

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of **Highnoon Laboratories Limited** ("the Company") as at 31 December 2004 and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

- a) in our opinion, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;
- b) in our opinion:
 - i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied except for the change in accounting policy as explained Note 4.18 with which we concur;
 - ii) the expenditure incurred during the year was for the purpose of the Company's business; and
 - iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;
- c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at 31 December 2004 and of the profit, its cash flows and changes in equity for the year then ended; and
- d) in our opinion Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Company and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

The financial statements of the Company for the year ended 31 December 2003 were audited by another firm of auditors, whose report dated 24 March 2004 expressed an unqualified opinion on those financial statements.

LAHORE: 22 March 2005

Taseer Hadi Khalid & Co.
Chartered Accountants

BALANCE SHEET

	<i>Note</i>	2004 Rupees	2003 Rupees
EQUITY AND LIABILITIES			
SHARE CAPITAL	5	101,439,520	101,439,520
RESERVES	6	161,301,747	114,404,642
		<hr/>	
		262,741,267	215,844,162
SURPLUS ON REVALUATION OF ASSETS	7	167,477,929	47,890,539
NON CURRENT LIABILITIES			
LONG TERM LIABILITY - SECURED LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE	8	18,988,235	-
LONG TERM ADVANCES	9	52,401,434	38,643,959
DEFERRED LIABILITIES	10	8,087,612	5,731,934
DEFERRED GAIN	11	128,108,240	65,922,761
	12	14,591,246	10,515,015
CURRENT LIABILITIES			
Trade and other Payables	13	70,283,816	70,144,204
Mark-up payable on secured loans	14	2,494,512	3,050,349
Short term bank borrowings - Secured	15	249,910,368	187,947,344
Current portion of long term liabilities	16	54,475,686	45,796,160
Proposed dividend		-	25,359,880
		<hr/>	
		377,164,382	332,297,937
CONTINGENCIES AND COMMITMENTS	17		
		<hr/>	
		1,029,560,345	716,846,307
		<hr/>	

The annexed notes from 1 to 46 form an integral part of these financial statements.

MIAN AHSON FAROOQ
DIRECTOR

AS AT 31 DECEMBER 2004

	<i>Note</i>	2004 Rupees	2003 Rupees
NON CURRENT ASSETS			
PROPERTY, PLANT AND EQUIPMENT	<i>18</i>	522,359,198	325,950,197
INTANGIBLE ASSETS	<i>19</i>	46,701,666	-
		<hr/>	<hr/>
LONG TERM INVESTMENTS	<i>20</i>	569,060,864	325,950,197
		20,000,000	27,500
LONG TERM DEPOSITS		358,765	408,765
CURRENT ASSETS			
Store, spares and loose tools	<i>21</i>	4,767,637	4,647,157
Stock in trade	<i>22</i>	267,841,487	235,868,286
Trade debts	<i>23</i>	43,224,387	22,761,931
Advances, deposits and prepayments	<i>24</i>	31,447,210	26,057,944
Other receivables	<i>25</i>	47,076,300	49,192,572
Income tax - net		32,469,659	28,220,526
Cash and bank balances	<i>26</i>	13,314,036	23,711,429
		440,140,716	390,459,845
		<hr/>	<hr/>
		1,029,560,345	716,846,307
		<hr/>	<hr/>

ANEES AHMAD KHAN
CHIEF EXECUTIVE OFFICER

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2004**

	<i>Note</i>	2004 Rupees	2003 Rupees
SALES - net	27	1,050,086,582	885,174,565
COST OF SALES	28	665,776,691	546,811,160
GROSS PROFIT		384,309,891	338,363,405
OPERATING EXPENSES			
Administrative and general	29	98,718,562	78,310,805
Distribution, selling and promotional	30	188,487,030	162,298,170
Financial charges	31	21,948,898	31,887,498
Research and development	32	3,505,831	3,764,530
		312,660,321	276,261,003
OPERATING PROFIT		71,649,570	62,102,402
OTHER OPERATING INCOME	33	10,046,143	5,609,323
		81,695,713	67,711,725
OTHER CHARGES	34	8,773,845	4,194,340
PROFIT BEFORE TAXATION		72,921,868	63,517,385
TAXATION	35	33,600,377	27,465,402
PROFIT AFTER TAXATION		39,321,491	36,051,983
Earnings per share - basic and diluted	36	3.88	3.55

The annexed notes from 1 to 46 form an integral part of these financial statements.

MIAN AHSON FAROOQ
DIRECTOR

ANEES AHMAD KHAN
CHIEF EXECUTIVE OFFICER

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2004

	2004 Rupees	2003 Rupees
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	72,921,868	63,517,385
Add/(less): Adjustments for non-cash charges and other items		
Depreciation	46,223,151	34,654,389
Amortization of intangible assets	392,451	-
Gain on sale of property, plant and equipment	(2,982,026)	(2,298,021)
Gain on sale of investments	(2,648)	-
Exchange loss/(gain) on currency fluctuations	379,488	(17,298)
Provision for defined benefit obligation	12,605,588	7,728,276
Provision for slow moving items	632,966	-
Financial charges	21,948,898	31,887,498
Amortization of deferred gain	(4,099,536)	(1,795,246)
Appreciation in the value of investment	-	(17,500)
Deterioration in stores, spares and loose tools	-	59,135
	75,098,332	70,201,233
Profit before working capital changes	148,020,200	133,718,618
WORKING CAPITAL CHANGES		
<i>(Increase)/decrease in current assets:</i>		
Stores, spares and loose tools	(753,446)	(495,867)
Stock in trade	(31,973,201)	(20,878,766)
Trade debts	(20,498,414)	(3,990,382)
Advances, deposits and prepayments	(5,389,266)	39,190,574
Other receivables	2,116,272	21,037,176
<i>Increase/(decrease) in current liabilities:</i>		
Trade and other payables	1,642,194	(14,446,343)
	(54,855,861)	20,416,392
Cash generated from operations	93,164,339	154,135,010
Add/(less):		
Taxes paid	(25,846,468)	(15,897,058)
Gratuity paid	(3,733,351)	(1,367,799)
Financial charges paid	(14,357,016)	(24,407,115)
Security deposit	50,000	100,000
Long term advances - net	1,753,805	375,178
Net cash from operating activities	51,031,309	112,938,216

	Note	2004 Rupees	2003 Rupees
CASH FLOWS FROM INVESTING ACTIVITIES			
Fixed capital expenditure		(27,182,968)	(8,552,011)
Long term investments - subsidiary company		(20,000,000)	-
Sale of other investments		30,148	-
Sale proceeds of fixed assets		27,925,429	22,790,348
<i>Net cash from Investing activities</i>		(19,227,391)	14,238,337
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of long term loan		(4,913,059)	(4,119,902)
Long term liabilities		(14,208,235)	-
Repayment of lease finance liabilities		(58,180,579)	(51,109,357)
Short term bank borrowings		61,963,024	(45,518,757)
Dividend paid		(26,862,462)	(12,721,311)
<i>Net cash from financing activities</i>		(42,201,311)	(113,469,327)
Net (decrease)/increase in cash and cash equivalents		(10,397,393)	13,707,226
Cash and cash equivalents at beginning of the year		23,711,429	10,004,203
<i>Cash and cash equivalents at end of the year</i>	26	13,314,036	23,711,429

The annexed notes from 1 to 46 form an integral part of these financial statements.

MIAN AHSON FAROOQ
DIRECTOR

ANEES AHMAD KHAN
CHIEF EXECUTIVE OFFICER

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2004

	SHARE CAPITAL	RESERVES				TOTAL
		CAPITAL BONUS SHARES	REVENUE			
			GENERAL	UNAPPROP- RIATED PROFIT	SUB- TOTAL	
Rupees						
BALANCE AS AT 01 JANUARY 2003	92,217,750	9,221,780	98,000,000	407,630	98,407,630	199,847,160
BONUS SHARES ISSUED	9,221,770	(9,221,770)	-	-	-	-
TRANSFERRED FROM RESERVE FOR ISSUANCE OF BONUS SHARES	-	(10)	-	10	10	-
TRANSFERRED FROM SURPLUS ON REVALUATION OF FIXED ASSETS						
Current year incremental depreciation - net of tax	-	-	-	1,674,066	1,674,066	1,674,066
Disposal - net of tax	-	-	-	3,630,833	3,630,833	3,630,833
PROFIT FOR THE YEAR AFTER TAXATION	-	-	-	36,051,983	36,051,983	36,051,983
Transfer to general reserve	-	-	16,000,000	(16,000,000)	-	-
Dividend at the rate of Rs. 2.5 per share				(25,359,880)	(25,359,880)	(25,359,880)
BALANCE AS AT 31 DECEMBER 2003	101,439,520	-	114,000,000	404,642	114,404,642	215,844,162
BALANCE AS AT 01 JANUARY 2004	101,439,520	-	114,000,000	404,642	114,404,642	215,844,162
TRANSFERRED FROM SURPLUS ON REVALUATION OF FIXED ASSETS						
Current year incremental depreciation - net of tax	-	-	-	7,575,614	7,575,614	7,575,614
PROFIT FOR THE YEAR AFTER TAXATION	-	-	-	39,321,491	39,321,491	39,321,491
BALANCE AS AT 31 DECEMBER 2004	101,439,520	-	114,000,000	47,301,747	161,301,747	262,741,267

The annexed notes from 1 to 46 form an integral part of these financial statements.

MIAN AHSON FAROOQ
DIRECTOR

ANEES AHMAD KHAN
CHIEF EXECUTIVE OFFICER

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

1. THE COMPANY, OPERATIONS AND REGISTERED OFFICE

The Company was incorporated as a private limited company in Pakistan in the year 1984 and converted into an unquoted public limited Company in the year, 1985. Its shares are quoted on all stock exchanges in Pakistan since November 1994. The Company is principally engaged in the manufacture, import and marketing of pharmaceutical and allied consumer products. The Registered office of the Company is situated at 17.5 Km, Multan Road, Lahore.

2. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with 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 Securities and Exchange Commission of Pakistan differ with the requirements of these standards, the requirements of Companies Ordinance, 1984 or the requirements of the said directives take precedence.

3. BASIS OF MEASUREMENT

These financial statements have been prepared under the historical cost convention modified by adjustment of revaluation of certain assets as referred to in Note 18.1.3 and 20 and adjustment of exchange differences as referred to in Note 4.2 to the financial statements. In these financial statements, except for the cash flow statement, all the transactions have been accounted for on accrual basis.

4 SIGNIFICANT ACCOUNTING POLICIES

4.1 Staff retirement benefits

Defined benefit plan

The Company operates an unfunded gratuity scheme for all of its permanent employees, under which benefits are paid on cessation of employment subject to a minimum qualifying period of service.

Qualified actuaries carried out the valuation on 31 December 2003. The Projected Unit Credit Method, with the following significant assumptions, was used for the valuation of this scheme:

- Discount rate	8% per annum
- Expected rate of increase in salary	7% per annum
- Expected Average remaining years until vesting as on 31 December 2003	5 years

The Company's policy with regard to actuarial gains/losses is to follow minimum recommended approach under IAS 19 "Employees Benefits" by which actuarial gains/losses exceeding 10 % of present value of benefit obligation are amortized over average remaining working lives of the employees.

Defined contribution plan

The Company also operates a recognized provident fund scheme for all of its permanent employees in accordance with the trust deed and rules made there under, equal monthly contributions are made to the fund by the Company and employees at the rate of 8.33% of basic salary.

Compensated leave absences

Provision for compensated absences is made to the extent of value of accrued absences of the employees at the balance sheet date.

4.2 Foreign currency translation and hedging

Assets and liabilities in foreign currency are translated at the rates of exchange prevailing on the balance sheet date, while foreign currency transactions are converted into Pak rupees at exchange rates prevailing on the date of transaction. All exchange gains/losses are taken to profit and loss account. Currently the Company has not entered into any forward foreign exchange contract to hedge the foreign currency exposure, however, the risk is mitigated by matching the maturities of foreign currency assets and liabilities.

4.3 Property, Plant and Equipment

Property, Plant and Equipment are stated at cost or revalued amount less accumulated depreciation except for the freehold land, which is stated at revalued amount. Revaluation is carried out every five years unless earlier revaluation is necessitated.

Depreciation is charged on reducing balance method at the rates mentioned in note no 18.1 to write off the cost of an asset over its estimated useful life. Full month's depreciation is charged on additions, while no depreciation is charged in the month of disposal or deletion or transfer of assets. Surplus on revaluation of fixed assets relating to incremental depreciation is directly charged to equity.

Gains and losses on disposal of fixed assets are included in income currently, except that the related surplus on revaluation of fixed assets (net of deferred taxation) is transferred directly to unappropriated profits.

Normal repairs and maintenance is charged to revenue as and when incurred, while major renewals and replacements are capitalized and assets so replaced, if any, are retired.

4.4 Leasehold assets

The leases, where all the risks and rewards incidental to ownership of the leased assets have been transferred to the Company are classified as finance leases. Assets subject to finance lease are stated at the lower of present value of minimum lease payments under the lease agreements and the fair value of the leased assets.

The related rental obligations, net of finance charges, are included in liabilities against assets subject to finance lease as referred to in Note 9. The liabilities are classified as current and long term depending upon the timing of the payment.

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

Assets acquired under a finance lease are depreciated over the useful life of assets on reducing balance method at the rates given in Note 18.1. Depreciation of leased assets is charged to profit and loss account.

Depreciation on additions in leased assets is charged from the month in which an asset is acquired while no depreciation is charged for the month in which the asset is disposed off/transferred to freehold.

4.5 Capital work in progress

Capital work in progress is stated at cost and includes the expenditures on material, labor and appropriate overheads directly relating to the project. These costs are transferred to fixed assets as and when assets are available for intended use.

4.6 Intangible assets and amortization

Intangible assets (Intellectual Property, Rights and Trademarks), which are non-monetary assets without physical substance are recognized at cost, which comprises its purchase price, non-refundable purchase taxes and any directly attributable expenditures.

After initial recognition an intangible asset is carried at its cost less accumulated amortization and impairment losses. Amortization is charged to the income on monthly basis following the straight line basis for a maximum period of ten years.

At subsequent reporting dates, the Company reviews the recoverable amounts of intangible assets to assess impairment loss. If any such indication exists, impairment losses are recognized as expense.

Subsequent expenditures on intangible assets after its purchase are recognized as an expense, when it is

incurred unless the expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance.

4.7 Deferred gain

Deferred gain arising on sale and lease back of assets is amortized on straight line basis over the lease term.

4.8 Borrowing costs

Financial charges on long term liabilities / lease liabilities which are specifically obtained for the acquisition of qualifying assets i.e. assets that take a substantial period of time to get ready for their intended use, are capitalized up to the date of commissioning of respective asset. All other interest, mark-up and expenses are charged to income.

4.9 Long-term investments

Subsidiary Company

Investment in subsidiary is measured at cost as per requirement of IAS-27 “Consolidated Financial Statements and Accounting for Investments in Subsidiaries”. However, at subsequent reporting dates, the Company reviews the carrying amounts of the investment and its recoverability to determine whether there is an indication that such investments have suffered an impairment loss. If any such indication exists the carrying amount of the investment is adjusted to the extent of impairment loss. Impairment losses are recognized as an expense.

Investments available for sale- Quoted securities

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

4.10 Stores, spares and loose tools

These are valued at moving weighted average cost. For items which are slow moving, a provision is made for excess book value over estimated realizable value.

Pallets are subject to deterioration at the rate of 25% per annum using the straight line method.

4.11 Stock in trade

These are valued at lower of cost and net realizable value. Cost is determined using the following basis:

Raw materials	-	on moving average
Work-in-process	-	at estimated manufacturing cost including appropriate overheads
Finished goods		
- Imported	-	on moving average
- Local	-	on annual average manufacturing cost including appropriate overheads
Merchandise in transit / pledged	-	at invoice value plus other charges incurred thereon

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

4.12 Cash and cash equivalents

For the purpose of cash flow statement, Cash and cash equivalents comprise of cash in hand and balance with banks on current and deposit accounts.

4.13 Impairment

The carrying amount of the assets are reviewed at each balance sheet date to identify the circumstances indicating the occurrence of impairment loss or reversal of previous impairment losses. If any such indication exists, the recoverable amount of such asset is estimated and impairment loss is recognized in the profit and loss account. Where an impairment loss subsequently reverses, the carrying amount of such asset is increased to the revised recoverable amount. A reversal of the impairment loss is recognized in income.

4.14 Revenue recognition

Revenue from local sales is recognized on dispatch of goods to the customers, however, export goods are considered dispatched when shipped to customers.

Return on bank deposits is accounted for on time proportion basis and other income is recognised on accrual basis.

