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ANNUAL REPORT

2009

HALLMARK INSURANCE COMPANY LIMITED



Lakson Tobacco Company Limited

Annual Report December 31, 2009

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Corporate Information

BOARD OF DIRECTORS

SALMAN HAMEED
(Chairman & Chief Executive)
MATTEO LORENZO PELLEGRINI
DOUGLAS WALTER WERTH
JOSEPH MITCHELL GAULT
EUNICE HAMILTON
MOHAMMAD FAROOQ SHAKOOR
ASMER NAIM

ADVISOR

IQBAL ALI LAKHANI

COMPANY SECRETARY

MOHAMMAD FAROOQ SHAKOOR

AUDIT COMMITTEE

JOSEPH MITCHELL GAULT (Chairman)
DOUGLAS WALTER WERTH
EUNICE HAMILTON
ASMER NAIM

SHARE TRANSFER COMMITTEE

SALMAN HAMEED
JOSEPH MITCHELL GAULT
MOHAMMAD FAROOQ SHAKOOR

AUDITORS

A.F. FERGUSON & CO.
Chartered Accountants

BANKERS

THE ROYAL BANK OF SCOTLAND
DEUTSCHE BANK A.G.
CITIBANK N.A.
HABIB BANK LIMITED
THE HONGKONG & SHANGHAI BANKING CORP. LTD.
MCB BANK LIMITED
STANDARD CHARTERED BANK
UNITED BANK LIMITED
BARCLAYS BANK PLC, PAKISTAN

REGISTERED OFFICE

BAHRIA COMPLEX III,
4TH FLOOR, M.T. KHAN ROAD,
KARACHI.

FACTORIES

1. PLOT NO 20, SECTOR NO. 17
KORANGI INDUSTRIAL AREA, KARACHI (Closed)
2. PLOT NO. 14-17, EXPORT
PROCESSING ZONE, KARACHI.
3. E/15, S.I.T.E., KOTRI
DISTT. DADU (SINDH)
4. QUADIRABAD
DISTT. SAHIWAL
5. VILLAGE: MANDRA
TEH : GUJJAR KHAN
DISTT. RAWALPINDI
6. ISMAILA
DISTT. SWABI

Website: www.lakson tobacco.com.pk
Email : info@lakson tobacco.com.pk



Notice of Meeting

NOTICE IS HEREBY GIVEN that the 41st Annual General Meeting of LAKSON TOBACCO COMPANY LIMITED will be held on Wednesday, March 31, 2010 at 11.00 a.m. at Avari Renaissance Towers Hotel, Fatima Jinnah Road, Karachi to transact the following business:

ORDINARY BUSINESS

1. To receive, consider and adopt the audited financial statements for the year ended December 31, 2009 together with the Directors' and Auditor's Reports thereon.
- 2- To declare final dividend in cash @ 40% i.e. Rs 4.0 per share of Rs. 10/- each as recommended by the Board of Directors.
3. To appoint auditor and fix their remuneration.

The retiring auditor M/s A. F. Ferguson & Co., Chartered Accountants has given their consent to act as auditor of the company for the year ending December 31, 2010.

By Order of the Board

MOHAMMAD FAROOQ SHAKOOR
Director & Company Secretary

Karachi: March 08, 2010

NOTES:

1. The share transfer books of the Company will remain closed from March 20, 2010 to March 31, 2010 (both days inclusive). Transfers received in order at the Office of the Company's share registrar, FAMCO Associates (Pvt.) Ltd, State Life Building No.1-A, 1st Floor, off I.I. Chundrigar Road, Karachi upto March 19, 2010 will be considered in time to be eligible for payment of the dividend to the transferees.
2. A member who has deposited his/her shares into the Central Depository Company of Pakistan Limited, must bring his/her participant's ID number and account/sub-account number along with original Computerized National Identity Card (CNIC) or original Passport at the time of attending the meeting.
3. A member entitled to attend and vote at the Annual General Meeting may appoint another member as his/her proxy to attend, speak and vote instead of him/her. In case of corporate entity, the Board of Directors' Resolution/ Power of Attorney with specimen signatures shall be submitted with the proxy form to the Company.
4. Forms of proxy to be valid must be received at the Share Registrar's office not later than 48 hours before the time of the meeting.
5. Members are requested to notify the Share Registrar of the Company promptly of any change in their addresses.
6. Members who have not yet submitted photocopy of their Computerized National Identity Cards to the Company's Registrar are requested to send the same at the earliest.
7. A form of proxy is enclosed herewith.



Statement of Compliance with the Code of Corporate Governance

This statement is being presented to comply with the Code of Corporate Governance contained in Regulation No. 35 of the listing regulations of Karachi and Lahore Stock Exchanges 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 Board comprises of 7 Directors including the Chief Executive Officer (CEO). The Company encourages representation of independent non-executive Directors and Directors representing minority interests on its Board of Directors. At present the Board includes 3 non-executive directors.
2. The Directors have confirmed that none of them is serving as a director in more than ten listed companies, including this Company.
3. All the resident Directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFC, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. No casual vacancy has occurred in the Board during the current year.
5. The Company has prepared a 'Statement of Ethics and Business Practices', which has been signed/acknowledged by most of the directors and employees. The signing/acknowledging of the statement by the remaining directors and employees for this year is still in progress.
6. The Board has developed a vision statement, overall corporate strategy and significant policies of the Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO and other executive Directors, have been taken by the Board.
8. The meetings of the Board of Directors were presided over by the Chairman and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. The Board arranged two orientation courses for its directors during the year to apprise them of duties and responsibilities.
10. The Chief Financial Officer (CFO) was appointed prior to the implementation of the Code of Corporate Governance. The Company Secretary was appointed by the Board effective from July 1, 2007. No additional remuneration, terms and conditions was considered at the time of appointment of Company Secretary. However, the appointment of head of internal audit has been approved by the Board during the year.



Statement of Compliance with the Code of Corporate Governance

11. The Directors' Report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
12. The financial statements of the Company were duly endorsed by CEO and CFO before approval of the Board.
13. The Directors, CEO and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.
14. The Company has complied with all the corporate and financial reporting requirements of the Code.
15. The Board has formed an audit committee. It comprises of 4 members, of whom 2 are non-executive directors.
16. The meetings of the audit committee were held at least once in every quarter prior to approval of interim and final results of the Company and as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.
17. The Board has set-up an effective internal audit function and personnel involved are considered suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the Company and they are involved in the internal audit function on a full time basis.
18. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review program 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 related party transactions were placed before the audit committee and approved by the Board of Directors.
21. We confirm that all other material principles contained in the Code have been complied with.

Salman Hameed
Chairman & Chief Executive

Karachi: February 26, 2010



Review Report to the Members on Statement of Compliance with the best Practices of the Code of Corporate Governance

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance for the year ended December 31, 2009 prepared by the Board of Directors of Lakson Tobacco Company Limited (the company) 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 is that of the Board of Directors of the company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the company's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the company's personnel and review of various documents prepared by the company to comply with the Code.

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

Further, Sub-Regulation (xiii a) of Listing Regulation No. 35 of Karachi and Lahore Stock Exchanges require the company to place before the Board of Directors for their consideration 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. Further, all such transactions are also required to be separately placed before the audit committee. We are only required to check the approval of the related party transactions by the Board of Directors and placement of such transactions before 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 status of 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, 2009.

KARACHI: March 3, 2010

A.F. Ferguson & Co.

A.F. FERGUSON & CO.
CHARTERED ACCOUNTANTS



Directors' Report

FOR THE YEAR ENDED DECEMBER 31, 2009

The Board of Directors of Lakson Tobacco Company Limited (the Company) has the pleasure to present its Directors' Report along with the Audited Financial Statements of the Company for the year ended December 31, 2009.

PERFORMANCE REVIEW

The analysis of key operating results for the year ended December 31, 2009 in comparison with the previous year is as follows:

	Year ended December 31, 2009		Year ended December 31, 2008	
	(Rs mio)	%	(Rs mio)	%
Gross Turnover	30,476	100.00	24,938	100.00
Gross Profit	4,969	16.31	4,316	17.31
Operating Profit	1,627	5.34	1,870	7.49
Profit before tax	1,500	4.92	1,745	7.00
Profit after tax	958	3.14	1,105	4.43

In 2009, the gross turnover increased by 22.2% versus last year and the Company generated an increase of 15.1% in gross profit. These strong results were achieved despite adverse economic factors weighting on income per capita, pressure on manufacturing costs and steep increases in tax and excise duty rates.

The Company invested significantly in marketing and distribution expenses in 2009, up 37.9%, primarily to expand its brand portfolio and support sales at retail as prices of its products considerably increased driven by the two tax and excise duty rates increases in February and June 2009. This resulted in a decline in operating profit by 12.9% or 13.3% after tax.

The Company's earnings per share is Rs 15.56 in 2009 as compared to Rs 17.95 in 2008.

OPERATIONAL CAPACITY

The Company also continued to actively invest in its operational capabilities and, as such, increased its investment in property, plant and equipment to Rs 1.044 billion in 2009 or an increase of 9.6% versus prior year. These investments are primarily made under the umbrella of a comprehensive project of modernizing manufacturing facilities and equipments, safeguarding assets through warehousing upgrades and achieving overall improvements in productivity and product quality.

DIVIDEND

The Directors are pleased to propose a final dividend of 40% or Rs 4.0 per share subject to the approval by the members at the Annual General Meeting. As no interim dividend was announced during the year, this dividend will also constitute the full and final payment for the year 2009. The dividend payout ratio is approximately 25.70% of the net profit after tax.



Directors' Report

APPROPRIATION OF PROFIT

The profit for the year, along with distributable profit at year end, has been appropriated as follows:

	Year ended December 31, 2009	Year ended December 31, 2008
	(Rupees in 000)	
Operating Profit	1,627,386	1,870,836
Profit after taxation	958,384	1,105,400
Accumulated profit brought forward	2,269	1,092
Profit available for appropriation	960,653	1,106,492
Appropriations:		
Interim cash dividend - nil (For reference, in 2008 it was 65%)	-	400,272
Proposed cash dividend at 40% (For reference, in 2008 it was 25% per ordinary share of Rs 10 each)	246,321	153,951
Transfer to general reserve	710,000	550,000
Un-appropriated profit carried forward	<u>4,332</u>	<u>2,269</u>
Basic and Diluted Earning Per Share (Rs)	<u>15.56</u>	<u>17.95</u>

MATERIAL CHANGES AND COMMITMENTS

During the period between the end of the financial year 2009 and the date of this report, no changes and commitments which materially affect the financial position of the Company have occurred.

CONTRIBUTION TO THE NATIONAL EXCHEQUER

Lakson Tobacco Company Limited continues to substantially contribute to the annual government's revenues. In 2009, the Company contributed Rs 18.1 billion to the national Exchequer in the form of Federal Excise Duties, Custom Duties, Special Excise Duties, Sales Tax and Income Tax, which represents a 23.0% increase compared to 2008.

CORPORATE SOCIAL RESPONSIBILITY

Investing in the communities where we operate is part of the Company's culture. Lakson Tobacco Company Limited continues to focus its Corporate Social Responsibility initiatives to address the most pressing needs in the communities where our employees live and work.

Directors' Report

Specifically, in 2009, the Company actively participated in disaster relief activities, increased the reach of its clean drinking water program and continued to be involved in re-forestation efforts in the tobacco growing areas. Last but not least, the Company continues to actively support the Lakson Medical Trust, a non-profit organization which provides free / low cost quality health and eye care and services to underprivileged people in rural communities. During 2009, the Company and Philip Morris International Inc. contributed Rs. 16.0 million towards the above initiatives.

CODE OF CORPORATE GOVERNANCE

The Company's Directors are committed to adhere to the best standards of corporate governance. As such, in 2009, all necessary steps were taken for Lakson Tobacco Company Limited to comply with the requirements of the Code of Corporate Governance as required by the Securities & Exchange Commission of Pakistan (SECP).

As required under the above Code of Corporate Governance, the Directors are pleased to report that:

- The financial statements prepared by the management of the Company represent fairly its state of affairs, the results of its operations, cash flows and changes in its equity.
- Proper books of accounts of the Company have been maintained.
- Appropriate accounting policies have been applied consistently in preparation of the financial statements except for changes in accounting policies as mentioned below and accounting estimates are based on reasonable and prudent judgment.
- Approved accounting standards, as applicable in Pakistan, have been followed in preparation of all financial statements.
- The Company's system of internal controls is sound in design and has been effectively implemented and is continuously reviewed.
- 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.
- A summary of the key financial highlights for the year and of the assets and liabilities of the Company as of December 31, 2009 and for the last six financial periods are set out in page 51.
- Information about taxes and levies is given in the corresponding notes in the financial statements.

