Balance Sheet

As at June 30, 2005

	Note	2005	2004 (Restated)
		(Rupees '000)	
ASSETS			
NON CURRENT ASSETS			
Fixed assets			
- Property, plant and equipment	3	**2,014,013**	1,466,889
- Intangible assets	4	**125,073**	70,549
		2,139,086	1,537,438
Investment in a subsidiary company	5	**1**	1
Long term loans	6	**1,407**	2,202
Long term deposits and prepayments	7	**14,070**	8,628
		2,154,564	1,548,269
CURRENT ASSETS			
Stores and spares	8	**102,868**	99,126
Stock-in-trade	9	**1,104,197**	1,466,210
Trade debts	10	**769,861**	20,657
Loans and advances	11	**79,140**	32,794
Prepayments		**13,368**	103,291
Profit accrued		**8,813**	1,130
Other receivables	12	**58,389**	78,322
Short term investments	13	**-**	88,367
Cash and bank balances	14	**1,401,661**	1,584,244
		3,538,297	3,474,141
TOTAL ASSETS		**5,692,861**	5,022,410
EQUITY AND LIABILITIES			
SHARE CAPITAL AND RESERVES			
Share capital	15	**513,169**	513,169
Reserves		**2,041,000**	1,403,000
Unappropriated profit		**1,591,322**	1,177,465
		4,145,491	3,093,634
Surplus on revaluation of fixed assets - net of tax	16	**8,273**	13,656
NON CURRENT LIABILITIES			
Deferred taxation	17	**174,078**	157,500
CURRENT LIABILITIES			
Trade and other payables	18	**544,739**	639,684
Provision for taxation		**384,970**	214,843
Sales tax payable		**98,304**	100,085
Provisions	19	**337,006**	803,008
		1,365,019	1,757,620
CONTINGENCIES AND COMMITMENTS	20	**-**	-
TOTAL EQUITY AND LIABILITIES 5,692,861			5,022,410

The annexed notes from 1 to 39 form an integral part of these financial statements.

Iqbal Ali Lakhani
Chairman & Chief Executive

Shahid Ahmed Khan
Director

Cash Flow Statement

For the year ended June 30, 2005

	Note	20052004	
		(Rupees '000)	
CASH FLOW FROM OPERATING ACTIVITIES			
Cash generated from operations	32	**2,155,986**	2,759,738
Financial charges paid		**(9,079)**	(21,955)
Taxes paid		**(700,454)**	(452,788)
Long-term loans		**795**	403
Long-term deposits and prepayments (net)		**(445)**	29,870
Net cash inflow from operating activities		**1,446,803**	2,315,268
CASH FLOW FROM INVESTING ACTIVITIES			
Fixed capital expenditure		**(1,128,533)**	(683,737)
Proceeds from sale of fixed assets		**18,810**	10,143
Purchase of short-term investments		**-**	(114,608)
Proceeds from sale of investments		**88,367**	25,044
Income received from short-term deposits		**30,252**	22,329
Net cash outflow on investing activities		**(991,104)**	(740,829)
CASH FLOW FROM FINANCING ACTIVITIES			
Repayment of liabilities against assets subject to finance leases		**-**	(161,925)
Dividends paid		**(638,282)**	(464,057)
Net cash outflow on financing activities		**(638,282)**	(625,982)
Net (decrease) / increase in cash and cash equivalents		**(182,583)**	948,457
Cash and cash equivalents at the beginning of the year		**1,584,244**	635,787
Cash and cash equivalents at the end of the year	14	**1,401,661**	1,584,244

The annexed notes from 1 to 39 form an integral part of these financial statements.

Iqbal Ali Lakhani
Chairman & Chief Executive

Shahid Ahmed Khan
Director

DIRECTORS' REPORT

For the year ended June 30, 2005

DEAR SHAREHOLDERS

The Board of Directors of Lakson Tobacco Company Limited takes pleasure in presenting the Annual Report and the Audited Financial Statements of the Company together with Auditors' Report for the year ended June 30, 2005.

PROFITABILITY PERFORMANCE

The analysis of key operating results for the current year and comparison with the results of the previous year are given below:

Financial Indicators	**2005**	2004
	(Rupees in million)	
Turnover	**20,585**	17,308
Gross Profit	**4,080**	3,149
Operating Profit	**2,581**	1,948
Profit before Tax	**2,572**	1,929
Profit after Tax	**1,685**	1,277

Operating Profit, at Rs. 2,581 million, is a 32% increase over last year. Substantial improvements were achieved in Profit Before Taxation and Profit After Taxation over last year.

The Company has been able to achieve growth in all areas. The improved performance is attributed to higher sales volume, better brand mix, improved margins and control over costs and overheads through various initiatives.

EARNINGS PER SHARE

Earnings per share (EPS) improved from Rs. 24.90 to Rs. 32.84 - 32% higher than the previous year.

SALES PERFORMANCE

The Company achieved a significant growth in sales which is 19% higher than the same period last year. This sales growth was achieved across all brands.

In order to forestall speculative purchases by the market before the announcement of the Federal Budget, certain extra supplies were made to the trade. These volumes and their respective excise duty and sales tax payments appearing in the month of June 05 were adjusted through reduced supplies made in July and the 1st half of August 05.

We appreciate the support provided by the Government to the organised sector of the industry.

COST OF SALES

The Company embarked upon various initiatives during the year to improve efficiency in all areas of the business, resulting in considerable reductions in costs. The overall cost of goods sold decreased by 1.6% over the last year.

OPERATING AND OTHER COST

The ratio of distribution and marketing expenses to sales is the same as that of last year, despite a 19% increase in the total sales.

The Company places a high value in having achieved systems and processes to ensure quality and flexibility that meets with the upcoming challenges. The Company implemented the renowned business solution – SAP this year. The increase in administrative expenses is attributed to SAP implementation.

The improvement in profitability had a consequential positive impact on internal cash generation from operations which was sufficient to meet the short-term working capital requirements without the need for funding from external sources.

Efficient working capital management helped the Company to reduce the financial charges in 2005, however the continuation of this situation in 2005-06 will depend on several factors.

INVESTMENTS

Your Company has been investing on a continuous basis and during the year under review capital expenditure stood at Rs 1.129 billion. These investments have enabled your Company to grow in size and become ready to face the challenges of the future and also utilize opportunities.

The Company's commitment to deliver quality products that meet diverse consumer preferences was a result of continued spend on Balancing, Modernizing and Automating of its manufacturing facilities including – Rs. 742 million spent on plant and machinery out of the total capital expenditure.

These investments are in line with the Company's policy to maintain the status of a key player in the tobacco industry.

DIVIDEND

In view of the improved performance of the Company this year, the Board is pleased to recommend a final dividend @ 145% over and above the interim dividend declaration of 20% in December 2004, subject to the approval of shareholders in the Annual General Meeting. The dividend distribution for the year at 165% amounts to Rs. 846.730 million and represents a payout of 50.25 % of the net profit after tax for the year.

Dividends are now required to be recognized as a liability at the time of their declaration rather than at the balance sheet date. Therefore, the appropriation for the final dividend for the year 2005 will be reflected in the financial statements for the year 2006. However, this accounting treatment change will not affect the final dividend payment and it will be paid in time subject to approval of shareholders.

APPROPRIATION OF PROFIT

Profit for the year has been appropriated as follows:

	2005	2004
	(Rupees 000's)	
Profit before taxation	**2,571,950**	1,929,107
Taxation	**886,913**	651,363
Profit after taxation	**1,685,037**	1,277,744
Un-appropriated profit brought forward	**637**	2,013
Transfer from surplus on revaluation of fixed assets	**8,282**	342
Profit available for appropriation	**1,693,956**	1,280,099
Appropriations:		
Interim dividend @ Rs.2.00 (2004: Rs. 2.00) per Ordinary share of Rs: 10/- each	**102,634**	102,634
Proposed cash dividend @ Rs: 14.50 (2004: Rs: 10.50) per Ordinary share of Rs: 10/- each	**744,096**	538,828
	846,730	641,462
Transfer to general reserve	**839,000**	638,000
	1,685,730	1,279,462
Un-appropriated profit carried forward	**8,226**	637

CONTRIBUTION TO NATIONAL EXCHEQUER

Your Company contributes substantially to the national economy in terms of taxes and duties and the contribution is increasing as the Company grows. This year the Company contributed Rs. 12 billion to the national exchequer in the form of Central Excise Duty, Sales Tax, Custom Duties, Income Tax etc. (exclusive of taxes paid by the employees).

