YEARS OF TRUST & DEVOTION

50+

51st Annual Report

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FEROZSONS
LABORATORIES LIMITED

50+ YEARS OF TRUST & DEVOTION

Contents

CORPORATE INFORMATION

Board of Directors

Mrs. Akhter Khalid Waheed	Chairperson & Chief Executive
Mr. Osman Khalid Waheed	President/Director
Mrs. Munize Azhar Peracha	Non Executive Director
Mr. Nihal A. Cassim	Non Executive Director
Mr. M. M. Ispahani	Non Executive Director
Mr. Taj Muhammad Khanzada	Non Executive Director
Mr. Farooq Mazhar	Non Executive Director
Mr. Dost Muhammad Khan Sherpao	Non Executive Director
Mr. Muhammad Nawaz Tishna	Nominee of the National Investment Trust

Company Secretary

Syed Ghausuddin Saif

Audit Committee

Mr. Taj Muhammad Khanzada	Chairman
Mr. Muhammad Nawaz Tishna	Member
Mr. Farooq Mazhar	Member
Mr. Nihal A. Cassim	Member

Executive Committee

Mr. Osman Khalid Waheed	Chairman/President
Mr. Omar Khalid Waheed	Member/General Manager
Mr. A. U. Zafar	Member/Executive Director
Mr. Anwar Khan	Member/Director Procurement
Dr. Sarmad Maqbool	Member/Director Marketing - Pharma
Mr. Junaid Butt	Member/Director Marketing - Biotech
Syed Ghausuddin Saif	Member/Company Secretary & CFO
Syed Nayyer Abbas Zaidi	Member/Human Resources Manager

Auditors

Messrs KPMG Taseer Hadi & Co.
Chartered Accountants

Bankers

Bank Alfalah Limited
Habib Bank Limited
Standard Chartered Bank Limited
Allied Bank Limited

Registered Office

197-A, The Mall, Rawalpindi, Pakistan
Phones: +92-51-5562155-57
Fax: +92-51-5584195, 5566881

Factories

P.O. Ferozsons, Nowshera (N.W.F.P.),
Pakistan

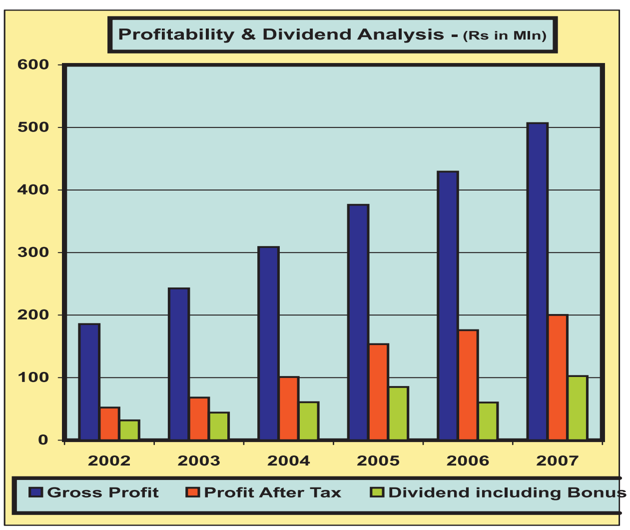
E-mail & Internet

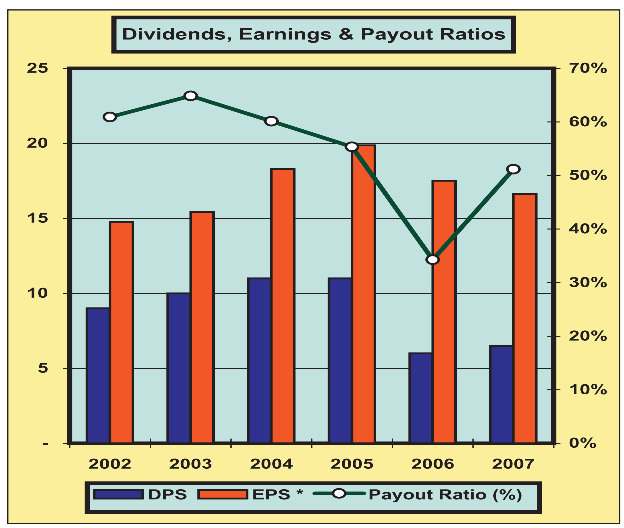
Info@ferozsons-labs.com
www.ferozsons-labs.com

FEROZSONS LABORATORIES LIMITED

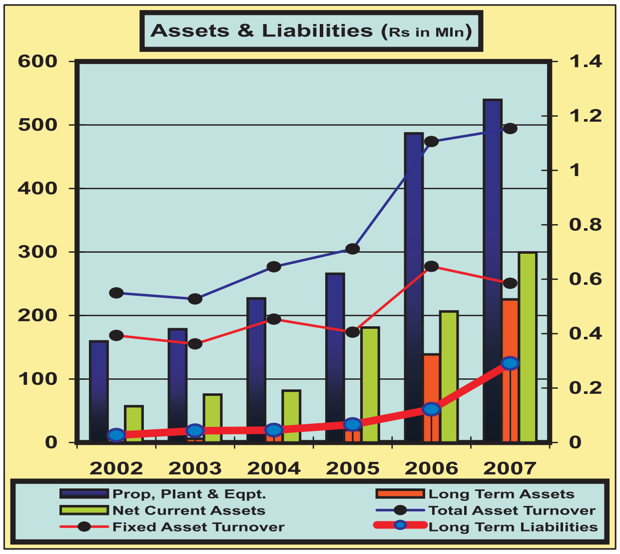
OPERATING HIGHLIGHTS Six Years at a Glance	2007	2006	2005	2004	2003	2002
				Rupees in million		
Ferozsons Laboratories Limited						
Operating Results						
Net Sales	**922**	752	656	501	493	405
Gross Profit	**507**	429	376	305	243	186
Profit Before Taxation	**259**	218	215	149	99	79
Profit After Taxation	**200**	176	154	101	68	52
Key performance indicators						
Earnings Per Share- Basic and Diluted	**17**	18	20	18	15	15
Dividend per share- Including intermin and final	**9**	6	11	11	10	9
Market price per share	**248**	205	195	150	94	51
Price earning ratio	**15**	12	10	8	6	3
Financial Position						
Shareholders' Equity	**683**	517	383	242	180	135
Propert, plant and equipment	**539**	487	266	227	178	159
Working capital	**299**	206	181	82	75	57
Non current liabilities	**125**	52	28	20	19	11
Consolidated						
Operating Results						
Net Sales	**1,012**	839	730	* 637	–	–
Gross Profit	**528**	446	388	* 319	–	–
Profit Before Taxation	**262**	222	217	* 149	–	–
Profit After Taxation	**200**	176	154	* 101	–	–
Financial Position						
Shareholders' Equity	**710**	545	384	* 243	–	–
Propert, plant and equipment	**761**	495	269	* 230	–	–
Working capital	**331**	364	197	* 93	–	–
Non current liabilities	**125**	52	28	* 20	–	–

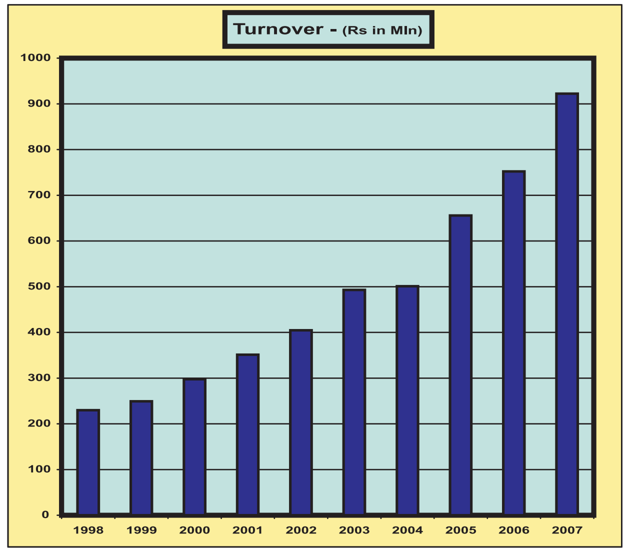
* First year of consolidation

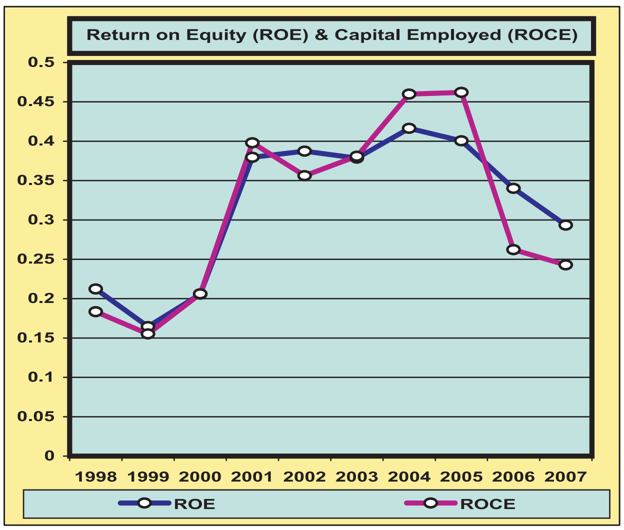


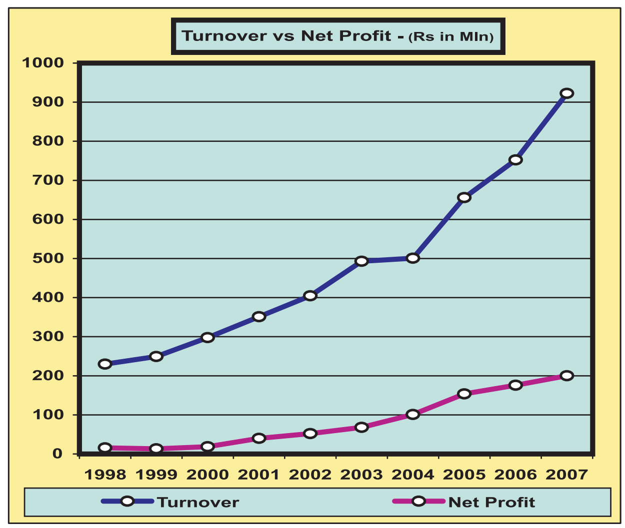


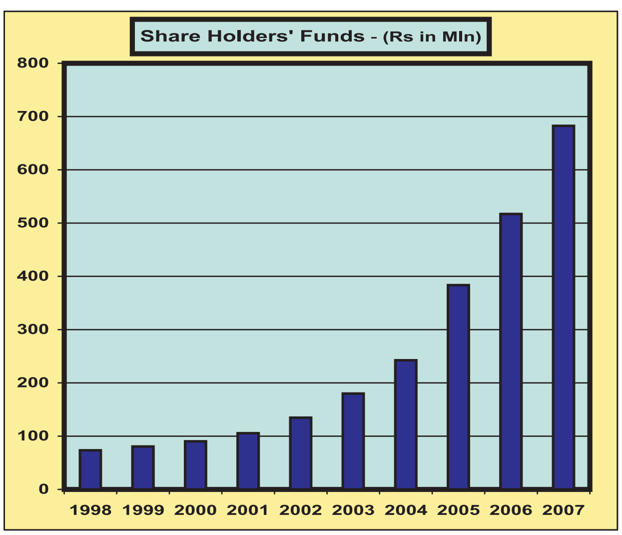
FEROZSONS
LABORATORIES LIMITED

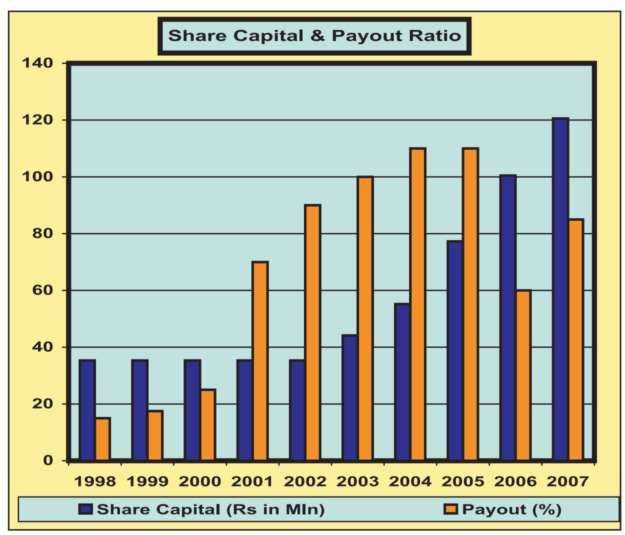












Mission Statement

We aim to improve the Quality of Life
through the ethical promotion and sales of
world class medicines at locally relevant prices.
In doing so we will:

Strive to provide best-in-industry
returns to our shareholders.

Be the Second to None in Employee Training,
Reward and Motivation.

Maintain the Highest Levels of Ethics
while focusing on building our portfolio
of Prescription Brands.

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the **51st** Annual General Meeting of **FEROZSONS LABORATORIES LIMITED** (the Company) will be held on Saturday, September 29, 2007 at 11.30 A.M. at its Registered Office, 197-A, The Mall, Rawalpindi to transact the following business:

Ordinary Business:

1. To confirm the Minutes of the Annual General Meeting held on September 30, 2006.

2. To receive, consider and adopt the Audited Annual Financial Statements of the Company for the year ended June 30, 2007 together with the Directors' and Auditors' Reports thereon.

3. To approve the payment of final cash dividend of Rs. 6.50 per share (65%) for the year ended June 30, 2007.

4. To approve recommendation of the Board of Directors for the issue of Stock Dividend (Bonus Shares) at the rate of 20% in the ratio of two Bonus Shares for every ten shares held, for the year ended June 30, 2007.

5. To appoint External Auditors for the financial year ending June 30, 2008 and fix their remuneration.

Special Business:

To consider and pass the following special resolutions with or without modifications: *(Details annexed)*

6. "**RESOLVED THAT** in the event of any member holding shares which are not in exact Multiple of his/her entitlement, the Directors of the Company be and are hereby authorized to sell in the Stock Market such fractional entitlement and to pay the net proceeds of sale to a charitable institution as approved by Directors."

7. "**RESOLVED THAT** the current Authorised Share Capital of the Company be and is hereby increased from Rs. 150,000,000/- to Rs. 250,000,000/- (Rs. Two Hundred Fifty Million) divided into 25,000,000 (Twenty Five Million) Ordinary Shares of Rs. 10/- each and the relevant para 1 of clause V of the Memorandum of Association and Clause 4 of the Articles of Association be amended and substituted to read as under respectively.

   Clause V of Memorandum of Association:

   V. The authorized capital of the Company is Rupees 250,000,000/- (Rupees Two Hundred Fifty Million) divided into 25,000,000 (Twenty Five Million) ordinary shares of Rs. 10/- (Rs. Ten) each.

   Clause 4 of Articles of Association

   4. The authorized capital of the Company is Rs. 250,000,000/- (Rupees Two Hundred Fifty Million) divided into 25,000,000 (Twenty Five Million) ordinary shares of Rs. 10/- (Rs. Ten) each.

8. "**RESOLVED THAT** the gross salary of the Working Director/President, Mr. Osman Khalid Waheed be and hereby increased to Rs. 475,000 per month with effect from July 1, 2007 while other prevailing terms and conditions of service will remain unchanged."

9. "**RESOLVED THAT** the Company be and is hereby authorized to invest an aggregate sum of Rupees Forty Million, in cash or in kind, in Four Million ordinary shares of Rupees Ten each of BF Biosciences Limited, a subsidiary company, in the form of equity. Such investment to be made in one lump sum or in tranches as deemed fit by the Chief Executive of the Company"

   "**FURTHER RESOLVED THAT** the Company be and is hereby authorized to invest an aggregate sum of Rupees One Hundred Million from the Company's surplus funds, if required, in cash or in kind, in BF Biosciences Limited, a subsidiary company, in the form of term loan repayable in five years including one year grace period or earlier as deemed by the Company. Such investment to be made in one lump sum or in tranches as deemed fit by the Chief Executive of the Company and shall be subject to such markup rates not less than the limitation as specified in clause (b) to sub-section (1) of section 208 of the Companies Ordinance, 1984".

   "**FURTHER RESOLVED THAT** the Company be and is hereby authorized to issue Corporate Guarantee to any financial institution/bank on behalf of BF Biosciences Limited, a subsidiary company, where the subsidiary company obtains directly any financing facility from any financial institution/ bank."

   "**FURTHER RESOLVED THAT** the Chief Executive of the Company be and is hereby authorized to take all necessary steps to effect the above investments/guarantee and to complete necessary statutory requirements."

10. To transact any other business with the permission of the Chair.

By the order of the board

Rawalpindi
August 29, 2007

(Syed Ghausuddin Saif)
Company Secretary

Notes:

1. The Share Transfer Books of the Company shall remain closed from September 20, 2007 to September 29, 2007 both days inclusive).

2. A Member entitled to attend and vote at this meeting may appoint another member as his/her proxy to attend and vote on his/her behalf. Proxies to be effective must be received by the registered office of the Company not less than 48 hours before the Meeting. CDC Account Holders will further have to follow the under mentioned guidelines as laid down by the Securities and Exchange Commission of Pakistan.

A) For attending the Meeting:

i. In case of individuals, the account holder or sub-account holder and/or persons whose securities are in group account and their registration details are uploaded as per the Regulations, shall authenticate his identity by showing his original National Identity Card (NIC), or original Passport at the time of attending the meeting.

ii. In case of corporate entity, the Board of Directors' Resolution / Power of Attorney with specimen signature of the nominee shall be produced at the Meeting.

B) For appointing Proxies:

i. In case of individual, the account holder or sub-account holder and/or the persons whose securities are in group account and their registration details are uploaded as per the Regulations, shall submit the Proxy Form of another member as per the above requirement.

ii. The Proxy Form shall be witnessed by two persons whose names, address an NIC numbers shall be mentioned on the Form.

iii. Attested copies of NIC or the passport of the beneficial owners and the Proxy shall be furnished wit the Proxy Form.

iv. The Proxy shall produce his original NIC or original passport at the time of meeting.

v. In case of corporate entity, the Board of Directors' Resolution/Power of Attorney with specimen signature shall be submitted, alongwith Proxy Form to the Company.

3. Members are requested to notify immediately changes in their address, if any.

STATEMENT OF MATERIAL FACTS UNDER SECTION 160 OF THE COMPANIES ORDINANCE, 1984

PERTAINING TO ITEM NO. 6

The approval of the Shareholders is sought to consolidate fractional shares resulting from the bonus issue, recommended by the Board of Directors in their meeting held on August 29, 2007 into whole shares and pay the net proceeds of the sale through stock market to a charitable institution.

The Directors of the Company have no interest in the special business except to the extent of shares held by them.

PERTAINING TO ITEM NO. 7

The present Paid up Capital of Rs. 120,560,640/- is nearly touching the ceiling of present authorized capital of Rs. 150,000,000. To strengthen the Company's back up resources and to facilitate future progress, growth and expansion, the Board of Directors at its meeting held on August 29, 2007 recommended to increase the authorized capital of the Company from Rs. 150 million to Rs. 250 million.

Hence the amendment for the increase in authorized capital in the Memorandum & Articles of Association of the Company is purposed to be considered and approved as special resolution by the shareholders in the annual general meeting.

The Directors of the Company have no interest in the special business except to the extent of shared held by them.

PERTAINING TO ITEM NO. 8

In view of substantial inflationary trends and higher rent to be paid by the President at Lahore, the Board considered the case of revision of remunerations to the President, Mr. Osman Khalid Waheed working as a whole time director, with effect from July 01, 2007 and proposed that his per month gross salary be revised to Rs. 475,000 per month. His present gross salary stands at Rs. 364,000 per month. The other terms and conditions will remain unchanged.

