

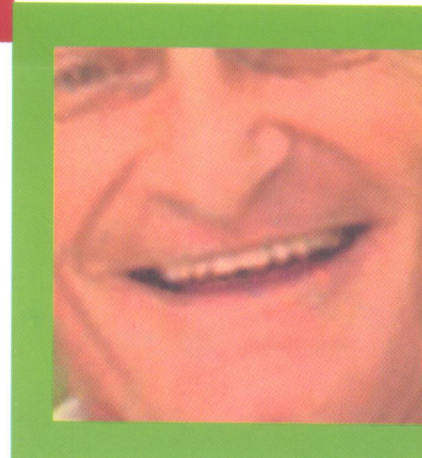
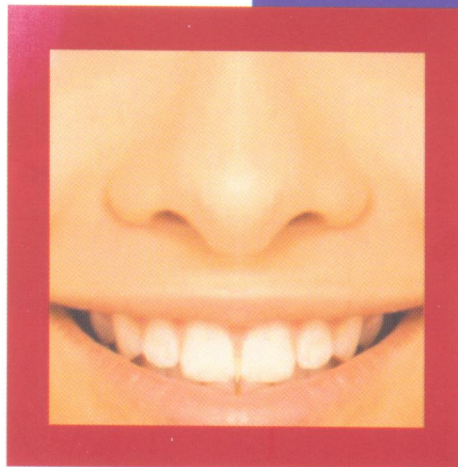
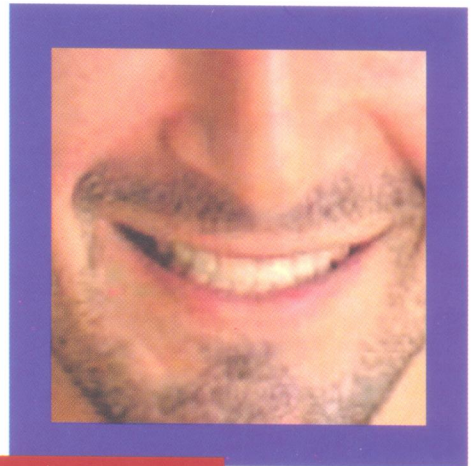


ANNUAL REPORT

2006



**WINNING
SMILES!**



SHIELD CORPORATION LTD

(An ISO 9001 and ISO 14001 certified company)

COMPANY INFORMATION

Board of Directors

Mr. Ebrahim Qassim	Chairman
Mr. M. Haroon Qassim	Managing Director
Mr. Khawar M. Butt	Director
Mr. Vali Muhammad A. Habib	Director
Mr. Zamiruddin Ahmed	Director
Mr. Muhammad Jamil Qassim	Director
Mr. Muhammad Salman Qassim	Director

Audit Committee

Mr. Vali Muhammad A. Habib	Chairman
Mr. Muhammad Jamil Qassim	Member
Mr. Muhammad Salman Qassim	Member

Company Secretary

Mr. Muhammad Arif Dangra

Legal Advisors

Messrs. Hassan & Humayun Associates
Advocates & Solicitors

Auditors

Gangat & Company
Chartered Accountants

Bankers

Habib Bank AG Zurich
Meezan Bank Limited
Metropolitan Bank Limited

Registered Office

401, Business Avenue,
Block 6, P.E.C.H.S.,
Shahrah-e-Faisal,
Karachi.

Factory

Plot No.368/4 & 5,
Landhi Industrial Area,
Baldia Road,
Karachi.