EXPORTS

The Company has made continuous effort to increase the export volume of Cigarettes and Tobacco and has earned valuable foreign exchange amounting to Rs. 367 million, an increase of 38% over last year.

SAP IMPLEMENTATION

The Company undertook a mammoth task in 2005 to replace the existing Enterprise Resource Planning system with the world renowned business solution - SAP (System, Application & Products in Data Processing) which is the world's leading system. SAP went live in the first week of April 2005. A smooth implementation across the organization - in a short period of 8 months - was possible through an excellent cross-functional effort by our Project team. SAP will greatly facilitate the achievement of further efficiencies in all key business processes.

COMMUNITY INVOLVEMENT

The Company's commitment to community welfare continues in the form of contributions to various sectors, like health , environment, education and social work etc.

HUMAN RESOURCES

Management and employee relations continued to remain cordial. Programs were developed to improve employee professional skills and knowledge which continued during the year for all levels of management.

The Company has taken steps to develop and enhance its Human Resources which continue to be a focal point of management's attention as the Company strives to enhance organizational capabilities to take up greater business challenges. The areas of recruitment, selection, training and Performance Management have been further improved to achieve higher employee motivation and morale, while also increasing employee productivity.

SAFETY, HEALTH CARE AND ENVIRONMENT

Your Company is committed to sustainable development through a harmonious integration of economic and social considerations. The Company has been conducting its operations to ensure the safety and health of all its employees. Your Company also demonstrates its responsibility towards the community especially in the areas of health care and national calamities. The Company continues to organize free eye camps at various locations in the country and contributes for operations of two eye hospitals, one in Swabi (NWFP) and the other at Qadirabad (Punjab).

In line with our commitment to the safety of employees, protective equipment is made available at all Company facilities as well as various training and awareness programs on such safety equipment are conducted continuously to maintain high safety standards. Your Company has been awarded the ISO 9001 certification for its Leaf Division and for its Central Analytical Services Laboratory. Furthermore, your Company has also been certified with ISO 14001 for its Green Leaf Threshing plant.

CORPORATE GOVERNANCE

The Directors are pleased to state that all the necessary steps have been taken to comply with the requirements of the Code of Corporate Governance as required by Securities & Exchange Commission of Pakistan (SECP).

Following are the Statements on Corporate and Financial Reporting Frame Work:

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

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

- Appropriate accounting policies have been applied consistently in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.

- International Accounting Standards, as applicable in Pakistan, are followed in preparation of all financial statements.

- The Company's system of internal controls is sound in design and has been effectively implemented and continuously reviewed.

- There are no doubts upon the Company's ability to continue as a going concern.

- There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.

- The summary Key operating and financial data of last six years is annexed to these financial statements.

- Information about taxes and levies is given in the notes to the accounts.

- The values of investments of staff retirement benefits (i.e. the Provident Fund and the Gratuity Fund) according to their respective audited accounts are as follows:

	(Rupees in Million)
Provident Fund	254.57
Gratuity Fund	250.56

BOARD OF DIRECTORS

I would like to place on record my appreciation and gratitude to the Board of Directors for guidance and support to the management. There has been no change in the constitution of the Board of Directors since the annual report of 2004.

During the year, the Board of Directors held four meetings to cover its complete cycle of activities.

The attendance record of Directors is as follows:

Name of Directors	No. of meetings attended
Mr. Iqbal Ali Lakhani	3
Mr. Zulfiqar Ali Lakhani	1
Mr. Amin Mohammed Lakhani	1
Mr. E. A. Nomani	4
Mr. M. J. Jaffer	4
Mr. Tasleemuddin Ahmed Batlay	3
Mr. Nazir Hussain	-
Mr. Aziz Ebrahim	4
Mr. Shahid Ahmed Khan	3
Mr. Ramzan Ali Halani	4

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

AUDIT COMMITTEE

The Audit Committee operates according to the Terms of Reference agreed by the Board of Directors of the Company. The Terms of Reference clearly set out the role and responsibilities in accordance with the requirements of the Code of Corporate Governance issued by the Securities and Exchange Commission of Pakistan.

The Terms of Reference also provide guidelines for establishing, maintaining and reviewing internal controls in the Company. The Committee periodically reviews the financials of the Company and their compliance with the statutory and regulatory requirements. The Committee also reviews related public announcements before being approved by the Board. The Audit Committee is also responsible for selecting and recommending external auditors to the Board and reviews procedures for ensuring that the selected auditors are independent with regard to the services performed by them.

The Audit Committee is comprised of four members, of which three are non-executive directors including the Chairman of the

Committee. The Audit Committee held 4 meetings during the year. The accounts of the Company and public announcements relating to them were reviewed by the Audit Committee before approval by the Board.

COMPANY'S RECOGNITION

The Directors are pleased to state that your Company has been chosen for the sixth time among the top 25 Companies on the Karachi Stock Exchange for the financial year 2003.

PATTERN OF SHAREHOLDING

A statement of the pattern of shareholding as on June 30, 2005 is attached in the prescribed form as required under Code of Corporate Governance.

The Directors, Chief Executive Officer, Chief Financial Officer, Company Secretary, their spouses and minor children did not carry out any transaction in the shares of the Company during the year.

MATERIAL CHANGES

There have been no material changes since June 30, 2005 and the Company has not entered into any commitment which would affect its financial position at that date.

AUDITORS

The present Auditors Messers Ford Rhodes Sidat Hyder & Co, Chartered Accountants, retire at the conclusion of the meeting. Being eligible, they have offered themselves for re-appointment.

FUTURE OUTLOOK AND CHALLANGES

Pakistan is poised for a sustained growth in the future. The fundamentals are bullish with increased public sector spending, investment in industry is on the rise and higher credit intakes are all positive signs of a rising economy. We believe that consistent application of current economic policies will lead to a strong economic growth in the year ahead.

TOBACCO PRICES

For the 2005 Crop, the increase in prices is expected to range between 15 to 17 percent over the previous years Crop. This is a significant escalation and is likely to impact cost of production considerably.

During the current year, the excise duty structure of cigarettes was changed by the government in the Federal Budget, consequent to which, cigarette prices had to be increased. As a result, in the ensuing year, a higher amount of contribution to the government exchequer is expected. This will however also be dependent on the level of impact showing up on our sales volume which is effected by, among other things, the tax evaded, counterfeit, and smuggled products in all price categories. In this regard, the steps taken by the government to curtail such illegal sectors seem encouraging and we seek ongoing government support to further curtail these illicit activities.

Prospects of the Tobacco industry in general remain dependent on cigarette excise structure rationalization. We are confident that in pursuance of further economic stability, this important national industry would get an equitable share in economic prosperity through regulatory and policy adjustments.

In the future we will continue with our growth momentum, further improve upon the Company's performance and continue to deliver sustainable volumes and profits. This will however be subject to government policies not being unfavourable to the tobacco industry environment.

CONCLUSION

The Directors wish to acknowledge and appreciate the untiring efforts, dedication and commitment demonstrated by all employees and their strong performance, significant contributions and their excellent response to the challenges faced during the year. Our growth has been possible because of their enduring commitment which has ensured a sound base for the Company.

On behalf of the Directors, we are pleased to record our appreciation for our employees, distributors, suppliers, shareholders and other institutions for their trust in the management of the Company.

On behalf of the Board of Directors

IQBAL ALI LAKHANI
Chairman & Chief Executive
Karachi: August 15, 2005

Statement of Compliance with the Code of Corporate Governance

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

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

1. The Board comprises 10 Directors including CEO. The Company encourages representation of independent non-executive directors and directors representing minority interests on its Board of Directors. At present the Board includes 7 non-executive directors.

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

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

4. No casual vacancy occurred in the Board during the current year.

5. The Company has prepared a 'Statement of Ethics and Business Practices', which has been signed by all the directors and employees of the Company.

6. The Board has developed a vision statement, overall corporate strategy and significant policies of the Company. A complete record of particulars of significant policies alongwith the dates on which they were approved or amended has been maintained.

7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO and other executive directors, have been taken by the Board.

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

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

10. The Chief Financial Officer and the Company Secretary were appointed prior to the implementation of the Code of Corporate Governance. Remuneration, terms and conditions in case of future appointments on these positions will be approved by the Board. However, the appointment of head of internal audit and terms and conditions of his employment have been approved by the Board.

11. The directors' report has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.

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

13. The directors, CEO and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.

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

15. The Board has formed an audit committee. It comprises 4 members, of whom 3 are non-executive directors including the Chairman of the committee.

