www.highnoon-labs.com

HIGHNOON LABORATORIES LIMITED

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One Team | One Aim | Success For All

Annual Report

2012

HIGHNOON LABORATORIES LIMITED

One Team

One Aim

Success For All

At Highnoon, we believe there is no substitute to Teamwork. Teamwork drives creativity, innovation, and the future. With this belief we have embarked upon a major initiative for all key areas of health care to make ourselves ready for the Healthiest of the future. We are confident about entering into a new era of teamwork advancements and that is the expression on this year's cover.

Contents

Financial / Highlights 2012

Profit

after tax up by **11.9%**
Rs. 103 million
(2011: Rs. 92 million)

Operating Profit

up by **122%**
Rs. 162 million
(2011: Rs. 73 million)

Gross Profit Margin

increased to **41.6%**
(2011: 31.0%)

Return on Capital Employed

increased to **14.6%**
(2011: 13.9%)

Total Assets

increased by **8%**
Rs. 1.684 billion
(2011: Rs. 1.558 billion)

Equity

increased by **9%**
Rs. 634 million
(2011: Rs. 580 million)

Earnings Per Share

increased to Rs. **5.69**
(2011: Rs. 5.08)

Market Value

per share increased by **68%**
Rs. 47.50 (2011: Rs. 28.35)

Payout

*Cash Dividend: **35%**
(2011: 30%)

Investment in Fixed Assets

Rupees in million **71**

* Proposed

Our people, our core business's performance and our prowess in pharma industry put us on a yielding path, every year.

Company / Information

Board of Directors	Mr. Tausif Ahmad Khan	Chairman
	Mr. Anees Ahmad Khan	Vice Chairman
	Mr. Baqar Hasan	Chief Executive Officer
	Mr. Ghulam Hussain Khan	
	Mr. Taufiq Ahmed Khan	
	Mr. Shazib Masud	
	Mst. Siddiqa Begum	
	Mrs. Zainub Abbas	
	Mr. Javed Hussain (Alternate Director)	
Chief Financial Officer	Mr. Javed Hussain Tel: +92(42)37511953 Email: javed@highnoon.com.pk	
Company Secretary	Mr. Khadim Hussain Mirza Tel: +92(42)37510036 Email: khadim@highnoon.com.pk	
Bankers	Habib Bank Limited United Bank Limited Faysal Bank Limited J.S. Bank Limited Allied Bank Limited Standard Chartered Bank (Pakistan) Limited	
Registered, Head Office & Plant	17.5 Kilometer Multan Road, Lahore - 53700, Pakistan UAN: 111 000 465 Fax: +92 (42) 37510037 Email: info@highnoon.com.pk URL: www.highnoon-labs.com	
Legal Advisors	Raja Muhammad Akram & Company	
Tax Advisors	Yousuf Islam & Associates	
Auditors	Ernst & Young Ford Rhodes Sidat Hyder Chartered Accountants	
Shares Registrar	Corplink (Pvt) Ltd. Wings Arcade, 1-K Commercial, Model Town, Lahore. Tel: +92 (42) 35916714, 35916719, Fax: +92 (42) 35869637	

Audit Committee	Mr. Shazib Masud	Chairman
	Mr. Ghulam Hussain Khan	Member
	Mrs. Zainub Abbas	Member
	Mr. Khadim Hussain Mirza	Secretary
Human Resource and Remuneration Committee	Mr. Tausif Ahmad Khan	Chairman
	Mr. Baqar Hasan	Member
	Mrs. Zainub Abbas	Member
Executive Committee	Mr. Baqar Hasan CEO / MD	Chairman
	Mr. Javed Hussain ED (Finance) / CFO	Member
	Dr. Zafar Ullah Khan ED (Technical)	Member
	Dr. Rizwan Mehmood ED (Quality Operations)	Member
	Mr. Tanvir H. Qureshi ED (Human Resource)	Member / Secretary
	Dr. Ahmad Atif Mirza ED (Medical)	Member
	Dr. Adeel Abbas ED (Strategic Planning)	Member
	Mr. Ihsan Ullah Khan Khattak General Manager (Production)	Member
	Mr. Shahrukh Hafeez General Manager (Supply Chain)	Member
I.T Steering Committee	Mr. Baqar Hasan CEO / MD	Chairman
	Mr. Javed Hussain ED (Finance) / CFO	Member
	Dr. Adeel Abbas ED (Strategic Planning)	Member
	Mr. Muhammad Ilyas CM (Information Technology)	Member / Secretary

Notice of Annual General Meeting

NOTICE is hereby given that 30th Annual General Meeting of Highnoon Laboratories Limited will be held on Tuesday, April 23, 2013 at 10.00 a.m. at Registered Office, 17.5 Kilometer Multan Road, Lahore to transact the following business:

1. To confirm minutes of last Extra-ordinary General Meeting held on August 28, 2012.
2. To receive, consider and adopt the audited financial statements of the Company for the year ended December 31, 2012 together with Directors' and Auditors' Reports thereon.
3. To consider and approve payment of Cash Dividend at the rate of thirty five percent (35%) to the shareholders as recommended by the Board of Directors.
4. To appoint Auditors and fix their remuneration for the year ending December 31, 2013.
5. To discuss any other business with the permission of the Chair.

By order of the Board

Lahore
April 01, 2013

KHADIM HUSSAIN MIRZA
Company Secretary

Notes:

1. Shares transfer books of the Company will remain closed from April 15, 2013 to April 23, 2013 (both days inclusive) for the purpose of determining the entitlement of payout.
2. A member entitled to attend and vote at this meeting may appoint another member as proxy to attend and vote instead of him. The instrument of proxy must be received at the Registered Office of the Company, 17.5 Kilometer Multan Road, Lahore not less than 48 hours before the time of holding the meeting.
3. Members are advised to intimate any change in their address and the shareholders who have not yet submitted photocopies of their Computerized National Identity Cards (CNIC) are requested to send the same at the earliest.
4. All account holders registered through Central Depository System shall authenticate their identity by showing original CNIC at the time of attending the meeting. In case of corporate entity, a certified copy of resolution of the Board of Directors / valid Power of Attorney having the name and specimen signature of the nominee should be produced at the time of meeting.

Our Vision

We at Highnoon Laboratories Limited understand the duties of being responsible corporate citizen and stand true to our conviction and promise to work for the betterment and prosperity of our people.

"Highnoon for a Healthier Nation"

Our Mission

We strive to maintain excellence in our business practices with the objective to benefit the medical community, consumers, stakeholders and employees; and to improve quality of life by providing quality products.

Corporate / Objectives

- Excel in meeting customer needs.
- Maintain leadership in national pharmaceutical industry.
- Gain confidence of Doctors, Pharmacists and Consumers who use our products.
- Seek employee involvement, continuous improvement and enhanced performance goals.
- Enhance export business.

Statement of / Ethics & Core Values

Shared Responsibility

The achievement and continuation of an ethical work environment is a shared responsibility among employees, seniors, officials and directors of the company, which will be treated as confidential.

Intellectual Honesty

Personal interaction among employees should be characterized by truthfulness, openness to new ideas and consideration for the rights of others. Each member of the team should respect the right of others to freedom of thought, opinion, speech and association.

Personal Conduct

At Highnoon each employee is responsible for avoiding real or apparent conflicts of interest, ensuring that authority is exercised within a framework of accountability and ensuring that information is managed in accordance with relevant statutes. Employees must ensure that the organization's interests are foremost in all business decisions and shall remove themselves from decision making roles which involve the employee in any personal capacity or which involve friends or family members.

Research

Research carried out by our organization shall be characterized by the highest standards of integrity and ethical behavior.

Every effort shall be made to ensure that all research data or results of projects or programs sponsored by or under the administrative supervision of organization are represented properly and accurately.

Directors' Report / to the shareholders

Baqar Hasan
Chief Executive Officer
Lahore: 19 March 2013

The Board of Directors is pleased to present the annual audited financial statements of Highnoon Laboratories Limited along with consolidated financial statements with its wholly owned subsidiary for the year ended 31 December 2012.

Financial Highlights of the Company

	2012 (Rupees in '000')
Profit before tax	158,161
Taxation	54,759
Profit after tax	**103,402**
Un-appropriated profit brought forward	284,713
Incremental depreciation relating to surplus on revaluation of fixed assets-net	4,790
Profit available for appropriation	**392,905**
Appropriations:	
Cash Dividend for the financial year ended 31 December 2011 @ Rs.3.0 per share and Bonus shares Nil. (2010: @ Rs. 2.5 per share and Bonus shares @ 10%)	54,542
	338,363

Consolidated Financial Highlights

Profit before tax	157,647
Taxation	55,940
Profit after tax	**101,707**
Un-appropriated profit brought forward	285,855
Incremental depreciation relating to surplus on revaluation of fixed assets-net	4,790
Profit available for appropriation	**392,352**
Appropriations:	
Cash Dividend for the financial year ended 31 December 2011 @ Rs.3.0 per share and Bonus share Nil. (2010: @ Rs. 2.5 per share and Bonus shares @ 10%)	54,542
	337,810

Earnings Per Share

Based on net profit for the year ended 31 December 2012, the earnings per share (EPS) is Rs.5.69 (2011: Rs.5.08) and on the basis of consolidated results EPS worked out at Rs.5.59 compared to Rs.5.07 last year.

Dividend Announcement

The Directors of the Company have recommended a final cash dividend of thirty five percent i.e. Rs.3.50 per share (2011: Rs.3.00 per share) for the financial year ended 31 December 2012 for consideration and approval by the shareholders in the Annual General Meeting.

Pattern of Shareholding

The pattern of shareholding along with categories of shareholders as at 31 December 2012 as required under Section 236 of the Companies Ordinance and listing regulations is presented on Page 31 of the Annual Report 2012.

Board of Directors

Mr. Aslam Hafiz, Chief Executive Officer/MD resigned from services of the Company effective 01 July 2012. We would like to place on record appreciation for the services rendered by him during his tenure of service. The Board of Directors appointed Mr. Baqar Hasan as Chief Executive Officer / MD to fill up the casual vacancy.

The term of previous Board of Directors expired on 03 September 2012. Following directors were elected in the Extra ordinary General Meeting held on 28 August 2012 for a term of three years with effect from 03 September 2012:

1. **Mr. Tausif Ahmad Khan**
   Non-executive Director
2. **Mr. Anees Ahmad Khan**
   Executive Director
3. **Mr. Ghulam Hussain Khan**
   Non-executive Director
4. **Mr. Taufiq Ahmed Khan**
   Non-executive Director
5. **Mr. Shazib Masud**
   Independent Director
6. **Mst. Siddiqa Begum**
   Non-executive Director
7. **Mrs. Zainub Abbas**
   Non-executive Director

The Board of Directors in a meeting held on 06 September 2012 re-elected Mr. Tausif Ahmad Khan as Chairman for a term of three years. Mr. Baqar Hasan was re-appointed as Chief Executive Officer/ MD for a term of three years in the same meeting.

Mian Muhammad Ashraf and Mrs. Nosheen Riaz Khan retired from the Board upon expiry of their term of office as Non-executive Directors. The Board places on record its appreciation for the valuable contribution made by the outgoing directors.

The Board of Directors in its duly convened meeting approved remuneration of Non-executive Directors for rendering extra services and also approved revision / annual increase in the salaries of working directors and other officers as required by the Companies Ordinance and Code of Corporate Governance.

Pursuant to the provisions of the Companies Ordinance, Mr. Taufiq Ahmed Khan nominatd Mr. Javed Hussain as Alternate Director

during his absence from Pakistan. Mr. Javed Hussain was appointed as Alternate Director by the Board in a meeting held on 19 March 2013.

Directors' Report / to the shareholders

Directors' Attendance

During the year seven Board meetings were held and the number of meetings attended by each Director is given there against:

Sr. #	Name of Member	Attendance-2012							Total
		22 Mar	27 Apr	26 Jun	15 Aug	06 Sep	10 Oct	27 Dec	
1	Mr. Tausif Ahmad Khan	P	P	P	P	P	P	P	7
2	Mr. Anees Ahmad Khan	P	P	L	P	P	P	P	6
3	Mr. Baqar Hasan	--	--	--	P	P	P	P	4
4	Mr. Ghulam Hussain Khan	P	P	P	P	P	P	P	7
5	Mr. Taufiq Ahmed Khan	--	--	--	--	P	L	L	1
6	Mr. Shazib Masud	--	--	--	--	P	L	L	1
7	Mst. Siddiqa Begum	--	--	--	--	P	P	P	3
8	Mrs. Zainub Abbas	L	L	P	P	P	P	P	5
9	Mr. Aslam Hafiz *	P	P	L	--	--	--	--	2
10	Mian Muhammad Ashraf *	L	L	L	L	--	--	--	0
11	Mrs. Nosheen Riaz Khan *	P	P	L	L	--	--	--	2
12	Mr. Javed Hussain **	P	P	P	P	--	--	--	4

P = Present L = Leave * = Retired ** = Alternate director to Mr. Taufiq Ahmed Khan.

Leave of absence was granted to the directors who could not attend the meeting.

All directors are aware of their duties and powers under the Company's Memorandum and Articles of Association and the listing regulations of the stock exchanges and have filed declaration to the effect.

Trading of Shares by Directors, CEO, CFO and Company Secretary etc.

Directors, Chief Executive Officer, Chief Financial Officer, Company Secretary, their spouses and minor children have not sold or purchased shares of the Company during the period except following:

Sr.#	Name	Addition	Deletion
1	Mr. Tausif Ahmad Khan	435,065	1,000,000
2	Mrs. Zainub Abbas	1,000,000	201,372
3	Mr. Shazib Masud	500	-
4	Mst. Siddiqa Begum	872	-

The Board of Directors was accordingly apprised with the above sale / purchase by the directors in the meeting held just after the transactions took place.

Audit Committee

The Board of Directors in a meeting held on 06 September 2012 reconstituted the Audit Committee in accordance with the requirements of Revised Code of Corporate Governance 2012. Audit Committee consists of the following members:

1. Mr. Shazib Masud (Independent Director) — Chairman
2. Mr. Ghulam Hussain Khan (Non-executive Director) — Member
3. Mrs. Zainub Abbas (Non-executive Director) — Member

During the year 05 meetings of Audit Committee were held and the meetings attended by each member are given there against:

Sr.#	Name of Member	Attendance-2012					Total
		21-Mar	25-Apr	13-Aug	18-Oct	24-Dec	
1	Mr. Shazib Masud *	--	--	--	P	P	2
2	Mr. Ghulam Hussain Khan	P	P	P	P	P	5
3	Mrs. Zainub Abbas *	--	--	--	P	P	2
4	Mr. Tausif Ahmad Khan **	P	P	P	--	--	3
5	Mian Muhamad Ashraf **	L	P	P	--	--	2

P = Present L = Leave * = Appointed on 06 September 2012
** = Not member in newly constituted Committee

Human Resource and Remuneration Committee

The Board of Directors, in compliance with the requirements of Revised Code of Corporate Governance 2012, constituted Human Resource and Remuneration (HR&R) Committee which shall be responsible for recommending to the Board human resource management policies, selection, evaluation, compensation (including retirement benefits) and succession planning of the CEO, CFO, Company Secretary and head of Internal Audit and recommending to CEO on matters for key management positions who report directly to the CEO. Following are the members of HR&R Committee:

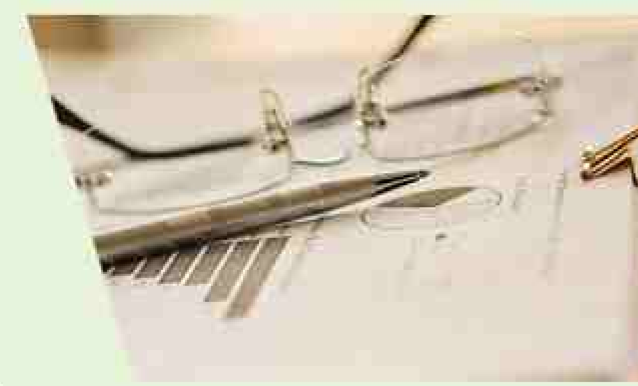
1. Mr. Tausif Ahmad Khan (Non-executive Director) — Chairman
2. Mr. Baqar Hasan (Executive Director) — Member
3. Mrs. Zainub Abbas (Non-executive Director) — Member

Statement of Ethics and Business Practices

The Board has prepared and circulated the Statement of Ethics and Business Practices signed by every Director and employee of the Company as a token of acknowledgement of his/her understanding of the standards of conduct in relation to persons associated or dealing with the Company.

External Auditors

The external auditors of the Company, Ernst & Young Ford Rhodes Sidat Hyder, Chartered Accountants shall retire on the conclusion of the Annual General Meeting. Being eligible for re-appointment under the listing regulations, they have offered their services as auditors of the Company for the financial year 2013. The Audit Committee has recommended the appointment of Ernst & Young Ford Rhodes Sidat Hyder, Chartered Accountants as Auditors of the Company for the year ended 31 December 2013 and the Board agrees to the recommendation of the Audit Committee. The Auditors have also



given their consent to work as Auditors for the next year and have conveyed that they have been given satisfactory rating under the Quality Control Review of Institute of Chartered Accountants of Pakistan and the firm is fully compliant with the code of ethics issued by International Federation

Directors' Report / to the shareholders

of Accountants (IFAC). Further they are also not rendering any related services to the Company. The Auditors have also confirmed that neither the firm nor any of their partner, their spouses or minor children at any time during the year held or traded in the shares of the Company.

Subsidiary Company

Dynalog Services (Pvt.) Limited (DSL), a wholly owned subsidiary company ceased its operation for the last about three years. Taking benefit of the Companies Easy Exit Scheme - 2012, launched by Securities and Exchange Commission of Pakistan, the subsidiary company filed an application on 31 August 2012 for de-registration under the scheme with the Companies Registration Office, Lahore. The company fulfills all the conditions of the Scheme and upon expiration of the notice period, the name of the company will be struck off under section 439 of the Companies Ordinance 1984.

Corporate Social Responsibility

The Company is extremely conscious of its duty and maintains commitment of being a responsive and socially responsible organization. We continue to make sincere efforts to promote

good health, social development and better environment, through various programs that contribute to sustainable, preventive and curative services.

In the current dismal health scenario in the Country and in order to reach out to the under privilege as well as to create awareness, the Company regularly set up free medical camps in the underserved and urban areas where the patients have access to clinical experts and medications. The Company also periodically runs health care awareness programs, which focuses on the prevention and early detection of serious but common ailments. During the year several programs covering diabetes, children malnutrition and asthma were held for the benefit of general public. Yet another important step taken by the Company is the infrastructural development of the Government hospital, which caters to the masses, by providing them with necessary equipment and other facilities.

In line with our tradition, the Company remains dedicated to act in a socially responsible way and actively participate in philanthropic activities. The Company supports Fatimid Foundation, Care Foundation, SOS Village and numerous other organizations in whatever small way it can. In addition the Company regularly provided free medicines to the Thelesemia Foundation and is also an active contributor in case of any natural disaster.

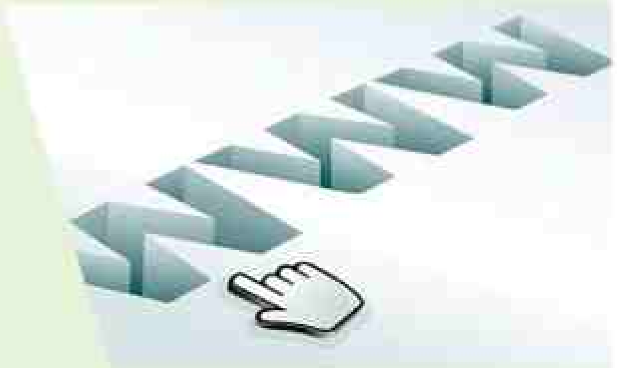
Corporate Governance

The Directors confirm compliance with the Corporate and Financial Reporting framework of the Code of Corporate Governance as contained in the listing regulations for the followings:

1. The financial statements together with the notes thereon have drawn up in conformity with the Companies Ordinance, 1984. These Statements, prepared by the management present fairly the Company's state of affairs, the results of its operations, cash flows and changes in equity.
2. Proper Books of accounts have been maintained.
3. Accounting estimates are based on prudent judgments and there are no outstanding statutory payments on account of Government taxes, duties, levies and charges except for those which have been disclosed in note 11 and note 15 to the financial statements.
4. Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
5. There have been no material changes since 31 December 2012 and the Company has not entered into any commitment, which would affect the financial position at the date.
6. An Audit Committee of the Board was re-constituted on 06 September 2012 in accordance with the requirement of Revised Code of Corporate Governance 2012, which comprises of three members including the Chairman. Two members are Non-executive directors while the Chairman is an Independent Director. The Committee has its own terms of reference, which were determined by the Board of Directors in accordance with the guidelines provided in the Code of Corporate Governance.
7. International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements.
8. The System of internal controls is sound in design and has been effectively implemented and monitored.
9. There are no significant doubts upon the Company's ability to continue as a going concern.
10. None of the Directors have been convicted as a defaulter in payment of any loans of Banks / DFIs, nor they or their spouses are engaged in the business of stock brokerage. The Board has separately appended "Statement of Compliance with Best Practices of Corporate Governance" and auditors have given unqualified review report thereon.
11. There has been no significant departure from the Best Practices of Corporate Governance, as detailed in the listing regulations.
12. The principal value of investment of the Provident Fund based on un-audited figure as on 31 December 2012 was Rs.123.888 Million as compared to audited figures as at 31 December 2011 of Rs.128.135 million.
13. Key financial data for the last six periods as an investors' guide is annexed to the Directors' Report.

Web Presence

All our stakeholders and general public can view Company's website www.highnoon-labs.com where information relating to Company including periodic financial statements / annual reports etc., is available.



Chairman's Review

The Directors endorse the contents of the Chairman's Review, which form part of the Directors' Report. The Board authorized the Chief Executive Officer to sign the Directors' Report on behalf of the Board.

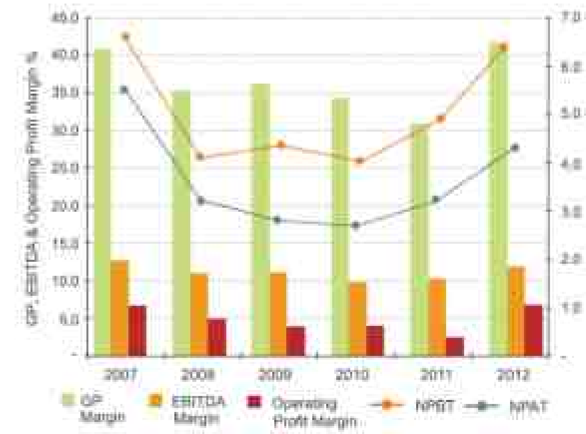
Chairman's / Review

Tausif Ahmad Khan
Chairman
Lahore: 19 March 2013

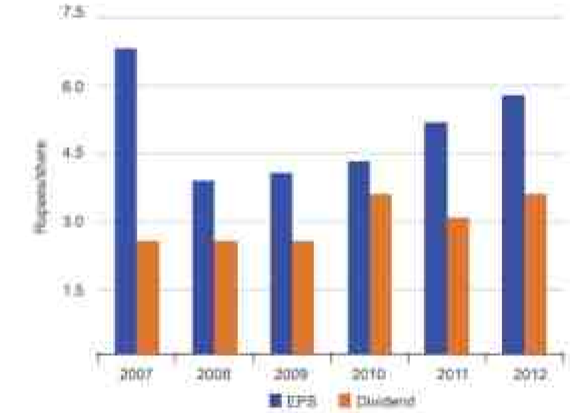
I welcome you to the 30th Annual General Meeting of the Company and am delighted to present Company's annual performance review along with the audited financial statements and the auditors' report for the year ended 31 December 2012.

The year 2012 has been the year of challenges as well as of extraordinary achievements. In the wake of negatives involving several pharmaceutical companies, your Company not only remained unaffected but capitalized on the opportunities. The Company focused its efforts on improving productivity and optimizing on cost structures across the entire value chain and as a result net revenues of the products excluding the revenues from Ex-Solvay / Abbott products are higher by 8 percent as compared to 2011. The shortfall in total revenue is mainly attributable to Ex-Solvay / Abbott Products which were previously accounted for on full sale value of the products, however, subsequent to the global acquisition of Solvay Pharmaceuticals by Abbott Laboratories, revenue from such products is recognized under toll arrangement. The revenue loss was partly made up through increased revenue from sale of own products coupled with increase in gross profit margins from 31.0 percent to 41.6 percent. This demonstrates the resilience and ability of the Company to maintain or increase the margins.

Profitability Margins



Dividends & Earnings



I want to emphasize here that while there have been negative sentiments surrounding the economy as businesses have been retrenching, we continue to demonstrate progress against our plan, despite denial of any price increase since several years by the Government and burdened by the effects of rising cost due to devaluation of Pak rupee.

Operating expenses increased by 5.6 percent mainly due to selling and distribution cost that increased on account of augmenting the sales force and investment in the marketing of the products. Administrative expenses were kept under tight control and showed only marginal increase. Financial cost was reigned in through better cash flow management, renegotiation of borrowing rates and cut in the discount rate by the Central Bank. As a result of the above measures profit before tax increased by 9.8 percent and earning per share increased from Rs.5.08 to Rs.5.69.

We take pride in the growth of our core brands, these are the well-known brand names and we believe hold the promise for long-term growth. Our own brands business, at 54 percent of total local sales offers a solid, dependable base. We remain confident about growing at a rate higher than industry growth rate. We also continue to enhance the treatment alternatives by bringing the latest products, several of which are technically complex dosages and products that fill a therapy gap. Our growing presence in the Respiratory segment received a boost as the revenue from this segment grew by 60 percent over last year. According to the figures reported by *IMS Combivair DPI* is now one of the fastest growing brands in the country. Our product portfolio in this segment will be further strengthened with the introduction of *Metered Dosage Inhalers and Respules* in collaboration with CIPLA that will eventually end near monopoly of a multinational company.

It is our goal to deliver innovation within each therapeutic segment every year, either in new product benefits, new delivery forms or filling an existing need in a better way.

Chairman's Review

Tagipmet that was launched in the preceding financial year has been very well received in the market and is now among the best known brand in the segment. We are also proud of the success of *Artecxin*, an anti malarial product launched last year which has also contributed to the gains.

In the last year address to the Shareholders I had highlighted the Company's road map to the future, identifying the areas of focus that were critical to the Company's short term and long term strategic plan, namely:

New business Initiatives
Infrastructure Improvement

Our new product portfolio remains promising; we are planning to launch several products in the ensuing year. We continued development of new formulations and further line extensions of our products. With our upgraded Product Development capacities and capabilities the goal of developing a larger number of formulations remains positive. Some of the new formulations are sustained release (or extended-release) formulations. The sustained release formulations create a steady drug release profile making the drug substance available over an extended period of time following ingestion.

Misuse of active narcotic ingredients quota by some influentials resulted in shortage of widely used medications for the remedy of cough and cold. We expect that the shortages will continue in the near future, to treat the unmet medical needs of the patients, the Company has signed an agreement with a renowned multinational company for marketing a herbal remedy, Prospan, which is a highly visible brand all across the world. Prospan's addition in our portfolio will strengthen our push towards respiratory ailments.

I am confident that with remarkable launches ahead and a strong footing in the cardiovascular and gastro-intestinal segment, the Company is heading aggressively towards clenching the diabetes and COPD market thus making its standing in the industry a cut above the rest.

On the infrastructure front, we have substantially completed capacity expansion, modernization and efficiency improvements projects. We remain focused and have been making sure that we were investing in infrastructure and remain adequately staffed to maintain highest levels of regulatory compliance and delivering quality products.

Some of the key initiatives completed this year include:

- Upgradation of Product Development Laboratory
- Upgradation of Hormonal Product Facility
- Completion of Walk in Stability Chambers
- Upgradation of Solid Dosage Area
- Upgradation of Quality Operations Laboratory and Equipment
- Completion of dedicated Consumer Health Products Manufacturing Facility

Chairman's Review

The year saw a visible demonstration of good quality management system as well as quality of the manufactured products which was validated through successful external audits of Regulatory agencies and customers.

I am pleased to announce Highnoon has been facilitated for significant contribution in the field of pharmaceutical manufacturing. In recognition the Company has been bestowed with Best Performance Award by the President of Pakistan. Your Company is one of the companies selected out of total 527 companies on the basis of manufacturer of quality products and benchmark performance.

