



**Merit Packaging Limited**  
(ISO-9001/14001/22000/HACCP Certified)

Packaging solution  
under one roof



# 2013 Annual report



A Lakson Group Company



## Contents

Corporate Information	2
Notice of Meeting	3
Directors' Report	4-7
Statement of Value Added and its Distribution	8
Six Years Key Operating and Financial Data	9
Vertical and Horizontal Analysis	10
Graphs	11
Auditors' Review Report on Statement of Compliance with the Code of Corporate Governance	12
Statement of Compliance with the Code of Corporate Governance	13-14
Pattern of Holding of Shares	15
Details of Pattern of Shareholding	16
Auditors' Report to the Members	17
Balance Sheet	18
Profit and Loss Account	19
Statement of Comprehensive Income	20
Cash Flow Statement	21
Statement of Changes in Equity	22
Notes to the Financial Statements	23-53
Form of Proxy	



## Corporate Information

### BOARD OF DIRECTORS

Iqbal Ali Lakhani	Chairman
Zulfiqar Ali Lakhani	
Amin Mohammed Lakhani	
Tasleemuddin Ahmed Batlay	
Shahid Ahmed Khan	
Shaikh Muhammad Barinuddin	Independent Director
Sheikh Asim Rafiq	Nominee Director (NIT)
Mohammad Yousuf Memon	Nominee Director (NIT)
Mohammad Shahid	Chief Executive Officer

### ADVISOR

Sultan Ali Lakhani

### AUDIT COMMITTEE

Shaikh Muhammad Barinuddin	Chairman
Zulfiqar Ali Lakhani	
Tasleemuddin Ahmed Batlay	

### HUMAN RESOURCE & REMUNERATION COMMITTEE

Iqbal Ali Lakhani	Chairman
Tasleemuddin Ahmed Batlay	
Shahid Ahmed Khan	

### COMPANY SECRETARY

Mansoor Ahmed

### AUDITORS

BDO Ebrahim & Co.  
Chartered Accountants

### BANKERS

Askari Bank Limited  
Bank Alfalah Limited  
Habib Bank Limited  
HSBC Bank Middle East Limited  
JS Bank Limited  
Meezan Bank Limited  
Soneri Bank Limited

### SHARES REGISTRAR

FAMCO Associates (Pvt) Ltd. 8-F, Next to Hotel Faran,  
Nursery, Block-6, P.E.C.H.S., Shakra-e-Faisal, Karachi

### REGISTERED OFFICE

Lakson Square, Building No.2, Sarwar Shaheed Road,  
Karachi-74200 Pakistan  
Phone: 021-35698000, Faxes: 021-35686571, 35683410

### FACTORY

17-B, Sector 29, Korangi Industrial Township,  
Karachi-75180.  
Phone: 021-35017164, 021-35017180  
Email: info@meritpack.com

### WEBSITE

www.meritpack.com



## Notice of Meeting

NOTICE IS HEREBY GIVEN that the 33rd Annual General Meeting of MERIT PACKAGING LIMITED will be held on Wednesday, October 23, 2013 at 03:00 p.m. at Avari Towers Hotel, Fatima Jinnah Road, Karachi to transact the following business:

1. To receive, consider and adopt the audited financial statements for the year ended June 30, 2013 together with the Directors' and Auditors' Reports thereon.
2. To appoint auditors and fix their remuneration.

By Order of the Board

(MANSOOR AHMED)  
Company Secretary

Dated: September 24, 2013

### NOTES:

1. The share transfer books of the Company will remain closed from October 17, 2013 to October 23, 2013, both days inclusive. Transfers received in order by the Shares Registrar of the Company M/s. FAMCO Associates (Private) Limited, 8-F, Next to Hotel Faran, Nursery, Block-6, P.E.C.H.S. Shakra-e-Faisal, Karachi upto October 16, 2013 will be considered in time for the purpose of attendance of Annual General Meeting.
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 Computerized National Identity Card (CNIC) or original Passport at the time of attending the meeting.
3. A member entitled to attend and vote at the general meeting may appoint another member as his/her proxy to attend, speak and vote instead of him/her.
4. Forms of proxy to be valid must be properly filled-in/executed and received at the Company's Registered Office at Lakson Square, Building No.2, Sarwar Shaheed Road, Karachi not later than 48 hours before the time of the meeting.
5. Members are requested to notify the Shares Registrar of the Company promptly of any change in their addresses.
6. Members who have not yet submitted photocopy of their Computerized National Identity Cards (CNIC) are requested to send the same to our Shares Registrar at the earliest.
7. Form of Proxy is enclosed herewith.



## Directors' Report

The Directors of the Company are pleased to present the 33rd Annual Report along with Audited Financial Statements of the Company for the year ended June 30, 2013.

### PERFORMANCE OUTLOOK

#### Financial Results

	2013 Rs. in 000's	2012 Rs. in 000's
Sales - net	1,389,259	1,693,802
Gross profit	65,475	136,439
Financial charges	98,118	104,388
Loss before taxation	(85,256)	(24,610)
Loss per share	Rs. (18.64)	Rs. (5.54)

#### Operating Results

During the year under review, the net sales turnover amounted to Rs. 1.4 billion, as compared to Rs. 1.7 billion in the last financial year. Pre-tax loss for the year was recorded as Rs. 85 million in comparison to a loss of Rs. 25 million in previous year.

Reduced sales and increased pre-tax loss are mainly due to abnormal operational breakdown of one of our key machines hampering our ability to utilize full production capacity. The machine has now been overhauled. We were compelled to decline orders from some customers due to long delays in payment against our invoices which also led to volume erosion. We have now added new reputed corporate sector customers to replace them.

In view of aforementioned financial losses, the Board of Directors has decided not to make any appropriation on account of dividend.

### COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

The statement of Compliance with the Code of Corporate Governance is annexed with the report. As required under the code of corporate governance, the Directors are pleased to state as follows:

- ♦ The financial statements prepared by the management of the Company present its state of affairs fairly, the results of its operations, cash flows and changes in equity.
- ♦ Proper books of accounts of the Company have been maintained.
- ♦ Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- ♦ International Financial Reporting Standards, as applicable in Pakistan, have been followed in preparation of financial statements.
- ♦ The system of internal control is sound in design and has been effectively implemented and monitored.
- ♦ 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.
- ♦ Information about taxes and levies is given in the notes to and forming part of financial statements.



## Directors' Report

- ♦ The summary of key operating and financial data for the last six years of the Company is annexed to this report.

### SAFETY, SECURITY, HEALTH AND ENVIRONMENT

At Merit Packaging Limited we provide our employees a healthy, safe and protected working environment. Regular training sessions are organized to ensure well-being and safety of our employee, enabling them to carry out their duties securely without causing harm to themselves, others or the environment.

### CORPORATE SOCIAL RESPONSIBILITY

We believe in discharging our social obligations as responsible citizens. We extended support to the Pakistan Flood Relief operations and earthquake victims in the form of food and clothing.

We are also pleased to share with you that Merit stands among the few companies in the country who have published sustainability report for the company. Our report is a GRI (Global Reporting Initiative) application level check from a Netherland based Global Authority for Sustainability Development in Organization.

Our sustainability report (2012) is based on structured GRI G3 guidelines that are meant to facilitate the reporting of company's environmental, social and economic performance and impacts. We firmly believe that transparency in sharing our sustainability performance with all stakeholders will help in building stronger relationships with customers, employees and shareholders and will eventually go on to make our company more stronger.

### HUMAN RESOURCE DEVELOPMENT

Human resource development remains a vital element for operational success. With this in mind comprehensive training programs, seminars and workshops are arranged every year for the employees of the Company through in-house, external and foreign trainings. This enables improvement in skills, techniques and helps us in achieving the much needed competitive advantage so essential for survival.

### AUDITORS

The Auditors Messrs BDO Ebrahim & Co., Chartered Accountants retire and being eligible, offer themselves for re-appointment for the year ending June 30, 2014. They confirmed that they have been given satisfactory rating under the Quality Control Review Program of the Institute of Chartered Accountants of Pakistan (ICAP) and the firm is in full compliance with International Federation of Accountants (IFAC) guidelines on code of ethics, as adopted by ICAP. The Board of Directors endorses the recommendation of Audit Committee for their re-appointment for shareholders consideration at the forthcoming Annual General Meeting.

### MATERIAL CHANGES

Subsequent to the balance sheet date the authorized capital of the Company has been increased and same was approved in Extra Ordinary General Meeting held on September 19, 2013. Further, Board of Directors of the Company in their meeting held on September 23, 2013 announced issue of 750% right shares. There are no other material changes or commitments made by the Company affecting the financial position.

### PATTERN OF SHAREHOLDING

A statement showing the pattern of shareholding of the Company and such other information as at June 30, 2013, is annexed to this report.

The Board has determined threshold under clause xvi(i) of CCG-2012 in respect of trading of Company's shares by executives and employees who are drawing annual basic salary of Rs.1 million or more.



## Directors' Report

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, except one of the Directors has inherited 172 shares of the Company from his late mother.

### STAFF RETIREMENT BENEFIT FUNDS

Value of investment made by staff retirement benefit funds on their respective audited accounts as at December 31, 2012 and June 30, 2013 respectively are as follows:

	(Rupees in 000s)
Provident Fund	79,965
Gratuity Fund	37,928

### BOARD OF DIRECTORS

During the year under review Mr. Shaikh Muhammad Barinuddin joined us as an Independent Director. The Board welcomes the new Director Mr. Shaikh Muhammad Barinuddin on the Board of Directors of the Company. In 2012-13, the Board of Directors held five (5) meetings to review its complete cycle of activities. The attendance record of the Directors is as follows:

Director's Name	Attendance
Mr. Iqbal Ali Lakhani - (Chairman)	2
Mr. Zulfiqar Ali Lakhani	2
Mr. Amin Mohammed Lakhani	2
Mr. Tasleemuddin Ahmed Batlay	5
Mr. Shahid Ahmed Khan	5
Mr. Shaikh Muhammad Barinuddin (Independent Director)	3
Mr. Sheikh Asim Rafiq (Nominee of National Investment Trust Limited)	5
Mr. Mohammad Yousuf Memon (Nominee of National Investment Trust Limited)	5
Mr. Mohammad Shahid	5

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

### AUDIT COMMITTEE

During the year under review Mr. Iqbal Ali Lakhani resigned and Mr. Shaikh Muhammad Barinuddin-(Independent Director) joined us in his place as a member of Audit Committee. The Committee wishes to place on record the valuable contribution made by the outgoing Chairman Mr. Iqbal Ali Lakhani. As per the requirements of the Code of Corporate Governance Mr. Shaikh Muhammad Barinuddin (Independent Director) was elected as the Chairman of the Audit Committee.

In 2012-13 four (4) Audit Committee Meetings were held as follows on a quarterly basis to review its complete cycle of activities:

Member's Name	Attendance
Mr. Iqbal Ali Lakhani (Chairman - upto February 19, 2013)	2
Mr. Shaikh Muhammad Barinuddin (Chairman- from February 19, 2013)	2
Mr. Zulfiqar Ali Lakhani	2
Mr. Tasleemuddin Ahmed Batlay	4



## Directors' Report

The accounts of the Company and relevant public announcements are reviewed by the Audit Committee before the approval by the Board of Directors.

### HUMAN RESOURCE AND REMUNERATION COMMITTEE

Three meetings of Human Resource and Remuneration Committee were held during the financial year. Attendance by each member was as follows:

Member's Name	Attendance
Mr. Iqbal Ali Lakhani - (Chairman)	3
Mr. Tasleemuddin Ahmed Batlay	3
Mr. Shahid Ahmed Khan	3

### BUSINESS RISKS AND FUTURE OUTLOOK

The future looks promising as operational changes have been made and adequate measures taken to streamline our business operations. In particular, stricter cost controls have been implemented. More attention is being paid to carry out preventive machine maintenance for ensuring quality of products. We have successfully developed and started supplying value added products especially Gravure printed which will further improve our contribution margin. The Company is fully geared up to meet customer service expectations. Persistent efforts are made in solving issues pertaining to timely execution of orders, major impact of input cost increases is also being passed on to the customers. However to offset continuous increase in cost of fuel and power, we are negotiating with the customers to share all such costs.

The process of enhancement of authorized and paid up capital of the Company through capital restructuring by issuing of right shares will enable the Company to strengthen its financial position.

The directors are confident that improved sales, operational efficiencies and cost controls will help in attaining better customer satisfaction and consolidating our market position also.

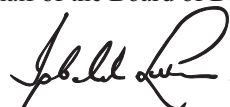
### QUALITY MANAGEMENT

Your Company is now not only ISO 9001:2008, ISO 22000:2005, ISO 14001:2004 certified but also a SEDEX registered set-up. These certifications will help to improve our operational capabilities for maintaining product quality and enhancing level of confidence among our valued customers.

### GRATITUDE

The Directors are grateful to our customers, shareholders, financial institutions, vendors and entire workforce for the continued cooperation, understanding and support.

