



'07

ANNUAL REPORT



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FOUNDERS' PHILOSOPHY

National Foods must focus on Customer's needs and serve them with Quality Products at affordable prices at their doorsteps.

Our products must be pure conforming to international standards.

Our Research must produce continuously new adventurous products scientifically tested, Hygienically produced in safe and attractive packages

We must create environment in our Offices and Factories where talents are groomed and have opportunity to advance in their careers.

We must prove to be recognized as good corporate Citizens, support good causes-charity and bear fair share of Taxes

Reserves must be built New Factories create sound profit made and fair dividend paid to our Stock Holders.

Through building a reliable Brand, National Foods Ltd, Must get itself recognized as Leader in Pakistan and Abroad.

With the help of Almighty God, the Company can achieve its targets in years to come.



VISION AND MISSION

To be a Rs. 50 billion food company by the year 2020 in the convenience food segment by launching products and services in the domestic and international markets that enhance lifestyle and create value for our customers through management excellence at all levels.

vision
20/20
our aim,
our vision: **Rs.50 billion**





CORE VALUES

PASSION

We act with intense positive energy and are not afraid to take risks. We challenge ourselves continuously and have pride for what we do and are good at it.

PEOPLE-CENTRIC

We put our people first. Treat them with respect and actively contribute towards their development.

CUSTOMER FOCUS

We see the world through the eyes of our customers. We do everything possible that makes them happy.

LEADERSHIP

We are part of the solution.....never the problem. We act like owners and have a positive influence on others.

TEAMWORK

Our roles are defined, not our responsibilities. We believe in going the extra mile to accomplish our goals. We coach and support each other ensuring everyone wins. We have a WE versus I mindset.

ETHICS

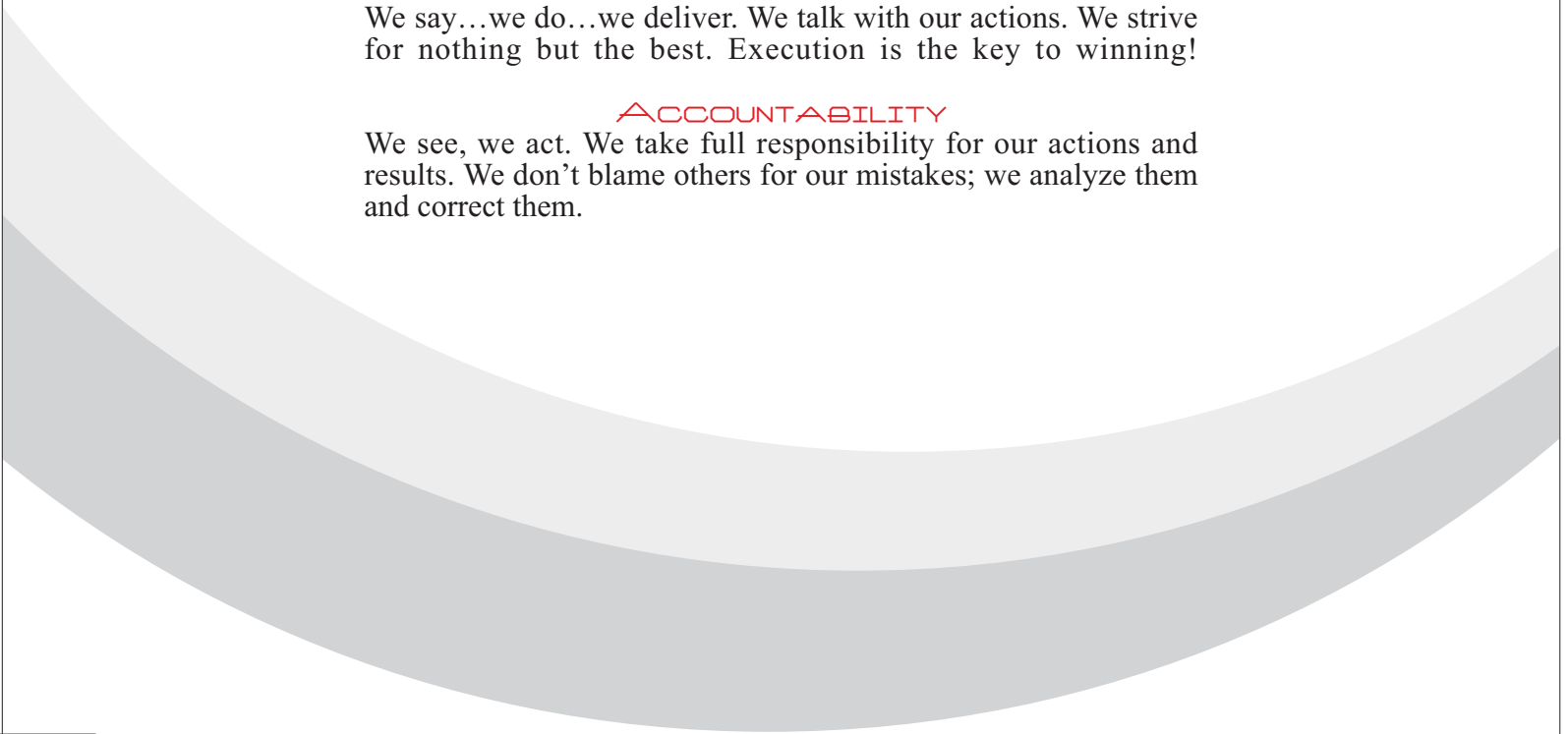
We don't run our business at the cost of human or ethical values.

EXCELLENCE IN EXECUTION

We say...we do...we deliver. We talk with our actions. We strive for nothing but the best. Execution is the key to winning!

ACCOUNTABILITY

We see, we act. We take full responsibility for our actions and results. We don't blame others for our mistakes; we analyze them and correct them.



BRAND PILLARS

WHITE IS THE COLOUR OF PURITY

Purity is our first value. Purity of thought and of action
Purity as an uncompromising standard. Purity as a way of life



THE COLOUR RED IN OUR LOGO STANDS FOR TRUST

Trust placed in us by our customers,
our trade partners, our shareholders and our employees
A Trust that National Foods Limited has upheld for the past 37 years



THE COLOUR ORANGE IN OUR LOGO REPRESENTS OUR RICH HERITAGE

A proud heritage of striving for excellence
handed down by our founding generation to the present generation
A belief in our Heritage is the strong foundation
on which our business continues to grow



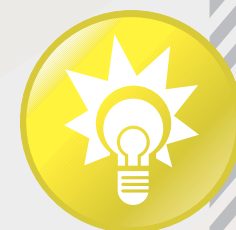
PURPLE, A COLOUR OF LIFE THAT FOR US MEANS CONVENIENCE FOR OUR CUSTOMERS

All our products aim to enhance convenience
for our customers and our trade partners
Convenience is a NFL value



YELLOW SIGNIFIES BRIGHTNESS & FOR US BRIGHTNESS MEANS INNOVATION

Innovation is a key NFL Value
Innovation drives our ability to remain contemporary
in response to our consumers needs



COMPANY INFORMATION

BOARD OF DIRECTORS

Mr. Abdul Majeed
Mr. Abrar Hasan
Mr. Waqar Hasan
Mr. Khawaja Munir Mashooqullah
Mr. Zahid Majeed
Mr. Ebrahim Qasim
Mr. Jawaaid Iqbal

Chairman
Managing Director / Chief Executive
Director
Director
Director
Director

AUDIT COMMITTEE

Mr. Waqar Hasan
Mr. Ebrahim Qasim
Mr. Zahid Majeed
Mr. Jawaaid Iqbal
Mr. Fayyaz Abdul Ghaffar

Chairman
Member
Member
Member
Secretary

COMPANY SECRETARY

Mr. Fayyaz Abdul Ghaffar

CHIEF FINANCIAL OFFICER

Mr. Muhammad Kashif Iqbal

INTERNAL AUDITORS

Messrs. Ford Rhodes Sidat Hyder & Co.

Chartered Accountants

COMPANY MANAGEMENT

Mr. Abrar Hasan
Mr. Shakaib Arif
Mr. Waqas Abrar Khan
Mr. Zaheer Ahmed

Mr. Ahmed Iqbal

Mr. M. Azher Ali
Mr. Saleem Khilji
Mr. Muhammad Iqbal
Mr. Arif Shaikh
Mr. Zahid Marghoob Shiekh
Mr. Muhammad Kashif Iqbal

Managing Director / Chief Executive
Chief Operating Officer
General Manager Human Resource
Sales and Marketing Manager –
Kitchen Foods Division
Sales and Marketing Manager –
Family Foods Division
Sr. Business Unit Manager – PQ Plant
Business Unit Manager – SITE Plant
Manager Supply Chain and Planning
Head of Quality, Research & Development
Head of Information Technology
Head of Finance



AUDITORS

A. F. Ferguson & Co.

Chartered Accountants
State Life Building, 1-C, I.I. Chundrigar Road,
Karachi

SHARE REGISTRATION OFFICE

Noble Computer Services (Pvt.) Limited

2nd Floor, Sohni Centre, BS 5 & 6 Karimabad,
Block-4, Federal B. Area, Karachi-75950
Phone: 6801880 -82 (3 Lines)
Fax: 6801129
Email: nsl@noble-computers.com

PRINCIPAL BANKERS

Bank AL-Habib Limited

I.I. Chundrigar Road Branch, Karachi
S.I.T.E Branch, Karachi
New Garden Town Branch, Lahore.

ABN AMRO Bank

Abdullah Haroon Road, Karachi

Muslim Commercial Bank

Clifton Corporate Branch, Karachi
Shaheen Complex Branch, Karachi

Habib Bank Limited

Hub River Road Branch, Karachi

Citi Bank Limited

SITE Branch, Karachi

REGISTERED OFFICE

12/CL-6, Claremont Road, Civil Lines,
Karachi 75530 P.O.Box No. 15509
Phone: 5662687, 5670540, 5670585,
5670793 & 5672268 Fax: 5684870



CHIEF EXECUTIVE'S REVIEW

I am very proud to state that NFL has closed the year very strongly in terms of all round performance. The entire management has upheld the values set two year ago for Vision 20/20. The momentum has been set, new products are being developed, systems are being modernized, a new approach and era is rolling in.

The biggest change is the approach towards doing business, which has transformed to a more aggressive execution from an objective or goal oriented approach. The results have been encouraging and an all round discipline for doing business has set in.

The following achievements have been made:

- * Rs. 3.0 billion plus turnover for the year including USD 4.64 million of export
- * Innovative SKU's launched to target an economic segment
- * New markets being developed for enhancing horizontal penetration across various segments
- * All sales targets including volumetric and quantitative have been met despite inflationary trends in both local and international divisions

- * Launch of NFL products in India through an authorized distributor
- * Middle East performing well through the efforts of the international division in enhancing distribution
- * Clear leadership of our products in the Canadian market
- * Innovative HR programs launched, targeting Human Resource Development and promotion of rewards and recognition programs for boosting employee morale.

Excessive demand pressures on money, because of high fiscal deficit and foreign inflows manifest itself in rise in inflation rate could impair our efforts towards controlling operational cost. Despite all contests and debates, Pakistani economy has done well in past five years and achieved 7% plus GDP on average. This promoted the confidence of foreign, as well as, local investors, and hefty investments were made by them, which directly and indirectly contributed towards well being of a common man and per capita GDP. This trend is expected to be continued in foreseeable future, thus providing us with opportunities to grow beyond expectations.



A FOOD COMPANY

Food! What we eat defines our personality, shapes our way of living and chalks out our physical appearances.

National Foods is one such company, dedicated to improving lives through providing healthy, innovative food items that excel in quality and provide value for money. With a range of over 110 products in 12 major categories, we are one of the largest food companies in the business.

Plain Spices

Chilli, Coriander, Turmeric, Black Pepper and Cumin Seeds comprise this category, launched in 1970 with the company. The objective was consumer focused - to develop pure, hygienically packed plain spices to counter generally available loose spices of doubtful quality. Our Plain Spices are market leaders in the branded market segment.

Ingredients

Ingredients category consisting of Khatai Powder, Ginger, Garlic Powder and Kasuri Methi enjoys the leadership position in the branded market.

