SHEEZAN INTERNATIONAL LIMITED

ANNUAL REPORT 2004

Board of Directors:

Mr. Muneer Nawaz	Chairman
Mr. Saifi Chaudhry	Chief Executive
Mrs. Majeeda Begum	
Mr. Mahmood Nawaz	
Mr. C. M. Khalid	
Mr. M. Naeem	
Mr. Muhammad Khalid	
Mr. Muhammad Nawaz Tishna	(Nominee N.I.T.)
Mr. Muhammad Asif	(Nominee N.I.T.)

Executive Director & Company Secretary:

Mr. Muhammad Khalid

Chief Financial Officer:

Mr. Faisal Ahmad Nisar, ACA

Audit Committee:

Mr. Muneer Nawaz	Chairman
Mr. Muhammad Khalid	Member
Mr. Muhammad Asif	Member
Mr. Sajid Hussain Syed	Secretary

Registered Office / Head Office:

56 - Bund Road,
Lahore-54500.

Factories:

- 56 - Bund Road,
Lahore-54500.

Auditors:

Messrs. Ford Rhodes Sidat Hyder & Company
Chartered Accountants,
Mall View Building,
4 - Bank Square, Lahore.

Legal Advisors:

Messrs. Cornelius, Lane & Mufti,
Nawa-e-Waqt Building,
Shahrah-e-Fatima Jinnah, Lahore.
Messrs. Sukhera Law Associates,
7-B, Turner Road, Lahore.

Bankers:

United Bank Limited.
Muslim Commercial Bank.
National Bank of Pakistan.
The Bank of Khyber.
Citibank N.A.
Bank Al-Habib.
Habib Bank Limited.

Directors' Report to the Members

We are pleased to present the 41st annual report of Shezan International Limited with audited financial statements for the year ended June 30, 2004.

Business Overview:

National economy posted a reasonable growth during the year inspite of worldwide recession. This encouraging development enhanced productivity in consumer industry. Especially sales of juice products recorded a significant increase while demand of preserves, sauces and canned goods showed upward trend. Relatively long summer season was helpful as well. It is pertinent to note that the steady growth across the board was achieved amidst tough competition in the market, being abundantly supplied with a variety of processed food products sold at very competitive prices. In addition, competition became more intensified due to regular influx of imported products.

On the development front, the important work completed was the launch of "Shezan Twist" juice product, which

Volume of export sales was lower than last year's due With the improvement in global situation, we expect that our export sales will grow in Afghan market as well as we will gain a foothold in the markets of Central Asian States. We would like to mention that one of our units is strategically located at Hattar, NWFP to economically fulfill import demand of processed food products of Afghanistan and Central Asian States.

Merger of wholly owned subsidiary, Messrs. Hattar Fruit Products Limited with the company was a major event during the year. The transition will contribute to higher profitability by means of significant reduction in operating costs; optimum utilization of resources will result in enhanced productivity; and joint marketing efforts will promote business of the company. Needless to mention that the ultimate beneficiary of overall improvement is the shareholder, whose investment will further be reinforced.

Appropriations:

is purely made from premium quality fruits. It is a tasty and wholesome product for the whole family and has received an encouraging consumer response but we

anticipate that the target market segment for such kind of juice will grow gradually nevertheless we are constantly making efforts to build the image of this product. Shezan's other products enjoy popularity amongst the consumers of all age group due to their quality and prices, and we intend to further strengthen this firm position.

We also made our humble contribution to National Exchequer by paying a sum of Rs. 309 million in the shape of Excise Duty, Sales Tax and Income Tax for the year ended June 30, 2004.

Financial Results:

There was an impressive increase in both sales which grew by 13% as well as pre-tax profit which rose by 69% for the year under review. In other words, profit before tax was up from Rs. 55 million to Rs. 93 million while sales revenue exceeded the Rs. 1 billion mark. Similarly, earnings per share registered a handsome increase from Rs. 6.67 to Rs. 13.23. Increased focus on marketing strategies, expansion in supply chain area, control over operating activities and reduction in manufacturing costs enabled this performance. In addition, merger of wholly owned subsidiary, Messrs. Hattar Fruit Products Limited, played an important role in the achievement of excellent results.

Directors' Report to the Members

S. No.	Name of Director	No of Meetings Attended

The Board of Directors recommends the following appropriation of the profit for the year ended June 30,

2004

(Rupees in thousands)

Profit after taxation

Unappropriated profits brought forward
Transfer from subsidiary due to scheme of merger/amalgamation

7,779

Profit available for appropriation

73,907

Appropriations:

Transfer to General reserve 31,000

Proposed dividend @ Rs. 7/50 per share
(2003: @ Rs. 5/50 per share) 37,500

Unappropriated profits carried forward

5,407

Earnings per share in Rupees - Basic

13.23

Leave of absence was granted to the members who did not attend the Board meeting.

Chief Executive, Directors, Company Secretary and

1 .	Mr. Muneer Nawaz	4
2.	Mr. Saifi Chaudhry	3
3.	Mrs. Majeeda Begum	Nil
4.	Mr. Mahmood Nawaz	3
5.	Mr. C. M. Khalid	2
6.	Mr. M. Naeem	1
7.	Mr. Muhammad Khalid	4
8.	Mr. Muhammad Nawaz Tish	3
9.	Mr. Muhammad Asif	4

1. That the transactions undertaken with Related Parties during the financial year have been ratified by the Audit Committee and approved by the Board of Directors.

2. That the amounts or appropriate proportions of outstanding, items pertaining to related parties and receivables/payables from the related parties as on June 30, 2004 were as under:

Six years review at a glance:

Key operating and financial data of last six years is annexed to this report.

Statement of Compliance with the Best Practices on Transfer Pricing:

The Company has fully complied with the best practices on transfer pricing as contained in the listing regulations of the stock exchanges.

Auditors:

The retiring auditors Messrs. Ford Rhodes Sidat Hyder & Company, Chartered Accountants, were ineligible for re-appointment due to rotation clause of Code of Corporate Governance. However, the company applied to Securities & Exchange Commission of Pakistan (SECP) for relaxation in the rotation clause. SECP acceded to the company's request and allowed the existing auditors to continue for the next financial year

their spouses and minor children have made no transactions in the company's shares during the year under reference.

Related Party Transactions:

The Directors confirm the following regarding Related Party Transactions:

Name of Related Party	Payable (Rs.)	Receivable (Rs.)
Shezan Services (Private) Limited	6,386,6327-	NIL
Shahtaj Sugar Mills Limited	NIL	NIL
IMawazabad Farms	5,809,0007-	NIL
Shahnawaz (Private) Limited	NIL	NIL
Shahtaj Textile Limited	NIL	NIL

Future Prospects:

We regard WTO regime both a challenge and an opportunity. Gearing up for those changes in economy is the need of the day. We have to be absolutely focused on defending local market as well as at the same time finding new export markets. We have to understand our consumer's demand, offering them variety to choose from and quality to depend upon on the most competitive prices.