4.15 Transactions with related parties and transfer pricing

The Company under the direction of Securities and Exchange Commission of Pakistan's Notification SRO 66(I)/ 2003 dated 22 January 2003 adopted the following policies of transfer pricing for the determination of arm's length prices with subsidiary company/associated companies/related parties except for the assets sold to employees at written down value under the employee's car scheme as approved by the Board of Directors.

- | | |
|--|---------------------|
| - Subsidiary Company | Resale price method |
| - Associated Companies / related parties | Cost plus method |

Parties are said to be related, if they are able to influence the operating and financial decisions of the Company and vice versa.

4.16 Research and development Cost

These costs are charged to revenue as and when incurred.

4.17 Taxation

Current

The charge for current taxation is based on taxable income at current rate of taxation of the Income Tax Ordinance, 2001 after taking into account applicable tax credits and rebates, if any.

Deferred

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

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Deferred tax is calculated at the rates that are expected to apply to the period when differences reverse based on tax rates that have been enacted or substantively enacted by the balance sheet date.

The Company also recognizes deferred tax asset/ liability on deficit/ surplus on revaluation of fixed assets which is adjusted against the related surplus as per the requirements of revised IAS 12 "Income Taxes".

4.18 Dividends

Dividend is recognised as a liability in the period in which it is declared. Up to previous year, dividends proposed subsequent to the balance sheet date but before the financial statements were authorized for issue

were recorded as a liability. The change was considered necessary due to the revision of Fourth Schedule to the Companies Ordinance, 1984 effective from 05 July 2004. Such a change in accounting policy has been accounted for prospectively and proforma information has been presented in Note 41 to the financial statements in accordance with the allowed alternative treatment of International Accounting Standard (IAS) 8, "Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies"

4.19 Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument.

a) Trade and other payables

Liability for trade and other amounts payable are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received.

b) Trade and other receivables

Trade receivables and other receivables are recognized and carried at original invoice amount/cost less provision for uncollectible receivables, if any.

c) Cash and bank balances

Cash in hand and at banks are carried at cost.

4.20 Trade debts

Trade debts are carried at original invoice amount less an estimate made for doubtful debts based on review of all outstanding amounts at the year-end. Bad debts are written off when identified.

4.21 Provisions

A Provision is recognized when the Company has a present legal or constructive obligation as a result of past event and it is probable that an out flow of resources embodying benefits will be required to settle the obligation of which reliable estimate can be made .

4.22 Offsetting

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

5. SHARE CAPITAL

Authorized

15,000,000 (2003: 15,000,000) Ordinary shares of Rs. 10 each

Note	2004 Rupees	2003 Rupees
------	----------------	----------------

	150,000,000	150,000,000
--	--------------------	-------------

Issued, subscribed and paid - up

5,905,000 (2003: 5,905,000) Ordinary shares of Rs. 10 each fully paid in cash

	59,050,000	59,050,000
--	-------------------	------------

95,000 (2003: 95,000) Ordinary shares of Rs.10 each issued for consideration other than cash

5.1	950,000	950,000
-----	----------------	---------

4,143,952 (2003: 4,143,952) as fully paid bonus shares of Rs. 10 each

	41,439,520	41,439,520
--	-------------------	------------

	101,439,520	101,439,520
--	--------------------	-------------

5.1 This represents the issuance of shares against the purchase of plant, machinery and other assets.

	2004 Rupees	2003 Rupees
6. RESERVES		
Revenue		
General reserve	114,000,000	114,000,000
Unappropriated profit	47,301,747	404,642
	161,301,747	114,404,642
7. SURPLUS ON REVALUATION OF ASSETS		
Surplus on revaluation of fixed assets as at 01 January	64,584,693	72,746,075
Surplus arised on revaluation of fixed assets during the year	168,473,204	-
Surplus relating to incremental depreciation charged on related assets-transferred to unappropriated profit		
Net of deferred tax	(7,575,614)	(3,630,833)
Related deferred tax liability	(4,079,177)	(1,955,063)
	(11,654,791)	(5,585,896)
Surplus on revaluation of fixed assets realized on disposal of related assets-transferred to unappropriated profit		
Net of deferred tax	-	(1,674,066)
Related deferred tax liability	-	(901,420)
	-	(2,575,486)
Surplus on revaluation of assets as at 31 December	221,403,106	64,584,693
Less: Related deferred tax liability on:		
Balance at the beginning of the year	16,694,154	19,550,637
- Deferred tax arised during the year	41,310,200	-
Transferred to profit and loss account		
- Incremental depreciation charged during the year	(4,079,177)	(1,955,063)
- Realization of revaluation surplus on disposal of assets	-	(901,420)
	53,925,177	16,694,154
	167,477,929	47,890,539

	Note	2004 Rupees	2003 Rupees
8. LONG TERM LIABILITY - Secured			
Total purchase consideration for trademark	8.1	47,094,117	-
Less: Paid during the year		14,208,235	-
		32,885,882	-
Exchange loss due to revaluation		343,530	-
Total payable as on 31 December		33,229,412	-
Due within one year	16	14,241,177	-
		18,988,235	-

8.1 This represent the purchase consideration amounting to Rs. 47,094,117 equivalent to Euros 500,000 net of local taxes for Registration and Trademark of brand "Tres Orix Forte" for the territory of Pakistan and Kenya payable to M/s Almira Prdoesfarma, Spain. During the year, an amount of Rs. 14,208,235 equivalent to Euros 150,000 net of taxes has been paid, Euros 150,000 net of taxes are payable on or before 31 December 2005 and remaining Euros 200,000 net of taxes are payable on or before 31 December 2006.

The liability is secured against intangible assets and in case of default in payment of obligation with in fifteen days of formal notice of the party, the agreement will be terminated upon which all the data and documents have to be returned and the Company's right to market the brand will cease.

9. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

The rate of interest used as discounting factor ranges from 0.583% to 1.4125% (2003: 0.625% to 1.666%) per month. The amount of future payments and period during which they fall due are :-

Minimum lease payments due:

Not later than one year		45,571,597	46,863,655
Later than one year and not later than five years		56,335,734	41,691,766
		101,907,331	88,555,421
Less: Future financial charges		9,970,412	10,329,258
Present value of minimum lease payments	9.1	91,936,919	78,226,163
Less: Current portion	16	39,535,485	39,582,204
		52,401,434	38,643,959
9.1 Break-up of present value of minimum lease payments			
Not later than one year		39,535,485	39,582,204
Later than one year and not later than five years		52,401,434	38,643,959
		91,936,919	78,226,163

The rentals are payable in monthly and quarterly equal installments. In case of default of any payment an additional charge at the rate ranging from Rs. 117 to Rs. 250/0.1 % (2003: Rs. 117 to 250/0.1%) per day on overdue payments shall be paid. The Company intends to exercise the option to purchase the assets at the expiry of lease term.

	Note	2004 Rupees	2003 Rupees
10. LONG TERM ADVANCES			
Balance at the end of year		8,786,636	7,032,831
Less: Current portion	16	699,024	1,300,897
		8,087,612	5,731,934

This represents advances taken from employees against future sale of vehicles as per Company's policy.

11. DEFERRED LIABILITIES

Taxation	11.1	84,290,186	30,976,944
Gratuity	11.2	43,818,054	34,945,817
		128,108,240	65,922,761
11.1 Taxable temporary differences arising in respect of:			
Surplus on revaluation of assets		53,925,177	16,694,154
Accelerated tax depreciation		30,365,009	14,282,790
		84,290,186	30,976,944
11.2 The net value of defined benefit obligation as at valuation date was as follows:			
Present value of defined benefit obligation		56,671,886	50,439,927
Unrecognised past service cost		-	(687,818)
Unrecognised actuarial (losses)		(12,853,832)	(14,806,292)
Net liability as at 31 December		43,818,054	34,945,817
11.2.1 The following is the reconciliation of movement in the net recognised liability for gratuity:			
Liability as at 01 January		34,945,817	28,997,240
Amount recognised during the year	11.2.2	12,605,588	7,728,276
Benefit payments made by the Company		(3,733,351)	(1,367,799)
Benefits due but not paid		-	(411,900)
Net liability as at 31 December		43,818,054	34,945,817

	Note	2004 Rupees	2003 Rupees
11.2.2 The following amounts have been charged to profit and loss account during the year in respect of gratuity scheme			
Current service cost		5,930,117	4,227,374
Interset cost		4,035,194	2,813,085
Past service cost - charge for the year		687,817	687,817
Actuarial losses - charge for the year		1,952,460	-
Total included in staff cost		<u>12,605,588</u>	<u>7,728,276</u>
12. DEFERRED GAIN			
Opening balance as at 01 January		10,515,015	12,310,261
Gain recognized during the year		8,175,767	-
		<u>18,690,782</u>	<u>12,310,261</u>
Less: amortization for the year	33	4,099,536	1,795,246
		<u>14,591,246</u>	<u>10,515,015</u>
13. TRADE AND OTHER PAYABLES			
Creditors		30,940,221	35,285,510
Advances from customers		13,096,066	10,324,678
Accrued expenses		10,670,886	9,634,194
Income tax deducted at source		1,096,739	1,649,528
Workers' Profit Participation Fund	13.1	6,255,653	5,085,546
Workers' Welfare Fund		4,317,206	3,162,925
Payable to Central Research Fund		640,300	-
Payable to Provident fund trust		1,234,493	1,055,089
Un-claimed dividends		2,032,252	3,534,834
Other liabilities		-	411,900
		<u>70,283,816</u>	<u>70,144,204</u>
13.1 Workers' Profit Participation Fund			
Balance at the beginning of the year		5,085,546	3,993,319
Add: Current allocation for the year	34	3,932,445	3,385,586
		<u>9,017,991</u>	<u>7,378,905</u>
Add: Interest on funds utilized by the Company	31	953,540	609,714
		<u>9,971,531</u>	<u>7,988,619</u>
Less: Paid during the year		3,715,878	2,903,073
		<u>6,255,653</u>	<u>5,085,546</u>

	Note	2004 Rupees	2003 Rupees
14. MARKUP PAYABLE ON SECURED LOANS			
On cash finances		1,184,160	1,534,905
On other borrowings		1,310,352	1,515,444
		2,494,512	3,050,349
15. SHORT TERM BANK BORROWINGS- Secured			
Habib Bank Limited	15.1		
Cash finance		81,581,817	56,929,117
L/C acceptance		-	3,044,058
Finance against imported merchandise		7,986,000	11,923,000
Faysal Bank Limited	15.2		
Morabaha LPO		60,000,000	40,000,000
Morabaha pledge		4,042,380	10,710,000
United Bank Limited	15.3		
Cash finance - hypothecation		74,029,341	48,039,497
Cash finance - pledge		22,270,830	17,301,672
		249,910,368	187,947,344

15.1 These finances are availed against aggregate sanctioned limit of Rs. 245 million (2003: Rs. 140 million) and carry mark-up equivalent to the rate of KIBOR of last day of preceding month plus 2% with floor of 5% per annum (2003: Rs. 0.192 to Rs. 0.33 per thousand per day). These finances are secured by way of:

- hypothecation/pledge of stocks;
- joint pari passu hypothecation charge on current assets to the extent of Rs. 55.4 million;
- joint pari passu equitable mortgage charge on property, plant and equipment of the Company to the extent of Rs. 129.2 million;
- personal guarantees of all the directors of the Company.

15.2 These finances are availed against aggregate sanctioned limit of Rs. 105 million (2003: Rs. 85 million) and carry mark up equivalent to the rate of Ask yield of six month KIBOR as notified by Reuters + 250 basis points with floor of 5.5% (2003: 5.5% to 12%) per annum. These finances are secured by way of :

- first pari passu charge on the present and future property, plant and equipment of the Company to the extent of Rs. 40 million;
- first pari passu charge on the present and future current assets of the Company to the extent of Rs. 57 million;
- pledge of stocks;
- ranking charge on the current assets of the Company to the extent of Rs. 35 million;
- personal guarantee of the sponsoring directors of the Company.

15.3 These finances are availed against aggregate sanctioned limit of Rs. 155 (2003: Rs. 155) million and carry mark-up at the rate of 0.1369 (2003: 0.1918) paisa per thousand per day. These finance are secured by way of:

- hypothecation/pledge of stocks, stores and spares, receivables/book debts;
- first pari passu charge to the extent of Rs. 90 million on the property, plant and equipment of the Company ranking pari passu with Habib Bank Limited and Faysal Bank Limited;
- first pari passu charge to the extent of Rs. 110 million on the present and future current assets of the Company;
- equitable mortgage of land, building, plant and machinery and fixtures of the Company;
- promissory note and personal guarantee of all the directors of the Company.

	Note	2004 Rupees	2003 Rupees
16. CURRENT PORTION OF LONG TERM LIABILITIES			
Long term loans		-	4,913,059
Long term liability	8	14,241,177	-
Liabilities against assets subject to finance lease	9	39,535,485	39,582,204
Long term advances	10	699,024	1,300,897
		54,475,686	45,796,160

17. CONTINGENCIES AND COMMITMENTS

Contingencies

- Bank guarantees issued on behalf of the Company aggregating to Rs. 8.841 million (2003: Rs. 8.911 million).
- The Company has not acknowledged the demand relating to sales tax/central excise duty amounting to Rs. 18.137 (2003: Rs. 18.137) million as debt as the matters are pending adjudication. An amount of Rs. 1.632 (2003: Rs. 3.693) million deposited for grant of stay has been shown under Other Receivables in Note 25.
- The Company has not acknowledged the demand of Rs. 20.825 million (2003: Rs. Nil) raised by the Income Tax department against the pending assessment of previous years. The matter is pending adjudication with the tax department. The Company is confident that there are reasonable grounds for a favorable decision.

- The Company has not accepted the levy of Central Research Fund on non-pharmaceutical income, which is levied @ 1% of gross profit before income tax under the provisions of Drugs Act, 1976 due to which an amount of Rs. 0.465 million (2003: Rs. Nil) stands disputed and has not been acknowledged as debt.

Commitments

- Commitments against irrevocable letters of credit include:

	2004	2003
Note	Rupees in million	
Plant and machinery	Nil	3.254
Raw materials	32.738	33.756
Packing materials	1.846	Nil
Finished goods	3.694	Nil

- Facilities of letters of guarantee amounting to Rs. 4.159 million (2003: 11.159 million) are available to the Company under hypothecation/pledge of stocks and on present and future current assets and property, plant and equipment of the Company.
- Counter corporate guarantee given in favor of wholly owned subsidiary company "Dynalog Services (Pvt) Limited" amounting to Rs. 40 million (2003: Rs. Nil) to Habib Bank Limited against their working capital finance limits.
- Limits of un-availed short term bank borrowings are available from commercial banks amounting to Rs.254.921 million (2003: Rs. 192.053 million). These facilities carry mark-up ranging from KIBOR plus 2% to 2.5% (2003: 5.5%-7%) and are secured against hypothecation/pledge of stocks and on present and future current assets and property, plant and equipment of the Company to the extent as referred to in respective notes.