PERTAINING TO ITEM NO. 9

An Equity injection of Rs. 112 million and loan facility of Rs. 277 million was made available to the subsidiary company as per the decision made under authority of the special resolution passed in the extra ordinary general meeting of the Company held on April 07, 2006. However, owing to the increase in initial project feasibility by over Rs. 100 million, mainly due to increase in the scope of the building structure, increased costs of steel, cement, copper, labour and the upward movement of Euros, we foresee a further investment of Rs. 39.2 million as equity, as well as arranging a loan facility, if necessary of upto Rs. 100 million from the Company's surplus funds for the project. However, if the subsidiary company is able to obtain the loan directly from a financial institution in its name then the Company will provide a corporate guarantee to the financial institution on behalf of the subsidiary company.

Information under SRO 865(I)/2000

This is for the information of the shareholders as required under SRO 865(I)/2000 dated December 6, 2006 relating to investments in associated undertakings under section 208 of the Companies Ordinance, 1984.

a) The following are material facts about the proposed special resolution – <u>Investment through Equity</u>

i). Name of investee company;
BF Biosciences Limited

ii). Amount and extent of investment;
Already invested Rs. 112 million, additional required Rs. 40 million

iii). Average market price, Break-up value and EPS of the Investee Company;
Not applicable as commercial production have not yet started

iv). Price at which shares will be purchased;
Rs. 10/- each

v). Source of funds from where shares will be purchased;
Through Company own internal resources

vi). Period for which investment will be made;
Indefinite being equity investment

vii). Purpose of investment;
Further investment in the subsidiary to maintain 2:1 debt equity ratio as per the JV agreement in lieu of the increased project costs

viii). Benefits likely to accrue to the company and the shareholders; and
Increased earnings, appreciation in the share value and better dividend pay outs

ix). Interest of directors and their relatives in the investee company.
The Directors of the Company and their relatives have no interest in the above investment except to the extent of their shareholdings in the investor company.

b) The following are material facts about the proposed special resolution – Investment through Loan

i). Name of investee company;
BF Biosciences Limited

ii). Amount of Loan;
Rs. 100 million

iii). A brief about the financial position of the investee company;
Commercial production of the investee company has not yet started

iv). Rate of mark-up to be charged;
Mark-up charged will be not less than the borrowing cost of the Company in term of Section 208 of the Companies Ordinance, 1984

v). Particulars of collateral security to be obtained from borrower and; if not needed justification thereof;
No security is considered necessary as both the companies are under common management control due to parent subsidiary relationship.

vi). Repayment schedule;
The loan will be repayable within a period of five years or earlier as and when required by the Company

vii). Source of funds from where loan or advance will be given;
Through Company own internal resources

viii). Purpose of loan; and
BF Biosciences Limited requires in addition to equity, a loan financing upto Rs. 100 million

for completion of its Biotech Production Plant for the manufacture of Cancer and Hepatitis related medicines.

ix). Benefits likely to accrue to the Company and the shareholders from the proposed loan; **Utilization of surplus funds**

In accordance to para 3 of SRO 865(I)/2000 dated December 6, 2006 relating to status of the decision made under authority of the special resolution passed in the extra ordinary general meeting held on April 07, 2006 till the holding of a subsequent general meeting, the investment through equity has been made; however, loan investment of Rs. 182.5 million out of Rs. 277 million is still pending as the subsidiary company is availing it for retiring the letters of credits opened for import of Biotech Pharmaceutical Production Plant and settlement of the contractors' running bills.

There has been no adverse change in the financial position of the subsidiary company since the date of last resolution.

DIRECTORS' REPORT TO SHAREHOLDERS
FOR THE YEAR ENDED JUNE 30, 2007

We are pleased to present the 51st Annual Report of your Company for the financial year ended June 30, 2007 along with the consolidated financial statements with its subsidiaries, BF Biosciences Limited and Farmacia.

Your Company's Individual and Consolidated Financial Results

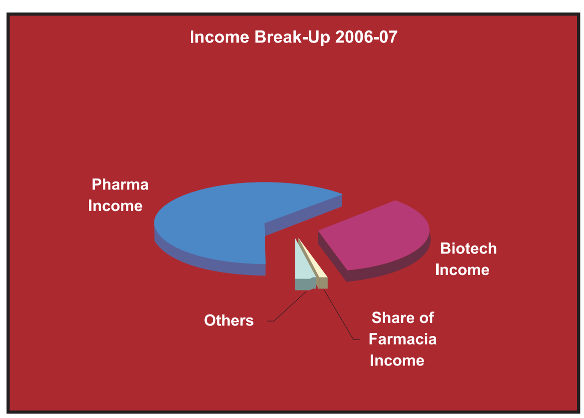
A summary of the operating results for the year and appropriation of the divisible profits is given below:

	Individual		Consolidated	
	2007	2006	**2007**	2006
	(Rupees in thousands)			
Sales (net)	**922,369**	752,222	**1,012,904**	839,123
Gross Profit	**506,861**	429,383	**528,375**	446,396
Profit before tax	**258,513**	218,137	**262,460**	221,591
Taxation	**(58,259)**	(42,269)	**(62,426)**	(46,036)
Profit after tax	**200,254**	175,869	**200,034**	175,556
Un-appropriated profit	**361,468**	240,426	**360,960**	240,371
Profit available for appropriation	**561,722**	416,295	**560,994**	415,927

Appropriations

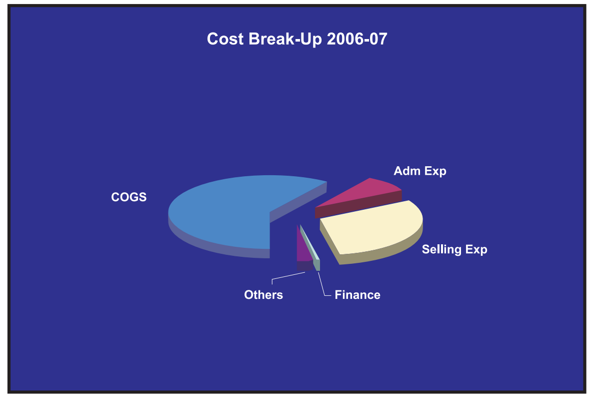
Final cash dividend for FY 2007@ Rs. 6.50/share (FY 2006: Rs. 4.00/share)	**(78,364)**	(40,187)	**(78,364)**	(40,187)
Bonus shares for the FY 2007@20% (FY 2006: 20%)	**(24,112)**	(20,093)	**(24,112)**	(20,093)

We are pleased to report that by the Grace of the Almighty, your Company was able to cross the landmark of Rs. One Billion in its consolidated net sales (inclusive of its Farmacia venture) during the Financial Year ended June 30, 2007, achieving a Net Sales figure of Rs. 1.013 Billion at the close of the year (FY 2007). This represents a growth of 20.72%.



In terms of individual Net Sales, your company achieved Net Sales of Rs. 922.369 Million, against the figure of Rs. 752.222 Million achieved last year. The Company's net sales grew by 23%, or almost double the industry's average growth of 12.5% as recorded by IMS Statistics for the period ending June 30, 2007.

Gross Profit ratios were eroded slightly owing to depreciation in currency and corresponding increase in cost of materials and also because of a greater growth in your company's imported products, which have a lower GP margin compared to locally manufactured range. In absolute terms, Gross Profit of your company grew by 18%, while the Net Profit increased by 14% to close at Rs. 200.254 Million for the Year (2006: Rs. 175.859 Million).



Summary of key operating and financial data of the individual and consolidated financial statements for the last six years is annexed.

Earnings Per Share

Based on the net profit for the year ended June 30, 2007 the earnings per share (EPS) stand at Rs. 16.61 per share, compared to an EPS of Rs. 14.59 on the expanded capital of Rs. 120.561 Million after issuance of bonus shares during the year.

Dividend Announcement

The Board of Directors is pleased to recommend a cash dividend of 65% (Rs. 6.50 per 10 rupee share), and a bonus dividend of 20% (i.e. two shares for every ten shares held), making a total payout of 85% for the year ended June 30, 2007.

Business Highlights

During the year, we consolidated our emerging leadership in the areas of oncology and transplantation, hepatology and cardiology through an increased focus on academic activities, and a range of new product launches that will Insha'Allah add significantly to the company's revenue and profitability during the coming year. Some of the highlights of this year's activities are:

According to IMS Statistics, your company's overall sales ranking in the Pharma Sector improved to 26 amongst over 600 national and multi-national companies operating in Pakistan. We are ranked 3rd among all companies in the field of Oncology and Transplantation, and 2nd in the pure oncology segment.

In the area of **Gastroenterology** and metabolism, the company successfully launched **Orlis**, an important anti-obesity product. With a clearly established link to heart disease and diabetes, obesity and the metabolic syndrome are emerging as leading causes of mortality in the sub-continent. As awareness about the disease grows, we expect Orlis to become a major contributor to the Company's portfolio.

Cardiology is a key segment in the company's portfolio. In addition to leading products for hypertension like **Xavor** and **Xavor-DIU**, the company expanded its presence in the other areas of cardiology, including congestive heart failure, where **Carveda** has become the leading brand for its molecule class. We also made an important entry through the introduction of **Nicoril** (Nicorandil), a novel potassium channel activator for the treatment of Angina.

In **Oncology & Transplantation**, the company achieved leadership position in **Filgen,** which is now the most prescribed growth factor in the country. We also successfully launched **Imuxgen** for use in transplant settings, and became the first national company to enter the field of monoclonal antibodies by obtaining the marketing rights for **Biomab EGFR** (Nimotuzumab) for the treatment of Head & Neck Cancer. This product is being brought to market with the collaboration of Biocon, India's largest biotechnology company and the product's license-holder for the South Asian market. We view our relationship with Biocon as strategically very important, and hope to bring many more cutting-edge therapeutic options in the treatment of cancer through this partnership.

The Company also had the distinct honour - courtesy of our joint-venture partners Laboratorios Bagó - to become the first Pakistani company to exhibit at the American Society of Clinical Oncology (ASCO) congress held in Chicago in June of this year. Attended by almost 30,000 oncologists from all over the world, ASCO is the world's most important academic event in the field of cancer treatment, and our presence there in future meetings will help in putting Pakistan, as well as our subsidiary BF Biosciences Limited, on the map in the field of cancer treatment.

Your Company views **clinical research** as an ethical marketing tool that will gain increasing importance as we enter more specialized areas of medicine. We have already supported a number of published clinical trials, some of which that have also won awards. During the coming year, we plan to increase our focus on clinical research through the Company's medical affairs department, and plan to participate in original trial work on the areas of oncology, hepatology, cardiology and metabolism.

Information Technology

During the coming year the company will be undertaking a major initiative to revamp its information technology base and creating an IT environment that supports proactive, informed decision-making at all levels. The company will be implementing an integrated ERP solution, and will also establish real-time connectivity between its sites at Nowshera, Lahore and Rawalpindi. The expected outlay in hardware, software and connectivity is expected to be in the range of Rs. 10 million during the year.

Future Industry Scenario

Having no recourse to a single price increase since 2001, the pharmaceutical sector will be under pressure to maintain its profitability in the face of inflationary pressures and currency devaluation. Although it registered a fairly healthy growth of 12.5% during 2006-07, as mentioned earlier, the total market in Pakistan, which currently stands at US $1.4 Billion, remains small in relation to our population size. Next door, India's domestic market is expected to grow to US $ 14 Billion by 2011, despite the common but faulty perception that drugs are much cheaper in India (in reality, an almost equal number of drugs are cheaper in either country).

Drug pricing is a complex issue that has been further complicated by the government's approach to pharmaceutical pricing. There are over 40,000 formulations of drugs in Pakistan, and the Ministry of Health burdens itself with the task of determining the price of each and every one of these, an effort that would test the capacity of even the largest of bureaucracies.

The pharmaceutical industry has long argued that the best way to ensure competitive pricing is through deregulation. This principle has been clearly demonstrated in the case of the Telecom sector, where deregulation and a judicious regulatory authority have brought costs down dramatically. Time and again, it has been proven that prices are best controlled when market forces are allowed to come into play. Until the Government continues to subject the industry to an artificial control that is at a disconnect with economic reality, the future of the industry and the prospects for achieving global scale will remain uncertain.

Continuing with the Indian example, only 74 molecules are price-controlled in India (based on a WHO list of essential medicines), compared to every single one in Pakistan. A correct regulatory mechanism in our country, based on the same model, could create a win-win situation for both the public and the industry, with more competitive pricing resulting from a transparent and fair regulatory environment. The national industry in particular can thrive, benefiting not only the local consumer with lower prices but also creating a large export base.

An effective and judicious deregulation policy, coupled with prioritization of the sector through a Special Economic Zones policy (also under practice in India and many other regional countries), can spur the Pharma industry into a new era of expansion, growth and quality improvement.

Corporate Governance

The Board of Directors and the Company remain committed to the principal of good corporate management practices with the emphasis on transparency and disclosures. The Board and management are cognizant of their responsibility and monitor the operations and performance to enhance the accuracy, comprehensiveness and transparency of financial and non-financial information.

The Company is fully compliant of Code of Corporate Governance and as per the requirements of listing regulations, following specific statements are being given hereunder:

- Proper books of account of the Company have been maintained.

- The financial statements prepared by the management of the Company present fairly its state of affairs, the results of its operations, cash flows and changes in equity.

- Appropriate Accounting Policies have been consistently applied in preparation of the company's financial statements which confirm to the International Accounting Standards as applicable in Pakistan. The accounting estimates, wherever required, are based on reasonable and prudent judgment.

- The systems of internal controls are sound in design and have been effectively implemented by the management and monitored by the internal auditor as well as the Board of Directors and Board's Audit Committee. The Board reviews the effectiveness of established internal controls through the Audit Committee and suggests, whenever required, further improvement in the internal control system. The internal controls are also reviewed by the external auditors.

- There are no significant 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.

Employee Retirement Benefit

The values of investments of employees' provident fund as at June 30, 2007 (based on un-audited accounts) are Rs. 81.99 million.

Meetings of the Board of Directors

The information regarding the meetings of the board of directors held during the year ended June 30, 2007 is annexed.

Share Capital and Pattern of Shareholding

The issued, subscribed and paid of capital of the company as at June 30, 2007 was Rs. 125.60 million. The Board of Directors has recommended an increase in the authorized share capital of the company from Rs. 150,000,000/- (Rs. One Hundred Fifty Million) divided into 15,000,000 (Fifteen Million) Ordinary Shares of Rs. 10/- each to Rs. 250,000,000/- (Rs. Two Hundred Fifty Million) divided into 25,000,000 (Twenty Five Million) Ordinary Shares of Rs. 10/- each.

The statement indicating the number of shareholders as on June 30, 2007 and their categories forming the pattern of shareholding as required under the Code of Corporate Governance is annexed.

The Directors, CEO and Company Secretary and CFO, their spouses and minor children did not carry out any trade in the shares of the Company.

Subsidiaries

Progress in the establishment of the Company's JV subsidiary, **BF Biosciences Limited**, is continuing satisfactorily, and we expect to commence production on schedule before the end of the calendar year. An Equity injection of Rs. 112 million and loan facility of Rs. 277 million was made available to the subsidiary company as per the decision made under authority of the special resolution passed in the extra ordinary general meeting of the Company held on April 07, 2006. However, owing to the increase in initial project feasibility by over Rs. 100 million, mainly due to increase in the scope of the building structure, increased costs of steel, cement, copper, labour and the upward movement of Euros, we foresee a further investment of Rs. 40 million as equity, as well as arranging a loan facility, if necessary of upto Rs. 100 million from the Company's surplus funds for the project.

Farmacia, the company's retail venture has also had a satisfactory year, contributing Rs. 11.288 Million to the company's net income against Rs. 7.180 Million last year.

Auditors

The Auditors Messrs KPMG Taseer Hadi & Co, Chartered Accountants retire at the ensuing Annual General Meeting and are eligible for reappointment as Auditors. The Audit Committee in their meeting held on August 29, 2007 has recommended the re-appointment of Messrs KPMG Taseer Hadi & Co., Chartered Accountants as auditors for the financial year ending June 30, 2008.

Affirmation

We are once again privileged to recognize the tireless efforts of the Company's management and staff at all levels. Without their dedication and hard work, the improved financial and operational results reflected in this report would not have been possible.

For and on behalf of the Board of Directors

Rawalpindi
August 29, 2007

(Mrs. Akhter Khalid Waheed)
Chairperson & Chief Executive

STATEMENT OF COMPLIANCE WITH CODE OF CORPORATE GOVERNANCE TO THE MEMBERS

This statement is being presented to comply with the Code of Corporate Governance contained in the listing regulations of Karachi, Lahore and Islamabad Stock Exchanges for the purpose of establishing a framework of good corporate 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 company encourages the representation of independent non-executive directors on its Board of Directors. At present the Board includes seven independent non-executive directors out of a total strength of nine directors.

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, with the exception of Mr. Dost Muhammad Khan Sherpao, who is a retired agriculturist, and for whose continuation the Securities and Exchange Commission of Pakistan has granted specific approval. None of the Company's Directors have defaulted in payment of any loan to a banking company, a DFI or an NBFI or, being a member of stock exchange, has been declared as a defaulter by that stock exchange.

4. No casual vacancy occurred in the Board of Directors during the year ended June 30, 2007.

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

6. The Board has formulated and adopted a vision/mission statement.

7. All powers of the Board has been duly exercised and decision on material transactions, including appointment and determination of remuneration and terms and conditions of employment of Chief Executive Officer (CEO) have been taken by the Board.

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

9. The Company has a Chief Financial Officer (CFO), Company Secretary and Head of Internal Audit. The Board has ratified their appointments including remuneration and terms and conditions as determined by the CEO.

10. 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.

11. The financial statements of the Company were duly endorsed by CEO and CFO before approval of the Board.

12. 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.

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

14. The Board has an Audit Committee. It comprises of four members, of whom all are non-executive directors including the Chairman of the Committee.

15. The meetings of the Audit Committee were held at least once every quarter prior to approval of interim and final results of the Company as required by the Code.

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

17. 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.

18. The Company has adopted terms of reference of Audit Committee. The Audit Committee has been accordingly advised for compliance. The overall corporate strategy and significant policies of the Company have been documented.

19. The Board has started the process of arranging orientation courses for its directors to apprise them of their duties and responsibilities.

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

For and on behalf of the Board of Directors

Rawalpindi
August 29, 2007

(Mrs. Akhter Khalid Waheed)
Chairperson & Chief Executive

DATES AND ATTENDANCE OF BOARD MEETINGS HELD DURING THE YEAR ENDED JUNE 30, 2007

A total of five Board Meetings were held during the Financial Year 2006-2007 on the following dates:

August 31, 2006
September 30, 2006
October 27, 2006
January 27, 2006
April 28, 2007

The detail of attendance by Directors is as under:

Director	**Number of meetings attended**
Mrs. Akhter Khalid Waheed	5
Mr. Osman Khalid Waheed	5
Mrs. Munize Azhar Peracha	3
Mr. Nihal Cassim	4
Mr. M. M. Ispahani	2
Mr. Taj Muhammad Khanzada	3
Mr. Farooq Mazhar	5
Mr. Dost Muhammad Khan Sherpao	0
Mr. Muhammad Nawaz Tishna	5

Leaves of absence were granted in all cases to Directors.

For and on behalf of the Board of Directors

Rawalpindi
August 29, 2007

(Mrs. Akhter Khalid Waheed)
Chairperson & Chief Executive

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 Ferozsons Laboratories Limited, ("the Company") to comply with the Listing Regulations of the Karachi, Lahore and Islamabad Stock Exchanges where the Company is listed.

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

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

Based on our review, nothing has come to our attention, which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Company for the year ended June 30, 2007.

Islamabad
August 29, 2007

KPMG TASEER HADI & Co.
CHARTERED ACCOUNTANTS

Financial Statements for the Year Ended June 30, 2007

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of Ferozsons Laboratories Limited ("the Company") 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 the financial statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

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

(b) in our opinion-

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

  (ii) the expenditure incurred during the year was for the purpose of the Company's business; and

  (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company.

