


## Balance Sheet As At June 30, 2006

	Note	2006	2005
		(Rupees '000)	
<b>ASSETS</b>			
<b>NON CURRENT ASSETS</b>			
Fixed assets			
- Property, plant and equipment	3	2,406,862	2,014,013
- Intangible assets	4	<u>62,537</u>	<u>125,073</u>
		2,469,399	2,139,086
Investment in a subsidiary company	5	1	1
Long-term loans	6	790	1,407
Long-term deposits and prepayments	7	<u>9,424</u>	<u>14,070</u>
		<u>2,479,614</u>	<u>2,154,564</u>
<b>CURRENT ASSETS</b>			
Stores and spare part	8	163,013	102,868
Stock-in-trade	9	2,009,053	1,104,197
Trade debts	10	100,647	79,861
Loans and advances	11	102,626	79,140
Prepayments		78,606	13,368
Profit accrued		1,635	8,813
Other receivables	12	38,414	58,389
Short-term investments	13	400,114	-
Cash and bank balances	14	<u>607,281</u>	<u>1,401,661</u>
		<u>3,501,389</u>	<u>3,538,297</u>
<b>TOTAL ASSETS</b>		<u><b>5,981,003</b></u>	<u><b>5,692,861</b></u>
<b>EQUITY AND LIABILITIES</b>			
<b>SHARE CAPITAL AND RESERVES</b>			
Share capital	15	615,803	513,169
Reserves		2,880,000	2,041,000
Unappropriated profit		<u>1,460,478</u>	<u>1,591,322</u>
		4,956,281	4,145,491
Surplus on revaluation of fixed assets – net of tax	16	-	8,273
<b>NON CURRENT LIABILITIES</b>			
Deferred taxation	17	188,628	174,078
<b>CURRENT LIABILITIES</b>			
Trade and other payables	18	594,739	544,739
Provision for taxation		87,897	384,970
Sales tax payable		84,421	98,304
Provisions	19	<u>69,037</u>	<u>337,006</u>
		836,094	1,365,019
<b>CONTINGENCIES AND COMMITMENTS</b>	20	-	-
<b>TOTAL EQUITY AND LIABILITIES</b>		<u><b>5,981,003</b></u>	<u><b>5,692,861</b></u>

The annexed notes from 1 to 41 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, 2006

	Note	2006	2005
		(Rupees '000)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash generated from operations	33	2,177,760	2,155,986
Financial charges paid		(10,654)	(9,079)
Taxes paid		(1,107,761)	(700,454)
Long-term loans		617	795
Long-term deposits and prepayments (net)		4,646	(445)
Net cash inflow from operating activities		<b>1,064,608</b>	<b>1,446,803</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Fixed capital expenditure		(782,037)	(1,128,533)
Proceeds from sale of property, plant and equipment		22,589	18,810
Purchase of short-term investments		(400,000)	-
Proceeds from sale of investments		-	88,367
Income received from short-term deposits		41,138	30,252
Net cash outflow on investing activities		<b>(1,118,310)</b>	<b>(991,104)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Dividends paid		(740,678)	(638,282)
Net cash outflow on financing activities		<b>(740,678)</b>	<b>(638,282)</b>
Net decrease in cash and cash equivalents		<b>(794,380)</b>	<b>(182,583)</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>1,401,661</b>	<b>1,584,244</b>
<b>Cash and cash equivalents at the end of the year</b>	14	<b>607,281</b>	<b>1,401,661</b>

The annexed notes from 1 to 41 form an integral part of these financial statements.

  
**Iqbal Ali Lakhani**  
Chairman & Chief Executive

  
**Shahid Ahmed Khan**  
Director

## Statement of Compliance with the Code of Corporate Governance

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

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

1. The Board comprises 11 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 9 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, DFI or NBFIs 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 meetings 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 two orientation courses 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.

**LAKSON TOBACCO**  
COMPANY LIMITED

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.

Karachi: July 31, 2006

  
IQBAL ALI LAKHANI  
Chairman & Chief Executive

## Directors' Report For The Year Ended June 30, 2006

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 the Auditors' Report for the year ended June 30, 2006.

### PROFITABILITY PERFORMANCE

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

Financial Indicators	2006	2005
	(Rupees in million)	
Turnover	20,620	20,584
Gross profit	4,177	4,080
Operating profit	2,391	2,581
Profit before tax	2,380	2,572
Profit after tax	1,555	1,685

The turnover at Rs 20.6 billion is nearly the same as last year. Due to better control over cost and expenses the gross profit has increased by 2.4% over last year. Due to increased marketing and distribution expenses, the operating profit, profit before tax and profit after tax shows a decrease of 7.4% over last year.