Salt

Refined Tablet Salt was launched in 1978 and Iodized Salt in 1990 with the UNICEF. Salt has the highest customer recognition in terms of National Foods. National Salt is the market leader of the branded market.

Basic Recipes

Launched in 1982, Basic Recipes consist of Garam Masala and Curry Powder, popularly known as Salan Masala. Though it is a basic category, it enjoys popularity with everyone who cooks.

Recipe concoction

Launched in 1986 and today the market leader,

Recipe Masalas are available throughout urban Pakistan. This category has three sub-brands - National is homely/motherly food, while Ronaq is a Chatkila Restaurant taste and Rivaaj is a cooking paste.

Chinese salt and Vinegar

This category launched in 1988, currently enjoying a leadership position in the branded market.

Pickles

Launched in 1988-89 as one of the first wet products to be launched and National Pickle is the clear market leader for many years now.

Ketchup

Launched in 1997, is produced on one of the most modern plants in Pakistan. National Foods enjoys the market leadership for the past 4 years.

Jams, Jellies and Marmalades

It performed extremely well since the launch in 1998-99. Yet again National Foods is leading the market in this category.

Snacks

This category includes Chat Masala, Dahi Bara Powder, Pakora Mix and Fruit Chat Masala. National Foods is the dominant market leader in this category also, with these mixes being very popular with the consumers, especially in the month of Ramzan.

Desserts

This includes Custard Powder, a growing category for NFL. 'Jelly Crystals' and a complete 'Kheer' range were launched last year and are performing well in the market.



HUMAN RESOURCES

As National Foods moves ahead with a growing confidence, the development of human resources becomes all the more imperative for incessant growth. Talented people are at the heart of our quality driven culture, therefore we actively recognize their ability and provide wholesome and continuous opportunities for learning.

Having a focus on the soft side of our business is critical for the long term health of our organization. However an equal importance is given to the hard numbers that drive our business today. We set very clear goals and KPIs (key performance indicators) for our Team which in turn generates a tremendous focus towards being a results-driven organization. We are proud of the empowerment culture at National Foods which gives our team both the responsibility as well as accountability to be the best that they can be.

This year we celebrated the opening of our brand new production facility in Port Qasim. The change over to the new plant was brilliantly carried out by our production and development teams and their dedication was much appreciated and recognized by all.

A fun filled recognition ceremony was held to present the Star Performer Awards to recognize the outstanding performances of our management team during 2006-07. We not only encourage people to work hard but play hard as well.

The Star of the Month program was initiated to reward workers and supervisors from all production sections. This program is to reward our star performers during each month on factors such as discipline, punctuality, personal hygiene, behavior with others employee, and on the job performance.

The HR and Production teams have jointly launched a Food Safety Training Program for all factory workers and their supervisors. The purpose of this program is to continuously reinforce the principles of hygiene and food safety to ensure the application of GMP standards.

To ensure a proper training audit for the Food Safety Training Program and gauge its implementation a contest was organized by the name of NFL Olympics. The Quality Team played a pivotal role in executing this contest between all production facilities and rating them on Food Safety, GMP standards, personal hygiene, grooming and staff training. The winning team as well as their supervisor gets cash rewards.

In order to recruit the best salespeople, we have developed a new team member selecting process based on mental aptitude, personality assessment and numerical perception. The Sales Team Competency Exam (CompEx) consists of a series of questions linked to each applicant's likely job performance followed by situational analysis and quick math and the Structured Interview Guide (SIG) which consists of a series of questions to ask candidates which will allow you to explore further the results of the CompEx.

The HAMSAB program was put in place to help us cascade our Vision 2020 and Core Values to every level of the organization. HAMSAB is an activity-based learning program that helps explain our corporate identity and the 'right' behaviors to demonstrate it. It is the mechanism to ensure that our vision and values are cascaded down to every single rung of our organization. We plan on creating an organizational culture that truly sizzles and is uniquely National Foods.



SOCIAL RESPONSIBILITY AND COMMUNITY WELFARE

“Education is key to women empowerment. Literacy enables women to find her voice in the family, society and beyond, as well as to substantially improve her own quality of life and that of her children. Education increases women’s potential to become agents for social change ”

Believing in the Chairman’s dream to eradicate illiteracy from the nation, National Foods in collaboration with The Citizen Foundation and Literate Pakistan Foundation started ‘Adult Literacy Program’.

The overall objective of the program is to achieve a sustainable literacy program in the remote areas to aid the development of local communities and provide opportunities to individuals, especially females for poverty alleviation and progression in a modern, moderate and developed society.

Remarkably, 334 students got enrolled in the third phase of the program, which started simultaneously in 15 centers in Karachi, including Gadap, Mangopir, Orangi Town and Rasheedabad. This is a significant increase when compared to last two year’s registration which stood at 235 students. Inspiring with the passion of National Foods, The Citizen Foundation is planning to start this program in all their schools, which will help to educate and bring a better future to the underprivileged of Pakistan.

NOTICE OF MEETING

Notice is hereby given that the 36th annual general meeting of National Foods Limited will be held at the registered office situated at 12/CL-6, Claremont Road, Civil Lines Karachi, on Friday, October 5, 2007 at 10:00 a.m., to transact the following businesses:

ORDINARY BUSINESSES:

1. To confirm the minutes of the 35th annual general meeting held on October 31, 2006.
2. To receive, consider and approve the audited accounts for the year ended June 30, 2007.
3. To approve appropriation of profits of the Company

The directors have recommended following:

- * Final cash dividend of Rs.2/- per ordinary share of Rs.10.
 - * Three (3) bonus shares for every ten (10) ordinary shares held.
4. To appoint auditors for the year 2007-2008 and to fix their remuneration.

By order of the Board of Directors



A. Majeed
Chairman

Karachi, September 13, 2007

Notes:

1. The share transfer books of the Company will remain closed from September 26, 2007 to October 5, 2007 (both days inclusive).
2. All members are entitled to attend and vote at the meeting. A member may appoint a proxy to attend, speak and vote for him/her. A proxy must be a member of the Company.
3. In order to be valid, an instrument proxy and the power of attorney or other authority under which it is signed, or a notarially certified copy of such power of authority, must be deposited at the office of the Company's Share Registrar not less than 48 hours before the time of the meeting.
4. Any change of address of Members should be notified immediately to the Company's Share Registrar, Noble Computer Services (Pvt.) Ltd., 2nd Floor, Sohni Center, BS 5 & 6, Karimabad, Block 4, Federal B. Area, Karachi.
5. A member who has deposited his/her shares into Central Depository Company of Pakistan Limited,
 - a. in case of individuals, must bring his/her participant's ID number and account/sub-account number alongwith original Computerised National Identity Card or original Passport at the time of attending the meeting.
 - b. in case of corporate entity, the Board of Directors' resolution / power of attorney with specimen signature of the nominee shall be produced (unless it has been provided earlier) at the time of the meeting.
6. Members who have not yet submitted photocopy of their Computerised National Identity Cards to the Company are requested to send the same at the earliest.

DIRECTORS REPORT TO THE SHAREHOLDERS

I take great pleasure in presenting before you the Annual Report along with the audited financial statements and management accomplishments for the year ended June 30, 2007.

KEY FINANCIALS

A brief financial analysis is presented as follows:

	2007	2006
	(Rupees in thousand)	
Sales	2,391,058	1,847,700
Gross profit	818,484	571,263
Profit from operations	200,301	131,321
Profit before tax	191,722	106,471
Profit after tax	129,292	70,364
Earning Per Share	30.41	16.55

BUSINESS REVIEW

The above healthy performance is in line with the dynamic objectives set in the Vision 2020 of the company. Aggressive strategic and operational changes along with appropriate investments in infrastructure, R&D projects and technological improvements to the processes have been responsible for the above average net sales growth of 29% (2006: 20%) attained in the year under review.

Currently there is buoyant growth in the consumer market with increased spending in direct relation to the overall vibrant positive GDP growth of the economy. There is a definite increase in the purchase power despite inflationary trends witnessed across the supply chain.

However, inflation remains to be a cause of concern and challenge for the government and business enterprises across the country. Innovative measures have to be adopted to combat these rapid changes to maintain and deliver a value proposition for our customers.

The Company, in order to accomplish its vision, has significantly invested in brand registration both in local as well international markets. Investments in terms of product listing fees at various well known supermarkets and hypermarkets, especially in the Middle East region, are now giving gross returns with an encouraging growth rate of almost 30% (2006: -3%).

FINANCIAL PERFORMANCE

The financial performance of the company has been continuously improving and presenting a

satisfactory outlook as compared to last year. A detailed analysis of the key financial figures is as under:

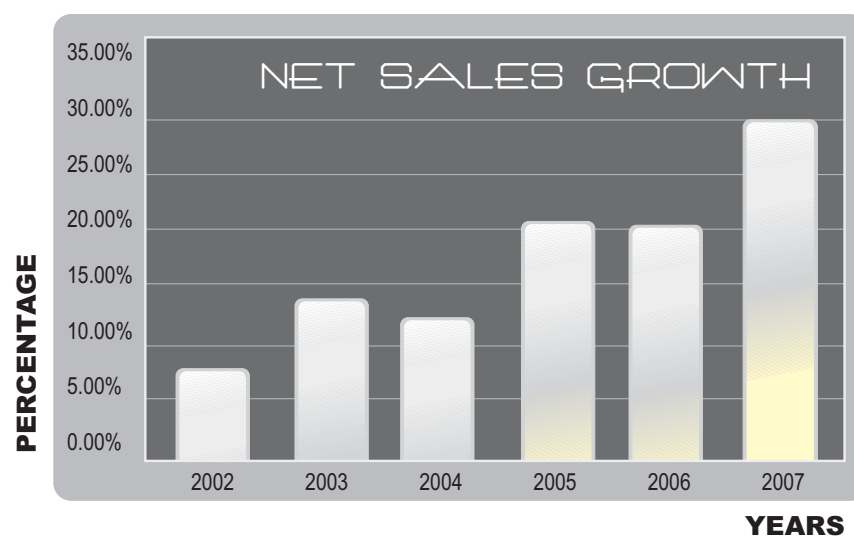
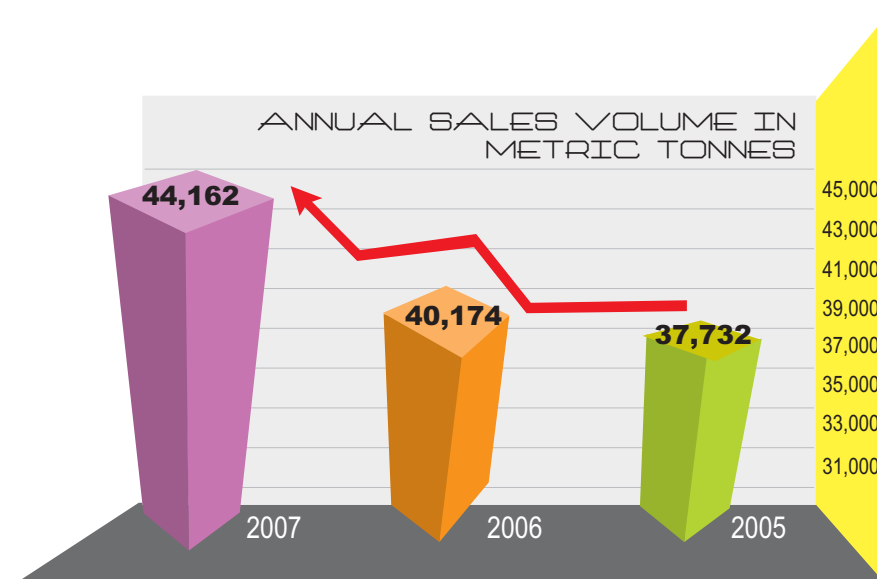
	Jul 2006 to June 2007	Jul 2005 to June 2006	Growth	% of Net Sales		Variance (+/-)
				Jul-June 2007	2006	
TOP LINE GROWTH						
Corporate sales						
Gross Sales	3,147,341	2,465,457	27.66%			
Net Sales	2,391,058	1,847,700	29.41%			
Local Sales						
Gross sales	2,869,311	2,251,339	27.45%			
Net slaes	2,125,385	1,633,582	30.11%			
Export sales						
Gross sales	278,030	214,118	29.85%			
Net sales	265,673	214,118	24.08%			
Gross Profit	818,484	571,263	43.28%	34.23%	30.92%	3.31%
BOTTOM LINE GROWTH						
Operating profit	200,301	131,321	52.53%	8.38%	7.11%	1.27%
Other income	6,110	6,681	(8.55%)	0.26%	0.36%	(0.10%)
Claim recovery against raw material supply	24,096	-	100.00%	1.01%	-	1.01%
Pre-tax profit	191,722	106,471	80.07%	8.02%	5.76%	2.26%
Net profit	129,292	70,364	83.75%	5.41%	3.81%	1.60%
EXPENSE CONTROL						
Distribution Cost	243,133	185,433	31.12%	10.17%	10.04%	0.13%
Advertising and Sales Promo	270,769	179,325	50.99%	11.32%	9.71%	1.61%
Administrative Expenses	91,297	73,112	24.87%	3.82%	3.96%	(0.14%)
Other Operating Expenses	19,094	8,753	118.14%	0.80%	0.47%	0.33%
Financial Expenses	32,675	24,850	31.49%	1.37%	1.34%	0.03%