On behalf of the Board of Directors

  
IQBAL ALI LAKHANI  
Chairman

Karachi: September 23, 2013





## Statement of Value added and its distribution

Particulars	2013		2012	
	Rs. in 000's	%	Rs. in 000's	%
<b>Value added</b>				
Gross Sales	1,606,558		1,999,337	
Material and services	(1,221,160)		(1,461,186)	
Other income	5,222		6,113	
	390,620	100	544,264	100
<b>Distribution</b>				
To employees				
Salaries, wages and other benefits	119,464	31	122,737	23
To government				
Sales tax & Special Excise Duty	217,300		305,489	
Company taxation	3,172		1,670	
	220,472	56	307,159	56
To providers of capital				
Financial charges on borrowed fund	98,118	25	104,388	19
Retained in business				
Depreciation	39,975		35,252	
Amortisation of intangible assets	1,019		1,008	
Retained loss	(88,428)		(26,280)	
	(47,434)	(12)	9,980	2
	390,620	100	544,264	100



## Six years key operating and financial data

	Rupees in thousands					
	2013	2012	2011	2010	2009	2008
<b>Trading results</b>						
Sales	1,389,259	1,693,802	1,753,881	1,076,104	808,840	557,718
Gross profit	65,475	136,439	164,425	91,597	42,702	63,956
(Loss)/profit before taxation	(85,256)	(24,610)	16,622	(28,780)	(56,218)	10,806
(Loss)/profit after taxation	(88,428)	(26,280)	10,275	(18,692)	(37,346)	6,952
<b>Dividend</b>						
Cash	0%	0%	0%	0%	0%	0%
Stock	0%	0%	0%	0%	0%	15%
Payout ratio	0%	0%	0%	0%	0%	0%
<b>Financial position</b>						
Total capital employed	712,811	805,108	604,792	704,428	638,349	586,041
Property, plant and equipment	655,439	665,875	619,653	652,746	685,482	602,370
Shareholder equity	1,264	86,674	111,868	100,792	118,639	154,962
Long term liabilities	540,081	540,081	354,361	452,391	352,270	288,234
Deferred taxation	-	3,868	2,870	14,751	30,101	48,628
<b>Others</b>						
Number of employees (at year end)	203	255	275	274	274	223
Capital expenditure	34,945	28,090	20,386	19,248	84,456	218,740
Contribution to national exchequer	65,185	138,539	124,040	58,310	56,178	70,737
<b>Ratios</b>						
Gross profit	4.71%	8.06%	9.37%	8.51%	5.28%	11.47%
(Loss)/profit before taxation	-6.14%	-1.45%	0.95%	-2.67%	-6.95%	1.94%
(Loss)/profit after taxation	-6.37%	-1.55%	0.59%	-1.74%	-4.62%	1.25%
Return on equity	-6995.89%	-30.32%	9.18%	-18.55%	-31.48%	4.49%
Return on capital employed	-12.41%	-3.26%	1.70%	-2.65%	-5.85%	1.19%
Current ratio	1.09 : 1	1.25 : 1	0.97 : 1	1.09 : 1	0.82 : 1	0.89 : 1
Debt / equity ratio	76 : 24	67 : 33	65 : 35	67 : 33	61 : 39	59 : 41
Inventory days	80	62	58	68	66	82
Receivable days	61	61	50	48	30	23
<b>Others</b>						
Earning per share - (Rs.)	(18.64)	(5.54)	2.17	(3.94)	(7.87)	1.47
Break-up value per share (Rs.)	0.27	18.27	23.59	21.25	25.01	37.57
Market Value (Rs.)	20.49	20.93	25.84	18.00	26.99	90.97
Price earning ratio	(1.10)	(3.78)	11.93	(4.56)	(3.43)	62.06

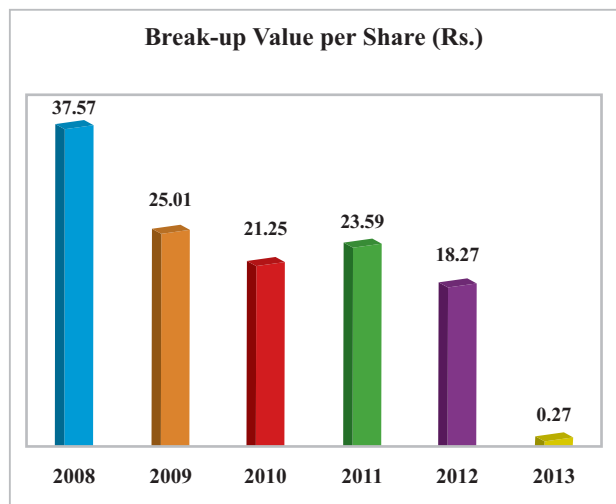
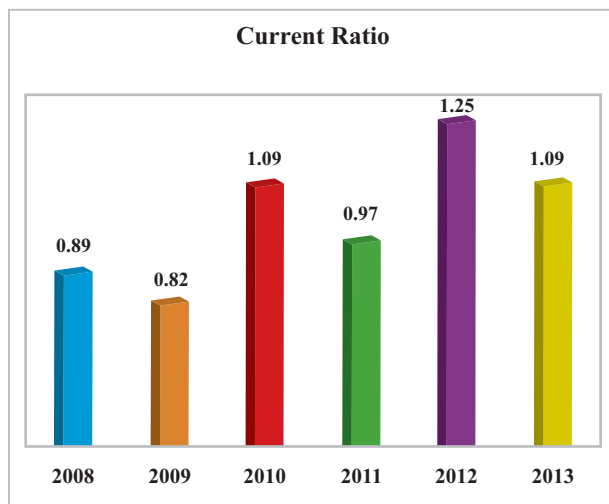
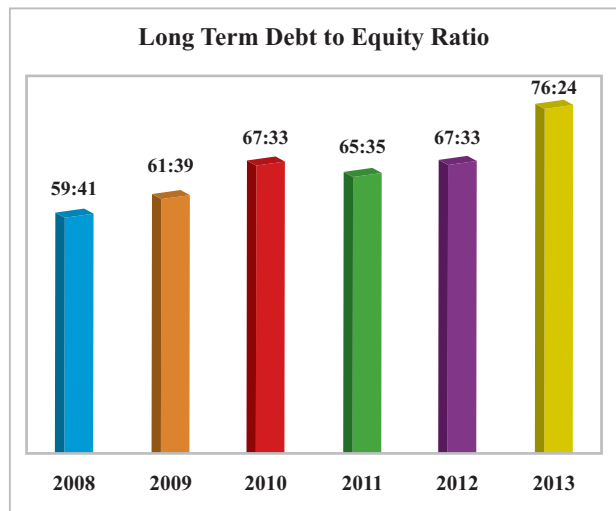
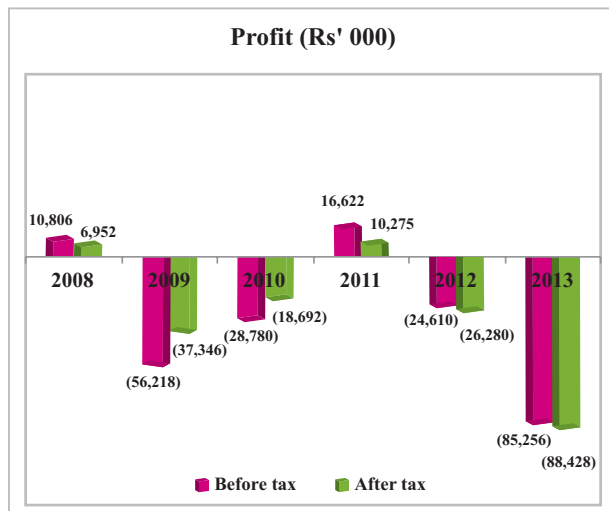
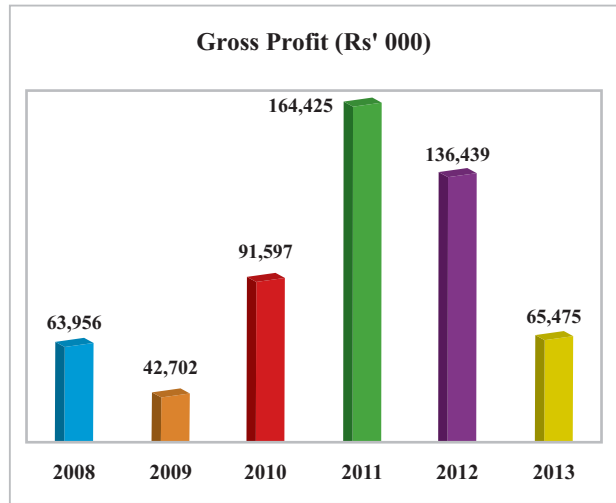
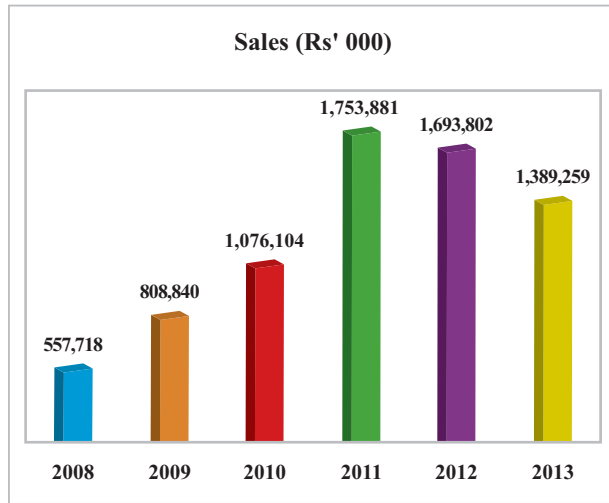


### Vertical & Horizontal Analysis

	2013		2012		2011		2010		2009		2008	
	Rs. '000	%	Rs. '000	%	Rs. '000	%	Rs. '000	%	Rs. '000	%	Rs. '000	%
<b>VERTICAL ANALYSIS</b>												
<b>PROFIT &amp; LOSS ACCOUNT</b>												
Sales - net	1,389,259	100%	1,693,802	100%	1,753,881	100%	1,076,104	100%	808,840	100%	557,718	100%
Cost of sales	1,323,784	95%	1,557,363	92%	1,589,456	91%	984,507	91%	766,139	95%	493,762	89%
Gross profit	65,475	5%	136,439	8%	164,425	9%	91,597	9%	42,702	5%	63,956	11%
Operating expenses	52,613	4%	56,661	3%	52,608	3%	43,380	4%	31,314	4%	23,755	4%
Operating profit	12,862	1%	79,778	5%	111,817	6%	48,217	4%	11,387	1%	40,201	7%
Financial charges	98,118	7%	104,388	6%	95,195	5%	76,997	7%	67,605	8%	29,395	5%
(Loss)/profit before taxation	(85,256)	-6%	(24,610)	-1%	16,622	1%	(28,780)	-3%	(56,218)	-7%	10,806	2%
(Loss)/profit after taxation	(88,428)	-6%	(26,280)	-2%	10,275	1%	(18,692)	-2%	(37,346)	-5%	6,952	1%
<b>BALANCE SHEET</b>												
<b>Assets</b>												
Property, plant and equipment	655,439	51%	665,875	50%	619,653	48%	652,746	55%	685,482	70%	602,370	72%
Other non-current assets	4,688	1%	7,564	1%	7,632	1%	10,397	1%	14,379	1%	11,468	1%
Current Assets	620,501	48%	659,545	49%	645,852	51%	517,509	44%	282,561	29%	228,168	27%
<b>Total Assets</b>	<b>1,280,628</b>	<b>100%</b>	<b>1,332,984</b>	<b>100%</b>	<b>1,273,137</b>	<b>100%</b>	<b>1,180,652</b>	<b>100%</b>	<b>982,422</b>	<b>100%</b>	<b>842,006</b>	<b>100%</b>
<b>Equity &amp; Liabilities</b>												
Share capital & reserves	1,264	0%	86,674	7%	111,868	9%	100,792	9%	118,639	12%	154,962	18%
Surplus on revaluation of fixed assets	171,467	13%	174,485	12%	135,693	11%	136,493	12%	137,338	14%	94,217	11%
Non-current liabilities	540,081	42%	543,949	41%	357,231	28%	467,142	39%	382,371	39%	336,862	40%
Current liabilities	567,816	45%	527,876	40%	668,345	52%	476,225	40%	344,074	35%	255,965	31%
<b>Total equity and Liabilities</b>	<b>1,280,628</b>	<b>100%</b>	<b>1,332,984</b>	<b>100%</b>	<b>1,273,137</b>	<b>100%</b>	<b>1,180,652</b>	<b>100%</b>	<b>982,422</b>	<b>100%</b>	<b>842,006</b>	<b>100%</b>
<b>HORIZONTAL ANALYSIS</b>												
<b>PROFIT &amp; LOSS ACCOUNT</b>												
Sales - net	1,389,259	249%	1,693,802	304%	1,753,881	314%	1,076,104	193%	808,840	145%	557,718	100%
Cost of sales	1,323,784	268%	1,557,363	315%	1,589,456	322%	984,507	199%	766,139	155%	493,762	100%
Gross profit	65,475	102%	136,439	213%	164,425	257%	91,597	143%	42,702	67%	63,956	100%
Operating expenses	52,613	221%	56,661	239%	52,608	221%	43,380	183%	31,314	132%	23,755	100%
Operating profit	12,862	32%	79,778	198%	111,817	278%	48,217	120%	11,387	28%	40,201	100%
Financial charges	98,118	334%	104,388	355%	95,195	324%	76,997	262%	67,605	230%	29,395	100%
(Loss)/profit before taxation	(85,256)	-789%	(24,610)	-228%	16,622	154%	(28,780)	-266%	(56,218)	-520%	10,806	100%
(Loss)/profit after taxation	(88,428)	-1272%	(26,280)	-378%	10,275	148%	(18,692)	-269%	(37,346)	-537%	6,952	100%
<b>BALANCE SHEET</b>												
<b>Assets</b>												
Property, plant and equipment	655,439	109%	665,875	111%	619,653	103%	652,746	108%	685,482	114%	602,370	100%
Other non-current assets	4,688	41%	7,564	66%	7,632	67%	10,397	91%	14,379	125%	11,468	100%
Current Assets	620,501	272%	659,545	289%	645,852	283%	517,509	227%	282,561	124%	228,168	100%
<b>Total Assets</b>	<b>1,280,628</b>	<b>152%</b>	<b>1,332,984</b>	<b>158%</b>	<b>1,273,137</b>	<b>151%</b>	<b>1,180,652</b>	<b>140%</b>	<b>982,422</b>	<b>117%</b>	<b>842,006</b>	<b>100%</b>
<b>Equity &amp; Liabilities</b>												
Share capital & reserves	1,264	1%	86,674	56%	111,868	72%	100,792	65%	118,639	77%	154,962	100%
Surplus on revaluation of fixed assets	171,467	182%	174,485	185%	135,693	144%	136,493	145%	137,338	146%	94,217	100%
Non-current liabilities	540,081	160%	543,949	161%	357,231	106%	467,142	139%	382,371	114%	336,862	100%
Current liabilities	567,816	222%	527,876	206%	668,345	261%	476,225	186%	344,074	134%	255,965	100%
<b>Total equity and Liabilities</b>	<b>1,280,628</b>	<b>152%</b>	<b>1,332,984</b>	<b>158%</b>	<b>1,273,137</b>	<b>151%</b>	<b>1,180,652</b>	<b>140%</b>	<b>982,422</b>	<b>117%</b>	<b>842,006</b>	<b>100%</b>



# Graphs





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Sarwar Shaheed Road  
Karachi-74200  
Pakistan

## REVIEW REPORT TO THE MEMBERS ON STATEMENT OF COMPLIANCE WITH BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of **MERIT PACKAGING LIMITED** to comply with the Listing Regulations of Karachi Stock Exchange Limited, where the Company is listed.