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

17. The Board has set-up an effective internal audit function and personnel involved are considered suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the Company and they are involved in the internal audit function on a full time basis.

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

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

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

Iqbal Ali Lakhani

IQBAL ALI LAKHANI
Chairman & Chief Executive
Karachi: August 15, 2005

Statement of Changes in Equity

For the year ended June 30, 2005

	Issued, subscribed and paid-up capital	RESERVES					Total
		Capital reserves	REVENUE RESERVES				
			General reserves	Unappro-priated profit	Sub Total		
	(Rupees in '000)						
Balance as at July 01, 2003 (as previously reported)	427,641	85,528	1,403,000	2,013	1,490,541		1,918,182
Effect of change in accounting policy (Note 2.3)							
Final dividend for the year ended June 30, 2003	-	-	-	363,495	363,495		363,495
Bonus declared for the year ended June 30, 2003	-	(85,528)	-	85,528	-		-
Appropriation for general reserve for the year ended June 30, 2003	-	-	(355,000)	355,000	-		-
Balance as at July 01, 2003 (restated)	427,641	-	1,048,000	806,036	1,854,036		2,281,677
Final dividend for the year ended June 30, 2003	-	-	-	(363,495)	(363,495)		(363,495)
Bonus share issue for the year ended June 30, 2003	85,528			(85,528)	(85,528)		-
Appropriation for general reserve for the year ended June 30, 2003	-	-	355,000	(355,000)	-		-
Interim dividend for the year ended June 30, 2004	-	-	-	(102,634)	(102,634)		(102,634)
Profit after taxation for the year ended June 30, 2004	-	-	-	1,277,744	1,277,744		1,277,744
Transfer from surplus on revaluation of fixed assets to unappropriated profit current period.	-	-	-	342	342		342
Balance as at June 30, 2004 (restated)	**513,169**	-	**1,403,000**	**1,177,465**	**2,580,465**		**3,093,634**
Balance as at July 01, 2004 (as previously reported)	513,169	-	2,041,000	637	2,041,637		2,554,806
Effect of change in accounting policy (Note 2.3)							
Final dividend for the year ended June 30, 2004	-	-	-	538,828	538,828		538,828
Appropriation of general reserve for the year ended June 30, 2004	-	-	(638,000)	638,000	-		-
Balance as at July 01, 2004 (restated)	513,169	-	1,403,000	1,177,465	2,580,465		3,093,634
Final dividend for the year ended June 30, 2004	-	-	-	(538,828)	(538,828)		(538,828)
Appropriation of general reserve for the year ended June 30, 2004	-	-	638,000	(638,000)	-		-
Interim dividend for the year ended June 30, 2005	-	-	-	(102,634)	(102,634)		(102,634)
Profit after taxation for the year ended June 30, 2005	-	-	-	1,685,037	1,685,037		1,685,037
Transfer from surplus on revaluation of fixed assets to unappropriated profit current period.	-	-	-	8,282	8,282		8,282
Balance as at June 30, 2005	**513,169**	**-**	**2,041,000**	**1,591,322**	**3,632,322**		**4,145,491**

The annexed notes from 1 to 39 form an integral part of these financial statements.

Iqbal Ali Lakhani
Chairman & Chief Executive

Shahid Ahmed Khan
Director

Notes to The Financial Statements

For the year ended June 30, 2005

1. THE COMPANY AND ITS OPERATIONS

The company was incorporated in Pakistan on February 10, 1969 as a public limited company and its shares are quoted on the Karachi and Lahore Stock Exchanges. The address of its registered office is Lakson Square Building No. 2, Sarwar Shaheed Road, Karachi, Pakistan.

The company is engaged in the manufacture and sale of cigarettes and tobacco.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 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 (IASs) as notified under the provisions of the Companies Ordinance, 1984. Wherever the requirements of the Companies Ordinance, 1984 or directives issued by the Securities and Exchange Commission of Pakistan (SECP) differ with the requirements of these standards, the requirements of the Companies Ordinance, 1984 or the requirements of the said directives take precedence.

2.2 Basis of Preparation

These financial statements have been prepared under the historical cost convention except that certain fixed assets and certain investments have been included at fair values in accordance with the recognition criteria mentioned in the relevant International Accounting Standards applicable to these assets.

2.3 Change in Accounting Policy

During the year, the Securities and Exchange Commission of Pakistan (SECP) substituted the Fourth Schedule to the Companies Ordinance 1984, which is effective from the financial year ending on or after July 05, 2004. This has resulted in the change in accounting policy pertaining to recognition of dividends and other appropriations declared subsequent to the year end. Dividends and other appropriations of profit are now recognized in the period in which these are declared. Till the previous year, dividends declared and appropriations made after the balance sheet date but before the authorization of financial statements for issue, were recognized as of the balance sheet date. The change in accounting policy has been accounted for retrospectively and comparative information has been restated in accordance with the benchmark treatment specified in IAS – 8 (Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies). Had there been no change in the accounting policy, the unappropriated profit would have been lower by Rs. 1,583.096 million (2004: Rs. 1,176.828 million) and reserves would have been higher by Rs. 839 million (2004: Rs. 638 million) and current liabilities would have been higher by Rs. 744.096 million (2004: Rs. 538.828 million). The effect of change in accounting policy has been reflected in the statement of changes in equity. This change in accounting policy has not resulted in any change in the profit after tax for the current year and prior years.

2.4 Fixed assets and depreciation

2.4.1 Property, plant and equipment

Tangible fixed assets are stated at cost or revalued amounts less accumulated depreciation or impairment, if any, except freehold land and capital work-in-progress which are stated at revalued amount and historical cost respectively.

The cost of leasehold land acquired in April, 1983 on lease of twenty five years is being amortised over the lease period in equal installments.

Full year's depreciation is charged on additions during the year, whereas no depreciation is charged on the assets disposed-off or retired during the year. Depreciation is charged to profit and loss account using the straight-line method at following annual rates:

Leasehold land	4%
Building on freehold land	5% to 10%
Building on leasehold land	5% to 10%
Plant and machinery	10%
Furniture and fixture	20%
Office equipment	20%
Vehicles	20%
Power and other installations	10%
Data processing equipment	33.33%

Surplus arising on revaluation is credited to surplus on revaluation of fixed assets account. The surplus on revaluation of fixed assets to the extent of incremental depreciation charged on the related assets is transferred by the company to its unappropriated profit.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash generating units are written down to their recoverable amount. The recoverable amount of property, plant and equipment is the greater of net selling price and value in use.

Maintenance and normal repairs are charged to income as and when incurred. Major renewals and improvements, if any, are capitalized.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount of the relevant assets. These are included in the profit and loss account. When revalued assets are sold, the relevant undepreciated surplus is transferred directly by the company to its unappropriated profit.

Change in accounting estimate

Effective current year, the Company has changed the method of charging depreciation from reducing balance to straight-line. The Company has reassessed pattern of flow of economic benefits to the enterprise associated with the fixed assets and the remaining useful lives of its operating assets and considers that the net book values of its operating fixed assets as at June 30, 2004 will be appropriately written-off over the remaining useful lives of the assets under the straight-line method. The depreciation rates have also been revised to reflect the useful lives of the assets after the change in the depreciation method.

The above change would result in more accurate allocation of depreciation expenses to the accounting period in which depreciable assets are utilized by the Company. This change has been accounted for as a change in accounting estimate. Had this estimate not been revised, the profit for the year and the carrying vaue of fixed assets would have been higher by Rs. 189.303 million.

2.4.2 Capital work-in-progress

All expenditure connected with specific assets incurred during installation and construction period are carried under this head. These are transferred to specific assets as and when these assets are available for use.

2.4.3 Intangible assets

An intangible asset is recognized if it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise and that the cost of an asset can also be measured reliably.

Computer software

Generally, costs associated with developing or maintaining computer software programs are recognized as an expense as incurred. However, cost that are directly associated with identifiable software and have probable economic benefit exceeding the cost beyond one year, are recognized as intangible assets. Direct costs include the purchase cost of software and directly attributable cost of preparing the asset for its intended use.

Expenditure which enhances or extends the performance of computer software beyond its original specification and useful life is recognized as a capital improvement and added to the original cost of the software.

Intangible asset is amortized on straight-line basis over its estimated useful life. Full year's amortization is charged on additions during the year. The carrying values of intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

2.5 Investments

2.5.1 Investment in subsidiary company

Investment in subsidiary company is stated at cost less provision for diminution in value of investment. In arriving at the provision in respect of any diminution in value, consideration is given only if there is an impairment in the value of the investment.