While we have made strategic and capital investments in our Company, we also have been mindful that we do not neglect the human factor to support the growth. The Company has institutionalized a process of recognizing, appreciating and rewarding individuals and teams who have excelled in their respective areas. Initiatives have been taken in introducing a performance based system to better gauge the achievements and potential of employees.

Last year, we strengthened our management team. This year we plan to expand our sales force to effectively market and sell our entire portfolio of products, although this has been a difficult decision due to rising costs, however, we remain confident these are the crucial factors that would enable further growth and strengthen the Company's competitive positioning and market standing in the fast changing and dynamic generics landscape.

I would like to thank all of our steadfast investors, our customers and Highnoon team, who make a difference and influence the growth of our Company. I am confident of continued success in the future.

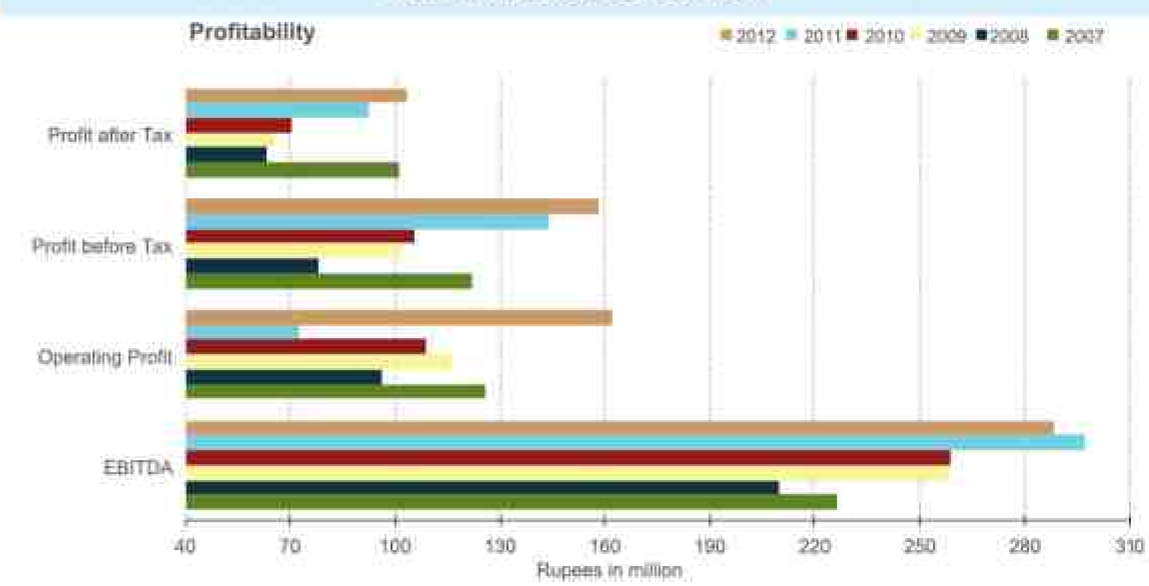
May God bless all of us.

Six Years at a Glance

		2012	2011	2010	2009 Restated	2008	2007
		(Rupees in '000')					
Summary of Balance Sheet							
Share Capital		181,805	181,805	165,277	165,277	165,277	150,252
Reserves		452,363	398,713	358,856	323,918	332,801	299,940
Operating Fixed Assets		765,185	701,972	696,937	675,982	653,900	564,711
Non Current Assets		113,209	127,039	144,145	104,145	107,088	119,383
Net Working Capital		347,670	284,416	259,483	201,138	194,315	192,212
Long Term Liabilities		76,403	83,898	127,850	70,554	96,472	86,182
Deferred Liabilities		283,037	265,857	260,106	227,126	160,146	131,672
Summary of Profit and Loss Account							
Sales - Net		2,465,621	2,944,907	2,636,538	2,334,752	1,933,344	1,851,718
Gross Profit		1,024,932	914,171	903,555	846,157	686,938	755,409
Earning Before Interest, Tax, Depreciation and Amortization (EBITDA)		288,586	297,360	258,772	258,042	209,909	226,069
Operating Profit		161,980	72,751	108,748	115,827	96,178	125,676
Profit Before Tax		158,161	144,053	105,580	101,847	77,972	122,265
Net Profit After Tax		103,402	92,381	70,344	65,762	63,123	100,924
Summary of Cash Flow Statement							
Net Cash Flow from Operating Activities		69,878	388,077	270,151	(13,919)	59,457	119,631
Net Cash Flow from Investing Activities		(22,379)	(47,473)	(115,634)	(71,394)	(120,787)	(38,419)
Net Cash Flow from Financing Acitivites		(53,634)	(391,339)	(122,111)	113,337	56,650	(84,921)
Changes in Cash and Cash Equivalents		(6,135)	(50,735)	32,406	28,024	(4,680)	(3,709)
Cash and Cash Equivalents at Year End		6,462	12,597	63,331	30,925	7,177	11,856
Financial Performance/Profitability Analysis							
Gross Profit Margin	%	41.57	31.04	34.27	36.24	35.53	40.80
EBITDA to Sales Margin	%	11.70	10.10	9.81	11.05	10.86	12.21
Operating Profit Margin	%	6.57	2.47	4.12	4.96	4.97	6.79
Profit Before Tax Margin	%	6.41	4.89	4.00	4.36	4.03	6.60
Profit After Tax Margin	%	4.19	3.14	2.67	2.82	3.26	5.45
Return on Equity	%	16.31	15.91	13.42	13.44	12.67	22.42
Return on Capital Employed	%	14.55	13.90	10.79	11.75	10.62	18.82
Operating Performance/Liquidity Analysis							
Inventory Turnover	Days	143	104	141	141	127	130
Debtors Turnover	Days	9	6	6	14	31	31
Creditors Turnover	Days	51	29	28	32	40	48
Cash Operating Cycle	Days	101	81	119	123	118	113
Assets Turnover Ratio	Times	1.46	1.89	1.51	1.34	1.31	1.38
Fixed Assets Turnover	Times	2.81	3.56	3.19	3.18	2.58	2.79
Return on Assets	%	9.39	9.25	6.06	5.83	5.28	9.13
Current Ratio	Times	1.76	1.64	1.41	1.26	1.37	1.42
Quick Ratio	Times	0.43	0.47	0.40	0.35	0.51	0.51

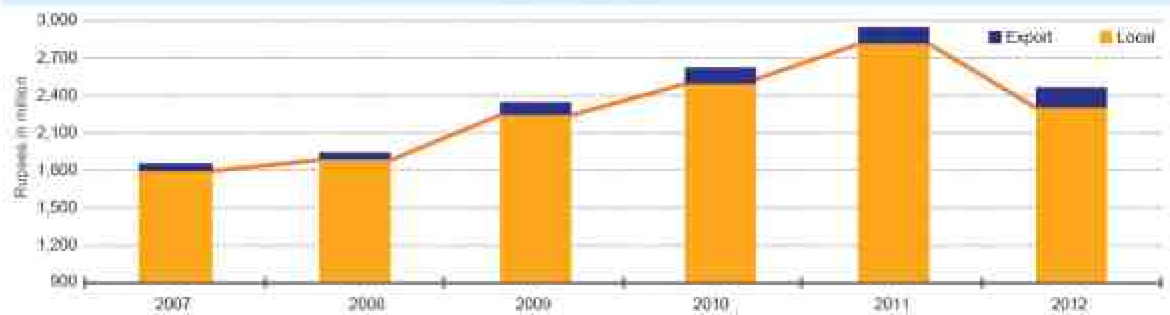
		2012	2011	2010	2009 Restated	2008	2007
Distribution Analysis							
Pay out - Proposed							
- Cash Dividend per share	Rs.	3.50	3.00	2.50	2.50	2.50	1.50
- Bonus	%	-	-	10.00	-	-	10.00
Payout Ratio (after tax)	%	61.54	59.04	82.23	62.83	65.46	37.22
Dividend Yield	%	7.37	10.58	12.09	8.20	6.38	2.99
Earnings Per Share (after tax)	Rs.	5.69	5.08	4.26	3.98	3.82	6.72
Price Earning Ratio	Times	8.35	5.58	6.80	7.66	10.26	12.43
Capital Structure/Market Value Analysis							
Long Term Debt : Equity Ratio		09:91	11:89	19:81	11:89	16:84	16:84
Shareholders' Net Worth as % of Total Assets	%	51.46	49.03	40.93	39.14	47.36	49.18
Financial Charges Coverage	Times	4.28	3.05	2.18	2.28	2.16	3.86
Number of Shares	in '000'	18,181	18,181	16,528	16,528	16,528	15,025
Break-up Value of Share							
- Excluding Surplus on Revaluation	Rs.	34.88	31.93	31.71	29.60	30.14	29.96
- Including Surplus on Revaluation	Rs.	47.67	42.00	43.12	41.36	42.27	43.82
Market Value of Share							
- Year End	Rs.	47.50	28.35	28.94	30.50	39.20	83.50
- Highest	Rs.	50.36	33.50	33.99	40.45	94.25	94.55
- Lowest	Rs.	28.50	24.50	22.10	27.71	27.40	49.50
- Average	Rs.	37.20	27.94	27.30	30.54	79.64	75.54
Market Capitalization	Rs. in '000'	863,575	515,418	478,313	504,095	647,886	1,254,604

Performance Overview



Six Years / at a Glance

Sales Trend



Value of Payout (Rupees/share)

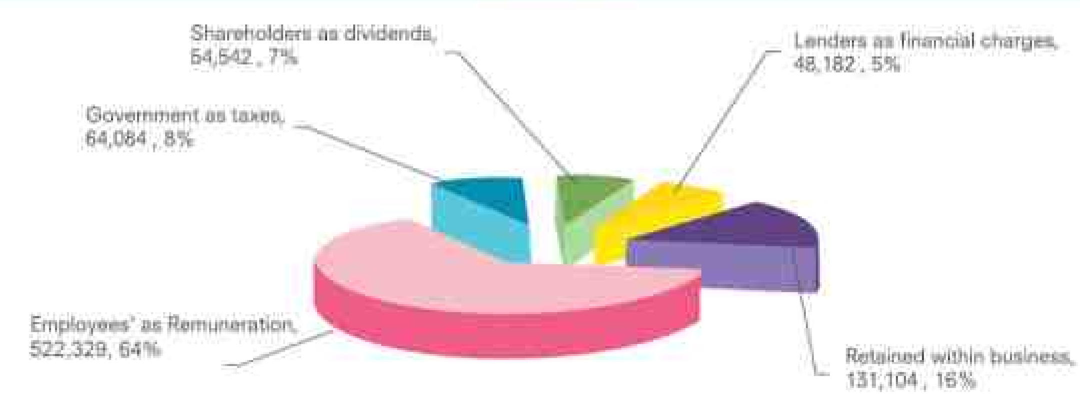
Shareholders' Equity Assets and Return

Market Value/ Breakup Value of Share

Statement of Value Addition / and its Distribution

	2012 Rs. in '000'	2011 Rs. in '000'
Value Added		
Net Sales	2,470,485	2,947,666
Material & Services	1,668,575	2,260,179
Other Income	18,331	92,752
	820,241	780,239
Distribution:		
Employees		
Salaries Wages & Benefits	514,004	467,611
Workers Profit Participation Fund	8,325	7,832
	522,329	475,443
Government		
Income Tax	54,759	51,672
Sales Tax	4,864	2,759
Central Research Fund	1,469	1,456
Workers Welfare Fund	2,992	3,220
	64,084	59,107
Provider of Finances		
To Shareholder as Dividend	54,542	41,319
To Banks as financial charges	48,182	70,371
	102,724	111,690
Retained in Business		
Depreciation and amortization	82,242	82,936
Retained Profit	48,861	51,062
	131,104	133,998
	820,241	780,239

Value addition and its distribution 2012
(Rs. in '000')



Vertical and Horizontal Analysis

Vertical Analysis Profit and Loss Account	2012 Rs. in 000	%	2011 Rs. in 000	%	2010 Rs. in 000	%	2009 Rs. in 000	%	2008 Rs. in 000	%	2007 Rs. in 000	%
Sales - net	2,465,621	100.0	2,944,907	100.0	2,636,538	100.0	2,334,752	100.0	1,933,344	100.0	1,851,718	100.0
Cost of sales	1,440,689	58.4	2,030,736	69.0	1,732,983	65.7	1,488,595	63.8	1,246,406	64.5	1,096,309	59.6
Gross profit	1,024,932	41.6	914,171	31.0	903,555	34.3	846,157	36.2	686,938	35.5	755,409	40.4
Other operating income	18,331	0.7	92,752	3.1	7,708	0.3	9,191	0.4	8,924	0.5	10,259	0.8
Distribution, selling & promotional expenses	610,040	24.7	568,589	19.3	540,518	20.5	483,376	20.7	371,771	19.2	436,648	23.4
Administrative and general expenses	195,854	7.9	195,733	6.6	161,148	6.1	160,668	6.9	142,506	7.4	139,687	7.6
Research and development expenses	8,876	0.4	6,727	0.2	3,716	0.1	6,945	0.3	9,350	0.5	10,664	0.5
Other operating expenses	22,149	0.9	21,450	0.7	10,876	0.4	23,170	1.0	27,131	1.4	13,669	0.7
	818,588	33.1	699,747	23.7	708,550	26.8	664,968	28.5	541,834	28.0	590,408	31.4
	206,344	8.4	214,424	7.3	195,005	7.5	181,189	7.7	145,104	7.5	165,001	9.0
Finance cost	48,182	2.0	70,371	2.4	89,425	3.4	79,341	3.4	67,133	3.5	42,736	2.5
Profit before taxation	158,162	6.4	144,053	4.9	105,580	4.1	101,848	4.3	77,971	4.0	122,265	6.5
Taxation	54,759	2.2	51,672	1.8	35,236	1.3	36,085	1.5	14,848	0.8	21,342	1.6
Profit after taxation	103,403	4.2	92,381	3.1	70,344	2.8	65,763	2.8	63,123	3.2	100,923	4.9

Vertical Analysis Balance Sheet	2012 Rs. in 000	%	2011 Rs. in 000	%	2010 Rs. in 000	%	2009 Rs. in 000	%	2008 Rs. in 000	%	2007 Rs. in 000	%
Share Capital and Reserve	866,623	51.5	763,671	49.0	712,609	40.9	683,585	39.1	699,038	47.4	658,452	45.3
Non Current Liabilities												
Long term loan - secured	50,000	3.0	57,659	3.7	99,947	5.7	39,412	2.3	63,743	3.6	28,968	-
Liabilities against assets subject to finance lease	12,805	0.8	11,296	0.7	27,903	1.6	31,143	1.8	42,729	2.9	57,214	3.5
Long term advances	13,598	0.8	14,942	1.0	10,589	0.6	15,389	0.9	17,126	1.2	15,566	1.2
Deferred liabilities	283,037	16.8	265,858	17.1	249,517	14.3	211,736	12.1	143,020	9.7	115,084	11.3
Deferred gain	-	-	-	-	-	-	-	-	-	-	1,022	0.4
Total Non Current Liabilities	359,440	21.3	349,755	22.5	387,956	22.3	297,680	17.1	256,618	17.4	217,854	16.4
Current Liabilities												
Trade and other payables	199,348	11.8	186,674	12.0	120,441	6.9	135,493	7.8	108,439	7.3	152,282	10.3
Liabilty for patent and trade mark		-		-		-	-	-	6,408	0.4	-	-
Mark-up payable on secured loans	6,589	0.4	10,436	0.7	20,544	1.2	18,452	1.1	16,063	1.1	7,286	0.6
Short term bank borrowings - secured	230,600	13.7	166,291	10.7	433,153	24.9	562,307	32.2	345067	23.4	255,397	24.3
Income tax-net	-	-	-	-	-	-	-	-	-	-	14,075	-
Current portion of long term liabilities	21,577	1.3	80,742	5.1	66,266	3.8	49,189	2.7	44513	3.0	33,623	3.1
Total Current Liabilities	458,114	27.2	444,143	28.5	640,404	36.8	765,441	43.8	520,490	35.2	462,663	38.2
	1,684,177	100.0	1,557,569	100.0	1,740,969	100.0	1,746,706	100.0	1,476,146	100.0	1,338,969	100.0

Vertical Analysis Balance Sheet	2012 Rs. in 000	%	2011 Rs. in 000	%	2010 Rs. in 000	%	2009 Restated Rs. in 000	%	2008 Rs. in 000	%	2007 Rs. in 000	%
Non Current Assets												
Property,plant and equipments	778,418	46.2	715,604	45.9	710,421	40.8	720,546	41.3	683,288	46.3	618,702	44.5
Intangible assets	98,413	5.8	111,844	7.2	129,099	7.4	58,018	3.3	66,492	4.5	43,830	3.5
Long term investment	-	-	-	-	-	-	-	-	10,000	0.7	20,000	1.7
Long term deposits	1,562	0.1	1,562	0.1	1,562	0.1	1,562	0.1	1,562	0.1	1,562	0.2
	878,393	52.2	829,010	53.2	841,082	48.3	780,126	44.7	761,342	51.6	684,094	49.9
Current Assets												
Stock in trade	606,595	36.0	518,480	33.3	640,845	36.8	700,501	40.1	449,901	30.5	418,423	31.1
Trade debts	72,532	4.3	55,270	3.5	43,544	2.5	36,988	2.1	140,987	9.6	187,341	10.9
Advances,deposits and prepayments	36,964	2.2	51,136	3.3	33,714	1.9	70,234	4.0	25,007	1.7	26,781	3.1
Other receivables	21,116	1.3	17,005	1.1	21,587	1.3	63,910	3.7	53,586	3.6	10,473	3.4
Income tax-net	62,117	3.7	74,071	4.8	96,866	5.6	64,021	3.7	38,145	2.6	-	0.3
Cash and bank balances	6,462	0.4	12,597	0.8	63,331	3.6	30,926	1.7	7,178	0.4	11,857	1.3
	805,784	47.8	728,559	46.8	899,887	51.7	966,580	55.3	714,804	48.4	654,875	50.1
	1,684,177	100.0	1,557,569	100.0	1,740,969	100.0	1,746,706	100.0	1,476,146	100.0	1,338,969	100.0

Horizontal Analysis Profit and Loss Account	2012 Rs. in 000	%	2011 Rs. in 000	%	2010 Rs. in 000	%	2009 Restated Rs. in 000	%	2008 Rs. in 000	%	2007 Rs. in 000	%
Sales - net	2,465,621	(16.3)	2,944,907	11.7	2,636,538	12.9	2,334,752	20.8	1,933,344	4.4	1,851,718	22.2
Cost of sales	1,440,689	(29.1)	2,030,736	17.2	1,732,983	16.4	1,488,595	19.4	1,246,406	13.7	1,096,309	14.0
Gross profit	1,024,932	12.1	914,171	1.2	903,555	6.8	846,157	23.2	686,938	-9.1	755,409	36.7
Other operating income	18,331	(80.2)	92,752	103.4	7,708	(16.1)	9,191	3.0	8,924	(13.0)	10,259	(19.1)
Distribution, selling & promotional expenses	610,040	7.3	568,589	5.2	540,518	11.8	483,376	30.0	371,771	(14.9)	436,648	49.7
Administrative and general expenses	195,854	0.1	195,733	21.5	161,148	0.3	160,668	12.7	142,506	2.0	139,687	6.9
Research and development expenses	8,876	31.9	6,727	81.0	3,716	(46.5)	6,945	(25.7)	9,350	(12.3)	10,664	16.5
Other operating expenses	22,149	3.3	21,450	97.2	10,876	(53.1)	23,170	(14.6)	27,131	98.5	13,669	74.8
	818,588	17.0	699,747	(1.2)	708,550	6.6	664,968	22.7	541,834	(8.2)	590,408	33.3
	206,344	(3.8)	214,424	10.0	195,005	7.6	181,189	24.9	145,104	(12.1)	165,001	29.2
Finance cost	48,182	(31.5)	70,371	(21.3)	89,425	12.7	79,341	18.2	67,133	57.1	42,736	15.2
Profit before taxation	158,162	9.8	144,053	36.4	105,580	3.7	101,848	30.6	77,971	(36.2)	122,265	35.4
Taxation	54,759	6.0	51,672	46.6	35,236	(2.4)	36,085	143.0	14,848	(30.4)	21,342	4.7
Profit after taxation	103,403	11.9	92,381	31.3	70,344	7.0	65,763	4.2	63,123	(37.5)	100,923	49.8

Vertical and / Horizontal Analysis

Horizontal Analysis
Balance Sheet

	2012 Rs. in 000	2012 %	2011 Rs. in 000	2011 %	2010 Rs. in 000	2010 %	2009 Restated Rs. in 000	2009 %	2008 Rs. in 000	2008 %	2007 Rs. in 000	2007 %
Share Capital and Reserve	866,623	13.5	763,671	7.2	712,609	4.2	683,585	(2.2)	699,038	6.2	658,452	12.6
Non Current Liabilities												
Long term loan - secured	50,000	(13.3)	57,659	(42.3)	99,947	153.6	39,412	(26.7)	53,743	85.5	28,968	-
Liabilities against assets subject to finance lease	12,805	13.4	11,296	(59.5)	27,903	(10.4)	31,143	(27.1)	42,729	(25.3)	57,214	29.7
Long term advances	13,598	(9.0)	14,942	41.1	10,589	(31.2)	15,389	(10.1)	17,126	10.0	15,566	13.6
Deferred liabilities	283,037	6.5	265,858	6.5	249,517	17.8	211,736	48.0	143,020	24.3	115,084	(0.2)
Deferred gain	-	-	-	-	-	-	-	-	-	-	1,022	(54.1)
Total Non Current Liabilities	359,440	2.8	349,755	(9.6)	387,956	30.3	297,680	16.0	256,618	17.8	217,854	3.1
Current Liabilities												
Trade and other payables	199,348	6.8	186,674	55.0	120,441	(11.1)	135,493	24.9	108,439	(28.8)	152,282	33.0
Liabilty for patent and trade mark	-		-		-		-		6,408		-	-
Mark-up payable on secured loans	6,589	(36.9)	10,436	(49.2)	20,544	11.3	18,452	14.9	16,063	120.5	7,286	5.0
Short term bank borrowings - secured	230,600	38.7	166,291	(61.6)	433,153	(23.0)	562,307	63.0	345067	35.1	255,397	0.5
Income Tax-net	-	-	-	-	-	-	-	-	-	-	14,075	-
Current portion of long term liabilities	21,577	(73.3)	80,742	21.8	66,266	34.7	49,189	10.5	44513	32.4	33,623	(32.9)
Total Current Liabilities	458,114	3.1	444,143	(30.6)	640,404	(16.3)	765,441	47.1	520,490	12.5	462,663	3.4
	1,684,177	8.1	1,557,569	(10.5)	1,740,969	(0.3)	1,746,706	18.3	1,476,146	10.2	1,338,969	7.3
Non Current Assets												
Property,plant and equipments	778,418	8.8	716,604	0.7	710,421	-1.4	720,546	5.5	683,288	10.4	618,702	0.8
Intangible assets	98,413	(12.0)	111,844	(13.4)	129,099	122.5	58,018	(12.7)	66,492	51.7	43,830	(3.8)
Long Term Investment	-	-	-	-	-	-	-	(100.0)	10,000	(50.0)	20,000	-
Long Term deposits	1,562	-	1,562	-	1,562	-	1,562	-	1,562	-	1,562	335.1
	878,393	6.0	829,010	(1.4)	841,082	7.8	780,126	2.5	761,342	11.3	684,094	0.7
Current Assets												
Stock in trade	606,595	17.0	518,480	(19.1)	640,845	(8.5)	700,501	55.7	449,901	7.5	418,423	27.8
Trade debts	72,532	31.2	55,270	26.9	43,544	17.7	36,988	(73.8)	140,987	(24.7)	187,341	82.2
Advances,deposits and prepayments	36,964	(27.7)	51,136	51.7	33,714	(52.0)	70,234	180.9	25,007	(6.6)	26,781	47.1
Other receivables	21,116	24.2	17,005	(21.2)	21,587	(66.2)	63,910	19.3	53,586	411.7	10,473	(54.3)
Income Tax-net	62,117	(16.1)	74,071	(23.5)	96,866	51.3	64,021	67.8	38,145	100.0	-	(87.5)
Cash and bank balances	6,462	(48.7)	12,597	(80.1)	63,331	104.8	30,926	330.8	7,178	(39.5)	11,857	15.3
	805,784	10.6	728,559	(19.0)	899,887	(6.9)	966,580	35.2	714,804	9.2	654,875	14.9
	1,684,177	8.1	1,557,569	(10.5)	1,740,969	(0.3)	1,746,706	18.3	1,476,146	10.2	1,338,969	7.3

Pattern of Shareholding / as at December 31, 2012

Sr. #	No. of shareholders	Shareholdings From:		Shareholdings To:	Total shares held
01	1160	1	-	100	50,252
02	806	101	-	500	195,068
03	536	501	-	1000	432,953
04	300	1001	-	5000	656,082
05	53	5001	-	10000	378,926
06	32	10001	-	15000	383,120
07	9	15001	-	20000	161,644
08	3	20001	-	25000	70,009
09	6	25001	-	30000	167,585
10	5	30001	-	35000	159,390
11	2	35001	-	40000	73,020
12	3	40001	-	45000	125,405
13	3	45001	-	50000	142,773
14	2	50001	-	60000	113,979
15	4	60001	-	65000	242,819
16	1	65001	-	70000	67,000
17	2	70001	-	75000	146,666
18	1	75001	-	85000	82,500
19	2	85001	-	90000	175,800
20	2	90001	-	100000	193,687
21	3	100001	-	130000	382,549
22	1	130001	-	150000	143,701
23	1	150001	-	160000	151,153
24	1	160001	-	165000	163,908
25	1	165001	-	170000	167,092
26	1	170001	-	250000	203,805
27	1	250001	-	275000	274,420
28	1	275001	-	285000	282,161
29	1	285001	-	300000	288,443
30	1	300001	-	465000	461,276
31	1	465001	-	500000	484,286
32	1	500001	-	600000	574,056
33	1	600001	-	700000	614,343
34	1	700001	-	750000	736,552
35	1	750001	-	790000	789,682
36	1	790001	-	950000	800,000
37	1	950001	-	1050000	1,038,897
38	1	1050001	-	1150000	1,127,104
39	1	1150001	-	1300000	1,275,881
40	1	1300001	-	1350000	1,321,257
41	1	1350001	-	1400000	1,365,897
42	1	1400001	-	1520000	1,515,376
	2,956				**18,180,517**

Pattern of Shareholding / as at December 31, 2012

Categories of Shareholders	No. of Shareholders	Shares held	%age
Directors, CEO and their spouse & minor children			
Mr. Tausif Ahmad Khan	1	1,365,897	7.51
Mr. Anees Ahmad Khan	1	613	0.00
Mr. Baqar Hasan	1	0	-
Mr. Ghulam Hussain Khan	1	614,343	3.38
Mr. Shazib Masud	1	500	0.00
Mr. Taufiq Ahmed Khan	1	1,321,257	7.27
Mst. Siddiqa Begum	1	872	0.00
Mrs. Zainub Abbas	1	800,000	4.40
Mrs. Saweela Anees Khan	1	484,286	2.66
Mrs. Huma Hussain Khan	1	143,701	0.79
Associated Companies, undertakings and related parties	-	-	-
NIT and ICP	3	461,583	2.54
Banks, Development Financial Institutions, Non Banking Financial Institutions, Joint Stock Companies & Trusts	36	632,608	3.48
Insurance Companies	3	822,578	4.52
Modarabas and Mutual Funds	3	10,710	0.06
*** Share holders holding 5%**	-	-	-
Non-Resident Companies	2	1,523,736	8.38
General Public			
a. Local	2,879	9,662,445	53.15
b. Foreign	20	335,388	1.84
Others	-	-	-
TOTAL	**2,956**	**18,180,517**	**100**

*** Shareholders Holding 5% or More of Total Capital**

Pharmatec Investments Limited	1,515,376	8.34
Mr. Tausif Ahmad Khan	1,365,897	7.51
Mr. Taufiq Ahmed Khan	1,321,257	7.27
Mr. Tauqeer Ahmed Khan	1,275,881	7.02
Mr. Jawaid Tariq Khan	1,127,104	6.20
Mrs. Nosheen Riaz Khan	1,038,897	5.71

Statement of Compliance

with best practices of the Code of Corporate Governance

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

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

1. The Company encourages representation of independent non-executive directors and directors representing minority interest on its Board of Directors. The present Board consists of two executive directors and six non-executive directors of which one is an independent director.

