Unilever

Unilever Pakistan Foods Limited

# ANNUAL REPORT 2012

Creating a better future every day

At Unilever all business activities are carried out in a socially and environmentally responsible manner. To promote a greener Pakistan and as a tangible demonstration of our commitment, this annual report has been printed on 100% recycled paper and the information has been limited to financial statements only. Further information on our brands, business and corporate social responsibility initiatives is available on our website. www.unileverpakistanfoods.com.pk

## Examples of Our Brands Delivering Sustainable Growth

### Knorr

Goes to extraordinary lengths to provide great-tasting products which help people to prepare delicious and nutritious meals for their families every day.

### Unilever Food Solutions

Uses ingredients and packaging that are sustainably sourced, generate less waste and consume less energy as part of our environmentally responsible way of doing business.

### Rafhan

From the highly nutritious and healthy Corn Oil to the lip smacking Desserts, Rafhan offers a complete meal package to the consumers.

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# Vision

"We work to create
a better future every day."

We help people feel good, look good and get more out of life with brands and services that are good for them and good for others. We will inspire people to take small every day actions that can add up to a big difference in the world. We will develop new ways of doing business with the aim of doubling the size of our company while reducing our environmental impact.

# Core Values

## Impeccable **Integrity**

We are honest, transparent and ethical in our dealings at all times.

## Demonstrating a **Passion for Winning**

We deliver what we promise.

## Wowing our **Consumers & Customers**

We win the hearts and minds of our consumers and customers.

## Bringing out the **Best in All of Us**

We are empowered leaders, who are inspired by new challenges and have a bias for action.

## Living an **Enterprise Culture**

We believe in trust, truth and outstanding teamwork. We value a creative & fun environment.

## Making a **Better World**

We care about and actively contribute to the community in which we live.

# Company Information

## Board of Directors

Mr. Ehsan A. Malik
Chairman

Ms. Fariyha Subhani
Chief Executive Officer

Mr. Imran Husain
Executive Director / Chief Financial Officer

Mian Zulfikar H. Mannoo
Non-Executive Director

Mian M. Adil Mannoo
Non-Executive Director

Mr. Kamal Monnoo
Non-Executive Director

Mr. Badaruddin F. Vellani
Non-Executive Director

Ms. Shazia Syed
Executive Director

Mr. Noman A. Lutfi
Executive Director

## Company Secretary

Mr. Amar Naseer

## Audit Committee

Mian Zulfikar H. Mannoo
Chairman

Mian M. Adil Mannoo
Member

Mr. Noman A. Lutfi
Member

Mr. Azhar Shahid
Secretary & Head of Internal Audit

## Auditors

Messrs A. F. Ferguson & Co.
Chartered Accountants
State Life Building No. 1-C
I.I. Chundrigar Road
Karachi.

## Registered Office

Avari Plaza
Fatima Jinnah Road
Karachi - 75530

## Share Registration Office

Famco Associates (Pvt) Limited
State Life Building No. 1-A
I.I. Chundrigar Road
Karachi.

## Website Address

www.unileverpakistan.com.pk
www.unileverpakistanfoods.com.pk

# Directors' Profile


**1 Ehsan A. Malik**
**Chairman**

Ehsan joined the Board on August 31, 2006 and is also the Chairman and CEO of Unilever Pakistan Limited. Prior to this, Ehsan was Chairman and CEO of Unilever Sri Lanka Limited. His earlier international appointments covered Unilever's regional business in Egypt, Lebanon, Jordan, Syria and Sudan as well as Unilever's Head Office in the UK. Ehsan is a Fellow of the Institute of Chartered Accountants in England and Wales and alumni of the Wharton and Harvard Business Schools.

**2 Fariyha Subhani**
**CEO**

Fariyha joined the Board on January 31, 2009 as Chief Executive Officer. She also holds Directorship of Unilever Pakistan Limited. Fariyha joined Unilever as a management trainee in 1989 and later worked with several Home and Personal Care categories. Before being deputed as Marketing Director Foods including Beverages and Ice Cream, she spent 4 years in Bangkok working for Unilever Asia.

**3 Imran Husain**
**CFO**

Imran joined the Board on April 20, 2008 and is currently Vice President (VP) Finance and Chief Financial Officer of Unilever Pakistan Limited and Unilever Pakistan Foods Limited. He also holds Directorship in Lever Chemicals (Private) Limited, Lever Associated Pakistan Trust (Private) Limited and Unilever Birds Eye Foods Pakistan (Private) Limited. Previously Imran has served as Corporate Finance Head, Treasurer and Commercial Manager for Ice Cream.

**4 Zulfikar H. Mannoo**

Zulfikar Joined the Board when the Company was formed. He is also the Chairman of the Audit Committee and the Human Resource & Remuneration Committee of Unilever Pakistan Foods Limited. He is a Director in Rafhan Maize Products Limited and is also the Chief Executive of Pakwest Industries (Private) Ltd., Lahore.


**5 M. Adil Mannoo**

Adil joined the Board on May 5, 2002 as a Non-Executive Director. He is also the Member of the Audit Committee of Unilever Pakistan Foods Limited. He holds directorship in Rafhan Maize Products Limited and is in the business of textile trade as the sole proprietor of HN Enterprises.

**6 Kamal Monnoo**

Kamal joined the Board on December 19, 2006 as a Non-Executive Director. He is also the Member of the Human Resource & Remuneration Committee of Unilever Pakistan Foods Limited. He holds directorships in Samira Fabrics (Pvt) Limited, Pakland Chemical Industries (Pvt) Limited, Kaarvan Crafts Foundation and Institute of Public Policy and Islamabad Policy Research Institute.

**7 Badaruddin F. Vellani**

Badaruddin joined the Board on May 5, 2002. Currently, he is enrolled as an Advocate of the Supreme Court of Pakistan and is a partner in the law firm 'Vellani & Vellani'. In addition to his legal practice, Badaruddin is a member of the Board of Directors in several multinational companies covering the FMCG, manufacturing, medical and philanthropy sectors.

**8 Shazia Syed**

Shazia joined the Board on January 21, 2010 and is also a Director of Unilever Pakistan Limited. During her tenure in Unilever she was seconded to Vietnam in December 2000 for three years where she worked as a Business Unit Leader in the Personal Care Unit. In 2004, she returned to Pakistan as VP Home and Personal Care, before she took up her current position as VP Customer Development in 2009.

**9 Noman A. Lutfi**

Noman joined the Board in June 2012 as Manufacturing Director Supply Chain. In his 20 year stint with the Company, Noman has spent 11 years in factories of HPC and Foods in various roles and spent 9 years in different roles at the Head Office. The sub functions covered for Supply Chain by Noman are Quality, Operations, Manufacturing, Safety and Environment, Research and Development, Planning, Customer Service and Logistics.

# Major Events & Launches


## Unilever Food Soutions Professional Competetion

Unilever Food Solutions (UFS) hosted the professional competition among the Food Service Industry for the $4^{th}$ consecutive year with Chef of the Year 2012. The title was won by Muzzamil Hussain, Executive Chef, Marriott Hotel, Islamabad. He also represented Pakistan in UFS South Africa Chef competition held in September 2012.

## Unilever Food Solutions “Wise up on Waste”

UFS focused on the Service Brand - Your kitchen in 2012 with the message of “Wise up on Waste”. Working sessions were conducted with customers across the Hotel Restaurant and Catering channel in Karachi, Lahore & Islamabad helping the participants understand the significance of managing their waste wisely and its impact on their business’ profitability.

## Knorr - New Packaging

Unilever Food Solutions launched its Knorr portfolio in Eurocontainers in 2012. The new packaging offers tamper proof seal that ensures quality and flavor retention while providing better shelf visibility. The on pack communication also includes recipe hints, nutritional table and yields and servings providing professional products and services to Chefs to deliver their best every day.


## Knorr Chicken Cubes

For a mother, the dinner table becomes a battleground to ensure her child not only eats the meal, but also enjoys it. Her children love the taste of chicken but she can't afford to make it every day. Keeping this in mind, Chef Testimonials on making every day dishes special with Knorr Chicken Cubes were developed through short quick recipes. This aimed to provide mothers the inspiration to create great tasting regular home dishes by showing her how simple and easy it is.


## Knorr Noodle Gang kay Adventures

Staying true to its fun proposition, Knorr Noodles launched 'Knorr Noodle Gang kay Adventures' in 2012. This is a locally produced animation series taking kids into an adventure filled world through dramatic story telling and out of the box education. The compelling characters with celebrity voiceovers and exciting animations make Knorr Noodles a distinctively fun brand for children.


## Rafhan - New Packaging

In 2012 Rafhan was relaunched with a complete packaging renovation. The idea was to give the brand a premium look and improve its visibility on shelf. The new packaging was communicated to consumers through a TVC built on the birthday platform reinforcing the brand's positioning, 'Rafhan makes birthday special'.

# Directors' Report

# Winning with Brands and Innovations

“We have some of the world’s best known and most trusted brands, with leadership positions in many of the fast moving consumer goods’ categories in which we compete. Committed to enhancing the quality of life of the people of Pakistan, we aim to offer a broad portfolio that appeals to diverse consumers year on year.”




# Directors' Report

The Directors present the Annual Report together with the Company's audited financial statements for the year ended December 31, 2012.

## Business Review:

In a tough operating environment, sales growth slowed from 22% in 2011 to 19% in 2012. Growth of EPS also declined from 41% in 2011 to 16% in 2012 with gross margin down by 96 bps vs. previous year.

### Summary of Financial Performance

| | 2012 | 2011 |
|---|---|---|
| | Rupees in million | |
| Sales | 5,861 | 4,940 |
| Gross Profit | 2,227 | 1,925 |
| Profit from Operations | 1,066 | 917 |
| Profit before tax | 1,058 | 910 |
| Profit after tax | 715 | 617 |
| EPS-basic (Rs.) | 116.14 | 100.15 |

## Key Financial Indicators

### Financial Headlines

- Turnover up by Rs. 921 million
- Profit from operations up by Rs.149 Million
- Earnings per share of Rs. 116.14 up by 16%

Underlying sales growth
19%

Gross margin down by
96 bps

Earning per Share
16%

## Key Non-financial Indicators

Total recordable accident frequency rate (per 1m hours worked)
0.21
2011: 0.48

Sulphur oxides per ton of production (Kg)
0.22
2011: 0.31

Energy per ton of production (GJ)
2.23
2011: 2.48

Waste per ton of production (Kg)
0.41
2011: 0.91

Water wasted per metric ton
2.89
2011: 3.30

### Unilever Sustainable Living Plan

- Help people to improve their health and well-being
- Halve the environmental impact from make and use of our products
- Enhance the livelihood of thousands of people in our supply chain

## Dividends

The Board of Directors has recommended a final cash dividend of Rs 66 per share. With the interim dividend of Rs. 50 per share already paid during the year, the total dividend for the year 2012 amounts to Rs. 116 (2011: Rs. 100) per ordinary share of Rs. 10 each.

The key business milestones for 2012 were:

**Knorr**, Unilever's largest selling global brand grew by 46% - one of the highest growth rates in recent years. This was primarily led by Cubes and Noodles. The re-launch of Soupy Noodles "khao peo, peo khao" campaign helped increase the brand's penetration among kids. Soups and Sauces also continued their growth momentum in 2012.

**Rafhan**, Unilever Pakistan Foods Limited's largest local jewel with strong brand equity and a rich heritage grew steadily on the back of its desserts portfolio. The desserts portfolio was re-launched in a new carton format to allow for more convenience and an even better quality to its loyal consumer base. The advertising campaign continued to leverage its celebration platform which has proved to be popular with children as it focused on birthday celebrations of loved ones.

**Energile**, a local brand, is a flavored glucose based powder drink which has been in the market for several decades. It addresses the need for instant energy in active kids and sportsmen. The brand remained under pressure in 2012 as the market for powder drinks struggles to maintain its relevance in the evolving beverages market.

**Glaxose-D** is a fifty year old brand that has been a source of rapidly absorbed energy fortified with Vitamin-D, Calcium and Phosphorus. The brand has a strong positioning in the health and wellness segment of the market. The year 2012 saw the brand increase its penetration reaching out to many additional towns by several promotional activities. However, it faces stiff challenges amid declining market.

**Exports** segment of the business continued to expand its base as it explored new markets for categories offering ethnic taste and 'Halal' food. It served markets in mainly North America, Europe & Asia with quality products including Noodles, Cooking Aids, Soups and Desserts.

## Our People

Unilever Pakistan Foods Limited takes pride in the courage and ability of its people to deliver ambitious results in a consistent manner. The Company continues to hold the "Employer of the Year Award" for past 5 years in a row.

The Standards of Leadership (SOL) of the Company, i.e. a set of behaviours that are deemed vital to be a good leader, are ingrained strongly in our people. Personal development is facilitated through empowering people with bigger as well as challenging assignments, coaching, mentoring and the appraisal system. This investment in our people is what will set us apart in the industry and drive us towards our goals with the right people on board.

The Company encourages its employees to work from agile locations and offer flexi-work hours. Diversity is at the heart of our agenda with females performing various roles across different functions in the Organization. In order to cater to the needs of the female employees, the Unilever Day Care centre was started in 2003 and is now also used by male employees, whose spouses work elsewhere.

There is continued focus on encouraging healthy life and work life balance among the employees. The Company has taken several initiatives in this regard e.g. vitality health passport, gym facility and healthy eating options available in the office.

Unilever Pakistan Foods Limited is a learning organization where employees are continuously groomed to challenge themselves and make real time decisions. The Company leverages the global Unilever Network to develop talent in Marketing, Sales, Supply Chain, Finance and Human Resource Management through our E-learning programmes.

# Corporate Social Responsibility (CSR)

Unilever Pakistan Foods Limited is a multi-local multinational which believes that the highest standards of corporate behaviour are essential to long term success. To achieve our sustainability targets we launched the Unilever Foundation in 2012, which has been working alongside the Unilever Sustainable Living Plan launched in 2011.

The Unilever Foundation is a key action we are taking to help meet our ambitious goal of helping more than one billion people improve their health and well-being and, in turn, create a sustainable future with our 5 global partners; UNICEF, United Nations World Food Programme, Save the Children, Population Services International and Oxfam. Unilever Pakistan partners with both local and global partners in order to execute its sustainability agenda.

During 2012, our main initiatives included:

## i. Energy Conservation:

The Company Head Office achieved "WWF Green Office" certification based on its sustainability initiatives through a structured program of measuring, monitoring and reducing energy, paper consumption and waste segregation. The program delivered 24% energy reduction in 2012 as compared to last year.

Additionally a number of initiatives have been taken in factories, depots and in transportation to conserve energy. Some of these are:

a. Using day light in production hall.

b. Phasing out window air conditioners and use of eco-efficient lighting at the offices.


c. Engineering improvements in manufacturing for reducing energy waste.

d. Shut down of ketchup chillers in winter season & temperature optimisation in compressors.

e. Department wise energy measurement.

## ii. Environmental Protection Measures:

Unilever Sustainable Living Plan (USLP), launched in 2011, has been a key enabler across the entire value chain for pursuing Company's audacious growth ambition in an environmentally responsible manner.

The key environmental protection initiatives include:

a. Distribution Centre rationalization & cross docking

b. Using the 'right sized' vehicles for each route.

c. Optimization of vehicle routes as per vehicle load.

d. Reducing travel related environmental footprint by investment in technology e.g. teleconferencing, live meetings & Skype etc.

e. Installing MEK recovery unit to reduce hazardous waste by re-using ink from inkjet printers.

f. Dry floor initiatives for reducing water waste in floor wash.

g. Recycling treated water for watering factory green belts & wash rooms.

h. Eliminating 47 tons packaging material through structure optimisation & right sizing of packs.

## iii. Community Investment and Welfare Schemes: Rs. 3.6 million

a. Unilever Pakistan Foods Limited factory started a Rs. 5 million safe drinking water project in partnership with Pakistan Poverty Alleviation Funds in Purnawan, Bhai Pheru (Rs. 1.6 million

contributed in 2012 towards the completion of the project and community mobilization).

b. Knorr partnered with Idara-e-Taleem-O-Aagahi to create awareness about healthy eating habits amongst 200,000 school-going children across Pakistan. Knorr also held activities in these schools through their interactive books for primary students, developed in partnership with Zindagy Trust in their effort of making education fun. During the year, Rs. 2 million has been contributed to this scheme.

### iv. Consumer Protection Measures:

The Company operates a complaints call centre called Raabta to receive consumer feedback. It is engaged in raising awareness of and addressing the growing menace of counterfeiting.

### v. Occupational Safety and Health:

Unilever Pakistan Foods Limited places Safety, Health and Environment (SHE) at the heart of its business agenda. Unilever Pakistan Foods Ltd's management has been continually improving its management system & standards not only at workplace but also through "Off-The-Job Safety" initiative to inculcate this consciousness amongst its employees round the clock.

The management has instituted Central Safety Health & Environment Committee (CSHEC) structure, represented by all MC members, to review performance and provide policy guidelines.

Key initiatives are "Safety Programmes for Transport and Market Activation Service Providers" & "SEDEX" certification audits for key suppliers and co-packers. Internally it also initiated the motivational drives i.e. "Family Safety Mela", "Safety Week" and the "Wellness Week" for employee engagement and to raise awareness of key issues.

Road Safety remains a key pillar of Company's safety systems and initiatives of "Defensive Driving", "Behavioural Risk Assessment" and "Route Risk Assessments" were the key building blocks to pro-actively identify and manage driving-related risks. Based on these initiatives, Pakistan was given a leadership role to drive Unilever's "Safe Travel Programme" across South Asia.

All above initiatives are paying dividends, the Company has been a significant contributor in the South Asia cluster by achieving 56% reduction in injury rate in 2012 as compared to 2011 and achieved the best safety performance for the second consecutive year in the cluster.

### vi. Business Ethics and Anti-Corruption Measures:

Unilever Pakistan Foods Limited holds frequent activities to ensure that the employees are working within the Code of Business Principles (CoBP). The CoBP is rigorously followed throughout the organization. Employees are also required to sign off compliance of CoBP annually.