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

As part of our audit of the financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board's statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Company's corporate governance procedures and risks.

Further, the Listing Regulations of Karachi Stock Exchange Limited require the Company to place before the Board of Directors for their consideration and approval, related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the Audit Committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the Audit Committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Company for the year ended June 30, 2013.

**KARACHI**

**DATED:** September 23, 2013

**CHARTERED ACCOUNTANTS**

Engagement Partner: Zulfikar Ali Causer



# Statement of Compliance with the Code of Corporate Governance

for the year ended June 30, 2013

This statement is being presented to comply with the Code of Corporate Governance contained in Regulation No. 35 of listing regulations of Karachi Stock Exchange 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 CCG in the following manner:

1. The Company encourages representation of independent non-executive Directors and Directors representing minority interests on its Board of Directors. The Board comprises of the following:

<u>Category</u>	<u>Names</u>
Independent Director	Mr. Shaikh Muhammad Barinuiddin
Executive Director	Mr. Shahid Ahmed Khan
Non-Executive Directors	Mr. Iqbal Ali Lakhani Mr. Zulfiqar Ali Lakhani Mr. Amin Mohammed Lakhani Mr. Tasleemuddin Ahmed Batlay Mr. Sheikh Asim Rafiq Mr. Mohammad Yousuf Memon
Chief Executive Officer	Mr. Mohammad Shahid

2. The Directors have confirmed that none of them is serving as a Director in more than seven 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. A casual vacancy occurred on the Board of Directors on December 31, 2012 was filled in promptly.
5. The Company had prepared a "Code of Conduct" and has ensured that appropriate steps have been taken to disseminate it throughout the Company along with its supporting policies and procedures.
6. The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the Chief Executive Officer and Executive Director have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman and, in his absence, by a Director elected by the Board for this purpose and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated in time.
9. In accordance with the criteria specified on clause (xi) of CCG, four Directors of the Company are exempted from the requirement of Directors' training program one of the Directors attended the directors training program during the year and rest of the Directors to be trained within specified time.
10. The Board has approved appointment of Chief Financial Officer and Head of Internal Audit, including their remuneration and terms and conditions of employment. Mr. Mansoor Ahmed was assigned responsibilities of Company Secretary of Merit Packaging Limited in addition to his responsibilities in other group companies.



## Statement of Compliance with the Code of Corporate Governance

11. The Directors' report for this year has been prepared in compliance with the requirements of the CCG 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 CCG.
15. The Board has formed an Audit Committee comprising of three non-executive Directors, one of whom is independent Director who is also 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. The terms of reference of the committee have been formed and advised to the Committee for compliance.
17. The Board has formed a Human Resource and Remuneration Committee. It comprises three members, of whom two are Non-Executive Directors including the Chairman of the Committee.
18. The Board has set up an effective internal audit function managed by suitably qualified and experienced personnel for the purpose and is conversant with the policies and procedures of the Company.
19. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on Code of Ethics as adopted by the Institute of Chartered Accountants of Pakistan.
20. 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.
21. The 'closed period', prior to the announcement of interim / final results, and business decisions, which may materially affect the market price of Company's securities, was determined and intimated to directors, employees and stock exchange.
22. Material/price sensitive information has been disseminated among all market participants at once through stock exchange.
23. We confirm that all other material principles enshrined in the CCG have been complied with.

Karachi: September 23, 2013

  
**IQBAL ALI LAKHANI**  
Chairman

  
**MOHAMMAD SHAHID**  
Chief Executive Officer



## Pattern of Holding of Shares

held by the shareholders as at June 30, 2013

Incorporation No. K-206/5831/ CUIIN No. 0007464

Number of shareholders	From	Shareholdings	To	Total number of shares held
257	1	100	Shares	5,301
177	101	500	Shares	50,284
77	501	1,000	Shares	57,790
107	1,001	5,000	Shares	242,013
10	5,001	10,000	Shares	65,262
6	10,001	15,000	Shares	72,570
4	15,001	20,000	Shares	71,498
1	20,001	25,000	Shares	23,000
3	25,001	30,000	Shares	83,602
2	35,001	40,000	Shares	71,250
1	50,001	55,000	Shares	54,500
1	60,001	65,000	Shares	62,547
1	65,001	70,000	Shares	70,000
1	165,001	170,000	Shares	167,500
1	310,001	315,000	Shares	314,930
1	450,001	455,000	Shares	454,195
1	530,001	535,000	Shares	532,881
1	650,001	655,000	Shares	654,214
1	680,001	685,000	Shares	684,145
1	1,005,001	1,010,000	Shares	1,005,365
654		Total		4,742,847

Categories of shareholders	Shares held	Percentage
Directors, Chief Executive Officer, and their spouse and minor children	10,145	0.21
Associated Companies, undertakings and related parties	2,509,858	52.92
National Investment Trust Ltd. & National Bank of Pakistan - Trustee Deptt.	713,755	15.05
Banks, Development Financial Institutions, Non Banking Financial Institutions	385	0.01
Insurance Companies	NIL	-
Modarabas and Mutual Funds	1,305,840	27.53
Shareholders holding 10 %	2,876,605	60.65
General Public		
a. Local	887,009	18.70
b. Foreign	NIL	-

NOTE: some of the shareholders are reflected in more than one category.

**Mohammad Shahid**  
Chief Executive Officer





## Details of Pattern of Shareholding for the year ended June 30, 2013 as per requirements of Code of Corporate Governance

		Shares held	
<b>i) <u>ASSOCIATED COMPANIES, UNDERTAKINGS AND RELATED PARTIES</u></b>			
1.	SIZA (Private) Limited	314,930	
2.	SIZA Services (Pvt) Limited	654,214	
3.	SIZA Commodities (Pvt) Limited	532,881	
4.	Premier Fashions (Pvt) Limited	1,005,365	
5.	Mrs. Gulbanoo Lakhani	172	
6.	Mr. Sultan Ali Lakhani	241	
7.	Mrs. Shaista Sultan Ali Lakhani	334	
8.	Mr. Babar Ali Lakhani	1,093	
9.	Mr. Bilal Ali Lakhani	234	
10.	Mr. Danish Ali Lakhani	394	
<b>ii) <u>MUTUAL FUND</u></b>			
1.	Golden Arrow Selected Stocks Fund Limited	454,195	
2.	CDC - Trustee AKD Opportunity Fund	167,500	
3.	National Bank of Pakistan - Trustee Department NI(U)T Fund	684,145	
<b>iii) <u>DIRECTORS, THEIR SPOUSE AND MINOR CHILDREN</u></b>			
1.	Mr. Iqbal Ali Lakhani	Director	2,840
2.	Mr. Zulfiqar Ali Lakhani	Director	862
3.	Mr. Amin Mohammed Lakhani	Director	2,992
4.	Mr. Tasleemuddin Ahmed Batlay	Director	862
5.	Mr. Shahid Ahmed Khan	Director	500
6.	Mr. Shaikh Muhammad Barinuddin	Independent Director	500
7.	Mr. Sheikh Asim Rafiq	Nominee of NIT	NIL
8.	Mr. Mohammad Yousuf Memon	Nominee of NIT	NIL
9.	Mr. Mohammad Shahid	Chief Executive Officer	862
10.	Mrs. Ronak Iqbal Lakhani W/o. Iqbal Ali Lakhani		179
11.	Mrs. Fatima Lakhani W/o. Zulfiqar Ali Lakhani		272
12.	Mrs. Saira Amin Lakhani W/o. Amin Mohammed Lakhani		276
<b>iv) <u>EXECUTIVES</u></b>			NIL
<b>v) <u>PUBLIC SECTOR COMPANIES AND CORPORATIONS</u></b>			NIL
<b>vi) <u>BANKS, DEVELOPMENT FINANCE INSTITUTIONS, NON-BANKING FINANCE COMPANIES, INSURANCE COMPANIES, TAKAFUL MODARABAS AND PENSION FUNDS:</u></b>			92,542
<b>vii) <u>SHAREHOLDERS HOLDING 5% OR MORE</u></b> <b><u>[Other than those reported at i(1), i(2), i(3), i(4) ii(1) and ii(3)]</u></b>			NIL
<b>viii) <u>INDIVIDUALS AND OTHER THAN THOSE MENTIONED ABOVE</u></b>			824,462

Note: Some of the shareholders are reflected in more than one Category.



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Pakistan

## AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of **MERIT PACKAGING LIMITED** as at June 30, 2013 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

- a) in our opinion proper books of accounts have been kept by the Company as required by the Companies Ordinance, 1984;
- b) in our opinion:
  - i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of accounts and are further in accordance with accounting policies consistently applied;
  - ii) the expenditure incurred during the year was for the purpose of the Company's business; and
  - iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;
- c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at June 30, 2013 and of the loss, comprehensive loss, its cash flows and changes in equity for the year then ended; and
- d) in our opinion, no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980.

KARACHI

DATED: September 23, 2013

CHARTERED ACCOUNTANTS

Engagement Partner: Zulfikar Ali Causer



## Balance Sheet

as at June 30, 2013

	Note	2013 Rupees	2012 Rupees
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	5	655,438,641	665,875,282
Intangible assets	6	1,037,650	1,986,314
Long-term loans and advances	7	52,984	2,086,256
Long-term deposits	8	3,596,547	3,490,447
		660,125,822	673,438,299
<b>CURRENT ASSETS</b>			
Stores and spares	9	63,317,238	53,903,595
Stock-in-trade	10	302,099,815	276,126,690
Trade debts	11	202,682,147	264,988,576
Loans and advances	12	1,793,202	5,350,211
Trade deposits and short-term prepayments	13	2,083,401	2,358,054
Other receivables	14	1,231,887	362,419
Tax refund due from government	15	38,773,586	27,329,906
Taxation - net	16	7,597,295	28,005,222
Cash and bank balances	17	922,499	1,120,695
		620,501,070	659,545,368
<b>TOTAL ASSETS</b>		<b>1,280,626,892</b>	<b>1,332,983,667</b>
<b>EQUITY AND LIABILITIES</b>			
<b>SHARE CAPITAL AND RESERVES</b>			
Authorised share capital 30,000,000 (2012: 30,000,000) ordinary shares of Rs.10/- each		300,000,000	300,000,000
Issued, subscribed and paid-up capital	18	47,428,470	47,428,470
Accumulated (loss) / profit	19	(46,164,921)	39,245,578
		1,263,549	86,674,048
<b>SURPLUS ON REVALUATION OF FIXED ASSETS</b>	20	171,466,701	174,484,675
<b>NON-CURRENT LIABILITIES</b>			
Sub-ordinated loan	21	100,000,000	-
Long-term financing	22	440,000,000	540,000,000
Long-term deposits		81,000	81,000
Deferred taxation	23	-	3,867,991
		540,081,000	543,948,991
<b>CURRENT LIABILITIES</b>			
Trade and other payables	24	146,578,839	182,405,153
Financial charges payable	25	9,872,440	10,642,039
Short-term borrowings	26	411,364,363	333,052,625
Current portion of long-term liabilities	27	-	1,776,136
		567,815,642	527,875,953
<b>CONTINGENCIES AND COMMITMENTS</b>	28		
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>1,280,626,892</b>	<b>1,332,983,667</b>

The annexed notes from 1 to 51 form an integral part of these financial statements.

  
IQBAL ALI LAKHANI  
Chairman

  
MOHAMMAD SHAHID  
Chief Executive Officer



## Profit and Loss Account

for the year ended June 30, 2013

	Note	2013 Rupees	2012 Rupees
Sales - net	29	1,389,258,616	1,693,802,259
Cost of sales	30	(1,323,784,049)	(1,557,363,068)
Gross profit		65,474,567	136,439,191
General and administrative expenses	31	(31,306,606)	(35,217,452)
Selling and distribution expenses	32	(24,326,925)	(24,829,852)
Other income	33	5,221,632	6,113,188
Other operating expenses	34	(2,201,028)	(2,727,512)
		(52,612,927)	(56,661,628)
Operating profit		12,861,640	79,777,563
Financial charges	35	(98,117,947)	(104,388,045)
Loss before taxation		(85,256,307)	(24,610,482)
Taxation	36	(3,172,166)	(1,669,925)
Loss for the year		(88,428,473)	(26,280,407)
Loss per share - basic and diluted	37	(18.64)	(5.54)

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

The annexed notes from 1 to 51 form an integral part of these financial statements.

  
IQBAL ALI LAKHANI  
Chairman

  
MOHAMMAD SHAHID  
Chief Executive Officer



## Statement of Comprehensive Income

for the year ended June 30, 2013

	2013	2012
	Rupees	Rupees
Loss for the year	(88,428,473)	(26,280,407)
Other comprehensive income	-	-
<b>Total comprehensive loss for the year</b>	<b>(88,428,473)</b>	<b>(26,280,407)</b>

Surplus arising on revaluation of assets has been reported in accordance with the requirements of the Companies Ordinance, 1984 in a separate account below equity.