2. The directors have confirmed that none of them is serving as a director in more than seven listed companies, including Highnoon Laboratories Limited.

3. All the resident directors of the Company are registered as tax payers 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. The Company has prepared a Statement of Ethics and Business Practices, which has been signed by all the directors and employees of the Company.

5. 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.

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

7. The meetings of the Board were presided over by the Chairman, and in his absence, by a director elected by the Board 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

Statement of Compliance

with best practices of the Code of Corporate Governance

meetings were appropriately recorded and circulated.

8. The Board ensures arrangement of orientation courses for its Directors to apprise them of their duties and responsibilities. For the incoming Directors the orientation course will be arranged in due course. Further, as required by the amended sub-clause (iv) of clause 35 to the Code ("Orientation Courses/ Directors' Education Program"), certification for the director under "the Board Development Series" program will also be arranged in due course.

9. The Board approved appointment, remuneration and terms and conditions of employment of Chief Financial Officer, Company Secretary and the head of Internal Audit. However, there were no new appointments of CFO, Company Secretary and head of Internal Audit during the year.

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

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

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

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

14. The Board has formed an Audit Committee. It comprises of three members including the Chairman, who is an independent Director, rest of the two are non-executive directors.

15. The meetings of the Audit Committee were held at least once in every quarter prior to the approval of interim and final results of the Company as required by the Code. The terms of reference of the Committee have been fully complied with.

16. The Board has set-up an effective internal audit function and the internal auditors of the Company are fully conversant with the policies and procedures of the Company and working on a full time basis.

17. 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.

18. 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.

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

For and on

Review Report

to the Members on Statement of Compliance with Best Practices of the 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 Highnoon Laboratories Limited to comply with the Listing Regulation No. 35 of the Karachi Stock Exchange and Chapter XIII of the Lahore Stock Exchange and Chapter XI of the Listing Regulations of Islamabad Stock Exchange (Guarantee) 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 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 controls covers all the risks and controls, or to form an opinion on the effectiveness of such internal controls, the company's corporate governance procedures and risks.

Further, Listing Regulations of Karachi, Lahore and Islamabad Stock Exchanges requires 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 justifications for using such alternate pricing mechanism. Further, all such transactions 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 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 31 December 2012.

Chartered Accountants
Engagement Partner:
Naseem Akbar

Lahore:
19 March 2013

Financial Statements

HIGHNOON LABORATORIES LIMITED
2012

Auditors' Report / to the Members

We have audited the annexed balance sheet of Highnoon Laboratories Limited as at 31 December 2012 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 requirements of the Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

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

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

b) in our opinion:

   (i) The balance sheet and profit and loss account together with the notes thereon have been draw up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied except for changes as stated in Noted 2.3 with which we concur;

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

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

c) in our opinion and to the best of ourinformation and according to theexplanations 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 31 December 2012 and of the profit, comprehensive income, its cash flows and changes in equity for the year then ended; and

d) In our opinion, Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Company and deposited in the Central Zakat Fund established under Section 7 of that Ordinance.

Chartered Accountants
Engagement Partner: Naseem akbar

Lahore: 19 March 2013

Balance Sheet

As At 31 December 2012

	Note	2012 Rupees	2011 Rupees
EQUITY AND LIABILITIES			
SHARE CAPITAL AND RESERVES			
Authorized Share Capital 20,000,000 (2011: 20,000,000) Ordinary shares of Rs. 10 each		200,000,000	200,000,000
Share capital	5	181,805,170	181,805,170
Revenue reserves		452,362,810	398,712,812
		634,167,980	580,517,982
Surplus on revaluation of fixed assets	6	232,455,404	183,153,055
NON CURRENT LIABILITIES			
Long term loans - secured	7	50,000,000	57,659,470
Liabilities against assets subject to finance lease	8	12,805,239	11,296,272
Long term advances	9	13,597,545	14,942,278
Deferred liabilities	10	283,037,234	265,856,776
		359,440,018	349,754,796
CURRENT LIABILITIES			
Trade and other payables	11	199,348,127	186,673,545
Markup payable on secured loans	12	6,588,896	10,436,070
Short term bank borrowings - secured	13	230,599,758	166,291,136
Current portion of long term liabilities	14	21,577,392	80,742,402
		458,114,173	444,143,153
		817,554,191	793,897,949
TOTAL EQUITY AND LIABILITIES		1,684,177,575	1,557,568,986
CONTINGENCIES AND COMMITMENTS	15	-	-

	Note	2012 Rupees	2011 Rupees
ASSETS			
NON CURRENT ASSETS			
Property, plant and equipment	16	778,418,155	715,604,221
Intangible assets	17	98,412,922	111,843,817
Long term investment	18	-	-
Long term deposits		1,562,054	1,562,054
		878,393,131	829,010,092
CURRENT ASSETS			
Stock in trade	19	606,594,516	518,480,424
Trade debts	20	72,531,970	55,269,355
Advances, deposits and prepayments	21	36,963,660	51,136,092
Other receivables	22	21,115,507	17,005,240
Income tax - net		62,116,700	74,070,798
Cash and bank balances	23	6,462,091	12,596,985
		805,784,444	728,558,894
TOTAL ASSETS		1,684,177,575	1,557,568,986

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

BAQAR HASAN
CHIEF EXECUTIVE OFFICER

ANEES AHMAD KHAN
DIRECTOR

Profit and Loss Account

For The Year Ended 31 December 2012

	Note	2012 Rupees	2011 Rupees
Sales - net	24	2,465,620,979	2,944,907,488
Cost of sales	25	1,440,689,018	2,030,736,442
GROSS PROFIT		1,024,931,961	914,171,046
Other operating income	26	18,330,727	92,752,280
Distribution, selling and promotional expenses	27	610,040,225	568,588,690
Administrative and general expenses	28	195,854,466	195,732,726
Research and development expenses	29	8,875,532	6,727,034
Other operating expenses	30	22,149,046	21,450,726
		818,588,542	699,746,896
		206,343,419	214,424,150
Finance cost	31	48,182,492	70,370,861
PROFIT BEFORE TAXATION		158,160,927	144,053,289
Taxation	32	54,759,366	51,672,027
PROFIT AFTER TAXATION		103,401,561	92,381,262
Earnings per share - basic and diluted	33	5.69	5.08

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

BAQAR HASAN
CHIEF EXECUTIVE OFFICER

ANEES AHMAD KHAN
DIRECTOR

Statement of Comprehensive Income

For The Year Ended 31 December 2012

	2012 Rupees	2011 Rupees
Profit after tax for the year	103,401,561	92,381,262
Other comprehensive income	-	-
Total comprehensive income for the year	103,401,561	92,381,262

Surplus arising on 'revaluation of fixed assets' is presented under a separate head below equity as 'surplus on revaluation of assets' in accordance with the requirements specified by the Securities and Exchange Commission of Pakistan (SECP) vide its S.R.O.45(I)/2003 dated 13 January 2003 and section 235 of Companies Ordinance, 1984 respectively.

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

BAQAR HASAN
CHIEF EXECUTIVE OFFICER

ANEES AHMAD KHAN
DIRECTOR

Cash Flow Statement

For The Year Ended 31 December 2012

	2012 Rupees	2011 Rupees
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	158,160,927	144,053,289
Adjustments for non-cash and other items:		
Depreciation	64,505,732	65,378,232
Amortization of intangible assets	17,736,510	17,557,999
Gain on disposal of property, plant and equipment	(15,706,280)	(5,530,791)
Exchange loss	9,363,745	8,942,250
Provision for defined benefit obligation	45,929,410	40,681,629
Provision for doubtful debts	12,507	-
Finance cost	48,182,492	70,370,861
	170,024,116	197,400,180
Profit before working capital changes	328,185,043	341,453,469
WORKING CAPITAL CHANGES		
(Increase) / decrease in current assets:		
Stock in trade	(88,114,092)	122,364,209
Trade debts	(17,275,122)	(11,725,275)
Advances, deposits and prepayments	14,172,432	(17,421,951)
Other receivables	(4,110,267)	4,581,441
Increase / (decrease) in current liabilities:		
Trade and other payables	(2,718,046)	56,750,712
	(98,045,095)	154,549,136
Cash generated from operations	230,139,948	496,002,605
Taxes paid	(40,976,283)	(42,988,179)
Gratuity paid	(52,370,733)	(10,231,390)
Finance cost paid	(48,546,379)	(74,452,116)
Long term advances - net	(18,368,721)	19,746,270
Net Cash from operating activities	69,877,832	388,077,190

	Note	2012 Rupees	2011 Rupees
CASH FLOWS FROM INVESTING ACTIVITIES			
Fixed capital expenditure incurred		(49,316,316)	(60,405,164)
Intangible assets acquired		(4,305,615)	(302,660)
Sale proceeds from disposal of property, plant and equipment		31,243,564	13,235,272
Net cash used in investing activities		(22,378,367)	(47,472,552)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of finance lease liabilities - net		(19,483,549)	(41,411,288)
Long term loan obtained		50,000,000	-
Long term loan repaid		(99,946,763)	(42,287,293)
Increase/(decrease) in short-term bank borrowings - net		64,308,622	(266,860,966)
Dividend paid		(48,512,669)	(40,779,597)
Net cash used in financing activities		(53,634,359)	(391,339,144)
Net decrease in cash and cash equivalents		(6,134,894)	(50,734,506)
Cash and cash equivalents at beginning of the year		12,596,985	63,331,491
Cash and cash equivalents at end of the year	23	6,462,091	12,596,985

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

BAQAR HASAN
CHIEF EXECUTIVE OFFICER

ANEES AHMAD KHAN
DIRECTOR

Statement of Changes in Equity

For The Year Ended 31 December 2012

	Share Capital	Revenue Reserves			Total
		General Reserve	Unappropriated Profit	Sub Total	
	--------------------	--------------------	Rupees	--------------------	--------------------
Balance as at 01 January 2011	165,277,431	114,000,000	244,856,438	358,856,438	524,133,869
Final dividend @ Rs. 2.50 per share for the year ended 31 December 2010	-	-	(41,319,358)	(41,319,358)	(41,319,358)
Issuance of bonus shares @ 10%	16,527,739	-	(16,527,739)	(16,527,739)	-
Incremental depreciation relating to surplus on revaluation of fixed assets - net	-	-	5,322,209	5,322,209	5,322,209
Total comprehensive income for the year	-	-	92,381,262	92,381,262	92,381,262
Balance as at 31 December 2011	181,805,170	114,000,000	284,712,812	398,712,812	580,517,982
Final dividend @ Rs. 3.00 per share for the year ended 31 December 2011	-	-	(54,541,551)	(54,541,551)	(54,541,551)
Incremental depreciation relating to surplus on revaluation of fixed assets - net	-	-	4,789,988	4,789,988	4,789,988
Total comprehensive income for the year	-	-	103,401,561	103,401,561	103,401,561
Balance as at 31 December 2012	181,805,170	114,000,000	338,362,810	452,362,810	634,167,980

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

BAQAR HASAN
CHIEF EXECUTIVE OFFICER

ANEES AHMAD KHAN
DIRECTOR

Notes To The Financial Statements

For The Year Ended 31 December 2012

1. THE COMPANY, OPERATIONS AND REGISTERED OFFICE

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

2. BASIS OF PREPARATION

2.1 Statement of Compliance

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984. In case requirements differ, the provisions or directives of the Companies Ordinance, 1984 shall prevail.

2.2 Basis of presentation

These unconsolidated financial statements represent separate financial statements of the Company. The consolidated financial statements of the company and its subsidiary company are being issued separately.

The subsidiary company, "Dynalog Services (Pvt.) Limited", has filed application for its de-registration under "Company Easy Exit Scheme-2012 (CEES-2012)" introduced by SECP vide its circular no. 23/2012 dated 20 June 2012. The subsidiary company meets all the requirements of the CEES-2012 and has been notified by SECP vide it notice No.CEES-2012/1502-04/8147 dated 27 November 2012 for this purpose.

2.3 New and amended standards and interpretations become effective

The Company has adopted the following new and amended IFRS and IFRIC interpretations which became effective during the year:

IFRS 7 – Financial Instruments: Disclosures - Enhanced De-recognition Disclosure Requirements (Amendment)

IAS 12 – Income Taxes - Recovery of Underlying Assets (Amendment)

The adoption of the above standards, amendments, interpretations and improvements did not have any material effect on the financial statements.

2.4 Standards, interpretations and amendments to published approved accounting standards that are not yet effective

The following revised standards, 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:

Notes / To The Financial Statements
For The Year Ended 31 December 2012

2.4 Standards, interpretations and amendments to published approved accounting standards that are not yet effective

Standard or Interpretation		Effective Date (Annual Periods beginning on or after)
IFRS 7 -	Financial Instruments : disclosures – (amendments)	
-	Amendments enhancing disclosures about offsetting of financial assets and financial liabilities	01 January 2013
IAS 1 -	Presentation of Financial Statements – Presentation of items of other comprehensive income	01 July 2012
IAS 19 -	Employee Benefits – (Amendment)	01 January 2013
IAS 32 -	Offsetting Financial Assets and Financial liabilities – (Amendment)	01 January 2014

The Company expects that the adoption of the above revision, amendments and interpretation of the standards will not affect the Company's financial statements in the period of initial application other than the amendments to IAS 19 'Employees Benefits' as described below:

Amendments to IAS 19 range from fundamental changes to simple clarification and re-wording. The significant changes include the following:

- For defined benefit plans, the ability to defer recognition of actuarial gains and losses (i.e., the corridor approach) has been removed. As revised, actuarial gains and losses are recognized in other comprehensive income when they occur. Amounts recorded in profit and loss are limited to current and past service costs, gains or losses on settlements, and net interest income (expense). All other changes in the net defined benefit asset (liability) are recognized in other comprehensive income with no subsequent recycling to profit and loss.

- The distinction between short-term and other long-term employee benefits will be based on the expected timing of settlement rather than the employee's entitlement to the benefits.

- Objectives for disclosures of defined benefit plans are explicitly stated in the revised standard, along with new or revised disclosure requirements. These new disclosures include quantitative information of the sensitivity of the defined benefit obligation to a reasonably possible change in each significant actuarial assumption.

While the Company is currently assessing the full impact of the above amendments which are effective from 1 January 2013 on the financial statements, it is expected that the adoption of the said amendments will result in change in the Company's accounting policy related to recognition of actuarial gains and losses (refer to note 10.2 to the financial statements) to recognize actuarial gains and losses in total in other comprehensive income in the period in which they occur. The potential impact of the said changes on the financial position and performance for the year 2013 is estimated as under:

	Rupees
Net increase in employees' benefit liability	19,718,230
Net increase in other comprehensive loss	19,718,230
Net increase / decrease in profit or loss for the year	-

Improvements to IFRS

In addition to the above amendments, improvements to various accounting standards have also been issued by the IASB. Such improvements are generally effective for accounting periods beginning on or after 01 January 2013. The Company expects that such improvements to the standards will not have any material impact on the Company's financial statements in the period of initial application.

In addition to the above, the following new standards have been issued by IASB which are yet to be notified by the SECP for the purpose of applicability in Pakistan.

Standard	IASB effective date (Annual periods beginning on or after)
IFRS 9 - Financial Instruments: Classification and Measurement	01 January 2015
IFRS 10 - Consolidated Financial Statements	01 January 2013
IFRS 11 - Joint Arrangements	01 January 2013
IFRS 12 - Disclosure of Interests in Other Entities	01 January 2013
IFRS 13 - Fair Value Measurement	01 January 2013

3. BASIS OF MEASUREMENT

3.1 Accounting convention

These financial statements have been prepared under the historical cost convention, except for revaluation of certain assets as referred to in note 16 and recognition of certain employees retirement benefits at present value. In these financial statements, except for the cash flow statement, all the transactions have been accounted for on accrual basis.

3.2 Functional and presentation currency

These financial statements are presented in Pak rupee, which is the functional and presentation currency of the Company.

3.3 Use of estimates and judgments

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

Notes / To The Financial Statements
For The Year Ended 31 December 2012

3.3 Use of estimates and judgments

The estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognized in the period in which the estimate is revised if revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods. The areas where various assumptions and estimates are significant to Company's financial statements or where judgments were exercised in application of accounting policies are as follows:

		Notes
-	staff retirement benefits	4.3
-	property, plant and equipment	4.6
-	residual values and useful lives of property, plant and equipment	4.6
-	impairment	4.13
-	taxation	4.17
-	provisions	4.20

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 The accounting policies adopted in the preparation of these financial statements are consistent with those of the previous financial year except as mentioned in note 2.3.

4.2 Segment Reporting

The key financial decision maker consider the whole business as one operating segment.

4.3 Staff retirement benefits

Defined benefit plan

The Company operates an unfunded gratuity scheme for all of its permanent employees, under which benefits are paid on cessation of employment subject to a minimum qualifying period of service. Qualified actuaries have carried out the valuation as at 31 December 2012. The projected unit credit method with the following significant assumptions was used for the valuation of this scheme:

		2012	2011
-	Discount rate	11% per annum	12.5% per annum
-	Expected rate of increase in salary	10% per annum	11.5% per annum
-	Expected average remaining working life time	14 years	14 years

The Company's policy with regard to actuarial gains/losses is to follow minimum recommended approach under IAS 19 "Employees Benefits" by which actuarial gains/losses exceeding 10 % of present value of benefit obligation are amortized over a period of five years.

Defined contribution plan

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

Compensated leave absences

Provision for compensated absences is made to the extent of value of accumulated accrued leaves / leave fare assistance of the employees at the balance sheet date as per entitlement on the basis of last drawn salary. A maximum of 10 un-availed leaves are allowed to be carried forward for a maximum of one year.

4.4 Foreign currency translation

All monetary assets and liabilities in foreign currency are translated at the rates of exchange prevailing on the balance sheet date. Non-monetary assets and liabilities that are measured in terms of historical cost in foreign currency are translated into rupees at exchange rates prevailing at the date of transaction. Non-monetary assets and liabilities denominated in foreign currency that are stated at fair value are translated into rupees at exchange rates prevailing at the date when fair values are determined. Transactions in foreign currencies are converted into Pak rupees at exchange rates prevailing on the date of transaction. All exchange gains/losses are taken to profit and loss account currently.

4.5 Trade and other payables

Trade and other payables are initially carried at fair value and subsequently at amortized cost using effective interest rate method.

4.6 Property, plant and equipment

Owned operating assets

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

Deprecation is charged on reducing balance method at the rates in note 16.1 to write off the cost / revalued amount of an asset over its estimated useful life. The assets' residual values and useful lives are reviewed at each financial year end and adjusted, if its impact on depreciation is significant. Full month's depreciation is charged on additions, while no depreciation is charged in the month of disposal or deletion of assets. Surplus on revaluation of fixed assets relating to incremental depreciation (net of deferred taxation) is transferred directly to Unappropriated profit.

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

Normal repairs and maintenance is charged to profit and loss account as and when incurred, while major renewals and replacements are capitalized if it is probable that the respective future economic benefits will flow to the Company and the cost of the item can be measured reliably, and assets so replaced, if any, are retired.

Leasehold assets

Leases, where all the risks and rewards incidental to ownership of the leased assets have been transferred to the Company, are classified as finance leases. Assets subject to finance lease are stated at the lower of present value of minimum lease payments under the lease agreements and the fair value of the leased assets at the commencement of lease, less accumulated depreciation and any identified impairment loss.

Notes / To The Financial Statements
For The Year Ended 31 December 2012

4.6 Property, plant and equipment

Leasehold assets

The related rental obligations, net of finance costs, are included in liabilities against assets subject to finance lease as referred to in note 8. The liabilities are classified as current and long term depending upon the timing of the payment.

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

Assets acquired under finance lease are depreciated over the useful lives of assets on reducing balance method at the rates given in note 16.1 The assets' residual values and useful lives are reviewed at each financial year end and adjusted, if its impact on depreciation is significant. Depreciation of leased assets is charged to profit and loss account.

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

Capital work in progress

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

4.7 Intangible assets and amortization

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

After initial recognition, an intangible asset is carried at its cost less accumulated amortization and any identified impairment loss. Amortization is charged to the profit and loss account on monthly basis by following the straight line method over a maximum period of ten years. Amortization on additions is charged from the month when the asset is put to use, while for disposals, no amortization is charged in the month of disposal.

At each financial year end, the Company reviews the recoverable amounts of intangible assets to assess impairment loss. If such indication exists, impairment losses are recognized as an expense.

Subsequent expenditures on intangible assets are recognized as an expense when it is incurred unless the expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance.

4.8 Borrowing costs

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

4.9 Investments

Subsidiary Company

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

Investments available for sale - Quoted securities

Investment intended to be held for an unidentified period of time which may be sold in response to need for liquidity or changes to interest rates, exchange rates or equity prices are classified as available for sale.

Investments classified as "available for sale" are initially measured at cost, being the fair value of consideration given. At subsequent reporting dates, these investments are measured at fair value. The investments for which quoted price is not available, are measured at cost as it is not possible to apply any other valuation methodology.

Unrealized gains and losses arising from changes in fair value are recognized in other comprehensive income and presented within equity as reserve. Cumulative gains and losses arising from changes in fair value are included in the net profit and loss for the period in which an investment is derecognized or determined to be impaired.

All "regular way" purchases and sales of shares are recognized on the trade date, i.e. the date that the Company commits to purchase/sell the asset.

4.10 Stock in trade

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

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

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

4.11 Trade debts

These are initially carried at original invoice amount, which is the fair value of consideration to be received in future and subsequently measured at amortized cost less impairment loss, if any. A provision for impairment of trade debts is established when there is an objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivable.

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4.12 Cash and cash equivalents

These are carried in balance sheet at cost. For the purpose of cash flow statement, cash and cash equivalents comprise of cash in hand and balance with banks in current accounts.

4.13 Impairment

The carrying amount of the assets except for inventories are reviewed at each balance sheet date to identify the circumstances indicating the occurrence of impairment loss or reversal of previously recognized impairment losses. If any such indication exists, the recoverable amount of such asset is estimated.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups.

Where an impairment loss subsequently reverses, the carrying amount of such asset is increased to the extent that it does not exceed the carrying amount that would have been determined, net of depreciation and amortization, if no impairment loss has been charged. A reversal of the impairment loss is recognized in income.

4.14 Revenue recognition

Revenue from local sales is recognized when risk and reward incidental to ownership are transferred i.e. on dispatch of goods to the customers. Export goods are considered dispatched when bill of lading is prepared for shipment to customers.

Service income is recognized when related services are rendered.

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

4.15 Transactions with related parties and transfer pricing

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

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

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

4.16 Research and development cost

These costs are charged to profit and loss account as and when incurred, except for any development costs which are recognized as intangible assets when it is probable that the development project will be a success and certain criteria, including commercial and technological feasibility have been met.

4.17 Taxation

Income tax on profit and loss for the year comprises current and deferred tax.

Current

The charge for current taxation is based on taxable income for the year determined in accordance with Income Tax Ordinance, 2001 and prevailing tax rates after taking into account applicable tax credits and rebates, if any. The charge for current tax also includes adjustments, where considered necessary, to provision for tax made in previous years arising from assessments framed during the year for such years.

Deferred

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

Deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilized.

Carrying amount of deferred tax asset is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that the related tax benefit will be realized. Deferred tax is calculated at the rates that are expected to apply to the period when differences reverse based on tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is charged or credited in income except for deferred tax asset/liability arising on deficit/surplus on revaluation of fixed assets which is adjusted against the related surplus as per the requirements of revised IAS 12 "Income Taxes".

4.18 Dividend

Dividend to shareholders is recognized as a liability in the period in which it is approved.

4.19 Financial instruments

These comprise financial assets and financial liabilities. Significant financial assets include trade debts, advances and deposits, other receivables and cash and bank balances. Significant financial liabilities include borrowings, trade and other payables, liabilities in respect of leased assets and mark up payable on bank borrowings.

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument and assets and liabilities are stated at fair value. The Company derecognizes the financial asset and liabilities when it ceases to be a party to such contractual provisions of the instruments. Any gain or loss on derecognizing of the financial assets and financial liabilities is taken to profit and loss account currently. The particular measurement methods adopted are disclosed in the individual policy statement associated with each item.

Offsetting of financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount is reported in the balance sheet if the Company has legally enforceable right to offset the recognized amounts and the Company intends to settle either on a net basis or realize the asset and settle the liability simultaneously.

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.20 Provisions

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

5. SHARE CAPITAL

	Note	2012 Rupees	2011 Rupees
Issued, subscribed and paid-up			
5,905,000 (2011: 5,905,000) ordinary shares of Rs. 10 each fully paid in cash		59,050,000	59,050,000
95,000 (2011: 95,000) ordinary shares of Rs.10 each issued for consideration other than cash	5.1	950,000	950,000
12,180,517 (2011: 12,180,517) ordinary shares of Rs. 10 each issued as bonus shares		121,805,170	121,805,170
		181,805,170	181,805,170

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

5.2 Reconciliation of issued, subscribed and paid-up ordinary shares

	2012 (Number of Shares)	2011 (Number of Shares)
Outstanding at the beginning	18,180,517	16,527,743
Bonus shares issued during the year	-	1,652,774
Outstanding at the year end	18,180,517	18,180,517

6. SURPLUS ON REVALUATION OF FIXED ASSETS

	Note	2012 Rupees	2011 Rupees
Surplus on revaluation of fixed assets as at 01 January		208,945,300	217,133,314
Addition during the year		75,885,134	-
Incremental depreciation relating to surplus on revaluation of fixed assets - transferred to unappropriated profit			
Net of deferred tax		(4,789,988)	(5,322,209)
Related deferred tax liability		(2,579,224)	(2,865,805)
		(7,369,212)	(8,188,014)
Surplus on revaluation of fixed assets as at 31 December		277,461,222	208,945,300
Less: Related deferred tax liability on:			
Balance at the beginning of the year		25,792,245	28,658,050
Addition during the year		21,792,797	-
Incremental depreciation relating to surplus on revaluation of fixed assets - transferred to unappropriated profit		(2,579,224)	(2,865,805)
	10.1	45,005,818	25,792,245
		232,455,404	183,153,055

6.1 This represent surplus arising on revaluation of freehold land and building on freehold land, plant and machinery both owned and leased carried out in 1995, 1999, 2004, 2007 and 2012 respectively. This has been adjusted by incremental depreciation arising due to revaluation net of deferred tax. The latest revaluation of land, building on freehold land and plant and machinery was carried out on 31 December 2012 by M/S Surval which resulted in a surplus of Rs. 75,885,134.

7. LONG TERM LOANS - SECURED

	Note	2012 Rupees	2011 Rupees
Habib Bank Limited - Term Loan I	7.1	-	51,301,763
Habib Bank Limited - Term Loan II	7.2	50,000,000	-
Faysal Bank Limited	7.3	-	48,645,000
Less: Current portion shown under current liabilities	14	-	42,287,293
		50,000,000	57,659,470

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7.1 This loan was obtained for the purpose of expansion and carried mark-up at the rate of three months KIBOR plus 2.25% per annum. The effective mark-up charged during the year was 13.79% (2011: 15.69%) of the average outstanding loan facility. The amount outstanding as at 31 December 2011 was although repayable in 7 equal quarterly installments but the Company has repaid entire balance during the year in pursuit of minimising cost of capital employed. This loan along with working capital facilities provided by the bank was secured by way of first pari passu charge for Rs. 362 million on fixed assets and first joint pari passu hypothecation charge of Rs. 230 million on stocks including but not limited to raw materials, medicines, goods in process and finished goods of the Company.

7.2 This loan has been obtained to finance the expansion of production facility and carries mark-up at the rate of three months KIBOR plus 1.50% per annum. The effective mark-up charged during the year was 10.95% of outstanding loan facility. The loan is repayable in 16 quarterly installments starting after 15 months grace period from date of draw down. This loan along with working capital facilities provided by the bank are secured by way of first pari passu charge for Rs. 362 million on fixed assets and first joint pari passu hypothecation charge of Rs. 230 million on stocks including but not limited to raw materials, medicines, goods in process and finished goods of the Company.