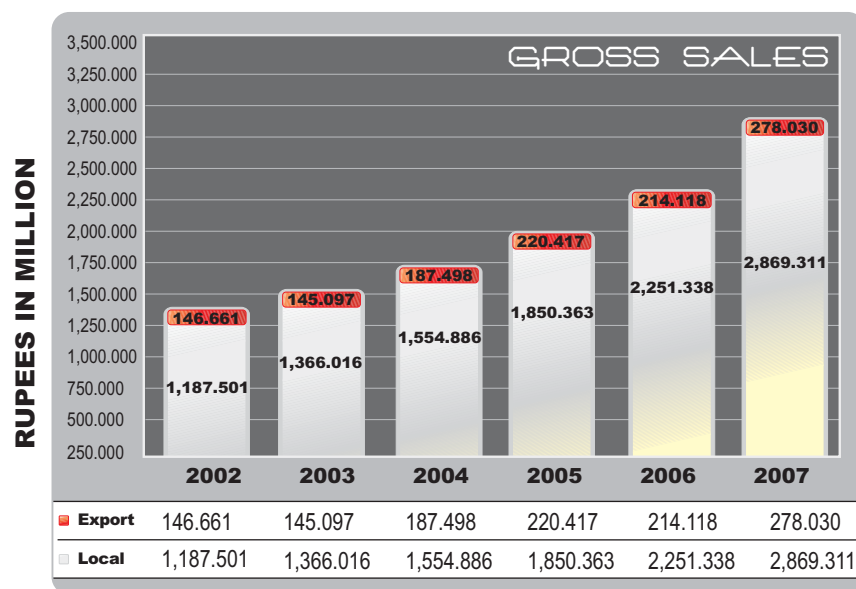
TOP LINE PERFORMANCE

This year the company has achieved landmark sales of Rs.3 billion, and registered the robust

growth in value, as well as, quantity, in both export and local markets.

Sales growth	Export	Local
Value	29.8%	27.5%
Quantitative	27.5%	16.7%

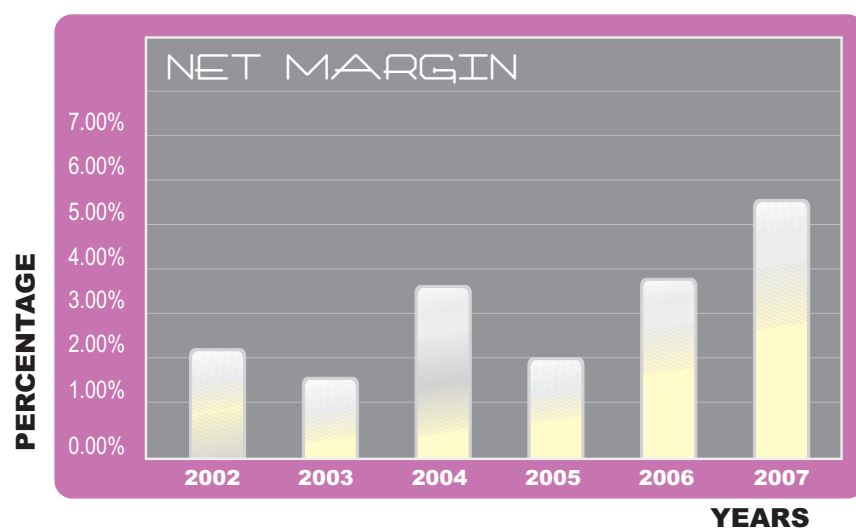


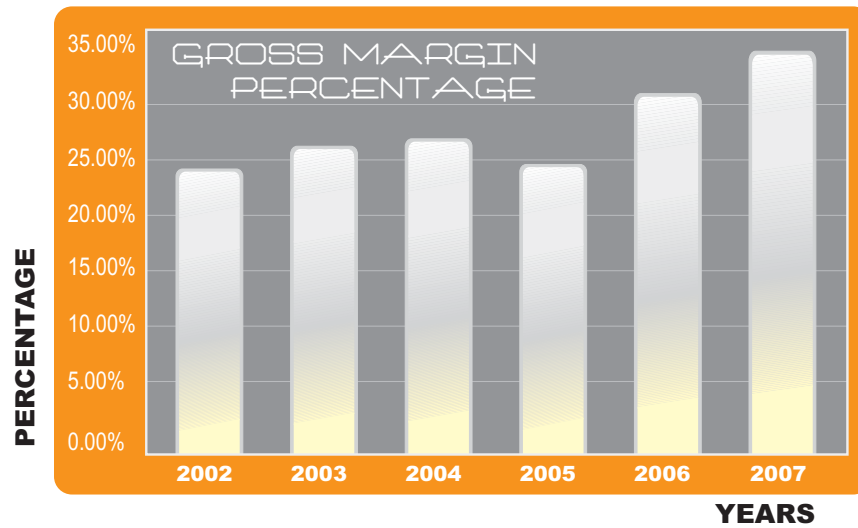


With new distribution partners in the Middle East and Gulf region the quantitative growth of 27% in international markets has outweigh the local market. Through such strategic alliances, the Company has now started to recoup the market share with absolute focus on the mass grocery retail sector, including “super markets” and “convenience stores”.

MARGIN ANALYSIS

This year, through the operational efficiencies and process automation, the Company has achieved the highest ever gross and net margins in the recent history of National Foods.



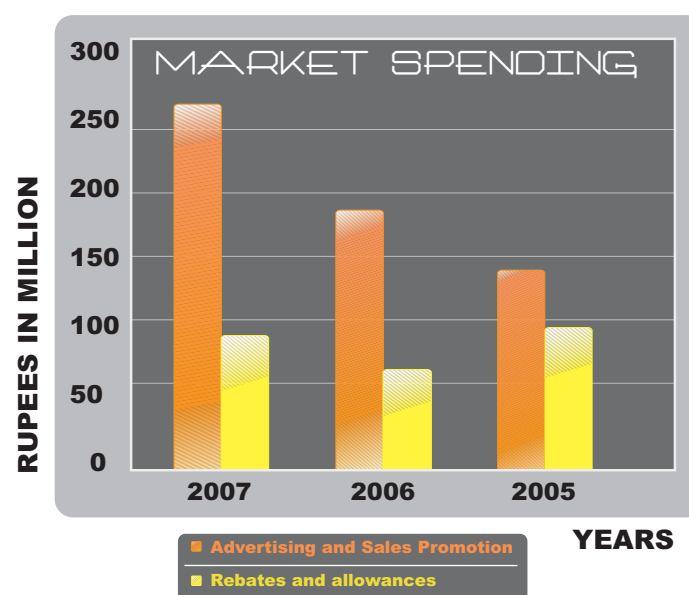


Exuberant performance in the year under review has now set the momentum for the Vision 20/20.

BRAND PROMOTION SPENDING

Last year, the management had objectively changed the composition of marketing spending with increased emphasis on brand building and customer demand pull strategy. Massive

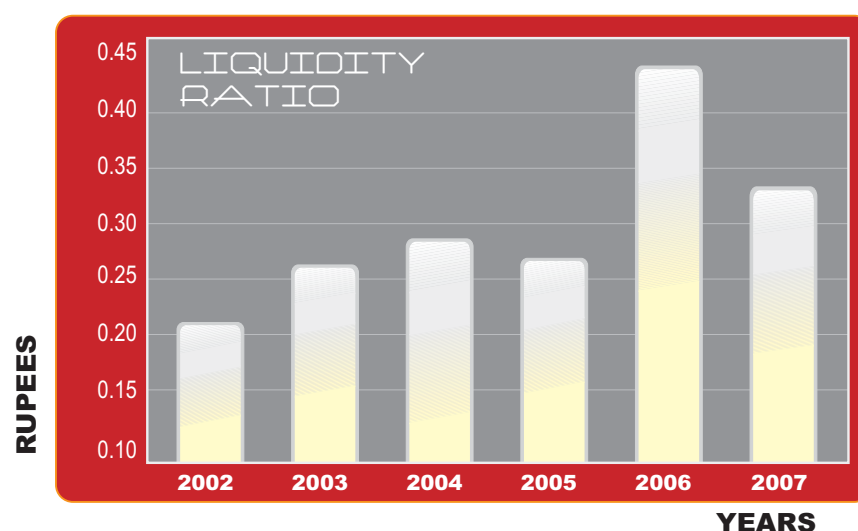
promotional activities were performed, purely focusing on brand building in line with the vision. For that purpose, during the year, enormous investments were made and company's total marketing and promotional spending increased from Rs.179 million to Rs.271 million, thereby recorded an increase by 51% in total advertising and sales promotion expenditures as compared to last year.



CASH FLOWS

Rs.101 million was generated through operations, however, despite the cash inflow from operations; net cash flows were under pressure due to

repayment of loans and large expenditures on capital projects. Accordingly, a net deficit of Rs.80 million was recorded in net cash flows. Due to this, the liquidity ratio registered a decline.



LEGAL CLAIMS / CASES

Claim against supply of sub-standard material

In 2004, vendor of raw material supplied ginger slices of an inferior quality. With strong quality checks and control systems and the determination to provide only the best available quality to its customers, the Company rejected the whole lot of the said imported material valuing more than US\$240,000/- and lodged a claim with the foreign supplier. Following its rejection to acknowledge our claim, the Company preferred filing a suit in the Honorable High Court of Singapore. After a number of hearings both at the High Court and the Supreme Court, our appeal was allowed, with costs and damages to be assessed. However, subsequent to the balance sheet date an out of court agreement is made of US\$400,000/- for a full and final settlement of the claim amount, and has duly been received by the Company in August 2007. It is indeed a historical victory for the Company.

Demand of Sales Tax / Additional Tax

The honorable Supreme Court of Pakistan dismissed the appeal of Central Board of Revenue for sales tax levied on table salt and other spices amounting to Rs.87.8 million on technical grounds.

APPROPRIATION OF PROFIT

Your directors have recommended followings for the approval by the shareholders.


- * Final cash dividend of Rs.2/- (2006: Rs.2/-) per share of Rs.10 each
- * Three (3) bonus shares for every ten (10) shares held

CREDIT RATING

JCR-VIS, two years in a row, has maintained the medium to long-term and short-term entity ratings of A+ (Single A Plus) and A-2 (A Two) respectively. The outlook on the medium to long-term rating has been revised from 'Negative' to 'Stable'.

INVESTMENT PROJECTS – PORT QASIM

State of the art factory in Port Qasim is part of the overall plan of the Company for simplification and automation of its processes, and further to provide infrastructure to support Company's future growth. First phase of the project was



completed last year and is fully operational. Significant part of second phase of the project is also completed and operational. The last phase of the project is in the last stage of its completion and will be operational in the upcoming season. With an additional investment of more than 40 million, the project is now designed to provide its workers excellent working environment keeping in view the Good Manufacturing Practices.