The annexed notes from 1 to 51 form an integral part of these financial statements.

**IQBAL ALI LAKHANI**  
Chairman

**MOHAMMAD SHAHID**  
Chief Executive Officer



# Cash Flow Statement

for the year ended June 30, 2013

	Note	2013 Rupees	2012 Rupees
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash generated from operations	40	37,492,140	158,208,632
Taxes refunded / (paid)		11,085,844	(40,355,068)
Financial charges paid		(98,887,546)	(101,230,924)
Long-term loans and advances		2,033,272	(1,433,594)
Long-term deposits		(106,100)	(3,143,409)
Net cash (used in) / generated from operating activities		(48,382,390)	12,045,637
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Capital expenditure		(34,945,293)	(28,089,825)
Intangible assets		(70,000)	-
Proceeds from sale of operating fixed assets	5.4	6,663,885	4,642,000
Net cash (used in) investing activities		(28,351,408)	(23,447,825)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from long term financing		540,000,000	-
Proceeds from subordinated loan		100,000,000	-
Repayment of long-term financing		(640,000,000)	-
Short term financing (excluding running finance)		70,000,000	-
Repayment of liabilities against assets subject to finance leases		(1,776,136)	(7,458,353)
Repayment of short term financing (excluding running finance)		-	(90,000,000)
Net cash generated from / (used in) financing activities		68,223,864	(97,458,353)
Net decrease in cash and cash equivalents		(8,509,934)	(108,860,541)
Cash and cash equivalents at beginning of the year		(331,931,930)	(223,071,389)
Cash and cash equivalents at end of the year		(340,441,864)	(331,931,930)
<b>CASH AND CASH EQUIVALENTS COMPRISE:</b>			
Cash and bank balances	17	922,499	1,120,695
Short-term running finance	26.1	(341,364,363)	(333,052,625)
		(340,441,864)	(331,931,930)

The annexed notes from 1 to 51 form an integral part of these financial statements.

  
IQBAL ALI LAKHANI  
Chairman

  
MOHAMMAD SHAHID  
Chief Executive Officer



## Statement of Changes in Equity

for the year ended June 30, 2013

	Issued, subscribed and paid-up capital Rupees	General reserve Rupees	Reserves		Total Rupees
			Accumulated loss Rupees	Total Rupees	
Balance as at July 01, 2011	47,428,470	106,800,000	(42,360,195)	64,439,805	111,868,275
Transfer from surplus on revaluation of fixed assets (note 20)	-	-	1,086,180	1,086,180	1,086,180
Comprehensive loss for the year ended June 30, 2012	-	-	(26,280,407)	(26,280,407)	(26,280,407)
Balance as at June 30, 2012	47,428,470	106,800,000	(67,554,422)	39,245,578	86,674,048
Transfer from surplus on revaluation of fixed assets (note 20)	-	-	3,017,974	3,017,974	3,017,974
Comprehensive loss for the year ended June 30, 2013	-	-	(88,428,473)	(88,428,473)	(88,428,473)
Balance as at June 30, 2013	47,428,470	106,800,000	(152,964,921)	(46,164,921)	1,263,549

The annexed notes from 1 to 51 form an integral part of these financial statements.

  
IQBAL ALI LAKHANI  
Chairman

  
MOHAMMAD SHAHID  
Chief Executive Officer



# Notes to the Financial Statements

for the year ended June 30, 2013

## 1. NATURE AND STATUS OF THE COMPANY

Merit Packaging Limited ("the Company") was incorporated on January 28, 1980 in Pakistan as a public limited Company under the Companies Ordinance, 1984 and is listed on the Karachi Stock Exchange. The registered office of the Company is situated at Lakson Square Building No. 2, Sarwar Shaheed Road, Karachi. The Company is mainly engaged in the manufacture and sale of printing and packaging materials.

## 2. BASIS OF PREPARATION

### 2.1 Statement of compliance

These financial statements have been prepared in accordance with the requirements of the Companies Ordinance, 1984 (the Ordinance), directives issued by the Securities and Exchange Commission of Pakistan (SECP) and approved financial reporting standards as applicable in Pakistan. Approved financial reporting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the provisions of the Ordinance. Wherever, the requirements of the Ordinance or directives issued by the SECP differ with the requirements of these standards, the requirements of the Ordinance and of the said directives have been followed.

### 2.2 Basis of measurement

These financial statements have been prepared under the historical cost convention, except for revaluation of certain property, plant and equipment and recognition of certain employees retirement benefits at present value.

These financial statements are prepared following accrual basis of accounting except for cash flow information.

### 2.3 Functional and presentation currency

These financial statements are presented in Pak rupee, which is the functional and presentation currency for the Company and rounded off to the nearest rupee.

## 3. NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS TO PUBLISHED APPROVED ACCOUNTING STANDARDS

### 3.1 Amendments that are effective in current year but not relevant to the Company

The Company has adopted the amendments to the following accounting standards which became effective during the year:

		<b>Effective date (annual periods beginning on or after)</b>
IAS 1	Presentation of Financial Statements - Amendments to revise the way other comprehensive income is presented	July 01, 2012
IAS 12	Income Taxes	January 01, 2012

### 3.2 Amendments not yet effective

The following amendments and interpretations with respect to the approved accounting standards as applicable in Pakistan would be effective from the dates mentioned below against the respective standard or interpretation:

IFRS 1	First-time Adoption of International Financial Reporting Standards - Amendments for government loan with a below-market rate of interest when transitioning to IFRSs and amendments resulting from Annual Improvements 2009-2011 Cycle (repeat application, borrowing costs) January 01, 2013
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## Notes to the Financial Statements

for the year ended June 30, 2013

		<b>Effective date (annual periods beginning on or after)</b>
IFRS 7	Financial Instruments Disclosures - Amendments related to the offsetting of assets and liabilities	January 01, 2013
IFRS 7	Financial Instruments Disclosures - Deferral of mandatory effective date of IFRS 9 and amendments to transition disclosures	January 01, 2015
IFRS 9	Financial Instruments - Reissue to include requirements for the classification and measurement of financial liabilities and incorporate existing derecognition requirements	January 01, 2013
IFRS 9	Financial Instruments - Deferral of mandatory effective date of IFRS 9 and amendments to transition disclosures	January 01, 2015
IFRS 10	Consolidated Financial Statements - Amendments to transitional guidance	January 01, 2013
IFRS 10	Consolidated Financial Statements - Amendments for investment entities	January 01, 2014
IFRS 11	Joint Arrangements - Amendments to transitional guidance	January 01, 2013
IFRS 12	Disclosure of Interests in Other Entities - Amendments to transitional guidance	January 01, 2013
IFRS 12	Disclosure of Interests in Other Entities - Amendments for investment entities	January 01, 2014
IAS 1	Presentation of Financial Statements - Amendments resulting from Annual Improvements 2009-2011 Cycle (comparative information)	January 01, 2013
IAS 16	Property, Plant and Equipment - Amendments resulting from Annual Improvements 2009-2011 Cycle (servicing equipment)	January 01, 2013
IAS 19	Employee Benefits - Amended standard resulting from the post-employment benefits and termination benefits projects	January 01, 2013
IAS 27	Separate Financial Statements - Amendments for investment entities	January 01, 2014
IAS 32	Financial Instruments: Presentation - Amendments relating to the offsetting of assets and liabilities	January 01, 2014
IAS 32	Financial Instruments: Presentation - Amendments resulting from Annual Improvements 2009-2011 Cycle (tax effect of equity distributions)	January 01, 2013
IAS 34	Interim Financial Reporting - Amendments resulting from Annual Improvements 2009-2011 Cycle (interim reporting of segment assets)	January 01, 2013
IAS 36	Impairment of Assets - Recoverable amount disclosures for non financial assets	January 01, 2014
IAS 39	Financial Instruments: Recognition and Measurement - Amendments for novations of derivatives	January 01, 2014



# Notes to the Financial Statements

for the year ended June 30, 2013

**Effective date  
(annual periods  
beginning on or after**

### 3.3 Standards or interpretations not yet effective

The following International Financial Reporting Standards or interpretations issued by IASB would be effective from the dates mentioned below against the respective standard or interpretation:

IFRS 9	Financial Instruments	January 01, 2013
IFRS 10	Consolidated Financial Statements	January 01, 2013
IFRS 11	Joint Arrangements	January 01, 2013
IFRS 12	Disclosure of Interests in Other Entities	January 01, 2013
IFRS 13	Fair Value Measurement	January 01, 2013
IAS 27	Separate Financial Statements	January 01, 2013
IAS 28	Investments in Associates and Joint Ventures	January 01, 2013
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	January 01, 2013
IFRIC 21	Levies	January 01, 2014

IAS 19 'Employee benefits' (amended 2011) (is effective for the periods beginning on or after January 1, 2013). This amendment eliminates the corridor approach and requires all actuarial gain and losses to be recognized in other comprehensive income as they occur immediately, and it replaces interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability / assets.

This change would affect the recognized amounts of actuarial gain / loss and net defined benefit liability / assets for the accounting period as prescribed above amounting to Rs. 0.523 million in other comprehensive income in the period of initial application.

## 4 SIGNIFICANT ACCOUNTING POLICIES

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

### 4.1 Property, plant and equipment

#### 4.1.1 Owned

These are stated at cost less accumulated depreciation and impairment losses, if any, except for leasehold land, building on leasehold land and plant and machinery which are stated at revalued amount less accumulated depreciation, if any.

Depreciation is charged using the straight line method, whereby the cost or revalued amount of an asset less estimated residual value, if not insignificant, is written off over its estimated useful life.

The asset's residual values and useful lives are reviewed at each financial year end and adjusted if impact on depreciation is significant. Full month's depreciation is charged on addition, while no depreciation is charged in the month of disposal or deletion of assets.

Incremental depreciation charged for the period on revalued assets is transferred from surplus on revaluation of fixed assets to retained earnings during the year.

Maintenance costs and normal repairs are charged to profit and loss account as and when incurred. Major renewals and improvements are capitalised when it is probable that respective future economic benefits will flow to the Company and the cost of the item can be measured reliably and the assets so replaced, if any, are retired.

Gains and losses on disposal of property, plant and equipment are taken to the profit and loss account, and the related surplus on revaluation is transferred directly to retained earnings.



# Notes to the Financial Statements

for the year ended June 30, 2013

## 4.1.2 Leased

### Finance leases

Leases where the Company has substantially all the risks and rewards of ownership are classified as finance leases. Assets subject to finance lease are stated at lower of present value of minimum lease payments under the lease agreement and the fair value of leased assets. The related obligation under the lease less financial charges allocated to future period are shown as liabilities.

Depreciation is charged on these assets by applying the straight line method at the rate given in note 5 to the financial statements.

Financial charges are calculated at the rate implicit in the lease.

### Operating leases

Lease payments under operating leases (net of any incentives received from the lessor) are charged to profit and loss account on a straight line basis over the respective lease term.

## 4.1.3 Capital work-in-progress

Capital work-in-progress represents expenditure on property, plant and equipment which are in the course of construction and installation. Transfers are made to relevant property, plant and equipment category as and when assets are available for use. Capital work-in-progress is stated at cost less any identified impairment loss.

## 4.2 Intangible assets

These are stated at cost less accumulated amortization and impairment loss, if any. Amortization is charged to profit and loss account over the useful life of the asset on a systematic basis applying the straight line method.

Software development costs are only capitalized to the extent that future economic benefits are expected to be derived by the Company.

## 4.3 Stores and spares

Stores and spares are stated at cost which is determined by using weighted average method except for goods in transit and in bond which are valued at cost comprising invoice value plus other charges paid thereon. Adequate provision is made for slow moving and obsolete items.

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

## 4.4 Stock-in-trade

Stock-in-trade are stated at lower of weighted average cost and net realisable value, except for goods in transit and in bond which are stated at cost. Cost of work-in-process and finished goods comprises cost of direct material, labour and appropriate portion of manufacturing overheads. Adequate provision is made for slow moving and obsolete items.

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

## 4.5 Trade debts and other receivables

Trade debts and other receivables are carried at original invoice amount being the fair value of the consideration to be received in future. An estimated provision is made against debts considered doubtful of recovery whereas debts considered irrecoverable are written off.

## 4.6 Taxation

### 4.6.1 Current

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.



# Notes to the Financial Statements

for the year ended June 30, 2013

## 4.6.2 Deferred

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date.

The Company recognizes deferred tax asset/liability on deficit/surplus on revaluation of fixed assets which is adjusted against the related deficit/surplus.

## 4.7 Surplus on revaluation of fixed assets

Surplus arising on revaluation of fixed assets is transferred to "Surplus on Revaluation of Fixed Assets Account" and amount equal to incremental depreciation charged during the year net of deferred tax effect is transferred to profit and loss account. Impairment loss is adjusted against surplus carried for the impaired assets.

## 4.8 Borrowings and their cost

Borrowings are initially recorded at the proceeds received. In subsequent periods, borrowings are stated at amortized cost using the effective yield method.

Borrowing costs are recognised as an expense in the period in which these are incurred except to the extent of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. Such borrowing costs, if any, are capitalized as part of the cost of that asset.

## 4.9 Trade and other payables

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

## 4.10 Provisions

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

## 4.11 Cash and bank balances

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

## 4.12 Impairment losses

The Company assesses at each balance sheet date whether there is any indication that assets other than stores and spares, stock in trade and deferred tax assets may be impaired. If such an indication exists, the recoverable amount of the assets is estimated in order to determine the extent of impairment loss, if any.

Where carrying values exceed the estimated recoverable amount, assets are written down to the recoverable amounts and the resulting impairment loss is recognized as expense in the profit and loss account, unless the asset is carried at revalued amount. Any impairment loss of a revalued asset is treated as a revaluation decrease.