E-mail & URL

mail@shield.com.pk
www.shield.com.pk

DIRECTOR'S REPORT TO THE SHAREHOLDERS

It is my privilege to present the Audited Financial Statements and results of the company for the year ending June 30, 2006 on behalf of the Board of Directors

	2006 (Rupees)	2005 (Rupees)
Financial Performance		
Sales	315,228,783	251,420,574
Profit after Taxation	13,403,215	4,407,157
Un-appropriated Profit Brought Forward	19,223,558	14,816,401
Profit Available for Appropriation	32,626,773	19,223,558
Basic Earning Per Share	4.47	1.47

Management Summary

Financial results of the company should be viewed in the context of the following factors, which impacted upon the results:

1. Sales for the year closed at Rs. 315.23 million, recording an increase of 25.38% over the last year.
2. This increase in sales was achieved through well considered turnaround activities undertaken last year aimed at giving the company a new direction. Increase in sales also was due to the launch of two new product categories, namely **Blessings** toiletries, Baby Care products and **Shield Mouthwash**, as well as expansion of the existing products portfolio. Both the new product categories appear very promising. Sales growth is steady and opportunities are immense.
3. Launch of Baby Care products under the **Blessings** brand was a conscious decision not only to capitalize upon Shield's strength but to further enlarge its scope. Blessings toiletries (Shampoo, Lotion, Oil, Powder and Soap) is a specialized product category. We are steadily gaining ground vis a vis the competition. Recently your management did a focus group for Blessings products and by the grace of God, the consumers are increasingly getting to acknowledge the presence of your product, i.e. Blessings. Even the retailers are demanding this product. In the Blessings range, we have also launched baby care products, feeders, nipples, soothers, teethers (water and gel filled), colored nipples, Anti- Colic feeder and Training cups. Cutting edge technology plus attractive packaging is giving Blessing a completely new and premium brand image. It has been decided to further strengthen, this brand by investing in advertising and promotion as your management is confident that given continued support this brand has a very promising and rewarding future.
4. IMS – Integrated Management System has been implemented. This includes ISO 9000: 2000 Quality Management System and ISO 14001 Environmental Management System. Both these certifications have elevated Shield to the level of a new quality conscious organization with focus on quality and improved systems. We are regularly audited by Lloyds and our certifications have been renewed.
5. An aggressive marketing plan was prepared for the year under review which gave the company much needed impetus to grow and excel amid though competition.
6. Rs. 66.64 million was invested in Advertisement and Sales promotion this year as compared to Rs. 55.40 million, invested last year, recording an increase of 20%. This increase was necessary to support the launches of last year as well as the new products launched this year. Most important was to support the Toothbrush category for which your management adopted an aggressive and completely new concept of promotion by way of educating the consumers on how to use the toothbrush and steps to ensure that the toothbrush is in good condition. Your management highlighted various messages by way of public service advertisements. The one stressing "Change the toothbrush every 3 months as recommended by Dentists worldwide" was a great success. We are pleased that a cross section of the consumers had appreciated this approach as many admitted that they were not aware of this significance. Similarly we highlighted that the best way is to "brush twice a day for 3 minutes". This message also was highlighted through public service advertising. In a nut-shell Shield's marketing philosophy is to highlight and trigger a behavioral change at the consumer level. This reflects our commitment to social corporate responsibility.
7. Increase in investment in advertisement and sales promotion in last few years had lead to decline in the profits. This year's profit after taxation however is more than **3 times**, i.e. Rs. 13.40 million as compared to Rs. 4.40 million last year. Management is confident that sustained increase in investment in advertising and sales promotion will InshaAllah continue to further improve profitability.
8. The Board of Directors is pleased to announce 15% dividend for this financial year.

New Products

Last year the management created a New Products Committee to select and plan new products both in the existing as well as new categories. Launch of **Shield** toothpaste, planned in the year 2005-06 had to be postponed for unavoidable reasons. Your management is pleased that due to hard work and dedication of this committee your company has successfully launched the Shield toothpaste on the auspicious day of 14th August 2006.