### vii. Contribution to National Exchequer:

Unilever Pakistan Foods Limited contributed Rs. 1,317 million (2011: Rs. 1,321 million) of its value added to the national exchequer by way of import duties, general sales tax, income tax and other government levies.

## Employee Involvement

Community and environment support at Unilever Pakistan Foods Limited is extended through Company initiatives for its people. Our employees work with various organizations giving monetary as well as skill support. Contributions through the Employee Payroll Programme were collected for Aga Khan University Hospital, The Citizens Foundation and UN World Food Programme.

## Value of Investments of Employees in Retirement Funds

Unilever Pakistan Foods Limited contributed Rs. 51.5 million to the staff retirement funds during the year. The cost of investments made by the staff retirement funds operated by the Company as at December 31, 2012 is as follows:

| | Rs. in million |
|---|---|
| Provident Fund | **110.2** |
| Superannuation Fund | **30.1** |
| Total | **140.3** |
| Total - 2011 | **199.9** |

## Corporate Governance

The management of Unilever Pakistan Foods Limited is committed to good corporate governance and complying with the best practices. As required under the Code of Corporate Governance, the Directors are pleased to state as follows:

- The financial statements prepared by the management of the Company present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
- Proper books of account of the listed Company have been maintained.
- Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgement.
- International Financial Reporting Standards 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. The Audit Committee comprises of three directors including two non-executive directors representing minority interest.
- There are no significant doubts upon the Company's ability to continue as a going concern.
- There has been no departure from the best practices of corporate governance, as detailed in the listing regulations.
- Statements regarding the following are annexed or are disclosed in the notes to the financial statements:
    - Number of Board meetings held and attendance by directors.
    - Key financial data for the last six years.
    - Pattern of shareholding.
    - Dealing in shares of the Company by its Directors, Chief Executive, Chief Financial Officer and Company Secretary and their spouses and minor children.

## Directors

The election of directors was held in AGM of 2011. During the year 2012, Mr. M. Qaysar Alam retired and Mr. Noman Amjad Lutfi was appointed in his place. The term of present directors will expire on April 19, 2014.

## Auditors

The retiring auditors A. F. Ferguson & Co. Chartered Accountants being eligible offer themselves for reappointment.

## Audit Committee

The Board of Directors has established an Audit Committee in compliance with the Code of Corporate Governance.The Audit Committee reviewed the quarterly, half-yearly and annual financial statements before submission to the Board and their publication. The Audit Committee had detailed discussions with the external auditors on various issues, including their letter to the management. The Audit Committee also reviewed internal auditors' findings and held separate meetings with internal and external auditors as required under the Code of Corporate Governance.

## Holding Company

Through its wholly owned subsidiary M/s Conopco Inc. USA, Unilever N.V., a company incorporated in Holland, has a holding of 75.85% of the shares in Unilever Pakistan Foods Limited.

## Reserve Appropriations

| | Share Capital | Reserves | | | | Total |
|---|---|---|---|---|---|---|
| | | Capital | | Revenue | | |
| | | Share Premium | Special | General | Unappropriated profit | |
| | (Rupees in thousand) | | | | | |
| Balance as at January 01, 2012 | 61,576 | 24,630 | 628 | 138 | 404,563 | 491,535 |
| Total comprehensive income for the year | - | - | - | - | 715,172 | 715,172 |
| Final dividend for the year ended December 31, 2011 @ Rs. 50 per share | - | - | - | - | (307,880) | (307,880) |
| Interim dividend for the year ended December 31, 2012 @ Rs. 25 per share | - | - | - | - | (153,941) | (153,941) |
| Second Interim dividend for the year ended December 31, 2012 @ Rs. 25 per share | - | - | - | - | (153,941) | (153,941) |
| **Balance as at December 31, 2012** | **61,576** | **24,630** | **628** | **138** | **503,973** | **590,945** |

## Acknowledgement

Our people are the key drivers behind the sustained growth of Unilever Pakistan Foods Limited. The Directors acknowledge the contribution of each and every employee of the Company. We would also like to express our thanks to our consumers for the trust shown in our products. We are also grateful to our shareholders for their support and confidence in our management.

## Future Outlook

The business aims to continue on its journey of profitable growth. This will not be easy due to various external challenges i.e. law and order conditions, currency depreciation, inflationary pressure, employee attrition, poor GDP growth and competitive intensity.

Our understanding of consumers, access to Unilever's global expertise, R&D Capability / Innovations and better customer service will help us to counter the aforementioned challenges. Besides, we will continue to provide our consumers with better value products driven by strong brand equity. As a means to achieve this, we will also leverage our ability to attract, develop and retain the best talent in the country.

Thanking you all
On behalf of the Board

**Fariyha Subhani**
Chief Executive

Karachi
February 21, 2013

# Board Meetings Attendance

During the year 2012, four Board Meetings were held and the attendance of each director is given below:

| Directors | Total No. of Meetings Held * | No. of Meetings attended |
|---|---|---|
| Mr. Ehsan A. Malik | 4 | 4 |
| Ms. Fariyha Subhani | 4 | 4 |
| Mr. Imran Husain | 4 | 4 |
| Mian Zulfikar H. Mannoo | 4 | 3 |
| Mian M. Adil Mannoo | 4 | 4 |
| Mr. Kamal Monnoo | 4 | 4 |
| Mr. Badaruddin F. Vellani | 4 | 3 |
| Mr. M. Qaysar Alam ** | 2 | 2 |
| Ms. Shazia Syed | 4 | 4 |
| Mr. Noman A. Lutfi *** | 2 | 2 |

Notes :
* Meetings held during the period when concerned Director was on the Board.
** Resigned in May 2012.
*** Appointed in June 2012, against casual vacancy on the Board.

# Board Committee Meetings Held During The Year

## Audit Committee

| Name of Member | Total No. of Meetings Held * | No. of Meetings Attended |
|---|---|---|
| Mian Zulfikar H. Mannoo<br>Chairman | 4 | 3 |
| Mian M. Adil Mannoo<br>Member | 4 | 4 |
| Mr. M. Qaysar Alam **<br>Member | 2 | 2 |
| Mr. Noman A. Lutfi ***<br>Member | 2 | 2 |
| Mr. Azhar Shahid<br>Secretary | 4 | 4 |

Notes:
* Meetings held during the period when concerned Member was in the Committee.
** Resigned in May 2012.
*** Appointed in June 2012.

## Terms of Reference

Committee has been constituted by the Board in compliance with Listing Regulations. The Committee oversees the Internal Audit function, and also reviews audit plans and reports. The Committee conducts its meetings as and when required. The Committee appraises the Board about the significant discussions and decisions at its meetings and recommendations in respect of Company's operations and financial results.

The Committee comprises of three members, two of whom are Non-Executive Directors. All employees of the Company have access to the Committee. The Committee met four times during 2012. Minutes of the meetings are drawn up expeditiously and circulated for the information and consideration of the Board.

## Committee of Directors

| Name of Member | Total No. of Meetings Held * | No. of Meetings Attended |
|---|---|---|
| Ms. Fariyha Subhani<br>Chairperson | 8 | 8 |
| Mr. Imran Husain<br>Member | 8 | 8 |
| Mr. M. Qaysar Alam **<br>Member | 4 | 4 |
| Ms. Shazia Syed<br>Member | 8 | 8 |
| Mr. Noman A. Lutfi **<br>Member | 4 | 4 |
| Mr. Amar Naseer<br>Secretary | 8 | 8 |

Notes:
* Meetings held during the period when concerned Member was in the Committee.
** During the year Mr. Noman A. Lutfi has been appointed in place of Mr. M. Qaysar Alam.

## Terms of Reference

The Committee comprises of four members and is chaired by the CEO. Periodic meetings are held to facilitate handling of operational matters, share transfer and any other significant matters arising during the normal course of business operations.

## Human Resource & Remuneration Committee

| Name of Member | Total No. of Meetings Held * | No. of Meetings Attended |
|---|---|---|
| Mian Zulfikar H. Mannoo<br>Chairman | 1 | 1 |
| Mr. Kamal Monnoo<br>Member | 1 | 1 |
| Mr. Ehsan A. Malik<br>Member | 1 | 1 |
| Mr. Amar Naseer<br>Secretary | 1 | 1 |

Note:
* Meeting held subsequently, prior to the Meeting of the Board of Directors.

## Terms of Reference

The Committee has been constituted by the Board to recommend human resource management policies to the Board and fulfill the requirements of the Code of Corporate Governance. It comprises of three members, two of whom are Non-Executive Directors. The Chairman of the Company is also a member of the Committee.

# Performance Indicators for 6 years

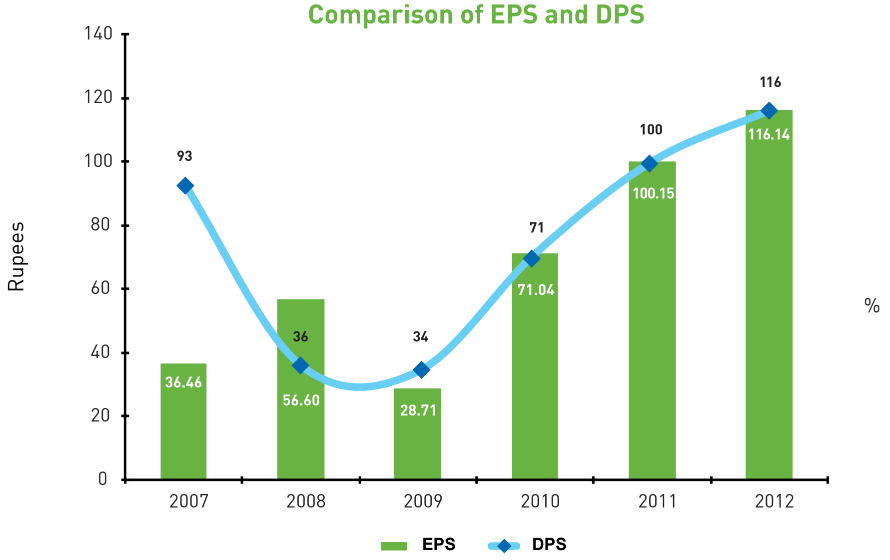
| | **2012** | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|---|
| | (Rupees in Thousand) | | | | | |
| **FINANCIAL POSITION** | | | | | | |
| **Balance sheet** | | | | | | |
| Property, plant and equipment | **649,333** | 620,702 | 300,726 | 288,872 | 307,707 | 196,350 |
| Other non-current assets | **107,574** | 110,152 | 83,922 | 85,281 | 191,469 | 197,780 |
| Current assets | **1,248,575** | 1,036,314 | 704,825 | 600,683 | 516,437 | 552,418 |
| Total assets | **2,005,482** | 1,767,168 | 1,089,473 | 974,836 | 1,015,613 | 946,548 |
| Share capital - ordinary | **61,576** | 61,576 | 61,576 | 61,576 | 61,576 | 61,576 |
| Reserves | **529,369** | 429,959 | 342,819 | 207,080 | 239,647 | 137,406 |
| Total equity | **590,945** | 491,535 | 404,395 | 268,656 | 301,223 | 198,982 |
| Non-current liabilities | **111,822** | 104,529 | 38,182 | 25,497 | 42,079 | 13,926 |
| Current liabilities | **1,302,715** | 1,171,104 | 646,896 | 680,683 | 672,311 | 733,640 |
| Total liabilities | **1,414,537** | 1,275,633 | 685,078 | 706,180 | 714,390 | 747,566 |
| Total equity and liabilities | **2,005,482** | 1,767,168 | 1,089,473 | 974,836 | 1,015,613 | 946,548 |
| Net current (liabilities) / assets | **(54,140)** | (134,790) | 57,929 | (80,000) | (155,874) | (181,222) |
| **OPERATING AND FINANCIAL TRENDS** | | | | | | |
| **Profit and loss** | | | | | | |
| Net sales | **5,861,096** | 4,940,251 | 4,040,887 | 3,376,511 | 3,081,879 | 2,376,408 |
| Cost of sales | **(3,633,950)** | (3,015,502) | (2,506,003) | (2,122,144) | (1,874,921) | (1,489,985) |
| Gross profit | **2,227,146** | 1,924,749 | 1,534,884 | 1,254,367 | 1,206,958 | 886,423 |
| Operating profit | **1,066,432** | 916,995 | 658,308 | 264,173 | 552,544 | 352,872 |
| Profit before tax | **1,058,366** | 910,132 | 645,859 | 241,656 | 530,311 | 346,074 |
| Profit after tax | **715,172** | 616,695 | 437,463 | 176,792 | 348,546 | 224,492 |
| Cash ordinary dividends | **614,356** | 529,800 | 301,517 | 208,610 | 246,250 | 584,295 |
| **Cash flows** | | | | | | |
| Operating activities | **806,912** | 964,204 | 368,273 | 351,377 | 483,313 | 167,192 |
| Investing activities | **(54,237)** | (345,950) | (48,445) | (16,277) | (125,416) | (100,579) |
| Financing activities | **(614,356)** | (529,800) | (301,517) | (208,610) | (246,250) | (584,925) |
| Cash and cash equivalents at the end of the year | **137,005** | (1,314) | (89,768) | (108,079) | (234,569) | (346,216) |

# Performance Indicators for 6 years

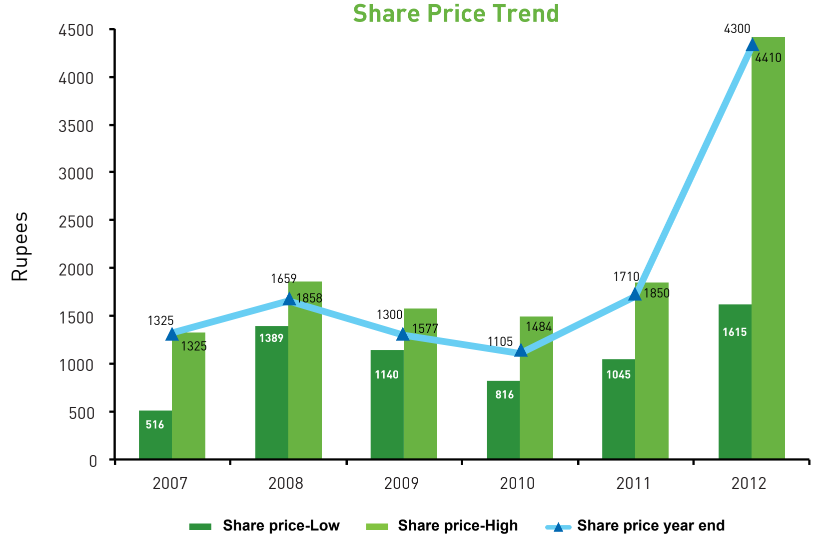
| | Unit | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|---|---|
| **FINANCIAL RATIOS** | | | | | | | |
| **Profitability Ratios** | | | | | | | |
| Gross profit ratio | Times | **0.38** | 0.39 | 0.38 | 0.37 | 0.39 | 0.37 |
| Net profit to sales | % | **12.20** | 12.48 | 11.00 | 5.24 | 11.31 | 9.45 |
| EBITDA margin to sales | % | **18.99** | 19.40 | 17.00 | 12.00 | 19.00 | 16.00 |
| Operating leverage ratio | % | **0.86** | 1.72 | 7.45 | (5.20) | 1.90 | 1.00 |
| Pre Tax return on equity | % | **179.10** | 185.00 | 160.00 | 89.95 | 176.05 | 173.92 |
| Post tax return on equity | % | **121.02** | 125.00 | 108.00 | 65.81 | 115.71 | 113.00 |
| Return on capital employed | % | **101.77** | 103.00 | 88.20 | 37.00 | 63.00 | 40.00 |
| **Liquidity Ratios** | | | | | | | |
| Current Ratio | Times | **0.96** | 0.88 | 1.09 | 0.88 | 0.77 | 0.75 |
| Quick / Acid test ratio | Times | **0.38** | 0.36 | 0.51 | 0.37 | 0.22 | 0.22 |
| Cash to current liabilities | Times | **0.15** | 0.08 | 0.12 | 0.06 | 0.01 | 0.02 |
| Cash flow from operations to sales | Times | **0.14** | 0.20 | 0.09 | 0.10 | 0.16 | 0.07 |
| **Activity / Operating Performance Ratios** | | | | | | | |
| Inventory turnover ratio | Days | **67** | 58 | 50 | 59 | 71 | 81 |
| Debtor turnover ratio | Days | **10** | 11 | 8 | 7 | 8 | 12 |
| Creditor turnover ratio | Days | **113** | 89 | 69 | 80 | 76 | 80 |
| Total assets turnover ratio | Times | **3** | 3 | 4 | 3 | 3 | 3 |
| Fixed assets turnover ratio | Times | **9** | 8 | 13 | 12 | 10 | 12 |
| Operating cycle | Days | **35** | (20) | (11) | (14) | 3 | 13 |
| **Investment / Market Ratios** | | | | | | | |
| Earnings per share (EPS) | Rs. | **116.14** | 100.15 | 71.04 | 28.71 | 56.60 | 36.46 |
| Price earning ratio | Times | **37.02** | 17.07 | 15.56 | 45.82 | 29.31 | 36.34 |
| Dividend yield ratio | Times | **0.03** | 0.06 | 0.06 | 0.03 | 0.02 | 0.07 |
| Dividend payout ratio - earnings | Times | **1.00** | 1.00 | 1.00 | 1.18 | 0.64 | 2.55 |
| Dividend payout ratio - par value | Times | **11.60** | 10.00 | 7.10 | 3.40 | 3.60 | 9.30 |
| Dividend Cover ratio | Times | **1.00** | 1.00 | 1.00 | 0.84 | 1.57 | 0.39 |
| Cash dividend | Rs. | **116** | 100 | 71 | 34 | 36 | 93 |
| Market Value - low | Rs. | **1,615** | 1,045 | 816 | 1,140 | 1,389 | 516 |
| Market Value - high | Rs. | **4,410** | 1,850 | 1,484 | 1,577 | 1,858 | 1,325 |
| Market Value - year end | Rs. | **4,300** | 1,710 | 1,105 | 1,300 | 1,659 | 1,325 |
| Breakup value per share without surplus on revaluation of fixed assets | Rs. | **95.96** | 79.83 | 65.67 | 43.63 | 48.92 | 32.31 |
| **Capital Structure Ratios** | | | | | | | |
| Financial leverage ratio | Times | **0.10** | 0.19 | 0.42 | 0.55 | 0.81 | - |
| Interest cover ratio | Times | **544.03** | 271.00 | 71.00 | 13.00 | 30.14 | 70.31 |