We are confident that we will be able to defend our local markets and also explore new business opportunities in the years to come.

Acknowledgment:

We express our heartfelt gratitude to the Honourable Finance Minister and the Government of Pakistan for exempting fruit juices, squashes and syrups from Central Excise Duty in the Federal Budget 2004. With this bold step, the agriculture sector will be benefited directly subject to rotation of the partner of the retiring audit firm who was incharge of audit for the year ended June 30, 2004.

The matter was then placed before the Audit Committee for its consideration. The Audit Committee recommended re-appointment of existing auditors to the Board for the financial year ending June 30, 2005. Since, the Board had approved the matter, the retiring auditors, Messrs. Ford Rhodes Sidat Hyder & Company are eligible for re-appointment for the next financial year.

Labour Management Relations:

During the year under review the labour and management relations remained cordial.

Your Directors place on record their appreciation for the loyalty and devotion to duty of the officers and workers of all categories.

Directors' Report to the Members

Dividend:

Keeping in view the satisfactory financial results, the Directors have immense pleasure in proposing a cash dividend of 75%, i.e., Rs. 7.50 per share. We hope our shareholders would appreciate our paying generous returns on their investment.

1. Mr. Muneer Nawaz Chairman

(Non Executive Director)

2. Mr. Muhammad Asif Member

(Non Executive Director)

3. Mr. Muhammad Khalid Member

and will contribute in the uplift of our country's economy. We also like to thank Pakistan Fruit Processors Association for its valuable contribution for getting this exemption.

We wish to appreciate efforts and ground work done for the waiver of Excise Duty by Mr. Waseem A. Mahmood, as Secretary to Pakistan Fruit Processors Association and our General Manager Marketing. However, on the whole it was a collective effort on all the fronts and also a team work.

Code of Corporate Governance:

In compliance with the listing regulations of stock exchanges, the Board of Directors hereby declares that:

a. The financial statements prepared by the management of the Company, present fairly its

state of affairs, the results of its operations, cash flow and changes in equity;

b. Proper books of account of the company have been maintained;

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

d. International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements;

e. The system of internal control is sound in design and has been effectively implemented and monitored;

(Executive Director)

The Audit Committee reviewed the quarterly, half yearly and annual financial statements before submission to the Board for their approval and there after for publication. It also reviewed internal audit findings and held separate meetings with internal and external auditors as required under the code of corporate governance.

Board of Directors:

The Board of Directors comprises of three executive and six non-executive directors. During the year ended June 30,2004, four meetings of Board of Directors were held and attended as follows:

Pattern of Shareholdings

as at June 30,2004

Number of Shareholders	Shareholdings From	To	Shares Held
70	1	100	7,000
135	101	500	56,000
53	501	1,000	47,300
49	1,001	5,000	110,400
8	5,001	10,000	59,649
2	10,001	15,000	25,150
4	15,001	20,000	67,100
2	20,001	25,000	45,725
2	25,001	30,000	55,100
2	30,001	35,000	65,900
1	40,001	45,000	43,200
2	50,001	55,000	105,030
1	55,001	60,000	55,530
2	65,001	70,000	133,180
2	75,001	80,000	154,200
1	95,001	100,000	99,900

f. There are no significant doubts upon the company's ability to continue as a going concern;

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

h. The value of investments in Provident Fund for the year ended June 30, 2004 was Rs. 46 million.

Audit Committee:

The Audit Committee was formed by the Board of Directors in compliance with the Code of Corporate Governance and comprises of following three members:

2	100,001	105,000	204,500
1	105,001	110,000	109,625
1	165,001	170,000	165,811
3	210,001	215,000	635,906
1	355,001	360,000	356,117
1	465,001	470,000	467,107
1	1,930,001	1 ,935,000	1 ,930,570
346			5,000,000

Categories of Shareholders	**Number of Shareholders**	**Shares Held**	**Percentage**
Financial Institutions	2	1,931,170	38.62%
Individuals	332	2,988,505	59.78%
Insurance Companies	3	45,200	0.90%
Investment Company	1	11,000	0.22%
Joint Stock Companies	8	24,125	0.48%
Total	346	5,000,000	100.00%

Six Years Review at a Glance

	Year 1999	**Year 2000**	**Year 2001**	**Year 2002**	**Year 2003**	**Year 2004**
	(RUPEES IN THOUSAND)					
Income						
Sales	657,119	695,179	738,391	772,186	833,991	1,096,586
Others	5,847	3,643	32,064	17,184	24,401	8,740
	662,966	698,822	770,455	789,370	858,392	1,105,326
Expenditure						
Cost of sales	517,477	528,989	572,604	598,075	650,198	772,217
Administrative, selling and general	93,552	100,569	110,894	114,246	132,870	205,375
Financial	898	1,995	2,857	3,270	3,019	5,340
Others	14,290	16,333	17,775	18,592	19,538	29,478
	626,217	647,886	704,130	734,183	805,625	1,012,410
Profit before taxation	36,749	50,936	66,325	55,187	52,767	92,916
Taxation	10,500	19,500	14,800	7,951	1 1 ,359	26,788
Profit after taxation	26,249	31,436	51,525	47,236	41 ,408	66,128
Paid-up capital	50,000	50,000	50,000	50,000	50,000	50,000
Reserves & unappropriated profits	108,119	109,555	131,080	148,316	162,224	325,407
Shareholders equity	158,119	159,555	181,080	198,316	212,224	375,407

Break up value per share in Rupees	31.62	31.91	36.22	39.66	42.44	75.08
Earnings per share in Rupees	5.25	6.29	10.31	9.45	8.28	13.23
Cash distribution per share in Rupees	5	6	6	6	5.5	7.5

Pattern of Shareholdings

as at June 30,2004

Detail of Financial Institutions/Companies

Sr. # Name of Shareholder	**Category**	**Shares**
1 . M/s. Investment Corporation of Pakistan.	Financial Institution	600
2. M/s. National Bank of Pakistan,Trustee Department.	Financial Institution	1,930,570
3. M/s. Silver Star Insurance Company Limited.	Insurance Company	1,000
4. M/s. Reliance Insurance Company Limited.	Insurance Company	1,000
5. M/s. State Life Insurance Corporation of Pakistan.	Insurance Company	43,200
6. M/s. Shirazi Investments (Private) Limited.	Investment Company	1 1 ,000
7. M/s. Murree Brewery Company Limited.	Joint Stock Company	100
8. M/s. S. Z. Securities (Private) Limited.	Joint Stock Company	100
9. M/s. DJM Securities (Private) Limited.	Joint Stock Company	100
10. M/s. Salim Chamdia Securities (Private) Limited.	Joint Stock Company	300
1 1 . M/s. Time Securities (Private) Limited.	Joint Stock Company	500
12. M/s. Moosa Noor Mohammad Shahzada & Co. (Private) Limited.	Joint Stock Company	600
13. M/s. Aqeel Karim Dhedhi Securities (Private) Limited.	Joint Stock Company	800
14. M/s. Shezan (Private) Limited.	Joint Stock Company	21,625

Details of Directors, their Spouses and Minor Children etc.