On completion of the Port Qasim project, it is expected that production capacity will get increased by 2 to 3 times for certain product categories. Once completed it is also expected to generate operational efficiencies and will reduce the cost of production.

FUTURE OUTLOOK

In coming years bullish trend in economy is expected to be continued with high consumer spending and good macro economic conditions subject to political stability and consistency in trade and economic friendly government policies.

On the other hand the rampant increase in inflation along with natural events of rains and floods which have a direct impact on the performance of agricultural sector, remain a cause for concern as far as material sourcing and management is concerned. However, the management is determined to provide a deserving “value” to its customers' purchasing power by offering quality products at affordable prices. Despite the element of uncertainty, Pakistani economy is still supposed to be in “Golden Age”, therefore, growth prospects are fairly promising. After taking all such economic facets into account, a realistic growth model has been derived and all futuristic goals will be determined and implemented in line with the said model.

We are hopeful that the growth momentum set by the management in the last couple of years will further be improved in the years to come.

CONTRIBUTION TO NATIONAL EXCHEQUER

NFL is one of the largest tax payers in Pakistan. During the year the company paid over Rs.443 million (2006: Rs.326 million) to the government and its various agencies on account of various government levies including custom duty, sales tax and income tax. Moreover, foreign exchange of Rs.266 million was also generated through export of products, further reflecting our participation in the national economy.

COMPLIANCE WITH CODE OF CORPORATE GOVERNANCE

The stock exchange have included in their listing rules the Code of Corporate Governance (Code) issued by Securities & Exchange Commission of Pakistan. The Company has adopted the Code and is implementing the same in letter and spirit.

AUDIT COMMITTEE

The Board has constituted an Audit Committee consisting of three members including Chairman of the Committee. The Committee regularly meets as per requirements of the Code. The Committee assists the Board in reviewing Internal Audit Manual and Internal Audit System.

PATTERN OF SHAREHOLDING

The pattern of shareholding of the company is annexed.

Apart from following transactions, the Chief Executive, Directors, Chief Financial Officer, Company Secretary and their spouses and minor children did not carry out any transaction in the shares of the Company during the year:

Name	Nature of transactions	No. of shares
Mr. Waqar Hasan	Gifted	180,529
Mrs. Jamila Waqar w/o Mr. Waqar Hasan	Gifted	98,842
Mr. Abrar Hasan	Gift received	279,371
Mr. Abrar Hasan	Purchased	840
Mr. Abrar Hasan	Sale	210
Mr. Zahid Majeed	Purchased	630
Mr. Jawaid Iqbal	Gifted	635,239

All statutory returns in this connection were filled.

EXTERNAL AUDITORS

The present auditors Messrs. A. F. Ferguson & Co., Chartered Accountants are retiring and being eligible, offer themselves for re-appointment. The Board of Directors on the recommendation of the Audit Committee, proposes the appointment of Messrs. A. F. Ferguson & Co., Chartered Accountants as the auditor until the next Annual General Meeting

INTERNAL AUDITORS

On the recommendation of the Audit Committee, the Board of Directors in its meeting held on February 9, 2007, has reappointed Messrs. Ford Rhodes Sidat Hyder & Co., Chartered Accountants as internal auditors of the Company

CORPORATE AND FINANCIAL REPORTING FRAMEWORK

- The financial statements, present fairly the state of affairs of the Company, the results of its operations, cash flows and changes in equity.

Proper books of account of the Company have been maintained.

- Accounting policies as stated in the notes to the financial statements have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.

- International Accounting Standards as applicable in Pakistan have been followed in preparation of financial statements and any departure there from has been adequately disclosed.
- The system of internal control is sound in design and has been effectively implemented and monitored.
- There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.
- There are no significant doubts upon the company's ability to continue as a going concern.
- The outstanding duties, statutory charges and taxes, if any, have been duly disclosed in the financial statements.
- A statement regarding key financial data for the last six years is annexed to this report.
- The value of investments of Provident Fund based on respective audited accounts was Rs.24,693,137/-

During the last business year five meetings of the Board of Directors were held. Attendance by each Director was as follows:

Name of Director	No. of meetings attended	Leaves granted	
1. Mr. Abdul Majeed	5	-	
2. Mr. Abrar Hasan	5	-	
3. Mr. Waqar Hasan	4	1	
4. Mr. Khawar M. Butt	-	3	Resigned on February 9, 2007
5. Mr. Zahid Majeed	5	-	
6. Mr. Ebrahim Qasim	4	1	
7. Mr. Jawaid Iqbal	1	3	
8. Mr. Khwaja Munir Mashooqullah	2	-	Appointed in place of Mr. Khawar M. Butt

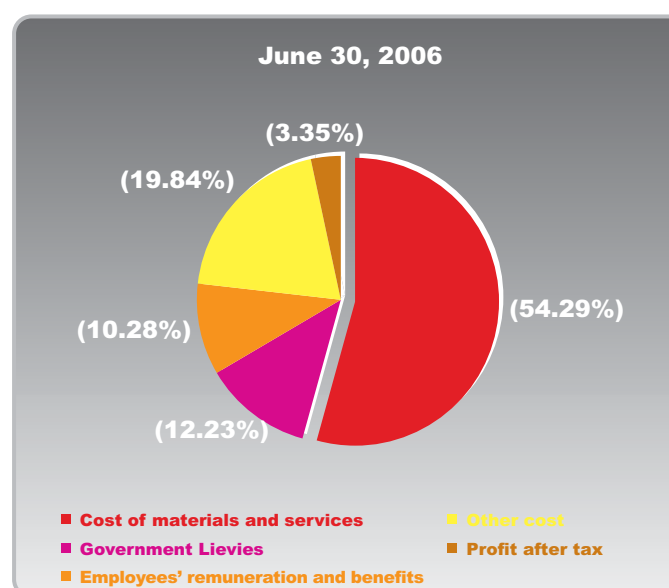
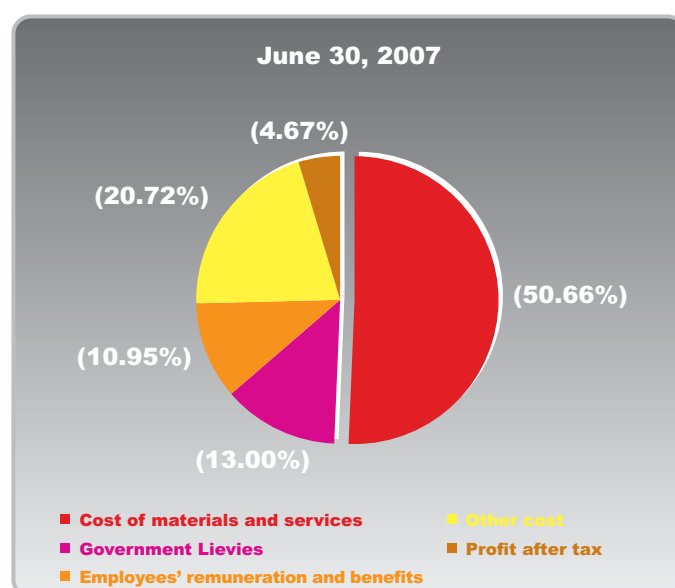
On behalf of the Board of Directors



Abrar Hasan
Chief Executive
Karachi: September 3, 2007

VALUE ADDITION FOR THE YEAR ENDED JUNE 30, 2007

	June 30, 2007		June 30, 2006	
Value addition	Rupees in '000'	%	Rupees in '000'	%
Net sales including sales tax	2,738,743	98.91%	2,092,213	99.68%
Other operating income	6,110	0.22%	6,681	0.32%
Claim recovery against raw material supply	24,096	0.87%	-	0.00%
	2,768,949	100.00%	2,098,894	100.00%
Value distribution				
Cost of materials and services	1,402,699	50.66%	1,139,591	54.30%
Government Levies	360,015	13.00%	256,781	12.23%
Employees' remuneration and benefits	303,324	10.95%	215,741	10.28%
Other costs	573,619	20.72%	416,417	19.84%
Profit after tax	129,292	4.67%	70,364	3.35%
	2,768,949	100.00%	2,098,894	100.00%



OPERATING AND FINANCIAL HIGHLIGHTS

	2002	2003	2004	2005	2006	2007
PROFIT AND LOSS STATEMENT						
Sales	994,637	1,135,642	1,273,032	1,533,879	1,847,700	2,391,058
Cost of Sales	741,555	825,454	919,282	1,136,727	1,276,437	1,572,574
Gross Profit	253,082	310,188	353,750	397,152	571,263	818,484
Administration	26,069	30,234	41,467	51,842	73,112	91,297
Distribution cost	185,952	233,952	229,323	288,289	364,758	513,902
Other operating cost	1,470	1,982	4,924	3,242	8,753	19,094
Administration, Selling & Other Operating	213,491	266,168	275,714	343,373	446,623	624,293
Financial Charges	16,518	18,843	11,640	16,006	24,850	32,675
Other Income	1,854	4,850	1,958	4,498	6,681	6,110
Claim recovery against raw material supply	-	-	-	-	-	24,096
Profit before Tax	24,927	30,027	68,354	42,271	106,471	191,722
Taxation	3,514	10,014	22,055	11,618	36,107	62,430
Profit after taxation	21,413	20,013	46,299	30,653	70,364	129,292
BALANCE SHEET						
Share Capital	42,505	42,505	42,505	42,505	42,505	42,505
Reserves	84,011	93,398	126,945	140,596	204,584	325,375
Shareholders' Equity	126,516	135,903	169,450	183,101	247,089	367,880
Long Term Obligations	8,697	54,713	33,500	90,139	206,161	193,763
Current Liabilities & Provisions	231,223	286,275	361,817	435,491	514,710	626,815
TOTAL	366,436	476,891	564,767	708,731	967,960	1,188,458
Fixed Assets & CWIP	138,996	187,564	182,936	230,865	369,938	496,223
Other Non current assets	1,693	1,959	1,941	2,139	2,504	2,766
Current Assets	225,747	287,368	379,890	475,727	595,518	689,469
TOTAL	366,436	476,891	564,767	708,731	967,960	1,188,458

KEY FINANCIAL RATIOS

	2002	2003	2004	2005	2006	2007
PERFORMANCE MEASURES						
Efficiency ratio	97.46%	97.32%	94.59%	97.22%	94.18%	92.91%
Return on assets (ROA)	11.31%	10.25%	14.16%	8.22%	13.57%	18.88%
Return on net assets (RONA)	15.84%	10.50%	22.81%	11.22%	15.52%	23.02%
Return on capital employed (ROCE)	30.65%	25.64%	39.42%	21.33%	28.97%	39.95%
Return on equity (ROE)	17.53%	15.25%	30.32%	17.39%	32.71%	42.05%
PROFITABILITY MEASURES						
Gross margin percentage	25.44%	27.31%	27.79%	25.89%	30.92%	34.23%
Net margin	2.15%	1.76%	3.64%	2.00%	3.81%	5.41%
Operating margin	4.17%	4.30%	6.28%	3.80%	7.11%	9.38%
Earnings per share	5.04	4.71	10.89	7.21	16.55	30.41
INVESTMENT UTILIZATION						
Collection period days	14.34	14.81	14.49	15.47	17.56	16.37
Creditors payment days	14.07	14.45	16.79	19.85	25.64	31.18
Inventory Turnover days	76.84	81.29	95.53	101.24	103.50	97.98
Inventory Turnover Ratio	4.75	4.49	3.82	3.61	3.53	3.73
Asset turnover (Times)	2.90	2.69	2.44	2.41	2.20	2.22
FINANCIAL CONDITION						
Current ratio	0.98	1.00	1.05	1.09	1.16	1.10
Quick ratio	0.21	0.26	0.28	0.26	0.43	0.33
Debt to equity ratio	6.87%	40.26%	19.77%	49.23%	83.44%	52.67%
Interest coverage ratio	2.51	2.59	6.87	3.64	5.28	6.87
Book value per share	29.76	31.97	39.87	43.08	58.13	86.55

