

DIRECTORS' REPORT

The Directors are pleased to present the Annual Report with the audited financial statements of the Company for the year ended June 30, 2006.

OPERATING RESULTS

Colgate-Palmolive (Pakistan) Limited achieved a strong growth during the year ended June 30, 2006. All categories of our business - Fabric Care, Surface Care, Personal Care and Oral Care achieved good sales increases. Sales grew by 28.7% from Rs. 4,883 bn to Rs. 6,286 bn in 2005-06. Gross profit margin increased to 32.3% in 2005-06 from 27.0% over the corresponding period last year. This was achieved in spite of raw material price increases due to rising petroleum prices. Company's efforts of cost reduction, better supply chain management, together with Government's withdrawal of Central Excise Duty on Detergents and Soaps helped in improving the gross profit margin.

Selling and distribution expenses increased to Rs. 759.258 mn in 2005-06 from Rs. 505.505 mn over the corresponding period last year. Nevertheless, with synergies due to increased sales volume and favorable sales mix, profit from operations increased by 62.5% from Rs. 481.617 mn to Rs. 782.642 mn. Profit after Taxation increased by 64.7% from Rs. 302.974 mn to Rs. 498.855 mn in 2005-06, leading to an Earnings per share increase by 64.6% from Rs.24.77 to Rs.40.79 in 2005-06.

Operating Results

	2005-06 Rs. In million	2004-05 Rs. In million	Increase By
Gross Revenues	6,286	4,883	28.7%
Gross Profit	1,615	1,058	52.6%
Operating Profit	783	482	62.5%
Profit After Tax	499	303	64.7%
Earnings per Share - Rupees	40.79	24.77	64.7%

Profit and Appropriations

	Rupees in Thousand
Profit After Tax	498,855
Un-appropriated profit brought forward	2,975
Profit available for appropriation	501,830
Appropriations:	
Proposed Cash Dividend @ 160 % i.e. Rs. 16 per share (2005; @125% i.e. Rs. 12.50 per share)	195,685
Reserve for proposed issue of bonus shares at the rate of one share for every four shares (2005: Nil)	30,576
Transfer to General Reserve	270,000
	496,261
Un-appropriated profit carried forward	5,569

CASH FLOWS

The Company had a strong liquidity position at the end of year 2005-06. Net cash provided by operations increased to Rs. 714.940 mn compared with Rs. 280.168 mn of last year. Cash balances at year end increased to reach Rs. 390.638 mn from Rs. 216.537 mn in 2004-05.

FUNCTIONAL OPTIMIZATION

Operational efficiencies were achieved across all our business sections. Productivity enhancement and cost saving programs were explored and successfully implemented in production facilities of our four business categories. Supply chain was improved with better communication and enhanced standardization with our vendors and business partners.



The Company continued to improve its Information Technology capabilities. Zonal sales offices were linked to the head office with real-time information sharing, leading to improved logistics planning.

HUMAN RESOURCES

The company maintains its focus on human resource capital. Efforts are being made to further improve working conditions and employee satisfaction. The Company continues to invest in its people by several ongoing local and foreign training programs. Employees are able to benefit from the long and short term training programs in South East Asian countries giving them a blend of international and regional exposure.

The management of Colgate maintains an 'open door' policy for all staff encouraging bi-lateral communication. It helps in aligning the career and professional objectives of the employees with our business goals. Colgate will strive to stay abreast and adhere to national and Company environmental, health and safety standards.

EARTHQUAKE RELIEF EFFORTS

The earthquake of October 2005, which resulted in huge loss of life and property, was a sad event for the whole nation. Colgate made its share in relief and rehabilitation process. In addition, Colgate employees also contributed generously to the relief fund which was matched by the Company. Colgate Palmolive, U.S.A. also joined hands and donated USD 100,000 for the victims and affected areas of the earthquake. We would also like to thank Colgate Palmolive, U.S.A. employees who collected and sent relief goods including blankets, clothing and medicines for the affected.