Name of Director	**Relationship**	**Percentage**	**Shares**
Mr. Muneer Nawaz	Self	7.12%	356,117
Mrs. Abida Muneer Nawaz	Wife	1 .00%	50,105
Miss. Annum Shahnawaz	Daughter	1 .31 %	65,500
Mr. Saifi Chaudhry	Self	0.21%	10,500
Mrs. Majeeda Begum	Self	0.16%	8,249
Mr. Mahmood Nawaz	Self	9.34%	467,107
Mrs. Bushra Mahmood Nawaz	Wife	0.07%	3,600
Mr. C. M. Khalid	Self	1.11%	55,530
Mrs. Amtul Hai Khalid	Wife	4.29%	214,506
Mr. M. Naeem	Self	0.28%	14,150
Mrs. Amtul Bari Naeem	Wife	3.32%	165,811
Mr. Muhammad Khalid	Self	0.02%	1,000

Mrs. Surriya Khalid	Wife	0.01%	500
Mr. Muhammad Nawaz Tishna	Self	-	N.I.T. Nominee
Mr. Muhammad Asif	Self	-	N.I.T. Nominee

Review Report to the Members on Statement of Compliance With Best Practices of Code of Corporate Governance

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of Shezan International Limited to comply with the Listing Regulation No. 37 (Chapter XI) and No. 43 (Chapter XIII) of the Karachi and Lahore Stock Exchanges respectively, 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 have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

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 for the year ended June 30, 2004.

Balance Sheet

as at June 30, 2004

	Notes	2004	2003	2003
		(Rupees in thousands)		
				Consolidated
NON-CURRENT ASSETS				
Tangible fixed assets				
Operating fixed assets	5	117,950	66,745	98,022
Capital work in progress	6	25,574	23,747	23,747
Investments				
Subsidiary	7.1	-	20,000	-
Associate	7.2	8,500	-	8,500
Available for sale	7.3	2,650	1,650	1,650

		11,150	21 ,650	10,150
Long term deposits	8	2,334	4,160	4,381
		157,008	116,302	136,300
CURRENT ASSETS				
Stores and spares	9	1,089	796	1,104
Stock in trade	10	370,756	214,560	285,987
Trade debts	11	24,155	51 ,952	55,860
Advances, deposits, prepayments and other receivables	12	58,321	48,175	61,007
Cash and bank balances	13	48,659	17,971	71,635
		502,980	333,454	475,593
LESS: CURRENT LIABILITIES				
Short term running finance	14	10,000	20,867	20,867
Current maturity of obligations under finance lease	18	21 ,597	11,494	12,549
Creditors, accrued and other liabilities	15	150,100	146,343	165,087
Proposed dividend	16	37,500	27,500	27,500
Taxation		35,000	10,000	19,000
		254,197	216,204	245,003
WORKING CAPITAL		248,783	117,250	230,590
TOTAL CAPITAL EMPLOYED		405,791	233,552	366,890
NON-CURRENT LIABILITIES				
Deferred taxation	17	6,107	3,310	2,984
Obligations under finance lease	18	24,277	18,018	18,828
		30,384	21,328	21,812
NET CAPITAL EMPLOYED		375,407	212,224	345,078
REPRESENTED BY:				
SHARE CAPITAL AND RESERVES				
Share capital	19	50,000	50,000	50,000
Capital reserve - share premium account		5,000	-	5,000
General reserve		315,000	155,000	284,000
Unappropriated profits		5,407	7,224	6,078
		375,407	212,224	345,078

Auditors' Report to the Members

We have audited the annexed balance sheet of Shezan International Limited as at June 30, 2004

and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then

the Companies Ordinance, 1984, and are in agreement with the books of accounts and are further in accordance with accounting policies consistently applied;

ii) the expenditure incurred during the year was for the purpose of the company's ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

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

business; and

iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the company;

(c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the company's affairs as at June 30, 2004 and of the profit its cash flow 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.

Cash Flow Statement

for the year ended June 30,2004

	2004	2003	2003
	(Rupees in thousands)		
			Consolidated
Cash flow from operating activities			

Funds provided from operations:			
Profit before taxation	92,916	52,767	55,055
Adjustments for:			
Depreciation	18,682	10,760	15,441
Interest/mark-up	4,153	2,276	2,663
Profit on bank deposits	-378	-218	-1,192
Dividend income	-220	-20,125	-125
Provision for doubtful debts	631	-	-
Gain on remeasurement of investment - Available for Sale	(1 ,000)	(1 ,025)	-1,025
Deterioration in value of shells, pallets and barrels	6,982	2,790	4,779
Gain on disposal of operating fixed assets	-2,885	(688) |	-688
	25,965	-6,230	19,853
Operating profit before working capital changes	118,881	46,537	74,908
(Increasej/decrease in current assets:		.	
Stores and spares	15	224	106
Stock in trade	-90,050	(1 7,359)	-33,489
Trade debts	31,074	-20,328	-19,300
Advances, deposits, prepayments and other receivables	6,865	(11,972) |	-8,084
	-52,096	-49,435	-60,767
Increase/(decrease) in current liabilities:			
Short term running finance	-10,867	20,867	20,867
Creditors, accrued and other liabilities	-14,899	26,990	51,748
	-25,766	47,857	72,615
Cash generated from operations:	41,019	44,959	86,756
Interest/mark-up paid	-4,267	-2,157	-2,544
Profit on bank deposits	727	318	1,733
Income tax paid	-12,578	-23,642	-34,949
Net cash flow from operating activities	24,901	19,478	50,996
Cash flow from investing activities			
Purchase of operating fixed assets	(1 ,829)	-4,129	-4,974
Capital work in progress	-4,070	-3,767	-3,720
Sale proceeds from disposal of operating fixed assets	4,974	1,083 !	1,083
Dividend received	220	20,162	162
Long term deposits	2,427	(1 ,783)	(1 ,958)
Net cash generated from/fused in) investing activities	1,722	1 1 ,566	-9,407
Cash flow from financing activities			
Repayment of obligations under finance lease	-22,125	-10,637	-12,311
Dividend paid	-27,474	-29,986	-29,986
Net cash used in financing activities	-49,599	-40,623	-42,297