PATTERN OF SHAREHOLDING

COMBINED PATTERN OF CDC & PHYSICAL SHARE HOLDINGS AS AT JUNE 30, 2007

Category No.	Category of shareholders	Number of shares held	Category-Wise No. of share holders	Category-wise shares held	Percentage %
1	Individuals		1,084	1,873,960	44.09%
2	Investment Companies		1	1,000	0.02%
3	Joint Stock Companies		7	2,307	0.05%
4	Directors, Chief Executive Officer and their spouses and minor children Mr. Abdul Majeed Mr. Waqar Hasan Mrs. Jamila Waqar Mr. Abrar Hasan Mr. Zahid Majeed Mr. Ebrahim Qassim Mr. Jawaid Iqbal Mrs. M.E.Majeed W/o. Mr. Abdul Majeed Mrs. Kulsum Banoo W/o. Mr. Ebrahim Qassim Khawaja Munir Mashooqullah	324,872 500 500 419,211 86,009 72,352 500 16,787 30,647 6,900	14	958,278	22.55%
5	Executives		1	384	0.01%
6	NIT/ICP		-	-	-
7	Associated companies, undertakings and related parties Associated Textile Consultants (Pvt.) Limited	1,409,548	1	1,409,548	33.16%
8	Public Sector Companies and Corporations		-	-	-
9	Banks, DFIs, NBFIs, Insurance Companies, Modarabas & Mutual Funds		-	-	-
10	Foreign Investors		-	-	-
11	Co-operative Societies		-	-	-
12	Charitable Trusts		1	3,861	0.09%
13	Others		2	1,200	0.03%
	Totals		1,111	4,250,538	100.00%

Share-holders holding ten percent or more voting interest in the listed company

Total paid up capital of the Company 4,250,538 Shares
10% of the paid up capital of the Company 425,053 Shares

Name(s) of shareholder(s)	Description	No. of shares held	Percentage
Mr. Khawar M. Butt	Falls in Category # 1	465,983	10.96%
Mr. Iqbal Ali Mohammad	Falls in Category # 1	667,100	14.96%
Associated Textile Consultants (Pvt.) Limited	Falls in Category # 7	1,409,548	33.16%
	Totals	2,542,631	59.08%

PATTERN OF SHAREHOLDINGS
 CDC AND PHYSICAL
 AS ON 30 JUNE, 2007

Number of Share Holders	Share Holding		Total Share Held
	From	To	
755	1	100	21,552
216	101	500	51,718
38	501	1,000	28,998
72	1,001	5,000	163,404
6	5,001	10,000	43,938
2	10,001	15,000	26,878
2	15,001	20,000	33,087
2	20,001	25,000	45,335
6	25,001	30,000	167,167
1	35,001	40,000	37,014
1	45,001	50,000	50,000
1	60,001	65,000	63,500
3	70,001	75,000	216,985
1	85,001	90,000	86,009
1	320,001	325,000	324,872
1	390,001	395,000	394,222
1	415,001	420,000	419,211
1	665,001	670,000	667,100
1	1,405,001	1,410,000	1,409,548

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

FOR THE YEAR ENDED JUNE 30, 2007

This statement is being presented to comply with the Code of Corporate Governance contained in the Listing Regulation No. 37 of Karachi Stock Exchange, Chapter XIII of Lahore Stock Exchange and Chapter XI of Islamabad Stock Exchange for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

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

1. The Company encourages representation of independent non-executive directors and directors representing minority interests on its Board of Directors. At present the Board includes four (04) non-executive directors.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including this Company.
3. All the resident directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFI or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. A casual vacancy occurring in the Board on February 9, 2007 was filled up by the directors on the same day.
5. The Company has prepared a 'Code of Business Ethics', which has been signed by the directors and employees of the Company.
6. The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO and other executive directors, have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. The Board arranged orientation course for its directors during the year to apprise them of their duties and responsibilities.
10. The Board has approved appointment of Internal Auditors including their remuneration and terms and conditions of employment, as determined by CEO. There were no new appointments of CFO and Company Secretary during the year.
11. The directors' report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
12. The financial statements of the Company were duly endorsed by CEO and CFO before approval of the Board.
13. The directors, CEO and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.
14. The Company has complied with all the corporate and financial reporting requirements of the Code.
15. The Board has formed an audit committee. It comprises four (04) members, of whom three (03) are non-executive directors.
16. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Company and as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.
17. The Board has outsourced the internal audit function to M/s Ford Rhodes Sidat Hyder & Co., Chartered Accountants, who are considered suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the Company and they are involved in the internal audit function on a full time basis.
18. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review programme of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.
19. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
20. We confirm that all other material principles contained in the Code have been complied with.

Karachi
Dated: September 3, 2007

Abrar Hasan
Chief Executive



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 National Foods Limited to comply with the Listing Regulation No. 37 of Karachi Stock Exchange, Chapter XIII of Lahore Stock Exchange and Chapter XI of Islamabad Stock Exchange, 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 controls 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 as applicable to the Company for the year ended June 30, 2007.



A. F. Ferguson & Co.
Chartered Accountants

Karachi
Dated: September 3, 2007

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of National Foods Limited as at June 30, 2007 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 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;
- (b) in our opinion:
 - (i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of accounts and are further in accordance with accounting policies consistently applied;

- (ii) the expenditure incurred during the year was for the purpose of the company's business; and
- (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the company;
- (c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, 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, 2007 and of the profit, 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.



A. F. Ferguson & Co.
Chartered Accountants

Karachi
Dated: September 3, 2007




FINANCIAL
STATEMENTS

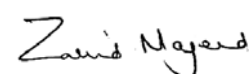
BALANCE SHEET

AS AT JUNE 30, 2007

	Note	June 30, 2007	June 30, 2006
(Rupees in thousand)			
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	3	493,444	365,874
Intangibles	4	2,779	4,064
Long term deposits		2,766	2,504
		<u>498,989</u>	<u>372,442</u>
CURRENT ASSETS			
Stores, spare parts and loose tools		4,322	3,463
Stock in trade	5	477,007	367,235
Trade debts	6	112,585	101,940
Advances	7	11,794	13,586
Trade deposits and prepayments	8	2,520	4,290
Accrued interest / mark up		-	1,637
Other receivables	9	25,393	1,063
Tax refunds due from / adjustable with the government	10	37,702	19,279
Cash and bank balances	11	18,146	83,025
		<u>689,469</u>	<u>595,518</u>
		<u>1,188,458</u>	<u>967,960</u>
SHARE CAPITAL AND RESERVES			
Issued, subscribed and paid-up capital	12	42,505	42,505
Capital Reserve - Share premium		6,102	6,102
Unappropriated profit		319,273	198,482
		<u>367,880</u>	<u>247,089</u>
NON-CURRENT LIABILITIES			
Long term financing	13	143,000	189,000
Liabilities against assets subject to finance lease	14	15,406	5,694
Deferred tax	15	35,357	11,467
		<u>193,763</u>	<u>206,161</u>
CURRENT LIABILITIES			
Trade and other payables	16	315,318	244,988
Accrued interest / mark up	17	10,184	8,491
Short term borrowings	18	211,272	195,925
Current maturity of:			
Long term financing	13	46,000	26,000
Liabilities against assets subject to finance lease	14	6,041	2,306
Provision for income tax		38,000	37,000
		<u>626,815</u>	<u>514,710</u>
COMMITMENTS			
	19	<u>1,188,458</u>	<u>967,960</u>

The annexed notes form an integral part of these financial statements.



Abrar Hasan
Chief Executive

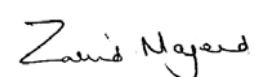

Zahid Majeed
Director

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2007

	Note	June 30, 2007	June 30, 2006
(Rupees in thousand)			
Sales	20	2,391,058	1,847,700
Cost of sales	21	<u>(1,572,574)</u>	<u>(1,276,437)</u>
Gross profit		818,484	571,263
Distribution cost	21	(513,902)	(364,758)
Administrative expenses	21	(91,297)	(73,112)
Other operating expenses	22	(19,094)	(8,753)
Other operating income	23	<u>6,110</u>	<u>6,681</u>
Operating profit		200,301	131,321
Finance costs	24	<u>(32,675)</u>	<u>(24,850)</u>
		167,626	106,471
Claim recovery against raw material supply	9.1	<u>24,096</u>	-
Profit before taxation		191,722	106,471
Taxation	25	<u>(62,430)</u>	<u>(36,107)</u>
Profit after taxation		<u>129,292</u>	<u>70,364</u>
Earnings per share - basic and diluted - Rupees	26	<u>30.41</u>	<u>16.55</u>

The annexed notes form an integral part of these financial statements.


Abrar Hasan
Chief Executive



Zahid Majeed
Director

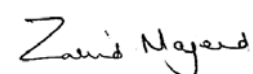
CASH FLOW STATEMENT

FOR THE YEAR ENDED JUNE 30, 2007

	Note	June 30, 2007	June 30, 2006
(Rupees in thousand)			
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	31	185,534	221,598
Finance cost paid		(28,033)	(28,782)
Income tax paid		(55,963)	(13,174)
Net increase in long term deposits		(262)	(365)
Net cash from operating activities		101,276	179,277
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(147,899)	(155,255)
Sale proceeds on disposal of property, plant and equipment		6,272	4,193
Purchase of intangible assets		(599)	(1,316)
Return received on term deposits		1,637	1,958
Net cash used in investing activities		(140,589)	(150,420)
CASH FLOWS FROM FINANCING ACTIVITIES			
(Repayment of)/ net proceeds from long term financing		(26,000)	133,000
Payment of finance lease liabilities		(6,450)	(2,964)
Dividend paid		(8,463)	(6,654)
Net cash (used in) / from financing activities		(40,913)	123,382
Net (decrease) / increase in cash and cash equivalents		(80,226)	152,239
Cash and cash equivalents at the beginning of the year		(112,900)	(265,139)
Cash and cash equivalents at the end of the year	32	(193,126)	(112,900)

The annexed notes form an integral part of these financial statements.



 Abrar Hasan
 Chief Executive

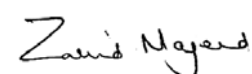

 Zahid Majeed
 Director

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2007

	Issued subscribed and paid up capital	Capital reserve - Share premium	Unappropriated profit	Total
	(Rupees in thousand)			
Balance as at June 30, 2005	42,505	6,102	134,494	183,101
Final dividend for the year ended June 30, 2005 (Rs 1.50 per share)	-	-	(6,376)	(6,376)
Profit for the year ended June 30, 2006	-	-	70,364	70,364
Balance as at June 30, 2006	42,505	6,102	198,482	247,089
Final dividend for the year ended June 30, 2006 (Rs 2 per share)	-	-	(8,501)	(8,501)
Profit for the year ended June 30, 2007	-	-	129,292	129,292
Balance as at June 30, 2007	42,505	6,102	319,273	367,880

The annexed notes form an integral part of these financial statements.


Abrar Hasan
Chief Executive


Zahid Majeed
Director

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2007

1. THE COMPANY AND ITS OPERATIONS

The Company was incorporated in Pakistan on February 19, 1970 as a private limited company under the Companies Act, 1913 and subsequently converted into a public limited company under the Companies Ordinance, 1984 by special resolution passed in the extra ordinary general meeting held on March 30, 1988. The Company is principally engaged in the manufacture and sale of spices, pickles, ketchup, jams, jellies, sauces, cooking pastes and salt. It is listed on Karachi, Lahore and Islamabad Stock Exchanges. The registered office of the Company is situated at 12 / CL - 6, Claremont Road, Civil Lines, Karachi.

2. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these financial statements are set out below:

2.1 Basis of preparation

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 Financial Reporting 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 differ with the requirements of these standards, the requirements of the Companies Ordinance, 1984 or the requirements of the said directives have been followed.

The preparation of financial statements in conformity with the above requirements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The matters involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in respective notes to the financial statements.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

There have been no critical judgements made by the company's management in applying the accounting policies that would have the most significant effect on the amounts recognised in the financial statements.

Standards, amendments and interpretations effective in 2006 but not relevant

The new standards, amendments and interpretations that are mandatory for accounting periods beginning on or after January 1, 2006 are considered not to be relevant or to have any significant effect to the Company's financial reporting and operations.