## 4.13 Financial instruments

### 4.13.1 Financial assets

The Company classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, held to maturity and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. All the financial assets of the Company are carried as loans and receivables.



# Notes to the Financial Statements

for the year ended June 30, 2013

## Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are included in current assets, except for maturities greater than 12 months after the balance sheet, which are classified as non-current assets. The Company's loans and receivables comprise 'trade debts' 'loans and deposits', 'other receivables' and 'cash and cash equivalents' in the balance sheet.

## 4.13.2 Financial liabilities

All financial liabilities are recognized at the time when the Company becomes a party to the contractual provisions of the instrument.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in respect of carrying amounts is recognized in the profit and loss account.

## 4.14 Offsetting of financial assets and financial liabilities

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

## 4.15 Foreign currency translation

Transactions in foreign currencies are translated into Pak rupees at the exchange rates prevailing at the date of transactions. Monetary assets and liabilities in foreign currencies are translated into Pak rupees at the rates of exchange prevailing at the balance sheet date. Foreign exchange differences are recognised in the profit and loss account.

## 4.16 Employee retirement benefits

### 4.16.1 Defined benefit plan

The Company operates an approved funded gratuity scheme for all its permanent employees who have attained retirement age, died or resigned during service period and have served for the minimum qualification period. Contributions are made to the fund on the basis of actuarial recommendations. The actuarial valuation was carried out at June 30, 2013 using the Projected Unit Credit Method in accordance with IAS-19 "Employee Benefits". The Company's policy with regards to actuarial gains / losses is to follow minimum recommended approach under IAS-19 (note 39).

### 4.16.2 Defined contribution plan

The Company operates a recognised provident fund scheme covering all permanent employees. Equal contributions are made to the Fund by the Company and the employees in accordance with the rules of the scheme.

### 4.16.3 Compensated absences

The liability in respect of compensated absences of employees is accounted for in the period in which the absences accrue.

## 4.17 Revenue recognition

Sales are recorded on dispatch of goods to customers.

Scrap sales are recognized when delivery is made to customers.

Profit on bank deposit and commission on insurance premium are recognised on accrual basis.

## 4.18 Cash and cash equivalents

For the purpose of cash flow statement, cash and cash equivalents comprise of cash in hand and balance with banks. Cash and cash equivalents also include bank overdrafts / short term financing that are repayable on demand and form an integral part of the Company's cash management.



# Notes to the Financial Statements

for the year ended June 30, 2013

## 4.19 Dividend and appropriation to reserves

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

## 4.20 Share capital

Share capital is classified as equity and recognized at the face value. Incremental costs directly attributable to the issue of new shares are shown as a deduction in equity.

## 4.21 Earnings / loss per share

The Company presents earnings / loss per share data for its ordinary shares. Basic earnings / loss per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by weighted average number of ordinary shares outstanding during the period.

## 4.22 Related parties transactions

Transactions with related parties are based at an arm's length price method and the transfer price is determined in accordance with the comparable uncontrolled price method.

## 4.23 Segment reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses including revenues and expenses that relate to transactions with any of the Company's other components. The Company has only one reportable segment.

## 4.24 Significant accounting judgements and critical accounting estimates / assumptions

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. The matters involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are as follows:

### 4.24.1 Defined benefit plan

Certain actuarial assumptions have been adopted by external professional valuer (as disclosed in note 39) 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.

### 4.24.2 Provision for taxation

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

### 4.24.3 Property, plant and equipment

The estimates for revalued amounts, if any, of different classes of property, plant and equipment, are based on valuation performed by external and internal professional valuers and recommendation of technical teams of the Company. The said recommendations also include estimates with respect to residual values and depreciable lives. 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.

### 4.24.4 Stores, spares and stock-in-trade

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



### Notes to the Financial Statements for the year ended June 30, 2013

#### 5. PROPERTY, PLANT AND EQUIPMENT

Description	Leasehold	Building/ improvements on leasehold	Plant and machinery	Furniture and fixtures	Vehicles	Office equipment	Computer equipment	Factory tools and equipment	Electrical installation	Leased Plant and machinery	Total
	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees
<b>Net carrying value basis year ended June 30, 2013</b>											
Opening net book value	136,888,880	78,165,950	377,698,744	2,656,463	13,867,369	2,625,617	773,310	25,312,987	15,086,415	12,799,547	665,875,282
Addition (at cost)	-	275,224	27,986,133	340,055	1,135,393	1,790,370	478,466	2,939,652	-	-	34,945,293
Transfer	-	-	12,722,358	-	-	-	-	-	-	(12,722,358)	-
Disposal (NBV)	-	-	(137,755)	-	(5,254,534)	(14,494)	-	-	-	-	(5,406,783)
Depreciation charge	-	(3,566,404)	(27,454,061)	(616,680)	(1,948,855)	(969,948)	(627,155)	(3,909,273)	(805,586)	(77,189)	(39,975,151)
<b>Closing net book value</b>	<b>136,888,880</b>	<b>74,874,770</b>	<b>390,815,419</b>	<b>2,379,838</b>	<b>7,799,373</b>	<b>3,431,545</b>	<b>624,621</b>	<b>24,343,366</b>	<b>14,280,829</b>	<b>-</b>	<b>655,438,641</b>
<b>Gross carrying value basis year ended June 30, 2013</b>											
Cost / revalued amount	136,888,880	117,777,025	668,770,196	5,032,891	14,383,599	7,128,845	6,785,290	56,902,242	20,474,682	-	1,034,143,650
Accumulated depreciation	-	(42,902,255)	(277,954,777)	(2,653,053)	(6,584,226)	(3,697,300)	(6,160,669)	(32,558,876)	(6,193,853)	-	(378,705,009)
<b>Net book value</b>	<b>136,888,880</b>	<b>74,874,770</b>	<b>390,815,419</b>	<b>2,379,838</b>	<b>7,799,373</b>	<b>3,431,545</b>	<b>624,621</b>	<b>24,343,366</b>	<b>14,280,829</b>	<b>-</b>	<b>655,438,641</b>
<b>Depreciation rate (% per annum)</b>											
	-	2.50% to 3.33%	2.50% to 20%	3.33% to 20%	3.33% to 25%	3.57% to 20%	5% to 33.33%	2.86% to 20%	3.33% to 4%	5% to 8.33%	

<b>Net carrying value basis year ended June 30, 2012</b>											
Opening net book value	128,333,325	73,923,535	323,037,689	2,347,201	13,912,606	1,622,946	1,486,196	26,792,467	15,802,620	32,394,893	619,653,478
Addition (at cost)	-	-	18,738,545	946,839	3,644,750	1,598,431	198,500	2,463,696	97,150	401,914	28,089,825
Transfer	-	-	19,091,137	-	-	-	-	-	-	(19,091,137)	-
Revaluation	8,555,555	7,449,031	40,739,751	-	-	-	-	-	-	-	56,744,337
Disposal (NBV)	-	-	(1,989,408)	-	(1,352,985)	(18,200)	-	-	-	-	(3,360,593)
Depreciation charged	-	(3,206,616)	(21,918,970)	(637,577)	(2,337,002)	(577,560)	(911,386)	(3,943,176)	(813,355)	(906,123)	(35,251,765)
<b>Closing net book value</b>	<b>136,888,880</b>	<b>78,165,950</b>	<b>377,698,744</b>	<b>2,656,463</b>	<b>13,867,369</b>	<b>2,625,617</b>	<b>773,310</b>	<b>25,312,987</b>	<b>15,086,415</b>	<b>12,799,547</b>	<b>665,875,282</b>

<b>Gross carrying value basis year ended June 30, 2012</b>											
Cost / revalued amount	136,888,880	117,501,801	625,363,120	4,692,836	21,991,410	5,415,935	6,306,824	53,962,590	20,474,682	16,031,329	1,008,629,407
Accumulated depreciation	-	(39,335,851)	(247,664,376)	(2,036,373)	(8,124,041)	(2,790,318)	(5,533,514)	(28,649,603)	(5,388,267)	(3,231,782)	(342,754,125)
<b>Net book value</b>	<b>136,888,880</b>	<b>78,165,950</b>	<b>377,698,744</b>	<b>2,656,463</b>	<b>13,867,369</b>	<b>2,625,617</b>	<b>773,310</b>	<b>25,312,987</b>	<b>15,086,415</b>	<b>12,799,547</b>	<b>665,875,282</b>

<b>Depreciation rate (% per annum)</b>											
	-	2.50% to 3.33%	2.50% to 20%	3.33% to 20%	3.33% to 25%	3.57% to 20%	5% to 33.33%	2.86% to 20%	3.33% to 4%	5% to 8.33%	



## Notes to the Financial Statements

for the year ended June 30, 2013

	Note	2013 Rupees	2012 Rupees
5.1	The depreciation charge for the year has been allocated as follows:		
Cost of sales	30	37,895,811	32,866,993
General and administrative expenses	31	1,050,248	1,429,127
Selling and distribution expenses	32	1,029,092	955,645
		39,975,151	35,251,765

- 5.2 The Company has revalued its leasehold land, building / improvement on leasehold land and plant and machinery on September 01, 2004, June 25, 2009 and June 30, 2012 by an independent valuer M/s. Akbani and Javed Associates on the basis of market value. This revaluation resulted in net surplus aggregating to Rs. 215.687 million (2012: Rs. 215.687 million). Revalued assets having revaluation surplus of Rs. 9.434 million (2012: Rs. 9.153 million) have been sold upto the balance sheet date.

The incremental value of the leasehold land, building/improvement on leasehold land and plant and machinery so revalued are being depreciated over the remaining useful lives of these assets at the date of revaluation.

Out of the revaluation surplus, an amount of Rs. 190.413 million including land remains undepreciated as at June 30, 2013 (2012: Rs. 195.056 million).

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

	Net book value	
	2013 Rupees	2012 Rupees
Leasehold land	608,737	608,737
Building / Improvements on leasehold land	60,114,510	62,428,856
Plant and machinery	351,442,507	334,659,639
	412,165,754	397,697,232

- 5.4 The following operating assets were disposed off during the year:

Description	Cost/ revaluation Rupees	Accumulated depreciation Rupees	Book value Rupees	Sale proceeds Rupees	Mode of disposal	Particulars of buyer
Plant and machinery	610,387	472,632	137,755	172,414	Negotiation	Star Electrica Services - Karachi
Vehicle	1,401,393	665,070	736,323	1,060,000	Negotiation	Ghulam Mohiuddin - Karachi
	776,000	102,474	673,526	780,000	Negotiation	Saleem Ahmed - Karachi
	970,000	48,500	921,500	925,000	Negotiation	Manzoor Ahmed - Karachi
	1,088,083	451,131	636,952	900,000	Negotiation	Hamid Jalal Shah - ex employee
	1,404,150	173,069	1,231,081	1,280,000	Negotiation	H&H Traders - Karachi
	484,800	325,920	158,880	158,880	Company Policy	Aurangzeb Baber - ex employee
	879,000	590,940	288,060	288,060	Company Policy	Tariq Alam Jah - an employee
	915,000	615,120	299,880	299,880	Company Policy	Shahid Hussain Hashmi - ex employee
	374,000	274,000	100,000	354,000	Claim	Century Insurance Company Limited - Karachi (An Associated Company)
	450,778	242,446	208,332	431,000	Claim	Century Insurance Company Limited - Karachi (An Associated Company)
	8,743,204	3,488,670	5,254,534	6,476,820		
Office equipments items having book value upto Rs. 50,000	77,460	62,966	14,494	14,652		
<b>Total - 2013</b>	<b>9,431,051</b>	<b>4,024,268</b>	<b>5,406,783</b>	<b>6,663,886</b>		
<b>Total - 2012</b>	<b>5,580,572</b>	<b>2,219,979</b>	<b>3,360,593</b>	<b>4,642,000</b>		





## Notes to the Financial Statements

for the year ended June 30, 2013

	Note	2013 Rupees	2012 Rupees
<b>6. INTANGIBLE ASSETS</b>			
Net carrying value basis			
Opening book value		1,986,314	2,994,477
Addition		70,000	-
		2,056,314	2,994,477
Amortisation charged	6.1	(1,018,664)	(1,008,163)
Closing net book value		1,037,650	1,986,314
Gross carrying value basis			
Cost		5,110,817	5,040,817
Accumulated amortisation		(4,073,167)	(3,054,503)
Net book value		1,037,650	1,986,314
Amortisation rate per annum		20%	20%
6.1 The amortisation for the year has been allocated as follows:			
Cost of sales	30	452,023	441,523
General and administrative expenses	31	380,219	380,219
Selling and distribution expenses	32	186,422	186,421
		1,018,664	1,008,163
<b>7. LONG-TERM LOANS AND ADVANCES</b>			
(Secured - considered good)			
Loans			
Due from employees	7.1	105,988	453,992
Current portion shown under current assets	12	(53,004)	(113,004)
		52,984	340,988
(Unsecured - considered good)			
Advances		-	1,745,268
		52,984	2,086,256
7.1 These represent interest free loans provided to employees for the purchase of motor vehicles in accordance with the terms of employment and are secured by original registration documents of vehicle and demand promissory notes. The loans are repayable over a period of five years in equal monthly installments.			
7.2 Chief Executive Officer and Directors have not taken any loans and advances from the Company.			
<b>8. LONG-TERM DEPOSITS</b>			
Deposits			
Security deposits			
Long-term deposit under finance lease		-	768,805
Current portion shown under current assets	13	-	(768,805)
		-	-
Others		3,596,547	3,490,447
		3,596,547	3,490,447