Net decrease in cash and cash equivalents	-22,976	-9,579	-708
Cash and cash equivalents at the beginning of the year	17,971	27,550	72,343
Cash and cash equivalents transferred from subsidiary due to scheme of merger/amalgamation	53,664	-	-
Cash and cash equivalents at the end of the year	48,659	17,971	71,635

Profit and Loss Account
for the year ended June 30,2004

	Notes	2004	2003	2003
		(Rupees in thousands)		
				Consolidated
Sales	21	1,096,586	833,991	970,439
Cost of sales	22	772,217	650,198	738,207
Gross profit		324,369	183,793	232,232
Administrative and general expenses	23	45,909	32,038	37,592
Selling and distribution expenses	24	159,466	100,832	118,832
		205,375	132,870	156,424
Operating profit		118,994	50,923	75,808
Other income	25	8,740	24,401	6,175
		127,734	75,324	81,983
Financial charges	26	5,340 .	3,019	3,733
Other expenses and provisions	27	29,478	19,538	23,195
		34,818	22,557	26,928
Profit before taxation		92,916	52,767	55,055
Taxation	28	26,788	1 1 ,359	21,721
Profit after taxation		66,128	41,408	33,334
Unappropriated profits brought forward		7,224	3,316	4,244
Transfer from subsidiary due to scheme of merger/amalgamation		555	— i	__ __-
		7,779	3,316	4,244
Profit available for appropriation		73,907	44,724	37,578
Appropriations:				
Transfer to General reserve		31,00.61	10,000	4,000
Proposed dividend @ Rs. 7/50 per share (2003: @ Rs. 5/50 per share)		37,500	27,500	27,500

		68,500	37,500	31,500
Unappropriated profits carried forward		5,407	7,224	6,078
Earnings per share in Rupees - Basic	29	13.23	8.28	6.67

Notes to the Financial Statements

for the year ended June 30,2004

1. THE COMPANY AND ITS OPERATIONS

The Company is a Public Limited Company incorporated in Pakistan and is listed on Lahore and Karachi Stock Exchanges. The registered office of the company is situated at 56 - Bund Road, Lahore, Pakistan. It is engaged in the manufacturing, trading and sale of juices, pickles, jams, ketchups etc., based upon or derived from fresh fruits and vegetables.

Shezan International Limited owned 44.88% ordinary shares in a Private Limited company namely Hattar Food Products (Private) Limited, which has not commenced its commercial operations so far. The principal business activities of the associated undertaking will be to process food products.

2. MERGER/AMALGAMATION OF HATTAR FRUIT PRODUCTS LIMITED

Effective July 01, 2003, "Hattar Fruit Products Limited" (HFPL), a company incorporated under the Companies Ordinance, 1984 and a wholly owned subsidiary has merged with the company in accordance with the scheme of arrangement for merger/amalgamation between "Shezan International Limited" (SIL) and HFPL, approved by the shareholders in their extra ordinary general meeting held on November 15, 2003 and duly approved by the Honourable High Court, Lahore vide order no. C.O. 65-2003, on December 02, 2003. This has been accounted for in accordance with the scheme, which stated that the values of all assets and liabilities of HFPL as at June 30, 2003 shall be accounted for in the books of SIL and unappropriated profits or losses of HFPL shall constitute unappropriated profits and losses of corresponding nature of SIL and any balance resulting from netting off of investment of SIL in HFPL and share capital of HFPL will be treated as a capital reserve.

3. STATEMENT OF COMPLIANCE

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

4. SIGNIFICANT ACCOUNTING POLICIES

4.1 Basis of Presentation and Measurement:

These financial statements have been prepared under historical cost convention, except for investment classified as "available for sale" which is stated at fair value.

4.2 Fixed Assets:

Owned Assets:

Fixed assets are stated at cost less accumulated depreciation except for freehold land, leasehold land held on 99 years lease and capital work in progress, which are stated at cost.

Depreciation is calculated using the reducing balance method at rates disclosed in note 5, which are considered appropriate to write off the cost of the assets over their useful lives.

Full year's depreciation is charged in the year of addition whereas no depreciation is charged in the year of disposal.

The carrying amounts of the company's assets are reviewed at each balance sheet date to determine whether there is an indication of impairment. If any such indication exists, the asset's recoverable amount is estimated and impairment losses are recognized.

Leased Assets:

Leased assets held under finance lease are stated at cost less accumulated depreciation at the rates and basis applicable to company owned assets. The outstanding obligations under the lease less finance charges allocated to future period are shown as liability. The financial charges are calculated at the interest rates implicit in the lease and are charged to the profit and loss account.

Repairs and maintenance are charged to revenue. Material renewals and improvements are capitalized. Gains and losses on disposal of operating fixed assets are recognized in the profit and loss account.

Statement of Changes in Equity

for the year ended June 30,2004

	Share Capital	Capital Reserve- General Reserve	Unappropriated Profits	Share Premium Account	Total
	(Rupees in thousands)				
Balance as at July 01 , 2002	50,000	145,000	3,316	-	198,316
Profit after taxation for the year					

ended June 30, 2003	-	-	41,408	-	41 ,408
Transfer to General reserve	-	10,000	-10,000	-	-
Dividend @ Rs. 5/50 per share	-	-	-27,500	-	-27,500
Balance as at June 30, 2003	50,000	155,000	7,224	-	212,224
Transfer from subsidiary due to					
scheme of merger/amalgamation	-	129,000	555	5,000	134,555
Profit after taxation for the year					
ended June 30, 2004	-	-	66,128	-	66,128
Transfer to General reserve	-	31,000	(31 ,000)	-	-
Proposed dividend @ Rs. 7/50 / share	-	-	-37,500	-	-37,500
Balance as at June 30, 2004	50,000	315,000	5,407	5,000	375,407

Notes to the Financial Statements

for the year ended June 30,2004

creditors, accrued and other liabilities. Mark-up bearing finances are recorded at the gross proceeds received. Other liabilities are stated at their nominal value.

4.8 Offsetting of Financial Assets and Financial Liabilities:

A financial asset and financial liability is offset and the net amount is reported in the balance sheet if the company has a legal enforceable right to set off the recognized amounts and intends either to settle on net basis or to realize the assets and settle the liabilities simultaneously.