# Performance Indicators for 6 years

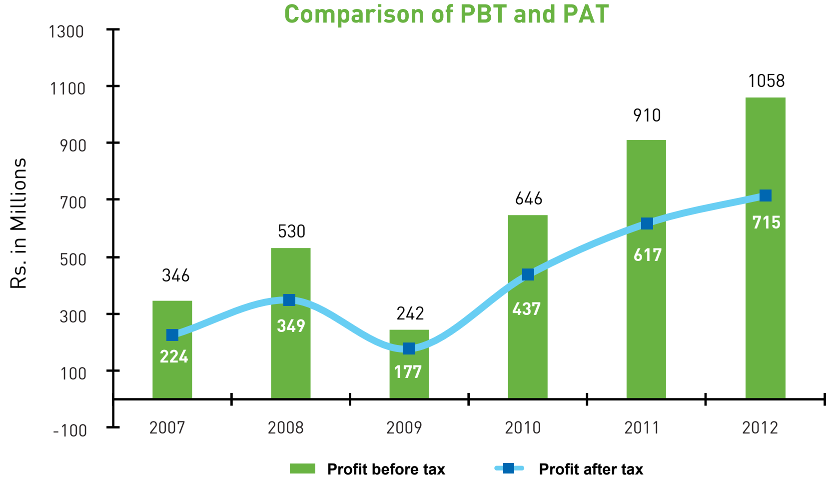
## Comparison of EPS and DPS




## Share Price Trend




## Comparison of PBT and PAT

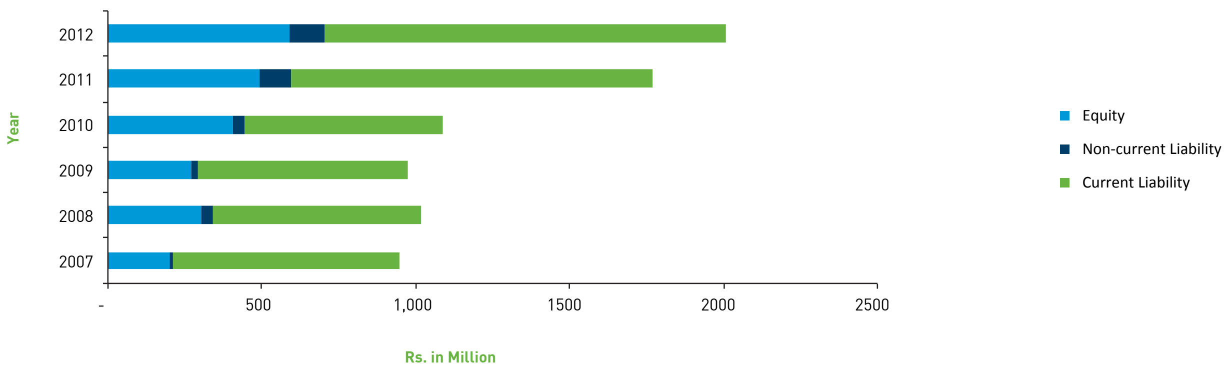


# Balance Sheet Horizontal Analysis for 6 years

(Rs. in thousand)

| | 2012 Rs. | 12 Vs.11 % | 2011 Rs. | 11 Vs.10 % | 2010 Rs. | 10 Vs.09 % | 2009 Rs. | 09 Vs.08 % | 2008 Rs. | 08 Vs.07 % | 2007 Rs. | 07 Vs.06 % |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | | | | | | | | | | |
| **Capital and reserves** | | | | | | | | | | | | |
| Share capital | 61,576 | - | 61,576 | - | 61,576 | - | 61,576 | - | 61,576 | - | 61,576 | - |
| Reserves | 529,369 | 23.12 | 429,959 | 25.42 | 342,819 | 65.55 | 207,080 | (13.59) | 239,647 | 74.41 | 137,406 | (72.40) |
| | 590,945 | 20.22 | 491,535 | 21.55 | 404,395 | 50.53 | 268,656 | (10.81) | 301,223 | 51.38 | 198,982 | (64.43) |
| **Non-current liabilities** | | | | | | | | | | | | |
| Retirement benefits - obligation | 3,922 | (77.61) | 17,519 | 95.98 | 8,939 | 11.82 | 7,994 | 63.51 | 4,889 | (14.99) | 5,751 | (18.86) |
| Deferred taxation | 107,900 | 24.01 | 87,010 | 197.54 | 29,243 | 67.07 | 17,503 | (52.94) | 37,190 | 354.92 | 8,175 | 48.15 |
| | 111,822 | 6.98 | 104,529 | 173.77 | 38,182 | 49.75 | 25,497 | (39.41) | 42,079 | 202.16 | 13,926 | 10.47 |
| **Current liabilities** | | | | | | | | | | | | |
| Trade and other payables | 1,213,083 | 17.73 | 1,030,383 | 137.94 | 433,047 | (15.45) | 512,182 | 23.22 | 415,673 | 14.36 | 363,467 | 24.64 |
| Provision | 7,508 | (70.92) | 25,817 | 158.17 | 10,000 | 100.00 | - | - | - | - | - | - |
| Accrued interest / mark up | 895 | 492.72 | 151 | (92.52) | 2,020 | 113.08 | 948 | (87.05) | 7,318 | 1.44 | 7,214 | 153.84 |
| Taxation - provision less payments | 11,692 | 100.00 | - | - | - | - | - | - | - | (100.00) | 592 | (97.03) |
| Sales tax payable | 4,640 | (77.06) | 20,227 | (36.04) | 31,625 | 68.42 | 18,778 | 179.06 | 6,729 | (98.14) | 362,367 | - |
| Short term borrowings | 64,897 | (31.34) | 94,526 | (44.46) | 170,204 | 14.40 | 148,775 | (38.67) | 242,591 | - | - | - |
| | 1,302,715 | 11.24 | 1,171,104 | 81.03 | 646,896 | (4.96) | 680,683 | 1.25 | 672,311 | (8.36) | 733,640 | 133.36 |
| | 2,005,482 | 13.49 | 1,767,168 | 62.20 | 1,089,473 | 11.76 | 974,836 | (4.02) | 1,015,613 | 7.30 | 946,548 | 6.78 |
| **ASSETS** | | | | | | | | | | | | |
| **Non-current assets** | | | | | | | | | | | | |
| Property, plant and equipment | 649,333 | 4.61 | 620,702 | 106.40 | 300,726 | 4.10 | 288,872 | (6.12) | 307,707 | 56.71 | 196,350 | 91.92 |
| Intangible assets | 81,637 | 0.00 | 81,637 | - | 81,637 | - | 81,637 | (54.93) | 181,145 | - | 181,145 | - |
| Long term loans | 22,477 | (12.27) | 25,621 | 1,087.81 | 2,157 | (34.42) | 3,289 | (31.99) | 4,836 | (18.98) | 5,969 | 6,682.95 |
| Long term prepayment | - | (100.00) | 2,894 | 2,160.94 | 128 | (63.94) | 355 | (93.53) | 5,488 | (32.13) | 8,086 | 1,130.75 |
| Retirement benefit - prepayment | 3,460 | 100.00 | - | - | - | - | - | - | - | - | 2,580 | (50.73) |
| | 756,907 | 3.56 | 730,854 | 90.01 | 384,648 | 2.81 | 374,153 | (25.05) | 499,176 | 26.65 | 394,130 | 36.17 |
| **Current assets** | | | | | | | | | | | | |
| Stores and spares | 16,983 | 1.69 | 16,700 | (4.34) | 17,458 | 19.28 | 14,636 | 6.03 | 13,804 | 37.70 | 10,025 | 1.83 |
| Stock in trade | 750,374 | 26.50 | 593,162 | 65.64 | 358,094 | 7.27 | 333,840 | (5.27) | 352,394 | (6.77) | 378,002 | 35.07 |
| Trade debts | 146,113 | (22.51) | 188,563 | 95.19 | 96,606 | 21.29 | 79,649 | 59.37 | 49,976 | (43.27) | 88,101 | 37.06 |
| Loans and advances | 12,682 | (34.51) | 19,366 | 31.66 | 14,709 | 22.95 | 11,963 | (36.69) | 18,897 | 23.77 | 15,268 | 10.41 |
| Trade deposits and short term prepayments | 39,603 | (24.98) | 52,793 | 160.96 | 20,230 | 12.15 | 18,039 | (47.15) | 34,132 | 122.88 | 15,314 | 23.08 |
| Other receivables | 80,918 | 180.30 | 28,868 | 199.52 | 9,638 | (36.95) | 15,287 | 506.87 | 2,519 | (73.25) | 9,418 | (65.67) |
| Taxation - payments less provision | - | (100.00) | 43,650 | (59.45) | 107,654 | 24.35 | 86,573 | 135.94 | 36,693 | - | - | - |
| Cash and bank balances | 201,902 | 116.61 | 93,212 | 15.88 | 80,436 | 97.65 | 40,696 | 407.30 | 8,022 | (50.33) | 16,151 | (90.62) |
| Accrued interest / mark up | - | 100.00 | - | - | - | - | - | - | - | (100.00) | 7,994 | (21.37) |
| Sales tax refundable | - | 100.00 | - | - | - | - | - | - | - | (100.00) | 12,145 | 71.90 |
| | 1,248,575 | 20.48 | 1,036,314 | 47.03 | 704,825 | 17.34 | 600,683 | 16.31 | 516,437 | (6.51) | 552,418 | (7.47) |
| | 2,005,482 | 13.49 | 1,767,168 | 62.20 | 1,089,473 | 11.76 | 974,836 | (4.02) | 1,015,613 | 7.30 | 946,548 | 6.78 |

## Balance Sheet Analysis - Equity & Liabilities



# Balance Sheet Vertical Analysis for 6 years

(Rs. in thousand)

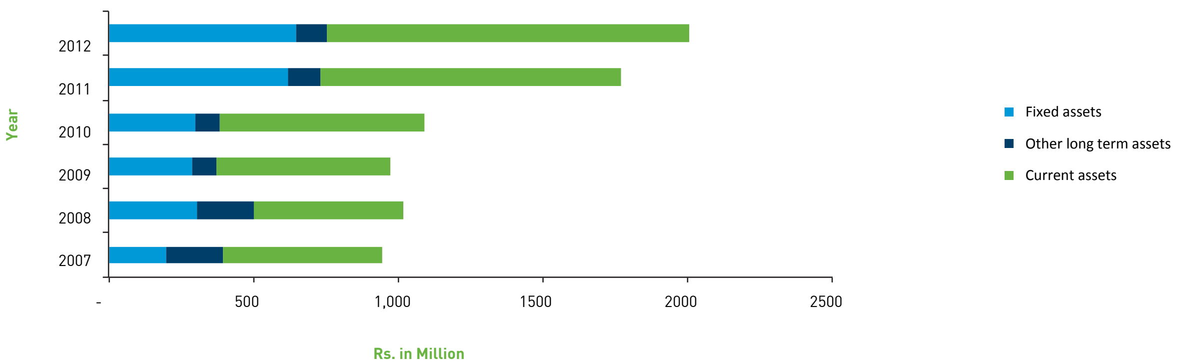
## EQUITY AND LIABILITIES

| | 2012 | | 2011 | | 2010 | | 2009 | | 2008 | | 2007 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Rs. | % | Rs. | % | Rs. | % | Rs. | % | Rs. | % | Rs. | % |
| **Capital and reserves** | | | | | | | | | | | | |
| Share capital | 61,576 | 3.07 | 61,576 | 3.48 | 61,576 | 5.65 | 61,576 | 6.32 | 61,576 | 6.06 | 61,576 | 6.51 |
| Reserves | 529,369 | 26.40 | 429,959 | 24.33 | 342,819 | 31.47 | 207,080 | 21.24 | 239,647 | 23.60 | 137,406 | 14.52 |
| | 590,945 | 29.47 | 491,535 | 27.81 | 404,395 | 37.12 | 268,656 | 27.56 | 301,223 | 29.66 | 198,982 | 21.02 |
| **Non-current liabilities** | | | | | | | | | | | | |
| Retirement benefits - obligation | 3,922 | 0.20 | 17,519 | 0.99 | 8,939 | 0.82 | 7,994 | 0.82 | 4,889 | 0.48 | 5,751 | 0.61 |
| Deferred taxation | 107,900 | 5.38 | 87,010 | 4.92 | 29,243 | 2.68 | 17,503 | 1.80 | 37,190 | 3.66 | 8,175 | 0.86 |
| | 111,822 | 5.58 | 104,529 | 5.92 | 38,182 | 3.50 | 25,497 | 2.62 | 42,079 | 4.14 | 13,926 | 1.47 |
| **Current liabilities** | | | | | | | | | | | | |
| Trade and other payables | 1,213,083 | 60.49 | 1,030,383 | 58.31 | 433,047 | 39.75 | 512,182 | 52.54 | 415,673 | 40.93 | 363,467 | 38.40 |
| Provision | 7,508 | 0.37 | 25,817 | 1.46 | 10,000 | 0.92 | - | - | - | - | - | - |
| Accrued interest / mark up | 895 | 0.04 | 151 | 0.01 | 2,020 | 0.19 | 948 | 0.10 | 7,318 | 0.72 | 7,214 | 0.76 |
| Taxation - provision less payments | 11,692 | 0.58 | - | - | - | - | - | - | - | - | 592 | 0.06 |
| Sales tax payable | 4,640 | 0.23 | 20,227 | 1.14 | 31,625 | 2.90 | 18,778 | 1.93 | 6,729 | 0.66 | 362,367 | 38.28 |
| Short term borrowings | 64,897 | 3.24 | 94,526 | 5.35 | 170,204 | 15.62 | 148,775 | 15.26 | 242,591 | 23.89 | - | - |
| | 1,302,715 | 64.96 | 1,171,104 | 66.27 | 646,896 | 59.38 | 680,683 | 69.83 | 672,311 | 66.20 | 733,640 | 77.51 |
| | 2,005,482 | 100.00 | 1,767,168 | 100.00 | 1,089,473 | 100.00 | 974,836 | 100.00 | 1,015,613 | 100.00 | 946,548 | 100.00 |

## ASSETS

| | 2012 Rs. | 2012 % | 2011 Rs. | 2011 % | 2010 Rs. | 2010 % | 2009 Rs. | 2009 % | 2008 Rs. | 2008 % | 2007 Rs. | 2007 % |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Non-current assets** | | | | | | | | | | | | |
| Property, plant and equipment | 649,333 | 32.38 | 620,702 | 35.12 | 300,726 | 27.60 | 288,872 | 29.63 | 307,707 | 30.30 | 196,350 | 20.74 |
| Intangible assets | 81,637 | 4.07 | 81,637 | 4.62 | 81,637 | 7.49 | 81,637 | 8.37 | 181,145 | 17.84 | 181,145 | 19.14 |
| Long term loans | 22,477 | 1.12 | 25,621 | 1.45 | 2,157 | 0.20 | 3,289 | 0.34 | 4,836 | 0.48 | 5,969 | 0.63 |
| Long term prepayment | - | - | 2,894 | 0.16 | 128 | 0.01 | 355 | 0.04 | 5,488 | 0.54 | 8,086 | 0.85 |
| Retirement benefit - prepayment | 3,460 | 0.17 | - | - | - | - | - | - | - | - | 2,580 | 0.27 |
| | 756,907 | 37.74 | 730,854 | 41.36 | 384,648 | 35.31 | 374,153 | 38.38 | 499,176 | 49.15 | 394,130 | 41.64 |
| **Current assets** | | | | | | | | | | | | |
| Stores and spares | 16,983 | 0.85 | 16,700 | 0.95 | 17,458 | 1.60 | 14,636 | 1.50 | 13,804 | 1.36 | 10,025 | 1.06 |
| Stock in trade | 750,374 | 37.42 | 593,162 | 33.57 | 358,094 | 32.87 | 333,840 | 34.25 | 352,394 | 34.70 | 378,002 | 39.93 |
| Trade debts | 146,113 | 7.29 | 188,563 | 10.67 | 96,606 | 8.87 | 79,649 | 8.17 | 49,976 | 4.92 | 88,101 | 9.31 |
| Loans and advances | 12,682 | 0.63 | 19,366 | 1.10 | 14,709 | 1.35 | 11,963 | 1.23 | 18,897 | 1.86 | 15,268 | 1.61 |
| Trade deposits and short term prepayments | 39,603 | 1.97 | 52,793 | 2.99 | 20,230 | 1.86 | 18,039 | 1.85 | 34,132 | 3.36 | 15,314 | 1.62 |
| Other receivables | 80,918 | 4.03 | 28,868 | 1.63 | 9,638 | 0.88 | 15,287 | 1.57 | 2,519 | 0.25 | 9,418 | 0.99 |
| Taxation - payments less provision | - | - | 43,650 | 2.47 | 107,654 | 9.88 | 86,573 | 8.88 | 36,693 | 3.61 | - | - |
| Cash and bank balances | 201,902 | 10.07 | 93,212 | 5.27 | 80,436 | 7.38 | 40,696 | 4.17 | 8,022 | 0.79 | 16,151 | 1.71 |
| Accrued interest / mark up | - | - | - | - | - | - | - | - | - | - | 7,994 | 0.84 |
| Sales tax refundable | - | - | - | - | - | - | - | - | - | - | 12,145 | 1.28 |
| | 1,248,575 | 62.26 | 1,036,314 | 58.64 | 704,825 | 64.69 | 600,683 | 61.62 | 516,437 | 50.85 | 552,418 | 58.36 |
| | 2,005,482 | 100.00 | 1,767,168 | 100.00 | 1,089,473 | 100.00 | 974,836 | 100.00 | 1,015,613 | 100.00 | 946,548 | 100.00 |