(c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with the 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, Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980) was deducted by the Company and deposited in Central Zakat Fund established under section 7 of that Ordinance

Islamabad
August 29, 2007

KPMG TASEER HADI & Co.
CHARTERED ACCOUNTANTS

FEROZSONS LABORATORIES LIMITED

BALANCE SHEET AS

	Note	2007 (RUPEES)	2006 (RUPEES)
SHARE CAPITAL AND RESERVES			
Share capital	4	**120,560,640**	100,467,200
Reserves			
Capital reserve	5	**321,843**	321,843
Revenue reserve - unappropriated profit		**561,722,124**	416,294,570
		682,604,607	517,083,613
SURPLUS ON REVALUATION OF FIXED ASSETS-net of tax	6	**256,984,285**	262,437,999
NON CURRENT LIABILITIES			
Long term financing - secured	7	**75,187,500**	–
Liabilities against assets subject to finance lease	8	**1,024,253**	5,321,499
Deferred liability for taxation	9	**48,302,487**	46,910,274
		124,514,240	52,231,773
CURRENT LIABILITIES			
Trade and other payables	10	**131,024,480**	86,859,522
Accrued markup on long term financing		**1,610,432**	–
Current portion of long term financing	7	**17,312,500**	–
Current portion of liabilities against assets subject to finance lease	8	**4,310,822**	10,835,452
Provision for taxation - net		–	13,017,721
		154,258,234	110,712,695
		1,218,361,366	942,466,081
CONTINGENCIES AND COMMITMENTS	11	–	–

The annexed notes from 1 to 37 form an integral part of these financial statements.

Rawalpindi
August 29, 2007

Director/President

AT JUNE 30, 2007

	Note	2007 (RUPEES)	2006 (RUPEES)
FIXED ASSETS			
Property, plant and equipment	12	539,455,959	486,662,333
LONG TERM INVESTMENTS	13	149,606,959	138,318,587
LONG TERM LOAN	14	75,187,500	–
LONG TERM DEPOSITS		600,447	436,447
CURRENT ASSETS			
Stores, spares and loose tools	15	4,280,632	3,719,036
Stock in trade	16	133,816,190	145,341,209
Trade debts-considered good		31,937,773	12,611,931
Current portion of long term loan	14	17,312,500	–
Loans and advances-considered good	17	14,546,615	46,907,762
Deposits and prepayments	18	3,015,174	2,563,919
Interest accrued		2,485,196	–
Other receivables	19	14,103,388	6,954,243
Advance income tax - net		3,362,895	–
Short term investments	20	186,969,198	86,648,750
Cash and bank balances	21	41,680,940	12,301,864
		453,510,501	317,048,714
		1,218,361,366	942,466,081

Chairperson & Chief Executive

FEROZSONS
LABORATORIES LIMITED

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2007

	Note	2007 (RUPEES)	2006 (RUPEES)
Net sales	22	922,368,542	752,221,631
Cost of sales	23	(415,507,467)	(322,838,328)
Gross profit		506,861,075	429,383,303
Other income	24	28,149,442	15,350,477
Administrative expenses	25	(51,568,412)	(50,131,489)
Selling and distribution cost	26	(214,439,862)	(161,570,092)
Finance cost	27	(4,148,403)	(2,268,560)
Other expenses	28	(17,629,100)	(19,806,627)
Share in profit of Farmacia - 98% owned partnership firm		11,288,372	7,180,383
Profit before taxation		258,513,112	218,137,394
Provision for taxation	29	(58,258,952)	(42,268,679)
Profit after taxation		200,254,160	175,868,715
Earnings per share - basic and diluted	33	16.61	14.59

The annexed notes from 1 to 37 form an integral part of these financial statements.

Rawalpindi
August 29, 2007

Director/President

Chairperson & Chief Executive

FEROZSONS LABORATORIES LIMITED

CASH FLOW STATEMENT
FOR THE YEAR ENDED JUNE 30, 2007

	2007 (RUPEES)	2006 (RUPEES)
Cash flow from operating activities		
Profit before taxation	258,513,112	218,137,394
Adjustments for:		
Depreciation	42,105,532	45,170,037
Gain on disposal of property, plant and equipment	(1,592,218)	(5,025,921)
Finance cost	4,148,403	2,268,560
Dividends, capital gains and income from investments and deposits	(26,557,224)	(10,324,556)
Share in profit of Farmacia-98% owned subsidiary firm	(11,288,372)	(7,180,383)
Loss on remeasurement of short term investments	–	4,798,077
	6,816,121	29,705,814
	265,329,233	247,843,208
Working capital changes		
Decrease/(increase) in stocks and stores	10,963,423	(48,180,939)
(Increase) in trade debtors	(19,325,842)	(6,848,891)
(Increase) in loans, advances, deposits, prepayments and other receivables	(11,753,493)	(3,285,002)
Increase in trade and other payables	42,856,164	18,305,902
	22,740,252	(40,008,930)
Cash generated from operations	288,069,485	207,834,278
Finance cost paid	(2,537,971)	(2,268,560)
Taxes paid	(73,247,355)	(55,223,829)
	(75,785,326)	(57,492,389)
Net cash from operating activities	212,284,159	150,341,889
Cash flows from investing activities		
Long term investments	–	(111,999,960)
Long term loan	(92,500,000)	–
Purchase of property, plant and equipment	(58,087,290)	(30,665,371)
Short term investments	(100,320,448)	(34,375,827)
Dividends, capital gains and income from investments and deposits	22,922,268	10,324,556
Sale proceeds of property, plant and equipment	2,280,350	10,163,018
Net cash used in investing activities	(225,705,120)	(156,553,584)
Cash flows from financing activities		
Payment of finance lease liabilities	(10,821,877)	(7,173,105)
Proceeds from long term financing	92,500,000	–
Dividend paid	(38,878,086)	(40,771,687)
Net cash from/(used in) financing activities	42,800,037	(47,944,792)
Net increase/(decrease) in cash and cash equivalents during the year	29,379,076	(54,156,487)
Cash and cash equivalents at beginning of the year	12,301,864	66,458,351
Cash and cash equivalents at end of the year	41,680,940	12,301,864

The annexed notes from 1 to 37 form an integral part of these financial statements.

Rawalpindi
August 29, 2007

Director/President

Chairperson & Chief Executive

FEROZSONS LABORATORIES LIMITED

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2007

	Share capital (Rupees)	Capital reserve (Rupees)	Reserve for issue of bonus shares (Rupees)	Revenue reserve Unappropriated profit (Rupees)	Total (Rupees)
Balance as at June 30, 2005	**77,282,460**	**321,843**	**6**	**305,866,486**	**383,470,795**
Final dividend for the year ended June 30, 2005 Rs. 5.50 per share	–	–	–	(42,505,492)	(42,505,492)
Bonus shares issued at 30 % for the year ended June 30, 2005	23,184,740	–	(6)	(23,184,734)	–
Transfer from surplus on revaluation of fixed assets - net	–	–	–	249,595	249,595
Net income recognised directly in equity	–	–	–	249,595	249,595
Net profit for the year	–	–	–	175,868,715	175,868,715
Total recognised income for the year	–	–	–	176,118,310	176,118,310
Balance as at June 30, 2006	**100,467,200**	**321,843**	**–**	**416,294,570**	**517,083,613**
Final dividend for the year ended June 30, 2006 Rs. 4.00 per share	–	–	–	(40,186,880)	(40,186,880)
Bonus shares issued at 20% for the year ended June 30, 2006	20,093,440	–	–	(20,093,440)	–
Transfer from surplus on revaluation of fixed assets - net	–	–	–	5,453,715	5,453,715
Net income recognised directly in equity	–	–	–	5,453,715	5,453,715
Net profit for the year	–	–	–	200,254,160	200,254,160
Total recognised income for the year	–	–	–	205,707,874	205,707,874
Balance as at June 30, 2007	**120,560,640**	**321,843**	**–**	**561,722,124**	**682,604,607**

The annexed notes from 1 to 37 form an integral part of these financial statements.

Rawalpindi
August 29, 2007

Director/President

Chairperson & Chief Executive

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2007

1. THE COMPANY AND ITS OPERATIONS

Ferozsons Laboratories Limited ("the Company") was incorporated as a private limited company on January 28, 1954 and was converted into a public limited company on September 8, 1960. The company is listed on the Karachi, Lahore and Islamabad stock exchanges. The company is primarily engaged in the manufacture and sale of pharmaceuticals products and its registered office is situated at 197-A, The Mall, Rawalpindi. The company is domiciled in Rawalpindi, Pakistan.

2. STATEMENT OF COMPLIANCE

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. Accounting convention and basis of preparation

These financial statements have been prepared under the historical cost convention except that certain fixed assets are stated at revalued amounts and investment in listed securities are stated at their fair values.

The preparation of financial statements in conformity with approved accounting standards requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgment about carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. Judgments made by management in the application of approved accounting standards that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in the respective policy note.

3.2. Dividend and reserve appropriation

Dividend is recognized as a liability in the period in which it is declared.

3.3. Staff retirement benefits

The Company operates a recognized provident fund as a defined contribution plan for employees who fulfill conditions laid down in the trust deed. Provision is made in the financial statements for the amount payable by the company to the fund in this regard. Contribution is made to the fund equally by the company and the employees at the rate of 10% of basic salary.

3.4. Taxation

The Company takes into account the current income tax law and decisions taken by appellate authorities. Instances where the Company's view differs from the view taken by the income tax department at the assessment stage and where the Company considers that its view on items of material nature is in accordance with law, the amounts are shown as contingent liabilities.

3.4.1. Current

Provision for current taxation is based on taxable income at current rate of taxation after taking into account tax credits and rebates available, if any.

3.4.2. Deferred

Deferred tax is accounted for using the balance sheet liability method in respect of all temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of tax. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent to which it is probable that taxable profits will be available against which the deductible temporary differences, unused tax loss, and tax credits can be utilized.

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

3.5. Property, plant and equipment , depreciation and capital work in progress

3.5.1. Owned

Property, plant and equipment of the company other than land, building and plant & machinery are stated at cost less accumulated depreciation and impairment loss, if any. Building and plant & machinery are stated at revalued amount less accumulated depreciation and impairment loss, if any. Land is stated at revalued amount. Revaluation is carried out every five years unless earlier revaluation is necessitated.

Depreciation is provided on a straight line basis and charged to profit and loss account to write off the depreciable amount of each asset over its estimated useful life at the rates specified in note 12. Depreciation on depreciable assets is commenced from the date asset is available for use up to the date when asset is retired.

The company reviews the useful lives and residual value of property, plant and equipment on a regular basis. Any change in estimates in future years might effect the carrying amounts of the respective items of property, plant and equipment with a corresponding effect on the depreciation charge. During the year, the company has revised its estimate of useful life of computers from 10 years to 3 years. Had there been no change in estimate, depreciation expense would have been lower and profit for the year would have been higher by an amount of Rs. 3.5 million.

Maintenance and normal repair costs are charged to profit and loss account as and when incurred. Major renewals and improvements are capitalized and the assets so replaced, if any, are retired. Gains or losses on disposal of assets, if any, are included in the profit and loss account currently.

Pursuant to the requirements of section 235 of the Companies Ordinance, 1984 and in terms of SRO 45(I)/2003 dated 13 January 2003, revaluation surplus to the extent of excess depreciation on revalued assets during the current financial year is taken to retained earnings. This effect has been shown in note 6 to these financial statements.

3.5.2. Capital work in progress

Capital work in progress is stated at cost less identified impairment loss, if any, and includes the expenditures on material, labor and appropriate overheads directly attributable to the project. These costs are transferred to property, plant and equipment as and when assets are available for their intended use.

3.5.3. Leased assets

Leases in terms of which the Company assumes substantially all the risk and rewards of ownership are classified as finance leases. Assets acquired by way of finance lease are stated at amounts equal to the lower of their fair value and the present value of minimum lease payments at the inception of the lease less accumulated depreciation and impairment losses, if any. Outstanding obligations under the lease less finance charges allocated to future periods are shown as liability. Value of leased assets is depreciated on the useful life of the asset using the straight line method at the rate given in note 12. Depreciation on leased assets is charged to profit and loss account currently.

3.6. Impairment

The carrying amounts of the Company's assets are analyzed at each balance sheet date to determine whether there is any indication of impairment loss. If any such indication exists the recoverable amount of assets is estimated in order to determine the extent of the impairment loss if any. Impairment losses are recognized as expense in the profit and loss account.

3.7. Investments

3.7.1. Investment in subsidiary

Investments in subsidiaries are initially valued at cost. At subsequent reporting dates, the company reviews the carrying amount of the investment to assess whether there is any indication that such investments have suffered an impairment loss. If any such indication exists, the recoverable amount is estimated in order to determine the extent of the impairment loss, if any.

3.7.2. Investments available for sale

These are initially recognized at cost and at subsequent reporting dates measured at fair values. Gains and losses from changes in fair value are taken to equity until disposal at which time these are recycled to profit and loss account.

3.7.3. Investments held to maturity

Investments with fixed maturity other than investments in short term deposits, where management has both the intent and ability to hold to maturity are classified as held to maturity and are stated at amortized costs using effective interest rate method less impairment losses, if so determined. The resultant change in values is reported directly in the profit and loss account. Investments in short term deposits are stated at cost less impairment losses, if any.

3.7.4. Investments at fair value through profit or loss

All investments classified as investments at fair value through profit or losses are initially measured at cost being fair value of consideration given. At subsequent dates these investments are measured at fair value with any resulting gains or losses recognized directly in the profit and loss account. The fair value of such investments is determined on the basis of prevailing market prices. The Company recognizes the regular way purchase or sale of investments using settlement date accounting.

3.8. Stores, spares and loose tools

These are valued at weighted average cost except for items in transit, which are valued at invoice price and related expenses incurred up to the balance sheet date. For items which are slow moving and/or identified as surplus to the company's requirement, a provision is made for excess of book value over estimated net realizable value. The company reviews the carrying amount of stores and spares on a regular basis and provision is made for obsolescence.

3.9. Stocks in trade

Stocks are valued at the lower of average cost and net realizable value except for stocks in transit which are valued at invoice price and related expenses incurred thereon up to the balance sheet date.

Cost is determined as follows:

Raw material	-	at moving average cost
Work in process	-	at weighted average cost of purchases and
Finished goods	-	applicable manufacturing expenses

Net realizable value signifies the estimated selling price in the ordinary course of business less net estimated cost of completion and selling expenses.

3.10. Trade and other receivables

Trade and other receivables are stated at amortized cost. Known impaired debts are written off, while debts considered doubtful of recovery are fully provided for.

Impairment loss against doubtful trade and other debts is made on judgmental basis, for which provision may differ in the future years based on the actual experience. The difference in provision if any would be recognized in the future years.

3.11. Revenue recognition

Sales are recorded on dispatch of goods to the customers. Return on bank deposits is recognized on a time proportion basis. Gains or losses on sale of investments are taken to profit and loss account in the period in which they arise. Dividend is recognized when the right to receive the dividend is established.

3.12. Related party transactions

The transactions with related parties are made on commercially negotiated terms.

3.13. Mark-up bearing borrowings

Mark-up bearing borrowings are recognized initially at cost, less attributable transaction costs. Subsequent to initial recognition, mark-up bearing borrowings are stated at original cost less subsequent repayments.

The company accounts for lease obligations by recording the asset and corresponding liability there against determined on the basis of discounted value of total minimum lease payments. Financial charge is recognized in the profit and loss account using the effective mark-up rate method.

3.14. Borrowing costs

Markup, interest and other direct charges on borrowings are capitalized to the related qualifying asset till substantially all the activities necessary to prepare the qualifying asset for its intended use are complete. All other markup, interest and related charges are charged to the profit and loss account as finance cost.

3.15. Trade and other payables

Trade and other payables are stated at cost which is fair value of the consideration to be paid in future for goods and services received.

3.16. Provisions

A provision is recognized in the balance sheet when the Company has a legal or constructive obligation as a result of 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 the obligation.

Estimates of the amount of provisions and liabilities recognized are based on current legal and constructive requirements, technology and price levels. Because actual outflows can differ from estimates due to changes in laws, regulations, public expectations, technology, prices and conditions, and can take place many years in the future, the carrying amounts of provisions and liabilities are regularly reviewed and adjusted to take account of such changes.

3.17. 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 instruments. The Company de-recognizes a financial assets or a portion of financial asset when, and only when, the Company loses control of the contractual right that comprise the financial asset or portion of financial asset. While a financial liability or part of financial liability is de-recognized from the balance sheet when, and only when, it is extinguished i.e., when the obligation specified in the contract is discharged, cancelled or expired.

Financial assets are long term investment, trade debts, advances deposits and other receivable, short term investments and cash and bank balances.

Financial liabilities are classified according to the substance of contractual agreements entered into, significant financial liabilities are liability under lease finance, creditors, accrued and other liabilities, unclaimed dividend.

All the financial assets and liabilities are initially recognized at fair value. These are subsequently measured at fair value or amortized cost or cost as the case may be.

3.18. Offsetting of financial assets and financial liabilities

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 intends either to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

3.19. Cash and cash equivalents

For the purpose of cash flow, cash and cash equivalents mainly comprise cash and bank balances, which are stated in the balance sheet at cost.

3.20. Foreign currency transactions

Foreign currency transactions are translated in to Pak. Rupees using the exchange rates approximating those prevailing at the date of transaction. All monetary assets and liabilities in foreign currencies are translated into Pak. Rupees at the rates of exchange approximating those prevailing at the balance sheet date. Foreign exchange gains and losses on translation are included in income currently.

3.21. New accounting standards, interpretations and amendments which are not yet effective

The following standards, interpretations and amendments in approved accounting standards are only effective for accounting periods beginning on or after July 1, 2007 and are either not relevant to the Company's operations or are not expected to have significant impact on the Company's financial statements other than certain increased disclosures in the certain cases:

IAS 1 - Presentation of Financial Statements - Amendments Relating to Capital Disclosures;
IAS 23 - Borrowing Costs (as revised);
IAS 41 - Agriculture;
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;
IFRIC 10 - Interim Financial Reporting and Impairment;
IFRIC 11 - Group and Treasury Share Transactions;
IFRIC 12 - Service Concession Arrangements;
IFRIC 13 - Customer Loyalty Programmes; and
IFRIC 14 - The Limit on a Defined Benefit Asset Minimum Funding Requirements and their Interaction.

	2007 (RUPEES)	2006 (RUPEES)

4. SHARE CAPITAL

Authorised share capital:		
15,000,000 (2006: 15,000,000) ordinary shares of Rs. 10 each.	150,000,000	150,000,000
Issued, subscribed and paid up capital:		
1,441,952 (2006: 1,441,952) ordinary shares of Rs. 10 each fully paid in cash	14,419,520	14,419,520
119,600 (2006: 119,600) ordinary shares of Rs. 10 each issued in lieu of NWF Industries Limited and Sargodha Oil and Flour Mills Limited since merged	1,196,000	1,196,000
10,494,512 (2005: 8,485,168) ordinary shares of Rs. 10 each issued as fully paid bonus shares	104,945,120	84,851,680
	120,560,640	100,467,200

5. CAPITAL RESERVE

This represents capital reserve arising on conversion of shares of NWF Industries Limited and Sargodha Oil & Floor Mills Limited, since merged.

6. SURPLUS ON REVALUATION OF FIXED ASSETS-net of tax

Surplus on revaluation of Fixed Asssets as at 01 July.	298,742,899	58,533,863
Surplus transfered to unappropriated profit in respect of incremental depreciation charged during the year:		
- Net of deferred tax	(5,453,715)	(249,595)
- Related deferred tax liability	(2,936,616)	(134,398)
	(8,390,330)	(383,993)
Surplus on revaluation during the year	–	240,593,029
Surplus on revaluation of Fixed Assets as at 30 June	290,352,569	298,742,899
Related deferred tax liability:		
- On Revaluation as at 01 July	(36,304,900)	(3,996,212)
- On Revaluation surplus during the year	–	(32,443,086)
- Transferred to profir and loss account Incremental depreciation charged during the year	2,936,616	134,398
	(33,368,285)	(36,304,900)
	256,984,285	262,437,999

This represents surplus arising on revaluation of free hold land, building and plant & machinery carried out in 1976, 1989, 2002 and 2006 respectively. This has been adjusted by surplus realized on disposal of revalued assets and incremental depreciation arising due to revaluation, net of deffered tax.