STRIVING TOWARDS A HEALTHIER SOCIETY

We have continued with our efforts for a healthier community by sponsoring events like 'Palmolive Sindh Womens' Swimming Championship', and organizing oral health programs including 'Bright Smiles, Bright Futures' program, an endeavor to create awareness about oral hygiene in children. Striving towards the goal of improved oral health, Colgate takes pride in organizing events like the free Dental Clinics, 'Dental Week', and 'Annual Dental Conference'. In February 2006, Colgate was a major partner in organizing 'Asia Pacific Dental Conference', the first of its kind in Pakistan.

RECOGNITIONS

Colgate continues to achieve high growth in sales, profitability and improved liquidity position. Based on these achievements, Karachi Stock Exchange has declared Colgate as one of the top performing companies for 'Top 25 Companies Award' for the year 2004-05. Colgate maintains and promotes its global values of Caring, Teamwork and Continuous Improvement. Recognizing our efforts, 'Management Association of Pakistan', also awarded 'Corporate Excellence Certificate' to your Company, fourth time in a row.

CHALLENGES AND PROSPECTS

Your company is well positioned for further growth and profitability. We will continue with our efforts for market development, improved operational channels, new product launches, and redesigned SKUs to satisfy the needs of our customers and enhance our business. The Company will face the challenge of rapid cost escalations due to increasing raw material prices. The competitive trends are expected to become more testing during the coming year with increased media spending by competition. We will continue with our resolve to focus on addressing customer needs, with customer satisfaction as our goal enabling us to overcome intense competition.

CORPORATE AND FINANCIAL REPORTING FRAMEWORK

The Directors are pleased to state that your Company is compliant with the provisions of the Code of Corporate Governance as required by Securities & Exchange Commission of Pakistan (SECP). Following are the statements on Corporate and Financial Reporting Framework:

- The financial statements, prepared by the management of the Company, present fairly its state of affairs, the results of its operations, cash flows and changes in equity.
- The Company has maintained proper books of accounts.
- Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- In preparation of these financial statements International Accounting Standards, as applicable in Pakistan, have been followed.
- The system of internal control is sound in design. The system is being continuously monitored by Internal Audit and through other such monitoring procedures. The process of monitoring Internal Controls will continue as an ongoing process with the objective to further strengthen the controls and bring in improvements in the system.
- There are no doubts upon the Company's ability to continue as a going concern.
- There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.
- The summary of key operating and financial data of the Company of last six years is annexed in this report.
- Information about taxes and levies is given in the notes to the accounts.
- The valuation of investment made by the staff retirement benefit funds based on their respective audited accounts is as follows:

	2005-06 (Rs. in million)
Provident Fund	78.48
Gratuity Fund	27.52

- The board held four (4) meetings during the year. Attendance by each Director was as follows:

	Attended
Mr. Iqbal Ali Lakhani	04
Mr. Zulfiqar Ali Lakhani	04
Mr. Amin Mohammed Lakhani	02
Mr. Tasleemuddin Ahmed Batlay	04
Mr. A. Aziz Ebrahim	03
Mr. Fabian T.Garcia	02
Mr. Peter John Graylin	02
	Nominee of CP-USA
	Nominee of CP-USA

Leave of absence was granted to directors who could not attend some of the Board meetings.

PATTERN OF SHAREHOLDINGS

- A statement showing pattern of shareholding of the Company and additional information as at June 30, 2006 is included in the report.
- The Directors, CEO, CFO, Company Secretary and their spouses and minor children did not carry out any transaction in the shares of the Company during the year.

ACKNOWLEDGMENTS

We take pleasure in expressing appreciation and thank all our staff for their commitment, loyalty and hard work throughout the year. We also acknowledge the support and co-operation received from our customers, suppliers, bankers and other stakeholders.

On behalf of Board of Directors


IQBAL ALI LAKHANI
 Chairman

Karachi: August 17, 2006