7.3 The loan of Rs. 64.860 million was obtained in 2009 for financing the acquisition of Blokium trade mark and carries mark-up at the rate of three months KIBOR plus 2.75% per annum. The effective mark-up charged during the year was 14.21% (2011: 15.96%) of the average outstanding loan amount. The amount outstanding as at 31 December 2011 was repayable in 15 equal quarterly installments, however, the Company has repaid the entire balance during the year in pursuit of minimizing cost of capital employed. This loan along with working capital facilities provided by the bank was secured by way of first pari passu charge of Rs. 69.25 million on the present and future current assets of the Company and first pari passu charge of Rs. 83.65 million on present and future fixed assets of the Company.

	Note	2012 Rupees	2011 Rupees
8. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE			
Present value of minimum lease payments		27,968,462	26,313,224
Less: Current portion shown under current liabilities	14	15,163,223	15,016,952
		12,805,239	11,296,272

2012	Minimum lease payments	Finance cost for future periods	Principal outstanding
	Rupees		
Not later than one year	17,770,521	2,607,298	15,163,223
Later than one year but not later than five years	14,000,804	1,195,565	12,805,239
	31,771,325	3,802,863	27,968,462

2011	Minimum lease payments	Finance cost for future periods	Principal outstanding
	Rupees		
Not later than one year	17,778,886	2,761,934	15,016,952
Later than one year but not later than five years	12,421,672	1,125,400	11,296,272
	30,200,558	3,887,334	26,313,224

Salient features of the leases are as follows:	**2012**	2011
Discounting factor	**12.50% - 15.61%**	14.50% - 18.61%
Period of lease	**36 months**	36 months
Security deposits	**5% - 10%**	5% - 10%

The Company has entered into finance lease arrangements with various financial institutions for lease of plant and machinery and vehicles as shown in note 16.1. The liabilities under these arrangements are payable in monthly installments and above mentioned mark-up rates are used as discounting factor to determine the present value of minimum lease payments.

All lease agreements carry renewal option at the end of lease period and the Company intends to exercise its option to purchase the leased assets upon completion of the respective lease terms. Residual value of the leased assets has already been paid at the inception of the lease in the form of security deposit. There are no financial restrictions imposed by lessors. Taxes, repairs, replacements and insurance costs are borne by the lessee.

	Note	2012 Rupees	2011 Rupees
9. LONG TERM ADVANCES			
Balance at 31 December		20,011,714	38,380,435
Less: Current portion	14	6,414,169	23,438,157
		13,597,545	14,942,278

These represent advances taken from employees against future sale of vehicles as per the Company's policy.

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	Note	2012 Rupees	2011 Rupees
10. DEFERRED LIABILITIES			
Taxation	10.1	120,483,754	96,861,973
Gratuity	10.2	162,553,480	168,994,803
		283,037,234	265,856,776

10.1 Taxable/(deductible) temporary differences arising in respect of :

	Note	2012 Rupees	2011 Rupees
Surplus on revaluation of fixed assets	6	45,005,818	25,792,245
Accelerated tax depreciation		89,085,759	83,577,293
Finance lease		4,004,302	11,753,678
Provision for doubtful debts		(363,963)	(4,758,621)
Provision for gratuity		(17,248,162)	(19,502,622)
		120,483,754	96,861,973

10.2 The net value of un-funded defined benefit obligation as at valuation date was as follows:

	2012 Rupees	2011 Rupees
Present value of defined benefit obligation	183,147,140	188,823,998
Unrecognized actuarial losses	(19,718,230)	(18,706,687)
Non-vested past service cost	(945,430)	(1,890,859)
Benefits due but not paid	70,000	768,351
Net liability as at 31 December	162,553,480	168,994,803

10.2.1 The following is movement in the net recognized liability for gratuity:

	Note	2012 Rupees	2011 Rupees
Liability as at 01 January		168,994,803	138,544,564
Amount recognized during the year	10.2.3	45,929,410	40,681,629
Benefit payments made by the Company		(52,370,733)	(10,231,390)
Liability as at 31 December		162,553,480	168,994,803

10.2.2 Movement in the liability for un - funded defined benefit obligations

	2012 Rupees	2011 Rupees
Present value of defined benefit obligations as at 01 January	188,823,998	159,003,810
Current service costs	21,380,981	18,897,089
Interest cost	23,603,000	20,670,495
Non-vested past service cost	-	1,890,859
Benefits due but not paid	-	(768,351)
Benefits paid during the year	(51,672,382)	(9,220,028)
Actuarial (gain) / losses recognized	1,011,543	(1,649,876)
Present value of defined benefit obligations as at 31 December	183,147,140	188,823,998

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

	2012 Rupees	2011 Rupees
Current service cost	21,380,981	18,897,089
Interest cost	23,603,000	20,670,495
Amortization of non-vested past service cost charge	945,429	-
Actuarial losses-charge for the year	-	1,114,045
	45,929,410	40,681,629

10.2.4 Historical information for gratuity plan

	2012	2011	2010	2009	2008
	Rupees				
Present value of defined benefits obligations	183,147,140	188,823,998	159,003,810	132,771,040	115,195,393
Experience adjustment arising on plan liabilities (gain) / losses	1,011,543	(1,649,876)	3,184,301	(5,348,203)	8,415,367

Notes

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11. TRADE AND OTHER PAYABLES

	Note	2012 Rupees	2011 Rupees
Trade creditors		71,876,980	61,269,568
Bills payable		9,172,474	16,936,426
Advances from customers	11.1	23,090,485	36,344,820
Accrued expenses		68,570,239	52,672,837
Income tax deducted at source		2,931,288	2,196,686
Workers' Profit Participation Fund	11.2	8,324,918	7,832,389
Payable to Central Research Fund		1,468,567	1,455,952
Payable to Provident Fund Trust		2,588,463	2,695,815
Unclaimed dividends		11,066,134	5,037,252
Payable to Employees Welfare Trust		258,579	231,800
		199,348,127	186,673,545

11.1 This includes a balance amounting to Rs. 925,936 (2011: Rs. Nil) due to Route-2, an associated company.

11.2 Workers' Profit Participation Fund

	Note	2012 Rupees	2011 Rupees
Balance at the beginning of the year		7,832,389	5,745,436
Add: Provision for the year	30	8,324,918	7,832,388
		16,157,307	13,577,824
Add: Interest on funds utilized by the Company	31	81,902	70,110
		16,239,209	13,647,934
Less: Paid during the year to the trustees of the fund		7,914,291	5,815,545
		8,324,918	7,832,389

Mark-up @ 18.75% (2011: 18.75%) is provided on unpaid balance of the fund in accordance with the rules of the Fund.

12. MARKUP PAYABLE ON SECURED LOANS

	2012 Rupees	2011 Rupees
On long term loans	390,000	3,689,283
On short term borrowings	6,198,896	6,746,787
	6,588,896	10,436,070

13. SHORT TERM BANK BORROWINGS - SECURED

	Note	2012 Rupees	2011 Rupees
Running finance	13.1 & 13.2	230,599,758	166,291,136

13.1 Short term running finances are availed from various banks against aggregate sanctioned limit of Rs. 655 million (2011: Rs. 715 million) .These facilities have various maturity dates up to 31 October 2013 and renewable on the date of maturity. These facilities carry mark-up rates ranging from one month KIBOR to six months KIBOR plus 100 to 150 basis points (2011: one month KIBOR to six months KIBOR plus 150 to 175 basis points) per annum. These facilities along with import credit facility are secured by way of first pari passu charge for Rs. 532 million on fixed assets and first joint pari passu hypothecation charge of Rs. 693 million on stocks including but not limited to raw materials, medicines, goods in process and finished goods of the Company.

13.2 Out of total outstanding borrowing facility, an amount of Rs. 35 million (2011: Rs. 35 million) represents Export Refinance Facility obtained from a commercial bank under SBP regulations at a subsidised mark up rate of 9.5% per annum (2011:10% per annum).

13.3 The Company also has aggregate sanctioned import credit facilities negotiated with various banks amounting to Rs. 275 million (2011: Rs. 673 million). These facilities carry mark-up rates ranging from one month KIBOR to six months KIBOR plus 125 to 150 basis points (2011: one month KIBOR to six months KIBOR plus 125 to 150 basis points) per annum. These available facilities are secured by way of joint pari passu, ranking hypothecation charge over present and future current assets of the Company as mentioned above in Note 13.1 and lien on export documents or firm contracts and have various maturity dates.

14. CURRENT PORTION OF LONG TERM LIABILITIES

	Note	2012 Rupees	2011 Rupees
Long term loan	7	-	42,287,293
Liabilities against assets subject to finance lease	8	15,163,223	15,016,952
Long term advances	9	6,414,169	23,438,157
		21,577,392	80,742,402

Notes
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15. CONTINGENCIES AND COMMITMENTS

Contingencies

- While finalizing income tax assessments for the tax year 2005, income tax authorities made certain add backs with aggregate tax impact of Rs. 12,600,136. The Company has filed appeal before Commission Inland Revenue (Appeals) which is pending for adjudication, pending finalization of appeal, no provision has been made by the Company, as the management expects a favorable outcome of such appeal.

- Bank guarantees issued on behalf of the Company aggregate to Rs. 4.620 million (2011: Rs. 4.620 million).

- The Company has not acknowledged the demand relating to sales tax/central excise duty amounting to Rs.12.057 million (2011: Rs. 12.057 million) as debt as the matter is pending for adjudication. An amount of Rs. 10.086 million (2011: Rs. 10.086 million) has been deposited under protest and is shown under other receivables in note 22.

- Facilities of letters of guarantee amounting to Rs. 20 million (2011: Rs. 20 million) are available to the Company under hypothecation/pledge of stocks and on present and future current assets and property, plant and equipment of the Company.

Commitments

	2012	2011
	(Rupees in '000')	
Commitments against irrevocable letters of credit include:		
Raw materials	110,085	100,988
Packing materials	15,866	17,017
Furniture	6,141	-

16. PROPERTY, PLANT AND EQUIPMENT

	Note	2012 Rupees	2011 Rupees
Operating assets (owned)	16.1	725,775,250	642,076,342
Operating assets (leased)	16.1	39,409,323	59,895,164
Capital work-in-progress	16.2	13,233,582	13,632,715
		778,418,155	715,604,221

16.1 Operating assets (owned) / leased

Reconciliation of the carrying amounts at the beginning and end of the year is as follows:

	Year ended 31 December 2012															
	Operating fixed assets - owned											Total operating fixed assets - owned	Assets subject to finance lease			Total operating fixed assets
	Land - freehold	Building on freehold land	Plant and machinery	Laboratory equipment	Furniture and fixtures	Electric and gas appliances	Office equipment	Vehicles	Library books	Neon sign	Arms and ammunition		Plant and machinery	Vehicles	Total Assets subject to finance lease	
	Rupees															
At 01 January 2012																
Cost	149,820,000	274,178,069	480,930,263	18,079,590	14,397,658	23,743,079	51,307,151	83,067,846	52,806	204,990	166,100	1,095,947,552	18,124,623	84,648,386	102,773,009	1,198,720,561
Accumulated Depreciation	-	126,127,607	227,756,084	5,910,430	7,947,885	14,505,843	22,705,839	48,689,394	48,977	86,021	93,130	453,871,210	9,993,196	32,884,649	42,877,845	496,749,055
Net Book Value	149,820,000	148,050,462	253,174,179	12,169,160	6,449,773	9,237,236	28,601,312	34,378,452	3,829	118,969	72,970	642,076,342	8,131,427	51,763,737	59,895,164	701,971,506
Movement during the year																
Opening net book value	149,820,000	148,050,462	253,174,179	12,169,160	6,449,773	9,237,236	28,601,312	34,378,452	3,829	118,969	72,970	642,076,342	8,131,427	51,763,737	59,895,164	701,971,506
Addition - cost	-	25,124,496	14,487,116	2,475,500	93,000	914,318	3,092,018	3,529,001	-	-	-	49,715,449	-	17,655,500	17,655,500	67,370,949
Revaluation adjustment																
Cost	13,620,000	18,576,640	107,912,637	-	-	-	-	-	-	-	-	140,109,277	-	-	-	140,109,277
Depreciation	-	8,760,181	55,463,962	-	-	-	-	-	-	-	-	64,224,143	-	-	-	64,224,143
	13,620,000	9,816,459	52,448,675	-	-	-	-	-	-	-		75,885,134	-	-	-	75,885,134
Transfer from leasehold assets																
Cost	-	-	18,124,623	-	-	-	-	46,186,500	-	-	-	64,311,123	(18,124,623)	(46,186,500)	(64,311,123)	-
Depreciation	-	-	9,993,196	-	-	-	-	25,797,950	-	-	-	35,791,146	(9,993,196)	(25,797,950)	(35,791,146)	-
	-	-	8,131,427	-	-	-	-	20,388,550	-	-	-	28,519,977	(8,131,427)	(20,388,550)	(28,519,977)	-
Disposals																
Cost	-	-	-	-	-	119,900	1,566,069	36,802,337	-	-	-	38,488,306	-	-	-	38,488,306
Depreciation	-	-	-	-	-	73,446	377,350	22,500,226	-	-	-	22,951,022	-	-	-	22,951,022
	-	-	-	-	-	46,454	1,188,719	14,302,111	-	-	-	15,537,284	-	-	-	15,537,284
Depreciation charge for the year	-	15,014,417	26,196,397	1,326,687	650,444	982,203	2,854,677	7,839,966	383	11,897	7,297	54,884,368	-	9,621,364	9,621,364	64,505,732
Closing net book value	163,440,000	167,977,000	302,045,000	13,317,973	5,892,329	9,122,897	27,649,934	36,153,926	3,446	107,072	65,673	725,775,250	-	39,409,323	39,409,323	765,184,573
At 31 December 2012																
Cost	163,440,000	317,879,205	621,454,639	20,555,090	14,490,658	24,537,497	52,833,100	95,981,010	52,806	204,990	166,100	1,311,595,095	-	56,117,386	56,117,386	1,367,712,481
Accumulated Depreciation	-	149,902,205	319,409,639	7,237,117	8,598,329	15,414,600	25,183,166	59,827,084	49,360	97,918	100,427	585,819,845	-	16,708,063	16,708,063	602,527,908
Net book value	163,440,000	167,977,000	302,045,000	13,317,973	5,892,329	9,122,897	27,649,934	36,153,926	3,446	107,072	65,673	725,775,250	-	39,409,323	39,409,323	765,184,573
Depreciation rates	0%	10%	10%	10%	10%	10%	10%	20%	10%	10%	10%		10%	20%		

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16.1 Operating assets (owned) / leased

Reconciliation of the carrying amounts at the beginning and end of the year is as follows:

	Year ended 31 December 2011																
	Operating fixed assets - owned												Assets subject to finance lease				
	Land - freehold	Building on freehold land	Plant and machinery	Laboratory equipment	Furniture and fixtures	Electric and gas appliances	Office equipment	Vehicles	Library books	Neon sign	Arms and ammunition	Total operating fixed assets - owned	Plant and machinery	Vehicles	Total Assets subject to finance lease	Total operating fixed assets
	Rupees																
At 01 January 2011																	
Cost	149,820,000	251,437,991	458,628,852	13,366,879	13,150,198	23,544,474	49,773,910	45,343,754	52,806	204,990	106,100	1,005,429,954	18,124,623	112,218,392	130,343,015	1,135,772,969
Accumulated Depreciation	-	111,993,675	201,875,151	4,946,654	7,345,712	13,498,508	19,826,843	23,913,324	48,552	72,802	88,356	383,609,577	9,089,704	46,136,240	55,225,944	438,835,521
Net Book Value	149,820,000	139,444,316	256,753,701	8,420,225	5,804,486	10,045,966	29,947,067	21,430,430	4,254	132,188	17,744	621,820,377	9,034,919	66,082,152	75,117,071	696,937,448
Movement during the year																
Opening net book value	149,820,000	139,444,316	256,753,701	8,420,225	5,804,486	10,045,966	29,947,067	21,430,430	4,254	132,188	17,744	621,820,377	9,034,919	66,082,152	75,117,071	696,937,448
Addition - cost	-	22,740,078	22,301,411	4,712,711	1,247,460	198,605	2,092,006	6,904,000	-	-	60,000	60,256,271	-	17,860,500	17,860,500	78,116,771
Transfer from leasehold assets																
Cost	-	-	-	-	-	-	-	45,430,506	-	-	-	45,430,506	-	(45,430,506)	(45,430,506)	-
Depreciation	-	-	-	-	-	-	-	26,272,948	-	-	-	26,272,948	-	(26,272,948)	(26,272,948)	-
	-	-	-	-	-	-	-	19,157,558	-	-	-	19,157,558	-	(19,157,558)	(19,157,558)	-
Disposals																
Cost	-	-	-	-	-	-	558,765	14,610,414	-	-	-	15,169,179	-	-	-	15,169,179
Depreciation	-	-	-	-	-	-	240,442	7,224,256	-	-	-	7,464,698	-	-	-	7,464,698
	-	-	-	-	-	-	318,323	7,386,158	-	-	-	7,704,481	-	-	-	7,704,481
Depreciation charge for the year	-	14,133,932	25,880,933	963,776	602,173	1,007,335	3,119,438	5,727,378	425	13,219	4,774	51,453,383	903,492	13,021,357	13,924,849	65,378,232
Closing net book value	149,820,000	148,050,462	253,174,179	12,169,160	6,449,773	9,237,236	28,601,312	34,378,452	3,829	118,969	72,970	642,076,342	8,131,427	51,763,737	59,895,164	701,971,506
At 31 December 2011																
Cost	149,820,000	274,178,069	480,930,263	18,079,590	14,397,658	23,743,079	51,307,151	83,067,846	52,806	204,990	166,100	1,095,947,552	18,124,623	84,648,386	102,773,009	1,198,720,561
Accumulated Depreciation	-	126,127,607	227,756,084	5,910,430	7,947,885	14,505,843	22,705,839	48,689,394	48,977	86,021	93,130	453,871,210	9,993,196	32,884,649	42,877,845	496,749,055
Net book value	149,820,000	148,050,462	253,174,179	12,169,160	6,449,773	9,237,236	28,601,312	34,378,452	3,829	118,969	72,970	642,076,342	8,131,427	51,763,737	59,895,164	701,971,506
Depreciation rates	0%	10%	10%	10%	10%	10%	10%	20%	10%	10%	10%		10%	20%		

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	Note	2012 Rupees	2011 Rupees
16.1.1 Depreciation charge has been allocated as under:			
Cost of sales	25	44,109,021	43,569,519
Distribution, selling and promotional expenses	27	9,079,891	9,749,342
Administrative and general expenses	28	11,316,820	12,059,371
		64,505,732	65,378,232

16.1.2 Land, building on freehold land and plant and machinery were first revalued on 30 June 1995, resulting in a surplus of Rs. 68,809,377. Subsequently land, building on freehold land and plant and machinery were revalued on 30 June 1999 resulting in a surplus of Rs. 48,731,393. Land, building on freehold land and plant and machinery were again revalued on 31 May 2004 and 31 December 2004 respectively by M/S Hamid Mukhtar & Co., which resulted in a surplus of Rs. 168,473,204 over the net book value of assets. The revaluation of land was also carried out on 19 January 2007 by M/S Surval which resulted in a surplus of Rs. 67,922,000. The latest revaluation of land, building on freehold land and plant and machinery was carried out on 31 December 2012 by M/S Surval which resulted in a surplus of Rs. 75,885,134 over the net carrying value of assets.

	2012 Rupees	2011 Rupees
16.1.3 Had the assets not been revalued the carrying values would have been:		
Land - Freehold	14,566,828	14,566,828
Building on freehold land	132,824,998	119,899,858
Plant and machinery (Owned)	216,708,953	210,347,030
Plant and machinery (Leased)	-	5,417,053
	364,100,779	350,230,769

Notes
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16.1.4 Disposal of property, plant and equipment

Sold to	Cost	Accumulated Depreciation	Written Down Value	Sale Proceeds	Gain / (Loss)	Mode of Sale
	Rupees					
Vehicles						
Kamran Khurshid	6,750,000	4,145,328	2,604,672	7,200,000	4,595,328	Negotiation
Suneel Sarfaraz Munj	9,000,000	6,164,677	2,835,323	9,880,000	7,044,677	Negotiation
Imran Masood	365,000	250,876	114,124	248,040	133,916	Company Policy
Hassan Ur Rehman	365,000	250,876	114,124	248,040	133,916	Company Policy
Ahson Bashir	365,000	250,876	114,124	244,740	130,616	Company Policy
Ihsan Ullah Khattak	849,000	566,923	282,077	571,200	289,123	Company Policy
Nadir Hussain Khan	1,388,000	836,649	551,351	680,000	128,649	Negotiation
Reliance Insurance	403,000	279,278	123,722	300,000	176,278	Insurance Claim
Ahmed Javed Yazadani	403,000	279,729	123,271	290,760	167,489	Company Policy
Ahmed Shahryar	631,352	360,105	271,247	473,991	202,744	Company Policy
Reliance Insurance Co. Ltd.	64,500	10,750	53,750	60,000	6,250	Insurance Claim
Reliance Insurance Co. Ltd.	65,900	8,787	57,113	63,000	5,887	Insurance Claim
Reliance Insurance Co. Ltd.	62,900	27,341	35,559	45,000	9,441	Insurance Claim
Reliance Insurance Co. Ltd.	65,500	11,681	53,819	60,000	6,181	Insurance Claim
Reliance Insurance Co. Ltd.	65,500	11,681	53,819	60,000	6,181	Insurance Claim
Samuel Nawab	62,900	30,393	32,507	20,000	(12,507)	Company Policy
Reliance Insurance Co. Ltd.	62,900	20,128	42,772	60,000	17,228	Insurance Claim
Reliance Insurance Co. Ltd.	62,900	18,451	44,449	58,000	13,551	Insurance Claim
Reliance Insurance Co. Ltd.	62,900	30,695	32,205	55,000	22,795	Insurance Claim
Muhammad Ayub Bhatti	657,000	138,186	518,814	124,207	(394,607)	Company Policy
Arif Murtaza	62,900	32,305	30,595	62,900	32,305	Company Policy
Mukhtar Ali Shaikh	403,000	281,487	121,513	269,642	148,129	Company Policy
Qaiser Mehmood	62,900	31,668	31,232	62,900	31,668	Company Policy
Naeem Asif Chohan	62,900	28,011	34,889	46,920	12,031	Company Policy
Wajid Khan	50,490	31,459	19,031	50,490	31,459	Company Policy
Kapil Dev Jewani	62,900	30,393	32,507	62,900	30,393	Company Policy
Sajid Ali	62,900	30,337	32,563	62,900	30,337	Company Policy
Muhammad Tariq	62,900	31,232	31,668	62,900	31,232	Insurance Claim
Asif Hussain Bhutta	62,900	30,337	32,563	62,900	30,337	Company Policy
Kashif Aziz	62,900	23,975	38,925	62,900	23,975	Company Policy
Nawaz	62,900	30,337	32,563	62,900	30,337	Company Policy
M. Kashif Farooq	62,900	30,337	32,563	62,900	30,337	Company Policy
Tauseef Ahmad Saleemi	62,900	23,986	38,914	62,900	23,986	Company Policy
Aashiq Mehmood	62,900	22,644	40,256	62,900	22,644	Company Policy
Rao M. Mubashir	62,900	22,644	40,256	62,900	22,644	Company Policy
Nauman Shafqat	62,900	23,975	38,925	62,900	23,975	Company Policy
Abdul Samad	62,900	23,975	38,925	62,900	23,975	Company Policy
Sheikh Raheel Zia	62,900	23,975	38,925	62,900	23,975	Company Policy
Syed Umair Bin Aziz	605,217	416,971	188,246	416,144	227,898	Company Policy
Mastoi Rafique Mustafa	434,509	275,301	159,208	316,786	157,578	Company Policy
Abdul Wali Khan	434,509	239,561	194,948	311,673	116,725	Company Policy
Anis Ur Rehman	395,000	262,401	132,599	288,960	156,361	Company Policy
Abdul Hafeez	408,300	281,302	126,998	276,840	149,842	Company Policy
Rehmat Ullah	395,000	272,045	122,955	268,260	145,305	Company Policy
Hina Rashid	395,000	274,456	120,544	267,960	147,416	Company Policy
Naseeb Ullah	357,000	298,318	58,682	252,199	193,517	Company Policy
Saqib Anwar	365,000	250,876	114,124	248,040	133,916	Insurance Claim
Ch. M. Manzoor	250,000	134,444	115,556	203,322	87,766	Company Policy
Reliance Insurance	62,900	31,500	31,400	50,000	18,600	Insurance Claim
Haibat Khan	65,900	20,154	45,746	65,900	20,154	Company Policy
Muhammad Asif	62,900	32,149	30,751	62,900	32,149	Company Policy
Arif Gulzar	65,900	17,285	48,615	65,900	17,285	Company Policy
Arshad Ali	65,900	15,450	50,450	65,900	15,450	Company Policy
Wajid Khan	65,900	14,644	51,256	65,900	14,644	Company Policy

Sold to	Cost	Accumulated Depreciation	Written Down Value	Sale Proceeds	Gain / (Loss)	Mode of Sale
Vehicles	Rupees					
Muhammad Nasir	62,900	31,668	31,232	62,900	31,668	Company Policy
Syed Wajid Hussain	62,900	25,999	36,901	62,900	25,999	Company Policy
Usman Wahid Bhatti	62,900	31,668	31,232	62,900	31,668	Company Policy
M. Ashfaq Khan	62,900	31,668	31,232	62,900	31,668	Company Policy
Shair Muhammad	62,900	32,149	30,751	62,900	32,149	Company Policy
Muhammad Imran	62,900	32,149	30,751	62,900	32,149	Company Policy
Muhammad Noman	62,900	30,472	32,428	62,900	30,472	Company Policy
Muhammad Rizwan	62,900	30,024	32,876	62,900	30,024	Company Policy
Mubashir Sufyan	62,900	30,304	32,596	62,900	30,304	Company Policy
Qasim Ali Ajaz	62,900	30,024	32,876	62,900	30,024	Company Policy
Muhammad Azeem	62,900	31,590	31,310	62,900	31,590	Company Policy
Aamir Iqbal	62,900	30,024	32,876	62,900	30,024	Company Policy
Bilal Ali	62,900	21,554	41,346	62,900	21,554	Company Policy
Reliance Insurance	65,500	13,537	51,963	60,000	8,037	Insurance Claim
Mehboob Ali Naich	58,500	50,095	8,405	58,500	50,095	Company Policy
Shahzad Nawaz	62,900	23,986	38,914	58,104	19,190	Company Policy
Syed Akhtar Hussain Shah	50,490	30,419	20,071	50,004	29,933	Company Policy
Umair Sharif	62,900	30,024	32,876	56,508	23,632	Company Policy
Jamshaid Khan	54,000	43,526	10,474	54,967	44,493	Company Policy
M. Shahbaz	54,000	37,033	16,967	54,000	37,033	Company Policy
Wajahat Mehmood	51,890	28,865	23,025	51,890	28,865	Company Policy
Ahsan Ali	62,500	35,822	26,678	46,800	20,122	Company Policy
Muhammad Imran	62,900	27,341	35,559	43,725	8,166	Company Policy
Qasim Mehmood	50,490	30,843	19,647	41,796	22,149	Company Policy
Ghulam Asghar	50,490	34,631	15,859	29,484	13,625	Company Policy
Jawad Naeem	849,000	604,650	244,350	571,200	326,850	Company Policy
Shahzad Fareed	395,000	271,185	123,815	125,858	2,043	Company Policy
Aslam Hafeez	4,303,000	2,154,940	2,148,060	2,148,060	-	Company Policy
Asghar Ali	530,000	292,206	237,794	409,234	171,440	Company Policy
Reliance Insurance Co.Ltd	395,000	286,390	108,610	375,000	266,390	Insurance Claim
Reliance Insurance Co.Ltd	395,000	286,390	108,610	360,000	251,390	Insurance Claim
Asim Jehangir Jalali	395,000	272,853	122,147	268,260	146,113	Company Policy
Syed Ahmed Ali Abidi	395,000	272,853	122,147	268,260	146,113	Company Policy
	36,802,337	22,500,226	14,302,111	31,228,564	16,926,453	
Computer						
IBM Z60m Notebook	112,000	47,447	64,553	-	(64,553)	Scrap
Compaq 2516 A1	61,500	35,190	26,310	-	(26,310)	Scrap
HP 6710b	79,235	27,562	51,673	-	(51,673)	Scrap
Assets having individual cost less than Rs. 50,000	1,313,334	267,151	1,046,183	-	(1,046,183)	Scrap
	1,566,069	377,350	1,188,719	-	(1,188,719)	
Electric and Gas Appliances						
Sony TV	18,000	15,146	2,854	2,000	(854)	Scrap
Air Conditioner Split	101,900	58,300	43,600	13,000	(30,600)	Scrap
	119,900	73,446	46,454	15,000	(31,454)	
2012	38,488,306	22,951,022	15,537,284	31,243,564	15,706,280	
2011	15,169,179	7,464,697	7,704,482	13,235,273	5,530,791	