2.5.2 Other investments

The management determines the appropriate classification of its other investments in accordance with the requirements of International Accounting Standard 39; Financial Instruments: Recognition and Measurement (IAS 39) at the time of purchase and re-evaluates this classification on a regular basis. The existing investment portfolio of the company has been categorised as held for trading and held to maturity.

Held for trading investments are those that were acquired principally for the purpose of generating a profit from short term fluctuations in price or dealer's margin. Held to maturity investments are financial assets with fixed or determinable payments and fixed maturity that the company has the positive intent and ability to hold to maturity.

Investments are initially recognised at cost inclusive of transaction costs. Investments categorised as held for trading are subsequently remeasured at their fair value and surplus / deficit arising due to fluctuation in fair value is taken to profit and loss account. Investments classified as held to maturity are carried at amortised cost.

Investments are de-recognised when the rights to receive cash flows from the investments have expired or have been transferred and the company has transferred substantially all risks and rewards of ownership.

Impairment of investments is recognised when there is a diminution in their value.

2.6 Stores and spares

These are valued at lower of moving average cost and net realisable value except for items in transit which are stated at invoice values plus other charges incurred thereon.

2.7 Stock in trade

These are stated at the lower of average cost and net realisable value.

Average cost of raw material includes procurement expenses except raw material in bonded warehouse and in transit which are stated at invoice values plus other charges incurred thereon.

Average cost of redried tobacco includes procurement and overheads incurred on redrying of tobacco leaf.

Average cost in relation to finished goods and work-in-progress includes proportionate production overheads.

Net realisable value signifies the estimated selling price in the ordinary course of business less the estimated cost of completion and costs necessarily to be incurred to make the sale.

2.8 Trade debts and other receivables

Trade debts and other receivables are carried at original invoice amount less an estimate made for doubtful receivables based on review of outstanding amounts at the year end. Balances considered bad and irrecoverable are written off when identified.

2.9 Trade and other payables

Short term liabilities for trade and other amounts payable are carried at amortized cost.

2.10 Provisions

Provisions are recognized when the company has a present, legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

2.11 Taxation

2.11.1 Current

Provision for current taxation is the higher of the amount computed on taxable income at the current rates of taxation after taking into account tax credits and rebates available, if any, and minimum tax computed at the prescribed rate on sales net of sales tax and excise duty.

2.11.2 Deferred

Deferred tax is recognised using the balance sheet liability method on all temporary differences between the amounts used for financial reporting purpose and amounts used for taxation purposes.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the assets may be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefits will be realised.

2.12 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. Cash and cash equivalents include cash in hand, cheques in hand, deposits held at call with banks and other short term highly liquid investments with original maturities of three months or less.

2.13 Borrowing costs

Borrowing costs are recognised as an expense in the period in which these are incurred.

2.14 Revenue recognition

Sales are recorded on despatch of goods to customers. Royalty income is accounted for as and when earned. Income on investments and return on deposits are accounted for on accrual basis.

2.15 Staff retirement benefits

The company operates:

a) an approved contributory provident fund for all permanent employees for which contributions are charged to income for the year; and

b) an approved funded gratuity scheme covering all permanent employees. Contribution is made to this scheme on the basis of actuarial recommendations. The actuarial valuation is carried out using the Project Unit Credit Method.

Staff retirement benefits are payable to staff on completion of prescribed qualifying period of service under these schemes.

Actuarial gains and losses are recognized as income or expense when the cumulative unrecognized actuarial gains or losses for each individual plan exceed 10% of the higher of defined benefit obligation and the fair value of plan assets. These gains or losses are recognized as income or expense immediately.

2.16 Compensated absences

The company provides for its estimated liability towards leaves accumulated by employees on an accrual basis using current salary levels.

2.17 Foreign currency translation

Foreign currency transactions are translated into Pak Rupees using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses arising from the settlement of such transactions and from the translations at the year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

2.18 Financial instruments

Financial instruments carried on the balance sheet include investments, receivables, cash and bank balances and trade creditors. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

Financial assets and liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are offset when the Company has a legally enforceable right to offset and it intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

2.19 Related party transactions

All transactions with related parties are carried out by the Company at arm's length prices using the methods prescribed under the Companies Ordinance, 1984.

	Note	2005	2004
		(Rupees '000)	
3. PROPERTY, PLANT AND EQUIPMENT			
Operating property, plant and equipment	3.1	**1,838,149**	1,382,780
Capital work-in-progress	3.2	**175,864**	84,109
		2,014,013	1,466,889

3.1 Operating property, plant and equipment

	COST / REVALUATION				DEPRECIATION				
	At July 01, 2004	Additions/ (disposals)/ (write offs)	Transfers*	At June 30, 2005	At July 01, 2004	For the year / (on disposals) / (write offs)	Impairment charge for the year	At June 30, 2005	Book value at June 30, 2005
	(Rupees '000)								
Property, plant and equipment									
Freehold land	27,690	27,572	-	55,262	-	-	-	-	55,262
Leasehold land	157	-	-	157	130	6	-	136	21
Buildings on freehold land	320,250	13,795	-	334,045	155,135	46,515	-	201,650	132,395
Buildings on leasehold land	549	-	-	549	294	15	-	309	240
Plant and machinery	1,556,231	742,582 (3,517)	(240)	2,295,056	631,008	276,142 (2,721)	16,588	921,017	1,374,039
Furniture and fixtures	26,200	2,584	-	28,784	13,535	7,609	-	21,144	7,640
Office equipment	37,709	3,846	7,710	49,265	25,170	18,580	-	43,750	5,515
Vehicles	164,660	98,927 (6,149)	-	257,438	50,902	52,986 (2,640)	-	101,248	156,190
Power and other installations	178,416	1,442	(7,460)	172,398	81,686	28,704	-	110,390	62,008
Data processing equipment	95,887	46,945	(10)	142,822	67,109	30,874	-	97,983	44,839
2005	**2,407,749**	**937,693 (9,666)**	**-**	3,**335,776**	**1,024,969**	**461,431 (5,361)**	**16,588**	1,**497,627**	**1,838,149**
2004	1,548,651	598,361 (12,340) (6,046)	279,123	2,407,749	770,288	181,578 75,782 (9,090) (2,625)	9,036	1,024,969	1,382,780

* Transfer includes both inter-category adjustments and transfer from leased assets to owned assets on completion.

Details of property, plant and equipment sold are given in note 37.

3.1.1 The depreciation charge for the year has been allocated as follows:

	Note	2005	2004
		(Rupees '000)	
Purchases, redrying and related expenses	21.1	**74,798**	36,606
Manufacturing expenses	21.2	**298,538**	103,731
Distribution and marketing expenses	22	**24,064**	19,522
Administrative expenses	23	**64,031**	21,719
		461,431	181,578

3.1.2 The company had its land, buildings and certain items of plant and machinery including certain power and other installations revalued in 1978, 1980 and 1984 by D.H. Daruvala and Co, Architects. These revaluations resulted in net surplus of Rs. 17.0 million, Rs. 16.0 million and Rs. 30.0 million respectively. Revalued assets having revaluation surplus of Rs. 11.9 million have been sold todate. The remaining balance of revaluation surplus amounting to Rs. 51.1 million has been included in the carrying value of the respective assets. Out of the revaluation surplus, amount of Rs. 8.3 million remains undepreciated as at June 30, 2005 (2004: Rs. 16.6 million).

3.1.3 Had there been no revaluation, the net book value of the specific classes of property, plant and equipment would have been as follows:

	Note	Net Book Value 2005 (Rupees '000)	2004
Freehold land		**46,989**	19,417
Buildings on freehold land		**132,395**	157,398
Plant and machinery		**1,374,039**	924,817
Power and other installations		**62,008**	92,822
		1,615,431	1,194,454

3.2 Capital work-in-progress

	Note	2005	2004
Civil works		**8,705**	4,322
Plant and machinery	3.2.1	**135,503**	70,955
Power and other installations		**10,811**	2,004
Furniture and fittings		**2,212**	6,058
Data processing equipment pending installation		**530**	770
Advance against purchase of land		**7,750**	-
Advance against vehicles		**10,353**	-
		175,864	84,109

3.2.1 This includes plant and machinery in transit amounting to Rs. 108.9 million (2004: Rs. 27.7 million).

4. INTANGIBLE ASSETS

	Note	2005 (Rupees '000)	2004
Computer software	4.1	**125,073**	-
Assets under development		**-**	70,549
		125,073	70,549

4.1 Computer software

	COST			AMORTIZATION				
	At July 01, 2004	Additions	At June 30, 2005	At July 01, 2004	For the year	At June 30, 2005	Book value at June 30, 2005	Annual rate of amorti-zation
	(Rupees '000)							
Computer software	-	187,609	187,609	-	62,536	62,536	125,073	33.33%
2004	-	-	-	-	-	-	-	

4.1.1 Represents software purchase cost of "System, Application and Products in Data Processing" (SAP) paid to Siemens Pakistan Engineering Company Limited for use of beneficial rights in respect of software and implementation and consultation charges paid to consultants.

