</b>	<b>(5,660,755)</b>	<b>(350,743)</b>
<b>Off Balance sheet Items</b>					
Financial commitments:					
Letter of credits	<b>263,630</b>	-	-	-	<b>263,630</b>
Capital Commitment including letter of credits 44.1	<b>1,142,638</b>	-	-	-	<b>1,142,638</b>
Commitments for licence					
Cost of ERP software (Oracle)	<b>6,450</b>	-	-	-	<b>6,450</b>
Commitments for rental under operating leases 28.2 (e)	<b>611</b>	-	-	-	<b>611</b>
	<b>(1,413,329)</b>	-	-	-	<b>(1,413,329)</b>
<b>Total Gap</b>	<b>(7,424,827)</b>	<b>(504,803)</b>	<b>(5,155,952)</b>	<b>(5,660,755)</b>	<b>(1,764,072)</b>

# Notes to the Financial Statements for the year ended June 30, 2007

Note	Total	2006		Sub-total	Not interest/ mark up bearing
		Maturity upto one year	Interest/mark up bearing Maturity after one year		
(Rupees in thousands)					
<b>Financial assets</b>					
Long-term loans	136	-	-	-	136
Long-term deposits and other receivables	4,192	-	-	-	4,192
Trade debts	216,038	-	-	-	216,038
Other receivables	2,110	-	-	-	2,110
Short term investments	165,595	-	-	-	165,595
Cash and bank balances	21,775	4,861	-	4,861	16,914
	409,846	4,861	-	4,861	404,985
<b>Financial liabilities</b>					
Long-term financing	773,077	332,601	440,476	773,077	-
Trade and other payables	204,871	-	-	-	204,871
Financial charges payable	3,419	-	-	-	3,419
Retention money payable	4,330	-	-	-	4,330
Short-term borrowings	239,195	239,195	-	239,195	-
	(1,224,892)	(571,796)	(440,476)	(1,012,272)	(212,620)
<b>On balance sheet gap</b>	<b>(815,046)</b>	<b>(566,935)</b>	<b>(440,476)</b>	<b>(1,007,411)</b>	<b>192,365</b>
<b>Off Balance sheet Items</b>					
Financial commitments:					
Letter of credits	157,360	-	-	-	157,360
Capital Commitment including letter of credits	4,482,031	-	-	-	4,482,031
Commitments for rental under operating leases 28.2 (e)	2,613	-	-	-	2,613
	(4,642,004)	-	-	-	(4,642,004)
<b>Total Gap</b>	<b>(5,457,050)</b>	<b>(566,935)</b>	<b>(440,476)</b>	<b>(1,007,411)</b>	<b>(4,449,639)</b>

**44.1** The unutilized facility of syndicate loan available at the year end amounted to Rs. 2,150 million (Note: 22.4)

## 45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company finances its operations through equity, borrowings and management of working capital with a view to maintaining an appropriate mix between 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 price and cash flow risk in respect of such instruments.

# Notes to the Financial Statements for the year ended June 30, 2007

## a) Concentration of credit risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counter parties fail to perform as contracted. All the financial assets except cash in hand are subject to credit risk. The Company believes that it is not exposed to major concentration of credit risk. The Company seeks to minimize the credit risk exposure through dealing with customers considered credit worthy and obtaining advances and securities where applicable.

The exposure to banks is managed by dealing with variety of major banks and monitoring exposure limits on continuous basis.

## b) Foreign exchange risk management

Foreign currency risk arises mainly where receivables and payables exist due to transactions with foreign undertakings. On-balance sheet items exposed to foreign currency risk consist of bank balances, import credit finances and foreign bills payable amounting to Rs. 0.06 million (2006: 0.16 million), Rs. 206.30 million, (2006: Rs. 141.73 million) and Rs. Nil million (2006: Rs. 5.76 million) respectively. Off-balance sheet items exposed to foreign currency risk consist of commitments under letters of credit amounting to Rs. 985.52 million (2006: Rs. 4,039.77 million). In appropriate cases, the management takes out forward contracts to mitigate the risk.

## c) Interest rate risk management

Financial liabilities include Rs. 5,491.07 million (2006: Rs 752.27 million) which are subject to floating interest rate. Applicable effective interest rates for financial assets and financial liabilities have been disclosed in respective notes to the financial statements.

To manage the exposure to interest rate risk, the management adopts appropriate hedging techniques on case to case basis.

## d) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. Due to effective cash management and planning policy, the Company aims at maintaining flexibility in funding by keeping committed credit lines available.