Standards or interpretations not yet effective but relevant

Following amendments to existing standards have been published that are mandatory for the Company's accounting periods beginning on the date mentioned below:

- | | | | |
|-----|--------|---|--------------------------------|
| i. | IAS 1 | Presentation of Financial Statements
– Capital Disclosures | effective from January 1, 2007 |
| ii. | IAS 23 | Borrowing Cost | effective from January 1, 2009 |

Adoption of the above amendments may only impact the extent of disclosures presented in the financial statements.

2.2 Overall valuation policy

These financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below.

2.3 Property, plant and equipment

Property, plant and equipment are stated at cost less residual value if not insignificant and accumulated depreciation except capital work in progress which is stated at cost.

Depreciation on property, plant and equipment is charged to income applying the straight-line method over the estimated useful lives of related assets. Depreciation on additions is charged from the month in which the assets are put to use and on disposals up to the month of disposal.

Maintenance and normal repairs are charged to income as and when incurred. Major renewals and improvements are capitalised and assets so replaced, if any, are retired.

Profit and loss on sale or retirement of property, plant and equipment is included in income currently.

2.4 Intangibles - computer software

These are stated at cost less accumulated amortisation and impairment, if any. Generally, cost associated with developing or maintaining computer software programmes are recognised as an expense as incurred. However, cost that are directly associated with identifiable software and have probable economic benefit exceeding the cost beyond one year, are recognised as intangible asset. Direct cost includes the purchase cost of software and related overhead cost.

Amortisation charge is based on the straight-line method whereby the cost of an asset is written-off over its estimated useful life of three years.

2.5 Taxation

i) Current

The provision for current taxation is based on taxable income at the current rates of taxation.

ii) Deferred

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax base of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

2.6 Employee benefits

Retirement benefit - defined contribution plan

The Company operates an approved provident fund for all permanent employees. The Company and the employees make equal contributions to the fund.

Others - compensated absences

The Company accounts for these benefits in the period in which the absences are earned.

2.7 Stores, spares and loose tools

These are valued at weighted average cost less provision for slow moving and obsolete stores, spares and loose tools, if any. Items in transit are valued at cost comprising invoice values plus other charges incurred thereon.

2.8 Stock in trade

All stocks are stated at the lower of cost and estimated net realisable value. Cost is determined by weighted average method except for those in transit where it represents invoice value and other charges incurred thereon. Cost of work in process and finished goods includes direct cost of materials, direct cost of labour and production overheads. Net realisable value signifies the estimated selling price in the ordinary course of business less cost necessarily to be incurred in order to make the sale.

2.9 Trade and other debts

Trade and other debts are stated at original invoice amount. Debts considered irrecoverable are written off and provision is made against those considered doubtful of recovery.

2.10 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand, with banks and short term borrowings.

2.11 Impairment losses

The carrying amount of the Company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment loss. If such indication exist, the asset's recoverable amount is estimated in order to determine the extent of impairment loss, if any. Impairment losses are recognised as expense in the profit and loss account.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

2.12 Finance Leases

Leases that transfer substantially all the risks and rewards incidental to ownership of assets are classified as finance leases. Finance leases are capitalised at the inception of the lease term at the lower of fair value of the leased assets and the present value of minimum lease payments. The outstanding obligation under the lease less finance charges allocated to future periods is shown as a liability. Financial charges are allocated to accounting periods in a manner so as to provide a constant periodic rate of charge on the outstanding liability.

2.13 Trade and other payables

Trade and other payables are carried at the fair value of the consideration to be paid for goods and services.

2.14 Borrowing costs

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

2.15 Provisions

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

2.16 Financial instruments

Financial instruments include trade and other debts, cash and bank balances, long term finance, liabilities against assets subject to finance lease, trade and other payables, accrued interest / mark up and short term borrowings. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

2.17 Foreign currency transactions and translation

These financial statements are prepared in Pak Rupees which is also the functional currency of the Company.

Foreign currency transactions are translated into Pak Rupees using the exchange rates approximating those prevailing at the dates of the transactions. All monetary assets and liabilities in foreign currencies are translated into Pak rupees at the rates of exchange approximating those prevailing at the balance sheet date. Exchange gains / losses on translation are included in income currently.

2.18 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Company's activities.

The Company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Company and specific criteria has been met for each of the Company's activities as described below:

I. Sale of goods

Sales are recognised on despatch of goods to customers.

II Interest / Mark up income

Income on bank deposits is recognised on accrual basis.

2.19 Research and development

Research and development expenditure is charged to profit and loss account in the period in which it is incurred.

2.20 Offsetting

Financial assets and liabilities are offset and the net amount is reported in the balance sheet where there is a legally enforceable right to set-off the recognised amounts and the Company intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

2.21 Dividends

Dividend distribution to the Company's shareholders is recognised as liability at the time of their approval.

3. PROPERTY, PLANT AND EQUIPMENT

	2007 (Rupees in thousand)	2006
Operating assets - note 3.1	342,696	192,285
Capital work in progress - at cost - note 3.2	150,748	173,589
	<u>493,444</u>	<u>365,874</u>

3.1 Operating Assets

	Leasehold land	Building on leasehold land	Plant and machinery including generators	Furniture and fittings	Office and other equipments	Computers	Laboratory equipments	Vehicles owned	Vehicles subject to finance lease	Total
(Rupees in thousand)										
Net carrying value basis										
Year ended June 30, 2007										
Opening net book value (NBV)	14,256	27,049	100,011	3,600	6,737	6,893	2,099	21,745	9,895	192,285
Additions (at cost)	-	99,465	58,724	1,357	1,641	3,763	2,780	3,010	19,897	190,637
Disposals (at NBV)	-	-	(154)	-	(14)	(16)	-	(3,100)	(730)	(4,014)
Depreciation charge	(374)	(4,481)	(15,184)	(1,159)	(1,287)	(3,760)	(384)	(5,253)	(4,330)	(36,212)
Closing net book value	<u>13,882</u>	<u>122,033</u>	<u>143,397</u>	<u>3,798</u>	<u>7,077</u>	<u>6,880</u>	<u>4,495</u>	<u>16,402</u>	<u>24,732</u>	<u>342,696</u>
Gross carrying value basis										
At June 30, 2007										
Cost	15,014	158,920	230,416	7,637	23,125	21,997	6,572	38,598	30,285	532,564
Accumulated depreciation	(1,132)	(36,887)	(87,019)	(3,839)	(16,048)	(15,117)	(2,077)	(22,196)	(5,553)	(189,868)
Net book value	<u>13,882</u>	<u>122,033</u>	<u>143,397</u>	<u>3,798</u>	<u>7,077</u>	<u>6,880</u>	<u>4,495</u>	<u>16,402</u>	<u>24,732</u>	<u>342,696</u>
Net carrying value basis										
Year ended June 30, 2006										
Opening net book value (NBV)	14,630	29,146	87,081	7,160	6,232	6,906	1,678	24,922	4,933	182,688
Additions (at cost)	-	824	25,883	386	1,629	3,374	603	4,780	7,006	44,485
Disposals (at NBV)	-	-	(93)	-	-	-	-	(2,818)	(641)	(3,552)
Depreciation charge	(374)	(2,921)	(12,860)	(1,470)	(1,124)	(3,162)	(182)	(5,128)	(1,403)	(28,624)
Write-offs (at NBV)	-	-	-	(2,476)	-	(225)	-	(11)	-	(2,712)
Closing net book value	<u>14,256</u>	<u>27,049</u>	<u>100,011</u>	<u>3,600</u>	<u>6,737</u>	<u>6,893</u>	<u>2,099</u>	<u>21,745</u>	<u>9,895</u>	<u>192,285</u>
Gross carrying value basis										
At June 30, 2006										
Cost	15,014	59,455	172,636	6,280	21,503	18,312	3,792	45,578	11,406	353,976
Accumulated depreciation	(758)	(32,406)	(72,625)	(2,680)	(14,766)	(11,419)	(1,693)	(23,833)	(1,511)	(161,691)
Net book value	<u>14,256</u>	<u>27,049</u>	<u>100,011</u>	<u>3,600</u>	<u>6,737</u>	<u>6,893</u>	<u>2,099</u>	<u>21,745</u>	<u>9,895</u>	<u>192,285</u>
Useful life (Years)	38-99	10-37	5-10	5	6-7	3	10	5	5	

3.2 Capital Work in Progress

	2007 (Rupees in thousand)	2006
Civil works	86,181	140,218
Plant and machinery	39,664	10,157
Advances to suppliers	14,140	10,309
Vehicles pending delivery	689	831
Borrowing costs - note 3.2.1	10,074	12,074
	<u>150,748</u>	<u>173,589</u>

3.2.1 Borrowing costs of Rs 10.91 million (2006: Rs 11.62 million) arising on financing arrangements entered into for the construction of Bin Qasim project were capitalised during the year and are included in the cost. Capitalisation rate of 9.72% (2006: 7.73% to 10.45%) was used, representing the borrowing cost of the loans used to finance the project.

3.3 The details of property, plant and equipment sold, having net book value in excess of Rs. 50,000 are as follows:

	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal	Particulars of purchaser
	————— (Rupees in thousand) —————					
Motor vehicles						
Honda City EXi	795	367	428	505	Company policy	Syed Asad Sayeed Ex-employee
Hyundai Santro	529	194	335	395	-do-	Mr. Sohail Ahmed Ex-employee
Suzuki Cutlus	605	349	256	284	-do-	Mr. Zahid Marghoob Sheikh Employee
Suzuki Cutlus	592	377	215	298	-do-	Mr. Amjad Niaz Employee
Suzuki Cutlus	590	399	191	364	-do-	Mr. Abdul Sultan Employee
Suzuki Mehran	496	314	182	209	-do-	Mr. Muhammad Sajid Ex-employee
Suzuki Cutlus	555	392	163	254	-do-	Mr. Muhammad Iqbal Employee
Suzuki Alto VXR	496	327	169	214	-do-	Mr. S.M. Adil Employee
Suzuki Alto VXR	491	354	137	221	-do-	Mr. Nadeem Ahmed Employee
Hero 125	55	4	51	56	-do-	Mr. Muhammad Riaz Ex-employee
Honda Civic	865	710	155	450	Negotiation	Mr. Bhangwan Das F-65, Block-F, North Nazimabad, Karachi.
Suzuki Baleno	645	516	129	320	-do-	Mr. Bhangwan Das F-65, Block-F, North Nazimabad, Karachi.
Suzuki Cultus	502	395	107	310	-do-	Mr. Bhangwan Das F-65, Block-F, North Nazimabad, Karachi.
Suzuki Khyber	391	313	78	177	-do-	Mr. Faisal Ishaq F-141/3, Martin Quarters, Jahangir Road # 2, Karachi.
Suzuki Pickup	295	232	63	165	-do-	Mr. Muhammad Arif 1730, Serhad Road, Baldia Town, Karachi.
Suzuki Alto	504	109	395	430	Insurance Claim	M/s. EFU General Insurance Ltd. 2nd Floor, K.D.L.B. Building, 58 West Wharf, Karachi.