INVESTMENTS IN RETIREMENT FUNDS

The value of investments made by the employees' retirement funds operated by the Company as per their audited financial statements is as follows:

	Rs million	
Provident Fund	727.97	(Financial statements audited as of December 31, 2008)
Gratuity Fund	299.47	(Financial statements audited as of June 30, 2009)



Directors' Report

HOLDING COMPANY

Philip Morris Participations B.V. (PMP) is the holding Company of Lakson Tobacco Company Limited and is incorporated in Holland.

BOARD OF DIRECTORS MEETINGS

During 2009, the Board of Directors held four meetings prior to the publication of each quarterly financial results. The attendance of Directors in those meetings is documented and provided here under:

Name of Directors	No. of meetings attended
Mr. Matteo Lorenzo Pollegriani	1
Mr. Douglas Walter Werth	1
Ms. Eunice Hamilton	1
Mr. Salman Hameed	4
Mr. Joseph Mitchell Gault	4
Mr. Mohammad Farooq Shakoor	4
Mr. Asmer Naim	2

Leaves of absence were granted to the Directors who could not attend the Board meetings.

BOARD AUDIT COMMITTEE

The Audit Committee performs according to the terms of reference determined by the Board of Directors of the Company and which conforms to the requirements of the Code of Corporate Governance issued by the Securities & Exchange Commission of Pakistan.

The Audit Committee is comprised of four members, of which two are non-executive Directors. Four meetings were held during the year as per the requirement of the above Code of Corporate Governance.

PATTERN OF SHAREHOLDING

The pattern of shareholding of the Company as of December 31, 2009 is included further in the Annual Report as per the requirements of the Code of Corporate Governance.

AUDITORS

The current external auditors, A. F. Ferguson & Co, Chartered Accountants will retire at the conclusion of the ensuing Annual General Meeting and, being eligible, offer themselves for re-appointment as external auditors for the year ending December 31, 2010. Members are requested to appoint them as auditors and validate their remuneration.



Directors' Report

CHANGES IN ACCOUNTING POLICIES

Lakson Tobacco Company Limited has adopted or applied a certain number of new accounting standards, amendments to approved standards and new interpretations during 2009. Details of those are provided in the Notes to the Financial Statements section 2.2.1.

COMPANY'S FOCUS

Lakson Tobacco Company Limited is a fully integrated affiliate of Philip Morris International Inc. and as such benefits from global resources and expertise to help further improve its effectiveness and long term sustainability and profitability.

The Company's Directors and management continue to be focused on delivering such long term shareholder value through improvements in all aspects of the Company's operations. This includes, but might not be limited to, innovative product offering, enhanced product quality, improved manufacturing practices and facilities, development of human resources and continued emphasis on effectively managing the cost base.

NON-TAX PAID INDUSTRY

Lakson Tobacco Company Limited is increasingly affected by the non-tax paid or illicit tobacco industry in Pakistan. In 2009, not only the Company's sales of cigarettes but also purchases of tobacco leaf were adversely affected by the growth of the non-tax paid tobacco industry. The detrimental implications of a growing non-tax paid industry extend not only to the Company but to the legitimate industry as a whole and materially reduce government's revenues. Lakson Tobacco Company Limited supports the government's efforts to enforce regulation in this area and secure a necessary level playing field for the overall tobacco industry.

ACKNOWLEDGEMENTS

The Directors wish to take this opportunity to thank all the Company's employees for their efforts, dedication, commitment and support in 2009.

The Board of Directors would also like to extend its appreciation to all its business partners such as distributors, suppliers, shareholders and other institutions for their trust in the management of the Company.

On behalf of the Board of Directors

SALMAN HAMEED

Chairman and Chief Executive

Karachi, February 26, 2010



Auditors' Report to the Members

We have audited the annexed balance sheet of Lakson Tobacco Company Limited as at December 31, 2009 and the related profit and loss account, statement of changes in equity and cash flow statement 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 account 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 except for the changes as stated in note 2.2.1 with which we concur;
 - (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, statement of changes in equity and cash flow statement 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, 2009 and of the profit, changes in equity and its cash flows 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.

A.F. FERGUSON & CO.

Chartered Accountants

Audit Engagement Partner : Saad Kaliya

Karachi: March 3, 2010



Balance Sheet as at December 31, 2009

	Note	2009	2008
(Rupees in thousand)			
NON CURRENT ASSETS			
Property, plant and equipment	3	3,845,739	3,322,278
Investment in a subsidiary company	4	1	1
Long term loans	5	853	1,681
Long term deposits and prepayments	6	42,603	37,634
		<u>3,889,196</u>	<u>3,361,594</u>
CURRENT ASSETS			
Stores and spares	7	319,477	245,836
Stock in trade	8	5,880,236	5,327,107
Trade debts	9	65,847	36,181
Loans and advances	10	50,050	130,204
Prepayments		109,162	113,834
Profit accrued		1,408	3,959
Other receivables	11	80,697	23,571
Income tax - net		87,122	150,780
Cash and bank balances	12	109,559	46,718
		<u>6,703,558</u>	<u>6,078,190</u>
		<u>10,592,754</u>	<u>9,439,784</u>
SHARE CAPITAL AND RESERVES			
Authorised capital		<u>1,000,000</u>	<u>1,000,000</u>
Issued, subscribed and paid-up capital	13	615,803	615,803
Reserves		5,243,473	4,671,938
Unappropriated profit		960,653	706,220
		<u>6,819,929</u>	<u>5,993,961</u>
NON CURRENT LIABILITIES			
Deferred taxation	14	391,000	392,904
CURRENT LIABILITIES			
Running finance under mark-up arrangements	17	789,525	770,668
Trade and other payables	18	1,210,484	1,263,291
Accrued mark-up on running finance facilities		35,176	22,465
Sales tax and excise payable		1,346,640	996,495
		<u>3,381,825</u>	<u>3,052,919</u>
		<u>10,592,754</u>	<u>9,439,784</u>
CONTINGENCIES AND COMMITMENTS			
	19		

The annexed notes from 1 to 38 form an integral part of these financial statements.

SALMAN HAMEED
Chairman & Chief Executive

MOHAMMAD FAROOQ SHAKOOR
Director

Karachi : February 26, 2010



Profit and Loss Account

FOR THE YEAR ENDED DECEMBER 31, 2009

	Note	2009	2008
(Rupees in thousand)			
Gross turnover		30,475,781	24,937,931
Less: Sales tax		4,320,684	3,474,885
Excise duty		12,754,428	10,165,825
Turnover - net of sales tax and excise duty		13,400,669	11,297,221
Cost of sales	20	8,431,334	6,980,754
Gross profit		4,969,335	4,316,467
Distribution and marketing expenses	21	2,640,804	1,915,540
Administrative expenses	22	701,145	530,091
		3,341,949	2,445,631
Operating profit		1,627,386	1,870,836
Other expenses	23	141,028	156,236
		1,486,358	1,714,600
Other income	24	103,111	76,358
		1,589,469	1,790,958
Finance cost	25	89,336	45,639
Profit before taxation		1,500,133	1,745,319
Taxation	26	541,749	639,919
Profit after taxation		958,384	1,105,400
		Rupees	
Earnings per share	27	15.56	17.95

The annexed notes from 1 to 38 form an integral part of these financial statements.


SALMAN HAMEED
 Chairman & Chief Executive


MOHAMMAD FAROOQ SHAKOOR
 Director

Karachi ; February 26, 2010



Statement of Changes in Equity

FOR THE YEAR ENDED DECEMBER 31, 2009

	Issued, subscribed and paid-up capital	Revenue reserves			Unappropriated profit	Total
		General reserve	Other - note 2.19	Sub Total		
(Rupees in thousand)						
Balance as at January 1, 2008	615,803	4,427,000	-	4,427,000	472,018	5,514,821
Transfer to general reserve for the six months period ended December 31, 2007	-	240,000	-	240,000	(240,000)	-
Final dividend for the six months period ended December 31, 2007 @ Rs 3.75 per share	-	-	-	-	(230,926)	(230,926)
Profit after taxation for the year ended December 31, 2008	-	-	-	-	1,105,400	1,105,400
Share-based payment (notes 2.19 and 16)	-	-	4,938	4,938	-	4,938
Interim dividend for the year ended December 31, 2008 @ Rs 6.50 per share	-	-	-	-	(400,272)	(400,272)
Balance as at December 31, 2008	615,803	4,667,000	4,938	4,671,938	706,220	5,993,961
Transfer to general reserve for the year ended December 31, 2008	-	550,000	-	550,000	(550,000)	-
Final dividend for the year ended December 31, 2008 @ Rs 2.50 per share	-	-	-	-	(153,951)	(153,951)
Profit after taxation for the year ended December 31, 2009	-	-	-	-	958,384	958,384
Share-based payment (notes 2.19 and 16)	-	-	21,535	21,535	-	21,535
Balance as at December 31, 2009	615,803	5,217,000	26,473	5,243,473	960,653	6,819,929

The annexed notes from 1 to 38 form an integral part of these financial statements.


SALMAN HAMEED

Chairman & Chief Executive


MOHAMMAD FAROOQ SHAKOOR

Director

Karachi : February 26, 2010



Cash Flow Statement

FOR THE YEAR ENDED DECEMBER 31, 2009

	Note	2009	2008
(Rupees in thousand)			
CASH FLOW FROM OPERATING ACTIVITIES			
Cash generated from operations	31	1,664,902	1,141,518
Finance cost paid		(58,403)	(9,880)
Income taxes paid		(479,995)	(623,425)
Long term loans		828	(473)
Long term deposits and prepayments		(4,969)	(11,456)
Net cash inflow from operating activities		1,122,363	496,284
CASH FLOW FROM INVESTING ACTIVITIES			
Fixed capital expenditure		(1,044,173)	(952,483)
Proceeds from disposal of items of property, plant and equipment		59,802	16,312
Income received from short term deposits		59,317	63,331
Net cash used in investing activities		(925,054)	(872,840)
CASH FLOW FROM FINANCING ACTIVITIES			
Dividends paid		(153,325)	(628,262)
Net cash used in financing activities		(153,325)	(628,262)
Net increase / (decrease) in cash and cash equivalents during the year		43,984	(1,004,818)
Cash and cash equivalents at the beginning of the year		(723,950)	280,868
Cash and cash equivalents at the end of the year	32	(679,966)	(723,950)

The annexed notes from 1 to 38 form an integral part of these financial statements.

SALMAN HAMEED
Chairman & Chief Executive

Karachi : February 26, 2010

MOHAMMAD FAROOQ SHAKOOR
Director



Notes to and Forming Part of the Financial Statements

FOR THE YEAR ENDED DECEMBER 31, 2009

1. THE COMPANY AND ITS OPERATIONS

- 1.1 The company was incorporated in Pakistan on February 10, 1969 as a public limited company under the Companies Act, 1913 (now Companies Ordinance, 1984) and its shares are quoted on the Karachi and Lahore Stock Exchanges. The principal activity of the company is the manufacturing and sale of cigarettes and tobacco. The address of its registered office is 4th Floor, Bahria Complex III, M. T. Khan Road, Karachi, Pakistan.
- 1.2 The company is a subsidiary of Philip Morris International Inc., (the parent) through Philip Morris Participations B.V. and FTR Holding S.A.
- 1.3 The consolidated financial statements of the group comprising the company and its subsidiary, Premier Tobacco Company (Private) Limited, have not been attached with these financial statements in view of exemption granted by the Securities & Exchange Commission of Pakistan (the SECP) vide its letter No. EMD/233/619/2002-126 from the requirement of Section 237 of the Ordinance. The exemption is, however, subject to certain conditions including that the audited financial statements of the subsidiary company will be available for inspection at the registered office of the company and would be available to the members on request without any cost.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation and statement of compliance

These financial statements have been prepared under the historical cost convention unless otherwise specifically stated.

These financial statements have been prepared in accordance with the requirements of the Companies Ordinance, 1984 (the Ordinance) and the approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board as are notified under the Ordinance and the requirements of and the directives issued under that Ordinance. However, the requirements of and the directives issued under that Ordinance have been followed where those requirements are not consistent with the requirements of the IFRSs, as notified under the Ordinance.