### Balance Sheet Analysis - Assets



# Profit and Loss Account

## Horizontal Analysis for 6 years

(Rs. in thousand)

| | 2012 Rs. | 12 Vs.11 % | 2011 Rs. | 11 Vs.10 % | 2010 Rs. | 10 Vs.09 % | 2009 Rs. | 09 Vs.08 % | 2008 Rs. | 08 Vs.07 % | 2007 Rs. | 07 Vs.06 % |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Sales | 5,861,096 | 18.64 | 4,940,251 | 22.26 | 4,040,887 | 19.68 | 3,376,511 | 9.56 | 3,081,879 | 29.69 | 2,376,408 | 22.53 |
| Cost of sales | (3,633,950) | 20.51 | (3,015,502) | 20.33 | (2,506,003) | 18.09 | (2,122,144) | 13.19 | (1,874,921) | 26.00 | (1,488,073) | 23.16 |
| Gross profit | 2,227,146 | 15.71 | 1,924,749 | 25.40 | 1,534,884 | 22.36 | 1,254,367 | 3.93 | 1,206,958 | 35.87 | 888,335 | 21.48 |
| Distribution cost | (1,004,044) | 18.12 | (850,012) | 8.06 | (786,593) | (1.34) | (797,304) | 38.49 | (575,726) | 20.59 | (477,416) | 17.60 |
| Administrative expenses | (149,174) | 7.17 | (139,198) | 170.04 | (51,547) | 2.64 | (50,219) | (13.45) | (58,021) | 23.44 | (47,004) | 21.04 |
| Other operating expenses | (81,316) | 14.91 | (70,767) | 36.59 | (51,810) | (56.92) | (120,275) | 189.10 | (41,603) | 44.09 | (28,873) | 25.80 |
| Other operating income | 73,820 | (10.61) | 82,582 | 250.28 | 23,576 | (21.83) | 30,161 | 44.06 | 20,936 | 6.05 | 19,742 | (36.25) |
| | 1,066,432 | 12.57 | 947,354 | 41.71 | 668,510 | 111.07 | 316,730 | (42.68) | 552,544 | 55.74 | 354,784 | 20.49 |
| Restructuring cost | - | (100.00) | (30,359) | 197.58 | (10,202) | (80.59) | (52,557) | 100.00 | - | - | - | - |
| Profit from operations | 1,066,432 | 16.30 | 916,995 | 39.30 | 658,308 | 149.20 | 264,173 | (52.19) | 552,544 | 55.74 | 354,784 | 20.49 |
| Finance cost | (8,066) | 17.53 | (6,863) | (44.87) | (12,449) | (44.71) | (22,517) | 1.28 | (22,233) | 155.26 | (8,710) | 100.46 |
| Profit before taxation | 1,058,366 | 16.29 | 910,132 | 40.92 | 645,859 | 167.26 | 241,656 | (54.43) | 530,311 | 53.24 | 346,074 | 19.29 |
| Taxation | (343,194) | 16.96 | (293,437) | 40.81 | (208,396) | 221.28 | (64,864) | (64.31) | (181,765) | 49.50 | (121,582) | 19.04 |
| Profit after taxation | 715,172 | 15.97 | 616,695 | 40.97 | 437,463 | 147.45 | 176,792 | (49.28) | 348,546 | 55.26 | 224,492 | 19.42 |
| Other comprehensive income | - | - | - | - | - | - | - | - | - | - | - | - |
| Total comprehensive income | 715,172 | 15.97 | 616,695 | 40.97 | 437,463 | 147.45 | 176,792 | (49.28) | 348,546 | 55.26 | 224,492 | 19.42 |

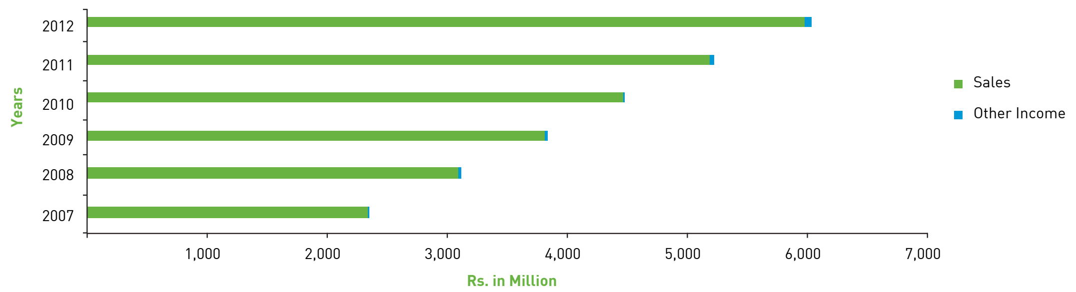
## Vertical Analysis for 6 years

(Rs. in thousand)

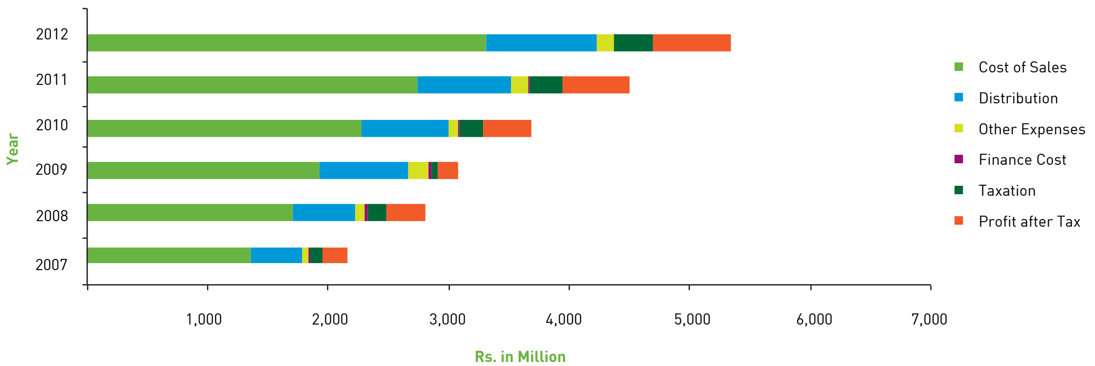
| | 2012 Rs. | 2012 % | 2011 Rs. | 2011 % | 2010 Rs. | 2010 % | 2009 Rs. | 2009 % | 2008 Rs. | 2008 % | 2007 Rs. | 2007 % |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Sales | 5,861,096 | 100.00 | 4,940,251 | 100.00 | 4,040,887 | 100.00 | 3,376,511 | 100.00 | 3,081,879 | 100.00 | 2,376,408 | 100.00 |
| Cost of sales | (3,633,950) | (62.00) | (3,015,502) | (61.04) | (2,506,003) | (62.02) | (2,122,144) | (62.85) | (1,874,921) | (60.84) | (1,488,073) | (62.62) |
| Gross profit | 2,227,146 | 38.00 | 1,924,749 | 38.96 | 1,534,884 | 37.98 | 1,254,367 | 37.15 | 1,206,958 | 39.16 | 888,335 | 37.38 |
| Distribution cost | (1,004,044) | (17.13) | (850,012) | (17.21) | (786,593) | (19.47) | (797,304) | (23.61) | (575,726) | (18.68) | (477,416) | (20.09) |
| Administrative expenses | (149,174) | (2.55) | (139,198) | (2.82) | (51,547) | (1.28) | (50,219) | (1.49) | (58,021) | (1.88) | (47,004) | (1.98) |
| Other operating expenses | (81,316) | (1.39) | (70,767) | (1.43) | (51,810) | (1.28) | (120,275) | (3.56) | (41,603) | (1.35) | (28,873) | (1.21) |
| Other operating income | 73,820 | 1.26 | 82,582 | 1.67 | 23,576 | 0.58 | 30,161 | 0.89 | 20,936 | 0.68 | 19,742 | 0.83 |
| | 1,066,432 | 18.20 | 947,354 | 19.18 | 668,510 | 16.54 | 316,730 | 9.38 | 552,544 | 17.93 | 354,784 | 14.93 |
| Restructuring cost | - | - | (30,359) | (0.61) | (10,202) | (0.25) | (52,557) | (1.56) | - | - | - | - |
| Profit from operations | 1,066,432 | 18.20 | 916,995 | 18.56 | 658,308 | 16.29 | 264,173 | 7.82 | 552,544 | 17.93 | 354,784 | 14.93 |
| Finance cost | (8,066) | (0.14) | (6,863) | (0.14) | (12,449) | (0.31) | (22,517) | (0.67) | (22,233) | (0.72) | (8,710) | (0.37) |
| Profit before taxation | 1,058,366 | 18.06 | 910,132 | 18.42 | 645,859 | 15.98 | 241,656 | 7.16 | 530,311 | 17.21 | 346,074 | 14.56 |
| Taxation | (343,194) | (5.86) | (293,437) | (5.94) | (208,396) | (5.16) | (64,864) | (1.92) | (181,765) | (5.90) | (121,582) | (5.12) |
| Profit after taxation | 715,172 | 12.20 | 616,695 | 12.48 | 437,463 | 10.83 | 176,792 | 5.24 | 348,546 | 11.31 | 224,492 | 9.45 |
| Other comprehensive income | - | - | - | - | - | - | - | - | - | - | - | - |
| Total comprehensive income | 715,172 | 12.20 | 616,695 | 12.48 | 437,463 | 10.83 | 176,792 | 5.24 | 348,546 | 11.31 | 224,492 | 9.45 |

# Graphical Analysis

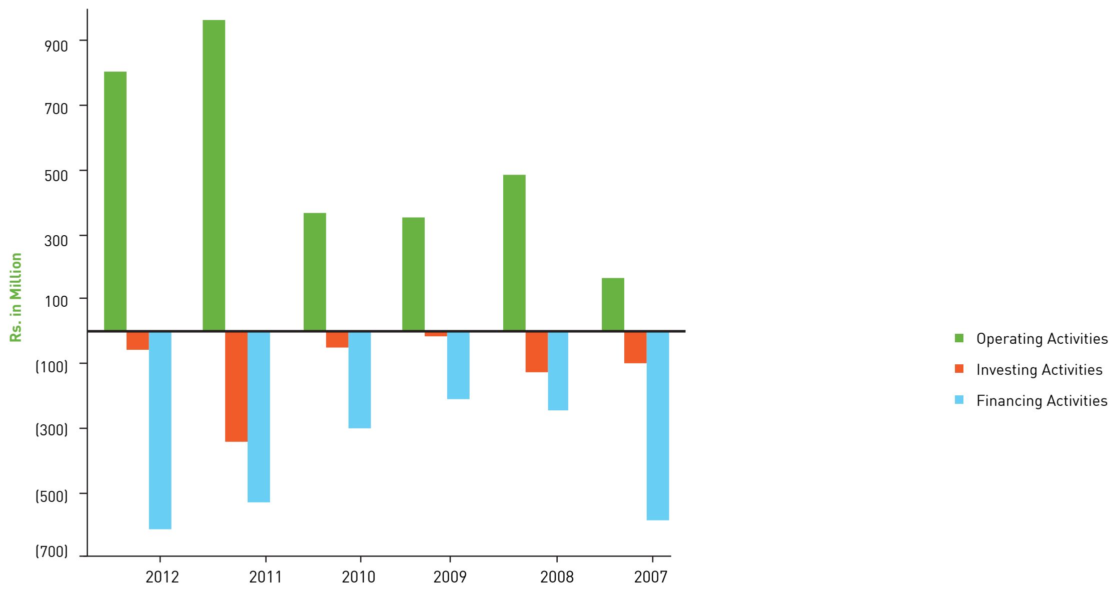
## Profit and Loss Analysis - Income




## Profit and Loss Analysis - Expenses



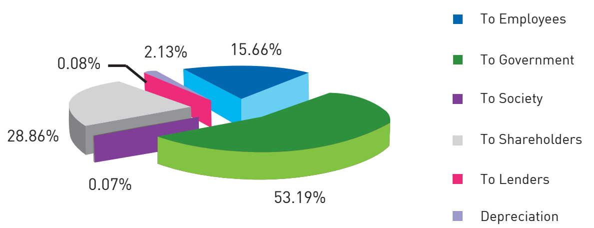

## Cash Flow Analysis



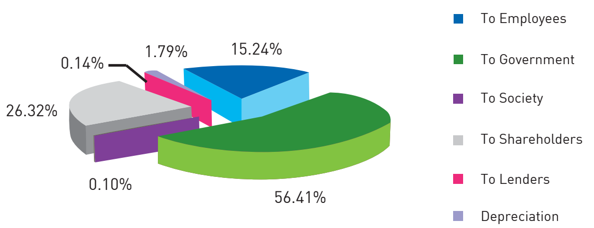
# Statement of Value Addition and its Distribution

| | 2012 Rs. in '000 | % | 2011 Rs. in '000 | % |
|---|---|---|---|---|
| **WEALTH GENERATED** | | | | |
| Total revenue inclusive of sales tax and other income | 6,597,104 | | 5,898,757 | |
| Bought-in material and services | (4,119,399) | | (3,556,109) | |
| | 2,477,705 | 100 | 2,342,649 | 100 |
| **WEALTH DISTRIBUTION** | | | | |
| **To Employees** | | | | |
| Salaries, benefits and other costs | 388,056 | 15.66 | 356,914 | 15.24 |
| **To Government** | | | | |
| Income tax, sales tax, excise duty, custom duty, WWF and WPPF | 1,317,995 | 53.19 | 1,321,441 | 56.41 |
| **To Society** | | | | |
| Donation towards education, health and environment | 1,654 | 0.07 | 2,263 | 0.10 |
| **To Providers of Capital** | | | | |
| Dividend to shareholders | 715,172 | 28.86 | 616,695 | 26.32 |
| Mark-up/ interest expenses on borrowed funds | 1,949 | 0.08 | 3,372 | 0.14 |
| **To Company** | | | | |
| Depreciation, amortization and retained profit | 52,879 | 2.13 | 41,964 | 1.79 |
| | 2,477,705 | 100 | 2,342,649 | 100 |

**WEALTH DISTRIBUTION 2012**




WEALTH DISTRIBUTION 2011



# Pattern of Shareholding
## As at December 31, 2012

| Number of Shareholders | Shareholding From | Shareholding To | Total Number of Shares Held |
|---|---|---|---|
| 655 | 1 | 100 | 22,475 |
| 98 | 101 | 500 | 18,896 |
| 19 | 501 | 1,000 | 12,143 |
| 8 | 1,001 | 5,000 | 19,862 |
| 2 | 20,001 | 25,000 | 44,581 |
| 1 | 25,001 | 30,000 | 28,760 |
| 1 | 35,001 | 40,000 | 37,080 |
| 3 | 40,001 | 45,000 | 131,552 |
| 1 | 60,001 | 65,000 | 61,670 |
| 1 | 65,001 | 70,000 | 67,180 |
| 2 | 75,001 | 80,000 | 153,573 |
| 1 | 90,001 | 95,000 | 94,344 |
| 2 | 95,001 | 100,000 | 191,847 |
| 1 | 110,001 | 115,000 | 113,860 |
| 1 | 130,001 | 135,000 | 134,865 |
| 1 | 150,001 | 155,000 | 153,728 |
| 1 | 200,001 | 205,000 | 200,947 |
| 1 | 4,670,001 | 4,675,000 | 4,670,255 |
| 799 | | | 6,157,618 |

| Shareholders' Categories | Number of Shareholders | Number of Shares Held | Percentage (%) |
|---|---|---|---|
| Associated Companies, Undertakings and Related Parties | 1 | 4,670,255 | 75.85 |
| Directors, CEO and their spouses and minor children | 11 | 369,699 | 6.00 |
| Executives | 1 | 2 | 0.00 |
| Banks, Development Finance Institutions, Non-Banking Finance Institutions | 1 | 867 | 0.01 |
| Modarabas and Mutual Funds | 1 | 2,212 | 0.04 |
| General Public | | | |
| a. Local | 763 | 1,112,598 | 18.07 |
| b. Foreign | 8 | 8 | 0.00 |
| Others | 13 | 1,977 | 0.03 |
| | 799 | 6,157,618 | 100.00 |

**Shareholders holding 5% or more voting rights:**

| | | | |
|---|---|---|---|
| Conopco Inc. | 1 | 4,670,255 | 75.85 |

# Pattern of Shareholding Additional Information
## As at December 31, 2012

Information on shareholding required under reporting framework of the Code of Corporate Governance is as follows:

| | Shareholders' Category | Number of Shareholders | Number of Shares Held |
|---|---|---|---|
| i) | Associated Companies, Undertakings and Related Parties (name wise details) | | |
| | Conopco Inc. | 1 | 4,670,255 |
| ii) | Mutual Funds (name wise details) | - | - |
| iii) | Directors and their spouses and minor children (name wise details) | | |
| | Mr. Ehsan A. Malik | 1 | 1 |
| | Ms. Fariyha Subhani | 1 | 1 |
| | Mr. Imran Husain | 1 | 1 |
| | Mian Zulfikar H. Mannoo | 1 | 153,828 |
| | Mrs. Sarwat Zulfikar W/o Mian Zulfikar H. Mannoo | 1 | 5,430 |
| | Ms. Amna Mannoo D/o Mian Zulfikar H. Mannoo | 1 | 29 |
| | Mian M. Adil Mannoo | 1 | 96,246 |
| | Mr. Kamal Monnoo | 1 | 114,060 |
| | Mr. Badaruddin F. Vellani | 1 | 101 |
| | Ms. Shazia Syed | 1 | 1 |
| | Mr. Noman A. Lutfi | 1 | 1 |
| iv) | Executives | 1 | 2 |
| v) | Public Sector Companies & Corporation | - | - |
| vi) | Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance Companies, Takaful, Modarabas and Pension Funds | 2 | 3,079 |
| vii) | Shareholders holding 5% or more voting rights (name wise details) | | |
| | Conopco Inc. | 1 | 4,670,255 |

# Dealings in Shares by Directors, Executives and their spouses and minor children

## During 01-01-2012 to 31-12-2012

| S.No. | Name | Acquired during the year |
|---|---|---|
| 1 | Mr. Noman A. Lutfi | 1 |
| 2 | Ms. Amna Mannoo D/o Mian Zulfikar H. Mannoo | 29 |

| S.No. | Name | Transferred during the year |
|---|---|---|
| 1 | Mr. M. Qaysar Alam | 1 |

# Statement of Compliance with the Code of Corporate Governance

This statement is being presented to comply with the Code of Corporate Governance (the Code), set out in the listing regulations of Stock Exchanges in Pakistan 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 directors representing minority interests on its Board of Directors. At present the Board includes:

| **Category** | **Names** |
|---|---|
| Independent Directors | None |
| Executive Directors | 1- Mr. Ehsan A. Malik<br>2- Ms. Fariyha Subhani<br>3- Mr. Imran Husain<br>4- Ms. Shazia Syed<br>5- Mr. Noman A. Lutfi |
| Non-Executive Directors | 1- Mian Zulfikar H. Mannoo<br>2- Mian M. Adil Mannoo<br>3- Mr. Kamal Monnoo<br>4- Mr. Badaruddin F. Vellani |

2. The Directors have confirmed that none of them is serving as a director in more than seven listed companies, including this Company.