Shield Toothpaste – Toothpaste product range is a natural extension of Shield toothbrush & mouthwash range of product: Toothpaste market already is quite large. With increasing consumerism attracting increasing number of players and increase in the per-capita income combined will contribute to accelerated market growth in the years to come. It was for this reason that your management took a conscious decision to launch the toothpaste under the Shield's brand and take advantage of Shield's leadership in Toothbrush segment. Leadership position can only be attained keeping the long term plans and objectives in mind and ensuring that such plans are materialized in such a way that Shield must always lead in the oral care market. The following 2 variants in the toothpaste have been launched:

- Peppermint
- Cinnamon

Peppermint is a popular family toothpaste flavor, whereas Cinnamon is a completely new trendsetting concept for toothpaste. Cinnamon has a strong anti-bacterial property. We are confident that this new flavor will win favor with the consumers.

So far the results of this launch are very positive.

Management remains committed to enhancing the Company's image, quality of products, and the range of products and categories. Our main goal is to introduce new products in existing categories, and simultaneously venture into new synergistic categories.

Investments and New Machinery

In order to ensure long term success and growth, the management invested in new machines:

1. Injection Moulding machine and Moulds were installed at a cost of Rs. 20.91 million, giving the company the capability to compete in the high- price / top-quality Feeders, Nipples and Training Cup and to improve the quality of existing feeders.
2. Injection Moulding machine is on order and is expected to arrive in the New Year which will increase the capacity as well as improve the quality of the product.
3. Various small machines are also on order which will further improve quality and enhance capabilities to adopt the latest international trends/fashion for Shield products in order that we maintain a constant edge and better compete with the foreign products.
4. The management would like to reaffirm its commitment to aggressively but judiciously invest in plant and machinery to ensure long-term competitiveness and products innovation.

Exports

Your management was successful in exporting first consignment to Srilanka. Unfortunately due to duty protection in Srilanka introduced after our launch, we were priced out and did not succeed in getting a repeat order. Despite this set back your management is actively working to open new markets and expect breakthrough in the near future. We were successful in exporting a small consignment to Saudi Arabia in August 2006.

Future Outlook

Due to tremendous increase in the oil prices, prices of plastics had been directly affected. Raw material prices increased across the board by 10 to 15% and in some cases as high as 20%. This increase affected our costs. Last year your management increased prices by 5 to 10% in few products while in some cases the management decided to absorb the cost increase. Your management had a challenge on their hands. We are pleased that due to increased productivity, control on wastages and expenditures, we minimized the

effects of the increase in raw material prices. Your management is confident to further improve and be able to perform better if there is no significant increase in raw materials prices. Containing costs and improving efficiency is a continuous challenge and InshaAllah your management is prudent to take the best possible action.

Key Performance Measures	2006	2005	2004
Gross Profit Margin (%)	41.02	40.02	37.11
Profit Margin (%)	4.25	1.75	3.43
Basic Earnings per Share (Rs.)	4.47	1.47	2.12
Return on Shareholders' Equity (%)	10.82	3.86	5.80
Operating Return (%)	8.68	4.33	5.60

Corporate Governance

Statement of compliance with the best practices of code of corporate governance is annexed to this report.

Board Meetings

During the year four (4) meetings of the Board of Directors were held. Attendance by each director is as follows:

S. No.	Name of Director	Number of Meetings Attended
1.	Mr. Ebrahim Qassim	4
2.	Mr. M. Haroon Qassim	4
3.	Mr. Khawar M. Butt	4
4.	Mr. Vali Muhammad A. Habib	4
5.	Mr. Muhammad Jamil Qassim	4
6.	Mr. Muhammad Salman Qassim	4
7.	Mr. Imran Chishti	3
8.	Mr. Zamiruddin Ahmed	1

Pattern of Shareholding

Pattern of shareholding is annexed to this report.

Auditors

M/s Gangat & Company, Chartered Accountants, the auditors of the company retire and are eligible for reappointment. The Board of Directors, based on the recommendation of the audit committee, would recommend the appointment of M/s Gangat & Company, Chartered Accountants, for the year ended June 30, 2007.

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed Balance Sheet of SHIELD CORPORATION LIMITED as at June 30, 2006 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.