18. PROPERTY, PLANT AND EQUIPMENT

Operating assets (owned)	18.1	350,114,227	203,926,868
Operating assets (leased)	18.1	165,112,471	119,702,819
Capital Work-in-progress	18.2	7,132,500	2,320,510
		522,359,198	325,950,197

18.1 OPERATING ASSETS

PARTICULARS	COST DURING THE YEAR			DEPRECIATION				Rate %				
	As at 01 January 2004	Additions	Deletions	Revaluation adjustment	As at 31 December 2004	As at 01 January 2004	For the year		Adjustment	As at 31 December 2004	Book Value as at 31 December 2004	
	Rupees											
OWNED												
Land - Freehold	31,453,939	-	-	50,444,061	81,898,000	-	-	-	-	-	81,898,000	-
Building on freehold land	117,823,460	-	-	47,273,825	165,097,285	35,190,168	11,020,969	-	46,211,137	118,886,148	118,886,148	10
Plant and machinery	100,232,554	6,864,773	-	56,671,642	163,768,969	36,747,341	10,042,344	-	46,789,685	116,979,284	116,979,284	10
Laboratory equipment	2,384,481	-	-	-	2,384,481	1,099,155	128,533	-	1,227,688	1,156,793	1,156,793	10
Furniture and fixtures	6,063,459	127,105	-	-	6,190,564	3,655,700	247,510	-	3,903,210	2,287,354	2,287,354	10
Electric and gas appliances	12,089,370	3,432,762	-	-	15,522,132	6,179,562	823,065	-	7,002,627	8,519,505	8,519,505	10
Office equipment	15,899,392	13,360,004	(10,516,873)	-	18,742,523	6,454,127	1,049,761	(11,687)	7,492,201	11,250,322	11,250,322	10
Vehicles	10,522,555	9,318,574	(8,080,952)	-	11,760,177	3,270,499	1,220,148	(1,818,502)	2,672,145	9,088,032	9,088,032	20
Library books	52,806	-	-	-	52,806	43,913	889	-	44,802	8,004	8,004	10
Neon sign	33,000	-	-	-	33,000	24,780	822	-	25,602	7,398	7,398	10
Arms and ammunition	106,100	-	-	-	106,100	69,003	3,710	-	72,713	33,387	33,387	10
	296,661,116	33,103,218	(18,597,825)	154,389,528	465,556,037	92,734,248	24,537,751	(1,830,189)	115,441,810	350,114,227		
ASSETS SUBJECT TO FINANCE LEASE												
Plant and machinery	106,257,317	-	(4,169,600)	14,083,676	116,171,393	29,385,183	8,338,658	(1,625,334)	36,098,507	80,072,886	80,072,886	10
Office Equipment	-	18,633,330	-	-	18,633,330	-	931,667	-	931,667	17,701,663	17,701,663	10
Vehicles	55,620,162	45,110,286	(15,599,054)	-	85,131,394	12,789,477	12,415,075	(7,411,080)	17,793,472	67,337,922	67,337,922	20
	161,877,479	63,743,616	(19,768,654)	14,083,676	219,936,117	42,174,660	21,685,400	(9,036,414)	54,823,646	165,112,471		
Rupees: 2004	458,538,595	96,846,834	(38,366,479)	168,473,204	685,492,154	134,908,908	46,223,151	(10,866,603)	170,265,456	515,226,698		
Rupees: 2003	422,902,510	60,103,146	(24,467,061)	-	458,538,595	110,764,977	34,654,389	(10,510,458)	134,908,908	323,629,687	323,629,687	

18.1.1 Addition in freehold assets includes transfer of assets costing Rs. 19,768,654 (2003: Rs. 11,496,750) less accumulated depreciation of Rs. 9,036,414 (2003: Rs. 5,722,213) from leasehold assets. Addition in leasehold office equipment represents transfer from freehold valuing Rs. 18,633,330 (2003: Rs. Nil) less accumulated depreciation of Rs. Nil (2003: Rs. Nil) under sale and leaseback arrangements.

		2004	2003
	Note	Rupees	Rupees
18.1.2 Depreciation charge has been allocated as under :			
Cost of sales	28	30,757,674	25,074,220
Administrative and general	29	8,375,161	5,078,423
Distribution, selling and promotional	30	7,090,316	4,501,746
		46,223,151	34,654,389

18.1.3 Land, building on freehold land and plant and machinery were first revalued on 30 June 1995, resulting in a surplus of Rs. 68,809,377. Subsequently land, building on freehold land and plant and machinery were revalued on 30 June 1999 resulting in a surplus of Rs. 116,264,331. Recently land, building on freehold land and plant and machinery were again revalued on 31 May 2004 and 31 December 2004 respectively by M/s Hamid Mukhtar & Co., and certified by Ford, Rhodes, Sidat Hyder & Co. Chartered Accountants, which resulted in a surplus of Rs. 168,473,204 over the net book value of assets.

18.1.4 Had the assets not been revalued the carrying values would have been:

Land - Freehold	14,566,828	14,566,828
Building on freehold land	60,030,228	66,700,254
Plant and machinery (Owned)	39,282,693	36,459,659
Plant and machinery (Leased)	62,545,667	72,133,146
	176,425,416	189,859,887

18.1.5 Disposal of property, plant and equipment

Description	Cost	Accumulated depreciation	Written down value	Sale proceeds	Gain/(loss)	Mode of sale	Sold to
-----Rupees-----							
VEHICLES							
Toyota Corolla	174,080	62,669	111,411	210,000	98,589	Negotiation	Zeeshan Akber Chaudhury
Toyota Corolla	350,208	139,850	210,358	201,720	(8,638)	Company Policy	Dr. Farrukh Amir Jamil
Toyota Corolla	496,128	189,190	306,938	306,938	-	Company Policy	Aslam Hafiz
Suzuki Mehran	197,351	123,252	74,099	229,680	155,581	Company Policy	Qasim Munir
Suzuki Mehran	152,064	85,886	66,178	-	(66,178)	Company Policy	M. Altaf Khattak
Suzuki Mehran	152,064	85,886	66,178	-	(66,178)	Company Policy	Nasar Athar
Suzuki Mehran	319,488	169,542	149,946	149,946	-	Company Policy	Faheem -ud-din Khan
Suzuki Mehran	171,520	67,236	104,284	275,000	170,716	Negotiation	Abid Rashid
Suzuki Mehran	145,545	66,369	79,176	-	(79,176)	Company Policy	Qamar-ul-Islam
Suzuki Mehran	178,731	54,662	124,069	279,603	155,534	Company Policy	Jawad Naeem
Suzuki Mehran	172,672	45,470	127,202	239,608	112,406	Company Policy	Arif Hassan
Suzuki Mehran	172,672	47,916	124,756	236,084	111,328	Company Policy	Khalid Mehmood Khan
Suzuki Mehran	172,672	50,363	122,309	238,087	115,778	Company Policy	Mohsin Naseem
Suzuki Mehran	175,104	48,591	126,513	241,440	114,927	Company Policy	Shahid Ghafoor
Suzuki Mehran	167,786	34,396	133,390	245,864	112,474	Company Policy	Sheikh Zia-ul-Islam
Suzuki Mehran	167,787	41,807	125,980	243,897	117,917	Company Policy	Dr. Daim Khan
Suzuki Mehran	172,186	22,957	149,229	251,614	102,385	Company Policy	Arshad Manzoor
Suzuki Mehran	175,104	-	175,104	267,552	92,448	Company Policy	Zubair Ahmed Mirza
Suzuki Mehran	272,892	-	272,892	325,000	52,108	Insurance claim	Reliance Insurance Company Ltd
Suzuki Mehran	283,617	-	283,617	329,771	46,154	Insurance claim	Reliance Insurance Company Ltd
Suzuki Mehran	219,995	-	219,995	276,997	57,002	Company Policy	Dr. Noreen Akram
Suzuki Mehran	192,978	-	192,978	267,349	74,371	Company Policy	Raheela Khan
Suzuki Khyber	152,387	99,332	53,055	-	(53,055)	Company Policy	Muhammad Shafique Ansari
Suzuki Cultus	246,400	50,512	195,888	359,268	163,380	Company Policy	Dr. Adeel Abbas
Suzuki Cultus	269,952	13,498	256,454	405,372	148,918	Company Policy	Muhammad Wasim Wafa
Suzuki Cultus	269,952	-	269,952	412,475	142,523	Company Policy	Kamran Zafar Muggoo
Suzuki Cultus	315,456	-	315,456	436,738	121,282	Company Policy	Dr. Iram Bano Tariq
Suzuki Cultus	449,175	-	449,175	507,812	58,637	Company Policy	Dr. Habib ullah Mazhar
Suzuki Bolan	213,743	83,787	129,956	273,000	143,044	Negotiation	Abid Rashid
Suzuki Bolan	352,768	145,811	206,957	375,000	168,043	Negotiation	Justice Sajjad Ahmed Sipra
Honda Civic	487,526	63,378	424,148	800,000	375,852	Insurance claim	Reliance Insurance Company Ltd
Honda CD -70	58,500	13,910	44,590	58,500	13,910	Company Policy	Muhammad Rizwan-ur-Rehman
Honda CD -70	33,792	6,430	27,362	40,324	12,962	Company Policy	Niaz Ullah
Honda CD -70	33,318	1,666	31,652	68,500	36,848	Company Policy	Shahzad Mehmood
Honda CD -70	33,318	1,666	31,652	62,820	31,168	Company Policy	M Amir Raza
Honda CD -70	45,386	-	45,386	59,083	13,697	Company Policy	Shah Hussain
Honda CD -70	47,493	-	47,493	69,286	21,793	Company Policy	Muhammad Asif
Honda CD -70	49,320	-	49,320	48,213	(1,108)	Insurance claim	Reliance Insurance Company Ltd
Honda CD -70	49,320	-	49,320	48,213	(1,108)	Insurance claim	Reliance Insurance Company Ltd
Honda CD -70	49,320	-	49,320	68,500	19,180	Company Policy	Shakeel Awan
Honda CD -70	33,318	-	33,318	68,500	35,182	Company Policy	Yasin Rauf
Honda CD -70	50,944	-	50,944	61,708	10,764	Company Policy	M. Khalid Hussain
Honda CD -70	51,838	-	51,838	59,958	8,120	Company Policy	Syed Israr Hussain Zaidi
Honda CD -70	31,565	-	31,565	42,000	10,435	Insurance claim	Reliance Insurance Company Ltd
Honda CD -70	31,565	-	31,565	42,000	10,435	Insurance claim	Reliance Insurance Company Ltd
Honda CD -70	41,952	-	41,952	68,500	26,548	Company Policy	Wasim Iqbal

Aggregate of other Items of office equipment with individual book value not exceeding Rs. 50 thousands

Mobiles	59,310	11,687	47,623	42,650	(4,973)	Insurance Claim	Universal Insurance Company Ltd
Rupees : 2004	8,140,262	1,827,719	6,312,543	9,294,569	2,982,026		
Rupees : 2003	5,150,833	2,158,506	2,992,327	5,290,348	2,298,021		

	Note	2004 Rupees	2003 Rupees
18.2 CAPITAL WORK - IN - PROGRESS			
Civil works		3,102,396	648,448
Plant and machinery- owned		2,707,795	1,672,062
ERP system implementation	18.2.1	1,322,309	-
		7,132,500	2,320,510

18.2.1 This includes the financial charges of related lease liability amounting to Rs. 480,451.

19. INTANGIBLE ASSETS

Registration and trademark	19.1	47,094,117	-
Less: amortization during the year	28	(392,451)	-
		46,701,666	-

19.1 This represent the purchase of Registration and Trademark of brand "Tres Orix Forte" for the territory of Pakistan and Kenya from M/s Almira Prdoesfarma, Spain for consideration of 500,000 Euro net of local taxes. (Also refer Note 8)

20. LONG TERM INVESTMENTS

Related Parties

In subsidiary -unlisted company at cost		20,000,000	-
Dynalog Services (Pvt) Limited			
2,000,000 (2003: Nil) ordinary shares of Rs. 10 each			

Others

Available for sale - listed company - at fair value			
Accord Textiles Limited			
Nil (2003: 10,000) ordinary shares of Rs. 10 each		-	10,000
Add: Appreciation in value of investment		-	17,500
		20,000,000	27,500

The net assets value of the subsidiary as per audited accounts for the year ended 31 December 2004 was Rs.7.56 per share.

21. STORES, SPARES AND LOOSE TOOLS

Stores		4,767,637	4,014,191
Spares		367,466	367,466
Loose tools		265,500	265,500
		5,400,603	4,647,157
Less: Provision for slow moving items	29	632,966	-
		4,767,637	4,647,157

	Note	2004 Rupees	2003 Rupees
22. STOCK IN TRADE			
Raw materials			
In hand		32,212,230	26,881,715
In pledge		105,391,234	58,316,586
In transit		-	25,273,958
		137,603,464	110,472,259
Packing and promotional material			
In hand		20,871,923	17,972,097
In pledge		4,127,907	1,721,145
With third party		500,593	48,790
		25,500,423	19,742,032
Work in process		33,292,170	37,232,046
Finished goods			
In hand		50,848,735	39,849,813
In pledge		20,596,695	28,572,136
		71,445,430	68,421,949
		267,841,487	235,868,286
23. TRADE DEBTS - Considered good			
Secured - against letters of credit		5,132,160	2,156,982
Unsecured			
Due from related parties			
Subsidiary - Dynalog Services (Private) Limited		21,653,666	-
Associated - Route 2 (Private) Limited		2,640,726	2,640,726
		24,294,392	2,640,726
Others	23.1	13,797,835	17,964,223
		43,224,387	22,761,931

23.1 Included therein a balance of Rs. 3,648,493 (2003: Rs. 6,720,843) on which mark-up at the rate of 12% (2003: 15%) per annum is being charged due to late payment.

23.2 The maximum aggregate amount due from subsidiary company at the end of any month during the year was Rs. 31.194 million (2003: Rs. Nil) and from associated undertaking was Rs. 2.641 (2003: Rs. 2.641) million.

	Note	2004 Rupees	2003 Rupees
24. ADVANCES, DEPOSITS AND PREPAYMENTS			
Advances - considered good			
Staff against:			
Expenses		2,773,681	2,918,583
Salary			
Executives	24.1	-	31,004
Other employees		100,538	12,469
Suppliers		11,552,720	15,213,381
Letters of credit		10,124,277	285,522
Deposits			
Securities		4,036,389	3,785,058
Bank guarantee margin		457,907	457,892
Prepayments		2,401,698	3,354,035
		31,447,210	26,057,944

24.1 The maximum aggregate amount of advance due from executives at the end of any month during the year was Rs. Nil (2003: Rs. 0.337 million).

25. OTHER RECEIVABLES - considered good

Claim receivable		438,180	41,944
Duty draw back		593,250	97,007
Due from associated undertaking - Route 2 (Pvt) Limited	25.1	504,469	504,469
Sales tax	25.2	1,632,832	3,780,002
Others	25.3	43,907,569	44,769,150
		47,076,300	49,192,572

25.1 The maximum aggregate amount of advance due from associated undertaking at the end of any month during the year was Rs. 0.504 (2003: Rs. 0.504) million.

25.2 This represents the amount deposited for grant of stay against demand of sales tax/excise duty paid under protest to sales tax department.

25.3 This includes Rs. 42.986 (2003: Rs. 40.075) million receivable from foreign principals against sale compensation and reimbursement of promotional expenses.

26. CASH AND BANK BALANCES

Cash and imprest		1,871,908	912,906
Balance with banks on:			
Current accounts			
Local currency		11,354,065	22,701,418
Foreign currency		88,063	97,105
		11,442,128	22,798,523
		13,314,036	23,711,429

	2004 Rupees	2003 Rupees
27. SALES - net		
Manufactured products		
Local	1,025,967,914	874,124,871
Export	36,399,427	25,880,375
	1,062,367,341	900,005,246
Purchased products		
Local	28,440,826	34,794,493
Export	-	1,350,648
	28,440,826	36,145,141
Sales compensation	20,557,800	12,623,765
Third Party (toll manufacturing)	21,359,414	9,445,545
	41,917,214	22,069,310
	1,132,725,381	958,219,697
Less: Discount	81,410,935	72,239,244
Sales tax	1,227,864	805,888
	82,638,799	73,045,132
	1,050,086,582	885,174,565

28. COST OF SALES	Note	2004 Rupees	2003 Rupees
Raw and packing material consumed		553,741,778	479,354,722
Salaries, wages and benefits	28.1	49,264,363	41,945,462
Vehicle running and maintenance		6,219,814	5,363,547
Fuel and power		11,144,561	9,259,718
Stores consumed		2,028,170	1,156,506
Repair and maintenance		7,182,770	6,307,672
Insurance		1,918,492	1,809,795
Deterioration in stores, spares and loose tools		-	59,135
Rent, rates and taxes		488,830	450,000
Fee and subscription		1,423,797	1,120,151
Printing and stationery		1,034,505	973,964
Other direct cost		3,867,468	4,165,730
Depreciation	18.1.2	30,757,674	25,074,220
Amortization of intangible assets	19	392,451	-
Total cost incurred		669,464,673	577,040,622
Inventory effect of work in process			
Opening		37,232,046	21,474,142
Closing		(33,292,170)	(37,232,046)
		3,939,876	(15,757,904)
Cost of goods manufactured		673,404,549	561,282,718
Less: Cost of samples		21,729,342	25,965,904
		651,675,207	535,316,814
Inventory effect of finished goods			
Opening		56,905,593	50,286,984
Closing		(58,174,693)	(56,905,593)
		(1,269,100)	(6,618,609)
Cost of goods sold -Manufactured		650,406,107	528,698,205
Less: Duty drawback		803,126	264,636
Cost of goods sold - Manufactured items		649,602,981	528,433,569
Cost of goods sold - Purchased products		16,173,710	18,377,591
Cost of goods sold		665,776,691	546,811,160

	Note	2004 Rupees	2003 Rupees
28.1 It includes the following staff retirement benefits:			
Defined benefit plans - Gratuity		1,983,219	1,788,712
Defined contribution plans - Provident Fund		1,432,530	1,155,952
29. ADMINISTRATIVE AND GENERAL			
Salaries and benefits	29.1	53,860,771	46,200,252
Telephone, postage and telex		2,361,690	2,012,623
Rent, rates and taxes		2,883,062	2,336,921
Electricity, gas and water		165,723	319,763
Printing and stationery		2,208,940	1,641,814
Repairs and maintenance		3,936,249	2,920,719
Vehicle running and maintenance		8,637,193	5,580,343
Traveling and conveyance		6,146,604	3,145,703
Newspapers and subscriptions		4,291,795	4,096,122
Entertainment		413,118	381,174
Insurance		1,485,430	989,154
Auditors' remuneration	37	500,000	571,500
Legal and professional		836,476	1,124,988
Advertisement		679,799	1,224,680
Donation	29.2	733,300	260,000
Provision for slow moving store items	21	632,966	-
Others		570,285	426,626
Depreciation	18.1.2	8,375,161	5,078,423
		98,718,562	78,310,805
29.1 It includes the following staff retirement benefits:			
Defined benefit plans - Gratuity		5,992,681	3,175,905
Defined contribution plans - Provident Fund		1,566,184	1,420,084
29.2 None of the directors or their spouses have any interest in the donees' fund.			