## 46. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

## 47. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on July 25, 2007 by the Board of Directors of the Company.

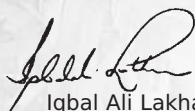
## 48. CORRESPONDING FIGURES

Corresponding figures have been rearranged and reclassified, wherever necessary for the purpose of comparison. Major changes made during the year were as follows:

- i) Retention money payable related to contractors of PM - 7 Expansion Project amounting to Rs. 4.33 million previously included under in "Trade and other payables " has now been presented separately on the face of balance sheet.
- ii) The cost of internally produced wrapping paper amounting to Rs. 5 million previously included in different heads under cost of sales have now been reclassified and included in packing expenses under cost of sales.

## 49. GENERAL

Amounts have been rounded off to the nearest thousands of rupees.



Iqbal Ali Lakhani  
Chairman & Chief Executive



Zafar Iqbal Sobani  
Director

# Pattern of Holding of Shares Held by the Shareholders

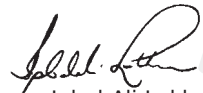
for the year ended June 30, 2007

NO. OF SHAREHOLDERS	FROM	SHAREHOLDING	TO	TOTAL SHARES HELD	
194	1		100	Shares	10,227
267	101		500	Shares	92,180
201	501		1,000	Shares	183,464
279	1,001		5,000	Shares	709,107
76	5,001		10,000	Shares	562,781
23	10,001		15,000	Shares	293,853
8	15,001		20,000	Shares	145,430
10	20,001		25,000	Shares	242,280
3	25,001		30,000	Shares	83,400
4	35,001		40,000	Shares	160,000
1	40,001		45,000	Shares	43,000
3	45,001		50,000	Shares	149,500
1	65,001		70,000	Shares	69,500
1	70,001		75,000	Shares	75,000
1	75,001		80,000	Shares	76,100
1	90,001		95,000	Shares	94,964
1	100,001		105,000	Shares	103,000
2	110,001		115,000	Shares	221,220
2	115,001		120,000	Shares	238,000
1	130,001		135,000	Shares	133,800
2	140,001		145,000	Shares	286,700
1	150,001		155,000	Shares	150,100
1	245,001		250,000	Shares	249,484
1	265,001		270,000	Shares	266,200
1	295,001		300,000	Shares	298,500
1	315,001		320,000	Shares	318,114
1	395,001		400,000	Shares	398,600
1	455,001		460,000	Shares	459,000
1	465,001		470,000	Shares	465,700
2	525,001		530,000	Shares	1,057,420
1	545,001		550,000	Shares	546,100
1	660,001		665,000	Shares	661,914
1	665,001		670,000	Shares	669,400
1	710,001		715,000	Shares	710,200
1	750,001		755,000	Shares	751,460
1	955,001		960,000	Shares	956,200
1	1,220,001		1,225,000	Shares	1,220,940
1	1,510,001		1,515,000	Shares	1,511,400
1	1,765,001		1,770,000	Shares	1,767,500
1	2,140,001		2,145,000	Shares	2,143,306
1	2,635,001		2,640,000	Shares	2,640,000
1	4,320,001		4,325,000	Shares	4,323,022
1	4,790,001		4,795,000	Shares	4,792,102
1	10,245,001		10,250,000	Shares	10,247,638
1	10,935,001		10,940,000	Shares	10,937,422
1	12,740,001		12,745,000	Shares	12,742,432
<b>1107</b>				<b>TOTAL</b>	<b>64,257,660</b>

## Categories of shareholders

Categories of shareholders	Shares held	Percentage
Directors, Chief Executive, and their spouse and minor children	958,886	1.49
Associated Companies, undertakings and related parties	34,334,032	53.43
NIT and ICP	10,248,338	15.95
Bank, Development Financial Institutions, Non Banking Financial Institutions	6,608,199	10.28
Insurance Companies	2,920,420	4.55
Modarabas and Mutual Funds	2,431,170	3.78
Shareholders holding 10%	33,927,492	52.80
General Public	9,750,512	15.17
Joint Stock Companies	35,677,241	55.52
Co-operative Societies	1,000	0.00
- Wakf	11,000	0.02
- Trust	7,850	0.01

Note: Some of the shareholders are reflected in more than one category.  
Dated: 30 June 2007

  
Iqbal Ali Lakhani  
Chairman & Chief Executive

# Details of Pattern of Shareholding as per Requirements of Code of Corporate Governance for the year ended June 30, 2007

## ASSOCIATED COMPANIES SHARES HELD

M/s. SIZA (Private) Limited	12,742,432
M/s. SIZA Services (Private) Limited	10,937,422
M/s. SIZA Commodities (Private) Limited	4,323,022
M/s. Accuray Surgicals Limited	1,220,940
M/s. Premier Fashions (Private) Limited	4,792,102
M/s. Century Insurance Company Limited	318,114