4.9 Taxation:

Current:

Provision for current taxation is based on taxable income at the current rate of tax after taking into account applicable tax credits, rebates and exemptions available, if any.

Deferred:

Deferred tax is provided in full using the balance sheet liability method on all temporary differences arising at the balance sheet date, between the tax bases of the assets and liabilities and their carrying values. Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilized.

The carrying amounts of all deferred tax assets are reviewed at each balance sheet date and reduced to the extent, if it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be utilized.

The tax rates enacted at the balance sheet date are used to determine deferred tax.

4.10 Revenue Recognition:

Sales are recorded upon dispatch of goods to the customers. However, export goods are considered sold when shipped on board.

Income from bank deposits is recognized on accrual basis.
Dividend income is recognized when right to receive is established.

4.11 Retirement Benefits:

The Company operates a recognised provident fund scheme for all permanent employees. Equal monthly contributions are made both by the company and the employees to the fund.

4.12 Financial Charges:

All mark up, interest and other charges are charged to profit and loss account on an accrual basis.

4.13 Foreign Currencies:

Foreign currency transactions are converted into rupees at the rates prevailing on the date of transactions. Monetary assets and liabilities in foreign currencies are translated into rupees at the rates of exchange prevailing at the date of balance sheet.

Profits or losses arising on translation are recognized in the profit and loss account.

4.14 Pricing for related party transactions:

All transactions with related parties and associated undertakings are entered into arm's length determined in accordance with comparable uncontrolled price method except for transactions with M/s. Shahnawaz (Private) Limited, where an additional discount of 40% is given by them on service charges and 7.5% on spare parts in connection with the repairs of motor vehicles, due to group policy duly approved by the Board of Directors.

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

4.15 Provisions:

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

Notes to the Financial Statements

for the year ended June 30,2004

4.3 Investments:

Available For Sale:

All investments are initially recognized at cost, being the fair value of the consideration given and including acquisition charges associated with the investment. After initial recognition, investments, which are classified as "available for sale" are measured at fair value, with unrealized gains and losses on these securities are recognized in profit and loss account for the year.

For the investments actively traded in financial markets, fair value is generally determined with reference to Stock Exchange quoted market bid prices at the close of business on the balance sheet date.

For investments where there is no quoted market price, a reasonable estimate of the fair value is determined with reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset base of the investment.

All purchases and sales of investments are recognized on the trade date, which is the date that the company commits to purchase or sell the investments.

Investments in Associates:

Investments in associated company are reported using equity method. This is an entity in which the company has significant influence and which is neither a subsidiary nor a joint venture of the company. The investment in associate is carried in the balance sheet at cost.

4.4 Stores, Spares and Stock in Trade:

Stocks, stores and spares are valued at lower of cost or net realizable value except those in transit, which are valued at invoice value including other charges, if any, incurred thereon. Basis of determining cost is as follows: -

Raw materials	-	Monthly average
Finished goods	-	Yearly average
Pulp, concentrates etc.	-	Manufacturing cost according to annual average method
Bottles	-	Yearly average

Shells, pallets and barrels	-	Yearly average
Stores and spares	-	Monthly average
Goods in transit	-	Purchase cost

Shells, pallets and barrels are subject to a deterioration of 20% per annum using the reducing balance method.

Net realizable value is determined on the basis of estimated selling price of the product in the ordinary course of business less costs of completion and costs necessary to be incurred for its sale.

4.5 Trade Debts:

Trade debtors are carried at invoice amount on transaction date less any estimate for doubtful receivable. Known bad debts are written off as and when identified.

4.6 Cash and Cash Equivalents:

For the purpose of cash flow statement, cash and cash equivalents comprise of cheques in hand, cash and bank balances.

4.7 Financial Instruments:

All the financial assets and financial liabilities are recognized at the time when the company becomes a party to the contractual provisions of the instruments. The company derecognises a financial asset or a portion of financial asset when, and only when, the enterprise loses control of the contractual rights that comprise the financial asset or portion of financial asset. While a financial liability or part of financial liability is derecognised from the balance sheet when, and only when, it is extinguished, i.e.; when the obligation specified in the contract is discharged, cancelled or expired.

Financial assets are investments, deposits, trade debts, advances, other receivables, cash and bank balances. These are stated at their nominal values as reduced by the appropriate allowances for estimating irrecoverable amount.

Financial liabilities are classified according to the substance of the contractual arrangements entered into. Significant financial liabilities are short term running finance utilized under mark-up arrangements,

	2004	2003	2003
	(Rupees in thousands)		
			Consolidated

INVESTMENTS

7.1 Subsidiary company - unlisted -

Hattar Fruit Products Limited			
Nil (2003: 2,500,000) ordinary shares			
of Rs. 1 0/- each at cost	-	20,000	-
	-	20,000	-
7.2 Associated undertaking -			
Hattar Food Products (Private) Limited			
85,000 (2003: 85,000) ordinary shares			
of Rs. 100/- each at cost (Note: 7.4)	8,500	-	8,500
	8,500	-	8,500
7.3 Available for sale:			
Modaraba - listed -			
Guardian Modaraba			
250,000 (2003: 250,000) certificates			
of Rs. 107- each (Note: 7.5)	1,650	625	625
Gain on remeasurement	1,000	1,025	1,025
	2,650	1,650	1,650

	2004	**2003**	**2003**
	(Rupees in thousands)		
			Consolidated
LONG TERM DEPOSITS			
Leasing companies	1,568	2,327	2,680
Others	1,732	3,001	3,047
	3,300	5,328	5,727
Less: Current maturity - Leasing companies	966	1,168	1,346
	2,334	4,160	4,381
STORES AND SPARES			
Stores and spares	1,089	796	1,104

CAPITAL WORK IN PROGRESS

	COST				
	Civil works and buildings	**Plant and machinery Owned**	**Leased**	**Electric Fittings**	**Total**
	(Rupees in thousands)				
Balance as at July 01 , 2003	201	1,897	20,520	1,129	23,747
Additions during the year	432	3,656	23,924	-	28,012
Adjustments	353	758	-	-1,111	-
Transferred to factory overheads	-	-	-	-18	-18
Transferred to operating fixed assets	-986	-4,661	-20,520	-	-26,167

Balance as at June 30, 2004	-	1,650	23,924	-	25,574

	2004	2003	2003
	(Rupees in thousands)		
			Consolidated
CASH AND BANK BALANCES			
Cash in hand	6,643	3,969	5,263
Cheques in hand	9,776	4,072	6,539
Cash at banks - Current accounts	25,099	9,171	38,272
- Deposit accounts (Note: 13.1)	-	100	100
- PLS savings accounts (Note: 13.2)	7,141	659	21,461
	48,659	17,971	71,635