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	Note	2012 Rupees	2011 Rupees
16.2 Capital Work - in - Progress (CWIP)			
Civil works		-	13,281,988
Plant and machinery - owned		-	350,727
Furniture		7,653,582	-
Advances to suppliers		5,580,000	-
	16.2.1	13,233,582	13,632,715

	2012 Rupees	2011 Rupees
16.2.1 Movement of CWIP is as follows:		
Opening balance as at 01 January	13,632,715	13,483,821
Addition made during the year		
Civil works	11,842,508	24,784,942
Plant and machinery - owned	13,997,189	22,216,721
Furniture	7,653,582	-
Advance for purchase of vehicles	5,580,000	-
	39,073,279	47,001,663
Capitalized during the year		
Civil works	(25,124,496)	(22,261,048)
Plant and machinery - owned	(14,347,916)	(22,216,721)
Vehicles - leased	-	(2,375,000)
	(39,472,412)	(46,852,769)
Closing balance as at 31 December	13,233,582	13,632,715

17. INTANGIBLE ASSETS

2012

PARTICULARS	COST			ACCUMULATED AMORTISATION			BOOK VALUE	
	As at 01 January 2012	Additions	As at 31 December 2012	As at 01 January 2012	For the year	As at 31 December 2012	as at 31 December 2012	Rate %
	Rupees							
Registration and trademark (Note 17.1)	154,434,175	-	154,434,175	56,700,650	15,443,418	72,144,068	82,290,107	10
Computer Software	21,212,996	4,305,615	25,518,611	7,102,704	2,293,092	9,395,796	16,122,815	10
	175,647,171	4,305,615	179,952,786	63,803,354	17,736,510	81,539,864	98,412,922	

2011

PARTICULARS	COST			ACCUMULATED AMORTISATION			BOOK VALUE	
	As at 01 January 2011	Additions	As at 31 December 2011	As at 01 January 2011	For the year	As at 31 December 2011	as at 31 December 2011	Rate %
	Rupees							
Registration and trademark (Note 17.1)	154,434,175	-	154,434,175	41,257,232	15,443,418	56,700,650	97,733,525	10
Computer Software	20,910,336	302,660	21,212,996	4,988,123	2,114,581	7,102,704	14,110,292	10
	175,344,511	302,660	175,647,171	46,245,355	17,557,999	63,803,354	111,843,817	

17.1 This represents registration and trademarks of brands named as "Tres Orix Forte", "Skilax drops" and "Blokium".

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	Note	2012 Rupees	2011 Rupees
17.2 Amortization charge has been allocated as under:			
Cost of sales	25	15,443,418	15,443,418
Distribution, selling and promotional expenses	27	2,293,092	2,114,581
		17,736,510	17,557,999

18. LONG TERM INVESTMENT

	Note	2012 Rupees	2011 Rupees
Related party - at cost			
Subsidiary Company -Unlisted			
Dynalog Services (Private) Limited			
Nil (2011: 2,000,000) ordinary shares of Rs. 10 each		-	20,000,000
Equity held: Nil (2011: 100%)			
Less: Impairment in investment	18.1	-	(20,000,000)
		-	-

18.1 The Company had terminated its "Distribution Agreement" of finished goods with Dynalog Services (Private) Limited in year 2008 and the management of the subsidiary had then decided to discontinue its operations. Furthermore, as the subsidiary financial statements are drawn up on the basis that going concern assumption is no longer valid, therefore, an impairment loss of Rs. 20 million was directly recognized in the financial statements in the year 2008 and 2009, thereby reducing the carrying amount of investment to Nil (2011 Nil).

The Company has written off the investment during the year against provision for impairment made for it due to the dissolution of the subsidiary company as mentioned in note 2.2 to the financial statements.

19. STOCK IN TRADE

	Note	2012 Rupees	2011 Rupees
Raw materials			
In hand		224,554,948	218,192,744
In transit		79,320,620	39,165,327
		303,875,568	257,358,071
Packing material			
In hand		83,944,556	68,481,126
In transit		3,947,721	-
With third party		-	54,046
		87,892,277	68,535,172
Work in process		30,216,205	39,820,419
Finished goods			
In hand		184,459,467	152,766,762
With third party		150,999	-
		184,610,466	152,766,762
		606,594,516	518,480,424

20. TRADE DEBTS

	Note	2012 Rupees	2011 Rupees
Trade debts - Secured		16,167,547	12,258,928
Unsecured			
Due from related parties			
Subsidiary - Dynalog Services (Private) Limited	20.1 & 20.3	-	13,158,299
Associate - Route - 2 Health (Private) Limited	20.1	-	511,850
		-	13,670,149
Others		56,364,423	29,340,278
Considered doubtful		1,039,897	13,596,063
Less: Provision for doubtful debts	20.2	1,039,897	13,596,063
		-	-
		72,531,970	55,269,355

20.1 The amount due is in normal course of business and interest free.

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	Note	2012 Rupees	2011 Rupees
20.2 Provision for doubtful debts			
Opening balance		13,596,063	13,596,063
Addition during the year		500,650	-
		14,096,713	13,596,063
Written off during the year		(12,568,673)	-
Reversal during the year		(488,143)	-
	20.3	(13,056,816)	-
		1,039,897	13,596,063

20.3 The provision amounting to Rs. 12.568 million (2011: Rs. 13.056 million) has been written off against the balance due from Dynalog Services Limited - subsidiary company, on its dissolution as mentioned in note 2.2 to the financial statements and the remaining balance has been reversed being not required.

	Note	2012 Rupees	2011 Rupees
21. ADVANCES, DEPOSITS AND PREPAYMENTS			
Advances - considered good			
Staff against:			
Expenses		8,337,629	15,305,054
Salary		4,872,589	4,524,986
Suppliers		10,243,338	22,068,734
Deposits:			
Securities		7,524,369	5,678,000
Bank guarantee margin		1,558,085	1,558,085
Prepayments		4,427,650	2,001,233
		36,963,660	51,136,092
22. OTHER RECEIVABLES - considered good			
Claims receivable		678,665	230,854
Sales tax and excise duty	22.1	20,436,842	16,774,386
		21,115,507	17,005,240

22. OTHER RECEIVABLES - considered good

22.1 As referred to in note 15, this includes Rs. 10.086 million (2011: Rs. 10.086 million) deposited for grant of stay against demand of sales tax/excise duty paid under protest to sales tax department.

	2012 Rupees	2011 Rupees
23. CASH AND BANK BALANCES		
Cash and Imprest	2,001,851	1,995,192
Balance with banks - current accounts	4,460,240	10,601,793
	6,462,091	12,596,985
24. SALES - net		
Manufactured products		
Local	2,243,285,346	2,496,898,092
Export	169,328,634	136,252,703
	2,412,613,980	2,633,150,795
Purchased products - local	32,144,454	28,114,510
Sales compensation	-	9,196,382
Third party (toll manufacturing)	252,931,872	545,141,467
	2,697,690,306	3,215,603,154
Less:		
Discount	227,205,798	267,937,108
Sales tax	4,863,529	2,758,558
	232,069,327	270,695,666
	2,465,620,979	2,944,907,488

Notes
To The Financial Statements
For The Year Ended 31 December 2012

	Note	2012 Rupees	2011 Rupees
25. COST OF SALES			
Raw and packing material consumed		1,081,987,216	1,664,236,175
Salaries, wages and benefits	25.1	162,761,353	147,996,669
Vehicle running and maintenance		17,471,848	14,502,334
Fuel and power		53,556,365	42,386,309
Stores consumed		8,881,249	6,844,797
Repair and maintenance		17,287,306	23,696,364
Insurance		3,012,654	3,088,925
Rent, rates and taxes		3,051,626	2,870,912
Fee and subscription		380,123	319,273
Printing and stationery		4,256,059	3,687,056
Traveling and conveyance		2,634,216	798,402
Consultancy and professional charges		3,360,120	1,854,039
Office supplies		7,758,567	7,319,916
Depreciation	16.1.1	44,109,021	43,569,519
Amortization of intangible assets	17.2	15,443,418	15,443,418
Other direct cost		4,804,230	4,677,623
		1,430,755,371	1,983,291,731
Inventory effect of work in process			
Opening		39,820,419	59,384,189
Closing		(30,216,205)	(39,820,419)
		9,604,214	19,563,770
Cost of goods manufactured		1,440,359,585	2,002,855,501
Inventory effect of finished goods (excluding purchased products)			
Opening		150,723,607	160,115,818
Closing		(173,386,771)	(150,723,607)
		(22,663,164)	9,392,211
Cost of goods sold - Manufactured products		1,417,696,421	2,012,247,712
Cost of goods sold - Purchased products		22,992,597	18,488,730
		1,440,689,018	2,030,736,442

25.1 It includes the following staff retirement benefits:

	2012 Rupees	2011 Rupees
Defined benefit plan - Gratuity	15,579,252	16,864,790
Defined contribution plan - Provident Fund	4,521,468	4,128,435
Provision for compensated leave absences	3,337,104	800,519
	23,437,824	21,793,744

	Note	2012 Rupees	2011 Rupees
26. OTHER OPERATING INCOME			
Income from non-financial assets			
Gain on disposal of property, plant and equipment		15,706,280	5,530,791
SLA fee	26.1	-	86,100,000
Scrap Sales		2,570,812	1,121,489
Others		53,635	-
		18,330,727	92,752,280

26.1 The Company has provided technical ,marketing and sales know-how to Abbot Laboratories Pakistan Limited related to ex-Solvay products in Pakistan, following a global acquisition of Solvay Pharmaceuticals by Abbott International LLC, USA.

	Note	2012 Rupees	2011 Rupees
27. DISTRIBUTION, SELLING AND PROMOTIONAL EXPENSES			
Salaries and benefits	27.1	216,891,068	189,837,632
Rent, rates and taxes		9,045	1,252,240
Entertainment		214,812	178,785
Advertisement, promotional expenses and samples		215,683,930	217,137,656
Printing and stationery		1,986,153	2,108,207
Traveling and conveyance		70,142,462	75,291,522
Telephone, postage and telex		1,857,453	2,279,203
Insurance		2,546,533	2,271,041
Provision against doubtful debts		12,507	-
Vehicle running and maintenance		18,435,654	18,628,953
Donation	27.2	1,842,317	1,064,360
Freight		29,118,443	25,184,511
Seminars, symposia and training		11,062,878	13,891,110
Newspapers and subscriptions		14,650,334	10,404,297
Depreciation	16.1.1	9,079,891	9,749,342
Amortization of intangible assets	17.2	2,293,092	2,114,581
Others		14,213,653	12,691,681
		610,040,225	584,085,121
Less: Reimbursement from foreign principals		-	15,496,431
		610,040,225	568,588,690

Notes / To The Financial Statements
For The Year Ended 31 December 2012

	Note	2012 Rupees	2011 Rupees
27.1 It includes following staff retirement benefits			
Defined benefit plan - Gratuity		13,407,127	8,337,928
Defined contribution plan - Provident Fund		5,693,968	4,899,132
Provision for compensated leave absences		4,305,332	3,565,653
		23,406,427	16,802,713

27.2 None of the Directors or their spouses have any interest in the donee's fund.

28. ADMINISTRATIVE AND GENERAL EXPENSES

	Note	2012 Rupees	2011 Rupees
Salaries and benefits	28.1	127,101,445	126,225,903
Telephone, postage and telex		2,237,285	2,581,570
Rent, rates and taxes		4,847,977	2,911,119
Electricity, gas and water		540,747	521,030
Printing and stationery		3,858,784	3,802,804
Repairs and maintenance		2,456,072	3,815,401
Vehicle running and maintenance		19,250,077	18,115,572
Traveling and conveyance		8,494,965	7,378,499
Newspapers and subscriptions		897,872	750,369
Entertainment		778,285	529,121
Insurance		7,057,467	5,666,392
Auditors' remuneration	34	1,200,000	946,000
Legal and professional		2,461,765	5,601,437
Advertisement, seminars and symposia		226,790	2,097,017
Donation	28.2	993,233	666,450
Depreciation	16.1.1	11,316,820	12,059,371
Others		2,134,882	2,064,671
		195,854,466	195,732,726

	2012 Rupees	2011 Rupees
28.1 It includes the following staff retirement benefits:		
Defined benefit plan - Gratuity	16,374,466	15,072,455
Defined contribution plan - Provident Fund	4,017,477	4,129,008
Provision for compensated leave absences	3,083,120	1,427,173
	23,475,063	20,628,636

28.2 None of the Directors or their spouses have any interest in the donee's fund.

29. RESEARCH AND DEVELOPMENT EXPENSES

	Note	2012 Rupees	2011 Rupees
Salaries and benefits	29.1	7,250,509	3,551,137
Expenses on clinical trials and products evaluation		94,492	2,234,806
Traveling		630,962	367,241
Insurance		42,736	42,744
Vehicle running and maintenance		521,772	197,336
Printing and stationery		41,044	47,647
Office supplies		53,334	67,075
Repairs and maintenance		9,500	2,500
Staff cost		212,721	198,848
Others		18,462	17,700
		8,875,532	6,727,034

	2012 Rupees	2011 Rupees
29.1 It includes the following staff retirement benefits:		
Defined benefit plan - Gratuity	568,565	406,456
Defined contribution plan - Provident Fund	125,906	122,763
Provision for compensated leave absences	52,560	-
	747,031	529,219

30. OTHER OPERATING EXPENSES

	Note	2012 Rupees	2011 Rupees
Workers' Profit Participation Fund	11.2	8,324,918	7,832,388
Exchange loss		9,363,745	8,942,250
Workers' Welfare Fund		2,991,816	3,220,136
Central Research Fund		1,468,567	1,455,952
		22,149,046	21,450,726

31. FINANCE COST

	Note	2012 Rupees	2011 Rupees
Mark-up on long term loans		10,883,385	19,513,149
Mark-up on short term loans		31,054,902	42,948,448
Finance cost on liabilities against assets subject to finance lease		3,483,287	6,027,081
Interest on Workers' Profit Participation Fund	11.2	81,902	70,110
Bank charges		2,679,016	1,812,073
		48,182,492	70,370,861

Notes / To The Financial Statements

For The Year Ended 31 December 2012

	Note	2012 Rupees	2011 Rupees
32. TAXATION			
Current			
- For the year		52,930,381	56,937,731
- Prior year		-	8,845,039
		52,930,381	65,782,770
Deferred	32.2	1,828,985	(14,110,743)
		54,759,366	51,672,027

32.1 Reconciliation of tax charge for the year

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

	2012	2011
Applicable tax rate	35.00%	35.00%
Tax effect of amounts that are not deductible for tax purposes	0.63%	0.40%
Tax effect under presumptive tax regime and others	-1.01%	0.47%
	-0.38%	0.87%
Average effective tax rate charged on income	34.62%	35.87%

32.2 This includes an amount of Rs. Nil (2011: 8,845,039) in respect of temporary difference of a prior period.

33. EARNINGS PER SHARE - Basic and Diluted

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

		2012	2011
Profit after taxation	Rupees	103,401,561	92,381,262
Weighted average number of ordinary shares	No. of Shares	18,180,517	18,180,517
Earnings per share	Rupees	5.69	5.08

	2012 Rupees	2011 Rupees
34. AUDITORS' REMUNERATION		
Statutory audit	800,000	605,000
Fee for review of half year financial statements	265,000	216,000
Other certifications	90,000	55,000
Out of pocket	45,000	70,000
	1,200,000	946,000

35. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

	31 December 2012			31 December 2011		
	Chief Executive	Directors	Executives	Chief Executive	Directors	Executives
	Rupees					
Managerial remuneration	5,923,700	15,764,400	69,002,459	5,370,800	14,504,400	62,611,607
House allowance	2,369,480	2,400,000	27,600,984	2,148,320	2,400,000	24,891,483
Provident fund	451,869	1,067,073	5,634,178	447,358	1,208,516	4,887,976
Gratuity	2,381,734	3,694,531	25,928,675	1,975,395	4,877,872	16,755,573
Bonus	322,900	1,208,700	4,592,742	399,567	1,098,700	3,780,549
Utilities	592,370	2,006,775	6,903,913	537,080	2,142,752	6,222,871
Medical	105,603	543,758	2,203,992	58,537	781,455	2,279,632
	12,147,656	26,685,237	141,866,943	10,937,237	27,013,695	121,429,691
Number of persons	1	2	56	1	2	51

35.1 The Chief Executive, Directors and 28 executives (2011: 27) have been provided with Company maintained cars while 28 executives (2011: 21) have been provided with cars under self finance scheme with limited fuel and maintenance facility.

35.2 Rs. 2,000 (2011: Rs. 2,000) has been paid during the year to an independent non - executive director for attending Board meetings.

36. FINANCIAL RISK MANAGEMENT

36.1 Financial risk factors

The Company's financial liabilities comprise long term financing, liabilities against assets subject to finance lease, short term borrowings and trade and other payables. The main purpose of these financial liabilities is to raise finances for Company's operations. The Company has trade debts, short term borrowings and advances, other receivables and cash and short term deposits that arrive directly from its operations

The Company's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance.

Risk management is carried out by the Board of Directors (the Board), Audit Committee and Chief Financial Officer (CFO). The Board provides principles for overall risk management, as well as policies covering specific areas such as currency risk, interest rate risk, credit risk and liquidity risk.

(a) Market risk

(i) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Currency risk arises mainly from future commercial transactions or receivables and payables that exist due to transactions in foreign currencies.

The following analysis demonstrates the sensitivity to a reasonably possible change in US$ and Euro exchange rates, with all other variables held constant, of the company's profit before tax.

	2012	2011
Rupees per US Dollar		
Reporting date rate	**97.10**	90.10

	Changes in US $ Rate	Effects on Profit Before Tax Rs.
2012	**+10%**	(391,138)
	-10%	391,138
2011	+10%	(667,362)
	-10%	667,362

	2012	2011
Rupees per Euro		
Reporting date rate	**128.31**	116.37

	Changes in Euro € Rate	Effects on Profit Before Tax Rs.
2012	**+10%**	(391,718)
	-10%	391,718
2011	+10%	(423,063)
	-10%	423,063

(ii) Interest rate risk

This represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company has no significant long-term interest-bearing assets. The Company's interest rate risk arises from long term financing, short term borrowings and liabilities against assets subject to finance lease. Borrowings obtained at variable rates expose the Company to cash flow interest rate risk. Borrowings obtained at fixed rate expose the Company to fair value interest rate risk.

At the balance sheet date the interest rate profile of the Company's interest bearing financial instruments was:

	2012 Rupees	2011 Rupees
Fixed rate instruments Financial liabilities		
Short term borrowings	35,000,000	35,000,000
Floating rate instruments Financial liabilities		
Long term loans	50,000,000	99,946,763
Liabilities against assets subject to finance lease	27,968,462	26,313,224
Short term bank borrowings	195,599,758	131,291,136

Notes
To The Financial Statements
For The Year Ended 31 December 2012

36. FINANCIAL RISK MANAGEMENT

36.1 Financial risk factors

(ii) Interest rate risk

Fair value sensitivity analysis for fixed rate instruments

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, a change in interest rate at the balance sheet date would not affect profit or loss of the Company.

Cash flow sensitivity analysis for variable rate instruments

The following analysis demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Company's profit before tax. This analysis is prepared assuming the amounts of floating rate instruments outstanding at balance sheet dates were outstanding for the whole year.

		Changes in Interest Rate %	Effects on Profit Before Tax Rs.
Long term financing	**2012**	**+1.5**	(750,000)
		-1.5	750,000
	2011	+1.5	(1,499,201)
		-1.5	1,499,201
Liabilities against assets subject to finance lease	**2012**	**+1.5**	(419,527)
		-1.5	419,527
	2011	+1.5	(394,698)
		-1.5	394,698
Short term bank borrowings	**2012**	**+1.5**	(2,933,996)
		-1.5	2,933,996
	2011	+1.5	(1,969,367)
		-1.5	1,969,367

(b) Credit risk

Credit risk represents the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows:

36. FINANCIAL RISK MANAGEMENT

36.1 Financial risk factors

(b) Credit risk

	2012 Rupees	2011 Rupees
Trade debts	56,364,423	43,010,427
Short term advances	4,872,589	4,524,986
Trade deposits	9,082,454	7,236,085
Other receivables	678,665	230,854
Bank balances	4,460,240	10,601,793
	75,458,371	65,604,145

Trade Debts

Credit risk related to trade debts is managed by established procedures and controls relating to customers credit risk management. Outstanding receivables are regularly monitored and shipments to foreign customers are covered by letters of credit.

The maximum credit risk exposure at reporting date is carrying value of financial assets stated above.

At 31 December 2012, the Company has 9 (2011: 7) customers who owed the company more than Rupees 1.00 million each and accounted for approximately 79% (2011: 36%) of all receivables owing.

The Company's exposure to credit risk related to trade debts is disclosed below:

	2012 Rupees	2011 Rupees
Neither past due nor impaired	5,157,893	6,986,450
Past Due But Not Impaired		
Past due 1–30 days	24,902,675	9,607,652
Past due 31–60 days	9,459,363	6,941,862
Past due 61–90 days	5,019,394	4,372,628
Over 90 days	10,785,201	1,505,772
	50,166,633	22,427,914
Past Due But Impaired		
Past due 1–30 days	-	-
Past due 31–60 days	-	-
Past due 61–90 days	-	-
Over 90 days	1,039,897	13,596,063
	1,039,897	13,596,063

Notes
To The Financial Statements
For The Year Ended 31 December 2012

36. FINANCIAL RISK MANAGEMENT

36.1 Financial risk factors

(b) Credit risk

Due to the Company's long standing business relationships with these counterparties and after giving due consideration to their strong financial standing, management does not expect non performance by these counter parties on their obligations to the Company. Accordingly the credit risk is minimal.

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (If available) or to historical information about counterparty default rate. The table below shows the bank balances held with some major counterparties at the balance sheet date:

	Rating		Agency	2012	2011
	Short term	Long term			
				------------- Rupee -------------	
BANKS					
National Bank of Pakistan	A-1+	AAA	JCR - VIS	864,766	1,086,546
United Bank Limited	A-1+	AA+	JCR - VIS	8,893	8,893
Faysal Bank Limited	A1+	AA	JCR - VIS	23,821	2,571,827
Habib Bank Limited	A1+	AA+	JCR - VIS	1,548,380	832,135
Allied Bank Limited	A1+	AA	PACRA	-	35,098
Habib Metropolitan Bank Limited	A1+	AA+	PACRA	-	34,364
Barklays Bank Limited	A1+	AAA	PACRA	-	2,198,733
Standard Chartered Bank (Pakistan) Limited	A1+	AAA	PACRA	2,014,384	3,834,197
				4,460,244	10,601,793

(c) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

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 stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The Company has positive working capital position at the year end. Therefore, management believes the liquidity risk to be low.

The table below analysis the Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual un-discounted cash flows.

As at 31 December 2012

	Carrying amount	Contractual cash flows	Less than 6 months	6 to 12 months	1 to 2 years	2 to 5 years
	....	....	.... Rupees	....	....	....
Long term financing	50,000,000	66,237,500	1,860,000	2,745,000	17,461,250	44,171,250
Liabilities against assets subject to finance lease	27,968,462	31,771,325	9,519,737	8,250,784	10,069,627	3,931,177
Trade and other payables	163,617,115	163,617,115	163,617,115	-	-	-
Short term bank borrowings	230,599,758	255,850,432	-	255,850,432	-	-
	472,185,335	517,476,372	174,996,852	266,846,216	27,530,877	48,102,427

As at 31 December 2011

	Carrying amount	Contractual cash flows	Less than 6 months	6 to 12 months	1 to 2 years	2 to 5 years
	....	....	.... Rupees	....	....	....
Long term financing	99,946,763	121,596,660	28,005,791	26,483,091	41,058,380	26,049,398
Liabilities against assets subject to finance lease	26,313,224	30,200,558	11,022,741	6,650,984	10,043,042	2,483,791
Trade and other payables	138,112,769	138,112,769	138,112,769	-	-	-
Short term bank borrowings	166,291,136	188,740,439	11,224,652	177,515,787	-	-
	430,663,892	478,650,426	188,365,953	210,649,862	51,101,422	28,533,189

The contractual cash flows relating to the above financial liabilities have been determined on the basis of markup rates effective as at 31 December 2012 and 2011 respectively. The rates of mark up have been disclosed in respective notes to the financial statements.

36.2 Fair values of financial assets and liabilities

Fair value of available-for-sale financial assets is derived from quoted market prices in active markets, if available.

The carrying values of all financial assets and liabilities reflected in financial statements approximate their fair values. Fair value is determined on the basis of objective evidence at each reporting date. Accordingly, detailed disclosure with reference to fair value has been given in the financial statements.

Notes
To The Financial Statements
For The Year Ended 31 December 2012

36.3 Financial instruments by categories

	2012		
	Cash and cash equivalents	Loans and advances	Total
	------ Rupee ------		
Assets as per balance sheet			
Long term deposits	-	1,562,054	1,562,054
Trade debts	-	72,531,970	72,531,970
Advances	-	4,872,589	4,872,589
Trade deposits	-	9,082,454	9,082,454
Other receivables	-	678,665	678,665
Cash and bank balances	4,460,240	-	4,460,240
	4,460,240	88,727,732	93,187,972

	2012
	Financial Liabilities at amortized cost (Rupees)
Liabilities as per balance sheet	
Long term financing	50,000,000
Liabilities against assets subject to finance lease	27,968,462
Markup accrued on secured loans	6,588,896
Short term borrowings	230,599,758
Trade and other payables	160,685,827
	475,842,943

	2011		
	Cash and cash equivalents	Loans and advances	Total
	------ Rupee ------		
Assets as per balance sheet			
Long term deposits	-	1,562,054	1,562,054
Trade debts	-	55,269,355	55,269,355
Advances	-	4,524,986	4,524,986
Trade deposits	-	7,236,085	7,236,085
Other receivables	-	230,854	230,854
Cash and bank balances	10,601,793	-	10,601,793
	10,601,793	68,823,334	79,425,127

	2011
	Financial Liabilities at amortized cost (Rupees)
Liabilities as per balance sheet	
Long term financing	99,946,763
Liabilities against assets subject to finance lease	26,313,224
Mark up accrued on secured loans	10,436,070
Short term borrowings	166,291,136
Trade and other payables	138,112,769
	441,099,962

36.4 Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide return for shareholders and benefits for other stakeholders and to maintain healthier capital ratios in order to support its business and maximize shareholders value. The Company manages its capital structure and makes adjustments to it, in the light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust dividend payments to the shareholders, return on capital to shareholders or issue new shares.

No changes were made in the objectives, policies or processes from the previous year. The Company monitors capital using gearing ratio, which is debt divided by equity plus net debt. Debt represent long-term financing (including current portion) plus liabilities against assets subject to finance lease and short term borrowings obtained by the Company as referred to in note 7, note 8, note 12 and note 13. Total capital employed includes 'total equity' as shown in the balance sheet plus debt. The Company's strategy, which was unchanged from last year, was to maintain optimal capital structure in order to minimize cost of capital.

	2012	2011
	Rupees	Rupees
Debt (See note 7, 8, 12 and 13)	315,157,116	302,987,193
Equity	634,167,980	580,517,982
Total equity and debt	949,325,096	883,505,175
Total debt to equity ratio	33.20%	34.29%

37. RELATED PARTY TRANSACTIONS

The related parties and associated undertakings comprises subsidiary, associated companies, staff retirement funds, directors and key management personnel.