3. All the resident Directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFI or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.

4. A casual vacancy in the Board of Directors occurred on May 31, 2012, which was filled up by the Directors within 7 days.

5. The Company has adopted a "Code of Conduct" and has ensured that appropriate steps have been taken to disseminate it throughout the Company along with its supporting policies and procedures.

6. The Company has a Vision Statement. The Company, traditionally, maintains and follows policies designed to align with the Unilever group of companies and global best practices. The Board considers any significant amendments to the policies, as and when required. However, a complete record of particulars of significant policies along with the dates on which these were enacted has been maintained.

7. All the powers of the Board have been duly exercised and decisions on material transactions, based on the significance of the matters involved, 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 7 days before the meetings. The minutes of the meetings were appropriately recorded and circulated.

9. All the Directors of the Company have completed certification program under the Directors' Training Program.

10. 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.

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

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

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

14. The Board has formed an Audit Committee. It comprises of three members, two of whom are Non-Executive Directors.

15. 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.

16. The Board has formed a Human Resource and Remuneration (HR&R) Committee. It comprises of three members, two of whom are Non-Executive Directors and the Chairman of the Committee is a Non-Executive Director.

17. The Internal Audit function of the Company is performed by Unilever Pakistan Limited (an associated Company) through shared service arrangements, which has employed suitably qualified and experienced audit staff for the purpose. The said audit staff are conversant with the policies and procedures of the Company and involved in the Internal Audit function on a full time basis. The Company has applied to obtain the concurrence of SECP on these arrangements,

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 the 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. The "closed period", prior to the announcement of interim and final results, and business decisions, which may materially affect the market price of Company's Securities, was determined and intimated to directors, employees and Stock Exchanges.

21. Material/price sensitive information has been disseminated among all market participants at once through Stock Exchanges.

22. The related party transactions have been placed before the Audit Committee and approved by the Board of Directors.

23. We confirm that all material principles enshrined in the Code have been complied with except for any exception already disclosed hereinabove.

**Fariyha Subhani**
Chief Executive

Karachi
February 21, 2013

# Auditors' Review Report

## Review report to the members on statement of compliance with the Code of Corporate Governance

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance (the Statement) prepared by the Board of Directors of Unilever Pakistan Foods Limited to comply with the Listing Regulation No. 35 of the Karachi and Lahore Stock Exchanges where the company is listed.

The responsibility for compliance with the Code of Corporate Governance (the Code) 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 Company's compliance with the provisions of the Code and report if it does not, and to highlight any non-compliance with the requirements of the Code. 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.

Further, the Code requires the company to place before the audit committee, and upon recommendation of the audit committee, before the board of directors for their review and approval related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the board of directors upon recommendation of the audit committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the company for the year ended December 31, 2012.

As mentioned in the Statement (point reference 17 of the Statement), the internal audit function of the company is performed by its associated company through shared services arrangements. The company has applied to obtain concurrence of SECP on this arrangement which is awaited.

**A. F. Ferguson & Co.**
Chartered Accountants

Karachi
Dated: March 12, 2013

# Financial Statement

# Auditors' Report to the Members

We have audited the annexed balance sheet of Unilever Pakistan Foods Limited as at December 31, 2012 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 December 31, 2012 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: March 12, 2013
Name of Engagement Partner: Farrukh Rehman

# Balance Sheet

as at December 31, 2012

| | Note | 2012 | 2011 |
|---|---|---|---|
| | | (Rupees in thousand) | |
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 4 | 649,333 | 620,702 |
| Intangible assets | 5 | 81,637 | 81,637 |
| Long term loans | 6 | 22,477 | 25,621 |
| Long term prepayment | 7 | - | 2,894 |
| Retirement benefit - prepayment | 17 | 3,460 | - |
| | | 756,907 | 730,854 |
| **Current assets** | | | |
| Stores and spares | 8 | 16,983 | 16,700 |
| Stock in trade | 9 | 750,374 | 593,162 |
| Trade debts | 10 | 146,113 | 188,563 |
| Loans and advances | 11 | 12,682 | 19,366 |
| Trade deposits and short term prepayments | 12 | 39,603 | 52,793 |
| Other receivables | 13 | 80,918 | 28,868 |
| Taxation - payments less provision | | - | 43,650 |
| Cash and bank balances | 14 | 201,902 | 93,212 |
| | | 1,248,575 | 1,036,314 |
| **Total assets** | | 2,005,482 | 1,767,168 |

# Balance Sheet

as at December 31, 2012

| | Note | 2012 | 2011 |
|---|---|---|---|
| | | (Rupees in thousand) | |
| **EQUITY AND LIABILITIES** | | | |
| **Capital and reserves** | | | |
| Share capital | 15 | 61,576 | 61,576 |
| Reserves | 16 | 529,369 | 429,959 |
| | | 590,945 | 491,535 |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Retirement benefit - obligation | 17 | 3,922 | 17,519 |
| Deferred taxation | 18 | 107,900 | 87,010 |
| | | 111,822 | 104,529 |
| **Current liabilities** | | | |
| Trade and other payables | 19 | 1,213,083 | 1,030,383 |
| Provisions | 20 | 7,508 | 25,817 |
| Accrued interest / mark up | | 895 | 151 |
| Short term borrowings | 21 | 64,897 | 94,526 |
| Sales tax payable | 22 | 4,640 | 20,227 |
| Taxation - provision less payments | | 11,692 | - |
| | | 1,302,715 | 1,171,104 |
| **Total liabilities** | | 1,414,537 | 1,275,633 |
| **Contingency and commitments** | 23 | | |
| **Total equity and liabilities** | | 2,005,482 | 1,767,168 |

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

**Fariyha Subhani**
Chief Executive

**Imran Husain**
Director and Chief Financial Officer

# Profit and Loss Account

for the year ended December 31, 2012

| | Note | 2012 | 2011 |
|---|---|---|---|
| | | (Rupees in thousand) | |
| Sales | 24 | **5,861,096** | 4,940,251 |
| Cost of sales | 25 | **(3,633,950)** | (3,015,502) |
| Gross profit | | **2,227,146** | 1,924,749 |
| Distribution cost | 26 | **(1,004,044)** | (850,012) |
| Administrative expenses | 27 | **(149,174)** | (139,198) |
| Other operating expenses | 28 | **(81,316)** | (70,767) |
| Other operating income | 29 | **73,820** | 82,582 |
| | | **1,066,432** | 947,354 |
| Restructuring cost | | **-** | (30,359) |
| Profit from operations | | **1,066,432** | 916,995 |
| Finance cost | 30 | **(8,066)** | (6,863) |
| Profit before taxation | | **1,058,366** | 910,132 |
| Taxation | 31 | **(343,194)** | (293,437) |
| Profit after taxation | | **715,172** | 616,695 |
| Other comprehensive income | | **-** | - |
| Total comprehensive income | | **715,172** | 616,695 |
| Basic and diluted earnings per share (Rupees) | 32 | **116** | 100 |

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

**Fariyha Subhani**
Chief Executive

**Imran Husain**
Director and Chief Financial Officer

# Cash Flow Statement

for the year ended December 31, 2012

| | Note | 2012 | 2011 |
|---|---|---|---|
| | | (Rupees in thousand) | |
| **Cash flows from operating activities** | | | |
| Profit before taxation | | 1,058,366 | 910,132 |
| Adjustments for non-cash charges and other items | | | |
| Depreciation | | 52,879 | 41,964 |
| Gain on disposal of property, plant and equipment | | (11,614) | (1,826) |
| Provision for retirement benefits - obligation | | 21,796 | 20,269 |
| Mark-up on short term borrowings | | 1,949 | 3,372 |
| Return on savings accounts | | (15,659) | (14,164) |
| | | 49,351 | 49,615 |
| | | 1,107,717 | 959,747 |
| **Effect on cash flows due to working capital changes** | | | |
| (Increase) / Decrease in current assets | | | |
| Stores and spares | | (283) | 758 |
| Stock in trade | | (157,212) | (235,068) |
| Trade debts | | 42,450 | (91,957) |
| Loans and advances | | 6,684 | (4,657) |
| Trade deposits and short term prepayments | | 13,190 | (32,563) |
| Other receivables | | (52,050) | (19,230) |
| | | (147,221) | (382,717) |
| Increase / (Decrease) in current liabilities | | | |
| Trade and other payables | | 181,294 | 597,581 |
| Provisions | | (18,309) | 15,817 |
| Sales tax payable | | (15,587) | (11,398) |
| | | 147,398 | 602,000 |
| Cash generated from operations | | 1,107,894 | 1,179,030 |
| Mark up paid | | (1,205) | (5,241) |
| Income tax paid | | (266,962) | (171,666) |
| Retirement benefits - obligation paid | | (38,853) | (11,689) |
| Decrease / (Increase) in long term loans | | 3,144 | (23,464) |
| Decrease / (Increase) in long term prepayment | | 2,894 | (2,766) |
| **Net cash from operating activities** (carried forward) | | 806,912 | 964,204 |

# Cash Flow Statement

for the year ended December 31, 2012

| | Note | 2012 | 2011 |
|---|---|---|---|
| | | (Rupees in thousand) | |
| **Net cash from operating activities** (brought forward) | | 806,912 | 964,204 |
| **Cash used in investing activities** | | | |
| Purchase of property, plant and equipment | | (82,050) | (366,684) |
| Sale proceeds on property, plant and equipment | | 12,154 | 6,570 |
| Return received on savings accounts | | 15,659 | 14,164 |
| Net cash used in investing activities | | (54,237) | (345,950) |
| **Cash used in financing activities** | | | |
| Dividends paid | | (614,356) | (529,800) |
| Net increase in cash and cash equivalents | | 138,319 | 88,454 |
| Cash and cash equivalents at the beginning of the year | | (1,314) | (89,768) |
| Cash and cash equivalents at the end of the year | 38 | 137,005 | (1,314) |

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

**Fariyha Subhani**
Chief Executive

**Imran Husain**
Director and Chief Financial Officer

# Statement of Changes in Equity

for the year ended December 31, 2012

| | SHARE CAPITAL | RESERVES | | | | | TOTAL |
|---|---|---|---|---|---|---|---|
| | | CAPITAL | | REVENUE | | SUB TOTAL | |
| | | Share Premium | Special | General | Unappropriated Profit | | |
| | (Rupees in thousand) | | | | | | |
| Balance as at January 1, 2011 | 61,576 | 24,630 | 628 | 138 | 317,423 | 342,819 | 404,395 |
| Total comprehensive income for the year | - | - | - | - | 616,695 | 616,695 | 616,695 |
| Final dividend for the year ended December 31, 2010 @ Rs. 36 per share | - | - | - | - | (221,674) | (221,674) | (221,674) |
| Interim dividend for the year ended December 31, 2011 @ Rs. 50 per share | - | - | - | - | (307,881) | (307,881) | (307,881) |
| Balance as at December 31, 2011 | **61,576** | **24,630** | **628** | **138** | **404,563** | **429,959** | **491,535** |
| Total comprehensive income for the year | - | - | - | - | 715,172 | 715,172 | 715,172 |
| Final dividend for the year ended December 31, 2011 @ Rs. 50 per share | - | - | - | - | (307,880) | (307,880) | (307,880) |
| First interim dividend for the year ended December 31, 2012 @ Rs. 25 per share | - | - | - | - | (153,941) | (153,941) | (153,941) |
| Second interim dividend for the year ended December 31, 2012 @ Rs. 25 per share | - | - | - | - | (153,941) | (153,941) | (153,941) |
| Balance as at December 31, 2012 | **61,576** | **24,630** | **628** | **138** | **503,973** | **529,369** | **590,945** |

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

**Fariyha Subhani**
Chief Executive

**Imran Husain**
Director and Chief Financial Officer

## 1. THE COMPANY AND ITS OPERATIONS

The Company is a limited liability company incorporated in Pakistan and is listed on the Karachi and Lahore Stock Exchanges. It manufactures and sells consumer and commercial food products under brand names of Rafhan, Knorr, Energile, Glaxose-D and Foodsolutions. The registered office of the Company is situated at Avari Plaza, Fatima Jinnah Road, Karachi.

The Company is a subsidiary of Conopco Inc. USA, whereas its ultimate parent company is Unilever N.V. Holland.

## 2. SIGNIFICANT ACCOUNTING POLICIES

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

### 2.1 Basis of preparation

### 2.1.1 Statement of compliance

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

The preparation of financial statements in conformity with IFRS 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 areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

### 2.1.2 Changes in accounting standards, interpretations and pronouncements

i) **Standards, interpretations and amendments to published approved accounting standards that are effective and relevant**

There are no amended standards and interpretations that are effective for the first time in the current year that would be expected to have a material impact on the Company.

ii) **Standards, interpretations and amendments to published approved accounting standards that are effective but not relevant**

The other new standards, amendments and interpretations that are mandatory for accounting periods beginning on or after January 1, 2012 are considered not to be relevant for the Company's financial statements and hence have not been detailed here.

iii) **Standards, interpretations and amendments to published approved accounting standards that are not yet effective but relevant**

IAS 19 (Amendment) - 'Employee benefits' is applicable for the periods beginning on or after January 1, 2013. It eliminates the corridor approach and recognises all actuarial gains and losses in other comprehensive income as they occur, immediately recognises all past service costs and replaces interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability / asset. The change is not expected to have material impact on the Company's financial statements.

## 2.2 Overall valuation policy

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

## 2.3 Property, plant and equipment and depreciation

Property, plant and equipment is stated at cost less depreciation except capital work in progress which is stated at cost. Depreciation is calculated using the straight-line method on all assets in use at the beginning of each quarter to charge off their cost excluding residual value, if not insignificant, over their estimated useful lives.

The Company accounts for impairment, where indication exists, by reducing assets' carrying value to the assessed recoverable amount.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Maintenance and normal repairs are charged to income as and when incurred; also individual assets costing up to Rs. 10,000 are charged to income. Major renewals and improvements are capitalised only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

Gains and losses on disposal of property, plant and equipment are recognised in the profit and loss account.

## 2.4 Intangible assets and amortisation

Intangible assets having indefinite useful life are stated at cost less accumulated amortisation and impairment. Carrying amounts of intangibles are subject to impairment review at each balance sheet date and where conditions exist, impairment is recognised. The determination of recoverable amount is based on value-in-use calculations that require use of judgment to determine net cash flows arising from continuing use and applicable discount rate.

The useful lives of intangible assets are reviewed at each balance sheet date to determine whether events and circumstances continue to support an indefinite useful life assessment for the asset.

## 2.5 Taxation

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the profit and loss account, except to the extent that it relates to items recognised directly in equity in which case it is recognised in equity.

### 2.5.1 Current

Provision for current taxation is based on taxable income at the enacted or substantively enacted rates of taxation after taking into account available tax credits and rebates, if any, or one-half percent of turnover, whichever is higher. The charge for current tax includes adjustments to charge for prior years, if any.

### 2.5.2 Deferred

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit at the time of the transaction. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

## 2.6 Staff retirement benefits

### 2.6.1 Defined contribution plans

#### i) Provident fund

The Company operates an approved contributory provident fund for all employees. Equal monthly contributions are made, both by the Company and the employees, to the fund at the rate of 6% per annum of the base salary and 10% of basic salary plus cost of living allowance in respect of management employees and unionised staff respectively. Obligation for contributions to defined contribution plan is recognised as an expense in the profit and loss account as and when incurred.

#### ii) DC Pension fund

The Company has established a defined contribution plan - DC Pension Fund for the following management employees:

a) permanent employees who joined on or after April 1, 2012; and

b) permanent employees who joined on or before March 31, 2012 and opted for DC Pension plan in lieu of future benefits under the existing pension and management gratuity.

Contributions are made by the Company to the plan at the rate of 9% per annum of the base salary. Obligation for contributions to defined contribution plan is recognised as an expense in the profit and loss account as and when incurred.

### 2.6.2 Defined benefit plans

The Company operates the following schemes:

i) Funded pension scheme for management employees of the Company. Contributions are made on the basis of the actuarial valuation. The latest actuarial valuation was carried out as at December 31, 2012, using the 'Projected Unit Credit Method'.

ii) Funded gratuity scheme for management and non-management employees of the Company. Contributions are made on the basis of the actuarial valuation. The latest actuarial valuation was carried out as at December 31, 2012, using the 'Projected Unit Credit Method'.

Actuarial gains and losses are changes in present value of defined benefit obligation and fair value of plan assets due to differences between long term actuarial assumptions and actual short term experience. The Company amortises such gains and losses each year by dividing the unrecognised balance at the beginning of the year by the average expected remaining service of current members.