2.2 Initial application of standards, amendments to approved accounting standards and new interpretations.

2.2.1 Standards, amendments to approved accounting standards and new interpretations effective during the year ended December 31, 2009 and relevant to the company:

IAS 1 (revised), 'Presentation of financial statements' (effective from 1 January 2009). The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity are required to be shown in statement of other comprehensive income, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of other comprehensive income).

Further, where entities restate or reclassify comparative information, they are required to present a restated statement of financial position as at the beginning of the earliest comparative period. In addition to the current requirement to present statement of financial position at the end of the current period and comparative period. The company has applied IAS 1 (revised) from January 1, 2009 and elected to present one performance statement (i.e. the profit and loss account). However, since there are no non-owner changes in equity, there is no impact of such revised standard on these financial statements, except for change in an accounting policy relating to 'other investments' (see note 2.5.2 below).



Notes to and Forming Part of the Financial Statements (continued)

IFRS 8, 'Operating segments', replaces IAS 14, 'Segment reporting' and requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The management has determined the operating segments based on the reports reviewed by the Chief Operating Decision Maker (i.e. Chief Executive Officer) of the company. The company considers the business from a product wise perspective. However, these operating segments meet the aggregation criteria set forth in the IFRS 8, therefore, the company is not required to make segment wise disclosures. Further at present, the entity wide disclosure requirements as required by IFRS 8 are not applicable for the company.

IFRIC 13, 'Customer loyalty programmes' (effective for annual periods beginning on or after July 1, 2008). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. At present, the management estimates that this shall not have any material impact on these financial statements.

IAS 23 (Amendment), 'Borrowing costs' (effective from January 1, 2009). It requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs has been removed. Further, the definition of borrowing cost has been amended so that interest expense is calculated using the effective interest method defined in IAS 39 'Financial instruments: Recognition & measurement'. The company has applied IAS 23 (Amended) from January 1, 2009 (see note 2.15 below) but is currently not applicable to the company as there are no qualifying assets.

IFRS 7 'Financial instruments: Disclosures' [notified by the SECP through its S.R.O. 411(I)/2008 dated April 28, 2008 and effective for the annual periods beginning on or after July 1, 2008] and IFRS 7 'Financial instruments - Disclosures' (amendment) - effective January 1, 2009 introduce new disclosures relating to financial instruments. These amendments do not have any impact on the classification and measurement of the company's financial instruments, however, have resulted in certain additional disclosures in these financial statements (see note 33 below).

2.2.2 Standards, amendments to approved accounting standards and new interpretations effective during the year ended December 31, 2009 but not relevant to the company:

There are certain other new standards, amendments to approved accounting standards and interpretations that are mandatory for accounting periods beginning on or before January 1, 2009 but are considered not to be relevant or do not have any significant effect on the company's operations and are, therefore not disclosed in these financial statements.

2.2.3 Standards, amendments to approved accounting standards and interpretations that are not yet effective and have not been early adopted by the company:

There are certain new standards, amendments to approved accounting standards and new interpretations that are mandatory for accounting periods beginning after January 1, 2009 but are considered not to be relevant or do not have any significant effect on the company's operations and are therefore not mentioned in these financial statements.

2.3 Critical accounting judgments and estimates

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the company's accounting policies. Estimates and judgments are continually



Notes to and Forming Part of the Financial Statements (continued)

evaluated and are based on historic experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the process of applying the company's accounting policies, the management has made the following estimates and judgments which are significant to the financial statements:

Staff retirement benefits

Certain actuarial assumptions have been adopted as disclosed in note 15.1 below for valuation of present value of defined benefit obligations and fair value of plan assets.

Equity settled share-based payment plans

Estimates with respect to the number of employees who are expected to receive the parent's shares upon satisfaction of the vesting conditions.

Property, plant and equipment

Estimates with respect to residual values and depreciable lives and pattern of flow of economic benefits are based on the recommendation of technical teams of the company. Further, the company reviews the value of the assets for possible impairment on an annual basis. Any change in the estimates in future years might affect the carrying amounts of the respective items of property, plant and equipments (note 3) with a corresponding affect on the depreciation charge and impairment.

Income taxes

In making the estimates for income taxes payable by the company, the management considers current income tax law and the decisions of appellate authorities on certain cases issued in past. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax provision in the period in which such final outcome is determined.

Provisions

Estimates with respect to provisions are based on the recommendation of legal team of the company. Any change in the estimates in future years might affect the carrying amounts of the provisions with a corresponding affect on the profit and loss account of the company.

2.4 Fixed assets and depreciation

2.4.1 Operating property, plant and equipment

These are stated at cost less accumulated depreciation and impairment, if any, except for freehold land which is stated at historical cost.

Depreciation is charged to income over straight-line method so as to write off the historical cost of the assets over their estimated useful lives at the rates stated in note 3.1 below. Depreciation on additions is charged from the month in which the asset is put to use and on disposals upto the month the asset is in use. Assets' residual values and useful lives are annually reviewed, and adjusted, if appropriate.

The carrying values of property, plant and equipment are reviewed at each reporting date for indication that an asset may be impaired and carrying values may not be recovered. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash generating units are written down to their recoverable amounts. The recoverable amount of property, plant and equipment is the greater of fair value less cost to sell and value in use.



Notes to and Forming Part of the Financial Statements (continued)

Maintenance and normal repairs are charged to income as and when incurred. Major renewals and improvements, if any, are capitalised when it is probable that respective future economic benefits will flow to the company.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Gains and losses on disposals are determined by comparing proceeds with the carrying amount of the relevant assets. These are included in the profit and loss account.

2.4.2 Capital work-in-progress

All expenditures connected with specific assets incurred during installation and construction period are carried under this head. These are transferred to specific assets as and when these assets are available for use.

2.5 Investments

2.5.1 Investment in a subsidiary company

Investment in a subsidiary company is recognised when the company has established control over the investee company. Investment in subsidiary company is stated at cost less impairment, if any.

2.5.2 Other investments

The company classifies its financial instruments in the following categories:

(a) Investments 'at fair value through profit or loss':

- Financial instruments 'held-for-trading'

These include financial instruments acquired principally for the purpose of generating profit from short-term fluctuations in prices or dealers' margins or are securities included in a portfolio in which a pattern of short-term profit making exists.

- Financial instruments designated 'at fair value through profit or loss upon initial recognition'.

These include investments that are designated as investments at fair value through profit or loss upon initial recognition.

(b) Held to maturity

These are securities acquired by the company with the intention and ability to hold them up to maturity.

(c) Loans and receivables originated by the enterprise

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those classified by the company as at fair value through profit or loss or available for sale.

(d) Available for sale

These financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.



Notes to and Forming Part of the Financial Statements (continued)

Measurement

Financial instruments are measured initially at fair value (transaction price) plus, in case of a financial asset or financial liability not at 'fair value through profit or loss', transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs on financial assets and financial liabilities at 'fair value through profit or loss' are expensed immediately.

Effective January 1, 2009, subsequent to initial recognition, instruments classified as 'financial assets at fair value through profit or loss' and 'available for sale' are measured at fair value. Gains or losses arising, from changes in the fair value of the 'financial assets at fair value through profit or loss' are recognised in the profit and loss for the year. Changes in the fair value of instruments classified as 'available for sale' are recognised in 'other comprehensive income' until derecognised or impaired, when the accumulated fair value adjustments recognised in unrealised surplus on revaluation of investments are included in the profit / loss for the year.

Previously changes in the fair value of instruments classified as 'available for sale' were recognised in equity until derecognised or impaired when the accumulated fair value adjustments recognised in equity were included in the profit and loss account. Such change in the accounting policy has been made consequent to the introduction of IAS 1 (revised), 'Presentation of financial statements' (note 2.2.1). However, there is no effect of such change on these financial statements since the company does not have any 'available for sale investment'.

Financial assets classified as 'loans and receivables' and 'held to maturity' are carried at amortised cost using the effective yield method, less impairment losses, if any.

Financial liabilities, other than those at fair value through profit or loss, are measured at amortised cost using the effective yield method.

The company follows trade date accounting for purchase and sale of investments.

2.6 Stores and spares

These are valued at lower of moving average cost and net realisable value, except for items in transit which are stated at invoice values plus other charges incurred thereon. Provision is made for slow moving items where necessary to bring them down to approximate net realisable value and is recognised in the profit and loss account.

Net realisable value signifies the estimated selling price in the ordinary course of business less the estimated cost of completion and costs necessarily to be incurred to make the sale.

2.7 Stock in trade

These are stated at the lower of average cost and net realisable value.

Average cost of raw material includes procurement expenses except raw materials in bonded warehouse and in transit which are stated at invoice values plus other charges incurred thereon.

Average cost of redried tobacco includes procurement expenses and overheads incurred on redrying of tobacco leaf.

Average cost in relation to finished goods and work-in-process includes proportionate production overheads.



Notes to and Forming Part of the Financial Statements (continued)

2.8 Trade debts and other receivables

Trade debts and other receivables are recognised and carried at original invoice amount less an estimated allowance made for doubtful receivables based on review of outstanding amounts at the year end. Balances considered bad and irrecoverable are written off when identified.

2.9 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 the future for goods and services.

2.10 Provisions

Provisions are recognised when the company has a present, legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

2.11 Contingent assets

Contingent assets are disclosed when there is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the company. Contingent assets are not recognised until their realisation become virtually certain.

2.12 Contingent liabilities

Contingent liability is disclosed when:

- there is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the company; or
- there is present obligation that arises from past events but it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

2.13 Taxation

2.13.1 Current

Provision for current taxation is the amount computed on taxable income at the current rates of taxation after taking into account tax credits and rebates available, if any.

2.13.2 Deferred

Deferred tax is recognised using the balance sheet liability method on all temporary differences between the amounts used for financial reporting purpose and amounts used for taxation purposes.

Deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the assets may be utilised.



Notes to and Forming Part of the Financial Statements (continued)

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rate that are expected to apply to the year when the asset is utilised or the liability is settled, based on the tax rates that have been enacted or substantially enacted at the balance sheet date.

2.14 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of cash flow statement, cash and cash equivalents consist of cash and bank balances, running finance under mark-up arrangements, cheques in hand, deposits held at call with banks and other short term highly liquid investments with original maturities of three months or less.

2.15 Borrowing costs

Effective January 1, 2009 the company capitalises borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as a part of that asset. All other borrowing costs are charged to income.

Previously borrowing costs were recognised as expense in the period in which those were incurred. Such change in the accounting policy has been made consequent to the amendment to IAS 23, 'Borrowing costs' (note 2.2.1). However, there is no effect of such change on these financial statements since the company does not have any qualifying assets at present.

2.16 Revenue recognition

- Consistent with prior years, sales are recognised either upon shipment or delivery of goods when title and risk of loss pass to customer.
- Income on investments and return on deposits are accounted for on accrual basis.

2.17 Staff retirement benefits

The company operates:

- a) an approved contributory provident fund for all permanent employees for which contributions are charged to income for the year; and
- b) an approved funded gratuity scheme covering all permanent employees. Contribution is made to this scheme on the basis of actuarial recommendations. The actuarial valuation is carried out using the Project Unit Credit Method.

Staff retirement benefits are payable to staff on completion of prescribed qualifying period of service under these schemes. Actuarial gains and losses are recognised as income or expense in the same accounting period.



Notes to and Forming Part of the Financial Statements (continued)

2.18 Compensated absences

The company provides for its estimated liability towards leaves accumulated by employees on an accrual basis using current salary levels.

2.19 Equity-settled share-based payment plans

The company recognises as expense the services acquired over the vesting period and the corresponding increase in equity (contribution from parent) on fair value of the parent's shares at the grant date under 'Time-vested Share Plan'. Under the plan the parent grants rights of its shares to certain employees / executives of the company that vest over a period of three years from the grant date.

2.20 Foreign currency translation

Foreign currency transactions are translated into Pak Rupees (functional currency) using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities in foreign currencies are translated into Pak Rupees using the exchange rate at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translations at the year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

2.21 Financial assets and liabilities

Financial assets and liabilities carried on the balance sheet include receivables, cash and bank balances and trade creditors. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

Financial assets and liabilities are recognised when the company becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are offset when the company has a legally enforceable right to offset and it intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

2.22 Dividend and appropriation to reserves

Dividend and appropriation to reserves are recognised in the company's financial statements in the period in which these are approved.