	Note	2007 (RUPEES)	2006 (RUPEES)

7. LONG TERM FINANCING - SECURED

	Note	2007 (RUPEES)	2006 (RUPEES)
from banking company			
- Habib Bank Limited (HBL)	7.1	92,500,000	–
Less : Current portion shown under current liabilities		(17,312,500)	–
		75,187,500	–

7.1 The company has obtained a long term finance facility of Rs. 277 Million from Habib Bank Limited to finance its 80% owned subsidiary, BF Biosciences Limited. This facility is repayable in sixteen equal quarterly installments with a grace period of 1 year, commencing from 15th month after first draw down and carry mark-up at base rate (six month KIBOR) plus 1.5% per annum. The facility is secured by first pari passu charge by way of hypothecation over all present and future current and movable assets of the company and equitable mortgage over immovable property to the extent of Rs. 370 Million.

The company has entered into a pay fix, receive-variable Interest Rate Swap agreement with Standard Chartered Bank to hedge the interest rate exposure on the mentioned long term financing. As per the terms of the agreement the company will pay fix interest rate @ 12.8 % p.a. to Standard Chartered Bank and will receive 3 month PKR KIBOR. As per the term and conditions of the agreement the swap transaction becomes effective from July 25, 2007 i.e. subsequent to the balance sheet date.

8 LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

	Note	2007 (RUPEES)	2006 (RUPEES)
Minimum lease payments due			
Not later than one year		4,602,578	11,826,554
Later than one year and not later than five years		1,067,820	5,639,778
Total future minimum lease payments		5,670,398	17,466,332
Less: Future financial costs		(335,323)	(1,309,381)
Present value of minimum lease payments	8.1	5,335,075	16,156,951
Less : Current maturity shown under current liabilities		(4,310,822)	(10,835,452)
		1,024,253	5,321,499

8.1 Breakup of Present value of minimum lease payments

	2007 (RUPEES)	2006 (RUPEES)
Not later than one year	4,310,822	10,835,452
Later than one year and not later than five years	1,024,253	5,321,499
	5,335,075	16,156,951

These represent finance leases entered into with Standard Chartered Modarba and Bank Alfalah for vehicles. Lease rentals are paid on monthly basis and include finance charges. As per terms of agreement with Standard Chartered Modarba the interest rate implicit is fixed for lease term ranging between 6% to 13% (2006: 6% to 13%). In case of Bank Alfalah floating interest rates are used under the terms of agreement, equivalent to a base rate of 3 months KIBOR plus 2.5% to 3% (2006: 3 months KIBOR plus 2.5% to 3%) with no floor no cap, review on expiry of base rate term of 3 months.

9. DEFERRED LIABILITY FOR TAXATION

The net balance of deferred tax is in respect of the following major temporary differences:

	Note	2007 (RUPEES)	2006 (RUPEES)
Accelerated depreciation		16,801,479	16,260,307
Obligations under finance lease		(1,867,276)	(5,654,933)
Surplus on revaluation of fixed assets		33,368,285	36,304,900
		48,302,487	46,910,274

10. TRADE AND OTHER PAYABLES

	Note	2007 (RUPEES)	2006 (RUPEES)
Creditors		52,874,643	39,604,274
Accrued liabilities		14,205,330	11,935,903
Advances from customers		24,275,436	5,527,937
Unclaimed dividend		9,404,447	8,095,653
Tax deducted at source		687,424	692,272
Provision for compensated absences and employees' provident fund		3,443,869	2,187,044
Workers' Profit Participation Fund	10.1	12,035,662	10,700,877
Central Research Fund	10.2	4,541,161	1,956,030
Advances from employees		8,349,095	5,943,824
Retentions		866,595	–
Others	10.3	340,818	215,708
		131,024,480	86,859,522

10.1 Workers' Profit Participation Fund

	2007 (RUPEES)	2006 (RUPEES)
Balance at the beginning of the year	10,700,877	10,182,018
Interest on funds utilized by the company	200,442	47,790
Allocation for the year	11,835,220	10,653,087
	22,736,539	20,882,895
Payments made during the year	(10,700,877)	(10,182,018)
	12,035,662	10,700,877

The fund balance has been utilised by the company for its own busines and an interest at the rate of 30% (2006: 41.25%) has been credited to the fund. The interest is calculated at 75% of the cash dividents paid as required under the Companies Profit (Workers' Participation) Rules 1971.

	2007 (RUPEES)	2006 (RUPEES)
10.2 Central Research Fund		
Opening balance	**1,956,030**	1,909,542
Charge for the year	**2,585,131**	2,004,046
	4,541,161	3,913,588
Less: Payments	**–**	(1,957,558)
	4,541,161	1,956,030

10.3 These include Rs. 35,890 payable to the related party, Farmacia as at the balance sheet date. These also include Rs. 65,000 (2006: Rs.65,000) advances from distributors which are interest free and are payable on termination of agency agreements with customers.

11. CONTINGENCIES AND COMMITMENTS

		2007 (RUPEES)	2006 (RUPEES)
Contingencies:			
i	Guarantees issued by banks on behalf of the company	**455,640**	768,000
	Commitments:		
ii	Capital Expenditure	**32,511,978**	–
iii	Letter of credits other than for capital expenditure	**33,271,273**	11,919,460

12. PROPERTY, PLANT & EQUIPMENT

	Note	Reassessed Value/Original Cost					Rate %	Depreciation					Net Book Value
		As At July 01, 2006	Additions	Transfers/ Adjustments	(Deletions)	**As At June 30, 2007**		As At July 01, 2006	For the Year	on Deletions	Transfers/ Adjustments	**As At June 30, 2007**	**As At June 30, 2007**
OWNED:													
Freehold Land		226,356,000	37,775,000	–	–	**264,131,000**	–	–	–	–	–	–	**264,131,000**
Building on freehold land		73,149,875	2,116,705	5,474,730	–	**80,741,310**	2.5 - 10	847,732	5,786,968	–	–	**6,634,700**	**74,106,610**
Leasehold imporovements		550,330	–	–	–	**550,330**	10	101,997	55,033	–	–	**157,030**	**393,300**
Plant and machinery		131,370,987	9,207,058	6,087,235	–	**146,665,280**	10	1,278,045	14,666,528	–	–	**15,944,573**	**130,720,707**
Office Equipments		4,681,584	42,450	–	–	**4,724,034**	10	2,796,383	801,008	–	–	**3,597,391**	**1,126,644**
Furniture and fittings		21,456,299	1,874,513	302,508	–	**23,633,320**	10	10,531,715	3,306,502	–	–	**13,838,217**	**9,795,103**
Computers		9,091,808	1,297,222	4,870	(62,590)	**10,331,310**	33.33	4,299,320	4,329,931	(12,518)	–	**8,616,733**	**1,714,577**
Vehicles		30,939,085	9,574,000	1,046,000	(4,543,300)	**37,015,785**	20	19,476,442	6,181,876	(3,905,240)	627,600	**22,380,678**	**14,635,107**
		497,595,968	61,886,948	12,915,343	(4,605,890)	**567,792,369**		39,331,634	35,127,846	(3,917,758)	627,600	**71,169,322**	**496,623,047**
LEASED:													
Vehicles		35,934,430	–	(1,046,000)	–	**34,888,430**	20	13,520,372	6,977,686	–	(627,600)	**19,870,458**	**15,017,972**
		35,934,430	–	(1,046,000)	–	**34,888,430**		13,520,372	6,977,686	–	(627,600)	**19,870,458**	**15,017,972**
CAPITAL WORK IN PROGRESS													
Capital Work in Progress	12.2	5,983,941	33,700,342	(11,869,343)	–	**27,814,940**		–	–	–	–	–	**27,814,940**
		5,983,941	33,700,342	(11,869,343)	–	**27,814,940**		–	–	–	–	–	**27,814,940**
Total 2007		539,514,339	95,587,290	–	(4,605,890)	630,495,739		52,852,006	42,105,532	(3,917,758)	–	91,039,780	539,455,959

Note: The company has capitalised the land based on the allotment letters issued in the name of the Company.

12. PROPERTY, PLANT & EQUIPMENT - Comparatives

	Reassessed Value/Original Cost						Rate	Depreciation						Net Book Value
	As At July 01, 2005	Additions	Surplus on Revaluation	Transfers/ Adjustments	(Deletions)	As At June 30, 2006	%	As At July 01, 2005	For the Year	on Deletions	Transfers/ Adjustments	Release On Revaluation	**As At June 30, 2006**	**As At June 30, 2006**
OWNED:														
Freehold Land	78,457,502	–	147,898,498	–	–	226,356,000	–	–	–	–	–	–	–	**226,356,000**
Building on freehold land	32,983,727	2,183,866	37,982,282	–	–	73,149,875	2.5 - 10	5,756,471	2,975,153	–	–	(7,883,892)	**847,732**	**72,302,143**
Leasehold imporovements	469,637	80,693	–	–	–	550,330	10	46,964	55,033	–	–	–	**101,997**	**448,333**
Plant and machinery	142,355,007	6,377,684	(29,915,727)	14,828,193	(2,274,170)	131,370,987	10	52,946,619	23,040,305	(1,582,673)	3,617,879	(76,744,085)	**1,278,045**	**130,092,942**
Office Equipments	4,646,515	35,069	–	–	–	4,681,584	10	2,328,225	468,158	–	–	–	**2,796,383**	**1,885,201**
Furniture and fittings	30,286,163	5,998,329	–	(14,828,193)	–	21,456,299	10	12,003,964	2,145,630	(3,617,879)	–	–	**10,531,715**	**10,924,584**
Computers	7,116,162	1,975,646	–	–	–	9,091,808	33.33	3,390,139	909,181	–	–	–	**4,299,320**	**4,792,488**
Vehicles	18,479,905	10,892,500	–	9,395,500	(7,828,820)	30,939,085	20	11,218,876	8,347,851	(4,525,928)	4,435,643	–	**19,476,442**	**11,462,643**
	314,794,618	27,543,787	155,965,053	9,395,500	(10,102,990)	497,595,968		87,691,258	37,941,311	(9,726,480)	8,053,522	(84,627,977)	**39,331,634**	**458,264,334**
LEASED:														
Vehicles	40,700,560	5,319,700	–	(8,635,000)	(1,450,830)	35,934,430	20	10,524,112	7,228,726	(4,232,466)	–	–	**13,520,372**	**22,414,058**
	40,700,560	5,319,700	–	(8,635,000)	(1,450,830)	35,934,430		10,524,112	7,228,726	(4,232,466)	–	–	**13,520,372**	**22,414,058**
CAPITAL WORK IN PROGRESS														
Capital Work in Progress	8,431,259	3,014,925	–	(5,462,243)	–	5,983,941		–	–	–	–	–	–	**5,983,941**
	8,431,259	3,014,925	–	(5,462,243)	–	5,983,941		–	–	–	–	–	–	**5,983,941**
Total 2006	363,926,437	35,878,412	155,965,053	(4,701,743)	(11,553,820)	539,514,339		98,215,370	45,170,037	(13,958,946)	8,053,522	(84,627,977)	52,852,006	486,662,333

12.1 Land and building of the company were first revalued on March 31, 1976, resulting in surplus of Rs. 13.661 million. The second revaluation was carried out on June 30, 1989 and resulted in a surplus of Rs. 40.067 million. The third revaluation was carried out on June 30, 2002 and resulted in a surplus of Rs. 30.433 million. The last revaluation that also included the plant and machinery was carried out on June 30, 2006 and resulted in a surplus of Rs. 240.593 million. These valuations were carried out by an independent valuar under the market value basis.

	Note	2007 (RUPEES)	2006 (RUPEES)
12.2 Capital Work-In-Progress			
Building and civil works	12.2.1	**26,466,468**	4,710,365
Consultancy services	12.2.1	**1,348,472**	1,273,576
		27,814,940	5,983,941

12.2.1 These represent cost of civil works & consultancy on freehold land situated in Raiwind, Lahore.

12.3 As referred in Note 6 to these financial statements, land, building and plant & machinery of the company are carried at revalued amount. Had there been no revaluation the related figures of revalued assets would have been as follows:

	(Rupees)		
	Cost	**Accumulated depreciation**	**Written down value**
Freehold land	69,209,876	–	69,209,876
Buildings	41,221,990	20,325,484	20,896,506
Plant & Machinery	156,044,260	85,829,330	70,214,930
2007	266,476,126	**106,154,814**	160,321,312
2006	226,132,107	95,805,742	130,326,365

	2007 (RUPEES)	2006 (RUPEES)
12.4 Depreciation is allocated as under:		
Cost of sales	**22,571,744**	29,359,924
Administrative expenses	**10,863,916**	6,144,136
Selling and distribution cost	**8,669,872**	9,665,977
	42,105,532	45,170,037

	Note	2007 (RUPEES)	2006 (RUPEES)
13. LONG TERM INVESTMENTS			
Related Parties - at cost			
Farmacia (partnership firm)	13.1	**37,573,914**	26,285,542
BF Biosciences Limited (unlisted subsidiary)	13.2	**111,999,960**	111,999,960
Others available for sale - unlisted	13.3	**33,085**	33,085
		149,606,959	138,318,587

13.1 Farmacia (partnership firm)

	Note	2007 (RUPEES)	2006 (RUPEES)
Opening Balance		**26,285,542**	19,105,159
Company's share in profit/(loss) of subsidiary	13.1.1	**11,288,372**	7,180,383
		37,573,914	26,285,542

13.1.1 This represent company's 98% share in "Farmacia", a subsidiary partnership duly registered under the Partnership Act, 1932 and engaged in operating retail shop. Share of profit for the year not withdrawn is treated as reinvestment in capital account of partnership.

13.2 BF Biosciences Limited (unlisted subsidiary)

This represents investment made in 11,199,996 ordinary shares of Rs. 10 each, in BF Biosciences Limited.

BF Biosciences Limited was set up for establishing a Biotech Production Plant to manufacture mainly Cancer and Hepatitis related medicines. The Company holds 80% of equity of the subsidiary and the remaining 20% is held by Laboratorios Bagó S.A., Argentina. The Company has not yet started its commercial operations.

13.3 Others Available for sale - unlisted

Number of shares 2007	Number of shares 2006	Name of Companies	2007 (Rupees)	2006 (Rupees)
218	218	National General Insurance Company Limited Ordinary shares of Rs. 10 each Equity held 0.01%	**2,985**	2,985
301	301	Mercantile Co-operative Finance Corporation Limited 'A' class shares of Rs. 100 each The entity is under liquidation	**30,100**	30,100
			33,085	33,085

	Note	2007 (RUPEES)	2006 (RUPEES)

14. LONG TERM LOAN

Related party - considered good			
BF Biosciences Limited	14.1	92,500,000	–
Less : Amount due within twelve months, shown under current loans and advances	17	(17,312,500)	–
		75,187,500	–

14.1 This represents the amount utilized by the subsidiary against the long term loan facility to the extent of Rs. 277 million. This facility was provided by the company under the authority of a special resolution passed by the Shareholders in the Extraordinay General Meeting held in April 2006, in accordance with the provisions of Section 208 of the Comopanies Ordinance, 1984. The long term loan is recoverable within a period of five years including one year of grace period or earlier as deemed by the Company. The markup rate is equal to the rate as mentioned in note 7. The Company is in the process of formally signing a loan agreement with the subsidiary.

The maximum amount of long term loan at the end of any month during the year was Rs. 92.5 million.

15. STORES, SPARES AND LOOSE TOOLS

		2007	2006
Stores		3,902,656	3,365,327
Spares		251,688	241,237
Loose tools		126,288	112,472
		4,280,632	3,719,036

16. STOCK IN TRADE

	Note	2007	2006
Raw material		68,389,436	54,279,980
Work in process		2,897,691	3,059,331
Finished goods	16.1	48,256,053	81,253,393
		119,543,180	138,592,704
Stocks in transit		14,273,010	6,748,505
		133,816,190	145,341,209

16.1 These include finished goods amounting to Rs. 2,854,718 (2006: 3,107,867) which are carried at net realizable value.

	Note	2007 (RUPEES)	2006 (RUPEES)

17. LOANS AND ADVANCES - considered good

	Note	2007 (RUPEES)	2006 (RUPEES)
Advances			
To employees	17.1	3,308,975	4,632,314
To contractors		11,133,513	4,698,995
Advance for purchase of land		–	37,500,000
Others		104,127	76,453
		14,546,615	46,907,762

17.1 These include interest free advances against salary to executives amounting to Rs. 1,663,442 (2006: Rs. 1,322,738).

18. DEPOSITS AND PREPAYMENTS

		2007 (RUPEES)	2006 (RUPEES)
Earnest money		686,077	573,906
Margin deposits		42,135	276,544
Prepayments		2,286,962	1,713,469
		3,015,174	2,563,919

19. OTHER RECEIVABLES

		2007 (RUPEES)	2006 (RUPEES)
Due from Subsidiaries:			
Farmacia		–	15,080
BF Biosciences		11,396,572	5,462,243
		11,396,572	5,477,323
Accrued income on investments and bank deposits		1,149,761	–
Others		1,557,055	1,476,920
		14,103,388	6,954,243

20 SHORT TERM INVESTMENTS

	Note	2007 (RUPEES)	2006 (RUPEES)
Held to maturity investments - local currency	20.1	186,969,198	60,000,000
Investments at fair value through profit and loss - listed securities	20.2	–	26,648,750
		186,969,198	86,648,750

20.1 Held to maturity investments

These represent investments in term deposit receipt with Faisal Bank Limited and Pakistan Industrial Credit & Investment Corporation Limited, having maturity of six months and carrying interest rates from 10.50% to 10.60 % (2006: 11.35%) per annum.

20.2 Investments at fair value through profit or loss- listed securities

Number of shares 2007	Number of shares 2006	Name of Companies	2007 (Rupees) Carrying value	2007 (Rupees) Fair value	2006 (Rupees) Carrying value	2006 (Rupees) Fair value
–	190,000	Pakistan Telecommunication Company Ltd. 'A' class ordinary shares of Rs. 10 each	–	–	12,530,500	7,714,000
–	110,000	Hub Power Company Limited Ordinary shares of Rs. 10 each	–	–	2,904,000	2,530,000
–	10,000	Indus Motor Company Ltd. Ordinary shares of Rs. 10 each	–	–	1,363,887	1,910,000
–	75,000	Agri Autos Industries Ltd. Ordinary shares of Rs. 10 each	–	–	4,738,976	5,160,000
–	100,000	Fauji Cement Company Ltd. Ordinary shares of Rs. 10 each	–	–	2,274,287	1,920,000
–	35,000	Pakistan Petroleum Ltd. Ordinary shares of Rs. 10 each	–	–	7,635,177	7,414,750
			–	–	31,446,827	26,648,750
		Unrealised loss on account of remeasurement to fair value	–	–	(4,798,077)	–
			–	–	26,648,750	26,648,750

21. CASH AND BANK BALANCES

	Note	2007 (RUPEES)	2006 (RUPEES)
Cash in hand		780,730	764,625
Cash at banks - Current accounts		2,844,987	1,707,839
- Deposit accounts	21.1	38,055,223	9,829,400
		41,680,940	12,301,864

21.1 These carry interest rate of 8% per annum (2006: 4% to 8% per annum)

21.2 The Company has unavailed cash finance facility of Rs. 60 Million (2006: Rs. 60 Million) from Bank Alfalah Limited. The facility is secured by first pari passu charge by way of hypothecation over all present and future current and movable assets of the Company and equitable mortgage over immovable property to the extent of Rs. 204 Million. This facility carries mark up at the rate of six months KIBOR + 1.75% per annum.