	2004	2003	2003
(Rupees in thousands)			
			Consolidated
CREDITORS, ACCRUED AND OTHER LIABILITIES			
Due to subsidiary company	-	47,791	-
Due to associated undertakings	12,196	1 1 ,824	12,556
Creditors	71,199	38,185	87,248
Deposits (Note: 15.1)	14,250	8,501	1 1 ,498
Distributors' credit balances	6,890	6,419	10,610
Accrued expenses	24,836	17,672	20,286
Accrued mark-up on secured running/demand finances	6	120	120
Sales tax payable	10,869	10,718	15,692
Accrued excise duty	-	402	590
Workers' Profit Participation Fund (Note: 15.2)	5,022	2,804	4,088
Workers' Welfare Fund	3,835	935	1,335
Unclaimed dividend	244	218	218
Other liabilities	753	754	846
	150,100	146,343	165,087

	2004	2003	2003
	(Rupees in thousands)		
			Consolidated
STOCK IN TRADE			
Raw materials	15,021	10,609	13,575
Packing materials	110,581	42,695	70,420
Bottles	70,046	49,610	68,595

Finished goods	38,880	20,348	23,277
Pulps, concentrates etc.	104,747	79,419	90,224
Shells, pallets and barrels	34,911	13,951	23,896
Less: Deterioration in value	6,982	2,790	4,779
	27,929	11,161	19,117
Goods in transit	3,552	718	779
	370,756	214,560	285,987

TRADE DEBTS

Unsecured, considered good -			
Due from associated undertakings (Note: 11.1)	-	-	-
Others	24,155	51 ,952	55,860
	24,155	51,952	55,860
Considered doubtful - Others	1,726]	1,095	1,095
Provision for doubtful debts	1,726	1,095	1,095
	24,155	51,952	55,860

	2004	**2003**	**2003**
	(Rupees in thousands)		
			Consolidated

ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

Advances - Unsecured, considered good			
-Staff	740	135	393
- Suppliers	1,725	13,903	13,944
Advances - Unsecured, considered doubtful			
- Suppliers	100	100	100
Provision for doubtful advances	100	100	100
Short term deposits	1,914	167	177
Current maturity of long term deposits	966	1,168	1,346
Prepayments	8,535	3,026	4,087
Accrued profit on bank deposits	12	21	361
Advance excise duty	1,177	1,996	2,213
Income tax recoverable	40,856	26,253	35,948
Wealth tax recoverable	140	140	140
Sales tax refundable	2,256	1,366	2,398
	58,321	48,175	61,007

	2004	**2003**	**2003**

		(Rupees in thousands)	
			Consolidated
SHARE CAPITAL			
Authorised -			
10,000,000 (2003: 10,000,000) ordinary shares			
of Rs. 1 0 each	100,000	100,000	100,000
Issued, subscribed and paid-up -			
237,500 (2003: 237,500) ordinary shares			
of Rs. 10 each fully paid in cash	2,375	2,375	2,375
4,762,500 (2003: 4,762,500) ordinary shares			
of Rs. 10 each issued as fully paid bonus shares	47,625	47,625	47,625
	50,000	50,000	50,000

	2004	**2003**	**2003**
		(Rupees in thousands)	
			Consolidated
15.2 Workers' Profit Participation Fund			
Balance at the beginning of the year	2,804	2,927	4,135
Transfer from subsidiary due to scheme			
of merger/amalgamation	1,284	-	-
Allocation for the year	5,022	2,804	4,088
	9,110	5,731	8,223
Interest on funds utilized in the Company's business	164	50	97
	9,274	5,781	8,320
Amount paid to the Fund's Trust	4,252	2,977	4,232
Balance at the end of the year	5,022	2,804	4,088
PROPOSED DIVIDEND			
Proposed @ Rs. 7/50 per share (2003: @ Rs. 5/50 per s	37,500	27,500	27,500
DEFERRED TAXATION			
This is comprised of the following:			
Deferred tax liabilities			
Difference in tax and accounting bases of owned assets	3,204	3,585	3,148
Difference in tax and accounting bases of leased assets	3,543	441	552
Deferred tax assets			
Difference in tax and accounting bases of investments	-	-297	-
Provision for doubtful debts	-640	-419	-716
	6,107	3,310	2,984
	2004	**2003**	**2003**

		(Rupees in thousands)	
			Consolidated
Year ending June 30,			
2004	-	14,795	15,990
2005	25,014	1 1 ,355	1 1 ,987
2006	20,486	7,022	7,250
2007	3,944	-	-
Minimum lease payments (Note: 18.1)	49,444	33,172	35,227
Less: Future finance charges	3,570	3,660	3,850
	45,874	29,512	31,377
Less: Current maturity	21,597	1 1 ,494	12,549
	24,277	18,018	18,828

	2004	2003	2003
	(Rupees in thousands)		
			Consolidated
Factory expenses -			
Salaries, wages and amenities	35,342	27,227	31,779
Company's contribution to provident fund	381	317	338
Stores and spares consumed	9,283	8,427	9,825
Travelling and conveyance	493	199	276
Repairs and maintenance	27,772	1 1 ,640	17,828
Insurance	1,112	682	999
Fuel and power	38,682	26,952	35,498
Inward freight and loading/unloading	1,990	384	384
Utilities	5,635	3,105	3,105
Bottle breakage	6,342	3,657	6,178
Excise duty	68,271	53,008	76,490
General expenses	1,505	569	606
Depreciation (Note: 5.4)	10,083	4,475	7,710
	206,891	140,642	191,016
Cost of production	818,174	544,541	755,717
Add: Finished goods - Opening stock	20,348	24,653	29,726
Transfer from subsidiary due to scheme of merger	3,972	-	-
	842,494	569,194	785,443
Less: Cost of samples	22,832	14,668	17,986
Cost of wastage and spoilage	9,844	7,699	7,897
Cost transferred to pulps, concentrates etc.	167	451	451
Finished goods - Closing stock	38,612	20,348	23,277

	71,455	43,166	49,611
	771 ,039	526,028	735,832
22.2 Cost of sales - Trading			
Finished goods - Opening stock		-	-
Add: Purchases during the year	1,553	124,170	2,375
	1,553	124,170	2,375
Less: Cost of samples	104	-	-
Cost of wastage and spoilage	3	-	-
Finished goods - Closing stock	268	-	-
	375	-	-
	1,178	124,170	2,375