## Notes to the Financial Statements

for the year ended June 30, 2013

	Note	2013 Rupees	2012 Rupees
<b>9. STORES AND SPARES</b>			
Stores			
In hand		32,038,539	29,561,071
In transit		7,123	-
		32,045,662	29,561,071
Spares			
In hand		32,804,024	25,100,515
In transit		858,354	1,518,947
		33,662,378	26,619,462
Provision for slow moving and obsolete stores and spares	9.2	(2,390,802)	(2,276,938)
		63,317,238	53,903,595
9.1	Stores and spares include items which may result in fixed capital expenditure but are not distinguishable.		
9.2	Provision for slow moving and obsolete stores and spares comprises:		
		2,276,938	3,875,322
Balance at beginning of the year		113,864	(1,598,384)
Provision / (reversal) for the year		2,390,802	2,276,938
Balance at end of the year			
<b>10. STOCK-IN-TRADE</b>			
Raw materials			
In hand		259,539,083	214,906,823
In transit		9,391	5,895
		259,548,474	214,912,718
Packing materials		3,900,877	4,394,379
		263,449,351	219,307,097
Provision for slow moving and obsolete stock in trade	10.1	(1,251,992)	(1,153,704)
		262,197,359	218,153,393
Work-in-process	30	20,301,593	52,819,117
Finished goods	30	19,600,863	5,154,180
		302,099,815	276,126,690
10.1	Provision for slow moving and obsolete stock in trade comprises:		
		1,153,704	1,011,233
Balance at beginning of the year		98,288	142,471
Provision for the year		1,251,992	1,153,704
Balance at end of the year			
<b>11. TRADE DEBTS</b>			
(Unsecured - considered good)			
Due from associated undertakings	11.1	20,400,632	18,420,105
Others		184,093,627	248,380,583
		204,494,259	266,800,688
Provision for doubtful debts		(1,812,112)	(1,812,112)
		202,682,147	264,988,576



## Notes to the Financial Statements

for the year ended June 30, 2013

	Note	2013 Rupees	2012 Rupees
11.1 This comprises amounts receivable from:			
Century Paper & Board Mills Limited		1,924,192	3,221,664
GAM Corporation (Private) Limited		514,407	438,100
Siza Foods (Private) Limited		640,518	413,400
Tetley Clover (Private) Limited		11,505,743	9,918,988
Colgate-Palmolive (Pakistan) Limited		5,815,772	4,427,953
		20,400,632	18,420,105
11.2 The aging of related party balances at the balance sheet date is as follows:			
Not past due		12,167,970	15,827,368
Past due 1-30 days		3,761,128	2,224,708
Past due 30-90 days		4,274,305	170,800
Past due 90 days		197,229	197,229
		20,400,632	18,420,105
11.3 The maximum amount due from related parties at the end of any month during the year was Rs. 39.004 million (2012: Rs. 56.953 million).			
<b>12. LOANS AND ADVANCES</b>			
Loans (Secured-considered good)			
Current portion of long-term loans	7	53,004	113,004
Advances (Unsecured-considered good)			
to employees		12,900	71,750
to suppliers		1,727,298	5,165,457
		1,740,198	5,237,207
		1,793,202	5,350,211
<b>13. TRADE DEPOSITS AND SHORT TERM PREPAYMENTS</b>			
Deposits			
Current portion of long term deposits	8	-	768,805
Others		1,243,000	1,243,000
		1,243,000	2,011,805
Prepayments		840,401	346,249
		2,083,401	2,358,054
<b>14. OTHER RECEIVABLES</b>			
(Unsecured-considered good)			
Due from associated undertaking	14.1	17	18,510
Receivable from employees gratuity fund	39.1.1	721,526	-
Others		510,344	343,909
		1,231,887	362,419

14.1 This represents amount receivable from Century Insurance Company Limited, in respect of insurance agency commission.



## Notes to the Financial Statements

for the year ended June 30, 2013

	Note	2013 Rupees	2012 Rupees
<b>15. TAX REFUND DUE FROM GOVERNMENT</b>			
Sales tax and special excise duty receivable		24,270,768	15,109,014
Income tax refundable		14,502,818	12,220,892
		<u>38,773,586</u>	<u>27,329,906</u>
<b>16. TAXATION - NET</b>			
The income tax assessments of the Company have been finalised by the tax authorities upto tax year 2012 (accounting year ended June 30, 2012). Adequate provisions have been made in these financial statements for the year ended June 30, 2013 (tax year 2013).			
<b>17. CASH AND BANK BALANCES</b>			
Cash with banks in current accounts		237,915	208,129
Cash in hand		684,584	912,566
		<u>922,499</u>	<u>1,120,695</u>
<b>18. ISSUED, SUBSCRIBED AND PAID-UP CAPITAL</b>			
	Number of ordinary shares of Rs.10/- each		
	<u>2013</u>	<u>2012</u>	
1,890,000	1,890,000	Fully paid in cash	18,900,000
2,852,847	2,852,847	Issued as bonus shares fully paid	28,528,470
4,742,847	4,742,847		47,428,470
2,507,390	2,507,390	Shares held by associated undertakings	25,073,900
			25,073,900
<b>19. ACCUMULATED (LOSS) / PROFIT</b>			
Revenue			
General reserve		106,800,000	106,800,000
Accumulated losses		(152,964,921)	(67,554,422)
		<u>(46,164,921)</u>	<u>39,245,578</u>
<b>20. SURPLUS ON REVALUATION OF FIXED ASSETS</b>			
<b>Gross surplus</b>			
Balance as at July 01,		195,056,343	139,983,051
Surplus recognised during the year	5	-	56,744,337
Balance as at June 30,		<u>195,056,343</u>	<u>196,727,388</u>
Transfer to unappropriated profit in respect of disposal of revalued property, plant and equipment during the year - (net of deferred tax)		(65,224)	(251,501)
Related deferred tax liability		(35,121)	(135,423)
		<u>(100,345)</u>	<u>(386,924)</u>



## Notes to the Financial Statements

for the year ended June 30, 2013

	Note	2013 Rupees	2012 Rupees
Transfer to unappropriated profit in respect of incremental depreciation charged during the year - (net of deferred tax)		(2,952,750)	(834,679)
Related deferred tax liability		(1,589,934)	(449,442)
		(4,542,684)	(1,284,121)
Surplus on revaluation of fixed assets as at June 30,		190,413,314	195,056,343
<b>Related deferred tax effect:</b>			
Balance as at July 01,		(20,571,668)	(4,290,459)
On surplus recognised during the year		-	(16,866,074)
Transferred to unappropriated profit in respect of disposal of revalued property, plant and equipment during the year		35,121	135,423
Incremental depreciation charge during the year		1,589,934	449,442
	23	(18,946,613)	(20,571,668)
		171,466,701	174,484,675

20.1 Under the requirements of the Companies Ordinance, 1984 the Company cannot use the surplus, except for setting off the losses arising out of the disposal of the revalued assets, losses arising out of the subsequent revaluation of assets and to set-off any incremental depreciation arising as a result of revaluation.

### 21. SUBORDINATED LOAN - UNSECURED

From associated undertaking	21.1	100,000,000	-
-----------------------------	------	-------------	---

21.1 This subordinated loan has been obtained from an associated undertaking. The rate of markup is 0.9% over average of three months KIBOR of the last five days of preceding quarter. During the year, the effective mark-up rate was 10.43% per annum. This loan shall remain sub-ordinated to the financing facilities extended by the banks to the Company. The loan shall not be repaid until the entire amount of financing facilities and any payments due in respect of financing facilities or any other finance extended / provided by the banks to the Company, have been paid in full by the Company to the banks and the banks have notified to the sponsors of such payments; and / or the banks otherwise give any permission in writing to the Company to make full or part of the payments due under the long term financing to the associated undertakings.

### 22. LONG TERM FINANCING

Unsecured			
From sponsors	22.1	-	540,000,000
From associated undertaking	22.2	440,000,000	-
		440,000,000	540,000,000

22.1 This loan was repaid during the year.

22.2 This loan has been obtained from an associated undertaking. An aggregate amount of Rs. 540 million was received out of which Rs. 100 million has been converted into subordinated loan (Note 21). It is to be repaid in twenty equal quarterly installments commencing from July 2014. The rate of mark-up is 0.9% over average of three months KIBOR of the last five days of preceding quarter. During the year, the effective mark-up rate was 10.43% per annum.



## Notes to the Financial Statements

for the year ended June 30, 2013

	Note	2013 Rupees	2012 Rupees
<b>23. DEFERRED TAXATION</b>			
Deferred taxation comprises of:			
Taxable temporary differences:			
Surplus on revaluation of fixed assets	20	18,946,613	20,571,668
Other taxable temporary differences		105,847,418	105,571,038
Gross deferred tax liabilities		124,794,031	126,142,706
Deductible temporary differences:			
Carried forward tax losses		114,054,086	84,924,189
Turnover tax		8,069,079	34,569,952
Provision for slow moving and obsolete items		1,274,978	1,200,725
Provision for doubtful debts		634,239	634,239
Provision for compensated absences		761,649	945,610
Gross deferred tax assets		(124,794,031)	(122,274,715)
		-	3,867,991

23.1 Deferred tax asset arising due to timing difference calculated at applicable tax rates as at balance sheet date amounted to Rs. 38.782 million (2012: Nil) debit. Deferred tax asset has not been recognized in these financial statements in accordance with the stated accounting policy of the Company.

### 24. TRADE AND OTHER PAYABLES

Creditors	24.1	135,005,581	173,024,905
Accrued liabilities		9,721,419	6,131,042
Payable to gratuity fund	39.1.1	-	583,741
Advances from customers		132,060	344,803
Short term deposits		5,000	5,000
Unclaimed dividend		129,143	129,143
Others		1,585,636	2,186,519
		146,578,839	182,405,153

24.1 This includes Rs. 0.038 million (2012: Rs. 0.037 million) payable in foreign currency equivalent to Pak Rupees. It includes amount payable to related parties amounting to Rs. 71.154 million (2012: Rs. 92.227 million).

### 25. FINANCIAL CHARGES PAYABLE

Mark-up accrued on secured:			
Short-term borrowing		8,946,599	10,631,886
Liabilities against assets subject to finance leases		-	10,153
Long term financing		925,841	-
		9,872,440	10,642,039

### 26. SHORT-TERM BORROWING

From banking companies - secured			
Running finance	26.1	341,364,363	333,052,625
Term finance	26.2	70,000,000	-
		411,364,363	333,052,625



## Notes to the Financial Statements

for the year ended June 30, 2013

26.1 The Company has short term running finance facilities under mark-up arrangements in aggregate amounting to Rs. 685.000 million (2012: Rs. 485.000 million) from various commercial banks having mark-up at rates ranging from 10.35% to 12.26% (2012: 12.92% to 13.79%) per annum calculated on a daily product basis and payable quarterly. The unutilised balance at the end of the year was Rs. 273.745 million (2012: Rs. 151.947 million).

The Company has also a facility for opening letters of credit under mark-up arrangements as at June 30, 2013 amounting to Rs. 275.000 million (2012: Rs. 245.000 million) from various commercial banks. The unutilized balance at the end of the year was Rs. 266.146 million (2012: Rs. 245.000 million).

These arrangements are secured by pari passu hypothecation charge on stores and spares, stock-in-trade and trade debts.

26.2 Term finance has been arranged for an amount of Rs. 40 million and Rs. 30 million at interest rates of 10.91% and 10.77% per annum, respectively, repayable on July 2, 2013 and July 4, 2013, respectively, secured by way of pari passu hypothecation charge on stock-in-trade and receivables.

	2013 Rupees	2012 Rupees
<b>27. CURRENT PORTION OF LONG-TERM LIABILITIES</b>		
Liabilities against assets subject to finance leases	-	1,776,136

### 28. CONTINGENCIES AND COMMITMENTS

#### 28.1 Contingencies

There was no contingent liability as at the balance sheet date.

#### 28.2 Commitments

The Company was committed as at the balance sheet date as follows:

Stores, spares and raw materials under letters of credit amounting to Rs. 8.854 million (2012: Rs. Nil).

Stores, spares and raw materials under contractual obligations amounting to Rs.4.521 million (2012: Rs.1.813 million).

### 29. SALES - NET

Gross sales	1,606,558,286	1,999,337,402
Sales tax	(217,299,670)	(305,489,273)
Commission	-	(45,870)
	1,389,258,616	1,693,802,259



## Notes to the Financial Statements

for the year ended June 30, 2013

	Note	2013 Rupees	2012 Rupees
<b>30. COST OF SALES</b>			
Materials consumed		1,052,709,763	1,347,596,819
Salaries, wages and other benefits	30.1	85,346,469	85,734,874
Packing material consumed		31,948,244	32,051,584
Outsourced services		16,727,743	6,581,878
Stores and spares consumed		28,034,307	27,088,156
Power and fuel		34,432,680	33,033,918
Depreciation	5.1	37,895,811	32,866,993
Amortisation	6.1	452,023	441,523
Rent, rates and taxes		3,481,852	2,808,600
Repairs and maintenance		4,021,342	3,353,025
Vehicle running expenses		1,110,276	1,154,805
Insurance		4,503,978	4,261,574
Printing and stationery		732,757	974,943
Communication charges		1,105,753	1,225,519
Traveling and conveyance		1,089,442	686,830
Fees and subscription		495,775	416,274
Software license fee		398,297	345,952
Other expenses		1,226,696	1,331,570
Manufacturing cost		1,305,713,208	1,581,954,837
Opening work-in-process		52,819,117	21,418,839
Closing work-in-process	10	(20,301,593)	(52,819,117)
		32,517,524	(31,400,278)
Cost of goods manufactured		1,338,230,732	1,550,554,559
Opening stock of finished goods		5,154,180	11,962,689
Closing stock of finished goods	10	(19,600,863)	(5,154,180)
		(14,446,683)	6,808,509
		1,323,784,049	1,557,363,068

30.1 Salaries, wages and other benefits include Rs. 5.005 million (2012: Rs. 6.052 million) in respect of staff retirement benefits.