Amounts recognised in the balance sheet represent the present value of defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, if any, and as reduced by the fair value of plan assets. Any asset resulting from the calculation is limited to the unrecognised actuarial losses and unrecognised past service cost plus the present value of available refunds and reduction in future contribution to the plan.

### 2.7 Stores and spares

These are valued at average cost and provision is made for slow moving and obsolete stores and spares. Items in transit are valued at cost comprising invoice values plus other charges incurred thereon.

### 2.8 Stock in trade

Stock in trade is valued at the lower of cost and net realisable value. Cost is determined using the weighted average method except for those in transit where it represents invoice value and other charges paid thereon. Cost of work in process and finished goods include cost of raw and packing materials, direct labour and related production overheads. Net realisable value is 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 receivables

Trade and other receivables are recognised at fair value of consideration receivable. 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 on current and savings accounts and short term running finance.

## 2.11 Impairment

### 2.11.1 Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

The Company considers evidence of impairment for receivable and other financial assets at specific asset levels. Losses are recognised as an expense in the profit and loss account. When a subsequent event causes the amount of impairment loss to decrease, this reduction is reversed through the profit and loss account.

### 2.11.2 Non-financial assets

The carrying amounts of non-financial assets are assessed at each reporting date to ascertain whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised as an expense in the profit and loss account for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. Value in use is ascertained through discounting of the estimated future cash flows using a discount rate that reflects current market assessment of the time value of money and the risk specific to the assets. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

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 Operating leases

Leases in which a significant portion of the risks and rewards of ownership is retained by the lessor are classified as operating leases. Payments made under operating leases / Ijarah contracts are charged to profit and loss on a straight-line basis over the period of the lease.

## 2.13 Trade and other payables

Liabilities for trade and other amounts payable are carried at cost which is the fair value of the consideration to be paid in future for goods and services.

## 2.14 Borrowings and their cost

Borrowings are recorded initially at fair value, net of transaction cost incurred.

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

## 2.15 Provisions

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

Restructuring cost provisions comprise staff redundancy payments, relocation and dismantling of factory and are recognised in the period in which the Company becomes legally or constructively committed to incur.

## 2.16 Financial assets and liabilities

All financial assets and liabilities are initially measured at cost, which is the fair value of the consideration given and received respectively. These financial assets and liabilities are subsequently measured at fair value, amortised cost or cost, as the case may be.

## 2.17 Earnings per share

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

## 2.18 Foreign currency transactions and translation

Foreign currency transactions are converted into Pakistan Rupees using the exchange rates prevailing at the dates of the transactions. All monetary assets and liabilities in foreign currencies are translated into Pakistan Rupees at the rates of exchange prevailing at the balance sheet date. Foreign exchange gains and losses are taken to income.

### 2.19 Functional and presentation currency

These financial statements are presented in Pakistan Rupees which is the functional currency of the Company and figures are rounded off to the nearest thousands of Rupees.

### 2.20 Revenue recognition

Revenue is recognised to the extent it is probable that the economic benefits will flow to the Company and the revenue can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable and is recognised on the following basis:

- sale is recognised when the product is dispatched to customers; and

- return on savings account is recognised on accrual basis.

### 2.21 Dividend

Dividend distribution to the Company's shareholders is recognised as a liability in the period in which the dividend is approved.

## 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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.

**3.1** The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

### 3.1.1 Income taxes

In making the estimates for income taxes, the Company takes into account the current income tax law and decisions taken by appellate authorities on certain issues in the past. There may be various matters where the Company's view differs with the view taken by the income tax department at the assessment stage and where the Company considers that its view on items of a material nature is in accordance with the law. The difference between the potential and actual tax charge, if any, is disclosed as a contingent liability.

### 3.1.2 Defined benefit plans

Significant estimates relating to post employment benefits are disclosed in note 17.

**3.2** No critical judgement has been used in applying accounting policies.

| | 2012 | 2011 |
|---|---|---|
| | (Rupees in thousand) | |

## 4. PROPERTY, PLANT AND EQUIPMENT

| | 2012 | 2011 |
|---|---|---|
| Operating assets - note 4.1 | 609,403 | 593,548 |
| Capital work in progress - note 4.3 | 39,930 | 27,154 |
| | 649,333 | 620,702 |

## 4.1 Operating assets

| | Freehold land | Building on freehold land | Leasehold improve-ments | Plant and machinery | Electrical, mechanical and office equipment | Furniture and fittings | Motor vehicles | Total |
|---|---|---|---|---|---|---|---|---|
| | (Rupees in thousand) | | | | | | | |
| **Net carrying value basis** | | | | | | | | |
| **Year ended December 31, 2012** | | | | | | | | |
| Opening Net Book Value (NBV) | 8,179 | 128,439 | - | 400,067 | 48,997 | 3,746 | 4,120 | 593,548 |
| Additions (at cost) | - | 19,037 | - | 36,604 | 11,986 | 1,647 | - | 69,274 |
| Disposals (at NBV) | - | - | - | (127) | (11) | - | (402) | (540) |
| Depreciation charge | - | (5,522) | - | (40,979) | (3,120) | (818) | (2,440) | (52,879) |
| Closing NBV | 8,179 | 141,954 | - | 395,565 | 57,852 | 4,575 | 1,278 | 609,403 |
| **Gross carrying value basis** | | | | | | | | |
| **At December 31, 2012** | | | | | | | | |
| Cost | 8,179 | 241,943 | 14,918 | 715,549 | 140,447 | 18,707 | 12,118 | 1,151,861 |
| Accumulated depreciation and impairment | - | (99,989) | (14,918) | (319,984) | (82,595) | (14,132) | (10,840) | (542,458) |
| NBV | 8,179 | 141,954 | - | 395,565 | 57,852 | 4,575 | 1,278 | 609,403 |
| **Net carrying value basis** | | | | | | | | |
| Year ended December 31, 2011 | | | | | | | | |
| Opening NBV | 8,179 | 50,981 | - | 169,219 | 53,167 | 2,813 | 12,792 | 297,151 |
| Additions (at cost) | - | 79,065 | - | 260,517 | 1,817 | 1,706 | - | 343,105 |
| Disposals (at NBV) | - | - | - | (1,299) | - | - | (3,445) | (4,744) |
| Depreciation charge | - | (1,607) | - | (28,370) | (5,987) | (773) | (5,227) | (41,964) |
| Closing NBV | **8,179** | **128,439** | **-** | **400,067** | **48,997** | **3,746** | **4,120** | **593,548** |
| **Gross carrying value basis** | | | | | | | | |
| At December 31, 2011 | | | | | | | | |
| Cost | 8,179 | 222,906 | 14,918 | 681,324 | 128,595 | 17,211 | 27,154 | 1,100,287 |
| Accumulated depreciation and impairment | - | (94,467) | (14,918) | (281,257) | (79,598) | (13,465) | (23,034) | (506,739) |
| NBV | **8,179** | **128,439** | **-** | **400,067** | **48,997** | **3,746** | **4,120** | **593,548** |
| **Depreciation rate % per annum** | - | 2.5 | 25 | 7 to 10 | 10 to 25 | 20 | 20 | |

## 4.2 Details of operating assets disposed off during the year

The details of fixed assets disposed off during the year are as follows:

| Description | Cost | Accumulated depreciation | Book value | Sale proceeds | Mode of disposal | Particulars of purchaser |
|---|---|---|---|---|---|---|
| | ← (Rupees in thousand) → | | | | | |
| Motor Vehicles | 424 | 339 | 85 | 170 | Company policy | Mr. Shahzad Sattar-Executive |
| | 424 | 339 | 85 | 170 | " | Mr. M. Owais Siddiqui-Executive |
| | 424 | 339 | 85 | 170 | " | Mr. M. Hafeez-Executive |
| | 424 | 339 | 85 | 170 | " | Mr. M. Basit Rasheed-Executive |
| | 424 | 362 | 62 | 425 | Insurance claim | New Jubilee Insurance Company Ltd. |
| | 2,120 | 1,718 | 402 | 1,105 | | |

Assets having book value of less than Rs.50,000 each

| | | | | |
|---|---|---|---|---|
| Electrical, mechanical and office equipment | 134 | 123 | 11 | 4 |
| Plant and machinery | 2,379 | 2,252 | 127 | 205 |
| Motor Vehicles | 12,916 | 12,916 | - | 10,815 |
| Furniture and fittings | 151 | 151 | - | 25 |
| | 17,700 | 17,160 | 540 | 12,154 |

## 4.3 Capital work in progress – at cost

| | 2012 | 2011 |
|---|---|---|
| | (Rupees in thousand) | |
| Civil work | 831 | 18,153 |
| Plant and machinery | 39,099 | 9,001 |
| | 39,930 | 27,154 |

## 5. INTANGIBLE ASSETS

### Gross carrying value basis

| | 2012 | 2011 |
|---|---|---|
| Cost | | |
| - Goodwill | 94,578 | 94,578 |
| - Agreement in restraint of trade | 139,661 | 139,661 |
| - Trademark | 20,000 | 20,000 |
| | 254,239 | 254,239 |
| Accumulated amortisation and impairment | (172,602) | (172,602) |
| Net book value | 81,637 | 81,637 |

The above represents amount paid for the acquisition of Glaxose-D in 1999 to Glaxo Wellcome Pakistan Limited (now GlaxoSmithKline Pakistan Limited).

| | 2012 | 2011 |
|---|---|---|
| | (Rupees in thousand) | |

## 6. LONG TERM LOANS - considered good

| | | |
|---|---|---|
| Executives | 30,559 | 32,841 |
| Other employees | - | 469 |
| | 30,559 | 33,310 |
| Recoverable within one year - note 11 | (8,082) | (7,689) |
| | 22,477 | 25,621 |

**6.1** Reconciliation of carrying amount of loans to executives:

| | | |
|---|---|---|
| - opening balances | 32,841 | 2,621 |
| - transfers | - | 274 |
| - disbursements | 7,823 | 34,111 |
| - repayments | (10,105) | (4,165) |
| | 30,559 | 32,841 |

**6.2** Loans to employees have been provided to facilitate purchase of houses, vehicles and computers in accordance with the Company's policy and are repayable over a period of five years. These loans are interest free and secured against retirement benefits of the employees.

**6.3** The maximum aggregate amount of loans due from executives at the end of any month during the year was Rs. 36.17 million (2011: Rs. 32.8 million).

| | 2012 | 2011 |
|---|---|---|
| | (Rupees in thousand) | |

## 7. LONG TERM PREPAYMENT

| | | |
|---|---|---|
| Prepaid rent | 1,803 | 12,865 |
| Current portion - note 12 | (1,803) | (9,971) |
| | - | 2,894 |

## 8. STORES AND SPARES

| | | |
|---|---|---|
| Stores | 9,003 | 7,563 |
| Spares (including in transit Rs. 1.14 million; 2011: nil) | 10,314 | 10,601 |
| | 19,317 | 18,164 |
| Provision for obsolescence | (2,334) | (1,464) |
| | 16,983 | 16,700 |

| | 2012 | 2011 |
|---|---|---|
| | (Rupees in thousand) | |

## 9. STOCK IN TRADE

| | 2012 | 2011 |
|---|---|---|
| Raw and packing materials (including in transit Rs. 92.08 million; 2011: Rs. 62.13 million) | 548,029 | 405,260 |
| Provision for obsolescence | (28,668) | (18,715) |
| | 519,361 | 386,545 |
| Work in process | 22,143 | 10,833 |
| Provision for obsolescence | (5,725) | - |
| | 16,418 | 10,833 |
| Finished goods | 226,318 | 204,850 |
| Provision for obsolescence | (11,723) | (9,066) |
| | 214,595 | 195,784 |
| | 750,374 | 593,162 |

9.1 Stock in trade includes Rs. 273.55 million (2011: Rs. 202.82 million) held with third parties.

9.2 The above balances include items costing Rs. 313.57 million (2011: Rs. 174.06 million) valued at net realisable value of Rs. 267.48 million (2011: Rs. 146.35 million).

9.3 The Company made a provision of Rs. 34.52 million (2011: Rs. 33.86 million) for obsolescence and has written off inventory of Rs. 16.18 million (2011: Rs. 28.3 million) by utilising the provision during the year.

## 10. TRADE DEBTS

| | 2012 | 2011 |
|---|---|---|
| | (Rupees in thousand) | |
| Considered good | 146,113 | 188,563 |
| Considered doubtful | 13,218 | 14,147 |
| | 159,331 | 202,710 |
| Provision for doubtful debts - note 10.1 | (13,218) | (14,147) |
| | 146,113 | 188,563 |

10.1 The Company has reversed provision of Rs. 0.62 million as compared to a charge of Rs. 1.53 million in 2011 and has written off debts by utilising the provision amounting to Rs. 0.31 million (2011: Rs. 0.32 million).

10.2 As of December 31, 2012 trade debts of Rs. 14.67 million (2011: Rs. 34.73 million) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The age analysis of these trade debts is as follows:

| | 2012 | 2011 |
|---|---|---|
| | (Rupees in thousand) | |
| Up to 3 months | 11,042 | 14,938 |
| 3 to 6 months | 2,567 | 17,257 |
| More than 6 months | 1,060 | 2,531 |
| | 14,669 | 34,726 |

| | 2012 | 2011 |
|---|---|---|
| | (Rupees in thousand) | |

## 11. LOANS AND ADVANCES - considered good

| | | |
|---|---|---|
| Current portion of loans to employees - note 6 | 8,082 | 7,689 |
| Advances to: | | |
| Executives - note 11.1 | 864 | 3,084 |
| Other employees | 1,855 | 626 |
| Suppliers and others | 1,881 | 7,967 |
| | 4,600 | 11,677 |
| | 12,682 | 19,366 |

11.1 The advances to executives are given to meet business expenses and are settled as and when the expenses are incurred. Further, the Company provides advance house rent to its employees.

## 12. TRADE DEPOSITS AND SHORT TERM PREPAYMENTS

| | 2012 | 2011 |
|---|---|---|
| | (Rupees in thousand) | |
| Trade deposits | 4,492 | 5,362 |
| Prepayments | 33,308 | 37,460 |
| Current portion of prepaid rent - note 7 | 1,803 | 9,971 |
| | 39,603 | 52,793 |

## 13. OTHER RECEIVABLES

| | | |
|---|---|---|
| Due from associated undertakings | 31,240 | 4,599 |
| Workers' Profits Participation Fund - note 13.1 | 2,234 | 16,193 |
| Rafhan Best Foods Gratuity Fund | - | 3,395 |
| Rafhan Best Foods Provident Fund | 1,453 | 1,272 |
| Rafhan Best Foods Superannuation Fund | 237 | - |
| Receivable from Defined Contribution Pension Fund | 18,357 | - |
| Duties refundable | 25,482 | - |
| Others | 1,915 | 3,409 |
| | 80,918 | 28,868 |

### 13.1 Workers' Profits Participation Fund

| | | |
|---|---|---|
| Balance as at January 1 | 16,193 | 5,124 |
| Allocation for the year | (56,901) | (48,931) |
| | (40,708) | (43,807) |
| Paid to trustees of the fund | 42,942 | 60,000 |
| Balance as at December 31 | 2,234 | 16,193 |

## 14. CASH AND BANK BALANCES

| | 2012 (Rupees in thousand) | 2011 (Rupees in thousand) |
|---|---|---|
| With banks on: | | |
| savings accounts - note 14.1 | **201,077** | 81,609 |
| current accounts | **704** | 11,047 |
| | **201,781** | 92,656 |
| Cash in hand | **121** | 556 |
| | **201,902** | 93,212 |

14.1 The mark up on savings accounts was at rates ranging from 5% to 10.2% per annum (2011: 5% to 9.58% per annum).

## 15. SHARE CAPITAL

**Authorised share capital**

| Number of shares | | 2012 (Rupees in thousand) | 2011 (Rupees in thousand) |
|---|---|---|---|
| 20,000,000 | Ordinary shares of Rs. 10 each | **200,000** | 200,000 |

**Issued, subscribed and paid up capital**

| Number of shares | | 2012 | 2011 |
|---|---|---|---|
| | Ordinary shares of Rs. 10 each allotted: | | |
| 1,239,327 | for consideration paid in cash | **12,393** | 12,393 |
| 24,196 | for consideration other than cash | **242** | 242 |
| 4,894,095 | as bonus shares | **48,941** | 48,941 |
| 6,157,618 | | **61,576** | 61,576 |

15.1 As at December 31, 2012 and 2011 Conopco Inc. USA, subsidiary of Unilever N.V. Holland, held 4,670,271 ordinary shares of Rs. 10 each.