	Note	2004 Rupees	2003 Rupees
30. DISTRIBUTION, SELLING AND PROMOTIONAL			
Salaries and benefits	30.1	91,291,688	69,624,534
Advertisement		517,746	4,332,905
Electricity, gas and water		6,340	657,059
Rent, rates and taxes		1,750,048	1,909,600
Entertainment		202,923	170,276
Promotional expenses and samples		71,363,767	56,463,128
Printing and stationery		2,386,597	1,567,437
Traveling and conveyance		50,178,666	40,136,228
Telephone, postage and telegram		2,876,887	2,332,839
Insurance		1,627,298	1,378,121
Vehicle running and maintenance		8,124,072	5,718,771
Donation	30.2	340,000	401,000
Freight and octroi		4,273,533	3,308,499
Seminars and symposia		3,328,481	3,709,679
Manpower training		2,802,930	139,205
Others		1,999,138	3,818,345
Depreciation	18.1.2	7,090,316	4,501,746
		250,160,430	200,169,372
Less: Reimbursement from foreign principals		61,673,400	37,871,202
		188,487,030	162,298,170
30.1 It includes the following staff retirement benefits:			
Defined benefit plans - Gratuity		4,629,688	2,763,659
Defined contribution plans - Provident Fund		2,446,495	2,056,476
30.2 None of the directors or their spouses have any interest in the donees' fund.			
31. FINANCIAL CHARGES			
Mark-up on:			
Short term bank borrowings		10,239,362	17,056,909
Long term loan		564,878	1,104,403
Lease finance charges		8,147,719	10,835,237
Interest on Workers' Profit Participation Fund	13.1	953,540	609,714
Interest on balance payable to Provident Fund		-	736,412
Bank charges		2,043,399	1,544,823
		21,948,898	31,887,498

	Note	2004 Rupees	2003 Rupees
32. RESEARCH AND DEVELOPMENT			
Salaries and benefits		727,596	971,788
Expenses on clinical trials and products evaluation		1,039,169	918,093
Traveling		1,219,210	1,138,355
Insurance		2,616	28,562
Vehicle repair and maintenance		40,005	291,373
Printing and stationery		6,881	46,815
Office supplies		56,021	95,068
Repair and maintenance		13,833	85,111
Staff cost		280,100	43,131
Others		120,400	146,234
		3,505,831	3,764,530
33. OTHER OPERATING INCOME			
Income from financial assets			
Profit on sale of investments		2,648	-
Interest income		965,079	1,274,168
Appreciation in the value of investment		-	17,500
Exchange gain on currency fluctuations		-	17,298
Income from non-financial assets			
Gain on sale of property, plant and equipment		2,982,026	2,298,021
Amortization of deferred gain	12	4,099,536	1,795,246
Credit balances written back		1,631,860	-
Others		364,994	207,090
		10,046,143	5,609,323
34. OTHER CHARGES			
Workers' Profit Participation Fund	13.1	3,932,445	3,385,586
Exchange loss on currency fluctuations		379,488	-
Workers' Welfare Fund		1,154,281	808,754
Central Research Fund			
Prior years		2,667,331	-
Current year		640,300	-
		3,307,631	-
		8,773,845	4,194,340

	2004 Rupees	2003 Rupees
35. TAXATION		
Current		
- for the year	21,597,335	15,251,121
- for prior years	-	2,841,187
	21,597,335	18,092,308
Deferred	12,003,042	9,373,094
	33,600,377	27,465,402

35.1 Tax charge reconciliation

Numerical reconciliation between the average effective tax rate and the applicable tax rate:

	2004 %age	2003 %age
Applicable tax rate	35.00	35.00
Tax effect of amounts that are not deductible for tax purposes	26.22	21.25
Tax effect of amounts that are deductible for tax purposes	(14.32)	(3.58)
Tax effect of amounts relating to Prior years	-	4.47
Tax effect under presumptive tax regime	(0.82)	(13.90)
	11.08	8.24
	46.08	43.24

36. EARNINGS PER SHARE - Basic and Diluted

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

Profit after taxation	Rupees 39,321,491	36,051,983
Weighted average number of ordinary shares	10,143,952	10,143,952
Earnings per share	Rupees 3.88	3.55

37. AUDITORS' REMUNERATION

Statutory Audit	325,000	275,000
Fee for review of half year financial statements	125,000	150,000
Other services (including certificates, audit of provident fund, Workers' Profit Participation Fund, etc.)	-	104,500
Out of pocket	50,000	42,000
	500,000	571,500

38. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

	Year Ended 31 December 2004			Year Ended 31 December 2003		
	Rupees			Rupees		
	Chief Executive	Directors	Executives	Chief Executive	Directors	Executives
Managerial remuneration	3,352,200	8,318,550	9,715,457	2,992,200	7,692,600	32,276,209
House allowance	-	-	1,626,343	-	-	11,042,222
Provident fund	279,384	304,380	810,036	249,396	274,392	2,485,222
Gratuity	1,165,650	1,404,725	1,753,207	738,196	1,502,498	3,586,231
Bonus	279,350	686,600	809,621	249,350	573,700	2,516,979
Utilities	625,738	1,437,817	763,200	411,288	1,441,796	3,822,711
Medical	381,723	1,100,475	513,895	159,433	1,761,423	924,667
Others	-	39,125	-	600,000	1,310,251	-
	6,084,045	13,291,672	15,991,759	5,399,863	14,556,660	56,654,241
Number	1	3	5	1	3	121

Pursuant to recent amendment in the Companies Ordinance, 1984, executive means an employee, whose basic salary exceeds Rs. 500,000 (2003: Rs. 100,000) in a financial year.

The Chief Executive, Directors and 5 executives (2003: 15) have been provided with Company's maintained cars while no (2003: 70) executives have been provided with cars under self finance scheme with limited fuel and maintenance facility.

Free furnished accommodation has been provided to the Chief Executive, Directors and 4 (2003: 4) executives.

No fee has been paid to any director except for Rs. 3000 (2003: Rs. 3000) paid to an independent non executive director for attending Board meetings.

39. NUMBER OF EMPLOYEES

Number of employees as on balance sheet date were 863 (2003: 642).

40. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

	Year Ended 31 December 2004						Total
	Interest Bearing			Non-Interest Bearing			
	Less than one year	One to five years	Sub-Total	Less than one year	One to five years	Sub-Total	
	Rupees						
Financial assets:							
Long term investments	-	-	-	-	20,000,000	20,000,000	20,000,000
Long term deposits	-	-	-	-	358,765	358,765	358,765
Trade debts	3,648,493	-	3,648,493	39,575,894	-	39,575,894	43,224,387
Advances and deposits	-	-	-	4,494,296	-	4,494,296	4,494,296
Other receivables	-	-	-	44,412,038	-	44,412,038	44,412,038
Cash and bank balances	-	-	-	13,314,036	-	13,314,036	13,314,036
Rupees	3,648,493	-	3,648,493	101,796,264	20,358,765	122,155,029	125,803,522
Financial liabilities:							
Long term liability	-	-	-	14,241,177	18,988,235	33,229,412	33,229,412
Liabilities against assets subject to finance lease	39,535,485	52,401,434	91,936,919	-	-	-	91,936,919
Trade and other payables	-	-	-	44,877,852	-	44,877,852	44,877,852
Markup payable on secured loans	-	-	-	2,494,512	-	2,494,512	2,494,512
Short term bank borrowings	249,910,368	-	249,910,368	-	-	-	249,910,368
Rupees	289,445,853	52,401,434	341,847,287	61,613,541	18,988,235	80,601,776	422,449,063
Excess of financial assets over financial liabilities	(285,797,360)	(52,401,434)	(338,198,794)	40,182,723	1,370,530	41,553,253	(296,645,541)
On balance sheet Gap		(338,198,794)	(338,198,794)		41,553,253	41,553,253	(296,645,541)
Off-balance sheet Items							
Bank guarantees				8,841,000		8,841,000	8,841,000
Irrevocable letters of credit				43,449,966		43,449,966	43,449,966
Rupees	-	-	-	52,290,966	-	52,290,966	52,290,966

Year Ended 31 December 2003						
Interest Bearing			Non-Interest Bearing			Total
Less than one year	One to five years	Sub-Total	Less than one year	One to five years	Sub-Total	
-----Rupees-----						
Financial assets:						
Long term investments	-	-	-	27,500	27,500	27,500
Long term deposits	-	-	-	408,765	408,765	408,765
Trade debts	6,720,843	-	6,720,843	16,041,088	-	22,761,931
Advances and deposits	-	-	-	4,242,950	-	4,242,950
Other receivables	-	-	-	45,273,619	-	45,273,619
Cash and bank balances	-	-	-	23,711,429	-	23,711,429
Rupees	6,720,843	-	6,720,843	89,269,086	436,265	89,705,351
Financial liabilities:						
Long term loan	4,913,059	-	4,913,059	-	-	4,913,059
Liabilities against assets subject to finance lease	39,582,204	38,643,959	78,226,163	-	-	78,226,163
Trade and other payables	-	-	-	49,921,527	-	49,921,527
Markup payable on secured loans	-	-	-	3,050,349	-	3,050,349
Short term bank borrowings	187,947,344	-	187,947,344	-	-	187,947,344
Rupees	232,442,607	38,643,959	271,086,566	52,971,876	-	52,971,876
Excess of financial assets over financial liabilities	(225,721,764)	(38,643,959)	(264,365,723)	36,297,210	436,265	36,733,475
On balance sheet Gap		(264,365,723)	(264,365,723)		36,733,475	36,733,475
Off-balance sheet Items						
Bank guarantees				8,841,000	8,841,000	8,841,000
Irrevocable letters of credit				37,010,197	37,010,197	37,010,197
Rupees	-	-	-	45,851,197	-	45,851,197

Effective interest rates for the monetary financial assets and liabilities are mentioned in the respective notes to the financial statements.

40.1 Financial risk management objectives

The Company's activities expose it to a variety of financial risks, including the effects of changes in market rates, credit and liquidity risk associated with various financial assets and liabilities respectively as referred to in Note 40 and cash flow risk associated with accrued interests in respect of borrowings as referred to in Note 15.

The Company finances its operations through equity, borrowings and management of working capital with a view of maintaining a reasonable mix between the various sources of finances to minimise risk. Taken as a whole, risk arising from the Company's financial instruments is limited as there is no significant exposure to market risk in respect of such instruments.

(a) Concentration of Credit Risk

Credit risk represents the accounting loss that would be recognised at the reporting date if counter parties failed completely to perform as contracted. The Company's credit risk is primarily attributable to its trade debts and its balances with banks. The credit risk on liquid funds is limited because the credit risk associated

with trade debts of the Company are controlled through management of approved credit limit for all its customers and as such is not exposed to major concentration of credit risk.

(b) Currency Risk

Currency risk is the risk that the values of a financial instrument will fluctuate due to changes in foreign exchange rate. Currency risk arises mainly where receivables and payables exist due to transactions with foreign buyers and suppliers. The Company does not hedge the payables, however, the risk of exposure is mitigated by matching the maturity periods of foreign currency receivables and payables.

(c) Interest Rate Risk

Interest rate risk is the risk that the values of financial instruments will fluctuate due to changes in market interest rates. The Company usually manages mis-matches through risk management strategy where significant change in Gap position can be adjusted.

(d) Liquidity Risk

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

40.2 Fair value of Financial Instruments.

The carrying values of all financial assets and liabilities reflected in the financial statements approximate their fair values.

	2004 Rupees	2003	Restated 2004 Rupees	Restated 2003
41. PROFORMA INFORMATION	ACTUAL		PROFORMA	
STATEMENT OF RETAINED EARNINGS				
Opening balance as at 01 January	404,642	407,630	404,642	407,630
Effect of change in accounting policy as referred to in Note 4.18 to the financial statements				
Dividends 2003: Rs. 2.5 (2002: Rs. 1.5) per share	-	-	25,359,880	13,832,663
Opening balance as at 01 January (Restated)	404,642	407,630	25,764,522	14,240,293
Transfer from surplus on revaluation of assets	7,575,614	5,304,899	7,575,614	5,304,899
Transfer from reserve for issuance of bonus shares	-	10	-	10
Profit for the year	39,321,491	36,051,983	39,321,491	36,051,983
Transfer to general reserve	-	(16,000,000)	-	(16,000,000)
Dividend for the year	-	(25,359,880)	(25,359,880)	(13,832,663)
Closing balance as at 31 December	47,301,747	404,642	47,301,747	25,764,522

42. RELATED PARTY TRANSACTIONS

Related parties comprise of directors, key management personnel and entities over which, the company is able to exercise significant influence over the operating and financial decision making and employee's provident fund. Amount due from and due to related parties are shown under respective notes to the financial statements.

	2004	2003
	Rupees	Rupees
42.1 Dynalogue Services (Private) Limited		
Sales	129,824,579	-
42.2 Route-2 (Private) Limited - Associated Undertaking		
Rent Received	2,172,000	-
42.3 Staff Provident Fund Trust		
Payments to the HNL Staff Provident Fund	16,723,922	10,754,455
42.4 Vehicles are sold to key employees of HNL at written down value as approved by the Board of Directors. Transactions during the year with those key employees are as follows:		

Name of Related Party, Relationship	Year Ended 31 December 2004		
	Market Price	Transaction Value	Price Difference
	Rupees	Rupees	Rupees
Aslam Hafiz, Executive Director (Marketing)	700,000	239,608	460,392

The impact net of tax on profit , equity and cash flows was Rs. 255,490.

Name of Related Party, Relationship	Year Ended 31 December 2003		
	Market Price	Transaction Value	Price Difference
	Rupees	Rupees	Rupees
Anees Ahmad Khan, Chief Executive	400,000	144,389	(255,611)
Khadim Hussain Mirza, Company Secretary	300,000	129,093	(170,907)
	<u>700,000</u>	<u>273,482</u>	<u>(426,518)</u>

The impact net of tax on profit , equity and cash flows was Rs. 277,327.

43. DIVIDEND AND BONUS SHARES

For the year ended 31 December 2004 the Board of Directors of the company in its meeting held on 22 Mach 2005 have proposed cash dividend at the rate of Rs 1.50 (2003: Rs. 2.5) per share and 12 bonus share (2003: Nil) for each 100 shares.

44. PLANT CAPACITY AND PRODUCTION

The capacity and production of the company's plant is indeterminable as it is a multi-product plant involving varying processes of manufacture.

45. DATE OF AUTHORISATION OF ISSUE

The Board of Directors of the company authorised the consolidated financial statements for issuance on 22 March 2005 (2003: 22 March 2004)

46. GENERAL

- Figures have been rounded off to the nearest rupee.
- Due to certain changes made by Securities and Exchange Commission of Pakistan in the Fourth Schedule to the Companies Ordinance, 1984 through SRO 589(I) /2004 dated July 05, 2004, previous years figures have been rearranged or reclassified, wherever necessary, for the purpose of comparison.





Consolidated Financial Statements

DIRECTORS' REPORT TO SHAREHOLDERS

The Directors are pleased to present the audited consolidated financial statements for the year ended 31 December 2004. During the year under review a wholly owned subsidiary company was formed under the name and style of "Dynamog Services (Private) Limited" and it commenced commercial operations from 01 October 2004. The consolidated financial statements comprises of the results of Highnoon Laboratories Limited for the said year and results of three months of Dynamog Services (Private) Limited. The consolidated results are as under:

Financial Overview

	2004 (Rupees in thousands)
Profit before tax	55,433
Taxation	34,125
Profit after tax	<u>21,308</u>
Un-appropriated Profit Brought Forward	405
Transfer from Surplus on Revaluation of fixed assets	7,576
Profit available for appropriations	<u>29,289</u>

Earnings Per Share

The group earnings per ordinary share of Rs. 10 for the year ended 31 December 2004 was Rs. 2.10. Being the first year of consolidated financial statements, EPS of corresponding period is not comparable.

Subsidiary's Activities and Future Outlook

The operating results of the subsidiary company revealed that it has suffered a net loss of Rs. 4.875 million due to start-up, infrastructural and establishment expenses, which are the major reasons for the said net loss. The subsidiary company has already executed different agreements with the local and international companies for marketing and distribution of Pharmaceutical, Food, Cosmetic and OTC products. We are confident that when the subsidiary company will operate on its planned scale having turnover of all above products with increased network of branches, equipped with modern technology covering every possible geographical territory, the group results will change positively. We are hopeful that after having full year's operational results of subsidiary company the group profitability will definitely get better and will also maximize the shareholder's wealth.