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For The Year Ended 31 December 2012

37. RELATED PARTY TRANSACTIONS

Balances of related parties and remuneration of key management personnel is disclosed in the respective notes. Other significant transactions with related parties are as follows:

	2012 Rupees	2011 Rupees
37.1 Sales of goods-net		
Associated undertaking	30,302,082	35,044,088
37.2 Contribution to employees benefits fund		
Contribution to Staff Provident Fund	14,358,819	13,279,339
Contribution to Employees Welfare Trust	1,206,150	1,118,495
37.3 Disposal of vehicle		
Director's family member	680,000	-

38. EVENTS AFTER THE REPORTING DATE

The Board of Directors of the Company in its meeting held on 19 March 2013 has proposed cash dividend at the rate of Rs. 3.50 (2011: Rs. 3.00) per share for the year ended 31 December 2012, subject to the approval of shareholders in the Annual General Meeting to be held on 23 April 2013. These financial statements do not reflect these appropriations.

39. PLANT CAPACITY AND PRODUCTION

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

40. DATE OF AUTHORIZATION OF ISSUE

The Board of Directors of the Company authorized the financial statements for issuance on 19 March 2013.

41. GENERAL

41.1 Figures have been rounded off to the nearest rupee.

BAQAR HASAN
CHIEF EXECUTIVE OFFICER

ANEES AHMAD KHAN
DIRECTOR

Group Financial Statements

HIGHNOON LABORATORIES LIMITED
and its wholly owned subsidiary company
Dynalog Services (Private) Limited
2012

Auditors' Report to the Members

We have audited the annexed consolidated financial statements comprising the consolidated balance sheet of Highnoon Laboratories Limited and its subsidiary as at 31 December 2012 and the related consolidated profit and loss account, consolidated statement of comprehensive income, consolidated cash flow statement and consolidated statement of changes in equity together with the notes forming part thereof, for the year then ended. We have also expressed a separate opinion on the financial statements of the Highnoon Laboratories Limited and its subsidiary company. These financial statements are the responsibility of the holing company's management. Our responsibility is to express an opinion on these financial statements based on our examination.

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

In our opinion, the consolidated financial statements present fairly the financial position of the Highnoon Laboratories Limited and its subsidiary as at 31 December 2012 and the results of their operations for the year then ended.

Without qualifying our opinion, we draw attention to note 1.2 to the financial statements which states that the subsidiary company has filed application for deregistration under "Company Easy Exit Scheme" introduced by SECP.

Lahore: 19 March 2013

Chartered Accountants
Engagement Partner: Naseem akbar

Consolidated Balance Sheet

As At 31 December 2012

	Note	2012 Rupees	2011 Rupees
EQUITY AND LIABILITIES			
SHARE CAPITAL AND RESERVES			
Authorized Share Capital 20,000,000 (2011: 20,000,000) Ordinary shares of Rs. 10 each		200,000,000	200,000,000
Share capital	5	181,805,170	181,805,170
Revenue reserves		451,809,743	399,854,712
		633,614,913	581,659,882
Surplus on revaluation of fixed assets	6	232,455,404	183,153,055
NON CURRENT LIABILITIES			
Long term loans - secured	7	50,000,000	57,659,470
Liabilities against assets subject to finance lease	8	12,805,239	11,296,272
Long term advances	9	13,597,545	14,942,278
Deferred liabilities	10	283,037,234	265,856,775
		359,440,018	349,754,795
CURRENT LIABILITIES			
Trade and other payables	11	199,348,127	186,874,267
Markup payable on secured loans	12	6,588,896	10,436,070
Short term bank borrowings - secured	13	230,599,758	166,291,136
Current portion of long term liabilities	14	21,577,392	80,742,402
		458,114,173	444,343,875
		817,554,191	794,098,670
TOTAL EQUITY AND LIABILITIES		1,683,624,508	1,558,911,607
CONTINGENCIES AND COMMITMENTS	15	-	-

The annexed notes from 1 to 40 form an integral part of these financial statements.

	Note	2012 Rupees	2011 Rupees
ASSETS			
NON CURRENT ASSETS			
Property, plant and equipment	16	777,865,088	715,051,154
Intangible assets	17	98,412,922	111,843,817
Long term deposits		1,562,054	1,562,054
		877,840,064	828,457,025
CURRENT ASSETS			
Stock in trade	18	606,594,516	518,480,424
Trade debts	19	72,531,970	55,167,872
Advances, deposits and prepayments	20	36,963,660	51,136,092
Other receivables	21	21,115,507	17,204,500
Income tax - net		62,116,700	75,251,804
Cash and bank balances	22	6,462,091	13,213,890
		805,784,444	730,454,582
TOTAL ASSETS		1,683,624,508	1,558,911,607

BAQAR HASAN
CHIEF EXECUTIVE OFFICER

ANEES AHMAD KHAN
DIRECTOR

Consolidated Profit and Loss Account

For The Year Ended 31 December 2012

	Note	2012 Rupees	2011 Rupees
Sales - net	23	2,465,620,979	2,944,907,488
Cost of sales	24	1,440,689,018	2,030,736,442
GROSS PROFIT		1,024,931,961	914,171,046
Other operating income	25	18,330,727	92,752,280
Distribution, selling and promotional expenses	26	610,528,367	568,588,690
Administrative and general expenses	27	195,880,181	195,886,720
Research and development expenses	28	8,875,534	6,727,034
Other operating expenses	29	22,149,046	21,450,726
		819,102,401	699,900,890
		205,829,560	214,270,156
Finance cost	30	48,182,595	70,371,161
PROFIT BEFORE TAXATION		157,646,965	143,898,995
Taxation	31	55,940,371	51,672,027
PROFIT AFTER TAXATION		101,706,594	92,226,968
Earnings per share - basic and diluted	32	5.59	5.07

The annexed notes from 1 to 40 form an integral part of these financial statements.

BAQAR HASAN
CHIEF EXECUTIVE OFFICER

ANEES AHMAD KHAN
DIRECTOR

Consolidated Statement of Comprehensive Income

For The Year Ended 31 December 2012

	2012 Rupees	2011 Rupees
Profit after tax for the year	101,706,594	92,226,968
Other comprehensive income	-	-
Total comprehensive income for the year	101,706,594	92,226,968

Surplus arising on 'revaluation of fixed assets' is presented under a separate head below equity as 'surplus on revaluation of assets' in accordance with the requirements specified by the Securities and Exchange Commission of Pakistan (SECP) vide its S.R.O.45(I)/2003 dated 13 January 2003 and section 235 of Companies Ordinance, 1984 respectively.

The annexed notes from 1 to 40 form an integral part of these financial statements.

BAQAR HASAN
CHIEF EXECUTIVE OFFICER

ANEES AHMAD KHAN
DIRECTOR

Consolidated Cash Flow Statement

For The Year Ended 31 December 2012

	2012 Rupees	2011 Rupees
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	157,646,965	143,898,995
Adjustments for non-cash and other items:		
Depreciation	64,505,732	65,378,232
Amortization of intangible assets	17,736,510	17,557,999
Gain on disposal of property, plant and equipment	(15,706,280)	(5,530,791)
Exchange loss	9,363,745	8,942,250
Provision for defined benefit obligation	45,929,410	40,681,629
Provision for doubtful debts	500,650	-
Finance cost	48,182,595	70,371,161
	170,512,362	197,400,180
Profit before working capital changes	328,159,327	341,299,475
WORKING CAPITAL CHANGES		
(Increase) / decrease in current assets:		
Stock in trade	(88,114,092)	122,364,209
Trade debts	(17,864,748)	(11,725,275)
Advances, deposits and prepayments	14,172,432	(17,421,951)
Other receivables	(3,911,007)	4,581,441
Increase / (decrease) in current liabilities:		
Trade and other payables	(2,918,766)	71,028,546
	(98,636,181)	168,826,970
Cash generated from operations	229,523,146	510,126,445
Taxes paid	(40,976,283)	(58,648,631)
Gratuity paid	(52,370,733)	(10,231,390)
Finance cost paid	(48,546,482)	(74,452,422)
Long term advances - net	(18,368,721)	19,746,270
Net Cash from operating activities	69,260,927	386,540,272

	Note	2012 Rupees	2011 Rupees
CASH FLOWS FROM INVESTING ACTIVITIES			
Fixed capital expenditure incurred		(49,316,316)	(60,405,165)
Intangible assets acquired		(4,305,615)	(302,660)
Sale proceeds from disposal of property, plant and equipment		31,243,564	13,235,273
Net cash used in investing activities		(22,378,367)	(47,472,552)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of finance lease liabilities - net		(19,483,549)	(41,411,288)
Long term loan obtained		50,000,000	-
Long term loan repaid		(99,946,763)	(42,287,293)
Increase/(decrease) in short-term bank borrowings - net		64,308,622	(266,860,966)
Dividend paid		(48,512,669)	(40,779,597)
Net cash used in financing activities		(53,634,359)	(391,339,144)
Net decrease in cash and cash equivalents		(6,751,799)	(52,271,424)
Cash and cash equivalents at beginning of the year		13,213,890	65,485,314
Cash and cash equivalents at end of the year	22	6,462,091	13,213,890

The annexed notes from 1 to 40 form an integral part of these financial statements.

BAQAR HASAN
CHIEF EXECUTIVE OFFICER

ANEES AHMAD KHAN
DIRECTOR

Consolidated Statement of Changes in Equity

For The Year Ended 31 December 2012

	Share Capital	Revenue Reserves			Total
		General Reserve	Unappropriated Profit	Sub Total	
	-----------	-----------	Rupees	-----------	-----------
Balance as at 01 January 2011	165,277,431	114,000,000	246,152,632	360,152,632	525,430,063
Final dividend @ Rs. 2.50 per share for the year ended 31 December 2010	-	-	(41,319,358)	(41,319,358)	(41,319,358)
Issuance of bonus shares @ 10%	16,527,739	-	(16,527,739)	(16,527,739)	-
Incremental depreciation relating to surplus on revaluation of fixed assets - net	-	-	5,322,209	5,322,209	5,322,209
Total comprehensive income for the year	-	-	92,226,968	92,226,968	92,226,968
Balance as at 31 December 2011	181,805,170	114,000,000	285,854,712	399,854,712	581,659,882
Final dividend @ Rs. 3.00 per share for the year ended 31 December 2011	-	-	(54,541,551)	(54,541,551)	(54,541,551)
Incremental depreciation relating to surplus on revaluation of fixed assets - net	-	-	4,789,988	4,789,988	4,789,988
Total comprehensive income for the year	-	-	101,706,594	101,706,594	101,706,594
Balance as at 31 December 2012	181,805,170	114,000,000	337,809,743	451,809,743	633,614,913

The annexed notes from 1 to 40 form an integral part of these financial statements.

BAQAR HASAN
CHIEF EXECUTIVE OFFICER

ANEES AHMAD KHAN
DIRECTOR

Notes

To The Consolidated Financial Statements

For The Year Ended 31 December 2012

1. THE GROUP, OPERATIONS AND REGISTERED OFFICE

1.1 The Highnoon Group comprises of Holding Company Highnoon Laboratories Limited ("HNL") and a wholly owned Subsidiary company Dynalog Services (Private) Limited ("DSL") .

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

DSL was incorporated as a private limited company in Pakistan on 27 April 2004 under the Companies Ordinance, 1984 and made a wholly owned subsidiary Company of HNL in September 2004. DSL is principally engaged in the business of trading and distribution of pharmaceutical and other products. The registered office of DSL is situated at 17.5 Km, Multan Road, Lahore.

1.2 The management of DSL has decided to discontinue the subsidiary's operations in year 2008 and accordingly since then the financial statements of DSL have been prepared on non-going concern basis and the related assets and liabilities approximate their realizable value.

DSL has filed application for the de-registration, under "Company Easy Exit Scheme (CEES)" introduced by SECP vide its circular no. 23/2012 dated 20 June 2012. DSL meets all the requirements of the CEES and has been notified by SECP vide it notice No.CEES-2012/1502-04/8147 dated 27 November 2012 for this purpose.

2. BASIS OF PREPARATION

2.1 Statement of Compliance

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984. In case requirements differ, the provisions or directives of the Companies Ordinance, 1984 shall prevail.

2.2 Basis of Consolidation

The consolidated financial statements includes the financial statements of Highnoon Laboratories Limited and its wholly owned subsidiary "Dynalog Services (Private) Limited". The financial statements of DSL has been prepared for the period starting 01 January 2012 to 15 August 2012 due to reason mentioned in Note 1.2 to these consolidated financial statements.

The assets and liabilities of subsidiary company have been consolidated on line by line basis and carrying value of investment held by the parent company is eliminated against the subsidiary's shareholder's equity in the consolidated financial statements. Intra-group balances, transactions, income and expenses have also been eliminated. Unrealized gains arising on intra-group transactions recognized in assets are also eliminated. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

Notes
To The Consolidated Financial Statements
For The Year Ended 31 December 2012

2.3 New and amended standards and interpretations become effective

The Group has adopted the following new and amended IFRS and IFRIC interpretations which became effective during the year:

IFRS 7 – Financial Instruments: Disclosures - Enhanced De-recognition Disclosure Requirements (Amendment)

IAS 32 – Financial Instruments: Presentation – Classification of Rights Issues (Amendment)

IAS 12 – Income Taxes - Recovery of Underlying Assets (Amendment)

The adoption of the above standards, amendments, interpretations and improvements did not have any material effect on the financial statements.

2.4 Standards, interpretations and amendments to published approved accounting standards that are not yet effective

The following revised standards, 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:

Standard or Interpretation			**Effective Date (Annual Periods beginning on or after)**
IFRS 7	-	Financial Instruments : disclosures – (amendments)	
	-	Amendments enhancing disclosures about offsetting of financial assets and financial liabilities	01 January 2013
IAS 1	-	Presentation of Financial Statements – Presentation of items of other comprehensive income	01 July 2012
IAS 19	-	Employee Benefits – (Amendment)	01 January 2013
IAS 32	-	Offsetting Financial Assets and Financial liabilities – (Amendment)	01 January 2014

The Group expects that the adoption of the above revision, amendments and interpretation of the standards will not affect the Group's financial statements in the period of initial application other than the amendments to IAS 19 'Employees Benefits' as described below:

Amendments to IAS 19 range from fundamental changes to simple clarification and re-wording. The significant changes include the following:

- For defined benefit plans, the ability to defer recognition of actuarial gains and losses (i.e., the corridor approach) has been removed. As revised, actuarial gains and losses are recognized in other comprehensive income when they occur. Amounts recorded in profit and loss are limited to current and past service costs, gains or losses on settlements, and net interest income (expense). All other changes in the net defined benefit asset (liability) are recognized in other comprehensive income with no subsequent recycling to profit and loss.

2.4 Standards, interpretations and amendments to published approved accounting standards that are not yet effective

- The distinction between short-term and other long-term employee benefits will be based on the expected timing of settlement rather than the employee's entitlement to the benefits.

- Objectives for disclosures of defined benefit plans are explicitly stated in the revised standard, along with new or revised disclosure requirements. These new disclosures include quantitative information of the sensitivity of the defined benefit obligation to a reasonably possible change in each significant actuarial assumption.

While the Group is currently assessing the full impact of the above amendments which are effective from 1 January 2013 on the financial statements, it is expected that the adoption of the said amendments will result in change in the Group's accounting policy related to recognition of actuarial gains and losses (refer to note 10.2 to the financial statements) to recognize actuarial gains and losses in total in other comprehensive income in the period in which they occur. The potential impact of the said changes on the financial position and performance for the year 2013 is estimated as under:

	Rupees
Net increase in employees' benefit liability	19,718,230
Net increase in other comprehensive loss	19,718,230
Net increase / decrease in profit or loss for the year	-

Improvements to IFRS

In addition to the above amendments, improvements to various accounting standards have also been issued by the IASB. Such improvements are generally effective for accounting periods beginning on or after 01 January 2013. The Group expects that such improvements to the standards will not have any material impact on the Group's financial statements in the period of initial application.

In addition to the above, the following new standards have been issued by IASB which are yet to be notified by the SECP for the purpose of applicability in Pakistan.

Standard	IASB effective date (Annual periods beginning on or after)
IFRS 9 - Financial Instruments: Classification and Measurement	01 January 2015
IFRS 10 - Consolidated Financial Statements	01 January 2013
IFRS 11 - Joint Arrangements	01 January 2013
IFRS 12 - Disclosure of Interests in Other Entities	01 January 2013
IFRS 13 - Fair Value Measurement	01 January 2013

3. BASIS OF MEASUREMENT

3.1 Accounting convention

These consolidated financial statements have been prepared under the historical cost convention, except for revaluation of certain assets as referred to in note 16, valuation of subsidiary's assets and liabilities at net relizeable value and recognition of certain employees retirement benefits at present value. In these financial statements, except for the cash flow statement, all the transactions have been accounted for on accrual basis.

Notes To The Consolidated Financial Statements
For The Year Ended 31 December 2012

3.2 Functional and presentation currency

These financial statements are presented in Pak rupee, which is the functional and presentation currency of the Group.

3.3 Use of estimates and judgments

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognized in the period in which the estimate is revised if revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

The areas where various assumptions and estimates are significant to Group's financial statements or where judgments were exercised in application of accounting policies are as follows:

		Notes
-	staff retirement benefits	4.3
-	property, plant and equipment	4.6
-	residual values and useful lives of property, plant and equipment	4.6
-	impairment	4.13
-	taxation	4.17
-	provisions	4.20

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 The accounting policies adopted in the preparation of these financial statements are consistent with those of the previous financial year except as mentioned in note 2.3.

4.2 Segment Reporting

The key financial decision maker consider the whole business as one operating segment.

4.3 Staff retirement benefits

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

Qualified actuaries have carried out the valuation as at 31 December 2012. The projected unit credit method with the following significant assumptions was used for the valuation of this scheme:

		2012	2011
-	Discount rate	11% per annum	12.5% per annum
-	Expected rate of increase in salary	10% per annum	11.5% per annum
-	Expected average remaining working life time	14 years	14 years

4.3 Staff retirement benefits

The Group's policy with regard to actuarial gains/losses is to follow minimum recommended approach under IAS 19 "Employees Benefits" by which actuarial gains/losses exceeding 10 % of present value of benefit obligation are amortized over a period of five years.

Defined contribution plan

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

Compensated leave absences

Provision for compensated absences is made to the extent of value of accumulated accrued leaves / leave fare assistance of the employees at the balance sheet date as per entitlement on the basis of last drawn salary. A maximum of 10 un-availed leaves are allowed to be carried forward for a maximum of one year.

4.4 Foreign currency translation

All monetary assets and liabilities in foreign currency are translated at the rates of exchange prevailing on the balance sheet date. Non-monetary assets and liabilities that are measured in terms of historical cost in foreign currency are translated into rupees at exchange rates prevailing at the date of transaction. Non-monetary assets and liabilities denominated in foreign currency that are stated at fair value are translated into rupees at exchange rates prevailing at the date when fair values are determined. Transactions in foreign currencies are converted into Pak rupees at exchange rates prevailing on the date of transaction. All exchange gains/losses are taken to profit and loss account currently.

4.5 Trade and other payables

Trade and other payables are initially carried at fair value and subsequently at amortized cost using effective interest rate method.

4.6 Property, plant and equipment

Owned operating assets

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

Deprecation is charged on reducing balance method at the rates in note 16.1 to write off the cost / revalued amount of an asset over its estimated useful life. The assets' residual values and useful lives are reviewed at each financial year end and adjusted, if its impact on depreciation is significant. Full month's depreciation is charged on additions, while no depreciation is charged in the month of disposal or deletion of assets. Surplus on revaluation of fixed assets relating to incremental depreciation (net of deferred taxation) is transferred directly to Unappropriated profit.

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

Notes
To The Consolidated Financial Statements
For The Year Ended 31 December 2012

4.6 Property, plant and equipment

Normal repairs and maintenance is charged to profit and loss account as and when incurred, while major renewals and replacements are capitalized if it is probable that the respective future economic benefits will flow to the Group and the cost of the item can be measured reliably, and assets so replaced, if any, are retired.

Leasehold assets

Leases, where all the risks and rewards incidental to ownership of the leased assets have been transferred to the Group, are classified as finance leases. Assets subject to finance lease are stated at the lower of present value of minimum lease payments under the lease agreements and the fair value of the leased assets at the commencement of lease, less accumulated depreciation and any identified impairment loss.

The related rental obligations, net of finance costs, are included in liabilities against assets subject to finance lease as referred to in note 8. The liabilities are classified as current and long term depending upon the timing of the payment.

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

Assets acquired under finance lease are depreciated over the useful lives of assets on reducing balance method at the rates given in note 16.1 The assets' residual values and useful lives are reviewed at each financial year end and adjusted, if its impact on depreciation is significant. Depreciation of leased assets is charged to profit and loss account. Depreciation on additions in leased assets is charged from the month in which an asset is acquired while no depreciation is charged for the month in which the asset is disposed off/transferred to freehold assets.

Capital work in progress

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

4.7 Intangible assets and amortization

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

After initial recognition, an intangible asset is carried at its cost less accumulated amortization and any identified impairment loss. Amortization is charged to the profit and loss account on monthly basis by following the straight line method over a maximum period of ten years. Amortization on additions is charged from the month when the asset is put to use, while for disposals, no amortization is charged in the month of disposal.

At each financial year end, the Group reviews the recoverable amounts of intangible assets to assess impairment loss. If such indication exists, impairment losses are recognized as an expense.

Subsequent expenditures on intangible assets are recognized as an expense when it is incurred unless the expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance.

4.8 Borrowing costs

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

4.9 Investments

Investments available for sale - Quoted securities

Investment intended to be held for an unidentified period of time which may be sold in response to need for liquidity or changes to interest rates, exchange rates or equity prices are classified as available for sale.

Investments classified as "available for sale" are initially measured at cost, being the fair value of consideration given. At subsequent reporting dates, these investments are measured at fair value. The investments for which quoted price is not available, are measured at cost as it is not possible to apply any other valuation methodology.

Unrealized gains and losses arising from changes in fair value are recognized in other comprehensive income and presented within equity as reserve. Cumulative gains and losses arising from changes in fair value are included in the net profit and loss for the period in which an investment is derecognized or determined to be impaired.

All "regular way" purchases and sales of shares are recognized on the trade date, i.e. the date that the Group commits to purchase/sell the asset.

4.10 Stock in trade

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

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

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

4.11 Trade debts

These are initially carried at original invoice amount, which is the fair value of consideration to be received in future and subsequently measured at amortized cost less impairment loss, if any. A provision for impairment of trade debts is established when there is an objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivable.

Notes / To The Consolidated Financial Statements
For The Year Ended 31 December 2012

4.12 Cash and cash equivalents

These are carried in balance sheet at cost. For the purpose of cash flow statement, cash and cash equivalents comprise of cash in hand and balance with banks in current accounts.

4.13 Impairment

The carrying amount of the assets except for inventories are reviewed at each balance sheet date to identify the circumstances indicating the occurrence of impairment loss or reversal of previously recognized impairment losses. If any such indication exists, the recoverable amount of such asset is estimated.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups.

Where an impairment loss subsequently reverses, the carrying amount of such asset is increased to the extent that it does not exceed the carrying amount that would have been determined, net of depreciation and amortization, if no impairment loss has been charged. A reversal of the impairment loss is recognized in income.

4.14 Revenue recognition

Revenue from local sales is recognized when risk and reward incidental to ownership are transferred i.e. on dispatch of goods to the customers. Export goods are considered dispatched when bill of lading is prepared for shipment to customers.

Service income is recognized when related services are rendered.

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

4.15 Transactions with related parties and transfer pricing

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

- Associated companies / related parties — Cost plus method

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

4.16 Research and development cost

These costs are charged to profit and loss account as and when incurred, except for any development costs which are recognized as intangible assets when it is probable that the development project will be a success and certain criteria, including commercial and technological feasibility have been met.

4.17 Taxation

Income tax on profit and loss for the year comprises current and deferred tax.

Current

The charge for current taxation is based on taxable income for the year determined in accordance with Income Tax Ordinance, 2001 and prevailing tax rates after taking into account applicable tax credits and rebates, if any. The charge for current tax also includes adjustments, where considered necessary, to provision for tax made in previous years arising from assessments framed during the year for such years.

Deferred

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

Deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilized.

Carrying amount of deferred tax asset is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that the related tax benefit will be realized. Deferred tax is calculated at the rates that are expected to apply to the period when differences reverse based on tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is charged or credited in income except for deferred tax asset/liability arising on deficit/surplus on revaluation of fixed assets which is adjusted against the related surplus as per the requirements of revised IAS 12 "Income Taxes".

4.18 Dividend

Dividend to shareholders is recognized as a liability in the period in which it is approved.

4.19 Financial instruments

These comprise financial assets and financial liabilities. Significant financial assets include trade debts, advances and deposits, other receivables and cash and bank balances. Significant financial liabilities include borrowings, trade and other payables, liabilities in respect of leased assets and mark up payable on bank borrowings.

Financial assets and financial liabilities are recognized when the Group becomes a party to the contractual provisions of the instrument and assets and liabilities are stated at fair value. The Group derecognizes the financial asset and liabilities when it ceases to be a party to such

contractual provisions of the instruments. Any gain or loss on derecognizing of the financial assets and financial liabilities is taken to profit and loss account currently. The particular measurement methods adopted are disclosed in the individual policy statement associated with each item.

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4.19 Financial instruments

Offsetting of financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount is reported in the balance sheet if the Group has legally enforceable right to offset the recognized amounts and the Group intends to settle either on a net basis or realize the asset and settle the liability simultaneously.

4.20 Provisions

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

	Note	2012 Rupees	2011 Rupees
5. SHARE CAPITAL			
Issued, subscribed and paid-up			
5,905,000 (2011: 5,905,000) ordinary shares of Rs. 10 each fully paid in cash		59,050,000	59,050,000
95,000 (2011: 95,000) ordinary shares of Rs.10 each issued for consideration other than cash	5.1	950,000	950,000
12,180,517 (2011: 12,180,517) ordinary shares of Rs. 10 each issued as bonus shares		121,805,170	121,805,170
		181,805,170	181,805,170

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

	2012 (Number of Shares)	2011
5.2 Reconciliation of issued, subscribed and paid-up ordinary shares		
Outstanding at the beginning	18,180,517	16,527,743
Bonus shares issued during the year	-	1,652,774
Outstanding at the year end	18,180,517	18,180,517

	Note	2012 Rupees	2011 Rupees
6. SURPLUS ON REVALUATION OF FIXED ASSETS			
Surplus on revaluation of fixed assets as at 01 January		208,945,300	217,133,314
Addition during the year		75,885,134	-
Incremental depreciation relating to surplus on revaluation of fixed assets - transferred to unappropriated profit			
Net of deferred tax		(4,789,988)	(5,322,209)
Related deferred tax liability		(2,579,224)	(2,865,805)
		(7,369,212)	(8,188,014)
Surplus on revaluation of fixed assets as at 31 December		277,461,222	208,945,300
Less: Related deferred tax liability on:			
Balance at the beginning of the year		25,792,245	28,658,050
Addition during the year		21,792,797	-
Incremental depreciation relating to surplus on revaluation of fixed assets - transferred to unappropriated profit		(2,579,224)	(2,865,805)
	10.1	45,005,818	25,792,245
		232,455,404	183,153,055

6.1 This represent surplus arising on revaluation of freehold land and building on freehold land, plant and machinery both owned and leased carried out in 1995, 1999, 2004, 2007 and 2012 respectively. This has been adjusted by incremental depreciation arising due to revaluation net of deferred tax. The latest revaluation of land, builiding on freehold land and plant and machinery was carried out on 31 December 2012 by M/S Surval which resulted in a surplus of Rs. 75,885,134.