	Note	2007 (RUPEES)	2006 (RUPEES)

22. NET SALES

	Note	2007 (RUPEES)	2006 (RUPEES)
Gross sales		1,022,504,839	833,818,823
Less: Sales tax		–	(200,502)
		1,022,504,839	833,618,321
Less: Discount		(100,136,297)	(81,396,690)
		922,368,542	752,221,631

23. COST OF SALES

	Note	2007 (RUPEES)	2006 (RUPEES)
Work in process:			
Opening		3,059,331	3,182,690
Closing		(2,897,691)	(3,059,331)
		161,640	123,359
Raw materials consumed	23.1	298,955,786	283,551,601
Salaries and wages	25.1	39,001,932	34,935,818
Fuel and power		6,326,093	5,974,115
Repairs and maintenance		2,206,655	4,418,690
Stores and spares consumed		2,813,795	3,114,047
Packing charges		4,027,410	2,651,461
Excise duty		120,757	207,715
Postage and telephone		665,930	692,135
Insurance		1,490,109	1,485,987
Travelling and conveyance		1,163,241	843,288
Transport		1,627,397	1,125,505
Laboratory and other expenses		1,377,638	1,065,989
Depreciation		22,571,744	29,359,924
Cost of goods manufactured		382,510,127	369,549,634
Finished stock:			
Opening		81,253,393	34,542,087
Closing		(48,256,053)	(81,253,393)
		32,997,340	(46,711,306)
		415,507,467	322,838,328

23.1 Raw materials consumed

	2007 (RUPEES)	2006 (RUPEES)
Opening stock	54,279,980	55,752,379
Add: Purchases	313,065,242	282,079,202
	367,345,222	337,831,581
Less: Closing stock	(68,389,436)	(54,279,980)
	298,955,786	283,551,601

	Note	2007 (RUPEES)	2006 (RUPEES)
24 OTHER INCOME			
From financial assets			
Dividend income		1,711,000	615,500
Profit on Term Deposit Receipts		11,338,351	–
Capital gain on sale of shares		6,934,322	4,724,003
Profit on deposits with banks		4,088,356	4,985,053
Mark–up on long term loan		2,485,195	–
		26,557,224	10,324,556
From other then financial assets			
Gain on disposal of property, plant and equipment	24.1	1,592,218	5,025,921
		28,149,442	15,350,477

24.1 PROFIT/(LOSS) ON DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT

Particulars	Cost	Book value	Sale proceeds	Profit/(loss)	Mode of disposal
VEHICLES					**By negotiation to:**
SUZUKI MEHRAN – IDM 9252	374,000	149,600	195,000	45,400	Mrs. Noureen Nadeem - Staff Member
SUZUKI CULTUS – RL 6308	560,000	112,000	300,000	188,000	Mr. Shahid Mahmood - Staff Member
TOYOTA COROLLA – B 1224	786,450	–	550,000	550,000	Lt. ColL Khalid Zaman Nowshera
SUZUKI CULTUS – IDM 5768	560,000	224,000	300,000	76,000	Mr. Abdur Rauf - Staff Member
					As per company's policy
SUZUKI BALENO – RIX 4532	653,000	–	190,000	190,000	Mr. Maqbool Ahmed - Ex Staff Member
SUZUKI MEHRAN – LRA 6507	389,400	–	179,500	179,500	Mr. Saqib Naseem - Staff Member
SUZUKI MEHRAN – SLK 5707	383,900	–	174,500	174,500	Mr. Muhammad Iqbal - Staff Member
YAMAHA YB 100 – RIZ 2374	78,100	15,620	37,500	21,880	Mr. Nadeem Mukhtar Kiyani - Staff Member
HONDA CG125 – IDM 4825	84,150	16,830	38,250	21,420	Mr. Saleem Pasha - Staff Member
HONDA CG125 – RIZ 2423	84,150	16,830	38,250	21,420	Mr. Sohail Iqbal - Staff Member
HONDA CD 70 – KAX 4476	73,700	14,740	33,500	18,760	Mr. Nazir Ullah - Staff Member
HONDA CD 70 – SW 6867	73,700	14,740	33,500	18,760	Mr. Sikander Hayat - Staff Member
HONDA CD 70 – RIZ 2378	73,700	14,740	33,500	18,760	Mr. Fahim Ahmed Janjua - Staff Member
HONDA CD 70 – LRM 6416	73,700	14,740	33,500	18,760	Mr. Muhammad Naeem Khan - Staff Member
HONDA CD 70 – FSA 6075	73,700	14,740	33,500	18,760	Mr. Waseem Amin - Staff Member
HONDA CD 70 – FSA 6098	73,700	14,740	33,500	18,760	Mr. Nadir Ali Zulfiqar - Staff Member
HONDA CD 70 – GTG 9171	73,700	14,740	33,500	18,760	Mr. Mufti M.Raza - Staff Member
HONDA CD 70 – BNF 1873	74,250	–	27,000	27,000	Mr. Jamil Akhtar - Staff Member
COMPUTERS					
Acer Laptop	62,590	50,072	15,850	(34,222)	Mr. Mazhar Yasin - Ex Staff Member
2007 Rupees	4,605,890	688,132	2,280,350	1,592,218	
2006 Rupees	**11,553,820**	**5,137,097**	**10,163,018**	**5,025,921**	

	Note	2007 (RUPEES)	2006 (RUPEES)
25. ADMINISTRATIVE EXPENSES			
Salaries, wages and benefits	25.1	16,249,566	13,379,486
Salaries to directors	25.1	11,914,584	12,632,643
Directors' fees and expenses		958,370	1,452,890
Rent, rates and taxes		523,564	903,800
Postage and telephone		729,689	857,171
Printing and stationery		580,964	540,890
Travelling and conveyance		1,133,527	1,285,162
Transport		1,165,373	1,470,037
Legal and professional charges		915,723	106,000
Electricity, gas and water		977,658	588,596
Auditors' remuneration	25.2	288,600	287,000
Repairs and maintenance		408,631	216,390
Subscriptions and fees		352,294	385,603
Donations	25.3	2,610,000	8,242,577
Insurance		610,502	521,219
Depreciation		10,863,916	6,144,136
Other administrative expenses		1,285,451	1,117,889
		51,568,412	50,131,489

25.1 Salaries, wages and benefits include Rs. 3.856 million (2006: Rs. 3.209 million) charged on account of defined contribution plan.

25.2 Auditors' remuneration

	2007	2006
Audit fee- annual audit	140,000	140,000
Fee for audit of consolidated accounts	35,000	35,000
Review of half yearly accounts	40,000	40,000
Other certifications	50,000	50,000
Out of pocket expenses	23,600	22,000
	288,600	287,000

25.3 Donations do not include any amount paid to any person or organization in which a director or his spouse had any interest.

	Note	2007 (RUPEES)	2006 (RUPEES)

26. SELLING AND DISTRIBUTION COST

	Note	2007 (RUPEES)	2006 (RUPEES)
Salaries and allowances	25.1	**71,191,942**	57,911,442
Travelling and conveyance		**39,875,482**	34,591,981
Transport		**1,484,097**	1,767,898
Rent, rates and taxes		**3,477,905**	3,367,900
Advertisement and publicity		**74,511,016**	41,652,274
Freight and forwarding		**5,066,269**	4,822,652
Printing and stationery		**1,024,784**	1,045,454
Postage and telephone		**1,691,509**	1,731,242
Electricity, gas and water		**252,530**	470,547
Subscription and fees		**2,945,631**	2,455,082
Insurance		**2,904,855**	1,501,775
Repairs		**116,863**	123,434
Legal and professional charges		**109,375**	58,500
Entertainment		**357,638**	225,579
Depreciation		**8,669,872**	9,665,977
Other selling expenses		**760,094**	178,355
		214,439,862	161,570,092

27. FINANCE COST

		2007 (RUPEES)	2006 (RUPEES)
Finance charge on leased assets		**1,034,075**	1,985,504
Mark–up on bank financing		**2,491,530**	–
Bank charges		**422,356**	235,266
Interest on Workers' Profit Participation Fund		**200,442**	47,790
		4,148,403	2,268,560

28. OTHER EXPENSES

		2007 (RUPEES)	2006 (RUPEES)
Loss on remeasurement of short term investments		**–**	4,798,077
Workers' Profit Participation Fund		**11,835,220**	10,653,087
Workers' Welfare Fund		**3,208,749**	2,351,417
Central Research Fund		**2,585,131**	2,004,046
		17,629,100	19,806,627

	2007 (RUPEES)	2006 (RUPEES)

29. TAXATION

	2007 (RUPEES)	2006 (RUPEES)
Current year	56,840,797	59,405,231
Prior years'	25,942	(15,091,661)
Deferred	1,392,213	(2,044,891)
	58,258,952	42,268,679

29.1 Relationship between tax expense and tax on accounting profit

	2007 (RUPEES)	2006 (RUPEES)
Profit before taxation	258,513,112	218,137,394
Tax rate	35%	35%
Tax on accounting profit	90,479,589	76,348,088
Tax effect of expenses that are admissible/ inadmissible in determining taxable profit	2,551,126	(1,073,447)
Tax effect of lower tax rates on certain income	(34,797,706)	(17,914,301)
	58,233,009	57,360,340
Tax effect of adjustments in respect of income tax of prior years	25,943	(15,091,661)
Tax expense for the current year	58,258,952	42,268,679
Average rate of tax	23%	19%

29.2 Tax assessments of the Company have been finalized up to and including the assessment year 2002–2003 (income year ended 30 June 2002). Returns for tax years 2003 , 2004, 2005 and 2006 were filed and accepted under universal self assessment scheme.

30. REMUNERATION OF DIRECTORS, CHIEF EXECUTIVE AND EXECUTIVES

	2007 (Rupees)			2006 (Rupees)		
	Directors	Chief Executive	Executives	Directors	Chief Executive	Executives
Managerial remuneration	5,460,012	6,219,925	23,140,872	5,807,747	6,222,575	19,999,876
Utilities	–	274,867	–	–	275,954	–
Provident fund	281,808	322,764	807,312	280,759	321,562	620,044
	5,741,820	6,817,556	23,948,184	7,428,496	6,932,991	20,619,920
Numbers	1	1	10	1	1	10

In addition, the Chief Executive, a working director and certain executives of the company are allowed free use of company cars.

The members of the Board of Directors were paid Rs. 3,200 (2006: Rs. 6,100) as meeting fee and Rs. 955,170 (2006: Rs. 1,446,790) as meeting expenses for attending the Board of Directors meetings.

31. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

31.1 Risk Management

31.1.1 Concentration of credit risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counter parties failed completely to perform as contracted. All 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 controls its credit risk by the following methods:

– Ascertainment of credit worthiness of customers.
– Monitoring of debt on a continuous basis.
– Legal notices and follow–up.

31.1.2 Interest rate risk

Total interest bearing liabilities amount to Rs. 109.871 million (2006: Rs. 26.857 million), out of which Rs. 97.835 million (2006: Rs. 16.157 million) are related with KIBOR. The management endeavors to obtain borrowing at competitive rates.
At reporting date the liabilities represented by long term financing, exposed to interest rate risks were hedged through a pay fix, receive–variable Interest Rate Swap agreement with Standard Chartered Bank. On account of these hedging activities, the company is not exposed to any significant interest rate risk.

31.1.2 Currency risk

Currency risk is the risk of loss through changes in foreign currency rates. In case of the Company this risk results from outstanding import payments. These transactions are not covered through foreign exchange risk cover as exchange risk is not considered material.

31.1.1 Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulties to meet commitments associated with financial instruments. The company believes that it is not exposed to any significant level of liquidity risk.

31.1.1 Fair value of financial instruments

The estimated fair value of financial instruments is not significantly different from their book value as shown in these financial statements except for the value of long term investments given in note 13.

31.2 The information about the company's exposure to interest rate risk based on contractual refinancing or maturity dates whichever is earlier is as follows:

2007 (Rupees)

	Interest bearing – Less than one year	Interest bearing – Overone year	Non-interest bearing	Total	Effective Interest rate
Financial assets					
Long term investments	–	–	149,606,959	149,606,959	–
Long term loans	17,312,500	75,187,500	–	92,500,000	1.5%+6M KIBOR
Long term deposits	–	–	600,447	600,447	–
Trade debts - considered good	–	–	31,937,773	31,937,773	–
Trade deposits and other receivables	–	–	14,789,465	14,789,465	–
Short term investments	186,969,198	–	–	186,969,198	10.6-10.6%
Cash and bank balances	38,055,223	–	3,625,717	41,680,940	8%
	242,336,921	75,187,500	200,560,361	518,084,782	
Financial liabilities					
Recognized					
Long term financing	17,312,500	75,187,500	–	92,500,000	1.5%+6M KIBOR
Liabilities against assets subject to finance lease	4,310,822	1,024,253	–	5,335,075	6-13%
Trade and other payables	12,035,662	–	85,497,692	97,533,354	30%
	33,658,984	76,211,753	85,497,692	195,368,429	
	208,677,937	(1,024,253)	115,062,669	322,716,353	
Unrecognized					
Guarantees	–	–	455,640	455,640	–
Commitments	–	–	65,783,251	65,783,251	–
	–	–	66,238,891	66,238,891	

2006 (Rupees)

	Interest bearing – Less than one year	Interest bearing – Overone year	Non-interest bearing	Total	Effective Interest rate
Financial assets					
Long term investments	–	–	138,285,502	138,285,502	–
Long term loans	–	–	–	–	–
Long term deposits	–	–	436,447	436,447	–
Trade debts - considered good	–	–	12,611,931	12,611,931	–
Loans and advances	–	–	4,708,767	4,708,767	–
Trade deposits and other advances	–	–	7,528,149	7,528,149	–
Short term investments	60,000,000	–	26,648,750	86,648,750	11.35%
Cash and bank balances	9,829,400	–	2,472,464	12,301,864	8%
	69,829,400	–	192,692,010	262,521,410	
Financial liabilities					
Recognized					
Long term financing	–	–	–	–	–
Liabilities against assets subject to finance lease	10,835,452	5,321,499	–	16,156,951	6-13%
Trade and other payables	10,700,877	–	64,686,885	75,387,762	41.25%
	21,536,329	5,321,499	64,686,885	91,544,713	
	48,293,071	(5,321,499)	128,005,125	170,976,697	
Unrecognized					
Guarantees	–	–	768,000	768,000	–
Commitments	–	–	11,919,000	11,919,000	–
	–	–	12,687,000	12,687,000	

32 TRANSACTIONS WITH RELATED PARTIES

The Company's related parties include associated companies, entities over which directors are able to exercise influence, subsidiaries, staff retirement fund, directors and key management personnel. Balances with the related parties are shown else where in the financial statements. The transactions with related parties other than remuneration and benefits to key management personnel under the terms of their employment which are disclosed in note 30 are as follows:

	2007 (RUPEES)	2006 (RUPEES)
Farmacia-98% owned subsidiary firm		
Sale of medicines	36,727,989	15,068,982
Lease rental paid on behalf of subsidiary	–	113,342
Share of profit	11,288,372	7,180,383
BF Biosciences Limited-80% owned subsidiary		
Equity investment made	111,999,960	111,999,960
Long term loan	92,500,000	–
Interest accdued	2,485,196	–
Amount of capital work in progress transferred by the parent company	10,900,250	5,462,243
Other expenses directly paid by the parent company	496,322	–
Other related parties		
Contribution to employee provident fund	3,856,131	3,209,018

33. EARNINGS PER SHARE - BASIC & DILUTED

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

Net profit for the year	(Rupees)	200,254,160	175,868,715
Average number of shares		12,056,064	12,056,064
Earnings per share	(Rupees)	16.61	14.59

For the purpose of computing earnings per share the number of shares for the previous year have been adjusted for the effect of bonus shares issued during the year.

34. CAPACITY AND PRODUCTION

Capacity of the pharmaceutical unit cannot be determined as the unit is used for manufacturing different products in varying quantities and packings.

35 CORRESPONDING FIGURES

Following figures have been rearranged/reclassified, for better presentation.

– Revolving advances have been rearranged from the face of the balance sheet to note 10 “Trade and other payables”.

- Workers' Welfare Fund charge for the year has been shown under note 28 "Other expenses" instead of note 25 "administrative expenses".
- Allocations for the year for Workers' Profit Participation Fund and Central Research Fund have been shown under note 28"Other expenses" instead on the face of Profit and Loss account.
- The donations previously shown in distribution and selling expenses has been rearranged and grouped under note 25 "Administrative expenses".
- The loss on re-measurement of investment has be reclassified under Note 28 "Other expenses".
- Newspapers and periodicals have been reclassified as subscription and fees under relevant notes 25 and 26.

36 GENERAL

36.1 Figures have been rounded off to the nearest rupee.

36.2 The Board of Directors of the Company in the meeting held on August 29, 2007 proposed final cash dividend of Rs. 6.50 per share and stock dividend @ 20% i.e. 2 bonus shares for every 10 shares held.

37 DATE OF AUTHORIZATION

The financial statements have been authorized for issue by the board of directors of the company on **August 29, 2007**.

Rawalpindi
August 29, 2007 Director/President Chairperson & Chief Executive

FEROZSONS LABORATORIES LIMITED

FEROZSONS
LABORATORIES LIMITED

Consolidated Financial Statements For the Year Ended June 30, 2007

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed consolidated financial statements comprising consolidated balance sheet of Ferozsons Laboratories Limited ("the Company") as at June 30, 2007 and the related consolidated profit and loss account, consolidated cash flow statement and consolidated statement of changes in equity together with the notes forming part thereof, for the year then ended. We have also expressed separate opinions on the financial statements of Ferozsons Laboratories Limited and its subsidiary except for Farmacia which were audited by other firm of auditors, whose report has been furnished to us and our opinion in so far as it relates to the amounts included for such subsidiary is based solely on the report of such other auditors. These financial statements are responsibility of the Company's management. Our responsibility is to express our opinion on these financial 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 obain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly the financial position of the Company as at 30 June 2007 and the results of its operations, its cash flows and changes in equity for the year then ended in accordance with the approved accounting standards as applicable in Pakistan.

Islamabad
August 29, 2007

KPMG TASEER HADI & Co.
CHARTERED ACCOUNTANTS

CONSOLIDATED BALANCE SHEET

	Note	2007 (RUPEES)	2006 (RUPEES)
SHARE CAPITAL AND RESERVES			
Share capital	4	**120,560,640**	100,467,200
Reserves			
Capital reserve	5	**321,843**	321,843
Revenue reserve - unappropriated profit		**560,993,936**	415,926,970
		681,876,419	516,716,013
MINORITY INTEREST		**28,584,807**	28,444,580
TOTAL EQUITY		**710,461,226**	545,160,593
SURPLUS ON REVALUATION OF FIXED ASSETS–net of tax	6	**256,984,285**	262,437,999
NON CURRENT LIABILITIES			
Long term financing - secured	7	**75,187,500**	–
Liabilities against assets subject to finance lease	8	**1,024,253**	5,321,499
Deferred liability for taxation	9	**48,302,487**	46,910,274
		124,514,240	52,231,773
CURRENT LIABILITIES			
Trade and other payables	10	**157,342,421**	92,599,982
Accrued markup on long term financing		**1,610,432**	–
Current portion of long term financing	7	**17,312,500**	–
Current portion of liabilities against assets subject to finance lease	8	**4,310,822**	10,835,452
Provision for taxation - net		**–**	14,872,789
		180,576,176	118,308,223
		1,272,535,926	978,138,588
CONTINGENCIES AND COMMITMENTS	11	**–**	–

The annexed notes from 1 to 35 form an integral part of these financial statements.