## 16. RESERVES

| | 2012 (Rupees in thousand) | 2011 (Rupees in thousand) |
|---|---|---|
| **Capital reserves** | | |
| Share premium | **24,630** | 24,630 |
| Special | **628** | 628 |
| | **25,258** | 25,258 |
| **Revenue reserves** | | |
| General | **138** | 138 |
| Unappropriated profit | **503,973** | 404,563 |
| | **504,111** | 404,701 |
| | **529,369** | 429,959 |

## 17. RETIREMENT BENEFITS

17.1 The disclosures made are based on the information included in the actuarial valuation as of December 31, 2012.

| | Pension Fund 2012 | Pension Fund 2011 | Gratuity Fund 2012 | Gratuity Fund 2011 |
|---|---|---|---|---|
| | (Rupees in thousand) | | | |
| **17.2 Balance Sheet Reconciliation** | | | | |
| Fair value of plan assets | 26,993 | 70,261 | 14,195 | 49,963 |
| Present value of defined benefit obligations | (30,915) | (72,935) | (10,735) | (79,998) |
| Funded status | (3,922) | (2,674) | 3,460 | (30,035) |
| Unrecognised net actuarial (gain) / loss | - | (4,883) | - | 20,073 |
| Recognised (liability) / asset | (3,922) | (7,557) | 3,460 | (9,962) |
| Actual return on plan assets | 9,173 | 6,929 | 4,873 | 5,280 |
| **17.3 Movement in the fair value of plan assets** | | | | |
| Fair value as at January 1 | 70,261 | 62,272 | 49,963 | 45,301 |
| Expected return on plan assets | 8,632 | 7,722 | 5,498 | 5,956 |
| Actuarial (losses) / gains | 541 | (793) | (625) | (676) |
| Employer contributions | - | 3,607 | 38,853 | 8,082 |
| Benefits paid | (2,620) | (2,547) | (1,794) | (8,700) |
| Transferred to defined contribution Fund | (49,821) | - | (77,700) | - |
| Fair value as at December 31 | 26,993 | 70,261 | 14,195 | 49,963 |
| **17.4 Movement in the defined benefit obligation** | | | | |
| Obligation as at January 1 | 72,935 | 67,097 | 79,998 | 69,277 |
| Service cost | 867 | 3,424 | 2,915 | 6,038 |
| Interest cost | 8,733 | 9,620 | 9,602 | 9,978 |
| Actuarial (gain) / loss | 821 | (4,659) | (2,286) | (494) |
| Transferred to defined contribution Fund | (49,821) | - | (77,700) | 3,899 |
| Benefits paid | (2,620) | (2,547) | (1,794) | (8,700) |
| Obligation as at December 31 | 30,915 | 72,935 | 10,735 | 79,998 |
| **17.5 Cost** | | | | |
| Current service cost | 867 | 3,424 | 2,915 | 6,038 |
| Interest cost | 8,733 | 9,620 | 9,602 | 9,978 |
| Expected return on plan assets | (8,632) | (7,722) | (5,498) | (5,956) |
| Settlement and curtailment | - | - | - | 3,899 |
| Recognition of actuarial (gain) / loss | (4,603) | (53) | 18,412 | 1,041 |
| Expense | (3,635) | 5,269 | 25,431 | 15,000 |

|  |  | 2012 | 2011 |
|---|---|---|---|
| **17.6** | **Principal actuarial assumptions used are as follows:** | | |
| | Discount rate & expected return on plan assets | **11.50%** | 13.00% |
| | Future salary increases | **9.00%** | 10.75% |
| | Future pension increases | **5.75%** | 7.25% |

**17.7 Comparison for five years:**

| | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| | (Rupees in thousand) | | | | |
| As at December 31 | | | | | |
| Fair value of plan assets | **41,188** | 120,224 | 107,573 | 93,368 | 107,255 |
| Present value of defined benefit obligation | **(41,650)** | (152,933) | (136,374) | (114,484) | (121,949) |
| Deficit | **(462)** | (32,709) | (28,801) | (21,116) | (14,694) |
| Experience adjustments | | | | | |
| (Loss) / gain on plan assets - as percentage of plan assets | **(0.2)%** | (1.2)% | 0.8% | 0.4% | 9.5% |
| (Gain) / loss on obligation - as percentage of obligations | **(3.5)%** | (3.4)% | 6.0% | 3.6% | 7.5% |

**17.8 Plan assets are comprised as follows:**

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | **Rupees in thousand** | **%** | Rupees in thousand | % |
| Fixed interest bonds | **31,611** | **77** | 108,202 | 90 |
| Others (include cash and bank balances) | **9,577** | **23** | 12,022 | 10 |
| | **41,188** | **100** | 120,224 | 100 |

**17.9** The expected return on plan assets was determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date.

**17.10** The actuary conducts separate valuations for calculating contribution rates and the Company contributes to the pension and gratuity funds according to the actuary's advice. Expense of the defined benefit plans is calculated by the actuary.

**17.11** Expected contributions to retirement benefit plans for the year ending December 31, 2013 are Rs. 2.4 million (2012: Rs. 14 million).

**17.12** During the year the Company contributed Rs. 12.6 million (2011: Rs. 5.9 million) to defined contribution funds.

## 18. DEFERRED TAXATION

| | 2012 | 2011 |
|---|---|---|
| | (Rupees in thousand) | |
| Credit balance arising in respect of: | | |
| - accelerated tax depreciation allowance | **110,650** | 100,754 |
| - amortisation of intangible assets | **24,561** | 20,553 |
| | **135,211** | 121,307 |
| Debit balance arising in respect of: | | |
| - provision for stock in trade | **(15,818)** | (9,723) |
| - provision for retirement benefits | **(158)** | (6,132) |
| - provision for stores and spares | **(801)** | (512) |
| - provision for doubtful debts | **(4,544)** | (4,951) |
| - provision for restructuring | **(520)** | (9,036) |
| - other provisions | **(5,470)** | (3,943) |
| | **(27,311)** | (34,297) |
| | **107,900** | 87,010 |

## 19. TRADE AND OTHER PAYABLES

| | 2012 | 2011 |
|---|---|---|
| Creditors | **215,340** | 157,774 |
| Bills payable - note 19.1 | **157,767** | 132,407 |
| Accrued liabilities | **695,387** | 646,668 |
| Royalty and technology fee | **42,110** | 18,814 |
| Advances from customers | **49,995** | 45,433 |
| Income tax deducted at source | **164** | 2,041 |
| Rafhan Best Foods Gratuity Fund | **17,541** | - |
| Workers' Welfare Fund | **22,761** | 19,573 |
| Unclaimed dividend | **2,724** | 1,318 |
| Others | **9,294** | 6,355 |
| | **1,213,083** | 1,030,383 |

**19.1** Bills payable represents inland letters of credit under vendor financing arrangements which includes interest cost as per Company's negotiated rates.

**19.2** Amounts due to related parties included in trade and other payables are as follows:

| | 2012 | 2011 |
|---|---|---|
| | (Rupees in thousand) | |
| Holding company | **27,782** | 8,905 |
| Other related parties | **62,789** | 40,119 |

## 20. PROVISIONS

| | | |
|---|---|---|
| Sindh Infrastructure Cess - note 20.1 | **5,993** | - |
| Restructuring - note 20.2 | **1,515** | 25,817 |
| | **7,508** | 25,817 |

**20.1** The amount represents provision made during the year.

**20.2** During the year, the Company made a provision for restructuring amounting to nil (2011: Rs. 30.36 million). During the year Rs. 24.3 million (2011: Rs. 14.54 million) has been paid to staff.

## 21. SHORT TERM BORROWINGS

**Running finance under markup arrangements - secured**

The facilities for running finance available from various banks amount to Rs. 950 million (2011: Rs. 950 million). The rates of mark up range between KIBOR to KIBOR + 1% per annum (2011: KIBOR to KIBOR + 1% per annum).

The arrangements are secured by way of hypothecation over the Company's current assets.

The facilities for opening letters of credit and guarantees as at December 31, 2012 amounted to Rs. 2.19 billion (2011: Rs. 975 million) of which the amount remaining unutilised at year end was Rs. 1.85 billion (2011: Rs. 812.03 million).

## 22. SALES TAX PAYABLE

This includes provision for doubtful sales tax refund amounting to Rs. 2.6 million (2011: Rs. 2.6 million).

## 23. CONTINGENCY AND COMMITMENTS

### 23.1 Contingency

**23.1.1** The Officer of Inland Revenue while finalising the assessments for the tax years 2009 and 2010, disallowed tax payments of Rs. 35.73 million.

The Company has filed appeals before the Commissioner of Inland Revenue - Appeals.

The Company's management is of the view that the disallowances were erroneous and, therefore, the ultimate decision in appeals will likely be in the Company's favour. No provision has, therefore, been made in the financial statements.

## 23.2 Commitments

**23.2.1** Aggregate commitments outstanding for capital expenditure as at December 31, 2012 amounted to Rs. 13.54 million (2011: Rs. 27 million).

**23.2.2** Commitments for rentals under operating lease agreements / Ijarah contracts as at December 31, 2012 are as follows:

| | 2012 | 2011 |
|---|---|---|
| | (Rupees in thousand) | |
| Not later than one year | 688 | 1,151 |
| Over one year to five years | 516 | 1,727 |
| | 1,204 | 2,878 |

## 24. SALES

| | 2012 | 2011 |
|---|---|---|
| Gross sales | 7,242,870 | 6,215,524 |
| Sales tax | (949,746) | (832,118) |
| Excise duty | - | (43,807) |
| | (949,746) | (875,925) |
| | 6,293,124 | 5,339,599 |
| Returns, rebates and allowances | (432,028) | (399,348) |
| | 5,861,096 | 4,940,251 |

**24.1** The Company analyses its net revenue by the following product groups:

| | 2012 | 2011 |
|---|---|---|
| | (Rupees in thousand) | |
| Products used by end consumers | 4,883,781 | 4,070,149 |
| Products used by entities | 977,315 | 870,102 |
| | 5,861,096 | 4,940,251 |

**24.2** Sales to domestic customers in Pakistan are 96.4% (2011: 97.5%) and to customers outside Pakistan are 3.6% (2011: 2.5%) of the revenue during the year.

**24.3** The Company's customer base is diverse. Sales to one distributor exceed 10 percent of the net sales during the year, amounting to Rs. 707.4 million.

| | 2012 | 2011 |
|---|---|---|
| | (Rupees in thousand) | |

## 25. COST OF SALES

| | 2012 | 2011 |
|---|---|---|
| Raw and packing materials consumed | 3,059,125 | 2,646,778 |
| Manufacturing charges paid to third party | 72,809 | 38,572 |
| Stores and spares consumed | 17,374 | 24,892 |
| Staff costs - note 25.1 | 232,154 | 199,103 |
| Utilities | 129,113 | 79,984 |
| Depreciation | 51,489 | 40,861 |
| Repairs and maintenance | 26,780 | 20,046 |
| Rent, rates and taxes | 8,675 | 8,949 |
| Ujrah payments | 251 | 451 |
| Travelling and entertainment | 3,103 | 2,232 |
| Insurance | 2,813 | 1,285 |
| Stationery and office expenses | 1,000 | 4,719 |
| Other expenses | 5,182 | 5,396 |
| Charges by related party | 48,478 | 17,317 |
| | 3,658,346 | 3,090,585 |
| Opening work in process | 10,833 | 1,792 |
| Closing work in process | (16,418) | (10,833) |
| Cost of goods manufactured | 3,652,761 | 3,081,544 |
| Opening stock of finished goods | 195,784 | 129,742 |
| Closing stock of finished goods | (214,595) | (195,784) |
| | 3,633,950 | 3,015,502 |

### 25.1 Staff costs

| | 2012 | 2011 |
|---|---|---|
| Salaries and wages | 220,439 | 190,072 |
| Medical expenses | 2,897 | 2,996 |
| Pension cost - defined benefit plan | (872) | 1,488 |
| Gratuity cost - defined benefit plan | 6,103 | 3,146 |
| Cost of defined contribution plan | 3,587 | 1,401 |
| | 232,154 | 199,103 |

## 26. DISTRIBUTION COST

| | 2012 | 2011 |
|---|---|---|
| Staff costs - note 26.1 | 140,036 | 112,166 |
| Advertisement and sales promotion | 468,322 | 426,058 |
| Outward freight and handling | 147,498 | 142,598 |
| Royalty, technology fee and related duties | 126,188 | 86,168 |
| Travelling and entertainment | 22,465 | 19,965 |
| Rent, rates and taxes | 10,483 | 10,662 |
| Ujrah payments | 2,594 | 2,844 |
| Depreciation | 1,104 | 876 |
| Repairs and maintenance | 2,344 | 2,151 |
| Stationery and office expenses | 4,135 | 4,094 |
| Other expenses | 4,532 | 5,264 |
| Charges by related party | 74,343 | 37,166 |
| | 1,004,044 | 850,012 |

| | 2012 | 2011 |
|---|---|---|
| | (Rupees in thousand) | |

## 26.1 Staff costs

| | | |
|---|---|---|
| Salaries and wages | 105,340 | 94,968 |
| Medical expenses | 9,757 | 1,464 |
| Pension cost - defined benefit plan | (2,690) | 3,671 |
| Gratuity cost - defined benefit plan | 18,819 | 7,725 |
| Cost of defined contribution plan | 8,810 | 4,338 |
| | 140,036 | 112,166 |

## 27. ADMINISTRATIVE EXPENSES

| | | |
|---|---|---|
| Staff costs - note 27.1 | 15,866 | 15,286 |
| Rent, rates and taxes | 326 | 338 |
| Depreciation | 286 | 227 |
| Travelling and entertainment | 1,176 | 1,025 |
| Insurance | 888 | 1,809 |
| Auditors' remuneration - note 27.2 | 2,097 | 1,928 |
| Provision for doubtful debts | (619) | 1,534 |
| Legal and professional charges | 3,495 | 4,305 |
| Other expenses | 3,373 | 2,987 |
| Charges by related party - note 27.3 | 122,286 | 109,759 |
| | 149,174 | 139,198 |

## 27.1 Staff costs

| | | |
|---|---|---|
| Salaries and wages | 15,225 | 14,771 |
| Pension cost - defined benefit plan | (73) | 110 |
| Gratuity cost - defined benefit plan | 509 | 230 |
| Cost of defined contribution plan | 205 | 175 |
| | 15,866 | 15,286 |

## 27.2 Auditors' remuneration

| | | |
|---|---|---|
| Audit fee | 1,000 | 1,000 |
| Limited review, audit of pension, provident and gratuity funds, certification for regulatory authorities and others | 698 | 803 |
| Out of pocket expenses | 399 | 125 |
| | 2,097 | 1,928 |

27.3 This represents amount charged to the Company for certain management and other services received from its associated undertaking - Unilever Pakistan Limited.

## 28. OTHER OPERATING EXPENSES

| | 2012 | 2011 |
|---|---|---|
| | (Rupees in thousand) | |
| Donations - note 28.1 | 1,654 | 2,263 |
| Workers' Profits Participation Fund - note 13.1 | 56,901 | 48,931 |
| Workers' Welfare Fund | 22,761 | 19,573 |
| | 81,316 | 70,767 |

28.1 None of the directors or their spouses had any interest in the donee.

## 29. OTHER OPERATING INCOME

| | 2012 | 2011 |
|---|---|---|
| | (Rupees in thousand) | |
| **Income from financial assets** | | |
| Return on savings accounts | 15,659 | 14,164 |
| **Income from non-financial assets** | | |
| Scrap sales | 16,552 | 5,443 |
| Gain on disposal of property, plant and equipment | 11,614 | 1,826 |
| Sundries | 7,614 | 2,064 |
| | 35,780 | 9,333 |
| **Others** | | |
| Service fee from related parties - note 29.1 | 22,381 | 58,848 |
| Liabilities no longer payable written back | - | 237 |
| | 73,820 | 82,582 |

29.1 This includes amount charged by the Company for certain management and other services rendered to its related party - Unilever Pakistan Limited, in accordance with the Service Agreement between the two companies.

## 30. FINANCE COST

| | 2012 | 2011 |
|---|---|---|
| | (Rupees in thousand) | |
| Mark up on short term borrowings | 1,949 | 3,372 |
| Bank charges | 6,117 | 3,491 |
| | 8,066 | 6,863 |

## 31. TAXATION - charge

| | 2012 | 2011 |
|---|---|---|
| | (Rupees in thousand) | |
| Current - for the year | 322,304 | 224,670 |
| - for prior years | - | 11,000 |
| Deferred | 20,890 | 57,767 |
| | 343,194 | 293,437 |

### 31.1 Reconciliation between tax expense and accounting profit

| | 2012 | 2011 |
|---|---|---|
| Accounting profit before tax | 1,058,366 | 910,132 |
| Tax at the applicable tax rate of 35% | 370,428 | 318,546 |
| Tax effect of permanent differences | 2,113 | 12,079 |
| Tax effect of prior periods | - | 11,000 |
| Tax effect of credits | (11,953) | (32,601) |
| Tax effect of final tax | (17,394) | (15,587) |
| Tax expense for the year | 343,194 | 293,437 |

## 32. BASIC AND DILUTED EARNINGS PER SHARE

| | 2012 | 2011 |
|---|---|---|
| Profit after taxation attributable to ordinary shareholders | 715,172 | 616,695 |
| Weighted average number of shares in issue during the year - in thousand | 6,158 | 6,158 |
| Basic earnings per share (Rupees) | 116 | 100 |

There is no dilutive effect on the basic earnings per share of the Company.

## 33. RELATED PARTY DISCLOSURES

The following transactions were carried out with related parties during the year:

| | Relationship with the Company | Nature of transactions | 2012 | 2011 |
|---|---|---|---|---|
| | | | (Rupees in thousand) | |
| i) | Holding company | Royalty | 48,815 | 36,912 |
| ii) | Other related parties | Technology fee | 64,894 | 39,714 |
| | | Purchase of goods | 1,252,797 | 1,031,079 |
| | | Sale of goods | 32,845 | 40,457 |
| | | Fee for receiving of services from related parties | 245,107 | 164,254 |
| | | Fee for providing of services to related parties | 22,381 | 58,848 |
| | | Contribution to: | | |
| | | - Defined Contribution plans | 12,602 | 6,280 |
| | | - Defined Benefit plans | 38,853 | 11,690 |
| | | Settlement on behalf of: | | |
| | | - Defined Contribution plans | 19,706 | 1,272 |
| | | - Defined Benefit plans | - | 3,395 |
| | | Receipts from Defined Benefit plans | 16,709 | - |
| iii) | Key management personnel | Salaries and other short-term employee benefits | 4,653 | 3,968 |

Royalty and technology fee are paid in accordance with the agreements duly acknowledged by the State Bank of Pakistan. The purchase of goods and services from related parties are made on agreed terms and conditions.

The Company has entered into agreements with its associate, Unilever Pakistan Limited to share various administrative and other resources. The charges by the associate have been disclosed in notes 25, 26 and 27. Service fee from the associate have been disclosed in note 29.

The related party status of outstanding balances as at December 31, 2012 is included in other receivables and trade and other payables respectively. These are settled in ordinary course of business.