	Note	2012 Rupees	2011 Rupees
7. LONG TERM LOANS - SECURED			
Habib Bank Limited - Term Loan I	7.1	-	51,301,763
Habib Bank Limited - Term Loan II	7.2	50,000,000	-
Faysal Bank Limited	7.3	-	48,645,000
Less: Current portion shown under current liabilities	14	-	42,287,293
		50,000,000	57,659,470

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7.1 This loan was obtained for the purpose of expansion and carried mark-up at the rate of three months KIBOR plus 2.25% per annum. The effective mark-up charged during the year was 13.79% (2011: 15.69%) of the average outstanding loan facility. The amount outstanding as at 31 December 2011 was although repayable in 7 equal quarterly installments but HNL has repaid entire balance during the year in pursuit of minimising cost of capital employed. This loan along with working capital facilities provided by the bank was secured by way of first pari passu charge for Rs. 362 million on fixed assets and first joint pari passu hypothecation charge of Rs. 230 million on stocks including but not limited to raw materials, medicines, goods in process and finished goods of HNL.

7.2 This loan has been obtained to finance the expansion of production facility and carries mark-up at the rate of three months KIBOR plus 1.50% per annum. The effective mark-up charged during the year was 10.95% of outstanding loan facility. The loan is repayable in 16 quarterly installments starting after 15 months grace period from date of draw down. This loan along with working capital facilities provided by the bank are secured by way of first pari passu charge for Rs. 362 million on fixed assets and first joint pari passu hypothecation charge of Rs. 230 million on stocks including but not limited to raw materials, medicines, goods in process and finished goods of HNL.

7.3 The loan of Rs. 64.860 million was obtained in 2009 for financing the acquisition of Blokium trade mark and carries mark-up at the rate of three months KIBOR plus 2.75% per annum. The effective mark-up charged during the year was 14.21% (2011: 15.96%) of the average outstanding loan amount. The amount outstanding as at 31 December 2011 was repayable in 15 equal quarterly installments, however, HNL has repaid the entire balance during the year in pursuit of minimizing cost of capital employed. This loan along with working capital facilities provided by the bank was secured by way of first pari passu charge of Rs. 69.25 million on the present and future current assets of HNL and first pari passu charge of Rs. 83.65 million on present and future fixed assets of HNL.

	Note	2012 Rupees	2011 Rupees
8. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE			
Present value of minimum lease payments		27,968,462	26,313,224
Less: Current portion shown under current liabilities	14	15,163,223	15,016,952
		12,805,239	11,296,272

2012	Minimum lease payments	Finance cost for future periods	Principal outstanding
	Rupees		
Not later than one year	17,770,521	2,607,298	15,163,223
Later than one year but not later than five years	14,000,804	1,195,565	12,805,239
	31,771,325	3,802,863	27,968,462

2011	Minimum lease payments	Finance cost for future periods	Principal outstanding
	Rupees		
Not later than one year	17,778,886	2,761,934	15,016,952
Later than one year but not later than five years	12,421,672	1,125,400	11,296,272
	30,200,558	3,887,334	26,313,224

Salient features of the leases are as follows:	**2012**	2011
Discounting factor	**12.50% - 15.61%**	14.50% - 16.50%
Period of lease	**36 months**	36 months
Security deposits	**5% - 10%**	5% - 10%

The HNL has entered into finance lease arrangements with various financial institutions for lease of plant and machinery and vehicles as shown in note 16.1. The liabilities under these arrangements are payable in monthly installments and above mentioned mark-up rates are used as discounting factor to determine the present value of minimum lease payments.

All lease agreements carry renewal option at the end of lease period and HNL intends to exercise its option to purchase the leased assets upon completion of the respective lease terms. Residual value of the leased assets has already been paid at the inception of the lease in the form of security deposit. There are no financial restrictions imposed by lessors. Taxes, repairs, replacements and insurance costs are borne by the lessee.

	Note	2012 Rupees	2011 Rupees
9. LONG TERM ADVANCES			
Balance at 31 December		20,011,714	38,380,435
Less: Current portion	14	6,414,169	23,438,157
		13,597,545	14,942,278

These represent advances taken from employees against future sale of vehicles as per HNL policy.

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	Note	2012 Rupees	2011 Rupees
10. DEFERRED LIABILITIES			
Taxation	10.1	120,483,754	96,861,972
Gratuity	10.2	162,553,480	168,994,803
		283,037,234	265,856,775
10.1 Taxable/(deductible) temporary differences arising in respect of :			
Surplus on revaluation of fixed assets	6	45,005,818	25,792,245
Accelerated tax depreciation		89,085,759	83,577,293
Finance lease		4,004,302	11,753,678
Provision for doubtful debts		(363,963)	(4,758,622)
Provision for gratuity		(17,248,162)	(19,502,622)
		120,483,754	96,861,972
10.2 The net value of un-funded defined benefit obligation as at valuation date was as follows:			
Present value of defined benefit obligation		183,147,140	188,823,998
Unrecognized actuarial losses		(19,718,230)	(18,706,687)
Non-vested past service cost		(945,430)	(1,890,859)
Benefits due but not paid		70,000	768,351
Net liability as at 31 December		162,553,480	168,994,803
10.2.1 The following is movement in the net recognized liability for gratuity:			
Liability as at 01 January		168,994,803	138,544,564
Amount recognized during the year	10.2.3	45,929,410	40,681,629
Benefit payments made by HNL		(52,370,733)	(10,231,390)
Liability as at 31 December		162,553,480	168,994,803

	2012 Rupees	2011 Rupees
10.2.2 Movement in the liability for un - funded defined benefit obligations		
Present value of defined benefit obligations as at 01 January	188,823,998	159,003,810
Current service costs	21,380,981	18,897,089
Interest cost	23,603,000	20,670,495
Non-vested past service cost	-	1,890,859
Benefits due but not paid	-	(768,351)
Benefits paid during the year	(51,672,382)	(9,220,028)
Actuarial (gain) / losses recognized	1,011,543	(1,649,876)
Present value of defined benefit obligations as at 31 December	183,147,140	188,823,998
10.2.3 The following amounts have been charged to profit and loss account during the year in respect of gratuity scheme:		
Current service cost	21,380,981	18,897,089
Interest cost	23,603,000	20,670,495
Amortization of non-vested past service cost charge	945,429	-
Actuarial losses-charge for the year	-	1,114,045
	45,929,410	40,681,629

10.2.4 Historical information for gratuity plan

	2012	2011	2010	2009	2008
	Rupees				
Present value of defined benefits obligations	183,147,140	188,823,998	159,003,810	132,771,040	115,195,393
Experience adjustment arising on plan liabilities (gain) / losses	1,011,543	(1,649,876)	3,184,301	(5,348,203)	8,415,367

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	Note	2012 Rupees	2011 Rupees
11. TRADE AND OTHER PAYABLES			
Trade creditors		71,876,980	61,183,568
Bills payable		9,172,474	16,936,426
Advances from customers	11.1	23,090,485	36,453,542
Accrued expenses		68,570,239	52,850,837
Income tax deducted at source		2,931,288	2,196,686
Workers' Profit Participation Fund	11.2	8,324,918	7,832,389
Payable to Central Research Fund		1,468,567	1,455,952
Payable to Provident Fund Trust		2,588,463	2,695,815
Unclaimed dividends		11,066,134	5,037,252
Payable to Employees Welfare Trust		258,579	231,800
		199,348,127	186,874,267

11.1 This includes a balance amounting to Rs. 925,936 (2011: Rs. Nil) due to Route-2, an associated company.

11.2 Workers' Profit Participation Fund

	Note	2012 Rupees	2011 Rupees
Balance at the beginning of the year		7,832,389	5,745,436
Add: Provision for the year	29	8,324,918	7,832,388
		16,157,307	13,577,824
Add: Interest on funds utilized HNL	30	81,902	70,110
		16,239,209	13,647,934
Less: Paid during the year to the trustees of the fund		7,914,291	5,815,545
		8,324,918	7,832,389

Mark-up @ 18.75% (2011: 18.75%) is provided on unpaid balance of the fund in accordance with the rules of the Fund.

	2012 Rupees	2011 Rupees
12. MARKUP PAYABLE ON SECURED LOANS		
On long term loans	390,000	3,689,283
On short term borrowings	6,198,896	6,746,787
	6,588,896	10,436,070

	Note	2012 Rupees	2011 Rupees
13. SHORT TERM BANK BORROWINGS - SECURED			
Running finance	13.1 & 13.2	230,599,758	166,291,136

13.1 Short term running finances are availed from various banks against aggregate sanctioned limit of Rs. 655 million (2011: Rs. 715 million). These facilities have various maturity dates up to 31 October 2013 and renewable on the date of maturity. These facilities carry mark-up rates ranging from one month KIBOR to six months KIBOR plus 100 to 150 basis points (2011: one month KIBOR to six months KIBOR plus 150 to 175 basis points) per annum. These facilities along with import credit facility are secured by way of first pari passu charge for Rs. 532 million on fixed assets and first joint pari passu hypothecation charge of Rs. 693 million on stocks including but not limited to raw materials, medicines, goods in process and finished goods of HNL.

13.2 Out of total outstanding borrowing facility, an amount of Rs. 35 million (2011:Rs. 35 million) represents Export Refinance Facility obtained from a commercial bank under SBP regulations at a subsidised mark up rate of 9.5% per annum (2011:10% per annum).

13.3 HNL also has aggregate sanctioned import credit facilities negotiated with various banks amounting to Rs. 275 million (2011: Rs. 673 million). These facilities carry mark-up rates ranging from one month KIBOR to six months KIBOR plus 125 to 150 basis points (2011: one month KIBOR to six months KIBOR plus 125 to 150 basis points) per annum. These available facilities are secured by way of joint pari passu, ranking hypothecation charge over present and future current assets of HNL as mentioned above in Note 13.1 and lien on export documents or firm contracts and have various maturity dates.

	Note	2012 Rupees	2011 Rupees
14. CURRENT PORTION OF LONG TERM LIABILITIES			
Long term loan	7	-	42,287,293
Liabilities against assets subject to finance lease	8	15,163,223	15,016,952
Long term advances	9	6,414,169	23,438,157
		21,577,392	80,742,402

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15. CONTINGENCIES AND COMMITMENTS

Contingencies

- While finalizing income tax assessments of HNL for the tax year 2005, income tax authorities made certain add backs with aggregate tax impact of Rs. 12,600,136. HNL has filed appeal before Commission Inland Revenue (Appeals) which is pending for adjudication, pending finalization of appeal, no provision has been made by HNL, as the management expects a favorable outcome of such appeal.
- Bank guarantees issued on behalf of HNL aggregate to Rs. 4.620 million (2011: Rs. 4.620 million).
- HNL has not acknowledged the demand relating to sales tax/central excise duty amounting to Rs.12.057 million (2011: Rs. 12.057 million) as debt as the matter is pending for adjudication. An amount of Rs. 10.086 million (2011: Rs. 10.086 million) has been deposited under protest and is shown under other receivables in note 22.
- Facilities of letters of guarantee amounting to Rs. 20 million (2011: Rs. 20 million) are available to HNL under hypothecation/pledge of stocks and on present and future current assets and property, plant and equipment of HNL.

Commitments

Commitments against irrevocable letters of credit include:

	2012 (Rupees in '000')	2011 (Rupees in '000')
Raw materials	110,085	100,988
Packing materials	15,866	17,017
Furniture	6,141	-

16. PROPERTY, PLANT AND EQUIPMENT

	Note	2012 Rupees	2011 Rupees
Operating assets (owned)	16.1	725,222,184	641,523,276
Operating assets (leased)	16.1	39,409,322	59,895,163
Capital work-in-progress	16.2	13,233,582	13,632,715
		777,865,088	715,051,154

16.1 Operating assets (owned) / leased

Reconciliation of the carrying amounts at the beginning and end of the year is as follows:

Year ended 31 December 2012 (Rupees)

	Operating fixed assets - owned												Assets subject to finance lease			
	Land - freehold	Building on freehold land	Plant and machinery	Laboratory equipment	Furniture and fixtures	Electric and gas appliances	Office equipment	Vehicles	Library books	Neon sign	Arms and ammunition	Total operating fixed assets - owned	Plant and machinery	Vehicles	Total Assets subject to finance lease	Total operating fixed assets
At 01 January 2012																
Cost	149,820,000	274,178,069	480,930,263	18,079,590	14,397,658	23,743,079	51,307,151	83,067,846	52,806	204,990	166,100	1,095,947,552	18,124,623	84,648,386	102,773,009	1,198,720,561
Accumulated Depreciation	-	126,127,607	227,756,084	5,910,430	7,947,885	14,505,843	22,705,839	49,242,460	48,977	86,021	93,130	454,424,276	9,993,197	32,884,649	42,877,846	497,302,122
Net Book Value	149,820,000	148,050,462	253,174,179	12,169,160	6,449,773	9,237,236	28,601,312	33,825,386	3,829	118,969	72,970	641,523,276	8,131,426	51,763,737	59,895,163	701,418,439
Movement during the year																
Opening net book value	149,820,000	148,050,462	253,174,179	12,169,160	6,449,773	9,237,236	28,601,312	33,825,386	3,829	118,969	72,970	641,523,276	8,131,426	51,763,737	59,895,163	701,418,439
Addition - cost	-	25,124,496	14,487,116	2,475,500	93,000	914,318	3,092,018	3,529,001	-	-	-	49,715,449	-	17,655,500	17,655,500	67,370,949
Revaluation adjustment																
Cost	13,620,000	18,576,640	107,912,637	-	-	-	-	-	-	-	-	140,109,277	-	-	-	140,109,277
Depreciation	-	8,760,181	55,463,962	-	-	-	-	-	-	-	-	64,224,143	-	-	-	64,224,143
	13,620,000	9,816,459	52,448,675	-	-	-	-	-	-	-	-	75,885,134	-	-	-	75,885,134
Transfer from leasehold assets																
Cost	-	-	18,124,623	-	-	-	-	46,186,500	-	-	-	64,311,123	(18,124,623)	(46,186,500)	(64,311,123)	-
Depreciation	-	-	9,993,196	-	-	-	-	25,797,950	-	-	-	35,791,146	(9,993,196)	(25,797,950)	(35,791,146)	-
	-	-	8,131,427	-	-	-	-	20,388,550	-	-	-	28,519,977	(8,131,427)	(20,388,550)	(28,519,977)	-
Disposals																
Cost	-	-	-	-	-	119,900	1,566,069	36,802,337	-	-	-	38,488,306	-	-	-	38,488,306
Depreciation	-	-	-	-	-	73,446	377,350	22,500,226	-	-	-	22,951,022	-	-	-	22,951,022
	-	-	-	-	-	46,454	1,188,719	14,302,111	-	-	-	15,537,284	-	-	-	15,537,284
Depreciation charge for the year	-	15,014,417	26,196,397	1,326,687	650,444	982,203	2,854,677	7,839,966	383	11,897	7,297	54,884,368	-	9,621,364	9,621,364	64,505,732
Closing net book value	163,440,000	167,977,000	302,045,000	13,317,973	5,892,329	9,122,897	27,649,934	35,600,860	3,446	107,072	65,673	725,222,184	(1)	39,409,323	39,409,322	764,631,506
At 31 December 2012																
Cost	163,440,000	317,879,205	621,454,639	20,555,090	14,490,658	24,537,497	52,833,100	95,981,010	52,806	204,990	166,100	1,311,595,095	-	56,117,386	56,117,386	1,367,712,481
Accumulated Depreciation	-	149,902,205	319,409,639	7,237,117	8,598,329	15,414,600	25,183,166	60,380,150	49,360	97,918	100,427	586,272,911	1	16,708,063	16,708,063	703,080,975
Net book value	163,440,000	167,977,000	302,045,000	13,317,973	5,892,329	9,122,897	27,649,934	35,600,860	3,446	107,072	65,673	725,222,184	(1)	39,409,323	39,409,322	764,631,506
Depreciation rates	0%	10%	10%	10%	10%	10%	10%	20%	10%	10%	10%		10%	20%		

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16.1 Operating assets (owned) / leased

Reconciliation of the carrying amounts at the beginning and end of the year is as follows:

	Year ended 31 December 2011															
	Operating fixed assets - owned											Total operating fixed assets - owned	Assets subject to finance lease			Total operating fixed assets
	Land - freehold	Building on freehold land	Plant and machinery	Laboratory equipment	Furniture and fixtures	Electric and gas appliances	Office equipment	Vehicles	Library books	Neon sign	Arms and ammunition		Plant and machinery	Vehicles	Total Assets subject to finance lease	
	Rupees															
At 01 January 2011																
Cost	149,820,000	251,437,991	458,628,852	13,366,879	13,150,198	23,544,474	49,773,910	45,343,754	52,806	204,990	106,100	1,005,429,954	18,124,623	112,218,392	130,343,015	1,135,772,969
Accumulated Depreciation	-	111,993,675	201,875,151	4,946,654	7,345,712	13,498,508	19,826,843	24,466,390	48,552	72,802	88,356	384,162,643	9,089,704	46,136,240	55,225,945	439,385,588
Net Book Value	149,820,000	139,444,316	256,753,701	8,420,225	5,804,486	10,045,966	29,947,067	20,877,364	4,254	132,188	17,744	621,267,311	9,034,919	66,082,152	75,117,070	696,384,381
Movement during the year																
Opening net book value	149,820,000	139,444,316	256,753,701	8,420,225	5,804,486	10,045,966	29,947,067	21,430,430	4,254	132,188	17,744	621,820,377	9,034,919	66,082,152	75,117,071	696,937,448
Addition - cost	-	22,740,078	22,301,411	4,712,711	1,247,460	198,605	2,092,006	6,904,000	-	-	60,000	60,256,271	-	17,860,500	17,860,500	78,116,771
Transfer from leasehold assets																
Cost	-	-	-	-	-	-	-	45,430,506	-	-	-	45,430,506	-	(45,430,506)	(45,430,506)	-
Depreciation	-	-	-	-	-	-	-	26,272,948	-	-	-	26,272,948	-	(26,272,948)	(26,272,948)	-
	-	-	-	-	-	-	-	19,157,558	-	-	-	19,157,558	-	(19,157,558)	(19,157,558)	-
Disposals																
Cost	-	-	-	-	-	-	558,765	14,610,414	-	-	-	15,169,179	-	-	-	15,169,179
Depreciation	-	-	-	-	-	-	240,442	7,224,256	-	-	-	7,464,698	-	-	-	7,464,698
	-	-	-	-	-	-	318,323	7,386,158	-	-	-	7,704,481	-	-	-	7,704,481
Depreciation charge for the year	-	14,133,932	25,880,933	963,776	602,173	1,007,335	3,119,438	5,727,378	425	13,219	4,774	51,453,383	903,492	13,021,357	13,924,849	65,378,232
Closing net book value	149,820,000	148,050,462	253,174,179	12,169,160	6,449,773	9,237,236	28,601,312	33,825,386	3,829	118,969	72,970	641,523,276	8,131,427	51,763,737	59,895,163	701,418,439
At 31 December 2011																
Cost	149,820,000	274,178,069	480,930,263	18,079,590	14,397,658	23,743,079	51,307,151	83,067,846	52,806	204,990	166,100	1,095,947,552	18,124,623	84,648,386	102,773,009	1,198,720,561
Accumulated Depreciation	-	126,127,607	227,756,084	5,910,430	7,947,885	14,505,843	22,705,839	49,242,460	48,977	86,021	93,130	454,424,276	9,993,196	32,884,649	42,877,845	496,749,055
Net book value	149,820,000	148,050,462	253,174,179	12,169,160	6,449,773	9,237,236	28,601,312	33,825,386	3,829	118,969	72,970	641,523,276	8,131,427	51,763,737	59,895,163	701,418,439
Depreciation rates	0%	10%	10%	10%	10%	10%	10%	20%	10%	10%	10%		10%	20%		

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	Note	2012 Rupees	2011 Rupees
16.1.1 Depreciation charge has been allocated as under:			
Cost of sales	24	44,109,021	43,569,519
Distribution, selling and promotional expenses	26	9,079,891	9,749,342
Administrative and general expenses	27	11,316,820	12,059,371
		64,505,732	65,378,232

16.1.2 Land, building on freehold land and plant and machinery were first revalued on 30 June 1995, resulting in a surplus of Rs. 68,809,377. Subsequently land, building on freehold land and plant and machinery were revalued on 30 June 1999 resulting in a surplus of Rs. 48,731,393. Land, building on freehold land and plant and machinery were again revalued on 31 May 2004 and 31 December 2004 respectively by M/S Hamid Mukhtar & Co., which resulted in a surplus of Rs. 168,473,204 over the net book value of assets. The revaluation of land was also carried out on 19 January 2007 by M/S Surval which resulted in a surplus of Rs. 67,922,000. The latest revaluation of land, building on freehold land and plant and machinery was carried out on 31 December 2012 by M/S Surval which resulted in a surplus of Rs. 75,885,134 over the net carrying value of assets.

	2012 Rupees	2011 Rupees
16.1.3 Had the assets not been revalued the carrying values would have been:		
Land - Freehold	14,566,828	14,566,828
Building on freehold land	132,824,998	119,899,858
Plant and machinery (Owned)	216,708,953	210,347,030
Plant and machinery (Leased)	-	5,417,053
	364,100,779	350,230,769

Notes

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16.1.4 Disposal of property, plant and equipment

Sold to	Cost	Accumulated Depreciation	Written Down Value	Sale Proceeds	Gain / (Loss)	Mode of Sale
	Rupees					
Vehicles						
Kamran Khurshid	6,750,000	4,145,328	2,604,672	7,200,000	4,595,328	Negotiation
Suneel Sarfaraz Munj	9,000,000	6,164,677	2,835,323	9,880,000	7,044,677	Negotiation
Imran Masood	365,000	250,876	114,124	248,040	133,916	Company Policy
Hassan Ur Rehman	365,000	250,876	114,124	248,040	133,916	Company Policy
Ahson Bashir	365,000	250,876	114,124	244,740	130,616	Company Policy
Ihsan Ullah Khattak	849,000	566,923	282,077	571,200	289,123	Company Policy
Nadir Hussain Khan	1,388,000	836,649	551,351	680,000	128,649	Negotiation
Reliance Insurance	403,000	279,278	123,722	300,000	176,278	Insurance Claim
Ahmed Javed Yazadani	403,000	279,729	123,271	290,760	167,489	Company Policy
Ahmed Shahryar	631,352	360,105	271,247	473,991	202,744	Company Policy
Reliance Insurance Co. Ltd.	64,500	10,750	53,750	60,000	6,250	Insurance Claim
Reliance Insurance Co. Ltd.	65,900	8,787	57,113	63,000	5,887	Insurance Claim
Reliance Insurance Co. Ltd.	62,900	27,341	35,559	45,000	9,441	Insurance Claim
Reliance Insurance Co. Ltd.	65,500	11,681	53,819	60,000	6,181	Insurance Claim
Reliance Insurance Co. Ltd.	65,500	11,681	53,819	60,000	6,181	Insurance Claim
Samuel Nawab	62,900	30,393	32,507	20,000	(12,507)	Company Policy
Reliance Insurance Co. Ltd.	62,900	20,128	42,772	60,000	17,228	Insurance Claim
Reliance Insurance Co. Ltd.	62,900	18,451	44,449	58,000	13,551	Insurance Claim
Reliance Insurance Co. Ltd.	62,900	30,695	32,205	55,000	22,795	Insurance Claim
Muhammad Ayub Bhatti	657,000	138,186	518,814	124,207	(394,607)	Company Policy
Arif Murtaza	62,900	32,305	30,595	62,900	32,305	Company Policy
Mukhtar Ali Shaikh	403,000	281,487	121,513	269,642	148,129	Company Policy
Qaiser Mehmood	62,900	31,668	31,232	62,900	31,668	Company Policy
Naeem Asif Chohan	62,900	28,011	34,889	46,920	12,031	Company Policy
Wajid Khan	50,490	31,459	19,031	50,490	31,459	Company Policy
Kapil Dev Jewani	62,900	30,393	32,507	62,900	30,393	Company Policy
Sajid Ali	62,900	30,337	32,563	62,900	30,337	Company Policy
Muhammad Tariq	62,900	31,232	31,668	62,900	31,232	Insurance Claim
Asif Hussain Bhutta	62,900	30,337	32,563	62,900	30,337	Company Policy
Kashif Aziz	62,900	23,975	38,925	62,900	23,975	Company Policy
Nawaz	62,900	30,337	32,563	62,900	30,337	Company Policy
M. Kashif Farooq	62,900	30,337	32,563	62,900	30,337	Company Policy
Tauseef Ahmad Saleemi	62,900	23,986	38,914	62,900	23,986	Company Policy
Aashiq Mehmood	62,900	22,644	40,256	62,900	22,644	Company Policy
Rao M. Mubashir	62,900	22,644	40,256	62,900	22,644	Company Policy
Nauman Shafqat	62,900	23,975	38,925	62,900	23,975	Company Policy
Abdul Samad	62,900	23,975	38,925	62,900	23,975	Company Policy
Sheikh Raheel Zia	62,900	23,975	38,925	62,900	23,975	Company Policy
Syed Umair Bin Aziz	605,217	416,971	188,246	416,144	227,898	Company Policy
Mastoi Rafique Mustafa	434,509	275,301	159,208	316,786	157,578	Company Policy
Abdul Wali Khan	434,509	239,561	194,948	311,673	116,725	Company Policy
Anis Ur Rehman	395,000	262,401	132,599	288,960	156,361	Company Policy
Abdul Hafeez	408,300	281,302	126,998	276,840	149,842	Company Policy
Rehmat Ullah	395,000	272,045	122,955	268,260	145,305	Company Policy
Hina Rashid	395,000	274,456	120,544	267,960	147,416	Company Policy
Naseeb Ullah	357,000	298,318	58,682	252,199	193,517	Company Policy
Saqib Anwar	365,000	250,876	114,124	248,040	133,916	Insurance Claim
Ch. M. Manzoor	250,000	134,444	115,556	203,322	87,766	Company Policy
Reliance Insurance	62,900	31,500	31,400	50,000	18,600	Insurance Claim
Haibat Khan	65,900	20,154	45,746	65,900	20,154	Company Policy
Muhammad Asif	62,900	32,149	30,751	62,900	32,149	Company Policy
Arif Gulzar	65,900	17,285	48,615	65,900	17,285	Company Policy
Arshad Ali	65,900	15,450	50,450	65,900	15,450	Company Policy
Wajid Khan	65,900	14,644	51,256	65,900	14,644	Company Policy
Muhammad Nasir	62,900	31,668	31,232	62,900	31,668	Company Policy
Syed Wajid Hussain	62,900	25,999	36,901	62,900	25,999	Company Policy
Usman Wahid Bhatti	62,900	31,668	31,232	62,900	31,668	Company Policy
M. Ashfaq Khan	62,900	31,668	31,232	62,900	31,668	Company Policy
Shair Muhammad	62,900	32,149	30,751	62,900	32,149	Company Policy
Muhammad Imran	62,900	32,149	30,751	62,900	32,149	Company Policy
Muhammad Noman	62,900	30,472	32,428	62,900	30,472	Company Policy
Muhammad Rizwan	62,900	30,024	32,876	62,900	30,024	Company Policy
Mubashir Sufyan	62,900	30,304	32,596	62,900	30,304	Company Policy
Qasim Ali Ajaz	62,900	30,024	32,876	62,900	30,024	Company Policy
Muhammad Azeem	62,900	31,590	31,310	62,900	31,590	Company Policy
Aamir Iqbal	62,900	30,024	32,876	62,900	30,024	Company Policy
Bilal Ali	62,900	21,554	41,346	62,900	21,554	Company Policy
Reliance Insurance	65,500	13,537	51,963	60,000	8,037	Insurance Claim
Mehboob Ali Naich	58,500	50,095	8,405	58,500	50,095	Company Policy
Shahzad Nawaz	62,900	23,986	38,914	58,104	19,190	Company Policy
Syed Akhtar Hussain Shah	50,490	30,419	20,071	50,004	29,933	Company Policy
Umair Sharif	62,900	30,024	32,876	56,508	23,632	Company Policy
Jamshaid Khan	54,000	43,526	10,474	54,967	44,493	Company Policy
M. Shahbaz	54,000	37,033	16,967	54,000	37,033	Company Policy
Wajahat Mehmood	51,890	28,865	23,025	51,890	28,865	Company Policy
Ahsan Ali	62,500	35,822	26,678	46,800	20,122	Company Policy
Muhammad Imran	62,900	27,341	35,559	43,725	8,166	Company Policy
Qasim Mehmood	50,490	30,843	19,647	41,796	22,149	Company Policy
Ghulam Asghar	50,490	34,631	15,859	29,484	13,625	Company Policy
Jawad Naeem	849,000	604,650	244,350	571,200	326,850	Company Policy
Shahzad Fareed	395,000	271,185	123,815	125,858	2,043	Company Policy
Aslam Hafeez	4,303,000	2,154,940	2,148,060	2,148,060	-	Company Policy
Asghar Ali	530,000	292,206	237,794	409,234	171,440	Company Policy
Reliance Insurance Co.Ltd	395,000	286,390	108,610	375,000	266,390	Insurance Claim
Reliance Insurance Co.Ltd	395,000	286,390	108,610	360,000	251,390	Insurance Claim
Asim Jehangir Jalali	395,000	272,853	122,147	268,260	146,113	Company Policy
Syed Ahmed Ali Abidi	395,000	272,853	122,147	268,260	146,113	Company Policy
	36,802,337	22,500,226	14,302,111	31,228,564	16,926,453	
Computer						
IBM Z60m Notebook	112,000	47,447	64,553	-	(64,553)	Scrap
Compaq 2516 A1	61,500	35,190	26,310	-	(26,310)	Scrap
HP 6710b	79,235	27,562	51,673	-	(51,673)	Scrap
Assets having individual cost less than Rs. 50,000	1,313,334	267,151	1,046,183	-	(1,046,183)	Scrap
	1,566,069	377,350	1,188,719	-	(1,188,719)	
Electric and Gas Appliances						
Sony TV	18,000	15,146	2,854	2,000	(854)	Scrap
Air Conditioner Split	101,900	58,300	43,600	13,000	(30,600)	Scrap
	119,900	73,446	46,454	15,000	(31,454)	
2012	38,488,306	22,951,022	15,537,284	31,243,564	15,706,280	
2011	15,169,179	7,464,697	7,704,482	13,235,273	5,530,791	