4.1.2 The amortization charge for the year has been allocated as follows:

	Note	2005	2004
		(Rupees '000)	
Purchases, redrying and related expenses	21.1	**3,128**	-
Manufacturing expenses	21.2	**8,323**	-
Distribution and marketing expenses	22	**31,218**	-
Administrative expenses	23	**19,867**	-
		62,536	-

5. INVESTMENT IN A SUBSIDIARY COMPANY

This represents the cost of 103 (2004: 103) fully paid ordinary shares of Rs. 10 each in Premier Tobacco Company (Private) Limited, a wholly owned subsidiary of the company. The value of the company's investment on the basis of net assets of the subsidiary as disclosed in its audited financial statements for the year ended June 30, 2005 amounted to Rs. 10 (2004: Rs. 10) per share.

6. LONG TERM LOANS

	Note	2005	2004
		(Rupees '000)	
Considered good			
Secured			
Loans to employees other than executives	6.1	**2,208**	3,100
Less: Due within one year, shown under current loans and advances	11	**(801)**	(898)
		1,407	2,202

6.1 Reconciliation of carrying amount of loans to employees other than executives

Opening balance as at July 01, 2004	Disbursement	Repayment	Closing balance as at June 30, 2005
---- Rupees '000 ----			
3,100	315	1,207	2,208

6.2 These represent interest free loans given to staff members for the purchase of vehicles and are repayable in five years in equal monthly installments. The loans are secured by pledge of original registration documents of the vehicles and demand promissory notes.

6.3 The maximum aggregate amount of loans due from employees at the end of any month during the year was Rs. 3.0 million (2004: Rs. 3.8 million).

	Note	2005	2004
		(Rupees '000)	

7. LONG TERM DEPOSITS AND PREPAYMENTS

	Note	2005	2004
Deposits		**13,829**	8,346
Prepayments		**241**	282
		14,070	8,628

8. STORES AND SPARES

	Note	2005	2004
Stores		**4,196**	4,947
Spares (including spares in transit Rs. 1.1 million; 2004: Rs. 2.8 million)		**98,672**	94,179
		102,868	99,126

9. STOCK-IN-TRADE

	Note	2005	2004
Raw and packing materials (including in transit Rs. 48.2 million; 2004: Rs.172.8 million)		**1,061,023**	1,215,607
Work-in-process		**14,977**	13,496
Finished goods		**28,197**	237,107
		1,104,197	1,466,210

10. TRADE DEBTS

	Note	2005	2004
Considered good			
- Unsecured		**756,302**	12,422
- Secured		**13,559**	8,235
		769,861	20,657

11. LOANS AND ADVANCES

	Note	2005	2004
Considered good			
Secured			
Loans due from:			
- Employees	6	**801**	898
Unsecured			
Advances to:			
- Executives	11.1	**2,212**	1,177
- Employees		**12,553**	7,889
		14,765	9,066
Suppliers and contractors		**63,574**	22,830
		78,339	31,896
		79,140	32,794

11.1 The maximum aggregate balance of advances due from executives at the end of any month during the year was Rs. 2.8 million (2004: Rs. 10.0 million).

	Note	2005	2004
		(Rupees '000)	

12. OTHER RECEIVABLES

	Note	2005	2004
Current account balances with statutory authorities		**50,774**	65,903
Sales tax refundable	12.1	**-**	89
Export rebate receivable – net		**162**	69
Central Excise Duty refundable – imported tobacco		**718**	-
		51,654	66,061
Due from associated undertakings			
- Insurance claim		**675**	345
- Others		**939**	171
	12.2	**1,614**	516
Others	12.4	**5,121**	11,745
		58,389	78,322

12.1 This amount is net of provision for doubtful receivable amounting to Rs. 23.6 million (2004:Rs.23.6 million).

12.2 The amount due from associated companies comprises:

	2005	2004
	(Rupees '000)	
Century Insurance Company Limited	**675**	345
Century Paper and Board Mills Limited	**19**	-
Princeton Travels (Private) Limited	**7**	-
Tritex Cotton Mills Limited	**912**	171
Cyber Rapid Integrated Software Solutions (Pvt) Ltd.	**1**	-
	1,614	516

12.3 The maximum aggregate amount due from associated undertakings at the end of any month during the year was Rs. 1.9 million (2004: Rs. 2.4 million).

12.4 This includes amounts receivable from transporters amounting to Rs. 5.121 million (2004: Rs.11.745 million) in respect of goods damaged in transit during transportation.

13. SHORT TERM INVESTMENTS

Held for trading

2005	2004		2005	2004
			(Rupees '000)	
-	1,711	Unit Trust of Pakistan	-	14,582
-	500,000	Faysal Balanced Growth Fund	-	49,297
-	395,910	Meezan Islamic Fund	-	24,488
			-	88,367

	Note	2005	2004
		(Rupees '000)	

14. CASH AND BANK BALANCES

	Note	2005	2004
With banks			
- on deposit account	14.1	**1,350,000**	1,210,808
- on saving accounts	14.2	**22,229**	306,819
- on current accounts	14.3	**28,056**	63,065
		1,400,285	1,580,692
Cash in hand		**1,376**	1,802
Cheques in hand		**-**	1,750
		1,401,661	1,584,244

14.1 These represent short term deposits of fixed maturities maintained with banks and non-banking finance companies. The rate of profit on these deposits ranging from 1% per annum to 9% per annum (2004: 1.75% per annum to 3.25% per annum).

14.2 The mark-up rates on PLS Savings accounts range from 0.5% to 3% (2004: 1% to 1.5%).

14.3 This includes foreign currency account balances amounting to Rs. Nil (2004: Rs. 0.2 million).

	2005	2004
	(Rupees '000)	

15. SHARE CAPITAL

15.1 Authorised capital

2005	2004		2005	2004
100,000,000	100,000,000	Ordinary shares of Rs. 10 each	**1,000,000**	1,000,000

15.2 Issued, subscribed and paid-up capital

Fully paid ordinary shares of Rs.10 each

2005	2004	Issued for / as		
5,541,429	5,541,429	cash	**55,414**	55,414
37,459,522	37,459,522	bonus shares	**374,595**	374,595
8,316,000	8,316,000	consideration otherthan cash	**83,160**	83,160
51,316,951	51,316,951		**513,169**	513,169

Out of the total share capital of the company, associated companies held 35,235,654 (2004:35,233,710) ordinary shares of Rs.10 as at June 30, 2005.

	Note	2005	2004
		(Rupees '000)	

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

	2005	2004
Gross Surplus		
Surplus on revaluation of fixed assets as at July 01	**16,555**	17,081
Transfer to unappropriated profit in respect of incremental depreciation charged during the year	**(8,282)**	(342)
Related deferred tax liability	**-**	(184)
	(8,282)	(526)
Surplus on revaluation of fixed assets as at June 30	**8,273**	16,555
Less: Related Deferred Taxation		
Related deferred tax liability on revaluation as at July 01	**2,899**	3,083
Deferred tax in respect of incremental deprecation charged during the year	**(2,899)**	(184)
	-	2,899
	8,273	13,656

17. DEFERRED TAXATION

This comprises the following:

	2005	2004
Deferred tax liability on taxable temporary differences:		
Surplus on revaluation of fixed assets	**-**	2,899
Tax depreciation allowance	**178,196**	158,770
	178,196	161,669
Deferred tax asset on deductible temporary differences:		
Provision for employee compensated absences	**4,118**	4,169
	174,078	157,500

18. TRADE AND OTHER PAYABLES

	Note	2005	2004
Creditors	18.1	**210,218**	267,903
Bills payable		**135,093**	97,294
Royalty payable to related party		**3,261**	1,630
Accrued expenses		**95,282**	83,965
Provident fund trust		**1,321**	3,721
Contractors' retention money		**809**	2,062
Advance from customers		**13,278**	23,634
Tobacco cess		**2,123**	2,581
Workers' profit participation fund	18.2	**13,089**	103,451
Workers' welfare fund		**50,757**	36,680
Unpaid and unclaimed dividends		**13,223**	10,043
Security Deposits	18.3	**2,113**	2,188
Others		**4,172**	4,532
		544,739	639,684

18.1 This includes due to related parties amounting to Rs. 39.179 million (2004: Rs. 38.25 million).

		Note	2005	2004
			(Rupees '000)	
18.2	**Workers' profit participation fund**			
	Balance as at July 01		**103,451**	69,896
	Interest on funds utilised in the company's business	26	**1,644**	562
			105,095	70,458
	Paid to the fund			
	- for prior year		**105,095**	70,458
	- for current year in advance		**125,000**	-
			230,095	70,458
			(125,000)	-
	Allocation for the year	24	**138,089**	103,451
			13,089	103,451

18.3 Represents local distributors' security deposits repayable on cessation of distributorship and carries interest at the rate of 2 per cent per annum.