Rawalpindi
August 29, 2007

Director/President

FEROZSONS LABORATORIES LIMITED

AS AT JUNE 30, 2007

	Note	2007 (RUPEES)	2006 (RUPEES)
FIXED ASSETS			
Property, plant and equipment	12	**760,677,123**	495,460,990
LONG TERM INVESTMENTS	13	**33,085**	33,085
LONG TERM DEPOSITS		**600,447**	446,647
CURRENT ASSETS			
Stores, spares and loose tools	14	**4,280,632**	3,719,036
Stock in trade	15	**140,372,407**	149,777,434
Trade debts-considered good		**49,000,779**	17,364,727
Loans and advances-considered good	16	**60,663,117**	96,399,165
Deposits and prepayments	17	**3,133,233**	2,563,919
Other receivables	18	**3,277,090**	1,476,920
Advance income tax - net		**3,031,625**	–
Short term investments	19	**196,969,198**	86,648,750
Cash and bank balances	20	**50,497,190**	124,247,915
		511,225,271	482,197,866
		1,272,535,926	978,138,588

Chairperson & Chief Executive

CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2007

	Note	2007 (RUPEES)	2006 (RUPEES)
Net sales	21	1,012,904,157	839,122,794
Cost of sales	22	(484,529,424)	(392,726,393)
Gross profit		528,374,733	446,396,401
Other income	23	27,537,528	16,246,241
Administrative expenses	24	(52,760,961)	(51,149,449)
Selling and distribution cost	25	(221,297,717)	(167,767,383)
Finance cost	26	(1,764,907)	(2,327,753)
Other expenses	27	(17,629,100)	(19,806,627)
Profit before taxation		262,459,576	221,591,430
Provision for taxation	28	(62,425,778)	(46,035,677)
Profit after taxation		200,033,798	175,555,753
Attributable to:			
Shareholder of parent company		199,893,571	175,501,115
Minority shareholders		140,227	54,638
		200,033,798	175,555,753

The annexed notes from 1 to 35 form an integral part of these financial statements.

Rawalpindi
August 29, 2007 Director/President Chairperson & Chief Executive

FEROZSONS
LABORATORIES LIMITED

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED JUNE 30, 2007

	2007 (RUPEES)	2006 (RUPEES)
Cash flows from operating activities		
Profit before taxation	262,459,576	221,591,430
Adjustments for:		
Depreciation	42,644,523	45,516,176
Gain on disposal of property, plant and equipment	(1,592,218)	(5,025,921)
Finance cost	1,764,907	2,327,753
Dividends, capital gains and income from investments and deposits	(25,945,310)	(11,220,320)
Loss on remeasurement of short term investments	–	4,798,077
	16,871,902	36,395,765
	279,331,478	257,987,195
Working capital changes		
Decrease/(increase) in stocks and stores	8,843,431	(49,148,310)
(Increase) in trade debtors	(31,636,052)	(8,949,219)
(Increase) in loans, advances, deposits, prepayments and other receivables	(2,567,201)	(47,225,569)
Increase in trade and other payables	63,433,645	18,831,303
	38,073,823	(86,491,795)
Cash generated from operations	317,405,301	171,495,400
Finance cost paid	(1,764,907)	(2,327,753)
Taxes paid	(78,937,979)	(58,237,587)
	(80,702,886)	(60,565,340)
Net cash from operating activities	236,702,415	110,930,060
Cash flows from investing activities		
Purchase of property, plant and equipment	(269,438,355)	(37,039,453)
Short term investments	(110,320,448)	(34,375,827)
Dividends, capital gains and income from investments and deposits	24,225,275	11,220,320
Sale proceeds of property, plant and equipment	2,280,350	10,412,219
Net cash used in investing activities	(353,253,178)	(49,782,741)
Cash flows from financing activities		
Payment of finance lease liabilities	(10,821,876)	(7,173,104)
Proceeds from long term financing	92,500,000	–
Minority contribution in share capital of BF Biosciences Limited	–	28,000,040
Dividend paid	(38,878,086)	(40,771,687)
Net cash from/(used in) financing activities	42,800,038	(19,944,751)
Net (decrease)/increase in cash and cash equivalents during the year	(73,750,724)	41,202,568
Cash and cash equivalents at beginning of the year	124,247,915	83,045,347
Cash and cash equivalents at end of the year	50,497,190	124,247,915

The annexed notes from 1 to 35 form an integral part of these financial statements.

Rawalpindi
August 29, 2007

Director/President

Chairperson & Chief Executive

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2007

	Share capital (Rupees)	Capital reserve (Rupees)	Reserve for issue of bonus shares (Rupees)	Revenue reserve Unappropriated profit (Rupees)	Total (Rupees)	Minority Interest (Rupees)	Total Equity (Rupees)
Balance as at June 30, 2005	**77,282,460**	**321,843**	**6**	**305,866,486**	**383,470,795**	**389,902**	**383,860,697**
Final dividend for the year ended June 30, 2005 Rs. 5.50 per share	–	–	–	(42,505,492)	(42,505,492)	–	(42,505,492)
Bonus shares issued at 30 % for the year ended June 30, 2005	23,184,740	–	(6)	(23,184,734)	–	–	–
Minority share capital contribution in BF Biosciences Limited	–	–	–	–	–	28,000,040	28,000,040
Transfer from surplus on revaluation of fixed assets - net of deferred tax	–	–	–	249,595	249,595	–	249,595
Net income recognized directly in equity	–	–	–	249,595	249,595	–	249,595
Net profit for the year	–	–	–	175,501,115	175,501,115	54,638	175,555,753
Total recognized income for the year	–	–	–	175,750,710	175,750,710	54,638	175,805,348
Balance as at June 30, 2006	**100,467,200**	**321,843**	**–**	**415,926,970**	**516,716,013**	**28,444,580**	**545,160,593**
Final dividend for the year ended June 30, 2006 Rs. 4.00 per share	–	–	–	(40,186,880)	(40,186,880)	–	(40,186,880)
Bonus shares issued at 20% for the year ended June 30, 2006	20,093,440	–	–	(20,093,440)	–	–	–
Transfer from surplus on revaluation of fixed assets - net of deferred tax	–	–	–	5,453,715	5,453,715	–	5,453,715
Net income recognized directly in equity	–	–	–	5,453,715	5,453,715	–	5,453,715
Net profit for the year	–	–	–	199,893,571	199,893,571	140,227	200,033,798
Total recognized income for the year	–	–	–	205,347,286	205,347,286	140,227	205,487,513
Balance as at June 30, 2007	**120,560,640**	**321,843**	**–**	**560,993,936**	**681,876,419**	**28,584,807**	**710,461,226**

The annexed notes from 1 to 35 form an integral part of these financial statements.

Rawalpindi
August 29, 2007

Director/President

Chairperson & Chief Executive

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2007

1. THE COMPANY AND ITS OPERATIONS

Ferozsons Laboratories Limited ("the parent company") was incorporated as a private limited company on January 28, 1954 and was converted into a public limited company on September 8, 1960. The parent company is listed on the Karachi, Lahore and Islamabad stock exchanges. The parent company is primarily engaged in the manufacture and sale of pharmaceuticals products and its registered office is situated at 197-A, The Mall, Rawalpindi. The parent company is domiciled in Rawalpindi, Pakistan.

The parent company has 98% holding in Farmacia. Farmacia is a partnership duly registered under Partnership Act, 1932. Farmacia is engaged in the retail trading of pharmaceutical products.

BF Biosciences Limited is an 80% owned subsidiary of the parent company and was incorporated as an unquoted public limited company under the Companies Ordinance, 1984 on 24 February 2006. BF Biosciences Limited has been set up for establishing a biotech production plant to manufacture cancer and hepatitis related medicines.

2. BASIS OF CONSOLIDATION

These consolidated financial statements include the financial statements of Ferozsons Laboratories Limited and its subsidiaries – Farmacia and BF Biosciences Limited ("hereinafter referred as the Group").

Subsidiaries are those enterprises in which the parent company directly or indirectly controls, beneficially owns or holds more than 50% of the voting securities or otherwise has power to elect or appoint more than 50% of its directors. The financial statements of the subsidiaries are included in the consolidated financial statements from the date the control commences, until the date when that control ceases. The financial statements of the subsidiaries have been consolidated on line by line basis. Details of the subsidiaries are given in note 1.

All material inter-organization balances, transactions and resulting unrealized profits/losses have been eliminated.

3. STATEMENT OF COMPLIANCE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. Statement of compliance

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

Pakistan differ with the requirements of these standards, the requirements of the Companies Ordinance, 1984 or the requirements of the said directives take precedence.

3.2. Accounting convention and basis of preparation

These financial statements have been prepared under the historical cost convention except that certain fixed assets are stated at revalued amounts and investment in listed securities are stated at their fair values.

The preparation of financial statements in conformity with approved accounting standards requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgment about carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. Judgments made by management in the application of approved accounting standards that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in the respective notes.

3.3. Dividend and reserve appropriation

Dividend is recognized as a liability in the period in which it is declared.

3.4. Staff retirement benefits

The Company operates a recognized provident fund as a defined contribution plan for employees who fulfill conditions laid down in the trust deed. Provision is made in the financial statements for the amount payable by the company to the fund in this regard. Contribution is made to the fund equally by the company and the employees at the rate of 10% of basic salary.

3.5. Taxation

The Company takes into account the current income tax law and decisions taken by appellate authorities. Instances where the Company’s view differs from the view taken by the income tax department at the assessment stage and where the Company considers that its view on items of material nature is in accordance with law, the amounts are shown as contingent liabilities.

3.5.1. Current

Provision for current taxation is based on taxable income at current rate of taxation after taking into account tax credits and rebates available, if any.

3.5.2. Deferred

Deferred tax is accounted for using the balance sheet liability method in respect of all temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of tax. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent to which it is probable that taxable profits will be available against which the deductible temporary differences, unused tax loss, and tax credits can be utilized.

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

3.6. Property, plant and equipment , depreciation and capital work in progress

3.6.1. Owned

Property, plant and equipment of the parent company other than land, building and plant & machinery are stated at cost less accumulated depreciation and impairment loss, if any. Building and plant & machinery are stated at revalued amount less accumulated depreciation and impairment loss, if any. Land is stated at revalued amount. Revaluation is carried out every five years unless earlier revaluation is necessitated.

Property, plant and equipment of Farmacia (the subsidiary) are stated at cost less accumulated depreciation and impairment loss, if any.

Depreciation is provided on a straight line basis and charged to profit and loss account to write off the depreciable amount of each asset over its estimated useful life at the rates specified in note 12. Depreciation on depreciable assets is commenced from the date asset is available for use up to the date when asset is retired.

The company reviews the useful lives and residual value of property, plant and equipment on a regular basis. Any change in estimates in future years might effect the carrying amounts of the respective items of property, plant and equipment with a corresponding effect on the depreciation charge. During the year, the company has revised its estimate of useful life of computers from 10 years to 3 years. Had there been no change in estimate, depreciation expense would have been lower and profit for the year would have been higher by an amount of Rs. 3.5 million.

Maintenance and normal repair costs are charged to profit and loss account as and when incurred. Major renewals and improvements are capitalized and the assets so replaced, if any, are retired. Gains or losses on disposal of assets, if any, are included in the profit and loss account currently.

Pursuant to the requirements of section 235 of the Companies Ordinance, 1984 and in terms of SRO 45(I)/2003 dated 13 January 2003, revaluation surplus to the extent of excess depreciation on revalued assets during the current financial year is taken to retained earnings. This effect has been shown in note 6 to these financial statements.

3.6.2. Capital work in progress

Capital work in progress is stated at cost less identified impairment loss, if any, and includes the expenditures on material, labor, related borrowing cost and appropriate overheads directly attributable to the project. These costs are transferred to property, plant and equipment as and when assets are available for their intended use.

3.6.3. Leased assets

Leases in terms of which the Company assumes substantially all the risk and rewards of ownership are classified as finance leases. Assets acquired by way of finance lease are stated at amounts equal to the lower of their fair value and the present value of minimum lease payments at the inception of the lease less accumulated depreciation and impairment losses, if any. Outstanding obligations under the lease less finance charges allocated to future periods are shown as liability. Value of leased assets is depreciated on the useful life of the asset using the straight line method at the rate given in note 12. Depreciation on leased assets is charged to profit and loss account currently.

3.7. Impairment

The carrying amounts of the Company's assets are analyzed at each balance sheet date to determine whether there is any indication of impairment loss. If any such indication exists the recoverable amount of assets is estimated in order to determine the extent of the impairment loss if any. Impairment losses are recognized as expense in the profit and loss account.

3.8. Investments

3.8.1. Investment in subsidiary

Investments in subsidiaries are initially valued at cost. At subsequent reporting dates, the company reviews the carrying amount of the investment to assess whether there is any indication that such investments have suffered an impairment loss. If any such indication exists, the recoverable amount is estimated in order to determine the extent of the impairment loss, if any.

3.8.2. Investments available for sale

These are initially recognized at cost and at subsequent reporting dates measured at fair values. Gains and losses from changes in fair value are taken to equity until disposal at which time these are recycled to profit and loss account.

3.8.3. Investments held to maturity

Investments with fixed maturity other than short term deposits, where management has both the intent and ability to hold to maturity are classified as held to maturity and are stated at amortized costs using effective interest rate method less impairment losses, if so determined. The resultant change in values is reported directly in the profit and loss account.

Investment in short term deposits are stated at cost less impairment losses, if any.

3.8.4. Investments at fair value through profit or loss

All investments classified as investments at fair value through profit or losses are initially measured at cost being fair value of consideration given. At subsequent dates these investments are measured at fair value with any resulting gains or losses recognized directly in the profit and loss account. The fair value of such investments is determined on the basis of prevailing market prices. The Company recognizes the regular way purchase or sale of investments using settlement date accounting.

3.9. Stores, spares and loose tools

These are valued at weighted average cost except for items in transit, which are valued at invoice price and related expenses incurred up to the balance sheet date. For items which are slow moving and/or identified as surplus to the company's requirement, a provision is made for excess of book value over estimated net realizable value. The company reviews the carrying amount of stores and spares on a regular basis and provision is made for obsolescence.

3.10. Stocks in trade

Stocks are valued at the lower of average cost and net realizable value except for stocks in transit which are valued at invoice price and related expenses incurred thereon up to the balance sheet date.
Cost is determined as follows:

Raw material	-	at moving average cost
Work in process	-	at weighted average cost of purchases and
Finished goods	-	applicable manufacturing expenses

Net realizable value signifies the estimated selling price in the ordinary course of business less net estimated cost of completion and selling expenses.

3.11. Trade and other receivables

Trade and other receivables are stated at amortized cost. Known impaired debts are written off, while debts considered doubtful of recovery are fully provided for

Impairment loss against doubtful trade and other debts is made on judgmental basis, for which provision may differ in the future years based on the actual experience. The difference in provision if any would be recognized in the future years.

3.12. Revenue recognition

Sales are recorded on dispatch of goods to the customers. Return on bank deposits is recognized on a time proportion basis. Gains or losses on sale of investments are taken to profit and loss account in the period in which they arise. Dividend is recognized when the right to receive the dividend is established.

3.13. Related party transactions

The transactions with related parties are made on commercially negotiated terms.

3.14. Mark-up bearing borrowings

Mark-up bearing borrowings are recognized initially at cost, less attributable transaction costs. Subsequent to initial recognition, mark-up bearing borrowings are stated at original cost less subsequent repayments.

The company accounts for lease obligations by recording the asset and corresponding liability there against determined on the basis of discounted value of total minimum lease payments. Financial charge is recognized in the profit and loss account using the effective mark-up rate method.

3.15. Borrowing costs

Markup, interest and other direct charges on borrowings are capitalized to the related qualifying asset till substantially all the activities necessary to prepare the qualifying asset for its intended use are complete. All other markup, interest and related charges are charged to the profit and loss account as finance cost.

3.16. Trade and other payables

Trade and other payables are stated at cost which is fair value of the consideration to be paid in future for goods and services received.

3.17. Provisions

A provision is recognized in the balance sheet when the Company has a legal or constructive obligation as a result of 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 the obligation.

Estimates of the amount of provisions and liabilities recognized are based on current legal and constructive requirements, technology and price levels. Because actual outflows can differ from estimates due to changes in laws, regulations, public expectations, technology, prices and conditions, and can take place many years in the future, the carrying amounts of provisions and liabilities are regularly reviewed and adjusted to take account of such changes.

3.18. 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 instruments. The Company de-recognizes a financial assets or a portion of financial asset when, and only when, the Company loses control of the contractual right that comprise the financial asset or portion of financial asset. While a financial liability or part of financial liability is de-recognized from the balance sheet when, and only when, it is extinguished i.e., when the obligation specified in the contract is discharged, cancelled or expired.

Financial assets are long term investment, trade debts, advances deposits and other receivable, short term investments and cash and bank balances.

Financial liabilities are classified according to the substance of contractual agreements entered into, significant financial liabilities are liability under lease finance, creditors accrued and other liabilities, unclaimed dividend.

All the financial assets and liabilities are initially recognized at fair value. These are subsequently measured at fair value or amortized cost or cost as the case may be.

3.19. Offsetting of financial assets and financial liabilities

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 intends either to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

3.20. Cash and cash equivalents

For the purpose of cash flow, cash and cash equivalents mainly comprise cash and bank balances, which are stated in the balance sheet at cost.

3.21. Foreign currency transactions

Foreign currency transactions are translated in to Pak. Rupees using the exchange rates approximating those prevailing at the date of transaction. All monetary assets and liabilities in foreign currencies are translated into Pak. Rupees at the rates of exchange approximating those prevailing at the balance sheet date. Foreign exchange gains and losses on translation are included in income currently.

3.22. New accounting standards, interpretations and amendments which are not yet effective

The following standards, interpretations and amendments in approved accounting standards are only effective for accounting periods beginning on or after 1 July 2007 and are either not relevant to the Company's operations or are not expected to have significant impact on the Company's financial statements other than certain increased disclosures in certain cases:

IAS 1 - Presentation of Financial Statements - Amendments Relating to Capital Disclosures;
IAS 23 - Borrowing Costs (as revised);
IAS 41 - Agriculture;
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;
IFRIC 10 - Interim Financial Reporting and Impairment;
IFRIC 11 - Group and Treasury Share Transactions;
IFRIC 12 - Service Concession Arrangements;
IFRIC 13 - Customer Loyalty Programmes; and
IFRIC 14 - The Limit on a Defined Benefit Asset Minimum Funding Requirements and their Interaction.

	2007 (RUPEES)	2006 (RUPEES)

4. SHARE CAPITAL

	2007 (RUPEES)	2006 (RUPEES)
Authorised share capital:		
15,000,000 (2006: 15,000,000) ordinary shares of Rs. 10 each.	**150,000,000**	150,000,000
Issued, subscribed and paid up capital:		
1,441,952 (2006: 1,441,952) ordinary shares of Rs. 10 each fully paid in cash	**14,419,520**	14,419,520
119,600 (2006: 119,600) ordinary shares of Rs. 10 each issued in lieu of NWF Industries Limited and Sargodha Oil and Flour Mills Limited since merged	**1,196,000**	1,196,000
10,494,512 (2005: 8,485,168) ordinary shares of Rs. 10 each issued as fully paid bonus shares	**104,945,120**	84,851,680
	120,560,640	100,467,200

5. CAPITAL RESERVE

This represents capital reserve arising on conversion of shares of NWF Industries Limited and Sargodha Oil & Floor Mills Limited, since merged.

6. SURPLUS ON REVALUATION OF FIXED ASSETS-net of tax

	2007 (RUPEES)	2006 (RUPEES)
Surplus on revaluation of Fixed Asssets as at 01 July.	**298,742,899**	58,533,863
Surplus transfered to unappropriated profit in respect of incremental depreciation charged during the year:		
- Net of deferred tax	**(5,453,715)**	(249,595)
- Related deferred tax liability	**(2,936,616)**	(134,398)
	(8,390,330)	(383,993)
Surplus on revaluation during the year	**–**	240,593,029
Surplus on revaluation of Fixed Assets as at 30 June	**290,352,569**	298,742,899
Related deferred tax liability:		
- On Revaluation as at 01 July	**(36,304,900)**	(3,996,212)
- On Revaluation surplus during the year	**–**	(32,443,086)
- Transferred to profir and loss account Incremental depreciation charged during the year	**2,936,616**	134,398
	(33,368,285)	(36,304,900)
	256,984,285	262,437,999

This represents surplus arising on revaluation of free hold land, building and plant & machinery of the parent company carried out in 1976, 1989, 2002 and 2006 respectively. This has been adjusted by surplus realized on disposal of revalued assets and incremental depreciation arising due to revaluation, net of deffered tax.