Notes
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	Note	2012 Rupees	2011 Rupees
16.2 Capital Work - in - Progress (CWIP)			
Civil works		-	13,281,988
Plant and machinery - owned		-	350,727
Furniture		7,653,582	-
Advances to suppliers		5,580,000	-
	16.2.1	13,233,582	13,632,715
16.2.1 Movement of CWIP is as follows:			
Opening balance as at 01 January		13,632,715	13,483,821
Addition made during the year			
Civil works		11,842,508	24,784,942
Plant and machinery - owned		13,997,189	22,216,721
Furniture		7,653,582	-
Advance for purchase of vehicles		5,580,000	-
		39,073,279	47,001,663
Capitalized during the year			
Civil works		(25,124,496)	(22,261,048)
Plant and machinery - owned		(14,347,916)	(22,216,721)
Vehicles - leased		-	(2,375,000)
		(39,472,412)	(46,852,769)
Closing balance as at 31 December		13,233,582	13,632,715

17. INTANGIBLE ASSETS

2012

PARTICULARS	COST: As at 01 January 2012	COST: Additions	COST: As at 31 December 2012	ACCUMULATED AMORTISATION: As at 01 January 2012	ACCUMULATED AMORTISATION: For the year	ACCUMULATED AMORTISATION: As at 31 December 2012	BOOK VALUE as at 31 December 2012	Rate %
	Rupees							
Registration and trademark (Note 17.1)	154,434,175	-	154,434,175	56,700,650	15,443,418	72,144,068	82,290,107	10
Computer Software	21,212,996	4,305,615	25,518,611	7,102,704	2,293,092	9,395,796	16,122,815	10
	175,647,171	4,305,615	179,952,786	63,803,354	17,736,510	81,539,864	98,412,922	

2011

PARTICULARS	COST: As at 01 January 2011	COST: Additions	COST: As at 31 December 2011	ACCUMULATED AMORTISATION: As at 01 January 2011	ACCUMULATED AMORTISATION: For the year	ACCUMULATED AMORTISATION: As at 31 December 2011	BOOK VALUE as at 31 December 2011	Rate %
	Rupees							
Registration and trademark (Note 17.1)	154,434,175	-	154,434,175	41,257,232	15,443,418	56,700,650	97,733,525	10
Computer Software	20,910,336	302,660	21,212,996	4,988,123	2,114,581	7,102,704	14,110,292	10
	175,344,511	302,660	175,647,171	46,245,355	17,557,999	63,803,354	111,843,817	

17.1 This represents registration and trademarks of brands named as "Tres Orix Forte", "Skilax drops" and "Blokium".

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To The Consolidated Financial Statements
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	Note	2012 Rupees	2011 Rupees
17.2 Amortization charge has been allocated as under:			
Cost of sales	24	15,443,418	15,443,418
Distribution, selling and promotional expenses	26	2,293,092	2,114,581
		17,736,510	17,557,999

18. STOCK IN TRADE

	Note	2012 Rupees	2011 Rupees
Raw materials			
In hand		224,554,948	218,192,744
In transit		79,320,620	39,165,327
		303,875,568	257,358,071
Packing material			
In hand		83,944,556	68,481,126
In transit		3,947,721	-
With third party		-	54,046
		87,892,277	68,535,172
Work in process		30,216,205	39,820,419
Finished goods			
In hand		184,459,467	152,766,762
With third party		150,999	-
		184,610,466	152,766,762
		606,594,516	518,480,424

19. TRADE DEBTS

	Note	2012 Rupees	2011 Rupees
Trade debts - Secured		16,167,547	12,258,928
Unsecured			
Due from related parties			
Associate - Route - 2 Health (Private) Limited	19.1	-	511,850
Others		56,364,423	42,397,094
Considered doubtful		1,039,897	539,247
Less: Provision for doubtful debts	19.2	1,039,897	539,247
		-	-
		72,531,970	55,167,872

19.1 The amount due is in normal course of business and interest free.

19.2 Provision for doubtful debts

	2012 Rupees	2011 Rupees
Opening balance	539,247	539,247
Addition during the year	500,650	-
	1,039,897	539,247

20. ADVANCES, DEPOSITS AND PREPAYMENTS

	2012 Rupees	2011 Rupees
Advances - considered good		
Staff against:		
Expenses	8,337,629	15,305,054
Salary	4,872,589	4,524,986
Suppliers	10,243,338	22,068,734
Deposits:		
Securities	7,524,369	5,678,000
Bank guarantee margin	1,558,085	1,558,085
Prepayments	4,427,650	2,001,233
	36,963,660	51,136,092

Notes To The Consolidated Financial Statements
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	Note	2012 Rupees	2011 Rupees
21. OTHER RECEIVABLES - considered good			
Claims receivable		678,665	430,114
Sales tax and excise duty	21.1	20,436,842	16,774,386
		21,115,507	17,204,500

21.1 As referred to in note 15, this includes Rs. 10.086 million (2011: Rs. 10.086 million) deposited for grant of stay against demand of sales tax/excise duty paid under protest to sales tax department.

	2012 Rupees	2011 Rupees
22. CASH AND BANK BALANCES		
Cash and Imprest	2,001,851	1,995,192
Balance with banks - current accounts	4,460,240	11,218,698
	6,462,091	13,213,890
23. SALES - net		
Manufactured products		
Local	2,243,285,346	2,496,898,092
Export	169,328,634	136,252,703
	2,412,613,980	2,633,150,795
Purchased products - local	32,144,454	28,114,510
Sales compensation	-	9,196,382
Third party (toll manufacturing)	252,931,872	545,141,467
	2,697,690,306	3,215,603,154
Less:		
Discount	227,205,798	267,937,108
Sales tax	4,863,529	2,758,558
	232,069,327	270,695,666
	2,465,620,979	2,944,907,488

	Note	2012 Rupees	2011 Rupees
24. COST OF SALES			
Raw and packing material consumed		1,081,987,216	1,664,236,175
Salaries, wages and benefits	24.1	162,761,353	147,996,669
Vehicle running and maintenance		17,471,848	14,502,334
Fuel and power		53,556,365	42,386,309
Stores consumed		8,881,249	6,844,797
Repair and maintenance		17,287,306	23,696,364
Insurance		3,012,654	3,088,925
Rent, rates and taxes		3,051,626	2,870,912
Fee and subscription		380,123	319,273
Printing and stationery		4,256,059	3,687,056
Traveling and conveyance		2,634,216	798,402
Consultancy and professional charges		3,360,120	1,854,039
Office supplies		7,758,567	7,319,916
Depreciation	16.1.1	44,109,021	43,569,519
Amortization of intangible assets	17.2	15,443,418	15,443,418
Other direct cost		4,804,230	4,677,623
		1,430,755,371	1,983,291,731
Inventory effect of work in process			
Opening		39,820,419	59,384,189
Closing		(30,216,205)	(39,820,419)
		9,604,214	19,563,770
Cost of goods manufactured		1,440,359,585	2,002,855,501
Inventory effect of finished goods (excluding purchased products)			
Opening		150,723,607	160,115,818
Closing		(173,386,771)	(150,723,607)
		(22,663,164)	9,392,211
Cost of goods sold - Manufactured products		1,417,696,421	2,012,247,712
Cost of goods sold - Purchased products		22,992,597	18,488,730
		1,440,689,018	2,030,736,442

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	Note	2012 Rupees	2011 Rupees
24.1 It includes the following staff retirement benefits:			
Defined benefit plan - Gratuity		15,579,252	16,864,790
Defined contribution plan - Provident Fund		4,521,468	4,128,435
Provision for compensated leave absences		3,337,104	800,519
		23,437,824	21,793,744

25. OTHER OPERATING INCOME

	Note	2012 Rupees	2011 Rupees
Income from non-financial assets			
Gain on disposal of property, plant and equipment		15,706,280	5,530,791
SLA fee	25.1	-	86,100,000
Scrap Sales		2,570,812	1,121,489
Others		53,635	-
		18,330,727	92,752,280

25.1 The Group has provided technical ,marketing and sales know-how to Abbot Laboratories Pakistan Limited related to ex-Solvay products in Pakistan, following a global acquisition of Solvay Pharmaceuticals by Abbott International LLC, USA.

26. DISTRIBUTION, SELLING AND PROMOTIONAL EXPENSES

	Note	2012 Rupees	2011 Rupees
Salaries and benefits	26.1	216,891,068	189,837,632
Rent, rates and taxes		9,045	1,252,240
Entertainment		214,812	178,785
Advertisement, promotional expenses and samples		215,683,930	217,137,656
Printing and stationery		1,986,153	2,108,207
Traveling and conveyance		70,142,462	75,291,522
Telephone, postage and telex		1,857,453	2,279,203
Insurance		2,546,533	2,271,041
Provision against doubtful debts		500,650	-
Vehicle running and maintenance		18,435,654	18,628,953
Donation	26.2	1,842,317	1,064,360
Freight		29,118,443	25,184,511
Seminars, symposia and training		11,062,878	13,891,110
Newspapers and subscriptions		14,650,334	10,404,297
Depreciation	16.1.1	9,079,891	9,749,342
Amortization of intangible assets	17.2	2,293,092	2,114,581
Others		14,213,652	12,691,681
		610,528,367	584,085,121
Less: Reimbursement from foreign principals		-	15,496,431
		610,528,367	568,588,690

	Note	2012 Rupees	2011 Rupees
26.1 It includes following staff retirement benefits			
Defined benefit plan - Gratuity		13,407,127	8,337,928
Defined contribution plan - Provident Fund		5,693,968	4,899,132
Provision for compensated leave absences		4,305,332	3,565,653
		23,406,427	16,802,713

26.2 None of the Directors or their spouses have any interest in the donee's fund.

27. ADMINISTRATIVE AND GENERAL EXPENSES

	Note	2012 Rupees	2011 Rupees
Salaries and benefits	27.1	127,101,445	126,225,903
Telephone, postage and telex		2,237,285	2,581,570
Rent, rates and taxes		4,847,977	2,911,119
Electricity, gas and water		540,747	521,030
Printing and stationery		3,858,784	3,802,804
Repairs and maintenance		2,456,072	3,815,401
Vehicle running and maintenance		19,250,077	18,115,572
Traveling and conveyance		8,494,965	7,378,499
Newspapers and subscriptions		897,872	750,369
Entertainment		778,285	529,121
Insurance		7,057,467	5,666,392
Auditors' remuneration	33	1,200,000	946,000
Legal and professional		2,461,765	5,601,437
Advertisement, seminars and symposia		226,790	2,097,017
Donation	27.2	993,233	666,450
Depreciation	16.1.1	11,316,820	12,059,371
Others		2,160,597	2,084,665
		195,880,181	195,886,720

	Note	2012 Rupees	2011 Rupees
27.1 It includes the following staff retirement benefits:			
Defined benefit plan - Gratuity		16,374,466	15,072,455
Defined contribution plan - Provident Fund		4,017,477	4,129,008
Provision for compensated leave absences		3,083,120	1,427,173
		23,475,063	20,628,636

27.2 None of the Directors or their spouses have any interest in the donee's fund.

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	Note	2012 Rupees	2011 Rupees
28. RESEARCH AND DEVELOPMENT EXPENSES			
Salaries and benefits	28.1	7,250,509	3,551,137
Expenses on clinical trials and products evaluation		94,492	2,234,806
Traveling		630,962	367,241
Insurance		42,736	42,744
Vehicle running and maintenance		521,772	197,336
Printing and stationery		41,044	47,647
Office supplies		53,334	67,075
Repairs and maintenance		9,500	2,500
Staff cost		212,721	198,848
Others		18,464	17,700
		8,875,534	6,727,034

28.1 It includes the following staff retirement benefits:

	2012 Rupees	2011 Rupees
Defined benefit plan - Gratuity	568,565	406,456
Defined contribution plan - Provident Fund	125,906	122,763
Provision for compensated leave absences	52,560	-
	747,031	529,219

29. OTHER OPERATING EXPENSES

	Note	2012 Rupees	2011 Rupees
Workers' Profit Participation Fund	11.2	8,324,918	7,832,388
Exchange loss		9,363,745	8,942,250
Workers' Welfare Fund		2,991,816	3,220,136
Central Research Fund		1,468,567	1,455,952
		22,149,046	21,450,726

30. FINANCE COST

	Note	2012 Rupees	2011 Rupees
Mark-up on long term loans		10,883,385	19,513,149
Mark-up on short term loans		31,054,902	42,948,448
Finance cost on liabilities against assets subject to finance lease		3,483,287	6,027,081
Interest on Workers' Profit Participation Fund	11.2	81,902	70,110
Bank charges		2,679,119	1,812,373
		48,182,595	70,371,161

31. TAXATION

	Note	2012 Rupees	2011 Rupees
HNL			
Current:			
- For the year		52,930,381	56,937,731
- Prior year		-	8,845,039
		52,930,381	65,782,770
Deferred	31.2	1,828,985	(14,110,743)
		54,759,366	51,672,027
DSL			
Current tax for prior year		1,181,005	-
		55,940,371	51,672,027

31.1 Reconciliation of tax charge for the year

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

	2012	2011
Applicable tax rate	35.00%	35.00%
Tax effect of amounts that are not deductible for tax purposes	0.63%	0.40%
Tax effect under presumptive tax regime and others	-0.15%	0.47%
	0.48%	0.87%
Average effective tax rate charged on income	35.48%	35.87%

31.2 This includes an amount of Rs. Nil (2011: 8,845,039) in respect of temporary difference of a prior period.

32. EARNINGS PER SHARE - Basic and Diluted

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

		2012	2011
Profit after taxation	Rupees	101,706,594	92,226,968
Weighted average number of ordinary shares	Numbers of Shares	18,180,517	18,180,517
Earnings per share	Rupees	5.59	5.07

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	2012 Rupees	2011 Rupees
33. AUDITORS' REMUNERATION		
Statutory audit	800,000	659,000
Fee for review of half year financial statements	265,000	216,000
Other certifications	90,000	55,000
Out of pocket	45,000	70,000
	1,200,000	1,000,000

34. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

	31 December 2012			31 December 2011		
	Chief Executive	Directors	Executives	Chief Executive	Directors	Executives
	Rupees					
Managerial remuneration	5,923,700	15,764,400	69,002,459	5,370,800	14,504,400	62,611,607
House allowance	2,369,480	2,400,000	27,600,984	2,148,320	2,400,000	24,891,483
Provident fund	451,869	1,067,073	5,634,178	447,358	1,208,516	4,887,976
Gratuity	2,381,734	3,694,531	25,928,675	1,975,395	4,877,872	16,755,573
Bonus	322,900	1,208,700	4,592,742	399,567	1,098,700	3,780,549
Utilities	592,370	2,006,775	6,903,913	537,080	2,142,752	6,222,871
Medical	105,603	543,758	2,203,992	58,537	781,455	2,279,632
	12,147,656	26,685,237	141,866,943	10,937,237	27,013,695	121,429,691
Number of persons	1	2	56	1	2	51

34.1 The Chief Executive, Directors and 28 executives (2011: 27) of HNL have been provided with HNL maintained cars while 28 executives (2011: 21) have been provided with cars under self finance scheme with limited fuel and maintenance facility.

34.2 Rs. 2,000 (2011: Rs. 2,000) has been paid during the year to an independent non - executive director for attending Board meetings of HNL.

35. FINANCIAL RISK MANAGEMENT

35.1 Financial risk factors

The Group's financial liabilities comprise long term financing, liabilities against assets subject to finance lease, short term borrowings and trade and other payables. The main purpose of these financial liabilities is to raise finances for Group's operations. The Group has trade debts, short term borrowings and advances, other receivables and cash and short term deposits that arrive directly from its operations

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance.

Risk management is carried out by the HNL Board of Directors (the Board), Audit Committee and Chief Financial Officer (CFO). The HNL Board provides principles for overall risk management, as well as policies covering specific areas such as currency risk, interest rate risk, credit risk and liquidity risk.

(a) Market risk

(i) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Currency risk arises mainly from future commercial transactions or receivables and payables that exist due to transactions in foreign currencies.

The following analysis demonstrates the sensitivity to a reasonably possible change in US$ and Euro exchange rates, with all other variables held constant, of the company's profit before tax.

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Rupees per US Dollar		2012	2011
Reporting date rate		**97.10**	90.10
		Changes in US $ Rate	Effects on Profit Before Tax Rs.
	2012	**+10%**	(391,138)
		-10%	391,138
	2011	+10%	(667,362)
		-10%	667,362

Rupees per Euro		2012	2011
Reporting date rate		**128.31**	116.37
		Changes in Euro € Rate	Effects on Profit Before Tax Rs.
	2012	**+10%**	(391,718)
		-10%	391,718
	2011	+10%	(423,063)
		-10%	423,063

(ii) Interest rate risk

This represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group has no significant long-term interest-bearing assets. The Group's interest rate risk arises from long term financing, short term borrowings and liabilities against assets subject to finance lease. Borrowings obtained at variable rates expose the Group to cash flow interest rate risk. Borrowings obtained at fixed rate expose the Group to fair value interest rate risk.

At the balance sheet date the interest rate profile of the Group's interest bearing financial instruments was:

	2012 Rupees	2011 Rupees
Fixed rate instruments Financial liabilities		
Short term borrowings	35,000,000	35,000,000
Floating rate instruments Financial liabilities		
Long term loans	50,000,000	99,946,763
Liabilities against assets subject to finance lease	27,968,462	26,313,224
Short term bank borrowings	195,599,758	131,291,136

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, a change in interest rate at the balance sheet date would not affect profit or loss of the Group.

Cash flow sensitivity analysis for variable rate instruments

The following analysis demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax. This analysis is prepared assuming the amounts of floating rate instruments outstanding at balance sheet dates were outstanding for the whole year.

		Changes in Interest Rate %	Effects on Profit Before Tax Rs.
Long term financing	**2012**	**+1.5**	(750,000)
		-1.5	750,000
	2011	+1.5	(1,499,201)
		-1.5	1,499,201
Liabilities against assets subject to finance lease	**2012**	**+1.5**	(419,527)
		-1.5	419,527
	2011	+1.5	(394,698)
		-1.5	394,698
Short term bank borrowings	**2012**	**+1.5**	(2,933,996)
		-1.5	2,933,996
	2011	+1.5	(1,969,367)
		-1.5	1,969,367

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(b) Credit risk

Credit risk represents the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows:

	2012 Rupees	2011 Rupees
Trade debts	56,364,423	42,908,944
Short term advances	4,872,589	4,524,986
Trade deposits	9,082,454	7,236,085
Other receivables	678,665	430,114
Bank balances	4,460,240	11,218,698
	75,458,371	66,318,827

Trade Debts

Credit risk related to trade debts is managed by established procedures and controls relating to customers credit risk management. Outstanding receivables are regularly monitored and shipments to foreign customers are covered by letters of credit.

The maximum credit risk exposure at reporting date is carrying value of financial assets stated above.

At 31 December 2012, the Group has 9 (2011: 7) customers who owed the Group more than Rupees 1.00 million each and accounted for approximately 79% (2011: 36%) of all receivables owing.

The Group's exposure to credit risk related to trade debts is disclosed below:

	2012 Rupees	2011 Rupees
Neither past due nor impaired	5,157,893	6,986,450
Past Due But Not Impaired		
Past due 1–30 days	24,902,675	19,215,304
Past due 31–60 days	9,459,363	6,941,862
Past due 61–90 days	5,019,394	4,372,628
Over 90 days	10,785,201	4,853,453
	50,166,633	35,383,247
Past Due But Impaired		
Past due 1–30 days	-	-
Past due 31–60 days	-	-
Past due 61–90 days	-	-
Over 90 days	1,039,897	539,247
	1,039,897	539,247

Due to the Group's long standing business relationships with these counterparties and after giving due consideration to their strong financial standing, management does not expect non-performance by these counter parties on their obligations to the Group. Accordingly the credit risk is minimal.

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (If available) or to historical information about counterparty default rate. The table below shows the bank balances held with some major counterparties at the balance sheet date:

	Rating		Agency	2012	2011
	Short term	Long term			
				------------- Rupee	-------------
Banks					
National Bank of Pakistan	A-1+	AAA	JCR - VIS	864,766	1,086,546
United Bank Limited	A-1+	AA+	JCR - VIS	8,893	8,893
Faysal Bank Limited	A1+	AA	JCR - VIS	23,821	2,571,827
Habib Bank Limited	A1+	AA+	JCR - VIS	1,548,380	832,238
Allied Bank Limited	A1+	AA	PACRA	-	651,900
Habib Metropolitan Bank Limited	A1+	AA+	PACRA	-	34,364
Barklays Bank Limited	A1+	AAA	PACRA	-	2,198,733
Standard Chartered Bank (Pakistan) Limited	A1+	AAA	PACRA	2,014,384	3,834,197
				4,460,244	11,218,698

(c) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

The Group'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 stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Group has positive working capital position at the year end. Therefore, management believes the liquidity risk to be low.

The table below analysis the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual un-discounted cash flows.

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As at 31 December 2012

	Carrying amount	Contractual cash flows	Less than 6 months	6 to 12 months	1 to 2 years	2 to 5 years
	Rupees					
Long term financing	50,000,000	66,237,500	1,860,000	2,745,000	17,461,250	44,171,250
Liabilities against assets subject to finance lease	27,968,462	31,771,325	9,519,737	8,250,784	10,069,627	3,931,177
Trade and other payables	171,751,961	171,751,961	171,751,961	-	-	-
Short term bank borrowings	230,599,758	255,850,432	-	255,850,432	-	-
	480,320,181	525,611,218	183,131,698	266,846,216	27,530,877	48,102,427

As at 31 December 2011

	Carrying amount	Contractual cash flows	Less than 6 months	6 to 12 months	1 to 2 years	2 to 5 years
	Rupees					
Long term financing	99,946,763	121,596,660	28,005,791	26,483,091	41,058,380	26,049,398
Liabilities against assets subject to finance lease	26,313,224	30,200,558	11,022,741	6,650,984	10,043,042	2,483,791
Trade and other payables	138,204,769	138,204,769	138,204,769	-	-	-
Short term bank borrowings	166,291,136	188,740,439	11,224,652	177,515,788	-	-
	430,755,892	478,742,426	188,457,953	210,649,863	51,101,422	28,533,189

The contractual cash flows relating to the above financial liabilities have been determined on the basis of markup rates effective as at 31 December 2012 and 2011 respectively. The rates of mark up have been disclosed in respective notes to the financial statements.

35.2 Fair values of financial assets and liabilities

Fair value of available-for-sale financial assets is derived from quoted market prices in active markets, if available.

The carrying values of all financial assets and liabilities reflected in financial statements approximate their fair values. Fair value is determined on the basis of objective evidence at each reporting date. Accordingly, detailed disclosure with reference to fair value has been given in the financial statements.

35.3 Financial instruments by categories

	2012		
	Cash and cash equivalents	Loans and advances	Total
	Rupee		
Assets as per balance sheet			
Long term deposits	-	1,562,054	1,562,054
Trade debts	-	72,531,970	72,531,970
Advances	-	4,872,589	4,872,589
Trade deposits	-	9,082,454	9,082,454
Other receivables	-	678,665	678,665
Cash and bank balances	4,460,240	-	4,460,240
	4,460,240	88,727,732	93,187,972

	2012
	Financial Liabilities at amortized cost (Rupees)
Liabilities as per balance sheet	
Long term financing	50,000,000
Liabilities against assets subject to finance lease	27,968,462
Markup accrued on secured loans	6,588,896
Short term borrowings	230,599,758
Trade and other payables	171,751,961
	486,909,077

	2011		
	Cash and cash equivalents	Loans and advances	Total
	---------- Rupee ----------		
Assets as per balance sheet			
Long term deposits	-	1,562,054	1,562,054
Trade debts	-	55,167,872	55,167,872
Advances	-	4,524,986	4,524,986
Trade deposits	-	7,236,085	7,236,085
Other receivables	-	430,114	430,114
Cash and bank balances	11,218,698	-	11,218,698
	11,218,698	68,921,111	80,139,809

	2011
	Financial Liabilities at amortized cost (Rupees)
Liabilities as per balance sheet	
Long term financing	99,946,763
Liabilities against assets subject to finance lease	26,313,224
Mark up accrued on secured loans	10,436,070
Short term borrowings	166,291,136
Trade and other payables	138,313,491
	441,300,684

35.4 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide return for shareholders and benefits for other stakeholders and to maintain healthier capital ratios in order to support its business and maximize shareholders value. The Group manages its capital structure and makes adjustments to it, in the light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust dividend payments to the shareholders, return on capital to shareholders or issue new shares.

No changes were made in the objectives, policies or processes from the previous year. The Group monitors capital using gearing ratio, which is debt divided by equity plus net debt.

Debt represent long-term financing (including current portion) plus liabilities against assets subject to finance lease and short term borrowings obtained by the Group as referred to in note 7, note 8, note 12 and note 13. Total capital employed includes 'total equity' as shown in the balance sheet plus debt. The Group's strategy, which was unchanged from last year, was to maintain optimal capital structure in order to minimize cost of capital.

	2012 Rupees	2011 Rupees
Debt (See note 7, 8, 12 and 13)	315,157,116	302,987,193
Equity	633,614,913	581,659,882
Total equity and debt	948,772,029	884,647,075
Total debt to equity ratio	33.22%	34.25%

36. RELATED PARTY TRANSACTIONS

The related parties and associated undertakings comprises subsidiary, associated companies, staff retirement funds, directors and key management personnel. Balances of related parties and remuneration of key management personnel is disclosed in the respective notes. Other significant transactions with related parties are as follows:

	2012 Rupees	2011 Rupees
36.1 Sales of goods-net		
Associated undertaking	30,302,082	35,044,088
36.2 Contribution to employees benefits fund		
Contribution to Staff Provident Fund	14,358,819	13,279,339
Contribution to Employees Welfare Trust	1,206,150	1,118,495
36.3 Disposal of vehicle		
Director's family member	680,000	-

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37. EVENTS AFTER THE REPORTING DATE

The Board of Directors of HNL in its meeting held on 19 March 2013 has proposed cash dividend at the rate of Rs. 3.50 (2011: Rs. 3.00) per share for the year ended 31 December 2012, subject to the approval of shareholders in the Annual General Meeting to be held on 23 April 2013. These financial statements do not reflect these appropriations.

38. PLANT CAPACITY AND PRODUCTION

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

39. DATE OF AUTHORIZATION OF ISSUE

The Board of Directors of HNL authorized the financial statements for issuance on 19 March 2013.

40. GENERAL

40.1 Figures have been rounded off to the nearest rupee.

BAQAR HASAN
CHIEF EXECUTIVE OFFICER

ANEES AHMAD KHAN
DIRECTOR

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