18.4 Staff retirement benefits

18.4.1 Defined benefit plan

As mentioned in note 2.15(b), the company operates an approved funded gratuity scheme for all its permanent employees. Actuarial valuation of the scheme is carried out every year and the latest actuarial valuation was carried out as at June 30, 2005.

The fair value of scheme's assets and the present value of obligation under the scheme at the balance sheet date were as follows:

	2005	2004
	(Rupees '000)	
Present value of defined benefit obligation	**159,930**	143,752
Fair value of plan assets	**(159,930)**	(143,752)
Liability recognised in the balance sheet	**-**	-

The following amounts have been charged to profit and loss account during the current year in respect of the scheme:

	2005	2004
	(Rupees '000)	
Current service cost	**10,445**	8,769
Interest cost	**8,625**	7,953
Expected return on plan assets	**(8,625)**	(5,202)
Past service cost	**-**	1,192
Actuarial loss recognized	**21,786**	-
	32,231	12,712

Movement in the liability recognised in the balance sheet:

	2005	2004
Balance as at July 01	**-**	44,648
Net charge for the year	**32,231**	12,712
Contribution to the fund	**(32,231)**	(57,360)
Balance as at June 30	**-**	-

Projected unit credit method using the following significant assumptions was used for valuation of the scheme:

- Expected rate of increase in salary level — 10% per annum(2004: 6% per annum)
- Valuation discount rate — 10% per annum(2004: 6% per annum)
- Rate of return on plan assets — 10% per annum (2004: 6% per annum)

Actual return on plan assets during the year was Rs.15.053 million (2004: Rs. 5.2 million).

18.4.2 Defined contribution plan

An amount of Rs. 18.2 million (2004: Rs. 16.5 million) has been charged during the year in respect of contributory provident fund plan maintained by the company.

19. PROVISIONS

	Note	2005	2004
		(Rupees '000)	
Tobacco Development Cess	19.1&19.3	**129,706**	193,261
Tobacco Excise duty		**-**	402,447
Sales tax	19.2&19.3	**207,300**	207,300
		337,006	803,008

19.1 With effect from July 1, 1999, Tobacco Development Cess had been levied on the purchases of tobacco leaf. The company has filed a constitutional petition in the Supreme Court against the levy which is currently pending for adjudication. Meanwhile, the company is making a monthly payment of Rs. 4 million under protest. Pending outcome of the matter, the company has made the above provision in its books of accounts.

19.2 The Collectorate of Sales Tax and Central Excise (Adjudication) has issued a demand notice for an aggregate amount of Rs 204.5 million on account of short payment of sales tax on cigarettes manufactured by toll manufacturers. In addition, certain other demand notices have also been issued aggregating to Rs. 2.8 million. The company has filed appeals before the Customs, Excise & Sales Tax Appellate Tribunal against the above demands raised by the authorities which are currently pending for adjudication. Pending outcome of the matter, the company has made a provision of Rs. 207.3 million (2004: Rs. 207.3 million) in respect of these demands.

19.3 The movement of provision is as follows:

	Sales tax	Tobacco development cess	Tobacco excise duty
	(Rupees ' 000)		
Balance as at July 01, 2004	207,300	193,261	402,447
Provision for the year	-	55,429	-
	207,300	248,690	402,447
Less: Payments made during the year	-	118,984	232,454
Reversal of provision	-	-	169,993
	-	118,984	402,447
Balance as at June 30, 2005	207,300	129,706	-

20. CONTINGENCIES AND COMMITMENTS

20.1 Contingencies

Guarantees

Contingent liability in respect of indemnities given to banks and insurance companies for guarantees issued by them in the normal course of business aggregated to Rs 33.2 million (2004: Rs. 54.5 million).

	Note	2005	2004
		(Rupees '000)	
20.2 Commitments			
Capital expenditure contracted for but not incurred		**120,895**	500,765
Acceptances and letters of credit		**195,273**	178,687

21. COST OF SALES

	Note	2005	2004
Raw material consumed			
Opening stock		**1,215,607**	1,226,265
Purchases, redrying and related expenses	21.1	**4,458,209**	3,932,236
		5,673,816	5,158,501
Closing stock		**(1,061,023)**	(1,215,607)
		4,612,793	3,942,894
Excise duties, sales tax and other levies- net of reversal of provision for Tobacco Excise Duty of Rs. 169.993 million		**10,909,757**	9,509,689
Manufacturing expenses	21.2	**795,974**	545,726
		16,318,524	13,998,309
Work in process			
Opening stock		**13,496**	17,881
Closing stock		**(14,977)**	(13,496)
Sale of waste		**(21,603)**	(11,388)
		(36,580)	(24,884)
		(23,084)	(7,003)
Cost of goods manufactured		**16,295,440**	13,991,306
Finished goods			
Opening stock		**237,107**	406,645
Less: Adjustment (claim)		**-**	(2,760)
		237,107	403,885
Closing stock		**(28,197)**	(237,107)
		208,910	166,778
		16,504,350	14,158,084

3.1 Operating property, plant and equipment

	COST / REVALUATION				DEPRECIATION				
	At July 01, 2004	Additions/ (disposals)/ (write offs)	Transfers*	At June 30, 2005	At July 01, 2004	For the year / (on disposals) / (write offs)	Impairment charge for the year	At June 30, 2005	Book value at June 30, 2005
	(Rupees '000)								
Property, plant and equipment									
Freehold land	27,690	27,572	-	55,262	-	-	-	-	55,262
Leasehold land	157	-	-	157	130	6	-	136	21
Buildings on freehold land	320,250	13,795	-	334,045	155,135	46,515	-	201,650	132,395
Buildings on leasehold land	549	-	-	549	294	15	-	309	240
Plant and machinery	1,556,231	742,582 (3,517)	(240)	2,295,056	631,008	276,142 (2,721)	16,588	921,017	1,374,039
Furniture and fixtures	26,200	2,584	-	28,784	13,535	7,609	-	21,144	7,640
Office equipment	37,709	3,846	7,710	49,265	25,170	18,580	-	43,750	5,515
Vehicles	164,660	98,927 (6,149)	-	257,438	50,902	52,986 (2,640)	-	101,248	156,190
Power and other installations	178,416	1,442	(7,460)	172,398	81,686	28,704	-	110,390	62,008
Data processing equipment	95,887	46,945	(10)	142,822	67,109	30,874	-	97,983	44,839
2005	**2,407,749**	**937,693** **(9,666)**	**-**	**3,335,776**	**1,024,969**	**461,431** **(5,361)**	**16,588**	**1,497,627**	**1,838,149**
2004	1,548,651	598,361 (12,340) (6,046)	279,123	2,407,749	770,288	181,578 75,782 (9,090) (2,625)	9,036	1,024,969	1,382,780

* Transfer includes both inter-category adjustments and transfer from leased assets to owned assets on completion.

Details of property, plant and equipment sold are given in note 37.

3.1.1 The depreciation charge for the year has been allocated as follows:

	Note	2005	2004
		(Rupees '000)	
Purchases, redrying and related expenses	21.1	**74,798**	36,606
Manufacturing expenses	21.2	**298,538**	103,731
Distribution and marketing expenses	22	**24,064**	19,522
Administrative expenses	23	**64,031**	21,719
		461,431	181,578

3.1.2 The company had its land, buildings and certain items of plant and machinery including certain power and other installations revalued in 1978, 1980 and 1984 by D.H. Daruvala and Co, Architects. These revaluations resulted in net surplus of Rs. 17.0 million, Rs. 16.0 million and Rs. 30.0 million respectively. Revalued assets having revaluation surplus of Rs. 11.9 million have been sold todate. The remaining balance of revaluation surplus amounting to Rs. 51.1 million has been included in the carrying value of the respective assets. Out of the revaluation surplus, amount of Rs. 8.3 million remains undepreciated as at June 30, 2005 (2004: Rs. 16.6 million).