	Note	2007 (RUPEES)	2006 (RUPEES)

7. LONG TERM FINANCING - SECURED

	Note	2007 (RUPEES)	2006 (RUPEES)
from banking company			
- Habib Bank Limited (HBL)	7.1	92,500,000	–
Less : Current portion shown under current liabilities		(17,312,500)	–
		75,187,500	–

7.1 The parent company has obtained a long term finance facility of Rs. 277 Million from Habib Bank Limited to finance its 80% owned subsidiary, BF Biosciences Limited. This facility is repayable in sixteen equal quarterly installments with a grace period of 1 year, commencing from 15th month after first draw down and carry mark-up at base rate (six month KIBOR) plus 1.5% per annum. The facility is secured by first pari passu charge by way of hypothecation over all present and future current and movable assets of the parent company and equitable mortgage over immovable property to the extent of Rs. 370 Million.

The parent company has entered into a pay fix, receive-variable Interest Rate Swap agreement with Standard Chartered Bank to hedge the interest rate exposure on the mentioned long term financing. As per the terms of the agreement the parent company will pay fix interest rate @ 12.8 % p.a. to Standard Chartered Bank and will receive 3 month PKR KIBOR. As per the term and conditions of the agreement the swap transaction becomes effective from July 25, 2007 i.e. subsequent to the balance sheet date.

8. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

	Note	2007 (RUPEES)	2006 (RUPEES)
Minimum lease payments due			
Not later than one year		4,602,578	11,826,554
Later than one year and not later than five years		1,067,820	5,639,778
Total future minimum lease payments		5,670,398	17,466,332
Less: Future financial costs		(335,323)	(1,309,381)
Present value of minimum lease payments	8.1	5,335,075	16,156,951
Less : Current maturity shown under current liabilities		(4,310,822)	(10,835,452)
		1,024,253	5,321,499

8.1 Breakup of Present value of minimum lease payments

	2007 (RUPEES)	2006 (RUPEES)
Not later than one year	4,310,822	10,835,452
Later than one year and not later than five years	1,024,253	5,321,499
	5,335,075	16,156,951

These represent finance leases of the parent company entered into with Standard Chartered Modarba and Bank Alfalah for vehicles. Lease rentals are paid on monthly basis and include finance charges. As per terms of agreement with Standard Chartered Modarba the interest rate implicit is fixed for lease term ranging between 6% to 13% (2006: 6% to 13%). In case of Bank Alfalah floating interest rates are used under the terms of agreement, equivalent to a base rate of 3 months KIBOR plus 2.5% to 3% (2006: 3 months KIBOR plus 2.5% to 3%) with no floor no cap, review on expiry of base rate term of 3 months.

	Note	2007 (RUPEES)	2006 (RUPEES)

9. DEFERRED LIABILITY FOR TAXATION

The net balance of deferred tax is in respect of the following major temporary differences:

	Note	2007 (RUPEES)	2006 (RUPEES)
Accelerated depreciation		16,801,479	16,260,307
Obligations under finance lease		(1,867,276)	(5,654,933)
Surplus on revaluation of fixed assets		33,368,285	36,304,900
		48,302,487	46,910,274

10. TRADE AND OTHER PAYABLES

	Note	2007 (RUPEES)	2006 (RUPEES)
Creditors		57,117,729	44,024,109
Accrued liabilities		32,997,733	13,256,526
Advances from customers		24,275,436	5,527,937
Unclaimed dividend		9,404,447	8,095,653
Tax deducted at source		915,336	692,272
Provision for compensated absences and employees' provident fund		3,443,869	2,187,044
Workers' Profit Participation Fund	10.1	12,035,662	10,700,877
Central Research Fund	10.2	4,541,161	1,956,030
Advances from employees		8,359,211	5,943,824
Retentions		3,902,733	–
General sales tax		26,176	–
Others	10.3	322,928	215,710
		157,342,421	92,599,982

10.1 Workers' Profit Participation Fund

	2007 (RUPEES)	2006 (RUPEES)
Balance at the beginning of the year	10,700,877	10,182,018
Interest on funds utilized by the company	200,442	47,790
Allocation for the year	11,835,220	10,653,087
	22,736,539	20,882,895
Payments made during the year	(10,700,877)	(10,182,018)
	12,035,662	10,700,877

The fund balance has been utilised by the parent company for its own busines and an interest at the rate of 30% (2006: 41.25%) has been credited to the fund. The interest is calculated at 75% of the cash dividents paid as required under the Companies Profit (Workers' Participation) Rules 1971.

	2007 (RUPEES)	2006 (RUPEES)
10.2 Central Research Fund		
Opening balance	**1,956,030**	1,909,542
Charge for the year	**2,585,131**	2,004,046
	4,541,161	3,913,588
Less: Payments	**–**	(1,957,558)
	4,541,161	1,956,030

10.3 These include Rs. 65,000 (2006: Rs.65,000) advances from distributors which are interest free and are payable on termination of agency agreements with customers.

11. CONTINGENCIES AND COMMITMENTS

	2007 (RUPEES)	2006 (RUPEES)
Contingencies:		
i Guarantees issued by banks on behalf of the parent company	**455,640**	768,000
Commitments:		
ii Capital Expenditure	**134,680,528**	115,374,000
iii Letter of credits other than for capital expenditure	**33,271,273**	11,919,460

12. PROPERTY, PLANT AND EQUIPMENT

	Note	Reassessed Value/Original Cost					Rate	Depreciation					Net Book Value
		As At 01 July 2006	Additions	Transfers Adjustments	(Deletions)	As At 30 June 2007	%	As At 01 July 2006	For the Year	On Deletion	Transfers/ Adjustments	As At 30 June 2007	As At 30 June 2007
OWNED:													
Freehold Land		226,356,000	37,775,000	–	–	**264,131,000**	–	–	–	–	–	–	**264,131,000**
Building on freehold land		73,149,875	2,192,766	5,474,730	–	**80,817,371**	2.5 - 10	1,085,132	5,864,481	–	–	**6,949,613**	**73,867,758**
Leasehold improvements		1,486,800	–	–	–	**1,486,800**	10	101,997	55,033	–	–	**157,030**	**1,329,770**
Plant and machinery		131,370,987	9,207,058	6,087,235	–	**146,665,280**	10	1,278,045	14,666,528	–	–	**15,944,573**	**130,720,707**
Office Equipments		5,362,580	135,460	–	–	**5,498,040**	10	3,314,186	861,831	–	–	**4,176,017**	**1,322,024**
Furniture and fittings		22,320,151	1,887,498	302,508	–	**24,510,157**	10	10,776,669	3,334,486	–	–	**14,111,155**	**10,399,002**
Computers		11,122,090	1,297,222	4,870	(62,590)	**12,361,592**	30 - 33.33	5,252,360	4,653,104	(12,518)	–	**9,892,946**	**2,468,646**
Vehicles		30,993,085	9,574,000	1,046,000	(4,543,300)	**37,069,785**	20	19,487,242	6,190,516	(3,905,240)	627,600	**22,400,118**	**14,669,667**
		502,161,568	62,069,004	12,915,343	(4,605,890)	**572,540,025**		41,295,631	35,625,979	(3,917,758)	627,600	**73,631,452**	**498,908,573**
LEASED:													
Vehicles		36,333,430	–	(1,046,000)	–	**35,287,430**	20	13,715,084	7,018,544	–	(627,600)	**20,106,028**	**15,181,402**
		36,333,430	–	(1,046,000)	–	**35,287,430**		13,715,084	7,018,544	–	(627,600)	**20,106,028**	**15,181,402**
CAPITAL WORK IN PROGRESS													
Capital Work in Progress	12.2	11,976,708	246,479,783	(11,869,343)	–	**246,587,148**		–	–	–	–	–	**246,587,148**
		11,976,708	246,479,783	(11,869,343)	–	**246,587,148**		–	–	–	–	–	**246,587,148**
Total 2007		**550,471,706**	**308,548,787**	–	**(4,605,890)**	**854,414,603**		**55,010,715**	**42,644,523**	**(3,917,758)**	–	**93,737,480**	**760,677,123**

Note: The parent company has capitalized the land based on the allotment letters issued in the name of the Company

12. PROPERTY, PLANT & EQUIPMENT - Comparatives

	Reassessed Value/Original Cost						Rate	Depreciation						Net Book Value
	As At July 01, 2005	Additions	Surplus on Revaluation	Transfers/ Adjustments	(Deletions)	**As At June 30, 2006**	%	As At July 01, 2005	For the Year	on Deletions	Transfers/ Adjustments	Release on Revaluation	**As At June 30, 2006**	**As At June 30, 2006**
OWNED:														
Freehold Land	78,457,502	–	147,898,498	–	–	226,356,000	–	–	–	–	–	–	–	226,356,000
Building on freehold land	32,983,727	2,183,866	37,982,282	–	–	73,149,875	2.5 – 10	5,756,471	2,975,153	–	–	(7,883,892)	847,732	72,302,143
Leasehold improvements	1,100,591	386,209	–	–	–	1,486,800	10	206,690	132,707	–	–	–	339,397	1,147,403
Plant and machinery	142,355,007	6,377,684	(29,915,727)	14,828,193	(2,274,170)	131,370,987	10	52,946,619	23,040,305	(1,582,673)	3,617,879	(76,744,085)	1,278,045	130,092,942
Office Equipments	5,317,611	44,969	–	–	–	5,362,580	10	2,614,895	507,591	–	–	–	3,122,486	2,240,094
Furniture and fittings	31,146,815	6,001,529	–	(14,828,193)	–	22,320,151	10	12,393,153	2,193,096	(3,617,879)	–	–	10,968,370	11,351,781
Computers	9,137,744	1,984,346	–	–	–	11,122,090	10 – 30	4,223,485	1,028,875	–	–	–	5,252,360	5,869,730
Vehicles	19,240,405	10,946,500	–	9,794,500 (760,500)	(7,828,820)	31,392,085	20	11,730,175	8,409,723	(5,037,227)	4,579,283	–	19,681,954	11,710,131
	319,739,402	27,925,103	155,965,053	9,034,000	(10,102,990)	502,560,568		89,871,488	38,287,450	(10,237,779)	8,197,162	(84,627,977)	41,490,344	461,070,224
LEASED:														
Vehicles	41,099,560	5,319,700	–	(9,034,000)	(1,450,830)	35,934,430	20	10,667,752	7,228,726	(4,376,106)	–	–	13,520,372	22,414,058
	41,099,560	5,319,700	–	(9,034,000)	(1,450,830)	35,934,430		10,667,752	7,228,726	(4,376,106)	–	–	13,520,372	22,414,058
CAPITAL WORK IN PROGRESS														
Capital Work in Progress	8,431,259	3,545,449	–	–	–	11,976,708		–	–	–	–	–	–	11,976,708
	8,431,259	3,545,449		–	–	11,976,708		–	–	–	–	–	–	11,976,708
Total 2006	**369,270,221**	**36,790,252**	**155,965,053**	**–**	**(11,553,820)**	**550,471,706**		**100,539,240**	**45,516,176**	**(14,613,885)**	**8,197,162**	**(84,627,977)**	**55,010,716**	**495,460,990**

12.1 Land and building of the parent company were first revalued on March 31, 1976, resulting in surplus of Rs. 13.661 million. The second revaluation was carreied out on 30 June 1989 and resulted in a surplus of Rs. 40.067 million. The third revaluation was carried out on June 30, 2002 and resulted in a surplus of Rs. 30.433 million. The last revaluation that also included the plant and machinery was carried out on June 30, 2006 and resulted in a surplus of Rs. 240.593 million. These valuations were carried out by an independent valuar under the market value basis.

	Note	**2007 (RUPEES)**	2006 (RUPEES)
12.2 Capital Work-In-Progress			
Building and civil works		**92,690,259**	4,710,365
Plant and machinery		**150,063,221**	–
Consultancy services		**1,348,472**	1,273,576
Borrowing cost		**2,485,196**	–
	12.2.1	**246,587,148**	5,983,941

12.2.1 These represent capital expenditures for the construction of the Biotech Pharmacutical Plant of the subsidiary and related support structures at Raiwind, Lahore. This also includes Rs. 27.814 million relating to construction of Head office building of the parent company.

12.3 As referred in Note 6 to these financial statements, land, building and plant & machinery of the parent company are carried at revalued amount. Had there been no revaluation the ralated figures of revalued assets would have been as follows:

	(Rupees)		
	Cost	**Accumulated depreciation**	**Written down value**
Freehold land	69,209,876	–	69,209,876
Buildings	41,221,990	20,325,484	20,896,506
Plant & Machinery	156,044,260	85,829,330	70,214,930
2007	**266,476,126**	**106,154,814**	**160,321,312**
2006	226,132,107	95,805,742	130,326,365

12.4 Depreciation is allocated as under:

	2007	2006
Cost of sales	**22,571,744**	29,359,924
Administrative expenses	**11,402,907**	6,490,275
Selling and distribution cost	**8,669,872**	9,665,977
	42,644,523	45,516,176

13. LONG TERM INVESTMENTS

Available for sale - unlisted

Number of shares 2007	Number of shares 2006	Name of Companies	2007 (Rupees)	2006 (Rupees)
218	218	National General Insurance Company Limited Ordinary shares of Rs. 10 each Equity held 0.01%	**2,985**	2,985
301	301	Mercantile Co-operative Finance Corporation Limited 'A' class shares of Rs. 100 each The entity is under liquidation	**30,100**	30,100
			33,085	33,085

	Note	2007 (RUPEES)	2006 (RUPEES)
14. STORES, SPARES AND LOOSE TOOLS			
Stores		**3,902,656**	3,365,327
Spares		**251,688**	241,237
Loose tools		**126,288**	112,472
		4,280,632	3,719,036
15. STOCK IN TRADE			
Raw material		**68,389,436**	58,716,205
Work in process		**2,897,691**	3,059,331
Finished goods	15.1	**54,812,270**	81,253,393
		126,099,397	143,028,929
Stocks in transit		**14,273,010**	6,748,505
		140,372,407	149,777,434

15.1 These includes finished goods amounting to Rs. 2,854,718 (2006: 3,107,867) which are carried at net realizable value.

	Note	2007 (RUPEES)	2006 (RUPEES)
16. LOANS AND ADVANCES - considered good			
Advances			
To employees	16.1	**3,312,975**	4,648,067
To contractors		**57,246,015**	54,174,645
Advance for purchase of land		**–**	37,500,000
Others		**104,127**	76,453
		60,663,117	96,399,165

16.1 These include interest free advances against salary to executives amounting to Rs. 1,663,442 (2006: Rs. 1,322,738).

	Note	2007 (RUPEES)	2006 (RUPEES)

17. DEPOSITS AND PREPAYMENTS

	Note	2007	2006
Earnest money		686,077	573,906
Margin deposits		42,135	276,544
Prepayments		2,405,021	1,713,469
		3,133,233	2,563,919

18. OTHER RECEIVABLES

	Note	2007	2006
Accrued income on investments and bank deposits		1,720,035	–
Others		1,557,055	1,476,920
		3,277,090	1,476,920

19. SHORT TERM INVESTMENTS

	Note	2007	2006
Held to maturity investments - local currency	19.1	196,969,198	60,000,000
Investments at fair value through profit and loss - listed securities	19.2	–	26,648,750
		196,969,198	86,648,750

19.1 Held to maturity investments

These represents investments in term deposit receipt with Faisal Bank Limited and Pakistan Industrial Credit & Investment Corporation Limited, having maturity of six months and carrying interest rates from 10.50% to 10.60 % (2006: 11.35%) per annum.

19.2 Investments at fair value through profit or loss- listed securities

Number of shares 2007	Number of shares 2006	Name of Companies	2007 (Rupees) Carrying value	2007 (Rupees) Fair value	2006 (Rupees) Carrying value	2006 (Rupees) Fair value
–	190,000	Pakistan Telecommunication Company Ltd. 'A' class ordinary shares of Rs. 10 each	–	–	12,530,500	7,714,000
–	110,000	Hub Power Company Limited Ordinary shares of Rs. 10 each	–	–	2,904,000	2,530,000
–	10,000	Indus Motor Company Ltd. Ordinary shares of Rs. 10 each	–	–	1,363,887	1,910,000
–	75,000	Agri Autos Industries Ltd. Ordinary shares of Rs. 10 each	–	–	4,738,976	5,160,000
–	100,000	Fauji Cement Company Ltd. Ordinary shares of Rs. 10 each	–	–	2,274,287	1,920,000
–	35,000	Pakistan Petroleum Ltd. Ordinary shares of Rs. 10 each	–	–	7,635,177	7,414,750
					31,446,827	26,648,750
		Unrealised loss on account of remeasurement to fair value	–	–	(4,798,077)	–
			–	–	26,648,750	26,648,750

20. CASH AND BANK BALANCES

	Note	2007 (RUPEES)	2006 (RUPEES)
Cash in hand		1,193,589	1,090,688
Cash at banks - Current accounts		5,957,531	95,367,146
- Deposit accounts	20.1	43,346,071	27,790,081
		50,497,190	124,247,915

20.1 These carry interest rate of 2.5% to 8% per annum (2006: 4% to 8% per annum)

20.2 The parent Company has unavailed cash finance facility of Rs. 60 Million (2006: Rs. 60 Million) from Bank Alfalah Limited. The facility is secured by first pari passu charge by way of hypothecation over all present and future current and movable assets of the Company and equitable mortgage over immovable property to the extent of Rs. 204 Million. This facility carries mark up at the rate of six months KIBOR + 1.75% per annum.