### EARNINGS PER SHARE

Earnings per share was Rs 25.25 as compared to Rs 27.36 last year. The earnings per share has been calculated on increased number of shares outstanding after the issuance of bonus shares during the year.

### SALES PERFORMANCE

The sales at Rs 20.62 billion were equal to last year levels. During the month of June 2005, in order to forestall speculative purchases by the market before the announcement of Federal Budget, certain extra supplies were made to the trade. These extra supplies had an effect on the sales of the first quarter of the current financial year.

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

## Statement Of Changes In Equity For The Year Ended June 30, 2006

	Issued, subscribed and paid-up capital	RESERVES				Total
		Capital reserves	REVENUE RESERVES			
			General reserves	Unappro- priated profit	Sub Total	
----- (Rupees'000) -----						
<b>Balance as at July 01, 2004</b>	513,169	-	1,403,000	1,177,465	2,580,465	3,093,634
Transfer from surplus on revaluation of fixed assets to unappropriated profit	-	-	-	8,282	8,282	8,282
Profit after taxation for the year ended June 30, 2005	-	-	-	1,685,037	1,685,037	1,685,037
Transfer to general reserve for the year ended June 30, 2004	-	-	638,000	(638,000)	-	-
Final dividend for the year ended June 30, 2004	-	-	-	(538,828)	(538,828)	(538,828)
Interim dividend for the year ended June 30, 2005	-	-	-	(102,634)	(102,634)	(102,634)
<b>Balance as at June 30, 2005</b>	<b>513,169</b>	<b>-</b>	<b>2,041,000</b>	<b>1,591,322</b>	<b>3,632,322</b>	<b>4,145,491</b>
<b>Balance as at July 01, 2005</b>	513,169	-	2,041,000	1,591,322	3,632,322	4,145,491
Profit after taxation for the year ended June 30, 2006	-	-	-	1,554,885	1,554,885	1,554,885
Transfer to general reserve for the year ended June 30, 2005	-	-	839,000	(839,000)	-	-
Final dividend for the year ended June 30, 2005	-	-	-	(744,095)	(744,095)	(744,095)
Bonus share issue during the year ended June 30, 2006	102,634	-	-	(102,634)	(102,634)	-
<b>Balance as at June 30, 2006</b>	<b>615,803</b>	<b>-</b>	<b>2,880,000</b>	<b>1,460,478</b>	<b>4,340,478</b>	<b>4,956,281</b>

The annexed notes from 1 to 41 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, 2006

## 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 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. Significant accounting judgements and estimates

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. Estimate and judgements are continually evaluated and are based on historic experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the process of applying the company's accounting policies, management has made the following estimates and judgements which are significant to the financial statements:

#### **Staff retirement benefits**

Certain actuarial assumptions have been adopted as disclosed in note 18.4.1 to the financial statements for valuation of present value of defined benefit obligations and fair value of plan assets. Any changes in these assumptions in future years might affect unrecognized gains and losses in those years.

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

Estimates with respect to residual values and depreciable lives and pattern of flow of economic benefits are based on the recommendation of technical team of the Company. Further, the company reviews the value of the assets for possible impairment on an annual basis. Any change in the estimates in future years might affect the carrying amounts of the respective items of property, plant and equipment with a corresponding affect on the depreciation charge and impairment.

## Notice Of Meeting

NOTICE IS HEREBY GIVEN that the 37<sup>th</sup> Annual General Meeting of LAKSON TOBACCO COMPANY LIMITED will be held on Tuesday, September 12, 2006 at 3:30 p.m. at Avari Renaissance Towers Hotel, Fatima Jinnah Road, Karachi to transact the following business:

### ORDINARY BUSINESS

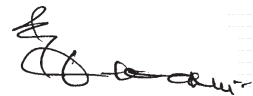
1. To receive, consider and adopt the audited financial statements for the year ended June 30, 2006 together with the Directors' and Auditors' Reports thereon.
2. To declare a final dividend in cash @ 125% i.e. Rs.12.50 per share of Rs.10/- each as recommended by the Board of Directors, in addition to the interim stock dividend already issued @ 20%.
3. To appoint auditors and fix their remuneration.