Pattern of Shareholding

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

For and on behalf
of the Board

Anees Ahmad Khan
Chief Executive Officer

Lahore: 22 March 2005

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed consolidated financial statements comprising consolidated balance sheet of Highnoon Laboratories Limited "Holding Company" and its subsidiary company as at 31 December 2004 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 opinion on the financial statements of Highnoon Laboratories Limited. The financial statements of the subsidiary, Dynalog Services (Private) Limited 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 company, is based solely on the report of such other auditors. These financial statements are the responsibility of the Holding Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the consolidated financial statements present fairly the financial position of Highnoon Laboratories Limited and its subsidiary company as at 31 December 2004 and the results of their operations for the year then ended.

The financial statements of the Holding Company for the year ended 31 December 2003 were audited by another firm of auditors, whose report dated 24 March 2004 expressed an unqualified opinion on those financial statements.

LAHORE: 22 March 2005

Taseer Hadi Khalid & Co.
Chartered Accountants

CONSOLIDATED BALANCE SHEET

	<i>Note</i>	2004 Rupees	2003 Rupees
EQUITY AND LIABILITIES			
SHARE CAPITAL	<i>5</i>	101,439,520	101,439,520
RESERVES	<i>6</i>	143,288,384	114,404,642
		<hr/> 244,727,904	<hr/> 215,844,162
SURPLUS ON REVALUATION OF ASSETS	<i>7</i>	167,477,929	47,890,539
NON CURRENT LIABILITIES			
LONG TERM LIABILITY - Secured LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE	<i>8</i>	18,988,235	-
LONG TERM ADVANCES	<i>9</i>	56,886,319	38,643,959
DEFERRED LIABILITIES	<i>10</i>	8,087,612	5,731,934
DEFERRED GAIN	<i>11</i>	128,108,240	65,922,761
	<i>12</i>	14,591,246	10,515,015
CURRENT LIABILITIES			
Trade and other payables	<i>13</i>	80,947,043	70,144,204
Mark-up payable on secured loans	<i>14</i>	2,494,512	3,050,349
Short term bank borrowings - Secured	<i>15</i>	249,910,368	187,947,344
Current portion of long term liabilities	<i>16</i>	57,114,356	45,796,160
Proposed dividend		-	25,359,880
		<hr/> 390,466,279	<hr/> 332,297,937
CONTINGENCIES AND COMMITMENTS	<i>17</i>	<hr/> 1,029,333,764	<hr/> 716,846,307

The annexed notes from 1 to 46 form an integral part of these consolidated financial statements.

MIAN AHSON FAROOQ
DIRECTOR

AS AT 31 DECEMBER 2004

	<i>Note</i>	2004 Rupees	2003 Rupees
NON CURRENT ASSETS			
PROPERTY, PLANT AND EQUIPMENT	<i>18</i>	532,050,995	325,950,197
INTANGIBLE ASSETS	<i>19</i>	46,701,666	-
		578,752,661	325,950,197
LONG TERM INVESTMENTS	<i>20</i>	-	27,500
LONG TERM DEPOSITS		1,027,765	408,765
CURRENT ASSETS			
Store, spares and loose tools	<i>21</i>	4,793,482	4,647,157
Stock in trade	<i>22</i>	283,204,363	235,868,286
Trade debts	<i>23</i>	22,631,108	22,761,931
Advances, deposits and prepayments	<i>24</i>	34,260,536	26,057,944
Other receivables	<i>25</i>	47,076,300	49,192,572
Income tax - net		31,950,500	28,220,526
Cash and bank balances	<i>26</i>	25,637,049	23,711,429
		449,553,338	390,459,845
		1,029,333,764	716,846,307

ANEES AHMAD KHAN
CHIEF EXECUTIVE OFFICER

**CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2004**

	<i>Note</i>	2004 Rupees	2003 Rupees
SALES - net	27	1,025,153,883	885,174,565
COST OF SALES	28	650,413,815	546,811,160
GROSS PROFIT		374,740,068	338,363,405
OPERATING EXPENSES			
Administrative and general	29	101,978,244	78,310,805
Distribution, selling and promotional	30	192,987,872	162,298,170
Financial charges	31	22,107,455	31,887,498
Research and development	32	3,505,831	3,764,530
		320,579,402	276,261,003
OPERATING PROFIT		54,160,666	62,102,402
OTHER OPERATING INCOME	33	10,046,143	5,609,323
		64,206,809	67,711,725
OTHER CHARGES	34	8,773,845	4,194,340
PROFIT BEFORE TAXATION		55,432,964	63,517,385
TAXATION	35	34,124,836	27,465,402
PROFIT AFTER TAXATION		21,308,128	36,051,983
Earnings per share - basic and diluted	36	2.10	3.55

The annexed notes from 1 to 46 form an integral part of these consolidated financial statements.

MIAN AHSON FAROOQ
DIRECTOR

ANEES AHMAD KHAN
CHIEF EXECUTIVE OFFICER

**CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2004**

	2004	2003
	Rupees	Rupees
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	55,432,964	63,517,385
Add/(less): Adjustments for non-cash charges and other items		
Depreciation	46,667,213	34,654,389
Amortization of intangible assets	392,451	-
Gain on sale of property, plant and equipment	(2,982,026)	(2,298,021)
Gain on sale of investments	(2,648)	-
Exchange loss/(gain) on currency fluctuations	379,488	-
Provision for defined benefit obligation	12,605,588	7,728,276
Provision for slow moving items	632,966	-
Financial charges	22,107,455	31,887,498
Amortization of deferred gain	(4,099,536)	(1,795,246)
Appreciation in the value of investment	-	(17,500)
Deterioration in pallets	3,005	59,135
	75,703,956	70,218,531
Profit before working capital changes	131,136,919	133,735,916
WORKING CAPITAL CHANGES		
(Increase)/decrease in current assets:		
Stores, spares and loose tools	(782,296)	(495,867)
Stock in trade	(47,336,077)	(20,878,766)
Trade debts	94,865	(4,007,680)
Advances, deposits and prepayments	(8,202,592)	39,190,574
Other receivables	2,116,272	21,037,176
Increase/(decrease) in current liabilities:		
Trade and other payables	12,305,422	(14,446,343)
	(41,804,406)	20,399,094
<i>Cash generated from operations</i>	89,332,513	154,135,010
Add/(less):		
Taxes paid	(25,851,768)	(15,897,058)
Gratuity paid	(3,733,351)	(1,367,799)
Financial charges paid	(14,392,037)	(24,407,115)
Security deposit	(619,000)	100,000
Long term advances - net	1,753,805	375,178
<i>Net cash from operating activities</i>	46,490,163	112,938,216

	Note	2004 Rupees	2003 Rupees
CASH FLOWS FROM INVESTING ACTIVITIES			
Fixed capital expenditure		(28,344,003)	(8,552,011)
Sale of other investments		30,148	-
Sale proceeds of property, plant and equipment		27,925,429	22,790,348
<i>Net cash from investing activities</i>		(388,426)	14,238,337
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of long term loan		(4,913,059)	(4,119,902)
Long term liabilities		(14,208,235)	-
Repayment of lease finance liabilities		(60,155,384)	(51,109,357)
Short term bank borrowings		61,963,024	(45,518,757)
Dividend paid		(26,862,463)	(12,721,311)
<i>Net cash from financing activities</i>		(44,176,117)	(113,469,327)
Net increase in cash and cash equivalents		1,925,620	13,707,226
Cash and cash equivalents at beginning of the year		23,711,429	10,004,203
Cash and cash equivalents at end of the year	26	25,637,049	23,711,429

The annexed notes from 1 to 46 form an integral part of these financial statements.

MIAN AHSON FAROOQ
DIRECTOR

ANEES AHMAD KHAN
CHIEF EXECUTIVE

CONSOLIDATE STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2004

SHARE CAPITAL	RESERVES				TOTAL	
	CAPITAL	REVENUE				
	BONUS SHARES	GENERAL	UNAPPROP- RIATED PROFIT	SUB- TOTAL		
..... Rupees						
BALANCE AS AT 01 JANUARY 2003	92,217,750	9,221,780	98,000,000	407,630	98,407,630	199,847,160
BONUS SHARES ISSUED	9,221,770	(9,221,770)	-	-	-	-
TRANSFERRED FROM RESERVE FOR ISSUANCE OF BONUS SHARES	-	(10)	-	10	10	-
TRANSFERRED FROM SURPLUS ON REVALUATION OF FIXED ASSETS						
Current year incremental depreciation - net of tax	-	-	-	1,674,066	1,674,066	1,674,066
Disposal - net of tax	-	-	-	3,630,833	3,630,833	3,630,833
PROFIT FOR THE YEAR AFTER TAXATION	-	-	-	36,051,983	36,051,983	36,051,983
Transfer to general reserve	-	-	16,000,000	(16,000,000)	-	-
Dividend at the rate of Rs. 2.5 per share				(25,359,880)	(25,359,880)	(25,359,880)
BALANCE AS AT 31 DECEMBER 2003	101,439,520	-	114,000,000	404,642	114,404,642	215,844,162
BALANCE AS AT 01 JANUARY 2004	101,439,520	-	114,000,000	404,642	114,404,642	215,844,162
TRANSFERRED FROM SURPLUS ON REVALUATION OF FIXED ASSETS						
Current year incremental depreciation - net of tax	-	-	-	7,575,614	7,575,614	7,575,614
PROFIT FOR THE YEAR AFTER TAXATION	-	-	-	21,308,128	21,308,128	21,308,128
BALANCE AS AT 31 DECEMBER 2004	101,439,520	-	114,000,000	29,288,384	143,288,384	244,727,904

The annexed notes from 1 to 46 form an integral part of these consolidated financial statements.

MIAN AHSON FAROOQ
DIRECTOR

ANEES AHMAD KHAN
CHIEF EXECUTIVE OFFICER

NOTES TO THE CONSOLIDATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

1. STATUS AND NATURE OF BUSINESS

The Highnoon Group comprises of:

Holding Company

Highnoon Labaoratories Limited ("HNL")

Subsidiary Company

Dynalog Services (Private) Limited ("DSL")

HNL was incorporated as a private limited company in Pakistan in the year 1984 under the Companies Ordinance, 1984 and converted into an unquoted public limited company in the year, 1985. Its shares are quoted on all stock exchanges in Pakistan since November 1994. HNL is principally engaged in the manufacture, import and marketing of pharmaceutical and allied consumer products. The Registered office of HNL is situated at 17.5 Km, Multan Road, Lahore.

DSL was incorporated as a private limited company in Pakistan on 27 April 2004 under the Companies Ordinance, 1984 and made a wholly owned subsidiary company of HNL in September 2004. DSL is principally engaged in the business of trading and distribution of pharmaceutical and other products. The registered office of DSL is situated at 31-Saint John's Park, Lahore Cantt.

2. STATEMENT OF COMPLIANCE

These consolidated financial statements have been prepared in accordance with 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 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. BASIS OF MEASUREMENT

These consolidated financial statements have been prepared under the historical cost convention modified by adjustment of revaluation of certain assets as referred to in Note 18.1.3 and 20 and adjustment of exchange differences as referred to in Note 4.2 to the financial statements. In these financial statements, except for the cash flow statement, all the transactions have been accounted for on accrual basis.

4. SIGNIFICANT ACCOUNTING POLICIES

4.1 Basis of consolidation

The consolidated financial statements includes the financial statements of Highnoon Laboratories Limited and its wholly owned subsidiary "Dynalog Services (Private) Limited". The parent company's shareholders in an Extra Ordinary General Meeting held on 14 September 2004 approved the 100 percent stake in DSL. As referred to in Note 1, the subsidiary company was established during the year, hence comparative amounts for the corresponding year relates to the operations of HNL only. The assets and liabilities of subsidiary company have been consolidated on a line by line basis and carrying value of investments held by the parent company is eliminated against the subsidiary's shareholder's equity in the consolidated financial statements. Material intra-group balances and transactions have also been eliminated.

4.2 Staff retirement benefits

The main features of the scheme operated by HNL for its employees are as follows:

Defined benefit plan

HNL operates an unfunded gratuity scheme for all of its permanent employees, under which benefits are paid on cessation of employment subject to a minimum qualifying period of service.

Qualified actuaries carried out the valuation on 31 December 2003. The Projected Unit Credit Method, with the following significant assumptions, was used for the valuation of this scheme:

- Discount rate	8% per annum
- Expected rate of increase in salary	7% per annum
- Expected average remaining years until vesting as on 31 December 2003	5 years

HNL's policy with regard to actuarial gains/losses is to follow minimum recommended approach under IAS 19 "Employees Benefits" by which actuarial gains/losses exceeding 10 % of present value of benefit obligation are amortized over average remaining working lives of the employees.

Defined contribution plan

HNL also operates a recognized provident fund scheme for all of its permanent employees in accordance with the trust deed and rules made there under, equal monthly contributions are made to the fund by HNL and its employees at the rate of 8.33% of basic salary.

Compensated leave absences

Provision for compensated absences is made to the extent of value of accrued absences of the employees of HNL at the balance sheet date.

4.3 Foreign currency translation and hedging

Assets and liabilities in foreign currency are translated at the rates of exchange prevailing on the balance sheet date, while foreign currency transactions are converted into Pak rupees at exchange rates prevailin on the date of transaction. All exchange gains/losses are taken to profit and loss account. Currently the Group companies have not entered into any forward foreign exchange contract to hedge the foreign currency exposure, however, the risk is mitigated by matching the maturities of foreign currency assets and liabilities.

4.4 Property, Plant and Equipment

Property, Plant and equipment are stated at cost or revalued amount less accumulated depreciation except for the freehold land, which is stated at revalued amount. Revaluation is carried out every five years unless earlier revaluation is necessitated.

Depreciation is charged on reducing balance method at the rates mentioned in note no 18.1 to write off the cost of an asset over its estimated useful life. Full month's depreciation is charged on additions, while no depreciation is charged in the month of disposal or deletion or transfer of assets. Surplus on revaluation of fixed assets relating to incremental depreciation is directly charged to equity.

Gains and losses on disposal of fixed assets are included in income currently, except that the related surplus on revaluation of fixed assets (net of deferred taxation) is transferred directly to unappropriated profits.

Normal repairs and maintenance is charged to revenue as and when incurred, while major renewals and replacements are capitalized and assets so replaced, if any, are retired.

4.5 Leasehold assets

The leases, where all the risks and rewards incidental to ownership of the leased assets have been transferred to the Group companies are classified as finance leases. Assets subject to finance lease are stated at the lower of present value of minimum lease payments under the lease agreements and the fair value of the leased assets.

The related rental obligations, net of finance charges, are included in liabilities against assets subject to finance lease as referred to in Note 9. The liabilities are classified as current and long term depending upon the timing of the payment.

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

Assets acquired under a finance lease are depreciated over the useful life of assets on reducing balance method at the rates given in Note 18.1. Depreciation of leased assets is charged to profit and loss account.

Depreciation on additions in leased assets is charged from the month in which an asset is acquired while no depreciation is charged for the month in which the asset is disposed off/transferred to freehold.

4.6 Capital work in progress

Capital work in progress is stated at cost and includes the expenditures on material, labor and appropriate overheads directly relating to the project. These costs are transferred to fixed assets as and when assets are available for intended use.

4.7 Intangible assets and amortization

Intangible assets (Intellectual Property, Rights and Trademarks), which are non-monetary assets without physical substance are recognized at cost, which comprises its purchase price, non-refundable purchase taxes and any directly attributable expenditures.

After initial recognition an intangible asset is carried at its cost less accumulated amortization and impairment losses. Amortization is charged to the income on monthly basis following the straight line basis for a maximum period of ten years.

At subsequent reporting dates, the Group companies review the recoverable amounts of intangible assets to assess impairment loss. If any such indication exists, impairment losses are recognized as expense, when it is incurred unless the expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance.

4.8 Deferred gain

Deferred gain arising on sale and lease back of assets is amortized on straight line basis over the lease term.

4.9 Borrowing costs

Financial charges on long term liabilities / lease liabilities which are specifically obtained for the acquisition of qualifying assets i.e. assets that take a substantial period of time to get ready for their intended use, are

capitalized up to the date of commissioning of respective asset. All other interest, mark-up and expenses are charged to income.

4.10 Long-term investments

Investments available for sale

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

4.11 Stores, spares and loose tools

These are valued at moving weighted average cost. For items which are slow moving, a provision is made for excess book value over estimated realizable value.

Pallets are subject to deterioration at the rate of 25% per annum using the straight line method from the month in which these were acquired.