3.1.3 Had there been no revaluation, the net book value of the specific classes of property, plant and equipment would have been as follows:

	Note	Net Book Value 2005	2004
		(Rupees '000)	
Freehold land		**46,989**	19,417
Buildings on freehold land		**132,395**	157,398
Plant and machinery		**1,374,039**	924,817
Power and other installations		**62,008**	92,822
		1,615,431	1,194,454

3.2 Capital work-in-progress

	Note	2005	2004
Civil works		**8,705**	4,322
Plant and machinery	3.2.1	**135,503**	70,955
Power and other installations		**10,811**	2,004
Furniture and fittings		**2,212**	6,058
Data processing equipment pending installation		**530**	770
Advance against purchase of land		**7,750**	-
Advance against vehicles		**10,353**	-
		175,864	84,109

3.2.1 This includes plant and machinery in transit amounting to Rs. 108.9 million (2004: Rs. 27.7 million).

4. INTANGIBLE ASSETS

	Note	2005	2004
		(Rupees '000)	
Computer software	4.1	**125,073**	-
Assets under development		**-**	70,549
		125,073	70,549

4.1 Computer software

	COST			AMORTIZATION				
	At July 01, 2004	Additions	At June 30, 2005	At July 01, 2004	For the year	At June 30, 2005	Book value at June 30, 2005	Annual rate of amorti-zation
	(Rupees '000)							
Computer software	-	187,609	187,609	-	62,536	62,536	125,073	33.33%
2004	-	-	-	-	-	-	-	

4.1.1 Represents software purchase cost of "System, Application and Products in Data Processing" (SAP) paid to Siemens Pakistan Engineering Company Limited for use of beneficial rights in respect of software and implementation and consultation charges paid to consultants.

4.1.2 The amortization charge for the year has been allocated as follows:

	Note	2005	2004
		(Rupees '000)	
Purchases, redrying and related expenses	21.1	**3,128**	-
Manufacturing expenses	21.2	**8,323**	-
Distribution and marketing expenses	22	**31,218**	-
Administrative expenses	23	**19,867**	-
		62,536	-

5. INVESTMENT IN A SUBSIDIARY COMPANY

This represents the cost of 103 (2004: 103) fully paid ordinary shares of Rs. 10 each in Premier Tobacco Company (Private) Limited, a wholly owned subsidiary of the company. The value of the company's investment on the basis of net assets of the subsidiary as disclosed in its audited financial statements for the year ended June 30, 2005 amounted to Rs. 10 (2004: Rs. 10) per share.

6. LONG TERM LOANS

	Note	2005	2004
		(Rupees '000)	
Considered good			
Secured			
Loans to employees other than executives	6.1	**2,208**	3,100
Less: Due within one year, shown under current loans and advances	11	**(801)**	(898)
		1,407	2,202

6.1 Reconciliation of carrying amount of loans to employees other than executives

Opening balance as at July 01, 2004	Disbursement	Repayment	Closing balance as at June 30, 2005
-------------------------------- Rupees '000			--------------------------------
3,100	315	1,207	2,208

6.2 These represent interest free loans given to staff members for the purchase of vehicles and are repayable in five years in equal monthly installments. The loans are secured by pledge of original registration documents of the vehicles and demand promissory notes.

6.3 The maximum aggregate amount of loans due from employees at the end of any month during the year was Rs. 3.0 million (2004: Rs. 3.8 million).

	Note	2005	2004
		(Rupees '000)	

7. LONG TERM DEPOSITS AND PREPAYMENTS

Deposits		**13,829**	8,346
Prepayments		**241**	282
		14,070	8,628

8. STORES AND SPARES

Stores		**4,196**	4,947
Spares (including spares in transit Rs. 1.1 million; 2004: Rs. 2.8 million)		**98,672**	94,179
		102,868	99,126

9. STOCK-IN-TRADE

Raw and packing materials (including in transit Rs. 48.2 million; 2004: Rs.172.8 million)		**1,061,023**	1,215,607
Work-in-process		**14,977**	13,496
Finished goods		**28,197**	237,107
		1,104,197	1,466,210

10. TRADE DEBTS

Considered good			
- Unsecured		**756,302**	12,422
- Secured		**13,559**	8,235
		769,861	20,657

11. LOANS AND ADVANCES

Considered good			
Secured			
Loans due from:			
- Employees	6	**801**	898
Unsecured			
Advances to:			
- Executives	11.1	**2,212**	1,177
- Employees		**12,553**	7,889
		14,765	9,066
Suppliers and contractors		**63,574**	22,830
		78,339	31,896
		79,140	32,794

11.1 The maximum aggregate balance of advances due from executives at the end of any month during the year was Rs. 2.8 million (2004: Rs. 10.0 million).

	Note	2005	2004
		(Rupees '000)	

12. OTHER RECEIVABLES

	Note	2005	2004
Current account balances with statutory authorities		**50,774**	65,903
Sales tax refundable	12.1	**-**	89
Export rebate receivable – net		**162**	69
Central Excise Duty refundable – imported tobacco		**718**	-
		51,654	66,061
Due from associated undertakings			
- Insurance claim		**675**	345
- Others		**939**	171
	12.2	**1,614**	516
Others	12.4	**5,121**	11,745
		58,389	78,322

12.1 This amount is net of provision for doubtful receivable amounting to Rs. 23.6 million (2004:Rs.23.6 million).

12.2 The amount due from associated companies comprises:

	2005	2004
	(Rupees '000)	
Century Insurance Company Limited	**675**	345
Century Paper and Board Mills Limited	**19**	-
Princeton Travels (Private) Limited	**7**	-
Tritex Cotton Mills Limited	**912**	171
Cyber Rapid Integrated Software Solutions (Pvt) Ltd.	**1**	-
	1,614	516

12.3 The maximum aggregate amount due from associated undertakings at the end of any month during the year was Rs. 1.9 million (2004: Rs. 2.4 million).

12.4 This includes amounts receivable from transporters amounting to Rs. 5.121 million (2004: Rs.11.745 million) in respect of goods damaged in transit during transportation.

13. SHORT TERM INVESTMENTS

Held for trading

2005	2004		2005 (Rupees '000)	2004 (Rupees '000)
-	1,711	Unit Trust of Pakistan	-	14,582
-	500,000	Faysal Balanced Growth Fund	-	49,297
-	395,910	Meezan Islamic Fund	-	24,488
			-	88,367

	Note	2005	2004
		(Rupees '000)	

14. CASH AND BANK BALANCES

	Note	2005	2004
With banks			
- on deposit account	14.1	**1,350,000**	1,210,808
- on saving accounts	14.2	**22,229**	306,819
- on current accounts	14.3	**28,056**	63,065
		1,400,285	1,580,692
Cash in hand		**1,376**	1,802
Cheques in hand		**-**	1,750
		1,401,661	1,584,244

14.1 These represent short term deposits of fixed maturities maintained with banks and non-banking finance companies. The rate of profit on these deposits ranging from 1% per annum to 9% per annum (2004: 1.75% per annum to 3.25% per annum).

14.2 The mark-up rates on PLS Savings accounts range from 0.5% to 3% (2004: 1% to 1.5%).

14.3 This includes foreign currency account balances amounting to Rs. Nil (2004: Rs. 0.2 million).

	2005	2004
	(Rupees '000)	

15. SHARE CAPITAL

15.1 Authorised capital

2005	2004		2005	2004
100,000,000	100,000,000	Ordinary shares of Rs. 10 each	**1,000,000**	1,000,000

15.2 Issued, subscribed and paid-up capital

Fully paid ordinary shares of Rs.10 each

2005	2004	Issued for / as	2005	2004
5,541,429	5,541,429	cash	**55,414**	55,414
37,459,522	37,459,522	bonus shares	**374,595**	374,595
8,316,000	8,316,000	consideration other than cash	**83,160**	83,160
51,316,951	51,316,951		**513,169**	513,169

Out of the total share capital of the company, associated companies held 35,235,654 (2004:35,233,710) ordinary shares of Rs.10 as at June 30, 2005.