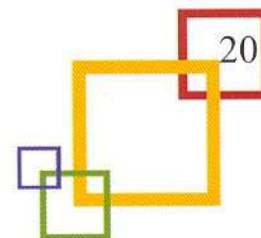
It is the responsibility of the company's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984. Our responsibility is to express an 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 account and are further in accordance with accounting policies consistently applied,
 - ii) the expenditure incurred during the year was for the purpose of the Company's business; and
 - iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;
- c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at June 30, 2006 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.

Date: September 27, 2006
Place: Karachi


Gangat & Company
Chartered Accountants



BALANCE SHEET

Capital and Liabilities

	Note	2006 (Rupees)	2005 (Rupees)
Share Capital and Reserves			
Authorised Capital 10,000,000 (2005: 10,000,000) Ordinary shares of Rs.10/- Each		100,000,000	100,000,000
Issued, Subscribed & Paid-up Capital 3,000,000 (2005: 3,000,000) Ordinary shares of Rs.10/- Each fully Paid in Cash		30,000,000	30,000,000
Reserve and Surplus			
Capital Reserve -Shares Premium		10,000,000	10,000,000
Revenue Reserve-General		55,000,000	55,000,000
Un-appropriated Profit		28,876,773	19,223,558
		93,876,773	84,223,558
Shareholders' Equity		123,876,773	114,223,558
Deferred Liabilities	4	17,612,660	13,222,867
Current Liabilities			
Creditors, Accrued and Other Liabilities	5	45,370,586	30,267,111
Unclaimed Dividend		380,716	355,046
Short Term Bank Finances - Secured	6	16,502,195	18,159,675
Provision for Taxation		2,550,000	175,000
		64,803,497	48,956,832
Contingencies and Commitments	7	-	-
		206,292,930	176,403,257

The Annexed Notes from 1 to 31 form an Integral Part of these Financial Statements.

AS AT JUNE 30, 2006

	Note	2006 (Rupees)	2005 (Rupees)
Assets			
Tangible Fixed Assets			
Operating Assets	8	111,078,268	98,824,145
Capital Work-in-Progress	9	3,500,000	4,690,000
		114,578,268	103,514,145
Current Assets			
Stores and Spares		4,701,009	4,811,030
Stock-in-Trade	10	73,460,998	57,746,527
Trade Debtors - Unsecured and Considered Good	11	1,738,572	1,385,548
Loans, Advances, Deposits, Prepayments and			
Other Receivables-Unsecured and Considered Good	12	10,444,553	8,620,505
Cash and Bank Balances	13	1,369,530	325,502
		91,714,662	72,889,112
		<u>206,292,930</u>	<u>176,403,257</u>



M. Haroon Qassim
Managing Director



Vali Muhammad A. Habib
Director

PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED JUNE 30, 2006

	Note	2006 (Rupees)	2005 (Rupees)
Sales	14	315,228,783	251,420,574
Cost of Goods Sold	15	(185,922,091)	(150,794,869)
Gross Profit		129,306,692	100,625,705
Operating Expenses			
Administrative and Selling	16	106,107,788	87,517,006
Financial	17	4,437,938	1,434,596
		(110,545,726)	(88,951,602)
Net Operating Profit		18,760,966	11,674,103
Other Income and Charges			
Non-Operating Income	18	241,376	269,587
Other Charges	19	(1,100,117)	(4,303,870)
		(858,741)	(4,034,283)
Profit before Taxation		17,902,225	7,639,820
Taxation	20	(4,499,010)	(3,232,663)
Profit after Taxation		13,403,215	4,407,157
Un-appropriated Profit brought forward		19,223,558	14,816,401
Un-appropriated Profit Available for Appropriation		32,626,773	19,223,558
Appropriation			
Dividend for the year 2005 @ 12.50 %		(3,750,000)	-
Un-appropriated Profit carried forward		28,876,773	19,223,558
Basic Earnings Per Share	21	4.47	1.47

The Annexed Notes from 1 to 31 form an Integral Part of these Financial Statements.