	Note	2009	2008
(Rupees in thousand)			
3. PROPERTY, PLANT AND EQUIPMENT			
Operating property, plant and equipment	3.1	3,166,076	2,993,619
Capital work-in-progress	3.2	679,663	328,659
		<u>3,845,739</u>	<u>3,322,278</u>



Notes to and Forming Part of the Financial Statements (continued)

3.1 Operating property, plant and equipment

	Freehold land	Leasehold land	Buildings on freehold land	Buildings on leasehold land	Leasehold improvements	Plant and machinery	Furniture and fixtures	Office equipment	Vehicles	Power and other installations	Computer equipment	Total
(Rs. in thousand)												
At December 31, 2007												
Cost	80,998	2,441	466,191	56,302	-	3,192,004	37,316	54,885	396,747	315,546	155,991	4,738,421
Accumulated depreciation	-	(220)	(291,694)	(4,163)	-	(1,413,262)	(33,536)	(41,158)	(190,121)	(160,822)	(141,343)	(2,276,283)
Net book value	80,998	2,221	174,497	52,139	-	1,778,742	3,816	13,727	206,626	154,724	14,648	2,462,138
Year ended December 31, 2008												
Additions	-	-	18,052	326	94,104	558,170	39,851	12,515	189,769	13,325	41,890	943,842
Transfers	-	-	-	-	-	-	-	-	-	-	-	-
Cost	-	-	(3,562)	3,562	-	135	71	(2,870)	-	2,462	-	-
Accumulated depreciation	-	-	336	(338)	-	(41)	(13)	449	-	(395)	-	-
Disposals	-	-	(3,224)	3,224	-	94	86	(2,221)	-	2,067	-	-
Cost	-	-	-	-	-	(16,995)	(10)	(785)	(18,088)	-	(129)	(35,988)
Accumulated depreciation	-	-	-	-	-	16,995	10	785	11,019	-	106	28,915
Impairment - note 3.1.3 & 23	-	-	-	-	-	-	-	-	(7,069)	-	(2)	(7,071)
Cost	-	-	-	-	-	(115,845)	-	-	-	-	-	(115,845)
Accumulated depreciation	-	-	-	-	-	86,366	-	-	-	-	-	86,366
Depreciation charge	-	(93)	(26,714)	(3,169)	(7,294)	(264,293)	(4,545)	(5,884)	(50,754)	(25,556)	(10,019)	(339,311)
Net book value as at December 31, 2008	80,998	2,128	163,251	52,520	86,820	2,040,934	39,182	18,137	318,572	144,560	46,517	2,893,619
Year ended December 31, 2009												
Additions	27,452	-	43,698	-	13,658	285,421	14,670	10,719	212,803	10,151	74,718	693,239
Disposals	-	-	-	-	-	(18,468)	(155)	(935)	(62,387)	-	(318)	(82,863)
Cost	-	-	-	-	-	18,466	155	398	47,180	-	(318)	67,192
Accumulated depreciation	-	-	-	-	-	-	-	(537)	(15,202)	-	-	(15,739)
Write-offs	-	-	-	-	-	-	-	-	-	-	-	-
Cost	-	-	-	-	-	-	(18,545)	(12,514)	(350)	-	(45,567)	(76,976)
Accumulated depreciation	-	-	-	-	-	-	18,545	12,514	280	-	45,567	76,976
Impairment - note 3.1.3 & 23	-	-	-	-	-	-	-	-	(70)	-	-	(70)
Cost	-	-	-	-	-	(132,085)	(1,342)	(1,682)	-	(19,644)	(1,960)	(156,733)
Accumulated depreciation	-	-	-	-	-	121,950	880	962	-	9,518	1,482	134,812
Depreciation charge	-	(90)	(15,844)	(6,936)	(21,107)	(292,317)	(3,252)	(6,087)	(75,339)	(23,143)	(25,967)	(463,052)
Net book value as at December 31, 2009	108,450	2,038	191,005	45,584	79,371	2,023,903	40,138	21,523	440,854	121,442	81,768	3,166,079
At December 31, 2008												
Cost	80,998	2,441	481,321	60,190	94,104	3,731,314	77,230	83,945	548,426	331,333	197,773	5,985,077
Accumulated depreciation	-	(313)	(318,070)	(7,670)	(7,284)	(1,660,601)	(38,048)	(45,808)	(229,856)	(186,773)	(151,266)	(2,645,673)
Accumulated impairment	-	-	-	-	-	(29,779)	-	-	-	-	-	(29,779)
Net book value	80,998	2,128	163,251	52,520	86,820	2,040,934	39,182	18,137	318,572	144,560	46,517	2,993,619
At December 31, 2009												
Cost	108,450	2,441	524,919	60,190	107,782	3,996,267	91,745	73,720	698,554	341,494	228,004	6,233,056
Accumulated depreciation	-	(403)	(333,914)	(14,606)	(28,391)	(1,934,450)	(51,145)	(51,497)	(257,700)	(209,916)	(130,738)	(3,015,780)
Accumulated impairment	-	-	-	-	-	(39,914)	(462)	(700)	-	(10,128)	(408)	(41,502)
Net book value	108,450	2,038	191,005	45,584	79,371	2,023,903	40,138	21,523	440,854	121,442	81,768	3,166,079
Depreciation rate	-	4%	4% to 5%	4% to 5%	20%	6.87% to 10%	20%	20%	20%	10%	20% to 33.33%	-



Notes to and Forming Part of the Financial Statements (continued)

For better presentation, within this note amounts relating to 'leasehold improvements' have been disclosed separately from 'buildings on leasehold land'. Accordingly, corresponding amounts have been reclassified for the purpose of comparison. As the reclassification is not considered to be material, therefore, the company has not presented the balance sheet as at the beginning of the earliest comparative period presented (i.e. January 1, 2008).

3.1.1 The depreciation charge for the year has been allocated as follows:

	Note	2009 (Rupees in thousand)	2008
Purchases, redrying and related expenses	20.1	47,345	56,860
Manufacturing expenses	20.2	302,832	277,088
Distribution and marketing expenses	21	60,720	38,970
Administrative expenses	22	72,155	25,393
		<u>483,052</u>	<u>398,311</u>

3.1.2 Details of property, plant and equipment disposed off are given in note 35.

3.1.3 The impairment charge represents written down value of certain items of property, plant and equipment which the company neither intends to utilise nor it can dispose off as per its policy except as scrap material. Therefore, it has determined the 'recoverable amount' of those items to be nil.

	Note	2009 (Rupees in thousand)	2008
3.2 Capital work-in-progress			
Civil works		86,640	35,828
Plant and machinery	3.2.1	281,114	189,893
Power and other installations		158,939	3,581
Furniture and fittings		45,013	2,006
Computer equipment pending installation		16,345	31,402
Advance to suppliers and contractors		91,612	65,949
		<u>679,663</u>	<u>328,659</u>

3.2.1 This includes plant and machinery in transit aggregating Rs 17.211 million (2008: Rs 0.652 million).

4. INVESTMENT IN A SUBSIDIARY COMPANY

This represents the cost of 103 (2008: 103) fully paid ordinary shares of Rs 10 each in Premier Tobacco Company (Private) Limited. Out of such 103 shares, three shares are in the name of the nominees. The break up value of shares calculated by reference to net assets worked out to be Rs 10 per share (2008: Rs 10 per share) based on the audited financial statements for the year ended December 31, 2009. During the year the subsidiary company has incurred loss after taxation amounting to Rs 1,030 (2008: Rs nil) resulting in an accumulated loss of Rs 1,030 as at December 31, 2009. The net assets of the subsidiary company as at December 31, 2009 amounted to Rs nil (2008: Rs 1,030), in accordance with the audited financial statements of the subsidiary as of that date.

	Note	2009 (Rupees in thousand)	2008
5. LONG TERM LOANS - considered good			
Loans to employees	5.1	1,522	2,453
Less: Current portion shown under current assets	10	(669)	(772)
		<u>853</u>	<u>1,681</u>

Notes to and Forming Part of the Financial Statements (continued)

- 5.1 This represents mark-up free loans given to employees for purchase of vehicles in accordance with the company policy and are secured by pledge of original registration documents of the vehicles and demand promissory notes. These loans are recoverable in equal monthly installments over a period of five years. As the amortised cost of these loans is not considered material, hence difference between the carrying amount and amortised cost is not recognised in these financial statements.

	Note	2009	2008
(Rupees in thousand)			
6. LONG TERM DEPOSITS AND PREPAYMENTS			
Deposits		37,565	31,355
Prepayments		5,038	6,279
		42,603	37,634
7. STORES AND SPARES			
Stores	7.2	7,937	8,075
Spares	7.1 & 7.2	311,540	237,761
		319,477	245,836

- 7.1 This includes spares in transit amounting to Rs 2.916 million (2008: Rs 9.462 million).

- 7.2 During the year, the company has written off stores and spares aggregating Rs 27.573 million (2008: Rs nil).

	Note	2009	2008
(Rupees in thousand)			
8. STOCK IN TRADE			
Raw and packing materials	8.1 & 8.3	5,549,885	5,049,456
Work-in-process		16,994	12,824
Finished goods	8.1	313,357	264,827
		5,880,236	5,327,107

- 8.1 These include raw and packing material and finished goods in transit aggregating Rs 69.752 million (2008: Rs 213.925 million) and Rs 11.661 million (2008: Nil) respectively.

- 8.2 During the year, the company has written off inventory aggregating Rs 197.375 million (2008: Rs 28.328 million). The company has lodged insurance claims for an aggregate amount of Rs 68.940 (2008: nil) million which is included in other receivable (note 11.1) and Rs 128.435 million (2008: Rs 28.328 million) has been charged against the profit for the year.

- 8.3 Raw and packing material includes 'Tobacco Development Cess' aggregating Rs 87.392 million (2008: Rs 108.889 million).



Notes to and Forming Part of the Financial Statements (continued)

	Note	2009	2008
(Rupees in thousand)			
9. TRADE DEBTS			
Considered good - unsecured	9.1	<u>65,847</u>	<u>36,181</u>
9.1 The amount includes outstanding balance from the following group undertakings:			
Philip Morris International Management S.A. (Tolling)		5,854	-
Philip Morris Philippines Manufacturing Inc.		563	814
Philip Morris (Malaysia) SND. BHD.		480	737
		<u>6,897</u>	<u>1,551</u>
10. LOANS AND ADVANCES – considered good			
Secured			
Loans to employees			
● Current portion of long term loans	5	669	772
Unsecured			
Advances to:			
● Employees	10.1 & 10.2	10,635	9,653
● Suppliers and contractors		38,746	119,779
		<u>49,381</u>	<u>129,432</u>
		<u>50,050</u>	<u>130,204</u>

10.1 The maximum aggregate balance of advances due from executives at the end of any month during the year was Rs 3.863 million (2008: Rs 4.671 million).

10.2 Advances to executives and employees are given to meet business expenses and are settled as and when the expenses are incurred.

	Note	2009	2008	2007
(Rupees in thousand)				
11. OTHER RECEIVABLES				
Current account balance with statutory authorities		-	-	3,024
Federal Excise Duty refundable - imported tobacco		1,643	1,979	2,051
Insurance claims receivable	11.1	68,940	8,879	380,942
Others	11.2	10,114	12,713	15,695
		<u>80,697</u>	<u>23,571</u>	<u>401,712</u>

11.1 This represents claims in respect of stocks of tobacco damaged due to extreme weather conditions.

11.2 This includes amount receivable from a transporter aggregating Rs 8.516 million (2008: Rs 10.316 million) in respect of goods damaged in transit during transportation.



Notes to and Forming Part of the Financial Statements (continued)

- 11.3 For better presentation 'insurance claims receivable' has been reclassified from 'other' to a separate line item above. Accordingly, corresponding amounts have been reclassified for the purpose of comparison. As the reclassification is not considered to be material, therefore, the company has not presented the balance sheet as at the beginning of the earliest comparative period presented (i.e. January 1, 2008).

	Note	2009	2008
(Rupees in thousand)			
12. CASH AND BANK BALANCES			
With banks			
In saving accounts	12.1	82,639	1,148
In current accounts			
- Foreign currency		757	1,450
- Local currency		24,126	40,740
		24,883	42,190
Cash in hand		107,522	43,338
		2,037	3,380
		109,559	46,718

- 12.1 These carry mark-up rates are ranging from 5% to 9.5% (2008: 5% to 11%) per annum.