### SPECIAL BUSINESS

4. To consider to make certain amendments/ alterations/ changes in the Articles of Association of the Company to bring them in line with the changes made in the Companies Ordinance, 1984 and pass necessary special resolutions in this connection.

A statement under section 160 of the Companies Ordinance, 1984 in the above matter including draft of the SPECIAL RESOLUTIONS to be passed pertaining to item No.4 is annexed.

By Order of the Board



RAMZAN ALI HALANI  
Company Secretary

Karachi: August 07, 2006

### NOTES:

1. The share transfer books of the Company will remain closed from August 30, 2006 to September 12, 2006 (both days inclusive). Transfers received in order at the Company's registered office situated at Lakson Square, Building No.2, Sarwar Shaheed Road, Karachi upto August 29, 2006 will be considered in time to be eligible for payment of the dividend to the transferees.



**LAKSON TOBACCO**  
COMPANY LIMITED

2. A member who has deposited his/her shares into Central Depository Company of Pakistan Limited, must bring his/her participant's ID number and account/sub-account number alongwith original Computerised National Identity Card (CNIC) or original Passport at the time of attending the meeting.
3. A member entitled to attend and vote at the Annual General Meeting may appoint another member as his/her proxy to attend, speak and vote instead of him/her.
4. Forms of proxy to be valid must be received by the Company at its registered office not later than 48 hours before the time of the meeting.
5. Members are requested to notify the Company promptly of any change in their addresses.
6. Members who have not yet submitted photocopy of their Computerised National Identity Cards to the Company are requested to send the same at the earliest.
7. A form of proxy is enclosed herewith.

## Statement Under Section 160 Of The Companies Ordinance, 1984

The Board of Directors recommend to the members to make certain amendments/alterations/changes in the Articles of Association of the Company to make them consistent with the Companies Ordinance, 1984. The resolutions as under will be considered to be passed by the members as special resolutions:

**“RESOLVED THAT THE AMENDMENTS/ALTERATIONS/ CHANGES AS UNDER  
BE MADE IN THE ARTICLES OF ASSOCIATION OF THE COMPANY:**

- 1) Substitute the word **“FOUR”** in place of **“SIX”** in line-5 in clause-27. The revised clause-27 is reproduced as under:

The Company shall hold, in addition to any other meeting, a General Meeting, as its Annual General Meeting, within eighteen months from the date of its incorporation and thereafter once at least in every calendar year within a period of **FOUR** months following the close of its financial year and not more than fifteen months after the holding of its last preceding annual general meeting, and shall specify the meeting as such in the notice calling it. Subject to the provisions of section 158, the Annual General Meeting shall be held at such time and place as the directors shall determine.

- 2) Substitute the word **“TEN”** in place of **“FIVE”** in line-3 in clause-31. The revised clause-31 is reproduced as under:

No business shall be transacted at any General Meeting unless a quorum of Members is present. Save as in these Articles otherwise provided, **TEN** Members present in person who represent not less than 25% of the total voting power either on their own account or as proxies shall be a quorum.

- 3) Substitute the word **“EACH QUARTER”** in place of **“TWICE”** in line-4 in clause-61. The revised clause-61 is reproduced as under:

The Directors may meet together for the despatch of business, adjourn, and otherwise regulate their meetings, as they think fit provided that the Directors shall meet at least in **EACH QUARTER** in a year. A Director may, and the Secretary on the requisition of a Director shall, at any time, summon a meeting of the Directors. All Directors including an alternate Director shall be sent reasonable Notice of any meeting of Directors and a copy of the agenda of the business to be dealt with.

The directors are not interested in this business except as shareholders of the Company.

## Profit And Loss Account For The Year Ended June 30, 2006

	Note	2006	2005
		(Rupees '000)	
<b>Gross turnover</b>	21	20,619,711	20,584,045
Sales tax		<u>2,547,315</u>	<u>2,736,040</u>
<b>Turnover – net of sales tax</b>		<b>18,072,396</b>	17,848,005
<b>Cost of sales</b>	22	<u>13,895,849</u>	<u>13,767,718</u>
<b>Gross profit</b>		<b>4,176,547</b>	4,080,287
Distribution and marketing expenses	23	<u>1,381,169</u>	<u>1,065,338</u>
Administrative expenses	24	<u>297,997</u>	<u>282,831</u>
		<u>1,679,166</u>	<u>1,348,169</u>
		<b>2,497,381</b>	2,732,118
Other operating expenses	25	<u>174,862</u>	<u>206,743</u>
		<b>2,322,519</b>	2,525,375
Other operating income	26	<u>68,259</u>	<u>55,654</u>
<b>Operating profit</b>		<b>2,390,778</b>	2,581,029
Financial charges	27	<u>10,654</u>	<u>9,079</u>
<b>Profit before taxation</b>		<u>2,380,124</u>	<u>2,571,950</u>
Taxation	28	<u>825,239</u>	<u>886,913</u>
<b>Profit after taxation</b>		<u>1,554,885</u>	<u>1,685,037</u>
<b>Earnings per share – Basic and diluted (Restated)</b>	29	<u>25.25</u>	<u>27.36</u>

Rupees

The annexed notes from 1 to 41 form an integral part of these financial statements.