M. Haroon Qassim
Managing Director


Vali Muhammad A. Habib
Director

CASH FLOW STATEMENT FOR THE YEAR ENDED JUNE 30, 2006

	Note	2006 (Rupees)	2005 (Rupees)
Cash Flow From Operating Activities			
Cash Generated from Operations	A	37,400,339	17,797,758
Gratuity Paid		(1,025,136)	(1,547,020)
Financial Charges Paid		(4,155,097)	(1,163,610)
Taxes Paid		(1,311,462)	(1,951,432)
Net Cash from Operating Activities		30,908,644	13,135,696
Cash Flow from Investing Activities			
Fixed Capital Expenditure Including Capital Work-in-Progress		(25,132,806)	(19,935,087)
Sale Proceeds from Disposal of Fixed Assets		650,000	422,500
Net Cash Used in Investing Activities		(24,482,806)	(19,512,587)
Cash Flow from Financing Activities			
Dividend Paid		(3,724,330)	(212)
Net Cash Used in Financing Activities		(3,724,330)	(212)
Net Increase/(Decrease) in Cash and Cash Equivalents		2,701,508	(6,377,103)
Cash and Cash Equivalent at the Beginning of the Year		(17,834,173)	(11,457,070)
Cash and Cash Equivalent at the End of the Year	B	(15,132,665)	(17,834,173)
A. Cash Generated from Operations			
Profit Before Taxation		17,902,225	7,639,820
Adjustment for Non-Cash Charges and Other Items:			
Depreciation		13,518,789	12,222,627
Provision for Gratuity		3,464,929	1,613,107
Gain on Disposal of Fixed Assets		(100,106)	(69,254)
Obsolete Fixed Asset written-off (impairment)		-	3,904,665
Financial Charges		4,437,938	1,434,596
Profit Before Working Capital Changes		39,223,775	26,745,561
(Increase)/Decrease in Current Assets:			
Stores and Spares		110,021	89,278
Stock in Trade		(15,714,471)	(4,844,605)
Trade Debtors		(353,024)	1,215,751
Loans, Advances, Deposits, Prepayments and Other Receivables (Excluding Income Tax)		(686,596)	(2,029,723)
		(16,644,070)	(5,569,299)
Increase/(Decrease) in Current Liabilities:			
Creditors, Accrued and other Liabilities (Excluding Accrued Markup)		14,820,634	(3,378,504)
Cash Generated from Operations		37,400,339	17,797,758
B. Cash and Cash Equivalents			
Cash and Bank Balances		1,369,530	325,502
Short Term Bank Finances		(16,502,195)	(18,159,675)
		(15,132,665)	(17,834,173)

The Annexed Notes from 1 to 31 form an Integral Part of these Financial Statements.


M. Haroon Qassim
Managing Director


Vali Muhammad A. Habib
Director

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED JUNE 30, 2006

	Share Capital (Rupees)	Capital Reserve	Revenue Reserve		Total (Rupees)
		Share Premium (Rupees)	General Reserve (Rupees)	Unappropriated Profit (Rupees)	
Balance as at June 30, 2004	30,000,000	10,000,000	55,000,000	14,816,401	109,816,401
Profit after taxation for the year Ended June 30, 2005	-	-	-	4,407,157	4,407,157
Balance as at June 30, 2005	30,000,000	10,000,000	55,000,000	19,223,558	114,223,558
Appropriations Dividend for the Year June 30, 2005	-	-	-	(3,750,000)	(3,750,000)
Profit after taxation for the year Ended June 30, 2006	-	-	-	13,403,215	13,403,215
Balance as at June 30, 2006	30,000,000	10,000,000	55,000,000	28,876,773	123,876,773

The Annexed Notes from 1 to 31 form an Integral Part of these Financial Statements.



M. Haroon Qassim
Managing Director



Vali Muhammad A. Habib
Director