## 34. REMUNERATION OF DIRECTORS, CHIEF EXECUTIVE AND EXECUTIVES

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

| | Executive Directors 2012 | Executive Directors 2011 | Chief Executive 2012 | Chief Executive 2011 | Executives 2012 | Executives 2011 |
|---|---|---|---|---|---|---|
| | (Rupees in thousand) | | | | | |
| Managerial remuneration and allowances | 1,204 | 978 | 2,494 | 1,762 | 104,765 | 105,574 |
| Retirement benefits - note 34.1 | - | - | - | - | 13,420 | 17,248 |
| Medical expenses | - | - | - | - | 2,687 | 1,659 |
| Other expenses | - | - | - | - | 777 | 183 |
| | 1,204 | 978 | 2,494 | 1,762 | 121,649 | 124,664 |
| Number of persons | 1 | 2 | 1 | 1 | 89 | 91 |

In addition to this, a lump sum amount of Rs. 23.38 million (2011: Rs. 14.82 million) on account of variable pay has been accounted for in financial statements for the current year payable in 2013 after verification of target achievement.

Out of the variable pay recognised for 2011 and 2010 following payments were made:

| | Paid in 2012 relating to 2011 | Paid in 2011 relating to 2010 |
|---|---|---|
| | (Rupees in thousand) | |
| Executive Director | 275 | 497 |
| Chief Executive | 434 | 581 |
| Executives | 12,436 | 13,746 |
| Other employees | 386 | 661 |
| | 13,531 | 15,485 |

Aggregate amount charged in these financial statements for the year for fee to four non-executive directors was Rs. 150 thousand (2011: four non executive directors Rs. 150 thousand).

Certain executives of the Company are also provided with the Company maintained cars.

In respect of full time working Director, Chief Executive and Company Secretary, the Company is charged monthly by an associated undertaking (Unilever Pakistan Limited) on agreed basis.

Aggregate amount charged in these financial statements for the year for remuneration of directors is Rs. 4.65 million (2011: Rs. 3.97 million).

**34.1** Retirement benefits represent amount contributed towards various retirement benefit plans.

|  | 2012 | 2011 |
|---|---|---|
|  | (Rupees in thousand) |  |

## 35. PLANT CAPACITY AND PRODUCTION

|  | 2012 | 2011 |
|---|---|---|
| Actual production of the plant in metric tons | 23,789 | 20,737 |

**35.1** The capacity of the plant is indeterminable as it is a multiproduct plant capable of producing several interchangeable products.

## 36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

### 36.1 Financial risk factors

The Company's activities expose it to variety of financial risks: credit risk, liquidity risk and market risk (including currency risk and interest rate risk). The Company's overall risk management programme focuses on having cost effective funding as well as manage financial risk to minimise earnings volatility and provide maximum return to shareholders.

#### Financial assets and liabilities by category and their respective maturities

|  | 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** |  |  |  |  |  |  |  |
| Loans and advances | - | - | - | 12,682 | 22,477 | 35,159 | 35,159 |
| Trade debts | - | - | - | 146,113 | - | 146,113 | 146,113 |
| Trade deposits | - | - | - | 4,492 | - | 4,492 | 4,492 |
| Other receivables | - | - | - | 78,684 | - | 78,684 | 78,684 |
| Cash and bank balances | 201,077 | - | 201,077 | 825 | - | 825 | 201,902 |
| **December 31, 2012** | **201,077** | **-** | **201,077** | **242,796** | **22,477** | **265,273** | **466,350** |
| December 31, 2011 | 81,609 | - | 81,609 | 237,569 | 25,621 | 263,190 | 344,799 |
| **FINANCIAL LIABILITIES** |  |  |  |  |  |  |  |
| Trade and other payables | 157,767 | - | 157,767 | 982,396 | - | 982,396 | 1,140,163 |
| Short term borrowings | 64,897 | - | 64,897 | - | - | - | 64,897 |
| Accrued interest / mark up | - | - | - | 895 | - | 895 | 895 |
| **December 31, 2012** | **222,664** | **-** | **222,664** | **983,291** | **-** | **983,291** | **1,205,955** |
| December 31, 2011 | 226,933 | - | 226,933 | 831,080 | - | 831,080 | 1,058,013 |
| **ON BALANCE SHEET GAP** |  |  |  |  |  |  |  |
| **December 31, 2012** | **(21,587)** | **-** | **(21,587)** | **(740,495)** | **22,477** | **(718,018)** | **(739,605)** |
| December 31, 2011 | (145,324) | - | (145,324) | (593,511) | 25,621 | (567,890) | (713,214) |
| **OFF BALANCE SHEET ITEMS** |  |  |  |  |  |  |  |
| Letters of credit / guarantee: |  |  |  |  |  |  |  |
| **December 31, 2012** |  |  |  |  |  |  | **342,058** |
| December 31, 2011 |  |  |  |  |  |  | 162,696 |

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

### (i) 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. The maximum exposure to credit risk is equal to the carrying amount of financial assets. Out of total financial assets of Rs. 466.35 million (2011: Rs. 344.8 million), the financial assets which are subject to credit risk amount to Rs.146.11 million (2011: Rs. 188.56 million).

For trade debts, internal risk assessment process determines the credit quality of the customers, taking into account their financial positions, past experiences and other factors. Individual risk limits are set based on internal or external credit worthiness ratings in accordance with limits set by the management. As of December 31, 2012 trade debts of Rs. 14.67 million (2011: Rs. 34.73 million) were past due but not impaired. The carrying amount of trade debts relates to a number of independent customers for whom there is no recent history of default.

Deposits have been placed mainly against shipping guarantees and letters of credit, hence exposed to no significant credit risk.

Loans and advances to employees are not exposed to any material credit risk since these are secured against their retirement benefits.

Other receivables constitute mainly receivables from the related parties, therefore, are not exposed to any significant credit risk.

The bank balances represent low credit risk as they are placed with banks having good credit ratings assigned by credit rating agencies.

The management does not expect any losses from non-performance by these counterparties.

### (ii) Liquidity risk

Liquidity risk reflects the Company's inability in raising funds to meet commitments. The Company manages liquidity risk by maintaining sufficient cash and bank balances and the availability of financing through banking arrangements.

### (iii) Market risk

### a) Foreign exchange risk

Foreign exchange risk arises mainly where receivables and payables exist in foreign currency. As at December 31, 2012, financial assets of Rs. 8.44 million (2011: Rs. 5.29 million) and financial liabilities of Rs. 116.41 million (2011: Rs. 46.54 million) were in foreign currency which were exposed to foreign currency risk.

As at December 31, 2012, if the Pakistan Rupee had weakened / strengthened by 8% against Euro with all other variables held constant, profit before tax for the year would have been lower / higher by Rs. 2.19 million (2011: Rs. 0.48 million), mainly as a result of foreign exchange losses / gains on translation of Euro denominated financial assets and liabilities.

As at December 31, 2012, if the Pakistan Rupee had weakened / strengthened by 10% against US Dollar with all other variables held constant, profit before tax for the year would have been lower / higher by Rs. 7.17 million (2011: Rs. 3.46 million), mainly as a result of foreign exchange losses / gains on translation of US Dollar denominated financial assets and liabilities.

As at December 31, 2012, if the Pakistan Rupee had weakened / strengthened by 17% against Japanese Yen with all other variables held constant, profit before tax for the year would have been lower / higher by Rs. 1.16 million (2011: nil), mainly as a result of foreign exchange losses / gains on translation of Japanese Yen denominated financial liabilities.

The sensitivity of foreign exchange rate looks at the outstanding foreign exchange balances of the Company only as at the balance sheet date and assumes this is the position for a full twelve-month period. The volatility percentages for movement in foreign exchange rates have been used due to the fact that historically (5 years) rates have moved on average basis by the mentioned percentages per annum.

### b) Interest rate risk

The Company's interest rate risk arises from borrowings as the Company has no significant interest-bearing assets. Borrowings availed at variable rates expose the Company to cash flow interest rate risk.

At December 31, 2012, the Company had variable interest bearing financial assets of Rs. 201.1 million (2011: Rs. 81.6 million) and liabilities of Rs. 222.7 million (2011: Rs. 226.9 million), and had the interest rate varied by 200 basis points with all the other variables held constant, profit before tax for the year would have been approximately Rs. 0.43 million (2011: Rs. 2.91 million) lower / higher, mainly as a result of higher / lower interest expense on floating rate borrowings.

## 37. CAPITAL RISK MANAGEMENT

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefit for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The gearing ratios as at December 31, 2012 and 2011 were as follows:

| | 2012 | 2011 |
|---|---|---|
| | (Rupees in thousand) | |
| Total borrowings | 64,897 | 94,526 |
| Cash and bank | (201,902) | (93,212) |
| Net (cash surplus) / debt | (137,005) | 1,314 |
| Total equity | 590,945 | 491,535 |
| Total capital | 590,945 | 492,849 |
| Gearing ratio - % | - | 0.27 |

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

## 38. CASH AND CASH EQUIVALENTS

| | 2012 | 2011 |
|---|---|---|
| | (Rupees in thousand) | |
| Cash and bank balances | 201,902 | 93,212 |
| Short term borrowings - running finance under mark up arrangements | (64,897) | (94,526) |
| | 137,005 | (1,314) |

## 39. PROPOSED AND DECLARED DIVIDENDS

At the Board of Directors' meeting held on February 21, 2013, a final dividend in respect of 2012 of Rs. 66 per share amounting to a total dividend of Rs. 406.40 million is proposed (2011: Rs. 50 per share amounting to a total dividend of Rs. 307.88 million).

Interim dividend declared and already paid in respect of half year ended June 30, 2012 was Rs. 25 per share amounting to Rs. 153.94 million (Half year ended June 30, 2011: Rs. 50 per share amounting to Rs. 307.88 million) in addition to first interim cash dividend declared and already paid in respect of quarter ended March 31, 2012 of Rs. 25 per share amounting to Rs. 153.94 million (Quarter ended March 31, 2011: nil).

These financial statements do not reflect the proposed final dividend as payable, which will be accounted for in the statement of changes in equity as an appropriation from the unappropriated profit in the year ending December 31, 2013.

## 40. DATE OF AUTHORISATION

These financial statements were authorised for issue on February 21, 2013 by the Board of Directors of the Company.

**Fariyha Subhani**
Chief Executive

**Imran Husain**
Director and Chief Financial Officer

# Notice of Annual General Meeting

Notice is hereby given that the 15th Annual General Meeting of Unilever Pakistan Foods Limited will be held at Pearl Continental Hotel, Club Road, Karachi, on Thursday, April 18, 2013, at 3:00 p.m. to transact the following business:

### A. Ordinary Business

1. To receive and consider the Company's Financial Statements for the year ended 31 December 2012, together with the Reports of the Auditors and Directors thereon.

2. To approve and declare dividend (2012) on the Ordinary Shares of the Company.
   The Directors have recommended a final cash dividend of 660% (or Rs.66.00 per share) on the Ordinary Shares. Together with the first interim dividend of 250% (or Rs.25.00 per share) and second interim dividend of 250% (or Rs.25.00 per share) already paid, the total dividend for 2012 will thus amount to 1,160% (or Rs.116.00 per share).

3. To appoint Auditors for the ensuing year, and to fix their remuneration.
   (Messrs A. F. Ferguson & Co., Chartered Accountants, retire and being eligible have offered themselves for re-appointment)

### B. Special Business

4. To approve the remuneration of Executive Directors including the Chief Executive.

By Order of the Board

Karachi
March 22, 2013

**Amar Naseer**
Company Secretary

**Notes:**

1. The Individual Members who have not yet submitted photocopy of their valid Computerised National Identity Card (CNIC) to the Company / Share Registrar, are once again reminded to send the same at the earliest directly to Company's Share Registrar, M/s Famco Associates (Private) Limited, State Life Building, 1-A, 1st Floor, I.I. Chundrigar Road, Karachi. The Corporate Entities are requested to provide their National Tax Number (NTN). Please give Folio Number with the copy of CNIC / NTN details. Reference is also made to the Securities and Exchange Commission of Pakistan (SECP) Notifications SRO 779 (I) dated August 18, 2011, and SRO 831 (I) 2012 dated July 5, 2012, which mandates that the dividend warrants should bear CNIC number of the registered member or the authorized person, except in case of minor(s) and corporate members.

2. Share Transfer Books will be closed from April 12, 2013 to April 18, 2013 (both days inclusive) when no transfer of shares will be accepted for registration. Transfers in good order, received at the office of Company's Share Registrar M/s Famco Associates (Private) Limited, State Life Building No. 1-A, 1st Floor, I.I. Chundrigar Road, Karachi-74000 by the close of business on April 11, 2013 will be treated in time for the purpose of payment of Final Dividend to the transferees.

3. All Members / Shareholders are entitled to attend and vote at the meeting. A Member may appoint a proxy who need not be a Member of the Company.

4. Duly completed instrument of proxy, and the other authority under which it is signed, or a notarially certified copy thereof, must be lodged with the Company Secretary at the Company's Registered Office (1st Floor, Avari Plaza, Fatima Jinnah Road, Karachi) at least 48 hours before the time of the meeting.

5. Any change of address of Members should be immediately notified to the Company's Share Registrars, M/s Famco Associates (Private) Limited, State Life Building 1-A, 1st Floor, I. I. Chundrigar Road, Karachi.

CDC Account Holders will further have to follow the under-mentioned guidelines as laid down by the Securities and Exchange Commission of Pakistan:

**A. For Attending the Meeting:**

i) In case of individuals, the account holder or sub-account holder and / or the person whose securities are in group account and their registration details are uploaded as per the Regulations, shall authenticate his / her identity by showing his / her original Computerised National Identity Card (CNIC) or original passport at the time of attending the meeting.

ii) 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.

**B. For Appointing Proxies:**

i) In case of individuals, the account holder or sub-account holder and / or the person whose securities are in group account and their registration details are uploaded as per the Regulations, shall submit the proxy form accordingly.

ii) The proxy form shall be witnessed by two persons whose names, addresses and CNIC numbers shall be mentioned on the form.

iii) Attested copies of CNIC or the passport of the beneficial owners and the proxy shall be furnished with the proxy form.

iv) The proxy shall produce his/her original CNIC or original passport at the time of meeting.

v) In case of corporate entity, the Board of Directors' resolution / power of attorney with specimen signature of the person nominated to represent and vote on behalf of the corporate entity, shall be submitted along with proxy form to the Company.

## Statement Under Section 160 (1) (b) of the Companies Ordinance, 1984

### Statement in respect of Special Business and related Draft Resolution

This Statement sets out the material facts concerning the Special Business to be transacted at the 15th Annual General Meeting and the proposed Resolution related thereto:

### Item 4 of the Agenda – Remuneration of Executive Directors and Chief Executive

The Chief Executive and the Executive Directors are also employees of Unilever Pakistan Limited and are providing services to the Company under the shared services arrangements between both the Companies.

**For the year 2012:** Rs.2.93 million to the Chief Executive, and Rs.1.48 million to the Executive Directors as remuneration for their services.

**Estimated for the year 2013:** Rs.3.20 million to the Chief Executive and Rs.1.60 million to the Executive Directors as remuneration for their services.

**Estimated for January 2014 to March 2014:** Rs.1.60 million to the Chief Executive and Rs.0.70 million to the Executive Directors as remuneration for their services.

Executive Directors and CEO are also entitled to use Company car.

Approval of the Members is required for remuneration for holding their respective offices of profit in respect of the CEO and Executive Directors. For this purpose it is proposed that, the following resolution be passed as an Ordinary Resolution:

**"RESOLVED THAT** approval be and is hereby granted for the holding of offices of profit in the Company by the Executive Directors and the Chief Executive, and the payment of remuneration to them for their respective periods of service in accordance with the shared service arrangements, their individual contracts and the rules of the Company; amounting in the aggregate to Rs.4.41 million approximately, actual for the year January-December 2012; Rs.4.80 million approximately estimated for January to December 2013 which includes variable pay for the year 2012; and Rs.2.30 million approximately estimated for January to March 2014."

# Form of Proxy

The Secretary
Unilever Pakistan Foods Limited
Avari Plaza, Fatima Jinnah Road
Karachi-75530, Pakistan.

I/We ______________________ son/daughter/wife of ______________________ shareholder of Unilever Pakistan Foods Limited, holding ____________ ordinary shares hereby appoint ____________________________ who is my ________________ [state relationship (if any) with the proxy; required by Government regulations] and the son/daughter/wife of ________________, (holding ______________ ordinary shares in the Company under Folio No. ______________ ) [required by Government; delete if proxy is not the Company's shareholder] as my / our proxy, to attend and vote for me / us on my / our behalf at the 15$^{th}$ Annual General Meeting of the Company to be held on April 18, 2013 and / or any adjournment thereof.

Signed this ________ day of ______________ 2013.

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

**Witness 1:**

Signature: ____________________

Name: ____________________

CNIC #: ____________________

Address: ____________________

**Sign across Rs. 5/- Revenue Stamp**

Signature of Member(s)

**Witness 2 :**

Signature: ____________________

Name: ____________________

CNIC #: ____________________

Address: ____________________

Shareholder's Folio No.: ____________________

and / or CDC Participant I.D. No.: ____________________

and Sub-Account No.: ____________________

Shareholder's CNIC #: ____________________

**Note:**

1. The Member is requested:
   (a) to affix Revenue Stamp of Rs. 5/- at the place indicated above.
   (b) to sign across the Revenue Stamp in the same style of signature as is registered with the Company.
   (c) to write down his/her Folio Number.
   (d) to attach an attested photocopy of their valid Computerised National Identity Card/ Passport/ Board Resolution and the copy of CNIC of the proxy, with this proxy form before submission.

2. In order to be valid, this Proxy must be received at the Registered Office of the Company at least 48 hours before the time fixed for the Meeting, duly completed in all respects.

3. CDC Shareholders or their Proxies should bring their original Computerised National Identity Card or original Passport along with the Participant's ID Number and their Account Number to facilitate their identification. Detailed procedure is given in the Notes to the Notice of AGM.


**Unilever Pakistan Foods Limited**
Avari Plaza, Fatima Jinnah Road,
Karachi-75530,
T: +92 21 35660062-9
F: +92 21 35681705
www.unileverpakistan.com.pk
www.unileverpakistanfoods.com.pk

JWT