13. SHARE CAPITAL

13.1 Authorised capital

2009	2008		2009	2008
(Number of shares)			(Rupees in thousand)	
100,000,000	100,000,000	Ordinary shares of Rs 10 each fully paid in cash	1,000,000	1,000,000

13.2 Issued, subscribed and paid-up capital

2009	2008		2009	2008
(Number of shares)			(Rupees in thousand)	
5,541,429	5,541,429	Cash	55,414	55,414
47,722,912	47,722,912	Bonus shares	477,229	477,229
8,316,000	8,316,000	Consideration other than cash	83,160	83,160
61,580,341	61,580,341		615,803	615,803

- 13.3 As at December 31, 2009, the number of ordinary shares of Rs 10 each held by Philip Morris Participations B.V., and FTR Holding S.A., subsidiaries of Philip Morris International Inc., were 47,819,349 and 12,316,060 respectively (2008: 47,819,346 and 12,316,060 respectively).



Notes to and Forming Part of the Financial Statements (continued)

	2009	2008
	(Rupees in thousand)	
14. DEFERRED TAXATION		
Deferred tax liability on taxable temporary differences:		
Tax depreciation allowance	437,133	409,797
Deferred tax asset on deductible temporary differences:		
Accrual for employees compensated absences	(14,814)	(9,464)
Amortisation of an intangible asset	(17,072)	-
Provision for impairment	(14,247)	(7,429)
	<u>391,000</u>	<u>392,904</u>

15. STAFF RETIREMENT BENEFITS

15.1 Defined benefit plan

As stated in note 2.17, the company operates an approved funded gratuity scheme for all its permanent employees. Actuarial valuation of the scheme is carried out every year and the latest actuarial valuation was carried out as at December 31, 2009.

The fair value of scheme's assets and the present value of obligation under the scheme at the balance sheet date in accordance with the latest actuarial report are as follows:

	Note	2009	2008
		(Rupees in thousand)	
Present value of defined benefit obligation		334,769	248,888
Fair value of plan assets		(334,769)	(248,888)
Liability recognised in the balance sheet		<u>-</u>	<u>-</u>
Amounts charged to profit and loss account:			
Current service cost		20,515	18,007
Interest cost		37,333	24,617
Expected return on plan assets		(37,333)	(24,617)
Actuarial loss recognised		10,713	44,322
		<u>31,228</u>	<u>62,329</u>
The charge for the year has been allocated as follows:			
Purchases, redrying and related expenses	20.1	4,296	6,214
Manufacturing expenses	20.2	10,129	23,838
Distribution and marketing expenses	21	9,363	15,989
Administrative expenses	22	7,440	16,288
		<u>31,228</u>	<u>62,329</u>
Movement in the liability recognised in the balance sheet:			
Balance as at the beginning of the year		-	-
Net charge for the year		31,228	62,329
Contribution to the fund		(31,228)	(62,329)
Balance as at the end of the year		<u>-</u>	<u>-</u>



Notes to and Forming Part of the Financial Statements (continued)

	2009	2008			
	(Rupees in thousand)				
Movement in the present value of defined benefit obligation:					
Opening balance	248,888	246,165			
Current service cost	20,515	18,007			
Interest cost	37,333	24,617			
Benefits paid	(19,202)	(52,667)			
Actuarial loss	47,235	12,766			
Closing balance	<u>334,769</u>	<u>248,888</u>			
Movement in the fair value of plan assets:					
Opening balance	248,888	246,165			
Expected return	37,333	24,617			
Contributions	31,228	62,329			
Benefits paid	(19,202)	(52,667)			
Actuarial gain / (loss)	36,522	(31,556)			
Closing balance	<u>334,769</u>	<u>248,888</u>			
Principal actuarial assumptions used are as follows:					
Expected rate of increase in salary level	<u>13%</u>	<u>15%</u>			
Valuation discount rate	<u>13%</u>	<u>15%</u>			
Rate of return on plan assets	<u>15%</u>	<u>15%</u>			
Comparisons for five periods					
	Year ended December 31, 2009	Year ended December 31, 2008	Six months period ended December 31, 2007	Year ended June 30, 2007	Year ended June 30, 2006
	(Rupees in thousand)				
Present value of defined benefit obligation	334,769	248,888	246,165	226,849	195,605
Fair value of plan assets	(334,769)	(248,888)	(246,165)	(226,849)	(195,605)
Surplus / (deficit)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Experience adjustment on plan liabilities	(47,235)	(12,766)	(7,489)	(17,549)	(16,870)
Experience adjustment on plan assets	36,522	(31,556)	(4,616)	16,900	(7,201)
	<u>334,769</u>	<u>248,888</u>			
	2009		2008		
	(Rupees in thousand)				
Major categories / composition of plan assets are as follows:					
Debt instruments	8,103		119,301		
Mutual funds units	86,658		72,339		
Equity	24,847		17,033		
Balances with banks	215,161		40,215		
	<u>334,769</u>		<u>248,888</u>		



Notes to and Forming Part of the Financial Statements (continued)

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.

Actual gain on plan assets during the year ended December 31, 2009 was Rs 73.855 million (actual loss of Rs 6.939 million during the year ended December 31, 2008).

Expected contribution to defined benefit plan for the year ending December 31, 2010 is Rs 23.740 million (2009: Rs 21.036 million).

	Note	2009	2008
(Rupees in thousand)			
15.2	Defined contribution plan		
The charge for the year has been allocated as follows:			
Purchases, redrying and related expenses	20.1	4,279	3,248
Manufacturing expenses	20.2	10,374	9,195
Distribution and marketing expenses	21	16,818	12,476
Administrative expenses	22	8,360	7,014
		<u>39,831</u>	<u>31,933</u>

16. SHARE-BASED PAYMENT PLAN

Details of the share-based payment under 'Time-vested Share Plan' in relation to the company are as follows:

Grant dates	February 20, 2008 & February 4, 2009
Share price at grant date (February 20, 2008)	Rs 3,187 / share (US \$ 50.58 / share)
Share price at grant date (February 4, 2009)	Rs 2,988 / share (US \$ 36.78 / share)
Number of shares	10,233

A reconciliation of movement in the number of shares can be summarised as follows:

	2009	2008
(No. of shares)		
Outstanding as at the beginning of the year	4,030	-
Granted during the year	9,820	6,085
Vested / forfeited during the year	(3,617)	(2,055)
Outstanding as at the end of the year	<u>10,233</u>	<u>4,030</u>

	Note	2009	2008
(Rupees in thousand)			
16.1	The charge for the year has been allocated as follows:		
Purchase, redrying and related expenses	20.1	73	-
Manufacturing expenses	20.2	183	-
Distribution and marketing expenses	21	12,465	838
Administrative expenses	22	8,814	4,100
		<u>21,535</u>	<u>4,938</u>

Notes to and Forming Part of the Financial Statements (continued)

	2009	2008
	(Rupees in thousand)	
17. RUNNING FINANCE UNDER MARK-UP ARRANGEMENTS		
From banks - secured	<u>789,525</u>	<u>770,668</u>

The company has arranged for running finance and other short term loan facilities to the extent of Rs 3,230 million (2008: Rs 1,800 million) from commercial banks. These facilities are available for various periods expiring between February 28, 2010 to June 28, 2012 (2008: March 31 to October 26, 2009). The facilities are secured by way of hypothecation of stock in trade of the company and are carrying mark-up rates ranging from 12.87% to 17% (2008: 15.76% to 17%) per annum.

	Note	2009	2008	2007
		(Rupees in thousand)		
18. TRADE AND OTHER PAYABLES				
Creditors		344,193	438,411	290,366
Bills payable		229,600	340,648	162,971
Royalty payable to a related party		18,884	10,936	4,370
Accrued expenses		487,560	298,295	294,898
Tobacco development cess	18.3	33,329	51,259	67,398
Provident fund trust		-	7,036	5,292
Contractors' retention money		10,555	6,157	3,045
Advance from customers		16,345	34,711	70,354
Workers' profits participation fund	18.4	1,000	611	6,120
Workers' welfare fund		32,500	34,906	58,449
Unpaid and unclaimed dividends		27,773	27,147	24,211
Security deposits		-	-	3,473
Others		8,745	13,174	12,877
		<u>1,210,484</u>	<u>1,263,291</u>	<u>1,003,824</u>
18.1 The amount due to related parties comprises:				
Group undertakings		37,903	29,452	7,211
Key management personnel		-	45,358	21,703
Staff retirement plans		-	7,036	5,292
		<u>37,903</u>	<u>81,846</u>	<u>34,206</u>

18.2 For better presentation 'tobacco development cess' has been included in this note from the balance sheet. Accordingly, corresponding amounts have been reclassified for the purpose of comparison. As the reclassification is not considered to be material, therefore, the company has not presented the balance sheet as at the beginning of the earliest comparative period presented (i.e. January 1, 2008).

	2009	2008	2007
	(Rupees in thousand)		
18.3 The movement of tobacco development cess is as follows:			
Balance as at the beginning of the year / period	51,259	67,398	62,661
Provision for the year / period	51,947	67,936	57,237
	<u>103,206</u>	<u>135,334</u>	<u>119,898</u>
Less: Payments made during the year / period	(69,877)	(84,075)	(52,500)
Balance at the end of the year / period	<u>33,329</u>	<u>51,259</u>	<u>67,398</u>



Notes to and Forming Part of the Financial Statements (continued)

With effect from July 1, 1999, Tobacco Development Cess had been levied on the purchases of tobacco leaf. The company has filed a constitutional petition in the Honorable Supreme Court of Pakistan against the levy which is currently pending for adjudication. Meanwhile, the company is paying the said levy under protest. Pending outcome of the matter, the company has made the above provision in its books of account.

	Note	2009	2008	2007
(Rupees in thousand)				
18.4 Workers' profit participation fund				
Balance at the beginning of the year / period		611	6,120	11,000
Mark-up on funds utilised in the company's business	25	31	442	388
		<u>642</u>	<u>6,562</u>	<u>11,388</u>
Allocation for the year / period	23	81,000	93,611	36,120
Paid to the fund:				
● for prior year		(642)	(6,562)	(11,388)
● for current year in advance		(80,000)	(93,000)	(30,000)
		<u>(80,642)</u>	<u>(99,562)</u>	<u>(41,388)</u>
Balance at the end of the year / period		<u>1,000</u>	<u>611</u>	<u>6,120</u>

19. CONTINGENCIES AND COMMITMENTS

19.1 Guarantees

Indemnities given to a bank for guarantees issued by it in the normal course of business aggregated Rs 19.332 million (2008: Rs 9.982 million).

	2009	2008
(Rupees in thousand)		
19.2 Commitments		
Capital expenditure contracted for but not incurred	<u>247,488</u>	<u>220,392</u>
Letters of credit	<u>25,951</u>	<u>208,077</u>

19.3 Contingent liabilities

The Additional Collector of Customs, Sales Tax and Central Excise (Adjudication) Rawalpindi has issued a show cause notice on October 5, 2002 on account of short payment of Central Excise Duty and Sales Tax amounting to Rs 4.910 million and Rs 2.883 million respectively. Another show cause notice was issued on March 1, 2003 by the Additional Collector of Customs, Sales Tax and Central Excise (Adjudication) Rawalpindi on account of short payment of Central Excise Duty and Sales Tax amounting to Rs 2.556 million and Rs 1.138 million respectively. The company has filed appeals in the Lahore High Court Rawalpindi Bench against the aforementioned show cause notices. The case is pending for adjudication and management is confident that the case will be decided in its favour and accordingly no provision has been made in this regard.