	June 30, 2007	June 30, 2006
	(Rupees in thousand)	
4. INTANGIBLES- computer software		
Net carrying value basis		
Opening net book value	4,064	4,290
Additions (at cost)	599	1,316
Amortisation for the year	(1,884)	(1,542)
Closing net book value	<u>2,779</u>	<u>4,064</u>
Gross carrying value basis		
Cost		
- Computer software and ERP System	9,780	9,181
Accumulated amortisation	(7,001)	(5,117)
Net book value	<u>2,779</u>	<u>4,064</u>
5. STOCK IN TRADE		
Raw materials (including in transit Rs 0.33 million; 2006: Rs 17.84 million)	166,550	122,624
Provision for obsolescence	(2,611)	(13,278)
	<u>163,939</u>	<u>109,346</u>
Packing materials	86,969	71,553
Provision for obsolescence	(12,468)	(12,334)
	<u>74,501</u>	<u>59,219</u>
Work in process	141,357	102,927
Provision for obsolescence	(1,662)	(5,324)
	<u>139,695</u>	<u>97,603</u>
Finished goods	105,988	101,744
Provision for obsolescence	(7,116)	(677)
	<u>98,872</u>	<u>101,067</u>
	<u>477,007</u>	<u>367,235</u>
6. TRADE DEBTS		
Considered good		
Related parties - note 6.1	8,340	9,312
Others	104,245	92,628
	<u>112,585</u>	<u>101,940</u>
Considered doubtful	3,906	-
	<u>116,491</u>	<u>101,940</u>
Less: Provision for doubtful trade debts	(3,906)	-
	<u>112,585</u>	<u>101,940</u>
6.1 Due from related parties		
Premier Distributor	6,422	9,222
Premier Agency	1,918	90
	<u>8,340</u>	<u>9,312</u>

	June 30, 2007	June 30, 2006
	(Rupees in thousand)	
7. ADVANCES		
Considered good		
Employees - against expenses	233	-
Suppliers	10,385	12,116
Others	1,176	1,470
	<u>11,794</u>	<u>13,586</u>
8. TRADE DEPOSITS AND PREPAYMENTS		
Margin deposits	114	114
Other deposits	636	2,646
Prepayments	1,770	1,530
	<u>2,520</u>	<u>4,290</u>
9. OTHER RECEIVABLES		
Claim recovery against raw material supply - note 9.1	24,096	-
Employees' Provident Fund	-	447
Export rebate	841	606
Others	456	10
	<u>25,393</u>	<u>1,063</u>

9.1 This represents claim receivable by the company from litigation against the vendor for raw material supplied found unfit for consumption. Case was decided in April 2007 in favour of the company by the Honorable Supreme Court of Singapore by allowing the appeal, with costs and damages pertaining to the case to be assessed. However, subsequent to the balance sheet date, an out of court settlement has been done for USD 400,000 for a full and final settlement of the claim and was duly received by the company in August 2007.

	June 30, 2007	June 30, 2006
	(Rupees in thousand)	
10. TAX REFUNDS DUE FROM / ADJUSTABLE WITH THE GOVERNMENT		
Taxation - payments	36,702	18,279
Sales tax refundable - paid under protest - note 10.1	1,000	1,000
	<u>37,702</u>	<u>19,279</u>

10.1 This represents sales tax paid under protest against arbitrary levy on table salt and other spices amounting to Rs 87.8 million. As a result of the appeal the matter was set aside by the Tribunal by accepting the appeal. However, the department preferred an appeal against the order of the Tribunal and for the stay of refund claimed by the Company before the High Court of Sindh. The said court dismissed the appeal and held that the appeals under consideration filed by the Superintendent (Law) are not competent and consequently are not maintainable in law. The appeal was subsequently relodged by the same petitioner with the honorable Supreme Court of Pakistan and was also dismissed on the same grounds.

	June 30, 2007	June 30, 2006
	(Rupees in thousand)	
11. CASH AND BANK BALANCES		
Cash in hand		
Cash in bank	754	697
term deposits	-	73,000
margin account	-	4,668
current accounts		
local currency	15,824	3,682
foreign currency	1,568	978
	<u>17,392</u>	<u>4,660</u>
	<u>18,146</u>	<u>83,025</u>

12. SHARE CAPITAL

Authorised share capital

Number of
shares

<u>10,000,000</u>	Ordinary shares of Rs 10 each	<u>100,000</u>	<u>100,000</u>
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Issued, subscribed and paid up capital

Ordinary shares of Rs 10 each

Number of
shares

1,255,990	Shares allotted: for consideration paid in cash	12,560	12,560
2,994,548	as bonus shares	29,945	29,945
<u>4,250,538</u>		<u>42,505</u>	<u>42,505</u>

As at June 30, 2007 and 2006 number of ordinary shares held by associates were 2,542,631 and 2,511,270 respectively.

	June 30, 2007	June 30, 2006
	(Rupees in thousand)	
13. LONG TERM FINANCING		
Bank Al-Habib Limited - note 13.1	9,000	15,000
MCB Bank Limited - note 13.2	<u>180,000</u>	<u>200,000</u>
	189,000	215,000
Less: Current maturity shown under current liabilities	<u>(46,000)</u>	<u>(26,000)</u>
	<u>143,000</u>	<u>189,000</u>

13.1 The facility is secured by way of equitable mortgage over factory building. Mark up is charged at the rate ranging from 8% to 8.5% per annum (2006: 8% per annum). The loan is repayable in equal quarterly installments, the last of which is payable on December 24, 2008.

13.2 The facility is secured by way of equitable mortgage over land, buildings, plant and machinery installed or to be installed at factory buildings. Mark up is charged at the rate ranging from 10.25% to 11.61% (2006: 7.73% to 10.45%) per annum. The loan is repayable in equal quarterly installments, the last of which is payable on October 13, 2011.

	June 30, 2007	June 30, 2006
	(Rupees in thousand)	
14. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE		
Present value of minimum lease payments	21,447	8,000
Current maturity shown under current liabilities	(6,041)	(2,306)
	<u>15,406</u>	<u>5,694</u>
Minimum lease payments		
Not later than 1 year	8,383	3,062
Later than one year but not later than 5 years	17,915	6,355
	<u>26,298</u>	<u>9,417</u>
Future finance charges on finance lease	(4,851)	(1,417)
Present value of finance lease liabilities	<u>21,447</u>	<u>8,000</u>
Present value of finance lease liabilities		
Not later than 1 year	6,041	2,306
Later than one year but not later than 5 years	15,406	5,694
	<u>21,447</u>	<u>8,000</u>

14.1 The above represents finance leases entered into with modarabas for motor vehicles. The balance of liability is payable by April 2011 in monthly installments.

Monthly lease payments include finance charge ranging from 6.26% to 13.43% (2006: 6.26% to 12.7%) per annum which are used as discounting factor.

	June 30, 2007	June 30, 2006
	(Rupees in thousand)	
15. DEFERRED TAX		
(Debit) / credit balance arising in respect of:		
Accelerated tax depreciation / amortisation	42,972	20,666
Provision for slow moving stock	(7,422)	(9,786)
Provision for doubtful trade debts	(1,215)	-
Liabilities against assets subject to finance lease	1,022	587
	<u>35,357</u>	<u>11,467</u>

	June 30, 2007	June 30, 2006
	(Rupees in thousand)	
16. TRADE AND OTHER PAYABLES		
Creditors	164,915	103,719
Accrued liabilities	93,334	98,961
Workers' profits participation fund - note 16.1	10,315	5,718
Workers' welfare fund	4,059	1,983
Advances from customers	17,844	17,193
Payable to provident fund	1,610	-
Security deposits from customers	69	69
Tax deducted at source	973	853
Due to related parties - directors	28	11
- others - note 16.2	912	221
Advances from employees	10,129	9,085
Sales tax payable	8,959	4,471
Unclaimed dividend	713	675
Other liabilities	1,458	2,029
	<u>315,318</u>	<u>244,988</u>
16.1 Workers' profits participation fund		
Balance as at July 1	5,718	2,263
Allocation for the year	10,315	5,718
Interest on fund utilised in the company's business	128	191
	<u>16,161</u>	<u>8,172</u>
Amount paid during the year	(5,846)	(2,454)
Balance as at June 30	<u>10,315</u>	<u>5,718</u>
16.2 Due to related parties - others		
Associated Textile Consultants (Private) Limited	872	27
Precision Rubber Products (Private) Limited	-	161
Pakistan Card Clothing (Private) Limited	40	33
	<u>912</u>	<u>221</u>
17. ACCRUED INTEREST / MARK UP		
On		
- short term borrowings	5,234	4,798
- long term financing	4,950	3,693
	<u>10,184</u>	<u>8,491</u>

18. SHORT TERM BORROWINGS

	June 30, 2007	June 30, 2006
	(Rupees in thousand)	
Running finance under mark up arrangements	-	7,724
Export re-finance	96,900	96,700
Short term loans	114,372	91,501
	<u>211,272</u>	<u>195,925</u>

18.1 The above facilities available from various banks amount to Rs 338 million (2006: Rs 340 million). The arrangements are secured by way of pari-passu charge against hypothecation of Company's stock in trade and trade debts. The facilities are payable by December 2007 and are renewable.

18.2 The facilities for opening letters of credit and guarantee as at June 30, 2007 amounted to Rs 105.43 million (2006: Rs 63.22 million) of which the amount unutilised at year end was Rs 76.57 million (2006: Rs 29.09 million).

18.3 The rates of mark up range between 6.11% to 10.2% per annum as at June 30, 2007 (2006: 5.25% to 10.05%).

19. COMMITMENTS

Aggregate commitments for capital expenditure as at June 30, 2007 amounted to Rs 8.97 million (2006: Rs 53.50 million).

	June 30, 2007	June 30, 2006
	(Rupees in thousand)	
20. SALES		
Local sales	2,869,311	2,251,339
Less: Sales tax	<u>347,685</u>	<u>244,513</u>
	2,521,626	2,006,826
Export sales	<u>278,030</u>	<u>214,118</u>
	2,799,656	2,220,944
Less: Discount / Commission	285,487	264,954
Rebates and allowances	84,911	67,192
Sales returns	<u>38,200</u>	<u>41,098</u>
	408,598	373,244
	<u>2,391,058</u>	<u>1,847,700</u>

21. OPERATING COSTS

	Cost of Sales		Distribution Cost		Administrative Expenses		Total	
	2007	2006	2007	2006	2007	2006	2007	2006
	(Rupees in thousand)							
Raw materials consumed	916,164	702,063	-	-	-	-	916,164	702,063
Packing materials consumed	386,266	320,783	-	-	-	-	386,266	320,783
Provision for slow moving stock	6,387	13,612	-	-	-	-	6,387	13,612
Salaries, wages and other benefits	154,975	122,161	97,754	59,755	45,429	29,343	298,158	211,259
Contribution of provident fund	2,570	2,417	1,552	1,281	1,044	784	5,166	4,482
Advertising and sales promotion	-	-	270,769	179,325	-	886	270,769	180,211
Auditors' remuneration - note 22.1	-	-	-	-	730	461	730	461
Depreciation / Amortisation	24,747	19,894	5,909	4,331	7,440	5,941	38,096	30,166
Fuel and power	48,786	31,911	769	1,310	751	346	50,306	33,567
Outward freight	-	-	87,188	80,578	-	-	87,188	80,578
Forwarding charges	-	-	4,942	4,189	-	-	4,942	4,189
Insurance	3,238	2,714	1,896	1,536	1,152	972	6,286	5,222
Laboratory, research and development	1,658	1,559	138	222	12	13	1,808	1,794
Legal and professional charges	-	-	-	-	9,896	12,219	9,896	12,219
Postage and communications	458	364	5,770	5,508	2,186	2,327	8,414	8,199
Printing and stationery	2,456	2,428	2,235	1,648	1,688	1,407	6,379	5,483
Rent, rates and taxes	8,446	9,260	7,375	3,404	632	560	16,453	13,224
Repairs and maintenance	38,673	34,798	1,892	1,146	7,167	5,324	47,732	41,268
Travelling	14,436	10,019	24,379	18,547	11,634	9,178	50,449	37,744
Fixed Assets written off	-	-	-	-	-	2,712	-	2,712
Stock written off	3,819	5,576	-	-	-	-	3,819	5,576
Others	720	441	1,334	1,978	1,536	639	3,590	3,058
	<u>1,613,799</u>	<u>1,280,000</u>	<u>513,902</u>	<u>364,758</u>	<u>91,297</u>	<u>73,112</u>	<u>2,218,998</u>	<u>1,717,870</u>
Opening work in process	97,603	119,740						
Closing work in process	(139,695)	(97,603)						
Cost of goods manufactured	<u>1,571,707</u>	<u>1,302,137</u>						
Opening stock of finished goods	101,067	76,766						
Closing stock of finished goods	(98,872)	(101,067)						
Export rebate	(1,328)	(1,399)						
	<u>1,572,574</u>	<u>1,276,437</u>						