### 31. GENERAL AND ADMINISTRATIVE EXPENSES

Salaries and other benefits	31.1	23,757,823	27,074,925
Depreciation	5.1	1,050,248	1,429,127
Amortisation	6.1	380,219	380,219
Rent, rates and taxes		177,230	241,530
Repairs and maintenance		260,036	355,564
Vehicle running expenses		2,010,381	1,886,717
Insurance		248,103	283,956
Printing and stationery		481,277	437,750
Communication charges		870,025	1,139,813
Traveling and conveyance		745,819	907,704
Fees and subscription		141,991	164,179
Software license fee		209,715	269,314
Service fee to associated undertakings		861,045	528,432
Electricity charges		73,796	46,908
Others		38,898	71,314
		31,306,606	35,217,452





## Notes to the Financial Statements

for the year ended June 30, 2013

31.1 Salaries and other benefits include Rs. 1.810 million (2012: Rs. 2.755 million) in respect of staff retirement benefits.

	Note	2013 Rupees	2012 Rupees
<b>32. SELLING AND DISTRIBUTION EXPENSES</b>			
Salaries and other benefits	32.1	10,359,548	9,926,724
Depreciation	5.1	1,029,092	955,645
Amortisation	6.1	186,422	186,421
Repairs and maintenance		75,230	54,721
Vehicle running expenses		2,257,172	1,810,963
Insurance		221,998	188,209
Printing and stationery		7,625	4,978
Communication charges		576,974	685,718
Traveling and conveyance		527,081	885,744
Fees and subscription		346,848	12,785
Software license fee		115,277	115,292
Advertisement		219,293	556,559
Cartage outward		8,245,934	9,141,451
Others		158,431	304,642
		<b>24,326,925</b>	<b>24,829,852</b>

32.1 Salaries and other benefits include Rs. 0.817 million (2012: Rs. 1.001 million) in respect of staff retirement benefits.

### 33. OTHER INCOME

Insurance agency commission from associated undertaking	713,208	708,965
Scrap sales	3,179,804	4,031,389
Gain on disposal of operating fixed assets	1,257,102	1,281,407
Foreign exchange gain	71,518	-
Others	-	91,427
	<b>5,221,632</b>	<b>6,113,188</b>

### 34. OTHER OPERATING EXPENSES

Legal and professional	1,524,728	1,996,463
Auditors' remuneration:		
Statutory audit	267,000	250,000
Special reports and sundry services	158,500	101,000
Out-of-pocket expenses	153,800	99,100
	579,300	450,100
Commission on brokerage	-	202,000
Foreign exchange loss	-	70,949
Director fees	97,000	8,000
	<b>2,201,028</b>	<b>2,727,512</b>



## Notes to the Financial Statements

for the year ended June 30, 2013

	Note	2013 Rupees	2012 Rupees
<b>35. FINANCIAL CHARGES</b>			
Mark-up / interest on:			
Sub-ordinated loan		171,452	-
Long-term financing		53,866,727	44,120,545
Lease finances		25,385	597,714
Short-term borrowing		43,070,907	58,603,083
Interest on workers profit participation fund		-	31,697
		97,134,471	103,353,039
Bank charges and commission		983,476	1,035,006
		98,117,947	104,388,045
<b>36. TAXATION</b>			
Current		7,040,157	17,062,962
Prior		-	475,058
Deferred		(3,867,991)	(15,868,095)
	36.1	3,172,166	1,669,925

36.1 The numerical reconciliation between average tax rate and the applicable tax rate has not been presented during the year in these financial statements as the total tax liability of the Company is covered under Section 113 "Minimum tax" of the Income Tax Ordinance, 2001.

### 37. LOSS PER SHARE - BASIC AND DILUTED

Loss for the year (Rupees)	(88,428,473)	(26,280,407)
Weighted average number of ordinary shares outstanding	4,742,847	4,742,847
Loss per share - basic and diluted (Rupees)	(18.64)	(5.54)

### 38. EVENTS AFTER THE BALANCE SHEET DATE

Subsequent to the balance sheet date the authorized capital of the Company has been increased from Rs. 300.000 million to Rs. 700.000 million which was approved in Extra Ordinary General Meeting held on September 19, 2013. Further, Board of Directors of the Company in their meeting held on September 23, 2013 announced issue of 750% right shares at par of Rs. 10 per share in proportion of 15 shares for every 2 shares.

### 39. DEFINED BENEFIT PLAN

#### 39.1 Gratuity

The scheme provides for terminal benefits for all its permanent employees who qualify for the scheme at varying percentages of last drawn basic salary. The percentage depends on the number of service years with the Company. Annual charge is based on actuarial valuation carried out as at June 30, 2013, using the Projected Unit Credit Method.



## Notes to the Financial Statements

for the year ended June 30, 2013

	Note	2013 Rupees	2012 Rupees
<b>39.1.1 Liability recognised in balance sheet</b>			
Fair value of plan assets	39.1.3	37,742,842	30,319,992
Present value of defined benefit obligation	39.1.4	(40,615,158)	(38,078,192)
		(2,872,316)	(7,758,200)
Actuarial losses to be recognised for the later period		523,108	2,568,359
Unrecognized non-vested past service cost to be recognised in the later period		3,070,734	4,606,100
Closing net assets / (liability)	14	721,526	(583,741)
<b>39.1.2 Movement of the liability recognized in the balance sheet</b>			
Opening net liability		(583,741)	(41,861)
Charge for the year		(3,842,460)	(5,655,989)
Contribution to fund made during the year		5,147,727	5,114,109
Closing net assets / (liability)		721,526	(583,741)
<b>39.1.3 Movement in the fair value of plan assets</b>			
Fair value as at July 01		30,319,992	23,119,926
Expected return on plan assets		4,529,763	3,540,758
Actuarial gain / (losses)		3,412,963	(683,096)
Contribution by the employer		5,147,726	5,114,109
Benefits paid		(5,667,602)	(771,705)
Fair value as at June 30	39.1.1	37,742,842	30,319,992
<b>39.1.4 Movement in the defined benefit obligation</b>			
Obligation as at July 01		(38,078,192)	(33,908,500)
Current service cost		(2,431,307)	(2,765,283)
Interest cost		(4,405,549)	(4,693,170)
Actuarial (losses) / gain		(1,367,712)	2,517,056
Benefits paid		5,667,602	771,705
Obligation as at June 30	39.1.1	(40,615,158)	(38,078,192)
<b>39.1.5 Expenses recognised in profit and loss account</b>			
Current service cost		2,431,307	2,765,283
Interest cost		4,405,549	4,693,170
Expected return on plan assets		(4,529,763)	(3,540,758)
Past service cost vested		1,535,367	202,294
Past service cost non-vested		-	1,536,000
		3,842,460	5,655,989
Actual return on plan assets		7,942,726	2,857,662



## Notes to the Financial Statements

for the year ended June 30, 2013

### 39.1.6 Composition of the fair value of plan assets

	2013		2012	
	Rupees	Percentage	Rupees	Percentage
T-Bills	22,482,743	60%	21,808,912	72%
Term finance certificate	-	0%	602,457	2%
Mutual fund	5,772,514	15%	5,733,007	19%
Cash with banks	9,487,585	25%	2,175,616	7%
	37,742,842		30,319,992	

39.1.7 The expected contribution to funded gratuity scheme for the year ending June 30, 2014 is Rs. 2.386 million and charge in respect of net actuarial loss to be recognized in other comprehensive income amounting to Rs. 0.523 million.

	2013	2012
	Percentage	Percentage
<b>39.1.8 Principal actuarial assumptions</b>		
Following were the significant actuarial assumptions used in the valuation:		
Discount rate per annum	11.50%	12.50%
Expected rate of return on plan assets per annum	11.50%	12.00%
Expected rate of increase in salary per annum	11.50%	11.50%

	2013	2012	2011	2010	2009
	Rupees	Rupees	Rupees	Rupees	Rupees
<b>39.1.9 Comparison of five years</b>					
As at June 30,					
Fair value of plan assets	37,742,842	30,319,992	23,119,926	17,452,523	15,427,000
Present value of defined benefit obligation	(40,615,158)	(38,078,192)	(33,908,500)	(29,775,500)	(26,785,000)
Deficit in the plan	(2,872,316)	(7,758,200)	(10,788,574)	(12,322,977)	(11,358,000)
Experience adjustments					
Actuarial (gain) / loss on plan assets	(3,412,963)	683,096	421,865	4,674,000	764,000
Actuarial (gain) / loss on plan liabilities	1,367,712	(2,517,056)	(112,166)	(1,523,000)	1,837,000



# Notes to the Financial Statements

for the year ended June 30, 2013

## 39.2 Defined contribution plan

The Company has contributory provident fund scheme for benefit of all its permanent employees under the title of "Merit Packaging Limited - Employees Contributory Provident Fund Trust". The fund is maintained by the Trustees and all decisions regarding investments and distribution of income etc. are made by the Trustees independent of the Company.

39.2.1 The Trustees have intimated that the size of the Fund as at December 31, 2012 was Rs. 90.474 million.

39.2.2 As intimated by the Trustees, the cost of the investments made at December 31, 2012 was Rs. 72.365 million which is equal to 79.98% of the total fund size. The fair value of the investments was Rs. 79.965 million at that date. The category wise break-up of investments as per Section 227 of the Companies Ordinance, 1984 is given below:

	Rupees	Percentage
T-Bills	38,506,009	42.56%
Mutual fund	38,721,694	42.80%
Cash with banks	2,737,100	3.03%
	79,964,803	88.38%

39.2.3 According to the Trustees, investments out of provident fund have been made in accordance with the provisions of Section 227 of Companies Ordinance, 1984 and the rules made thereunder.

	Note	2013 Rupees	2012 Rupees
<b>40. CASH GENERATED FROM OPERATIONS</b>			
Loss before taxation		(85,256,307)	(24,610,482)
Adjustment for non-cash items and other items:			
(Gain) on disposal of operating fixed assets		(1,257,102)	(1,281,407)
Financial charges		98,117,947	104,388,045
Depreciation		39,975,151	35,251,765
Amortisation		1,018,664	1,008,163
Provision for slow moving stock and obsolete items		212,152	(1,455,913)
		138,066,812	137,910,653
Profit before working capital changes		52,810,505	113,300,171
Working capital changes	40.1	(15,318,365)	44,908,461
		37,492,140	158,208,632
<b>40.1 Working capital changes</b>			
(Increase) / decrease in current assets:			
Stores and spares		(9,527,507)	347,974
Stock-in-trade		(26,071,413)	(20,905,810)
Trade debts		62,306,429	35,942,946
Loans and advances		3,557,009	(4,591,374)
Trade deposits and short-term prepayments		274,653	3,171,815
Other receivables		(869,468)	(175,391)
Tax refund due from government		(9,161,754)	(2,977,872)
		20,507,949	10,812,288
(Decrease) / increase in current liabilities:			
Trade and other payables (excluding unclaimed dividend)		(35,826,314)	34,096,173
		(15,318,365)	44,908,461



## Notes to the Financial Statements

for the year ended June 30, 2013

### 41. REMUNERATION OF CHIEF EXECUTIVE AND EXECUTIVES

The aggregate amounts charged in the financial statements for remunerations, including all benefits to Chief Executive and Executives of the Company were as follows:

	2013				2012			
	Chief Executive	Director	Executives	Total	Chief Executive	Director	Executives	Total
	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees
Managerial remuneration	2,295,264	2,345,232	7,500,724	12,141,220	2,295,264	2,345,232	7,497,545	12,138,041
House rent	699,611	733,551	2,858,955	4,292,117	1,008,276	1,051,176	3,341,796	5,401,248
Bonus	373,434	389,322	1,195,293	1,958,049	373,434	389,322	1,294,337	2,057,093
Retirement benefits	605,476	210,744	1,758,319	2,574,539	605,476	210,744	1,906,915	2,723,135
Motor vehicle expenses	284,254	241,001	1,233,322	1,758,577	270,522	222,522	1,452,608	1,945,652
Medical allowances	224,064	233,592	743,860	1,201,516	224,064	233,592	742,619	1,200,275
Utilities	34,195	-	-	34,195	38,817	-	-	38,817
<b>Total</b>	<b>4,516,298</b>	<b>4,153,442</b>	<b>15,290,473</b>	<b>23,960,213</b>	<b>4,815,853</b>	<b>4,452,588</b>	<b>16,235,820</b>	<b>25,504,261</b>
Number of persons	1	1	9	11	1	1	8	10

41.1 The Chief Executive and Executives are also provided with free use of Company maintained cars.

41.2 Aggregate amount charged in these financial statements in respect of Directors fee is Rs. 0.097 million (2012: Rs. 0.008 million).

### 42. TRANSACTIONS WITH RELATED PARTIES

The related parties comprise of related group companies, local associated companies, staff retirement funds, directors and key management personnel. Transactions with related parties and remuneration and benefits to key management personnel under the terms of their employment are as follows:



## Notes to the Financial Statements

for the year ended June 30, 2013

Relation with the Company	Nature of transaction	Note	2013 Rupees	2012 Rupees
Associated companies	Sales and services of goods (including fixed assets)		171,031,326	201,615,132
	Purchases of goods and services (including fixed assets)		905,926,283	932,049,250
	Long term financing obtained		540,000,000	-
	Markup on long term financing		925,841	-
	Rent and allied charges		212,919	179,088
	Insurance agency commission income		713,208	708,965
	Insurance claim received		793,100	12,000
	Sponsors	Markup on long term financing		53,112,329
Long term financing obtained			100,000,000	-
Repayment of long term financing			640,000,000	-
Markup on short term financing			-	10,027,398
\ Retirement benefit plans	Contribution towards employees retirement benefits plans		7,423,785	8,921,349
Key management personnel	Compensation in respect of:			
	Short term employee benefits	42.2	13,730,017	16,383,535
	Retirement benefits		1,968,619	2,088,873
<b>42.1 Year end balances</b>				
	Receivable from related parties		21,122,175	18,438,615
	Payable to related parties		73,011,831	92,810,868
	Long-term financing from associated undertaking		440,000,000	-
	Sub-ordinated loan		100,000,000	-
	Long-term financing from sponsors		-	540,000,000

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

### 43. CAPACITY AND PRODUCTION

Printing is a service industry involving the processing of printing material on a mix of different size machines having 1 to 6 colour units. The paper and board used is dependent on the customers' requirements ranging from 38 gsm to 450 gsm of a large variety of products involving several processes during and post printing. Due to many variables and complexities involved, the capacity is not determinable.