4.12 Stock in trade

These are valued at the lower of cost and net realizable value. Cost is determined using the following basis:-

Raw materials	-	on moving average
Work-in-process	-	at estimated manufacturing cost including appropriate overheads
Finished goods		
- Imported	-	on moving average
- Local	-	on annual average manufacturing cost including appropriate overheads
Merchandise in transit/pledged	-	at invoice value plus other charges incurred thereon

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

4.13 Cash and cash equivalents

For the purpose of cash flow statement, cash and cash equivalents comprise of cash in hand and balance with banks on current and deposit accounts.

4.14 Impairment

The carrying amount of the Group's assets are reviewed at each balance sheet date to identify the circumstances indicating the occurrence of impairment loss or reversal of previous impairment losses. If any such indication exists, the recoverable amount of such asset is estimated and impairment loss is recognized in the profit and loss account. Where an impairment loss subsequently reverses, the carrying amount of such asset is increased to the revised recoverable amount. A reversal of the impairment loss is recognized in income.

4.15 Revenue recognition

Revenue from local sales is recognized on dispatch of goods to the customers, however, export goods are considered dispatched when shipped to customers.

Return on bank deposits is accounted for on time proportion basis and other income is recognised on accrual basis.

4.16 Transactions with related parties and transfer pricing

The Group under the direction of Securities and Exchange Commission of Pakistan's Notification SRO 66(I)/ 2003 dated 22 January 2003 adopted the following policies of transfer pricing for the determination of arm's length prices with associated companies and related parties except for the assets sold to employees at written down value under the employee's car scheme of HNL as approved by the Board of Directors.

- Associated companies / related parties	Cost plus method
--	------------------

Parties are said to be related, if they are able to influence the operating and financial decisions of the Group companies and vice versa.

4.17 Research and development Costs

These costs are charged to revenue as and when incurred.

4.18 Taxation**Current**

The charge for current taxation is based on taxable income at current rate of taxation of the Income Tax Ordinance, 2001 after taking into account applicable tax credits and rebates, if any.

Deferred

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

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Deferred tax is calculated at the rates that are expected to apply to the period when differences reverse based on tax rates that have been enacted or substantively enacted by the balance sheet date. However, as a matter of prudence, deferred tax amounting to Rs. 1.377 million on taxable loss has not been accounted for by DSL.

HNL also recognises deferred tax asset/ liability on deficit/ surplus on revaluation of fixed assets which is adjusted against the related surplus as per the requirements of revised IAS 12 "Income Taxes".

4.19 Dividends

HNL recognises dividend as a liability in the period in which it is declared. Up to previous year, dividends proposed subsequent to the balance sheet date but before the financial statements were authorized for issue were recorded as a liability. The change was considered necessary due to the revision of Fourth Schedule to the Companies Ordinance, 1984 effective from 05 July 2004. Such a change in accounting policy has been accounted for prospectively and proforma information has been presented in Note 41 to the financial statements in accordance with the allowed alternative treatment of International Accounting Standard (IAS) 8, "Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies"

4.20 Financial instruments

Financial assets and financial liabilities are recognized when Group companies become a party to the contractual provisions of the instrument.

a) Trade and other payables

Liabilities for trade and other amounts payable are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received.

b) Trade and other receivables

Trade receivables and other receivables are recognized and carried at original invoice amount/cost less provision for uncollectible receivables, if any.

c) Cash and bank balances

Cash in hand and at banks are carried at cost.

4.21 Trade debts

Trade debts are carried at original invoice amount less an estimate made for doubtful debts based on a review of all outstanding amounts at the year-end. Bad debts are written off when identified.

4.22 Provisions

A provision is recognized when the Group companies has a present legal or constructive obligation as a result of past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation of which reliable estimate can be made.

4.23 Offsetting

Financial assets and liabilities are offset and the net amount is reported in the balance sheet if the Group companies have legally enforceable right to setoff the recognised amounts and the Group companies intend to settle either on a net basis or realise the asset and settle the liability simultaneously.

	Note	2004 Rupees	2003 Rupees
5. SHARE CAPITAL			
Authorized			
15,000,000 (2003: 15,000,000) Ordinary shares of Rs. 10 each		150,000,000	150,000,000
Issued, subscribed and paid - up			
5,905,000 (2003: 5,905,000) Ordinary shares of Rs. 10 each fully paid in cash		59,050,000	59,050,000
95,000 (2003: 95,000) Ordinary shares of Rs.10 each issued for consideration other than cash	5.1	950,000	950,000
4,143,952 (2003: 4,143,952) as fully paid bonus shares of Rs. 10 each		41,439,520	41,439,520
		101,439,520	101,439,520

5.1 This represents the issuance of shares against the purchase of plant, machinery and other assets.

	2004 Rupees	2003 Rupees
6. RESERVES		
General reserve	114,000,000	114,000,000
Unappropriated profit	29,288,384	404,642
	143,288,384	114,404,642
7. SURPLUS ON REVALUATION OF ASSETS		
Surplus on revaluation of fixed assets as at 01 January	64,584,693	72,746,075
Surplus arised on revaluation of fixed assets during the year	168,473,204	-
Surplus relating to incremental depreciation charged on related assets-transferred to unappropriated profit		
Net of deferred tax	(7,575,614)	(3,630,833)
Related deferred tax liability	(4,079,177)	(1,955,063)
	(11,654,791)	(5,585,896)
Surplus on revaluation of fixed assets realized on disposal of related assets-transferred to unappropriated profit		
Net of deferred tax	-	(1,674,066)
Related deferred tax liability	-	(901,420)
	-	(2,575,486)
Surplus on revaluation of assets as at 31 December	221,403,106	64,584,693
Less: Related deferred tax liability on:		
Balance at the beginning of the year	16,694,154	19,550,637
- Deferred tax arised during the year	41,310,200	-
Transferred to profit and loss account		
- Incremental depreciation charged during the year	(4,079,177)	(1,955,063)
- Realization of revaluation surplus on disposal of assets	-	(901,420)
	53,925,177	16,694,154
	167,477,929	47,890,539

	Note	2004 Rupees	2003 Rupees
8. LONG TERM LIABILITY - Secured			
Total purchase consideration for trademark	8.1	47,094,117	-
Less: Paid during the year		14,208,235	-
		32,885,882	-
Exchange loss due to revaluation		343,530	-
Total payable as on 31 December		33,229,412	-
Due within one year	16	14,241,177	-
		18,988,235	-

8.1 This represent the purchase consideration amounting to Rs. 47,094,117 equivalent to Euros 500,000 net of local taxes for Registration and Trademark of brand "Tres Orix Forte" for the territory of Pakistan and Kenya payable to M/s Almira Prdoesfarma, Spain. During the year, an amount of Rs. 14,208,235 equivalent to Euros 150,000 net of taxes has been paid, Euros 150,000 net of taxes are payable on or before 31 December 2005 and remaining Euros 200,000 net of taxes are payable on or before 31 December 2006.

The liability is secured against intangible assets and in case of default in payment of obligation with in fifteen days of formal notice of the party, the agreement will be terminated upon which all the data and documents have to be returned and the HNL right to market the brand will cease.

9. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

The rate of interest used as discounting factor ranges from 0.583% to 1.4125% (2003: 0.625% to 1.666%) per month. The amount of future payments and period during which they fall due are :-

Minimum lease payments due:			
Not later than one year		48,679,309	46,863,655
Later than one year and not later than five years		61,139,561	41,691,766
		109,818,870	88,555,421
Less: Future financial charges		10,758,396	10,329,258
Present value of minimum lease payments	9.1	99,060,474	78,226,163
Less: Current portion	16	42,174,155	39,582,204
		56,886,319	38,643,959
9.1 Break-up of present value of minimum lease payments			
Not later than one year		42,174,155	39,582,204
Later than one year and not later than five years		56,886,319	38,643,959
		99,060,474	78,226,163

The rentals are payable in monthly and quarterly equal installments. In case of default of any payment an additional charge at the rate ranging from Rs. 117 to Rs. 250/0.1 % (2003: Rs. 117 to 250/0.1%) per day on overdue payments shall be paid. The Group companies intends to exercise the option to purchase the assets at the expiry of lease term.

	Note	2004 Rupees	2003 Rupees
10. LONG TERM ADVANCES			
Balance at the end of year		8,786,636	7,032,831
Less: Current portion	16	699,024	1,300,897
		8,087,612	5,731,934
This represents advances taken from employees of the HNL against future sale of vehicles as per policy.			
11. DEFERRED LIABILITIES			
Taxation	11.1	84,290,186	30,976,944
Gratuity	11.2	43,818,054	34,945,817
		128,108,240	65,922,761
11.1 Taxable temporary differences arising in respect of:			
Surplus on revaluation of fixed assets		53,925,177	16,694,154
Accelerated tax depreciation		30,365,009	14,282,790
		84,290,186	30,976,944
11.2 The net value of defined benefit obligation as at valuation date was as follows:			
Present value of defined benefit obligation		56,671,886	50,439,927
Unrecognised past service cost		-	(687,818)
Unrecognised actuarial (losses)		(12,853,832)	(14,806,292)
Net liability as at 31 December		43,818,054	34,945,817
11.2.1 The following is the reconciliation of movement in the net recognised liability for gratuity:			
Liability as at 01 January		34,945,817	28,997,240
Amount recognised during the year	11.2.2	12,605,588	7,728,276
Benefit payments made by the Company		(3,733,351)	(1,367,799)
Benefits due but not paid		-	(411,900)
Net liability as at 31 December		43,818,054	34,945,817

	Note	2004 Rupees	2003 Rupees
11.2.2 The following amounts have been charged to profit and loss account during the year in respect of gratuity scheme:			
Current service cost		5,930,117	4,227,374
Interest cost		4,035,194	2,813,085
Past service cost - charge for the year		687,817	687,817
Actuarial losses - charge for the year		1,952,460	-
Total included in staff cost		12,605,588	7,728,276
12. DEFERRED GAIN			
Opening balance as at 01 January		10,515,015	12,310,261
Gain recognized during the year		8,175,767	-
Less: amortization for the year	33	4,099,536	1,795,246
		14,591,246	10,515,015
Deferred gain arising on sale and lease back of the assets of Highnoon Laboratories Limited.			
13. TRADE AND OTHER PAYABLES			
Creditors		30,940,221	35,285,510
Advances from customers		23,208,455	10,324,678
Accrued expenses		11,101,013	9,634,194
Income tax deducted at source		1,137,664	1,649,528
Workers' Profit Participation Fund	13.1	6,255,653	5,085,546
Workers' Welfare Fund		4,317,206	3,162,925
Payable to Central Research Fund		640,300	-
Payable to provident fund trust		1,234,493	1,055,089
Un-claimed dividends		2,032,252	3,534,834
Other liabilities		79,786	411,900
		80,947,043	70,144,204
13.1 Workers' Profit Participation Fund			
Balance at the beginning of the year		5,085,546	3,993,319
Add: Current allocation for the year	34	3,932,445	3,385,586
Add: Interest on funds utilized	31	953,540	609,714
Less: Paid during the year		3,715,878	2,903,073
		6,255,653	5,085,546

	Note	2004 Rupees	2003 Rupees
14. MARKUP PAYABLE ON SECURED LOANS			
On cash finances		1,184,160	1,534,905
On other borrowings		1,310,352	1,515,444
		2,494,512	3,050,349
15. SHORT TERM BANK BORROWINGS- Secured			
Habib Bank Limited	15.1		
Cash finance		81,581,817	56,929,117
L/C acceptance		-	3,044,058
Finance against imported merchandise		7,986,000	11,923,000
Faysal Bank Limited	15.2		
Morabaha LPO		60,000,000	40,000,000
Morabaha pledge		4,042,380	10,710,000
United Bank Limited	15.3		
Cash finance - hypothecation		74,029,341	48,039,497
Cash finance - pledge		22,270,830	17,301,672
		249,910,368	187,947,344

15.1 These finances are availed by HNL against aggregate sanctioned limit of Rs. 245 million (2003: Rs. 140 million) and carry mark-up equivalent to the rate of KIBOR of last day of preceding month plus 2% with floor of 5 % per annum (2003: Rs. 0.192 to Rs. 0.33 per thousand per day). These finances are secured by way of:

- hypothecation/pledge of stocks;
- joint pari passu hypothecation charge on current assets to the extent of Rs. 55.4 million;
- joint pari passu equitable mortgage charge on property, plant and equipment of HNL to the extent of Rs. 129.2 million;
- personal guarantees of all the directors of the HNL

15.2 These finances are availed against aggregate sanctioned limit of Rs. 105 million (2003: Rs. 85 million) and carry mark up equivalent to the rate of Ask yield of six month KIBOR as notified by Reuters + 250 basis points with floor of 5.5% (2003: 5.5% to 12%) per annum. These finances are secured by way of :

- first pari passu charge on the present and future property, plant and equipment of the HNL to the extent of Rs. 40 million;
- first pari passu charge on the present and future current assets of the HNL to the extent of Rs. 57 million;
- pledge of stocks;
- ranking charge on the current assets of the HNL to the extent of Rs. 35 million;
- personal guarantee of the sponsoring directors of HNL.

15.3 These finances are availed against aggregate sanctioned limit of Rs. 155 (2003: Rs. 155) million and carry mark-up at the rate of Rs. 0.1369 (2003: Rs.19.18) per thousand per day. These finance are secured by way of:

- hypothecation/pledge of stocks, stores and spares, receivables/book debts;
- first pari passu charge to the extent of Rs. 90 million on the property, plant and equipment of HNL ranking parri passu with Habib Bank Limited and Faysal Bank Limited;
- first pari passu charge to the extent of Rs. 110 million on the present and future current assets of HNL;
- equitable mortgage of land, building, plant and machinery and fixtures of HNL;
- promissory note and personal guarantee of all the directors of HNL.

	Note	2004 Rupees	2003 Rupees
16. CURRENT PORTION OF LONG TERM LIABILITIES			
Long term loans- HNL		-	4,913,059
Long term liability	8	14,241,177	-
Liabilities against assets subject to finance lease	9	42,174,155	39,582,204
Long term advances	10	699,024	1,300,897
		57,114,356	45,796,160

17. CONTINGENCIES AND COMMITMENTS

Contingencies

- Bank guarantees issued on behalf of the HNL aggregating to Rs. 8.841 million (2003: Rs. 8.911 million).
- HNL has not acknowledged the demand relating to sales tax/central excise duty amounting to Rs. 18.137 (2003: Rs. 18.137) million as debt as the matters are pending adjudication. An amount of Rs. 1.632 (2003: Rs. 3.693) million deposited for grant of stay has been shown under Other Receivables in Note 25.
- HNL has not acknowledged the demand of Rs. 20.825 million (2003: Rs. Nil) raised by the Income Tax Department against the pending assessment of previous years. The matter is pending adjudication with the tax department. The HNL is confident that there are reasonable grounds for a favorable decision.
- HNL has not accepted the levy of Central Research Fund on non-pharmaceutical income, which is levied @ 1% of gross profit before income tax under the provisions of Drugs Act, 1976 due to which an amount of Rs. 0.465 million (2003: Rs. Nil) stands disputed and has not been acknowledged as debt.

Commitments

- Commitments of the HNL against irrevocable letters of credit include:

	Note	2004	2003
		Rupees	
Plant and machinery		Nil	3.254
Raw materials		32.738	33.756
Packing materials		1.846	Nil
Finished goods		3.694	Nil

- Facilities of letters of guarantee amounting to Rs. 4.159 million (2003:Rs.11.159 million) are available to HNL under hypothecation/pledge of stocks and on present and future current assets and property, plant and equipment.
- Limits of un-availed short term bank borrowings are available to HNL from commercial banks amounting to Rs.254.921 million (2003: Rs. 192.053 million). These facilities carry mark-up ranging from KIBOR plus 2% to 2.5% (2003: 5.5%-7%) and are secured against hypothecation/pledge of stocks and on present and future current assets and Property, Plant and Equipment of HNL to the extent as referred to in respective notes.