	Note	2007 (RUPEES)	2006 (RUPEES)
21. NET SALES			
Gross sales		1,115,456,763	923,036,806
Less: Sales tax		(258,725)	(227,277)
		1,115,198,038	922,809,529
Less: Discount		(102,293,881)	(83,686,735)
		1,012,904,157	839,122,794
22. COST OF SALES			
Work in process:			
Opening		3,059,331	3,182,690
Closing		(2,897,691)	(3,059,331)
		161,640	123,359
Raw material consumed	22.1	367,703,457	353,439,666
Salaries and wages	24.1	39,001,932	34,935,818
Fuel and power		6,326,093	5,974,115
Repairs and maintenance		2,206,655	4,418,690
Stores and spares consumed		2,813,795	3,114,047
Packing charges		4,301,696	2,651,461
Excise duty		120,757	207,715
Postage and telephone		665,930	692,135
Insurance		1,490,109	1,485,987
Travelling and conveyance		1,163,241	843,288
Transport		1,627,397	1,125,505
Laboratory and other expenses		1,377,638	1,065,989
Depreciation		22,571,744	29,359,924
Cost of goods manufactured		451,532,084	439,437,699
Finished stock:			
Opening		81,253,393	34,542,087
Closing		(48,256,053)	(81,253,393)
		32,997,340	(46,711,306)
		484,529,424	392,726,393
22.1 Raw material consumed			
Opening stock		58,716,205	59,221,233
Add: Purchases		383,932,905	352,934,638
		442,649,110	412,155,871
Less: Closing stock		(74,945,653)	(58,716,205)
		367,703,457	353,439,666

FEROZSONS LABORATORIES LIMITED

	Note	2007 (RUPEES)	2006 (RUPEES)

23. OTHER INCOME

	Note	2007 (RUPEES)	2006 (RUPEES)
From financial assets			
Dividend income		1,711,000	615,500
Profit on Term Deposit Reciepits		12,815,086	–
Capital gain on sale of shares		6,934,322	4,724,003
Profit on deposits with banks		4,484,903	5,864,271
Others		–	16,546
		25,945,310	11,220,320
From other then financial assets			
Gain on disposal of property, plant and equipment	23.1	1,592,218	5,025,921
		27,537,528	16,246,241

23.1 Gain on disposal of property, plant and equipment

Particulars	Cost	Book value	Sale proceeds	Profit/(loss)	Mode of disposal
<u>VEHICLES</u>					**By negotiation to:**
SUZUKI MEHRAN – IDM 9252	374,000	149,600	195,000	45,400	Mrs. Noureen Nadeem - Staff Member
SUZUKI CULTUS – RL 6308	560,000	112,000	300,000	188,000	Mr. Shahid Mahmood - Staff Member
TOYOTA COROLLA – B 1224	786,450	–	550,000	550,000	Lt. ColL Khalid Zaman Nowshera
SUZUKI CULTUS – IDM 5768	560,000	224,000	300,000	76,000	Mr. Abdur Rauf - Staff Member
					As per company's policy
SUZUKI BALENO – RIX 4532	653,000	–	190,000	190,000	Mr. Maqbool Ahmed - Ex Staff Member
SUZUKI MEHRAN – LRA 6507	389,400	–	179,500	179,500	Mr. Saqib Naseem - Staff Member
SUZUKI MEHRAN – SLK 5707	383,900	–	174,500	174,500	Mr. Muhammad Iqbal - Staff Member
YAMAHA YB 100 – RIZ 2374	78,100	15,620	37,500	21,880	Mr. Nadeem Mukhtar Kiyani - Staff Member
HONDA CG125 – IDM 4825	84,150	16,830	38,250	21,420	Mr. Saleem Pasha - Staff Member
HONDA CG125 – RIZ 2423	84,150	16,830	38,250	21,420	Mr. Sohail Iqbal - Staff Member
HONDA CD 70 – KAX 4476	73,700	14,740	33,500	18,760	Mr. Nazir Ullah - Staff Member
HONDA CD 70 – SW 6867	73,700	14,740	33,500	18,760	Mr. Sikander Hayat - Staff Member
HONDA CD 70 – RIZ 2378	73,700	14,740	33,500	18,760	Mr. Fahim Ahmed Janjua - Staff Member
HONDA CD 70 – LRM 6416	73,700	14,740	33,500	18,760	Mr. Muhammad Naeem Khan - Staff Member
HONDA CD 70 – FSA 6075	73,700	14,740	33,500	18,760	Mr. Waseem Amin - Staff Member
HONDA CD 70 – FSA 6098	73,700	14,740	33,500	18,760	Mr. Nadir Ali Zulfiqar - Staff Member
HONDA CD 70 – GTG 9171	73,700	14,740	33,500	18,760	Mr. Mufti M.Raza - Staff Member
HONDA CD 70 – BNF 1873	74,250	–	27,000	27,000	Mr. Jamil Akhtar - Staff Member
<u>COMPUTERS</u>					
Acer Laptop	62,590	50,072	15,850	(34,222)	Mr. Mazhar Yasin - Ex Staff Member
2007 Rupees	4,605,890	688,132	2,280,350	1,592,218	
2006 Rupees	11,553,820	5,137,097	10,163,018	5,025,921	

	Note	2007 (RUPEES)	2006 (RUPEES)

24. ADMINISTRATIVE EXPENSES

	Note	2007 (RUPEES)	2006 (RUPEES)
Salaries, wages and benefits	24.1	**16,249,566**	13,379,486
Salaries to directors	24.1	**11,914,584**	12,632,643
Directors' fees and expenses		**958,370**	1,452,890
Incorporation expenses		**–**	428,500
Rent, rates and taxes		**523,564**	903,800
Postage and telephone		**729,689**	857,171
Printing and stationery		**584,470**	540,890
Travelling and conveyance		**1,149,849**	1,285,162
Transport		**1,165,373**	1,470,037
Legal and professional charges		**1,480,623**	143,000
Electricity, gas and water		**986,538**	588,596
Auditors' remuneration	24.2	**336,600**	332,000
Repairs and maintenance		**408,631**	216,390
Subscriptions and fees		**363,944**	385,604
Donations	24.2	**2,610,000**	8,403,897
Insurance		**610,502**	521,219
Depreciation		**11,402,907**	6,490,275
Other administrative expenses		**1,285,751**	1,117,889
		52,760,961	51,149,449

24.1 Salaries, wages and benefits include Rs. 3.856 million (2006: Rs. 3.209 million) charged on account of defined contribution plan.

24.2 Auditors' remuneration

	2007	2006
Audit fee-annual audit	**140,000**	140,000
Fee for audit of consolidated accounts	**35,000**	35,000
Review of half yearly accounts	**40,000**	40,000
Audit fee-BF Biosciences Limited	**33,000**	30,000
Other certifications	**50,000**	50,000
Out of pocket expenses	**23,600**	22,000
	321,600	317,000
Audit fee- Farmacia - Aslam Malik & Co.	**15,000**	15,000
	336,600	332,000

24.2 Donations do not include any amount paid to any person or organization in which a director or his spouse had any interest.

	Note	2007 (RUPEES)	2006 (RUPEES)

25. SELLING AND DISTRIBUTION COST

	Note	2007	2006
Salaries and allowances	24.1	76,382,911	62,514,471
Travelling and conveyance		40,183,101	34,889,117
Transport		1,484,097	1,767,898
Rent, rates and taxes		3,822,355	3,710,610
Advertisement and publicity		74,570,499	41,672,133
Freight and forwarding		5,066,269	4,822,652
Printing and stationery		1,128,532	1,304,809
Postage and telephone		1,815,976	1,867,798
Electricity, gas and water		693,020	793,682
Subscription and fees		2,945,631	2,455,082
Insurance		2,950,754	1,535,884
Repairs		223,755	169,270
Legal and professional charges		109,375	58,500
Entertainment		478,635	348,315
Depreciation		8,669,872	9,665,977
Other selling expenses		772,935	191,185
		221,297,717	167,767,383

26. FINANCE COST

		2007	2006
Finance charge on leased assets		1,034,075	1,985,504
Mark-up on bank financing		6,335	–
Bank charges		524,055	294,459
Interest on Workers' Profit Participation Fund		200,442	47,790
		1,764,907	2,327,753

27. OTHER EXPENSES

		2007	2006
Loss on remeasurement of short term investments		–	4,798,077
Workers' Profit Participation Fund		11,835,220	10,653,087
Workers' Welfare Fund		3,208,749	2,351,417
Central Research Fund		2,585,131	2,004,046
		17,629,100	19,806,627

28. TAXATION

		2007	2006
Current year		61,007,623	63,172,229
Prior years'		25,942	(15,091,661)
Deferred		1,392,213	(2,044,891)
		62,425,778	46,035,677

	2007 (RUPEES)	2006 (RUPEES)
28.1 Relationship between tax expense and tax accounting profit		
Profit before taxation	262,459,576	221,591,430
Tax rate	35%	35%
Tax on accounting profit	91,860,852	77,557,001
Tax effect of expenses that are admissible/ inadmissible in determining taxable profit	2,551,126	1,454,116
Tax effect of lower tax rates on certain income	(32,012,142)	(17,883,779)
	62,399,836	61,127,338
Tax effect of adjustments in respect of income tax of prior years	25,942	(15,091,661)
Tax expense for the current year	62,425,778	46,035,677
Average rate of tax	24%	21%

28.2 Tax assessments of the parent company have been finalized up to and including the assessment year 2002-2003 (income year ended 30 June 2002). Returns for tax years 2003 , 2004, 2005 and 2006 were filed and accepted under universal self assessment scheme.

29. REMUNERATION OF DIRECTORS, CHIEF EXECUTIVE AND EXECUTIVES

	2007 (RUPEES)			2006 (RUPEES)		
	Director	Chief Executive	Executives	Director	Chief Executive	Executives
Managerial remuneration	5,460,012	6,219,925	23,140,872	5,807,747	6,222,575	19,999,876
Utilities	–	274,867	–	–	275,954	–
Provident fund	281,808	322,764	807,312	280,759	321,562	620,044
	5,741,820	6,817,556	23,948,184	7,428,496	6,932,991	20,619,920
Numbers	1	1	10	1	1	10

In addition, the Chief Executive, a working director and certain executives of the parent company are allowed free use of company cars.

The members of the Board of Directors of the parent company were paid Rs. 3,200 (2006: Rs. 6,100) as meeting fee and Rs. 955,170 (2006: Rs. 1,446,790) as meeting expenses for attending the Board of Directors meetings.

30. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

30.1 Risk Management

30.1.1 Concentration of credit risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counter parties failed completely to perform as contracted. All 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 controls its credit risk by the following methods:

- Ascertainment of credit worthiness of customers, suppliers and contractors.
- Monitoring of debt on a continuous basis.
- Legal notices and follow-up.

30.1.2 Interest rate risk

Total interest bearing liabilities amount to Rs. 109.871 million (2006: Rs. 26.857 million), out of which Rs. 97.835 million (2006: Rs. 16.157 million) are related with KIBOR. The management endeavors to obtain borrowing at competitive rates.
At reporting date the liabilities represented by long term financing, exposed to interest rate risks were hedged through a pay fix, receive-variable Interest Rate Swap agreement with Standard Chartered Bank. On account of these hedging activities, the parent company is not exposed to any significant interest rate risk.

30.1.3 Currency risk

Currency risk is the risk of loss through changes in foreign currency rates. In case of the parent company this risk results from outstanding import payments. These transactions are not covered through foreign exchange risk cover as exchange risk is not considered material.

30.1.4 Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulties to meet commitments associated with financial instruments. The parent company believes that it is not exposed to any significant level of liquidity risk.

30.1.5 Fair value of financial instruments

The estimated fair value of financial instruments is not significantly different from their book value as shown in these financial statements except for the value of long term investments given in note 13.

30.2 The information about the parent company's exposure to interest rate risk based on contractual refinancing or maturity dates whichever is earlier is as follows:

2007 (Rupees)

	Interest bearing – Less than one year	Interest bearing – Over one year	Non-interest bearing	Total	Effective Interest rate
Financial assets					
Long term investments	–	–	33,085	33,085	–
Long term deposits	–	–	600,447	600,447	–
Trade debts - considered good	–	–	49,000,779	49,000,779	–
Trade deposits and other receivables	–	–	7,010,770	7,010,770	–
Short term investments	196,969,198	–	–	196,969,198	10.6-10.6%
Cash and bank balances	43,346,071	–	7,151,120	50,497,190	8%
	240,315,269	–	63,796,201	304,111,469	
Financial liabilities					
Recognized					
Long term financing	17,312,500	75,187,500	–	92,500,000	1.5%+6M KIBOR
Liabilities against assets subject to finance lease	4,310,822	1,024,253	–	5,335,075	6-13%
Trade and other payables	12,035,622	–	145,306,799	157,342,421	30%
	33,658,944	76,211,753	145,306,799	255,177,496	
	206,656,325	(76,211,753)	(81,510,598)	48,933,973	
Unrecognized					
Guarantees	–	–	455,640	455,640	–
Commitments	–	–	167,951,801	167,951,801	–
	–	–	168,407,441	168,407,441	

2006 (Rupees)

	Interest bearing – Less than one year	Interest bearing – Over one year	Non-interest bearing	Total	Effective Interest rate
Financial assets					
Long term investments	–	–	33,085	33,085	–
Long term deposits	–	–	446,647	446,647	–
Trade debts - considered good	–	–	17,364,727	17,364,727	–
Loans and advances	–	–	4,724,520	4,724,520	–
Trade deposits and other advances	–	–	2,050,826	2,050,826	–
Short term investments	60,000,000	–	26,648,750	86,648,750	11.35%
Cash and bank balances	27,790,081	–	96,457,834	124,247,915	8%
	87,790,081	–	147,726,389	235,516,470	
Financial liabilities					
Recognized					
Liabilities against assets subject to finance lease	10,835,452	5,321,499	–	16,156,951	6-13%
Trade and other payables	10,700,877	–	70,427,343	81,128,220	41.25%
	21,536,329	5,321,499	70,427,343	97,285,171	
	66,253,752	(5,321,499)	77,299,046	138,231,299	
Unrecognized					
Guarantees	–	–	768,000	768,000	–
Commitments	–	–	11,919,000	11,919,000	–
	–	–	12,687,000	12,687,000	

31. TRANSACTIONS WITH RELATED PARTIES

The group's related parties include staff retirement fund, directors and key management personnel. Balances with the related parties are shown else where in the financial statements. The transaction with staff retirement benefit fund other than remuneration and benefits to key management personnel under the terms of their employment which are disclosed in note 29 to the financial statements as follows:

	2007 (RUPEES)	2006 (RUPEES)
Other related parties		
Contribution to employee provident fund	3,856,131	3,209,018

32. CAPACITY AND PRODUCTION

Capacity of the pharmaceutical unit cannot be determined as the unit is used for manufacturing different products in varying quantities and packings.

33. CORRESPONDING FIGURES

Following figures have been rearranged/reclassified, for better presentation.

– Revolving advances have been rearranged from the face of the balance sheet to note 10 "Trade and other payables".
– Workers' Welfare Fund charge for the year has been shown under note 27 "Other expenses" instead of note 24 "administrative expenses".
– Allocations for the year for Workers' Profit Participation Fund and Central Research Fund have been shown under note 27"Other expenses" instead on the face of Profit and Loss account.
– Donations previously shown in selling and distribution expenses has been rearranged and grouped under note 24 "Administrative expenses".
– The loss on re-measurement of investment has be reclassified from the face of Profit and Loss account under Note 27 "Other expenses".
– Newspapers and periodicals have been reclassified as subscription and fees under relevant notes 24 and 25.

34. GENERAL

34.1 Figures have been rounded off to the nearest rupee.

34.2. The Board of Directors of the Company in the meeting held on August 29, 2007 proposed final cash dividend of Rs. 6.50 per share and stock dividend @ 20% i.e. 2 bonus share for every 10 shares held.

35. DATE OF AUTHORIZATION

The financial statements have been authorized for issue by the board of directors of the company on **August 29, 2007**.

Rawalpindi
August 29, 2007 Director/President Chairperson & Chief Executive

PATTERN OF SHAREHOLDING
AS AT JUNE 30, 2007

Number of Shareholders	Shareholding					Total Shares held
1,149	From	1	to	100	Shares	24,007
490	From	101	to	500	Shares	124,404
170	From	501	to	1,000	Shares	119,090
247	From	1,001	to	5,000	Shares	556,871
46	From	5,001	to	10,000	Shares	340,372
25	From	10,001	to	15,000	Shares	299,087
10	From	15,001	to	20,000	Shares	174,585
4	From	20,001	to	25,000	Shares	91,491
8	From	25,001	to	30,000	Shares	224,632
3	From	30,001	to	35,000	Shares	94,812
3	From	35,001	to	40,000	Shares	113,096
1	From	40,001	to	45,000	Shares	42,054
1	From	55,001	to	60,000	Shares	59,011
2	From	65,001	to	70,000	Shares	130,960
1	From	70,001	to	75,000	Shares	71,984
1	From	75,001	to	80,000	Shares	75,242
1	From	90,001	to	95,000	Shares	90,908
2	From	115,001	to	120,000	Shares	237,460
2	From	130,001	to	135,000	Shares	266,370
2	From	140,001	to	145,000	Shares	283,914
1	From	145,001	to	150,000	Shares	147,585
1	From	150,001	to	155,000	Shares	153,745
1	From	160,001	to	165,000	Shares	164,139
1	From	170,001	to	175,000	Shares	173,709
1	From	175,001	to	180,000	Shares	178,106
1	From	220,001	to	225,000	Shares	224,254
1	From	280,001	to	285,000	Shares	280,600
1	From	360,001	to	365,000	Shares	362,013
1	From	385,001	to	390,000	Shares	385,114
1	From	430,001	to	435,000	Shares	432,010
1	From	715,001	to	720,000	Shares	718,645
1	From	720,001	to	725,000	Shares	723,522
1	From	1,390,001	to	1,395,000	Shares	1,393,590
1	From	3,295,001	to	3,300,000	Shares	3,298,682
2,182	**Total:**					**12,056,064**

Categories of shareholders	Number	Shares held	Percentage
Individuals	2,158	6,129,841	50.84
Joint Stock Companies	8	3,314,789	27.50
Investment Companies	2	2,837	0.02
Financial Institutions	2	1,394,065	11.56
Insurance Companies	6	1,171,840	9.72
Others	6	42,692	0.36

Categories of shareholders	Number	Shares held	Percentage
Directors, Chief Executive Officer, and their spouse and minor childrens.	**8**	**1,408,076**	**11.68**
Directors			
Mrs. Akhter Khalid Waheed		723,522	6.00
Mr. Osman Khalid Waheed		432,010	3.58
Mrs. Munize Azhar Peracha		133,185	1.10
Mr. Nihal Cassim		3,900	0.03
Mr. M. M. Ispahani		22,020	0.18
Mr. Taj Mohammad Khanzada		29,554	0.25
Mr. Farooq Mazhar		59,011	0.49
Mr. Dost Muhammad Khan Sherpao		4,874	0.04
Associated companies, undertakings and related parties.	**4**	**3,697,087**	**30.67**
Associated Company			
KFW Factors (Pvt) Limited		3,298,682	27.36
Executives			
Mr. Omer Khalid Waheed		362,013	3.00
Mr. A. U. Zafar		30,143	0.25
Mr. Muhammad Yasin		6,249	0.05
NIT and ICP	**3**	**1,396,427**	**11.58**
Investment Corp. of Pakistan		550	0.00
National Bank of Pakistan, Trustee Deptt.		1,393,590	11.56
IDBP (ICP UNIT)		2,287	0.02
Bank Development Financial Institutions, Non Banking Financial Institutions.	**8**	**16,582**	**0.14**
United Executors & Trustees Co Ltd. (Subsidiary of United Bank Ltd).		55	0.00
Mercantile Co-op Finance Corp Ltd		475	0.00
N.H. Securities (Pvt) Limited		307	0.00
Ali Hussain Rajabali Limited		10,000	0.08
Amin Agencies (Pvt) Limited		3,000	0.02
AWJ Secuties (SMC-PRIVATE) Limited		639	0.01
Pasha Securities (Pvt.) Ltd.		1,862	0.02
Ismail Abdul Shakoor Securties (Private) Ltd.		244	0.00
Insurance Companies	**6**	**1,171,840**	**9.72**
Adamjee Insurance Co. Ltd.,		120	0.00
Co-op Insurance Society of Pak. Ltd.		65,377	0.54
United Insurance Co of Pak Ltd,		584	0.00
State Life Insurance Corp. of Pakistan		718,645	5.96
EFU General Insurance Limited		385,114	3.19
Saudi Pak Insurance Company Limited		2,000	0.02
Shareholders holding 10% or more			
KFW Factors (Pvt) Limited		3,298,682	27.36
National Bank of Pakistan, Trustee Deptt.		1,393,590	11.56
General Public	**2,147**	**4,323,360**	**35.86**
Others	**6**	**42,692**	**0.35**
The Securities & Exchange Commission of Pakistan		1	0.00
Dy.Administrator (APO)		8,824	0.07
Trustees Packages Ltd.		1,560	0.01
Trustees Saeeda Amin Wakf		12,421	0.10
Trustees Mohammad Amin Wakf Estate		17,059	0.14
Maqbool Shah Trust		2,827	0.02

Please Quote Folio Number

FORM OF PROXY

I, ...

of ....

being member of Ferozsons Laboratories Limited, hereby appoint ....

....

of ....

or failing him ....

of ....

as my proxy in my absence to attend and vote for me, and on my behalf at the Annual General Meeting of the Company to be held on September 29, 2007 and at any adjournment thereof.

As witness my hand this .... day of..2007

Signed by the said

Rs. 5
Revenue Stamp

Important: The Form of Proxy duly completed, must be deposited at the Company's Registered Office, 197-A, The Mall, Rawalpindi, not less than 48 hours before the time of holding the meeting. For completion of Proxy Form please fulfill requirements given in the respective Notice of Annual General Meeting.

PEOPLE TRUST US

MORE THAN FIVE DECADES OF DEDICATED SERVICE TO HUMANITY IN PAKISTAN AND AROUND THE WORLD IN PHARMACEUTICALS

FEROZSONS
LABORATORIES LIMITED

Head Office: 197-A, The Mall, Rawalpindi, 46000 (Pakistan), **Phones:** +92-51-5562155-57, 5566881, **Fax:** +92-51-5584195
email: info@ferozsons-labs.com **www.ferozsons-labs.com**