# Notes to the Financial Statements

for the year ended June 30, 2013

## 44. FINANCIAL ASSETS AND LIABILITIES

	2013					
	Total	Exposed to yield/mark-up rate risk			Not exposed	
		upto one year	Maturity over one year to five years	Maturity over five years	Sub- total	to yield/ mark-up rate risk
Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	
<b>Financial assets</b>						
<b>Loans and receivables at amortized cost</b>						
Long-term loans	105,988	-	-	-	-	105,988
Long-term deposits	3,596,547	-	-	-	-	3,596,547
Trade debts	202,682,147	-	-	-	-	202,682,147
Short-term deposits	1,243,000	-	-	-	-	1,243,000
Other receivables	1,231,887	-	-	-	-	1,231,887
Cash and bank balances	922,499	-	-	-	-	922,499
	209,782,068	-	-	-	-	209,782,068
<b>Financial liabilities</b>						
<b>Financial liabilities carried at amortized cost</b>						
Subordinated loan	100,000,000	-	-	100,000,000	100,000,000	-
Long-term financing	440,000,000	-	352,000,000	88,000,000	440,000,000	-
Long-term deposits	81,000	-	-	-	-	81,000
Trade and other payables	146,578,839	-	-	-	-	146,578,839
Financial charges payable	9,872,440	9,872,440	-	-	9,872,440	-
Short-term borrowings	411,364,363	411,364,363	-	-	411,364,363	-
	(1,107,896,642)	(421,236,803)	(352,000,000)	(188,000,000)	(961,236,803)	(146,659,839)
<b>On balance sheet gap</b>	(898,114,574)	(421,236,803)	(352,000,000)	(188,000,000)	(961,236,803)	63,122,229
<b>Off balance sheet items</b>						
<b>Financial commitments</b>						
Stores, spares and raw material under letter of credit	8,853,545	-	-	-	-	8,853,545
Stores, spares and raw material under contractual obligations	4,521,312	-	-	-	-	4,521,312
	(13,374,857)	-	-	-	-	(13,374,857)
<b>Total gap</b>	(911,489,431)	(421,236,803)	(352,000,000)	(188,000,000)	(961,236,803)	49,747,372





# Notes to the Financial Statements

for the year ended June 30, 2013

2012

	Exposed to yield/mark-up rate risk				Not exposed to yield/ mark-up rate risk	
	Maturity upto one year	Maturity over one year to five years	Maturity over five years	Sub- total		
Total	Rupees	Rupees	Rupees	Rupees	Rupees	
<b>Financial assets</b>						
<b>Loans and receivables at amortized cost</b>						
Long-term loans	453,992	-	-	-	-	453,992
Long-term deposits	3,490,447	-	-	-	-	3,490,447
Trade debts	264,988,576	-	-	-	-	264,988,576
Short-term deposits	2,011,805	-	-	-	-	2,011,805
Other receivables	362,419	-	-	-	-	362,419
Cash and bank balances	1,120,695	-	-	-	-	1,120,695
	272,427,934	-	-	-	-	272,427,934
<b>Financial liabilities</b>						
<b>Financial liabilities carried at amortized cost</b>						
Long-term financing	540,000,000	-	432,000,000	108,000,000	540,000,000	-
Liabilities against assets subject to finance leases	1,776,136	1,776,136	-	-	1,776,136	-
Long-term deposits	81,000	-	-	-	-	81,000
Trade and other payables	182,405,153	-	-	-	-	182,405,153
Financial charges payable	10,642,039	10,642,039	-	-	10,642,039	-
Short-term borrowings	333,052,625	333,052,625	-	-	333,052,625	-
	(1,067,956,953)	(345,470,800)	(432,000,000)	(108,000,000)	(885,470,800)	(182,486,153)
<b>On balance sheet gap</b>	(795,529,019)	(345,470,800)	(432,000,000)	(108,000,000)	(885,470,800)	89,941,781
<b>Off balance sheet items</b>						
Financial commitments						
Stores, spares and raw material under contractual obligations	1,813,278	-	-	-	-	1,813,278
	(1,813,278)	-	-	-	-	(1,813,278)
<b>Total gap</b>	(797,342,297)	(345,470,800)	(432,000,000)	(108,000,000)	(885,470,800)	88,128,503



# Notes to the Financial Statements

for the year ended June 30, 2013

## 45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

### 45.1 Risk management policies

The Company's objective in managing risks is the creation and protection of share holders' value. Risk is inherent in the Company's activities, but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. The process of risk management is critical to the Company's continuing profitability. The Company is exposed to credit risk, liquidity risk and market risk (which includes interest rate risk and price risk) arising from the financial instruments it holds.

The Company finances its operations through equity, borrowings and management of working capital with a view to maintaining an appropriate mix between various sources of finance to minimize risk.

### 45.2 Credit risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counter parties fail to perform as contracted and arises principally from trade and other receivables. The Company's policy is to enter into financial contracts with reputable counter parties in accordance with the internal guidelines and regulatory requirements.

#### Exposure to credit risk

The carrying amounts of the financial assets represent the maximum credit exposures before any credit enhancements. The carrying amounts of financial assets exposed to credit risk at reporting date are as under:

	2013	2012
	(Rupees in thousands)	
Loans and deposits	4,946	5,956
Trade debts	202,683	264,989
Other receivables	1,232	362
Bank balances	238	208
	209,099	271,515
The aging of trade receivable at the reporting date is:		
Not past due	152,098	184,608
Past due 1-30 days	22,265	50,780
Past due 30-90 days	19,133	24,347
Past due 90 days	9,187	5,254
	202,683	264,989

All the trade debtors at balance sheet date are domestic parties.

To manage exposure to credit risk in respect of trade receivables, management performs credit reviews taking into account the customer's financial position, past experience and other factors. Where considered necessary, advance payments are obtained from certain parties. Sales made to certain customers are secured through letters of credit.

The exposure to banks is managed by dealing with variety of major banks and monitoring exposure limits on continuous basis. The rating of banks ranges from A1 to A1+.



## Notes to the Financial Statements

for the year ended June 30, 2013

### Concentration of credit risk

Concentration of credit risk arises when a number of counter parties are engaged in similar business activities or have similar economic features that would cause their abilities to meet contractual obligation to be similarly affected by the changes in economic, political or other conditions. The Company believes that it is not exposed to major concentration of credit risk.

### Impaired assets

During the year no assets have been impaired.

### 45.3 Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stress conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The following are the contractual maturities of financial liabilities, including interest payments and excluding the impact of netting agreements, if any:

	2 0 1 3						
	Carrying Amount	Contractual Cash Flows	Six months or less	Six to Twelve months	One to Two years	Two to Five years	Over Five years
	( Rupees in thousands)						
Subordinated loan	100,000	133,785	2,521	4,986	9,252	15,774	101,252
Long term financing	440,000	588,654	11,090	21,949	128,709	333,405	93,509
Long term deposits	81	81	-	-	40	41	-
Trade and other payables	146,579	146,579	146,579	-	-	-	-
Financial charges payable	9,872	9,872	9,872	-	-	-	-
Short term borrowings	411,364	411,364	411,364	-	-	-	-
	1,107,896	1,290,335	581,426	26,926	138,001	349,220	194,761

	2 0 1 2						
	Carrying Amount	Contractual Cash Flows	Six months or less	Six to Twelve months	One to Two years	Two to Five years	Over Five years
	( Rupees in thousands)						
Long term financing	541,776	724,221	15,423	26,926	157,961	409,150	114,761
Long term deposits	81	81	-	-	-	81	-
Trade and other payables	182,405	182,405	182,405	-	-	-	-
Financial charges payable	10,642	10,642	10,642	-	-	-	-
Short term borrowings	333,053	333,053	333,053	-	-	-	-
	1,067,957	1,250,402	541,523	26,926	157,961	409,231	114,761



# Notes to the Financial Statements

for the year ended June 30, 2013

## 45.4 Market risk

Market risk is the risk that changes in market price, such as foreign exchange rates, interest rates and equity prices will effect the Company's income or the value of its holdings of financial instruments.

### 45.4.1 Currency risk

Foreign currency risk is the risk that the value of financial asset or a liability will fluctuate due to a change in foreign exchange rates. It arises mainly where receivables and payables exist due to transactions entered into in foreign currencies. The Company's exposure to foreign currency risk is as follows:

	2013	2012
	(Rupees in thousands)	
Foreign bills payable	38	37
Contractual obligations	13,375	1,813
Net exposure	13,413	1,850

The following significant exchange rates have been applied

	Average rate		Reporting date rate	
	2013	2012	2013	2012
	(Rupees)			
<b>USD to PKR</b>	96.90	89.64	98.80	94.20

At reporting date, if the PKR had strengthened by 10% against the US Dollar with all other variables held constant, post-tax loss / profit for the year would have been lower/higher by the amount shown below, mainly as a result of net foreign exchange gain on net foreign currency exposure at reporting date.

	Average rate		Reporting date rate	
	2013	2012	2013	2012
	(Rupees in thousands)			
<b>Effect on (loss) or profit</b>	1,341	185	1,341	185

The weakening of the PKR against US Dollar would have had an equal but opposite impact on the post tax loss / profits.

The sensitivity analysis prepared is not necessarily indicative of the effects on (loss) / profit for the year and assets / liabilities of the Company.

### 45.4.2 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Majority of the interest rate exposure arises from long term loans and short term borrowings. At the balance sheet date the interest rate profile of the Company's interest -bearing financial instruments is as follows:



## Notes to the Financial Statements

for the year ended June 30, 2013

	2013	2012	2013	2012
	Effective rate (In percent)		Carrying amount (Rupees in thousands)	
<b>Financial Liabilities</b>				
Variable rate instruments				
Long term loans	10.43%	14.15%	440,000	1,776
Subordinated loan	10.43%	-	100,000	-
Short term borrowings	11.24%	13.90%	341,255	333,053

### Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have decreased / (increased) loss for the year by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2012.

	Profit and loss	
	100 bp Increase	100 bp Decrease
<b>As at June 30, 2013</b>		
Cash flow sensitivity - Variable rate financial liabilities (Rs' 000)	(8,813)	8,813
<b>As at June 30, 2012</b>		
Cash flow sensitivity - Variable rate financial liabilities (Rs' 000)	(3,348)	3,348

The sensitivity analysis prepared is not necessarily indicative of the effects on (loss) / profit for the year and assets / liabilities of the Company.

#### 46. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying values of all financial assets and liabilities reflected in the financial statements approximate their fair values. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties, in an arm's length transaction.

#### 47. CAPITAL MANAGEMENT

The Company's objectives when maintaining capital are to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders through the optimisation of the debt and equity balance.



## Notes to the Financial Statements

for the year ended June 30, 2013

The Company sets the amount of capital it requires in proportion to risk. The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares or adjust the amount of dividends paid to shareholders.

The Company management believes on maintaining appropriate mix of debt and equity capital and monitors capital on the basis of the net debt to equity ratio. The net debt is defined as long and short term borrowings offset by cash and bank balances. The equity includes ordinary share capital and reserves.

The Company is not subject to any externally imposed capital requirements.

### 48. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorized for issue on September 23, 2013 by the Board of Directors of the Company.

### 49. CORRESPONDING FIGURES

Corresponding figures have been re-arranged and re-classified, wherever necessary, for the purpose of comparison, the effect of which is not significant.

### 50. NUMBER OF EMPLOYEES

The number of employees as at year end was 203 and average number of employees during the year was 231.

### 51. GENERAL

Figures have been rounded off to the nearest rupee.

  
IQBAL ALI LAKHANI  
Chairman

  
MOHAMMAD SHAHID  
Chief Executive Officer

# Form of Proxy

I/We \_\_\_\_\_

of \_\_\_\_\_

a member of **MERIT PACKAGING LIMITED** hereby appoint \_\_\_\_\_

of \_\_\_\_\_ or failing him

\_\_\_\_\_ of

\_\_\_\_\_ who is/are also member/s of Merit Packaging Limited to act as my/our proxy and to vote for me/us and on my/our behalf at the **Annual General Meeting** of the Shareholders of the Company to be held on the 23<sup>rd</sup> day of October 2013 and at any adjournment thereof.

Signed this \_\_\_\_\_ day of \_\_\_\_\_ 2013.

Folio No.	CDC Participant ID No.	CDC Account/ Sub-Account No.	No. of Shares Held	Signature over Revenue Stamp

## Witness 1

Signature \_\_\_\_\_

Name \_\_\_\_\_

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

Address \_\_\_\_\_

## Witness 2

Signature \_\_\_\_\_

Name \_\_\_\_\_

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

Address \_\_\_\_\_

## Notes :-

1. The proxy must be a member of the Company.
2. The signature must tally with the specimen signature/s registered with the Company.
3. If a proxy is granted by a member who has deposited his/her shares into Central Depository Company of Pakistan Limited, the proxy must be accompanied with participant's ID number and CDC account/sub-account number alongwith attested photocopies of Computerized National Identity Card (CNIC) or the Passport of the beneficial owner. Representatives of corporate members should bring the usual documents required for such purpose.
4. The Instrument of Proxy properly completed should be deposited at the Registered Office of the Company not less than 48 hours before the time of the meeting.



**MERIT PACKAGING LIMITED**

A Lakson Group Company

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