Notes to and Forming Part of the Financial Statements (continued)

	Note	2009	2008
(Rupees in thousand)			
20. COST OF SALES			
Raw material consumed			
Opening stock		5,049,456	3,408,272
Purchases, redrying and related expenses	20.1	7,688,994	7,564,826
		<u>12,738,450</u>	<u>10,973,098</u>
Closing stock	8	(5,549,885)	(5,049,456)
		<u>7,188,565</u>	<u>5,923,642</u>
Government levies		99,897	95,260
Manufacturing expenses	20.2	1,178,101	1,060,105
		<u>8,466,563</u>	<u>7,079,007</u>
Work in process			
Opening stock		12,824	12,058
Closing stock	8	(16,994)	(12,824)
Sale of waste		(34,460)	(35,821)
		<u>(51,454)</u>	<u>(48,645)</u>
		<u>(38,630)</u>	<u>(36,587)</u>
		<u>8,427,933</u>	<u>7,042,420</u>
Cost of goods manufactured			
Finished goods			
Opening stock		264,827	195,553
Finished goods purchased		51,931	7,608
Closing stock	8	(313,357)	(264,827)
		<u>3,401</u>	<u>(61,666)</u>
		<u>8,431,334</u>	<u>6,980,754</u>
20.1 Purchases, redrying and related expenses			
Raw and packing material		7,063,985	7,061,677
Salaries, wages and other benefits	15 & 16.1	231,062	179,558
Stores and spares consumed		37,467	26,194
Fuel and power		98,782	115,293
Rent, rates and taxes		30,325	11,088
Freight and stacking		100,140	53,037
Postage, telephone and stationery		7,691	5,054
Depreciation	3.1.1	47,345	56,860
Insurance		13,849	7,887
Repair and maintenance		3,098	2,548
Traveling and vehicle expenses		23,925	22,601
Professional charges		2,289	5,323
Other expenses		29,036	17,706
		<u>625,009</u>	<u>503,149</u>
		<u>7,688,994</u>	<u>7,564,826</u>



Notes to and Forming Part of the Financial Statements (continued)

	Note	2009	2008
(Rupees in thousand)			
20.2 Manufacturing expenses			
Salaries, wages and other benefits	15 & 16.1	397,461	399,986
Stores and spares consumed		159,594	94,033
Fuel and power		173,788	164,798
Rent, rates and taxes		7,353	3,088
Cartage		86,034	74,417
Postage, telephone and stationery		1,501	1,724
Depreciation	3.1.1	302,832	277,088
Traveling and vehicle expenses		22,566	20,334
Insurance		15,435	9,667
Other expenses		11,537	14,970
		1,178,101	1,060,105
21. DISTRIBUTION AND MARKETING EXPENSES			
Salaries, allowances and other benefits	15 & 16.1	557,716	354,981
Selling expenses		1,769,253	1,260,239
Freight on sales		86,617	100,466
Rent, rates and taxes		19,205	17,042
Postage, telephone and stationery		14,113	23,872
Depreciation	3.1.1	60,720	38,970
Traveling and vehicle expenses		79,170	83,951
Insurance		5,840	4,147
Royalty		7,948	6,566
Repair and maintenance		2,272	1,793
Other expenses		37,950	23,513
		2,640,804	1,915,540
22. ADMINISTRATIVE EXPENSES			
Salaries, allowances and other benefits	15 & 16.1	321,031	238,360
Rent, rates and taxes		94,645	92,548
Postage, telephone and stationery		28,190	49,073
Traveling and vehicle expenses		72,485	60,760
Repairs and maintenance		15,688	8,411
Legal and professional charges		24,621	17,715
Utilities		27,216	14,855
Fee and subscription		5,356	3,436
Insurance		3,043	637
Auditors' remuneration	22.1	3,357	1,672
Donations	22.2	7,462	2,583
Depreciation	3.1.1	72,155	25,393
Other expenses		25,896	14,648
		701,145	530,091



Notes to and Forming Part of the Financial Statements (continued)

		2009	2008
		(Rupees in thousand)	
22.1	Auditors' remuneration		
	Audit fee	1,095	950
	Review of half yearly financial statements	345	300
	Taxation services	750	-
	Special certification and related services	955	250
	Out of pocket expenses	212	172
		<u>3,357</u>	<u>1,672</u>
22.2	Donations include payments aggregating Rs 5 million (2008: Rs 2.5 million) to Lakson Medical Trust situated in Pohan Colony, Malakand Road, Mardan in which a Director, Mr. Farooq Shakoor, is interested as a trustee. Besides this, none of the directors or their spouses have any interest in the donees to whom donations were made.		
		Note	
		2009	2008
		(Rupees in thousand)	
23.	OTHER EXPENSES		
	Workers' profits participation fund	81,000	93,611
	Workers' welfare fund - current period	32,500	34,906
	- prior period	2,608	(2,060)
		35,108	32,846
	Impairment charge on items of property, plant and equipment	21,921	29,779
	Miscellaneous expenses	2,999	-
		24,920	29,779
		<u>141,028</u>	<u>156,236</u>
24.	OTHER INCOME		
	Income from financial assets:		
	● Profit on short term deposits	56,766	66,104
	● Others	2,282	1,013
		59,048	67,117
	Income from assets other than financial assets:		
	● Profit on disposal of fixed assets	44,063	9,241
		<u>103,111</u>	<u>76,358</u>
25.	FINANCE COST		
	Mark-up on:		
	● Running finance under mark-up arrangements	71,083	29,589
	● Workers' profits participation fund	31	442
		71,114	30,031
	Bank commission and other charges	18,222	15,608
		<u>89,336</u>	<u>45,639</u>



Notes to and Forming Part of the Financial Statements (continued)

	Note	2009	2008
		(Rupees in thousand)	
26. TAXATION			
Current - for the year		505,007	537,059
for prior periods		38,646	21,956
		<u>543,653</u>	<u>559,015</u>
Deferred		(1,904)	80,904
		<u>541,749</u>	<u>639,919</u>
26.1 Relationship between tax expense and accounting profit			
Accounting profit before tax		<u>1,500,133</u>	<u>1,745,319</u>
Effective tax rate		34.125%	35%
Tax on accounting profit		511,920	610,862
Tax effect of:			
● expenses that are not allowed in determining taxable income		3,874	-
● income assessed under Final Tax Regime		2,574	5,881
● change in effective tax rate		(9,823)	-
● others		18,033	1,220
Timing difference of prior years recognised during the current year		(23,475)	-
		<u>503,103</u>	<u>617,963</u>
● adjustments in respect of current tax of prior periods		38,646	21,956
Tax expense for the year		<u>541,749</u>	<u>639,919</u>
27. EARNINGS PER SHARE			
Profit for the year after taxation		<u>958,384</u>	<u>1,105,400</u>
		(No. of shares)	
Number of ordinary shares	13.2	<u>61,580,341</u>	<u>61,580,341</u>
		Rupees	
Earnings per share		<u>15.56</u>	<u>17.95</u>

There were no convertible dilutive potential ordinary shares outstanding on December 31, 2009 and 2008.



Notes to and Forming Part of the Financial Statements (continued)

28. REMUNERATION OF THE CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

The aggregate amount charged in the financial statements for the year is as follows:

	Chief Executive		Directors		Executives		Total	
	2009	2008	2009	2008	2009	2008	2009	2008
	-----Rupees in thousand -----		-----Rupees in thousand -----		-----Rupees in thousand -----		-----Rupees in thousand -----	
Remuneration	24,750	23,000	40,858	39,310	139,529	80,498	205,137	142,808
House rent	-	-	5,628	6,294	64,535	36,196	70,163	42,490
Bonus	-	-	12,055	7,861	33,956	13,592	46,011	21,453
Motor vehicle expenses	-	-	550	463	9,763	8,873	10,313	9,336
Retirement benefits	-	-	1,763	7,306	19,143	31,134	20,906	38,440
Utilities	-	-	231	482	3,829	-	4,060	482
Others	90	90	19,512	6,515	57,533	17,507	77,135	24,112
	<u>24,840</u>	<u>23,090</u>	<u>80,597</u>	<u>68,231</u>	<u>328,288</u>	<u>187,800</u>	<u>433,725</u>	<u>279,121</u>
Number of persons	<u>1</u>	<u>1</u>	<u>4</u>	<u>5</u>	<u>151</u>	<u>94</u>	<u>156</u>	<u>100</u>

In addition, the chief executive, directors and certain executives are provided with free use of company maintained cars and accommodation facilities.

Further, the benefits available to certain directors and executives recognised by the company in the expenses during the year on account of share-based payment plan aggregates Rs 21.535 million (2008: 4.938 million).

Certain executives are on secondment from the parent and no remuneration is charged in respect of those executives by the parent.

29. RELATED PARTIES DISCLOSURES

The related parties comprise of subsidiary company, Premier Tobacco Company (Private) Limited, Philip Morris Participations B.V., FTR Holding S.A., related group undertakings, staff retirement funds, companies where directors also hold directorship, directors and key management personnel. Transactions with related parties, other than remuneration and benefits to key management personnel under the terms of their employment as disclosed in note 28, are as follows:

	Nature of transactions	2009 (Rupees in thousand)	2008
Group undertakings	Sale of goods	343,082	3,322
	Purchase of goods	76,955	107,813
	Royalty charges	7,948	6,566
Staff retirement plans	Contribution to gratuity fund	31,228	62,329
	Contribution to provident fund	39,831	31,933
Key management personnel	Proceeds on sale of vehicles	851	-
Other related parties	Donation	5,000	2,500

The company enters into transactions with related parties on the basis of mutually agreed terms.

The related party status of outstanding balances as at December 31, 2009 is included in notes 9.1 and 18.1.



Notes to and Forming Part of the Financial Statements (continued)

		2009	2008
		(Number of cigarettes in millions)	
30. CAPACITY AND PRODUCTION			
Installed capacity		<u>54,390</u>	<u>52,997</u>
Actual production		<u>29,672</u>	<u>29,669</u>
Number of shifts per day		Two and a half shifts	Two and a half shifts
Actual production was sufficient to meet the demand.			
	Note	2009	2008
		(Rupees in thousand)	
31. CASH GENERATED FROM OPERATIONS			
Profit before taxation		1,500,133	1,745,319
Adjustments for:			
Depreciation		483,052	398,311
Profit on disposal of fixed assets		(44,063)	(9,241)
Impairment charge on items of property, plant and equipment		21,921	29,779
Stock in trade written off		128,435	28,328
Stores and spares written off		27,573	-
Expenses arising from equity-settled share-based payment plan		21,535	4,938
Profit on short term deposits		(56,766)	(66,104)
Finance cost		71,114	30,031
Working capital changes	31.1	<u>(488,032)</u>	<u>(1,019,843)</u>
		<u>1,664,902</u>	<u>1,141,518</u>
31.1 Working capital changes			
Decrease / (increase) in current assets			
Stores and spares		(101,214)	(30,020)
Stock in trade		(681,564)	(1,739,552)
Trade debts		(29,666)	127,463
Loans and advances		80,154	(52,304)
Prepayments		4,672	(47,615)
Other receivables		(57,126)	378,141
		<u>(784,744)</u>	<u>(1,363,887)</u>
Increase / (decrease) in current liabilities			
Trade and other payables		(53,433)	256,531
Sales tax and excise payable		350,145	90,329
Provision		-	(2,816)
		<u>(488,032)</u>	<u>(1,019,843)</u>



Notes to and Forming Part of the Financial Statements (continued)

32. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise of the following items as included in the balance sheet:

	Note	2009	2008
(Rupees in thousand)			
Cash and bank balances	12	109,559	46,718
Running finance under mark-up arrangements	17	(789,525)	(770,668)
		<u>(679,966)</u>	<u>(723,950)</u>

33. FINANCIAL RISK MANAGEMENT

33.1 The company's activities expose it to certain financial risks. Such financial risks emanate from various factors that include, but not limited to, market risk, credit risk and liquidity risk. The company's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the company's financial performance. Risks measured and managed by the company are explained below:

(i) Market risk

Market risk is the risk that the value of the financial instrument may fluctuate as a result of changes in market interest rates or the market prices of instruments due to change in credit rating of the issuer or the instrument, changes in market sentiments, speculative activities, supply and demand of instruments and liquidity in the market. The company manages the market risk by monitoring exposure on financial instruments and by following internal risk management policies.

Market risk comprise of three types of risks: interest rate risk, currency risk and other price risk.

(a) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows from a financial instrument will fluctuate due to changes in market interest rates.

- Fair value risk - Presently, fair value risk to the company arises from 'balances with banks' which are based on fixed interest rates. As at December 31, 2009, had there been increase / decrease of 50 basis points in the fixed interest rates, with all other variables held constant, profit after taxation for the year then ended would have been lower / higher by Rs 0.268 million (2008: Rs 0.004 million) mainly as a result of finance cost.
- Future cash flow risk - Presently, future cash flow risk to the company arises from 'running finance under mark-up arrangements' which are based on floating interest rates (i.e. KIBOR based). As at December 31, 2009, had there been increase / decrease of 50 basis points in KIBOR, with all other variables held constant, profit after taxation for the year then ended would have been lower / higher by Rs 2.566 million (2008: Rs 2.504 million) mainly as a result of finance cost.