18. PROPERTY, PLANT AND EQUIPMENT

Operating assets (owned)	18.1	351,228,325	203,926,868
Operating assets (leased)	18.1	173,690,170	119,702,819
Capital Work-in-progress	18.2	7,132,500	2,320,510
		532,050,995	325,950,197

18.1 OPERATING ASSETS

PARTICULARS	COST				DEPRECIATION					Book Value as at 31 December 2004	Rate %
	DURING THE YEAR				As at 31 December 2004	As at 01 January 2004	For the year	Adjustment	As at 31 December 2004		
	As at 01 January 2004	Additions	Deletions	Revaluation adjustment							
Rupees											
OWNED											
Land - Freehold	31,453,939	-	-	50,444,061	81,898,000	-	-	-	-	81,898,000	-
Building on freehold land	117,823,460	-	-	47,273,825	165,097,285	35,190,168	11,020,969	-	46,211,137	118,886,148	10
Plant and machinery	100,232,554	6,864,773	-	56,671,642	163,768,969	36,747,341	10,042,344	-	46,789,685	116,979,284	10
Laboratory equipment	2,384,481	-	-	-	2,384,481	1,099,155	128,533	-	1,227,688	1,156,793	10
Furniture and fixtures	6,063,459	704,539	-	-	6,767,998	3,655,700	269,785	-	3,925,485	2,842,513	10
Electric and gas appliances	12,089,370	3,432,762	-	-	15,522,132	6,179,562	823,065	-	7,002,627	8,519,505	10
Office equipment	15,899,392	13,904,905	(10,516,873)	-	19,287,424	6,454,127	1,070,553	(11,687)	7,512,993	11,774,431	10
Vehicles	10,522,555	9,357,274	(8,080,952)	-	11,798,877	3,270,499	1,224,018	(1,818,502)	2,676,015	9,122,862	20
Library books	52,806	-	-	-	52,806	43,913	889	-	44,802	8,004	10
Neon sign	33,000	-	-	-	33,000	24,780	822	-	25,602	7,398	10
Arms and ammunition	106,100	-	-	-	106,100	69,003	3,710	-	72,713	33,387	10
	296,661,116	34,264,253	(18,597,825)	154,389,528	466,717,072	92,734,248	24,584,688	(1,830,189)	115,488,747	351,228,325	
ASSETS SUBJECT TO FINANCE LEASE											
Plant and machinery	106,257,317	-	(4,169,600)	14,083,676	116,171,393	29,385,183	8,338,658	(1,625,334)	36,098,507	80,072,886	10
Office Equipment	-	20,256,624	-	-	20,256,624	-	1,023,741	-	1,023,741	19,232,883	10
Vehicles	55,620,162	52,461,816	(15,599,054)	-	92,482,924	12,789,477	12,720,126	(7,411,080)	18,098,523	74,384,401	20
	161,877,479	72,718,440	(19,768,654)	14,083,676	228,910,941	42,174,660	22,082,525	(9,036,414)	55,220,771	173,690,170	
Rupees: 2004	458,538,595	106,982,693	(38,366,479)	168,473,204	695,628,013	134,908,908	46,667,213	(10,866,603)	170,709,518	524,918,495	
Rupees: 2003	422,902,510	60,103,146	(24,467,061)	-	458,538,595	110,764,977	34,654,389	(10,510,458)	134,908,908	323,629,687	

18.1.1 Addition in freehold assets includes transfer of assets costing Rs. 19,768,654 (2003: Rs. 11,496,750) less accumulated depreciation of Rs. 9,036,414 (2003: Rs. 5,722,213) from leasehold assets. Addition in leasehold office equipment represents transfer from freehold valuing Rs. 18,633,330 (2003: Rs. Nil) less accumulated depreciation of Rs. Nil (2003: Rs. Nil) under sale and leaseback arrangements.

		2004	2003
	Note	Rupees	Rupees
18.1.2 Depreciation charge has been allocated as under :			
Cost of sales	28	30,757,674	25,074,220
Administrative and general	29	8,514,172	5,078,423
Distribution, selling and promotional	30	7,395,367	4,501,746
		46,667,213	34,654,389

18.1.3 Land, building on freehold land and plant and machinery of HNL were first revalued on 30 June 1995, resulting in a surplus of Rs. 68,809,377. Subsequently land, building on freehold land and plant and machinery of HNL were revalued on 30 June 1999 resulting in a surplus of Rs. 116,264,331. Recently land, building on freehold land and plant and machinery of HNL were again revalued as on 31 May 2004 and 31 December 2004 by M/s Hamid Mukhtar & Co., certified by Ford Rhodes Sidat Hyder & Co, Chartered Accountants, which resulted in a surplus of Rs. 168,473,204 over the net book value of assets.

18.1.4 Had the assets of HNL not been revalued the carrying values would have been:

Land - Freehold	14,566,828	14,566,828
Building on freehold land	60,030,228	66,700,254
Plant and machinery (Owned)	39,282,693	36,459,659
Plant and machinery (Leased)	62,545,667	72,133,146
	176,425,416	189,859,887

18.1.5 Disposal of property, plant and equipment of the parent company

Description	Cost	Accumulated depreciation	Written down value	Sale proceeds	Gain/(loss)	Sold to
-----Rupees-----						
VEHICLES						
By Parent Company policy to employees						
Toyota Corolla	350,208	139,850	210,358	201,720	(8,638)	Dr. Farrukh Amir Jamil
Toyota Corolla	496,128	189,190	306,938	306,938	-	Aslam Hafiz
Suzuki Mehran	197,351	123,252	74,099	229,680	155,581	Qasim Munir
Suzuki Mehran	152,064	85,886	66,178	-	(66,178)	M. Altaf Khattak
Suzuki Mehran	152,064	85,886	66,178	-	(66,178)	Nasar Athar
Suzuki Mehran	319,488	169,542	149,946	149,946	-	Faheem -ud-din Khan
Suzuki Mehran	145,545	66,369	79,176	-	(79,176)	Qamar-ul-Islam
Suzuki Mehran	178,731	54,662	124,069	279,603	155,534	Jawad Naeem
Suzuki Mehran	172,672	45,470	127,202	239,608	112,406	Arif Hassan
Suzuki Mehran	172,672	47,916	124,756	236,084	111,328	Khalid Mehmood Khan
Suzuki Mehran	172,672	50,363	122,309	238,087	115,778	Mohsin Naseem
Suzuki Mehran	175,104	48,591	126,513	241,440	114,927	Shahid Ghafoor
Suzuki Mehran	167,786	34,396	133,390	245,864	112,474	Sheikh Zia-ul-Islam
Suzuki Mehran	167,787	41,807	125,980	243,897	117,917	Dr. Daim Khan
Suzuki Mehran	172,186	22,957	149,229	251,614	102,385	Arshad Manzoor
Suzuki Mehran	175,104	-	175,104	267,552	92,448	Zubair Ahmed Mirza
Suzuki Mehran	219,995	-	219,995	276,997	57,002	Dr. Noreen Akram
Suzuki Mehran	192,978	-	192,978	267,349	74,371	Raheela Khan
Suzuki Khyber	152,387	99,332	53,055	-	(53,055)	Muhammad Shafique Ansari
Suzuki Cultus	246,400	50,512	195,888	359,268	163,380	Dr. Adeel Abbas
Suzuki Cultus	269,952	13,498	256,454	405,372	148,918	Muhammad Wasim Wafa
Suzuki Cultus	269,952	-	269,952	412,475	142,523	Kamran Zafar Muggoo
Suzuki Cultus	315,456	-	315,456	436,738	121,282	Dr. Iram Bano Tariq
Suzuki Cultus	449,175	-	449,175	507,812	58,637	Dr. Habib ullah Mazhar
Honda CD -70	58,500	13,910	44,590	58,500	13,910	Muhammad Rizwan-ur-Rehman
Honda CD -70	33,792	6,430	27,362	40,324	12,962	Niaz Ullah
Honda CD -70	33,318	1,666	31,652	68,500	36,848	Shahzad Mehmood
Honda CD -70	33,318	1,666	31,652	62,820	31,168	M Amir Raza
Honda CD -70	45,386	-	45,386	59,083	13,697	Shah Hussain
Honda CD -70	47,493	-	47,493	69,286	21,793	Muhammad Asif
Honda CD -70	49,320	-	49,320	68,500	19,180	Shakeel Awan
Honda CD -70	33,318	-	33,318	68,500	35,182	Yasin Rauf
Honda CD -70	50,944	-	50,944	61,708	10,764	M. Khalid Hussain
Honda CD -70	51,838	-	51,838	59,958	8,120	Syed Israr Hussain Zaidi
Honda CD -70	41,952	-	41,952	68,500	26,548	Wasim Iqbal
Others through negotiation						
Toyota Corolla	174,080	62,669	111,411	210,000	98,589	Zeeshan Akber Chaudhury
Suzuki Mehran	171,520	67,236	104,284	275,000	170,716	Abid Rashid
Suzuki Bolan	213,743	83,787	129,956	273,000	143,044	Abid Rashid
Suzuki Bolan	352,768	145,811	206,957	375,000	168,043	Justice Sajjad Ahmed Sipra
Insurance Claims						
Suzuki Mehran	272,892	-	272,892	325,000	52,108	Reliance Insurance Company Ltd
Suzuki Mehran	283,617	-	283,617	329,771	46,154	Reliance Insurance Company Ltd
Honda Civic	487,526	63,378	424,148	800,000	375,852	Reliance Insurance Company Ltd
Honda CD -70	49,320	-	49,320	48,213	(1,107)	Reliance Insurance Company Ltd
Honda CD -70	49,320	-	49,320	48,212	(1,108)	Reliance Insurance Company Ltd
Honda CD -70	31,565	-	31,565	42,000	10,435	Reliance Insurance Company Ltd
Honda CD -70	31,565	-	31,565	42,000	10,435	Reliance Insurance Company Ltd
Aggregate of other Items of office equipment with individual book value not exceeding Rs. 50 thousands						
Mobiles	59,310	11,687	47,623	42,650	(4,973)	Universal Insurance Company Ltd
Rupees : 2004	8,140,262	1,827,719	6,312,543	9,294,569	2,982,026	
Rupees : 2003	5,150,833	2,158,506	2,992,327	5,290,348	2,298,021	

	Note	2004 Rupees	2003 Rupees
18.2 CAPITAL WORK - IN - PROGRESS			
Civil works		3,102,396	648,448
Plant and machinery- owned		2,707,795	1,672,062
ERP system implementation	18.2.1	1,322,309	-
		7,132,500	2,320,510

18.2.1 This includes the financial charges of related lease liability of HNL amounting to Rs. 480,451.

19. INTANGIBLE ASSETS

Registration and trademark	19.1	47,094,117	-
Less: amortization for the year	28	(392,451)	-
		46,701,666	-

19.1 This represent the purchase of Registration and Trademark of brand "Tres Orix Forte" by HNL for the territory of Pakistan and Kenya from M/s Almira Prdoesfarma, Spain for consideration of 500,000 Euros net of local taxes. (Also refer Note 8)

20. LONG TERM INVESTMENTS

Available for sale - listed company - at fair value

Accord Textiles Limited

Nil (2003: 10,000) ordinary shares of Rs. 10 each

Add: Appreciation in value of investment

	-	10,000
	-	17,500
	-	27,500

21. STORES, SPARES AND LOOSE TOOLS

Stores		4,767,637	4,014,191
Pallets		28,850	-
Less: Deterioration of pallets	30	3,005	-
		25,845	-
Spares		367,466	367,466
Loose tools		265,500	265,500
		5,426,448	4,647,157
Less: Provision for slow moving items	29	632,966	-
		4,793,482	4,647,157

	Note	2004 Rupees	2003 Rupees
22. STOCK IN TRADE			
Raw materials			
In hand		32,212,230	26,881,715
In pledge		105,391,234	58,316,586
In transit		-	25,273,958
		137,603,464	110,472,259
Packing and promotional material			
In hand		20,871,923	17,972,097
In pledge		4,127,907	1,721,145
With third party		500,593	48,790
		25,500,423	19,742,032
Work in process		33,292,170	37,232,046
Finished goods			
In hand		65,027,523	39,849,813
In pledge		20,596,695	28,572,136
In transit		1,184,088	-
		86,808,306	68,421,949
		283,204,363	235,868,286
23. TRADE DEBTS - Considered good			
Secured - against letters of credit		5,132,160	2,156,982
Unsecured			
Due from related party			
Associated - Route 2 (Private) Limited		2,640,726	2,640,726
Others	23.1	14,858,222	17,964,223
		22,631,108	22,761,931

23.1 Included therein a balance of Rs. 3,648,493 (2003: Rs. 6,720,843) on which mark-up at the rate of 12% (2003: 15%) per annum is being charged by HNL due to late payment.

23.2 The maximum aggregate amount due from associated undertaking was Rs. 2.641 (2003: Rs. 2.641) million.

	Note	2004 Rupees	2003 Rupees
24. ADVANCES, DEPOSITS AND PREPAYMENTS			
Advances - considered good			
Staff against:			
Expenses		3,260,645	2,918,583
Salary			
Executives	24.1	-	31,004
Other employees		100,538	12,469
Suppliers	24.2	12,731,875	15,213,381
Letters of credit		10,124,277	285,522
Deposits			
Securities		4,036,389	3,785,058
Bank guarantee margin		457,907	457,892
Prepayments		3,548,905	3,354,035
		34,260,536	26,057,944

24.1 The maximum aggregate amount of advances due from executives at the end of any month during the year was Rs. Nil (2003: Rs. 0.337 million).

24.2 This includes an advance of Rs. 80,710 (2003: Rs. Nil) to associated undertaking Rout 2 (Private) Limited for purchase of goods. The maximum aggregate amount due from associated undertaking at the end of any month during the year was Rs. 80,710 (2003: Rs. Nil)

25. OTHER RECEIVABLES - considered good

Claim receivable		438,180	41,944
Duty draw back		593,250	97,007
Due from associated undertaking - Route 2 (Private) Limited	25.1	504,469	504,469
Sales tax	25.2	1,632,832	3,780,002
Others	25.3	43,907,569	44,769,150
		47,076,300	49,192,572

25.1 The maximum aggregate amount of advance due from associated undertaking at the end of any month during the year was Rs. 0.504 (2003: Rs. 0.504) million.

25.2 This represents the amount deposited for grant of stay against demand of sales tax/excise duty paid by HNL under protest to sales tax department.

25.3 This includes Rs. 42.986 (2003: Rs. 40.075) million receivable from foreign principals against sale compensation and reimbursement of promotional expenses of the HNL.

	2004 Rupees	2003 Rupees
26. CASH AND BANK BALANCES		
Cash and imprest	2,534,851	912,906
Balance with banks on:		
Current accounts		
Local currency	22,057,360	22,701,418
Foreign currency	88,063	97,105
	22,145,423	22,798,523
Cheques in hand	956,775	-
	25,637,049	23,711,429
27. SALES - net		
Manufactured products		
Local	1,001,035,215	874,124,871
Export	36,399,427	25,880,375
	1,037,434,642	900,005,246
Purchased products		
Local	28,440,826	34,794,493
Export	-	1,350,648
	28,440,826	36,145,141
Sales compensation	20,557,800	12,623,765
Third party (toll manufacturing)	21,359,414	9,445,545
	41,917,214	22,069,310
	1,107,792,682	958,219,697
Less: Discount	81,410,935	72,239,244
Sales tax	1,227,864	805,888
	82,638,799	73,045,132
	1,025,153,883	885,174,565

28. COST OF SALES	Note	2004 Rupees	2003 Rupees
Raw and packing material consumed		553,741,778	479,354,722
Salaries, wages and benefits	28.1	49,264,363	41,945,462
Vehicle running and maintenance		6,219,814	5,363,547
Fuel and power		11,144,561	9,259,718
Stores consumed		2,028,170	1,156,506
Repair and maintenance		7,182,770	6,307,672
Insurance		1,918,492	1,809,795
Deterioration in stores, spares and loose tools		-	59,135
Rent, rates and taxes		488,830	450,000
Fee and subscription		1,423,797	1,120,151
Printing and stationery		1,034,505	973,964
Other direct cost		3,867,468	4,165,730
Depreciation	18.1.2	30,757,674	25,074,220
Amortization of intangible assets	19	392,451	-
Total cost incurred		669,464,673	577,040,622
Inventory effect of work in process			
Opening		37,232,046	21,474,142
Closing		(33,292,170)	(37,232,046)
		3,939,876	(15,757,904)
Cost of goods manufactured		673,404,549	561,282,718
Less: Cost of samples		21,729,342	25,965,904
		651,675,207	535,316,814
Inventory effect of finished goods			
Opening		56,905,593	50,286,984
Closing		(73,537,569)	(56,905,593)
		(16,631,976)	(6,618,609)
Cost of goods sold - Manufactured		635,043,231	528,698,205
Less: Duty drawback		803,126	264,636
Cost of goods sold - Manufactured items		634,240,105	528,433,569
Cost of goods sold - Purchased products		16,173,710	18,377,591
Cost of goods sold		650,413,815	546,811,160

	Note	2004 Rupees	2003 Rupees
28.1 It includes the following staff retirement benefits:			
Defined benefit plans - Gratuity		1,983,219	1,788,712
Defined contribution plans - Provident Fund		1,432,530	1,155,952
29. ADMINISTRATIVE AND GENERAL			
Salaries and benefits	29.1	55,172,459	46,200,252
Telephone, postage and telex		2,361,690	2,012,623
Rent, rates and taxes		3,165,012	2,336,921
Electricity, gas and water		459,478	319,763
Printing and stationery		2,472,644	1,641,814
Repairs and maintenance		4,149,001	2,920,719
Vehicle running and maintenance		8,637,193	5,580,343
Traveling and conveyance		6,146,604	3,145,703
Newspapers and subscriptions		4,295,045	4,096,122
Entertainment		506,456	381,174
Insurance		1,567,066	989,154
Auditors' remuneration	37	570,000	571,500
Legal and professional		864,846	1,124,988
Advertisement		679,799	1,224,680
Donation	29.2	733,300	260,000
Provision for slow moving store items	21	632,966	-
Others		1,050,513	426,626
Depreciation	18.1.2	8,514,172	5,078,423
		101,978,244	78,310,805
29.1 It includes the following staff retirement benefits:			
Defined benefit plans - Gratuity		5,992,681	3,175,905
Defined contribution plans - Provident Fund		1,566,184	1,420,084
29.2 None of the directors or their spouses have any interest in the donees' fund.			