	Note	2005	2004
		(Rupees '000)	

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

Gross Surplus			
Surplus on revaluation of fixed assets as at July 01		**16,555**	17,081
Transfer to unappropriated profit in respect of incremental depreciation charged during the year		**(8,282)**	(342)
Related deferred tax liability		**-**	(184)
		(8,282)	(526)
Surplus on revaluation of fixed assets as at June 30		**8,273**	16,555
Less: Related Deferred Taxation			
Related deferred tax liability on revaluation as at July 01		**2,899**	3,083
Deferred tax in respect of incremental deprecation charged during the year		**(2,899)**	(184)
		-	2,899
		8,273	13,656

17. DEFERRED TAXATION

This comprises the following:

Deferred tax liability on taxable temporary differences:			
Surplus on revaluation of fixed assets		**-**	2,899
Tax depreciation allowance		**178,196**	158,770
		178,196	161,669
Deferred tax asset on deductible temporary differences:			
Provision for employee compensated absences		**4,118**	4,169
		174,078	157,500

18. TRADE AND OTHER PAYABLES

Creditors	18.1	**210,218**	267,903
Bills payable		**135,093**	97,294
Royalty payable to related party		**3,261**	1,630
Accrued expenses		**95,282**	83,965
Provident fund trust		**1,321**	3,721
Contractors' retention money		**809**	2,062
Advance from customers		**13,278**	23,634
Tobacco cess		**2,123**	2,581
Workers' profit participation fund	18.2	**13,089**	103,451
Workers' welfare fund		**50,757**	36,680
Unpaid and unclaimed dividends		**13,223**	10,043
Security Deposits	18.3	**2,113**	2,188
Others		**4,172**	4,532
		544,739	639,684

18.1 This includes due to related parties amounting to Rs. 39.179 million (2004: Rs. 38.25 million).

18.2 Workers' profit participation fund

	Note	2005	2004
		(Rupees '000)	
Balance as at July 01		**103,451**	69,896
Interest on funds utilised in the company's business	26	**1,644**	562
		105,095	70,458
Paid to the fund			
- for prior year		**105,095**	70,458
- for current year in advance		**125,000**	-
		230,095	70,458
		(125,000)	-
Allocation for the year	24	**138,089**	103,451
		13,089	103,451

18.3 Represents local distributors' security deposits repayable on cessation of distributorship and carries interest at the rate of 2 per cent per annum.

18.4 Staff retirement benefits

18.4.1 Defined benefit plan

As mentioned in note 2.15(b), the company operates an approved funded gratuity scheme for all its permanent employees. Actuarial valuation of the scheme is carried out every year and the latest actuarial valuation was carried out as at June 30, 2005.

The fair value of scheme's assets and the present value of obligation under the scheme at the balance sheet date were as follows:

	2005	2004
	(Rupees '000)	
Present value of defined benefit obligation	**159,930**	143,752
Fair value of plan assets	**(159,930)**	(143,752)
Liability recognised in the balance sheet	**-**	-

The following amounts have been charged to profit and loss account during the current year in respect of the scheme:

	2005	2004
	(Rupees '000)	
Current service cost	**10,445**	8,769
Interest cost	**8,625**	7,953
Expected return on plan assets	**(8,625)**	(5,202)
Past service cost	**-**	1,192
Actuarial loss recognized	**21,786**	-
	32,231	12,712

Movement in the liability recognised in the balance sheet:

	2005	2004
Balance as at July 01	**-**	44,648
Net charge for the year	**32,231**	12,712
Contribution to the fund	**(32,231)**	(57,360)
Balance as at June 30	**-**	-

Projected unit credit method using the following significant assumptions was used for valuation of the scheme:

- Expected rate of increase in salary level — 10% per annum(2004: 6% per annum)
- Valuation discount rate — 10% per annum(2004: 6% per annum)
- Rate of return on plan assets — 10% per annum (2004: 6% per annum)

Actual return on plan assets during the year was Rs.15.053 million (2004: Rs. 5.2 million).

18.4.2 Defined contribution plan

An amount of Rs. 18.2 million (2004: Rs. 16.5 million) has been charged during the year in respect of contributory provident fund plan maintained by the company.

19. PROVISIONS

	Note	2005	2004
		(Rupees '000)	
Tobacco Development Cess	19.1&19.3	**129,706**	193,261
Tobacco Excise duty		**-**	402,447
Sales tax	19.2&19.3	**207,300**	207,300
		337,006	803,008

19.1 With effect from July 1, 1999, Tobacco Development Cess had been levied on the purchases of tobacco leaf. The company has filed a constitutional petition in the Supreme Court against the levy which is currently pending for adjudication. Meanwhile, the company is making a monthly payment of Rs. 4 million under protest. Pending outcome of the matter, the company has made the above provision in its books of accounts.

19.2 The Collectorate of Sales Tax and Central Excise (Adjudication) has issued a demand notice for an aggregate amount of Rs 204.5 million on account of short payment of sales tax on cigarettes manufactured by toll manufacturers. In addition, certain other demand notices have also been issued aggregating to Rs. 2.8 million. The company has filed appeals before the Customs, Excise & Sales Tax Appellate Tribunal against the above demands raised by the authorities which are currently pending for adjudication. Pending outcome of the matter, the company has made a provision of Rs. 207.3 million (2004: Rs. 207.3 million) in respect of these demands.

19.3 The movement of provision is as follows:

	Sales tax	Tobacco development cess	Tobacco excise duty
	(Rupees ' 000)		
Balance as at July 01, 2004	207,300	193,261	402,447
Provision for the year	-	55,429	-
	207,300	248,690	402,447
Less: Payments made during the year	-	118,984	232,454
Reversal of provision	-	-	169,993
	-	118,984	402,447
Balance as at June 30, 2005	207,300	129,706	-

20. CONTINGENCIES AND COMMITMENTS

20.1 Contingencies

Guarantees

Contingent liability in respect of indemnities given to banks and insurance companies for guarantees issued by them in the normal course of business aggregated to Rs. 33.2 million (2004: Rs. 54.5 million).

	Note	2005	2004
		(Rupees '000)	
20.2 Commitments			
Capital expenditure contracted for but not incurred		**120,895**	500,765
Acceptances and letters of credit		**195,273**	178,687

21. COST OF SALES

	Note	2005	2004
Raw material consumed			
Opening stock		**1,215,607**	1,226,265
Purchases, redrying and related expenses	21.1	**4,458,209**	3,932,236
		5,673,816	5,158,501
Closing stock		**(1,061,023)**	(1,215,607)
		4,612,793	3,942,894
Excise duties, sales tax and other levies- net of reversal of provision for Tobacco Excise Duty of Rs. 169.993 million		**10,909,757**	9,509,689
Manufacturing expenses	21.2	**795,974**	545,726
		16,318,524	13,998,309
Work in process			
Opening stock		**13,496**	17,881
Closing stock		**(14,977)**	(13,496)
Sale of waste		**(21,603)**	(11,388)
		(36,580)	(24,884)
		(23,084)	(7,003)
Cost of goods manufactured		**16,295,440**	13,991,306
Finished goods			
Opening stock		**237,107**	406,645
Less: Adjustment (claim)		**-**	(2,760)
		237,107	403,885
Closing stock		**(28,197)**	(237,107)
		208,910	166,778
		16,504,350	14,158,084

Profit and loss Account

For the year ended June 30, 2005

	Note	2005	2004
		(Rupees '000)	
Turnover (including sales tax of Rs.2,736 million (2004: Rs. 2,317 million))		**20,584,637**	17,307,599
Cost of sales	21	**16,504,350**	14,158,084
Gross profit		**4,080,287**	3,149,515
Distribution and marketing expenses	22	**1,066,809**	884,051
Administrative expenses	23	**274,986**	190,311
		1,341,795	1,074,362
		2,738,492	2,075,153
Other operating expenses	24	**213,117**	158,872
		2,525,375	1,916,281
Other operating income	25	**55,654**	31,992
Operating profit		**2,581,029**	1,948,273
Financial charges	26	**9,079**	19,166
Profit before taxation		**2,571,950**	1,929,107
Taxation	27	**886,913**	651,363
Profit after taxation		**1,685,037**	1,277,744
		Rupees	
Earnings per share – Basic and diluted	28	**32.84**	24.90

The annexed notes from 1 to 39 form an integral part of these financial statements.

Iqbal Ali Lakhani
Chairman & Chief Executive

Shahid Ahmed Khan
Director