Notes to and Forming Part of the Financial Statements (continued)

(b) Currency risk

Currency risk arises mainly where receivables and payables exist due to transactions entered into foreign currencies. The company primarily has foreign currency exposures in US Dollars, Euro and UK Pound in the form of bills payable (note 18) and trade debts (note 9) in respect of import of packing materials, stores and spares and plant and machinery and export sales.

As at December 31, 2009, had the company's functional currency weakened / strengthened by 5% against US Dollar, EURO and UK Pound, with all other variables held constant, profit after taxation for the year then ended would have been lower / higher by Rs 5.991 million (2008: Rs 3.412 million) mainly as a result of foreign exchange losses / gains.

(c) Other price risk

Other price risk is the risk that the fair value or future cash flows from a financial instrument will fluctuate due to changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The company does not have financial instruments dependent on market prices.

(ii) Credit risk and its concentration

Credit risk represents the accounting loss that would be recognised at the reporting date if counter parties fail completely to perform as contracted. The company enters into financial contracts in accordance with the internal risk management policies which include incurring of sales on an advance payment basis and holding of balances with reputable banks of the country. Out of the total financial assets as set out in note 33.3 below, those that are subject to credit risk aggregates Rs 292.918 million (2008: Rs 138.878 million).

The analysis below summarises the credit quality of the company's financial assets as at December 31, 2009:

- Total bank balance of Rs 107.522 million placed with banks have a short term credit rating of at least A1+.
- Balance of other receivables, mainly comprise of claims receivable from insurance companies which have credit ratings of AA.
- Credit limits are assigned to the company's customer on an exceptional basis and such limits are regularly monitored, accordingly, the credit risk is minimal.

Concentration of credit risk exists when changes in economic and industry factors similarly affect the group of counter parties whose aggregated credit exposure is significant in relation to the company's total credit exposure. The company's financial assets are broadly diversified and transactions are entered into with diverse credit worthy parties thereby mitigating any significant concentration risk as a result it believes that it is not exposed to major concentration of credit risk.



Notes to and Forming Part of the Financial Statements (continued)

iii) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulties in meeting obligations associated with financial liabilities. The company's approach to manage liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its financial liabilities when due. Accordingly, the company maintains sufficient cash and also makes availability of funding through credit facilities.

The analysis below summarises the company's financial liabilities (based on contractual undiscounted cash flows) into relevant maturity group on the remaining period as at the balance sheet date:

	2009	2008
	(Within one year)	
	(Rupees in thousand)	
Running finance under mark-up arrangements	789,525	770,668
Trade and other payables	1,127,310	1,134,768
Accrued mark-up on running finance facilities	35,176	22,465
	<u>1,952,011</u>	<u>1,927,901</u>

33.2 Fair values of financial assets and liabilities

Fair value is an amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction. Consequently, differences may arise between the carrying value and the fair value estimates.

As at December 31, 2009 the carrying values of all financial assets and liabilities approximate to their fair values except for staff loans which are valued at their original cost less repayments.

	2009	2008
	(Rupees in thousand)	
33.3 Financial instruments by category		
Financial assets - loans and receivables		
Long term loans	853	1,681
Long term deposits	37,565	31,355
Trade debts	65,847	36,181
Loans	669	772
Profit accrued	1,408	3,959
Other receivables	79,054	21,592
Cash and bank balances	109,559	46,718
	<u>294,955</u>	<u>142,258</u>
Financial liabilities - measured at amortised cost		
Running finance under mark-up arrangements	789,525	770,668
Trade and other payables	1,127,310	1,134,768
Accrued mark-up on running finance facilities	35,176	22,465
	<u>1,952,011</u>	<u>1,927,901</u>



Notes to and Forming Part of the Financial Statements (continued)

34. 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 benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowing (including 'current and non-current borrowings' as shown in the balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the balance sheet plus net debt.

During 2009, the company's strategy, which was unchanged from 2008, was to maintain gearing ratio at a minimum level. The gearing ratios as at December 31, 2009 and 2008 were 9% and 11% respectively. The decrease in gearing ratio resulted primarily due to change in 'cash and cash equivalent' and 'retained earnings' as at the balance sheet dates.

35. DETAILS OF PROPERTY, PLANT AND EQUIPMENT DISPOSED OFF

The following operating fixed assets having net book value of more than Rs 50,000, either individually or in aggregate, were disposed off during the year:

Category	Original cost	Accumulated depreciation	Book value	Disposal proceeds	Mode of disposal	Particulars of buyers
	(Rupees in thousand)					
Office equipment	675	200	475	150	Tender	Mr. Faisal Mateen
Vehicles	297	238	59	225	Company policy	Mr. Adil Ahmed
	1,287	912	375	422	- do -	Mr. Asmer Naim
	1,309	870	439	429	- do -	Mr. Farooq Shakoor
	469	375	94	350	- do -	Mr. Hameed Ahmed
	783	626	157	308	- do -	Mr. Kher Muhammad
	342	274	68	154	- do -	Mr. Muhammad Iqbal Siddiqui
	401	321	80	236	- do -	Mr. Muhammad Khurshood Khan
	560	392	168	184	- do -	Mr. Muhammad Mustaqeem
	573	458	115	257	- do -	Mr. Mukhtar Ahmed
	612	490	122	257	- do -	Mr. Salman Asghar
	320	120	200	275	- do -	Mr. Shoaib Azeem
	1,209	846	363	409	- do -	Syed Muhammad Barinuddin Esq.
	350	280	70	-	Donation	SOS Children's Villages of Pakistan
	367	278	89	275	Insurance claim	Century Insurance Company Limited
	367	206	161	325	- do -	- do -
	329	86	243	285	- do -	- do -
Balance c/f	10,250	6,972	3,278	4,541		



Notes to and Forming Part of the Financial Statements (continued)

Category	Original cost	Accumulated depreciation	Book value	Disposal proceeds	Mode of disposal	Particulars of buyers
(Rupees in thousand).....					
Balance b/f	10,250	6,972	3,278	4,541		
Vehicles	367	91	276	325	Insurance claim	Century Insurance Company Limited
	618	307	311	550	- do -	- do -
	560	160	400	538	- do -	- do -
	513	68	445	500	- do -	- do -
	71	8	63	65	- do -	- do -
	60	5	55	55	- do -	- do -
	60	3	57	52	- do -	- do -
	263	210	53	100	Negotiation	Mr. Abdul Basit
	469	375	94	350	- do -	Mr. Faisal Mateen
	1,003	635	368	850	- do -	Mr. Iftikhar Matloob
	879	340	539	750	- do -	Mr. Khursnid Zaman Babar
	862	689	173	362	- do -	Mr. Ramzan Ali Halani
	263	210	53	100	Tender	Chaudhary Rehmat Ullah, Esq
	907	726	181	513	- do -	Chaudhary Muhammed Zubair, Esq
	504	403	101	441	- do -	M/s Shahbaz Traders
	562	450	112	427	- do -	- do -
	562	450	112	445	- do -	- do -
	562	450	112	429	- do -	- do -
	365	136	229	376	- do -	- do -
	276	221	55	100	- do -	Mr. Abdul Hameed
	392	292	100	100	- do -	Mr. Afzal Javed Kamran
	560	443	117	486	- do -	Mr. Arshad Munir Chughtai
	263	210	53	100	- do -	Mr. Azhar Hafeez
	263	210	53	100	- do -	Mr. Aziz Uddin
	263	210	53	100	- do -	- do -
	314	251	63	292	- do -	Mr. Faisal Abdul Aziz
	450	357	93	412	- do -	Mr. Faizan Ahmed
	263	210	53	100	- do -	Mr. Ghulam Rasool Butt
	263	210	53	100	- do -	Mr. Gull Hassan Qaimkhan
	392	292	100	100	- do -	Mr. Gulzar Ahmed
	263	210	53	100	- do -	Mr. Iftikhar Ahmed
	479	383	96	376	- do -	Mr. Imran Ahmed
	315	203	112	306	- do -	- do -
	320	169	151	325	- do -	- do -
	343	187	156	326	- do -	- do -
	749	534	215	565	- do -	- do -
	367	294	73	284	- do -	Mr. Islam Server
	367	294	73	284	- do -	- do -
	367	291	76	284	- do -	- do -
	263	210	53	290	- do -	Mr. Jameel Khan
Balance c/f	27,232	18,369	8,863	16,899		



Notes to and Forming Part of the Financial Statements (continued)

Category	Original cost	Accumulated depreciation	Book value	Disposal proceeds	Mode of disposal	Particulars of buyers
	(Rupees in thousand)					
Balance b/f	27,232	18,369	8,863	16,899		
Vehicles	367	272	95	100	Tender	Mr. Jamil Ahmed Malik
	297	199	98	231	- do -	Mr. Javed Noor Mohd
	263	210	53	100	- do -	Mr. Khalid Zafer
	263	210	53	100	- do -	- do -
	739	523	216	513	- do -	Mr. Malik A Khaliq
	367	272	95	100	- do -	Mr. Malik Muhammad Siddique
	263	210	53	100	- do -	Mr. Mankhan Shah
	263	210	53	100	- do -	Mr. Mian Saeed Ahmed
	367	294	73	100	- do -	Mr. Mueen Uddin
	373	298	75	100	- do -	Mr. Muhammad Alzaal Ashraf
	263	210	53	100	- do -	Mr. Muhammad Asif Shahzad
	367	272	95	100	- do -	Mr. Muhammad Bashir
	367	294	73	100	- do -	Mr. Muhammad Haroon
	367	260	107	237	- do -	Mr. Muhammad Imran
	395	294	101	100	- do -	Mr. Muhammad Iqbal
	367	236	131	100	- do -	Mr. Muhammad Javed Iqba
	263	210	53	100	- do -	Mr. Muhammad Kashif Shamim
	263	201	62	100	- do -	- do -
	263	210	53	100	- do -	Mr. Muhammad Naeem Ur Rehman
	275	220	55	100	- do -	- do -
	390	312	78	100	- do -	Mr. Muhammad Rasheed Mughal
	439	351	88	557	- do -	Mr. Muhammad Rizwan Siddiqui
	739	527	212	517	- do -	Mr. Muhammad Yousuf
	599	464	135	427	- do -	Mr. Muhammed Arif
	764	611	153	889	- do -	- do -
	315	179	136	306	- do -	Mr. Muhammed Rizwan Siddiqui
	365	131	234	358	- do -	- do -
	293	234	59	498	- do -	Mr. Murtaza Ali Virani
	263	210	53	100	- do -	Mr. Nisar Ahmed
	263	210	53	100	- do -	- do -
	392	314	78	100	- do -	- do -
	263	210	53	100	- do -	Mr. Rao Muhammad Aqeel
	854	683	171	639	- do -	Mr. Rehan Mithani
	315	180	135	271	- do -	Ms. Rukhsana Mirza
	367	272	95	100	- do -	Mr. Sarfaraz Ahmed
Balance c/f	40,605	28,362	12,243	24,642		



Notes to and Forming Part of the Financial Statements (continued)

Category	Original cost	Accumulated depreciation	Book value	Disposal proceeds	Mode of disposal	Particulars of buyers
	(Rupees in thousand)					
Balance b/f	40,605	28,362	12,243	24,642		
Vehicles	367	272	95	100	Tender	Mr. Shahid Haroon Qureshi
	256	204	52	244	- do -	Mr. Shahzad Anmed Ansari
	263	210	53	100	- do -	Mr. Shakeel Ahmed
	263	210	53	100	- do -	- do -
	263	210	53	100	- do -	- do -
	263	210	53	100	- do -	- do -
	263	210	53	100	- do -	- do -
	263	210	53	100	- do -	- do -
	263	210	53	100	- do -	- do -
	276	221	55	100	- do -	- do -
	377	302	75	100	- do -	Mr. Sheikh Muhammad Amin
	629	246	383	526	- do -	Mr. Sher Muhammed
	263	210	53	306	- do -	Mr. Sohail Raza
	479	383	96	410	- do -	- do -
	764	611	153	920	- do -	Mr. Speen Gul
	764	611	153	910	- do -	- do -
	764	611	153	900	- do -	- do -
	367	283	84	271	- do -	Mr. Waqar Ahmed
	263	210	53	305	- do -	Mr. Waqas Tabassum
	263	210	53	298	- do -	- do -
	764	611	153	821	- do -	Mr. Yameen Wad.wala
	263	210	53	100	- do -	Mr. Zahid Nizam
	314	237	77	262	- do -	Mr. Zeeshan Yousuf
	394	315	79	100	- do -	Mr. Zeeshan Zafar Khan
	795	629	166	239	- do -	Syed Afzal Hussain, Esq.
	263	210	53	293	- do -	Syed Zamir Khan, Esq.
	263	210	53	293	- do -	- do -
	51,334	36,628	14,706	32,840		

36. SUBSEQUENT EVENT

Dividend and appropriation

Subsequent to December 31, 2009, the Board of Directors has proposed a final dividend of Rs 4/- per share (2008: Rs 2.5 per share) amounting to a total dividend of Rs 246.321 million (2008: Rs 153.951 million) in its meeting held on February 26, 2010 for approval of the members at the Annual General Meeting. The Board has also approved appropriation to general reserve of Rs 710 million (2008: Rs 550 million). The dividend and appropriation will be accounted for in the financial statements for the year ending December 31, 2010.