	Note	2004 Rupees	2003 Rupees
30. DISTRIBUTION, SELLING AND PROMOTIONAL			
Salaries and benefits	30.1	93,478,588	69,624,534
Advertisement		517,746	4,332,905
Electricity, gas and water		124,677	657,059
Rent, rates and taxes		2,782,215	1,909,600
Entertainment		202,923	170,276
Promotional expenses and samples		71,363,767	56,463,128
Printing and stationery		2,452,523	1,567,437
Traveling and conveyance		50,774,645	40,136,228
Telephone, postage and telegram		3,015,992	2,332,839
Insurance		1,627,298	1,378,121
Vehicle running and maintenance		8,124,072	5,718,771
Donation	30.2	340,000	401,000
Freight and octroi		4,273,533	3,308,499
Seminars and symposia		3,328,481	3,709,679
Manpower training		2,802,930	139,205
Others		2,053,510	3,818,345
Deterioration in Pallets	21	3,005	-
Depreciation	18.1.2	7,395,367	4,501,746
		254,661,272	200,169,372
Less: Reimbursement from foreign principals		61,673,400	37,871,202
		192,987,872	162,298,170
30.1 It includes the following staff retirement benefits:			
Defined benefit plans - Gratuity		4,629,688	2,763,659
Defined contribution plans - Provident Fund		2,446,495	2,056,476
30.2 None of the directors or their spouses have any interest in the donees' fund.			
31. FINANCIAL CHARGES			
Mark-up on:			
Short term bank borrowings		10,239,362	17,056,909
Long term loan		564,878	1,104,403
Lease finance charges		8,271,255	10,835,237
Interest on Workers' Profit Participation Fund	13.1	953,540	609,714
Interest on balance payable to Provident Fund		-	736,412
Bank charges		2,078,420	1,544,823
		22,107,455	31,887,498

	Note	2004 Rupees	2003 Rupees
32. RESEARCH AND DEVELOPMENT			
Salaries and benefits		727,596	971,788
Expenses on clinical trials and products evaluation		1,039,169	918,093
Traveling		1,219,210	1,138,355
Insurance		2,616	28,562
Vehicle repair and maintenance		40,005	291,373
Printing and stationery		6,881	46,815
Office supplies		56,021	95,068
Repair and maintenance		13,833	85,111
Staff cost		280,100	43,131
Others		120,400	146,234
		3,505,831	3,764,530
33. OTHER OPERATING INCOME			
Income from financial assets			
Profit on sale of investments		2,648	-
Interest income		965,079	1,274,168
Appreciation in the value of investment		-	17,500
Exchange gain on currency fluctuations		-	17,298
Income from non-financial assets			
Gain on sale of property, plant and equipment		2,982,026	2,298,021
Amortization of deferred gain	12	4,099,536	1,795,246
Credit balances written back		1,631,860	-
Others		364,994	207,090
		10,046,143	5,609,323
34. OTHER CHARGES			
Workers' Profit Participation Fund	13.1	3,932,445	3,385,586
Exchange loss on currency fluctuations		379,488	-
Workers' Welfare Fund		1,154,281	808,754
Central Research Fund			
Prior years		2,667,331	-
Current year		640,300	-
		3,307,631	-
		8,773,845	4,194,340

	2004 Rupees	2003 Rupees
35. TAXATION		
Current		
- for the year		
HNL	21,597,335	15,251,121
DSL	524,459	-
- for prior years - HNL	-	2,841,187
	22,121,794	18,092,308
Deferred	12,003,042	9,373,094
	34,124,836	27,465,402

35.1 Tax charge reconciliation

Numerical reconciliation between the average effective tax rate and the applicable tax rate of HNL is as follows:

	2004 %age	2003 %age
Applicable tax rate	35.00	35.00
Tax effect of amounts that are not deductible for tax purposes	26.22	21.25
Tax effect of amounts that are deductible for tax purposes	(14.32)	(3.58)
Tax effect of intra group transactions	14.53	-
Tax effect of amounts relating to Prior years	-	4.47
Tax effect under presumptive tax regime	(0.82)	(13.90)
	25.61	8.24
	60.61	43.24

Tax charge relating to DSL represents minimum turnover tax under the Income Tax Ordinance 2001, hence numerical tax reconciliation has not been prepared and presented.

36. EARNINGS PER SHARE - Basic and Diluted

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

Profit after taxation	Rupees	21,308,128	36,051,983
Weighted average number of ordinary shares		10,143,952	10,143,952
Earnings per share	Rupees	2.10	3.55

2004
Rupees 2003
Rupees

37. AUDITORS' REMUNERATION

Statutory audit including audit of consolidated accounts	385,000	275,000
Fee for review of half year financial statements	125,000	150,000
Other services (including certificates, audit of provident fund, Workers' Profit Participation Fund, etc.)	-	104,500
Out of pocket	60,000	42,000
	570,000	571,500

38. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

	Year Ended 31 December 2004			Year Ended 31 December 2003		
	Rupees			Rupees		
	Chief Executive	Directors	Executives	Chief Executive	Directors	Executives
Managerial remuneration	3,352,200	8,318,550	9,715,457	2,992,200	7,692,600	32,276,209
House allowance	-	-	1,626,343	-	-	11,042,222
Provident fund	279,384	304,380	810,036	249,396	274,392	2,485,222
Gratuity	1,165,650	1,404,725	1,753,207	738,196	1,502,498	3,586,231
Bonus	279,350	686,600	809,621	249,350	573,700	2,516,979
Utilities	625,738	1,437,817	763,200	411,288	1,441,796	3,822,711
Medical	381,723	1,100,475	513,895	159,433	1,761,423	924,667
Others	-	39,125	-	600,000	1,310,251	-
	6,084,045	13,291,672	15,991,759	5,399,863	14,556,660	56,654,241
Number	1	3	5	1	3	121

Pursuant to recent amendment in the Fourth Schedule to the Companies Ordinance, 1984, executive means an employee, whose basic salary exceeds Rs. 500,000 (2003: Rs. 100,000) in a financial year.

The Chief Executive, Directors and 5 executives (2003: 15) have been provided with Company's maintained cars while no (2003: 70) executives have been provided with cars under self finance scheme with limited fuel and maintenance facility.

Free furnished accommodation has been provided to the Chief Executive, Directors and 4 (2003: 4) executives.

No remuneration was paid to the Chief Executive and directors of DSL during the year.

No fee has been paid to any director except for Rs. 3,000 (2003: Rs. 3,000) paid to an independent non executive director for attending Board meetings.

39. NUMBER OF EMPLOYEES

Number of employees as on balance sheet date were 976 (2003: 642).

40. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

	Year Ended 31 December 2004						Total
	Interest Bearing			Non-Interest Bearing			
	Less than one year	One to five years	Sub-Total	Less than one year	One to five years	Sub-Total	
	-----Rupees-----						
Financial assets:							
Long term deposits	-	-	-	-	1,027,765	1,027,765	1,027,765
Trade debts	3,648,493	-	3,648,493	18,982,615	-	18,982,615	22,631,108
Advances and deposits	-	-	-	4,494,296	-	4,494,296	4,494,296
Other receivables	-	-	-	44,412,038	-	44,412,038	44,412,038
Cash and bank balances	-	-	-	25,637,049	-	25,637,049	25,637,049
Rupees	3,648,493	-	3,648,493	93,525,998	1,027,765	94,553,763	98,202,256
Financial liabilities:							
Long term liability	-	-	-	14,241,177	18,988,235	33,229,412	33,229,412
Liabilities against assets subject to finance lease	42,174,155	56,886,319	99,060,474	-	-	-	99,060,474
Trade and other payables	-	-	-	45,387,765	-	45,387,765	45,387,765
Markup payable on secured loans	-	-	-	2,494,512	-	2,494,512	2,494,512
Short term bank borrowings	249,910,368	-	249,910,368	-	-	-	249,910,368
Rupees	292,084,523	56,886,319	348,970,842	62,123,454	18,988,235	81,111,689	430,082,531
Excess of financial assets over financial liabilities	(288,436,030)	(56,886,319)	(345,322,349)	31,402,544	(17,960,470)	13,442,074	(331,880,275)
On balance sheet Gap Off-balance sheet Items							
Bank guarantees				8,841,000		8,841,000	8,841,000
Irrevocable letters of credit				43,449,966		43,449,966	43,449,966
Rupees	-	-	-	52,290,966	-	52,290,966	52,290,966

Year Ended 31 December 2003						
Interest Bearing			Non-Interest Bearing			Total
Less than one year	One to five years	Sub-Total	Less than one year	One to five years	Sub-Total	
-----Rupees-----						
Financial assets:						
Long term investments	-	-	-	27,500	27,500	27,500
Long term deposits	-	-	-	408,765	408,765	408,765
Trade debts	6,720,843	-	6,720,843	16,041,088	-	16,041,088
Advances and deposits	-	-	-	4,242,950	-	4,242,950
Other receivables	-	-	-	45,273,619	-	45,273,619
Cash and bank balances	-	-	-	23,711,429	-	23,711,429
Rupees	6,720,843	-	6,720,843	89,269,086	436,265	89,705,351
Financial liabilities:						
Long term loan	4,913,059	-	4,913,059	-	-	4,913,059
Liabilities against assets subject to finance lease	39,582,204	38,643,959	78,226,163	-	-	78,226,163
Trade and other payables	-	-	-	49,921,527	-	49,921,527
Markup payable on secured loans	-	-	-	3,050,349	-	3,050,349
Short term bank borrowings	187,947,344	-	187,947,344	-	-	187,947,344
Rupees	232,442,607	38,643,959	271,086,566	52,971,876	-	52,971,876
Excess of financial assets over financial liabilities	(225,721,764)	(38,643,959)	(264,365,723)	36,297,210	436,265	36,733,475
On balance sheet Gap		(264,365,723)	(264,365,723)		36,733,475	36,733,475
Off-balance sheet Items						
Bank guarantees				8,841,000	8,841,000	8,841,000
Irrevocable letters of credit				37,010,197	37,010,197	37,010,197
Rupees	-	-	-	45,851,197	-	45,851,197

Effective interest rates for the monetary financial assets and liabilities are mentioned in the respective notes to the consolidated financial statements.

40.1 Financial risk management objectives

The Group companies activities expose them to a variety of financial risks, including the effects of changes in market rates, credit and liquidity risk associated with various financial assets and liabilities respectively as referred to in Note 40 and cash flow risk associated with accrued interests in respect of borrowings as referred to in Note 15.

The Group companies finance their operations through equity, borrowings and management of working capital with a view of maintaining a reasonable mix between the various sources of finances to minimise risk. Taken as a whole, risk arising from the Group companies financial instruments is limited as there is no significant exposure to market risk in respect of such instruments.

(a) Concentration of Credit Risk

Credit risk represents the accounting loss that would be recognised at the reporting date if counter parties failed completely to perform as contracted. The Group companies credit risk is primarily attributable to its trade debts and its balances with banks. The credit risk on liquid funds is limited because the credit risk associated with trade debts of the Group Companies are controlled through management of approved credit limit for all its customers and as such is not exposed to major concentration of credit risk.

(b) Currency Risk

Currency risk is the risk that the values of a financial instrument will fluctuate due to changes in foreign exchange rate. Currency risk arises mainly where receivables and payables exist due to transactions with foreign buyers and suppliers. The Group companies do not hedge the payables, however, the risk of exposure is mitigated by matching the maturity periods of foreign currency receivables and payables.

(c) Interest Rate Risk

Interest rate risk is the risk that the values of financial instruments will fluctuate due to changes in market interest rates. The Group companies usually manage mis-matches through risk management strategy where significant change in Gap position can be adjusted.

(d) Liquidity Risk

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

40.2 Fair value of Financial Instruments.

The carrying values of the Group's financial assets and liabilities reflected in the financial statements approximate their fair values.

	2004	2003	Restated 2004	Restated 2003
	Rupees		Rupees	
41. PROFORMA INFORMATION	ACTUAL		PROFORMA	
STATEMENT OF RETAINED EARNINGS				
Opening balance as at 01 January	404,642	407,630	404,642	407,630
Effect of change in accounting policy as referred to in Note 4.18 to the financial statements				
Dividends 2003: Rs. 2.5 (2002: Rs. 1.5) per share	-	-	25,359,880	13,832,663
Opening balance as at 01 January (Restated)	404,642	407,630	25,764,522	14,240,293
Transfer from surplus on revaluation of assets	7,575,614	5,304,899	7,575,614	5,304,899
Transfer from reserve for issuance of bonus shares	-	10	-	10
Profit for the year	21,308,128	36,051,983	21,308,128	36,051,983
Transfer to general reserve	-	(16,000,000)	-	(16,000,000)
Dividend for the year	-	(25,359,880)	(25,359,880)	(13,832,663)
Closing balance as at 31 December	29,288,384	404,642	29,288,384	25,764,522

42. RELATED PARTY TRANSACTIONS

Related parties comprise of directors, key management personnel and entities over which, the company is able to exercise significant influence over the operating and financial decision making and employee's provident fund. Amount due from and due to related parties are shown under respective notes to the financial statements.

	2004 Rupees	2003 Rupees
42.1 Route 2 (Private) Limited - Associated Undertaking		
Rent Received	2,172,000	-
42.2 Staff Provident Fund Trust		
Payments to the HNL Staff Provident Fund	16,723,922	10,754,455
42.3 Vehicles are sold to key employees of HNL at written down value as approved by the Board of Directors. Transactions during the year with those key employees are as follows:		

Name of Related Party, Relationship	Year Ended 31 December 2004		
	Market Price Rupees	Transaction Value Rupees	Price Difference Rupees
Aslam Hafiz, Executive Director (Marketing)	700,000	238,087	461,913

The impact net of tax on profit , equity and cash flows was Rs. 255,490.

Name of Related Party, Relationship	Year Ended 31 December 2003		
	Market Price Rupees	Transaction Value Rupees	Price Difference Rupees
Anees Ahmad Khan, Chief Executive	400,000	144,389	(255,611)
Khadim Hussain Mirza, Company Secretary	300,000	129,093	(170,907)
	700,000	273,482	(426,518)

The impact net of tax on profit , equity and cash flows was Rs. 277,327.

43. DIVIDEND AND BONUS SHARES

For the year ended 31 December 2004, the Board of Directors of the HNL in its meeting held on 22 March 2005 have proposed cash dividend at the rate of Rs 1.50 (2003: Rs. 2.5) per share and 12 bonus share (2003: Nil) for each 100 share.

44. PLANT CAPACITY AND PRODUCTION

The capacity and production of HNL's plant is indeterminable as it is a multi-product plant involving varying processes of manufacture.

45. DATE OF AUTHORISATION OF ISSUE

The Board of Directors of HNL authorised the consolidated financial statements for issuance on 22 March 2005.

46. GENERAL

- Figures have been rounded off to the nearest rupee.
- Corresponding figures are not comparable as these relate to HNL operations only.

MIAN AHSON FAROOQ
DIRECTOR

ANEES AHMAD KHAN
CHIEF EXECUTIVE

Form of Proxy

FOLIO NO. _____

I / We _____
of _____ District _____ being
a member of **H I G H N O O N L A B O R A T O R I E S L I M I T E D**
and holder of _____ ordinary shares, entitled to vote, hereby appoint
_____ of _____
or _____ of _____ who is

also a member of the Company, as my/our proxy to attend and vote on my/our behalf at the Annual General Meeting of the Company to be held at Registered Office, 17.5 K.M. Multan Road, Lahore on April 27, 2005 at 10.00 a.m. and at any adjournment thereof.

As witness my/our hand(s) this _____ day of _____ 2005.

(Witness's Signature)

(Member's Signature)

Affix Revenue
Stamp of Rs.5/-

Date _____

Place _____

Note:

1. This form of Proxy, in order to be effective, must be deposited duly completed, at the Company's Registered Office at 17.5 K.M., Multan Road, Lahore not less than 48 hours before the time of holding the meeting.
2. A Proxy must be a member of the Company. Signature should agree with the specimen registered with the Company.