	June 30, 2007	June 30, 2006
	(Rupees in thousand)	
21.1 Auditors' remuneration		
Audit fee	300	200
Limited review and other certifications	265	165
Out of pocket expenses	165	96
	<u>730</u>	<u>461</u>
22. OTHER OPERATING EXPENSES		
Provision against doubtful trade debts	3,906	-
Debts written off	547	-
Donations - note 22.1	200	1,052
Workers' profits participation fund	10,315	5,718
Workers' welfare fund	4,126	1,983
	<u>19,094</u>	<u>8,753</u>
22.1 The directors or their spouses do not have any interest in any donee's to which donations were made.		
	June 30, 2007	June 30, 2006
	(Rupees in thousand)	
23. OTHER INCOME		
Return on term deposits - net	-	3,595
Profit on disposal of property, plant and equipment	2,258	943
Sales tax refunded	7	222
Insurance claim	1,689	864
Scrap sales	-	241
Interest on late payment by trade debtors	932	14
Exchange gain	752	778
Miscellaneous	472	24
	<u>6,110</u>	<u>6,681</u>
24. FINANCE COSTS		
Mark up on long term finance	10,605	2,638
Mark up on running finance under mark up arrangements	2,198	9,043
Mark up on export re-finance	6,903	6,772
Mark up on foreign currency import finance	7,771	1,760
Mark up on finance lease	2,121	557
Interest on workers' profits participation fund	128	191
Bank charges	2,949	3,889
	<u>32,675</u>	<u>24,850</u>
25. TAXATION		
Current - for the year	38,000	37,000
Deferred	23,890	(341)
	<u>61,890</u>	<u>36,659</u>
Prior	540	(552)
	<u>62,430</u>	<u>36,107</u>

	June 30, 2007	June 30, 2006
	(Rupees in thousand)	
25.1	Reconciliation between tax expense and accounting profit:	
Profit before taxation	191,722	106,471
Tax at applicable tax rate of 35%	67,103	37,265
Expense not deductible for tax purposes	179	116
Effect of lower tax rate on export sales	(4,709)	(2,679)
Others	(683)	1,957
	<u>61,890</u>	<u>36,659</u>
26.	EARNINGS PER SHARE	
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	129,292	70,364
Weighted average number of shares in issue during the year (in thousand)	4,251	4,251
Earnings per share - basic (Rupees)	<u>30.41</u>	<u>16.55</u>

27. RELATED PARTY DISCLOSURES

A. Related parties with whom the Company had transactions

- i) Associated Companies / Undertakings: Associated Textile Consultants (Private) Limited
Pakistan Card Clothing Company (Private) Limited
Precision Rubber Products (Private) Limited
Premier Agency
Premier Distributor
Raj Masala Pty Limited, Australia
- ii) Defined Contribution Plan: National Foods Limited Provident Fund

B. Disclosure of transactions between the Company and related parties

Relationship with the Company	Nature of transaction	June 30, 2007	June 30, 2006
		(Rupees in thousand)	
i) Associated Companies / Undertakings:	Sale of goods	541,673	400,295
	Compensation for use of trademark / marketing expense	634	886
	Reciprocal arrangements for sharing of services	1,470	1,931

	June 30, 2007	June 30, 2006
	(Rupees in thousand)	
Key management compensation:		
Salaries and other short-term employee benefits	35,241	22,273
Post-employment benefits	927	1,025
	<u>36,168</u>	<u>23,298</u>

The related party status of outstanding balances as at June 30, 2007 are included in trade debts, other receivables and trade and other payables respectively.

28. REMUNERATION OF DIRECTORS, CHIEF EXECUTIVE AND EXECUTIVES

28.1 The aggregate amounts charged in the financial statements of the year for remuneration including all benefits to directors, chief executive and executives of the Company are as follows:

	Directors		Chief Executive		Executives	
	2007	2006	2007	2006	2007	2006
	(Rupees in thousand)					
Managerial remuneration and allowances	2,098	2,564	3,108	2,330	12,962	7,683
Utilities	210	256	311	233	1,296	768
Bonus / Variable pay	350	427	5,032	388	2,155	1,258
Housing	944	1,154	1,399	1,049	5,833	3,457
Travelling expenses	208	450	503	-	-	-
Other expenses	153	191	440	356	6,633	3,341
	<u>3,963</u>	<u>5,042</u>	<u>10,793</u>	<u>4,356</u>	<u>28,879</u>	<u>16,507</u>
Number of persons	<u>2</u>	<u>3</u>	<u>1</u>	<u>1</u>	<u>16</u>	<u>9</u>

28.2 Aggregate amount charged in these financial statements for the year for fee to non-executive directors was Rs 11,000 (2006: Nil).

28.3 The Chief Executive, executive directors and certain executives of the Company are also provided with Company maintained cars and residential telephones.

	2007		2006	
	Installed	Utilised	Installed	Utilised
	Metric Tons			
Spices	6,265	5,787	4,532	3,334
Pickles	7,644	5,554	5,256	5,264
Pastes	13,923	5,062	6,920	4,732
Salt	22,554	19,268	21,078	17,957

29.1 The actual production is based on consumer demand. Further, the Company's new production facility for pickles at Port Qasim became operational in November 2006.

30. FINANCIAL INSTRUMENT

30.1 Financial assets and liabilities

	Interest / Mark up bearing			Non-interest / Non-mark up bearing			Total
	Maturity up to one year	Maturity after one year	Sub-total	Maturity up to one year	Maturity after one year	Sub-total	
(Rupees in thousand)							
FINANCIAL ASSETS							
Trade debts	-	-	-	116,491	-	116,491	116,491
Deposits	-	-	-	750	2,766	3,516	3,516
Other receivables	-	-	-	25,393	-	25,393	25,393
Cash and bank balances	-	-	-	18,146	-	18,146	18,146
June 30, 2007	-	-	-	160,780	2,766	163,546	163,546
June 30, 2006	73,000	-	73,000	116,978	2,504	119,482	192,482
FINANCIAL LIABILITIES							
Long term financing	46,000	143,000	189,000	-	-	-	189,000
Liabilities against assets subject to finance lease	6,041	15,406	21,447	-	-	-	21,447
Trade and other payables	-	-	-	261,429	-	261,429	261,429
Accrued interest / mark up	-	-	-	10,184	-	10,184	10,184
Short term borrowings	211,272	-	211,272	-	-	-	211,272
June 30, 2007	263,313	158,406	421,719	271,613	-	271,613	693,332
June 30, 2006	224,231	194,694	418,925	214,149	-	214,149	633,074
OFF BALANCE SHEET ITEMS							
Letters of credit							25,111
June 30, 2006							30,372
Letter of guarantee							3,754
June 30, 2006							3,754

The effective interest / mark up rates for the monetary financial assets and liabilities are mentioned in respective notes to the financial statements.

30.2 Financial risk management objectives and policies

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

Taken as a whole, risk arising from the Company's financial instruments is limited as there is no significant exposure to price and cash flow risk in respect of such instruments.

i) Concentration of credit risk

Credit risk represents the accounting loss that would be recognised at the reporting date if counter parties failed completely to perform as contracted. Out of total financial assets of Rs 163.55 million (2006: Rs 192.48 million), the financial assets which are subject to credit risk amounted to Rs 116.49 million (2006: Rs 101.94 million). Concentrations 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 concentrations of credit risk. The management limits its credit risk by an aggressive policy for approval of credit limits and by ensuring that sales are made to customers with an appropriate credit history.

ii) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit facilities. Company treasury aims at maintaining flexibility in funding by keeping committed credit lines available.

iii) Foreign exchange risk management

Foreign exchange risk arises mainly where receivables and payables exist in foreign currency. The company exports its products to various countries and is exposed to movement in foreign exchange rates. Financial assets of equivalent Rs 100.50 million (2006: Rs 71.93 million) were in foreign currency which were exposed to foreign currency risk. Also, short term loans include foreign currency import finance amounting to Rs 41.46 (2006:Rs 51.50 million), which was exposed to foreign currency risk.

30.3 Fair values of financial assets and liabilities

The carrying values of all financial assets and liabilities reflected in the financial statements approximate their fair values.

	June 30, 2007	June 30, 2006
	(Rupees in thousand)	
31. CASH GENERATED FROM OPERATIONS		
Profit before taxation	191,722	106,471
Adjustments for non-cash charges and other items		
Depreciation on property, plant and equipment	36,212	28,624
Amortisation of intangibles	1,884	1,542
Fixed assets written-off	-	2,712
Profit on disposal of property, plant and equipment	(2,258)	(943)
Return on term deposits	-	(3,595)
Provision for slow moving stock	6,387	13,612
Stock written off	3,819	5,576
Finance costs	29,726	20,961
	<u>75,770</u>	<u>68,489</u>
Profit before working capital changes	267,492	174,960
EFFECT ON CASH FLOWS DUE TO WORKING CAPITAL CHANGES		
Decrease / (increase) in current assets		
Stores, spare parts and loose tools	(859)	(164)
Stock in trade	(119,978)	(29,768)
Trade debts	(10,645)	(26,063)
Advances	1,792	443
Trade deposits and prepayments	1,770	(2,468)
Other receivables	(24,330)	(150)
	<u>(152,250)</u>	<u>(58,170)</u>
Increase in current liabilities		
Trade and other payables	70,292	104,808
	<u>185,534</u>	<u>221,598</u>



	June 30, 2007	June 30, 2006
	(Rupees in thousand)	
32. CASH AND CASH EQUIVALENTS		
Cash and bank balances	18,146	83,025
Short term borrowings	(211,272)	(195,925)
	<u>(193,126)</u>	<u>(112,900)</u>


33. PROPOSED DIVIDEND

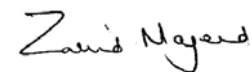
At the Board Meeting on September 3, 2007 a cash dividend in respect of 2007 of Rs 2.00 per share (2006: Rs 2.00 per share) amounting to a total dividend of Rs 8.501 million is proposed (2006: Rs 8.501 million). Further, the Board of Directors also proposed a transfer of Rs 12.752 million (2006: Nil) from unappropriated profit to reserve for issue of bonus shares for issuance of three bonus shares for every ten shares held.

These financial statements do not reflect these appropriations, which will be accounted for in the statement of changes in equity as an appropriation from the unappropriated profit in the year ending June 30, 2008.

34. DATE OF AUTHORISATION

These financial statements were authorised for issue on September 3, 2007 by the Board of Directors of the Company.


Abrar Hasan
Chief Executive


Zahid Majeed
Director

FORM OF PROXY

36th Annual General Meeting

I/we _____ of

_____ being a member of

National Foods Limited holding _____ Ordinary shares as per Registered

Folio No./CDC A/c No. (for members who have shares in CDS) _____

hereby appoint Mr./Mrs./Miss _____ of

(full address) _____ or falling him/her

Mr./Mrs./Miss _____ of

(full address) _____

(being member of the Company) as my/our Proxy to attend, act and vote for me/us and behalf at the 36th Annual

General Meeting or the Company to be held on October 5, 2007 and/or any adjournment thereof.

As witness my/our hand seal this _____ day of _____ 2007.

Signed by _____ in the

presence of (i) _____

(ii) _____

Signature on
Rs.5/-
Revenue Stamp

(Signature must agree with the specimen
signature registered with the Company)

Important:

1. This form of proxy, duly completed and signed, must be deposited at the office of the Company's Shares Registrar, not later than 48 hours before the meeting.
2. This form should be signed by the Member or by his/her attorney duly authorised in writing. If the member is a Corporation, its common seal should be affixed to the instrument.
3. A Member entitled to attend and vote at the meeting may appoint any other Member as his/her proxy to attend and vote on his/her behalf except that a corporation may appoint a person who is a Member.

For CDC Account Holders/Corporate Entities:

In addition to the above following requirements have to be met:

- (i) The Proxy form shall be witness by two persons whose names, address and NIC Numbers shall be mentioned on the form.
- (ii) Attested copies of NIC or Passport of the beneficial owners and the proxy shall be furnished with the proxy form.
- (iii) The proxy shall produce his/her original NIC or original Passport at the time of the meeting.
- (iv) In case of corporate entity, the Board of Directors' resolution/power of attorney with specimen signature shall be submitted (unless it has been provided earlier) alongwith proxy form.

Noble Computer Services (Pvt.) Limited

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AFFIX
POSTAGE



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