ADMINISTRATIVE AND GENERAL EXPENSES

Salaries, wages and amenities	29,830	21,360	24,169
Company's contribution to provident fund	534	406	423
Postage and telephone	2,398	1,436	1,812
Travelling and conveyance	1,359	788	1,072
Repairs and maintenance	1,612	1,440	1,733
Insurance	1,189	652	871
Stationery and printing	1,875	1,490	1,759
Rent, rates and taxes	1,510	1,169	1,207
Auditors' remuneration (Note: 23.1)	1,373	782	1,089
Legal and professional	540	598	709
Donations (Note: 23.2)	312	108	133
General expenses	810	421	673
Provision for doubtful debts	631	-	-
Depreciation (Note: 5.4)	1,936	1,388	1,942
	45,909	32,038	37,592

	2004	**2003**	**2003**
	(Rupees in thousands)		
			Consolidated
SALES			
Domestic	1,329,669	970,004	1,160,445
Export	37,733	34,841	44,512
Export rebate	174	572	572
	1,367,576	1,005,417	1 ,205,529
Less: Discounts and incentives	41,904	30,424	37,083
Sales tax	229,086	141,002	198,007
	270,990	171,426	235,090

	1 ,096,586	833,991	970,439

COST OF SALES

Manufacturing (Note: 22.1)	771,039	526,028	735,832
Trading (Note: 22.2)	1,178	124,170	2,375
	772,217	650,198	738,207
22.1 Cost of sales - Manufacturing			
Pulps, concentrates etc. - Opening stock	79,419	67,254	79,397
Transfer from subsidiary due to scheme of merger	1 1 ,463	-	-
Add: Production/processing during the year	78,611	82,952	82,952
Purchases during the year	21,474	13,967	21,049
Cost transferred from raw materials	14	-	-
Cost transferred from finished goods	167	451	451
	191,148	164,624	183,849
Less: Pulps, concentrates etc. - Closing stock	104,747	79,419	90,224
Pulps, concentrates etc. consumed	86,401	85,205	93,625
Raw materials - Opening stock	10,609	17,601	20,476
Transfer from subsidiary due to scheme of merger	2,966	-	-
Add: Purchases during the year	251,701	210,683	250,166
	265,276	228,284	270,642
Less: Production of pulps, concentrates	78,611	82,952	82,952
Cost transferred to raw materials	14	-	-
Raw materials - Closing stock	15,021	10,609	13,575
Raw materials consumed	171,630	134,723	174,115
Packing materials - Opening stock	42,695	29,179	46,618
Transfer from subsidiary due to scheme of merger	27,725	-	-
Barrels consumed	304	-	-
Add: Purchases during the year	395,246	197,487	320,763
	465,970	226,666	367,381
Less: Cost transferred to expenses	2,137	-	-
Packing materials - Closing stock	110,581	42,695	70,420
Packing materials consumed	353,252	183,971	296,961

Gain on disposal of operating fixed assets

Description	Cost	Book Value	Sale Proceeds	Gain/ (Loss)	Purchaser	Mode
(Rupees in thousands)						
Lathe Machine	36	6	40	34	Mr. Sabir Feroze, Lahore.	Negotiation
Toyota Corolla	365	23	100	77	Mr. Mansoor Ahmad,	Negotiation

					Employee.	
Hyundai Shehzore	445	228	500	272	Noman & Company, Approach Road Near People Colony Nigar Phatak, Gujranwala.	Negotiation
Hyundai Shehzore	445	228	539	311	Tahir Javaid & Company, Officer's Colony No. 1 , Madina Town, Faisalabad.	Negotiation
Hyundai Shehzore	445	228	539	311	Tahir Javaid & Company, Officer's Colony No. 1, Madina Town, Faisalabad.	Negotiation
Hyundai Shehzore	445	228	540	312	Zafar & Company, Yadgar Road, Rabwah.	Negotiation
Hyundai Shehzore	445	228	540	312	Fasih ud Din & Company, Larri Adda, Mangowal.	Negotiation
Hyundai Shehzore	445	228	540	312	Ahsan Traders, Opp. Carriage Factory, Islamabad.	Negotiation
Hyundai Shehzore	445	228	540	312	Ahsan Traders, Opp. Carriage Factory, Islamabad.	Negotiation
Hyundai Shehzore	445	228	540	312	Dost Muhammad & Company, Near Asif Cinema, Mianwali.	Negotiation
Hyundai Shehzore	445	228	540	312	Chaudhary Brothers, House No. 438/5-U Street, Major Rasheed Panj Bhata, Rawalpindi.	Negotiation
WDV below Rs. (thousands) 5 each	40	8	16	8	Various	Negotiation
4,446		2,089	4,974	2,885		

	2004	2003	2003
	(Rupees in thousands)		Consolidated
23.1 Auditors' remuneration			
Audit fee	275	175	325
Tax consultancy services	725	-	85
Miscellaneous certification charges	287	575	638

Out of pocket expenses	86	32	41
	1.373	782	1.089

	2004	2003	2003
	(Rupees in thousands)		
			Consolidated
SELLING AND DISTRIBUTION EXPENSES			
Salaries, wages and amenities	37,406	30,310	32,398
Company's contribution to provident fund	451	426	444
Postage and telephone	888	564	882
Travelling and conveyance	4,656	3,260	3,727
Repairs and maintenance	10,361	7,399	7,544
Insurance	2,309	2,712	2,918
Utilities	1,852	642	3,261
Stationery and printing	1,104	725	725
Rent, rates and taxes	2,244	668	1,096
Advertising and promotions	42,598	24,472	28,034
Outward freight and distribution	22,063	6,701	11,898
Staff sales incentive	3,521	2,720	2,720
Petrol, oil and lubricants	16,709	13,108	13,108
General expenses	688	363	490
Depreciation (Note: 5.4)	6,663	4,897	5,789
Deterioration on shells and pallets	5,953	1,865	3,798
	159,466	100,832	118,832
OTHER INCOME			
Profit on bank deposits	378	218	1,192
Dividend income	220	20,125	125
Gain on remeasurement of investment			
- Available for Sale (Note: 7.3)	1,000	1,025	1,025
Gain on disposal of operating fixed assets (Note: 25.1)	2,885	688	688
Sale of scrap	4,257	2,345	3,145
	8,740	24,401	6,175

	2004	2003	2003
		(Rupees in thousands)	
			Consolidated

EARNINGS PER SHARE - BASIC

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

Profit after taxation attributable to ordinary shareholders	66,128	41,408	33,334
Weighted average number of ordinary shares at the end of the year (in thousands)	5,000	5,000	5,000
Earnings per share (Rupees)	13.23	8.28	6.67

30.1 Concentration of credit risk and credit exposures of the financial instruments

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Out of total financial assets of Rs. (thousands) 89,930 (2003: Rs. (thousands) 97,224), the financial assets which are subject to credit risk amounted to Rs. (thousands) 30,121 (2003: Rs. (thousands) 57,603). Concentration of credit risk may arise from exposure to a single debtor or to a group of debtors having similar characteristics such that their ability to meet their obligations is effected similarly by changes in economic or other conditions. Although the company operates mainly in the consumer industry but the management believes that it is not exposed to significant concentration of credit risk. The management limits its credit risk by an aggressive policy for approval of credit limits and by ensuring that the sales are made to customers with an appropriate credit history.