Notes to and Forming Part of the Financial Statements

37. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on February 26, 2010 by the Board of Directors of the Company.

38. GENERAL

Figures have been rounded off to the nearest thousand of rupees unless otherwise stated.

Karachi : February 26, 2010

SALMAN HAMEED
Chairman & Chief Executive

MOHAMMAD FAROOQ SHAKOOR
Director



Pattern of Holding of the Shares Held by The Shareholders

AS AT DECEMBER 31, 2009
INCORPORATION NUMBER -0002832

NUMBER OF SHAREHOLDERS	SHARE HOLDING			TOTAL SHARES HELD
	From	–	To	
855	1	–	100	24202
430	101	–	500	111614
155	501	–	1000	107471
249	1001	–	5000	499832
39	5001	–	10000	271664
7	10001	–	15000	85112
1	15001	–	20000	16387
1	20001	–	25000	21206
1	25001	–	30000	28915
1	30001	–	35000	35000
1	40001	–	45000	44526
1	50001	–	55000	52802
1	145001	–	150000	146200
1	12315001	–	12320000	12316060
1	47815001	–	47820000	47819349
1,744			TOTAL	61,580,341

CATEGORIES OF SHAREHOLDERS	SHARES HELD	PERCENTAGE
Directors, Chief Executive Officer, their spouses and minor children	7	
Associated Companies, Undertakings and related parties	60,135,410	97.65
Banks, Development Financial Institutions, Non Banking Financial Institutions	158,571	0.25
Insurance Companies	21,206	0.03
Modarabas and Mutual Funds	4,061	0.00
Shareholders holding 10% and above	60,135,410	97.65
General Public		
Local	1,093,421	1.84
Others		
(a) Joint Stock Companies	14,447	0.02
(b) Govt. Organisations	57,872	0.09
(c) Charitable Institutions	2,648	0.00
(d) Investment Companies	4,896	0.00

Note : Some of the shareholders are reflected in more than one category.


SALMAN HAMEED
 Chairman & Chief Executive



**DETAILS OF PATTERN OF SHAREHOLDING AS PER
REQUIREMENTS OF THE CODE OF CORPORATE GOVERNANCE**

CATEGORIES OF SHAREHOLDERS	<u>NO. OF SHARES HELD</u>
ASSOCIATED COMPANIES, UNDERTAKINGS AND RELATED PARTIES	
Philip Morris Participations B.V.	47,819,350
FTR Holding S.A.	12,316,060
	<u>60,135,410</u>
DIRECTORS, CEO AND THEIR SPOUSE AND MINOR CHILDREN	
Mr. Salman Hameed	1
Mr. Matteo Lorenzo Pellegrini	1
Mr. Douglas Walter Werth	1
Mr. Joseph Mitchell Gault	1
Ms. Eunice Hamilton	1
Mr. Mohammad Farooq Shakoor	1
Mr. Asmer Naim	1
	<u>7</u>
BANKS, DEVELOPMENT FINANCIAL INSTITUTIONS, NON-BANKING FINANCIAL INSTITUTIONS, INSURANCE COMPANIES, MODARABAS AND MUTUAL FUNDS	
1. Habib Bank Limited	132
2. MCB Bank Limited	3,228
3. IDBP (ICP UNIT)	11
4. Pakistan Reinsurance Company Limited	21,206
5. Pakistan Premier Fund Limited	35,000
6. CDC - Trustee AKD Index Tracker Fund	4,003
7. Arif Habib Bank Limited	9,000
	<u>72,580</u>
<u>SHAREHOLDERS HOLDING 10% OR MORE</u>	
1. Philip Morris Participations B.V.	47,819,350
2. FTR Holding S.A.	12,316,060
	<u>60,135,410</u>



Financial Highlights for Last Six Years

	Year ended December 31			Year ended June 30		
	2009	2008	2007	2007	2006	2005
	(Six months period ended)					
	(Rs. In thousand)					
Share Capital	615,803	615,803	615,803	615,803	615,803	513,169
Reserves & Surplus	6,204,126	5,378,158	4,899,018	4,951,190	4,340,478	3,640,595
Share Holders' Equity	6,819,929	5,993,961	5,514,821	5,566,993	4,956,281	4,153,764
Deferred Liabilities	391,000	392,904	312,000	286,820	188,828	174,078
TOTAL CAPITAL EMPLOYED	7,210,929	6,386,865	5,826,821	5,853,813	5,144,909	4,327,842
Fixed assets - NET	3,845,739	3,322,278	2,804,956	2,805,140	2,469,399	2,139,086
Long term investment	1	1	1	1	1	1
Long term loans deposits & prepayments	43,456	39,315	27,386	13,996	10,214	15,477
Working capital	3,321,733	3,025,271	2,994,478	3,034,676	2,665,295	2,173,278
TOTAL ASSETS	7,210,929	6,386,865	5,826,821	5,853,813	5,144,909	4,327,842
Turnover	30,475,781	24,937,931	10,271,943	22,425,268	20,619,711	20,584,045
Profit before tax	1,500,133	1,745,319	672,441	2,631,296	2,380,124	2,571,950
Profit after tax & adjustment	958,384	1,105,400	471,261	1,737,833	1,554,885	1,685,037
Dividend declared (Cash)	-	554,223	230,926	357,167	769,754	848,730
Bonus shares	-	-	-	-	102,634	-
	(Rupees)					
Break-up value of shares (inclusive of Fixed Assets Revaluation)	110.75	97.34	89.55	90.40	80.48	80.94
Break-up value of shares (excluding Fixed Assets Revaluation)	110.75	97.34	89.55	90.40	80.48	80.78
Dividend (Rupees Per Share)	4.0	9.00	3.75	5.80	12.50	16.50
Bonus shares	-	-	-	-	1 : 5	-
Net Earnings per Share	15.56	17.95	7.65	28.22	25.25	27.36



Auditors' Report to the Members

We have audited the annexed Balance Sheet of PREMIER TOBACCO COMPANY (PVT) LIMITED as at December 31, 2009 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 period 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 purpose 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 account 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 the accounting policies consistently applied;
 - (ii) the expenditure incurred during the period was for the purpose of company's business; and
 - (iii) the business conducted, investments made and the expenditure incurred during the period were in accordance with the objects of the company.



Auditors' Report to the Members

- (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 accounts, cash flow statement and statement of changes in equity, together with the notes forming part thereof conform with the 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, 2009 and its cash flows and changes in equity for the period then ended; and
- (d) in our opinion no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

Without qualifying our opinion we draw your attention to the fact that the Company is not in operation for past many years and being a significantly owned subsidiary Company of **M/s. Lakson Tobacco Company Ltd.**, has been kept alive to meet future requirements as asserted in note 1 of these financial statements. We however have not been provided with any information regarding future requirements for the Company.

Hyder Bhimji

HYDER BHIMJI & CO.
CHARTERED ACCOUNTANTS

Karachi : January 25, 2010



Balance Sheet as at December 31, 2009

	Note	December 31, 2009 Rupees	June 30, 2009 Rupees
ASSETS:			
Current Assets:			
Cash at Bank (in Current account)		-	1,030
EQUITY & LIABILITIES:			
SHARE CAPITAL:			
Authorized Capital:			
1,000,000 Ordinary Shares of Rs. 10 each		10,000,000	10,000,000
Issued, Subscribed & Paid-up Capital:			
103 Ordinary Shares of Rs.10 each fully-paid	4	1,030	1,030
Accumulated loss		(1,030)	-
		-	1,030

The annexed notes 1 to 7 form an integral part of these financial statements.

MOHAMMAD FAROOQ SHAKOOR
Chief Executive

Joseph Mitchell Gault
Director

Karachi : January 25, 2010



Profit & Loss Account

FOR THE PERIOD FROM JULY 01, 2009 TO DECEMBER 31, 2009

	Note	December 31, 2009 Rupees	December 31, 2008 Rupees
Expenditure:			
Bank Charges		1,030	-
Loss for the year		<u>1,030</u>	<u>-</u>

The annexed notes 1 to 7 form an integral part of these financial statements.

Karachi : January 25, 2010

MOHAMMAD FAROOQ SHAKOOR
Chief Executive

Joseph Mitchell Gault
Director



Cash Flow Statement

FOR THE PERIOD ENDED DECEMBER 31, 2009

	December 31, 2009 Rupees	December 31, 2008 Rupees
	<u> </u>	<u> </u>
Cash Flow from Operating Activities	-	-
Cash Flow from Investing Activities	-	-
Cash Flow from Financing Activities	-	-
Net Increase/ (Decrease) in Cash and Bank Balance	(1,030)	-
	<u>(1,030)</u>	<u>-</u>
Cash and Bank Balances at the beginning of the year	1,030	1,030
	<u> </u>	<u> </u>
Cash and Bank Balances at the end of the year	<u> </u>	<u>1,030</u>

Note : The annexed notes from 1 to 7 form an integral part of these financial statements.

Karachi : January 25, 2010

MOHAMMAD FAROOQ SHAKOOR
Chief Executive

Joseph Mitchell Gault
Director



Statement of Changes in Equity

FOR THE PERIOD ENDED DECEMBER 31, 2009

	Issued Subscribed & Paid-up Capital	General Reserve	Accumulated Profit/(Loss)	Total
	(Rupees)			
Balance as at July 01, 2008	1,030	-	-	1,030
Profit/(Loss) for the year	-	-	-	-
Balance as at June 30, 2009	1,030	-	-	1,030
(Loss) for the year	-	-	(1,030)	(1,030)
Balance as at December 31, 2009	-	-	-	-

Note : The annexed notes 1 to 7 form an integral part of these financial statements.

MOHAMMAD FAROOQ SHAKOOR
Chief Executive

Joseph Mitchell Gault
Director

Karachi : January 25, 2010



Notes to the Financial Statements

FOR THE PERIOD ENDED DECEMBER 31, 2009

1. **STATUS AND NATURE OF BUSINESS:**

The Company was incorporated as a Private Limited Company and registered under the Companies Ordinance 1984. Its shares are significantly owned by Lakson Tobacco Company Ltd. The Lakson Tobacco Company Ltd has sufficient facilities to meet the Tobacco production requirements so Premier Tobacco Company (Pvt) Ltd is not in operation. The Company has been kept alive to meet the future requirements and accordingly no going concern issue has arisen.

2. **STATEMENT OF COMPLIANCE:**

These interim condensed 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 as notified under the Companies Ordinance, 1984 in case the requirements differ, the provisions of directives of the Ordinance, shall prevail.

31-12-2009

30-06-2009

Rupees

Rupees

3. **ACCOUNTING POLICIES:**

3.1 Accounting Convention

These interim condensed financial statements have been prepared under historical cost convention.

4. **ISSUED, SUBSCRIBED AND PAID UP CAPITAL:**

103 Ordinary shares of Rs. 10/- each fully paid-up - issued for cash

4.1

1,030

1,030

4.1 Out of 103 shares 100 shares are owned by **M/s. Lakson Tobacco Company Ltd.**

5. **TRANSACTIONS WITH ASSOCIATED UNDERTAKINGS/RELATED PARTY:**

Expenses borne by Holding Company

Filing fees for Annual Returns to SECP

Form 29 Form A with Registration of Joint Stock Companies

Auditors Remuneration

2,000

2,000

30,000

30,000

6. **DATE OF AUTHORIZATION FOR ISSUE:**

These interim condensed financial statement were authorized for issue on January 25, 2010 by the Board of Directors of the Company.

7. **COMMENTS:**

The Company has applied to the Regional Tax Officer enforcement division II, Karachi, for the change of financial year from June to December, which is in process not yet approval recieved.

MOHAMMAD FAROOQ SHAKOOR
Chief Executive

Joseph Mitchell Gault
Director

Karachi : January 25, 2010