  
**Iqbal Ali Lakhani**  
Chairman & Chief Executive

  
**Shahid Ahmed Khan**  
Director

**LAKSON TOBACCO**  
COMPANY LIMITED

## DETAILS OF PATTERN OF SHAREHOLDING AS PER REQUIREMENTS OF CODE OF CORPORATE GOVERNANCE

<u>CATEGORIES OF SHAREHOLDERS</u>	<u>NO. OF SHARES HELD</u>
<b>ASSOCIATED COMPANIES, UNDERTAKINGS AND RELATED PARTIES</b>	
Siza (Pvt) Limited.	9,484,470
Siza Services (Pvt) Limited.	4,898,378
Siza Commodities (Pvt) Limited.	1,060,579
Premier Fashions (Pvt) Limited.	2,624,911
Century Insurance Company Limited.	11,232
Philip Morris Participations B.V.	12,316,059
FTR Holding S.A.	12,316,060
	42,711,689
<b>NIT AND ICP</b>	
National Bank of Pakistan, Trustee Department	1,761,178
Investment Corporation of Pakistan	69
	1,761,247
<b>DIRECTORS, CEO, THEIR SPOUSES &amp; MINOR CHILDREN</b>	
Mr.Iqbal Ali Lakhani - Director/CEO	1,516,947
Mrs.Ronak Iqbal	1,344,675
Mr.Zulfiqar Ali Lakhani - Director	1,274,133
Mrs.Fatima Zulfiqar	695,382
Mr.Amin Mohammed Lakhani - Director	2,177,443
Mrs.Saira Amin	1,046,910
Mr. Matteo Lorenzo Pellegrini - Director	1
Mr. Douglas Walter Werth - Director	1
Mr. Kevin Douglas Click - Director	1
Mr.E.A. Nomani - Director	1
Mr.M.J. Jaffer - Director	14,851
Mr.Tasleemuddin A. Batlay - Director	4,320
Mr.Aziz Ebrahim - Director	4,320
Mr.Shahid Ahmed Khan - Director	4,320
	8,083,305
<b>EXECUTIVES</b>	
	2,179,780
<b>PUBLIC SECTOR, COMPANIES &amp; CORPORATIONS</b>	
	NIL
<b>BANKS, DEVELOPMENT FINANCE INSTITUTIONS, NON BANKING FINANCIAL INSTITUTIONS, INSURANCE COMPANIES, MODARABA &amp; MUTUAL FUNDS</b>	
Habib Bank Limited	5,460
Muslim Commercial Bank Limited	3,228
Deutsche Bank International Limited	131,725
The Bank of New York	99,100
First Dawood Investment Bank	3,360
State Life Insurance Company Limited	1,339,212
Habib Insurance Company Limited	65,568
Pakistan re-insurance Company Limited	21,206
Alpha Insurance Company Limited	9,382
Century Insurance Co. Ltd.	11,232
Guardian Modaraba	13,824
First Dawood Mutual Fund	2,400
	1,705,697
<b>SHAREHOLDERS HOLDING 10% OR MORE</b>	
Siza (Pvt) Limited	9,484,470
Philip Morris Participations B.V.	12,316,059
FTR Holding S.A.	12,316,060
	34,116,589

## Statement Of Value Addition

	2006	2005
	----- Rs in million -----	
<b>WEALTH GENERATED</b>		
Wealth generated	20,688	20,648
Bought in material and services	(5,995)	(5,819)
	<u>14,693</u>	<u>14,829</u>
<b>WEALTH DISTRIBUTED</b>		
To National Exchequer	11,808	11,797
To Employees	697	598
To Shareholders	872	847
General Reserve & Unappropriated Profit	691	847
Depreciation & Amortization	439	524
Others	175	207
To Lenders	11	9
	<u>14,693</u>	<u>14,829</u>