## NIT AND ICP

National Bank of Pakistan, Trustee Deptt	10,247,638
Investment Corporation of Pakistan	700

## DIRECTORS, CHIEF EXECUTIVE OFFICER, AND THEIR SPOUSE AND MINOR CHILDREN

Mr. Iqbal Ali Lakhani	Director/Chief Executive	528,710
Mr. Zulfiqar Ali Lakhani	Director	500
Mr. Amin Mohammed Lakhani	Director	249,484
Mr. Tasleemuddin Ahmed Batlay	Director	1,802
Mr. Aftab Ahmad	Director	2,488
Mr. Zafar Iqbal Sobani	Director	1,000
Mr. Syed Shabahat Hussain – Nominee	Director (NIT)	-
Mrs. Ronak Iqbal Lakhani		100
W/o. Mr. Iqbal Ali Lakhani		
Mrs. Fatima Lakhani		100
W/o. Mr. Zulfiqar Ali Lakhani		
Mrs. Saira Amin Lakhani		150,100
W/o. Mr. Amin Mohammed Lakhani		
Mrs. Roohi Aftab		24,602
W/o. Mr. Aftab Ahmad		

**EXECUTIVE** NIL

**PUBLIC SECTOR COMPANIES AND CORPORATIONS** NIL

**BANKS, DEVELOPMENT FINANCIAL INSTITUTIONS, NON-BANKING FINANCIAL INSTITUTIONS, INSURANCE COMPANIES MODARABAS AND MUTUAL FUNDS** 11,959,789

## SHAREHOLDERS HOLDING 10%

M/s. SIZA (Private) Limited	12,742,432
M/s. SIZA Services (Pvt) Ltd	10,937,422
National Bank of Pakistan, Trustee Deptt	10,247,638



# Form of proxy

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I/We \_\_\_\_\_  
of \_\_\_\_\_  
a member of **CENTURY PAPER & BOARD MILLS LIMITED**  
hereby appoint \_\_\_\_\_  
of \_\_\_\_\_  
or failing him \_\_\_\_\_  
of \_\_\_\_\_  
to act as my/our proxy and to vote for me/us and on my/our behalf at the Annual General Meeting of the Shareholders of the Company to be held on the 31st day of August 2007 and at any adjournment thereof.

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

Folio No.	CDC Participant ID No.	CDC Account/ Sub-Account No.	No. of Shares Held

**Signature over Revenue Stamp**

## Witness 1

Signature \_\_\_\_\_

Name \_\_\_\_\_

CNIC No. \_\_\_\_\_

Address \_\_\_\_\_

## Witness 2

Signature \_\_\_\_\_

Name \_\_\_\_\_

CNIC No. \_\_\_\_\_

Address \_\_\_\_\_

## Notes:

1. The Proxy must be a member of the Company.
2. The signature must tally with the specimen signature/s registered with the Company.
3. If a proxy is granted by a member who has deposited his/her shares into Central Depository Company of Pakistan Limited, the proxy must be accompanied with participant's ID number and account/sub-account number alongwith attested photocopies of Computerized National Identity Card (CNIC) or the Passport of the beneficial owner. Representatives of corporate members should bring the usual documents required for such purpose.
4. The instrument of Proxy properly completed should be deposited at the Registered Office of the Company situated at Lakson Square, Building No. 2, Sarwar Shaheed Road, Karachi not less than 48 hours before the time of the meeting.

Fold Here

AFFIX  
CORRECT  
POSTAGE

TO,  
THE COMPANY SECRETARY  
**CENTURY PAPER & BOARD MILLS LIMITED**  
LAKSON SQUARE, BUILDING NO. 2,  
SARWAR SHAHEED ROAD, KARACHI-74200.  
PHONE: 5698000

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Strive together for excellence



## Century Paper & Board Mills Limited

### **Head Office & Registered Office**

Lakson Square Building No. 2, Sarwar Shaheed Road,  
Karachi-74200, Pakistan.

Phones: 021-5698000 Fax: 021-5681163, 5683410

### **Lahore Office**

41-K, Model Town, Lahore, Pakistan.

Phone: (042) 5886801-4 Fax: (042) 5830338

### **Mills**

67 KM, Lahore-Multan Highway-N5, District Kasur, Pakistan.

Phones: (049) 4511464-5, (049) 4510061-2 Fax: (049) 4510063

E-mail: [info@centurypaper.com.pk](mailto:info@centurypaper.com.pk)

Website: [www.centurypaper.com.pk](http://www.centurypaper.com.pk)