30.2 Foreign exchange risk management

Foreign currency risk arises mainly where receivables and payables exist due to sale and purchase transactions with foreign undertakings. Payables exposed to foreign currency risks are identified as either "Creditors" or "Bills payable" and receivables exposed to foreign currency risks are identified as "Trade debts". The company does not view hedging as being financially feasible owing to the transactions of immaterial amounts involved.

30.3 Fair value of the financial instruments

The carrying value of all financial assets and liabilities reflected in the financial statements approximates their fair values. Fair value is determined on the basis of objective evidence at each reporting date.

30.4 Interest rate risk management

Interest rate risk represents the value of financial instruments which will fluctuate due to changes in market interest rate. Since the company borrows funds at fixed interest rates, exposure to interest rate risk is minimal.

30.5 Liquidity risk management

Liquidity risk reflects the company's inability of raising funds to meet commitments. Management closely monitors the company's liquidity and cash flow position. This includes maintenance of balance sheet liquidity ratios, debtors and creditors concentration both in terms of the overall funding mix and avoidance of undue reliance on large individual customers.

30.6 Cash flow risk management

The company does not have any financial assets or financial liabilities which carry variable interest rates hence is not subject to any cash risk in this area.

	2004	2003	2003
	(Rupees in thousands)		
			Consolidated
FINANCIAL CHARGES			
Interest, mark-up and charges on -			
Secured running/demand finances	203	351	388
Workers' Profit Participation Fund (Note: 15.2)	164	50	97
Finance lease charges	3,786	1,875	2,178
	4,153	2,276	2,663
Bank charges	1,187	743	1,070
	5,340	3,019	3,733
OTHER EXPENSES AND PROVISIONS			
Product spoilage and barrel deterioration	1 1 ,669	8,646	9,160
Royalty to associated undertaking	10,227	7,412	8,823
Foreign exchange loss	60	176	209
Workers' Profit Participation Fund (Note: 1 5.2)	5,022	2,804	4,088
Workers' Welfare Fund - Prior year	-	-	15
- For the year	2,500	500	900
	29,478	19,538	23,195
TAXATION			
Current			
- for the year	35,000	10,000	19,000
- for prior year	-11,335	-	621
	23,665	10,000	19,621
Deferred			
- expenses/(income) relating to origination and reversal			
of temporary differences	3,123	1,359	2,205
- income resulting from reduction in tax rates	-	-	-105
	3,123	1,359	2,100
	26,788	1 1 ,359	21,721
28.1 Relationship between income tax expense			
and accounting profit			
Profit before taxation	92,916	52,767	55,055
Current Taxation:			
Tax at the applicable rate of 35% (2003: 35%)	32,521	18,468	19,269

Tax effect of expenses that are not deductible in determining taxable income charged to profit and loss account	23,062	10,586	13,359
Tax effect of expenses that are deductible in determining taxable income not charged to profit and loss account	-13,472	-9,144	-11,922
Tax effect of applicability of lower tax rate on export sales and dividend income	-3,988	-8,551	-3,412
Tax effect on higher rate of subsidiary	-	-	3,911
	38,123	1 1 ,359	21,205
Tax effect of adjustments in respect of current inrMTno tov of nrior	/1 i "MM		R91
Tax effect of adjustments in respect of deferred taxation of prior year	-	-	-105
	(1 1 ,335)	-	516
Tax charge for the current year	26,788	11,359	21,721

	2004	2003	2003
	(Rupees in thousands)		
			Consolidated
Purchases of raw materials	95,980	61,229	95,148
Purchases of finished goods	-	121,795	-
Sales of raw materials	-	17,860	-
Sales of finished goods	297	10,588	263
Royalty charged	10,227	7,412	8,823
Purchases/repairs of electric equipment/vehicles	521	4	68
Services rendered	60	60	60
Dividend income	-	20,000	-
Contributions to staff provident fund	1,366	1,149	1,205

36. GENERAL

36.1 Previous year's figures have not been restated except for as given below. These are considered more appropriate for the purpose of better presentation:

a) Re-arrangement of foreign exchange loss Rs. (thousands) 209 from other income to other expenses and provisions;

b) Re-arrangement of opening stock of pulp, concentrates etc. of Rs. (thousands) 67,254, production/processing during the year of Rs. (thousands) 82,952, purchases during the year of Rs. (thousands) 13,967, cost transferred from finished goods of Rs. (thousands) 451, closing stock of pulps, concentrates etc. of Rs. (thousands) 79,419 and consumption of pulps, concentrates etc.

amounting to Rs. (thousands) 85,205. These were previously grouped in raw materials and finished goods in Note: 22.1, now disclosed separately;

c) Re-arrangement of pulp, concentrates etc. Rs. (thousands) 79,419, previously grouped in finished goods stock have been disclosed separately in stock in trade in Note: 10;

d) Re-arrangement of cost of samples of Rs. (thousands) 14,668 and cost of wastage and spoilage amounting to Rs. (thousands) 7,699, now disclosed separately in Note: 22.1;

e) Re-arrangement of managerial remuneration Rs. (thousands) 777 to basic salary and bonus in Note: 32; and

f) Re-arrangement of utilities Rs. (thousands) 210 to dearness, cost of living and utilities allowance in Note: 32.

36.2 Comparative figures of consolidated financial statements have also been reported for appropriate comparison and better understanding.

36.3 Figures in these accounts have been rounded off to the nearest thousand of rupees.

The Chief Executive is out of Pakistan and in his absence, these financial statements have been signed by two directors, as required under section 241 (2) of the Companies Ordinance, 1984.

CAPACITY AND PRODUCTION

	Normal Annual Capacity		2004	Production 2003	2003 Consolidated
Juices -					
Bottling plant	5,925,000	Crates	3,669,100	1,950,820	2,924,837
Tetra Pak plant	13,200,000	Dozen	6,897,654	3,082,775	5,426,232
Squashes and syrups plant	590,000	Dozen	146,345	152,702	169,893
Jams and ketchup plant	620,000	Dozen	307,816	242,941	289,357
Pickles plant	87,500	Dozen	80,683	77,672	77,372
Canning plant	180,000	Dozen	100,709	153,809	153,809